

DIARY

Book 371

February 8 - 11, 1941

- A -

	Book	Page
Ammunition		
See War Conditions: Ordnance		
Appointments and Resignations		
Houghteling, James L.: Anticipated duties in Treasury discussed by 9:30 group - 2/10/41.....	371	49

- B -

Bloch-Laine, Mr.		
Present whereabouts discussed by 9:30 group - 2/10/41.....		53,163
Bruce, "Red"		
See Financing, Government: United States Savings Bonds		
Buckley, James C.		
Resume' for week - 2/10/41.....		133
Business Conditions		
Haas memorandum on situation for week ending February 8, 1941.....		111
Butterworth, Walton W.		
To be associated with Wayne Taylor in Commerce Department - 2/11/41.....		163

- C -

China
See War Conditions

- D -

Defense Savings Bonds, United States
See Financing, Government

- F -

Financing, Government		
Debt limit bill passed by House: Newspaper comment - 2/10/41.....		96,97,98
Testimony before sub-committee of Senate Finance Committee discussed by HMJr, Bell, Sullivan, Schwarz, Haas, and Kuhn - 2/11/41.....		184
a) Draft of statement.....		197
b) Reading draft - 2/12/41: See Book 372, page 31		
United States Savings Bonds: New defense series discussed by HMJr, Graves, Bell, and Kuhn - 2/11/41..		206
a) Ned Bruce-HMJr conversation.....		246
b) Administrative set-up discussed by HMJr, Graves, Bell, and Kuhn - 2/11/41.....		225
French Indo-China		
See War Conditions: Indo-China, French		

- G -

Book Page

Greece
See War Conditions: Airplanes

- H -

Houghteling, James L.
See Appointments and Resignations

- I -

Indo-China, French
See War Conditions
Inter-American Bank
See Latin America

- L -

Labor, Department of
HMJr assigns car for use of Second Assistant
Secretary Tracy - 2/11/41..... 371 256
Latin America
Inter-American Bank:
State Department announces adherence of nine
countries, including United States, to
convention for creation of Inter-American
Bank - 2/8/41..... 11
Amendment cleared by D. W. Bell at staff
meeting limiting operations to those which
are guaranteed by participating government,
central bank, or other acceptable banking
institution..... 65
Lend-Lease Legislation
See War Conditions

- M -

Martha, Crown Princess
See War Conditions: Foreign Funds Control

- N -

Norway
See War Conditions: Foreign Funds Control

- O -

Ordnance
See War Conditions

Peacock, Sir Edward
See War Conditions: Purchasing Mission

Rifles
See War Conditions: Ordnance

Unemployment Relief
Work Projects Administration report for week
ending January 29, 1941..... 371 107
United Kingdom
See War Conditions
United States Savings Bonds
See Financing, Government

War Conditions

Airplanes:

Greece: Need for planes again discussed at
Cabinet meeting - 2/8/41..... 1,26
a) HMJr's conversation with Knox - 2/11/41.. 148,235
b) HMJr's memorandum to FDR - 2/11/41..... 153
c) HMJr-Berle conversation - 2/11/41..... 175

China:

Munitions to be manufactured by China in British
territory, probably India or Burma - 2/8/41... 12
Sterling arrangement as proposed by British
causes uneasiness: Doctor Soong tells State
Department - 2/11/41..... 19

Exchange market resume' - 2/8/41, etc..... 9,105,267

Foreign Funds Control:

Norway: Crown Princess Martha's account in United
States reviewed - 2/10/41..... 20,39

Indo-China, French:

Report on Japanese pressure and need of assistance
from Nicholson, Treasury Attache', Shanghai -
2/11/41..... 274

Lend-Lease Legislation:

Discussion at 9:30 meeting - 2/10/41..... 30
Agricultural products discussed by HMJr, Wiskard,
Cox, Buckley, and Haas - 2/10/41..... 68
a) HMJr's memorandum to FDR showing that bill
"clearly covers agricultural products" -
2/10/41..... 82

Copy of bill showing amendments suggested by House
Foreign Affairs Committee, and amendments adopted
on floor of House - 2/10/41..... 72

Action to be taken pending enactment of H.R. 1776:
HMJr's memorandum to FDR - 2/10/41..... 79

Editorial opinion summarized for FDR - 2/10/41..... 85

	Book	Page
War Conditions (Continued)		
Military Planning:		
War Department bulletin: "Comments of an American Unofficial Observer on the Fall of France" - 2/11/41.....	371	289
Ordnance:		
"Deal" involving 250,000 Lee Enfield rifles and 50 million rounds of ammunition has been arranged for between British Purchasing Commission, War Department, and FDR; no certificate being issued, no publicity, etc. - 2/10/41.....		29
Purchasing Mission:		
See also War Conditions: Lend-Lease Legislation		
Federal Reserve Bank of New York statement showing dollar disbursements for week ending January 29, 1941.....		5
Vesting order sales for certain Indian Government sterling loans - 2/8/41.....		10
Vesting order sales - 2/11/41.....		269
British Financial Position: Peacock (Sir Edward) calls on HMJr to discuss - 2/11/41.....		263
Security Markets (High-Grade):		
Current Developments: Haas memorandum - 2/11/41...		277
Shipping:		
Reconditioning of old ships: FDR lays down "rule of thumb" that not over 80% of cost shall be spent on reconditioning - 2/8/41.....		1
Land (Chairman, Maritime Commission) asked by FDR to assist in every way possible in carrying out United States shipping needs expeditiously and effectively. - 2/10/41.....		128
United Kingdom:		
Assets: Gold and dollar assets as of January 31, 1941, provided by British Purchasing Commission - 2/8/41.....		4,34
Work Projects Administration		
See Unemployment Relief		

February 8, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

SUBJECT: Cabinet Meeting, Friday, February 7, 1941.

Frank Walker brought in and read to the others, before the President arrived, a clipping attributing to an ancient Chinese philosopher the statement that intelligence had brought him nothing but grief so he would take care that his son should be ignorant and stupid so that he could wind up a successful career by being a Cabinet officer. After the others had enjoyed this, Walker took it in to Grace Tully and the President brought it out with him and read it with great glee.

The President said Wendell Willkie was enroute, with a tail wind, from Africa for Trinidad and that Harry Hopkins was to leave Lisbon on the 15th. He said Harry Hopkins had made a great hit with Winston Churchill, being so different, and he thought perhaps Winant would make a similar good impression.

There was talk of the need of doing something for Bob Reynolds, since it appeared that the vote on the lease-lend bill in the Senate Committee might be very close. The President had heard that the blockade on the Burma Road was very serious, that the Chinese seemed to have no capacity for straightening out tangles and dealing with unexpected obstacles, such as the destruction of a bridge. He asked if there wasn't supposed to be some American expert over there advising them, but nobody seemed to know.

Secretary Hull brought up the subject of planes for Greece, saying mildly that he hoped some way could be found to help them. The President had a suggestion to make. It was that the 30 old, single seater Grummans, which the Navy offered, should be turned back to the manufacturer, who would in turn sell them to the British for use in Africa. The British would find them useful in that area as dive bombers and then ought to be willing to give additional air help to the Greeks in Albania. He thought this ought to satisfy the Greeks. Hull did not pursue the subject further. However, Berle had been working actively during the day trying to devise a plan by which the Greeks could get at least 30 modern fighting planes, such as Airacobras or P-40's. Hull did say that it would create a bad impression in the Balkans if we disappointed the Greeks.

- 2 -

The President had sent back to you the order to abandon the International Ice Patrol for this year after first signing it and then scratching out his signature. I asked him if he wanted to discuss this and he said we ought not to abandon it since it would serve as a good blind for the use of vessels in the vicinity of Greenland. If we announced the discontinuance of the ice patrol we could not give that excuse for the presence of vessels in the North. I pointed out that it would be impossible for us to fulfil our obligation to broadcast useful information to shipping of all nations, as required by the International Convention, but the President adhered to his decision. Actually, of course, we won't be kidding anybody about what our ships are doing in the North. The newspapers carried a number of stories about the cutters that went to Greenland last summer and that these trips had nothing to do with the ice patrol.

I reported that apparently some pain was being caused the Army, the Navy and Jesse Jones' corporations because of inability to import strategic materials free of duty. I pointed out that the only authority we have to waive duty is a statute which exempts emergency purchases of war materials made abroad by the Secretary of the Navy and said that as to any particular shipment all that we would want would be a letter from the Secretary of the Navy stating that it was such an emergency purchase made abroad.

Bob Jackson objected to a price agreement between machine tool manufacturers entered into under the direction of O.P.M. He said it was in flat violation of the law. As far as we could go in that direction, he thought, was for Henderson to issue a statement giving a maximum fair price or for the War and Navy Departments to say that they would not pay above a certain price or prices. Jackson also said that State taxes of various forms, particularly on sales of materials, were going to add materially to the cost of contracts on the cost plus basis. The President suggested that we might find some way to discipline States that were too greedy through WPA. It was suggested the Treasury ought to be able to get up some data on the importance of this problem and I said I felt sure we could get information on tax rates. Jackson said that a bill ordering the deportation of Harry Bridges, by name, would be pressed in Congress again this year and he didn't think we would be able to prevent its passage unless we had a substitute. His idea was a bill requiring that officers and directors of labor unions shall be American citizens. During the discussion Jackson said that W. J. Cameron of the Ford Motor Company is illegally in the United States.

The President said that he had been talking to Dan Bell and Harold Smith about a Navy request for an appropriation for eighteen old ships, \$50,000,000 for the purchase and \$65,000,000 to recondition.

- 3 -

He had turned this down and had laid down a rule of thumb that not over eighty per cent of the acquisition cost should be spent on reconditioning. As to the big defense deficiency appropriation for the Navy, the estimates for which were a billion 4 millions, he told Forrestal it ought to be cut to just under 900 millions for psychological reasons.

Ickes read a memorandum from the Solicitor of his Department indicating that valuable oil resources were being drained from under two Army reservations. The Interior Department thought they had authority to enter into contracts to protect the Government's interest, but that Justice disagreed. After asking who was the Doheny in the case, the President expressed the opinion that an Executive Order might cure the situation.

Wickard talked about cotton for war uses and Jones about business conditions, transportation of rubber and the need of additional zinc smelting facilities.



COPY

Willard Hotel,
Washington,
8th February 1941.

Dear Mr. Cochran,

Playfair asked me to provide you with details of the British gold and dollar assets at January 31st 1941. The figures are as follows in comparison with the figures of a month earlier:

U. K. Gold and Dollar Exchange Assets

Millions of U. S. dollars

	Dec. 31, 1940	Jan. 31, 1941
Gold	292	154
Official dollar balances	54	116
*Private dollar balances	302	305
Marketable securities	616	562
Direct and miscellaneous investments	900	900
TOTAL	2,164	2,037

Assets not available:

Private dollar balances	302	305
Scattered gold	30	29
Other gold not available	21	6
Total not available	353	340
Total available	1,811	1,697

* Supplied by U. S. Treasury; December figure is revised, January figure provisional.

Very sincerely yours,

/s/ R. G. D. Allen

Mr. H. Merle Cochran,
U. S. Treasury,
Washington, D. C.

Copy:alm

February 8, 1941

CONFIDENTIAL

Dear Mr. Knack:

Permit me to acknowledge, on behalf of the Secretary, the receipt of your letter of February 6, 1941, enclosing your compilation for the week ended January 29, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank and the means by which these expenditures were financed.

Yours faithfully,

(Init.) H. M. C.

H. Marie Cochran
Technical Assistant to the Secretary

L. W. Knack, Esquire,
Vice President,
Federal Reserve Bank of New York,
New York, New York.

HMC:lap-2/8/41

Copy for Secy's files

Miss Chauncey

FEDERAL RESERVE BANK
OF NEW YORK

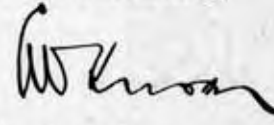
February 6, 1941.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. Merle Cochran

I am enclosing herewith our compilation for the week ended January 29, 1941, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Yours faithfully,



L. W. Knoke,
Vice President.

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

Enclosures

RECORDED
INDEXED
FEB 10 1941
FEDERAL RESERVE BANK
NEW YORK

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE			FRANCE			Net Incr. (+) or Decr. (-) in Balance
	DEBITS				CREDITS				DEBITS			CREDITS			
	Total Debits	Gov't Expenditures(a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Est.) (b)	Other Credits (incl. adj'ts)	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Gov't Expenditures(a)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	
1939															
Aug. 31 - Sept. 27	94.3	3.6	90.7	207.8	185.4	33.6	-11.8(d)	+113.5	19.4	6.0	13.4	11.3	-	11.3	- 8.1
Sept. 28 - Nov. 1	106.7	5.8	100.9	142.0	3.8	52.6	66.2(e)	+ 35.3	88.6	51.6	105.4	76.2	35.0	41.2	- 12.4
Nov. 2 - 29	191.7	8.9	182.8	105.2	57.8	25.0	23.0	- 85.9	78.6	-	-	82.9	55.1	27.8	+ 4.3
Nov. 30 - Jan. 3	97.7	8.7	89.0	75.2	50.6	14.2	10.4	- 22.5	66.8	36.1	50.7	109.2	93.9	15.3	+ 25.4
1940															
Jan. 4 - 31	54.6	16.9	36.0	43.4	30.6	17.8	5.0(f)	- 11.4	61.5	31.6	30.0	55.9	50.1	5.8	- 5.6
Feb. 1 - 28	124.2	15.4	108.8	108.3	56.7	17.9	33.7	- 15.9	72.7	32.8	39.9	71.5	54.8	16.7	- 1.2
Feb. 29 - Apr. 3	115.5	14.5	101.0	94.0	60.9	21.5	11.6(g)	- 21.5	99.6	35.9	63.7	105.0	75.4	29.6	+ 5.4
Apr. 4 - May 1	113.4	26.1	87.3	86.4	46.8	33.4	26.2(h)	- 37.0	64.8	29.4	55.4	78.7	60.7	18.0	- 6.1
May 2 - 29	100.9	23.6	77.3	126.2	93.2	7.1	25.9	+ 25.3	161.4	57.0	44.4	145.4	126.2	19.2	+ 42.0
May 30 - July 3	283.2	145.3	137.9	319.3	301.3	6.1	12.9	+ 36.1	256.7(i)	127.3(i)	29.4	345.1(i)	335.6	9.5(i)	+188.4
July 5 - 31	249.7	156.7	93.0	225.0	212.2	2.0	10.8	- 34.7	7.3	6.3	1.0	3.2	3.0	0.2	- 4.1
Aug. 1 - 28	261.1	180.2	80.9	294.8	257.4	1.0	26.4(j)	+ 33.7	8.9	0.5	8.4	10.9	10.4	0.5	+ 2.0
First year of war	1793.2	605.6	1187.6	1,209.2	1,356.1	211.2	260.9	+ 35.0	666.3	416.6	449.7	1095.3	900.2	195.1	+229.0
Aug. 29 - Oct. 2	316.8	244.3	72.3	308.9	271.5	6.0	31.4(k)	- 7.9	8.6	4.4	4.2	1.3	-	1.3	- 7.3
Oct. 3 - 30	196.7	167.8	28.9	198.8	150.5	6.0	32.0(l)	+ 1.8	0.5	0.3	0.2	0.5	-	0.5	-
Oct. 31 - Nov. 27	241.0	201.1	39.9	259.5	210.0	18.0	31.5(m)	+ 16.5	0.8	0.1	0.7	0.7	-	0.7	- 0.1
Nov. 28 - Dec. 31	234.6	206.8	27.8	198.0	111.4	26.0	60.6(n)	- 36.6	2.1	-	2.1	0.6	-	0.6	- 1.5
Jan. 2 - 29	197.4	162.7	34.7	259.9	176.2	52.0	31.7(o)	+ 62.5	1.7	-	1.7	0.5	-	0.5	- 1.2
WEEK ENDED															
Jan. 8	60.9	43.9	17.0	47.9	25.8	14.0	8.1	- 13.0	-	-	-	0.2	-	0.2	+ 0.2
15	56.9	49.9	7.0	163.8	143.6	14.0	6.2	+106.9	0.8	-	0.8	0.2	-	0.2	- 0.6
22	37.8	31.9	5.9	28.6	5.8	12.0	10.8	- 9.2	0.5	-	0.5	-	-	-	- 0.5
29	41.8	37.0	4.8	19.6	1.0	12.0	6.6	- 22.2	0.4	-	0.4	0.1	-	0.1	- 0.3

Average Weekly Expenditures Since Outbreak of War
France (through June 19) \$19.8 million

Transfers from British Purchasing Commission to
Bank of Canada for French Account

(See footnotes on reverse side)

England (through June 19) 27.6 million
England (since June 19) 56.9 million

Week ended Jan. 29 \$ 10.2 million
Cumulation from July 5 \$125.8 million

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Through June 19, these figures represent total sales of American securities in Second District reported for account of the United Kingdom. (Proceeds of these sales, however, may not have been credited to the Bank of England's account in all cases.) Beginning with the week ended June 26, the figures represent transfers from the Bank of Montreal, New York Agency, which is custodian for requisitioned American securities held in this country. The transfers apparently reflect proceeds of official security sales, including those handled through private deals. From June 17 to July 19, transactions in securities payable in specified foreign currencies, including dollars, by United Kingdom residents were prohibited.
- (c) Includes payments for account of French Air Commission and French Purchasing Commission.
- (d) Includes adjustment for (b) above.
- (e) About \$98 million transferred from accounts of British authorized banks with New York banks.
- (f) About \$11 million transferred from accounts of British authorized banks with New York banks.
- (g) About \$6 million transferred from accounts of British authorized banks with New York banks.
- (h) About \$10 million transferred from accounts of British authorized banks with New York banks.
- (i) Adjusted to eliminate the effect of \$20 million paid out on June 26 and returned the following day.
- (j) About \$8 million transferred from accounts of British authorized banks with New York banks.
- (k) About \$2 million transferred from accounts of British authorized banks with New York banks.
- (l) About \$4 million transferred from accounts of British authorized banks with New York banks.
- (m) About \$6 million transferred from accounts of British authorized banks with New York banks.
- (n) About \$32 million transferred from accounts of British authorized banks with New York banks.
- (o) About \$2 million transferred from accounts of British authorized banks with New York banks.

(In Millions of Dollars)

Week - ended Jan. 29, 1941

Some figures

PERIOD	BANK OF CANADA									COMMONWEALTH BANK OF AUSTRALIA							
	DEBITS			CREDITS						DEBITS			CREDITS				
	Total Debits	Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	Transfers from Official Per Own A/C	Transfers from Official For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
1939																	
Aug. 31 - Sept. 27	17.5	0.6	15.9	21.8	15.1	0.8	-	5.9	+ 4.5	-	-	-	-	-	-	-	-
Sept. 28 - Nov. 1	9.6	0.3	9.3	16.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	-	-	-	-	-
Nov. 2 - 29	9.9	0.7	9.2	14.4	13.3	-	-	1.1	+ 4.8	-	-	-	1.9	1.9	-	-	+ 1.9
Nov. 30 - Jan. 3	30.0	-	30.0	22.8	13.3	3.0	-	6.5	- 7.2	2.5	-	2.5	5.8	5.8	-	-	+ 3.0
1940																	
Jan. 4 - 31	23.5	-	23.5	25.7	21.1	-	-	4.6	+ 2.2	5.2	0.3	4.9	3.3	3.0	0.3	-	- 1.9
Feb. 1 - 26	23.1	-	23.1	17.0	16.1	-	-	0.9	- 6.1	3.3	0.1	3.2	2.4	2.2	0.2	-	- 0.9
Feb. 29 - Apr. 3	42.3	-	42.3	29.5	29.3	-	-	0.2	- 12.8	3.0	0.3	2.7	2.2	1.6	0.6	-	- 0.8
Apr. 4 - May 1	38.2	-	23.2	42.9	24.8	15.0	-	3.1	+ 4.7	2.3	-	2.3	2.0	1.6	0.2	-	- 0.3
May 2 - 29	37.9	15.0	37.9	50.2	50.0	-	-	0.2	+ 12.3	1.2	0.2	1.0	2.6	1.7	0.9	-	+ 1.4
May 30 - July 3	44.1	-	44.1	72.5	72.2	-	-	0.3	+ 26.4	2.3	-	2.3	5.9	4.4	1.5	-	+ 3.6
July 4 - 31	22.2	-	22.2	117.6	96.3	-	19.2	2.1	+ 89.4	4.5	-	4.6	5.0	4.2	0.8	-	+ 0.4
Aug. 1 - 26	18.7	-	18.7	73.6	55.9	-	19.5	0.2	+ 54.9	6.8	3.0	3.8	5.0	3.4	1.6	-	- 1.8
First year of war	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.8	9.9	29.3	36.1	30.0	6.1	-	+ 4.9
Aug. 29 - Oct. 2	44.3	-	44.3	43.9	16.4	-	27.3	0.2	- 0.4	8.7	-	8.7	8.0	6.7	1.3	-	- 0.7
Oct. 3 - 30	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	-	- 2.2
Oct. 31 - Nov. 27	35.2	-	35.2	69.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	1.5	-	+ 0.5
Nov. 28 - Dec. 31	48.0	-	48.0	60.6	42.5	-	13.7	4.4	+ 12.6	4.8	-	4.8	6.8	4.8	2.0	-	+ 2.0
Jan. 2 - 29	33.7	-	33.7	33.9	16.9	-	15.0	2.0	+ 0.2	4.8	-	4.8	6.8	5.1	1.7	-	+ 2.0
WEEK ENDED																	
Jan. 8	1.8	-	1.8	7.0	5.4	-	-	1.6	+ 5.2	0.9	-	0.9	0.1	-	0.1	-	- 0.5
15	9.0	-	9.0	1.8	1.8	-	-	-	- 7.2	2.8	-	2.8	0.4	-	0.4	-	- 2.4
22	9.0	-	9.0	9.7	4.5	-	4.8	0.4	+ 0.7	0.2	-	0.2	5.4	5.1	0.3	-	+ 5.2
29	13.9	-	13.9	15.4	5.2	-	10.2	-	+ 1.5	0.9	-	0.9	0.9	-	0.9	-	-

Weekly Average of Total Debits Since Outbreak of War
Through Jan. 29 \$ 6.9 million

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 8, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£30,000
Purchased from commercial concerns	£53,000

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

Sold to commercial concerns	£1,000
Purchased from commercial concerns	- 0 -

The only change that took place among the other currencies consisted of a slight improvement in the Canadian dollar. Closing quotations were:

Canadian dollar	17% discount
Swiss franc (commercial)	.2323
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2362
Brazilian milreis (free)	.0505
Cuban peso	6-13/16% discount
Mexican peso	.2066
Chinese yuan	.05-7/16

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported the following gold engagements:

383,000 from Mexico, shipped by the Bank of Mexico to the Federal for its own account, for sale to the New York Assay Office.

154,000 from Venezuela, shipped to the New York agency of the Royal Bank of Canada for account of that bank's London office. This gold, which arrived yesterday, was sold to the New York Assay Office.

537,000 Total

No gold or silver prices were received from Bombay today.

MHO

PLAIN

London

Dated February 8, 1941

Rec'd 8:10 a.m.

Secretary of State,
Washington.

482, Eighth.

For Treasury. Vesting orders for the following Indian Government sterling loans have just been announced: 5 percent stock 1942-47, 4-1/2 percent stock 1950-55, 4-1/3 percent loan 1950-55, 4-1/2 percent loan 1958-58, 4 percent stock 1948-53, 3-1/2 percent stock 1954-59. 3 percent stock 1949-52.

Under these orders United Kingdom holdings will be acquired by the British Treasury and the securities transferred to the Government of India. The orders are reported to have been made in full agreement with the Indian Government in order to utilize for the repatriation of Indian loans raised here part of the large sterling balances accumulated in the hands of Indian currency authorities during the war. Similar steps are being taken by the Indian Government regarding holdings of the same securities in the hands of residents of India.

JOHNSON

CSB

February 6, 1941

Files

Mr. Cochran

In a conversation yesterday by telephone I was informed by Mr. Collado of the Department of State that nine countries, including the United States, have now adhered to the convention for the creation of the Inter-American Bank. These countries are: United States, Bolivia, Brazil, Colombia, Dominican Republic, Ecuador, Mexico, Nicaragua and Paraguay. Collado said several others were believed to be ready to go along with the plan after a little impetus is given here. He thought Peru could easily be influenced to enter the plan, and he had found Prebisch of Argentina interested therein. Incidentally, Mr. Grumbach, who is a member of the Prebisch mission, is remaining in the United States for a month or so after the departure today of Mr. Prebisch. He will spend some time with the Federal Reserve Bank in New York.

JMP

AMERICAN CONSULATE

Rangoon, Burma, February 8, 1941.

STRICTLY CONFIDENTIAL

Subject: British Government agrees in principle to the manufacture by China of munitions in British territory; any production under agreement would be in either India or Burma; China expects Japan to protest to British Government because of assembly of American training planes in Rangoon.

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON.

Sir:

I have the honor to report that it is authoritatively stated here that the British Government has agreed in principle to the manufacture by the Chinese of munitions in British territory.

If the British agreement is made effective, and China takes over or establishes a plant for the production of war materials, the plant will be in either India or Burma. The former country offers industrial areas where power and some raw materials are available, and probably greater security from attack in the event of war between Japan and Britain. A plant in Burma would have the advantage of providing a source of supplies relatively close at hand. However, the matter has not yet reached the stage of definite arrangements.

China is now manufacturing some war materials at arsenals in China, and the manufacture of such materials in Burma or India has been pointed to as a possibility since the European war cut off Continental sources of supply. There were no developments in the matter during the time that the British Government sought to avoid straining relations with Japan, but the present British attitude toward Japan has resulted in the agreement in principle mentioned.

It is reliably reported that China expects Japan to lodge a protest with the British Government because of the assembly in Rangoon of American training planes for the Chinese Government (despatch no. 397, of January 8, 1941).

Respectfully yours,

Distribution:
In quintuplicate to
the Department.
Copy to Embassy, Chungking.
Copy to Embassy, London

Austin G. Brady
American Consul

800
ACB

February 6, 1941

File

Mr. Cochran

Dr. Soong telephoned me at 12:15 today. He stated that he had been ill the past few days and consequently had not been in touch with us. He asked if I had seen Sir Frederick Phillips. When I reported that Sir Frederick had come to see me at 5 o'clock last Tuesday, as I recall it, Soong stated that Phillips had seen him at 3 o'clock the same afternoon. Soong had argued with the British that the proposal which the latter have in mind would not be effective insofar as China is concerned.

Soong had received no further word from London in the premises. I told Soong that I had not mentioned to Phillips that he, Soong, had been in to see me and that Phillips had not referred to his visit with Soong. I added that with Messrs. Morgenthau, Bell and White absent from the Treasury this week, it has not been possible for us to study the British proposition, as reported by Dr. Soong and Sir Frederick Phillips, but that I have memoranda available for my colleagues to study early next week. We shall get in touch with Dr. Soong as soon as we have had opportunity to go over this material.

CONFIDENTIAL

Transmission of Code Radiogram
Received at the War Department
at 7:57, February 8, 1941

London, filed 13:30, February 8, 1941.

1. On Friday, February 7, the operations of the British Coastal Command were limited by adverse weather conditions and no British bombers were in the air. During the preceding night, planes of the Bomber Command attacked an airfield in Northern France. The results of this mission could not be observed. During the same night Dunkirk, Boulogne, and other invasion ports on the English Channel were bombed by heavy bombers. It is thought that some invasion vessels were destroyed and that others were damaged. Explosions and fires were observed. No British planes were lost in these activities.

2. During the night of February 7-8 there were no German planes over England. During the preceding day coastal anti-aircraft fire at Lowestoft brought down the one German plane that came inland. Small forces of German planes were plotted over the Straits of Dover and off the coasts at Aberdeen and the Firth of Forth.

3. Italian supply dumps and motor transport concentrations at Tepeleni, Albania, were attacked by British planes based in Greece. In the Cheren area of Eritrea five Italian planes were destroyed on the ground and a motor transport concentration was attacked. Trains and buildings occupied by Italians and withdrawing Italian

CONFIDENTIAL

CONFIDENTIAL

Screens in this area were also attacked. The Royal Air Force cooperated with land forces in the capture of Bengasi in the Libyan theater. The Italian airfields at Agadabia, Barta and Benina have been put out of operation by British bombing. A large number of motor transport vehicles are withdrawing from Agadabia in the direction of Tripoli. According to reports coming from Malta there is no shipping activity between Italian ports and Tripoli.

4. Recent Axis air operations in the Middle East consist of raids on Delineara, the Calafrena seaplane base and Luqa, all on the Island of Malta, on the night of February 6-7. No casualties and no damage resulted from these raids.

SCANLON

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Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
G-3

CONFIDENTIAL

CONFIDENTIAL

Paraphrase of Code Radiogram
Received at the War Department
at 8:09, February 9, 1941

London, filed 13:35, February 9, 1941.

1. On Saturday, February 8, planes of the British Coastal Command off the Norwegian coast attacked four German cargo boats and two German destroyers. One of the destroyers was thought to be damaged but no direct hits were scored. However, one German plane was shot down. During this day oil storage plants in the Netherlands were attacked by British medium bombers but the results could not be determined. Planes of the Fighter Command in an offensive patrol machine gunned German aircraft on the ground and airfield facilities in the northern part of France. There is no definite information as to the extent of the damage done. During the preceding night heavy damage was inflicted on harbor facilities and invasion vessels in attacks on Boulogne, Ostend, Dunkirk and Calais by British heavy bombers. There were no British aircraft casualties as a result of these operations.

2. During the night of February 8-9 two German planes were plotted over the Humber river, another over the Kings Lynn region and eight others engaged in mining operations on the Bristol Channel. British night fighters were up but were unable to intercept the attackers. The extent of the damage is not known. During the preceding day only a few German planes were active over Britain and three of these were shot down. No damage has been reported.

CONFIDENTIAL

CONFIDENTIAL

3. British planes from the Anglo-Egyptian Sudan engaged in attacks on the Keren, Asmara and neighboring regions of Eritrea where Italian buildings, troop trains, ground forces and artillery positions were machine gunned. Nine Italian planes on the ground at the Alomata airdrome (on the Eritrean-Ethiopian border due south of Macalle) were destroyed and the city of Dessie in eastern Ethiopia was attacked by Aden-based British planes. There are no reports of British air operations in the Libyan theater. The towns of Birkao (?) and Afadu in southern Italian Somaliland were attacked by British bombers from Kenya.

4. Two civilians were killed and no military personnel or property was damaged in the random bombing of Malta by seven Axis planes.

5. In England, invasion alert No. 3 continues to be in effect.

SCARLON

Distribution:

Secretary of War
 State Department
 Secretary of Treasury
 Asst. Secretary of War
 Chief of Staff
 War Plans Division
 Office of Naval Intelligence
 Air Corps
 G-3

→

CONFIDENTIAL

BJS

GRAY

Madrid

Dated February 9, 1941

Rec'd 2:05 p.m.

Secretary of State,

Washington.

100, February 9, noon

An official announcement published in a most (*) position in this morning's press and conspicuously headlined states negotiations with Argentina have been concluded whereby the latter country will supply Spain with 120,000 bales of cotton. The communique continues that there is part of a larger program of commercial relations being studied by both Governments of which the first phase will consist of the importation by Spain of 500,000 tons of wheat and 15,000 tons of meat. No information is given regarding the means of payment. Editorially in both ABC and ARRIBA imply that the program is an accomplished fact and comment glowingly on this proof of the close ties and sympathetic relations between the two countries.

WEDDELL

WSB

eh:copy

February 11, 1941

Files

Mr. Cushman

Mr. Jones of the Far Eastern Division of the Department of State telephoned me at 9:30 a.m. yesterday. He said that Dr. Soong had been in to see him last week and had been unhappy over the British proposal for a sterling arrangement with China. Mr. Jones thought that the proposal of the British, insofar as our relations with China were concerned, would include a formula by which we would make available to the Chinese Government the dollar proceeds of imports of China into the United States.

I told Jones briefly of my conversations last week with Sir Frederick Phillips and Dr. Soong. I explained that the Treasury had done nothing further with respect to the Chinese Stabilization Fund arrangement because of the absence last week of Messrs. Morgenthau, Bell and White. The pertinent memoranda, including copies of a document filed with us by Sir Frederick Phillips, had, however, now been circulated and it was hoped that meetings could be held some time this week in the Treasury Department with the view to formulating its ideas on the proposals now submitted. I agreed that the Treasury Department keep in touch with the Department of State and take no commitment on the British proposition or the Chinese position in opposition thereto without consulting the Department of State.

Under Secretary Bell told me later in the day that Mr. Jones had been in touch with Mr. Coo yesterday in regard to the contemplated British-Japanese sterling arrangement. I then talked with Mr. Coo, to bring him to date with respect to the above conversations. I believe Messrs. Bell, Coo and I were in agreement that the State Department should take no action with respect to the contemplated British-Japanese sterling agreement until we have gone a little further into our own problem of the triangular British-Chinese-United States Stabilization project.

February 10, 1941

File

Mr. Cochran

Mr. Schmidt telephoned me at 11:35 this morning in answer to my inquiry made on Saturday, at the request of the State Department, on behalf of the President, as to the annual income of the Crown Princess of Norway.

Mr. Schmidt stated that the Crown Princess opened on September 5 an account with the Riggs Bank which she jointly controls with the Court Chamberlain who is with her. This account is free both for deposits and withdrawals insofar as our control is concerned. The original deposit was for \$50,000. Since then three deposits totaling \$24,000 have been made. One of these was for \$17,000, the second for \$6,000 and a third for approximately \$2,000. \$24,000 have been withdrawn from the account to date, leaving at present a balance of \$50,000. Since the account has now been running five months and \$24,000 have been withdrawn, the monthly rate of withdrawal is slightly under \$5,000. The funds for this account come from the Norwegian official account with the Federal Reserve Bank at New York.

A.M.R.

February 10, 1941
12:00 Noon

GROUP MEETING

Present: Miss Chauncey
Mr. Gaston
Mr. Bell
Mr. Sullivan
Mr. Thompson
Mr. Buckley
Mr. Pehle
Mr. Graves
Mr. Cairns
Mr. Cox
Mr. Haas
Mr. Cochran
Mr. Schwarz
Mr. Kuhn

H.M.Jr: Well, I take it, Herbert, that you have been running the Treasury very successfully.

Gaston: Well, everything seems to have been very peaceful here. It seemsto have been running itself. We had nice pleasant social meetings five mornings out of six, and as far as I could learn, everything was under control.

H.M.Jr: I thank you for not having heard from you.

Gaston: I thank you. (Laughter)

H.M.Jr: I was good up until about - where is Cox?

Cox: Right here.

- 2 -

H.M.Jr: Until Saturday night. The local paper was a little garbled.

Gaston: What was that on?

H.M.Jr: They had it that we would only use a billion three. They printed it Saturday, and I got in touch with Cox Saturday night.

Schwarz: They misinterpreted it.

Gaston: I see. That limitation thing.

Bell: Does the bill carry percentage?

Cox: No, it carries the dollar amount, a billion three.

Bell: Well, the amendment they adopted carried percentage.

Cox: Then they substituted a new section.

Bell: I see. That is very important. I don't see how they got the billion three on a percentage basis.

Cox: Nobody else does.

Bell: I thought it was nearer 800 million.

H.M.Jr: Have you been away?

Bell: Oh, off and on. I have been in and out. I have had a nice rest.

H.M.Jr: Did you get a little rest?

Bell: Yes. Two hours a morning sleep did me a little good.

- 3 -

- H.M.Jr: Did you get my telegram turning down Foley and White?
- Gaston: I did.
- H.M.Jr: Do you think it reached them in time?
- Gaston: I don't know as I ought to tell you. They are in New Orleans, and it is a secret that they are in New Orleans. They are taking advantage of the extra 72 hours. They got tired of the food in Mexico, and so they are in New Orleans.
- H.M.Jr: Did they leave before --
- Gaston: They left before your telegram arrived, but they were - wanted to go anyway and they could use the 72 hours better in New Orleans.
- H.M.Jr: I see. The telegram came the one night I left the ranch. I went over to Nogales, and when I got - but they have left? They are perfectly happy?
- Gaston: They are happy to be in New Orleans.
- H.M.Jr: I loved the ticker about Foley and White. They and Willkie have made a quick survey.
- Gaston: Preliminary investigations.
- H.M.Jr: I see the Treasury has made available to Representative Lawrence Arnold something or other.
- Schwarz: If you are asked about that this afternoon at the press conference, Mr. Secretary, our answer so far is that there is no Treasury survey. Mr. Cox can tell you what was done.

- 4 -

- Cox: Arnold asked for those figures, and they were given to him after clearance with Mr. Cairns and Mr. Bell on the specific understanding that his statements would say that he dug it up himself out of public sources and also that under no circumstances was he to say that it came from the Treasury, which he agreed to, and that was the way it was put into the Congressional record and this morning that story came over the ticker. There have been no questions asked of you yet, have there?
- Schwarz: Just one. The request was an informal one, as I understand it. There is nothing that we have published, so I wouldn't call it a survey.
- H.M.Jr: But is there anything that I ought to know? I am lunching with the President. He might like to know. I read your letter (Gaston's) and the editorial based on your letter.
- Gaston: Oh yes. That was Mr. Kuhn and some others, that letter, but they did a very nice job. They got me fame.
- H.M.Jr: Renewed your fame.
- Gaston: Yes, that is right. (Laughter)
- H.M.Jr: And Coast Guard is still intact?
- Gaston: Well, we haven't had any notice yet. I took up that matter of the ice patrol, and he has an idea to continue the ice patrol, as it will form a good cover for the cutters working in Greenland waters. I think it can be done that way, but I think it would be better to abandon the ice patrol; but that is the idea he has.

- 5 -

H.M.Jr: Did you go to Cabinet Friday?

Gaston: Yes.

H.M.Jr: Anything special?

Gaston: Nothing of very great importance. There is one thing that you should know about that is very hush hush.

H.M.Jr: Can you tell me afterward?

Gaston: Yes.

H.M.Jr: All right.

Gaston: Some more - did you know about Mr. Knox' press conference thing?

H.M.Jr: Well, I read it in the paper, and then I saw the White House threw it down. Phil isn't here, but I thought - I said, "No appointments Friday after Cabinet. I will come back and everything will be quiet." All that happened --

Gaston: I know all that happened.

H.M.Jr: You were here?

Gaston: Yes. I wrote you a report on what I learned. You asked me as to how that - on the Hopkins matter.

H.M.Jr: A report? Where is it?

Gaston: It is right there.

Chauncey: Here it is.

- 6 -

Gaston: I can tell you in one word.

H.M. Jr: Yes. Do you want to tell that afterward?

Gaston: Yes. Then about those Greek planes, as a result of Knox' statement there was quite a flurry, and Welles, it seemed, had committed himself to the Greek Minister that they would get 30 or more modern fighting planes, and after that Knox' statement came out and the State Department thought it would have a very bad effect on the Balkans, and they renewed their effort to get some kind of planes and they asked Jim Buckley - Berle asked him to investigate the field and let him know informally if they were going to get them, where would be the best chance of getting them; so we put nothing on the record but did give them some information about the general fighter plane situation informally over the telephone.

Then Hull brought the matter up in Cabinet, but in a very feeble way. He didn't say that the State Department was committed, and the President's reaction was, "I will tell you what we will do, we will give those planes - we will sell those planes back to the manufacturer and then the manufacturer will sell them to the British, and then the British - that is the 30 old Grummans - and the British will use them in Eritrea; and then they will give the Greeks some more help in Albania." So it is settled.

Buckley: Berle talked to me yesterday, and he didn't think that would work at all, and he said he understood his boss had been very calm, but he said, "I think you should recognize that when these Tennessee mountaineers get calm, they just get madder and madder."

- 7 -

H.M.Jr: Who is he getting mad at?

Buckley: Just at the world in general. He thought Mr. Hull was getting ready to explode.

H.M.Jr: I wish he would.

Gaston: I think the State Department is going to continue the fight to try to get some modern planes.

H.M.Jr: I know the place to get them, just the way you do, is Republic. Right?

Buckley: Yes, except that now the Army doesn't figure that they would be so happy to get rid of these Republic planes as we thought they would, and Mr. Berle now wonders if the State Department couldn't bring influence on the War Department to have them give up 15 P-40's if the British would give up 15 P-40's.

H.M.Jr: I won't ask the British to give it up.

Buckley: I have the full story.

H.M.Jr: Well, I won't ask the British to give up a thing. They won't send those things down to Eritrea. They will send them up to Canada for training purposes, which is all that they are good for. The British are no fools. They will send them to Canada for training purposes. But we will get around to that. After all, it has kicked around Washington for two months. It will kick around for two days longer. That is the Arizona sunshine working for one day. (Laughter)

Anything else?

- 8 -

Gaston: No, I have some figures from one source, and that is Mr. Coe on this German Budget since 1933, and Italian, and I am looking to get some more from others.

H.M.Jr: Will you give it to me?

Gaston: Yes.

H.M.Jr: Did you read my hand writing?

Gaston: Oh yes.

H.M.Jr: To say nothing about my spelling. Was it all right?

Gaston: Yes.

H.M.Jr: Wonderful. Cox? I have got two notes here from you.

Cox: One of them I thought was another hush hush thing which may be the same thing Herbert is talking about, on finding out what Stimson and Purvis made out.

H.M.Jr: Do you know?

Buckley: Yes.

H.M.Jr: Do I have to know by one o'clock?

Buckley: I think you ought to.

H.M.Jr: Spill it, go ahead.

Cox: Go ahead, Jim, you know more about it.

Buckley: Mr. Gaston knows all about it.

- 9 -

H.M.Jr: A little louder.

Buckley: Maybe we ought to leave it to him.

H.M.Jr: Is that one of the things you wanted to tell me about?

Buckley: It is the same thing, this hush hush deal Valentine told us about the other noon.

Gaston: He didn't even want us to make a note while he was telling us. Two hundred fifty thousand Lee Enfield rifles and --

H.M.Jr: For Canada?

Gaston: Great Britain and 50 million rounds of ammunition and --

H.M.Jr: Is that .303?

Gaston: Yes. I don't know just the calibre.

Buckley: Thirty calibre.

Gaston: And I think they are being loaded already.

H.M.Jr: What was the rush on that?

Buckley: Well, they feel that they needed this very badly, and they made the deal with the War Department, and the President. There isn't any certificate being issued on it, no deal at all, no publicity. The theory is that it is being left on the dock and the trucks come up and get it.

H.M.Jr: It just disappears?

Buckley: That is right.

- 10 -

H.M. Jr: Wonderful.

Gaston: Well, the rush is that they believe there is going to be an invasion.

H.M. Jr: I see. But that is the only thing that happened while I was gone? I thought you were going to tell me that he gave them some bombers or something. Is that the only thing they got while I was gone?

Buckley: The only thing except that considerable progress has been made on the interim purchasing.

H.M. Jr: Good. I want to check that with you afterward. What else, Herbert?

Gaston: I think that is all.

H.M. Jr: Now, Cox, on the Lend-Lease?

Cox: Yes. Here are two memos, one a very short one and the other a little longer on the same subject, whichever one you want to use. (Referring to two suggested letters to the President for the Secretary's signature, dated February 10.)

H.M. Jr: I was terribly sorry I asked you to do that on Sunday.

Cox: Oh, that is all right.

H.M. Jr: Which one do you recommend?

Cox: The top one, which is two pages.

H.M. Jr: You have your men up there on the Hill, don't you? You do?

- 11 -

Sullivan: No, they are waiting to go.

H.M.Jr: Why don't you send them up?

Sullivan: I will.

H.M.Jr: Maybe on second thought you had better go, too, John.

Sullivan: I would feel safer.

H.M.Jr: Go ahead. I will see you later.
(Mr. Sullivan left the conference.)

H.M.Jr: I will take the top one.

Cox: All right. I will give you another copy.

H.M.Jr: Yes. Lend-Lease. Who else? Mr. Bell ought to have a copy.

Cox: Yes. I might tell you that some of the other branches of the Government, OPM and what not, are just getting concerned about these same problems. I don't think they are aware of them. Informally Eddie Greenbaum and McCloy talked with Ferdie and myself Saturday afternoon for awhile about this, and they are in agreement with our viewpoints on the thing.

H.M.Jr: I see. What else?

Cox: That is all. And then there is one other set of information you may want (handing memorandum to Secretary) on what the bill means. It is a fiscal matter on what stuff has been appropriated for and what stuff has been obtained or is being obtained under contract authorization.

- 12 -

H.M.Jr: This is unique. "To Undersecretary Bell,
from Morgenthau."
All right. Will you (Miss Chauncey) see
that Mr. Bell gets this, please? (Laughter)

Bell: Is it instructions?

H.M.Jr: It is some questions as to the appropriations.

Cox: That is all I have.

H.M.Jr: How are you and Bloom? Do you sleep in the
same bed?

Cox: I haven't been invited to Bloomtop yet, but
I feel all right otherwise.

H.M.Jr: Is that what they call it? (Facetiously)

Cox: No, I think he has one called by that name.
Everybody on the Hill talks about it.

H.M.Jr: It is the one on the Blue Ridge, probably.

Cox: Probably.

H.M.Jr: What else?

Cox: That is all.

H.M.Jr: They are going to wind up tomorrow.

Cox: I think so, tomorrow evening. LaGuardia is
going to testify, as well as Willkie.

H.M.Jr: I think my Mrs. will want to go up tomorrow.

Cox: All right, fine.

- 13 -

- H.M.Jr: I told her I didn't know of any more sign of affection that she was willing to meet me rather than go to meet Willkie. Willkie is testifying today. I thought that was a real test.
- Cox: It certainly is.
- H.M.Jr: He is going to testify tomorrow. Is everything else all right?
- Cox: Right.
- H.M.Jr: Won't you be on the Hill?
- Cox: No, there is nothing much happening there. We have got somebody watching the Senate thing.
- H.M.Jr: Merle?
- Cochran: I have asked Livesey to give us anything to help Herbert get that armament data together.
- H.M.Jr: Oh yes.
- Cox: And I also spoke with Playfair, who has been in charge of the British - Pinsent has been sick and now Sir Frederick is in the hospital and Playfair said they had a little information but he took the liberty of cabling to get some more specific information.
- H.M.Jr: Good. I thought that - what I had in mind was that - the letters I wrote this time, Dan, I treated better than I treated you. I didn't expect any answer to that. Every time I would only want the answer next week but if I could get the figures on what Italy and Germany are using for armaments since Hitler came in, that when we went up for our appropriations that they would be very helpful

- 14 -

for my testimony, that is what I had in mind, you see. I could say, "Now look, gentlemen, Germany is spending 30 or 40 or 50 million dollars a year." You see? Be a little fresh testimony, and I think it would be helpful to show that.

