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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUN 10 1940

TO Miss Nell Chauncey, Office of the Secretary.
FROM E. H. Foley, Jr.

In re: M. L. Annenberg and
The Cecelia Company

I am herewith transmitting to you one complete set of all the papers in connection with the offer in settlement of tax liabilities of the above-named proponents executed by them on June 4, 1940, and accepted by the Secretary of the Treasury and the Attorney General on the same date. These papers include a copy of the offer itself, together with Exhibits A to D, inclusive, a copy of a memorandum by the Commissioner of Internal Revenue to the Secretary of the Treasury, dated June 4, 1940, recommending acceptance of the offer; a copy of a telegram dated June 5, 1940, from the Commissioner of Internal Revenue to the proponents notifying them of acceptance; and copies of letters exchanged between the Department of Justice and the office of the Chief Counsel, Bureau of Internal Revenue, dated June 5 and June 7, 1940, respectively.

Smith

Enc.

C
O
P
Y

Hon. Samuel C. Clark, Jr.,
Assistant Attorney General,
Department of Justice,
Washington, D. C.

June 7, 1940.

In re: H. L. Annenberg,
The Cecelia Company

Dear Sir:

I have received your letter dated June 5, 1940, with which you enclosed the original signed offer in settlement of tax liabilities made by H. L. Annenberg and The Cecelia Company and duly executed by the respective proponents.

I have compared the signed offer with the copy which was submitted to the Secretary for approval and find no variances between them other than the two minor exceptions noted by you, namely, at page 10, where the word "device" is misspelled; and at page 13, fourth line, where the last word reads "law" instead of "laws".

In the fourth paragraph on page 3 of your letter you state that the financial statements referred to in the last paragraph of the signed offer were not attached but that you were advised over the telephone on June 5, 1940 by one of counsel for the proponents that it was the understanding of the proponents that the originals of these financial statements which had been delivered by mail to the Commissioner would be annexed to the offer as signed by the proponents and become a part thereof in accordance with the last paragraph of the offer. You also state that in order to avoid any possible uncertainty in this connection you have requested and the attorneys for the proponents have agreed to forward a letter from the proponents authorizing such inclusion. The originals of the financial statements were attached to the copy of the offer which was submitted to and accepted by the Secretary at about 5:30 P. M., June 4, 1940, shortly after you had informed me by telephone that

- 2 -

Hon. Samuel O. Clark, Jr.

the offer had been signed by the proponents. Attached also to the copy of the offer submitted to and accepted by the Secretary were original Schedules A, B, C and D which had been previously received through the mail on June 3, 1940, by this office from counsel for the proponents. On page ii of original Schedule A, one of the corporations is referred to as "Cumberland News Service, Inc."; on page iii of original Schedule A, another corporation is referred to as "Louisiana News Co., Ltd."; on page v of original Schedule A another corporation is referred to as "R. T. & K. Corp.". In the last line on the last page of original Schedule B the word "values" is used; on the first page of original Schedule D the heading of the right hand column reads "Pledgee".

There are some pencil notations in the file of this office which indicate that the names of the companies above referred to may have been incorrectly stated in the original schedules. It is suggested that counsel for the proponents be requested to confirm by letter the correct corporate names of those three companies intended to be named.

Very truly yours,

(Signed) J. P. Wenchel
J. P. WENCHEL,
Chief Counsel,
Bureau of Internal Revenue

80 4
June 5, 1940.

J. P. Wenschel, Esquire,
Chief Counsel,
Bureau of Internal Revenue,
Washington, D.C.

In re: Moses L. Annenberg and
The Cecelia Company

Dear Phil:

I am enclosing herewith the original signed offer in settlement of tax liabilities made by Moses L. Annenberg and The Cecelia Company and duly executed by the respective proponents. Attached to the agreement and made a part thereof are Schedules A, B, C and D, respectively, these Schedules being described in the body of the agreement. You will note that the offer is undated. However, the letter of United States Attorney William J. Campbell dated June 4, 1940 transmitting the executed agreement to me, a copy of which letter is also enclosed herewith, would seem to contain a sufficient indication of the date of the offer. This offer and the supporting Schedules are being transmitted to you as the permanent record of your Department.

For your files I wish to describe the procedure followed in the execution of this offer. A draft of the offer in the form resulting from the labors of your and my attorneys, which concluded late Monday night, June 3rd, was delivered by air mail to the United States Attorney, William J. Campbell, arriving at his office at about 3 P.M. yesterday, June 4th. In the meantime you and I had agreed upon certain changes in that draft. These were transmitted by telephone to Mr. Campbell yesterday afternoon and confirmed by telegram. A copy of that telegram is enclosed herewith. Mr. Campbell immediately brought the draft, together with such changes, to the attention of the proponents' attorneys. The draft was acceptable to the proponents and their attorneys with two exceptions. The first concerned the period of grace extended to the proponents to correct a default in the agreement other than in the payment of the installments, and the second concerned pledging as collateral security certain shares of stock of The Cecelia Company. After discussion with you and the receipt of your approval, Mr. Campbell was authorized to make minor changes in the offer in these two respects, such changes being acceptable to the proponents and their attorneys.

J. P. Wenzel
June 5, 1940

-2-

In view of the fact that all these various changes in the draft would require the retyping of several pages, Mr. Campbell decided that it would be desirable to retype the entire offer. This he did and the offer as so retyped was executed by the proponents about 6:30 P.M. yesterday. Mr. Campbell immediately notified me of this fact and confirmed it by telegram, a copy of which is enclosed herewith.

In the meantime this office had prepared a copy of the offer reflecting all the changes mutually agreed upon during the course of the day. I understand that a similar copy was prepared in your office. Upon receiving notification from Mr. Campbell of the execution of the agreement, the offer in the form of the above-mentioned copy prepared in this office was submitted to the Attorney General and accepted by him yesterday, June 4th, at about 7 P.M. I was notified by you shortly thereafter that the Secretary of the Treasury had likewise accepted the offer. I have received a copy of your telegram dated June 5th to the proponents notifying them of such acceptance by the Secretary of the Treasury. I also wrote a letter of like tenor to the proponents notifying them of the Attorney General's acceptance. A copy of this letter, dated June 4th, has already been delivered to you.

I carefully proof-read the original signed offer and the supporting Schedules against the copy thereof in our office. I find that they are in exact conformance with the following minor exceptions:

Page 10 of the signed offer, 8th line: the word "device" is misspelled.

Page 13 of the signed offer, 4th line: the last word should be "laws" instead of "law".

These minor typographical errors appear to be immaterial.

I have noted the following few instances of lack of conformity of the Schedules:

Schedule A, page 11: The corporate name apparently should be Cumberland News Service, Inc. instead of Cumberland News Service, Inc.

Schedule A, page 111: The corporate name appears as Louisiana News Co., Ltd., whereas on our copy of Schedule A it appears as Louisiana News Co., Inc.

J. P. Wenschel
June 5, 1940

- 3 -

Schedule A, page vi: The corporate name appears as R. T. & K. Corp. whereas on our copy the name appears as R. T. & K. Company.

Schedule B, last page: With reference to the last line of the "Note" the third word appears as "value" whereas in our copy it appears as "values."

Schedule D, first page: One of the headings is "Pledgee" whereas on our copy it is "pledges".

These variations also appear to be immaterial.

Your attention is directed to the fact that the enclosed original offer does not contain the financial statements referred to in the last paragraph of the offer. As I advised you by telephone today, I have been informed by one of Mr. Annenberg's attorneys that it was their understanding that the originals of these financial statements, which have heretofore been delivered to the Commissioner, would be annexed to the offer and become a part thereof in accordance with the last paragraph of the offer. In order to avoid any possible uncertainty in this connection, I have requested and the proponents' attorney has agreed to forward a letter from the proponents authorizing such inclusion.

This offer was executed by the proponents in duplicate. The signed duplicate offer has likewise been forwarded to me by United States Attorney Campbell and when it arrives it will be included in our file in this matter.

Sincerely yours,

Encls.

SAMUEL O. CLARK, JR.,
Assistant Attorney General.

P.S. Will you kindly acknowledge receipt of the above described enclosures.

COPY

TREASURY DEPARTMENT
BUREAU OF INTERNAL REVENUE
WASHINGTON

7

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

GC:E:JFW

(Unit, Division, and Section)

(Time written)

CHARGE:

TREASURY DEPARTMENT, APPROPRIATION FOR
"COLLECTING THE INTERNAL REVENUE"

3-14359 U. S. GOVERNMENT PRINTING OFFICE

Mr. M. L. Annenberg and the Ceoelia Company,
c/o Kirkland, Fleming, Green, Martin & Ellis,
33 North LaSalle Street,
Chicago, Illinois

June 5, 1940

Reference is made to the offer submitted jointly by you to settle for the years prior to January 1, 1939 any civil liability for the taxes specified therein by the payment of the principal sum of eight million dollars. You are advised that this offer has been accepted by the Secretary of the Treasury subject to the terms and conditions thereof.

(Signed) G. T. H.
Guy T. Helvering
Commissioner of Internal Revenue

C O P Y

8

800

GET:LLG

5-23-1205

June 4, 1940.

Mr. M. L. Annenberg,
The Cecelia Company,
Chicago, Illinois.

Sir:

Reference is made to the annexed offer submitted jointly by you to settle for the years prior to January 1, 1939, any civil liabilities for the taxes specified therein by the payment of the principal sum of \$8,000,000. You are advised that this offer has been accepted by the Attorney General, subject to the terms and conditions thereof.

Respectfully,

For the Attorney General.

SAMUEL O. CLARK, JR.,
Assistant Attorney General.

C O P Y

June 4, 1940.

328442

MEMORANDUM FOR SECRETARY MORGENTHAU:

In re: M. L. Annenberg,
The Cecelia Company.

I hand you herewith a proposal of M. L. Annenberg and the Cecelia Company to pay \$8,000,000.00 on an installment basis over a period of six years in settlement of all civil liability on the part of (1) either proponent; (2) subsidiary corporations of The Cecelia Company; and (3) certain members of the family of M. L. Annenberg, for 1923 to 1938, inclusive. The deferred payments are to bear interest at the rate of 6 per cent per annum until paid.

Annenberg has pleaded guilty to an indictment, charging willful attempt to defeat and evade his individual income taxes for the year 1936. The Court has set June 5, 1940, for sentencing Annenberg. The proposal to settle the civil liabilities has no relation to the disposition of the criminal aspects of the case. Annenberg's plea of guilty was entered voluntarily and without commitments on the part of this office concerning the amount, or payment of any civil liability. According to the terms of the offer acceptance is required by the Secretary of the Treasury, and by the Attorney General. I recommend acceptance of the offer.

(Signed) Guy T. Helvering

Commissioner.

Approved:

(Signed) Henry Morgenthau, Jr.

Secretary of the Treasury

COMMISSIONER OF INTERNAL REVENUE:

Through Collector of Internal Revenue
(First District) at Chicago, Illinois.

Sir:

The following offer in compromise is submitted to you by the undersigned, The Cecelia Company, an Illinois corporation, and M. L. Annenberg, hereinafter referred to as the proponents:

Charges of violations of law or failures to meet internal revenue obligations have been made against the proponents and against some or all of the individuals and corporations hereinafter named on Schedule A hereto attached and made a part hereof.

The alleged violations or failures are due to failure to report income and failure to pay income and excess profits taxes, and divers other causes.

The proponents, to secure for any or all of the years set forth on said Schedule A, (1) the release of themselves and said corporations and individuals, and their transferees, from any civil liability for income, excess profits taxes, surtax on undistributed profits, surtax on unreasonable accumulation of surplus, and surtax imposed on corporations classified as personal holding companies and any civil penalties and interest with respect thereto, (2) the release of M. L. Annenberg and Walter H. Annenberg from any civil liability for any gift taxes for any or all of the years set forth on said Schedule A and any civil penalties and interest with respect thereto, and (3) the release of all other individuals set forth on said Schedule A from any gift tax arising out of any transfer of stock of The Cecelia Company and any civil penalties and interest with respect thereto, hereby offer to pay the sum of \$8,000,000, said sum of \$8,000,000 (hereinafter referred to as "said principal sum") and interest from July 15, 1940 thereon until paid at the rate of 6% per

amount to be paid in the following installments:

(A) \$800,000 on or before July 15, 1940, all of which shall be applied in reduction of said principal sum;

(B) \$200,000 on or before November 15, 1940, all of which shall be applied in further reduction of said principal sum;

(C) \$1,000,000 during the calendar year 1941 which shall be applied as follows:

(1) \$500,000 on or before June 30, 1941, of which sum \$406,260.26 shall be applied as the interest due on (a) the unpaid balance of \$7,200,000 for the period July 15, 1940 to and including November 15, 1940, and (b) the unpaid balance of \$7,000,000 for the period November 16, 1940 to and including June 30, 1941, and the balance of said \$500,000, or \$93,739.74 shall be applied in further reduction of said principal sum.

(2) \$500,000 on or before December 31, 1941, of which sum \$208,323.08 shall be applied as the interest due on the unpaid balance of \$6,906,260.26 for the period July 1, 1941 to and including December 31, 1941, and the balance of said \$500,000, or \$291,676.92, shall be applied in further reduction of said principal sum.

(D) \$1,000,000 during the calendar year 1942 which shall be applied as follows:

(1) \$500,000 on or before June 30, 1942, of which sum \$197,984.43 shall be applied as the interest due on the unpaid balance of \$6,614,583.34 for the period January 1, 1942 to and including June 30, 1942, and the balance of said \$500,000, or \$302,015.57, shall be applied in further reduction of said principal sum.

(2) \$500,000 on or before December 31, 1942, of which sum \$190,414.71 shall be applied as the interest due on the unpaid balance of \$8,512,567.77 for the period July 1, 1942 to and including December 31, 1942, and the balance of said \$500,000 or \$309,585.29, shall be applied in further reduction of said principal sum.

(E) \$1,500,745.62 on or before June 30 of each of the years 1943 to 1946, both inclusive, each payment of which shall be applied in further reduction of said principal sum, plus interest on the principal sum as from time to time reduced at the rate of 6% per annum from January 1, 1943 to and including the date of payment.

The proponents agree that said principal sum and interest thereon is a joint and several tax liability and that they shall be jointly and severally liable for the payment of said principal sum and interest thereon. All obligations set forth in this agreement including the obligation to pay said principal sum and interest thereon as herein set forth shall be binding upon proponent, The Cecelia Company, its successors, assigns, transferees, and any corporation with which it may hereafter consolidate or be merged, and upon proponent M. L. Annenberg, his heirs, executors, administrators and assigns.

Said principal sum shall be considered in its entirety as principal and no part of said principal sum shall be allocated to interest or penalties nor shall payment of any part thereof entitle the payor to a deduction in the computation of any income or excess profits tax liability. Assessment of the principal sum may be made against each of said proponents immediately following the acceptance of this offer by the Treasury Department and the Department of Justice, any restrictions upon assessment of said sum being hereby

expressly waived, provided, however, that no 10-day notice and demand shall issue with respect thereto unless and until default shall be made in the performance of any provision of this offer. In the event that (1) a default shall occur in the payment of any of said installments as the same becomes due and payable and such default shall continue for a period of 10 days; or (2) a default shall be made in the performance or observance of any other covenant, condition or agreement on the part of the proponents or either of them or their successors, assigns, heirs, executors or administrators, as the case may be, of this offer and such default shall continue for a period of 30 days or in the event that it is determined that any representation made herein is materially false then the entire amount of said principal sum then remaining unpaid, together with interest accrued thereon to the date of such default, shall immediately become due and payable, and in the event that said proponents, or either of them, shall fail to pay the same forthwith, the collection of the whole amount so due and owing, together with interest thereon at rate of 6% until paid, may be enforced by all legal means available.

As part of this offer, it is agreed that upon notice to the proponents of the acceptance of this offer in compromise, the proponents shall have no right, in the event of a default as set forth in the preceding paragraph, to contest in court or otherwise the amount of said principal sum or such part thereof as then remains unpaid together with interest accrued thereon; and that in the event of such default the Commissioner of Internal Revenue, at his option, may (1) proceed immediately by suit to collect the entire unpaid balance of said principal sum and interest thereon, or (2) without further notice of any kind, assess and/or collect by distraint or suit (the restrictions against assessment and/or collection

being hereby specifically waived) the unpaid balance of said principal sum and interest thereon. It is clearly understood however that there are no limitations whatsoever with respect to the remedies which may be employed by the Commissioner of Internal Revenue to enforce collection of said principal sum and interest.

Proponents, or either of them, may pay all or any part of said principal sum and interest accrued thereon from time to time, as set forth in the foregoing schedule of payments, and proponents or either of them shall have the privilege of accelerating, in whole or in part, any or all of the said installments hereinabove provided. Neither of the proponents shall be deemed to be in receipt of any income or gift by virtue of the payment by the other proponent of all or part of said principal sum or the interest thereon. Each proponent shall be allowed to deduct, in computing his or its income taxes, the interest from time to time actually paid by each such proponent.

Proponents agree that they will execute their personal bonds (not surety bonds) or other similar undertaking to pay the United States the said principal sum and interest, and further agree that they will give or cause to be given to the United States as collateral security for said bonds or similar undertaking and for the payment of said principal sum and interest to become due thereon, the following:

(1) A first mortgage on all real estate unencumbered as of the date of this offer owned by the proponents or any of the corporations hereinabove named. Attached hereto and made a part hereof as Schedule B is a schedule of such unencumbered real estate which proponents believe and represent to be all of the unencumbered real estate owned by them and all of said corporations hereinabove named.

(2) A mortgage on all real estate encumbered at the date of this offer, owned by the proponents or any of the corporations set forth on said Schedule A. Attached hereto and made a part hereof as Schedule C is a schedule of such encumbered real estate. The mortgage to be given hereunder shall be junior only to such existing encumbrances.

(3) A lien on all other property of proponents or any of said corporations which is as of the date of this offer or which may hereafter be, but prior to July 15, 1940, pledged as collateral security to a bona fide loan owing by proponents or any of the said corporations to any bank, such lien to be junior only to the liens of such banks. Attached hereto and made a part hereof as Schedule D is a list of the property now pledged or which proponents propose to pledge prior to July 15, 1940, to said banks, which proponents believe and represent to be all of the property now pledged or so to be pledged to such banks. Proponents represent that it is necessary to make such additional pledges of property prior to July 15, 1940, in order to secure bank credits and extensions of bank credits necessary to permit the fulfillment of the provisions of this offer.

(4) A lien on (a) 240 shares of the stock of The Cecelia Company owned by the proponent M. L. Annenberg, such lien to be junior only to the liens existing thereon as of the date of this offer; (b) a lien on such right, title and interest as M. L. Annenberg, Sadie C. Annenberg, Walter H. Annenberg and each daughter of proponent M. L. Annenberg may have in the remaining 260 shares of stock of the proponent The Cecelia Company. This proposal in respect to the liens on the said remaining 260 shares shall be without prejudice to proponents or to any individual named or to the United States in

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respect to the actual ownership of said shares for any taxable period beginning after December 31, 1938. The proponents further agree that they will execute and deliver, or will cause to be executed and delivered, as soon as possible, but in any event before September 1, 1940, such documents or instruments as will give the United States, in the event of a default of any provision of this offer by proponents or either of them control of stock of the proponent The Cecelia Company possessing not less than 51 percent of the total combined voting power of all the outstanding stock of said proponent.

It is intended that all real estate and all property pledged as collateral security for loans from banks on or before July 15, 1940, and owned by said proponents or said corporations and any real estate which may hereafter be acquired by said proponents, or either of them, or by any of said corporations prior to payment of the full amount of said principal sum and interest, whether or not set forth in said Schedules B, C or D, shall be subject to a lien to secure the payment of the principal sum and interest thereon, and in the event that it is ascertained at any time that any property of such character shall have been omitted from said Schedules or in the event any such real estate shall be hereafter acquired as above set forth, then the proponents or any of said corporations shall immediately subject or cause to be subjected any such properties to a lien of the type therein provided for.

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The owners of said real estate described in subparagraph (1) above may at any time sell said real estate, and the lien upon said real estate to be sold under the mortgage in said subparagraph (1) provided for shall be released simultaneously with such sale; provided, however, that before the release of such mortgage satisfactory assurance is given that the proceeds from the sale of such real estate, less the reasonable costs and expenses of sale, will be applied in further reduction of said principal sum and the interest due thereon, provided, however, that no sale of any of such real estate shall be made at a price less than the fair value thereof at the time of such sale as determined by an independent appraiser acceptable to the Collector of Internal Revenue for the collection district in which the property is located. In the event of any such sale, such proceeds shall be credited upon the next of the payments hereinabove set forth (including interest) immediately thereafter coming due. With respect to the real estate described in subparagraph (2) above, and the collateral described in subparagraph (3) above, the owner or owners thereof may refund, extend, or refinance the encumbrances existing thereon or debts secured thereby at the date of this offer, or up to and including July 15, 1940, and any such refunding, renewal, or refinancing shall be superior to the lien given in said subparagraphs (2) and (3), provided, however, that in the event such refunding, renewal, or refinancing with respect to such real estate shall be in excess of the encumbrances existing at the date of this offer, a sum equal to such excess shall be applied in further reduction of said principal sum and the interest due thereon.

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It is understood, with respect to subparagraph (3), that the owners of any of the property therein mentioned may from time to time continue to pledge or repledge the same superior to the lien provided for in subparagraph (3) for the purpose of obtaining loans in addition to those for which said property shall at the time of making such additional loan or loans be pledged, if any; provided, however, except as herein provided, that (A) the proceeds of such additional loans shall be used and expressly limited (a) to refunding of then existing obligations secured by such property, and (b) for the usual and ordinary operation of the businesses conducted by the proponents, or any of said corporations; and (B) that such additional loans shall not at any time exceed by more than \$500,000 the amount of the then outstanding loans from said banks secured by said property. Notwithstanding the foregoing, however, it is understood that the proponents or either of them or any of such corporations may secure additional loans not in excess of \$1,000,000 provided the proceeds are used solely for the payment of Federal taxes. Nothing in subparagraph (3) above set forth shall be construed to prevent the owner or owners of the property in said subparagraph described from selling such property, or, insofar as the same

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consists of obligations, paying or receiving payment therefor and cancelling same if and when paid in full; provided, that the proceeds of said sale and said payment shall be applied first to the indebtedness, if any, due to the bank or banks to which such properties are pledged, and the balance, or all, as the case may be, to the next installment of said principal sum next coming due and the interest thereon; and provided, further, without prejudice to the rights of the banks, that no sale thereof shall be made by such owners at a price less than the fair value thereof at the time of such sale as determined by an independent appraiser acceptable to the Collector of Internal Revenue for the collection district in which such property is at the time located. Further, nothing in said subparagraph (3) shall be construed to prevent the maker or owners of said property, insofar as the same shall consist of promissory notes, from renewing or extending the same, in whole or in part.

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The proponents further agree that neither they nor any of the above-named corporations will either sell or otherwise dispose of any of their other assets except in the ordinary course of business or in a bona fide arms-length transaction, nor will they utilize any subsidiary corporation or any successor or transferee, or any device in any manner to defeat or adversely affect the rights of the United States.

It is further understood, and it is a condition of this offer, that the payment of said principal sum and interest thereon is in full settlement of all said tax liabilities, civil penalties, and interest specified on page 1 hereof, and that appropriate action will be taken or caused to be taken both by the said proponents and by the United States to dispose of all matters now pending either before the Board of Tax Appeals or the Bureau of Internal Revenue relating thereto without further liability to proponents, said corporations, and individuals with respect to said taxes, civil penalties, and interest, whether such taxes, penalties, and interest have been asserted or not.

Proponents agree to waive or cause to be waived any and all claims to amounts of money to which proponents, said corporations, and said individuals, or any of them, may be entitled with respect to said taxes for any taxable year prior to January 1, 1939.

The proponents agree that neither the proponent, The Cecelia Company, or any of said corporations listed in Schedule A will create any additional capital stock of any character whatsoever and will not sell, dispose or otherwise transfer any capital stock presently authorized but not issued,

11.

and will not reissue any stock which at the time of this offer is held as treasury stock.

Proponents further agree that they will furnish to the Commissioner of Internal Revenue as promptly as possible, and in any event within 120 days after the close of each calendar year, or at such other times as said Commissioner may request, until the said principal sum and interest thereon has been paid, (1) a consolidated balance sheet and profit and loss statement of the principal company and its subsidiaries, together with supporting schedules, prepared in accordance with accepted accounting principles, and (2) a sworn statement of assets and liabilities of the proponent M. L. Annenberg as of the close of each such preceding calendar year. Proponents agree that the said Commissioner, through his representatives, may have access at any time to the books and records of the proponents and said corporations.

If this offer is accepted and becomes effective in accordance with the terms and conditions above specified, the proponents hereby expressly agree to deliver to the Collector of Internal Revenue, at Chicago, Illinois, written agreements to the suspension of the running of the statutory periods of limitations on assessment and/or collection for the period during which this offer is pending, or the period during which any installment remains unpaid and for one year thereafter. Upon the request of the Commissioner of Internal Revenue, the proponents will execute and deliver, or cause to be executed and delivered, to said Commissioner, such further instruments and do such further acts as may be reasonably necessary or proper to carry out the purpose and provisions of this offer.

The principal sum specified above to be paid upon the foregoing terms and conditions together with said interest at the rate of 6% per annum thereon is hereby tendered voluntarily in compromise and in full settlement of any and all civil liabilities of the proponents and said corporations and individuals listed on Schedule A hereto attached for the taxes specified on page 1 hereof and civil penalties and interest thereon for the taxable periods stated on Schedule A.

The following facts and reasons are submitted as grounds for accepting this offer:

The proponents for themselves and on behalf of the said corporations and individuals enumerated on Schedule A represent that they are unable to tender an offer in compromise in excess of the principal sum or to pay an amount in excess of said principal sum. They further represent that the payment of said principal sum can not be made except on an installment basis. The principal sum has been determined after numerous conferences by representatives of the proponents with representatives of the Bureau of Internal Revenue of the Treasury Department, and with representatives of the Department of Justice. It is a sum agreed upon as a fair settlement on an amicable basis of the contentions advanced respectively by representatives of the proponents and representatives of the United States with respect to civil liabilities of the proponents and the said corporations and individuals enumerated on Schedule A.

It is understood that this offer in compromise does not afford relief from any civil liabilities sought to be compromised unless and until it is actually accepted by the Secretary of the Treasury, or the Under Secretary of the Treasury, or an Assistant Secretary of the Treasury, and also by the Attorney General of the United States.

13.

It is further understood that no provision of this offer in compromise shall operate to the prejudice of either the proponents of the United States with respect to the civil liabilities of the proponents or of the corporations and individuals listed on Schedule A for taxes other than those specified on page 1 of this offer in compromise, and for taxable periods not covered by this offer in compromise.

It is further understood that this offer in compromise is entirely separate and apart from and does not embrace in any way any settlement or compromise whatsoever of any criminal liabilities for violation of the revenue laws.

Proponents agree that they will carry out the provisions of this offer with respect to the giving of the collateral security hereinbefore set forth as soon after said offer is accepted as possible, and, in any event, on or before September 1, 1940.

Annexed hereto and made a part of this offer is a consolidated balance sheet of the Cecelia Company and its subsidiaries as of December 31, 1939 and a sworn current net worth statement of M. L. Annenberg.

M. L. Annenberg.

The Cecelia Company

By _____

By _____

C
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P
Y

KIRKLAND, FLEMING, GREEN, MARTIN & ELLIS

33 North La Salle Street

Chicago

June 2, 1940.

J. P. Wenchel, Chief Counsel,
Bureau of Internal Revenue,
Treasury Department,
Washington, D. C.

Dear Sir:

In accordance with our conference of yesterday, I am enclosing herewith the following schedules to be attached to our offer in compromise:

- Schedule A - Proponents, corporations and individuals
- Schedule B - List of unencumbered real estate owned June 3, 1940
- Schedule C - List of encumbered real estate on June 3, 1940
- Schedule D - Property of Cecelia and subsidiaries pledged as collateral to bank loans

You appreciate, of course, that I have been pressed for time in having these schedules prepared and they are subject to check and confirmation which I will give you over the telephone tomorrow.

Very truly yours,

KIRKLAND, FLEMING, GREEN, MARTIN & ELLIS,

By /s/ A. L. Hodson

alh/ec
encs.