Bell: When you go for what appropriation?

H.M.Jr: Before Appropriations. I take it the President will want me to go.

Bell: Under the Lease-Lend Bill?

H.M.Jr: Yes. If I don't, I will give it to somebody else, you see. I mean, to show - I mean, they will all say, "Well, this is terrific," and so forth and so on, and I thought if we could show what the other fellow is doing and what we are asking is modest by comparison, it might be helpful.

Gaston: Did you read that Fritz Sternberg book on Aid to Britain? That went into that thing. Ernest Lindley summarized it in his column yesterday.

Cox: There has also been testimony before the Military Appropriations Committee by Marshall that up to June of 1940 Germany spent 140 billion dollars.

H.M.Jr: I think it is low.

Cox: I think it is low, too.

H.M.Jr: Merle?

Cochran: And Playfair gave me this morning a statement on British dollar and gold assets as of January 31. Do you want that? I can give it to you?

- 15 -

H.M.Jr: As of January 31?

Cochran: Yes, as of January 31.

H.M.Jr: Well, what I will do is, I want to sit down with you and Bell and take a look at it together.

Cochran: All right. I just got it.

H.M.Jr: Yes, I do want to see it.

Cochran: Then I have the securities sales statements. They have been doing some of those private transactions in fairly good amounts for the last two days.

H.M.Jr: Well, you keep them. I am going to try a system of seeing you people and not let the stuff go to the house. I mean, I am going to see how it works.

Cochran: All right.

H.M.Jr: It will back up somewhere anyway. As long as it doesn't back up on the table next to my bed.

Cochran: Sir Edward Peacock was down and saw me, and he wants an appointment for Wednesday.

H.M.Jr: With me? Sure.

Cochran: And they hoped that Phillips would be out by that time.

H.M.Jr: What is the matter with Phillips?

Cochran: He has had the grippe. He was in the hotel a while and they moved him to the hospital yesterday.

- 16 -

H.M.Jr: Eleven o'clock Wednesday morning.

Bell: Your hearing has been postponed until Wednesday.

H.M.Jr: My hearing?

Bell: As I understood it. It has been postponed from tomorrow until Wednesday at the same hour because all of the members of the Senate Finance Committee want to go to that Willkie hearing tomorrow.

H.M.Jr: Oh.

Bell: And I guess they would get no publicity out of the Subcommittee hearings, so they had better hold it over.

H.M.Jr: Well, would I testify - why not --

Bell: Well, I should think you might be there two hours.

H.M.Jr: In the afternoon?

Bell: No, the afternoon would be a better time for Sir Edward. I understood from John Sullivan just before he came in here --

H.M.Jr: How would three o'clock be?

Bell: To see Sir Edward?

H.M.Jr: Yes.

Bell: I think that would be fine.

H.M.Jr: And I would like Chairman Frank to be here, too.

- 17 -

Cochran: All right, sir.

H.M.Jr: You will take care of it?

Cochran: Yes, sir.

Bell: They called on Jere and just paid a courtesy call one day last week.

H.M.Jr: Don't you think it is necessary?

Bell: Well, I think it is all right.

H.M.Jr: Let me see him alone at the first.

Bell: But he has seen Frank just as a courtesy matter.

H.M.Jr: All right. What else?

Cochran: I think that is about all. I have been getting some information on that Argentine Spanish arrangement. I can give you a memo on that the first time I see you. It is rather a long story. There has nothing awfully big been transacted now and it isn't based on our dollar credits.

H.M.Jr: If you have it I wish you would give it to Kuhn and Schwarz and then in turn give it to PM, that wrote this article. Between you work it out. PM wrote this article.

Kuhn: I saw the article.

H.M.Jr: What I wanted to get the - I wanted PM to get it and let them have Time magazine write a correct story on it.

Cochran: Time had an item on the Sofina operation. That is correct.

- 18 -

- H.M.Jr: Well, I wish you would show it to PM.
- Cochran: All right, I will give them the material.
- Bell: A gain wasn't based on the dollar transactions.
- Cochran: That is right.
- H.M.Jr: Well, why not have somebody - have the Washington PM man come in.
- Schwarz: I can have him come in.
- H.M.Jr: And give him the whole thing. Let him see and let him see Cochran.
- Cochran: I can go down to Chick's room. Swiss securities sales have let up. They have been purchasing some dollar securities in the last few days, but as a result of these few weeks' operations the Swiss, as well as the Italians, have sold a good many securities on this market and the dollar deposits here of Brazil, Argentina, and Panama, have increased, which leads us to believe that some of the dollars taken out of private accounts have gone into Latin American accounts.
- H.M.Jr: I wish you would prepare me a memorandum of not more than two pages on that, which I can use with Mr. Hull. I will be seeing him in the next day or two.
- Gaston: The Swiss Minister was over to the State Department again. There is a letter came in this morning on that subject. He complained very bitterly against any change.
- H.M.Jr: I would like very much if you could give me that tomorrow. Can you do it in 24 hours?

- 19 -

Cochran: Sure.

H.M.Jr: Not more than two pages.

Cochran: No, I will just give you a summary.

H.M.Jr: And if you could go back to January 1 to show what has happened.

Cochran: Yes, I can do that.

H.M.Jr: Would that be significant?

Cochran: I think it will, yes.

H.M.Jr: If not, go further back.

Cochran: I don't believe it is necessary to go much further back, because I can give some total figures since last May, I think, when the movement began. But I will give you the most interesting part, which is since January 1. There is just one other item. The State Department phoned on Saturday to the effect that the White House had inquired about the Crown Princess of Norway's income. The President is advising her about a house and so on. I don't think you want that now.

H.M.Jr: Advising her about what?

Cochran: About getting a house or what she should do here and whether you want any figures now - or shall I pass it back to the State Department?

H.M.Jr: Better give it to me.

Cochran: She has a deposit of \$50,000 to her credit with the Riggs on the fifth of September, and since then there has been \$24,800 added to that. In the meantime she has spend \$24,000 so that for five months has been a little under \$5,000 a month.

- 20 -

H.M.Jr: Let me have this once more.

Cochran: \$50,000 deposited September 5. I have dictated a memo which is all ready if you want it. \$50,000 deposited September 5.

H.M.Jr: When was another deposit?

Cochran: Three deposits. One, \$17,000; one \$6,000; and one \$2,000.

H.M.Jr: How long is this memo?

Cochran: Oh, it is very short.

H.M.Jr: You might bring it in to me.

Cochran: All right.

H.M.Jr: Who called up from the State Department?

Cochran: This man in charge of protocol, Stanley Woodward.

H.M.Jr: I would like to give it to the President myself.

Cochran: All right, fine, I will give it to you.

H.M.Jr: Anything else?

Cochran: No, sir.

Pehle: We wrote State another letter about the Indo-China accounts, of which there is about 10 million free dollars, and as a result Feis and Atherton and Hamilton came over and talked to Mr. Gaston and Mr. Cochran and myself. The three people that came over seemed agreeable to revoking those licenses with the one qualification that

- 21 -

we should give them free dollars for the imports of rubber which the Department of State promised them. They said they were going to take it up with Hull. That was Tuesday or Wednesday, and we haven't heard anything further. Those dollars can disappear very quickly if they want to transfer them.

- H.M.Jr: Have you ever heard anything from Mr. Hull about 10 million dollars in Martinique for South Africa?
- Cochran: That was mentioned when we were talking about this plus another item they had in North Africa and they haven't made any decision.
- H.M.Jr: Remember I asked you to get the report of that State Department fellow who is supposed to have made a trip through South Africa?
- Pehle: Murphy?
- H.M.Jr: Murphy. Remember?
- Cochran: Yes.
- H.M.Jr: I never got the report.
- Cochran: I have a statement about it but I haven't the full report yet.
- H.M.Jr: Would you see that I get it?
- Cochran: Yes.
- Pehle: There were a number of exports to Indo-China that we have written the State Department about, and they asked us to let the small unimportant ones go and hold all the big ones, which we are doing. They have been held up for some time. That amounts to a Treasury embargo.

- 22 -

H.M.Jr: I see they are suing now for 250 million dollars.

Pehle: That is right.

H.M.Jr: I see the Federal Reserve has no objection.

Pehle: Well, there is something in the paper to indicate the Treasury was backing it --

H.M.Jr: Yes, I saw that too. What else?

Pehle: That is all. We had a little flurry about Danish ships which Mr. Gaston handled.

Gaston: It is still unsettled.

H.M.Jr: George?

Haas: (Handing report to the Secretary) They did a little bit better.

H.M.Jr: Allison delivered six engines last week, 33 the week before, and 33 the week before. What is that, George?

Haas: This is the regular report. Here is this thing on Hamm.

H.M.Jr: Well, hold onto it and tell the boys you want to see me.

Haas: O.K.

H.M.Jr: Huntington?

Cairns: Here is a brief memorandum bringing you up to date on the Schenk trial which was to go to trial today, but was postponed under the law because conscientious objectors have to be tried first and their trial will take a

- 23 -

week. There has been a little development, and this memorandum sets it all out.

- H.M.Jr: I am glad you have good type back there. It shows you are learning.
- Cairns: Well, I inquired as to whether that was typed on Harry's typewriter or ours, and I haven't gotten a satisfactory answer.
- H.M.Jr: Have you got a new typewriter? Splurging while I was gone?
- Cairns: I think the whole difficulty is caused by the fact that Cahill has resigned and Correa doesn't want to run any risk on his first big case. It is a question of whether the 1937 indictment should be dropped.
- H.M.Jr: Well, don't be so sure. I have had - a few whiffs that haven't been so good on this. What is Cahill doing?
- Cox: Going back to private practice.
- H.M.Jr: I see.
- Cairns: He wants to run for mayor, Walter Winchell said last night.
- H.M.Jr: Watch that Schenk case. What else?
- Cairns: That is all.
- Kuhn: Allen Barth has been making a very good study of a mountain of clippings on the Lend Lease Bill. He summarized them very briefly and well. If you would like to have that summary of what the trends are, I can give it to you.
- H.M.Jr: Yes. If it is good, would you send it out to Robert Sherwood?

- 24 -

Kuhn: Yes. What does he want in the way of --

H.M.Jr: Just what you sent me.

Kuhn: He wants it every day?

H.M.Jr: Yes. Just so it has to do with Lend-Lease.

Kuhn: But he doesn't want us to go back a week or two?

H.M.Jr: No, just on Lend-Lease.

Kuhn: And keep it up?

H.M.Jr: You might write him a little note and ask him if he would let you know when he leaves there.

Kuhn: That is all I have.

H.M.Jr: Just write him a little note. He says he knows you.

Kuhn: Yes, I know him.

H.M.Jr: He makes good use of it, because William Allen White was down there and other people and he likes to have that stuff when they come down to see him.

Schwarz: Did you have a chance to see the story of the new committee? This fellow from Kansas City is going out of a Legion for Democracy and now he calls it "United Americans."

H.M.Jr: Which side are they on?

Schwarz: On our side.

Kuhn: Mr. Secretary, would you like this kind of thing once a week?

- 25 -

H.M.Jr: Very much.

Kuhn: Good. If there is anything particular, he can dig it up.

H.M.Jr: Well now, who is going to - he is just on Lend-Lease?

Kuhn: At the moment, yes.

H.M.Jr: Well, this is going to last - I want you to get a man as good to do the same thing on taxes.

Kuhn: He would be free to do that after a little while.

H.M.Jr: No he won't.

Kuhn: He won't?

H.M.Jr: No. I want another man. Will you?

Kuhn: Surely.

H.M.Jr: This English thing, whether it is Lend-Lease or something else, if he just concentrates on the attitude and sentiment in this country toward England and War and all that, if he just concentrates on that - but I want another man to give his full time to taxes. Would you?

Kuhn: Yes, sir.

H.M.Jr: I mean, let him not only study Lend-Lease but the whole attitude of this country toward the war.

Kuhn: That is what he is doing.

- 26 -

H.M.Jr: Well, and then get me another man, please, will you, on taxes?

Kuhn: All right.

H.M.Jr: Soon.

Harold? Are you all ready? Have you got an organization and people working on savings bonds?

Graves: I think perhaps Mr. Kuhn and I very soon should have a talk with you.

H.M.Jr: I am available.

Graves: At your convenience.

H.M.Jr: Well, tell Stevens. Is Odegarde coming down?

Kuhn: He was down last week, and he will be down again on Thursday. He did a lot of work, and we have got a lot to talk to you about.

H.M.Jr: Did you hire anybody?

Kuhn: Not yet, but we have got people who can be hired as soon as you give the word.

H.M.Jr: Did you hire Mr. Bell's friend?

Bell: My friend?

H.M.Jr: Yes.

Cox: The young lady.

Bell: Oh, yes. I thought you said we would have to think about her so I sort of dismissed her from my mind.

- 27 -

H.M.Jr: Is that the way you think about her?

Bell: Yes, that is it.

H.M.Jr: Well, I am ready. What was that other man he said was a very sophisticated person and when he said that, I said, "That was Huntington Cairns' field," somebody who talked about coming in? You mentioned somebody who was down here and --

Bell: Simson?

Kuhn: Not Milton. I don't remember.

H.M.Jr: He mentioned a name. I think he is with this Columbia group.

Kuhn: Lasswell?

Cairns: He is here now. He is a good man.

H.M.Jr: That was the man. What did you do, drop him?

Cox: You would have difficulty understanding what he is saying.

H.M.Jr: Have you dropped him?

Kuhn: He has got him on his list.

H.M.Jr: We can hook him if we want him?

Kuhn: I believe so.

H.M.Jr: Lasswell was the fellow. Did you know him, Huntington?

Cairns: I have read all his books. He is concerned with propaganda technique and public opinion.

- 28 -

H.M.Jr: That is us.

Schwarz: He is a little scientific for a practical problem, I think. He can advise all right, but he is not good at operating.

H.M.Jr: Harold is the practical fellow, and I am the dreamer; so Laswell, Harold and I make a good combination. Kuhn interprets these dreams, you see. (Laughter)

And Huntington goes on the air and criticizes them. What else, Harold?

Graves: Nothing.

Schwarz: The New York Journal of Commerce this morning carries an editorial in which they recommend --

H.M.Jr: They recommend what?

Schwarz: They recommend that the liaison with the British purchasing should go into the OPM after passage of the Lend-Lease Bill, and I have been gratified some of the correspondents who were covering defense who saw it this morning have been calling here and saying if anything it ought to be the other way around, that the Treasury ought to take care of production. The reporters are still being very critical of the administration of the production.

H.M.Jr: I came back with a bad attack of indigestion, and not only do I not want to absorb any more, but I may disgorge something.

Schwarz: Senator Overton wrote in and said he was very much impressed by newspaper reports of your statements on the Lend-Lease Bill,

- 29 -

and asked for several copies. We sent him some.

H.M. Jr: Good.

Schwarz: And one point I wanted to ask about in connection with Mr. Houghteling, do you want to make an announcement in connection with his work? I think if he is going to be here for some time, we ought to say something. I will check with Harold.

H.M. Jr: Sure. The social aspect of liquor. How to drink and be a gentleman, or what a gentlemen is supposed to be. (Laughter)

Bell: In other words, when to stop.

H.M. Jr: Yes. Incidentally - you see, he is under Harold. I learned for the first time what Fred Osborne is doing. Maybe you know all this. Fred Osborne is chairman of a committee in the Army. Under him, he had three men. Sherwood is on Recreation. There are three different people under him. I think Houghteling ought to get in touch at once with Fred Osborne, whom he undoubtedly knows, and tell him what we are doing and where we can dovetail in with what they are doing and not overlap, you see.

Graves: Mr. Houghteling has made a contact with the Federal Security Administrator on this matter. That would be Mr. McNutt.

H.M. Jr: Yes. Well, I know he has something to do with the thing, according to the newspapers, but Osborne is working for the Army and his committee is responsible for the soldiers inside the cantonments.

- 30 -

Now, for instance, Sherwood told me - incidentally, he was a private in the last war in the Canadian Army. He made one trip and that is where he got pneumonia. He said the thing pleased him so that this time they are serving beer on the reservations, you see, but that - there are two aspects. I think one is inside the Army reservations and I think that McNutt has the thing outside. I think that is right, and I know shockingly little about it. I think if he would talk to Fred Osborne and then after he has talked to him, maybe you and I could - Sherwood said when it comes to enforcing anything, they have no power; and he would be delighted, anything that we could do to back him up if they found any trouble. Is that the way it is? I think the Fred Osborne Committee would be inside.

- Graves: That is as I understand it. I am sure McNutt has nothing to do with what goes on inside.
- Schwarz: That is all.
- H.M.Jr: Are you wound up? Are you pitched?
- Schwarz: I am ready to.
- H.M.Jr: Jim? I will bet you have nothing.
- Buckley: I have got a dozen memorandums. Do you want them?
- H.M.Jr: No, we will do it together. A new system for 24 hours.
- Buckley: I might throw some light on this editorial in the Herald - Journal of Commerce. Don Nelson has hired a so-called Foreign Liaison man. There has been a rash of new liaison men.

- 31 -

H.M.Jr: A rash?

Buckley: Yes. I have had three of them this week. One is a chap named Allen from Don Nelson's shop, and we talked in generalities and I staved him off for awhile and he has been working with the British Purchasing Commission on studying what Nelson would have to do under the Lease-Lend Bill for the British.

Now, I hadn't ever heard of him before, and he might want to talk to Purvis about the fact that he has been working there for some time without our knowledge.

H.M.Jr: No, no, that is not correct. Don Nelson asked permission to personally go up to New York and make a study of the Purchasing Mission, which he did, and Purvis told me about it.

Buckley: I believe he sent Allen instead of going himself.

H.M.Jr: He said he would spend two or three days there himself. I knew about that.

Buckley: I sent yours and Phil's regrets for not going to the annual meeting of the trustees of the National Gallery this morning.

H.M.Jr: Good.

Buckley: Mr. Gaston and I didn't think I would be any good.

Gaston: We looked over the list of officers and directors and decided they would be re-elected in any event so we couldn't do anything about it.

- 32 -

Buckley: You know, I believe, that Phil will be back Wednesday noon.

H.M.Jr: No, I didn't.

Buckley: There was an article in this morning's New York Times about the fact that certain American insurance companies are not taking insurance on ocean freight that are not acceptable to British insurance companies.

OPM called me this morning, young Levin, saying he wondered if that was not in restraint of trade and in view of the insurance investigation, he just, merely as a matter of information, brought it to my attention. I have the article.

H.M.Jr: Why don't you pass it on to O'Connell, the TNEC thing. Right, Huntington?

Cairns: I will do that.

H.M.Jr: He is the right man, isn't he?

Cairns: Yes, he is the man.

Buckley: You will probably want to talk about the Greek situation later. The State Department has invited me to sit in at a meeting with Atherton and Henderson of their staff tomorrow afternoon, when they are going to tell Oumansky that he has to work through the Liaison Committee or else, and since that is what we have been working for, I have accepted, subject to your approval.

H.M.Jr: Surely.

Buckley: Mr. Purvis hasn't heard any more about Bloch-Laine.

- 33 -

- H.M.Jr: No, you got that message?
- Buckley: Yes. The last he knew of him he had been sent to Vichy. Then he heard later that he was in the south of France and presumably, although he doesn't know for a fact, no longer with Lazard Freres on that job.
- H.M.Jr: I woke up in the middle of the night thinking of Bloch-Laine and I gave him a promise if he ever wanted to come back to this country, we would help him. At least I got Sumner Welles to give him that promise in return for what he did for the British on turning over the contracts. I woke up in the middle of the night thinking about Bloch-Laine. And I wondered if there is any way that we could follow through.
- Buckley: Purvis is going to check on his sources again and find out. That is all I have.
- Cochran: Dean Jay was down last week from New York, and he knows Bloch-Laine very well, and just came from France. He could tell us.
- H.M.Jr: Will you ask him?
- Cochran: Surely, I will find out.
- H.M.Jr: All right. Dan?
- Bell: This may come up at the luncheon at the White House today, I don't know. Last Friday morning quite late I got a call from the White House that my appointment with the President would be for 11:45. I called and told them that I had no appointment, and asked what it was all about. General Watson said he didn't know, but he had a note from the President that he wanted

- 34 -

to see Jerry Frank and Commissioners Pike and Eicher and Leo Crowley and myself. He didn't know what the conference was about. When we got over there it was Trans-America.

The President said he had a memorandum on his desk about the whole matter. He didn't say from whom, but that he was getting rather tired of hearing about it and he would like to have the departments concerned get together and settle it.

I spoke up and said, "Well, Mr. President, does that memorandum concern the Treasury and the SEC or just the SEC?" He said, "I think it is largely the SEC," and I said, "Well, we have settled our matter with the Bank of America with the exception of a small real estate item and I think that will be settled within a week."

Leo Crowley spoke up and said, "We haven't settled the matter of the branches," and I said, "So far as the Treasury is concerned, we have settled them. We have turned them all down," but when I returned to the Treasury I found that we had received six subsequent applications which were still pending that I didn't know about at the time.

Jerry Frank told him that he thought the people in the room --

H.M.Jr: Excuse me. Just so I get it right. You said there was Frank, Eicher, and Pike?

Bell: Yes. Healy was not invited. He is the other member. Jerry Frank said he thought the people in the room were pretty much in agreement as to the policy of the Federal Government

- 35 -

toward the Bank of America, and the Trans-America and he said the only ones that are out of step are Jesse Jones and Marriner Eccles.

H.M.Jr: Did he say that?

Bell: Yes.

H.M.Jr: He did say that?

Bell: Yes, he did. He was quite frank.

H.M.Jr: Good for Jerry.

Bell: He said he was quite willing to sit down at a table and try to settle this matter. But he said the Trans-America crowd has not been willing to stipulate the facts which they must insist upon, and after they stipulate the facts the Commission will have to render a decision, which they don't want, and he told the President he thought it would be very bad for the Commission if they were not permitted to render a decision. It would hamper them in their future work with all other organizations.

The President said he didn't want them to settle it without a decision, he recognized there had to be a decision. Jerry said if they had hired themselves a lawyer, and he so told Ed Flynn last week, somebody besides the House lawyer, who doesn't own his own body and soul --

H.M.Jr: House lawyer?

Bell: That means their own counsel in the bank.

H.M.Jr: If who would hire a lawyer?

- 36 -

Bell: Trans-America.

H.M. Jr: Oh.

Bell: Such as Cushing or Flagler, who could really sit down and negotiate, they could settle it in the course of a month. It wound up by the President saying that the five of us should act as a committee to settle this matter.

I said I thought it was clearly within the province of the SEC, and we had nothing to do with it; and I didn't think we ought to sit in.

H.M. Jr: That is right.

Bell: That is the way it was left.

H.M. Jr: Where does Leo Crowley come in on it?

Bell: Well, it was a Trans-America Bank problem. I had quite a time explaining it to the press. The President said, "When you go out, just say to the Press that you have been discussing power with me," and that is what Jerry said, I guess. I came through the basement. I don't know. But the press said, "Well, what was Leo Crowley doing there then if you were discussing power?"

Schwarz: On the strength of that one word, the Post boy wrote three quarters of a column on power.

Gaston: He told the Cabinet you were discussing Navy Budget matters.

Bell: Oh no.

- 37 -

Gaston: Yes. He said that Harold Smith and Dan Bell were in and he was talking to them about the - this Navy acquisition of a lot of old merchant ships, and he laid down the rule that the reconditioning cost should not be more than 80% of the original cost of the vessels.

Bell: Harold Smith was in ahead of us, but I wasn't in with him.

H.M.Jr: Well now, I want Ed Foley to have a copy of this, and put it on top of his pile when he comes back.

Bell: The memo?

H.M.Jr: If you please. Have you let Preston Delano know?

Bell: Yes. I am sending him a copy of this memo, too.

H.M.Jr: But you don't know who wrote the President his memo?

Bell: No, but I have a suspicion it was Tom Corcoran because he was around the week before getting information. He was asking Delano what had been done and what we had done with the branches, and so forth.

H.M.Jr: What would Tom Corcoran want it for?

Gaston: Don't you think the pressure is from the National Democratic Committee?

Bell: I think Tom is working under Ed Flynn.

H.M.Jr: No.

- 38 -

Bell: You don't think so? I just had this suspicion. Maybe it was from Ed Flynn.

H.M.Jr: I think it is Ed Flynn. His partner --

Gaston: Ewing?

H.M.Jr: Ewing isn't a partner. Goldwater is his partner. He was looking after it while he was gone.

Bell: By the way, there was a Mr. Ewing sitting in the room when we went in, and he went in just before we did.

Gaston: He is a general assistant to Flynn in the Committee, Oscar Ewing.

H.M.Jr: Oh, I think this is Democratic Committee.

Gaston: Yes.

Bell: He wouldn't say where it came from. He just waved the memorandum and then stuck it in his basket upside down.

H.M.Jr: Ask Ed to ask Tom Corcoran if he is interested in this, will you? I am sure he is.

Bell: Before you went away --

H.M.Jr: Did they bring up bank holding legislation?

Bell: Not at all.

H.M.Jr: I would say that Frank had his way, didn't he?

Bell: Yes. I thought the President agreed with him very much. He just wanted him to push it and settle it, but he didn't dictate how

- 39 -

it should be settled. I agreed it should be an agreement with a decision.

H.M.Jr: I still don't see why Leo Crowley should be there.

Bell: There wasn't any reason for me to be there either except that we were both on the Bank of America thing.

H.M.Jr: As to the other branches, if you get a recommendation for me from Preston Delano, I will act on it.

Bell: He just got them recently, and he will be ready soon. Leo knew about it and I didn't.

H.M.Jr: What else?

Bell: Dr. Burgess wanted to see you before you went away about the Inter-American Bank, a provision in there which he and the other banks which have branches in South America were concerned with that would enable the bank to do a commercial business with private individuals and he came to see me instead, and I told him that he certainly shouldn't try to see you until after you returned.

They had a conference at the State Department on the 7th, at which Loree, Charlie Spencer, and Burgess were present. They agreed that they couldn't do anything to put in legislation a direction to the American director. They thought that would be bad, and it would be a precedent and every other South American country would undertake to put something in their legislation, and they couldn't change the by-laws because as I understand it, it

- 40 -

has been made part of the convention. So what they have agreed to do is that the Departments concerned will write a letter to Congress and state that they will instruct our director on the board to recommend that the by-laws of the bank be changed so as to provide any loans made under two years, I think it is, be guaranteed, the same as loans made after two years. Everybody agreed to that except the Treasury, and it was accepted by the Treasury subject to your approval. I take it it is all right.

H.M.Jr: I am not sure if I get that.

Bell: It is what the Treasury originally proposed. Does anybody remember it?

Pehle: Yes, that is right. We proposed it and it was strongly objected to by the Federal Reserve Board and by Pearson.

H.M.Jr: Is it the way we wanted it' originally?

Bell: That is right.

H.M.Jr: That is O.K.

Bell: Now they are back to it.

H.M.Jr: All right.

Bell: This is a memorandum for your files, and I will tell Bernstein to go ahead.

H.M.Jr: What else?

Bell: I sent one of Harry White's representatives out to get that information from these various corporations as to the difficulty they had had and I see where one representative, I

- 41 -

don't know who, gave it out to the Wall Street Journal that the Treasury was around trying to find out the attitude of various corporations to freezing control. That is about the only thing that was said. I have his report, which I haven't read.

H.M.Jr: Supposing you read it and we will discuss it together. That would go, if it fits in with what Merle is doing for me for Mr. Hull - I want it for the same purpose.

Bell: It is available. It hasn't been read by Harry White.

H.M.Jr: We can't wait for Harry, and if we could get together you can prepare something for me if it is something that I could use as an argument why we should go ahead and freeze.

Bell: O.K.

H.M.Jr: Merle --

Bell: He has a private report here.

H.M.Jr: I am sure Merle will find good points in there.

Cochran: This will involve freezing Latin America.

H.M.Jr: Well, you read it and if you think there is something I can use, give me the good points.

Gaston: I think the violent excitement of the Swiss is a pretty good argument.

H.M.Jr: Will you do that?

- 42 -

Cochran: Yes.

H.M.Jr: If there is anything which you think would be a good argument from my standpoint.

All right, Dan? I ought to quit now. How much more have you got?

Bell: I just wanted to tell you that Hadley made a survey last week of Cleveland, Philadelphia, Boston, New York, the same as he did in Chicago, of the last bond.

H.M.Jr: That plus the memorandum which I didn't read before I left that Miss Chauncey can give you, written by Rouse, I would like to sit down with you and go over them quietly; and will you also be prepared to talk to me on the timing on this bill and everything else, whether we ought to increase our bill borrowing now or whether we should sit tight or get out a bond issue. If you would be ready in a day or two to talk to me, and then when we talk that over, I would like you and George and I to sit down, see.

Bell: O.K. We have been talking about that.

H.M.Jr: I would like to read those things.

Bell: The only other item is that the appropriation is before the Appropriations Committee, our estimates, and we have a hearing at two o'clock on the three million dollars.

H.M.Jr: Can you take care of that?

Bell: Yes, I am going at two o'clock with Harold and Mr. Broughton and Mr. Kilby.

- 43 -

- H.M.Jr: Good. Now, let Kuhn go just to listen. He has never been to one. Just so he can see how easy or hard it is to get three million dollars.
- Now, who has got what I am going to say Wednesday?
- Bell: I have a draft of it here if you would like to read it. I gave it to Kuhn and Schwarz and one or two others, John Sullivan, and I haven't gotten their suggestions back. It is just a rearrangement of what you said before the House.
- H.M.Jr: When can I do that?
- Bell: Either this afternoon or tomorrow morning. Or tomorrow afternoon. I have cut a great deal of the other out and got it down now to about six pages, and it still can be reduced if you want to.
- H.M.Jr: I would like everybody else to go over it before I do.
- Bell: That would save their time if I could get their suggestions this afternoon.
- H.M.Jr: I will see you at 10:15 tomorrow. Is that all right?
- Bell: Yes.
- H.M.Jr: O.K?
- Thompson: The Treasury appropriations bill was introduced in the House today. They cut us about four million dollars, spread out all through the bill, mostly Coast Guard. Two million cut on reconstruction in the Coast Guard.

- 44 -

H.M.Jr: A little louder.

Thompson: Two million cut on the Coast Guard for reconstruction. I just got these figures as I was coming in, and I don't see anything very serious.

H.M.Jr: I think they are in such good shape that you might get me a reservation tonight for Arizona again.

Gaston: I think you made a mistake to come over.

H.M.Jr: I was very lucky on the week I picked. It was marvelous.

Bell: It hasn't been so hot here.

H.M.Jr: The weather?

Bell: Yes, it was rain and snow.

H.M.Jr: It is almost unbelievable that I was riding in the country yesterday and there was about one person every ten miles and I am back here today. The Mexicans still are just as progressive as ever on the other side of the border.

I went down into this village where these Indians live about ten or 15 miles the other side in Mexico, and it is very clean and everything; and I said, "That is the life, no electric lights, running water, radio," and the man that runs the ranch says, "Well, that is easy. I can fix that for you tonight. You can sleep on the floor and everything."

65

Treasury Department
Office of the Under Secretary

Date:

To: Mrs. Klotz.

From: SWB J

This is the matter
con Inter-American Bk
which I cleared one
morning at a staff meeting
about one month ago.
For Ross's file:

DEPARTMENT OF STATE

Washington

C
O
P
YIn reply refer to
RA

My dear Senator George:

In a memorandum relating to the proposed Inter-American Bank attached to my report of July 3, 1940, which was transmitted to the Senate with the President's message of July 5, 1940, it was stated:

"While the purposes and powers of the projected Bank have been stated in fairly broad and elastic terms, as is both customary and essential in the organic laws of such institutions, discussions during the drafting of the convention and bylaws indicated that it was the intention of the Inter-American Financial and Economic Advisory Committee to complement existing financial institutions rather than to provide a substitute for them."

Certain provisions of Section 5B of the draft bylaws would enable the Bank to deal in the securities of and make loans or extend credits having maturity not exceeding two years to nationals of a participating government without any further guaranty so long as the participating government makes no timely objection. It is suggested that this might permit the entry of the Bank into a type of business not now intended or contemplated.

Accordingly, it seems desirable to clarify the situation by amending as soon as practicable after the organization of

- 2 -

the Bank the bylaws to limit such operations to those which are guaranteed by a participating government, central bank or other acceptable banking institution. This would of course allow further amendment of the pertinent provisions of the bylaws at some future time to permit such operations without such guaranty if an emergency should alter the present situation. This would not change the existing provisions of bylaws regarding operations having a maturity of two years or more which must be guaranteed by the national's government.

On my own behalf and on behalf of the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, and the Federal Loan Administrator, I am prepared to state, for your information and guidance in passing upon the above-mentioned convention that, should we participate in the Inter-American Bank Committee as provided in the proposed bill, it would be our purpose, so soon as the Bank is established, to undertake to have the representative of the United States of America on the Board of Directors exercise his best efforts to bring about an amendment of the bylaws of the Bank as indicated above.

Sincerely yours,

Feb. 10, 1941 ✓
68

MEMORANDUM OF CONFERENCE

Time: 3:20 p.m. to 3:55 p.m.

Present: Secretary Morgenthau, Mr. Wickard, of the Department of Agriculture, and Oscar Cox. Jim Buckley came into the conference at 3:28 and George Haas at 3:32, both at Secretary Morgenthau's request.

Secretary Morgenthau started the conference by saying that agricultural products were covered under the Lend-Lease Bill. He asked Cox to point out why they were covered. Cox stated that the definition of "defense article" in the Lend-Lease Bill specifically included any other article or commodity for defense purposes, as well as arms and implements of war. He also pointed out that to remove any doubt on this subject, the Report of the House Committee on Foreign Affairs specifically stated that:

* * * It should be noted that the term 'defense article' includes not only all arms, munitions, and implements of war, but also other articles or commodities such as cotton, wheat, and all other agricultural products which may be necessary for defense purposes.
* * *

Secretary Morgenthau handed over to Secretary Wickard a marked copy of the House Report.

Secretary Wickard said that was fine and completely answered the question he had raised with the President while Secretary Morgenthau was at lunch with the President.

Then Secretary Wickard showed Secretary Morgenthau a cable received from the Food Ministry in London by the State Department about the British purchase of food-stuffs in this country.

At this point, Secretary Morgenthau asked Mr. Buckley to come in. Secretary Wickard said that in attempting to purchase such food-stuffs as cheese and tinned beef in this country, the British would, because of the prevailing situation, unnecessarily run up the prices. Cox asked if one way of handling the situation would be for

- 2 -

the Secretary of Agriculture to make up a sort of inventory showing the kind of food-stuffs that could reasonably be purchased by or for Britain in this country without unnecessarily running up the price. Secretary Morgenthau and Secretary Wickard both agreed that this would be a good idea. Secretary Morgenthau pointed out that this is what he has been doing for about two years in connection with the purchase of military equipment, etc.

Secretary Morgenthau suggested that in his view the practical way of handling the situation would be for Purvis to call on Secretary Wickard and work out the procedure for handling food purchases. Secretary Morgenthau said he would arrange to have Purvis call on Secretary Wickard.

Secretary Morgenthau asked Secretary Wickard if he would like to have a list of all wool materials which the Army purchases, in order to ascertain whether or not cotton could be used as a substitute for any of it. Mr. Wickard said he would like very much to have it.

Secretary Morgenthau called Haas and asked him to bring it in. The list was given to Secretary Wickard.

On the question of appropriations to be made under the Lend-Lease Bill for agricultural products, Secretary Morgenthau said he would get in touch with Secretary Wickard about them and would also like to have him available at the meeting scheduled for Thursday on this subject.

Secretary Wickard said he was well pleased with the situation.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE February 10, 1941

TO Secretary Morgenthau
FROM O. S. Cox

The material on what action should be taken now pending the enactment of the Lend-Lease Bill is ready for you any time you want it. You thought you might want to discuss the matter with the President at luncheon today.

OSC

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE FEB 10 1941

TO Secretary Morgenthau
FROM O. S. Cox
Subject: Disposition of Existing Army Materiel

McCloy, Special Assistant of Secretary Stimson, has told me about the conferences of Mr. Purvis with Mr. Stimson and the action, approved by the President, taken on the basis of these conferences.

You may want to get from Mr. Purvis a first-hand version of this situation before your luncheon with the President.

O.S.C.

— This marks the House Foreign Affairs Committee Amendments to the bill.

— This marks amendments adopted upon the Floor of the House.

77TH CONGRESS
1ST SESSION

H. R. 1776

IN THE SENATE OF THE UNITED STATES

FEBRUARY 10, 1941

Read twice and referred to the Committee on Foreign Relations

AN ACT

Further to promote the defense of the United States, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as "An Act to Promote the
4 Defense of the United States".

5 SEC. 2. As used in this Act—

6 (a) The term "defense article" means—

7 (1) Any weapon, munition, aircraft, vessel, or
8 boat;

9 (2) Any machinery, facility, tool, material, or
10 supply necessary for the manufacture, production, proc-

1 essing, repair, servicing, or operation of any article
2 described in this subsection;

3 (3) Any component material or part of or equip-
4 ment for any article described in this subsection;

5 (4) Any other commodity or article for defense.
6 Such term "defense article" includes any article described
7 in this subsection: Manufactured or procured pursuant to
8 section 3, or to which the United States or any foreign
9 government has or hereafter acquires title, possession, or
10 control.

11 (b) The term "defense information" means any plan,
12 specification, design, prototype, or information pertaining to
13 any defense article.

14 SEC. 3. (a) Notwithstanding the provisions of any
15 other law, the President may, from time to time, when he
16 deems it in the interest of national defense, authorize the
17 Secretary of War, the Secretary of the Navy, or the head
18 of any other department or agency of the Government—

19 (1) To manufacture in arsenals, factories, and ship-
20 yards under their jurisdiction, or otherwise procure, any
21 defense article for the government of any country whose
22 defense the President deems vital to the defense of the
23 United States.

24 (2) To sell, transfer, exchange, lease, lend, or other-
25 wise dispose of, to any such government any defense

§

1 article, but no defense article not manufactured or pro-
2 cured under paragraph (1) shall in any way be dis-
3 posed of under this paragraph, except after consultation
4 with the Chief of Staff of the Army or the Chief of Naval
5 Operations of the Navy, or both. The value of defense
6 articles disposed of in any way under authority of this
7 paragraph, and procured from funds heretofore appro-
8 riated, shall not exceed \$1,300,000,000.

9 (3) To test, inspect, prove, repair, outfit, recondi-
10 tion, or otherwise to place in good working order any
11 defense article for any such government.

12 (4) To communicate to any such government any
13 defense information, pertaining to any defense article
14 furnished to such government under paragraph (2) of
15 this subsection.

16 (5) To release for export any defense article to
17 any such government.

18 (b) The terms and conditions upon which any such
19 foreign government receives any aid authorized under sub-
20 section (a) shall be those which the President deems
21 satisfactory, and the benefit to the United States may be
22 payment or repayment in kind or property, or any other
23 direct or indirect benefit which the President deems
24 satisfactory.

25 (c) Neither the President nor the head of any depart-

1 ment or agency shall after June 30, 1943, exercise any
 2 of the powers conferred by or pursuant to subsection (a),
 3 nor shall such powers be exercised if terminated by a con-
 4 current resolution by both Houses of the Congress, except
 5 that until July 1, 1946, such powers may be exercised to
 6 the extent necessary to carry out a contract or agreement
 7 with such a government made before July 1, 1943.

8 (d) Nothing in this Act shall be construed to author-
 9 ize or to permit the authorization of convoying vessels by
 10 naval vessels of the United States.

11 (e) Nothing in this Act shall be construed to authorize
 12 or to permit the authorization of the entry of any American
 13 vessel into a combat area in violation of section 3 of the
 14 Neutrality Act of 1939.

15 SEC. 4. All contracts or agreements made for the dis-
 16 position of any defense article or defense information pur-
 17 suant to section 3 shall contain a clause by which the foreign
 18 government undertakes that it will not, without the consent
 19 of the President, transfer title to or possession of such defense
 20 article or defense information by gift, sale, or otherwise,
 21 or permit its use by anyone not an officer, employee, or
 22 agent of such foreign government.

23 SEC. 5. (a) The Secretary of War, the Secretary of the
 24 Navy, or the head of any other department or agency of
 25 the Government involved shall, when any such defense arti-

1 cle or defense information is exported, immediately inform
 2 the department or agency designated by the President to
 3 administer section 6 of the Act of July 2, 1940 (54 Stat.
 4 714), of the quantities, character, value, terms of disposi-
 5 tion, and destination of the article and information so
 6 exported.

7 (b) The President from time to time, but not less fre-
 8 quently than once every ninety days, shall transmit to the
 9 Congress a report of operations under this Act except such
 10 information as he deems incompatible with the public interest
 11 to disclose. Reports provided for under this subsection shall
 12 be transmitted to the Secretary of the Senate or the Clerk
 13 of the House of Representatives, as the case may be, if the
 14 Senate or the House of Representatives, as the case may be,
 15 is not in session.

16 SEC. 6. (a) There is hereby authorized to be appro-
 17 priated from time to time, out of any money in the Treasury
 18 not otherwise appropriated, such amounts as may be neces-
 19 sary to carry out the provisions and accomplish the purposes
 20 of this Act.

21 (b) All money and all property which is converted
 22 into money received under section 3 from any government
 23 shall, with the approval of the Director of the Budget,
 24 revert to the respective appropriation or appropriations out
 25 of which funds were expended with respect to the defense

1 article or defense information for which such consideration
 2 is received, and shall be available for expenditure for the
 3 purpose for which such expended funds were appropriated
 4 by law, during the fiscal year in which such funds are
 5 received and the ensuing fiscal year.

6 SEC. 7. The Secretary of War, the Secretary of the
 7 Navy, and the head of the department or agency shall in all
 8 contracts or agreements for the disposition of any defense
 9 article or defense information fully protect the rights of all
 10 citizens of the United States who have patent rights in and
 11 to any such article or information which is hereby authorized
 12 to be disposed of and the payments collected for royalties on
 13 such patents shall be paid to the owners and holders of such
 14 patents.

15 SEC. 8. The Secretaries of War and of the Navy are
 16 hereby authorized to purchase or otherwise acquire arms,
 17 ammunition, and implements of war produced within the
 18 jurisdiction of any country to which section 3 is applicable,
 19 whenever the President deems such purchase or acquisition
 20 to be necessary in the interests of the defense of the United
 21 States.

22 SEC. 9. The President may, from time to time, promul-
 23 gate such rules and regulations as may be necessary and
 24 proper to carry out any of the provisions of this Act; and he
 25 may exercise any power or authority conferred on him by

1 this Act through such department, agency, or officer as he
 2 shall direct.

Passed the House of Representatives February 8, 1941,

Attest:

SOUTH TRIMBLE,

Clerk.

By H. NEWLIN MEGILL.

79

2/10/41

Taken to White House today by the
Secretary .

Feb 10th 1944



THE SECRETARY OF THE TREASURY
WASHINGTON

MEMORANDUM

TO: The President
FROM: Secretary Morgenthau
SUBJECT: Action To Be Taken Pending the Enactment of H.R. 1776.

Consideration should probably be given, as soon as possible, to the three following problems, so that no delay will result in carrying out the Lend-Lease Bill, if and as soon as it is passed:

- (1) Having the regulations ready for signature the day you sign H.R. 1776;
- (2) Having the requests for appropriations ready to go to Congress the day the bill is signed; and
- (3) Having ready for disposition the defense articles which the Army and Navy have on hand, and which they can reasonably spare to meet the urgent needs of Britain, China and Greece.

(1)

Regulations

- (a) Do you want the regulations ready for your signature the day you sign the bill?
- (b) Should War, Navy and Treasury start at once to prepare such regulations?

- 2 -

(2)

Appropriations

(a) Should the Secretaries of War, Navy and Treasury get together informally now to frame the policy upon which the appropriation requests shall be made?

AK
 (b) After such policy is framed and approved by you, should the Secretaries of War, Navy and Treasury consult with the Director of the Budget and proceed to prepare the requests so that they can be passed upon by Budget and sent up to Congress immediately after H.P. 1776 is signed by you?

(3)

Disposition of Army and Navy
Material on Hand

AK
 (a) Should the Secretaries of War, Navy and Treasury get together informally, as soon as possible, to determine: (1) As of today, or within the next two months, what are Britain's, China's and Greece's most pressing needs; and (2) In relationship to these needs, what defense articles do the Army and Navy now have on hand that they could reasonably transfer?

W. M. Nathan

FEB 10 1941

Dear Mr. President:

When I got back to the office, I found that the Lend-Lease Bill clearly covers agricultural products. The bill itself defines the expression "defense article" to include not only arms and implements of war but also any other article or commodity for defense purposes.

To remove any doubt on the question, the Report of the House Committee on Foreign Affairs specifically stated that -

"It should be noted that the term 'defense article' includes not only all arms, munitions, and implements of war, but also other articles or commodities such as cotton, wheat, and all other agricultural products which may be necessary for defense purposes."

For your information, I am enclosing a marked copy of the House Committee Report.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

H. Morgenthau
680:43b

FEB 10 1941

Dear Mr. President:

When I got back to the office, I found that the Lend-Lease Bill clearly covers agricultural products. The bill itself defines the expression "defense article" to include not only arms and implements of war but also any other article or commodity for defense purposes.

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For your information, I am enclosing a marked copy of the House Committee Report.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Enclosure

OSC:djb

TO PROMOTE THE DEFENSE OF THE UNITED STATES

JANUARY 30, 1941.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. BLOOM, from the Committee on Foreign Affairs, submitted the following

REPORT

[To accompany H. R. 1776]

The Committee on Foreign Affairs, to whom was referred the bill (H. R. 1776) further to promote the defense of the United States by supplying material aid to those countries whose defense is vital to the defense of the United States, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments are as follows:

Page 3, line 2, strike out the period and insert in lieu thereof a comma and the following:

but no defense article not manufactured or procured under paragraph (1) shall in any way be disposed of under this paragraph, except after consultation with the Chief of Staff of the Army or the Chief of Naval Operations of the Navy, or both.

Page 3, after line 18, insert a new subsection as follows:

(c) Neither the President nor the head of any department or agency shall, after June 30, 1943, exercise any of the powers conferred by or pursuant to subsection (a), except to carry out a contract or agreement with such a government made before July 1, 1943.

Page 3 after subsection (c) insert a new subsection as follows:

(d) Nothing in this Act shall be construed to authorize or to permit the authorization of convoying vessels by naval vessels of the United States.

On page 4, line 3, after "Sec. 5," insert "(a)", and on page 4, after line 11 insert a new subsection (b) as follows:

(b) The President from time to time, but not less frequently than once every 90 days, shall transmit to the Congress a report of operations under this Act except such information as he deems incompatible with the public interest to disclose. Reports provided for under this subsection shall be transmitted to the Secretary of the Senate or the Clerk of the House of Representatives, as the case may be, if the Senate or House of Representatives, as the case may be, is not in session.

GENERAL STATEMENT

This bill was introduced in the House of Representatives on January 10, 1941. Full and extensive hearings on the bill were held for nearly 2 weeks by your committee. The committee heard, in public session, Secretary of State Cordell Hull, Secretary of the Treasury Henry Morgenthau, Jr., Secretary of War Henry L. Stimson, Secretary of the Navy Frank Knox, the Director of the Office of Production Management, William S. Knudsen, Ambassador Joseph P. Kennedy, Mr. Norman Thomas, Mr. Harford MacNider, Col. Charles A. Lindbergh, Gen. Hugh S. Johnson, Dr. Brooks Emeny, Mr. William R. Castle, Rev. Gerald Smith, Mr. John Burke, Mr. Benjamin C. Marsh, Mr. William J. Grace, Mr. William C. Dennis, Ambassador William C. Bullitt, Gen. John F. O'Ryan, Miss Dorothy Thompson, Minister to Norway Mrs. J. Borden Harriman, Mr. William Green, Mr. Louis Waldman, and Hon. Ernest W. Gibson. Statements were submitted by many others. The committee also heard, in executive session, Gen. George C. Marshall, Chief of Staff of the Army, Admiral Harold R. Stark, Chief of Naval Operations, and Gen. George H. Brett, Acting Chief of the Air Corps. Also appearances were made by Members of Congress.

From these hearings and the public discussion and debate on the bill, it has been clear to your committee that our national policy is and should be: (a) To keep out of war; and (b) for our own national security, to aid Britain and those other nations whose defense is vital to the defense of the United States by supplying them as quickly and as efficiently as possible with defense articles in a manner consistent with our democratic procedures.

In the considered opinion of your committee, the bill, as amended, squarely meets these objectives of our national policy. It is the considered view of your committee, insofar as human minds can evaluate the situation, that the probable effect of the bill will be to keep us out of war rather than to get us into it. It is also the judgment of your committee that the bill provides the most efficient way of supplying all possible material aid to those countries which are resisting aggression. It accomplishes this objective in a manner which is best for our national defense and wholly consistent with the Constitution and international law.

ANALYSIS OF THE BILL.

Section 1 of the bill contains the short title, "An Act to Promote the Defense of the United States." It requires no comment.

Section 2 of the bill contains the definition of the words "defense article" and "defense information." It should be noted that the term "defense article" includes not only all arms, munitions, and implements of war, but also other articles or commodities such as cotton, wheat, and other agricultural products which may be necessary for defense purposes. This term does not include men nor does any other provision of the bill deal with the utilization of our armed forces.

The term "defense article" is also by the terms of the bill intended to include not only articles manufactured or procured especially for any foreign country under the bill but also articles to or of which the United States or any foreign country either now has or hereafter acquires title, possession, or control.

This additional language in section 2 (a) of the bill describing what is included in the definition of "defense article" when read together with the substantive provisions of the bill:

(1) Empowers the President to authorize the disposition of defense articles, subject to the limitations in the bill, whether or not they are defense articles which have been manufactured or procured especially for any country the defense of which is vital to our national security. If the equipment to be so disposed of is equipment which was not manufactured or procured specifically for such a country, then the disposition can only be made after consultation with the Chief of Staff of the Army or the Chief of Naval Operations of the Navy, or both, as provided by your committee's amendment to paragraph (2) of section 3 (a).

(2) Empowers the President, when he deems it in the interest of the national defense, to authorize the Secretary of War, the Secretary of the Navy, or the head of any other governmental agency, to test, inspect, prove, repair, outfit, recondition, or otherwise to place in good working order a vessel or other defense article owned or controlled by a nation whose defense the President deems vital to the defense of the United States. However, this additional language in section 2 (a) of the bill setting forth what is included in the phrase "defense article" is not intended to, and does not, in any way enlarge or modify the powers of the Government to requisition any defense articles such as foreign ships interned in our ports.

The definition in section 2 (b) of "defense information," when read together with the substantive provisions of the bill, means that only those plans, specifications, designs, prototypes, or other information pertaining to defense articles which have been actually transferred, pursuant to the bill, can be communicated to a country the defense of which is vital to the defense of the United States. The bill does not in any way enlarge the powers of the Government or its officers to communicate defense information unless such communication follows after, and is incidental and relates to, a defense article transferred pursuant to the bill. The obvious purpose of authorizing the communication of such defense information is to enable the country to which defense articles are transferred intelligently and effectively to use such defense articles. Obviously, neither this definition nor any of the substantive provisions of the bill would empower the Government or any of its officers to communicate information concerning, for example, the defenses of the Panama Canal or of Fort Knox.

Section 3 is the heart of the bill. Briefly, it empowers the President to authorize the Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government, to manufacture or procure, dispose of and repair defense articles, and to communicate defense information, to or for the benefit of those nations the defense of which is vital to the defense of the United States, notwithstanding the provisions of any other law.

The expression "notwithstanding the provisions of any other law" has been used by the Congress since shortly after the formation of the Union. In 1794, the Congress granted exemption from customs duties to certain munitions, "anything in any former law to the contrary notwithstanding" (1 Stat. 370). Since that time a similar phrase has been used innumerable times, as for instance in the period from 1814 through 1822: 3 Stat. 49, 143, 261, 334, 412, 462, 582, 610, 640, 662. It has also

been used many times since then, as for example, in sections 8 (a) and 14 (a) of the Act of June 28, 1940 (Public No. 671, 76th Cong.).

The phrase "notwithstanding the provisions of any other law" has not only been used many times, but its meaning is clear. When a statute containing this language covers a general subject matter such as the disposition by the Government of military and naval equipment, such a general statute prevails over specific statutes covering part of the field or inconsistent with the general statute. Statutes the application of which would be inconsistent with the provisions of section 3 (a) are not repealed by the bill. The only effect of the phrase "notwithstanding the provisions of any other law" is to suspend the application of such inconsistent laws in order to make possible the effective carrying out of the provisions of section 3 (a). Such laws remain in full force and effect with respect to all other matters to which they now apply. Thus H. R. 1776, insofar as it provides that military equipment can be disposed of on such terms as the President deems satisfactory, would prevail over a statute requiring public advertisement before military equipment can be transferred.

Also, the present bill, by empowering the President to authorize the Secretary of the Navy, for example, to build or procure torpedo boats specifically for a belligerent whose defense is vital to our defense and to release them for export, would prevail over section 3 of the Act of June 15, 1917 (40 Stat. 222), which now makes it unlawful to send out of the United States a vessel of war built for a belligerent.

Similarly, the present bill, as amended, would prevail over the act of July 28, 1892, as amended (27 Stat. 321; 45 Stat. 988) which authorizes the Secretary of War in his discretion, if he deems it to be in the public good, to lease, for a period not exceeding 5 years and revocable at any time, such property of the United States under his control as may not for the time be required for public use. Under the terms of the present bill, the President, after consultation with the Chief of Staff of the Army, in appropriate cases, could authorize the Secretary of War to lease property, over which the Secretary of War has control, which would not be revocable at the option of the Secretary of War.

The expression "notwithstanding the provisions of any other law" when read together with the whole of the bill, as amended, does not in any way modify, repeal, or change such legislation as the Walsh-Healey Act, the Wage-Hour Law, the Eight-Hour Law, the Wagner Act, or other similar provisions of domestic law because there is no inconsistency between them and this bill. These laws continue in full force and effect and are in no way affected by this bill. Insofar as the powers granted by subsection (1) of section 3 (a) are concerned, giving the Secretary of War, the Secretary of the Navy, or the head of any other department or agency, when authorized by the President, the power to manufacture or procure defense articles, no discretion is given to waive domestic legislation of the kind mentioned.

The expression "notwithstanding the provisions of any other law" does not repeal the Johnson Act. By its specific terms and by its spirit, that Act does not apply to this Government, to a public corporation created by special authorization of Congress or to a public corporation controlled by the Government. The Johnson Act only prohibits the extensions of credit by individuals or private corporations to a foreign country which has defaulted on its debt to the United States. This

bill does not in any way authorize the extension of credits by private individuals to any foreign country which has defaulted on its debt to the United States; it simply sets up a method for supplying material aid, in the interests of our national defense, on a straight government-to-government basis.

Nor does this bill repeal the provisions of the Neutrality Act of 1939, which by its terms is applicable to private persons and corporations and not to the Government itself. Section 7 is the only provision of the Neutrality Act which might possibly apply to the Government.

This section is not by its express terms made applicable to this Government, although it does apply to Government corporations such as the Export-Import Bank. It should be noted, however, that in the course of the discussion of that section of the Neutrality Act of 1939 on the floor of the Congress some of the Members of Congress thought that it would apply to the extension of credit by the Government. See (1939) 85 Cong. Rec. 1017; (1939) 85 Cong. Rec. 516. However, even if it should be assumed that the spirit of section 7 of the Neutrality Act makes it applicable to the Government, it would be modified by this bill insofar as extensions of credit by the Government may conceivably be involved and only to that extent.

Paragraph (1) of section 3 (a) of the bill empowers the President, when he deems it in the interest of the national defense, to authorize the Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government "to manufacture in arsenals, factories, and shipyards under their jurisdiction, or otherwise procure, any defense article for the government of any country whose defense the President deems vital to the defense of the United States."

At the present time, the Government has no statutory authority to manufacture military and naval equipment in its arsenals or to procure such equipment from private manufacturers directly on behalf of any foreign government, except for the American republics pursuant to the Joint Resolution of June 15, 1940 (Public Res. No. 83, 76th Cong.). This paragraph proposes to enlarge the Government's power in this respect to meet the present situation.

This paragraph does not violate international law insofar as the manufacture or procurement of defense articles may be carried on for a belligerent country whose defense is vital to the defense of the United States. In the first place, it is a firmly established principle of international law that a nation is justified in acting in its own self-defense. Secondly, mutuality is an accepted principle of international law as well as of equity, and a nation which violates the basic rules of international law is not in a position to claim that another nation, in the interests of its own defense, is not complying with the less basic rules of international law. Furthermore, the Kellogg-Briand Pact, which is a part of international law not only was intended to outlaw force as a means of resolving international disputes, but its violation has also been regarded by many distinguished international lawyers as giving any signatory the power:

"to decline to observe toward the State violating the Pact the duties prescribed by international law, apart from the Pact, for a neutral in relation to a belligerent; (and to) supply the State attacked with financial or material assistance, including munitions of war." * * *

Germany, Italy, and Japan are parties to the Pact. So, too, are China, Ethiopia, Austria, Czechoslovakia, Poland, Norway, Denmark, Netherlands, Belgium, Albania, and Greece. The United States is also a party to the Pact. The Pact is consistently interpreted by distinguished international law experts to mean that a violator of the Pact, such as Germany, cannot legally renounce the Pact by its violation.

It should also be noted that Hague Convention No. XIII of 1907, which is often erroneously given as a reason in international law for prohibiting the supplying of material aid of the kind in question, is inoperative by its own terms. Article XXVIII of the Hague Convention specifically provides that the Convention shall not apply unless "all the belligerents are parties to the Convention." Great Britain and Italy are not parties to the Convention.

Paragraph (2) of section 3 (a), as amended by your Committee, empowers the President, when he deems it in the interests of national defense, to authorize the Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government, "To sell, transfer, exchange, lease, lend, or otherwise dispose of, to any such government any defense article, but no defense article not manufactured or procured under paragraph (1) shall in any way be disposed of under this paragraph, except after consultation with the Chief of Staff of the Army or the Chief of Naval Operations of the Navy, or both."

This, unquestionably, is the most important single provision of the bill. It authorizes the disposition by this Government, to any nation whose defense is vital to the defense of the United States, of any defense article upon those terms and conditions which the President deems satisfactory. As to defense articles which are not specifically manufactured or procured on behalf of such a foreign government, the disposition can only be made after consultation with the Chief of Staff of the Army or the Chief of Naval Operations of the Navy, or both. This provision, in a manner wholly consistent with our Constitution, gives the flexibility necessary to meet the fast changing situation in the war abroad in order that our own national defense interests may be served best. It places this power of negotiation and disposition in the President, the Chief Executive and Commander in Chief of the Army and Navy. As Mr. Justice Sutherland said in *United States v. Curtiss-Wright Export Corp.*, 299 U. S. 304, 319-322:

It is important to bear in mind that we are here dealing not alone with an authority vested in the President by an exertion of legislative power, but with such an authority plus the very delicate, plenary and exclusive power of the President as the sole organ of the Federal Government in the field of international relations. * * * It is quite apparent that if, in the maintenance of our international relations, embarrassment—perhaps serious embarrassment—is to be avoided and success for our aims achieved, congressional legislation which is to be made effective through negotiation and inquiry within the international field must often accord to the President a degree of discretion and freedom from statutory restriction which would not be admissible were domestic affairs alone involved. * * *

When the President is to be authorized by legislation to act in respect of a matter intended to affect a situation in foreign territory, the legislator properly bears in mind the important consideration that the form of the President's action—or, indeed, whether he shall act at all—may well depend, among other things, upon the nature of the confidential information which he has or may thereafter receive, or upon the effect which his action may have upon our foreign

relations. This consideration, in connection with what we have already said on the subject, discloses the unwisdom of requiring Congress in this field of governmental power to lay down narrowly definite standards by which the President is to be governed. * * *

Section 3 also empowers the President to require that in return for the disposition of defense articles, any country, for example Britain, shall pay with rubber, tin, the transfer of defense plants owned in this country, or any other direct or indirect benefit to the United States. The compelling need for this provision is the fact that Britain, for example, has only enough assets which can be converted into dollars in both this country and abroad to pay for orders already placed in this country. According to the testimony of the Secretary of the Treasury, Britain does not have available assets convertible into dollars which can be used to place further orders or to acquire further defense articles in this country. The flexibility granted by this provision to the Chief Executive, who is, by the Constitution, the Commander in Chief of the Army and Navy, is intended to enable him to act quickly and decisively in the best interests of this Nation. It is conceivable that our national security may be materially furthered by supplying certain defending countries, such as Britain, for example, with certain war equipment without repayment in kind or property or any benefit other than that Britain actually uses it in the defense of the British Isles, thereby furthering our own national defense. Where the interests of our national defense are consistent with requiring payment for defense articles, for example, in tin, rubber, or other property, the Chief Executive of this Government undoubtedly will make the best bargain possible for this country. Under this bill, this Government would be empowered to transfer to Britain, for example, certain defense articles for use in the defense of the British Isles, resulting in a benefit to the United States in that, if Britain is successful in her gallant defense of our civilization, our defense expenditures are likely to be reduced, or if Britain's ability to hold out is enhanced, we thus obtain valuable time adequately to prepare. In the opinion of your committee, this would be one of the kinds of benefits contemplated by the bill. However, this power is discretionary and not mandatory. In addition to such a benefit, the Government, of course, can require payment in kind or property.

Paragraph (3) of section 3 (a) enables the President to authorize the Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government, "To test, inspect, prove, repair, outfit, recondition, or otherwise to place in good working order any defense article for any such government." Under this provision, the War Department could, for example, test tanks procured for Britain at its Aberdeen Proving Ground, and the Navy Department could repair the H. M. S. *George V* in the Norfolk Navy Yard, if the President deemed it in the interest of the national defense to do so. Here again the power is permissive, not mandatory.

These permissive powers, if exercised, would not violate international law for the reasons previously given in connection with the discussion of paragraph (1) of section 3 (a).

Paragraph (4) of section 3 (a) enables the President to authorize the Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government, "To communicate to

any such government any defense information, pertaining to any defense article furnished to such government under paragraph (2) of this subsection." In addition to the explanation about this subject previously given in this report, several other facts should be noted. Within its limitations, this section covers two practical situations. The first is where, for example, a private individual or a firm has a patent on a particular item of military equipment, such as, for instance, the Sperry bombsight. In such a case—prior to recent legislation—it has been the practice of the War and Navy Departments to obtain a contract obligation from the holder of the patent rights not to disclose the patent or military secret without first obtaining the consent of the War or Navy Department. Normally, after a new sight is developed, the War and Navy Departments consent to the release of the information. Under this section of the bill, read together with section 7, the release, for example, of the Sperry bombsight to the Chinese Government would carry with it the obligation on the part of the Secretary of War or the Secretary of the Navy to see to it that the patent rights of the American holder were adequately protected.

Another type of case is the one where the Government itself holds the patent to a military or naval invention by reason of a discovery made by an employee of the Government in the scope of his governmental work and transferred pursuant to statute to the Government, or where the Government has otherwise obtained such a patent in its own name. Paragraph (4) of section 3 (a) of the bill enables the President to authorize the Secretary of War or the Secretary of the Navy to communicate the defense information, relating to any such defense article which has been transferred, to a country whose defense is vital to the defense of the United States.

Paragraph (5) of section 3 (a) enables the President to authorize the Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government, "To release for export any defense article to any such government." This provision does not in any way modify or enlarge the right to transport or deliver defense articles.

The intent and purpose of this paragraph is essentially twofold: (1) As already indicated, it prevails over existing laws prohibiting the taking out of the United States of vessels of war built for a belligerent; and (2) it makes it possible for the Secretary of War, for example, to release for export defense articles for Greece without requiring a license from the Administrator of Export Control pursuant to section 6 of the act of July 2, 1940 (Public, No. 703, 76th Cong.). However, it should be noted that under section 5 of the bill, as amended by your committee, full and detailed reports of the transactions must be made to the Congress and to the Administrator of Export Control.

Subsection (b) of section 3 has already been discussed in detail.

Subsections (c) and (d) of section 3 are both committee amendments. Subsection (c) fixes June 30, 1943 as the terminal date of the powers granted to the President or the head of any department or agency of the Government, except that contracts entered into before that date, with a government whose defense is vital to the defense of the United States, may be carried out. Thus, by way of illustra-

tion, a contract with such a country made on December 1, 1941, to procure a thousand pursuit planes which would require 19 months to perform could be carried out by delivery of the planes in August of 1943. However, a similar contract with such a country could not be entered into on July 2, 1943. In this connection it should also be noted that in addition to this time limitation provided by this amended subsection (c), the bill cannot be completely carried into effect unless and until Congress appropriates the funds in the usual manner to manufacture or procure defense articles pursuant to paragraph 1 of section 3 (a). This appropriation limitation will be discussed in more detail in connection with section 6 of the bill.

Subsection (d), which is added to this bill by your committee's amendment, speaks for itself. This subsection provides that the bill shall in no way be construed to authorize or to permit the authorizing of conveying by naval vessels of the United States. In fact, without the amendment it was the view of your committee that nothing in the bill in any way enlarged the powers of the Navy to convoy vessels. However, to avoid any doubt on this highly controversial issue, your committee deems it wise to recommend this amendment.

Sections 4 through 8 of H. R. 1776 are substantially the same as sections 3 through 7 of the Aid-to-American-Republics Joint Resolution of June 15, 1940 (Public Res. No. 83, 76th Cong.), except for a committee amendment adding a new subsection (b) to section 5 of this bill, to require reports to the Congress of the details of the transactions disposing of defense articles. The Act of June 15, 1940, does not require such reporting to the Congress.

Section 4 of H. R. 1776 is intended as a limitation upon the powers granted by the bill and as a protection to the Government. It retains part of the control in the United States Government over defense articles transferred to any country whose defense is vital to the defense of the United States. Thus, for example, rifles transferred to Britain for the defense of the British Isles could not be transferred by Britain to any other country without first obtaining the consent of the President of the United States.

Section 5 of the bill requires the keeping of accurate and detailed records showing the quantities, character, value, terms of disposition, and the destination of the defense articles and information transferred to any foreign government. It also requires the reporting of such information to the Congress, insofar as it is compatible with the public interest to do so. It also requires reporting to the Administrator of Export Control.

Section 6 of H. R. 1776 contains an authorization for an appropriation. Such an authorization, of course, does not appropriate funds nor does it make available funds which can be used to manufacture or procure defense articles for disposition pursuant to the bill. Article I, section 9, clause 7 of the Constitution provides that:

No money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of the Receipts and Expenditures of all public money shall be published from time to time.

It is, therefore, illegal to contract or otherwise to commit the Government, unless Congress has appropriated funds therefor, or authorized the commitment.

Paragraph (b) of section 6 provides, in effect, a revolving fund, so that any moneys collected from the disposition of articles pursuant to the bill can be used for two years to manufacture or procure equipment under the bill. This is a customary and valid provision. Article I, section 8, clause 12 of the Constitution provides that Congress shall have the power—

"To raise and support Armies, but no Appropriation of Money to that Use shall be for a longer Term than two Years;"

It is well known that the purpose of this constitutional provision is to prevent a large standing army without the constant check and surveillance of the Congress through the means of appropriations. See *The Federalist*, No. XXVI. It should be noted that this provision of the Constitution, neither by its terms nor its spirit, applies to appropriations for military equipment or defense articles. See (1904) 25 Op. Atty. Gen. 105. It has long been customary for the Congress to provide for revolving funds in connection with military and naval equipment. During the World War there were innumerable statutes making provision for similar revolving funds. A similar provision is contained in the Act of October 10, 1940 (Public Res. No. 829, 76th Cong.—the Requisitioning Act). A provision virtually identical for present purposes was included in the Act of June 15, 1940 (Public Res. No. 83, 76th Cong.). This is the Act authorizing material aid to the American republics.

Section 7 requires the Secretary of War, the Secretary of the Navy, and the head of any other department or agency concerned, to make provision for safeguarding the rights of citizens of the United States who have patent rights in any defense article or defense information transferred to a foreign government.

Section 8 authorizes the Secretaries of War and Navy to purchase or acquire arms, ammunition, and implements of war produced within the jurisdiction of any country whose defense is vital to the defense of the United States, if the President deems such a purchase or acquisition necessary in the defense of the United States. Under this provision, the Secretaries of War and Navy could be authorized, for example, to purchase tin from Bolivia or power-driven turrets from Canada, if the President considered such a purchase or acquisition necessary in the interests of the defense of this country.

Section 9 authorizes the President to formulate rules and regulations which may be necessary to carry out the provisions of the bill, and he may exercise any power or authority conferred upon him by the bill, through such department, agency, or officer as he shall direct.

This is a customary statutory provision. Rules and regulations issued under an Act must, of course, be consistent with the terms and purposes of the Act. Thus, the President cannot, for example, provide by rules and regulations that the patent rights of American citizens in any defense articles which are transferred to a foreign government can be disregarded, since this would be contrary to the provisions of section 7 of the bill.

By his rules and regulations and by the authority vested in him by this section to delegate his authority under the bill, the President can provide that the actual administration shall be handled by those people who know most about the subject matter to be covered. Thus, for

instance, in connection with the formulation of certain standard specifications for both United States and British tanks, the regulations might well provide that the Secretary of War, acting with the advice of the Chief of Staff and the Chief of Ordnance, should determine whether the armor plate should be 1 inch or 2 inches thick. Similar administrative matters can equally well be provided for in the regulations, and the necessary administrative power can be delegated.

CONCLUSION

It is the firm opinion of your committee that, taking into consideration existing world conditions, prompt enactment of H. R. 1776 into law is of the highest importance to the vital interests of our country—and even of our civilization.

February 18, 1861

My dear Mr. President:

I thought the enclosed summary
of editorial opinion on H. R. 1776
might be of interest to you.

Yours sincerely,

Henry

The President,
The White House.

By Hand 2/18 4:45

February 10, 1941

My dear Mr. President:

I thought the enclosed summary
of editorial opinion on H. R. 1776
might be of interest to you.

Yours sincerely,

Henry

The President,
The White House.

By Hand 2/10 H:45

February 10, 1941

My dear Mr. President:

I thought the enclosed summary
of editorial opinion on H. R. 1778
might be of interest to you.

Yours sincerely,

Henry

The President,
The White House.

By Hand 2/10 at 4:45

EDITORIAL OPINION ON H. R. 1776General Reaction

Editorial judgment on H. R. 1776 has registered a marked swing toward acceptance of the bill during the progress of House and Senate Committee hearings. Almost all newspapers acknowledge that enactment of the legislation in some form is assured. From the outset, there was preponderant approval of the bill's purposes. Opposition was largely directed toward securing restrictive amendments. But even this opposition has undergone a distinct dilution during the past week.

Factors Diminishing Opposition

It is evident from a study of newspaper editorials that three factors have been responsible for moderating criticism of the bill:

1. There was virtually unanimous applause for the bi-partisan White House conference on the bill. Immediately after it, editorials significantly relaxed the partisanship of their initial approach.
2. Administration acceptance of the four amendments agreed to at the White House conference spiked many editorial guns. It has been generally recognized that

Editorial Opinion on 1776 ... 2.

the Administration possessed the votes to pass the bill on its own terms. These limitations were interpreted, therefore, as "concessions," representing a comforting degree of victory for the critics.

3. There has gradually seeped through to editorial ivory towers a comprehension of the fact that the President's powers as Commander-in-Chief of the nation's armed forces were conferred on him by the Constitution, instead of by H. R. 1776, and that these cannot be abridged. This belated understanding has, in large measure, quashed the "dictator" argument profusely advanced in early comments. Editorial writers, of necessity, marry an idea in haste and divorce themselves from it at leisure.

Nature of Opposition

A decided majority of newspapers approve Aid-to-Britain as a settled feature of American foreign policy and accept the principle that it must take something akin to the Lend-Lease form. Opposition to H. R. 1776 has, in consequence, been temperate in tone on the part of most commentators. It follows three main lines:

1. That the bill confers dictatorial powers on the President. Only a few newspapers (notably The Chicago Tribune, The Daily Worker, The Boise Statesman, The Cedar

Editorial Opinion on 1776 ... 3.

Empire Gazette and The Colorado Springs Gazette) have indulged in unrestrained thumping of this thesis. Most of the viewing-with-alarm is of an indefinite character and has an apparent ~~guy~~ ~~form~~ quality; it seems merely to assume that any proposal advanced by the Administration must be watered down.

2. That the bill will involve us in war. Most objections on this basis are aimed at deleting from the bill the authorization to permit the repair of British ships in American ports and at writing into it a prohibition of convoys.

3. That the United States is being swindled by the British. This impression proceeds from the persistent delusion that the British still possess considerable assets convertible into dollars. There is also discernible a hangover from the antique American inferiority complex which holds that this country is bound to be hornswoggled in any deal with the shrewd diplomats of Europe.

Objectors in this category advance a number of counter proposals, the most popular of which is the one sponsored by the Scripps-Howard papers to take over Britain's island possessions in the Atlantic. At the other extreme are scattered suggestions that American

Editorial Opinion on 1776 ... 4.

material be granted to the British as a free gift. There is continued and widespread insistence that the British be compelled to exhaust their own resources before receiving financial aid from the United States.

To meet these objections, it might be well to re-emphasize the point that the British have genuinely dug deep into their own pockets and to demonstrate that this country has received concrete benefits from Britain in the form of military information, patent rights and industrial expansion, as well as in the defense of democracy.

A.B.

FEB 10 1941

My dear Mr. President:

It occurs to me you might be interested in the attached table showing the number of military and commercial transport airplanes delivered by American manufacturers during specified intervals covering the period from January 1, 1940 to February 1, 1941. The figures in this table are classified horizontally by type of airplane. Vertically, they are classified both by class of purchaser and by periods of time. The first time period covered is January 1 to July 6, 1940. Succeeding figures are for bi-weekly periods.

Faithfully,

(Signed) H. Morgenthau, Jr.

**The President,
The White House.**

Attachment

SOT:GCH:vas
2/10/41

By Hand 2/10 at 4:45

FEB 10 1941

My dear Mr. President:

It occurs to me you might be interested in the attached table showing the number of military and commercial transport airplanes delivered by American manufacturers during specified intervals covering the period from January 1, 1940 to February 1, 1941. The figures in this table are classified horizontally by type of airplane. Vertically, they are classified both by class of purchaser and by periods of time. The first time period covered is January 1 to July 6, 1940. Succeeding figures are for bi-weekly periods.

Faithfully,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Attachment ✓

By Hand on 2/10/41

SCA
807:GCH:vaa
2/10/41

FILE COPY

TOTAL ALL PURCHASERS		Bombers	Pursuits	Trainers	Other military planes	Commercial planes	Total
Jan. 1 - July 6	569	510	946	108	480	2,693	
July 7 - July 20	61	71	96	6	40	276	
July 21 - Aug. 1	56	55	131	6	54	346	
Aug. 2 - Aug. 17	25	27	139	4	51	320	
Aug. 18 - Aug. 31	34	31	172	12	57	337	
Sept. 1 - Sept. 14	31	65	171	9	75	300	
Sept. 15 - Sept. 28	28	104	171	8	61	319	
Sept. 29 - Oct. 12	25	116	206	8	74	349	
Oct. 13 - Oct. 26	28	53	184	8	74	302	
Oct. 27 - Nov. 9	36	108	159	9	88	342	
Nov. 10 - Nov. 23	34	93	96	6	19	253	
Nov. 24 - Dec. 7	61	112	170	10	74	397	
Dec. 8 - Dec. 21	64	113	176	12	77	402	
Dec. 22 - Jan. 4	95	154	179	4	85	438	
Jan. 5 - Jan. 18	60	97	165	5	36	363	
Jan. 19 - Feb. 1	79	151	184	33	82	509	
Subtotal July 7 - Feb. 1	780	1,471	2,091	130	692	2,533	
Total Jan. 1, 1940 - Feb. 1, 1941	1,349	2,101	3,437	258	1,079	6,224	
NAVY							
Jan. 1 - July 6	34	50	532	65	-	641	
July 7 - July 20	8	21	60	2	-	91	
July 21 - Aug. 1	11	40	74	1	-	126	
Aug. 2 - Aug. 17	7	29	82	1	-	119	
Aug. 18 - Aug. 31	6	36	83	6	-	135	
Sept. 1 - Sept. 14	4	16	78	1	-	99	
Sept. 15 - Sept. 28	6	52	87	-	-	145	
Sept. 29 - Oct. 12	4	34	86	-	-	124	
Oct. 13 - Oct. 26	6	14	82	-	-	112	
Oct. 27 - Nov. 9	4	6	87	-	-	97	
Nov. 10 - Nov. 23	4	4	33	2	-	43	
Nov. 24 - Dec. 7	4	10	96	-	-	110	
Dec. 8 - Dec. 21	1	12	43	-	-	56	
Dec. 22 - Jan. 4	2	7	32	-	-	41	
Jan. 5 - Jan. 18	7	7	32	-	-	46	
Jan. 19 - Feb. 1	1	2	187	-	-	190	
Subtotal July 7 - Feb. 1	79	291	1,166	16	-	1,952	
Total Jan. 1, 1940 - Feb. 1, 1941	113	341	1,698	61	-	2,233	
AIRY							
Jan. 1 - July 6	42	3	92	39	-	176	
July 7 - July 20	7	-	12	2	-	21	
July 21 - Aug. 1	2	-	13	2	-	17	
Aug. 2 - Aug. 17	3	-	11	2	-	16	
Aug. 18 - Aug. 31	4	3	14	5	-	26	
Sept. 1 - Sept. 14	6	6	26	8	-	46	
Sept. 15 - Sept. 28	8	13	23	6	-	47	
Sept. 29 - Oct. 12	6	12	21	9	-	48	
Oct. 13 - Oct. 26	18	11	28	4	-	60	
Oct. 27 - Nov. 9	7	5	20	4	-	36	
Nov. 10 - Nov. 23	10	10	52	10	-	72	
Nov. 24 - Dec. 7	2	11	49	2	-	64	
Dec. 8 - Dec. 21	14	14	27	4	-	59	
Dec. 22 - Jan. 4	17	14	17	3	-	51	
Jan. 5 - Jan. 18	35	11	113	33	-	115	
Jan. 19 - Feb. 1	1	99	97	112	-	198	
Subtotal July 7 - Feb. 1	138	202	677	112	-	829	
Total Jan. 1, 1940 - Feb. 1, 1941	180	102	569	151	-	1,002	
BRITISH EMPIRE AND FRANCE*							
Jan. 1 - July 6	500	184	203	2	10	1,099	
July 7 - July 20	29	44	17	2	-	116	
July 21 - Aug. 1	46	57	42	-	2	145	
Aug. 2 - Aug. 17	25	16	17	-	1	59	
Aug. 18 - Aug. 31	25	16	17	-	-	58	
Sept. 1 - Sept. 14	2	39	14	-	-	61	
Sept. 15 - Sept. 28	11	52	14	-	-	77	
Sept. 29 - Oct. 12	13	69	16	-	-	98	
Oct. 13 - Oct. 26	13	21	14	-	-	48	
Oct. 27 - Nov. 9	15	78	19	-	-	112	
Nov. 10 - Nov. 23	20	67	27	-	-	114	
Nov. 24 - Dec. 7	47	80	21	-	-	148	
Dec. 8 - Dec. 21	54	81	31	-	-	166	
Dec. 22 - Jan. 4	74	113	113	-	-	300	
Jan. 5 - Jan. 18	57	69	9	-	-	140	
Jan. 19 - Feb. 1	15	126	43	-	-	209	
Subtotal July 7 - Feb. 1	594	976	466	2	31	2,031	
Total Jan. 1, 1940 - Feb. 1, 1941	1,094	1,362	669	4	41	3,120	
OTHER							
Jan. 1 - July 6	13	193	119	2	410	717	
July 7 - July 20	-	6	7	-	40	53	
July 21 - Aug. 1	7	8	29	-	52	76	
Aug. 2 - Aug. 17	17	-	90	-	49	84	
Aug. 18 - Aug. 31	1	-	49	-	62	72	
Sept. 1 - Sept. 14	3	-	44	-	73	100	
Sept. 15 - Sept. 28	1	-	42	-	64	110	
Sept. 29 - Oct. 12	1	15	41	-	44	61	
Oct. 13 - Oct. 26	6	47	6	-	56	75	
Oct. 27 - Nov. 9	-	17	6	-	86	111	
Nov. 10 - Nov. 23	-	22	10	-	17	55	
Nov. 24 - Dec. 7	2	9	37	-	25	74	
Dec. 8 - Dec. 21	8	7	10	-	22	47	
Dec. 22 - Jan. 4	1	6	11	-	26	44	
Jan. 5 - Jan. 18	-	4	14	-	31	53	
Jan. 19 - Feb. 1	-	12	4	-	22	38	
Subtotal July 7 - Feb. 1	39	103	362	-	628	1,132	
Total Jan. 1, 1940 - Feb. 1, 1941	52	296	491	2	1,038	1,869	

*Office of the Secretary of the Treasury, Division of Research and Statistics.
Refigures under French control were made up to June 30, 1940.
February 5, 1941.

February 10, 1941
5:18 p.m.

H.M.Jr: I've been trying to get General Watson for for last ten minutes.

Mrs. Dennison: I think he's over with the President.

H.M.Jr: They kept telling me he was on long distance. Tell him he's a very difficult man to talk to.

D: (Laughs). Well, we can't very well get him out of the President's own room.

H.M.Jr: No.

D: Do you want to talk to him when he comes back?

H.M.Jr: No, I'd enjoy talking to you.

D: Thank you, sir.

H.M.Jr: Have you got a pencil?

D: Yes, sir.

H.M.Jr: Would you tell General Watson that on Thursday, if convenient for the President, I'd like to bring Mr. Arthur Purvis over; I'd like half an hour. He has a very important document from Mr. Churchill on munitions, and I think it is well worth a half an hour of the President's time.

D: That's on Thursday the 13th.

H.M.Jr: Thursday the 13th - my lucky day.

D: (Laughs). Well, I hope it is.

H.M.Jr: And I make the suggestion - just a suggestion that it be off the record.

D: All right. I'll do that. I'll write this up right away and when he comes back we'll put it before him.

H.M.Jr: Thank you so much.

D: Thank you, Mr. Morgenthau.

Debt Limit Bill Passed ⁹⁶

THE HOUSE APPROVED THE BILL RAISING THE NATIONAL DEBT LIMIT TO
240,000,000,000 AND SENT IT TO THE SENATE.

THE BILL WAS PASSED BY VOICE VOTE AFTER THE HOUSE HAD DEFEATED,
ALSO BY VOICE VOTE, A REPUBLICAN MOTION TO RECOMMIT IT AND LOWER THE
LIMIT TO \$40,000,000,000.

2/10--W0527P

ADD DEBT BILL, HOUSE.

THE HOUSE DEFEATED AN AMENDMENT BY PAYMAN TO STRIKE OUT THE SECTION WHICH REMOVES THE FEDERAL TAX EXEMPTION PRIVILEGE FROM FUTURE ISSUES OF FEDERAL OBLIGATIONS.

2/10--W0527P

ADD DEBT BILL, HOUSE.

DOUGLASS, OPPOSING THE AMENDMENT, SAID THERE IS AN OVERWHELMING SENTIMENT AMONG THE PEOPLE IN FAVOR OF TAKING SECURITIES NOW TAX EXEMPT. THE TIME HAS COME, HE SAID, TO TAKE A STEP TOWARD PUTTING THE INCOME FROM SUCH SECURITIES ON THE SAME BASIS AS OTHER INCOME.

2/10--W0527P ETC

February 10, 1941
5:25 p.m.

H.M.Jr: Hello.

Operator: Sullivan calling you from the Capitol.

H.M.Jr: Well, I want to take McCormack. I'll talk to Sullivan but if McCormack comes in please put him right on, will you?

Operator: All right.

John
Sullivan: Hello, Mr. Secretary.

H.M.Jr: Hello, John.

S: The bill just passed.

H.M.Jr: Oh, really.

S: There were two fights: one, on the reduction of the debt limit from 65 to 60. On the division in the teller's vote, that was carried as it is in the bill at 65 by a vote of 195 to 105.

H.M.Jr: Good.

S: The other fight was on the tax exemption feature and that was overwhelmingly in our favor, only three votes that I could hear on a voice vote against us.

H.M.Jr: Good.

S: That's all. I thought you'd want a report before you went home, sir.

H.M.Jr: Thank you so much.

S: Right-o. And the hearing for tomorrow morning, I think Mr. Bell told you, has been postponed until Wednesday.

H.M.Jr: That's right.

S: Right-o.

February 10, 1941
5:30 p.m.

John McCormack: Hello, Mr. Secretary. How are you.

H.M.Jr: I hear you put the bill through.

McC: Well, yes. It all went through without a roll call.

H.M.Jr: The debt bill.

McC: Yes.

H.M.Jr: Wonderful.

McC: Yeah, everything went through - no roll call.

H.M.Jr: Well, that's real leadership.

McC: Well, it's the only way to do it. Listen, what I wanted to talk to you about, Ray McKeough who is on Ways and Means is a hell of a good fellow. He's a wild Irishman but a good fellow and he's got some matter out in Chicago he's awfully interested in.

H.M.Jr: Yeah.

McC: He's spoken to me about it a dozen times and he's intensely interested in it. I don't know any facts in the case except that Ray is an awfully good fellow and if something could be done for him on it, it would be damn good.

H.M.Jr: Well, how can I get the facts, John?

McC: Well, I was going to ask if you'd see Ray and go over it with him.

H.M.Jr: Sure, any time.

McC: All right. I'll tell him that he can call you up and make an appointment, because he's an awfully good fellow, Henry

H.M.Jr: He comes from Illinois.

- 2 -

McC: Yes, and you know he's a real fellow and a good fellow to have in your corner and it may be - I guess this case is a tax case but it is something that he has spoken to me about for the last year and a half or two years and is apparently a matter that he has an interest in because I guess the fellow he's interested in has been pretty good to him. See?

H.M.Jr: Well, let me see him and at least I'll listen. I'll be glad to listen.

McC: Yes.

H.M.Jr: And you have him call me up, will you?

McC: I will and I don't know anything about the facts but if there is anything you can do why all I can say is that Ray is a darn good fellow and I've had him in my corner and he is as game as they make them.

H.M.Jr: Fine.

McC: Just as game as they make them.

H.M.Jr: Well, I'll give him a courteous reception.

McC: Well, do more than that if you can.

H.M.Jr: Well, I don't know what the facts are, John, but I'll be glad to look at it.

McC: All right, Henry.

H.M.Jr: Thank you.

McC: Good-bye, old boy.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

2/10/41

TO Secretary Morgenthau

FROM Mr. Foley

Re: United States v. Joseph M. Schenck, et al.

This memorandum is written for the purpose of bringing you up to date on the above case which will probably go to trial this month in New York.

1. Schenck was indicted for perjury by the Grand Jury for the Southern District of New York on June 3, 1940, the indictment consisting of twenty counts in connection with transactions between Schenck and Bioff. Schenck was also indicted on the same day for attempted evasion of income taxes, the indictment consisting of four counts, one for each of the years 1935, 1936, and 1937, and one for conspiracy with his accountant, Moskowitz.

2. Meanwhile, a supplemental investigation had been made as to the income tax returns of the Twentieth Century Fox Film Corporation for the years 1934 to 1937, inclusive. During this investigation the revenue agent discovered that approximately three-fifths of the dividend declared on the common stock for the year 1937 had been paid from capital. The result was two-fold: (1) to decrease the dividends-paid credit of the corporation, thereby increasing its tax liability, and (2) to eliminate three-fifths of the amount of the

- 2 -

dividends returned as taxable income by Schenck and other stockholders and to tax such amount as a capital gain. Schenck's tax deficiency for the years 1935 and 1936 of approximately \$250,000 is unaffected. The perjury indictments are likewise unaffected.

3. As a result of this adjustment, the Department of Justice is considering dismissing the 1937 count in the tax evasion indictment, which has been seriously weakened, since instead of owing \$158,000 for 1937, Schenck owes at the most \$46,000. It is my understanding that Schenck will be prosecuted for income tax evasion at least for the years 1935 and 1936.

Edward H. Foley, Jr.
per N.C.

EH

GRAY

Berlin

Dated February 10, 1941

Rec'd 9:41 p.m.

Secretary of State,
Washington.

470, February 10, 3 p.m.

FOR TREASURY FROM HEATH.

The official news agency DEUTSCHES NACHRICHTEN BUREAU presents an extended resume of a speech by Schmidt, Director of the Deutsche Bank, defending the "soundness" of German finances. The DIENST AUS DEUTSCHLAND also presents an optimistic expose of government finances and monetary administration. The speech and article contain only two new statements of interest viz: (1) an estimate that the national income of Germany as extended by the acquisition of former Polish provinces is at the present rate of 100,000,000,000 marks per annum; (2) that some 5,000,000,000 or 6,000,000,000 marks per year of the money capital accumulated since the outbreak of the war originated from the liquidation of stock (a process which has now presumably been completed).

MORRIS

NK

JR

GRAY

Berlin

Dated February 10, 1941.

Rec'd 1 p.m.

Secretary of State,
Washington.

463, February 10, noon.

The Luther franc was demonetized as of February 5 by a decree of the Chief of the German Civil Administration. The franc may be changed for German reichsmarks which are to be the sole circulating currency up to March first after which date they will no longer have any value.

Inform Treasury.

MORRIS

KLP

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Dakar, French West Africa

DATE: February 10, 1941, 3 p.m.

NO.: 63

FOR TREASURY.

Regular Air France passenger planes are twice weekly taking Belgian and Polish gold to France. The amount sent each time varies considerably, depending on how much space is available. The French gold at Kayes (amounting to 1250 metric tons) remains intact.

WASSON.

EA:LWW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 10, 1941

Secretary Morgenthau

Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£29,000
Purchased from commercial concerns	£ 3,000

In the open market, sterling held steady at 4.03. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£1,000
Purchased from commercial concerns	£1,000

Closing quotations for the other currencies were:

Canadian dollar	17-1/8% discount
Swiss franc (commercial)	.2323
Swedish krona	.2385
Reichsmark	.4000
Lira	.0505
Argentine peso (free)	.2365
Brazilian milreis (free)	.0505
Cuban peso	6-13/16% discount
Mexican peso	.2066
Chinese yuan	.05-1/2

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

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

\$900,000 from B.I.S. account No. 2 to the account of the Bank of Portugal.
Gold in B.I.S. account No. 2 is owned by that bank.

\$900,000 from the National Bank of Denmark's account to B.I.S. account No. 2
and a like amount from B.I.S. account No. 2 to the account of the
Bank of Portugal.

The second transfer is a purchase of gold by the B.I.S. from the National Bank of Denmark and a sale of the same gold by the B.I.S. to the Bank of Portugal. Payment for both of these gold transfers will be made on the books of the Federal Reserve Bank of New York.

- 2 -

No new gold engagements were reported.

The Bombay gold price was equivalent to \$33.96, representing a decline of 3¢ from last Friday's level. No silver price was received from India today.

In London, the price fixed for spot silver was 23-5/16d, up 1/16d. The forward quotation was unchanged at 23-1/4d. The dollar equivalents were 42.33¢ and 42.21¢ respectively.

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

We made four purchases of silver totaling 221,872 ounces under the Silver Purchase Act. Of this amount, 171,872 ounces consisted of new production from foreign countries, for forward delivery. The other 50,000 ounces represented part of the Central Bank of China shipment of 822,000 ounces which arrived in this country on January 3. So far, we have bought 700,000 ounces of this shipment.