S C H E D U L E APROPOSERS CORPORATIONS AND INDIVIDUALSPROPOSERS:

<u>Name</u>	<u>Year</u>
The Cecelia Company, formerly Cecelia Investment Company, and Sheva Leah Pismon Company	1923 to 1938, both inclusive
M. L. Annenberg	1923 to 1938, " "

CORPORATIONS:

<u>Name</u>	<u>Year</u>
A. B. & M. Corporation	1928 to 1938, both inclusive
Acme Photo Engraving Co.	1937 to 1938, " "
Acme Printing & Publishing Company	1933 to 1938, " "
Allegheny Distributing Company	1930 to 1938, " "
American Continent News Service, Inc.	1929 to 1938, " "
American Racing Record Corporation (Del.)	1926 to 1936, " "
American Racing Record Corporation (Ill.)	1927 to 1936, " "
Bay State News Service, Inc.	1935 to 1938, " "
Bensinger Recreation Corporation	1927 to 1938, " "

<u>Name</u>	<u>Year</u>
Broward Tomato Farms, Inc.	1933 to 1938, both inclusive
Cecelia Company, The (originally Sheva Leah Pismon Company; later Cecelia Investment Company, Proponent set forth above	1923 to 1938, " "
Central Distributing Company	1930 to 1936, " "
Central News Agency, Inc.	1924 to 1938, " "
Click, Inc.	1938
Cumberland News Service, Inc.	1937 to 1938, " "
Daily Running Horse, Inc.	1928 to 1938, " "
Detective Stories Publishing Co. (originally Official Detective Stories, Inc.)	1934 to 1938, " "
District News Company, Inc.	1924 to 1938, " "
Empire News Company, Inc.	1923 to 1938, " "
Far West Distributing Co., Inc. (originally Pacific Distributing Co., Inc.)	1931 to 1938, " "
Form Building Corporation (originally "M. L. Annenberg Realty Corporation"; name changed on Nov. 7, 1934)	1925 to 1938, " "
Form Distributing Company	1935 to 1938, " "
General News Bureau, Inc.	1923 to 1936, " "
General News Press Bureau, Inc.	1937 to 1938, " "

<u>Name</u>	<u>Year</u>
General News Ticker, Inc.	1937 to 1938, both inclusive
Greater New York News Service, Inc.	1931 to 1933, " "
Illinois Nationwide News Service, Inc., originally Nationwide News Service, Inc. (Ill.)	1934 to 1938, " "
Interstate Brokerage Company, Inc.	1929 to 1938, " "
Interstate News Company	1930 to 1937, " "
Ivanhoe Realty Company	1923 to 1925, " "
Kansas City News Distributors, Inc.	1929 to 1936, " "
Local Laundry & Cleaning Co.	1934 to 1936, " "
Los Angeles Morning Telegraph, Inc.	1932 to 1938, " "
Louisiana News Co., Ltd.	1930 to 1936, " "
Maryland News Company	1923 to 1938, " "
M. L. Annenberg Co.	1925 to 1938, " "
M.L.A. Investment Company (originally Mal Investment Company)	1923 to 1938, " "
McMurray Printing Company	1934 to 1938, " "
Miami Tribune, Inc. (Originally Beach Publishing Company)	1934 to 1938, " "
Milwaukee News Co. (Originally Milwaukee Circulators, Inc.)	1923 to 1938, " "
Min-Haf Distributing Corporation	1929 to 1938, " "
Mohawk Distributing Corporation	1931 to 1938, " "

<u>Name</u>	<u>Year</u>
Molasky Company, The (originally Molasky Holding Corporation)	1931 to 1938, both inclusive
Morning Telegraph, Inc.	1928 to 1936, " "
Morning Telegraph Sports News, Inc.	1935 to 1938, " "
National Turf Publications, Inc.	1928
Nationwide News Service, Inc. (Del.)	1934 to 1938, " "
Nebraska News Service, Inc.	1937 to 1938, " "
New York Daily Tab, Inc.	1935 to 1938, " "
No. 112 Fourth Avenue Corporation	1929 to 1938, " "
Norfolk News Agency, Incorporated	1925 to 1938, " "
Ohio Nationwide News Service, Inc. (originally General News Bureau of Ohio, Inc.)	1932 to 1938, " "
Oriental Theatre Corporation	1933 to 1938, " "
Oriental Theatre Pharmacy, Inc.	1933 to 1938, " "
Pioneer Publishing Company	1931 to 1933, " "
Plymouth Printing and Publishing Company	1929 to 1933, " "
Race Chart Syndicate	1933
Racing Guide Publishing Co.	1931 to 1933, " "
Radio Guide, Inc. (Del.)	1931 to 1935, " "
Radio Guide, Inc. (N.Y.)	1931 to 1932, " "
Regal Press, Inc. (formerly Daily Racing Form Publishing Company)	1922 to 1938, " "

<u>Name</u>	<u>Year</u>
R. D. Publishing Co. (Del.)	1937 to 1938, both inclusive
R. D. Publishing Co. (Ill.)	1932 to 1937, " "
R. T. & K. Cosmetics	1928 to 1935, " "
Seaboard News Service, Inc.	1938
Severn News Co., Inc.	1937 to 1938, " "
Standard Wine & Liquor Co.	1934 to 1938, " "
Star News Company	1936 to 1938, " "
Sunset News Company Los Angeles, California	1923 to 1930, " "
Teleflash Loudspeaker Corporation (Ill.) (formerly Teleflash, Inc.)	1935 to 1936, " "
Teleflash Loudspeaker Corporation (Del.)	1935 to 1938, " "
Telegraph Building Corporation (originally AB&ML Realty Corporation)	1923 to 1938, " "
Texas News Service	1935 to 1938, " "
Thrifty Liquor Company	1938
Tower Building Company	1926 to 1938, " "
Tower Theatre Corporation	1933 to 1938, " "
Tower Theatre Pharmacy, Inc.	1935 to 1938, " "
Triangle News Company	1924 to 1938, " "
Triangle Press, Inc.	1935 to 1938, " "
Turf Publications, Inc.	1934 to 1938, " "
Twin Peaks News Company	1924 to 1938, " "

<u>Name</u>	<u>Year</u>
Universal Publishing Company	1929 to 1935, both inclusive
Wal-Min Press, Inc.	1923 to 1938, " "
Waltan Features Syndicate, Inc.	1937 to 1938, " "
Waltan Publications, Inc.	1936 to 1938, " "
Walter Holding Corporation	1923 to 1938, " "
Wayne News Agency, Inc.	1931 to 1938, " "
Weekly Baseball Guide Publishing Corporation	1925 to 1927, " "
The White Arrow Coffee Pot Corporation	1929 to 1938, " "
The White Arrow Coffee Pot, Inc.	1929

And any and all other corporations with respect to which M. L. Annenberg and/or The Cecelia Company owned, directly or through nominees, a majority of the capital stock thereof, provided the period for such corporations shall be the period of such majority ownership and the taxes shall be limited to income and excess profits taxes, and provided further such corporations shall not include (1) Consensus Publishing Company; (2) Pioneer News Service, Inc.; (3) Elverson Corporation; (4) The Philadelphia Inquirer Company (Del.), and (5) The Philadelphia Inquirer Company (Pa.).

INDIVIDUALS:

<u>Name</u>	<u>Year</u>
M. L. Annenberg (Proponent)	1923 to 1938, both inclusive
Sadie C. Annenberg (S. C. Annenberg)	1923 to 1938, " "
Walter H. Annenberg	1923 to 1938, " "
Esther Simon	1923 to 1938, " "
Pearl (Polly) Levese	1923 to 1938, " "

<u>Name</u>	<u>Year</u>
Janet Nefsky	1923 to 1938, both inclusive
Enid Haupt	1923 to 1938, " "
Lita Hazen	1923 to 1938, " "
Evelyn Friede	1923 to 1938, " "
Harriet Ames	1923 to 1938, " "

SCHEDULE B - LIST OF UNINCUMBERED REAL ESTATE OWNED
JUNE 3, 1940

<u>Company owning</u> <u>Property and Location</u>	<u>Description</u>	<u>Land</u>	<u>Carrying Value</u> <u>Buildings Together</u>		<u>Reserve</u> <u>for</u> <u>Depreciation</u>	<u>Net</u> <u>Book</u> <u>Value</u>
<u>W. L. A. Investment Company</u>			\$	\$	\$	\$
27th and Wells Streets, Milwaukee, Wisconsin	Cecelia Building - 4-story brick apartment and store building	41,946.57	370,253.25	432,199.82	99,277.97	332,921.85
27th and Wells Streets, Milwaukee, Wisconsin	West Point Building - 4-story brick apartment and store building	19,437.04	95,080.19	114,517.23	48,710.24	65,806.99
Farwell and North Avenues, Milwaukee, Wisconsin	Oriental Building - 2-story brick apartment theater and store building	106,840.40	895,581.29	802,521.69	170,880.91	631,640.78
Farwell and North Avenues, Milwaukee, Wisconsin	Ivanhoe Building - 3-story brick apartment and store building	25,761.48	175,760.79	202,522.27	53,088.81	149,433.46
12th and Wells Streets, Milwaukee, Wisconsin	Muriel Building -2-story brick apartment and store building	11,171.24	35,463.90	46,635.14	18,456.30	28,178.84
828-832 N. 27th Street, Milwaukee, Wisconsin	1-story brick store building	9,740.53	20,064.27	29,804.80	5,656.77	24,148.03
834-840 N. 27th Street, Milwaukee, Wisconsin	Bensinger Building - 2-story brick	40,043.84	163,383.37	203,427.21	23,065.04	180,362.17
2714-16 W. Wells Street Milwaukee, Wisconsin	2-story frame flat building	20,105.90		20,105.90		20,105.90
Orange, New Jersey	Warehouse building	16,000.00	30,739.96	46,739.96	4,844.73	41,895.23
Broadway and Crescent Streets, Chicago, Illinois	Apartment building		111,150.00	111,150.00		111,150.00
<u>W. L. A. Company - Real Estate</u> <u>acquired through liquidation of</u> <u>W. L. A. News Service, Inc.</u> <u>Prince George's District, Prince George's</u> <u>County, Maryland</u>	Real estate near racetrack	4,544.00		4,544.00		4,544.00
Chicago, Illinois	Real estate near racetrack	1,050.00		1,050.00		1,050.00
Chicago Heights, Illinois	Real estate near racetrack	6,375.81		6,375.81		6,375.81
Orange County, Florida	Real estate near racetrack	61,875.00		61,875.00		61,875.00
Orlando, Florida	Real estate near racetrack	5,000.00		5,000.00		5,000.00
San Diego, California	Real estate near racetrack	3,781.74		3,781.74		3,781.74
Los Angeles, California	Real estate near race track	7,843.90		7,843.90		7,843.90

SCHEDULE B - LIST OF UNIMPROVED REAL ESTATE OWNED
- JUNE 30, 1940 -

<u>Owner's Name and Location</u>	<u>Description</u>	<u>Land</u>	<u>Building</u>	<u>Carrying Value Together</u>	<u>Reserve for Depreciation</u>	<u>Net Book Value</u>	<u>Remarks</u>
<u>Cecelia Company</u> 1111 Plymouth Court, Chicago, Illinois	Daily Racing Form Plant Building - 6-story brick	\$	\$	\$	\$	\$	Net sound value of building per American Appraisal Company appraised as of March 1, 1938 - \$30,998.53 Company does not own land.
1111 Plymouth Court, Chicago, Illinois	Cecelia Building - 7-story brick and steel frame	20,000.00	220,000.00	240,000.00	35,200.00	204,800.00	Net sound value of building per American Appraisal Company appraised as of March 1, 1938 - \$523,302.81 Company owns only one-half of land.
1111 Vermont Avenue, Los Angeles, California	Pacific Daily Racing Form Building - 2-story rein- forced brick and concrete	10,000.00	37,225.22	47,225.22	2,750.27	44,474.95	Net sound value of building per American Appraisal Company appraised as of May 1, 1938 - \$31,202.44
1111 Harrison Street, San Francisco, California	Pacific Daily Racing Form Building - 2-story con- crete	4,250.00	17,965.89	22,212.89	2,446.09	19,766.80	
1111 N. W. First Ave., Miami, Florida	Warehouse building - 1- story concrete block	4,000.00	51,037.63	55,037.63	5,044.10	46,993.53	
1111 N. W. First Ave., Miami, Ohio	Evening Independent Building - 3-story brick Office Building - 2-story brick. Warehouse - 3-story brick	10,000.00	39,943.38	49,943.38	4,160.77	45,782.61	Net sound value of buildings per Manufacturers Appraisal Co. appraised as of December 31, 1937 - \$40,727.22
<u>Florida Building Company</u> 1111 N. W. First Court, Miami, Florida	1-story concrete block building	555.00	10,590.00	10,590.00	1,604.00	8,986.00	
<u>Florida Atlantic Corporation</u> 1111 N. W. First Ave., New York	6-story brick building	30,390.67	40,000.00	70,390.67	8,300.00	62,090.67	
<u>Florida Building Co.,</u> 1111 N. W. First St., East Toronto, Ontario, Canada	5-story brick building	20,000.00	35,000.00	55,000.00	6,300.00	48,700.00	
<u>Florida Building Company</u> 1111 N. W. First Court, Miami, Florida	40-acre improved farm	12,000.00		12,000.00		12,000.00	
<u>Florida Building Company</u> 1111 N. W. First Street, Milwaukee, Wisconsin	Tower Building - 2-story brick office, theater and store building	81,812.34	416,611.93	498,444.27	117,561.07	380,883.20	

SCHEDULE 3 - LIST OF UNDEVELOPED REAL ESTATE OWNED
JUNE 3, 1940

<u>Company owning property and location</u>	<u>Description</u>	<u>Carrying Value *</u>	<u>Reserve for Depreciation</u>	<u>Net Book Value</u>
<u>Form Building Corporation</u> Merrick Road, Long Island, N. Y.	Vacant lot	\$12,682.39	-	\$12,682.39
Corona, Long Island, N. Y.	Vacant lot	11,562.55	-	11,562.55
250 Junction Ave. 95th Street	Vacant lot	13,644.55	-	13,644.55
Great Neck, Long Island, N. Y. (King's Point)	Land and residence	534,425.86	-	534,425.86
Miami Beach, Florida	Land, residence and improvements	295,865.38	-	295,865.38
Wyoming ranch	Ranch, buildings and improvements	311,553.36	-	311,553.36

* The carrying value of properties owned by Form Building Corporation includes the cost of land, buildings, improvements and certain additions for interest, taxes and other carrying charges.

Note - The carrying value and the relative reserve for depreciation of the properties listed on this schedule (3 pages) represent the book values as of December 31, 1939.

SCHEDULE C - LIST OF ENCUMBERED REAL ESTATE OWNED
JUNE 3, 1940...

<u>Owner's name and location</u>	<u>Description</u>	<u>Carrying Value</u>	<u>Reserve for Depreciation</u>	<u>Net Book Value</u>	<u>Encumbrances as reflected on books at December 31, 1939</u>
<u>Form Building Corporation</u>					
Ballerose, Long Island, N. Y. Corner of Jericho turnpike and Commonwealth Ave.	land and store and apartment building	\$104,750.82	\$5,400.00	\$99,350.52	First mortgage payable to Jamaica Savings Bank, Long Island \$37,000.00
Brooklyn, Long Island, N. Y. Corner of Junction Ave. and Northern Blvd.	Two vacant lots	143,585.70	-	143,585.70	First mortgage payable to Henry and Sophie Pfisterer 21,000.00
Douglaston, Long Island, N. Y. Northern Blvd. and Douglaston Parkway	Lot with small frame shack	86,794.64	-	86,794.64	First mortgage payable to Dime Savings Bank of Brooklyn 8,850.00
Hyde Park, Long Island, N. Y.	55 acres undeveloped land	207,347.68	-	207,347.68	First mortgage payable to Edward Muller, due July 1, 1942 10,000.00
<u>Farmer Building Corporation</u>					
101-9 Park Avenue and 101-9 East 59th St., New York City	four 2-store brick store buildings	568,218.27 Land 134,250.00 Buildings)	61,852.82	640,615.45	First mortgage bonds payable to Farmers Loan & Trust Co., New York City \$428,424.00 Less - Cost of bonds in treasury 541.20

* The carrying value of properties owned by Form Building Corporation includes the cost of land, buildings, improvements and certain additions for interest, taxes and other carrying charges.

Note - The carrying value and the relative reserve for depreciation of the properties listed on this schedule represent the book values as of December 31, 1939.

SCHEDULE D.PROPERTY OF CECILIA AND SUBSIDIARIES PLEDGED
AS COLLATERAL TO BANK LOANS

<u>Security</u>	<u>Pledge</u>
American Telephone & Telegraph Company - 1000 shares Common stock	United States Fidelity & Guaranty Company under agreement providing stock to be deposited with First National Bank of Chicago upon release.
General Electric Company - 3000 shares Common stock	Same.
General Electric Company - 5000 shares Common stock	Tradesman's National Bank & Trust Co. and The Philadelphia National Bank
Westinghouse Electric & Manufacturing Company - 2400 shares Common stock	Tradesman's National Bank & Trust Co. and The Philadelphia National Bank.
Triangle Press, Inc. - 100 shares Common stock	First National Bank of Chicago
The Philadelphia Inquirer Company (Del.) 22000 shares common stock	First National Bank of Chicago
\$900,000 promissory note of Elverson Corporation payable to The Cecelia Company and endorsed to bank	First National Bank of Chicago
\$900,000 promissory note of The Philadelphia Inquirer Company (Del.) payable to Elverson Corporation securing last-mentioned Elverson note and endorsed to Bank	First National Bank of Chicago
\$900,000 promissory notes of The Philadelphia Inquirer Company (Del.) to The Cecelia Company and endorsed to Bank	Tradesman's National Bank & Trust Co. and The Philadelphia National Bank

PROPERTY TO BE PLEDGED TO BANKS ON
OR BEFORE JULY 15, 1940.

\$1,400,000 promissory note of Elverson Corporation payable to The Cecelia Company

\$1,400,000 promissory note The Philadelphia Inquirer Company (Del.) to Elverson Corporation to secure last-mentioned Elverson note.

- 2 -

\$740,000 promissory notes of Philadelphia Inquirer (Del.) payable to The Cecelia Company.

Securities now pledged to secure \$725,000 due by The Cecelia Company to Hekor Investment Holding Company, Ltd., consisting of 1000 shares of Elverson Corporation capital stock and 146,550 shares of The Philadelphia Inquirer Company (Del.) stock.

C-
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Y

PRICE, WATERHOUSE & CO.

38

33 North La Salle Street

Chicago June 3, 1940

Messrs. Kirkland, Fleming, Green, Martin & Ellis,
33 North La Salle Street,
Chicago, Illinois.

Dear Sirs:

You have asked us if we could give you an opinion to the effect that the tentative consolidated balance sheet of The Cecelia Company and its subsidiaries as at December 31, 1939, copy of which is attached hereto, is substantially correct. It is impossible for us at this time to certify to any balance sheet of The Cecelia Company and its subsidiaries as being correct. We point out to you that the Treasury Department in Washington itself has raised numerous issues, which, if the Department is correct therein, would have a material effect upon the correctness or incorrectness of any such statement. Notwithstanding this, we are prepared to advise you that, as a result of our investigation the scope of which is outlined below, we do not have knowledge of any items of material amount, other than liabilities for income taxes, which would require adjustments and which have not been made the subject of adjustment in the attached tentative consolidated balance sheet.

The investigation into the affairs of The Cecelia Company and its domestic and Canadian subsidiary companies, which we undertook at your request, was not completed although substantially completed for the years prior to 1939, and was directed principally to specific transactions recorded on the books of the respective companies in order to determine the propriety or otherwise of their treatment in Federal income tax returns filed. The investigation did not have for its purpose the determination of the financial position of the companies. The investigation covered the period from January 1, 1933 to December 31, 1938, and included all companies in the group with the exception of The Triangle Press, Incorporated, which company was formed on January 1, 1936, and the Philadelphia Inquirer Company, which was acquired in August 1936, and a few minor companies. The investigation was supplemented by a review of the history and organization of the principal companies for the years prior to 1933, but we did not attempt to make any check of the detailed transactions for these prior years.

With respect to the year 1939, the recorded transactions on the books of the Milwaukee group of companies and the Wire Service Group, which latter group discontinued operations in November 1939, were reviewed, but no review of the transactions of any of the other companies in the Annenberg organization was undertaken for that year.

Our investigation disclosed a number of errors in the bookkeeping, and in the consolidated balance sheet at December 31, 1939, attached hereto, effect has been given to adjustments correcting all substantial errors thus disclosed.

- 2 -

Messrs. Kirkland, Fleming, Green, Martin & Ellis,
Chicago, Illinois.

June 3, 1940.

In a number of instances, complete information was not forthcoming with regard to certain of the transactions, and the treatment accorded these transactions was decided upon in the light of the information available.

The books of certain of the companies have not yet been closed for the year 1939, but in preparing the tentative consolidated balance sheet we have been advised that all known entries, including the usual year-end entries, have been given effect to.

Yours very truly,

(Signed) Price, Waterhouse & Co.

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M. L. ANNENBERG
LIST OF ASSETS AND LIABILITIES

June 3, 1940

ASSETS

240 shares of capital stock of The Cecelia Company
(239 shares pledged as collateral to notes
payable of The Cecelia Company to Jos. D. Bannon
and Hugh E. Murray under escrow agreement) -

10150 shares of common stock of Wisconsin Bank-
shares- present market value approximately - \$ 40,000.00
(A certificate for 5,000 shares of this stock
has been lost) -

47 shares of common stock of United Aircraft
Corporation - present market value approximately - 2,050.00

300 shares of common stock of Phoenix Hosiery
Company - no quoted market -

Certificate of Deposit for 25 shares of capital stock
of Federation Bank of New York - no quoted
market -

335 shares First preferred stock, and 335 shares of
Class B common stock of Rosenbaum Grain Corp.
(probably worthless) -

20 shares of common stock, and 20 shares of preferred
stock of Lincoln Finance & Mortgage Co. (Probably
worthless) - (Initialed M. L. A.)

100 shares of common stock of Canadian Marconi, Limited -
present market value approximately - 50.00

Cash surrender value of a paid-up life insurance
policy for \$2,000.00 on life of M. L. Annenberg.
Walter H. Annenberg is the beneficiary of this
policy.

Balance in Philadelphia National Bank - approximately 257,000.00
(Of this balance approximately \$250,000.00 will
be paid to The Cecelia Company and applied on
or before July 15, 1940 toward the first payment
of the Federal income tax settlement)

Balance in First National Bank of the Black Hills,
Belle Fourche, South Dakota - 6,371.66

Balance in Tradesmens National Bank & Trust Co.,
Philadelphia, Penna. - approximately 3,000.00

Cash on hand - 200,000.00

LIABILITIES

Account payable to The Cecelia Company as of December 31, 1939	\$2,509,611.00	
Less: Notes receivable from The Cecelia Company in respect of dividends declared in 1938 and 1939	<u>1,680,000.00</u>	
Balance indicated by tentative consolidated balance sheet of The Cecelia Company and its subsidiaries as at December 31, 1939		\$829,611.00

Contingent liabilities in respect of endorsement or guarantees of notes payable of:

The Cecelia Company -

To Jos. D. Bannon	\$ 300,000.00
To Hugh E. Murray	381,250.00
To First National Bank of Chicago	1,137,500.00
To Tradesmens National Bank & Trust Co. and Philadelphia National Bank	470,062.50
Triangle Press, Inc.-	
To Tradesmens National Bank & Trust Co. and Philadelphia National Bank	365,000.00

STATE OF ILLINOIS)
COUNTY OF COOK) ss.

M. L. ANNENBERG, being first duly sworn, deposes and says that he has read the foregoing statement of his assets and liabilities; that the same is true and correct to the best of his knowledge and belief. The foregoing statement does not, however, reflect therein any income taxes which may be assessed against him for any years prior to the year ending December 31, 1939, and such statement does not reflect ownership of certain assets which affiant has been informed by his attorneys the Treasury Department of the United States has contended were owned by him, or any other matters which the said Treasury Department may consider as rendering him taxable upon any income or other sources of income heretofore claimed by the Treasury Department to be attributable to him.

/s/ M. L. Annenberg

SUBSCRIBED AND SWORN to before me this

3rd day of June, A. D. 1940.

/s/ Florence Soren

Notary Public.

THE CECILIA COMPANY
AND
DOMESTIC AND CANADIAN SUBSIDIARY COMPANIES

TENTATIVE CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1939

<u>CASH</u>	\$ 1,648,897.73	<u>NOTES PAYABLE:</u>	
<u>ACCOUNTS RECEIVABLE:</u>		To banks	\$3,243,960.00
Customers	\$1,925,522.99	To others	1,845,558.57 \$ 5,089,518.57
Deposits with publishers, etc.	95,353.50		
Sundry	314,421.07	<u>MORTGAGES PAYABLE</u>	524,532.80
	\$2,335,297.56		
Less - Reserves	178,476.40	<u>FIRST MORTGAGE BONDS PAYABLE</u>	1,882,000.00
<u>INVENTORIES</u>	734,206.85	<u>ACCOUNTS PAYABLE</u>	1,955,347.91
<u>SECURITIES:</u>		<u>AMOUNTS PAYABLE TO STOCKHOLDERS</u> (in respect of dividends declared)	1,647,505.05
Marketable securities (aggregate approximate quoted market value at December 31, 1939 - \$1,324,297.25) (See note below)	\$1,290,578.31		
Other	43,261.26	<u>RESERVES FOR FEDERAL INCOME AND OTHER TAXES FOR 1939</u>	1,643,860.40
	1,333,839.57	<u>RESERVE FOR LOSSES ON INVESTMENTS</u>	358,756.75
<u>INVESTMENTS IN AND ADVANCES TO AFFILIATED COMPANIES</u>	287,300.05	<u>MINORITY STOCKHOLDERS' EQUITY IN THE PHILADELPHIA INQUIRY COMPANY (DELAWARE)</u>	116,743.37
<u>PROPERTIES</u>	\$20,885,857.37	<u>CAPITAL STOCK</u> - (500 shares of a par value of \$100.00 each)	50,000.00
Less - Reserves for depreciation	7,421,596.43	<u>SURPLUS</u>	15,888,044.16
	13,562,260.94		
<u>INTANGIBLE ASSETS:</u>			
Excess of carrying value of investments in subsidiary companies consolidated over net worth of such subsidiaries at dates of acquisition	\$4,908,446.62		
Goodwill, Franchises, Leaseholds, etc. carried on books of subsidiary companies consolidated	3,234,816.31		
	8,143,264.93		
<u>DEFERRED CHARGES</u>	134,790.08		
<u>MISCELLANEOUS ASSETS AND UNADJUSTED DEBITS</u>	423,316.70		
<u>AMOUNT DUE FROM M. L. ANNENBERG</u>	829,611.00		
	\$29,254,309.01		\$29,254,309.01

The above tentative unaudited statement includes the accounts of the companies listed on the attached schedule. The figures shown thereon have been taken from the books or from available reports in respect of certain of the companies, the books of which are not maintained in Chicago, and have been adjusted in respect of (a) intercompany account differences and other items disclosed during the general review made in connection with the uncompleted investigation into the affairs of the companies and Mr. M. L. Annenberg as of December 31, 1938 and (b) certain year-end entries at December 31, 1939 not reflected on the books.

The statement includes at the par rate of exchange the following items carried on the books of the Canadian subsidiary companies: cash - \$97,219.00; accounts receivable - \$68,059.90; inventories - \$2,498.92; securities - \$740,737.88; properties - \$1,351.35; goodwill - \$48,212.35; deferred charges and miscellaneous items - \$16,865.51; accounts payable and amounts due to others - \$258,407.80.

The marketable securities include securities having a carrying value of \$1,155,578.39 and an approximate quoted market value at December 31, 1939 of \$1,278,639.56, of which \$1,155,578.39 were pledged with banks and brokers as collateral to notes and accounts payable.

LIST OF COMPANIES WHOSE ACCOUNTS ARE INCLUDED

IN FOREGOING STATEMENT

The Cecelia Company	
Nationwide News Service, Inc.	} In process of liquidation or dissolu- tion
Bay State News Service, Inc.	
Cumberland News Service, Inc.	
Illinois Nationwide News Service, Inc.	
Mohawk News Service, Inc.	
Nebraska News Service, Inc.	
Seaboard News Service, Inc.	
Seyern News Company, Inc.	
Teleflash Loudspeaker Corporation (Delaware)	}
Nationwide News Service of Canada, Ltd.	
M. L. A. Investment Company	
M. L. Annenberg Company	
Bensinger Recreation Corporation	
Oriental Theatre Corporation	
Oriental Theatre Pharmacy, Inc.	
Standard Wine and Liquor Company	
Thrifty Liquor Company	
Tower Building Company	
Tower Theatre Corporation	
Tower Theatre Pharmacy, Inc.	
Central News Agency, Inc.	
Form Distributing Company	
Maryland News Company	
Milwaukee News Company	
Mohawk Distributing Corporation	
Twin Peak News Company	
Wayne News Agency, Inc.	
Click, Inc.	
Consensus Publishing Company	
Detective Stories Publishing Company	
Form Building Corporation	
Interstate Brokerage Company, Inc.	
McMurray Printing Company	
Triangle Press, Inc.	
New York Daily Tab, Inc.	
112 Fourth Avenue Corporation	
Turf Publications, Inc.	
Waltan Features Syndicate, Inc.	
Telegraph Building Corporation	
City News Company, Limited	
McMurray Publishing Company, Ltd.	
Montreal Newsdealers Supply Company, Ltd.	
Wentworth News Agency, Ltd.	
Elverson Corporation	
The Philadelphia Inquirer Company (Delaware) (96.98% owned)	
The Philadelphia Inquirer Company (Pennsylvania)	

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE JUN 15 1940

TO Miss Nell Chauncey, Office of the Secretary.
FROM E. H. Foley, Jr.

In re: M. L. Annenberg and
The Cecelia Company

I am herewith transmitting to you one copy of a letter from the Department of Justice dated June 8, 1940, addressed to the Chief Counsel of the Bureau of Internal Revenue, with which was enclosed authorization under date of June 5, 1940, of M. L. Annenberg and The Cecelia Company to attach as exhibits to their offer the tentative consolidated balance sheet of The Cecelia Company and subsidiary companies and the sworn statement of M. L. Annenberg as to his assets and liabilities.

S. L. 7L

Enc.

DEPARTMENT OF JUSTICE
Washington

Samuel O. Clark, Jr.,
Assistant Attorney General.

June 8, 1940

Honorable J. P. Wenschel,
Chief Counsel,
Bureau of Internal Revenue,
Washington, D. C.

In re: M. L. Annenberg and
The Cecelia Company

Dear Phil:

I have your letter of June 7, 1940 with respect to the agreement in settlement of the tax liabilities of the above proponents. I note that you have compared the signed offer with the copy which was submitted to the Secretary for approval and find no variances other than those mentioned in my letter to you of June 5, 1940.

I note the statement in the third paragraph of your letter that the originals of the financial statements (such statements being described in the last paragraph of the proponents' offer) and Schedules A, B, C and D were attached to the copy of the offer submitted to the Secretary for approval. For completeness of the record, I likewise advise that copies of such financial statements and the four Schedules were attached to the copy of the offer submitted to the Attorney General on June 4, 1940 for his approval.

Your letter refers to minor discrepancies in the names of three of the corporations listed on Schedule A attached to the signed offer. In accordance with your request I am writing counsel for the proponents for advice as to the correct corporate names of these three companies.

With reference to the financial statements, I am sending you herewith a statement signed by the proponents under date of June 5, 1940, authorizing the Commissioner to attach to the signed original offer the following documents which heretofore had been delivered to him: Tentative consolidated balance sheet of the Cecelia Company and subsidiaries as of December 31, 1939, together with letter from Price, Waterhouse & Company dated June 5, 1940, and M. L. Annenberg's list of assets and liabilities as of June 5, 1940.

J. P. Wenschel
June 8, 1940

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The proponents' attorneys have also sent me an executed copy of the list of M. L. Annenberg's assets and liabilities and an executed copy of the enclosed authorization dated June 5, 1940. These documents will be annexed to the duplicate original of proponents' offer, in order that it may conform in all respects to the original that you held. The duplicate original has now arrived in my office from Chicago.

As soon as I receive advice concerning the proper names of the three corporations referred to above, I shall again communicate with you.

Sincerely,

(Sgd) Samuel O. Clark, Jr.
SAMUEL O. CLARK, JR.,
Assistant Attorney General

Encl.

June 3, 1940.

Honorable Guy T. Helvering,
Commissioner of Internal Revenue,
Washington, D. C.

Sir:

In connection with the offer in compromise submitted to you by the undersigned yesterday, you are hereby authorized to attach as exhibits to said offer the tentative consolidated balance sheet of The Cecelia Company and domestic and subsidiary companies as of December 31, 1939, together with the accompanying letter to Kirkland, Fleming, Green, Martin & Elliott from Price, Waterhouse & Co. dated June 3, 1940, and the statement entitled "M. L. Annenberg List of Assets and Liabilities, June 3, 1940."

The originals of the two above-mentioned instruments have been furnished to you heretofore and we enclose herewith an executed copy thereof to be attached to the copy of the offer.

Very truly yours,

(Sgd) M. L. ANNENBERG

THE CECELIA COMPANY,

By (Sgd) M. L. ANNENBERG
President.

ATTEST:

The Seal of Said Corporation

By (Sgd) H. L. KAMIN
Assistant Secretary

No.101

American Foreign Service, Hanoi, Indochina,
June 10, 1940.

Subject: Chinese Government secures increased
Freight Allotment from Railway.

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to refer to my despatch no. 95 of May 27, 1940, reporting a new system of freight space allocation by the Indochina-Yunnan Railway, under which the Chinese Government received a smaller proportion of the freight space than previously. I have now been informed by the Chief Engineer of the railway that the Chinese Government has protested this reduction and that, as a result of negotiations at Paris, that system of allocation will be deferred for a period of 2 months, during which the Chinese Government will receive 80 per cent of the total freight capacity minus the railway's own requirements.