The Federal Reserve Bank's report of February 5, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$104,646,000, a decrease of \$1,420,000 since January 29. The largest change in deposits took place on the books of the Mitsui Bank's New York agency, where Japanese and Manchurian bank accounts declined by \$1,305,000 to \$958,000. Also reported were the Yokohama Specie Bank Agency's dollar liabilities to and dollar claims on Japanese banks in Asia, which stood as follows on February 5:

	<u>February 5</u>	<u>Change from Jan. 29</u>
Liabilities: Deposits for Japan & Manchuria....	\$56,565,000	+ \$ 752,000
" : Deposits for China.....	38,030,000	- 574,000
" : U.S. Treas. bills, comm. paper, etc.	28,590,000	- 554,000
Claims : Loans.....	\$56,664,000	+ \$ 1,995,000
" : Other - mainly Jap. import bills..	12,068,000	+ 990,000

The last three categories refer mainly to Japanese banks in Japan and Manchuria.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 10, 1941

TO Secretary Morgenthau
FROM Mr. Haas 

Work Projects Administration employment declined slightly to 1,895,000 persons during the week ended January 29, 1941. While this represents a decrease of 1,000 from the previous week's employment, it is 17,000 more than the number of persons employed during the last week in December.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1938	
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
September	1,704
October	1,779
November	1,820
December	1,878
1941	
January	1,895

Source: Work Projects Administration

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

They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending	Number of Workers (In thousands)
1940-41	
June 5	1,858
June 12	1,785
June 19	1,714
June 26	1,665
July 3	1,608
July 10	1,620
July 17	1,659
July 24	1,690
July 31	1,701
August 7	1,709
August 14	1,708
August 21	1,698
August 28	1,691
September 4	1,690
September 11	1,687
September 18	1,689
September 25	1,704
October 2	1,747
October 9	1,762
October 16	1,768
October 23	1,776
October 30	1,779
November 6	1,783
November 13	1,785
November 20	1,806
November 27	1,820
December 4	1,832
December 11	1,855
December 18	1,872
December 25	1,878
January 1	1,880
January 8	1,887
January 15	1,893
January 22	1,896
January 29	1,895

Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States



SOURCE: WORK PROJECTS ADMINISTRATION

Office of the Secretary of the Treasury
Bureau of Research and Statistics

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE February 10, 1941

TO Secretary Morgenthau
 FROM Mr. Haas *HA*
 Subject: The Business Situation,
 Week ending February 8, 1941.

Summary

(1) Industrial production on a seasonally-adjusted basis made a further small gain in January. On the showing of preliminary data, the FRB index for the month is now estimated at 138, as compared with 137 (revised) in December.

(2) The recent decline in prices of stocks, grains, and some other commodities came to a halt during the past week and a slight rally ensued, although volume of trading continued very light. Prices of industrial materials and imported commodities on the whole have continued to display a firm undertone.

(3) New orders for steel continue in large volume. Orders reported last week by the U. S. Steel Corporation were at 145 per cent of capacity, down somewhat from the previous week. While the price of No. 1 heavy melting steel scrap at Pittsburgh has declined \$3.00 per ton since the request for a cut in prices was made in early January, it is reported that the new lower price is largely nominal.

(4) Exports of domestic merchandise in December declined slightly despite a moderate increase in shipments of essential war materials. Exports in 1940, including re-exports, totaled a little more than \$4,000,000,000, thus exceeding the previous year's figure by 27 per cent and reaching a new high since 1929.

(5) The national income is rising rapidly. Income payments in December reached an annual rate of \$78.1 billions, compared with \$74.3 billions for the year 1940 and \$82.1 billions for 1929. If account is taken of price changes, the national income in 1940 actually exceeded that of 1929. Income payments in December, after seasonal adjustment, rose more rapidly than in any other month on record.

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- 2 -

Industrial production slightly higher

Industrial production on a seasonally-adjusted basis showed a further slight rise to a new high in January. On the basis of preliminary data thus far available, actual production fell a little below the previous month. Since the decline was less than the usual seasonal amount, the FRB adjusted index of industrial production is now estimated at 138 for January, as compared with 137 (revised) in December. (See Chart 1.)

Although the steel and textile industries increased output above December's record levels, the gains were less than seasonal. Further gains were shown by the aircraft, ship-building and machinery industries while actual automobile production reached the highest level of any January on record. The continuing high rate of operation in the automobile industry doubtless reflects in part at least the desire to build up new car stocks because of apprehension that the defense program may cause curtailment in normal production. Although new car stocks have now reached unusually high levels, preliminary estimates indicate that the ratio of stocks to sales in January was slightly below that of January 1940 due to the substantial gain that has occurred in new car sales.

New orders maintain high level

Our new orders index declined slightly in the week ended February 1 (see Chart 2), although still near the average of the high level which has been maintained since the middle of October. Steel and textile orders fell off somewhat, more than offsetting the moderate gain in other components.

The failure of textile orders to increase further is largely because of a decline in orders for woolsens; orders for cottons were higher. According to trade reports, leading woolen manufacturers have adopted a policy of limiting civilian orders on certain types of goods for fall delivery in order to assure delivery of Government orders on schedule.

Heavy demand for steel continues

The steel industry has continued to receive new business in large volume. According to the Iron Age, tonnages booked in January exceeded the previous month's strong showing, with increases in some instances amounting to as much as 15 per cent. During the week ended January 30, bookings of the U. S. Steel Corporation declined slightly but still amounted to 145 per cent of the capacity reported at the end of 1939.

- 3 -

Trade sources report that a heavy volume of buying has been coming from automobile and household equipment manufacturers whose sales have been expanding. Tinplate operations, which have been slower than most other lines are reported to be picking up and an increasing demand is noted from the railroads.

In order to meet these heavy demands, the industry continues to maintain production at high levels. Because of the necessity of making repairs, last week's operations declined to 96.9 per cent of capacity (revised basis) from 97.1 per cent in the previous week. In the current week, operations are scheduled slightly higher at 97.1 per cent of capacity.

Steel scrap market still unsettled

At the end of January it was announced that leading railroads had agreed to consider \$21 per ton as the top price for heavy melting railroad scrap at Pittsburgh during February, thus cutting the price \$1.00 per ton. This action was followed at once by an equivalent cut in the price of No. 1 heavy melting steel scrap at Pittsburgh. This carried the price down to a quotation of \$20.50 to \$21.00, which is \$3.00 below the level prevailing at the time of Commissioner Henderson's request for a price reduction. It is reported, however, that this new reduced quotation is largely nominal and that normal trading in the Pittsburgh area has been disrupted.

Increase in steel capacity

The American Iron and Steel Institute recently announced that capacity to produce ingots and steel for castings by all processes in the United States, as of December 31, 1940, was 84,152,000 net tons. Ostensibly this represents an increase of 3.1 per cent, or 2,533,000 net tons over capacity available as of December 31, 1939. Only a part of this, however, represents an actual increase in plant capacity. A large part apparently represents merely a re-statement of existing capacity at higher figures, through (1) adding to active capacity plants which had previously been removed from the list as obsolete, and (2) raising the reported capacity of individual plants by cutting down the allowance for repairs. An indication of the significance of cutting the repair allowance may be judged from a recent estimate of the American Iron and Steel Institute that the industry could operate for a time at 2½ per cent above the present rated capacity, which contrasts with a figure of 5 per cent given by the President of the Institute last October.

- 4 -

Residential construction contract awards decline in January

Residential construction contract awards in January, as reported by the F. W. Dodge Corporation, showed a substantially greater than seasonal decline and dropped to \$111,000,000 from \$159,000,000 in the previous month. Because of the inclusion of a large amount of construction resulting from the defense program, residential construction awards rose to very high levels in the closing months of 1940. (See Chart 3.) Thus, despite the decline, last month's figures were still 44 per cent above year earlier levels.

Mortgages selected for appraisal by the FHA thus far in 1941 have been running ahead of the corresponding periods of previous years. (See Chart 3.) The total for last month was 21 per cent above January 1940 and the recovery from the year-end decline has been proceeding at a somewhat faster pace than a year ago.

Cost of St. Louis house slightly higher

The cost of a standard 6-room house in St. Louis, as estimated by the Real Estate Analyst, rose in January to \$6,797 from \$6,786 in December. This increase was due to slightly higher costs for finished lumber and certain other materials. The costs of unfinished lumber and other items remained unchanged.

The Real Estate Analyst mentions that although a large part of the direct Government purchases of lumber for cantonments has been completed, 110 million board feet are still being purchased in January and February. The Analyst believes that the problems of transportation of lumber may come into considerable prominence before the end of the year, particularly in the East, owing to the probability that some of the 89 vessels carrying lumber from the Pacific Coast may be transferred to other uses. A sidewise movement of lumber prices is looked for, with a strong possibility of a resumed upward movement by the latter part of the year.

December exports decline despite gains in war materials

Despite moderately increased shipments of essential war materials, exports of United States merchandise in December declined \$6,000,000, or 2 per cent, below the previous month, to a total of \$315,000,000. United States exports, including re-exports, during 1940 totaled slightly more than \$4,000,000,000 -- a figure 27 per cent above 1939 and the largest yearly total since 1929.

- 5 -

War materials continued to be shipped abroad in heavy volume during December. Machinery and iron and steel exports rose slightly above November levels, while aircraft exports gained over \$5,000,000 to reach \$32,000,000, the second highest figure of the year. (See Chart 4.) Exports of aircraft (including parts, etc.) in 1940 totaled \$312,000,000 as compared with only \$118,000,000 in 1939.

The moderate increase in war material exports during the month was more than offset by declines in other items. Among these were petroleum and products, automobiles, coal, and cotton. (Refer to Chart 4.) Although tobacco exports showed a noticeable increase over the previous month's very low levels, agricultural exports as a whole declined \$1,000,000 or 4 per cent to the second lowest level of the year. As a result, agricultural products accounted for only 8 per cent of total United States merchandise exports in December as compared with 22 per cent in December 1939. In fact, on the basis of quantity indexes as reported by the Department of Commerce, our agricultural exports in the closing months of 1940 were at the lowest level since 1869.

National income substantially increased

The national income is rising rapidly. Income payments in December reached the highest figure for any month since February 1930, and on a seasonally-adjusted basis December showed the largest increase in income payments of any month since the series was started in 1929.

Total income payments in 1940 rose to \$74.3 billions, the highest since 1930. (See Chart 5, upper section.) By the end of the year this level was substantially exceeded, preliminary figures showing that payments in December had risen to an annual rate of \$78.1 billions. (Lower section of Chart 5.)

While the national income in 1940 (in dollars) was below the 1929 total of \$82.1 billions, lower living costs have raised the real national income materially above the 1929 level. (Shown by dotted lines on Chart 5 as the "purchasing power of national income.") Allowing for the growth in population, the per capita "purchasing power" in 1940 was about the same as in 1929.

Weekly business indexes

The New York Times index of business activity for the week ended February 1 rose to 122.5 from 122.1 (revised) in the previous week.

- 6 -

The principal factor in the moderate rise mentioned was a contra-seasonal gain in automobile production which caused the adjusted index for this component to rise 15 points. In addition, actual miscellaneous freight carloadings rose more than seasonally to the best levels for any comparable week since 1930, while the adjusted indexes of electric power production, cotton mill activity, and paperboard production also showed gains.

All other components of the index after adjustment for seasonal factors showed declines. The only substantial decrease occurred in the index of lumber production which fell more than 6 points because of a more than seasonal decline in actual lumber production.

Barron's index of business activity for the week ended February 1 confirmed the trend of the Times index and rose to 128.1 from 127.6 in the previous week.

Preliminary data for the week ended February 8 indicate that the adjusted index of steel ingot production will decline moderately while automobile production rose contra-seasonally to a new high for the year at 127,700 units.

Commodity prices at lower level

Commodity prices strengthened at the end of last week although the average for the two weeks ended February 7 was moderately lower. Security prices rallied slightly last week and thus relieved speculative pressure on commodity prices, especially grains, fats, and oils which had been showing the greatest weakness on the decline. In the past two weeks, the major declines came among the foods, which lost almost one-half the rise registered between the end of December and the middle of January. (See Chart 6, upper section.) Certain industrial materials resisted the decline while imported commodities were generally higher.

The following commodity prices were lower in the two weeks ended February 7. (See Chart 6, lower section.)

Wheat: Substantial decrease. The leader in general price decline. In addition to adverse speculative influences, the fall in wheat prices reflected favorable new crop outlook and record export surplus of 1 billion bushels from Western Hemisphere. Rise of price at end of last week associated with improved stock market action as well as Army flour buying, reports of Oriental activity in export market, and trade opinion that wheat and other agricultural commodities may be included under terms of British aid bill.

- 7 -

Lard: Considerable decline. Followed general market tendency in spite of fact that lard stocks in second half of January showed a sizable decrease because of falling off in hog marketings. Consumption is holding up well.

The trade estimates that Japan and Russia have purchased over 6,000,000 pounds of lard during the past 3 weeks and are inquiring for 800,000 pounds more. According to a United Press dispatch to the Wall Street Journal, Russia has bought more than 12,000 tons of copra in the Philippines and at least 6,000 tons of coconut oil in the United States in the last 2 months for trans-shipment to Germany where it will be used in manufacture of explosives. Japan has purchased 2 million pounds of glycerin within the last 6 months.

Hogs and steers: Noticeable decline, in line with market movements. Weekly hog receipts, however, have fallen below last year for past 6 weeks. (Receipts represent hogs on sale at public stockyards plus direct shipments to packers.) Miss Harriet Elliott, NDAC Commissioner, gave support to consumer protests against high cost of meat by saying that Army purchases are not large enough to justify any increase in price. Her remarks were addressed to the president of the Greater New York Hospital Association, who estimated that the price of meat increased 25 per cent last year.

Tallow: Declined 6.7 per cent. Partly a correction of the recent rise with liberal quantities offered at current levels. It seems likely that some sales have been coming from speculative holdings. Renderers have only a small supply left to be sold because of recent bookings.

Cottonseed oil: Appreciable decline, along with other fats and oils. Deliveries have been so heavy lately that refiners say they cannot take orders for delivery in less than 2 weeks.

Hides: Wide decline. Deadlock in spot hide market where packers and tanners cannot agree about price. High level of packers' inventories may end deadlock soon.

Flaxseed: Substantial decline. Buying of linseed oil has tapered off because of recent heavy bookings which covered most consumers' needs several months ahead.

Rosin: Appreciable decline. A possible influence on world rosin market is announcement that British Board of Trade has reduced rosin import quota for first quarter of 1941.

- 3 -

Prices of imported and certain industrial materials higher

Prices of imported commodities, textile, and other industrial materials resisted declines or were actually higher for the two weeks ended February 7. (Refer to Chart 6, lower section.)

Coffee: Noticeable increase. Increased minimum prices in Colombia (the eighth increase since November). Brazilian prices also higher. Ratification of coffee quota agreement between United States and producing countries an important factor.

Cocoa beans: Large increase at end of last week offsetting previous decline. In trade opinion, a marketing program is now assured prescribing shares of United States and United Kingdom markets to various producing areas along lines of coffee program.

Rubber: Considerable increase. Freight rates from the Far East will be increased 25 per cent beginning March 1.

Burlap: Increase of 9.7 per cent. Expected increase in freight rate effective April 7 -- also 25 per cent. Premium on prices for spot and afloat the largest since outbreak of hostilities. Withdrawal of 5 British vessels from burlap trade in past 10 days has accentuated shipping shortage, especially because stock of unshipped goods in Calcutta was already high.

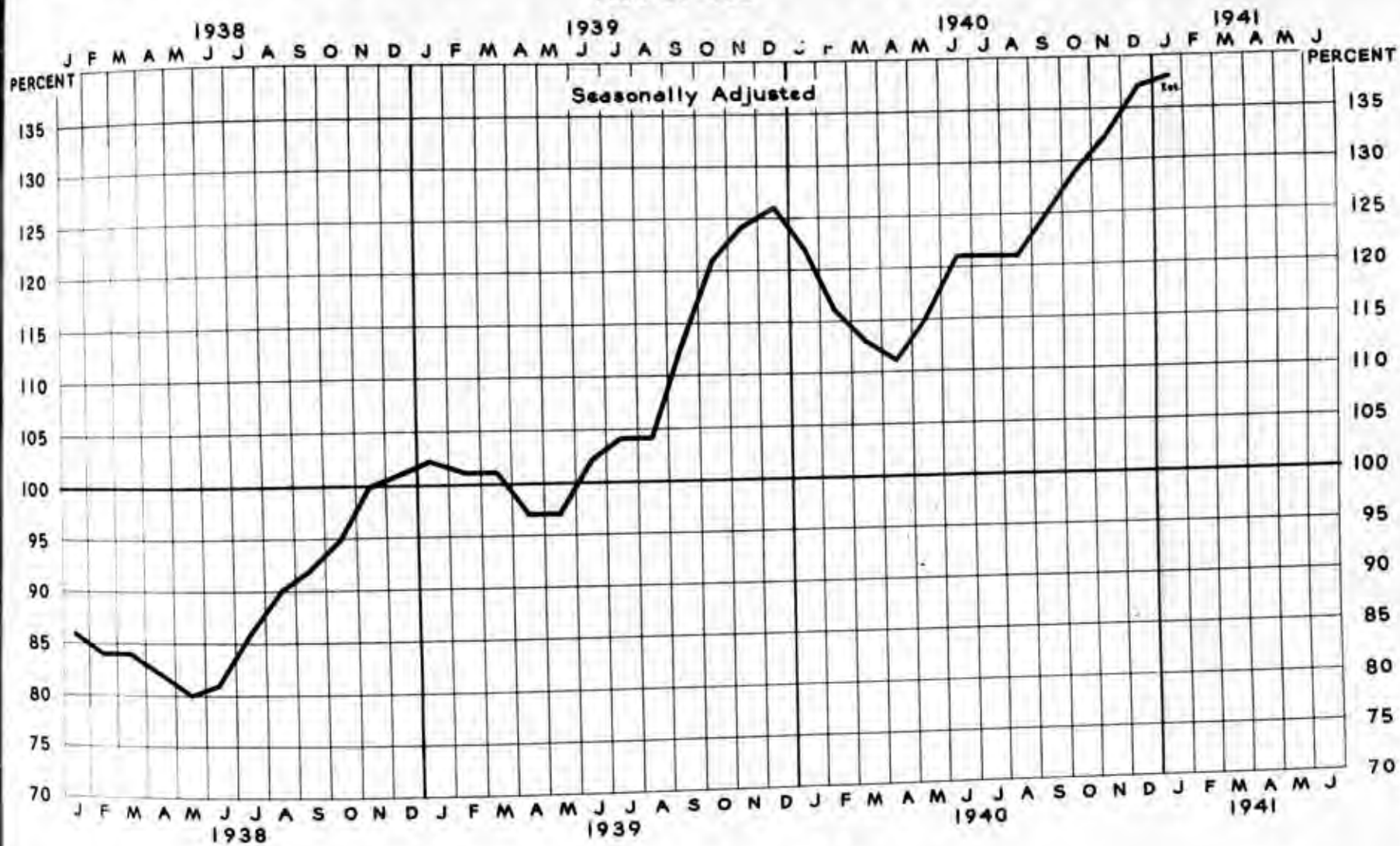
Print cloth: Noticeable increase. Trade reports suggest prices less important than timely deliveries.

Wool: Appreciable increase. Persistent trade buying reflecting potential demand under defense program and strength in Argentine market.

Zinc: Spot prices unchanged and nominal; futures higher. Stocks of slab zinc at end of January reduced to 8,800 tons, compared with 12,900 at the end of December. These stocks were the lowest ever recorded being equal to only four days' needs. Production showed no increase in January compared with December.

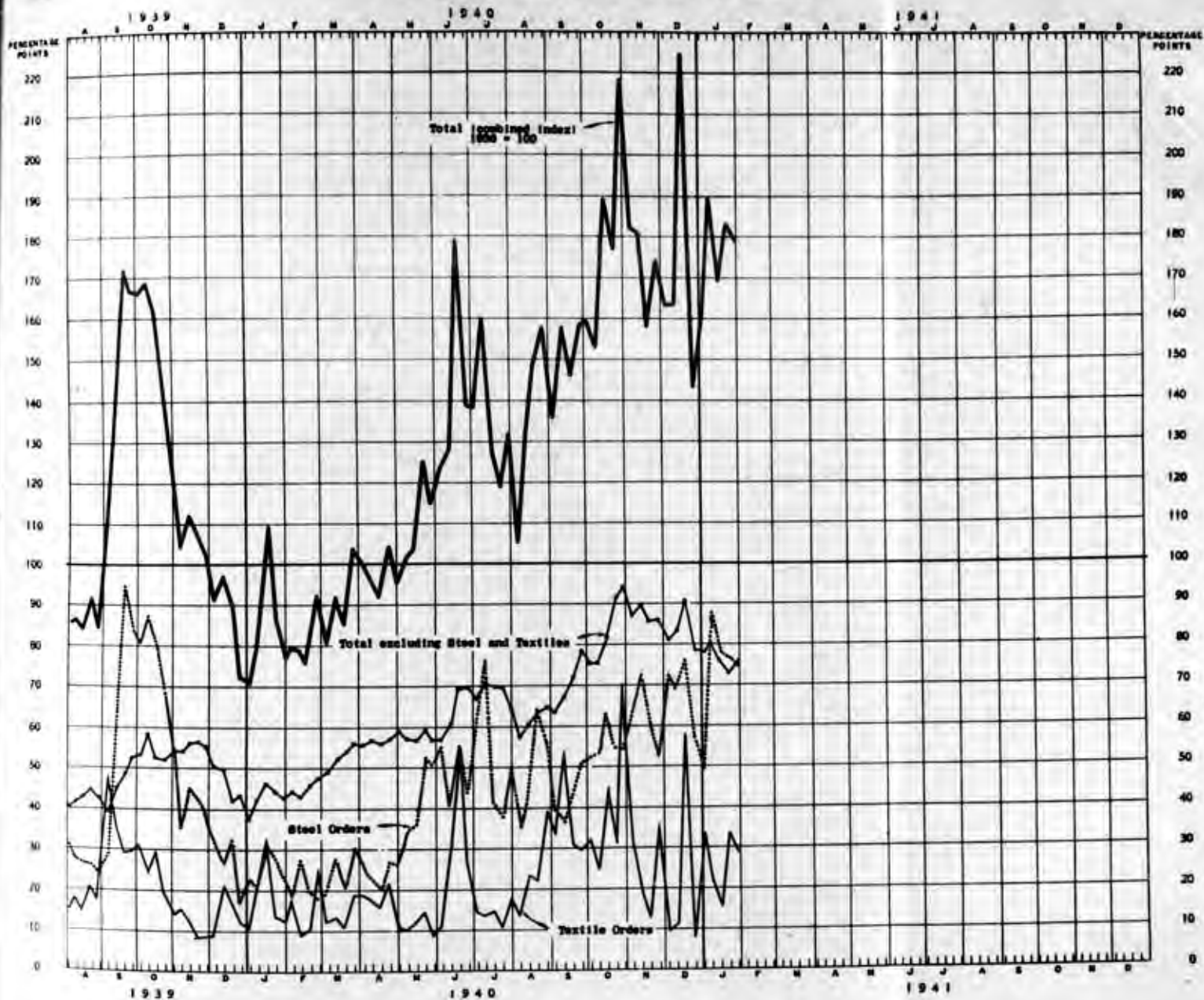
FEDERAL RESERVE BOARD INDEX OF INDUSTRIAL PRODUCTION

1935-39=100

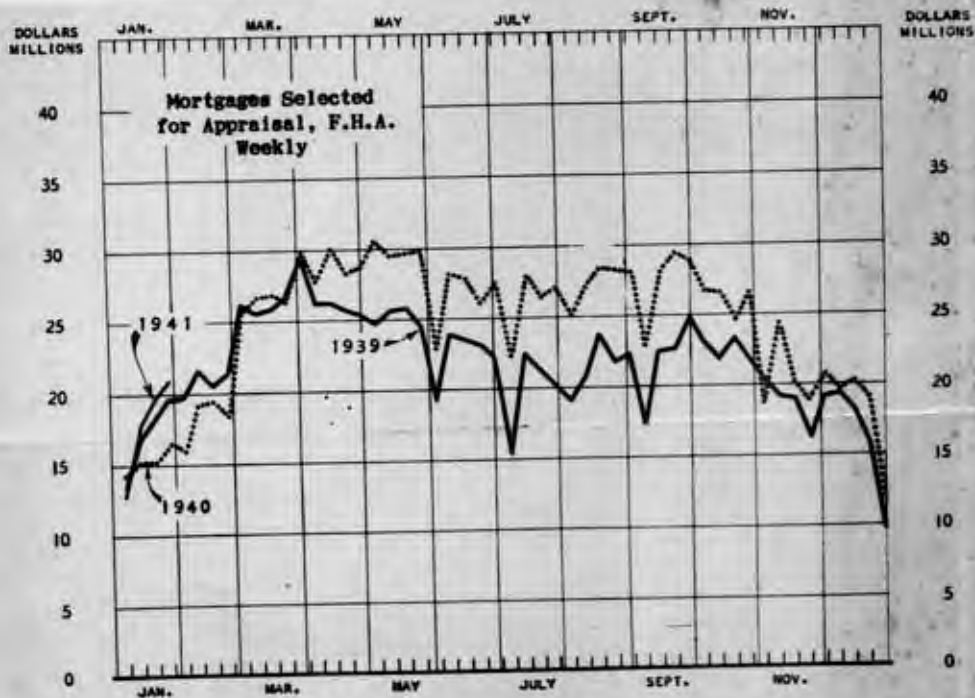
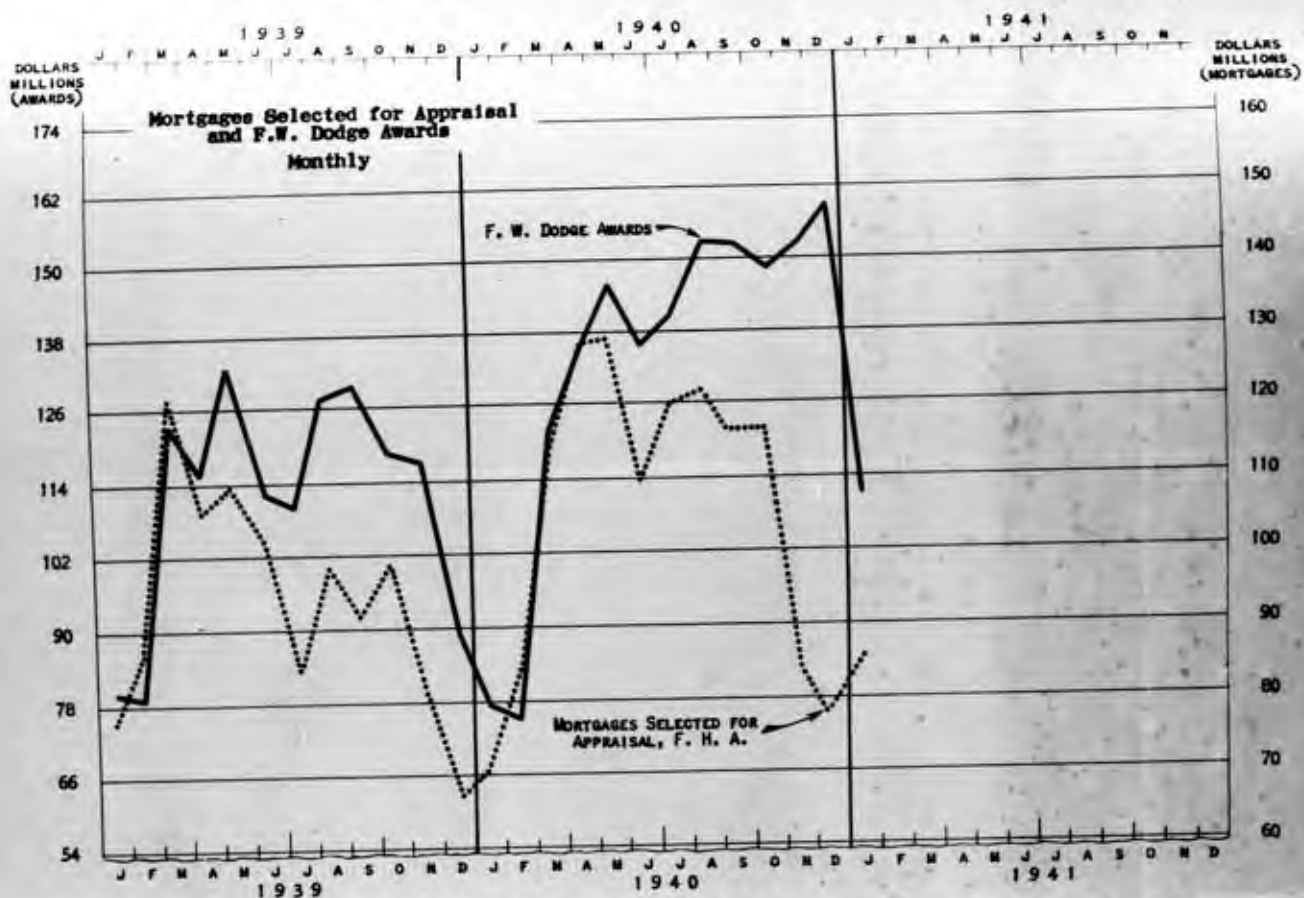


Office of the Secretary of the Treasury
Division of Research and Statistics

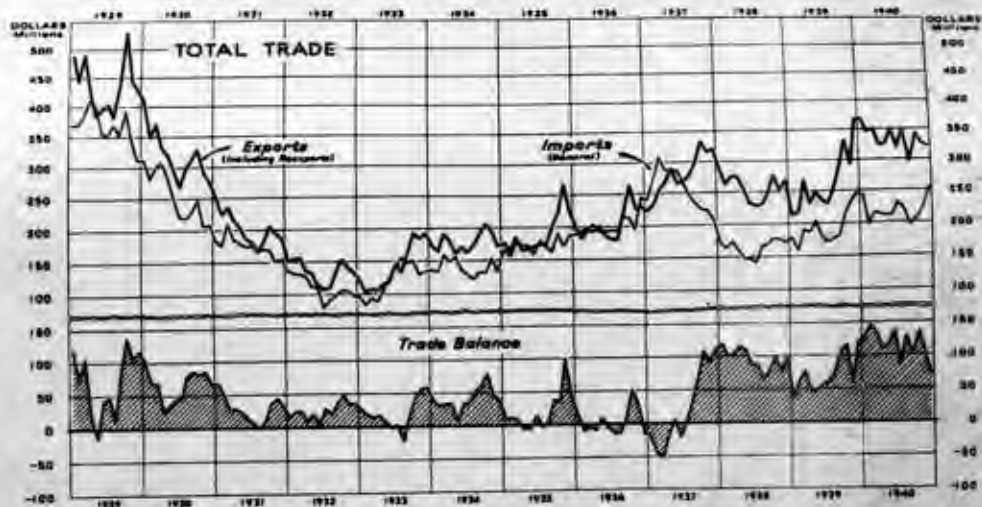
INDEXES OF NEW ORDERS
 Combined Index of New Orders and Selected Components



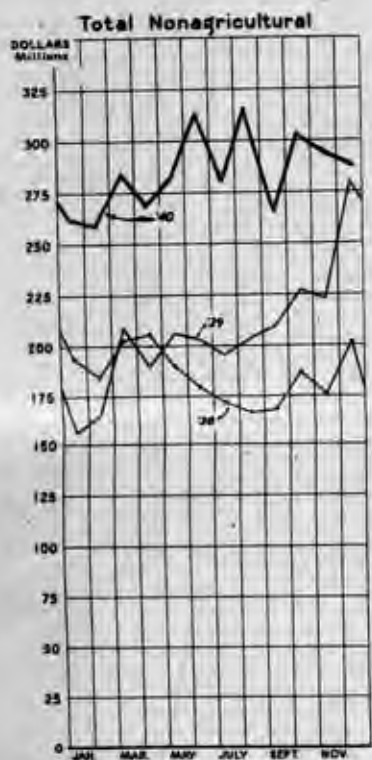
RESIDENTIAL CONTRACT AWARDS AND F.H.A. MORTGAGES



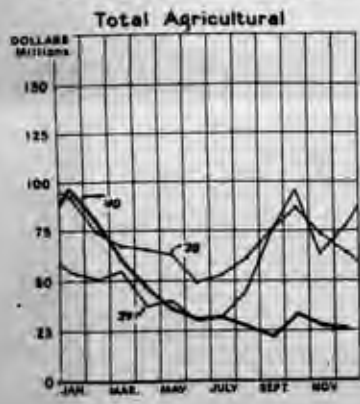
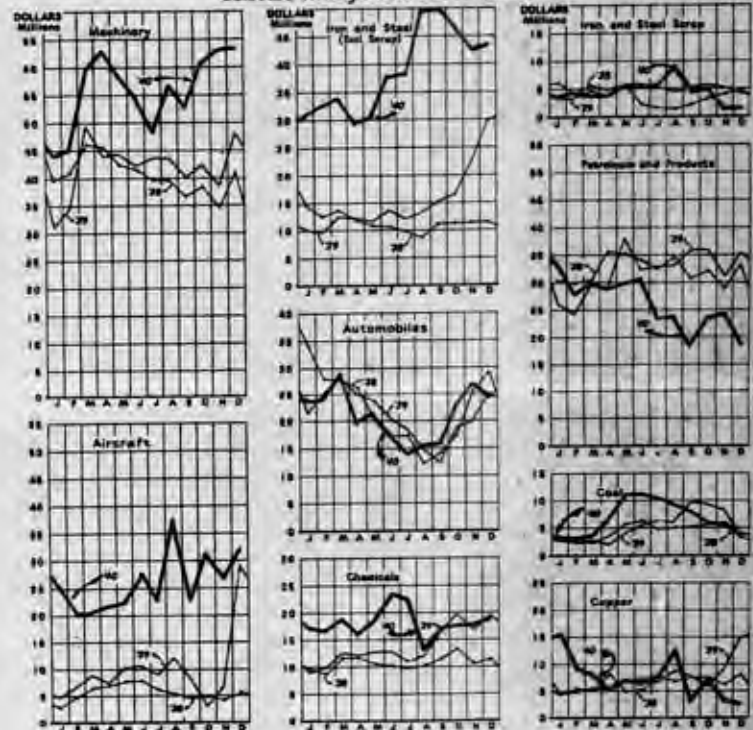
U.S. TOTAL TRADE AND EXPORTS. BY COMMODITIES



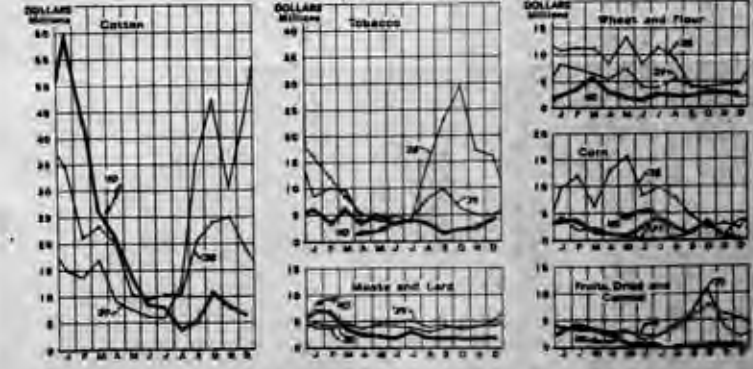
EXPORTS OF U.S. MERCHANDISE



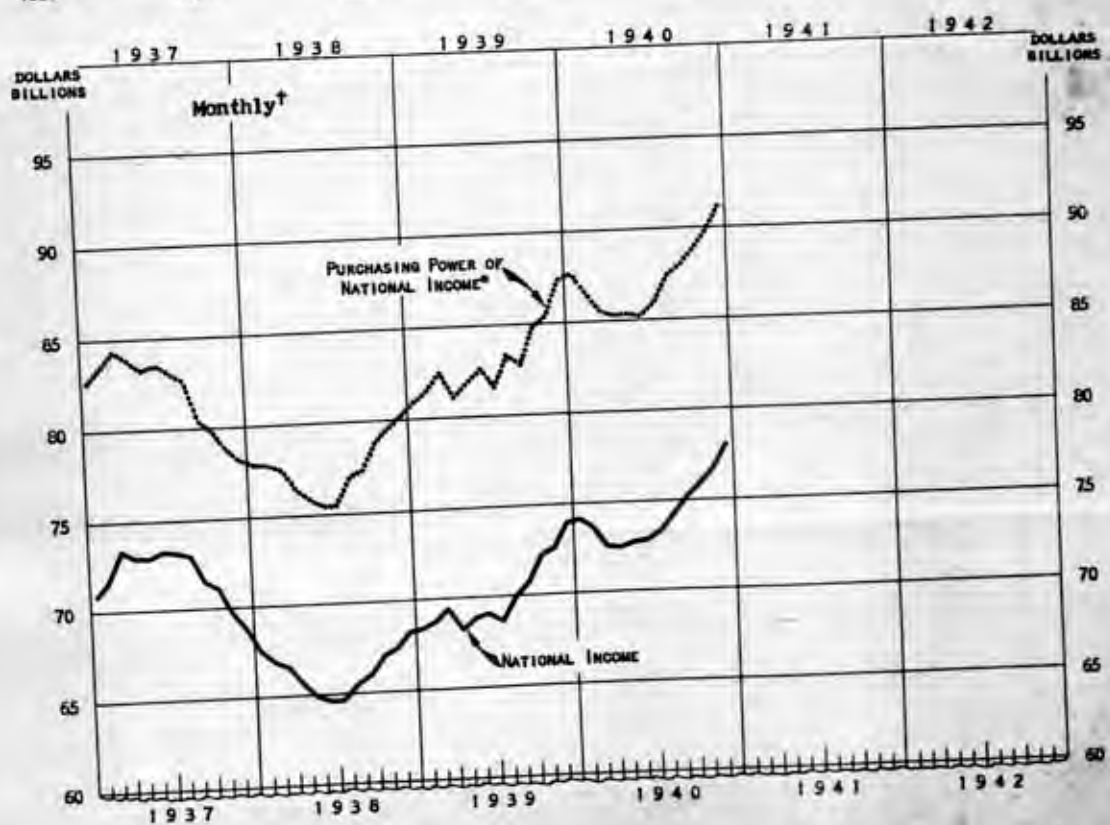
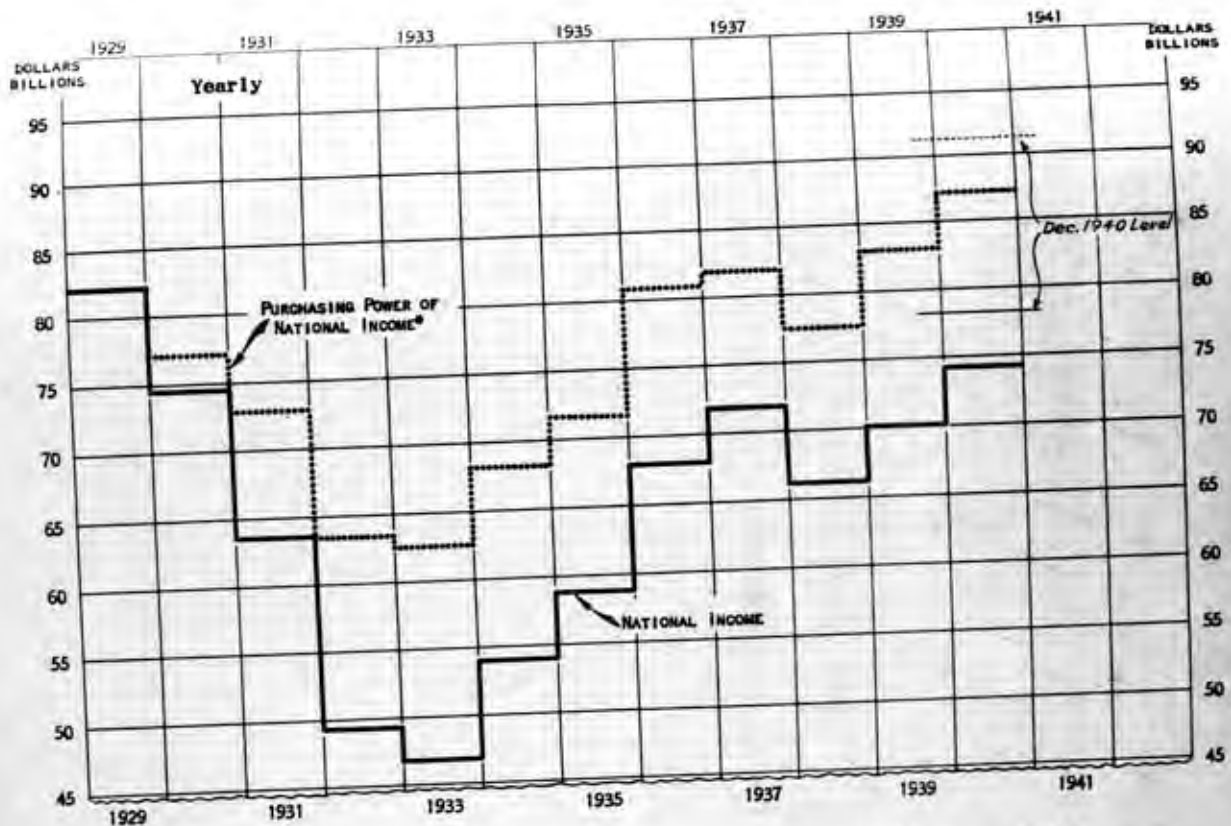
Selected Nonagricultural Commodities



Selected Agricultural Commodities



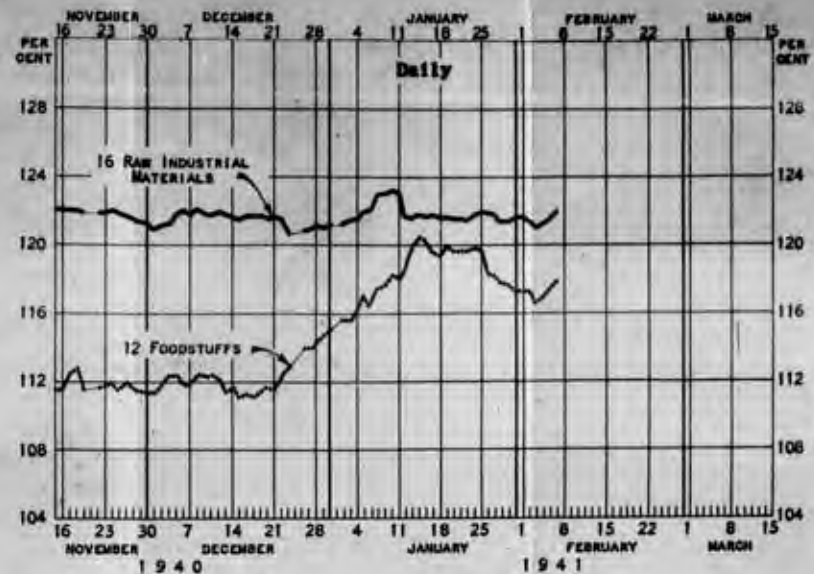
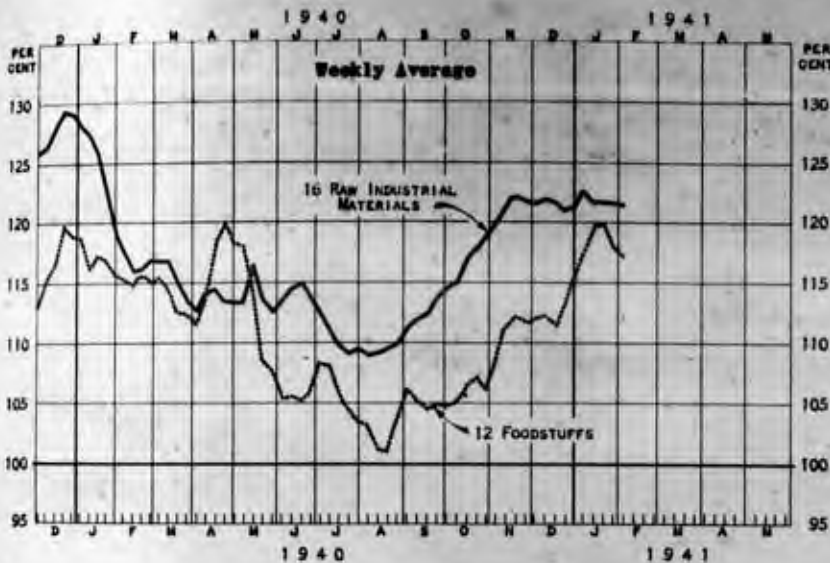
NATIONAL INCOME AND ITS EQUIVALENT PURCHASING POWER



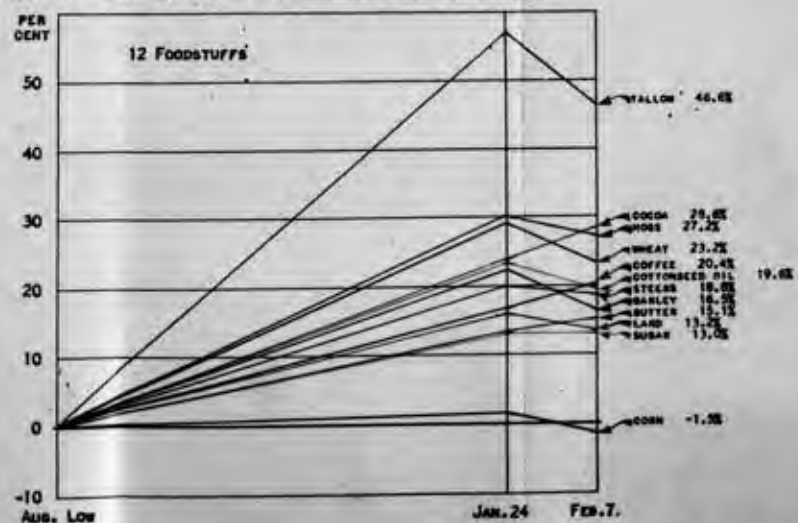
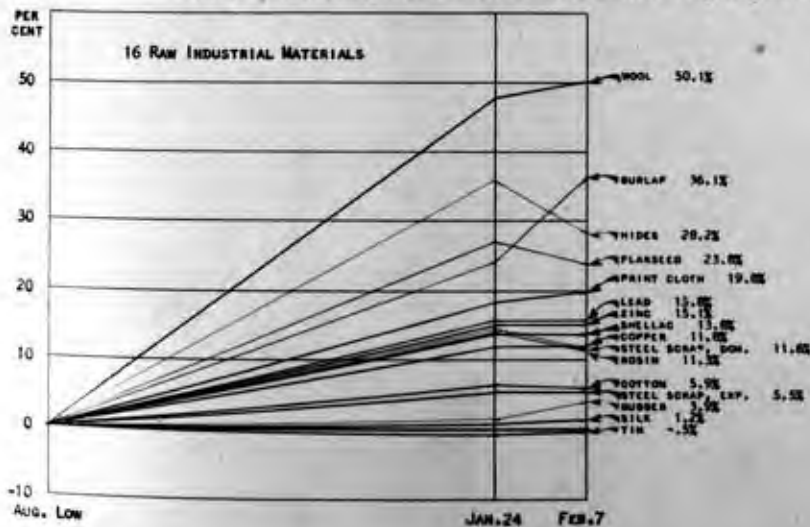
*BASED ON COST OF LIVING INDEX OF NAT'L. IND. CONF. BD., 1929=100
 †SEASONALLY ADJUSTED. MONTHLY FIGURES MULTIPLIED BY 12

123 Chart 5

MOVEMENT OF BASIC COMMODITY PRICES
August 1939 - 100



Percentage Change for Individual Commodities, August 1940 Low to January 24, 1941, and to February 7, 1941



THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE: REPUBLIC 7860

Box 680
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

February 10, 1941.