From an anticipated freight capacity of 24,000 tons monthly, 3,500 tons will be deducted for the railway. The Chinese Government, represented by the Southwest Transportation Company, will be allotted 16,100 tons, but all Chinese governmental agencies will participate in this amount, including the Yunnan Provincial Government (4,500 tons), gasoline and petroleum products (3,800), the Post Office, cement, et cetera. During the 2 month period it is said that no shipments

- 2 -

shipments will be made on behalf of the Salt Gabelle and the Szechwan-Yunnan Railway. The carriage of Renault Diesel trucks (despatch no. 99 of June 6, 1940) was the subject of discussion but it was agreed that this was to continue as part of the 50 per cent. The remaining 20 per cent, 4,100 tons, will be devoted to the transportation of commercial cargo, including gasoline and petroleum products for the account of the oil companies, according to the priority established by the railway through its listing of commercial cargo at Haiphong. (despatch no. 96 of June 1, 1940)

The percentage system has the advantage of requiring no readjustments should the total tonnage depart from the anticipated 24,000 tons monthly. As the rainy season in Yunnan is commencing, traffic disruptions are to be expected. But the Chinese Government will benefit by having, for a period of 2 months, 80 per cent of the net traffic regardless of the tonnage carried. It will be interesting to note whether the Yunnan Provincial Government will continue to obtain 4,500 tons monthly, regardless of traffic disruptions and a consequent reduction in the tonnage equivalent of 80 per cent.

It remains to be seen how this arrangement will work out but I believe that it should accelerate the clearing of the congestion at Haiphong. The real question remains, however, whether continued Allied reverses in Europe will encourage the Japanese to resume bombing of the railway or to demand the closing of the frontier to all transit on account of the Chinese Government. This is a possibility that cannot pass unremarked.

Respectfully yours,

For the Consul at Saigon,

Charles S. Reed II,
American Consul.

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In triplicate to the Department (By air mail)
Copies to the Embassy, Chungking and Peiping
Copies to Consulates General, Hongkong and Shanghai
Copies to Consulates, Kuning and Saigon

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE June 10, 1940

TO Secretary Morgenthau
FROM Mr. White

There is attached a list of memoranda and reports prepared in the Division of Monetary Research during April and May, 1940.

Memoranda Prepared in the Division of Monetary Research
during April and May, 1940.

Political Democracy and Freedom of Enterprise in Britain,
Germany and France Compared.

Information which should be obtained if current reports are
to be prepared on the financial status of the Allied countries.

Speech on Gold.

What does the Invasion of Norway and Denmark mean to the U.S.?

The British Budget 1940-41, and Summary.

Questions to be asked of the British authorities concerning
the sterling-dollar rate.

The Trade Picture of the Western Hemisphere.

British Official Rate and American Agricultural Exports.

Foreign Economic Developments.

Third and fourth foreign business letters.

Memoranda on strategic materials: Carbon black, Columbium,
Cobalt, Tantalum, Industrial Diamonds.

Comment on "Declaration of Principles Relating to the Con-
duct of American Industry".

Special Wartime Trade Agreements.

Estimated United States' Claims against and Investments in
Belgium and Netherlands.

Survey of the Needs and Productive Capacity of the U. S.
for Defense Purposes.

The Chinese Ambassador's informal request for advice apropos
Chiang Kai-Shek's telegram to the President for financial aid.

Tin Smelting in the United States.

Tungsten.

Shipments to U.S.S.R.

U.S. Exports of Molybdenum to Italy.

Re-exports of Tin.

Re-exports of Rubber.

Shipments of Aluminum to Rumania.

Assets of Netherlands, Belgium and Luxembourg held in the U.S.

British War Industry Production.

British Foreign Exchange Losses.

How Britain is Financing the War.

Employment and Production Figures of Bureau of Mint.

Comment on "The Case for the Gold Standard".

The plan for the restoration of basic credit control for the Federal Reserve Board.

Comment on Gold Article by Frederic Jenny in LE TEMPS.

Sources of Durable Goods Demand.

Winthrop Aldrich's views with respect to gold.

Foreign Exchange Control Licensing.

Paying for Armament.

Recent studies of Italian national income.

Economic Importance of the Invaded Area of France.

German Government Expenditures and Sources of Funds.

What significance does the unofficial sterling-dollar rate have for the United States?

Estimated Danish, Norwegian and Swedish Investments in the United States.

The Foreign Trade of the Belligerents.

Imports from the United Kingdom paid for with sterling purchased in the free market and in U. S. dollars.

Suggested form of questionnaire to be used by appraisers for all imports from the British and French Empires.

U. S. Trade with Belgium-Luxembourg and the Netherlands, 1939.

Estimated Assets of China in dollars or Convertible into Dollars.

Banking Funds held in the U. S. as of May 15, 1940.

Proposals or agitation to restrict or embargo exports of spruce.

Status of Latin American Dollar Bonds.

Opportunity for Treasury to strengthen Inter-American Treasury activity at the Scientific Congress in Washington.

Antecedents of the Inter-American Bank.

Questions and Answers on the Inter-American Bank.

Status of the Inter-American Bank.

Colombia's request for a loan of \$10 million.

Preliminary Comment on the British Trade Drive in Latin America. What can they accomplish by clearing agreements?

Translation of the Chilean Corp. de Fomento plans.

Chilean Application for an Export-Import Bank Loan.

Coffee crisis. Brazil at last is feeling the burden.

Coffee. The Situation in Brazil and Colombia.

Coffee. Is American action needed?

The Argentine Situation.

The Mexican Situation.

Weekly Reports on Latin America.

Is a general foreign-exchange collapse brewing in Latin America?

Effect of Dutch-Belgium invasion on Latin America.

Brazil's Impending Exchange Crisis.

Dutch Possessions in this Hemisphere.

Program to implement the Good Neighbor Policy.

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Ecuador. A case in American policy, or the lack of policy.

Dudley Wood's project for Latin America.

The Fifth Column in Latin America.

Measures suggested for the relief of Latin America.

A Plan for Latin American Trade. Its superiority to Dudley Wood's Scheme.

Highlights in our Export Trade in March.

Prospects for Increased U.S. Bacon and Ham Exports to U.K.

U.S. Export Trade Picture.

Economic Resources and Deficiencies of the Low Countries.

Multiple Exchange Rates - Argentina.

Chinese silver deposited in the British and French concessions at Tientsin.

Recent collapse in Chinese Yuan.

Summary of despatch from J. M. McHugh, Naval Attache at Chungking.

Dutch colonies and the war.

Japan's Attitude Toward Dutch East Indies in Light of Petroleum situation.

Salient facts respecting the relative importance to Japan of American, as compared to Dutch East Indian, petroleum supplies.

Survey of Netherlands East Indies.

Netherlands Indies currency now independent.

Tentative suggestions regarding economic aid to the Allies.

Potash.

Preliminary Report on Toluol.

Mr. Stettinius' comments on tungsten.

France's Cereal Supplies.

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French Policy in the Far East.

American Investments in Germany and the Areas now held by Germany.

The French Deficit.

Draft and skeleton table for world supplies of basic food-stuffs.

Shipments of Strategic Materials.

Dumping Cases Completed:

Acetate and viscose rayon cut fiber from Germany and Belgium.

Bio-shavings from Germany.

Candied citrous fruit peel from Italy.

Strike-on-box matches from Northern European countries.

Crimson clover seed from Hungary.

Red clover seed from Hungary.

Hulled millet seeds from Hungary.

Aluminum kitchen utensils from Italy.

Sugar beet seed from Germany.

Chemical porcelain ware from Germany.

Chemicals (14 from Germany; 1 from Canada).

Onion powder, from Hungary.

Glass frostings from Germany.

Current reports:

See report of February 1, 1940.

Correspondence:

288 Letters replied to.

No. 3133

Rio de Janeiro, June 10, 1940.

Subject: Request for Release of Funds Belonging
to Belgian Ambassador to Brasil.

ORIGINAL & THREE COPIES BY AIR MAIL - CONFIRMATION
COPY BY STEAMER.

The Honorable

The Secretary of State,
Washington, D. C.

Sir:

I have the honor to enclose herewith a copy of a communication from the Belgian Ambassador in Rio de Janeiro, Monsieur Maurice Cuvelier, stating that he has been unable to obtain the release of the balance of some one thousand dollars in his account with the Banque Belge pour l'Etranger, 67 Wall Street, New York, following the freezing of Belgian assets in the United States. He states that this is also true of the account of Monsieur

- 2 -

Andre Fosset, Second Secretary of the Belgian Embassy in Rio de Janeiro, with the same bank. He states that these funds are required for his living expenses here.

I should appreciate it if the Department would do whatever it can to facilitate the release of these funds and let me know the outcome by telegraph.

Respectfully yours,

For the Ambassador:

Ware Adams,
Second Secretary of Embassy.

File No. 701
WA:LEF.

Enclosure to Despatch No. 3133 of
June 10, 1940, from the American
Embassy at Rio de Janeiro on the
subject of the release of funds
belonging to the Belgian Ambassador
to Brazil.

Translation

BELGIAN EMBASSY
No. 1202

Rio de Janeiro, June 8, 1940.

My dear Ambassador:

About fifteen days ago, I cabled the Banque Belge pour l'Etranger, (Overseas), 67 Wall Street, New York, N. Y., with which I have an account in American dollars, to transfer to me at Rio de Janeiro a sum of \$1,000.

The Banque Belge replied that it would do so "as soon as the required authorizations were obtained". I am still awaiting this transfer, without further word. As my deposit in dollars at New York constitutes, at this moment, my only funds for living expenses, I should be deeply grateful if you would recommend to the suitable authorities of the United States that they permit the Banque Belge pour l'Etranger at New York, to transfer to me, without restraint, the \$1,000 which I await, as well as all other amounts which it would have occasion to send me in proportion to my needs.

Thanking you in advance for your kind intervention, I wish to convey to you, Mr. Ambassador, my highest esteem and consideration.

The Ambassador from Belgium

(s) Maurice Cuvelier.

P.S. I also wish to ask Your Excellency to have the restrictions removed, at the same time, from the credits in American dollars, at the Banque Belge pour l'Etranger, New York, of Mr. Andre Fosset, Second Secretary of the Belgian Embassy at Rio de Janeiro.

His Excellency

Mr. Jefferson Caffery,
Ambassador of the United States of America,
Rio de Janeiro.

CK

PLAIN

Stockholm

Dated June 10, 1940

Rec'd 9:50 p.m.

Secretary of State

Washington

609, Tenth.

Riksbank report June 7, in millions crowns:

metallic reserve 806.3, foreign exchange reserve 424.4, domestic loans 940.7, Government deposits 117, Banks 75, other 6.8. Riksdag approved 19 for completion falsterbo canal, 140 for commodity purchases our 470, also supplementary gasoline tax our 558, and 49 for firewood production. Riksdag adjourning 15th re-assembling late July. Swedish national debt May 31 in millions crowns: 3491.9 compared 2633.6 June 30, last year, and state loans outstanding 2107.7. Crop prospects dark according to first crop conditions report which assigns index of 1.9 for fall wheat and 2.7 for fall rye on basis of index number 4 equals good crop and 1 a failure. Much wheat area replanted. INFORM COMMERCE

STERLING

DB

June 10, 1940

MEMORANDUM FOR THE SECRETARY:

Shipping Situation.

Last weeks Pacific Coast freight and charter market was one of the quietest and most uneventful periods under review in the past five or six years. The collapse of Belgium fortnight ago had the effect of "freezing" market conditions, and last week with the threat of Italy entering the war growing more intense, the condition was made worse.

So far as could be positively established only one vessel - the motorship Ecuador (Swedish) - was fixed during the week. This vessel was taken presumably on a voyage basis at undisclosed terms from the Pacific Northwest to Vladivostok. The Maersk Line announced a chartered ship - motorship Bardaland (Swedish) - for a voyage from Los Angeles to the Orient, but whether this vessel had been fixed before or during the week in review could not be ascertained. Some vessels were said to have been taken on the Atlantic Coast, but no confirming reports were forthcoming. Charterers' ideas were said to have declined to as low as \$3.75 and \$4 for time charters but nothing was reported closed at these levels.

Demand for space in all directions seemed to decline, and there was little or no inquiry for full cargoes. In the Oriental trade, the berth lines could handle without difficulty all the scrap parcels that were offering. Rates were quoted at \$16 for rails; \$17 for melting. General cargo, lumber, and cotton were dull.

Business to Australasia continued in the doldrums due to the severe restrictions imposed against imports. Lumber was slack, and the lines were having difficulty getting \$30.

The intercoastal section continued to ease off, and the lines, despite the recent reduction of tonnage due to sales abroad, foresaw a small enough volume to be handled by the lines on hand. Lumber offerings were easier and were expected to continue so. One lumber operator made an off-the-record statement to the effect that if the present amount of intercoastal tonnage was increased by 10 per cent, the backlog of lumber shipments would be wiped out within a week or so.

Paul Harris



61-A

TREASURY DEPARTMENT
WASHINGTON

June 10, 1940.

MEMORANDUM FOR THE SECRETARY:

The Rumanian Steamship MANGALIA, is sailing from New York for Constanza, Rumania, on June 15th, carrying 15,410 slabs of electrolytic zinc and 6,698 pieces of copper cathodes.

Basil Harris

June 10, 1940

My dear Mr. Hoover:

This will acknowledge receipt of your letter of June 6th inclosing a memorandum on the international situation.

Thank you for bringing this to my attention.

Yours Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. Edgar Hoover,
Director,
Federal Bureau of Investigation,
Department of Justice,
Washington, D. C.

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Washington, D.C.

EDGAR HOOVER
DIRECTOR

Have not read
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h

Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

June 6, 1940

Personal and Confidential

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

Dear Mr. Secretary:

As of possible interest to you,
I am inclosing herewith a memorandum dated
June 4, 1940 received from a confidential
informant, commenting generally upon the
international situation.

Sincerely yours,

J. Edgar Hoover

Inclosure

*ms 9/20/40, 41
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Sept 1940
Wash*

June 4, 1940

In res World Situation

The following information was gathered from a Mr. B. to whom reference will be made throughout this report. It is also necessary to state that the information contained herein is that given by Mr. B. and is not the idea or suggestion of the writer. It is also highly important to mention the fact that Mr. B. enjoys the fullest confidence of the Soviet Government and represents that Government in an official capacity in this country.

The writer spent quite a long time with Mr. B. in an exchange of views covering the present situation with respect to the European conflict. Mr. B. was highly elated and was perfectly frank in stating that at last the British had come to their senses in sending such a capable man as Sir Stafford Cripps as Ambassador to Moscow. Mr. Cripps, who is a member of the British Labor Party, has always been a great admirer of the Soviet Union according to Mr. B. and is the one man that can get things done between England and the Soviet Government. B. states that this appointment was most welcome to Foreign Minister Molotov and the Russian Ambassador to Great Britain - Maisky (this spelling may not be correct) and Mr. Dimitroff (the writer also is not sure about the correct spelling of this name).

According to B. it appears that Mr. Dimitroff is the outstanding leader of Soviet Russia today - although Stalin is the symbol of Soviet Russia, Dimitroff is the real man behind the Soviet regime and gets things done.

According to B. the days of Churchill, Chamberlain, Baldwin and men of their type, are about ready to go down in history "finis" as far as Great Britain is concerned. The Labor Party has chosen most wisely in sending Cripps to Russia - he understands the temperament of the Russian people as B. puts it, and in time to come he will solidify the good feeling between Britain and Russia. It is through Cripps that the Russians expect to infiltrate their Communist propaganda and ideals into the British Labor Party whom B. compares to our C.I.O., the Labor Party in America, headed by such strong "left wing" or "radicals" as John L. Lewis.

B. was very critical of Churchill, whom he described as the "leading apostle of retreats" having reference to the retreat of Gallipoli, Norway and the recent retreat from Flanders. He further described Mr. Churchill as a typical British Conservative, who have had things all their own way for centuries, and that there was no difference between the Churchill regime and the Chamberlain regime - that Churchill carries on where Chamberlain left off using more or less the same pattern of plans and strategy.

From my own observation I would say that the Reds are going to do everything possible to carry their Red propaganda into England and

- 2 -

use the Labor Party and friends of Sir Stafford Cripps as the nucleus and cells for the Communists in Great Britain and to be frank, although the writer has no evidence to substantiate this other than my conclusions from my talk with B. Cripps has very strong Communist leanings. Whether he would deliberately concur in the schemes of Communistic buildup in England or whether he can be duped by Dimitroff, Molotoff and the rest of the Red scoundrels of Russia remains to be seen. One thing is certain - unless Cripps is closely watched by the British themselves there is no doubt that but something sinister will happen out of this Cripps-Moscow-Matsky and British Labor Party setup.

B. went on to say that the reason why Russia had to take Finland in the winter, which was the least appropriate time to undertake such a campaign, was because their Intelligence Service had learned that England and France were given permission by the Finns to land at Petsamo, the northern part of Finland, with a heavy expeditionary force which was to join up with the Finnish Army who had been preparing for a number of years in building up the Mannerheim Line and other strong defenses against a possible Russian invasion. The plan then was to forego Russian consent to this expeditionary force going through their country on a rear attack on Germany, and if they were not permitted to do this they were to counter with a war on the Soviet Union. The Russians had no time to lose, according to B. hence their immediate attack on Finland. Now, today, B. says the Finns and Russians are getting along very well. The Russians, B. says, have restored the buildings destroyed at Petsamo and other parts of the country, and they have also paid a heavy indemnity to Sweden for the destruction caused there on account of that war. The Mannerheim Line is a thing of the past and the Finns are glad now that they did not hook up with the British and French as they at first intended to do.

As to Germany B. says that the conflict will last about two years and that the winner will be neither the Allies nor the Germans, but Russia and Japan and that Russia will control the economic orbits of all Europe and Japan likewise will control this in the Pacific.

The United States will enhance itself with riches from war contracts which will be of little value and only a momentary success because the other countries won't have anything to trade with.

B. feels that a Federation of Nations will be set up in Europe with a strong Communistic influence, and B. expects it will be brought about in the following manner:

Dimitroff, who has been previously mentioned as the No. 1 man of Russia today is the same person who was accused by the Germans of setting fire to the Reichstag, and during his trial for arson and treason B. says Dimitroff spat in the face of Goebbels while he, Goebbels, was giving testimony against Dimitroff. Dimitroff was sent to jail and in some

spurious way Dimitroff escaped from Germany with the connivance of some of the leading Communists in Germany in official positions in the Reich. Dimitroff has never forgotten this and carries this as a cause for vengeance against Hitler and his immediate associates. After the Allies and Germany have fought themselves into a stage of exhaustion, and Russia having had this additional two years to fit up her war machine which is now undergoing a 24 hour day buildup will be in a position to crush both the Allies and the Germans - the Allies from a military point of view and the Germans through their propaganda.

According to B. the Communist cells in Germany have been regenerated so to speak through the recent German-Moscow Pact accomplished by Ribbentrop. Dimitroff at the head will give the signal through a heavy propaganda in the well populated Communist centres in Germany to bring on a revolution there and then become a Red Germany; that the Allies would put up a strong, furious and short war but that both France and Britain would be brought to submission; that although the economic situation in France had been very bad in recent years, the Communist leaders there had been pretty well subdued. This, however, will rise again if France should undergo a revolution which, in all probability, she will do, and if this come about it will bring forth as a leader the present Generalissimo Wygand who appeals to the Fascist Party known as "Cagoulards" a sort of party similar to the Ku Klux Klan in this country. It is believed that the Communist Party in France will rise in opposition to the Fascist Legion set up by Wygand who, according to B. is its leading member.

The British Isles by that time will have absorbed the Communist pattern through its Labor Party to such an extent that they will be in such shape that they will look upon Communism as a possible solution for the welfare and betterment of Great Britain. The "die-hards," Conservatives and aristocracy of Great Britain will have been ousted into the discard by that time. Great things are expected by the Reds through this Cripps appointment.

As to Germany receiving great quantities of war materials at this time B. says is sheer nonsense. Everything is being done to hamper as much as possible any shipments to the Reich and a sort of sabotage is being put on the Russians at the instigation of Dimitroff in his answer to Mr. Hitler. For example B. says you don't see Russia building any roads through Poland into Germany or putting in new equipment, or buildings, or roads, all of which does not show good friendship for neighboring Germany. Russia has no intention of modernizing this part of Poland which was ceded her in this way by Germany. She will retain the marshes and everything as they are, looking toward the day it will serve them for the destruction of Germany.

As to the Balkans, B. stated that negotiations between Turkey and Russia were hitting topspeed right now and that the most friendly relations exist between these two countries under agreement that Turkey will not allow the Allies, Germany or anyone else to use the Black Sea or the

- 4 -

Bosphoreus in this war. Further, that Turkey will not take any aggressive step in the direction of warfare on her neighboring countries. Turkey has placed her orders according to B. so as to get her money from England and also planes, but that the planes which England had sent her were poor and not of modern type. B. says that Russia has sold a considerable amount of war material to Turkey such as planes, guns, etc. Most of this, however, is antiquated and would be of little effect in modern warfare of today. Furthermore the Turks keep up the propaganda of the Italians among the Arabs and if Turkey should attack any of the neighboring countries the Arabs will seize the opportunity a paying back a long awaited debt.

As to Bessarabia, B. feels that Russia has no immediate design on this country - that this will fall in her lap the same as the other Baltic States such as Estonia, Latvia and Lithuania, which, by the way, according to B. will probably be incorporated into the Soviet Union, giving up their sovereignty and independence. Great pressure is now being brought to bear on them.

As to Jugo-Slavia - most cordial relations, both military and economic - now exist between Russia and that country. B. feels, however, that if Italy should invade Jugo-Slavia Russia would not come to the latter's assistance. Russia wants to keep the Balkans in a state of status quo and will try to wield economic influence to a greater degree than she has in the past in that particular region, in competition with Italy.

The feeling between Italy and Russia is far from friendly. Russia, according to B. is not in a position to take any military action even though Hitler should get Italy to join in this present conflict.

According to B. Germany is getting over her normal supply of oil from Rumania and expects to reach out for oil from Persian sources in the near future. Some sort of a deal according to B. is now on foot in that direction.

It is B.'s belief that Italy will strike against France occupying the Island of Corsica immediately and work in close cooperation with Spain for jumping off places for Italian Planes, sub-marine bases and the highly touted motor torpedo boats.

B. again stated, as he did in a previous report of a month ago, that Spain would make a tremendous onslaught against Gibraltar for the purpose of occupying the strategic point to the Mediterranean.

B. says it shows how stupid this present Government is in England by the fact of having sent Mr. Seare, a strong conservative, as her

ambassador to Madrid. This has resulted in a student uprising against the British for the return of Gibraltar and is creating continued bitter feeling against the British. He called the letdown of the Spanish by the French and British the hardest blow ever struck to real democracy. I asked him whether General Franco would head an army for attack against the French on the French boundary. A. says he does not think the Spanish are in a position to undertake war maneuvers as she was pretty well bludgeoned through internal strife but that for strategic reasons a large Spanish army would in all probability be centered on the French frontier.

I then asked A. if Russia would join up with us in the event that the Japs seized the Dutch East Indies. He said there was no doubt but that the Japs would in time find a logical excuse to take over the Dutch East Indies, which would be a direct challenge to the United States and that as far as Russia was concerned she would not interest herself should Japan undertake to do this. She certainly would not join up with the United States, and he asked the question "Why should she?". He stated that the Communists in this country are being treated far worse than the Nazis. For illustration, he said, you probably know that the Soviet Government has dismantled its exhibit at the Worlds Fair. This material has all been crated and sent to Staten Island to a storage warehouse, which has cost the Soviet Government \$300,000. The Soviet Government wished to charter a ship from the United States, and every assistance was given by the State Department in allowing a charter for this transportation, and it finally resulted that Russia had to send one of its own ships from Murmansk to the United States. This ship is here now and has been loaded to capacity with most of the objects including the figure of Joseph Stalin and the Red Star. B. jokingly said that this would give Stalin a chance to look over the Panama Canal, the locks, safe-guards, etc. while he was going through. He continued further that there is a great deal of electric motors and other machinery and equipment which they were unable to put on the boat because there was insufficient space to hold it. He said they again applied to the State Department for permission to ship these, and again asked if it were possible to charter an American or other ship in this country in order to transport this heavy material. After having made this application for a number of months the State Department has not as yet acted as to what it will do in this direction. It has refused Russia a charter to a boat. This required again that they send one of their own ships over here to take the material back if and when the State Department grants their request.

I then said to B. Well, we are still taking your gold, and I think that is a great help to Russia, to which he replied "No." He said Uncle Sam is glad to set all the gold he can get but our gold is being used as payment for debts incurred in this country for heavy materials such as motors purchased from the General Electric Company, Westinghouse, etc.

- 6 -

There are very few favors being granted to Russia, said B. Even the State Department is very slow about letting us move this heavy machinery figuring that we will give it to Hitler, which is very remote and not even worth counting on said B.

I then asked B. what he thought about a possible invasion by Hitler of the United States through some South American country to which B. replied that Hitler had plenty to do without worrying about Mr. Roosevelt, whom he described as the coming greatest war President this country has ever had, and that it is his belief that F.D.R. has in the back of his head a third term that will give him as much power as the other Dictators have.

PAP

PLAIN

LONDON

Dated June 10, 1940

Rec'd 1:51 p.m.

Secretary of State
Washington

1575 June 10.

FOR TREASURY FROM BUTTERWORTH.

CONFIDENTIAL

The following is the text of the Anglo-Belgian financial agreement but the British Treasury states that some minor textual changes were made at the last moment in Paris where it was signed:

"The Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Kingdom of Belgium have agreed as follows:

Article 1. From the date of the signature of this agreement the rate of exchange of the Belgian franc and the franc of the Belgian Congo is fixed at 176-1/2 francs for one pound sterling, (hereinafter called the official rate). No change in this rate shall be made without prior agreement between the two governments.

Article 2. The National Bank of Belgium shall continue to be solely responsible for the rate of exchange of Belgian currency in markets of third countries. The

monetary

PAP -2- 1575, June 10, from London

monetary authorities of both countries will always consult together on the policy to be followed in regard to this question and on any intervention which may seem to be necessary.

Article 3. The pounds sterling required by the National Bank of Belgium for Belgian expenditure in the sterling area will be provided at the official rate by the United Kingdom exchange equalisation fund against payment in Belgian francs (without prejudice to the agreement to be entered into between the Bank of England and the National Bank of Belgium in regard to the notes of the National Bank of Belgium at present in the possession of the Bank of England or of His Majesty's forces). The Belgian francs required by the United Kingdom exchange equalisation fund (hereinafter called the United Kingdom fund) for expenditure on the part of the United Kingdom in Belgian territory will be provided at the official rate by the National Bank of Belgium against payment of pounds sterling. The National Bank of Belgium for the purpose of this article and of articles 5, 6 and 7 is deemed to act as the agent of the Belgian state for making and receiving payments.

Article 4. If the United Kingdom fund should at any time hold Belgian francs in excess of one milliard Belgian francs, the excess will be used for the purchase of Belgian

Treasury

PAP -3- 1575, June 10, from London

Treasury bills expressed as payable in pounds sterling. These bills shall bear interest at 3% and will be repayable one year after the end of the war. They will be renewable at the option of either government for two further successive periods of one year each.

Article 5. No gold security nor specific security will be asked for in respect of the currency obtained in the above circumstances by the United Kingdom fund or by the National Bank of Belgium. No request for the conversion of these currencies into gold will be made. If the two governments agree to change the official rate of exchange between the pound sterling and the Belgian franc the amount of pounds to be repaid by the National Bank of Belgium in respect of the Belgian francs held by the United Kingdom fund would be calculated at the rate in force when the Belgian francs were acquired. The same arrangement would apply to pounds held by the National Bank of Belgium.

Article 6. The pounds sterling held by the National Bank of Belgium may be used to pay for all expenditure in sterling in the sterling areas. The Belgian francs held by the United Kingdom fund may be used to pay for all expenditure in Belgian or Congo francs in Belgium or the Belgian-Congo. No payment in pounds or in Belgian francs may be made in third countries without previous agreement between

the

PAP -4- 1575, June 10, from London

the two governments.

Article 7. The United Kingdom fund will provide where necessary the local currencies required by the National Bank of Belgium for all payments in the sterling area. Similarly where necessary the National Bank of Belgium will furnish the Congo francs required by the United Kingdom fund.

Article 8. The Belgian Government reserves the right to register and where necessary to requisition foreign assets of all kinds in the possession of Belgian nationals. The realisation of assets so requisitioned will only be carried out after agreement between the two governments. The United Kingdom government will as far as possible assist in these operations.

Article 9. The United Kingdom and French Governments having made an agreement to share equitably between them the costs of the war payable in gold, in dollars, or in foreign exchange related to the dollar, the Belgian Government similarly agrees to assume an equitable proportion of these charges as their share in their apportionment.

Article 10. In their relations with third countries the contracting governments will keep each other informed, co-operate and reach agreements in order to obtain the best results from their unity of action.

Article 11. The two governments will not impose restrictions on trade between their two countries for the purpose
of

PAP -5- 1575, June 10, from London

of protecting their home industries or for foreign exchange reasons. They will do all that is possible to establish the same solidarity between their colonial empires.

Article 12. In the present agreement the sterling area shall mean the United Kingdom together with any part of His Majesty's dominions outside the United Kingdom (except Canada, Newfoundland and Hong Kong), any territory in respect of which a mandate on behalf of the League of Nations has been accepted by His Majesty and is being exercised by His Majesty's Government in the United Kingdom or in any dominion, any British protectorate or protected state, Egypt, the Anglo-Egyptian Sudan and Iraq.

Article 13. The present agreement shall remain in force for the whole duration of the war and for a period of six months following the signature of the treaty of peace. In witness whereof the undersigned, duly authorised thereto by their respective governments, have signed the present agreement. Done in duplicate at Paris this 7th day of June, 1940 in English. For the United Kingdom of Great Britain and Northern Ireland." The tripartite protocol signed at the same time is as follows: "On signing today the agreements entered into between the Royal Belgian Government and the Government of the United Kingdom of Great Britain and

Northern

PAP -6- 1575, June 10, from London

Northern Ireland, on the one hand, and between the Royal Belgian Government and the Government of the French Republic on the other hand, for the purpose of settling the monetary and financial relations of the three countries the representatives signatory thereto declare that it is the intention of their governments to regard these agreements as forming the basis of their relations during the war, the agreements being regarded as complementary to each other and forming an indivisible whole. Done in triplicate at Paris the 7th day of June, 1940 in English." The British Treasury states that the Dutch negotiations have been concluded except for minor details affecting Java and as soon as word is received from there the agreement will be signed.

KENNEDY

PEG

June 10, 1940.
11:00 a.m.

RE REFUNDING

Present: Mr. Jones
Mr. Viner
Mr. Haas
Mr. Bell
Mr. Ecoles
Mr. Ransom
Mr. Piser
Mr. Hadley

H.M.Jr: I thought you (Jones) might sit in and give us the benefit of your old horse sense.

Jones: I am delighted to keep up and be advised.

H.M.Jr: We are shooting from the hip these days. First the question is, should we do a refunding today or not. There is a bond that comes due on the fifteenth. It is three hundred and fifty odd million dollars.

Jones: I would do it.

H.M.Jr: That is the first. And then we have a blank space going back on our notes, the first blank space going backwards, which is September, 43.

Jones: As good a time as any.

H.M.Jr: And that is three and a quarter years and the argument is, should we do the seven-eighths or one percent, you see.

Jones: That would be pretty sweet at one.

H.M.Jr: That is right, but I know that Marriner is going to say that I am giving the bankers too many, but I just wanted to find out how much I am giving them.

Hadley: You would give them about - a saving over three years of about a million four hundred thousand.

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H.M.Jr: A million four hundred thousand?

Hadley: Yes.

H.M.Jr: On three hundred fifty million.

Hadley: That is right.

Jones: You mean the difference between seven-eighths and one?

Hadley: And one percent. You see, one percent for three years would be about ten million dollars.

Jones: That is three-eighths for three years. What is one percent on three hundred fifty million?

Hadley: That would be three million five hundred thousand and three years would be ten million and an eighth of that be about a million four hundred.

H.M.Jr: So I mean, the worst they can say - sit down. They might say I am giving away a million four hundred thousand dollars.

Viner: Assuming that that figure is precise, the present value of that is less. I mean, that is the aggregate increased interest income they would receive over the period.

Haas: Interest rates are pretty low.

Hadley: That is the amount of money the Treasury would have to pay out.

H.M.Jr: We would be out of pocket a million four hundred thousand dollars more if I gave one percent than if I gave seven-eighths.

Jones: What does the three year sell at now? What is the market on the three year?

Hadley: The three-year yield is about seven-tenths.

- 3 -

H.M.Jr: Seven-tenths.

Jones: Yes.

H.M.Jr: This is, you see, here the three and a quarter. The seven-eighths they figured would be a premium between sixteen and eighteen thirty-seconds and the one between a twenty-eight and a thirty.

Hadley: They have moved down about a thirty-second from that.

H.M.Jr: They have.

Bell: This morning.

Hadley: All the markets are very quiet but a little easier on quotations.

Jones: Have you got anything else coming along?

H.M.Jr: Nothing until next December, of refunding, nothing until December but we will have to raise the money. We will have to raise some new money.

Jones: Can't you sell some more bonds?

H.M.Jr: Of yes.

Bell: Sell some of yours.

Jones: And that is -- the only thing there is, if you give them a sweet bond now they will expect it next time.

H.M.Jr: As a matter of fact, Jesse, the last note we sold was a five years, wasn't it?

Hadley: Five years, three quarters percent.

H.M.Jr: Five years, three quarters percent and how much margin did we have?

Hadley: We gave them almost a point on that.

- 4 -

H.M.Jr: And we almost gave them a point then and that was some months ago and when things weren't nearly as bad as they are now.

(Mr. Eccles, Mr. Ransom and Mr. Piser entered the conference.)

H.M.Jr: I am a little bit under pressure this morning because the President is leaving about half past one and he hasn't written his speech yet and he said that if I came over at eleven fifteen he would see me and I said, "Make it eleven thirty," and so he said eleven thirty, so I thought I had until one but I find I have only got - I have got much less time than I thought I had.

The thing, Harriner, that I would like your advice on is this: First, should we do a refunding this afternoon? That is number one and if so, what? Have you boys been talking it over?

Eccles: Well, we have been talking it a little back and forth. I don't think that it makes a great deal of difference. There are arguments both ways. There would be no problem, in my opinion, to do a refunding if you wanted to do one in a note issue or in a short-term bond issue. The bonds have held up remarkably well here all during this period and as far as the Federals are concerned, we have given the market very little support. In fact, nothing in the past two weeks, which indicates the underlying strength of the market with a small issue like this and with it being a refunding issue there would be no question about it.

On the other hand, the fact that it is a small issue, it may be a good time to pay it off and until such time as you can always go into the bill market and there is some disadvantage of going into the bill market, of course. That would be financed

- 5 -

entirely by the banks and that creates additional deposits, which we don't need. These bonds, I imagine, would be held outside of the banks and it would leave these investors who think they have rights somewhat disappointed. Some of the people feel that rights should be protected. I haven't felt that way about it. I have felt that the rights sooner - sooner or later we ought to get to a point where it shouldn't be necessary to give these speculative rights to dealers and those who buy bonds merely for the purpose of distributing and getting the rights. I think I would prefer personally the paying of this issue off and then putting out bills if you need them until such time as the financing program of the future possibly can be a little more clearly determined. You are going to have a lot of refunding and a lot of new financing to do and it is the question of the long-range course of that type of financing and in the meantime, you could finance it by the issue of rights. That is my personal view.

H.M.Jr: Let me point out to you that if we pay this off, our balances go below eight hundred million dollars right away.

Eccles: Do they do that today?

H.M.Jr: Yes.

Bell: Well, the fifteenth.

Eccles: Well, can you get the tax money?

Bell: The tax money will be eaten up by interest and other things. Our balance is going down this month in spite of tax money. We will have between nine hundred and fifty and a billion dollars in balance.

Eccles: You could add a hundred million a week to your bills without the slightest trouble.

- 6 -

Bell: Oh yes.

Eccles: Until such time as you want to do some long-term financing refunding.

Bell: At fifty million a week, it would take seven weeks to get back the three fifty.

Eccles: Yes, but it would keep you from going down. It would not only hold your balances but it would gradually build them up. Well, I don't feel very strongly one way or the other on it.

Jones: I don't think there is any point at all in paying it.

H.M.Jr: You don't think there is any point?

Jones: Not any point in paying it.

Eccles: I don't think it makes very much difference with a small issue.

H.M.Jr: Ronald?

Ransom: Mr. Secretary, it seems to me that the decision depends largely on what your rather long-range scheme is going to be and of course I have had no opportunity to discuss that. The only possible advantage that I can see of paying them off would be that you might bring to a conclusion this question of rights which has been more or less a troublesome one but not a vitally important one, but as to your type of financing I think you can do anything you please at the present time in regard to that financing. I told Mr. Bell over the 'phone the other day, our own feeling was that if you are not going to pay them off that fast a short maturity, say September '44, would be indicated as a pretty good place to put it. Now, I imagine you people have, of course, been giving a lot of consideration to your general scheme as to what it is you are going to do over the next few months or perhaps over the next year or so and I don't know which plan would fit in best with that; if paying it off would fit in best with that, then I wouldn't see any possible objection to paying it off.

- 7 -

If refunding it on a short term such as the March or September, '44, would fit in with that, then I think that can be done very simply. There was a feeling on the part of some of our people that there was no reason at this time to give any very long notice of it, that you could possibly do it on a twenty-four hour notice or at the most a forty-eight hour notice and that whatever you propose to be done could be done without the slightest difficulty.

H.W.Jr:

Well, I have talked to some of the people this morning who are in this business and they all tell me it can be done if it is priced correctly. They all say that they would like to see it done, that it would be a cheering note to them. It would be something that would be cheerful. They say that if we didn't do it, they would be even more frightened than they are. The note market is in good shape. I can't tell you what I am going to do thirty days from today or a week from now. I mean, things change so fast - I met one day with the leaders here and we decided we were going to raise the debt limit three million dollars and a week later they came back and I said, "Please make it four billion," so how the Hell does a person know from one day to the next where he is and before that they said they wouldn't - under no circumstances would they have a tax bill. Barkley said there was going to be no tax bill and Sam Rayburn said that and now there is going to be one. Here I just live from hour to hour. I just don't know where I am at. I don't. The people here in the Treasury - we would like to do a refunding today.

Eccles: On notes or bonds?

H.W.Jr: Notes.

Eccles: '44?

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H.M.Jr: The December, '43, three and a quarter years.

Ransom: December, '43?

H.M.Jr: September, '43.

Ransom: That fits in best --

H.M.Jr: It is the first blank space going back.

Eccles: That is three years and three months. What is the rate on that now?

Viner: Do you ever split the rates one-sixteenths?

Bell: Never have. It is an eighth. We have sold them at a premium in order to bring that rate.

Haas: It is about a seven-tenth yield basis, seven-eighth coupon.

H.M.Jr: What did you say?

Haas: He asked what rates we would put on that. I said approximately seven-tenth yield basis and you may put a seven-eighth or a one depending on how much premium.

H.M.Jr: If we give them as much gravy as we did last time we would make it one.

Eccles: Of course, you had a shorter issue.

H.M.Jr: Right. Also we have got more ahead of us, too.

Ransom: Do you think there is an advantage in putting it there rather than '44? It isn't, of course, very material.

H.M.Jr: When would you put it in '44?

Ransom: September, '44.

Haas: There is one in there. You would have to put it in December, '44.

Ransom: It is a very small one.

H.M.Jr: Well, there is one there, one percent.

Bell: It is only two eighty-three.

H.M.Jr: You mean reopen that?

Bell: No, a new note right on top of that. There is no reason why you couldn't put another note in there if you didn't want to reopen the old one. That was Ronald's point.

H.M.Jr: That would justify the one percent rate more than the other.

Bell: A little less premium.

Hadley: The one percent on that base would only give you about ten thirty-seconds.

H.M.Jr: Not enough for me.

Bell: I thought it was twenty-one.

Hadley: No.

H.M.Jr: It is not enough.

Bell: Where does the twenty-one come in?

H.M.Jr: I mean, I am not going to stick my neck out for that. I would rather do a three and a quarter - I have got a half --

Haas: If you are going there, Dan, you might as well go out to December and put one and one-eighth on it.

Jones: I think it is all right. I think they will take it as a matter of course.

Eccles: They will take it. They haven't anything else to do.

Viner: I would refund on a note and I would start creeping up on those rights, trying to get them lower than they are because you don't want to - if we have lots of financing to do in the future, we don't

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want to establish the prices too firmly that each issue has to be very sweet and I think a good place to work that out on is an issue which is probably so strong that no crisis can come, no matter how the market reacts.

H.M.Jr: How much did the - excuse me, are you finished?

Viner: I am through.

H.M.Jr: How much did the note fall off last time when the bad news came out?

Hadley: It moved off about a half a point in at least ten days.

H.M.Jr: Half a point? Not enough. Well, gentlemen, if that is -- if you move off a half a point with the situation the way it is, with the Italians and the Paris situation --

Jones: You would feel happier to make it a little bit sweeter?

H.M.Jr: I would.

Eccles: Of course, it moved off a half point from a higher price. It has already moved out.

Viner: My guess is that if you allow us, say seven-tenths now, it will be six-tenths or five-tenths by the time the thing is actually subscribed to. With the news of the next two days, I think the market is likely to slide off a little.

Haas: That is an argument for making it a little sweeter.

Viner: I am thinking in terms of what is today's --

Eccles: Anybody would have predicted a month ago that this market couldn't have held the way it has, but it has held and it has had no support. I think it is pretty well - don't you think the market is - especially in these short issues, is pretty well discounted?

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Jones: The point is, what are you going to do with the money.

Eccles: That is right.

Viner: The bad news always has a residual effect.

Eccles: If this was new money, I would feel a little different about it.

Ransom: This particular issue is not very widely distributed, as I understand.

H.M.Jr: It is, excuse me.

Bell: It may be, we don't know.

Ransom: Our understanding was it was not widely distributed.

H.M.Jr: I don't know, Bell can talk for himself.

Bell: We don't know where it is, but it was issued to a large extent in refunding the thirds which were widely held. We know where there are about a hundred and sixty-eight million of them and there are eighty million in New York, about half of them.

Eccles: What have we got?

Piser: That is about the way we account for it.

Eccles: No, what have we got?

Piser: None.

Eccles: One hundred eighty-six million?

Bell: That is another reason for refunding. The Government accounts got rid of them. It looks like inside information if you pay them off in cash.

H.M.Jr: Well, Marriner, perfectly frankly, I don't want to stick my neck out for half a point with the news in the offing the way it is. The difference is a million four hundred thousand dollars on three hundred fifty million and let's say there is one chance

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in five that these should go below in the next two days. I don't think I have the right to take that risk on the Government's credit, have it go all over the world that the United States couldn't refund. I just don't think you can - do you think that is --

Jones: I think your position is all right.

H.M.Jr: I'd say there is one chance in five, Jessie. There is only one chance in five that a seven-eighths wouldn't go but I don't want to take that one chance.

Jones: I think it would go, but I wouldn't hesitate to go to one percent. That would make it all the sweeter.

Eccles: Well, the one percent on three and three-quarter year at twenty-six thirty-seconds --

H.M.Jr: Well, last time we sat here it was how much at the same time?

Haas: It was all of that.

H.M.Jr: The last one we did. It was about the same, wasn't it?

Haas: About that, yes. And the conditions now are a little more hazardous than they were then. Of course, this is a little shorter issue.

Eccles: Well, that went off --

H.M.Jr: Do you think I am safe with the seven-eighths?

Jones: I think it is safe, yes. I don't think there is any doubt about that.

H.M.Jr: If it was your sole responsibility, would you do it?

Jones: When will you have to go for more money?

H.M.Jr: When do we have to go for more money?

Bell: Well, we contemplate going for more money on the agencies, yours or Commodity Credit's, in July. We would like to start getting

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some of this seven hundred million in July. After Treasury financing, we hadn't contemplated anything until along in September or October and then only in very small amounts, two or three hundred million.

Jones: I should think that the -- whatever you give on this, would you want to pay on this next issue, the corresponding issue? It might be better to quote it at seven-eighths.

Eccles: That is the way I feel about it.

Bell: Three and a quarter years? That is September, '43.

Jones: Three and a quarter years.

Bell: What is the premium on that?

Haas: About seventeen.

H.M.Jr: George, do you think it is safe at seven-eighths?

Haas: Yes, I think it is safe but it is not as safe as some of the things you have done before.

Ransom: You don't want to make it too sweet. That might have just as bad a repercussion as the other.

H.M.Jr: There won't be any repercussion.

Ransom: Then if it will go at seven-eighths, it is just as wise to take it at seven-eights.

Haas: There is one thing about this issue, the point is, you don't know what you are dealing into. In other words, you don't know the distribution as well as we have known some others, you see.

H.M.Jr: Dan?

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Bell: Well, I think the $7/8$ will go, but I think it would make you feel better - well, one percent can be sweet. I would kind of like to keep these rights down while they are down. The negative yield on this is only about $11/32$, whereas heretofore our right values have been worth anywhere from twenty to par and - or a point.

Jones: On reexchange?

Bell: Yes. They may have a right value. They are about $11/32$ at the present time.

Viner: You couldn't in any way make your announcement so that it would be indicating you don't care if any of them don't want to convert?

H.M.Jr: I think --

Bell: The Secretary wants to do it - I think he wants to --

H.M.Jr: I want a success. Piser?

Piser: I think $7/8$ would be very safe. It would take a break of perhaps two or three points in the long-term bonds, to drop that even to par.

H.M.Jr: That could happen easily.

Ransom: When would it be closed, Mr. Secretary?

H.M.Jr: You have got to keep it open at least two days.

Haas: Then I would take the one.

H.M.Jr: You have got to keep it open at least two days.

Bell: New York wants to keep it open one day. They don't object to putting a provision in the announcements that any holder of, say, up to ten thousand dollars can have longer. What that does is force in the large holders.

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Ransom: Have you ever done that, Dan?

Bell: Never have, but it can be done. It is very simple. The Secretary has complete control.

Viner: Take care of the small fellows.

H.M.Jr: Anything over ten thousand, give them one day.

Eccles: That is right, make them come in. Well, they know, the little fellows don't know.

Viner: It takes time for the word to reach him. He doesn't get the ticker service.

H.M.Jr: It is a good wrinkle. Well, you may all - you can all laugh at me, but I am going to make it one percent.

Jones: Okay.

H.M.Jr: I can't help it.

Bell: We can't quarrel.

Eccles: He is just that way, isn't he, an awfully conservative fellow.

FUNDS OF GERMANY AND ITALY IN THE UNITED STATES

(In millions)
of dollars

Gold on earmark: as of 6/10

Italy	None
Germany	"

Central Bank balances: In Federal Reserve Bank
as of 6/10

Italy	0.2
Germany	0.3 <u>1/</u>

Central Bank balances: In Market
as of 5/29

Italy	1.5
Germany	0.8

Private Funds: As of 5/29

Italy	62.0
Germany	8.6

1/ All attached by court order

June 10, 1940
3:30 p.m.

RE FREEZING ORDER

Present: Mr. Hackworth
Mr. Louchheim, A. E. C.
Mr. Viner
Mr. Cochran
Mr. Gaston
Mr. Foley
Mr. Bernstein
Mr. Frank
Mr. Berle
Mr. Purcell
Mr. Bell
Mr. White

Gaston: We have nothing for the President to sign. The State Department has two or three proclamations which he might sign. One is neutrality.

H.M.Jr: He is going to sign that. Sumner Welles told me he would.

Gaston: We have arranged to get prompt word from the State Department when he signs the Neutrality Act.

H.M.Jr: Then what do we do?

Gaston: Then we send out certain communications to Coast Guard and Customs with anybody's signature here. I can sign them or Harris can sign them and we will arrange to do that, as soon as we get word from the State Department that these two controlling proclamations have been signed.

H.M.Jr: Does it mean I have to ask the President to sign anything?

Gaston: Nothing, it is all State Department.

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H.M.Jr: I don't have to ask the State Department to sign anything?

Gaston: Nothing.

Foley: Berle said they wouldn't get to the State Department tomorrow.

Gaston: Sumner Welles told the Secretary the Neutrality Proclamation would be signed tonight.

Foley: Oh.

H.M.Jr: He told - the President told me and Sumner Welles told me that the President is going to sign at 10:15 tonight the Proclamation. The President said if I had anything to sign, bring it over. Would there be anything for him to sign?

Foley: From us?

H.M.Jr: For the President.

Gaston: I know of nothing. I just talked to Huntington and he doesn't know of anything.

Foley: You mean on the neutrality angle?

H.M.Jr: On anything.

Foley: There won't be anything on neutrality and depending upon what we decide insofar as freezing is concerned.

Gaston: Yes.

Foley: That will govern whether we have anything at all or not.

H.M.Jr: We will make sure, gentlemen, make sure.

Viner: There is nothing.

H.M.Jr: It is a nuisance to have to talk to the columnists.

Last week General Motors turned out four Allison engines and the week before they turned out five.

Gaston: The main plant isn't in production at all.

H.M.Jr: There is no more plant.

Gaston: I thought they had an experimental production plant, a small plant --

H.M.Jr: They wiped it out and it doesn't exist any more. They turned out -- delivered four engines last week and five the week before. I had the figures and I talked with Sloan, and he was there for two days this week and am I lucky, because he is holding it up now until they can make certain corrections on the advice of Mead. Well, Mead hasn't been with me for ten days. He said he had to decide whether it was wise to hold it up or not. I said, "You're not asking me, because I don't know anything about it. I am calling you for information." He said, "No, I don't know anything about it, either," but he said, "I have got to make up my mind." And believe me when the company finds out there are about a hundred planes in Buffalo waiting for engines, somebody is going to be the goat and it isn't going to be me.

Why don't you start in? Can't somebody bring me up to date on what happened this morning at the State Department?

Berle: Shall I report on that?

H.M.Jr: Would you, please.

Berle: The problem has to do with whether we make any orders based on the - I guess Danny can do it better than I can.

Bell: Go ahead, I am so tired.

Berle: The question is whether we can do anything effective with any blocking orders following the Italian declaration of war. There are

several possibilities, one of which seems to be rather controversial and one that there is immediate - the object of doing that would be twofold. First it would be to protect the financial exchange interests of the United States and second, in the privacy of this room, it would be to try to assist certain forces in Europe which we think are important for our national safety or penalize others which we think don't.

H.M.Jr: In other words, you mean help the Allies?

Berle: Since you are taking this down, I don't know how far you want to go on the record.

H.M.Jr: Well, it is only for me.

Berle: And the possibilities in the situation have seemed to be various. To block German and Italian accounts, that would seem to be ineffective unless you also block Swiss accounts and probably practically all accounts in Europe with the possible exception of the British and the French. There would be danger of leakage, of course, in the whole thing unless you covered the whole situation. It would be a universal blocking order which would block virtually all Europe and presumably all Africa and would probably have to be extended later to other parts of the world or perhaps very soon to other parts of the world and develop your policy thereafter through general licensing agreements.

On balance, if you really want to do something, that seems to be practical. There is a third possibility which seems to be indicated anyway, irrespective of whether the others are done or not, and that would be some blocking of the Swiss securities owing to the peculiar position of Switzerland. There are large amounts of foreign holdings in Switzerland and large amounts of Swiss holdings here, and that is in a large measure a central point of manipulation.

H.M.Jr: I haven't sat in on this thing. All Mr. Bell

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told me was that he still thought the thing hadn't jelled, and not having sat in, I would like to throw this into the pot that in order to keep some semblance of neutrality and at the same time really do a good job, which is what we are all after, I would like to throw out the suggestion that we block everything.

Berle: That was the conclusion of the meeting, that if we were going to do anything, we would have to block everything.

Bell: You mean all over the world, now?

H.M.Jr: Everything that we have, I mean have complete exchange control. Let's call it by its proper name and have complete exchange control.

Berle: As to that, we tried to add up the advantages you would get as against the disadvantages. The advantages that you would get would be the blocking one way or another of two hundred millions of French - of German and Italian assets of one sort or another, plus whatever you catch through the Swiss block. That would be the principal advantage. It would also get defensively the advantage of being able to follow propaganda and other activities on this Hemisphere insofar as they reflected themselves in the foreign exchange. The disadvantage we foresee is that you would have to disclose your hand almost at once so far as neutrality is concerned. We would have the French and British wanting general licenses and in substance getting them; the Germans and Italians would be presently down wanting the same thing and not getting them, and you then would be engaged in a whole long sequence which leads to a situation we imagine may happen but it would be really a political step, and the main suggestion outside of a comparatively small amount of assets and the defensive result, which is important but not of immediate importance in Europe at the moment, would probably be that it engaged us to a political act and attitude which would come very rapidly after that.

H.M.Jr: Well --

Berle: That is the conclusion, I think, of the meeting.

H.M.Jr: That is painting it with a broad brush. To go down to a little bit more refinement than I have noticed, we for instance have been having reported to us on a volunteer basis all movement of Italian funds, and you (Cochran) can check my memory and with perfect amazement the amount of business that they do, the Bank of Italy and the Italian Bank do in South America for other people than themselves - I mean, there have been a number of transactions which were handled by Italian banks in South America, that I am convinced had nothing to do with Italy.

Berle: They are the principal channels, that is true.

H.M.Jr: And it is impossible to catch that kind of stuff unless you went the whole hog.

Berle: That is right.

H.M.Jr: And after all, nine or ten million dollars in a small republic in South America is a Hell of a lot of money.

Berle: That is right.

H.M.Jr: It isn't very much in the whole picture.

Bell: Have they operated down there through dollar accounts?

White: Some.

Bell: We would get that.

H.M.Jr: There has been a lot that has cleared through New York in very queer purchases of copper and different things.

Cochran: There is much copper going on into Germany.

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H.M.Jr:

But I mean money from Brazil flowing through New York and all kinds of queer things which you just couldn't catch unless you had complete control. I mean, that is why Dan and I in the few minutes we had together, talked about just doing it for Switzerland. I think it would be just like stuffing one hole in a sieve.

Barle:

Against that you have to set this: By a precedent a great many of those accounts have gone through there, as we see documents go over my desk, at least, because Italy was still open and imports to Italy were coming to Germany. That happened because the British, you know, were, to say the least, loose, finally to the point of not having any blockade control at Gibraltar as against Italians at a time when they were trying to appease, if you like, the Italians. With the advent of war that situation ends, and I should imagine that a lot of these accounts insofar as they reflect actual movement of goods, will simply stop. There are remaining propaganda and organization activities which are very much on my mind, as they are on yours.

H.M.Jr:

Tremendous. Jerome, do you want to say something?

Frank:

I am in general agreement with you. Since the meeting this morning, I canvassed the members at my Commission and they all felt that purely from our point of view a blanket order would be desirable because you would plug the holes. That is just looking at it purely from the point of view of security transactions. I would like to ask a stupid question. Will the controls that you have in mind meet the problem of German ownership or control of securities seized in the occupied portion of France? I don't know whether they will.

Foley:

Well, if you put on a general control, it would, Jerry.

Frank: But will your control prevent Germany from realizing on such securities?

White: It is supposed to do that now insofar as we can catch it.

Frank: Not Northern France, not now.

White: They haven't got any in France yet.

Frank: Well, I understand there is some discussion - didn't you tell me of - I think the State Department has had with the French Ambassador about being fearful that some securities have been siezed in Northern France.

Cochran: It is possible.

Frank: Yes.

Bell: Wouldn't they ordinarily come out through neutral countries, such as Switzerland and Italy up to this time, and we might get those in the mail.

Frank: I just wondered whether - as I understand it, there are two aspects to the rules. One is that you get scrutiny and the other is, what you do about the scrutiny. In other words, what do you impede as a result of this scrutiny? Have you got a block against anything in your present orders or anything that you contemplated that would prevent the Germans using securities thus obtained? You have?

Foley: Yes.

Berle: Do you need the general orders to take care of those securities? Can you not simply require proof of sound ownership, if you like, for securities which you can trace as having come out of, let's say, any of those places.

Frank: All I mean is, as the President worded it, it only covers Holland, Belgium, and Norway.

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Foley: Denmark.

Frank: And Denmark and doesn't cover the occupied portions of France.

H.M.Jr: Well, it seems to me that we have all got to do a lot more work on this, and it is a pretty big move.

Berle: Well, I meant to say our conclusion was this, or mine at least: It is a big move. I think it is a move we are going to have to take. I am inclined to think it is really dependent on probably a major decision of policy which would fundamentally have to be taken by you and the President and Mr. Hull and so forth and to sign the chit for the big political move on this, which is to my mind important, but the proportion is as of one to a hundred, for instance. It seems to me this ought to depend on the political decision rather than force the political decision from this, if I make myself clear.

H.M.Jr: I understand. I think the thing to do is this: I would like my regular staff to prepare a brief on this for me, not too long. After you have got the brief, submit it to Mr. Berle and Mr. Frank for criticism, you see, and then after we have it, I would like to get together with Mr. Hull and see whether he and I - I mean our two staffs, associates, can have a meeting; and then if we could have a meeting of minds, then we could present it to the President. Don't you think that is a good idea?

Berle: Yes. I might add that the situation will be changing now almost at breath-taking speed. There was a rumor in the shop which is unconfirmed, that Turkey was in the war. I don't know if anything has come in in the last hour. That strikes me as a little bit previous. You can expect crucial moves in 48 hours.

H.M.Jr: Who would you have do it, Dan?

Bell: Harry, I think, and Bernstein ought to get up the brief.

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H.M.Jr: And Viner.

Frank: If that is likely to take several days, I was wondering whether the Swiss matter couldn't be taken - since everybody agrees, there is no reason for waiting on that, that that doesn't involve major political considerations, whether that couldn't be done more promptly.

White: There wasn't complete agreement on that after the discussion of yours.

H.M.Jr: I am not sold on doing that.

Bell: We question that very much.

Berle: The Swiss thing does yield to separate treatment. There you have a completely encircled country. No operation can take place out of Switzerland, I think, except by the will of one or the other of the three belligerents, so that there is some point in talking --

Viner: Could there be an order dealing with securities without naming countries, that all the imports of various securities shall be required to show a genuine ownership regardless of what country they come from?

H.M.Jr: That is an interesting idea.

Berle: It occurred to me this way, Mr. Secretary. If you want to do something now, that you might have all the securities go through the Federal Reserve for an open entry and hold it on that line. You are already comptrolling securities. They already have to go there. This really doesn't materially alter an existing status.

White: But that would take care of Switzerland without taking any action.

Viner: Without naming any countries in the orders.

Frank: It won't take care of Switzerland at all because the point about the differential, Mr. Secretary, is the great bulk, so we are advised, of the nominally Swiss-owned American

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securities are already in the United States, physically, so that your importation order will not meet that at all.

Bell: That is right.

Frank: Or that proportion of it.

H.M.Jr: Well, if these gentlemen can get together - I mean, I am here all the time with my own people and just as soon as you have got something, let me know and we will keep it moving. How is that? As soon as we have something, we will submit it to Frank and send one over to Mr. Berle and then you can criticize it and have it come back --

Frank: Presumably you would have action within the next 48 hours or so?

H.M.Jr: Sure. We will get your memorandum tomorrow. We will get your memorandum tomorrow, but whether there is action depends upon, as far as I am concerned, two other people, the President and Mr. Hull. We will get your memorandum tomorrow, how is that?

Frank: Okay.

H.M.Jr: Okay. Herbert, you are carrying this thing now, about the President signing anything.

June 10, 1940
12:11 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

Wm. S. Knudsen: This is Knudsen.

H.M.Jr: Good morning.

K: How are you, sir?

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

K: I got this cable.

H.M.Jr: Yeah.

K: Now, don't you think you ought to cable and ask them how they feel about the Rolls-Royce engine?

H.M.Jr: The French?

K: Don't you think you ought to cable them and ask them how they feel about the Rolls-Royce engine?

H.M.Jr: You mean the French?

K: Yes.

H.M.Jr: Well, they feel this way about it. They'd like -- what is it, 800 or a 1000 of them a month. That's what their answer is.

K: Well, they cabled in and the man said they wanted entirely radial engines.

H.M.Jr: Well, I -- I'll go by what the Allied Purchasing Mission wants here.

K: I see.

H.M.Jr: And I think they've asked, haven't they, for

K: Yes, I know that.

- 2 -

H.M.Jr: Well, I'd go by that. I don't think I'd cable back. Ambassador Bullitt sends a lot of stuff like that.

K: I see.

H.M.Jr: So -- but I thought that you ought.....

K: Of course, we were familiar with his picture, you know.

H.M.Jr: No.....

K: We knew about that.

H.M.Jr: No, I think that -- I keep my line for the Allied Purchasing Mission very straight and I don't think it's -- unless you want me to I don't think I'll cable to them.

K: No, I don't, only he -- he expresses a preference for -- entirely for radial engines.

H.M.Jr: Why sure, that's Carl Ward.

K: (laughs) Yeah.

H.M.Jr: What?

K: (laughs) Yeah. I thought there was something to that.

H.M.Jr: No, that's Carl Ward. That's what he wants.

K: Now, at this luncheon tomorrow, we can talk about this overtime provision, can't we?

H.M.Jr: Sure, that's what it's for.

K: I see.

H.M.Jr: That, or depreciation, or -- take our coats off and get down to brass tacks.

K: All right, sir, thank you.

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H.M.Jr: You know, I suppose they've told you Mussolini has declared war.

K: He has?

H.M.Jr: Yeah, on France and England.

K: That makes it unanimous.

H.M.Jr: That's right.

K: All right, sir. Thank you very much.

H.M.Jr: See you tomorrow.

Paris, June 10, 1940.

Dear Henry:

I am transmitting herewith the second report with reference to French aircraft engine industry, in quadruplicate.

May I say once more that I think Ward is a first-rate person, and I can't thank you enough for having had him sent over.

Since everybody is leaving Paris this afternoon, I am sending this letter with Matthews, who will be the ranking Foreign Service Officer under Ambassador Biddle who, as you know has been appointed as my Deputy to the French Government.