Mr. Herbert E. Gaston,
Assistant to the Secretary,
Treasury Department,
Washington, D. C.

Dear Mr. Gaston,

For your information I enclose a
summary of the two messages which I showed
to you on February 7th.

Yours very truly,

C. I. Ballantyne

Associate Secretary.

Enclosure

SECRET AND CONFIDENTIAL

On January 22nd Mr. Purvis telegraphed to London to say:-

1. That the Secretary had advised us that Mr. Jesse Jones had agreed that the R.F.C. could and would proceed to finance the placing by the Army and Navy of British contracts for common types amounting to \$884 million including plant facilities.
2. That the United States Army would purchase existing contracts for U.S. weapons to the extent of unexpended available appropriations on the understanding that we would place contracts for British type weapons to the same extent.
3. That the R.F.C. would buy some of our fixed investments for U.S. type weapons, the proceeds of which would also be used for the purchase of British type weapons.
4. It was pointed out that the amounts available under the two preceding paragraphs would be determined as promptly as possible and it was pointed out that they would be quite small. The message also stated that the Secretary had promised to consider with Sir Frederick Phillips if any other methods of finding cash were available.

Upon the night of January 31st, Mr. Purvis sent a long telegram to Sir Andrew Duncan. In this communication he pointed out that there was an obvious misunderstanding in London of the actual position here. There was set out in complete detail a list of the contracts which it was hoped could be placed prior to February 28th. The message continued by describing fully the aid which was being extended to cover the interim period. Mr. Purvis asked that the Chancellor explain to Mr. Hopkins the substance of the explanations contained in this cable. It was also stated that the State Department was cabling to Mr. Hopkins the same night pointing out that his aircraft request was based on an evident misunderstanding of what the Administration did on January 22nd to meet our difficulties in placing orders.

February 10, 1941

Regraded Unclassified

2-10-41.

Under Secretary Bell
Secretary Mergenthaler

Would you please get me the figures showing:

(a) The dollar amount of contracts placed by the War Department and the Navy Department for arms, munitions, implements of war and supplies under contract authorizations which have not yet been followed up by actual appropriations;

(b) The dollar amount of contracts placed by the War and Navy Departments for arms, munitions, implements of war and supplies under contract authorizations for which no requests for appropriations have yet been made;

(c) The dollar amount of contracts placed by all Government departments and agencies for military and naval equipment of all kinds, for merchant ships, for strategic and critical materials, for raw materials such as oil, aluminum, steel, etc., and for food-stuffs under contract authorizations and for which no actual appropriations have yet been made or requested.

CSG:djb
2-9-41

128

The Secretary directed that copies of this letter be given to Messrs. Gaston, D. Bell, Foley, Young and Thompson, and copies were furnished to them on 2/12/41.

THE WHITE HOUSE
WASHINGTON

FEB 10 1941

My dear Mr. Chairman:

The successful conduct of the national defense program requires that our facilities for ocean transportation be fully coordinated; only in this way can maximum utilization of such shipping facilities be assured.

As Chairman of the United States Maritime Commission, you are in a strategic position to advise and assist me in assuring that our ocean shipping needs are cared for in an expeditious and effective manner. Specifically, I shall wish your aid in respect to the following matters:

1. The analysis of the stated requirements of the War and Navy Departments, and other agencies of the Government, for merchant vessel tonnage and facilities needed for ocean transportation of foreign and domestic commerce in connection with national defense.
2. Advice with owners and operators of ships registered under the United States relative to shipping routes, movement of vessels, and character of cargoes as defense requirements may make necessary.
3. The coordination of plans for the acquisition and creation of additional ships and facilities (a) to carry the water-borne commerce of the United States, including the transportation of strategic and critical materials, and (b) to act as military and naval auxiliaries.
4. The preparation of recommendations pertaining to (a) the acquisition of additional tonnage under foreign registry to meet ocean tonnage requirements for national defense, and (b) requests by other countries or their nationals for assistance in obtaining additional tonnage.

- 2 -

I should like to receive from you regular reports concerning the availability and adequacy of ocean-going ships and facilities for their operation, together with your recommendations. I particularly request that you give all assistance and cooperation to the Office of Production Management in expediting the shipment of materials which are essential to our production program. You will, of course, need to tie closely to the State Department on all matters involving foreign policy and relations.

Copies of this letter are being sent to the Secretaries of State, War, Navy, Treasury, and Commerce and the Director General of the Office of Production Management. I am certain that these officials will inform you promptly of such problems as they may have involving ocean transportation, and will fully cooperate in facilitating the assistance that I am requesting of you.

Sincerely yours,

(Signed) FRANKLIN D. ROOSEVELT

Rear Admiral Henry S. Lund
 Chairman
 United States Maritime Commission

DEPARTMENT OF COMMERCE

1941 FEB 11 AM 8 23

A. W.

RECEIVED DEPARTMENT OF COMMERCE

OFFICE

MEMORANDUM

February 10, 1941

TO: The Secretary
FROM: Mr. Buckley

RE: High Spots of the Week

With the exception of the further difficulties in the Greek plane situation arising for the most part from Secretary Knox' press conferences on Wednesday, this has been a relatively calm week. Events of particular interest are described below under the following headings:

- British Orders Approved
- Chinese P-40's
- Confidential Deal Between the War Department and the British
- Export Control
- Greek Plane Situation
- Interim Purchasing
- Interview with Dr. Walter Kraus
- Lease-Lend Procedure
- Priorities
- Publicity on British Efforts to Reduce Down Payments
- Russian Clearance Situation
- Statistical Reports from Foreign Purchasing Commissions

British Orders Approved

During the week ended February 8, 1941 approval letters were given to the British Purchasing Commission on regular orders totalling \$33,930,773.08, as against a tentative budget of \$35,000,000. This total includes \$5,533,000 for the Packard Motor Car Company to cover capital costs above the original estimate on the Rolls Royce engine order.

Approval letters were also given on special items totalling \$8,824,710 as against a budget for this purpose of \$10,000,000. These include \$8,800,000 for the 20 Boeing B-17-C's and their accompanying bombs, flares, and ammunition.

Chinese P-40's

Mr. Allard of Curtiss-Wright called from New York early in the week to say that there would probably be a

- 2 -

break in the delivery of the planes to the Chinese, since they were limited by the British to deliver 2 planes per day to the Chinese up to 36, and 1 per day thereafter up to 100. At this rate the present British contract would be completed when only 72 planes had been delivered to the Chinese. We checked with the British, and they have agreed to execute whatever supplementary agreement Curtiss-Wright desires in order that the full 100 may go to the Chinese from the present contract, which means that the Chinese will get all their planes by about the end of March.

Confidential Deal Between the War Department and the British

Mr. Ballantyne told Mr. Gaston and me on Wednesday afternoon of a deal which had been worked out between the War Department and the British which I think you would prefer not to have reduced to writing. Mr. Gaston and I have the details in mind, however.

Export Control

There has been a rash of new liaison men appearing on the scene, including a Colonel Bates who is working for Colonel Maxwell. Colonel Bates came in Wednesday afternoon to discuss ways of tying in the export decisions with the decisions on our Preliminary Negotiation Reports. He wondered if we wouldn't let the Colonel review our decisions before they go to the foreign purchasers, but I pointed out to him that the time between placing the order for production and having it ready for export is often so long that I doubted if such a procedure would be very effective, with which view he agreed. I think the idea of making these decisions available to Export Control does make sense and ties in with our general feeling that there should be one application for production clearance, export license, foreign funds clearance if necessary, and so on. This would be a step in that direction, and accordingly I told him that I would have Mr. Young consider the problem immediately upon his return. This will give us an opportunity to consider the implications that such a step might have.

You might be interested to know that the memorandum on tallow prepared by Mr. Haas, which you forwarded to Leon Henderson, went from him to Colonel Maxwell as a recommendation that all oils and fats be placed under export control. This came before Colonel Maxwell's Subcommittee on Legislation, Proclamations and Regulations

- 3 -

at a meeting during the week, but I pointed out that with 40,000,000 pounds of lard in storage for the Surplus Commodities Corporation, it would seem to me that the problem was considerably broader than Mr. Haas' memorandum on tallow and would need intensive consideration. Accordingly, the memorandum has been tabled pending further study.

Greek Plane Situation

Bright and early Saturday morning, February 1, Mr. Murray of the State Department called up to say that the Greek Minister had come in very much upset because of his conference with you the day before, and insisted that this Government was definitely obligated to sell Greece 30 modern fighting planes, and that the acceptance or rejection of the 30 obsolete Grummans would not satisfy this obligation. I checked all our notes pretty carefully and called him back Monday morning saying that since the Greeks had never taken up the suggestion made to them in November that they order 30 P-40's for delivery in the summer of 1941, and since their deal with the British had fallen through, it seemed to me that the problem of whether or not they were supposed to get 30 modern fighting planes now was rather academic, since there were no planes to give them unless the State Department could convince the War Department to divert current deliveries. I pointed out to him also that in view of this, it was pretty obvious that it would have to be the 30 old Grummans or nothing. He was very much at a loss as to what to do and asked that I at least listen to the Greek Minister again on Monday afternoon.

I talked to Mr. Gaston about it and we reviewed together the notes on your conference the preceding Friday afternoon, from which it was evident that the Minister had been told that it was the Grummans or nothing, and that he had been given an opportunity to reconsider whether or not they wanted the Grummans. Accordingly, Mr. Gaston suggested that I meet with the Minister, but follow in conversation the same attitude which had been taken in your conference.

The Minister came in late Monday afternoon, and I listened to him for the better part of an hour. He reviewed the entire course of negotiations and insisted throughout that he had been promised 30 modern fighting planes by Mr. Sumner Welles, and therefore felt that regardless of their decision on the Grummans he still was entitled to an additional 30 modern planes. He did not have an answer from his government yet on the Grummans, and I pointed out to him that as a practical matter outside of the Grummans there were no planes for him to order for early delivery, or even for summer delivery, since they had

- 4 -

never acted on our earlier suggestion. He recognized clearly the practical situation, and agreed with my suggestion that the problem now, apart from Grumman's, was one between him and the State Department, since if the State Department agreed with his view as to their obligation, it would be up to them to convince the Army and Navy to divert planes from current deliveries. On that basis he left, saying that he proposed to continue his discussions with the State Department on the 30 fighting planes, and would advise us on the Grumman's as soon as he had a reply.

Tuesday and Wednesday were red-letter days because I heard nothing from or about the Greeks. However, Secretary Knox' statement to the press appeared in the evening papers on Wednesday, and I knew that we would have the Greeks with us on Thursday without fail.

Thursday morning Mr. Murray of the State Department called up to ask whether the matter of the price of the Grumman's had ever been discussed in our conference, and also to inquire whether the Greek Minister had yet given us a decision on the planes. Apparently, the Greek Minister had already been trying to get an appointment with Secretary Hull and the President. I told Mr. Murray that we had not yet had either acceptance or rejection on the Grumman's from the Greek Minister following your offer of the preceding Friday, and after checking Mr. Young's notes carefully and calling Admiral Towers, I told him that the question of price had never come up in the various conversations with the Greek Minister. Admiral Towers had told Mr. Young on January 23 that Secretary Knox would like to give the planes to the Greeks, but nothing to this effect had ever been told to the Greek Minister, and I am sure he was justified in his feeling that he would have to pay for these planes -- particularly since under the law it would be impossible for the Navy to dispose of them otherwise.

Mr. Berle called me late Thursday afternoon and was very concerned about the turn which the matter had taken. He said that he felt the entire Balkan situation might well be seriously affected by this incident, which the Axis powers could use as an indication of this Government's unwillingness to keep faith with small nations. Accordingly, he said that he felt that something must be done for the Greeks to erase this impression, and asked if I would check informally with the Army, Navy and British to see what possible solutions there might be if the Department of State marshaled all its influence to get something for the Greeks.

- 5 -

I reviewed this conversation with Mr. Gaston early Friday morning, and he felt that it would do no harm for us to investigate informally for Mr. Berle. Accordingly, I spent all Friday morning checking with War and Navy Department and the Office of Production Management, from which it was obvious that the only modern fighting planes available are the Curtiss P-40's which are being delivered to the Army and to the British, and the Grumman F4F's which are being delivered to the Navy. Consequently the problem could be solved only by a diversion from one or a combination of these three sources. So far as increased production is concerned, Curtiss-Wright might be able to make 30 more P-40's in June and July if the British would release the engines and the War Department would release propellers, guns, and government-furnished equipment. Since this is the time when Curtiss-Wright will be swinging into production on the P-40-D's, it would not seem particularly wise to give them this additional burden.

After discussing this with Mr. Gaston, I called Mr. Berle late in the afternoon and reviewed these possibilities with him. He said that the obvious solution to him seemed to be a diversion of P-40's from the Army and/or the British, and he felt that an arrangement ought to be made tentatively to get 15 from the Army and 15 from the British. I reminded him that the British had been released from their responsibility on the Greek situation as one of the conditions of giving up 100 P-40's to the Chinese, but he said that he felt this Government was in such a spot on the matter now, he thought he would like to ask you to go to the British on it anyway. I told him that I would bring it to your attention immediately upon your return.

Mr. Fairey came in Saturday morning, and I discussed the Greek problem with him informally, saying that I was not conveying a request in any sense of the word, but that I wanted him to think about it from the standpoint of whether he saw any possibility of helping, not the Greeks, but the United States Government to get out of a very embarrassing situation. He, of course, appreciated our position and said that he would discuss it informally with Sir Henry and Morris Wilson in case you should decide upon your return to ask them for a decision.

Interim Purchasing

Mr. Gaston has a letter from the British Purchasing Commission outlining the developments on interim purchasing by the Army and Navy through February 7. Progress is being made on the entire list. Definite action has been taken on

- 6 -

small arms ammunition, and negotiations are in progress on the 20 mm. Hispano-Suiza gun, the 20 mm. Oerlikon gun, and the 40 mm. Bofors anti-aircraft gun. The tank program will be taken up in the week beginning February 10. I have not yet had definite word from the War Department as to whether the RFC is ready to go ahead and place orders, but I am following this and should have definite information Monday or Tuesday.

Interview with Dr. Walter Kraus

Monday afternoon a call was referred down from your office to Mr. Young's office and finally came to me, from a Dr. Walter Kraus who wanted an appointment. After I had arranged to see him at noon on Tuesday, I found that what he wanted to talk about was a plan for "revitalizing world economy". This looked like quite an order, so I raised the question at the staff meeting Tuesday morning to find out whether anyone was acquainted with this man. Mr. Gaston had his dossier, and it turned out that he is a very famous psychiatrist and neurologist, apparently with considerable means and many influential friends, but apparently a little cracked. The note Mr. Gaston had read in part as follows: "As a rule he is rational, but it is believed he might commit violence if people disagree with his ideas." It developed in the staff meeting that he had been trying to see you for some time, and the general opinion was that someone would have to see him and I was elected. It was agreed to have Mr. Eddy, a member of Mr. White's staff, who is pretty husky, join me in the conference, and we also had a couple of guards outside the door.

He came in and we listened to him read his plan for the better part of an hour and discussed it with him for another half-hour. As near as I can gather, it would make the British Empire a sort of gigantic WPA project, but the complexities of the scheme are beyond me. I got Dr. Kraus to drawing pictures of how his scheme would work, after he had finished reading it, and then it developed that he had discussed it with many people in Washington, but wondered if we had any further suggestions. I asked him about what he planned to do with it, and he said he had thought of publishing it immediately, but felt that it was so secret that he did not want to make it available to the Axis powers by publication, and thought the Treasury ought to take it up on a secret basis for use by this Government. I suggested to him that the resources of the Axis powers were probably not sufficiently elastic at the moment to take up a gigantic plan such as his, and suggested that in a democracy such as ours publicity was the best way to get widespread critical comment and I thought,

- 7 -

therefore, that he should have it published. He said that he was anxious to get further critical comment, and I suggested that since he had not yet seen Leon Henderson, it might be a good idea to try to get in touch with him.

He left saying that he was going to polish off the rough corners, and that he would send us in a copy, which I said we would be glad to have for our files. We have heard no more from him, but the attached clipping appeared in the Times-Herald on Saturday morning.

Lease-Lend Procedure

Another liaison man appeared on the scene Tuesday afternoon in the person of Mr. W. L. Allen, who is working for Don Nelson. He came in to say that he had been employed by Mr. Nelson to study the work that Mr. Nelson would have to do for the British Purchasing Commission under the Lease-Lend Bill if the purchasing functions were given to him. I gather from his conversation that he has been working directly with men in the British Purchasing Commission for several days or longer studying their operations, although this was the first time his existence had come to my attention. You might want to comment on this to Mr. Purvis, since it would seem that we should be informed of any comprehensive work of this kind which is being done. In the course of our conversation I discussed in general terms with Mr. Allen the function of the Liaison Committee and the procedures which it had established. He seems a very nice chap, and observed gratuitously that he had started out thinking that an entirely new procedure would be needed under the Lease-Lend Bill, but after studying the work of the Liaison Committee from the standpoint of the British Purchasing Commission, he felt that the most he could recommend would be some adaptation of our present procedure to tie in with the other functions Mr. Nelson would have under the bill. I told him that I knew Mr. Young had done a great deal of thinking on this problem, and that, therefore, I did not feel competent to do anything but discuss it in generalities. I propose to bring it to Mr. Young's attention as soon as he returns.

Priorities

I have become acquainted over the telephone, and shall meet today, another liaison man, who has been hired by Mr. Stettinius to work on foreign priorities. This is Mr. Carl Adams, who has already been of considerable assistance to us in the few days that he has been operating.

Secret Papers Stolen in Senate

Jules Hunt, Suspect

in Documents Theft

By GEORGE WATERS

Valuable documents containing secret plans for economic recovery in this country and in nations friendly to America, were stolen yesterday from the Senate Foreign Relations Committee room, the Times-Herald learned last night.

Theft of the documents was reported to the Federal Bureau of Investigation and the Capitol Police, who were furnished a description of a man suspected of stealing the important papers.

The secret papers were stolen from Dr. Walter Max Kraus, one of the country's leading economists and former professor at Cornell and Columbia universities.

Dr. Kraus told investigators the documents mysteriously disappeared as he attended the Senate hearing on the Lend-Lease Bill.

The documents, according to Dr. Kraus, contain his world re-organization plan which he wants to submit to Congress as a non-legislative substitute for the Lend-Lease Bill.

Dr. Kraus was at the hearing with Mrs. Cecil Norton Broy, wife of the United States consul at Brussels, Belgium, and Mrs. Mary Wright Johnson, former Democratic national committeewoman for the District.

Dr. Kraus says he suspects a tall, slender man who became disagreeable with Mrs. Broy, Mrs. Johnson and himself at the committee meeting.

"I would not like to see my plan get in the hands of an unfriendly power," Dr. Kraus said. "I have kept the plan a secret for that reason alone. Hitler could do a lot of damage with information contained in those documents."

- 8 -

The foreign priority situation is settling down into what appears to be a very satisfactory routine. Mr. Williams is working closely with the administrative officers of the priorities division, and all foreign priority requests are coming to the priorities division through the Liaison Committee, and foreign priority ratings are being issued both to manufacturers and to foreign purchasers through the Liaison Committee. There is a completely friendly understanding on all sides. While there do remain some major problems to overcome such as the problem of extending foreign priority ratings from prime contracts to subcontracts, and the problem of getting priority ratings for all foreign machine tools by February 28, after which none will be delivered unless so rated, still our relations with the priorities division have been so pleasant that I do not anticipate any difficulty in working out these or subsequent problems.

Publicity on British Efforts to Reduce Down Payments

Mr. Schwarz called me Friday afternoon to say that a representative of International News Service had inquired as to the truth in a report that the British were trying to get back some of their down payments to use for current orders in anticipation of the passage of the Lease-Lend Bill, under which the long-term contracts would be taken over by the United States. He felt that publicity of this type might well react unfavorably on the Lease-Lend Bill. I checked with Mr. Purvis, and it developed that in general no such effort was being made, but that on some large iron and steel contracts Sir Frederick and Mr. Elliott (their steel man) had discussed a way of getting back some of their rather substantial down payments. There was no thought that this effort would be given publicity or adopted generally. However, as a result the American Iron and Steel Institute has sent out a circular letter to its members on this point. I have been unable as yet to secure a copy of this letter, but apparently it was favorable to the effort. Mr. Playfair, assistant to Sir Frederick, discussed it with Mr. Schwarz and me, and Mr. Schwarz decided that the best policy would be for him to tell the representative of the International News Service that there was no general attempt to recover down payments in contemplation of the passage of the Lease-Lend Bill, but that some adjustments had been discussed in connection with a few large contracts. In the meanwhile, the British Purchasing Commission is checking all angles of the problem and will be prepared for any further inquiries on the subject which may be made by the press.

Russian Clearance Situation

As you know, we have had difficulty in getting the Russians to enter into the clearance procedure wholeheartedly. On the other hand, as the production situation becomes tighter, more and more American manufacturers are becoming hesitant about taking Russian orders without some indication from our Government that they will not conflict with the needs of the defense program. This week alone I have had visits from representatives of the Birdsboro Steel Foundry and Machine Company, which makes hydraulic presses, the Barber-Greene Company, which makes materials handling equipment, the Gardner-Denver Company, which makes pumps, and the Industrial Furnace Manufacturers Association, which includes almost all manufacturers of heat treating furnaces.


Many of these companies make products which are not subject to export control, but which might well conflict with the needs of the defense program. They would like to be sure when Amtorg comes to place an order that the War and Navy Departments and the Office of Production Management have had a chance to consider the order. To meet their need until the Russian problem is settled, we have arranged with War and Navy and the Office of Production Management to consider these orders informally on the basis of a request from the manufacturers and indicate to us for transmission to the manufacturers any objection they may have.

All the manufacturers who have talked to us have been very appreciative of our willingness to do this for them.

To settle the problem more permanently, you will remember we had a conference of all interested Government agencies on the Russian machine tool problem a short time ago, at which it was decided that State would have the Russians file Preliminary Negotiation Reports for all orders from now on, and would stop discussing with them a series of lists which the Ambassador kept preparing and bringing down for discussion with Mr. Welles. In this connection I was asked to meet with Mr. Atherton and Mr. Henderson of the State Department on Tuesday afternoon for an interview which they propose to have with the Russian Ambassador. During this interview they are going to tell him that his government will have to follow the clearance procedure used by other governments, and they would like to have me there to answer any questions which may arise. Since this is a step in the direction toward which we have been working, I told them that I would come, subject to your approval.

Statistical Reports from Foreign Purchasing Commissions

Just before you left, Mr. Young worked out with Mr. Knudsen an arrangement by which we would send all statistical data to one man in the Office of Production Management and thus eliminate duplication of requests such as we have had in the past. Also, by routing all such requests through the Liaison Committee, we shall have a better control over the type of data supplied and the form in which it is presented. The day after Mr. Young left Mr. Stacy May, who is the man designated to receive such information at the Office of Production Management, presented requests a mile long, including some for the most confidential British data. Most of the routine material had already been sent to Mr. Knudsen, and we immediately arranged to have this go to Mr. May in the future in line with our agreement with Mr. Knudsen. However, with respect to his request for future programs, which in many cases are very confidential, I felt that I had to call up Mr. Knudsen and ask him whether he wanted these sent to a statistical division, or whether he would not prefer to have them come directly to him, since he would be responsible for them. He said that definitely he did not want any of these confidential programs to go anywhere in the Office of Production Management except his office, and that he would then make them available to Mr. May if necessary. Accordingly, I informed Mr. May that we would supply him directly with the routine statistical reports and send confidential program information to Mr. Knudsen, advising Mr. May at the same time as to what we were sending to Mr. Knudsen so that he could take up with him the distribution of this confidential material within the Office of Production Management.



STRICTLY CONFIDENTIAL

ALLISON ENGINEERING COMPANY Deliveries of Airplane Engines

142

: Actual : Estimated deliveries
: deliveries : on existing orders

1940

January.....	10
May 1 - June 1.....	15
June 2 - 29.....	31
June 30 - July 27.....	50
July 28 - August 31.....	91
September 1 - 28.....	221
September 29 - October 26.....	231
October 27 - November 30.....	248
December 1 - 7.....	30
December 8 - 14.....	86
December 15 - 21.....	78
December 22 - 28.....	52
December 29 - January 4.....	12

1941

January 5 - 11.....	85	
January 12 - 18.....	43	
January 19 - 25.....	33	
January 26 - February 1.....	32	
February 2 - 8.....	86	314
February 9 - 28.....		400
March.....		473
April.....		500
May.....		500
June.....		475
July.....		550
August.....		625
September.....		750
October.....		800
November.....		800
December.....		

1942

January.....	455
February.....	277
March.....	225
April.....	225
May.....	207
June.....	66

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

February 10, 1941.

STRICTLY CONFIDENTIAL

ALLISON SHIPMENTS

	:Dec. 29: :Jan. 4:	Jan. : 5-11 :	Jan. : 12-18 :	Jan. : 19-25 :	:Jan. 26: :Feb. 1 :	Feb.: 2-8 :	Total :Dec. 29-Feb. 8
British	8	83	41	33	31	60	256
Army	4	2	2	-	1	26	35
Total	12	85	43	33	32	86	291

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

February 10, 1941.

REPORTS OF PETROLEUM PRODUCTS, SCRAP IRON AND SCRAP STEEL
FROM THE UNITED STATES TO JAPAN, RUSSIA, SPAIN, AND GREAT BRITAIN
AS SHOWN IN DEPARTURE PERMITS GRANTED

Week ended February 8, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	--	--	30,000 Bbls.	55,350 Bbls.
Crude -				
Blended or California High Octane Crude*	246,500 Bbls.	--	--	--
All Other Crude	74,500 Bbls.	--	--	66,666 Bbls.
Gasoline -				
Gasoline A**	--	--	--	70,053 Bbls.
Gasoline B*	76,467 Bbls.	--	--	--
All Other Gasoline	--	--	--	--
Lubricating Oil -				
Aviation Lubricating Oil***	--	--	--	125,128 Bbls.
All Other Lubricating Oil	48,467 Bbls.	--	--	617 Bbls.
Tetraethyl Lead***	--	--	--	--
Boosters*, such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	--	--	--
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	--	--	--	3,203 Tons
All Other Scrap	--	--	--	13,742 Tons

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

February 10, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

Any material from which by commercial distillation there can be separated more than 3 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.

Aviation Gasoline.

As defined in the President's regulations of July 26, 1940.

CONFIDENTIAL

Paraphrase of Code Radiogram
Received at the War Department
at 9:03, February 10, 1941

London, filed 14:45, February 10, 1941.

1. On Sunday, February 9, a force of Bristol Beaufort bombers of the British Coastal Command made one direct hit with torpedoes when they attacked a number of German destroyers off the Norwegian coast. During the same period two British fighter planes attacked German troops and gun positions along the coast of Belgium with machine gun fire and an airfield in occupied France was machine gunned by other fighter planes. Also on this day British medium bombers attacked harbor installations along the French and Belgian coasts and bombed gasoline stores at Rotterdam. During the preceding night Namur was the target of a small number of British heavy bombers but the success of this mission can not be determined.

2. During the night of February 9-10 German planes raided targets in Norfolk and Suffolk and in the Clyde river area. Damage resulting from these raids has not been reported. Other German planes mined the Bristol Channel and the Humber River. German fighter planes are now being used to escort German planes engaged in night mining operations. During the preceding day merchant shipping on the Estuary of the Thames was attacked by German planes. A British fighter shot down one of the attackers and no damage was inflicted on British shipping.

CONFIDENTIAL

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3. An Italian motor transport in the vicinity of Kallio (7) was attacked by Kenya-based British bombers. British aircraft based in the Sudan cooperated with land forces in the British advances in the Lake Tana region of Ethiopia and in the Amara and Cherem areas of Eritrea.

4. During the night of February 8-9 the Island of Malta was the object of a heavy 9-hour German attack by a total of 45 Heinkel and Junkers bombers. They operated at altitudes as low as 400 feet and attacked in twos or singly. A hangar at the airfield at Hal Far was wrecked and two British Glenn Martin bombers on the ground and a runway at the airfield of Luqa were damaged. In addition private property suffered considerable damage. British searchlights picked up four of the attackers and of these, two were damaged and one was destroyed by British Hurricane fighter planes that operated singly.

SCANLON

Distribution:

Secretary of War
 State Department
 Secretary of Treasury
 Asst. Secretary of War
 Chief of Staff
 War Plans Division
 Office of Naval Intelligence
 Air Corps
 C-3

CONFIDENTIAL

RESTRICTED

G-2/2657-220
No. 312

M.I.D., W.D.
February 10, 1941
12:00 M.

SITUATION REPORT

This report covers the period February 8 - February 10, 1941.

I. Western Theater of War.

Air: German. Considerable activity against shipping. Relatively minor operations over England. Light attacks were launched only on the 8th-9th.

British. Operations generally limited. However strong daylight attacks were launched against the invasion ports on the 8th.

II. Greek Theater of War.

Air: Minor activity.

Ground: Local actions only.

III. African Theaters of War.

Libya. The British pursuit has reached El Agheila, at the base of the Gulf of Sydra and near the Tripolitanian border.

Eritrea. British advance from the west against Keren has slowed down. However a new British attack, force undetermined, has developed from the North near Karora and is reported to be making substantial progress down the coastal plain and to have reached Mersa Taclai on the Red Sea, terminus of a railroad to Keren.

Abyssinia. British advance on Gondar slowed down.

Somaliland. Further progress by light British forces.

IV. Mediterranean Theater of War.

Naval: Heavy units of the British fleet bombarded Genoa at dawn, February 9th.

Air: In conjunction with the above, the Fleet Air Arm bombed Genoa, Pisa and Leghorn (Livorno).

Note: This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

RESTRICTED

February 11, 1941
9:12 A.M.

148

H.M.Jr: Hello.

Operator: Secretary Knox.

H.M.Jr: Hello.

Frank Knox: Hello, Henry.

H.M.Jr: How are you?

K: How's the cowboy?

H.M.Jr: Oh wonderful!

K: I wish I could have been out there with you.

H.M.Jr: Oh -

K: There's nothing I enjoy more than getting a leg over a horse.

H.M.Jr: I'm going to do it once a month, maybe.

K: (Laugh) Maybe. Yeh, I guess you better say maybe.

H.M.Jr: Frank -

K: Yeh.

H.M.Jr: One of the first jobs that falls in my lap is the Greeks.

K: Yeh.

H.M.Jr: And, I'd like to put this proposal up to you. You had an order with Grumman -

K: Yeh.

H.M.Jr: - For eighty-one F4E fighters.

K: Yeh.

H.M.Jr: These are to be followed by four hundred and ninety-seven F4F's. Now these new number 4's have got the folding wings, you see.

K: Yeh.

H.M.Jr: And the others don't. And, therefore, these 4's particularly for your purpose are much more useful planes.

K: Wait a minute. What?

H.M.Jr: More useful planes.

K: Yeh.

H.M.Jr: Now the suggestion that I had to offer was that of these F4F3's which you still have about twenty-seven to take delivery of, that they be permitted to accumulate at Grumman and that when the bill passes that these be earmarked for Greece plus another two or three whatever you'd have to pull back.

K: All new?

H.M.Jr: All new.

K: Well, here, you're just stripping one of our carriers, that's what you're doing.

H.M.Jr: Well, you get forty a month of these -

K: Yeh, but hell we carried ninety two hundred and something like ninety two planes on the carrier. You're taking half a carrier load.

H.M.Jr: Well -

K: I don't know when trouble's going to break. I'd be willing to let them have the old ones but about the new ones - you're just stripping us.

H.M.Jr: Well, let us - you can -

K: We were 29 percent behind in our deliveries in January.

H.M.Jr: How much?

K: 29 percent.

H.M.Jr: Yeh. Well -

K: You do it with your eyes open, Henry. You're just crippling the Navy in a vital way.

H.M.Jr: Yeh.

K: It's like taking guns away from one of the battleships. Just exactly.

H.M.Jr: Yeh. Well, it's got down to now that -

K: God damn them! Why don't they take the ships they offer them? They're fighting against first class Italian planes and lousy flyers in them. And they ought to take what they get. God damn it, I don't like this business of coming around and telling us what they're going to take from us. I'm getting good and -

K: still a lot of things happened while you were away.

H.M. Jr: Yeh.

K: (laugh)

H.M. Jr: Well, all I had is to call up and say here's a suggestion. That's all I can do.

K: Well, you think it over yourself and see whether you want to ask this because it's exactly like as if you actually take all the guns out of one of the turrets of the battleships. That's just what you're doing.

H.M. Jr: No, no.

K: Yes, exactly. You're taking half the striking power away from one of the carriers.

H.M. Jr: Well, it means that - you get

K: We only have six of them, you know.

H.M. Jr: What?

K: We only have six carriers; you're taking half the guns away from one of the carriers.

H.M. Jr: No, it means that you'll have to wait twenty days.

K: Well, we'll have to wait that much longer. God knows how long it will be.

H.M. Jr: Twenty days.

K: Yeh. That's on the basis of estimated production.

H.M. Jr: Well, Grumman's on time.

K: Huh?

H.M. Jr: Grumman's on time. Twenty days.

K: Well, it's not as easy as that, I don't think.

H.M. Jr: Well, they've got their delivery - forty a month of these fighters. So, it would -

K: They haven't delivered any of them yet.

H.M. Jr: Oh yes.

K: Not of the kind you want us to wait for.

- 4 -

H.M.Jr: Oh yes.

K: Got any F4's from Gruman yet?

H.M.Jr: No, F3's. I don't want any F4's, Hello.

K: Yes.

H.M.Jr: I don't want any F4's.

K: Well, F3's. Which is it? Oh yes, without the folding wings. F4F3 - how many have you had delivered of these?

H.M.Jr: (Talks aside.) He says he's got about sixty of them.

K: What?

H.M.Jr: Charlie says he's had about sixty out of the eighty-one. Yeh.

K: (Talks aside.) Do you want to give them the other twenty-one - the Greeks? (Laughs) I'll tell you what I'll do, Henry. I don't want to decide anything like that over the telephone. Write me a little memorandum about it, will you?

H.M.Jr: What?

K: Write me a little memorandum about it. I don't want to decide an important thing - it's a damn important thing to us.

H.M.Jr: I - I do all this stuff verbally. I don't write any memorandums.

K: (Laughs) Well, I'll make a memorandum then. I'll talk it over and call you back.

H.M.Jr: Yeh. That's right. It's the F3's.

K: F3F4 is that it?

H.M.Jr: No, it's F4F3.

K: F4F3. Is that the numeral for one plane or two kinds of planes?

H.M.Jr: What?

K: Just one kind of plane. All right. F4F3.

H.M.Jr: Yeh.

K: And you want twenty-one of them?

H.M.Jr: I want thirty of them.

K: Oh, no. Hell, you'll take some away from what we've got. We've only got twenty-one coming.

- 5 -

H.M.Jr: Well, you can pull back some.

K: Yeh? (Laughs)

H.M.Jr: You can pull back some.

K: (Laughs) Well, I might for the British but I'll be damned if I will for the Greeks.

H.M.Jr: (Laughs) Well, you know what I told the - the English the day I left. I said, "You've got the damndest allies." They said, "You're telling me."

K: (Laughs) Right.

H.M.Jr: I asked them whether the English couldn't recommend a good Armenian rug dealer to advise me when I had the Greeks around.

K: Yeh.

H.M.Jr: So, I don't feel any different about it than you do.

K: Yeh. Well, I'll tell you, Henry, I'll talk it over and let you know.

H.M.Jr: Thank you.

K: Are you going to be at this meeting at Hull's Office at 9:30?

H.M.Jr: I don't know about any meeting.

K: Well, that's probably just Stimson and myself.

H.M.Jr: Right.

K: O.K., Henry. I'm looking forward to seeing you.

H.M.Jr: I'm looking forward to you.

K: All right. Bye.

Reviewed this to ✓
Mr. Young 2/12/41

February 11, 1941

My dear Mr. President:

On my return to Washington, one of the first things that has been brought to my attention is the fiasco over the Greek planes. This morning I called up Frank Knox and suggested a way out would be as follows.

The Navy ordered from the Grumman Aircraft Engineering Corporation 81 F4F-3 fighters. Of these, I am informed, about 50 have been delivered. The balance will most likely be delivered this month. This model has fixed wings. Beginning in March, the Grumman Company are supposed to deliver approximately 40 planes a month of the F4F-4 fighter, which has folding wings.

My suggestion to Frank Knox was that the Grumman Company accumulate at the plant the balance of approximately 21 of the F4F-3 fighters until the Lend-Lease Bill passes and that then these planes plus 9 which have already been delivered, or a total of 30, be transferred, on some basis to be arranged later, to the Greeks.

The State Department is very desirous that the Greeks receive 30 first-class fighting planes in view of your personal assurances to the Greek Minister on December 31.

Frank Knox is reluctant to do this unless he gets a direct order from you.

I need your assistance in this matter.

Yours sincerely,

The President,
The White House.

February 11, 1941

My dear Mr. President:

On my return to Washington, one of the first things that has been brought to my attention is the fiasco over the Greek planes. This morning I called up Frank Knox and suggested a way out would be as follows.

The Navy ordered from the Grumman Aircraft Engineering Corporation 31 P4F-3 fighters. Of these, I am informed, about 60 have been delivered. The balance will most likely be delivered this month. This model has fixed wings. Beginning in March, the Grumman Company are supposed to deliver approximately 40 planes a month of the P4F-4 fighter, which has folding wings.

My suggestion to Frank Knox was that the Grumman Company accumulate at the plant the balance of approximately 21 of the P4F-3 fighters until the Lend-Lease Bill passes and that then these planes plus 9 which have already been delivered, or a total of 30, be transferred, on some basis to be arranged later, to the Greeks.

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Yours sincerely,

The President,
The White House.

February 11, 1941
9:20 A.M.

H.M.Jr: Hello.

Operator: Mr. Bailey hasn't come in yet. I left a message.

H.M.Jr: Well, leave word. I also - Breckinridge Long called me. If he isn't there leave word on that.

Operator: All right.

H.M.Jr: Hello.

Breckinridge
Long: Hello, Henry?

H.M.Jr: Good morning!

L: Good morning to you. Henry, I don't want to bother you about detail. This is what this is: It concerns Butterworth in London.

H.M.Jr: Yeh.

L: And Butterworth is doing some work for you - a good deal of it.

H.M.Jr: Yeh.

L: Now, Wayne Taylor has put in a request for him.

H.M.Jr: Yeh.

L: And I didn't want to tell Wayne he could have him if you still wanted him.

H.M.Jr: What does Wayne want him for?

L: He wants him - They're reorganizing the Bureau with a view of making the Bureau more useful to the other departments of the Government and to the business community under present conditions. This fellow has had an experience there which is valuable and he's had experience before he went there that's particularly valuable and I know that he's been very useful to you and I didn't want to - it's up to you to say whether Wayne can have him in other words.

H.M.Jr: Sure he can have him.

L: It's all right?

H.M.Jr: O.K.

- 2 -

L: Fine.

H.M.Jr: Thank you for calling.

L: Thanks, Henry.

February 11, 1941
9:30 A.M.

GROUP MEETING

Present: Mr. Haas
Mr. Buckley
Mr. Bernstein
Mr. Pehle
Mr. Cochran
Mr. Sullivan
Mr. Graves
Mr. Thompson
Mr. Bell
Mr. Schwarz
Mr. Kuhn

H.M.Jr: I just spoke to Berle and he invited himself over for lunch and he said, "Well, I am going to send for the Greeks." I said, "No, that is just what I don't want you to do."

Buckley: Yes.

H.M.Jr: We put the heat on Frank Knox this morning for 30 really good planes for the Greeks.

Gaston: Did you?

H.M.Jr: Yes. He squirmed and swore and sputtered and so forth and so on.

Gaston: That is rather poetic justice. He stepped into it.

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

- 2 -

Mr. Thompson?

Thompson: You remember the case of William I. Steele?

H.M.Jr: Yes, very well.

Thompson: He has been placed in the Labor Department, Civil Service.

H.M.Jr: Would you write me a letter on it?

Thompson: It is information we gave to her, and she used all this as --

H.M.Jr: And he got it? Wonderful.

Thompson: So he is off our payroll permanently.

H.M.Jr: Fine.

Thompson: That is all I have this morning.

H.M.Jr: Dan?

Bell: The only thing I have is that I haven't seen anything in the Washington papers of a statement we gave to the Committee in our testimony on the Foreign Funds appropriation. We gave them two statements, one a summary of the assets of the countries under control which are held in this country, and the other one a rather detailed breakdown. The detailed breakdown was in confidence, and we asked them not to put that in the record. They put the one that was confidential in the record and --

H.M.Jr: I saw that in the papers.

Bell: I didn't see it in the Post.

- 3 -

- H.M.Jr: It is in the New York papers.
- Bell: But we gave it to them with the understanding that they would not put it in the record. I suppose it was a slip-up up there somewhere.
- H.M.Jr: I was surprised. I was so worried when I gave out about the French, you know. Well, it is there.
- Bell: It is there.
- H.M.Jr: It gives somebody else a chance to sue us.
- Bell: I don't think that suit is bad, myself.
- H.M.Jr: Are you at the bottom of my being made a director of every lending agency in Washington? I see in the papers that Senator Byrd has a Bill.
- Bell: No, you signed the letter.
- H.M.Jr: What did I say?
- Bell: In a report on Senate Resolution 150, you made several recommendations. You didn't make that recommendation, but you made a recommendation that legislation be passed to require all of these agencies to report to the Secretary their financial statements and so forth.
- H.M.Jr: But not that I go on as a director?
- Bell: No.
- H.M.Jr: I don't want to go on as a director.

- 4 -

Graves?

Graves:

Nothing.

H.M.Jr:

I am sorry I didn't get to you yesterday, but Claude Wickard was late, and then he stayed a half an hour and got me bogged down. He was fifteen minutes late.

Kuhn:

May we come today?

H.M.Jr:

You can follow Mr. Bell this morning. He comes at 10:15, don't you?

Bell:

Yes sir.

H.M.Jr:

Was it this morning?

Bell:

Your statement for tomorrow morning.

H.M.Jr:

You (Kuhn) sit in on that, don't you?

Kuhn:

Yes.

H.M.Jr:

Right after that, we will continue. How is that?

Kuhn:

Fine.

H.M.Jr:

George?

Haas:

I have nothing.

Pehle:

We had an oral clearance from State on revoking some of these Indo-China licenses.

H.M.Jr:

What is that?

Pehle:

We have an oral clearance from State. We

- 5 -

are getting something in writing today, I think.

Kuhn:

Edgar Mowrer rang up the other day saying that he was very anxious to do a story on what the British had turned over to us in the way of information on weapons and so on, to show that this help is not a one-way proposition; and I think it would be better if that came from the War Department rather than from us, so I asked McCloy informally if he would see Edgar Mowrer. He said he would be delighted, but he had been having an argument with Stimson about the whole subject, and McCloy is very anxious to have this information brought out; and he sees no military harm in it whatever. Stimson is afraid that it will make it seem that there is an understanding, secret understanding between the general staffs of the two countries and that it might have a bad effect. So McCloy is going to see Mowrer and then go on and argue some more with Stimson, and try to get this thing released.

H.M.Jr:

Well, I am glad to have the information, but I am not going to --

Kuhn:

No, I just thought you would want the information.

H.M.Jr:

We have it, you know.

Kuhn:

I know, but I thought it was better not to come from here.

H.M.Jr:

Mich. And be sure and tell Joe Alsop I could use the 200 million dollars that

- 6 -

Bill Bullitt got for the English.

Kuhn: That is all I have.

Bernstein: I have nothing.

H.M.Jr: Is it good?

Bernstein: I don't know. I haven't gotten the latest reports.

H.M.Jr: How are all these suits? Are you worried?

Bernstein: No, I don't think we should worry.

H.M.Jr: Mr. Breckenridge Long called me up and wanted to know would I have any objection to Butterworth going to Wayne Taylor as one of his assistants to advise him on how to service other departments. So I told him I had no objection. O.K.?

Bell: It is all right with me. Very good.

H.M.Jr: So he is going to work for Wayne Taylor.

Bell: In the Department of Commerce or in the transfer from --

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

Cochran: He could be detailed there just as I am detailed here.

H.M.Jr: I didn't ask.

Cochran: I inquired in New York yesterday about Bloch-Laine, and he is in Lyon in charge of the Lazard office in unoccupied France.

H.M.Jr: Unoccupied?