I shall probably be cut off from all communication with the outside world within the next twenty-four hours. Heaven only knows when I shall be able to be in touch with you again, but I want
you

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D. C.

*Copy of report filed
with letter of
transmittal to Pres.,
Stark Marshall and
Knudsen on 6/26/40*

- 2 -

you to know now that it has been grand working with you; and you couldn't have been kinder or more co-operative.

With affectionate regards to you, Elinor, and the children, I remain,

Yours always,

Bill

Enclosure.

CONFIDENTIAL

June 10, 1940

To: The Secretary
From: Mr. Young

BREWSTER AERONAUTICAL CORP.

A joint Anglo-French letter of intention was signed May 29, 1940, providing for 200 dive bombers (12% to 15% spares) with a total value of \$12,800,000; no capital commitment involved. Delivery begins January, 1941, and extends through May, 1941. There is also an option under this contract for 350 additional planes, exercisable within 60 days from the date of this letter of intention.

LOCKHEED AIRCRAFT CORP.

Contract was signed by the British June 6, 1940, for 360 Lockheed Model 37 airplanes, with a total value of \$29,407,000; no capital commitment involved. Delivery begins February, 1941, and continues through October, 1941. (This order is part of the joint Anglo-French program.)

Ry.

96-D

June 10, 1940.

My dear Mr. Knudsen:

I am sending you in strictest confidence a copy of a cable which I have just received from Ambassador Bullitt. May I make the suggestion that you show this only to George Mead.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. William S. Knudsen,
Room 2064,
Federal Reserve Building,
Washington, D. C.

strictly
confidential

sent by special messenger @ 10:45

88-E

June 10, 1940.

My dear Mr. Knudsen:

I am sending you in strictest confidence a copy of a cable which I have just received from Ambassador Bullitt. May I make the suggestion that you show this only to George Mead.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. William S. Knudsen,
Room 2084,
Federal Reserve Building,
Washington, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

Paris

Dated June 7, 1940

Rec'd 8:35 a.m.

Secretary of State

Washington

1084, June 7,

MOST CONFIDENTIAL FOR SECRETARY MORGENTHAU, THE
SECRETARY OF STATE AND THE PRESIDENT.

In a recent conversation with Carlton Ward, who is the Chief of the General Motors Aviation mission, Henry Ford's interest in manufacturing the new Hispano-Suiza motor and a rumor of the Studebaker Company's interest in producing the new Gnome-Rhone motor were discussed. Ward emphatically believes that the new Pratt and Whitney and Curtiss-Wright engines are definitely superior to the Hispano-Suiza and he has absolutely no doubts about the inferiority of the Gnome-Rhone to these American engines.

Ward mentioned that the General Manager of the Ford Company here, Tollfus, told him on two different occasions of his hope that Ford would manufacture either the Curtiss-Wright or Pratt and Whitney satisfactorily
and

-2-

and would not manufacture the Hispano-Suiza in view of the great inferiority of the French engines.

I have been informed that it takes three French engines to be equivalent to a single Pratt and Whitney of the same horsepower since this renders week after week thrice the number of air hours without repair by a large number of fighting pilots, Colonel Meny, the French General Staff Chief for Air, the Minister for Air and the Undersecretary for Air in charge of production. The French themselves believe that the French engines which require continual repair are in no way comparable to the American. It would be a great waste of American energies in my mind, and during these times they should not be wasted, if anybody should commence the manufacture of French rather than Pan American engines and Ward concurs.

BULLITT

S:JFS:AR

96-H
CONFIDENTIAL

JUN 10 1940

Dear Mr. Knudsen:

I am sending you herewith, for your confidential use, statistical data on airplanes and airplane engines showing (1) deliveries and new orders, May 1 to June 1, 1940, and (2) unfilled orders as of June 1, 1940, together with the estimated deliveries of these orders by months. The tables are assembled in two volumes — Part 1, which brings together the data submitted on airplanes; and Part 2, which brings together the data submitted on airplane engines. These data have been compiled from reports submitted by twenty-six airplane and twelve airplane engine manufacturers.

A similar report covering last week's operations will be transmitted to you the middle of this week.

Sincerely,

(Signed) H. Morgenthau.

Mr. William S. Knudsen,
Chairman, Advisory Commission to the
Council of National Defense,
Room 2004, Federal Reserve Building,
Washington, D. C.

By Messenger 4³⁰


FILE COPY

JUN 10 1940

My dear Mr. Secretary:

I enclose for your information a photostatic copy of a memorandum of June 6, addressed to me by the President, relieving me of the responsibility of clearing contracts for air craft and engines as required in the President's memorandum of May 24, 1940. This action is in accordance with the suggestion in my letter of June 5 to Mr. McReynolds, a copy of which I sent to you.

The very able assistance rendered by General Brett in this work is worthy of special commendation and I take this opportunity to express my thanks for his excellent service.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of War.

File to Mr. Thompson

By Messenger

12 5-5

WHT:RMS

THE WHITE HOUSE
WASHINGTON

June 6, 1940

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

I enclose for your information copies of memoranda I have just sent to the Secretary of War and the Secretary of the Navy instructing them to clear all contracts for purchases through Commissioner Knudsen.

This will relieve you of the responsibility of clearing contracts for air craft and engines, as required in my memorandum of May 24, 1940.

Franklin D. Roosevelt

JUN 10 1940

96-K

My dear Mr. Secretary:

I enclose for your information a photostatic copy of a memorandum of June 6, addressed to me by the President, relieving me of the responsibility of clearing contracts for aircraft and engines as required in the President's memorandum of May 24, 1940. This action is in accordance with the suggestion in my letter of June 5 to Mr. McReynolds, a copy of which I sent to you.

I should like to take this opportunity to express my thanks for the very able assistance rendered by Captain Kraus on this highly important assignment.

Sincerely,

(Signed) H. Morgenthau, Jr

Secretary of the Treasury.

The Honorable

The Secretary of the Navy.

File to Mr. Thompson

By Messenger

12 55

WNT:mas

THE WHITE HOUSE
WASHINGTON

June 6, 1940

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

I enclose for your information copies of memoranda I have just sent to the Secretary of War and the Secretary of the Navy instructing them to clear all contracts for purchases through Commissioner Knudsen.

This will relieve you of the responsibility of clearing contracts for air craft and engines, as required in my memorandum of May 24, 1940.

Franklin D. Roosevelt

36-M
STRICTLY CONFIDENTIAL

ALLISON ENGINEERING COMPANY

Deliveries of Airplane Engines

	:	Actual	:	Estimated deliveries
	:	deliveries	:	on existing orders

1940

January	10	
May 1 - 23	10	
May 24 - June 1	5	
June 2 - 8	4	
June 9 - 30		68
July		115
August		160
September		310
October		351
November		331
December		332

1941

January		362
February		416
March		416
April		414
May		408
June		437
July		320
August		294
September		431
October		45
November		45
December		45

1942

January		25
February		21

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

June 10, 1940.

CONFIDENTIAL

June 10, 1940

To: The Secretary
From: Mr. Young

The attached was delivered to me tonight by Major Brooks in person on behalf of General Marshall. This memorandum sets forth the present status of the 93 A-17A airplanes, together with information as to the availability of bombs. Major Brooks was doubtful as to whether the figures representing bombs requested were accurate. The figures given for "Navy bombs available" represent those bombs which the Navy is willing to release.

Ry.

I gather that we are carrying the ball as to whether Army or Navy gives up the bombs, and how many - R

96-0

imp has
not seen
only copy fly.

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON, D. C.

June 10, 1940

MEMORANDUM: A-17A airplanes.

STATUS OF CONCENTRATION

Now moving to areas; by June 12 will be located as follows:

Mitchel Field	34
Langley Field	26
Middletown Field	33
TOTAL	93

Planes will be complete except for chemical supply tanks, pyrotechnic projectors and ammunition. Equipment includes 4 fixed and 1 flexible .30 cal machine guns.

All planes will receive a 40-hour inspection and will be available at dawn June 15 (Friday)

BOMBS

Type	On Hand	PMP Requirements	PMP Shortage	No. of Bombs Requested	Required for 93 planes
30 #	32000	93810	61810	83,700 45 per plane	4185
100 #	20000	65278	45278	105 per plane 58,590	9765

A-17A planes can take Navy 100# demolition bomb as is; Navy 30# fragmentation bomb with slight alteration (tail lug, arming wire and swivel loop required - 2 days required)

NAVY BOMBS AVAILABLE

30# fragmentation	5343
100# demolition	558

RECEIVED

JUN 13 1940

RECEIVED
JUN 13 1940

CONFIDENTIAL

June 10, 1940

To: The Secretary

From: Mr. Young

Mr. Ballantyne called me at 4:10 this afternoon and stated that the arrangement which had been made between the War Department and North American for the exchange of the 93 A-17A's had fallen through.

Under that deal the Army was to receive in exchange trainers. The lawyer for North American stopped the deal because he considered it illegal for the Army to trade one kind of plane for another kind of plane.

I checked with General Brett, who told me that the North American deal had fallen through, but that he had already talked with Douglas (which controls Northrup), who said that they would take over the deal whereby the Army would get in exchange Douglas A-20's. Because of the fact that General Arnold is out of town, this new Douglas deal has not yet been consummated.

I call this to your attention as, undoubtedly, Mr. Purvis will bring up this situation tomorrow.

Mr. Dwyer in Mr. Pelley's office called up and said that the bombs from Yorktown were moving right along and that they were following them up.

Dy.

96-Q

June 10, 1940
2:10 p.m.

H.M.Jr: Hello.

Alfred P.
Sloan: Hello.

H.M.Jr: Mr. Sloan?

S: Yes.

H.M.Jr: Morgenthau talking. Henry Morgenthau, Jr.

S: Yes, Mr. Secretary. How are you?

H.M.Jr: Is this Mr. Sloan?

S: Yes.

H.M.Jr: How are you?

S: Pretty well.

H.M.Jr: Mr. Sloan, I just got the report for the number of engines that Allison turned out last week.

S: Yeah.

H.M.Jr: It totaled four.

S: Yeah.

H.M.Jr: Do you think there's any prospects.....

S: When was that test made Mr. Secretary? I was down there Tuesday and Wednesday.

H.M.Jr: Well, from June 2nd to June 8th.

S: June 8th, that's the engine -- well, is that -- that must be one -- is that a "C" engine?

H.M.Jr: Well, it's just total deliveries, it said four.

S: What?

- 2 -

H.M.Jr: Total deliveries.

S: Oh, you're talking about deliveries.

H.M.Jr: Deliveries.

S: Oh, pardon me. I thought you were talking about the test.

H.M.Jr: No, deliveries.

S: Oh, I see.

H.M.Jr: Is there any -- any.....

S: Are you familiar, Mr. Secretary, with the conferences that Mr. Hunt had in Washington last Tuesday?

H.M.Jr: Yeah, I saw Mr. Hunt myself.

S: I thought you did for a few minutes.

H.M.Jr: But this just was put on my desk a few minutes ago, and inasmuch as you and I started these conversations, I -- although a lot of new people have come in since.....

S: Yeah.

H.M.Jr:I still wanted to get it directly from you.

S: Fine. I'm awfully glad to keep the contact in any way that you see fit because I think it might be helpful. Well now, let me tell you what the status of it -- may I tell you what the status of it is?

H.M.Jr: That's what I hoped you would.

S: I tell you, here's what's been done, Mr. Secretary. Going back to the time that I was down there you were in the light that Mr. Mead -- when you and he and I were talking about it challenged the validity of the action.

H.M.Jr: Yes.

S: Do you remember that?

- 3 -

H.M.Jr: Yes, very well.

S: And I told him that whether I was -- whether we here were right or wrong, that we had looked upon it as something that we had been asked to develop experimentally and subsequently been asked to manufacture in quantities by the Army.

H.M.Jr: Yes.

S: Remember I distinguished it between a normal product of General Motors and this product.

H.M.Jr: Yes.

S: I'm not dreadfully worried in that position, Mr. Secretary. It's too important to get in any argument on that.

H.M.Jr: That's right.

S: That's the position. Well now, Mr. Mead challenges this and as a result of the discussion which happened in Washington on Tuesday, Mr. Hunt -- I transferred Mr. Hunt, in whom I've got great confidence, to Allison.

H.M.Jr: Yes.

S: And they have relieved him of all other duties.

H.M.Jr: I see.

S: And Mr. Hunt -- is taking such suggestions that have been made, plus his own suggestions -- he's a very able man -- and he is doing -- he is making certain changes in the engine with a view to seeing if he can bring the engine up to the test that Mr. Mead has described more to where Mr. Mead thinks it ought to be.

H.M.Jr: I see.

S: Now, in the meantime, Mr. Secretary, we are holding up assembly of engines.

H.M.Jr: I see.

- 4 -

- S: Now, I don't know whether that's the right thing to do or not because what I don't -- and I don't think anybody else knows this -- the relationship between the test which Mr. Mead has prescribed, to which, Mr. Secretary, I have taken no exceptions, and the relation of the engine, or rather the operation of the engine when it's in an airplane up in the air.
- H.M.Jr: I see.
- S: But we have taken Mr. Mead's test as the standard because, as a matter of fact, if we can make a few changes and improve the results under Mr. Mead's test it ought to be a better engine anyway.
- H.M.Jr: I see.
- S: But what I am debating in my mind is to whether in lieu of the terrific importance of the job whether we really ought to stop assembling and not ship engines or whether we ought to ship engines based more upon the Army test at Dayton so far as their performance in an actual airplane in the air is concerned.
- H.M.Jr: Well, of course, I wouldn't be qualified to pass on -- judgment on.....
- S: I wouldn't either, Mr. Secretary. I don't know as anyone else is, because apparently these -- all these different engines are tested in different ways.
- H.M.Jr: I was under the impression when I talked to Mr. Mead about a week ago or ten days ago that they had come to an agreement with you people that they were going to manufacture three hundred of these engines.
- S: Well now -- the understanding with Mr. Mead was -- let me get this in your mind. You know there are two engines, there's -- in the first place there's a "C" engine, which we're talking about, then there's a newer design which we've been putting into production for several months past known as the "E and M".

- 5 -

H.M.Jr: I was talking about the "C". I think you've got an order for 300.

S: On the "C" you're right.
We were only going to make a limited number of those because of the fact that the other is a far better design.

H.M.Jr: Yes.

S: But -- and so we're talking about the "C".
Well now, as we stand now -- at least when I was there Wednesday, we had -- it was understood that we would hold up assembly -- not hold up manufacture.

H.M.Jr: I see.

S: Hold up the assembly which I mean putting the parts together until we can make -- develop the parts around two or three changes which have been suggested that Mr. Hunt is now working on day and night.

H.M.Jr: I see.

S: Now, that being the case, Mr. Secretary, that will delay the shipment of engines.

H.M.Jr: How long?

S: I can't tell exactly, but I -- I am now debating in my mind whether that is the right thing to do and I'm wondering whether we shouldn't send such engines as we can over to Wright Field and have it tested in airplanes under the conditions that they'll operate under rather than on an arbitrary standard set on a test stand.

H.M.Jr: Well.....

S: Do you get my point?

H.M.Jr: Yeah, and again I'm not qualified to pass on that.

S: I'm not either, Mr. Secretary, and I don't think that there's any way to correlate one with the other.

- 6 -

- H.M.Jr: The only thing, I am worried like hell when I see that four engines were delivered last week and five the week before.
- S: Well, if we take the position that we are in now, you won't get any engines assembled, that is shipped, until after we've tried out some of these changes that Mr. Mead has suggested.
- H.M.Jr: I see.. Well.....
- S: That's the policy that Mr. Hunt and Mr. Mead and the Army Officers determined last Tuesday in Washington.
- H.M.Jr: Well, I wanted to get it directly from you what was going on and you've been kind enough to tell me.
- S: I tell you, anything I can, Mr. Secretary, I'll do anything in God's world I can.
- H.M.Jr: And I may call you up again next week.
- S: Call me up anyway. Now, I haven't -- I haven't had any report from Indianapolis this morning. The boys have been working day and night ever since Tuesday when I was down there to try to check these changes that Mr. Mead has -- and others that have been suggested and things we've developed ourselves, and they're under such strain that I didn't like to bother them by calling them on the telephone. I thought I'd give them a couple of days and then I'd ask them rather than keep after them all the time.
- H.M.Jr: Well, I think that sounds sensible.
- S: I tell you what I'll do, if you'd like to have me, I'll give you a ring in a day or so when I get anything tangible.
- H.M.Jr: I'd appreciate that very much.
- S: In other words, you'd like to have me keep personally in touch with you on it.

- 7 -

H.M.Jr: I would until the thing is solved. I'm tremendously interested.

S: I'll do that. Now, Mr. -- now, one thing more. So far as production is concerned, I was down, as I said Tuesday and Wednesday, and I'm perfectly satisfied that this -- that if the quality of the engine hadn't come up that we would have -- we would have shipped our schedule this month.

H.M.Jr: I see.

S: But now we're in a kind of a -- we're upset on account of this question of the quality of the engine.

H.M.Jr: O. K.

S: Thank you very much.

H.M.Jr: Thank you.

June 10, 1940
2:30 p.m.

RE REFUNDING

Present: Mr. Jones
Mr. Haas
Mr. Eccles
Mr. Ransom
Mr. Hadley
Mr. Bell
Mr. Viner

H.M.Jr: That was George Harrison on the phone.
Everybody says the market is in beautiful
shape. They say it took the things and
it is off about 4/32, isn't it?

Eccles: It was off 6 - it was off 4 this afternoon
and then it went off 2/32 only and I haven't
heard since.

Haas: It is off 2/32. There is one issue on each
side of this.

Eccles: It was off 6 for the whole day.

H.M.Jr: How much premium is there on those three and
a quarters now?

Hadley: I would say 24 to 27/32. That issue only
lost about 2/32 today.

Jones: On a whole day?

Hadley: On the whole day.

Eccles: They discounted this thing.

Bell: Off much?

Hadley: About two to three on the notes.

Bell: How much on the bonds?

Hadley: On the bonds, four and five.

- 2 -

Bell: That isn't bad. That isn't much of a shock.

Eccles: You can't shock them any more.

Bell: It is pretty good.

Jones: Can't shock them any more.

Eccles: Not with this war news. Of course, if they get to offering a lot of new securities where you have - the difficulty today is your supply is limited in relation to the funds you have got. When you get to offering a lot of new securities and business activity becomes - if it should expand greatly, then you would find your market going down, but I don't think this war news is - I don't say it won't work down, but I just don't think you are going to have any breaks like we had last September or anything like it. It will work down gradually.

Hadley: I don't think it is something you can very well forecast though, because when the Germans went into Belgium and Holland, the market jumped down a point and here with another country coming into the war it only moves off 3 and 4/32.

Jones: Did it go off a point on bond governments?

Hadley: When they went into Belgium and Holland.

Jones: A full point, you mean?

Hadley: In one day.

Eccles: But you are up to 107. There is a Hell of a lot of difference in the market going off one point when the market is up and when it sags four points.

Hadley: Of course, it depends upon whether this is a high level still.

Eccles: It isn't in relationship to the supply.

Viner: Invasion of Belgium and Holland was a more major event than this. This is perhaps just

- 3 -

the end of a bad story whereas that was the substantial beginning of a --

Eccles: There was no assurance that they were going to do that.

Hadley: But this might be the killing blow.

Viner: Yes. That blow has been foreshadowed now for a long time. At the Belgium-Holland stage, there was no reason to suppose the Allied armies would crack the way they did.

(Discussion off the record)

H.M.Jr: Well, the reason I asked you gentlemen to come back again, I didn't know just how the market would take this thing and in view of the situation, I thought it was just good sense to have another talk. The President signed the thing before he left.

Jones: Is this yours?

H.M.Jr: It is yours now. I don't want you to say you don't get anything out of the Treasury.

Jones: I think you have got the right rate, particularly since the --

Eccles: George Harrison didn't feel there was any question about it, did he?

H.M.Jr: No, I was talking to him more about the condition of the market. I didn't get the feeling that he was up particularly. Maybe I am doing him an injustice - on the rates and everything else. I just wanted to know how the market took the shock and he said it took it beautifully, so that was the principal thing and I just wondered if any of you people thought I was making a mistake to go ahead at three o'clock.

Jones: I don't think so. I think you have got the right rate. I thought it was a little bit sweet this morning.

- 4 -

H.M.Jr: Now that Mussolini —

Jones: Yes. I think there will be some little uncertainty about that. I wouldn't — certainly I wouldn't make it any lower.

H.M.Jr: Dan?

Bell: I think it is all right. Go ahead.

H.M.Jr: George?

Haas: Okay.

Viner: Okay.

Eccles: All right with me. I think if you didn't — Italy coming into the war, it might be good psychology to put this over right now.

H.M.Jr: Good?

Eccles: Yes. I think it may be good, the very factor and when you do put it over the indication is that so far as the Government is concerned, they have no concern at all about the market.

H.M.Jr: Well, it just sort of makes me feel good to thumb my nose at Mussolini and say, "That is what you think you can do and this is what we can do here, and this to you." That refers to Mussolini. Right?

Jones: Yes. I heard him scream some.

H.M.Jr: I did too. I turned the damn thing off.

Jones: He certainly was screaming, wasn't he?

Bell: He had his gang with him, didn't he?

H.M.Jr: They shoot them if they don't say yes.

Jones: He sure had them there.

Ransom: That was a packed meeting.

Jones: Do you think it was packed, steam rolled?

- 5 -

Ransom: You cheer or else.

Eccles: I think that is true with him. Much more than it is with Hitler. He has got a division that Hitler hasn't got. That church influence isn't with him.

H.M.Jr: I loved the way he said King Victor Emanuel thought this was a great thing and kept talking about the King all the time.

Jones: King - in other words, in this situation the King is an asset to him.

H.M.Jr: Yes.

Eccles: He is whistling to keep from getting scared in the dark when he is talking about the King, all right.

Jones: The King is very popular.

Eccles: Sure he is. That is what I am saying, that he is --

Ransom: If there was a lower form of animal life than Hitler, which I don't think is possible, it would be Mussolini.

H.M.Jr: It means I have got to swear off of spaghetti from now on.

Eccles: I never did like the stuff, so I am all right.

Viner: And Dry Martinis.

Eccles: That would be more difficult, wouldn't it?

H.M.Jr: Jake Viner says also Dry Martinis.

Ransom: Take your gin straight.

Viner: You can drink French Vermouth but --

Jones: Gordon gin is better.

Viner: Let's see, what have you got?

- H.M.Jr: Do I understand, Dan - now, this is going to be open for twenty-four hours except the people who have ten thousand or less.
- Bell: Well, we hadn't planned to put anything in the circular on that. You see, that comes with your announcement on closing. Now, there is a question as to whether you want to say anything at your press conference this afternoon, that this will be closed.
- H.M.Jr: I think so.
- Bell: Tomorrow night. I question that, because I wonder if it wouldn't give them a chance to shift around tomorrow and divide up their holdings into ten thousand dollar lots.
- H.M.Jr: Well, how would they do that?
- Ransom: Isn't there this to be considered too, that as long as you are going to go right ahead and do it, why not do it as near normal as you can, why make a distinction at this particular time and lose part of the psychological value that Marriner points out exists in going on with it?
- Eccles: With this $1\frac{1}{2}$, I think if you had been on the $7/8$, your premium would have been closer. There would have been more reason to have adopted this principle that was suggested by the New York bank. With the $1\frac{1}{2}$ you have got enough margin there that - now that this shock is over with, you ought to be safe for a couple of days.
- Bell: We are urging them to turn in their securities if they want an exchange because - we are pointing out that you have the authority and have reserved the right to close it at any time without notice. You have always had that, and we are pointing it out in this press statement.
- Ransom: I think if you have the slightest doubt about it you could use that device, but if you feel as confident as I take it we all feel, then

- 7 -

why give the market the impression there is any weakness at all in you?

H.M.Jr: Leave it open for two days?

Ransom: I think so.

H.M.Jr: It is all right with me.

Ransom: What do you think of that, Jesse?

Jones: I like the other plan best.

Ransom: I like the plan. The only possible reason that I would raise the question was whether or not somebody would interpret that as a sign of weakness.

Viner: I had thought of it as a sign of confidence in your strength, but I may be wrong.

Ransom: I just don't know. That would be the test, I think, as to whether it would be taken as a sign of weakness or of strength or perhaps overlooked entirely. Probably no one would pay much attention to it.

Jones: I would like to have you make up your mind tomorrow.

Hadley: They have had plenty of notice on this thing.

Eccles: Why not give them until tomorrow and give no one else - I mean give them all until tomorrow and then close it. Give them all one day.

Viner: Except some of the small people. They don't need a ticker, they don't know of this.

Eccles: In the past you have given them a certain period, haven't you?

Viner: Yes.

Eccles: How long have you usually given?

- 3 -

Viner: Two days. Some of them may happen to be away from home. They can't get to their bank or the bank can't get to them and they find they have lost a chance to convert.

Eccles: Your idea would be to give one day for those that are ten thousand dollars or over and those that are less than ten thousand, give them two days?

Viner: On the assumption the ones with ten thousand and over keep in touch with the market, have access to news of this sort and can deal properly with their agent or banker.

H.M.Jr: If a fellow had a hundred thousand dollar certificate and wanted to get it split, he would have to go to the Federal Reserve, wouldn't he?

Jones: There would be a lot of shenanigan about it and they won't do that.

H.M.Jr: But the Federal Reserve wouldn't give a fellow ten certificates for one tomorrow, would it?

Eccles: No.

H.M.Jr: You could tell them not to, couldn't you?

Eccles: Oh no, they wouldn't --

Jones: They just wouldn't do it.

H.M.Jr: Well, I mean your boys would be looking for that kind of stuff.

Eccles: You could just simply say that the very fact you are making this announcement, if they permitted that, would be an evasion. I don't know what is the legal status, whether they can prevent it. They might come in and demand it be done and then raise a question as to whether they had any right to refuse to do it.

Jones: Then you have got a list and put that fellow's name on there.

- 9 -

Eccles: Oh yes, but I don't think as a practical matter it could be done.

Bell: There probably won't be much of it done, but I don't think you could prevent it. If a fellow had a hundred thousand dollar certificate he would sell that ten ways in the market.

H.M.Jr: I don't think they could prevent it. They might talk to the bank or something and say, "Now listen, that is an evasion here and we don't think you ought to do that, see," but I don't think they could refuse to do it. I don't think they have got any legal right to. I think they would have to do it if it was demanded.

Bell: In the meantime, he sold the --

Ransom: If a fellow had a twenty thousand dollar certificate, he might want to take ten thousand cash and convey ten, but I shouldn't think he would have much --

Viner: That would be all right, too.

Ransom: That would be perfectly all right.

H.M.Jr: Well, why don't I just announce it at three o'clock and then sit tight and then if I feel like it tomorrow I can say - tomorrow is Tuesday - if everything looks all right we will say we will close it to everybody Wednesday night.

Eccles: You don't announce the time you are going to close it every time --

H.M.Jr: No.

Eccles: Then why do it now?

Bell: Tomorrow would be the usual time you would announce closing.

H.M.Jr: Would it, Dan?

Bell: Yes, sir, tomorrow would be the day.

- 10 -

Ransom: What time during the day would you make the announcement ordinarily?

H.M.Jr: Closing?

Ransom: Yes.

Bell: Tomorrow evening.

Ransom: That it is closed as of --

Bell: No, we would say tomorrow evening that it would be closed Wednesday night and take all subscriptions in the mail up to twelve o'clock.

Ransom: That means you are keeping it open two days, then?

H.M.Jr: Oh yes.

Viner: Will you get my reports? You will know how it is going by one o'clock tomorrow.

Bell: We will get preliminary reports.

H.M.Jr: It is pretty tough to do a thing like this in one day.

Boolea: Isn't this a practical matter though? We were talking about it going back. It seems to me that we just don't have to depend, when you get right down to it, as a practical matter, in a situation of this sort, on what private individuals are going to do about the situation. I can't imagine a Government issue failing or being permitted to fail in the first place, with the powers the Treasury has and the Federal Reserve has. Just assume now that it appeared something happened and they weren't making a conversion. We would have to do something about it, that is all. You just couldn't permit the thing to not go over. For instance, you could - this is something that could be done - buy these rights certainly at par. There would be no loss on it and if the market went down to where there was no premium, you could buy

- 11 -

the rights at par, couldn't you?

Bell: Yes.

H.M.Jr: Well, I would rather price the thing a little bit better and not have to do that.

Eccles: That is right, but you have priced it that way now, haven't you?

H.M.Jr: Yes.

Eccles: We are just talking about leaving it two days or one day.

H.M.Jr: Well, you (Ransom) think two days.

Ransom: I think to get the full advantage of going ahead and do it --

H.M.Jr: One day would be pretty tough.

Eccles: Then if something should happen --

Ransom: That is what this open market committee is for.

Eccles: You have got investment funds.

H.M.Jr: I know, but it is much better to sit around and talk about it and do it this way than be hit over the head and not be ready.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE June 10, 1940

TO Secretary Morgenthau
FROM Mr. Haas *HA*

Employment under the Work Projects Administration shows a decline of 20,000 from the 1,945,000 persons reported for the week ended May 22, 1940. The 1,925,000 persons employed during the week ended May 29, 1940 also represents a decrease of 168,000 from the 2,093,000 reported at the end of April.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1937	
July	1,569
August	1,480
September	1,448
October	1,476
November	1,520
December	1,671
1938	
January	1,901
February	2,075
March	2,445
April	2,582
May	2,678
June	2,807
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,093
May	1,925

Source: Work Projects Administration.

Monthly figures are weekly figures for the latest week of the month.

They include certified and noncertified workers.

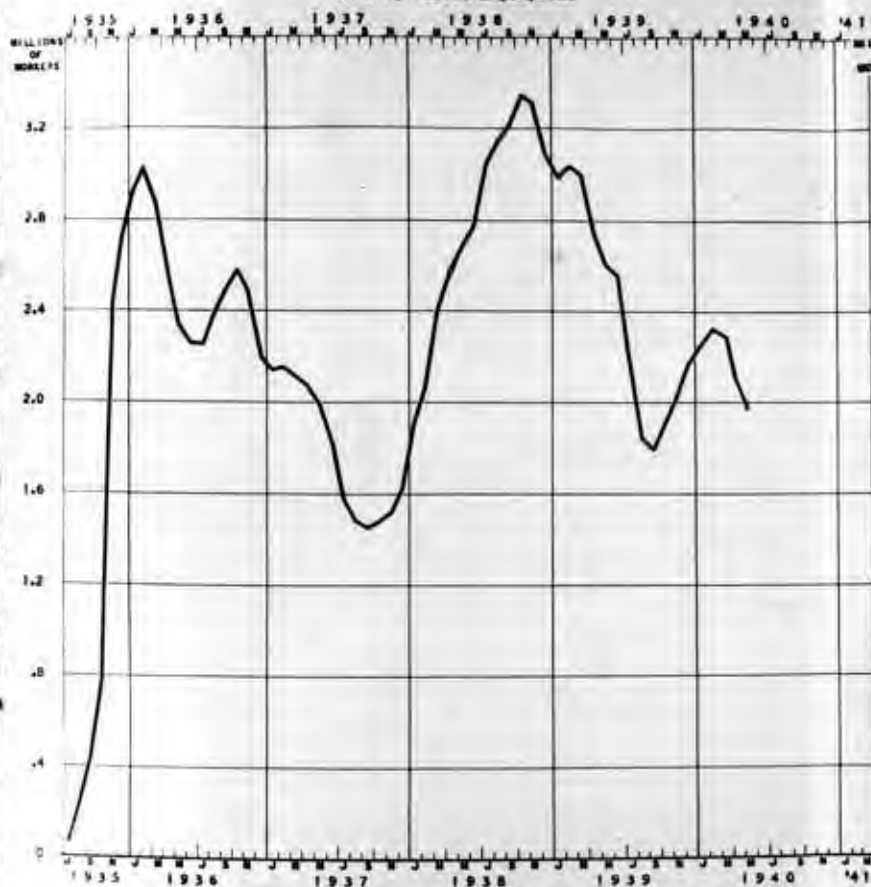
WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week Ending	Number of Workers (In thousands)
1939-40	
October 4	1,834
October 11	1,875
October 18	1,899
October 25	1,902
November 1	1,901
November 8	1,929
November 15	1,961
November 22	1,987
November 29	2,024
December 6	2,075
December 13	2,123
December 20	2,144
December 27	2,152
January 3	2,160
January 10	2,190
January 17	2,222
January 24	2,244
January 31	2,266
February 7	2,288
February 14	2,306
February 21	2,319
February 28	2,324
March 6	2,324
March 13	2,319
March 20	2,312
March 27	2,288
April 3	2,204
April 10	2,162
April 17	2,118
April 24	2,093
May 1	2,059
May 8	2,008
May 15	1,970
May 22	1,945
May 29	1,925

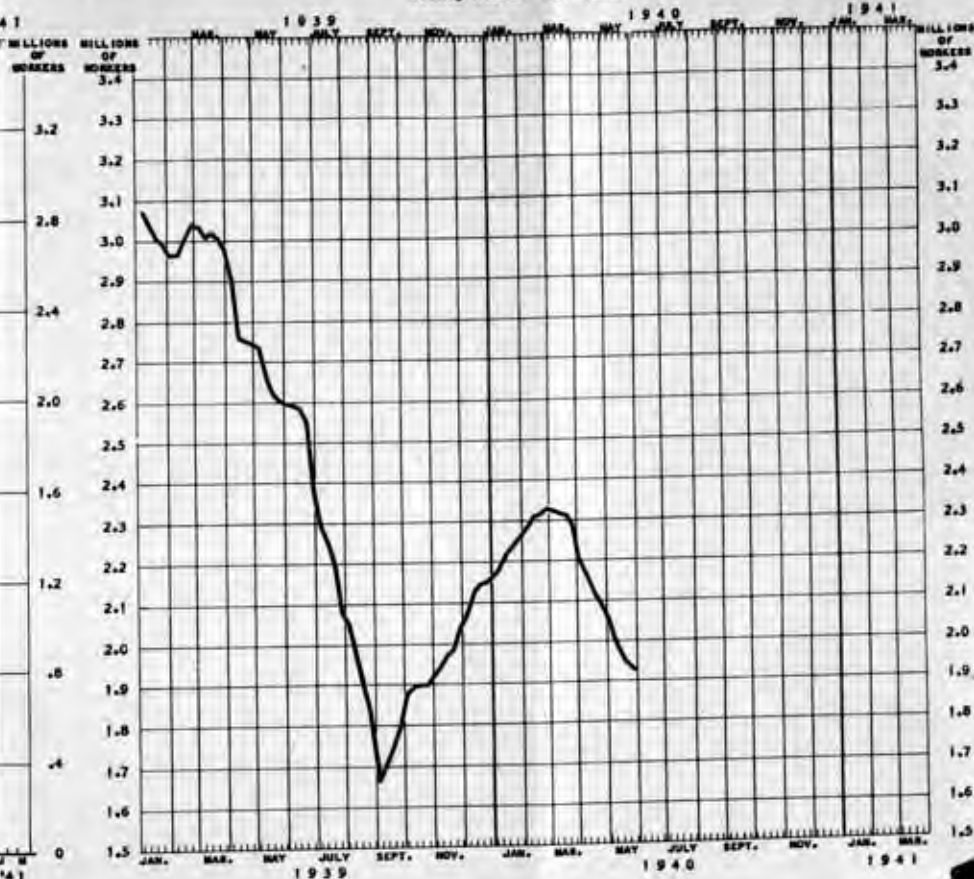
Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

June 10, 1940
10:45 a.m.

H.M.Jr: Hello.

Operator: Mr.

H.M.Jr: Hello.

J. J. Pelly: Hello, Mr. Secretary.

H.M.Jr: How are you?

P: Fine, thank you.

H.M.Jr: Well, here's my first real request.

P: Yes, sir.

H.M.Jr: This morning at Yorktown, Virginia.....

P: I didn't get it -- where?

H.M.Jr: Yorktown, Virginia.....

P: Yes.

H.M.Jr:there may be loaded three cars. Have you got a pencil?

P: Yes, sir.

H.M.Jr: C & O, 8328.

P: 8328.

H.M.Jr: Right. 8859.

P: 8859.

H.M.Jr: 4216.

P: 4216.

H.M.Jr: Now, they're moving through Richmond to -- on the C & O and the Pennsylvania up to Rouses Point.

- 2 -

P: Yeah.

H.M.Jr: They've got bombs on them.

P: Yeah.

H.M.Jr: They -- we want that thing to go through on a passenger train schedule.

P: All right.

H.M.Jr: And they say the bottleneck is Richmond.

P: All right.

H.M.Jr: And no fooling on this. For your own confidential information they're the bombs to go with those 50 Navy planes.

P: Yes, sir.

H.M.Jr: And we're a couple days behind schedule -- now let's see what American Railways can do to catch up.

P: All right, we'll handle them. They're at Yorktown.....

H.M.Jr: They left Yorktown this morning.

P: Yeah.

H.M.Jr: And they're on the way now. They say they ought to be in Richmond now.

P: Going to Rouses Point.

H.M.Jr: Yeah.

P: We'll take care of it, Mr. Secretary.

H.M.Jr: Now, we've got another movement of the same things from -- wait a second, (Aside: Where in Nevada?) Hawthorn, Nevada.

P: Hawthorn?

- 3 -

H.M. Jr: Nevada. Hawthorn, Nevada.

P: Yeah.

H.M. Jr: (Aside: And where do they go to?) We think they're going to New York, but they're being loaded this morning.

P: You haven't got their car numbers?

H.M. Jr: Not yet. Now, on this Donald Nelson -- who is here with me.....

P: Yes.

H.M. Jr:of Sears Roebuck.

P: Yes.

H.M. Jr: When you get this thing would you -- would you call back to him if you want any further information on this?

P: Nelson?

H.M. Jr: Donald Nelson.

P: Yes, sir. Say, does he know what Line these are being loaded on at Hawthorn?

H.M. Jr: He's sitting here. Southern Pacific Union Pacific.

P: O.K., I'll handle it.

H.M. Jr: But these other things are rolling -- these out of Yorktown. They're actually -- they ought to be in Richmond now.

P: O.K., I'll get in touch with them right away.

H.M. Jr: And -- and the car numbers at Hawthorn, as soon as we have those we'll give them to you.

P: All right, and I'll let you know when they get to Rouses Point.

111-D

- 4 -

H.M.Jr: That's the stuff, now see how good you are.

P: O. K. Thank you.

CK

GRAY

Paris

Dated June 10, 1940

Rec'd 8:35 p.m.

Secretary of State

Washington

1125, June 10, 6 p.m.

FOR THE TREASURY FROM MATTHEWS

I saw Couve de Murville this morning and also Governor Fournier for a few moments. Couve seemed somewhat harassed and depressed and was practically alone in the Finance Ministry. He said that naturally financial questions seemed of minor importance in the present crisis. He expressed the view that the great majority of such French owned American securities as are physically in France have long since been deposited with banks here and have been sent out of Paris. (Pearce of the National City Bank and Barrett confirmed this impression to me this afternoon.) Couve said that he has as yet no orders to leave Paris but that when and if they come he will proceed to Chinon.

The representatives of American banks in Paris held a meeting this afternoon at the suggestion of the Bank of France and decided to leave Paris tonight or tomorrow morning.

-2-#1125, June 10, 6 p.m. from Paris morning. They will establish themselves at Chatel Guyon, Lepuy (National City), Vichy (Guaranty Trust) and Niort (Morgan). They are each however leaving a small staff of three or four Americans in Paris and have been instructed to destroy their currency (recording such destruction) in case of imminent German occupation. In the interim they will remain open for cashing checks, drawn and presented by their own depositors.

The Bank of France is also leaving Paris tonight though a "branch" will be maintained here for the time being. Governor Fournier, the under governors and Carigvel are proceeding to Saumur; the essential administrative offices will be at Chatel Guyon. Blotry will be in charge of the Paris "branch".

Under the Ambassador's written instruction I am leaving this evening for Chateau de Candé at Monts near Tours.

BULLITT

EMB

June 10, 1940
2:55 p.m.

RE FRENCH PURCHASING PROGRAM

Present: Mr. Nelson
Mr. Young
Mrs. Klotz

H.M.Jr: You and I have been covering the same tracks but it doesn't do a bit of harm. I just wanted to make sure about these French seventy-fives, because I told you you will find every once in a while I will give it an extra push. I called up General Marshall and he said he had somebody or other give a report to Captain Young, meaning you (Mr. Young) and he said that he will let me know - I told him I wanted to know.

Young: He didn't give it to me.

H.M.Jr: Then it didn't do me any harm.

Young: This is on the extra number you were speaking of.

H.M.Jr: I just told you I wanted more French seventy-fives. Purvis told me yesterday that was No. 1. I said by ten o'clock tomorrow I wanted to know, so he said, "We have already told Phil Young about this."

Nelson: That was on that list, I think, Phil, that he sent over.

H.M.Jr: So I said I wanted it in writing. Anyway, it has got to come over from General Marshall to me either tonight or tomorrow morning, and the other thing he said, the 93 planes - and I want to wait now until I get it in writing before I say anything. They will be ready Friday. Don't say anything about that.

Nelson: He said tomorrow.

H.M.Jr: Now he says Friday, and they have got bombs to go with them.

Young: Army bombs?

H.M.Jr: Navy bombs, but I asked him for it in writing by ten tomorrow, so let's hold everything until we get it in writing.

Nelson: You don't want us to check on the bombs until you get it in writing?

H.M.Jr: He was just leaving and he mentioned somebody's name whom I didn't know and he gave it to this fellow and he would order him to get it into my hands either tonight or before ten o'clock tomorrow morning.

Young: On these additional French seventy-fives, they are being included in the steel contract which will probably be agreed on tomorrow.

H.M.Jr: I suppose so. But I thought I would tell you I gave that a little push.

Nelson: We will appreciate any push you give it.

Young: Any more pushes?

H.M.Jr: Oh, the day is long yet. We are half way through the day.

Young: We are just waking up.

Klotz: You must have an awful lot of pep.

Young: You should have seen General Harris trying to hire Colonel Cox away from the Treasury.

H.M.Jr: Colonel Cox?

Young: Oscar Cox. He had never seen the lawyer in the War Department, evidently.

Nelson: Cox did a really beautiful thing. Cox really sat down and wrote out this agreement in five minutes.

Young: He wrote out the first draft of the agreement and it was signed by all present.

- 3 -

Nelson: General Harris just stared at it.

H.M.Jr: Major Fleet was here of Consolidated, and after he had worked one day with John Sullivan, he asked him to come and have dinner with him or something and tried to hire him that night.

Young: Well --

H.M.Jr: All right.

HSM-

GRAY

Milan

Dated June 10, 1940

Rec'd 1:16 p. m.

Secretary of State,
Washington.

61, June 10, 5 p. m.

Today's market index 215.23. Volume 75,500.

Prices generally weaker in moderate trading but
recovered somewhat toward close of session.

SCHWABE

TFV

SUMMARY OF PREMIER MUSSOLINI'S SPEECH:

6-10-40

- 114-A

Combatants on land, sea and in the air, blackshirts of the revolution and of the legion, men and women of Italy, of the Empire and of the Kingdom of Albania, listen!

An hour signed by destiny is ticking on the skies of our country; an hour of irrevocable decisions. A declaration of war has already been given to the ambassadors of France and England.

We shall descend on the fields against the plutocratic democracies and the reactionary democracies of the West who in all times have always obstructed the march of the Italian people.

Some facts in more recent history can be assumed from these words, promises, threats of fifty-two states. Our conscience is absolutely quiet. With us the whole world is a testament that Italy has done what is humanly possible to avoid the storm that is overhanging Europe.

It was enough to see again the treaties to realize that they were not adequate to the times--they would have to be changed. The Allies should have accepted the proposals of Hitler before the Polish campaign. Today we are ready to face the sacrifices of war to safeguard the honor and interests of the future because a great people is only such if it considers sacred those pledges to safeguard history. You will take arms to safeguard our frontiers and also to solve the

maritime problems. We want to break the chains which are keeping our seas closed because 45,000,000 souls are not free unless they have free access to the ocean.

This gigantic effort is the fight of the rich people against those who have nothing but who are rich with arms and the right to work.

Our will is Italy does not intend to bring other people into the conflict. Yugoslavia, Greece, Turkey and Egypt will take notice of this fact.

Italians, in a memorable meeting in Milan I said: When you have a friend, live with him to the end. With Germany we shall march with these victorious armed forces.

In this vigil of such an important event, we think of the Italian Emperor-King, Victor Emmanuel. He has interpreted forever the soul of Italy, Italy, fascist and proletarian. Italy is for the third time on its feet, strong and united.... categorically victorious. And we shall win to give a long period of peace to Italy, to Europe and the world.

Italian people, to arms and show your tenacity, your courage, your valor!

June 10, 1940
2:59 p.m.

H.M.Jr: Hello.

Sumner
Welles: Hello.

H.M.Jr: Yes, Sumner.

W: Hello, Henry, I had a message from you saying that you wanted to see me this afternoon.

H.M.Jr: What I said was this. They're trying to decide this whole question on freezing assets for the whole of Europe and Asia.

W: Yes.

H.M.Jr: And I said I wouldn't go into it unless you were here. I mean, Berle was coming, but I wouldn't do it with just Berle, that was the point. But Bell just left here and he says he doesn't think we're ready yet.

W: Well, Henry, I'm terribly sorry about this afternoon. Of course, I -- if I'd have known it I'd have cut things out, but I'm just absolutely swamped with engagements that I can't very well break.

H.M.Jr: All right.

W: And -- do you think this step would have to be taken today?

H.M.Jr: Well, from the way Bell just talked to me, he doesn't think it should be.

W: I see.

H.M.Jr: It's too important, and if it's as important as all that, why we'd have to get the President to pass on it and of course he isn't here.

W: No, I was with him when he spoke to you this morning

- 2 -

H.M.Jr: So

W: he'd be back, he said, at 10:15.

H.M.Jr: Well, the point then is that we'll talk about it at 3:30 -- I take it Berle will be here

W: Yes.

H.M.Jr: And then he can take it back and you and Mr. Hull can think about it and if we can come to an agreement amongst ourselves, we can put it up to the President tomorrow, if we come to an agreement.

W: Yes, indeed. I'll meet you at any time in the morning that is convenient for you.

H.M.Jr: Well, let's see how this 3:30 meeting goes.

W: All right, Henry.

H.M.Jr: Now, are you going to do anything on Italy today that will cause us to move tonight?

W: Well, the President will sign the neutrality proclamations tonight.

H.M.Jr: He will.

W: Yeah.

H.M.Jr: Oh. Now, is that definite?

W: That's what he told me.

H.M.Jr: Well, then, I can tell that to Gaston

W: That's right.

H.M.Jr: for whatever we have to do. He'll sign the neutrality proclamations.

W: That's what he told me when I left him. He'll sign them as soon as he gets back.

- 3 -

H.M.Jr: That affects Italy of course, does it?

W: That's right.

H.M.Jr: Well, then I'll count on that. I don't know -- whatever our boys will have to do, they'll have done.

W: Yeah.

H.M.Jr: Well, I'll see how this goes and Berle can give you a report and if I need you -- need help, I'll call you.

W: All right, Henry.

H.M.Jr: Thank you.

W: Good-bye.

H.M.Jr: Thanks.

114-F
June 10, 1940
3:20 p.m.

H.M.Jr: Yes?

Operator: Mr. Gaston.

H.M.Jr: Herbert?

Herbert Gaston: Yes.

H.M.Jr: Sumner Welles tells me the President is going to sign the neutrality proclamation tonight.

G: He's going to sign it tonight.

H.M.Jr: Yes. And that he -- the President personally called me at 1:00 o'clock to say that he'd sign whatever we wanted him to sign.

G: Yes.

H.M.Jr: So will you, personally, get things - a roundup, and see what there will be and check with everybody and I'll -- are you coming in to this

G: At 3:30? Yes.

H.M.Jr: Yes. Well, check with everybody so -- he gets back at 10:15 so whatever's necessary

G: Yes. Well, the State Department would have that controlling document for him to sign, and I'll see what else there would be, whether there's anything else for his signature.

H.M.Jr: Will you carry the ball on that?

G: Yes.

H.M.Jr: Yes. Then if I've got to take it to the President tonight, let me know?

G: Yes, I will.

H.M.Jr: Please.

G: Right.

June 10, 1940.
2:50 p.m.

RE FREEZING ORDER

Present: Mr. Bell

Bell: This conference we had with the State Department isn't settled yet.

H.M.Jr: I will settle it.

Bell: I think we in the Treasury would urge you not to be too strong on it because this is a little different situation than we have had at any time, and whether or not there is enough at stake for you to take this strong position and certainly it is a major administration policy and I think it is a political policy. Now, whether this is going to throw us further on the side of the Allies and one step nearer war, I think, is a State Department problem; and if the President tonight makes some declaration of policy, national policy, then that might be a stepping stone.

H.M.Jr: I saw the speech and there is no policy in it.

Bell: There isn't?

H.M.Jr: No, I read it over. I read it very fast. I didn't think it was a statement of policy. I read it in five minutes.

Bell: There is some feeling over there today in this meeting that we got to take this step with respect to Switzerland because that is a neutral. Coming back and thinking about it, I question whether we ought to take that step.

H.M.Jr: Are they coming over here?

Bell: Yes. I couldn't get Welles, but Berle

said he would contact him before three.

H.M.Jr: I want you at my press conference.

Bell: At three?

H.M.Jr: Yes.

Bell: I don't know how this other thing is coming.

H.M.Jr: I want you at my press conference at three.

Bell: Should I plan to leave then at four?

H.M.Jr: Definitely. I would say four fifteen at the latest.

Bell: I certainly hate to go.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 10, 1940

TO Secretary Mergenthau

FROM W. H. Hadley

TREASURY NOTE MATURITIES

<u>Coupon</u>	<u>Date</u>	<u>Amount Outstanding</u>	<u>Price</u>	<u>Yield</u>
1 1/2%	12/15/40	737 mil.	101.1	Negative
1 1/2%	3/15/41	677 mil.	101.9	Negative
1 3/8%	6/15/41	504 mil.	101.12	0.03
<u>Open</u>	9/15/41			
1 1/4%	12/15/41	204 mil.	101.26	0.06
1 3/4%	3/15/42	426 mil.	102.27	0.14
<u>Open</u>	6/15/42			
2%	9/15/42	542 mil.	104.2	0.20
1 3/4%	12/15/42	232 mil.	103.19	0.32
<u>Open</u>	3/15/43			
1 1/8%	6/15/43	629 mil.	101.12	0.66
<u>Open</u>	9/15/43			
1 1/8%	12/15/43	421 mil.	101.12	0.73
1%	3/15/44	515 mil.	100.15	0.87
3/4%	6/15/44	416 mil.	99.15	0.88
1%	9/15/44	283 mil.	100.11	0.91
3/4%	3/15/45	718 mil.	98.30	0.97

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 10, 1940

TO Secretary Mergenthan
FROM W. H. Hadley

NEW ISSUESNotes:

<u>Issue</u>	<u>Coupon</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Possible Mkt. Price</u>	<u>Premium</u>
2-3/4 years (3/15/43)	5/8%	0.49	100	100.12	12/32nds
		0.50	100	100.10	10/32nds
	3/4%	0.49	100	100.23	23/32nds
		0.50	100	100.21	21/32nds
3-1/4 years (9/15/43)	7/8%	0.70	100	100.18	18/32nds
		0.72	100	100.16	16/32nds
	1 %	0.70	100	100.30	30/32nds
		0.72	100	100.28	28/32nds ✓
5 years (6/15/45)	1 1/8%	1.01	100	100.18	18/32nds
		1.03	100	100.14	14/32nds
	1 1/4%	1.01	100	101.5	1 pt. 5/32
		1.03	100	101.2	1 pt. 2/32

Rights

	<u>Amount</u>	<u>Market Bid</u>	<u>Premium Above No Yield</u>
3 3/8% T/B of June 15, 1943	353 mil.	100.14	13/32nds

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

117

DATE June 10, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 11:30 this morning, at the request of Mr. Philip Young, I telephoned Air Attache Pirie of the British Embassy. The latter told me that he had not yet received any Rolls-Royce plans or specifications. He expects a diplomatic pouch to reach the Embassy on Tuesday. He will telephone me as to whether the plans come in that pouch. He understands that the Secretary is anxious to see these plans as soon as they are received.



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 10, 1940.

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

On Friday, June 7, I let Pinsent know that the Federal Reserve Bank had been instructed and requested to open the accounts in the name of the British Government as had been sought through the British Embassy in its memorandum to the Treasury Department. I told Pinsent that the Federal Reserve Bank of New York would cable directly to the Bank of England in regard to the technical arrangements.

On Saturday, June 8, Mr. Knoke let me know that a cablegram had been sent to the Bank of England on the above subject, and that a similar message would be sent to the Netherlands Government in London on Monday. The cablegram to the Netherlands is necessary before any additional deposits are eligible for acceptance by the Federal Reserve Bank of New York.



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 10, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Knoke told me by telephone this afternoon that the Chase Bank reported to him the receipt of telegraphic instructions from the German Asiatic Bank in Shanghai to pay out in bank notes of large denominations \$480,000 to a Japanese named Itoh, who is manager of a Japanese concern known as "Showva Tsusho Kaisha" at 1775 Broadway. The Chase Bank was not acquainted with the payee. When the Chase mentioned this transaction to Knoke, he reminded them that it was his understanding that the Presidential Proclamation of December 30, 1933 is still in force. This proclamation contains the phrase "nor allow the withdrawal of any currency for hoarding".



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 10, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At one o'clock on Saturday, June 8, Mr. Knoke telephoned me that the Banco Commerciale Italiano had that day withdrawn from the Irving Trust \$200,000 in one-hundred-dollar bills.

In talking with a friend in one of the big banks in New York on June 7, I was informed that there was Italian buying of United States Treasury securities and also withdrawal of currency on instructions from Milan.

At six o'clock this afternoon, Mr. Knoke told me that Italian banks continued to withdraw currency. The Credito Italiano has today withdrawn \$400,000 from the Guaranty Trust. On June 7, the Banco Commerciale Italiano withdrew \$200,000 from the Guaranty and on June 8, \$150,000 from the Guaranty. Mr. Knoke told me that the important payments which had been made recently by Italian banks to Post and Flagg had, he thought, been used for purchasing United States Government securities, rather than for supporting the Italian bond market as previously suspected. He is looking further into this matter.



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE June 10, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Sterling moved erratically downward today in a market made very thin by the coming into effect of Great Britain's new foreign exchange regulations. As compared with Saturday's closing rate of 3.75, the pound opened at 3.67 today. In a short time it touched the high of 3.69-1/4. Sterling then began to recede and by noontime, the quotation was 3.59. In the half-hour that followed Italy's declaration of war, there was no business transacted, and the spread between the bid and offered rates for the pound at one point reached 14¢. The rate subsequently receded to a low of 3.50. The final quotation was 3.52.

With respect to the new British foreign exchange regulations which became effective today, whereby all commercial transactions with the United States and Switzerland are placed on the basis of the official rates for sterling, I wish to point out that while foreign balances in England are not legally blocked, and transfers between non-residents of sterling balances previously acquired in the open market are still being allowed, the result is practically the same since the use of such sterling balances is limited to employment within Great Britain.

An interesting feature of the reported turnover figures is the purchase by commercial concerns of £212,000, especially since a cable sent from London to one of the New York banks implies that open market sterling cannot now be bought to pay for shipments of goods from Great Britain under contract made before June 8. The greater proportion of the sterling purchased by commercial concerns was to cover imports from Great Britain which are now in transit to this country.

Sales of spot sterling by the six reporting banks totaled £193,000 from the following sources:

By commercial concerns.....	£ 48,000
By foreign banks (South America, Far East and Europe).....	<u>£145,000</u>
Total.....	<u>£193,000</u>

Purchases of spot sterling amounted to £297,000, as indicated below:

By commercial concerns.....	£212,000
By foreign banks (Far East and Europe).....	<u>£ 85,000</u>
Total.....	<u>£297,000</u>

The Guaranty Trust Company reported that it had sold cotton bills totaling £3,000 to the British Control on the basis of the official rate of 4.02-1/2.

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Spot sterling in the amount of £37,000 was purchased from the British Control at the official rate of 4.03-1/2 by the following banks:

119,000 by the Guaranty Trust Company (for rubber and lumber)
14,000 by the Bank of Manhattan (for rubber)
4,000 by the Irving Trust Company (for various commodities)
137,000 Total

Developments in the other currencies were as follows:

The French franc moved with sterling and closed at .0200.

The Swiss franc was quoted all day at an offered rate of .2243. Very little business was reported to have been transacted in that currency.

The discount for the Canadian dollar was 21-1/2% during most of the day. Toward the close it widened to 22%.

The lira and reichsmark were unchanged at offered rates of .0505 and .4000 respectively. While the New York banks appeared unwilling to execute orders in lire, it was reported that the New York branches of Italian banks were sellers at the .0505 level.

The Cuban peso, which was quoted on Saturday at a discount of 9-5/16%, weakened to 9-15/16% today.

Since there was a holiday in Shanghai today, no rates for the yuan were received from that center.

We purchased \$4,000,000 in gold from the earmarked account of the Bank of Java.

The Federal Reserve Bank of New York reported that the following shipments of gold were being consigned to it:

\$50,043,000 from Canada, shipped by the Bank of Canada, Ottawa, to be earmarked for account of the Bank of England.
6,092,000 from Canada, shipped by the Bank of Canada, Ottawa, for its own account, for sale to the U. S. Assay Office.
1,285,000 from Mexico, shipped by the Bank of Mexico, to be earmarked for its account.
\$57,420,000 Total

The State Department forwarded to us a cable stating that the following shipments of gold were made from England, all of which will be sold to the U. S. Assay Office at New York:

26,085,000 shipped by Morgan Grenfell and Co., London, to J. P. Morgan and Co., New York.
100,000 shipped by N. M. Rothschild and Co., London, to the New York Trust Company, New York.
65,000 shipped by the National City Bank, London, to its head office at New York.
\$5,250,000 Total

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The Bombay gold price was slightly higher at an equivalent of \$35.50.

The Bombay spot silver quotation worked out to the equivalent of 44.67¢, up 3/16¢. A cable received today from Bombay reveals that available stocks of silver in that center now total only 8,000,000 ounces, which is the lowest amount that has been reported for a considerable period of time. The cable also cites an appreciable increase in up-country demand. Extension of the European war may provoke another speculative boom, and with conditions as tight as they are, there may shortly be an upward movement in the Indian silver price.

In London, spot silver was fixed at 23d, off 3/8d. The forward quotation was 22-1/16d, up 3/16d. The U. S. equivalents, calculated at the official sterling-dollar rate, were 41.81¢ and 40.11¢ respectively. Since Great Britain's new regulations place all commercial transactions between that country and the U. S. on an official sterling basis, calculation of the U. S. equivalents of London's silver prices at the open market rate for sterling should no longer be made.

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

We made four purchases of silver totaling 425,000 ounces under the Silver Purchase Act, all of which were new production from foreign countries, for forward delivery.



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE June 10, 1940

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending June 8, 1940.

Conclusions

(1) Business improvement has continued through the Memorial Day week, according to seasonally-adjusted weekly indexes. The New York Times index in that week reached an FRB equivalent of 108, as compared with a low of 102 in April. Preliminary data on steel and automobile production indicate a more rapid advance during the week ended June 8.

(2) The increasing industrial demand is beginning to strengthen commodity prices, particularly for basic industrial materials. The past week or more has seen a noticeable strengthening in futures prices of zinc, copper, tin, and rubber, and a further advance in steel scrap prices. Increased buying has been confined more largely to the metal group, perhaps because this group is expected to be affected earliest by the armament program.

(3) From a price viewpoint, conditions now seem more favorable than they are likely to be later for placing large Government orders. Commodity prices have been "deflated" of much of their war-induced rise of last September; the shock of recent Allied reverses has confused buyers and made them reluctant to take speculative positions; and industrial demand has not yet improved enough to reduce existing supplies.

(4) Our index of new orders declined somewhat during the Memorial Day week. New orders reported by U. S. Steel, however, held for the second week around full capacity; automobile sales improved substantially in the third period of May; and sales of such metals as copper and zinc have noticeably increased.

- - - - -

Business activity makes further gains

Despite the effect of the Memorial Day holiday, which brought an extended shutdown in the automobile industry, weekly business indexes continued to rise during the week ended June 1. (See Chart 1.) Barron's index advanced 1.0 point to 105.4. The New York Times index, rising for the fifth successive week, reached an FRB index equivalent of 103. This compares with a low FRB index of 102 in April, and a preliminary figure of 105 in May.

A more rapid advance is indicated for the following week by preliminary data on steel and automobile production. The New York Times index of steel production in that week may rise as much as 6 points, and the automobile production index by 12 points.

No let-up in steel advance

As steel orders continue to increase, the rising trend of activity in the steel industry as yet shows no sign of slackening. Following last week's increase of 3.4 points to 80.5 per cent of capacity, the steel rate this week is scheduled 4.3 points higher at 84.6 per cent. (See Chart 2, upper section.) Continued expansion of production to virtual capacity, perhaps by midsummer, is expected by various observers in the steel trade.

New orders reported by the U. S. Steel Corporation for the week ended May 30 held close to the high level of the previous week, despite the holiday. (Shown on Chart 2.) The total of 331,000 tons reported in that week was at the rate of 98 per cent of capacity, versus 102 per cent for the preceding week. The Iron Age reports that domestic business has expanded in nearly all directions, and that export buying by the Allies has been heavy. Export demand from other countries, however, has become quieter.

For the first time in a considerable period the rate of operations of the U. S. Steel Corporation is above that of the independent companies (see lower section of Chart 2), which provides some evidence that production is being centered more largely than usual in heavy steel products.

Secretary Morgenthau - 3

Steel companies are preparing for a period of high production by expanding coke and pig iron output and by bringing down large quantities of iron ore from the Lake Superior district. The ore movement up to June 1 totalled 7.7 million tons, an increase of 4.1 million tons over the same period of 1939.