- 7 -

- Cochran: Yes. There was a report in the Paris paper some days ago that he was coming over here, but his friends in New York couldn't confirm that at all, so he is still getting along all right. I spoke to Secretary Hull's office again yesterday, I think it was the first time yesterday, on this Murphy report, and this morning they called back and said that Mr. Welles had all that material, and he would let me hear from him on it. Then Sir Edward Peacock is coming in at four, and I told Mr. Bell.
- H.M. Jr: Could he see me a few minutes alone? I will let him have a few minutes alone, and then I will phone you, Dan.
- Bell: O.K.
- H.M. Jr: He sent word to me, he would like to see me a couple of minutes alone.
- Cochran: Mr. Schenker, Dave Schenker, telephoned yesterday --
- H.M. Jr: Who?
- Schwarz: Schenker.
- H.M. Jr: I am a little sensitive to Schenck.
- Cochran: He telephoned me yesterday saying that he had a number of inquiries, people wanted to get in touch with Sir Edward and wondered when he was coming down. I told him he would be here in a day or two.
- H.M. Jr: Well, we can tell him that this afternoon.

- 8 -

- Cochran: That this man has inquiries. But I didn't think you wanted him here for the meeting.
- H.M.Jr: No. You might let it leak, Chick, that he is coming in around four.
- Schwarz: A little bit before that?
- H.M.Jr: A little after.
- Schwarz: After he is inside.
- Cochran: I have a couple of things on the British sales which you might be interested in seeing before he comes in.
- H.M.Jr: That is just securities, isn't it?
- Cochran: Yes.
- H.M.Jr: Just as soon as I get over my testimony, I am expecting to sit down with Bell and you and bring myself up to date on the financial situation, British financial situation. You have got a report, haven't you?
- Cochran: Yes, I have.
- H.M.Jr: But I don't think --
- Cochran: No, it is not directly concerned.
- H.M.Jr: I will keep it in mind.
- Sullivan: You were going to call Mr. Doughton and Mr. Cooper.
- H.M.Jr: Yes. I will do a little shouting. You got through nicely, didn't you?

- 9 -

Sullivan: They did a good job yesterday.

H.M.Jr: Were you on the floor?

Sullivan: No, I was in the gallery. I never go on the floor.

H.M.Jr: Do your boys go on the floor?

Sullivan: Tarleau does, but I think it was better judgment for me not to, and then they could come up or call me down.

H.M.Jr: And what does Tarleau do, does he sit right on the floor?

Sullivan: No. On the Tax Bill he is right in there, but if they want me, they call me and I come down and they come outside.

H.M.Jr: Everything else all right?

Sullivan: Yes. Capper had a number of amendments yesterday.

H.M.Jr: Sometime when you are ready, I am going to sit down and talk new taxes with you. Are you ready?

Sullivan: Sure.

H.M.Jr: I mean, the first time I have a breathing spell.

Sullivan: I think having waited until now was pretty good judgment, because they are all begging for information. They want to go up there. It is quite a shift.

H.M.Jr: Anything else, John?

Sullivan: No, sir.

- 10 -

H.M. Jr: Chick?

Schwarz: I have nothing.

H.M. Jr: Herbert?

Gaston: I have some reports on our 9:30 meetings while you were gone. Shall I give them to Miss Chauncey?

H.M. Jr: Yes, she would love to have them.

Gaston: I also have from Mr. White's shop, Mr. Coe, two one-page reports on German and Italian military expenditures, but they are working on a revision of that and a recapitulation summary on one page which I asked them to do.

H.M. Jr: Well, I would like -- as a result of my conversation with the President yesterday, I would like to shoot it to him just as soon as I can.

Gaston: This was addressed to Mr. White by one of his men, and I am having that changed, and I am having a recapitulation sheet put on there that summarizes the whole situation.

H.M. Jr: No, I am sorry, I am talking about something else. I am talking about the treatment of American companies in Germany. That is what I want. I want to get that to the President as soon as possible. This would be for the next thing.

Gaston: The statement on the Lease-Lend appropriations when they come up.

- 11 -

- H.M.Jr: Well, I am not going to testify on the Appropriations Bill. That was decided yesterday.
- Bell: Beg your pardon?
- H.M.Jr: I am not going to testify on the Appropriations for the Lease-Lend Bill.
- Bell: You are not?
- H.M.Jr: No, I put it up to the President yesterday, and he is going to let Stimson and Knox and Knudsen.
- Bell: I think that is right.
- H.M.Jr: Stimson, Knox and Knudsen and you (Bell) know about the secret meeting at my house, which you are to be at, so we'll do all the background work and then let those three men carry it.
- Bell: I have had some conversations with Harold Smith on setting up a committee to look after the accounting and the types of appropriations we ought to have. He spoke to the President last Friday, and the President said to go ahead.
- H.M.Jr: Well, that is all - it fits into the same picture, doesn't it?
- Bell: That is right.
- H.M.Jr: But when I spoke to the President yesterday, he hadn't thought about this thing at all, about how they are going to testify, and he said he was very glad to have me go ahead and push it, you see, and - which we'll do.

- 12 -

Bell: It might be a good thing to get this appropriation for aid to these countries into one fund, say get three and a half or four million dollars for aid to these countries under this Lease-Lend Bill, and then as the material goes out from the War Department to the Navy, check against this one fund and reimburse the appropriations. It is a good accounting arrangement, and we would always have the information in one place.

H.M.Jr: Well, would you - that ought to be written in to the Appropriations Bill.

Bell: That is right, it will have to be written right into the language.

H.M.Jr: Cox is working on this for me.

Bell: Well, we'll have to discuss it with the Budget.

H.M.Jr: Do you want to do that before Thursday?

Bell: We can. I don't know what you want to do at this meeting, just discuss ways and means, or --

H.M.Jr: Yes.

Bell: Well, we can have some preliminary discussions with the Budget before then.

H.M.Jr: You come prepared.

Bell: Yes.

H.M.Jr: And I will look to you and Cox.

- 13 -

Bell: All right.

H.M.Jr: How will that be?

Bell: Good.

H.M.Jr: Have you seen the memorandum?

Bell: Yes.

H.M.Jr: With the President's initials on it?

Bell: Yes, I saw that.

H.M.Jr: Who else would there be to come?

Bell: Well, Smith ought to be there.

H.M.Jr: He is invited, but I mean from the Treasury.

Bell: That is all, I think.

H.M.Jr: Except Phil Young; of course, he knows what they need.

Bell; Yes, I expect he would be good.

H.M.Jr: This is Thursday at 9:00. The President is very anxious to keep this a secret. I am having this at the house instead of here. He is very anxious not to have any leaks on this.

Gaston: There was a cargo of rubber came in last week on Indo-China for consignment for sale on the New York market, and it passed through several hands and was sold to Amtorg, and they immediately began trans-shipment of it, changing it to another ship which had been

- 14 -

chartered to Amtorg by the Maritime Commission, the Exchequer. Johnson learned about it through one of the legal staff in New York and expressed the opinion that it might be subject to the Export Control and reported it to the Division of Export Control of the State Department. They decided that it was subject to Export Control, and a license would have to be issued. The Russians were so notified. They came in yesterday to protest. It seems that they had been told by Maxwell that it would not be subject to Export Control Licensing. Also, unfortunately, they had been told the same thing by one or two subordinates in the Custom House in New York. But it is rather an amusing thing.

H.M. Jr: Who caught it?

Gaston: A lawyer named Rains in our legal division in New York.

H.M. Jr: Will you write me a one-page letter for the President saying that this is the kind of thing that is happening under the present set-up? This is an argument for having it in one place.

Gaston: Yes.

H.M. Jr: Will you write a one-page letter for me? "My dear Mr. President: Here is a good example that I know of the kind of leaks of strategic materials which is going on every day and will continue to go on until the Control is in one place." I wouldn't say "in the Treasury," you see.

Gaston: Yes.

- 15 -

- H.M. Jr: This letter that I will write him will be circulated all over, and don't try to spare anybody's feelings.
- Gaston: Yost, over there in the Division of Controls, was very petulant when the suggestion was made that perhaps this was Maxwell's business. He said it wasn't Maxwell's business, it was their business.
- H.M. Jr: Well, will you put it in a letter for me to the President and say, "this is a good example that I know of the necessity of having it all in one place," but don't say "in the Treasury."
- Gaston: There is another incident somewhat of the same kind that relates not to exports but to imports. A man named Halbach, representing the General Dye Stuffs Corporation, which has, of course, important German connections, came in last week and said that he had applied to the Chase National Bank for a loan of \$500,000 to finance some imports of chemicals from Germany via Russia. The Chase National told him that they would not make him this loan without the approval of the government, so he came down here and saw Johnson. Why, I don't know, but at any rate - no, he first saw the State Department, that is how it was, and they said it was nothing with which they had anything to do and advised him to see Customs, and they came to see Johnson, and Johnson told them that it was nothing with which he had anything to do, but offhand, he would express the opinion that they had been denied a loan by the Chase National Bank; but now yesterday Johnson learned, or heard, that they saw a man named Morgan in the

- 16 -

Office of Production Management, and this man told them this deal was perfectly all right; and on the strength of that word, they went to the Chase National Bank and got the \$500,000 loan to import chemicals from Germany.

H.M.Jr: Give that to the President, too. If you can get this to Miss Chauncey by 2:00, I will sign it.

Gaston: Yes.

Buckley: On the other side of that rubber deal, as an example of what they keep in, there has been 22 hundred pounds of Swedish crepe rubber for soles that the Swedes have been fighting about for about five months, \$762 worth that they wouldn't let out. I mean just the other angle, a little bit that doesn't mean anything to anybody. They refused to let it out. The Swedes are just about frantic. Nobody will take it over, and they have shipped it across the Atlantic to Bergen and back once, and it is sitting in a warehouse in New York, 2200 pounds of rubber.

H.M.Jr: Would you put that in? "On the other hand, here is a case which should be permitted to go." Or wouldn't you? Maybe that makes it too complicated.

Gaston: One point about this rubber thing, it is one of those things you can decide either way. It is a question of high policy, and we have three or four agencies deciding governmental policy.

H.M.Jr: Well, take your time and give me a good

¹⁷
- 18 -

letter, and I will sign it. Anything else, Herbert?

Gaston: Very complicated complications on Danish ships, but I don't think you want to go into it now.

H.M.Jr: No. I tried to get in on it once. 10:15?

Bell: All right.

February 11, 1941
9:32 A. M.

H.M.Jr: Hello.

Adolf
Berle: Good morning, Mr. Secretary, I hope you had a
good holiday.

H.M.Jr: I had a wonderful holiday.

B: (Laughs) You needed it because it may be a long
time before another one.

H.M.Jr: I came back with a resolution - one week in four
- but I -

B: (Laughs) Well, if you stick to that you'll have
quite a gambol in several paths. All I want to
know is the formula after you get it worked out.
(Laughs)

H.M.Jr: I'll give it to you.

B: (Laughs)

H.M.Jr: The reason I'm calling you is Jim Buckley suggested
I call you and that you tell anybody in the State
Department interested. I put it up to Frank Knox
today that I wanted thirty Grumman that will be
coming off the line now -

B: Oh fine.

H.M.Jr: To be permitted to be accumulated - they come off
at the rate of forty a month -

B: Yes.

H.M.Jr: Now, a thing with a designation F3 which has a wing
which does not fold - and at the end of the month -
before the end of the month - well, within ten or
fifteen days they begin to get new planes with fold-
ing wings which is a big improvement, you see?

B: Oh yes.

H.M.Jr: Now -

B: But the others are perfectly good.

H.M.Jr: Oh - they're going right on the carriers and the
only - from their standpoint it's better; they
don't want a folding wing plane.

B: No.

- 2 -

H.M.Jr: You see they have no use for it.

B: Not the slightest.

H.M.Jr: Now, he's just raised bloody hell about my suggestion, and he said he'd do it for the English but he'd be damned if he'd do it for the Greeks. So I said it's a matter of high policy. All I could do was to suggest it.

B: (Laughs)

H.M.Jr: And I didn't - but my suggestion was to let them accumulate on the ground and then when the bill passes they'd be there all ready to go to Greece, you see?

B: Right.

H.M.Jr: Now Buckley said you were working with the Army on something else and if you knew this -

B: Well -

H.M.Jr: I'll get a yes or no out of him I think today.

B: Well, we'd fight for that. I've got to check with that Greek and find out if it's all right but I've absolutely no doubt that it would be.

H.M.Jr: Oh, I don't - if you don't mind, I wouldn't say anything.

B: Well, still better I won't. I'd rather you'd talk to him.

H.M.Jr: No, no I mean let's wait. There's been so much - Let's give Frank Knox a chance to say he has it in writing.

B: You see he sounded off a few notes.

H.M.Jr: Yeh.

B: And unfortunately got it wrong.

H.M.Jr: I know.

B: And that put us in a terrible hole.

H.M.Jr: Well, that's why I'm putting the heat on him in order to make good now.

- 3 -

- B: Well, I think that's perfectly swell. I - one thing, Henry, in some of these things, seriously I wondered whether it would do any good if you and I lunched together once every two weeks or so -
- H.M.Jr: Well, I think - the Greeks -
- B: - while I could give you the rest of the story on it.
- H.M.Jr: I think it would be swell.
- B: For instance, this Greek business, now I think I have a rough idea of your opinion of the Greeks and I may say that Henry had a lot to do with them in trying to practice march the same but that's got very little to do with it. What we're really playing for is to try to keep all this Near East business in line and the British or anybody else could lose a hell of a lot more than any thirty planes -
- H.M.Jr: Yeh.
- B: Just on some general idea that all these people are going to be left alone. And we (laughs) the Greeks, as you know, asked to see the President and -
- H.M.Jr: I know.
- B: And the President sent word through General Watson that he could come back and talk to me. (Laughs)
- H.M.Jr: I see.
- B: I didn't feel like seeing him and I haven't seen him until I have something to say because -
- H.M.Jr: Well -
- B: I couldn't explain away what Frank Knox said and I'm certainly not going out saying bad things about an American officer to a foreign diplomat.
- H.M.Jr: Well -
- B: So I just stalled it.
- H.M.Jr: Well, don't, if you don't mind, keep this strictly within the Department until we hear from Frank Knox.
- B: Righto.
- H.M.Jr: My suggestion is an absolutely workable one. He talked about robbing the plane - aircraft carriers and I

- 4 -

said, "Nuts! What this means is that you have to wait just exactly twenty days."

B: Well, that's exactly the point and -

H.M.Jr: He'll have to wait twenty days and then he'll get a plane with a folding wing.

B: Well, I think that's swell because he waits twenty days and he gets a better quality of plane and he can take more on his carrier.

H.M.Jr: That's right.

B: That's all that happens to that.

H.M.Jr: I know I've got him in Achilles' heel and he's going to have a hell of a time squirming out of it.

B: (Laughs) So far, but I think you'll probably get him to feeling slightly contrite anyway. (Laughs)

H.M.Jr: Well, I went on - He commenced to swear and I said, "That's all right. This is a good proposal and you ought to come through." Then he - he evidently had a staff meeting and you know - but I expect to hear from him and when I hear I'll let you know.

B: Much obliged. Meanwhile I keep the Greeks stalled.

H.M.Jr: Right.

B: Righto.

H.M.Jr: And don't mention it to anybody out of the Department, please.

B: I won't - well, that is it will stay quiet in the Department.

H.M.Jr: Right.

B: As I say, the other thing - I thought sometime maybe if it will do any good I could sit down and go over some of the various pressures we're under because I have a hunch that maybe we don't keep them as closely as - I don't know how many of the cables you see. You see I know the Treasury ones but there a lot of other things that go on here -

H.M.Jr: Well, I tell you now, you see, Thursday, come over Thursday and have lunch with me.

- 5 -

B: I'll make myself free Thursday if I'm not.

H.M.Jr: One o'clock.

B: One o'clock on Thursday.

H.M.Jr: Right.

B: Right.

H.M.Jr: Thank you.

February 11, 1941 ✓
10:08 A.M.

180

H.M.Jr: Hello.

Operator: Congressman Doughton.

H.M.Jr: Hello.

Congressman
Doughton: Henry?

H.M.Jr: Bob?

D: Hello, Henry.

H.M.Jr: Bob, you're a master of strategy.

D: What's that?

H.M.Jr: You are a master of strategy.

D: Oh you flatter me too much, Henry.

H.M.Jr: You got that bill through marvelously.

D: Well, I think we did a pretty good job on it. You know we got it out and our boys all stood up very loyally. The Republicans - they lined up in one solid determined frontage against us.

H.M.Jr: Well, you certainly gave them a spanking.

D: Yes, we certainly did. Did you read the record?

H.M.Jr: Oh, well I've got it before me.

D: Well, if you have time to - Some rainy Sunday afternoon when you're not down to you might read my speech.

H.M.Jr: I'm going to do that.

D: Thank you. (Laughs)

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

D: Well, we're mighty glad to be of service about that. I think that was mighty attractive. If you'll read the record - they certainly tried to justify themselves by some way. But that statement you'd made before the Committee, maybe the Foreign Affairs Committee or some Committee and all that - they tried every way in the world you know to raise some

- 2 -

- D: doubt in the minds of our folks but they stood up all right. We didn't lose but two or three Democratic votes on the teller vote.
- H.M.Jr: Well, I wanted to tell you how pleased I was.
- D: Well, I was glad to do it - always. Want to talk to you some of these days. I'll tell you what I want to get after with you -
- H.M.Jr: - Yeh.
- D: And go to the President with it -
- H.M.Jr: Yeh?
- D: That paragraph in your letter or in your statement - I think it's on page 5 - I quoted it yesterday.
- H.M.Jr: Yeh.
- D: In my speech about the importance of economy at this time.
- H.M.Jr: That's right.
- D: I want us to take some concrete, forward steps on that.
- H.M.Jr: Well, I -
- D: I just can't conscientiously go along and continue to increase taxes and continue to increase borrowing and the debt adding on - passing on obligations to the future generations they may not be half as able to stand as we are until we effect every reasonable economy.
- H.M.Jr: Well, I'm with you any time. Just let me know and I'm at your service.
- D: Well, if we get time and go over there to the President - the only thing that he and I ever seriously well not seriously but especially disagreed about is this question of - of spending money.
- H.M.Jr: Yeh.
- D: He made a statement down there some time ago that shocked me when he was talking about the W.P.A.
- H.M.Jr: Yeh.
- D: I don't remember whether you were there or not.
- H.M.Jr: No.

- 3 -

- D: Instead of defining the different groups of W.P.A. people we have to take care of he asked if these fellows got drunk every week.
- H.M.Jr: Yeh.
- D: And I told him I couldn't go along on that.
- H.M.Jr: No.
- D: That I wasn't willing to tax the people to give fellows jobs five days a week to drink it up Saturday night and Sunday.
- H.M.Jr: Yeh. Well -
- D: We've got to do something. The public's going to - I can't do it conscientiously and the public won't justify it in going on unless we cut out as far as we can - it may not be much - it's really in the mind, you know, -
- H.M.Jr: Yeh.
- D: A very serious question as to what we are doing and it subjects us to criticism and I want us to take some - whether we'd better get together the Chairman of the Appropriations Committee and his Committee and try to get some of the House - - the best way to do it I don't know.
- H.M.Jr: Well -
- D: But I do know that when it's through Senate I'd be glad to talk about it.
- H.M.Jr: Well, anytime you're ready I'm at your service.
- D: Well, thank you very much, Henry, you're always - you're fine to work with.
- H.M.Jr: Thank you.
- D: I find I should say fine to work for.
- H.M.Jr: Thank you.
- D: Good bye.

February 11, 1941
10:19 A. M.

H.M.Jr: Hello.

Operator: Speaker Rayburn.

H.M.Jr: Hello. Hello.

Speaker
Rayburn: Yeh, Henry.

H.M.Jr: Sam?

R: Hello.

H.M.Jr: I just wanted to call up and tell you how pleased I was about the way you handled our bill yesterday.

R: Well, that was-- I thought it was pretty good.

H.M.Jr: I thought it was damn good. And I don't see how it could be handled any better.

R: Well, it looks to me like it was all right and I thought the lend-lease thing slipped through pretty easy with only one amendment.

H.M.Jr: Well, you've done a masterful job.

R: Well, the Committee worked fine.

H.M.Jr: Yeh.

R: Sol and his whole Committee did a good job and John McCormick did a swell job too for his part of it and everybody worked together and we got by pretty well.

H.M.Jr: I just wanted to tell you how appreciative I am.

R: All right, Henry. Now - did you have a nice trip?

H.M.Jr: Wonderful!

R: Well, that's fine. I wish you'd take me with you some time.

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

R: (Laughs) All right. Bye.

H.M.Jr: Bye.

February 11, 1941
10:15 a.m.

TESTIMONY BEFORE APPROPRIATIONS COMMITTEE

Present: Mr. Bell
Mr. Sullivan
Mr. Schwarz
Mr. Haas
Mr. Kuhn

Bell: The first two paragraphs on page 4 are new. They kind of hit into the Byrd idea.

H.M.Jr: Limitation provided in H.R. 2959. What is that?

Sullivan: That is the bill.

Bell: You could say, "Limitation provided in this bill."

H.M.Jr: I just wanted to know what bill it was. I don't think that paragraph is very interesting. I don't think it makes sense.

Bell: Well, it is the argument that has been put up.

H.M.Jr: Yes, but you raise it, and you leave me in the air. I don't know whether I am for it or against it.

Bell: Well, read the next paragraph. This is the one we are really for, is the next paragraph. We just say this is impossible to tell.

H.M.Jr: You don't say!
(Mr. Kuhn entered the conference.)

- 2 -

Bell: Yes, we do. We say it is impossible to tell.

H.M.Jr: I don't like it.

Bell: Don't like either one of them?

H.M.Jr: No, sir.

Bell: Well, let's take them out.

H.M.Jr: A lot of words, and I don't know who wrote it, and I don't think it means anything.

Bell: Well take it out. It shortens it anyhow.

H.M.Jr: It is wonderful when we have five people here, and I never know whose toes I am stepping on. Five times ten is fifty toes.

Bell: As long as I wrote it, they all get credit for it.

H.M.Jr: Well, I don't like it, Dan.

Bell: O.K. Well, it was just thrown in there for Mr. Byrd. That is the thing he talked about.

H.M.Jr: That goes down to the middle of page 6?

Bell: That is right.

Kuhn: Can't that kind of thing be handled better in questioning anyway?

H.M.Jr: Dan will handle it beautifully verbally.

Bell: This would have saved me.

H.M.Jr: He can give it. Well, on page 9, I would reverse it. "I conferred with some members of the Senate and the House." That is the top of page 9. It is just a small thing. And instead of

- 3 -

saying, "explained to them," I would say, "I discussed with them." I don't get that, "in taking these steps." I don't get that. "I conferred with some members of the House and Senate and discussed with them what I had in mind."

Bell: Well, in deferring my refunding, it was my hope that Congress would enact this legislation, taking the steps that you discussed with them, that you hoped that they would go ahead and carry out the program.

H.M.Jr: I think it is kind of muddled.

Kuhn: When you change the word to "discussed," that explains it.

Sullivan: Just take out "these steps" and start a new sentence, "it was my hope."

Kuhn: Yes.

H.M.Jr: That is all right. And at the last, "it is the program -"

Sullivan: "The program met with their hearty approval."

H.M.Jr: That is all right. It is full of vim and vigor like Sullivan. He gets the bill through.

Sullivan: Maybe.

H.M.Jr: How about saying, "as you know" - instead of saying, "as you know, the principle involved is nothing new to every administration for the past 20 years. The principle involved--"

Bell: Starting that paragraph?

H.M.Jr: Yes. "The principle involved in this bill is

- 5 -

nothing new."

Bell: Well, the principle involved is not new, because you are talking about taxing.

H.M.Jr: Yes, "the principle involved is not new. Every administration has had it."

All right, gents?

Bell: Yes.

H.M.Jr: I don't want Sullivan to get all the corrections. You have got too damn many steps. "Take the first step to - it is particularly appropriate that this step," and so forth.

Bell: Make it, "that this should be."

Kuhn: Should we change it, that "All segments of the economy will be called upon," and make it, "All parts -"

Haas: Just say, "All will be called upon."

H.M.Jr: All right. What does that mean? "It is urgent that all subscribers to any given class of securities shall receive the same return."

Sullivan: I think the thought there is that because of the added taxes, the net return--

H.M.Jr: I know, but the cop on the street corner wouldn't understand that. Fix it up.

Haas: We had that spelled out and made it brief.

H.M.Jr: No one would understand it if they should print it in the paper.

Bell: "Receive the same tribute."

Sullivan: "Equal treatment under the law."

- 5 -

Schwarz: Or make it negative, "That no subscriber should receive an advantage."

Bell: Yes.

H.M. Jr: Will you fix it up? I think it isn't clear. I don't like, "which are worth nothing to the poorest class, but very much to -"

Sullivan: "Worth a great deal."

H.M. Jr: Something like that.

Bell: You don't like the words, "very much"?

H.M. Jr: No.

Kuhn: Is it necessary to have "class" in there at all?

Sullivan: Yes.

H.M. Jr: You are quite right. I don't like the word "class."

(Telephone conversation with Representative Jere Cooper follows:)

February 11, 1941

10:26 A.M.

189

H.M.Jr: Hello.

Operator: Congressman Cooper.

H.M.Jr: Hello.

Jere
Cooper: Hello, Henry.

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

G: Pretty good, thank you. I didn't know you were back yet.

H.M.Jr: Oh sure I came back to get the good news how you operate up on the Hill.

G: All right, fine.

H.M.Jr: That was some job yesterday.

G: Yes, we got along fine.

H.M.Jr: I'm simply delighted. I called up to say thank you.

G: Well, that's awfully kind, Henry, I appreciate it.

H.M.Jr: I wish I had some more legislation so you could handle it.

G: Well, fine, fine. Are you going to get things worked out pretty soon in the Senate do you think?

H.M.Jr: Well, I don't know. I go up there tomorrow on the debt limit.

G: Well, that's what I thought.

H.M.Jr: And -

G: I understand they're going to take up that lease-lend bill next Monday so it looks like they ought to run this in ahead of it if they can.

H.M.Jr: Well, if they could it'd be swell.

G: Yeh. 'Cause with your March 15th coming on - if they get in debate on that lease-lend bill, they may run up till March 15th.

H.M.Jr: Yeh.

H.M.Jr: Well, thanks for everything.

C: All right, Henry, thank you very much. I appreciate your kindness.

H.M.Jr: Bye.

C: Bye.

- 6 -

- Sullivan: I think the bill has a very good chance, and I am going up this morning to see Prentiss Brown.
- H.M.Jr: How about seeing Barkley?
- Sullivan: I thought I ought to see Brown first, because we have got to get it out of the Committee before we can get in there.
- H.M.Jr: Why Prentiss Brown?
- Sullivan: He is chairman of the Sub-committee that is handling this thing.
- Bell: I wonder if that last part is necessary.
- H.M.Jr: What is that?
- Bell: We said, "This makes it urgent, from an equitable point of view, that all subscribers are treated alike," and strike out the rest of it - if we did that, does it make that a sort of blank wall?
- H.M.Jr: No, I like that next sentence.
- Haas: Doughton uses this very argument against that amendment.
- H.M.Jr: I like that sentence about the wealthy subscribers.
- Haas: He pointed out that it should all be--
- H.M.Jr: I like that.
- That next sentence is too damn involved. "Such exemptions". I would leave that out. At least no one would understand that, including myself.
- Kuhn: Those that were left - "Such exemptions are

- 7 -

incompatible with democratic financing of the defense program." Then you go right along in the next paragraph to discuss the defense program.

H.M.Jr: That is all right.

Kuhn: Leave out the middle.

Haas: The attempt to explain it, muddles it.

H.M.Jr: How would it read, Ferdie?

Kuhn: "Such exemptions are incompatible with the democratic financing of the defense program and should be removed." Then it goes on to say our whole economy should be concentrated on national defense.

Sullivan: There would be no new paragraph. Your new paragraph would come in the second sentence.

H.M.Jr: "Such exemptions are incompatible with democratic financing of the defense program and should be removed."

Schwarz: It is clear.

Bell: You don't want a paragraph, John?

Sullivan: I thought this next sentence followed on that one better. "Our whole economy and effort should be concentrated on national defense."

Bell: That is part of that economy.

Haas: Well, the economy thing ought to be set up in one paragraph.

Bell: Do you want to repeat that economy thing?

H.M.Jr: I was going to weep if you hadn't.

- 8 -

Sullivan: What a hand Doughton got when he gave your economy speech yesterday.

Kuhn: Did he use a magnifying glass?

Sullivan: Yes.

Kuhn: Good.

Schwarz: One of the Republicans said he had always had a high regard for him, and now he thought more of him than ever.

Sullivan: One of the Republicans quoted your statement on the magnifying glass.

Bell: We took that out of here. Maybe we had better put back the magnifying glass.

Kuhn: What about microscope?

H.M.Jr: I would put it back in.

Bell: We just took it out to be a little different. Reexamined with a magnifying glass.

Various classes--

Sullivan: Various investors.

Bell: Various characters.

H.M.Jr: John, hit your shin instead of my table, please.

Sullivan: Aye, aye, sir. Excuse me. It drives me wild when anybody does it in my office.

Bell: Do you think it would make more noise?

H.M.Jr: At least, if he did it often enough, he would stop it. (Laughter)

- 9 -

- Sullivan: It drives me crazy.
- H.M.Jr: He would finally get a black and blue mark on his shin.
- Sullivan: I am sorry.
- H.M.Jr: That is all right.
- Sullivan: Type of security
- Bell: That is all right.
- Schwarz: That is all right.
- H.M.Jr: Well, I have just got one thought that I would like to get in here. I first got it from Mrs. Malone of the New York Tribune, and then I got it from Mrs. Roosevelt. That is, I don't know what the technical term is. What is this term they use? Is the security wage that the people should pay in three months after they lay them off?
- Bell: Dismissal wage.
- Kuhn: Dismissal compensation.
- H.M.Jr: What I was thinking of, if the worker put in his excess earnings into savings, it would be in the form of a nest egg against the day when the period of readjustment comes.
- Bell: In connection with that last sentence, you mean on individual security.
- H.M.Jr: I just want to give you the idea. The thought is that if it will work due to all of this spending of the money, I mean, if the farmer or laborer gets an additional compensation, it would be very sensible for him to invest it in this kind of

- 10 -

Security against a - it is a self insurance against the day when this readjustment period will come, when this program ceases, something like that.

- Kuhn: That raises a delicate point, and we came up against it. I am talking of this savings business. It will spare the fear of compulsory docking of payrolls, which has been suggested and which was one of the interpretations of Mrs. Roosevelt's speech. You have to make it perfectly plain that this would be done only voluntarily and get rid of all suspicion of coercion.
- Haas: I think it is a good idea, Mr. Secretary, but I think the Social Security ought to raise it.
- Schwarz: It is suggested in a general way later on.
- H.M.Jr: I would like you to go over it and in retyping it, Dan, if you would have them do it in italics or something so I can see what is different, and I will read it once more between - well, I am tied up tight as a drum from three until five, so you would have to get it to me between two and three. If you get it to me just in italics, and I will go over it with you alone, if you just bring it in, you see, Dan. I will be working on my mail, and any time between two and three, you can walk in here and just have the changes in italics.
- Bell: O.K. We could just take that one and insert them.
- H.M.Jr: Any time between two and three.
- Kuhn: Dan, how about the postal savings? There is one point that came up that we would like to talk over with you.

- 11 -

- H.M. Jr: Don't do it now.
- Kuhn: It might be slipped into the text here.
- H.M. Jr: Let's discuss it in connection with the plan. Dan, in view of the fact that I need it between two and three, do you want to sit in with these fellows?
- Bell: Yes, I do, but I think Chick can make - he has got all the changes except this other thing that we will discuss at this postal savings conference, and we can dictate that in a few minutes.
- H.M. Jr: What I would like to do, I would like just a couple of minutes now with Bell alone on financing, and then if you get - by a quarter - it is now six minutes of. If you and Harold Graves would come in here at a quarter of, Kuhn, or anybody else who is going to be here. I just want to talk to Bell alone a couple of minutes, and you (Stenotypist) come back at a quarter of.
- Schwarz: Do you want to do anything on this idea of two-thirds revenue?
- H.M. Jr: Oh, I will have it in the old bean. Somebody is going to ask me.
- Sullivan: Do you anticipate a question on that?
- H.M. Jr: Let's see how it goes. It might be embarrassing.

Draft

I am appearing before you today in support of H.R. 3959, which raises the debt limit to \$65,000,000,000, provides for the elimination of the present partition in the debt limit, provides greater flexibility in our financing operations, and provides that the income from all future issues of Federal securities, both direct and indirect, be subject to all Federal taxes.

The 1942 Budget submitted to the Congress last month indicates that our contemplated National Defense program has now been increased to approximately \$28,500,000,000 in appropriations, contract authorizations and recommendations. It also indicates that the estimated expenditure program will result in combined deficits for the fiscal years 1941 and 1942 of \$15,400,000,000. The balance of the borrowing authority on January 31, 1941, was \$1,123,000,000 under the general limitation, and \$1,628,000,000 under the National Defense limitation. This combined total of \$2,751,000,000

- 2 -

provides the treasury with borrowing authority sufficient only for the next four months, and even in that period we would be restricted to short-term obligations for a larger part of our financing operations than seems advisable at this time.

Short-term securities would for the most part be purchased by commercial banks, thereby causing a further increase of deposits. The Treasury would like to avoid further increases of deposits as far as possible and to some extent this can be accomplished by issuing obligations attractive to permanent investors outside of the banking system. In times such as these, it is our desire to borrow as much as possible from real savers rather than from banks.

The bill, among other things, proposes to amend the Second Liberty Bond Act so as to limit the face amount of public debt obligations issued under the authority of that Act to an amount not to exceed in the aggregate \$55,000,000,000 outstanding at any one time. This provision as written will

- 3 -

repeal section 21(b) of that Act which authorizes the issuance of \$4,000,000,000 face amount of National Defense notes.

A suggestion has been made that the debt limitation be increased to an amount sufficient to take care of only the expenditure program outlined in the Budget, in lieu of the limitation provided in H. R. 2959. The Budget contemplates a gross public debt on June 30, 1942 of \$58,367,000,000, to which must be added the future accruals of United States Savings Bonds. As it is not possible to tell at this time what these accruals will amount to on June 30, 1942, or what kind of a program we will adopt for the sale of additional securities, it is impossible to estimate the amount of the debt limitation which will be necessary on this basis. It is obvious, however, that it will have to be in excess of the estimated gross public debt as carried in the Budget.

Another suggestion is that Congress fix the debt limit in an amount sufficient to cover all of the sums that it has appropriated or which are carried in the Budget as estimates

- 4 -

of appropriations for the fiscal years 1941 and 1942 after deducting the estimated receipts for those two years, plus the public debt on June 30, 1940. On this basis the debt limitation would be fixed at \$61,396,000,000 to cover appropriations already made and the estimates of appropriations included in the Budget. There should, however, be added to this figure the sum of approximately \$3,500,000,000 which the Budget document shows will be submitted to Congress this session as supplemental items and which are not included in the above figure. This would make a total of about \$65,000,000,000 for a debt limitation without any provision for the future accruals on Savings Bonds or for any additional amounts which it may be necessary to appropriate under the pending Lend-Lease bill.

Another matter of vital importance in connection with the financing of the National Defense program is the tax-exemption feature of the debt obligations of the Federal Government and its agencies. I said last year that if it

- 42 -

were within my power I would issue National Defense securities subject to all Federal taxes. As you know, the discretionary authority of the Treasury to issue securities subject to all Federal taxes is confined to Treasury notes with a maturity of from one to five years. As to all other

5

types of Government securities, the law itself definitely fixes the exemptions from taxation and there is no discretionary authority in any executive officer of the Government to vary these exemptions.

Anticipating that the Congress would consider the question of tax exemptions in this session, it seemed to me highly desirable that the Treasury make no further offers of long-term tax-exempt securities until the Congress had had an opportunity to consider the question again in the light of the huge defense financing program before us. I began in December to issue fully taxable short-term obligations for cash to meet our immediate requirements and deferred our March 15 refunding program, which ordinarily would have been concluded three months in advance, pending the decision of this Congress on the question of eliminating tax-exemptions from all future issues of Federal securities. I conferred with some members of the House and of the Senate and explained to them what I had in mind and that, in taking these steps, it was my hope that Congress would promptly enact legislation to make the income from all future issues of securities of the Federal Government or any of its agencies subject to all Federal taxes. The program explained to them met with their hearty approval.

As you know, every administration for the past twenty years has recommended the complete elimination of tax-exempt securities. The bill now before you proposes that the United States Government actually take the first step to eliminate this undesirable feature from our financing. It is particularly appropriate that this step should be initiated in connection with the financing of the National Defense program. All segments of the country will be called upon to share in this task. This makes it urgent, from an equitable point of view,

that all subscribers to any given class of securities should receive the same return. This is impossible if the securities are issued with tax-exemption privileges which are worth nothing to the poorest class of subscribers but very much to the more wealthy subscribers. Such exemptions -- which make the net return on Government securities progressively higher as the income of the purchaser is higher, and progressively lower as his income is lower -- are incompatible with the democratic financing of the defense program and should be removed.

Our whole economy and effort should be concentrated on national defense. I once again want to urge economy in Federal expenditures. I believe, therefore, that all Federal non-defense expenditures should be re-examined to make certain that no more funds are granted than are absolutely essential in the existing circumstances.

In view of the enlarged program facing the Treasury, it is desirable to have greater flexibility in the types of securities which may be offered to meet the requirements of various classes of investors. Therefore, this bill further amends the Second Liberty Bond Act so as to broaden the authority under which United States Savings Bonds are issued and to provide for a new class of security to be called "Treasury savings certificates." The statutory limit on the term for which Savings Bonds may be issued would continue to be twenty years, as at the present, while a limitation of ten years would be placed on the Treasury savings certificates. It would also provide that both classes of securities may be issued on an interest-bearing basis, on a discount basis, or on a combination interest-bearing and discount basis, and that the Treasury may fix by regulation the amount of Savings Bonds and savings certificates which may be held by any one person at any one time.

7

In addition, the Treasury would be authorized to issue stamps or provide other means to evidence payments for Savings Bonds and savings certificates, and to provide for the exchange of savings certificates for Savings Bonds. This would permit the Treasury to carry on a program encouraging more popular participation in the financing. In this connection, the Treasury wishes to be able to offer securities of a character which should facilitate and promote thrift and savings. We hope that a substantial part of the defense program for which we have to borrow funds can be financed out of the real savings of the people. However, in bringing these offerings to public attention I can assure you that there will be no high-pressure salesmanship or coercive propaganda.

One of the most important services the American people can render at this time is to cooperate in supplying the means for national defense. We ought to make it possible for workers and farmers no less than bankers and business men to contribute to the financial needs of the Government, not only through their tax payments but through their savings as well. The bill therefore provides authority to issue securities on such terms and in such denominations as will elicit support from the largest number of subscribers. There is every reason why a substantial part of the savings resulting from the current increase in employment should be conserved by investment in United States Government securities. The small investor who puts his savings in Government securities will in this way contribute not only to national defense but also to his own individual security.

February 11, 1941
10:17 A.M.

H.M.Jr: Hello.

Operator: Postmaster General calling.

H.M.Jr: Right.

Operator: Go ahead.

H.M.Jr: Hello.

Frank Walker: Hello, Henry.

H.M.Jr: How are you?

W: Did you have a nice trip?

H.M.Jr: Wonderful!

W: That's good. Say, Henry, what is the name of the man you are interested in for your postmaster?

H.M.Jr: Oh, gee!

W: Is it Storm?

H.M.Jr: Storm is right. Will Storm.

W: Yeh. He's O.K.

H.M.Jr: He's O.K.?

W: Yeh.

H.M.Jr: Wonderful! That's fine. Well they told me our local committee and the county committee all endorsed him.

W: He was number three on the list but we're going to appoint him.

H.M.Jr: Good.

W: All right, Henry.

H.M.Jr: Thank you.

February 11, 1941
10:45 a.m.

RE SAVINGS BONDS

Present: Mr. Graves
Mr. Kuhn
Mr. Bell

Kuhn: I have got an art gallery for you, Mr. Secretary.
(Indicating savings bond posters)

H.M.Jr: Wonderful. Is this original?

Kuhn: They are all British.

H.M.Jr: These are English?

Kuhn: Yes. They are put out in war time without a
single flag waving stunt or militaristic emphasis.

H.M.Jr: The man to handle this end for us, if he is well
enough, is Ned Bruce.

Kuhn: Where is he?

H.M.Jr: He is here in Washington. He used to be in the
Treasury and did all the murals in the public
buildings and stands ace high with the artists
all over the country. He is a great guy. He
had a stroke, that is the only trouble, but he
is a great fellow. He drew in competitions and
all that. He is a great guy and a hundred per-
cent New Dealer. I would like you to get in

- 2 -

touch with him. Where is Ned Bruce now?

Graves: As I understand, he is with the Public Buildings Administration.

H.M.Jr: He works with Public Works.

All right, now what next?

Kuhn: Want to sit around the table with us?

H.M.Jr: Surely.

Kuhn: Fine. I would suggest that Mr. Graves tell you what has been happening.

H.M.Jr: I am in your hands. I have got an hour.

Graves: Well, I could at least bring you up to date, Mr. Morgenthau. We have continued our contacts with the Post Office Department, and we found in canvassing the postal savings stamp situation that under the present law they could not give us a stamp with a denomination higher than one dollar, and as we have thought about it here, we think they should be larger denominations than a dollar, perhaps a five dollar stamp, and Dan, I think, himself said yesterday \$6.25 stamp as being a convenient denomination leading to the purchase of a bond that costs \$18.75, so we have, with their collaboration, worked out an amendment to the pending bill.

H.M.Jr: I heard about that.

Graves: Mr. Sullivan tells us that there would be no difficulty about getting that amendment in. The Post Office Department has told us--

(Telephone conversation with Secretary Stimson follows:)

February 11, 1941
11:00 a.m.

Henry L.
Stimson:

Henry, this is just a word to welcome you back and say that I hope you're all right.

H.M.Jr:

Oh, I'm fine.

S:

Do you think it's all over?

H.M.Jr:

For the moment.

S:

We've got lots of new ones for you.

H.M.Jr:

(Laughs) Well, the first four or five days I was quite miserable and then I began to feel fine and then I began to wish I could stay another week.

S:

Well, it might have been a good plan to do it.

H.M.Jr:

Wonderful horseback riding country out there.

S:

Fine. In what part of Arizona were you?

H.M.Jr:

Right down on the border due south from Tucson.

S:

Oh, yes. I've been through Tucson.

H.M.Jr:

A place called Sasabe.

S:

Well, now, just this little word. You very likely have heard of it through the President. I've done something for your friends

H.M.Jr:

So he told me yesterday.

S:

..... while you were away that may take my head off, but will you please not let any of your young men know about it - I mean if you can avoid it, because if it should get out before this Lease-Lend Bill goes through it would kill it.

H.M.Jr:

There'll be no leaks at this end. I'll guarantee it. He told me about it at lunch. He was quite happy about it.

- 2 -

- S: Well, he is more so than I am. I had to do it, there's no doubt about it. We engineered it here and for a while he had quite a long face but he rose to it like a man.
- H.M.Jr: Wonderful. You got word about getting together Thursday?
- S: Yes.
- H.M.Jr: Is that agreeable to you?
- S: Yes, I think so. I don't quite know what it's about but
- H.M.Jr: Well, he wants us - he asked me to prepare some of the things for him and if and when the bill passes - and also about getting ready to testify before the Appropriations Committee, and Harold Smith, the Director of the Budget, will be there.
- S: Yes. Well, is that an organization that he's talking about to take charge of the Lease-Loan operations?
- H.M.Jr: No, more to get ready to testify before the Appropriations Committee.
- S: Yes, I see.
- H.M.Jr: And on the other thing, the organization on that, I asked him to start thinking about it which he did and I'll be glad to tell you what I told him. Hello?
- S: Yes.
- H.M.Jr: And then what he - his comeback. In the first place I told him that I thought that the Army should buy strictly Army stuff and the Navy buy what is Navy and he said what wouldn't come into either the Army or Navy would fall to Knudsen.
- S: Yes.

- 3 -

- H.M.Jr: And he said he really hadn't thought about it before but he said he seemed to think that that was a pretty good arrangement. You wouldn't object to that, would you?
- S: No. I've been worrying over it a little. Nobody can get along with it better than old Bill but the thing is there are lots of military questions in it, you know.
- H.M.Jr: Well, the way it is now it would be entirely in the hands of you and Knox
- S: Yes. I'm not humming for any more than I can help but I
- H.M.Jr: Well, I
- S: You see the - I don't know whether you saw my argument before the Committee but we pointed out that the great point was that it threw into the hands of Americans who are acquainted with American business methods - of course that would apply as much to Knudsen as to us, but it would apply to the Army too in regard to their things - the making of orders.
- H.M.Jr: I asked the President
- S: That's one of the great advantages that it would stop the - the very thing that, I mean, appealed to the Committee - you see it fell to me to make the argument on the meaning of the bill and that was the line I took.
- H.M.Jr: Un-huh. And furthermore, on this thing, I don't expect to appear before the Committee on Appropriations and the President doesn't see why I have to. See?
- S: Yes.
- H.M.Jr: But he wanted me to be helpful to sort of get the thing lined up so then we could go and see him.
- S: Yes, I see.

- 4 -

- H.M.Jr: And then I also asked him whether he wouldn't please let me drop out of the picture entirely after the bill passed and he said he wouldn't. He said he wanted us to continue to help
- S: I should think not. You've got enough information there to help anybody along.
- H.M.Jr: Well, he said he wanted us to continue to help Purvis as much as possible, but I feel very strongly that the Army and Navy should do the buying and make the deals. See?
- S: Yes.
- H.M.Jr: And make the deals. I feel very
- S: And then Knudsen will come in as he does on our purchases.
- H.M.Jr: No, the President seemed to think that if it was straight Army stuff, you'd buy it.
- S: Well, we won't know that. The whole point of the bill is that that won't be determined until the stuff is ready.
- H.M.Jr: I see.
- S: Don't you see - at the assembly lines. That was my whole argument to them. At present it is all subject to changes during the year and a half that the stuff is being built. The whole strategic position may change. That was the argument he had. Now that assumption of having a different man in there to do that is assuming that that is known before hand and it won't be.
- H.M.Jr: Well that's all the more purpose that we should thrash it out together and then go and see him.
- S: Yes. Now, I'm not, mind you, I'd like for instance to shove off not only the British but the Army's on somebody else for I'm dead tired, but it's got to be done by the force that we've got. The plan that the

- 5 -

President outlined and the plan that his Cabinet officers have all supported before the Congress was a plan to put into the hands of the American Army and Navy these things - choices with the ultimate choice of who they should go to to be made when they were finally finished. Of course that doesn't eliminate the necessity of some planning before hand - some planning before hand. I mean we're not going to buy double for the Army just on the chance or double for the Navy just on the chance

H.M.Jr: Well, he - it's important

S: But I think it is very important that they should go through the same channel and that was the expression I used over and over again to those people that by having the channel the same you had the negotiations much simplified, you had the property much - that there was a strong tendency towards standardization and you had it in the hands of people who were accustomed to giving orders for Army and Navy things.