Pig iron production has expanded rapidly, with 76 per cent of all furnaces in blast early last week. This high percentage compares with a 1939-40 maximum monthly figure of 79.9 per cent, reached in December and January. The highest figure reached during the World War period was 90.9 per cent in the month of May 1916. Very high operating rates mean heavy wear on blast furnaces. In the present situation, a rate as high as 90 per cent may not be possible, owing to prospective repairs to various furnaces necessitated by the heavy production last fall and winter.

A limited capacity for coke production may provide a bottleneck in pig iron output, according to the Iron Age. Some steel companies are already buying outside coke, their own coke-making facilities being engaged at capacity. Last fall, when a coke shortage was threatened, a number of obsolete beehive coke furnaces were pressed into service.

Automobile companies maintain production

Automobile production in the week ended June 8 rose to 95,560 units, as compared with 60,980 units in the previous (Memorial Day) week, and 96,810 units in the week ending May 25. Thus the rebound in production, encouraged in part by the sales recovery in the last period of May, carried back almost to pre-holiday levels. The production of automobiles in June usually shows a sharp curtailment from the May total. Normally, one might expect this trend to be accentuated by the current heavy stocks of new cars in factory and dealer hands, which at the end of April were the highest on record, and which have apparently been reduced but little in May.

On the contrary, however, according to Ward's Reports, there is little evidence so far that any nearby curtailment is planned. Ward's takes this to mean either that (1) production may be reduced later with unprecedented suddenness, or (2) new models will not be introduced this fall when planned. The inference is that the automobile companies are making cars while they can, in order to be able to meet whatever requirements may be demanded of them for armament production during the 1941 model season.

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Prices of industrial materials firmer

A strengthening of industrial material prices has been noticeable during the past week or more, apparently reflecting an expansion in industrial buying accompanying the recent increase in business activity. Futures prices of basic industrial materials are shown in Chart 3.

The most pronounced price upturn has been in zinc, in which a tight supply situation is developing somewhat similar to that early in the World War period. Zinc shipments during the week ended June 1 increased to 7,131 tons, the highest figure since last September, while shipments in the month of May were the highest since November. A shortage of available zinc has developed, due to a bottleneck in smelting capacity, which is now being operated at its limit. Had it not been for the shortage in supplies, according to trade reports, the volume of sales during the past few weeks would have been even higher. As a consequence, the buying pressure is affecting prices rather than production.

During the World War period, zinc prices rose from 5 cents a pound to above 20 cents in less than a year after the outbreak of war, when the shutting off of smelting capacity in Germany and Belgium made the United States the major source of zinc for the Allies. At present a similar situation exists, and recent heavy foreign demand on our smelting capacity, particularly from England for zinc smelted in bond, from foreign ore, has intensified the capacity problem. An alleviating factor is the fairly high stocks of zinc held by domestic consumers, estimated in some quarters at 60 days' requirements.

Copper sales have also expanded markedly in the past week, extending a trend that has been under way for the past two months. Domestic sales of copper in May (see Chart 4) showed a decided improvement over those in the previous two months, and sales in the first 6 days of June averaged 27 per cent higher than the daily average in May.

Price situation more favorable now for
Government orders than expected later

From a price viewpoint, conditions now seem more advantageous for placing large Government orders than they are likely to be later, assuming continued active warfare:

(1) Prices of industrial materials have been "deflated" substantially since the period of war-inspired buying last September. (Refer to Chart 1.)

(2) The recent Allied reverses, causing heavy liquidation in commodities and securities, have confused buyers and made them less interested in accumulating speculative holdings.

(3) Industrial activity has not yet increased sufficiently to curtail available supplies of raw materials, an important bullish factor in the price rise of 1936 and 1937.

The situation created by the armament program and increased Allied buying, of course, favors rising prices of industrial materials, particularly after capacity levels have been reached (as in the case of zinc). Bullish statistical conditions exist in some other individual commodities affected by the armament program. The stocks of hides in this country, according to preliminary figures, are the lowest in at least the 18 years for which records are available, with the exception of last October. Hide prices, nevertheless, have declined sharply in recent weeks with the break in security prices, being affected also by low shoe production figures for April.

The pending Army order for 10,500,000 yards of serge, overcoating, and other woolen goods has apparently been placed at an opportune time, since price conditions are liable to become less favorable for buyers in view of the rather tight supply situation for woolen goods in this country. Prices of wool have shown some increase under the influence of this large order.

New orders index slightly lower

Our weekly index of new orders declined somewhat during the week ended June 1, doubtless affected by the Memorial Day holiday. (See Chart 5.)

Automobile sales increased sharply during the last period of May. On a daily average basis, allowing for the Memorial Day holiday, General Motors sales increased in that period to 5,800 units, as compared with 4,700 units in the second period of the month, and 6,100 in the first period. For the month as a whole, General Motors' sales to consumers in May were 9.6 per cent below the April total, as compared with an average decline of 6.5 per cent in the previous four years.

Secretary Morgenthau - 6

F.H.A. mortgages hold steady

Mortgages selected for appraisal by the F.H.A. in May were but slightly above the April level. (See Chart 6, upper section.) Weekly data (lower section of chart) also show a flattening-out in the volume of F.H.A. selected mortgages. In comparison, residential construction awards as reported by F. W. Dodge, which normally lag a month or two behind the F.H.A. figures, increased further to a new high since August 1929. (Upper section of chart.)

The number of new homes started under F.H.A. inspection, after establishing a new high early in May, declined 26 per cent during the Memorial Day week, as compared with a 22 per cent decline in that week last year. (See Chart 7.) The F. W. Dodge monthly figures on number of residential projects awarded show an expansion in May to a new high level for recent years.

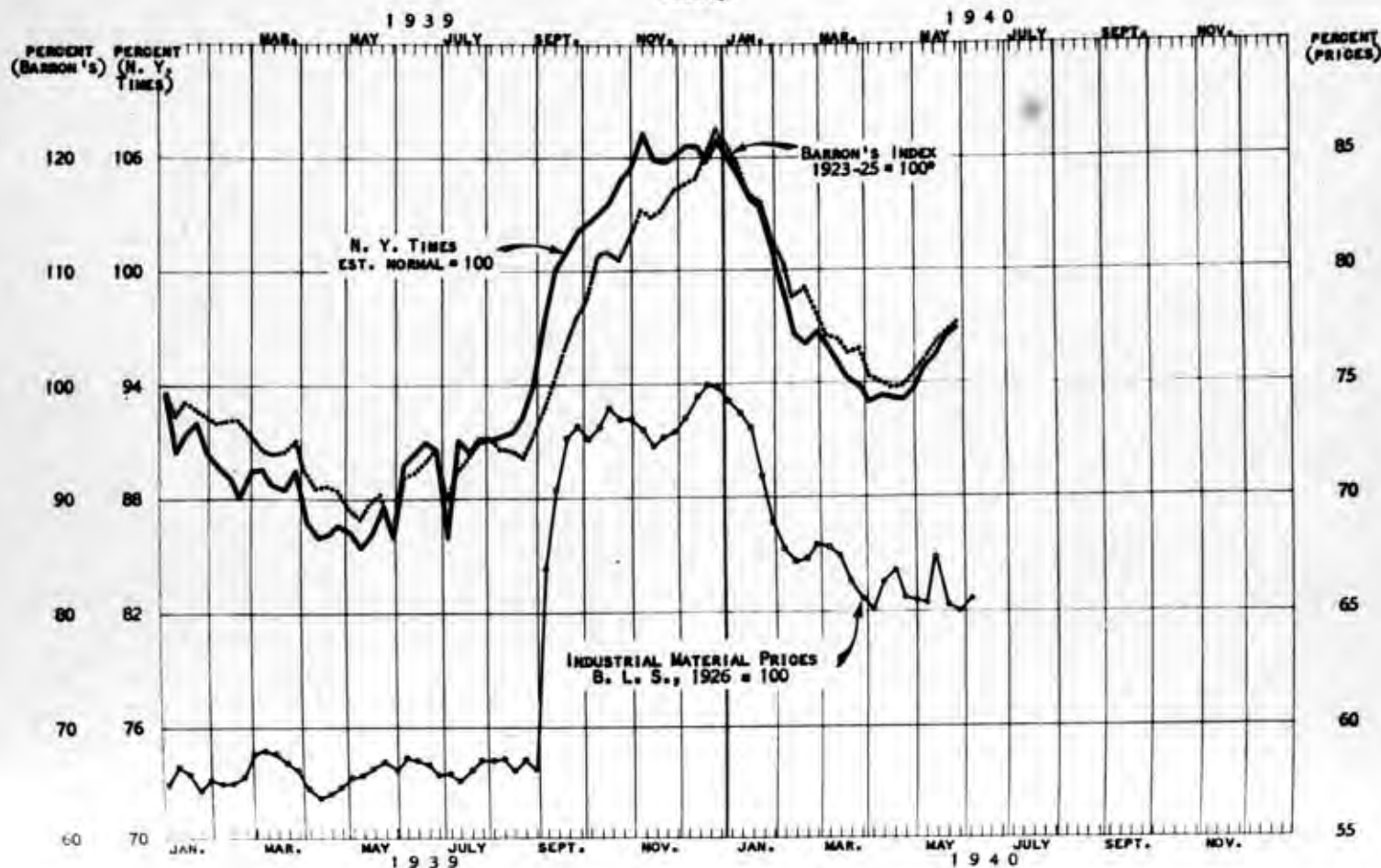
New York Times index higher

Due largely to the continued contra-seasonal expansion in steel mill operations, the New York Times index of business activity for the week ending June 1 rose .4 to 96.9. In addition to the sharp rise in the index of steel ingot production, the indexes of cotton mill activity and "all other" freight car loadings also showed gains, the latter again benefiting from the continued rise in loadings of ore, which were 53 per cent above the corresponding week in 1939. All other components of the index declined, with the indexes of automobile production and lumber production showing sizable recessions. The declines in the indexes of electric power production and miscellaneous freight car loadings, however, were only fractional.

Preliminary data thus far available for the week ending June 8 reveal a still further contra-seasonal gain in steel ingot production and a good recovery in automobile production following the shutdown around Memorial Day.

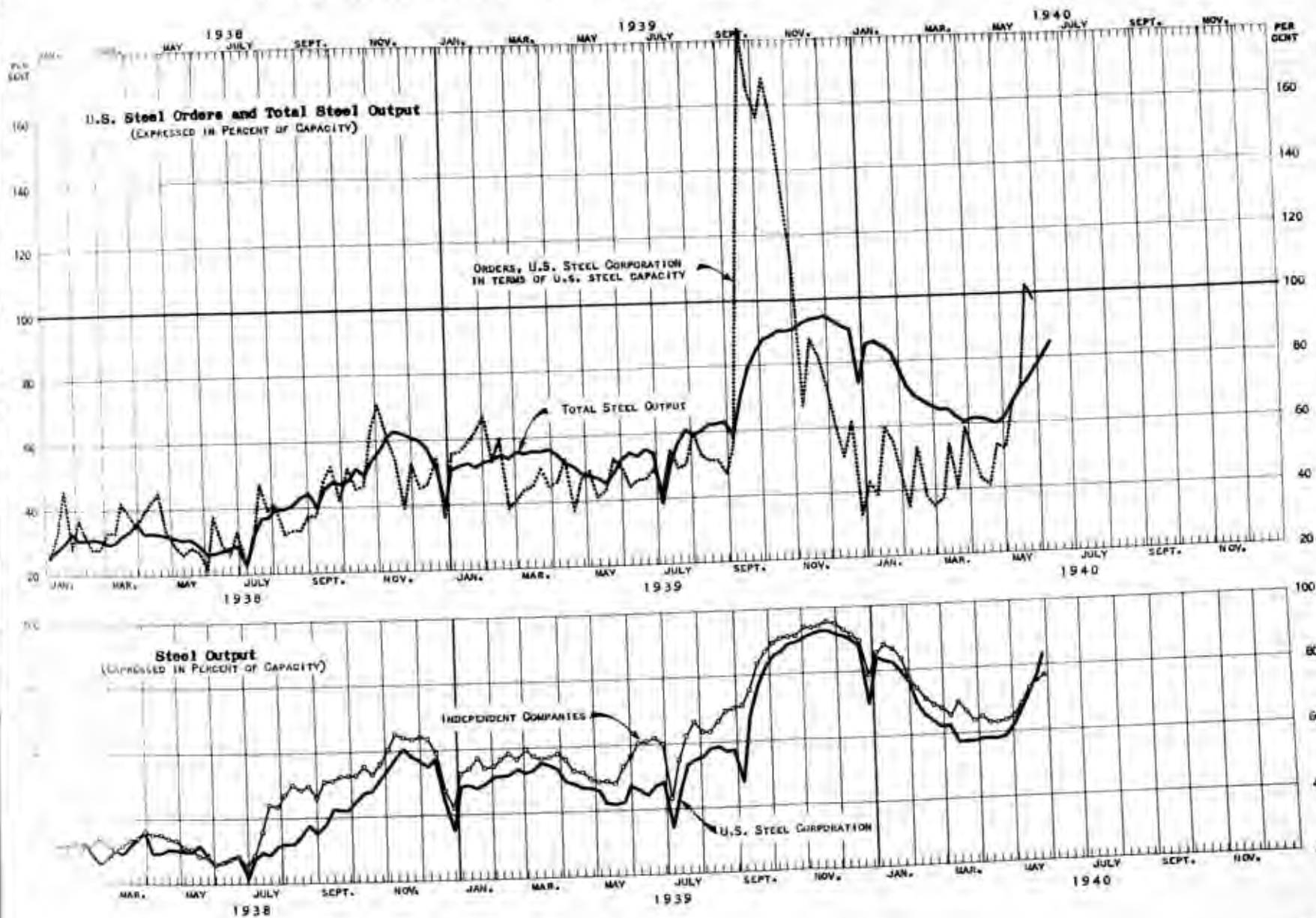
INDICES OF BUSINESS ACTIVITY AND PRICES OF INDUSTRIAL MATERIALS

Weekly



*ADJUSTED FOR SEASONAL, NOT FOR TREND

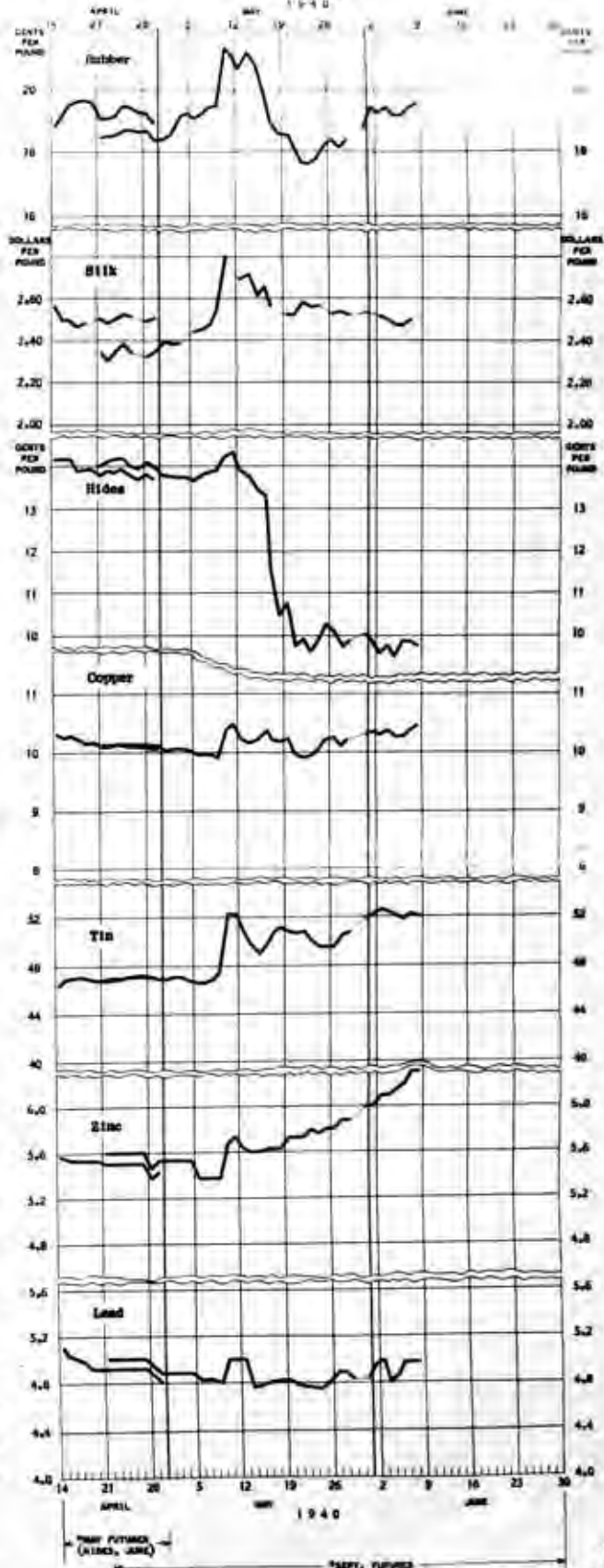
STEEL INGOT PRODUCTION AND U.S. STEEL CORPORATION ORDERS



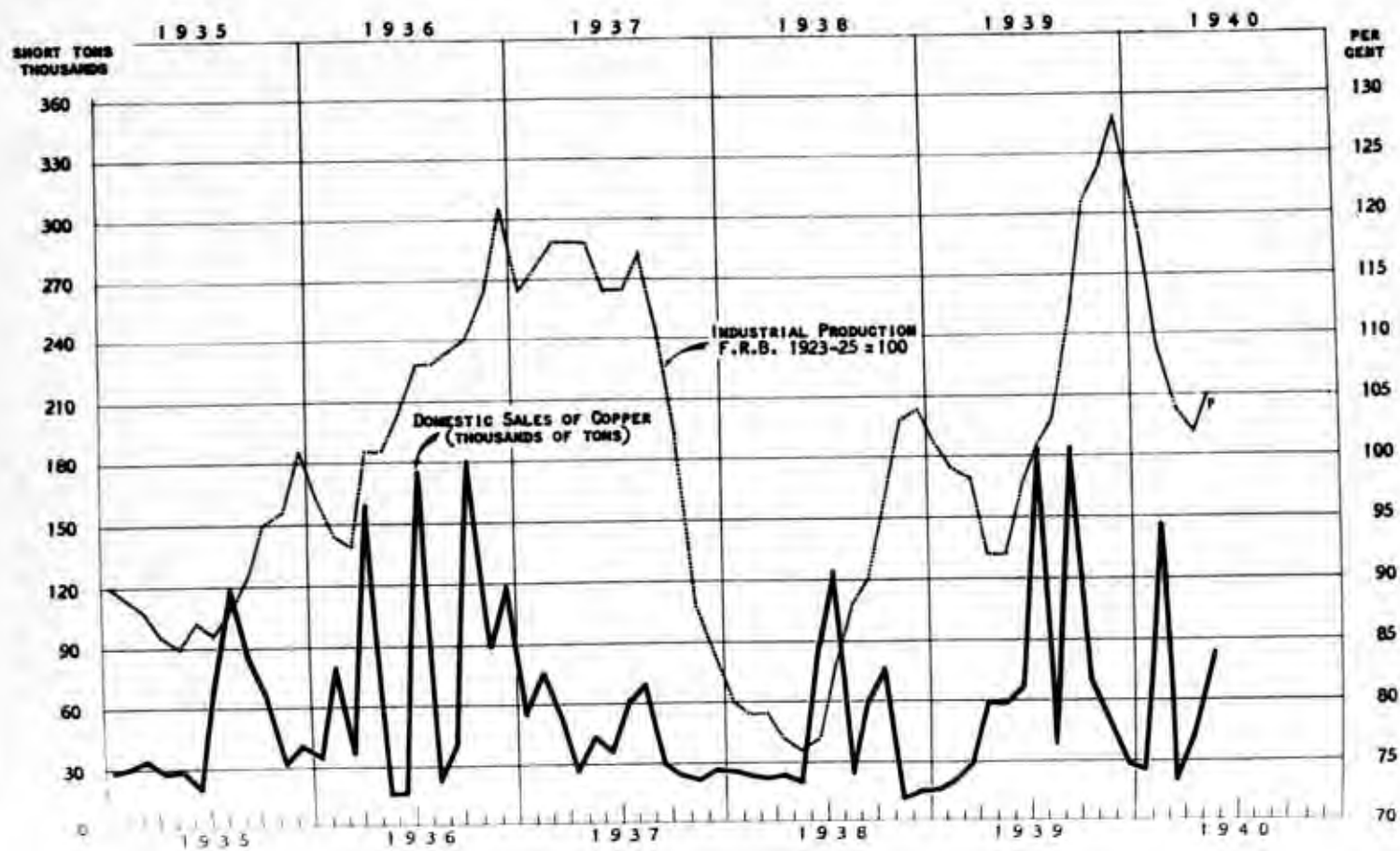
PRICES OF SELECTED INDUSTRIAL MATERIALS

Daily Futures* (Futures)

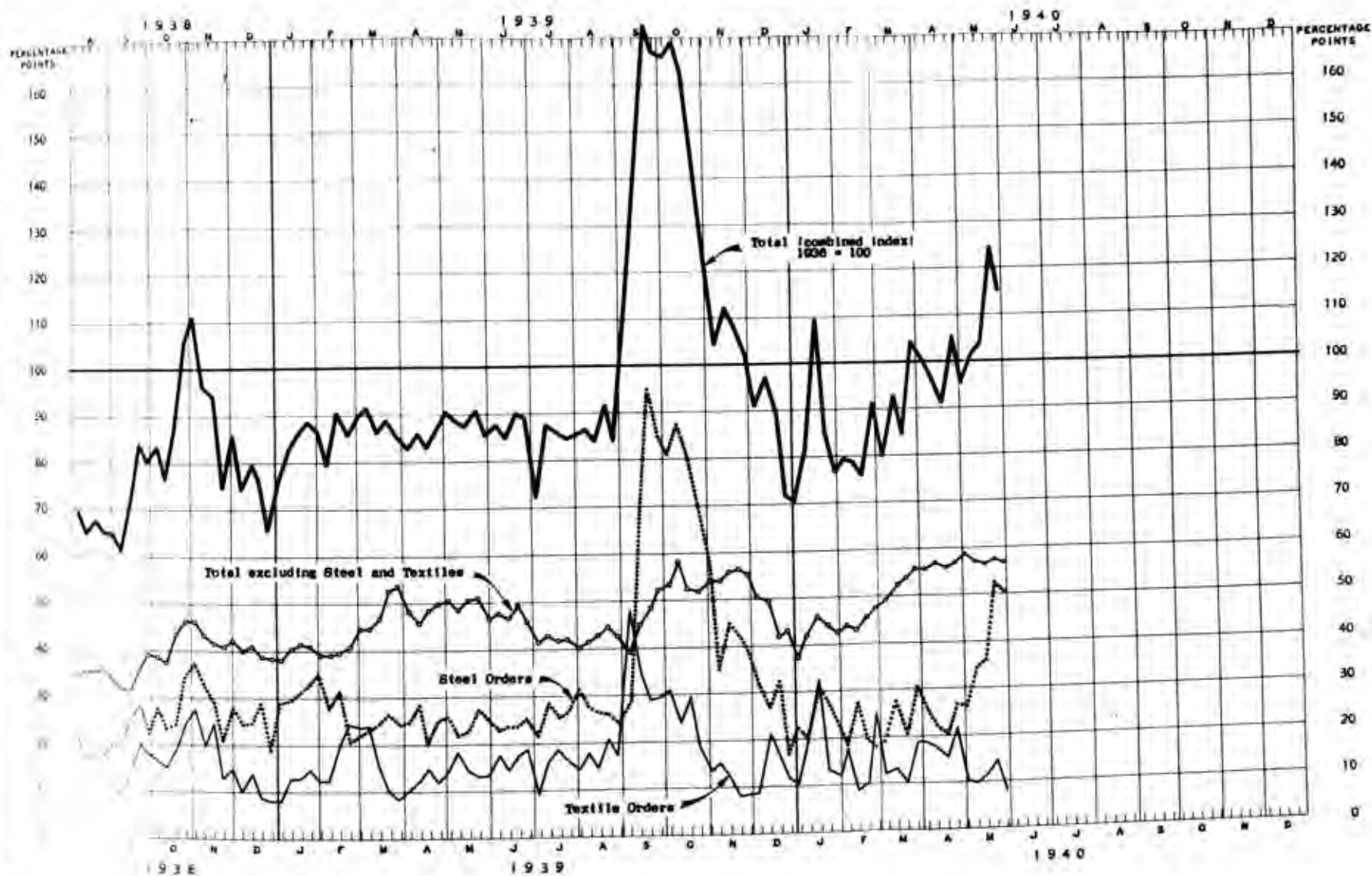
Daily Futures*



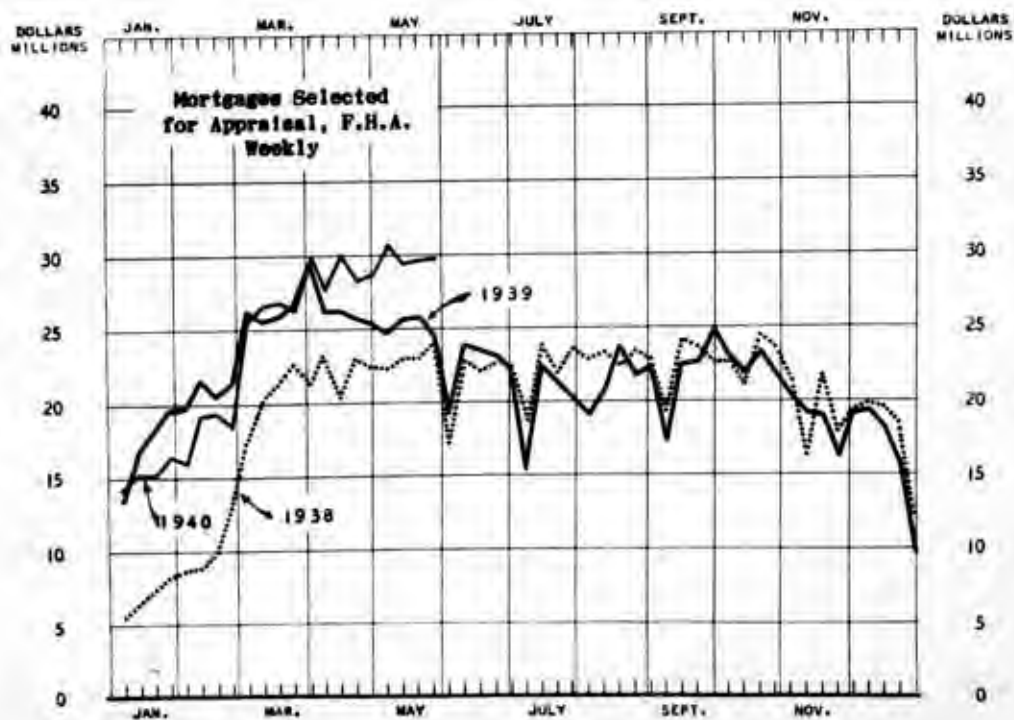
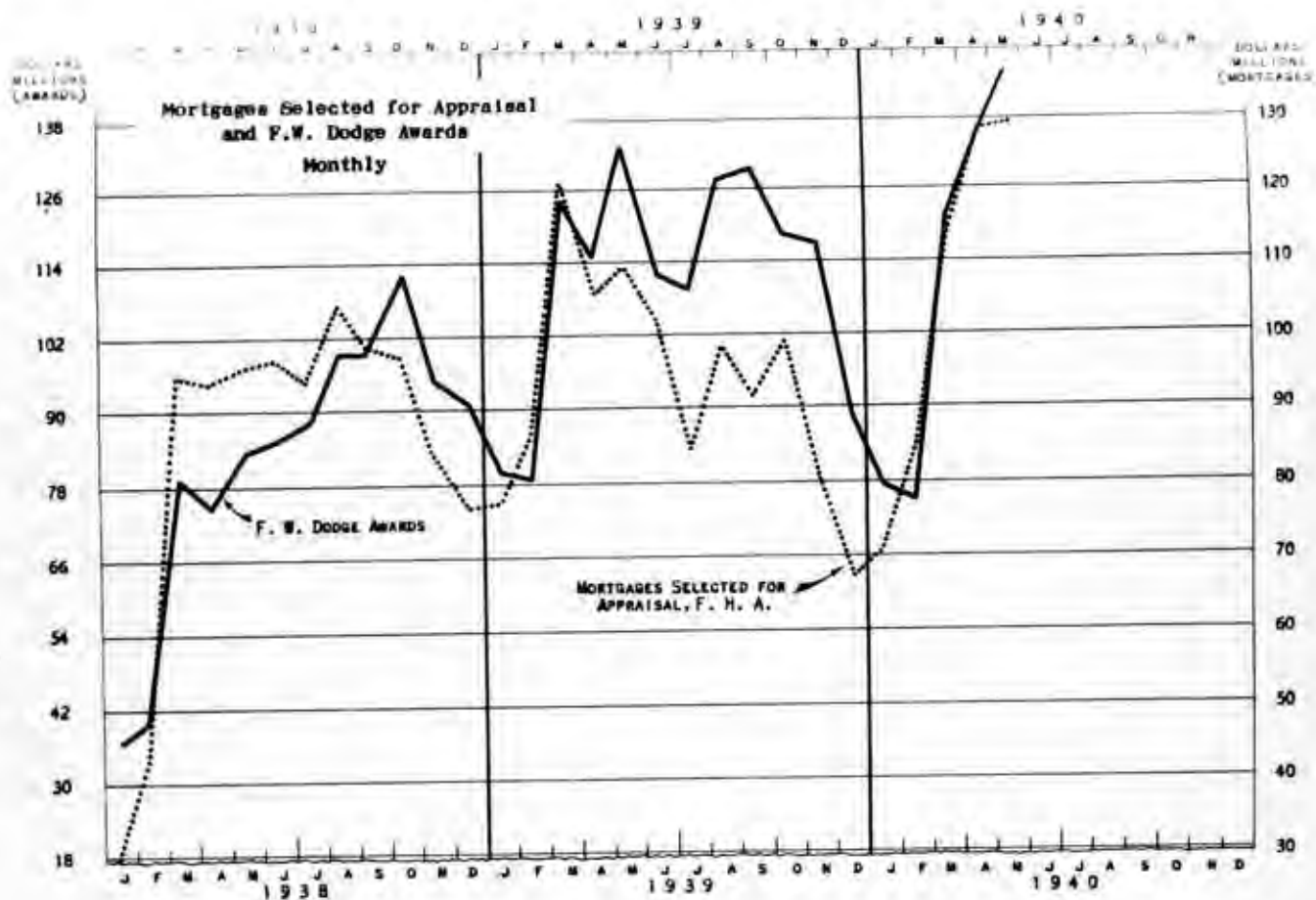
DOMESTIC SALES OF COPPER AND INDUSTRIAL PRODUCTION



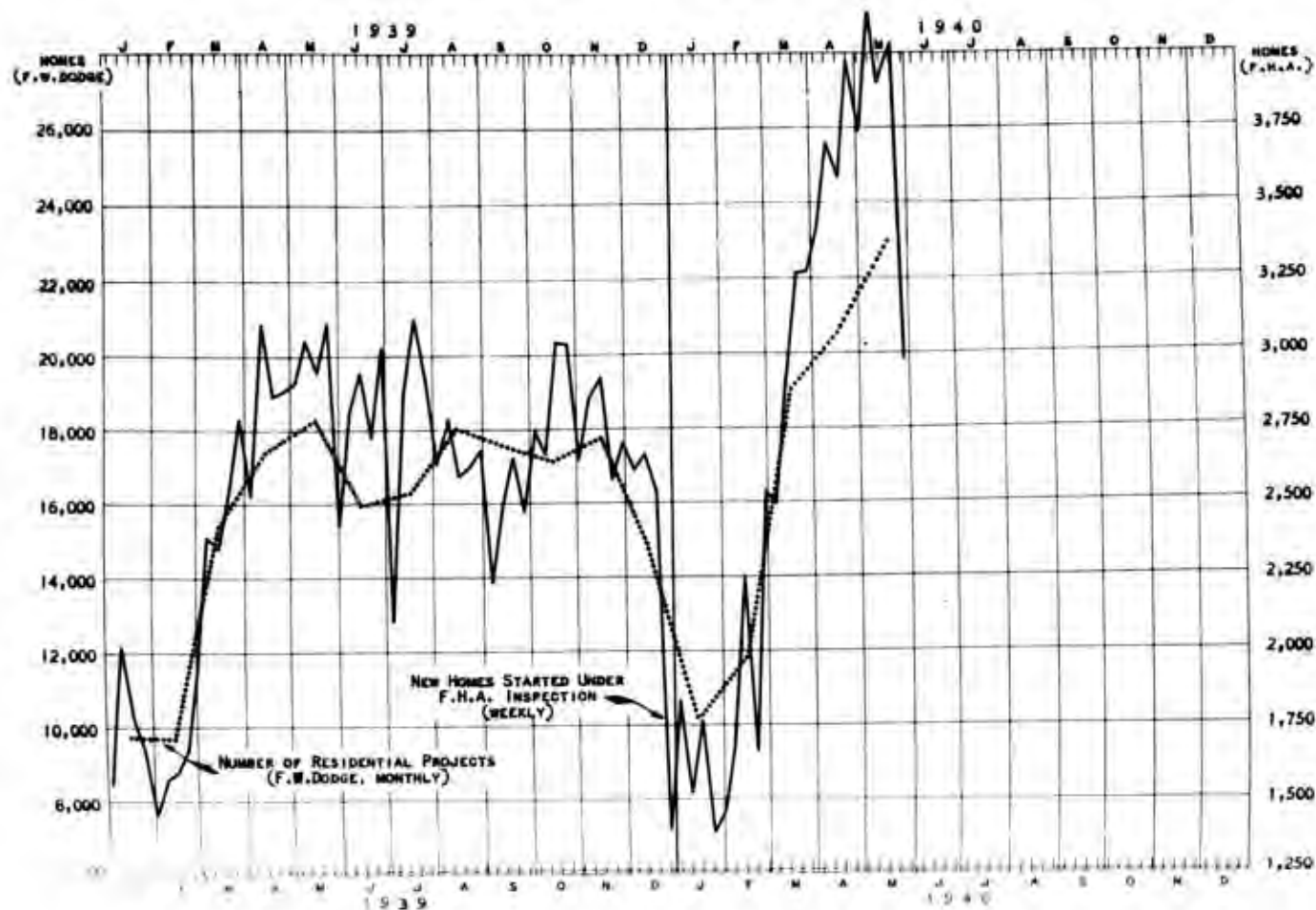
INDICES OF NEW ORDERS Combined Index of New Orders and Selected Components



RESIDENTIAL CONTRACT AWARDS AND F.H.A. MORTGAGES



RESIDENTIAL AWARDS AND F.H.A. HOMES STARTED



June 10, 1940

Preso. (Conference) 6/10/40

Tax Resolution entirely
acceptable ~~to Pres and~~
~~myself~~ and most
pleasing to Pres and
myself.