H.M.Jr: Well, now, I didn't invite Knudsen for Thursday morning.

S: All right.

H.M.Jr: It's just you and Knox and Claude Wickard, and the reason for Wickard is that the President wanted him to clear it on agricultural stuff. There's a provision in the bill that they can buy agricultural products, you see.

S: Well, I wish he'd sometimes drop a word with me. I hate to talk and to bother you, but all right, I'll manage.

H.M.Jr: Pardon? And the Director of the Budget.

S: Yes, all right.

- 6 -

- H.M.Jr: But I didn't ask Knudsen because I thought that - well, I just didn't know at this meeting
- S: Yes.
- H.M.Jr: What?
- S: Well, all right.
- H.M.Jr: Would you want Knudsen?
- S: No, I think it better not until we have a talk over that with the Cabinet officers involved.
- H.M.Jr: And then you see here Dan Bell, my Under Secretary, has been working with the Director of the Budget on the mechanics of how to handle the money and I'd like to have them lay that before you. I mean, the actual bookkeeping, you see. And then I thought that if we got together then we could say to the President, would he please see us, but I thought it was high time that - that we do it this week in the hope that the bill will pass soon.
- S: Well, I admit, Henry, there is a tough knot in there to solve as an organization because however much we conceal it, however much we try to unify it, why of course it remains that even at the time of the order there must be some knowledge of what the outsiders want, and at the same time I think that that can be done without destroying the uniformity of the negotiations. I think you were right on that. I think your project was the right one.
- H.M.Jr: Well, one thing that I convinced the President of is that there is no need for R.F.C. in this.
- S: Well, I hadn't any idea that he was looming up.
- H.M.Jr: Well, he was and I told the President

- 7 -

S: He's been helping out a good deal now before the bill was done. He's been very helpful.

H.M.Jr: But after the bill is done, there is some talk that he'd do all the negotiating and I don't see why.

S: Well, I know he's a damn sight better negotiator than I am. (Laughs)

H.M.Jr: Well, I don't agree. I don't agree. I think Jesse is sometimes too good a negotiator, I mean, I think there is a time for negotiating and there is time for winning a war and right now we want to see these fellows win the war.

S: All right.

H.M.Jr: So I don't see after the bill passes that Jesse should need to figure in a thing. Do you?

S: I don't see where his part is.

H.M.Jr: No, I don't either.

S: But it may be because I haven't thought much on it.

H.M.Jr: Well, the President

S: All right. Well, I didn't mean to bother you. I just called you up

H.M.Jr: You never can bother me. It is always a privilege.

S: I'll try to be there Thursday.

H.M.Jr: Thank you.

- 3 -

H.M.Jr:

The idea that is bothering him is, he wants to get this stuff bought, you see. It is good to have this meeting - of course, this is very much in the room here - he said he just doesn't want to say we will buy double for the Army and double for the Navy, but he does think the Army and Navy should buy it and then they won't divide the stuff up until it actually comes off the production line. I don't know whether he is right or wrong, but that is another idea. In other words, if the English come through and say, "We need 'X' billions of dollars," this stuff won't be earmarked for the English but will be bought for the Army and Navy, and then if this week we manufacture a hundred planes, we will decide how much goes to each country. The decision will only be made when it comes off the line.

Bell:

I originally thought that all the contracts would be placed just as though they were Army and Navy contracts and as the material rolls out the door, you can say this block is for the British, and you sign a document of some kind. If you want to call it a lease, sign it there and then, and that document comes to the Treasury just the same as for a foreign obligation, and we get the accounting and write the President's report every 90 days and it goes to the Budget.

H.M.Jr:

We would write the report?

Bell:

I should think we ought to do it. It certainly ought to pass through the Budget if we write it.

H.M.Jr:

Think about it. If it is financial, I think we ought to write it.

Bell:

And we ought to have the documents in our vaults. They ought to be lodged here.

- 4 -

- H.M. Jr: Just as those of foreign obligations.
- Bell: That is right.
- H.M. Jr: It is very important to have this meeting Thursday because you can see that the President hasn't thought about it, and Stimson has got some very definite ideas, and it is high time we got together.
- Bell: O.K.
- H.M. Jr: Be forehanded on the thing and not wait until the bill passes and say, "What the hell are we going to do?"
- Kuhn: The effect of it is increased if you have everything ready the day the bill is signed.
- H.M. Jr: All right.
- Graves: The Post Office Department has said that they will be entirely willing to leave to us the design of their series of stamps and the cards and posters and material that will be used in connection with the sales of stamps. We have asked them whether there would be objection on their part to our substituting for the present series a new series that might be earmarked for defense, and they said they have no objection to that. We have Mr. Hall now working on designs of the new series.
- H.M. Jr: If you don't mind, if Ned Bruce is well, I think Hall's designs are lousy. All you have got to do is look at any of his stamps. Ned is a great guy, and incidentally has a tremendous following on the Hill. They are both Republicans and Democrats. When he is well, nobody is more enthusiastic than he is.
- Graves: We might ask him independently to work out--

- 5 -

- H.M. Jr: Well, he worked out a series of designs on stamps here sometime ago. They were perfectly beautiful. Hall said he couldn't design them or something like that.
- Kuhn: He is scared of counterfeiting, and that is why the stamps are so fussy looking.
- Graves: Counterfeiting is a problem here because these stamps will pass as money.
- H.M. Jr: Well, they can make a few curlicues or something in the paper. Anyway, if Ned Bruce is well, he, himself, not the other fellow - the other fellow just gives me the fidgets, this man under him that does his--
- Bell: Sloan, I think he is.
- H.M. Jr: No, not him. It is a young fellow with curly hair. If Ned is well enough himself, but not the second man.
- Graves: Would you like me to find out and contact him?
- H.M. Jr: I wish you would.
- Bell: The point here is that the Post Office will let us do almost anything with their stamps and cards to fit in with our program. You have got authority to start your own Treasury saving certificate program. In view of the fact that this whole machinery is set up and they can expand it to any number of Post Offices in addition to what it already serves, and they also have the accounting up to the time that it is exchanged into United States Savings Bonds - we don't have to worry about that accounting, and during the War we had a terrible time getting together between the Post Office and the Treasury, whether or not there should be a public debt procedure and who stood the loss.

- 6 -

I think it is important that we adopt that whole machinery if we can tie it into our defense picture, and I think we can.

- H.M. Jr: That was my inclination when I left here. Here is a going machine. I don't know how many post offices they have got and rural mail carriers and everything else.
- Kuhn: You can put these things on sale in shops and hotels and stores as well.
- H.M. Jr: Designating them sub-post offices.
- Graves: There are about 55 thousand post offices in the country, of which I think only about 12 thousand are now authorized to sell bonds.
- Bell: I thought it was about 16 thousand selling United States Savings Bonds, but there aren't that many selling postal savings.
- Graves: But there is no reason why they should not all be qualified to sell postal savings bonds, and we sounded the post office people out on the point made by Mr. Kuhn, that we should have sales agencies other than the post offices. Stores should be encouraged to carry stocks of stamps, banks, and any facility of that kind that is available. They will permit them to be utilized for the sale of postal savings stamps. We probably would end up by having a quarter of a million places where stamps could be purchased if there was any need for so large a number.
- H.M. Jr: I take it the way you are thinking now, your drive is going to be on the stamps.
- Graves: Well, that is one - I wouldn't say that. I wouldn't say that the emphasis necessarily will

- 7 -

be on the stamps. It will be emphasized as one important part of this program, but I suspect the more productive result will come from the direct sale of the bonds of small denominations, the 25 dollar bond or the 50 dollar bond or 100 dollar bond, sold directly without the stamps. That will be more productive in money. If it doesn't reach more people, it will still be more productive. One of the things that we are planning, of course, is the early expansion of the mailing list, that you know about, which now consists of about six and a half million names. We can, using the income tax lists, quickly - or I say quickly, it is a pretty tedious job, but we can soon have that list doubled to something like 12 or 14 million names; and that, I think, is apt to be more productive an approach than through the stamps in dollars.

- Bell: Did you think about getting the Social Security names?
- H.M.Jr: I was just going to say that.
- Bell: They won't give them to you unless you use a little pressure.
- Graves: Social Security names are much fewer in number than the income tax lists and probably don't give us any additions.
- Bell: Not fewer in number?
- Graves: Yes. There are only two million Social Security tax payers.
- Bell: I am talking about the wage earners. There are 45 million of them. Of course, they are the people that are going to work now.

- 8 -

- Graves: I thought you meant the employers.
- H.M.Jr: What about those?
- Graves: Well, the Social Security Board has always objected to--
- Bell: You have to use a lot of pressure.
- Graves: to making their names available.
- H.M.Jr: Well, they wouldn't in this case.
- Graves: They have never permitted access to their lists, to the Treasury, for any reason, and they say they are bound by law. Their policy at any rate has been to protect those lists against any possibility of people using them to approach their beneficiaries.
- H.M.Jr: Well, we can think about that.
- Graves: There are some 35 million or more workers who are subject to the Social Security Act.
- Now, as to our own savings bonds, perhaps Dan would be a better spokesman than myself about that. The plan is that we will remodel that bond too, so as to denominate it as a defense bond. We will still call it the United States Savings Bond; but we will call it, for example, Defense Series or National Defense Series.
- H.M.Jr: Well, now, I want to ask a question. Let's just say, for example, that this bill passes on the first of March. Effective the first of March, for instance, the United States Savings Bonds are no longer tax exempt?
- Bell: No, the bill becomes effective, as to that part of it, the first of the month after it is passed.

- 9 -

So if it goes through in February, it will be effective March 1, and that gives us time to change our regulations.

- H.M.Jr: That is what I wanted to ask. Have you, for instance, started - Hall, who is terribly slow on designing--
- Bell: He is working on the borders of the savings bond and getting a stock laid up.
- Graves: I think there was no intention to redesign the bond, was there?
- Bell: Not the engraved part, no. He may have to do something with United States Saving Bond across the top, but there, I believe, we decided to put the National Defense Series down in a little block on the righthand side in red.
- H.M.Jr: You wouldn't want to just over-print the word?
- Bell: That is all.
- Graves: That is what it will be.
- H.M.Jr: I mean over-print it, not in a corner. So this is the bond, and you just print right across the face of it.
- Bell: No, it is like this. You see, you have got your bond, and then in the upper lefthand corner you have got United States Savings Bond across the top, and then you have got a little block just to the right to put National Defense Series right in that in red.
- H.M.Jr: That isn't what I meant. I meant to put it right across in light red, National Defense Bond.
- Bell: That would be possible.

- 10 -

- H.M.Jr: I would do that.
- Graves: It would be just as easy.
- H.M.Jr: Just in a very light red line.
- Graves: Skeleton letters.
- Bell: That could be done too, I think.
- H.M.Jr: You can do both, if you want to.
- Graves: I don't know whether this is the proper place to bring it up, but one point we have been discussing is the lower ceiling on the amount that can be held by any one person. The present limitation is 10 thousand dollars a year and--
- H.M.Jr: Why do you want to lower the ceiling?
- Bell: Well, the rate is pretty high.
- H.M.Jr: Well, I may want to change the rate.
- Bell: Well, that is a little difficult because all your advertising has been on this type of security and your rate and your ten years. We thought it would be better to lower the ceiling on that 10 thousand down to about three and be willing to pay that subsidy for the class of people you can get to save.
- H.M.Jr: I wouldn't be ready to cross that bridge today.
- Bell: It will take about 60 days to get out those securities.
- H.M.Jr: Bring it up again. You have planted the seed, and we will see whether it sprouts or dies.
- Graves: It has already disqualified, as I understand it,

- 11 -

every one except individuals for the purchases and the ceiling is now 10 thousand dollars.

- H.M.Jr: If we are going to get the money, I don't want to lower the ceiling.
- Bell: You ought to have another type of security that will appeal to trust estates.
- H.M.Jr: That is something else.
- Kuhn: An intermediate thing.
- Bell: With maybe a coupon attached so they can get some current income and then a bonus at the end.
- H.M.Jr: Something like that.
- Bell: That will appeal to pension funds and trust estates.
- H.M.Jr: I am going to talk about this every day now until we get the thing straightened out.
- Graves: I think we ought to come to a decision as quickly as we can on these various things because really the promotion program ought to start--
- H.M.Jr: What do you want decided today.
- Graves: Nothing, but I was suggesting we ought not to defer too long a decision on it.
- H.M.Jr: I will meet with you every day.
- Bell: Harold's point is that we ought to decide the types of securities because it takes time to get them out, and when we have the day fixed--
- H.M.Jr: Are you ready today to recommend anything?
- Bell: No, I don't think we are. But we ought to time

- 12 -

our publicity for that date, too.

H.M.Jr: You fellows get the thing down that you are recommending and then argue the yes or no with me.

Kuhn: O.K.

Graves: Now, on the organization, Mr. Bell testified yesterday before the House Committee on appropriations, and from the minority members there was some evidence of hostility.

H.M.Jr: Did you go up?

Kuhn: Yes, I was up there.

Graves: So I suppose that nothing very extensive should be done about organization until - until we know what is going to happen to that bill. My own guess is that enough money will be made available to--

Bell: We may not get the three million.

H.M.Jr: Was there a little opposition?

Bell: Well, it was amusing. Taber said that he - he started out right away that we didn't need any campaign like this. He said, "You have been getting your money cheaply all these years and you have had great over-subscriptions and what is the sense of all this campaign?" Well, then I had to explain to him about the same way you did before the Ways and Means Committee as to the reasons for it and try to keep it out of banks as much as possible and not increase bank deposits, and he said, "Well, now, wait a minute," he says, "bank buying a bond doesn't increase its deposits." And then I had to go through elementary examples to show how the bank purchasing a bond increases deposits and a purchase by an

- 13 -

individual didn't increase the deposits. I thought he was a banker. I was amazed at his ignorance, unless he was just doing it to - for the benefit of the Committee.

H.M. Jr: I think he is ignorant.

Kuhn: He is awfully ignorant. Just as if all the truths about inflation and so on hadn't sunk into his mind.

H.M. Jr: Well--

Bell: But I think they are all right. They weren't hostile in a sense that they were bitter. They just asked these types of questions.

H.M. Jr: What else, gents?

Graves: Mr. Odegarde left with me a memorandum before he went away giving us the names of persons that he considers qualified for various places in this organization. His recommendations chiefly relate to persons for the planning group and the advisory committee; and he has in mind, I think, that we should employ at first what he calls a director of publicity and promotion who would be a specialist in public relations, and he has given us the names of a number that he considers qualified for that.

Kuhn: You see, we have met a particularly good one who could take this on for at least a month or six weeks while the thing is getting under way.

H.M. Jr: Who is that?

Kuhn: Don Harris, that Pillsbury Flour man.

H.M. Jr: Is he O.K.?

Kuhn: He was here and spent a long time with us, and

- 14 -

I liked his ideas and I liked his personality and general slant.

Graves: I think it would be wise if we could make up our minds about who should have that place to make an appointment quickly.

H.M. Jr: Who else?

Graves: He has the name of Mr. Roscoe Wright.

H.M. Jr: Who is Roscoe Wright?

Graves: Roscoe Wright is the Director of Information for the Civil Aeronautics Authority. He is a former Texas newspaperman who did publicity work for the WPA under Hopkins. Most notable among his achievements is the organization and conduct of the public relations program for the Census Bureau last year.

H.M. Jr: Did he do that?

Graves: So this says.

H.M. Jr: That was a swell job.

Graves: He names also Mr. Harford Powel, Vice President of the Institute of Public Relations in New York. He says he is 54 years old, spent his life in advertising and editorial work. Former editor of Harper's Bazaar and Collier's Weekly and Youth's Companion. Six years of Kimball, Hubbard, and Powel. He is the author of many books on advertising. Claude Pendill was suggested to him by Mr. Elmo Roper, born in Michigan 50 years ago, graduate of the University of Michigan, served in the Navy during the World War, assistant sales manager of several companies, until recently Vice President of the Towle Silver Smiths, was in International Silver Company, and was Treasurer of the Anchor Manufacturing Company. Member of

- 15 -

the American Legion.

- Kuhn: That is a job that ought to be filled quickly even if it is only temporarily.
- H.M.Jr: Go back to this Don Harris. What does it say about him?
- Graves: In charge of advertising for the Pillsbury Flour Mills for the McCann-Erickson Agency in Minneapolis. Mr. Harris spent two days in Washington and is familiar with the problems involved. He is willing to come for a limited period to assist in getting the program started.
- Bell: Bring him down for a month or two.
- Graves: He is here now, isn't he?
- Kuhn: He has gone back, but he could take this over for a month or two and get the whole thing rolling, and I am strongly in favor of that.
- Bell: If this other fellow is around, bring him in as his assistant and after that use Harris as a consultant.
- H.M.Jr: Yes.
- Kuhn: But that is one of three jobs that ought to be filled.
- H.M.Jr: I said right at the beginning that this Pillsbury fellow sounded good because he has got advertising agency experience and his company experience, and they must certainly - Pillsbury uses all forms of advertising.
- Kuhn: Yes. He struck me as a very competent, wide-awake young fellow.

- 16 -

H.M.Jr: Is he young?

Kuhn: He is young. How old is he?

Graves: I should say he is 41 or 42, maybe.

H.M.Jr: What would you say? When is Odegarde going to be down here again?

Kuhn: Thursday, isn't he?

Graves: He said this week.

H.M.Jr: When could Don Harris be down again?

Kuhn: I can try to arrange that so that he is here at the same time.

H.M.Jr: Well, if he could get down here Thursday or Friday. Does he fly?

Kuhn: Yes.

H.M.Jr: Well, I would try to get him down here Thursday or Friday so I could have a little talk with him. Thursday is a little bit bad day. If he could be here Friday morning I could fix it up Friday morning for 10:00 o'clock, if his plane works out right. We will settle it Friday morning.

Kuhn: I will let you know.

H.M.Jr: And then I was particularly impressed with the job that they did on the Census that time. You know, Dan, your friend from Toledo was the head of it, and I wondered how he got such good publicity.

Bell: That was the unemployment census. Is that the same thing?

Graves: No.

- 17 -

- Bell: This the 1940 Census.
- Kuhn: They did a beautiful job against great obstacles. Senator Tobey was kicking up public opinion against the Census and they dealt with that very beautifully.
- H.M.Jr: Well, whoever did that other job did a good job.
- Bell: We might find out.
- H.M.Jr: That was a tough job and Hopkins was opposed to it and everything else. Do you remember how Hopkins fought?
- Bell: Yes.
- H.M.Jr: Whoever did the job for Jack Biggers - it was the unemployment census job. Well, I would have this fellow down Friday. Now, there is a decision. We will look him over.
- Kuhn: Good.
- Graves: Now, another job that both - that all of us feel should be--
- H.M.Jr: Are you all right on that?
- Bell: Yes, fine.
- H.M.Jr: I think if you can get a man from business as a starter, I think it gives a certain good tone, don't you think so?
- Bell: Yes.
- Graves: Another position which we all think should be filled quickly is the position of head of the field organization, and Mr. Odegarde has given us the names of people that he considers qualified for that. Mr. Orville Poland and Mr. Boyd

- 18 -

Fisher.

- H.M. Jr: Is Johnson on that?
- Graves: No, he is not.
- H.M. Jr: Have you heard all this before?
- Bell: No, this is new to me.
- Graves: Poland - Mr. Odegard says he is from Boston, lawyer, 52 years old, was educational director in Boston with the American Institute of Banking. General Counsel of the Anti-Saloon League in New York. Organized and managed the campaign for the United States Senate of Judge Cristman as an Independent Republican in 1926, thus assuring the election of Robert Wagner.
- Kuhn: He is the fellow who put Wagner off without splitting the Republicans in New York State.
- Graves: Was active on the Independent Voters Committee for Roosevelt. Has been chairman of the Civil Liberties Committee of Massachusetts and active in Community Fund and other civic movements.
- H.M. Jr: Doesn't sound hot to me.
- Graves: An extremely high type person who commands the confidence of people in every walk of life.

The other man is Boyd Fisher. At the present time with the Rural Electrification Administration. Formerly with Morris L. Cooke as a counsellor in industrial relations. For some time Director of Industrial Relations with the Lockwood-Green Corporation. Served as Director of Personnel in Industrial Relations for the National Tool Manufacturers Association. During the World War was a captain in the Ordnance Department. In

- 19 -

recent years has been active in the organization of local committees and cooperatives in the Rural Electrification Administration.

H.M.Jr:

Neither of them sound good.

Kuhn:

The third one is better, I think.

Graves:

The third man, I have no notes on because Odegarde didn't see him, although at his suggestion we have asked for him to come in to Washington, and he is here today. His name is Gail M. Johnston. He lives and works in St. Louis. He works for the Metropolitan Life. He is in charge of their group insurance activities in the St. Louis area and when we contacted him he was on a tour of the country making speeches on that subject, group insurance. He is a Princeton man, 36 years old, as I remember, and a good friend of Gene Sloan. It was Gene Sloan--

Bell:

Gene might know him.

Graves:

Gene knows him well. He suggested him. At the suggestion of Mr. Odegarde and Mr. Kuhn we have him here today.

H.M.Jr:

That is more the type.

Kuhn:

And also his greatest claim, to my mind, for consideration here is that he was in charge of the Community Fund in St. Louis, which is an activity along the same lines as we want to use for ourselves. It combines charts and so on. He is a good speaker, he is - according to Sloan, he is a fellow who knows the country thoroughly.

H.M.Jr:

Tom Smith would know about him.

Graves:

Yes, he is a friend of Tom Smith's, as I understand.

- 20 -

- H.M.Jr: Doesn't that sound more like it?
- Bell: Yes.
- Graves: About this field organization, Mr. Morgenthau, that is going to be the hardest job to do. It is going to take the longest time to organize and get going. It is a matter of - to begin with, it is a matter of selecting representatives of the Treasury who can be located in the various states and communities to supervise this program. The duties of these representatives would be to induce the organization of state committees and local committees and through those committees make contacts with the Rotary Clubs and Lions Clubs and 4-H Clubs and Boy Scout organizations and so on.
- H.M.Jr: Make that appointment Friday for 10:15 to 11:00, you see.
- Graves: Carrying out a suggestion which you made, I have spent considerable time in canvassing the availability of Treasury personnel, people already on our payrolls--
- H.M.Jr: Now, listen, you old fox, that was your suggestion that you put in my mouth.
- Graves: Well, I think it is a good one anyway. (Laughter) I hope you recognize it as your own.
- H.M.Jr: All right. That is what I do with the President, but it doesn't always work with me.
- Graves: We have a great many people in our field service. Not a great many, I had better say a limited number of people in our various Treasury services who in my judgment would be very well qualified as representatives of the Treasury on this program.

- 21 -

H.M.Jr: The suggestion I made was, as I see it, that I thought we could get an allotment as a WPA - and then you - then you came back and said, as I remember, "Well, a lot of Treasury people we could use." Isn't that about the way it was?

Graves: I guess it is; I have forgotten.

H.M.Jr: I thought we could get a couple of million dollars as a project from WPA to--

Graves: Well, the WPA people would serve for a certain type of leg work and so on, but we have got to have, as I see it, people who are somewhat distinguished in their communities, who have wide acquaintance in their communities--

H.M.Jr: For instance, collectors and so on.

Graves: That is right. Take, for instance, at Chicago. Our collector is Carter H. Harris, who was three times Mayor of Chicago. His father before him was Mayor of Chicago. He is, it is true, an old man. He is 80. But he has the respect and the liking of that entire community. Now, I know that he is too old for any very arduous labor in this connection, but our thought was that we could give to him an assistant who had all the qualifications which otherwise we would expect the principal to have who could take off Mr. Harris much of the arduous arm and leg work that would be involved in this thing, you see. At the same time, Mr. Harris could lend his name to it. Going down state, in Illinois, we have a man named Dallman as collector at Springfield. Dallman is an enthusiastic Administration supporter. He is the editor of the Springfield State Register, which is probably the most widely known newspaper in Illinois out of Chicago. He knows everybody in the State of Illinois and everybody knows Dallman. Again, we could give Dallman an assistant paid out of this

- 22 -

fund, Dan, and not out of the Revenue appropriations and let Dallman lend his name to this thing and generally supervise the activities and make all the contacts and steer the man.

H.M.Jr:

Dan?

Bell:

Yes. I don't know--

H.M.Jr:

It wouldn't be the Revenue fellow every time.

Graves:

No. There are other people in Customs and in some of our other services.

Kuhn:

And it wouldn't mean that all of the field organization men would have to be from these services, because they are not all suitable.

Graves:

No, in some places, some territories, we wouldn't be able to find a man.

H.M.Jr:

Then go to other Government agencies.

(Telephone conversation with Secretary Knox follows:)

February 11, 1941
11:43 A.M.

H.M.Jr: Hello. Hello, Frank?

Frank
Knox: Hello, Henry.

H.M.Jr: I refuse to take fifty. I only want thirty.

K: Well, what you're going to do now is buy me a lunch.

H.M.Jr: (Laughs)

K: (Laughs) Have you got a luncheon engagement?

H.M.Jr: Bill Bullitt's coming for lunch but I'm free tomorrow.

K: Well, what the hell why don't I come with Bill Bullitt? Have you got any secrets you want to talk to him about?

H.M.Jr: Not a thing.

K: Well, what are you waiting for then?

H.M.Jr: You want to come over today?

K: Yeh. I got a luncheon engagement tomorrow; I can't come then but I can come today.

H.M.Jr: You're -

K: I want you to tell me all about the nice time you had out West.

H.M.Jr: You're invited.

K: Am I?

H.M.Jr: Absolutely.

K: Sure it won't embarrass you?

H.M.Jr: You can't embarrass me publicly.

K: (Laughs) Well, this will be more or less a private luncheon. (Laughs)

H.M.Jr: All right.

K: Is it all right?

H.M.Jr: Of course.

- 2 -

K: Well, be a little more cordial about it, damn you.

H.M.Jr: Well, if you don't come, I'll come over and drag you over. How's that?

K: That's better.

H.M.Jr: How's that?

K: What time?

H.M.Jr: One o'clock.

K: One o'clock O.K.

H.M.Jr: Thank you.

K: Bye.

- 23 -

- Kuhn: We are talking about this field organization again and Dan likes the idea.
- Graves: You see, we have gone two months at one stroke if we do a thing like that, because we don't have to bother to find people and test their qualifications and so on. We just draft people and test their qualifications and so on. We just draft people already in our service that we are confident have the qualifications.
- H.M.Jr: The reason it appeals to me, I am thinking a little bit in terms of this coordination of detective agencies in the Treasury, and we put the man in charge in that territory who happens to be the best man. He may be a Customs man, he may be a Coast Guard man, but whoever is the best man for that territory, we put him in charge. Isn't that the way it works?
- Graves: Sure, that is right.
- Kuhn: If you can't find anyone from the staff in that territory, you might have to hire somebody outside.
- H.M.Jr: That is right, and I kind of like the idea to have a fresh young fellow full of pep who is an insurance salesman coming in with new blood and new ideas rather than to use a Treasury man as the sales manager. That is what it amounts to.
- Bell: That is right.
- H.M.Jr: If you could get a really fresh fellow who knew how to go out rather than a Treasury fellow who would go up and pep these fellows up. What we are talking about is the position of sales manager.
- Graves: Yes, supervisor of this whole field effort.
- H.M.Jr: Well, sales manager. The company has a director

- 24 -

of publicity and an advertising and sales manager.

- Bell: You are going to get a lot of help outside on this thing.
- Graves: That would be the primary function of these Treasury representatives we are talking about. Their primary object in life would be to stimulate volunteer workers of different types and kinds.
- H.M.Jr: I have got some letters from volunteers who are coming in.
- Kuhn: Sloan has had scores of them.
- Bell: Yes. Colonel Pope was in yesterday offering his services any time you wanted him to say anything. He is going to make a speech here next month.
- H.M.Jr: That fellow can go and get a job from the National Republican Committee. I have heard things that he has said about Roosevelt.
- Bell: Well, it is people like that, I don't care whether you use him, that might be able to say things that we can't say.
- H.M.Jr: Well, don't worry, but if he - let him sell his bonds in Boston. I heard some things that he said at one of these cocktail parties about Roosevelt that were just outrageous. That is neither here nor there, but I will never forget.
- Kuhn: Have we finished on the field organization?
- Bell: Can you split a state?
- Graves: Yes, we would have to split certain states.
- Bell: You can do that, you think?

- 25 -

Graves: Oh, yes. We would just lay down county boundaries, Dan, in states like New York and Illinois and maybe Ohio, and California, certainly because of the peculiar situation we have there.

I have talked this over, Mr. Morgenthau, with Mr. Helvering's people, and they have a certain amount of enthusiasm, but they would like to do it. They would like to do it.

H.M. Jr: Good.

Graves: And I think that we can advance ourselves a long time by taking advantage of that - of our own facilities.

H.M. Jr: Good. The great advantage of having a fellow who is under our control is, God damn it, you can say, "Either produce or you go back to your old job," and when you have a volunteer, "Well, I have got to look after my own business, I can give it mornings or nights," and, "I am terribly sorry, but I had to go to a funeral," or this thing or the other thing, but if these fellows are working for the Treasury--

Graves: They will work. And you were just suggesting when you were interrupted that we might make use of other agencies of the Government. Well, my own view about it is that if the Treasury has them, all right, but if they don't I would rather hire our own people.

H.M. Jr: Out of 80,000 people, we ought to have some good ones.

Graves: We are getting now from Revenue and Customs a statement of the qualifications of the people that we have been discussing.

H.M. Jr: What else have you got to decide? You are going to see this Metropolitan Life fellow?

- 26 -

- Graves: He is waiting to see me now.
- Kuhn: Can I take the ball a minute?
- Graves: Yes.
- H.M.Jr: If everybody likes him, let me take a peek at him.
- Graves: Right.
- Kuhn: I would like to take the ball away and talk for Odegarde any myself now on another thing. That is on the director of the whole organization. Odegarde believes, and I agree with him, that that job calls for an administrator with a firm hand and control, chiefly. He doesn't know of anybody who fills that bill better than Mr. Graves, and I agree completely, and I would like to put that up to you.
- H.M.Jr: Well, I am prejudiced.
- Kuhn: I know. That is why I put it up to you.
- H.M.Jr: But I mean I am prejudiced in his favor.
- Kuhn: Yes. Well, how do you like the set-up of having Mr. Graves as director, here in the Treasury, with the reins in his hands and with the sales manager responsible to him and with the publicity man responsible to him as specialists in those two fields and let them go and hire their help? That is, let the publicity man hire his advertising man, his poster man, and so on, and find them. He knows better than we do what he can find.
- H.M.Jr: Well, here is the way - I will think out loud. If this is going to be a Treasury organization

- 27 -

like we are talking about, Dan, you see, it is going to be Internal Revenue, and they are going to use an Acting Commissioner of Internal Revenue for a while, you most likely know that, and he has been all through this thing and if it is going to be Treasury people, when I couldn't get anybody as good as Harold.

- Bell: Well, I don't mean him for a director. Wouldn't he have it as just part of his organization now that he has?
- Graves: That would be my own notion. You get the same effect out of it.
- Bell: He is your Assistant in charge of Bureau of Engraving and Printing and Bureau of the Mint, and this will be this other bureau or division or whatever you want to call it that will fall under him.
- Kuhn: It will be a very arduous job--
- Bell: Well, he might have to work a couple more hours a day.
- Kuhn: That is what I meant. Somebody who would be the Secretary's proxy here and control and direct--
- Bell: Instead of putting it under an Assistant Secretary, you put it under Harold as Assistant to the Secretary.
- H.M. Jr: What?
- Bell: It is all right.
- H.M. Jr: Except that if we are going to do that, if any of these other things take much of Harold's time, I think I would take them away from him. He might cry about taking the Mint away.

- 28 -

- Graves: I don't think it would be necessary to take those away.
- H.M.Jr: He likes the Directress of the Mint. She has gotten so she doesn't cry on his shoulders at least twice a week.
- Graves: I think we are going all right with the three bureaus that come under me.
- H.M.Jr: What have you got?
- Graves: Procurement and Mint and Engraving and Printing. Incidentally, Mack did a swell job on the Committee before Appropriations and was especially commended in the report of the Committee.
- Kuhn: Who is Mac, Harold?
- Graves: Director of Procurement.
- H.M.Jr: Clifton Mack.
- H.M.Jr: Oh.
- H.M.Jr: We did the absolutely unheard of thing. We took an Internal Revenue Intelligence Agent and made him Director of Procurement.
- Kuhn: Good.
- H.M.Jr: At least, I told him this, we may pay a little bit more; but, if we do, it is going to be honest.
- Kuhn: Is that the Mack that I met up here?
- H.M.Jr: He is the Mack who had lunch with us.
- Kuhn: Yes, that is the one.
- H.M.Jr: At least there isn't going to be any graft while

- 29 -

he is there.

- Kuhn: I know that Herbert Gaston, for example, would be enthusiastic about this arrangement with Mr. Graves.
- H.M.Jr: He mentioned it to me.
- Kuhn: He did?
- H.M.Jr: I should have had Herbert sitting in on this. Has he been sitting in with you?
- Kuhn: Well, he did last week.
- H.M.Jr: Well, this sounds all right so far.
- Kuhn: Then the other jobs, there is no such urgency about them.
- H.M.Jr: This sounds all right. If it goes this way, I think it should be under Harold. Now, the one thing I think we ought to do at an early date, I think if we are going to do much with the Post Office, I think Harold ought to call on Frank Walker so that he personally knows about it and doesn't get it through some of his subordinates.
- Graves: I have nothing but praise for the attitude of the whole establishment.
- H.M.Jr: No, but Frank Walker may never have heard of it.
- Graves: I am sure he has, because the day you sent me down there first--
- H.M.Jr: I think it would be nice to call up Frank Walker and ask if you can come over and see him. He is an awfully sensitive fellow.
- Graves: You mean you will call him and tell him I will come over?

- 30 -

- H.M.Jr: I will do that.
- Graves: I think that would be best.
- Kuhn: We have had very nice replies from all of the Cabinet officers on this business of using the publicity organizations.
- H.M.Jr: I will do it now.
- Graves: Tomorrow, if satisfactory. Tomorrow would be the best time for me.
- H.M.Jr: Harold, I have had in mind a long time - if you don't like it, you don't have to take it - but he is full of pep and energy. That is John Fox. If you could bring him into this with you--
- Graves: Yes. About John Fox, you once told me you wanted to work him into the Procurement. It is just about to go through now. He was to go over and work for Mr. Mack.
- H.M.Jr: That is all right. I mean, he is very able.
- Graves: I like him very much.
- H.M.Jr: If you have that fixed up, I wouldn't change.
- Graves: We have just about worked it out. We are waiting for a successor to be appointed to his job here, as I understand.
- H.M.Jr: What is he going to do over there?
- Graves: He is going in the Planning Division.
- H.M.Jr: That is all right. On setting up organizations - you have got to move this thing to New York and all that kind of stuff. John is swell, you know. I don't want you to feel I am pushing you. He is there. I brought him down originally. He is

- 31 -

honest as hell. He leans over backward.

Graves: Yes, I know him very well.

(Telephone conversation with Ned Bruce follows:)

February 11, 1941.
12:00 M.

Ned
Bruce: Hello, Henry, happy new year!

H.M.Jr: (Laughs)

B: How are you?

H.M.Jr: How are you?

B: Fine.

H.M.Jr: Say, Ned, are you full of pep and ambition these days?

B: You bet.

H.M.Jr: I'll tell you what I got in mind. We're about to start a national campaign for savings.

B: A what?

H.M.Jr: A national campaign for savings. Selling savings bonds, you know.

B: I didn't get the adjective on that thing. (Laughs)
A what?

H.M.Jr: National campaign.

B: National. Yeh.

H.M.Jr: And -

B: I thought you used a nasty word.

H.M.Jr: No, no. You just - That's just the way your mind runs, that's all.

B: No, it isn't. I got a sweet mind.

H.M.Jr: Is that so?

B: Yes sir.

H.M.Jr: Well now, Ned -

B: Yeh.

H.M.Jr: A great deal of this is going to be posters.

B: Pal, I'd love to do it.

- 2 -

H.M.Jr: And Harold Graves is going to represent - be in charge for me but we're bringing down a lot of people; it's going to take a big lot of work and -

B: I'd give my shirt to see something by Christy of a bathing beauty.

H.M.Jr: You'd do what?

B: I'd give my shirt to see, in a poster, something with a bathing beauty from Christy.

H.M.Jr: Well, now we've got all the English stuff and I'm going to have him send it over to you and it's beautiful stuff what the English are doing.

B: Yeh. Well - A funny thing happened, Henry. Margaret called me up this morning from Life.

H.M.Jr: Yeh.

B: And they're doing an article this week about it.

H.M.Jr: Is that right?

B: Yeh.

H.M.Jr: Well -

B: And they wanted to do an article about the section and I told them that we didn't do that sort of thing.

H.M.Jr: Well now -

B: Now, if I'd known that you'd call me up a couple of hours later, I could have put an article in. Maybe I can put it in now if -

H.M.Jr: No. No, we're not ready.

B: All right.

H.M.Jr: We're not ready.

B: Well, I'll get it in anytime she wants it.

H.M.Jr: Well, we're not ready, but this is something I'd like you to get your own teeth into.

B: Well, I'd love nothing more in the world.

H.M.Jr: Well -

- 3 -

B: I really would. I've been tearing my heart out not to do something of that sort, as you know.

H.M.Jr: Well, Harold Graves will get in touch with you.

B: All right. Now -

H.M.Jr: If this is a - What would you think? You'd want to concentrate on this, wouldn't you?

B: Well, I'm perfectly willing to concentrate on it. My own job here is in beautiful shape.

H.M.Jr: It is.

B: I've got some grand news on this thing.

H.M.Jr: What's that?

B: Well, I can't tell it yet but I've got a new museum for you - Roosevelt Museum of Art - American Art.

H.M.Jr: Oh really?

B: Yeh. Wonderful.

H.M.Jr: Well, you think about it.

B: Don't tell anybody about that now because I can't shoot it yet.

H.M.Jr: You don't want me to tell the press.

B: No, no. Not yet, please.

H.M.Jr: O.K. then. All right.

B: Now, who's coming over to see me?

H.M.Jr: Harold Graves.

B: All right. G-r-a-v-e-s?

H.M.Jr: s.

B: I'm only too happy to see him. Where is he?

H.M.Jr: He's here in my room now. He'll call you up.

B: Can he come over and have lunch with me tomorrow?

H.M.Jr: I don't know. I'll ask him. Wait a minute. He says yes; he doesn't know what a lousy lunch you serve but he'll be over there.

B: Well, it's a damn sight better lunch than most artists get. I'll tell him that.

H.M. Jr: O.K.

B: All right, fine.

H.M. Jr: Bye.

B: Good, Henry, grand!

- 32 -

- H.M. Jr: Now listen, I don't like his organization, see. I don't like this lousy art critic that he has got over there. The Englishman write this magazine, and I don't like any of the people he has got around him. His man who runs his publicity I don't like, and I don't like his other people. But if you can get Ned and transfer him bodily over to the Treasury, he is one of the swellest fellows in the country and let his own people run this public buildings thing.
- Graves: Get him detailed over here, that would be your idea?
- H.M. Jr: I don't know whether he takes pay or not. When he was over here - Thompson knows all about how we paid him. But if you could get Ned and transfer him bodily and leave his own organization over in Public Buildings - I don't like his organization, but he has got a - I am terrible on names. But he is wonderful. The rest of his crowd I don't like at all.
- Kuhn: We can have him--
- H.M. Jr: They are the arty crowd and I don't like them, but this fellow, you know, he was a businessman up until 50 years and then he started to paint. He is a beautiful painter. He paints the most georgeous things. Since he had a stroke, he can't paint any more. But--
- Kuhn: Could we ask him to have a crack at a design for those stamps?
- H.M. Jr: Oh, right away.
- Kuhn: Because Hall had a good idea.
- H.M. Jr: Well, Hall knows him, and he doesn't like Hall. Hall wouldn't take the stuff, but that is all right. He is a rough fellow, you know. He has

- 33 -

been in the Philippines, and he is a rough guy, but thoroughly honest, artistic to his fingertips, and he can get the President of the United States to come over and look at things when nobody else can, and does. I mean, it drives me nuts. He used to call up Mrs. Morgenthau at 6:00 o'clock every morning so she would tell me what he had in the Public Buildings and they used to drive me crazy. He is a driving force, you see. But see if you can't get him over here and leave his own organization over there in Public Buildings. You will see the crowd. It is this awfully kind of arty crowd that I don't like. You know the kind. They talk art, but Ned can produce.

Kuhn: Good. May we come to you with a little list of specific recommendations on the types of securities?

H.M.Jr: I am waiting.

Kuhn: Good. Could we do that tomorrow, Dan?

H.M.Jr: Well, we testify tomorrow.

Bell: We are going on the Hill tomorrow.

H.M.Jr: I will tell you now. I will give you a time Thursday.

Kuhn: Wouldn't that be good, to get that settled?

Bell: Yes, it would.

H.M.Jr: Wait a minute. Gentlemen, would you be ready at 3:00? That crowds you too much, doesn't it?

Bell: Tomorrow?

H.M.Jr: Yes.

- 34 -

Bell: I would rather make it the next day.

H.M.Jr: Eleven o'clock Thursday.

Kuhn: All right.

Bell: I will have Haas, too.

H.M.Jr: And Ferdie, tell Gaston what happened this morning will you, to keep him up to date?

Kuhn: Sure.

H.M.Jr: That is 11:00 to 12:00 on Thursday. Is that all right now, Harold?

Graves: Yes, sir.

H.M.Jr: And if this fellow looks good, let me know and I will take a look at him.

MEMORANDUM

February 11, 1941.

TO: Secretary Morgenthau
FROM: Mr. Sullivan

This morning while discussing the general relief amendment to the Excess Profits Tax Act with Mr. Doughton and Mr. Cooper we all spoke of the difficulty we would encounter in having this measure passed in the Senate because of the Lease-Lend Bill, which Mr. Cooper says will be debated for three or four weeks. We discussed the advisability of having the general relief provision added in the Senate as an amendment to the Public Debt Act, which we hope to have passed on Saturday.

It was decided that a meeting of the House Ways and Means Committee should be held at 3:30 this afternoon at which time I was to explain the relief provision and at which time the members of this Committee could be canvassed as to their willingness to have this relief provision first introduced in the Senate.

I have discussed this matter with Mr. Bell who approves the suggested procedure providing the House Ways and Means Committee approves.

Will you please indicate if you have any objections to my getting the opinion of the House Ways and Means Committee this afternoon.

TMS

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 11, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Zoltowski, Financial Counselor of the Polish Embassy, called on me at 12:45 today. He stated that he had talked at length with Minister Theunis in regard to the recent Belgian attachment of Bank of France gold in New York. As hinted on previous occasions, the Polish authorities have had a similar suit in mind. Zoltowski has left with me recently copies of official Polish correspondence in regard to Bank of Poland gold which had been in France when the war broke out. A similar file has been given to President Sproul of the Federal Reserve Bank in New York and Mr. Zoltowski has spoken with Mr. Sproul in regard to a possible suit against the Bank of France. Mr. Sproul has, I understand, refrained from making any comment, since the Federal Reserve Bank acts also as correspondent for the defendant Bank of France.

Mr. Zoltowski stated that his people would not be disposed to enter any litigation against the Bank of France if this might embarrass the United States Treasury. I told Zoltowski that our attitude had been with respect to the Belgian suit that this was a matter to be settled in court between the two banks, and that the Treasury had no part therein. I presumed that our attitude would be the same in any prospective litigation between the Bank of Poland and the Bank of France. Zoltowski understood this, but still insisted that if the Treasury desired to impose any objection, finding the contemplated suit embarrassing to the Treasury or the Administration, he would be glad to be informed and his people would take cognizance thereof.

As a second point, Zoltowski asked if I could ascertain whether Admiral Leahy had since his arrival in Vichy as American Ambassador taken up with the French Government the interest of the American Government in seeing the Bank of Poland's gold restored to its rightful owner. It was Zoltowski's understanding that former Polish Ambassador Potocki had taken this question up with President Roosevelt and that the latter had given Admiral Leahy direct personal instructions on this subject before leaving for Vichy. Zoltowski said that if the American Embassy at Vichy is already interceding in behalf of the Bank of Poland, the Polish authorities would naturally desire to do nothing in this country to cross wires.

Finally, Zoltowski renewed the hope expressed on his last visit, namely, that the Lend-Lease Bill would not limit by specifically naming the countries which could benefit thereunder, since he is anxious that Poland may be entitled to enjoy such benefits as are planned for Great Britain.

I promised that I would bring the above points to the attention of the Secretary and would let Zoltowski hear from me later in the week. He offered to come back to Washington for another conversation if this may appear advisable.

- 2 -

February 12.

At 5:30 yesterday evening I telephoned the Department of State and spoke with Mr. Page when Mr. Henderson was not available. Since Mr. Page was not familiar with the Polish gold situation, I called Mr. Henderson this morning at 10 o'clock and recounted Mr. Zoltowski's conversation with me of yesterday. Mr. Henderson let me know that before Admiral Leahy's departure, Paderewski had addressed a letter to the President asking that Leahy talk over with his secretary certain Polish problems before the new Ambassador proceeded to Vichy. Henderson was sure the letter had been written by Paderewski's secretary, whom Henderson considers a very officious and meddlesome individual. Henderson drafted the reply to Paderewski. He doubts very much that the President gave any instructions whatever to Admiral Leahy to look into the Polish gold question after arrival at Vichy. I told Henderson that Zoltowski did not want to advise instituting a suit in New York against the Bank of France if this might conflict in any way with representations being made by Admiral Leahy at Vichy. Henderson desired to speak with Mr. Atherton before definitely closing the subject, but thought that I was right in letting Zoltowski understand that the position of the Treasury Department with respect to a suit by the Bank of Poland against the Bank of France was the same as that in the matter of the Central Bank of Belgium suit against the same defendant. That is, this is a question between the Central Banks which does not concern the Treasury.