June 10, 1940
9:30 a.m.

GROUP MEETING

Present: Mr. Graves
Mr. Cochran
Mr. Nelson
Mr. Gaston
Mr. Haas
Mr. Schwarz
Mr. Foley
Mr. Thompson
Mr. White
Mr. Sullivan
Mr. Harris
Mr. Viner
Mr. Young
Mrs. Klotz
Mr. Bell

H.M.Jr: Herbert?

Gaston: I think I haven't anything this morning.

H.M.Jr: Mr. Bell isn't here yet. Nothing, Herbert?

Gaston: Nothing important, I think.

H.M.Jr: The Navy got that done.

Gaston: The Navy did?

H.M.Jr: On the other side.

Gaston: You telegraphed them, did you?

H.M.Jr: Yes.

Gaston: He told me the Army was taking care of it.

H.M.Jr: The Army delivered eleven to LaGuardia Field and somebody in the State Department found out it was highly illegal, so you can check this off.

Gaston: Fine.

H.M.Jr: Ed?

Foley: I have nothing.

H.M.Jr: Good.

Nelson: I have a number of things. Do you want to take them up here?

H.M.Jr: I will tell you what I can do. I can see you at 10:30.

Nelson: That will be fine, sir.

H.M.Jr: Phil, are these things - do these things affect both of you?

Nelson: Yes, sir, two of them do.

H.M.Jr: Supposing I see you first, then.

Nelson: All right, sir.

H.M.Jr: Well, I phoned the President last night, Ed and John, and read him this resolution. He hadn't read it and he was simply delighted. John did a wonderful job on the Hill Saturday. He brought home two bacons. Right?

Sullivan: Senator LaFollette isn't delighted.

H.M.Jr: And I am going to say - you people think this over this afternoon. Chick has suggested some way to ask me the question of how I like this resolution. The tax resolution is entirely acceptable and most pleasing to the President and myself. Herbert, is that all right?

Gaston: It sounds all right, yes.

Sullivan: Senator LaFollette last week wrote us a letter and asked us for information. It will take us somewhere between four and six weeks to get it.

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H.M.Jr: Make it months.

Sullivan: It is tremendous.

H.M.Jr: Well, I mean it. Really, I would. And then I understand in one of the papers this morning he had a statement that if the Treasury got him that information, he would be able to introduce an excess profits bill this week.

(Mr. Bell entered the conference).

H.M.Jr: You are not cutting us, are you, Dan?

Bell: What?

H.M.Jr: Didn't you know there was going to be a meeting?

Bell: Yes, but they had me on the telephone. Sorry.

Sullivan: So we lost a job for him.

H.M.Jr: A little weakish, are you? Did you have a bad day yesterday?

Sullivan: I just slept all day.

H.M.Jr: So that is what was the matter. I have got to tell a good story on Ed. Do you mind if I tell that story on you, Ed?

Foley: No, go ahead.

H.M.Jr: We got a telegram, an answer to the one I sent for the President in regard to having a little trouble getting these bombs for these fifty ships, giving the authority to go ahead and last night Ed says that "I just want you to know, Mr. Secretary, that I have given out a ruling that a bomb is an appurtenance to a ship and I did it before I saw the President's telegram." He just wanted to be on record that he was before Chicago, not after. He knew it was funny when he did it. It was all right. We get these rulings before the telegrams and afterwards.

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Nelson: Does the man who makes the ruling go to jail, Mr. Secretary?

H.M.Jr: Oh, absolutely. You know, on an income tax you have got to have your lawyer sign it as well as your accountant. Merle?

Cochran: The French stock market closed this morning after just an hour in trading for the first time since the war began and the report is that they will move it out of Paris very shortly. The Government is still functioning.

H.M.Jr: Incidentally, I gave you something Thursday night to translate.

Cochran: I know.

H.M.Jr: I never got it.

Cochran: I will give it to you today.

H.M.Jr: Are you all right?

Cochran: Yes.

H.M.Jr: I did get your envelope Sunday. What is it, anyway, a list of stuff they want?

Cochran: No, it is on that trip of Monet's here a year ago. It is old stuff. It is just for the record. I have a couple of telegrams that I told you about Saturday. I have the other one. I don't know whether to give it to you or hold it. It is a long one.

H.M.Jr: Why don't you stay behind a minute?

Cochran: All right.

H.M.Jr: Philip?

Young: I have no problems.

H.M.Jr: At eleven o'clock we are meeting with the Federal Reserve, and I have asked Mr. Jones to sit in on financing. Dr. Viner, will you be here, and Haas, please.

Haas: Yes. Do you want to give that out, Chick?

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Schwarz: No, but they will be up here.

H.M.Jr: Well, it is to discuss financing.

Schwarz: Federal Reserve will tell them. I have one matter I would like to see you about after the meeting.

H.M.Jr: All right.

Bell: It is not, however, an open market.

H.M.Jr: No, it is Federal Reserve Board.
George?
(Mr. Haas handed report to Secretary.)

H.M.Jr: George, if the report comes in on how many engines Allison turned out last week, put that in my own hands, will you? I am just curious. Don't wait to make up this whole chart, see, just give it to McKay if the Allison one comes in.

Haas: The deliveries for last week?

H.M.Jr: Yes. Who does that come to?

Haas: It is probably already in now.

H.M.Jr: I am very curious. If you could go back as far as you have it by weeks, I would like to have it. Do you have each week since the first of January?

Haas: I haven't got it back there.

H.M.Jr: As far back as you have got it by weeks.

Haas: Fine.

H.M.Jr: Basil? Basil, did you get in on this thing that Nelson --

Nelson: I am going to bring him in on it this morning.

H.M.Jr: These 14 or 15 ships on the Black Sea.

Nelson: Yes, sir, I want to see Mr. Harris about it this morning.

H.M.Jr: Incidentally, if I was on the Maritime Commission and had 14 or 15 ships up in the Black Sea, I think I would have something on my conscience, wouldn't you, Basil?

Harris: No, I don't think so.

H.M.Jr: You wouldn't?

Harris: No.

H.M.Jr: Wouldn't you be worried?

Harris: Not if they - unless they were big ships.

H.M.Jr: How are they going to get them out?

Harris: Well, they will come along. If you get an outbreak in the Mediterranean, that doesn't mean she is going to be closed in ten minutes. I don't think they will touch any American ships there.

Nelson: They also think they can get them out through the Suez.

Harris: That is always an alternative.

Nelson: It is the long way around.

Harris: There was a broadcast - I didn't hear it but somebody told me and I am trying to check up on it - the other night in which Mussolini said that no American ships had any need to be worried about coming into Italian ports, that they were perfectly safe. It didn't give any guarantees, however.

Viner: That sounds awfully dangerous.

Gaston: Your stuff is welcome as long as you will ship it.

H.M.Jr: Anything else, Basil?

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Harris: No.

H.M.Jr: Harry?

Harris: I would like just a second, if I could, after the meeting is over.

H.M.Jr: Sure. Harry, this is on this Josh Lee business that you were evidently in on it. Would you mind reading this some time today?

White: You may be interested in the results of our first compilation of the inventory reports of Norwegian and Danish balances here. They show that our estimates, which are based on the Commerce estimates, are too low. In other words, they have substantially more security holdings than we had record of. In the case of Norway and Denmark, it is not very important quantitatively, but if the same thing holds true with regard to Dutch, Swiss and French accounts, there is a good deal more here than we had thought of. We will know shortly.

Bell: I would like to know - and to the Minister to those countries when they request it. The Norwegian Minister has asked for a copy of the analysis.

H.M.Jr: You are living with this, Dan. If that is what you think --

Bell: I think it ought to be sent.

H.M.Jr: All right, Dan. You are living with it and I am not. If you think that it's proper, all right.

Bell: I do.

H.M.Jr: All right.

White: You may have noticed a telegram from Esthonia last week.

H.M.Jr: A little louder, Harry.

- 8 -

White: You may have noticed a telegram with respect to the Russian holdings on the foreign exchange --

H.M.Jr: From Wiley? There was a very good cable from Wiley.

White: Wiley, that is it.

H.M.Jr: It was a very good cable.

White: Then there is one that just came in from Berlin indicating a very drastic curtailment of the information which can go out for letters to belligerent companies which may be significant.

H.M.Jr: I just happened to read those by accident.

White: I see. The Chinese Exchange situation is much better than I had hoped for, so your action was not --

H.M.Jr: The longer I live with the Chinese, the more I am amazed at their resiliency. It is simply amazing.

White: You know they had one of the greatest victories in the war last Sunday. There was no notice in the American papers. It was very important.

Harris: When was that, Harry, recently?

White: The battle actually took place, I think, around May 8th or 10th.

Viner: Were any of our Chinese observers there?

White: I don't know. They do have military attaches on both sides.

H.M.Jr: Harry, has anybody found out whether those six hundred and some odd trucks which were tied up in Indo-China belonging to the Universal Trading Company ever got out?

White: You made inquiry, didn't you, and they promised to send that. They promised to take care of it.

I will find out.

H.M.Jr: And then while we are at it, how much merchandise - Chinese merchandise is in Indo-China awaiting shipment and what proportion of it belongs to the Universal Trading.

White: I heard a rumor that the funds for the Chinese on that last loan were going to be held up. Did you hear that?

H.M.Jr: No. But would you get the tonnage?

White: I will do that.

H.M.Jr: And what proportion of it is Universal Trading.

White: Yes.

Foley: I think Marsh is going to be here today.

H.M.Jr: Anything else, Harry?

White: That is all. The plans and proposals with regard to Latin America are moving along. Nothing decisive or important on it.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: Nelson, would you take over and talk over about that professor from Harvard, talk it over with Harold?

Nelson: Yes, sir. We were discussing the other man this morning.

H.M.Jr: Professor Lewis.

Nelson: Yes, I have a clipping on my desk.

H.M.Jr: And then the other thing that Ed Foley talked about last night, Ralph Straus, Vice-President of Macy's would like to

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resign from Macy's and come down here and help.

Nelson: He is a very good man.

H.M.Jr: He is in charge of buying, I think.

Nelson: I know him very well.

H.M.Jr: Would you think about it?

Nelson: Ralph or Jack?

H.M.Jr: No, it is Jack.

Nelson: I know both of them.

H.M.Jr: Would you think about it?

Nelson: I will, sir.

H.M.Jr: You might talk about it at ten thirty as to whether you want --

Nelson: We are looking at a man. Mr. Graves is having a man come in at ten o'clock whom he thinks is worth considering for this committee work, so he will be in at ten and --

H.M.Jr: Well, I was thinking more of Straus. There is a possibility he wants - he wants to come down permanently.

Nelson: Oh, he does?

H.M.Jr: Yes, he is ready to resign from Macy's and come down permanently.

Nelson: He is a very good man.

H.M.Jr: All I know of him, I crossed on the steamer with him once a couple of years ago. He seemed very serious and quite social minded, but how good a business man he is I don't know.

Nelson: He has a good reputation.

H.M.Jr: Is he on the merchandising end?

Nelson: Yes, sir.

Foley: He was on the committee, Mr. Secretary, that reorganized purchasing for LaGuardia.

Nelson: That is why I thought of him in this connection.

H.M.Jr: Was it him?

Foley: Yes.

Nelson: They had a representative of New York Central and a representative of Macy's, and a representative of another store.

H.M.Jr: Well, they are bringing down the New York Central man.

Nelson: Bringing him down for Stettinius?

H.M.Jr: If Straus was on that, you could try him out on this committee. If you liked him, we might keep him.

Foley: They are the ones who put - what is his name, Forbes?

Nelson: Yes.

Foley: They found Forbes for LaGuardia and put him in charge of purchasing for New York.

H.M.Jr: Well, I throw it at you. You can throw it back at me at ten thirty.

Nelson: All right, sir.

H.M.Jr: Are they doing a good job in New York City?

Nelson: They are, I think.

Klotz: They are.

H.M.Jr: Have you heard about it?

Klotz: Yes.

H.M.Jr: Anything, Harold?

Graves: No.

H.M.Jr: When you have that increase for that man, I want to give it to him.

Graves: Yes. I am waiting to see Mr. Helvering about it.

H.M.Jr: Dan?

Bell: Can I get your approval of the new investment for the old age?

H.M.Jr: How much is it, Dan?

Bell: One hundred forty-two million.

H.M.Jr: Okay. These Civil Service fellows have got a hundred and forty-two million.

Bell: Archer M. Huntington who left quite a large trust to the library trust fund has resigned as trustee and he has also waived his right to appoint a successor, so according to the terms of the trust, the Board has to appoint a successor and this is a letter recommending one.

H.M.Jr: Would you find out how much stock of the Newport Shipping Company we have?

Bell: That is this trust.

H.M.Jr: Yes.

Bell: I think that is the reason this fellow is resigning. Huntington didn't like the way it was operating so he resigned to not only the trust, but waived his right to appoint a successor.

H.M.Jr: Well, would you find out - I know we are one of the largest stockholders, and I am interested to see what we get out of it.

Bell: Yes.

H.M.Jr: And I am talking about the Library of Congress funds.

Bell: That is all.

Thompson: I have nothing.

Bell: I am going to the Capitol.

H.M.Jr: You are?

Bell: Yes.

H.M.Jr: Norman, you know the President sent me back a letter saying he would relieve me of the responsibility on the planes. I would like every person to get a copy of that who got the one where I said - I wrote them first. I want them to get a copy of it and then when this comes back, would you send them a copy or a photostat?

Thompson: I think a photostat.

H.M.Jr: I want every person on that list showing that I am relieved of that responsibility and in the case of the Army and the Navy, I would like to write a letter to the Secretary of War and Navy thanking them for the excellent cooperation given me by Brett and Kraus, something that would help them in their records. All right, gentlemen.

June 10, 1940.
12:15 p.m.

GROUP MEETING

Present: Mr. Gaston
Mr. Haas
Mr. Thompson
Mr. Young
Mr. Cochran
Mr. White
Mr. Foley
Mr. Graves
Mr. Sullivan
Mr. Nelson
Mr. Bell
Mrs. Klotz
Mr. Viner

H.M.Jr: I suppose you have all heard the news.

Gaston: Yes.

H.M.Jr: Now, are your regulations on Italy ready for me to sign?

Bell: They are ready.

H.M.Jr: Well, I am ready.

Bell: I think it is a question of what we want to do now, how much we ought to take in. I was just talking to Berle, and he thought we had to have a conference right away.

H.M.Jr: Nuts to a conference. Go the whole hog.

White: We have the papers drawn up for the whole Eastern Hemisphere or for the whole of Europe.

H.M.Jr: Why the whole Hemisphere?

Foley: They might use Russia to bring the stuff out.

H.M.Jr: Do Italy now and we will talk about the rest. You can always add them.

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Bell: How about Germany, Czechoslovakia, and Poland?

H.M.Jr: Bell, haven't you thought all of this stuff through?

Bell: Well, we have got those matters of policy that we haven't been able to decide.

H.M.Jr: Why didn't somebody put it up to me? We have talked about this thing - every day they were going on the fourth of June. Bullitt said they were going in and ever since then I thought the papers had just been ready to put on my desk.

Bell: We have got drafts that are all ready to sign and this is a matter of policy which we couldn't decide.

H.M.Jr: No one has put them up to me. I didn't know there was any question.

Bell: I think I asked you one morning in the car whether we should include Germany.

H.M.Jr: If you did, it didn't ring the bell.

Bell: I just thought we ought to call a meeting. It doesn't take long.

White: We have already discussed this, and Mr. Bell went over it and the agreement at that time was that they thought that the next opportunity which came, which would be provided by Italy, would be the moment.

H.M.Jr: That is all very nice, but why didn't somebody say to me, "I want to sit down and talk this thing over."

Foley: Mr. Secretary, Italy isn't being invaded. If we follow the policy we have been following up to now and include in the freeze only countries that are being invaded, we couldn't include Italy now. We have been saying that the first opportunity we got, we would sit down and enlarge this thing to go beyond invaded countries. I think we ought to include all of Europe, and I think that a

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lot of other people in the Treasury share my feeling, but I think that we have to have a meeting with the State Department in order to do that, and I would be willing to see it go beyond that. I would like to see it include Asia to take care of the Japanese-Chinese situation, and I think if we are going to do that, this is the time to do it, because we are going beyond where - we have gone so far, namely, limiting it to the countries that are invaded.

Bell: It is a departure in the policy and I don't see how you can leave Berle out of it.

White: I think if Danny could call a meeting right away with Berle, we could ascertain the State Department's wishes within a very short time and the papers are all ready. Whichever way they decide, the papers are ready.

H.M.Jr: Well, if you could call a meeting so that - I have got to decide on this thing, you see, and - those who were here with me be here at two-thirty so between two-thirty and three we will decide. I have got a press conference at three. Then at three-thirty I will be ready to - if you fellows will have a meeting earlier --

Bell: On this other thing?

H.M.Jr: Yes.

Foley: Yes.

Bell: Is the President going away?

H.M.Jr: I just came back from there. This place is an oasis compared to that place. His speech isn't even written, not finished. They got me so excited over there because everybody just - well, I mean he is leaving at two to go down to Charlottesville and he isn't ready. He will be back tonight. He signed this thing. I got in to see him. He gave me all the time I wanted. But I want to talk at two-thirty on financing

and I have got press at three and at three-thirty I will be ready to see you fellows, but please do it, and have Jerome Frank sit in on this.

Bell: We will be ready by that time.

H.M.Jr: Have Jerome Frank, will you?

Foley: As far as sending out telegrams is concerned, Mr. Secretary, we have to wait until the President amends the neutrality proclamation to add Italy as a belligerent.

Gaston: I suppose the State Department will get that signed before the President goes.

H.M.Jr: Well, will you watch that, Herbert? That is your baby, you and Basil. Where is Basil? That doesn't look like Basil sitting there.

Viner: Well, it is though.

H.M.Jr: He must have shrunk.

Nelson: I guess maybe I am responsible, Mr. Secretary. He is looking up right away whether there is one boat in the Mediterranean that isn't loaded, and he is helping try to get that --

H.M.Jr: Now - excuse me, are you through?

Nelson: Yes, sir.

H.M.Jr: On the tax bill, you are not to go up to the Hill. Pat Harrison has just called me in the last ten minutes, first for you (Sullivan) to go up tomorrow, and then he called back that I am to open it on Wednesday. Why, I don't know. So you go home.

Sullivan: No, I am on call this afternoon in the House. Thank you just the same.

H.M.Jr: Well anyway, is somebody going to give me a speech?

Sullivan: Yes.

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H.M.Jr: There are two things I want to include in that talk. I want to say the thing on tax exempts and I want to say something about 10%. I am not going to let these fellows say, "Aren't you saving any money?" So let's find out what the budget position is and adopt it if it is any good.

Sullivan: Shall we send your statement and the President's in response to the inquiry of Governor Sulzer?

H.M.Jr: I don't know what it is.

Sullivan: The President sent to you for preparation of a reply for his signature a letter from Governor Sulzer recommending the taxation of interest on all Government securities.

H.M.Jr: Former Governor Sulzer of New York?

Sullivan: That is right, so are we to give the President for his signature a reply which embodies the statement you are going to make?

H.M.Jr: Sure.

Sullivan: That is easy.

H.M.Jr: Governor Sulzer, when he was Governor, was given a dinner and my father got up and made a speech at the dinner given Governor Sulzer and he said, "The trouble with you, Governor, if your backbone was only not your wishbone, we would have a better administration in the State of New York." A great guy. I didn't know anybody could answer him. Well, Dan, two-thirty?

Bell: Yes.

H.M.Jr: I see that the thing is a little different, isn't it? A country being invaded is different than a country being the invader. That makes a difference. Okay. Anybody want to ask me anything?

Merle?

Cochran: We still have something on France as of Saturday noon. Leroy-Beaulieu was in late. He raised the question then as to perhaps a partial blocking of France, which I hadn't gotten to tell Dan about, by departments instead of the whole country.

Bell: Well, we ought to block them all.

H.M.Jr: Wasn't it Belgium or Holland who asked us to do it by provinces?

Bell: I think we have to block the whole thing and then issue general licenses for anybody out of the line.

Gaston: You might just have a general exchange control as to all countries and then issue general licenses for South and Central America and so on.

H.M.Jr: At this meeting this afternoon - are you through, Herbert?

Gaston: Yes, sir.

H.M.Jr: At this meeting this afternoon, your early one, ask Mr. Welles to come to the thirty-three. I want Sumner Welles here.

Bell: And Berle too?

H.M.Jr: And Berle too. And Hackworth.

Cochran: There is a big spread in the Sterling quotation this morning.

H.M.Jr: And Hackworth.

Bell: All right.

H.M.Jr: Sure, and why not have Feis? You have always got to have a minority. Let Herbert Feis come in. I would like to have him make a record on the Stenotype. He was here a year ago or something when we were taking a record, and he said,

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"Throw that blankety blank machine out the window." He said, "How can I talk with that machine there?"

Gaston: I have a suggestion. Let's bring in three Stenotypes and compromise on one.

Viner: And have them arranged right in front of him.

H.M.Jr: All right, gents.

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TREASURY DEPARTMENT

WASHINGTON

June 10, 1940.

MEMORANDUM FOR THE SECRETARY:

The Italian Steamship ARSA which was scheduled to sail from New York for Rome, Italy, on June 8th, and which is being detailed on instructions of the Italian Government, is carrying 732 bags of wolfram ore.

Incidentally this is the ship on which we are holding up 300 tons of rubber on request of the State Department.

Basil Harris

June 10, 1940
8:32 a.m.

Earle
Baillie: I'm quite sure.

H.M.Jr: Well, it would be a note.

B: It would be a note.

H.M.Jr: Yes.

B: Ah --

H.M.Jr: It would be sweet enough to carry plenty of margin.

B: If it were sweet enough to carry plenty of margin and it was a note, I would do it.

H.M.Jr: You would.

B: Yeah. I'd do it and these are the reasons I'd do it.

H.M.Jr: Yeah.

B: For you to use cash at the present moment will disturb the business community.

H.M.Jr: Will it?

B: I think it will.

H.M.Jr: Why?

B: Because they'll feel that you feel you can't do a note.

H.M.Jr: Uh-huh.

B: A few weeks ago they would have thought it showed how strong you felt. But with this great program standing up in front of us for you to draw down against that program, I think, would cause worry rather than comfort.

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H.M.Jr: I see.

B: That would be using your what you -- I would think of as your ultimate reserve -- your cash.

H.M.Jr: Yeah.

B: Therefore, I'd make it sweet as the devil and

H.M.Jr: Sweet as in honey.

B: And I -- yeah. Exactly. Honey is the word I said -- sweet as honey -- and I'd just let her go because I think the banks will support you.

H.M.Jr: I see.

B: I was just talking to my boys outside here, for instance, about municipal bonds.

H.M.Jr: Yeah.

B: Well, they say that at the new levels they'll be eagerly taken.

H.M.Jr: I see.

B: Ah -- now that wasn't true even a week ago. It maybe it may not be true by the end of today.....

H.M.Jr: Yeah.

B: but, Henry, what right have we to suppose that the news one week, two weeks, or three weeks from now will be better.....

H.M.Jr: That's right.

B: and that's my second point. Then you may very well have to take rather unsuccessful offerings once in a while. Well, gosh, you've got a wonderful record of success to back it up and I'd do my business as usual. I believe people will back you up.

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H.M.Jr:

Well, I wanted to get your reaction, and you've given it to me.

June 10, 1940
9:03 a.m.

H.M.Jr: Hello.

Operator: Dudley Mills.

H.M.Jr: Hello. Dudley Mills?

Dudley Mills: How are you, sir?

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

M: Very well, thank you.

H.M.Jr: Dudley, if you should be so unfortunate as to happen to be working for the Government -- ah -- would you do a refunding today?

M: I would, sir.

H.M.Jr: You would?

M: Yes, sir.

H.M.Jr: Uh-huh. What are your reasons?

M: I would do it.

H.M.Jr: What are your reasons?

M: What are my reasons?

H.M.Jr: Yeah.

M: Well, I think that if anything, the situation is going to get worse, and you'd better do it.

H.M.Jr: Un-huh.

M: I would -- it's a small amount, only \$350 million, and I would bring out a December '44 note at one and an eighth.

H.M.Jr: December -- what's that?

M: I would bring out a December '44 1-1/8.

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H.M.Jr: December '44, 1-1/8.

M: Yes, sir.

H.M.Jr: I see.

M: I really feel that this market has stood up very, very well through this whole thing, sir. It has stood the difficulty with the Belgian King, it has stood up under that terrific battle in Flanders, it has stood up under this close approach to Paris, and I believe that it would take the \$350 million.

H.M.Jr: Uh-huh.

M: And I think it would inspire confidence for you to do it, sir.

H.M.Jr: How many days do I have to leave the thing open?

M: Two days.

H.M.Jr: Two days. Uh-huh. Well, you've given me what I want, I mean -- I mean, not the -- you've given me the information that I wanted.

M: I'd do it, sir. I just feel that as time goes by you'll have to get higher and higher rates.

H.M.Jr: Uh-huh.

M: It looks that way now and I think to do it and have it over with is -- I think it will show courage and I think it would inspire confidence in the market.

H.M.Jr: How much -- what do you think the December '44 1-1/8 would sell at?

M: Well, I have the yield right in front of me here, sir. At a 1% basis which would be a par 17, a 1.05 basis would be par 10.

H.M.Jr: So from -- from -- you think there's from 10/32nds to

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M: 17.

H.M.Jr: to 17.

M: On the '40-43's I might say we haven't got any so we're not -- I'm not speaking from

H.M.Jr: Yeah.

M: disposition. We haven't -- I think we've 17,000 or 12,000.

H.M.Jr: I see.

M: I think that note would pay up above 10 and as high as 17/32nds.

H.M.Jr: I see.

M: And the banks will be glad to take them, sir.

H.M.Jr: They would. O. K.

M: Thank you very much, sir.

H.M.Jr: Good-bye.

M: Good morning.

H.M.Jr: Thank you.

M: Good-bye.

June 10, 1940.
9:14 a.m.

H.M.Jr: Hello.

Operator: Mr. Devine hasn't come in yet. They expect him shortly.

H.M.Jr: Well, find out if Mr. Eccles is in town. I'd like to talk to him, if not, who is there -- who's in charge.

Operator: All right.

H.M.Jr: If Eccles is not there -- what's the name of the man from Atlanta? Ransom -- Ronald Ransom.

Operator: Right.

H.M.Jr: If Eccles isn't there, Ronald Ransom.

Operator: All right.

9:15 a.m.

H.M.Jr: Hello.

Operator: Mr. Devine.

H.M.Jr: Hello.

Mr. C. J. Devine: Good morning, Mr. Secretary.

H.M.Jr: How are you?

Devine: Fine, thank you. How are you?

H.M.Jr: Chris, if you were so unfortunate as to happen to be working for the Government

D: What's that?

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H.M.Jr: If you happened to be as unfortunate as I am and had to work for your Government

D: Yes, sir.

H.M.Jr: would you do a refunding today?

D: Ah -- I'd like -- I'd like to think about it a little while.

H.M.Jr: Well, that's all right.

D: I'd like to think about it.

H.M.Jr: Think about it and call me back on DIstrict 2626.

D: On DIstrict 2626.

H.M.Jr: Think about it and call me back.

D: Yes, I'd rather do that. I wouldn't want to make any snap judgments.

H.M.Jr: Fair enough.

D: All right, sir.

H.M.Jr: Call me back, please.

D: Yes, I will. What time -- any special time?

H.M.Jr: Well, I'd say around 10 -- 11:30 your time?

D: 11:30 our time. Yes, Mr. Secretary.

H.M.Jr: Right-o.

D: Thank you.