February 13, 1941

I was unable to reach Mr. Henderson at 5:30 last night, but he telephoned me at 9:15 this morning to let me know that he had conferred with Mr. Atherton in regard to the above question. Neither Atherton nor Henderson knew anything of any instructions being issued to Ambassador Leahy with respect to Polish gold, and no reports have been received from him on this subject. Henderson stated that the position of the State Department is that it has no comment to make if the Poles may desire to bring action against the Bank of France.



February 11, 1941

Memorandum for Mr. Norman Thompson

From: Secretary Morgenthau

I want this thing done the first thing in the morning. This has to do with my call with the Secretary of Labor.

February 11, 1941
3:53 p.m.

Madame Perkins: Hello, Henry.

H.M.Jr: Yes.

P: I'm awfully sorry to bother you but

H.M.Jr: You haven't. I apologize for having been slow in answering your call.

P: I see. I've got a very special need. I have two Assistant Secretaries of Labor, the Congress only allows us one car

H.M.Jr: Pardon?

P: Only one car - automobile.

H.M.Jr: Yes.

P: The first Assistant Secretary uses it all the time and it is rarely available for the second. The second Assistant Secretary because of the Defense Program has become our departmental coordinating officer and he is about the busiest person here.

H.M.Jr: Yes.

P: He runs all day from the Defense Commission to the Army and the Navy and the Maritime Commission and back and forth. He needs a car badly. Do you think you could make it possible to assign one of your pick-up cars over there for him to use?

H.M.Jr: Surely. What's his name?

P: His name is Daniel Tracy, Assistant Secretary of Labor.

H.M.Jr: Daniel Tracy. It won't be anything very fancy but it will run.

P: That doesn't matter; just so it goes.

- 2 -

H.M.Jr: Sure. We'll get him one over tomorrow.

P: Oh, that's just wonderful! I thank you more than I can tell you.

H.M.Jr: Sure. We'll have one over there for him tomorrow.

P: All right. That's just fine.

H.M.Jr: That's easy. Ask me something hard.

P: Oh, well, that's fine.

H.M.Jr: All right, Frances.

P: (Laughs). Good-bye.

259

Note:

A copy of this was delivered to Phil Young this morning - as per instructions of Secretary Morgenthau.

McH

Feb. 12/41
9:20 a.m.

February 11, 1941
3:58 p.m.

H.M.Jr: Hello.

Operator: Mr. McCloy.

John J.
McCloy: Mr. Secretary?

H.M.Jr: Hello, McCloy.

McC: I may be barging into something that -
by the way, did you have a good trip?

H.M.Jr: Wonderful.

McC: Good. The other day when I was over in
Mr. Jones' office I said that I didn't know
anything about what was happening with the
ships and the machine tools, that so far as
munitions were concerned I thought we had
the program going along pretty well, but
who was dealing with that and where was it.
He said he didn't know but he said, do you
need money for ships or machine tools?
I said why certainly we need money. He said
well maybe I can give it to you. Well, now,
whose job would that be?

H.M.Jr: Well, now, you'll have to be more explicit.

McC: Well, I'm talking about these - what is it -
these 60 ships - merchant ships that were on
that list Purvis sent us - sent you.

H.M.Jr: Well, they ordered those.

McC: What's that?

H.M.Jr: They've ordered those.

McC: Have they ordered all of them?

H.M.Jr: They ordered all 60.

McC: I had an impression that only half of them
were ordered.

- 2 -

H.M.Jr: No.

McC: Well, then that's taken care of.

H.M.Jr: I'm quite sure they ordered all 60 of them the same day.

McC: Oh, they did. Who ordered them - the British?

H.M.Jr: The British. That was in December, I believe.

McC: Oh, this was a much more

H.M.Jr: I'm talking about the contract with Todd.

McC: Uh-huh. Well, maybe it's all taken care of but the list that I had had merchant ships on it and as I wasn't doing anything about it I just wondered where

H.M.Jr: No, I haven't - Purvis would have said something.

McC: Now, do you know anything about machine tools?

H.M.Jr: Not a thing.

McC: There was a substantial item on machine tools on that list. I think that everything has been covered then, if ships are covered except so far as I know machine tools, except the purely British equipment that we didn't have the proceeds of the sale of facilities sufficient to purchase.

H.M.Jr: You mean, I take it, both ships and tools - the possibility of buying up their contract?

McC: Yes, or new stuff that they are ordering or want to order and couldn't order because they didn't have the money.

H.M.Jr: Well now look. Philip Young will be back in the morning.

McC: I tried to get him at -

- 3 -

- H.M.Jr: And I'll turn this over to him the first thing in the morning and if there's anything that can be done, I'll have him get in touch with you.
- McC: Well, I was surprised because I'd understood up to that moment that Jesse Jones said he didn't have any money available for either of those and the other day he rather indicated maybe that he might.
- H.M.Jr: Well I'm delighted you called me. We'll look into it at once because any money that Jesse has free I'd like to grab it.
- McC: Yeh. I think he's moving a little slowly but I think he's moving ahead all right.
- H.M.Jr: Well, he's moving. You're quite right. I think they've cleared one - actually one contract Purvis told me last night.
- McC: Uh, huh.
- H.M.Jr: One.
- McC: It's moving slower than I hoped but I do think he's got quite a staff at work on it and one of these days I suppose a good many will be cleared.
- H.M.Jr: Well, thank you for calling up and I'm delighted to have you do it anytime.
- McC: Righto. All right.

TREASURY DEPARTMENT

Noted

R. Hawkey

Classified

DATE February 11, 1941

INTER OFFICE COMMUNICATION

COPY FOR OFFICE FILES

Distributed by Mr. Cochran to:

TO Secretary Morgenthau ✓ Secretary
 ✓ Mr. Bell ✓ Mr. Doherty
 FROM Mr. Cochran ✓ Mr. Winter
 ✓ Mr. Bernstein ✓ Mr. Wray
 ✓ Mr. Pable

At 4 p.m. today Secretary Morgenthau received by appointment Sir Edward Peacock, who had arrived from England during the Secretary's recent absence, and who had come to Washington today to pay his respects to the Secretary. After a conversation of a few minutes between the Secretary and Sir Edward, Messrs. Pinsent, Playfair and Allen, who had accompanied Sir Edward to the Treasury, joined the conversation, together with Messrs. Bell and Cochran of the Treasury.

Sir Edward Peacock let the Secretary know that he is feeling his way cautiously and cannot yet report definite transactions. He has been approached by a large number of people interested "in being of service". He is agreeable that all inquiries which the Treasury may receive in regard to his undertaking should be addressed directly to him at 15 Broad Street, in care of the British Purchasing Commission. He will visit Washington occasionally, making headquarters with the British Purchasing Commission at the Willard Hotel, but will have his offices in New York. He is already arranging for the services of an expert accountant and hopes to build up a staff shortly.

In answer to the Secretary's inquiry, Sir Edward stated that he was already faced with certain questions under our Anti-Trust Laws. The Secretary offered to have his General Counsel's Office go into any such questions which Sir Edward might have, and to solicit the opinion of the Attorney General if necessary. Sir Edward was appreciative of this offer.

It was further arranged that Sir Edward would let the Secretary know as his negotiations take form, preferably at the beginning. As business develops, a system will be worked out for keeping the Treasury informed through Mr. Pinsent. Sir Edward seemed anxious to cooperate with the Treasury and to have the benefit of such assistance as the Treasury and the Securities Exchange Commission may be able to extend. In answer to the Secretary's further query, Sir Edward stated that he had called on Commissioner Frank at the S. E. C., together with certain of Mr. Frank's associates, and also upon Mr. Welles, Under Secretary of State, after he had come to the Treasury last week. Mr. Frank had cordially offered Sir Edward any proper assistance on the part of the Commission, either through its Washington headquarters or its New York office.

In agreement with the Secretary's suggestion, Sir Edward met the Treasury press group as he left the Secretary's office and gave them an assuring interview. He stressed the point that he must go carefully and that this is not an emergency sale in which various interests will not be properly safeguarded.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 11, 1941

Miss Gant

TO Secretary Morgenthau
FROM Mr. Cochran

When Mr. Pinsent called on me at 4 o'clock this afternoon he left with me the attached memorandum in regard to the move toward amending our Tariff Act so as to exclude from the "foreign value" the recently established British Purchase Tax.

Mr. Pinsent explained that his Embassy had taken this matter up with Secretary of State Hull and that the latter had spoken with Mr. Doughten urging that the matter of appropriate legislation be expedited. Mr. Hull had also suggested that the British solicit Secretary Morgenthau's assistance in the premises. The British now request this, since they feel that Congressman Gullen, who introduced the bill, is not perhaps as active as the Administration might desire that he be at present.

J. M. K.

(Handed by Mr. Finsent of the British Embassy to Mr. Cochran in the Treasury at 4 p.m., February 11, 1941.)

MEMORANDUM FOR THE SECRETARY OF THE TREASURY

It is understood that the various United States Departments concerned have now reported favourably on H. R. 1589, providing that Section 402(c) of the Tariff Act should be amended so as to exclude from the "foreign value" of imported merchandise any tax (except import duty) which is not applicable with respect to such or similar merchandise when exported to the United States. This Bill replaces that which was introduced by Mr. Cullen in the last session of Congress and which formed the subject of a memorandum to the Secretary of the Treasury from the British Embassy on the 13th December last.

Reports which are reaching the British Embassy tend to confirm the fears expressed in the memorandum of 13th December that the inclusion of the Purchase Tax in the dutiable value of imports from the United Kingdom would have a very serious effect on the trade of the United Kingdom with the United States, and in particular it appears that traders are very reluctant to enter into future commitments, pending the enactment of H. R. 1589. It would accordingly be warmly appreciated if the Secretary of the Treasury would take such steps as are open to him and as he may consider expedient to expedite consideration of the Bill by the Congress.

(signed) G.H.S.P.

British Embassy,
Washington D.C.
11th February 1941.

COPY:lep

Paraphrase of No. 17, February 11, 1940, 4 P.M. from Asuncion.

A decree issued unexpectedly yesterday makes exchange transactions subject to a very tight and exclusive control under the Department of Exchange Control, a new and largely autonomous entity with full power created within the Bank of the Republic. Depending upon the availability of exchange export and import permits are to be required. Restrictions are to be administered based upon a schedule of preferences headed by necessities and in so far as possible to follow the rule of buy from those who buy from us and including a provision for barter and compensation transactions.

STRICTLY CONFIDENTIAL The decree was motivated at this time by a pronounced depreciation of the Paraguayan peso in relation to the Argentine peso and an increase in the demand for the Argentine peso in everyday transactions. The lack of administrative machinery is causing confusion and it is probable that the decree will have to be modified.

SCHOENRICH

eh:copy

TO THE DIRECTOR
 DEPARTMENT OF EXCHANGE CONTROL
 ASUNCION

RECEIVED FEB 11 1940

DEPARTMENT OF EXCHANGE CONTROL
 ASUNCION

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 11, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£255,000
Purchased from commercial concerns	£222,000

The Federal Reserve Bank of New York sold £15,000 in registered sterling to a non-reporting bank.

Open market sterling was again quoted at 4.03. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£14,000
Purchased from commercial concerns	£ 3,000

Principle changes in the other currencies consisted of a moderate improvement in the Argentine free peso and some weakness in the Cuban peso. Closing quotations were:

Canadian dollar	17-1/8% discount
Swiss franc (commercial)	.2324
Swedish krona	.2385-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2370
Brazilian milreis (free)	.0505
Cuban peso	6-15/16% discount
Mexican peso	.2066
Chinese yuan	.05-1/2

We sold \$19,950,000 in gold to the Central Bank of the Argentine Republic, which was added to its earmarked account.

No new gold engagements were reported.

The Federal Reserve Bank of New York reported that there are no gold shipments enroute to this country at the present time.

No gold or silver prices were received from Bombay today.

In London, a price of 23-5/16d was again fixed for spot silver, the forward quotation was also 23-5/16d, up 1/16d. The dollar equivalent of this price is 3.33¢.

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 one purchase of silver amounting to 100,000 ounces under the Silver Purchase Act. This consisted of new production from foreign countries, for forward delivery.

The report of February 5 received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$8,416,000, a decrease of \$312,000 in the short position. Net changes were as follows:

Country	Short Position January 29	Short Position February 5	Change in Short Position*
England**	\$ 35,000 (Long)	\$ 456,000	+ \$491,000
Europe	3,302,000	3,385,000	+ 83,000
Canada	405,000 (Long)	318,000 (Long)	+ 87,000
Latin America	204,000	91,000	- 113,000
Japan	4,461,000	3,598,000	- 863,000
Other Asia	1,244,000	1,219,000	- 25,000
All others	43,000 (Long)	15,000 (Long)	+ 28,000
Total	\$8,728,000	\$8,416,000	- \$312,000

(Plus sign (+) indicates increase in short position, or decrease in long position. Minus sign (-) indicates decrease in short position, or increase in long position.)

**Combined position in registered and open market sterling.

J. M. S.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 11, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
February 3	27,975	2,092,985	142,000	148,153
4	27,642	1,518,933	610,000	628,541
5	12,284	427,603	191,000	161,935
6	99,597	2,834,862	281,000	247,272
7	16,375	306,592	782,000	848,648
8	600	13,795	Nil	Nil
	<u>184,473</u>	<u>7,194,770</u>	<u>2,006,000</u>	<u>2,034,549</u>
Sales from February 22, 1940 to February 1, 1941	<u>5,027,278</u>	<u>151,781,091</u>	<u>13,747,800</u>	<u>12,816,210</u>
TOTAL FEBRUARY 22, 1940 TO FEBRUARY 8, 1941	5,811,751	158,975,861	15,753,800	14,850,759

Miss Poate reported sales of non-vested securities for the week ending February 1 totaled \$750,000.

BMP

February 11, 1941

MEMORANDUM

TO: The Secretary

FROM: Mr. Buckley

Re: Status of Reconstruction Finance Corporation
Purchasing for the British.

The Reconstruction Finance Corporation has been working on two general projects in connection with the British program. These are (1) the placing of direct orders for arms, ammunition, and materiel of war, and (2) the purchase of plant facilities which have been established by the British Purchasing Commission for the production of machine guns and powder. The status of these two projects is as follows:

1. Placing of direct orders for war supplies.

They have been working with the Army and Navy on a procedure under which the Defense Supplies Corporation would place orders for standard United States items. They expect to have this procedure ready for Mr. Jones' approval this morning and will send us a draft as soon as it is ready for presentation to him. The plan is for these contracts to be taken over by the Army or Navy as soon as appropriations are secured under the Lease-Lend Bill.

2. The purchase of British plant facilities.

This involves the taking over by the Defense Plant Corporation of the plant of the Tennessee Powder Company at Memphis, Tennessee, and four plants established by four different manufacturers for the production of machine guns. This has been approved by the War and Navy Departments and by Mr. Jones, who has also secured the approval of the President. The only problem now is to complete the necessary arrangements between the War Department, the Defense Plant Corporation, and the British. Colonel Greenbaum is working on this at the War Department, and it should be completed shortly.

Jones

February 11, 1941

see also M 12

Dear Mr. Halliartyns:

Your letter of February 10, 1941, enclosed applications for the placement of the following orders:

British Purchasing Commission	
Motor Vehicles	\$ 500,317.00
Truck and Truck Equipment	70,100.00
Chemicals	17,000.00
Explosives	240,000.00
Optics and Ordnance	
Equipment	471,000.00
All Other	140,000.00
Iron and Steel	2,150,000.00
Total	\$4,580,427.00

The Treasury Department has no objection to the execution of these contracts with the exception of Contract A-407, on which the Preliminary Negotiation Report has not yet been approved. Application for placement of orders under this contract should be resubmitted after you are notified of the approval of the Preliminary Negotiation Report.

Sincerely,

Mr. Charles F. Halliartyns,
 Secretary-General,
 British Purchasing Commission,
 The Willard Hotel,
 Washington, D. C.

JH:er

BRITISH EMBASSY
WASHINGTON, D.C.

February 11th, 1941.

My dear Cochran,

I understand that the Secretary of the Treasury is anxious to have our estimates of German expenditure on armaments year by year since 1933. I telegraphed to London for their estimates and have today received such information as is at their disposal, copy of which I attach to this letter.

The figures are not secret from the point of view of publication, but you will of course appreciate that they are merely estimates and that there is always a danger that a misleading picture may be given when one is dealing with statistics relating to such a highly organized regime as the present German Government.

Yours sincerely,

(s) R.J. STOPPFORD

Mr. Merle Cochran
U.S. Treasury Dept.,
Washington, D.C.

1. Published figures of German armaments or civilian expenditures are not available, but some estimate of the rate of increase of total expenditure can be made after examination of the published figures of revenue from tax receipts and of increases in the published figures of the public debt. The published figures are as follows for the financial years ending March 31st.

1933	6.9 milliard Reichsmarks
1934	8.4 ditto
1935	9.4 ditto
1936	11.9 ditto
1937	13.6 ditto
1938	17.3 ditto
1939	29.6 ditto
1940	44.6 ditto
1941	probably about 64 milliard Reichsmarks.

2. These figures do not include receipts from the so-called secret debt nor certain insurance funds which can only be estimated roughly.

3. Estimates for armament expenditure (i.e. non-civilian), including investment costs of certain "Four Year Plan" factories, fortifications etc. for the financial years ending 31st March are as follows:-

1933	0.5 milliard Reichsmarks
1934	2. ditto
1935	6. ditto
1936	12. ditto
1937	13. ditto
1938	15. ditto
1939	26. ditto
1940	42. ditto
1941	probably about 60 milliard Reichsmarks.

The figure for 1941 does not include the costs of armies of occupation, which are paid by the occupied territories at a rate at present believed to be 10 milliard Reichsmarks a year.

These figures may be compared with Hitler's statement on September 1st, 1939 that since he came to power over 90 milliard Reichsmarks had been spent on building up the German armed forces. Our estimates are inevitably rough, but those for later years are more reliable than those for the earlier years.

4. These financial estimates have been checked with reasonably reliable estimates of manpower employed directly and indirectly in the production of all kinds of armaments.

(Init.) R.J.S.

CONFIDENTIAL MEMORANDUM

February 11, 1941

TO THE SECRETARY:

Guy de Schompre, former French Consul at Tientsin, China, and now leader of Free French Organization in Far East, called at our Hongkong office recently and in course of conversation stated that he is touring the Far East, Australia, and United States, enroute to England, and is cooperating closely with the British Military; that he understands Japanese are negotiating for control of the entire French Indo rubber output so as to sell same to obtain foreign exchange. He expressed the view that aid to French Indo China was immediately necessary and thought the forty-five planes, bombs, machine guns, etc., now stored in Manila and originally intended for Siam should be sold to General Decoux for cash, plus definite agreement as to resistance to Japs and that such supplies would not fall into Japanese hands. He is of opinion Decoux is in an unenviable position in Indo China and lacking any encouragement from Britain or the United States has no option but to accede to Japanese demands.

M. R. Nicholson
U. S. Treasury Attache
Shanghai, China

TELEGRAM SENT

MMG

GRAY

February 11, 1941

8 p.m.

AMERICAN CONSUL

HANOI (FRENCH INDOCHINA)

2.

Treasury Department wishes you to inform Government of French Indochina that it is terminating blanket licenses which permitted payments, transfers, and withdrawals from certain accounts of the Banque de l'Indochine and the Banque Franco Chinoise pour le Commerce et l'Industrie. Transactions with respect to such accounts will hereafter be on the basis of a specific license relative to each transaction and applications for such licenses will, of course, receive prompt and careful consideration by the Treasury Department.

Department's 10, November 29, 1940. Mutually satisfactory arrangements for the free use of the proceeds of the sale of rubber to the Government of the United States will be immediately explored with representatives to be designated by the interested banks.

Inform Saigon.

HULL
(PL)

EA:FL:MSG

FE

GLW

GRAY

Rome

Dated February 11, 1941

Rec'd. 9:25 a.m.

Secretary of State,
Washington.

191, February 11, 11 a.m.

Referring to Embassy's telegram No. 142, January 30, 4 p.m., not infrequent inquiries are being received from persons in Italy, including diplomats and local Americans, one, as to the conditions, if any, under which the release may be obtained of funds from accounts which are blocked in the United States under the regulations pertaining to occupied territories, and two, what procedure must be followed in applying for such releases.

If any non-confidential regulations on these points are available which could be communicated to the Embassy they would be helpful.

Incidentally, several persons have recently reported that they had been informed by their banks or relatives in the United States that funds could not be transferred to Italy.

PHILLIPS

ALG

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 11, 1941

TO Secretary Morgenthau
 FROM Mr. Haas
 Subject: Current Developments in the High-grade Security Markets

SUMMARY

- (1) Prices of Treasury bonds have declined slightly more than a point in the past two weeks. Prices of Treasury notes have fallen somewhat less than one-half point in that time (Chart I).
- (2) Weekly reporting member banks acquired about \$349 millions of Treasury notes in the week ended February 5 (Chart II). This week includes the issue date of the new Defense notes. Thus, assuming no change in their holdings of other Treasury notes, these banks acquired about 55 percent of the new issue.
- (3) Long-term Treasury bonds have receded from their December high prices to prices at which their yields are about the same as they were just prior to the Scandinavian invasion last April. Shorter bonds are selling at higher yields than at the beginning of April 1940 (Chart III). The yields of Treasury notes, which were already higher on December 30 than just before the Scandinavian invasion, have since advanced yet further (Chart IV).
- (4) High-grade corporate and municipal bonds declined in price during the past two weeks (Charts V and VI). The market is still not very receptive to new issues.
- (5) Despite war borrowing in excess of £2 billions, interest rates on British Government securities have decreased since the outbreak of war (Chart VII).

I. United States Government Securities

Prices of Treasury bonds have declined, on balance, slightly more than a point in the past two weeks. Prices of Treasury notes have fallen somewhat less than one-half

Secretary Morgenthau - 2

point (Chart I). Contrary to the usual experience, the shorter maturities of both bonds and notes have declined more than the longer. This is indicated by the following table which shows the price changes by maturity classes:

	Average price change January 27 - February 10
	(Decimals are thirty-seconds)
<u>Notes</u>	
1 to 3 years	- .13
3 to 5 years	- .12
<u>Bonds</u>	
5 to 15 years to call	-1.07
15 years and over to call	-1.03

During the past two weeks there has been a very slight narrowing in the yield differential between the new Defense note of September 15, 1944 and the tax-exempt Treasury note due the same date, from 28 basis points to 24 basis points.

II. Bank Holdings of Government Securities

The primary distribution of the new Defense note is reflected in the statements of weekly reporting member banks for the week ended February 5. Note holdings of weekly reporting banks in New York City increased \$224 millions during the week, and those of banks outside of New York City increased by \$125 millions, or a total for the weekly reporting group of \$349 millions (Chart II). These figures do not necessarily reflect net acquisitions of the new note alone. Assuming, however, that there was no change in their holdings of other outstanding notes, reporting banks acquired about 55 percent of the new issue.

Secretary Morgenthau - 3

III. Perspective of the Government Security Market

The price of the longest-term Treasury bond outstanding (the 2-3/4's of 1960-65) has fallen 3-1/2 points since December 30, with the result that its yield has increased from 2.05 percent to 2.25 percent. At this level it is back about to its position just prior to the German invasion of Denmark and Norway.

During the intervening months long-term bonds have behaved better than either bonds of shorter maturity or Treasury notes. This may be seen from Charts III and IV which compare the yields of Treasury bonds and notes, respectively, on April 3, 1940, just before the Scandinavian invasion, on December 30, 1940, and at the close yesterday, February 10, 1941.

As was indicated above, the longest outstanding bonds are now priced to yield about the same rate as at the beginning of April last year. Bonds of shorter maturity, on the other hand, are selling at appreciably higher yields (and correspondingly lower prices) than they were in April of last year (Chart III). Treasury notes did not share in the price rise between April 3 and December 30. Thus, the curve for December 30 on Chart IV is above the curve for April 3, 1940, indicating higher yields for comparable maturities in December than in April. The curve for February 10, 1941 is considerably higher than that for either of the other two dates. The Defense notes have been disregarded in plotting the note curves for both December and February.

IV. Other Domestic High-grade Securities

During the two-week period since January 28 our average of the yields of high-grade corporate bonds, moving inversely to prices, has increased by 12 basis points (Chart V). This compares with an increase of 9 basis points during the same period in the average yield of long-term Treasury bonds. Municipal bonds also fell in price in the last two weeks, but not so much as Treasury bonds or corporates. The decline for the two weeks ended Saturday is reflected by an increase in the Dow-Jones average yield of twenty 20-year municipal bonds of 4 basis points (Chart VI).

New bond offerings to the public in the New York market during the past two weeks amounted to slightly less than \$70 millions. This is about \$100 millions less than during

Secretary Morgenthau - 4

the preceding two-week period. The market for new issues continues quiet and not very receptive. Syndicate price restrictions are still in effect on several of the recent corporate offerings, including the \$26.5 millions issue of 3-1/4 percent 30-year bonds of the Wisconsin Public Service Corporation which were offered last week at a price to yield 2.95 percent. Figures published by The Bond Buyer indicate that several recent municipal offerings are also moving slowly.

V. British Government Security Prices have Risen during the War

It is interesting, in view of the rather generally held belief that an extensive war effort necessarily entails a sharp rise in the cost of Government borrowing, to observe the course of interest rates in Great Britain during the war. According to a statement by the British Chancellor of the Exchequer on December 27, the British Government borrowed by means of various war loans about £1.3 billions from November 1939 to the end of December 1940. This sum includes subscriptions to the 3 percent war loan offered early in 1940, the sale of 2-1/2 percent national war bonds, and the proceeds of a popular savings campaign. If the amount is added to the net increase in other public debt obligations (principally floating debt) the total borrowing for the 13-month period would come to somewhat more than £2.0 billions.

In spite of this large increase in debt (equivalent to about \$8 billions in United States currency at the present official rate of exchange and equivalent on a per capita basis to an increase of about \$24 billions in the debt of the United States) interest rates in Great Britain have followed a downward trend since the outbreak of war. The price of 2-1/2 percent Consols has risen from 70-3/8 at the end of May 1939 (before the war crisis developed) to 77-3/4 on Monday. This is equivalent to a decrease in yield from 3.58 percent to 3.24 percent (Chart VII). Other British Government securities have followed a similar course. The 3-1/2 percent war loan, a perpetuity callable after 1952, which sold at 96-3/8 at the end of May 1939 and below 90 in September 1939 is now selling at about 103-1/2.

Attachments

Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES

Points Plotted Represent the Differences from April 6, 1940 Price of Each Maturity Class

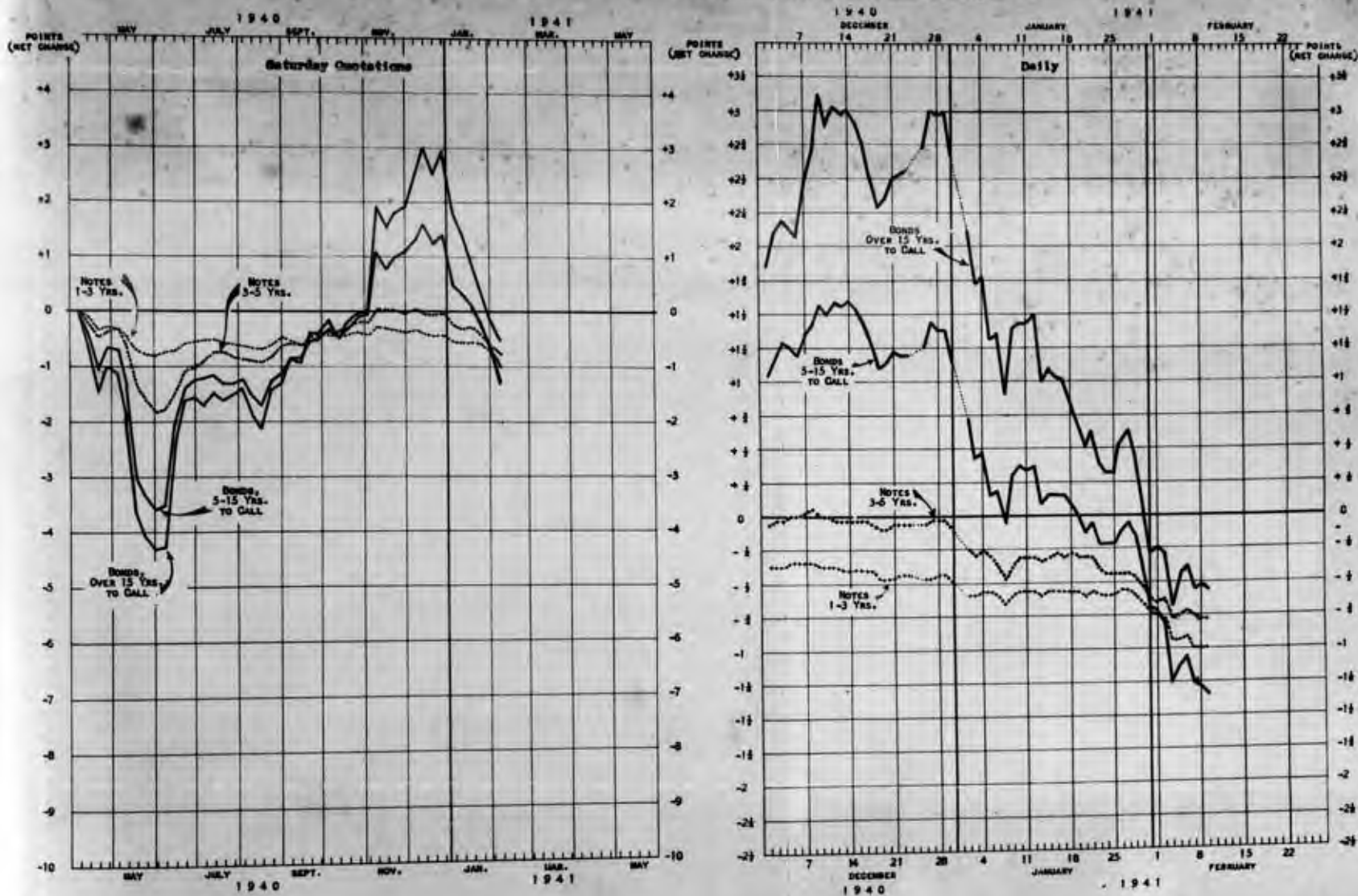


Chart II

U. S. GOVERNMENT SECURITY HOLDINGS, WEEKLY REPORTING MEMBER BANKS
 Cumulative Net Change from September 25, 1940

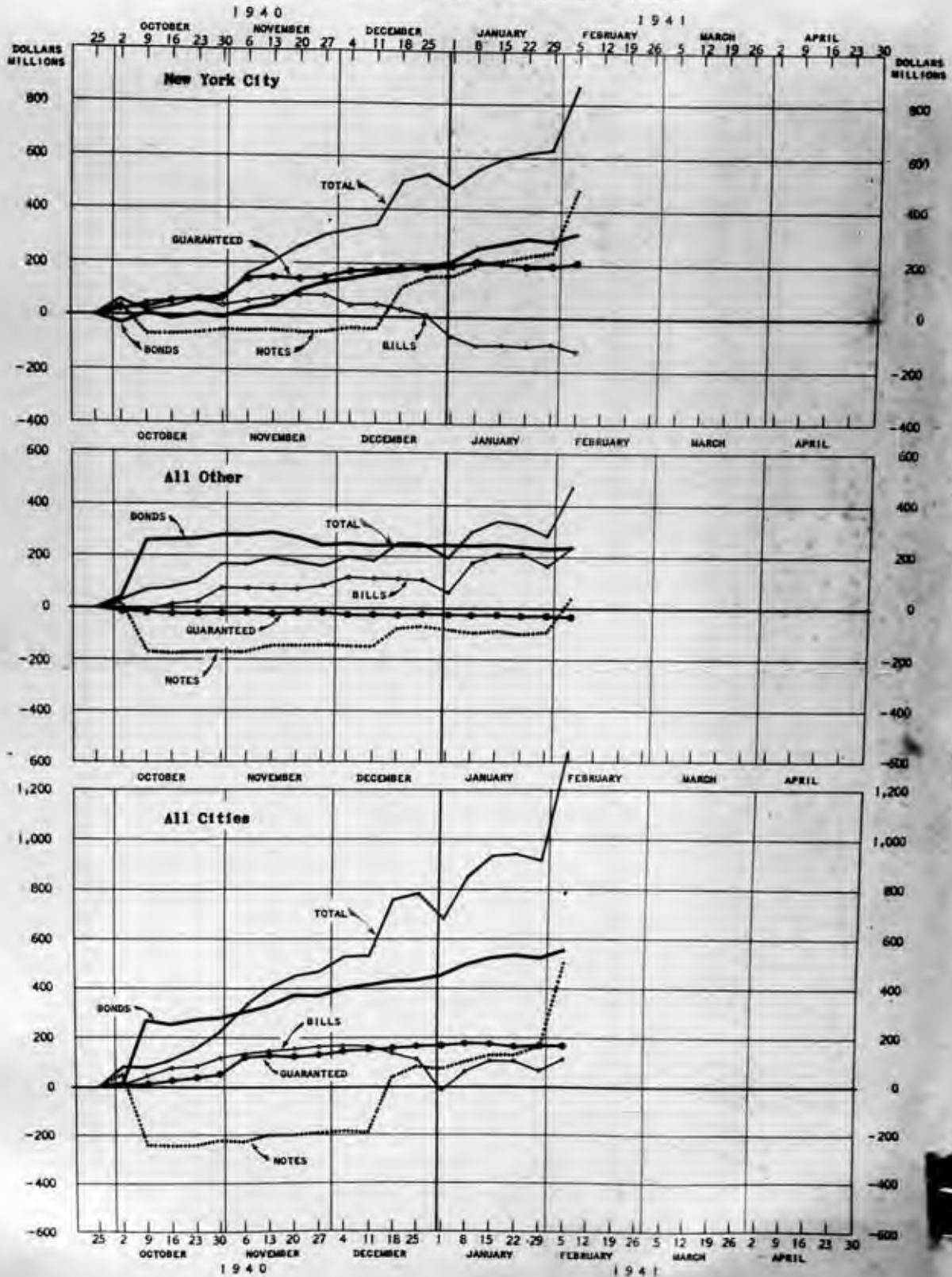


Chart III

YIELDS OF TREASURY BONDS

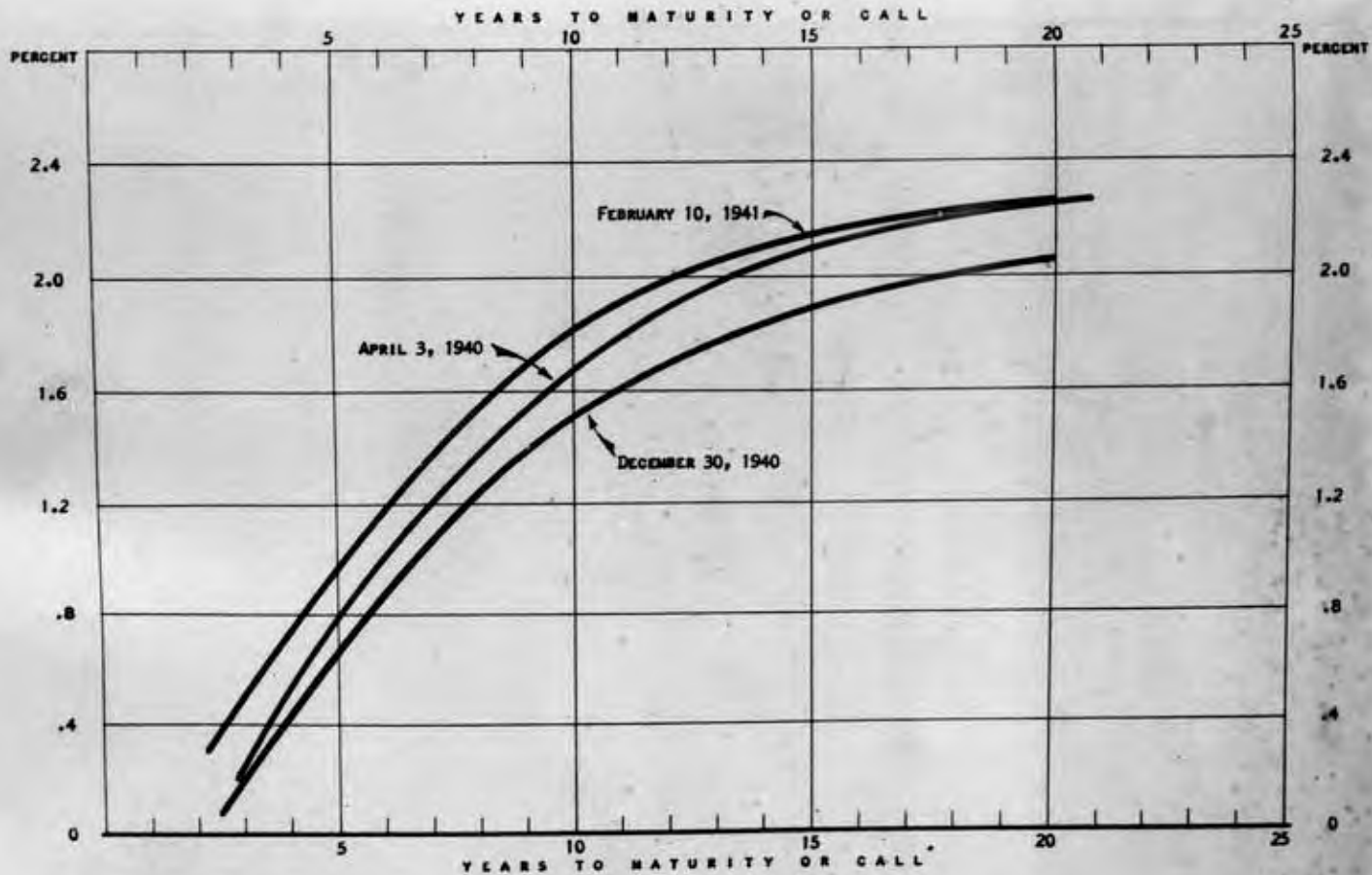
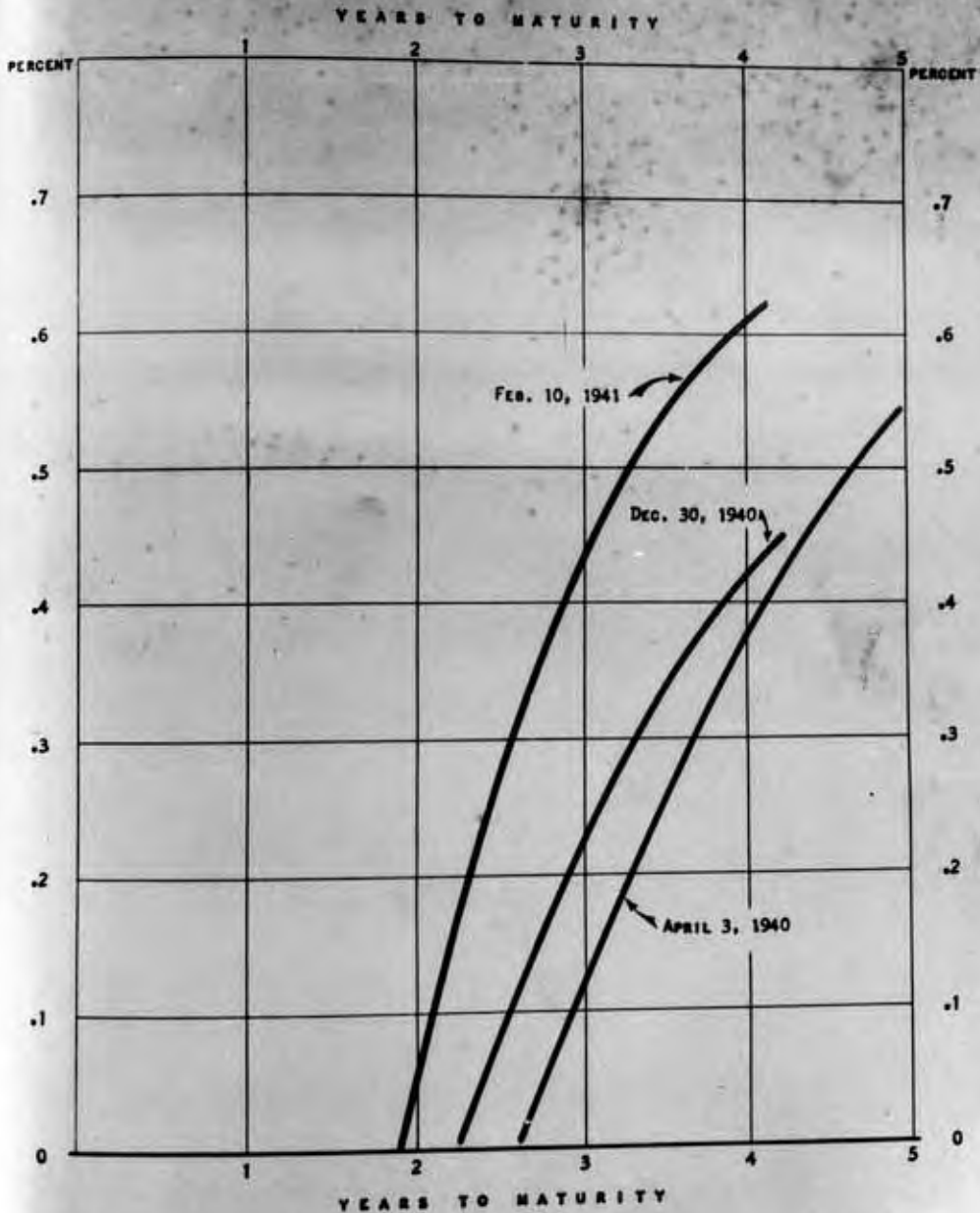
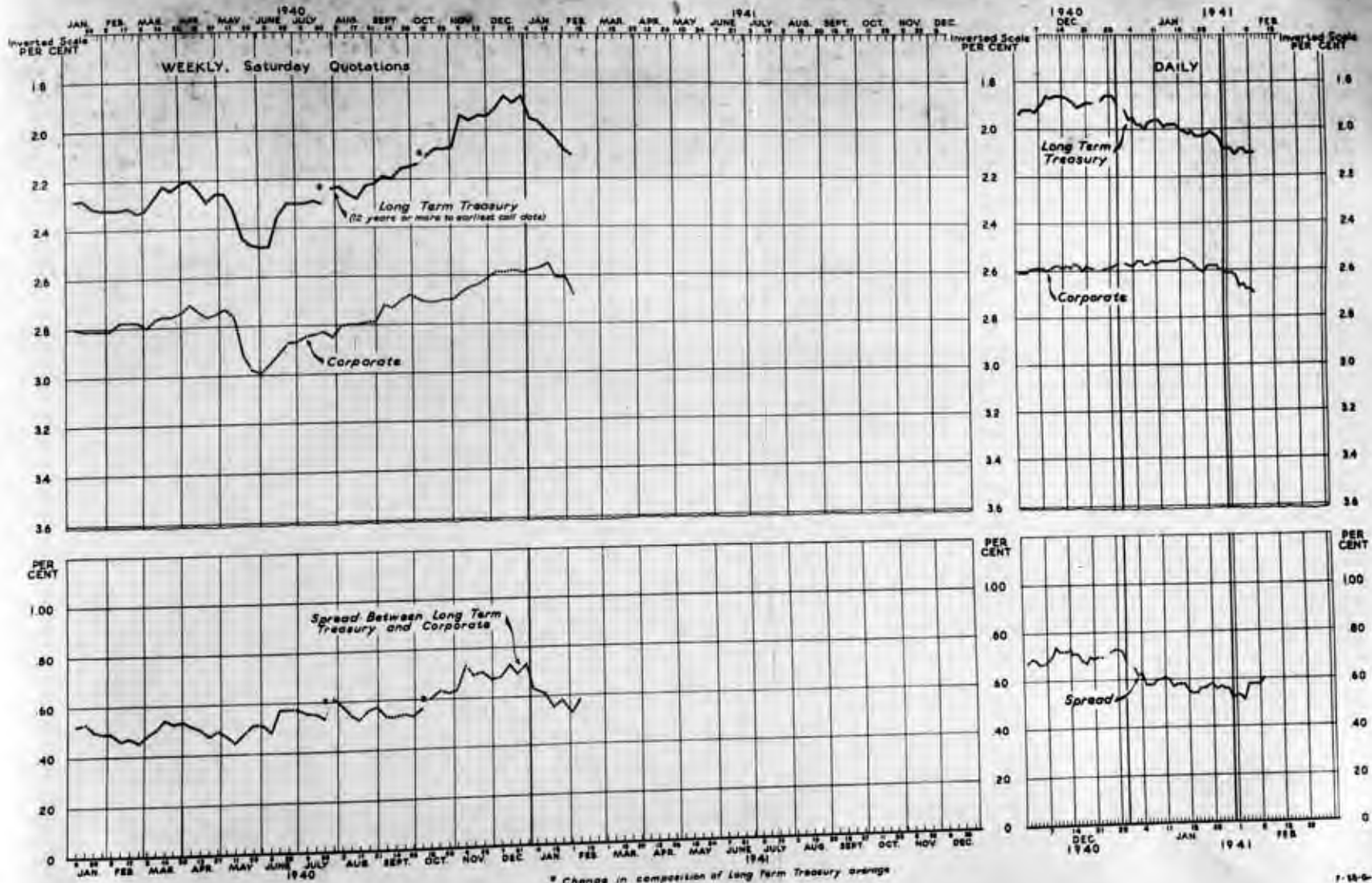


Chart IV
YIELDS OF TREASURY NOTES
 Excluding Defense Notes



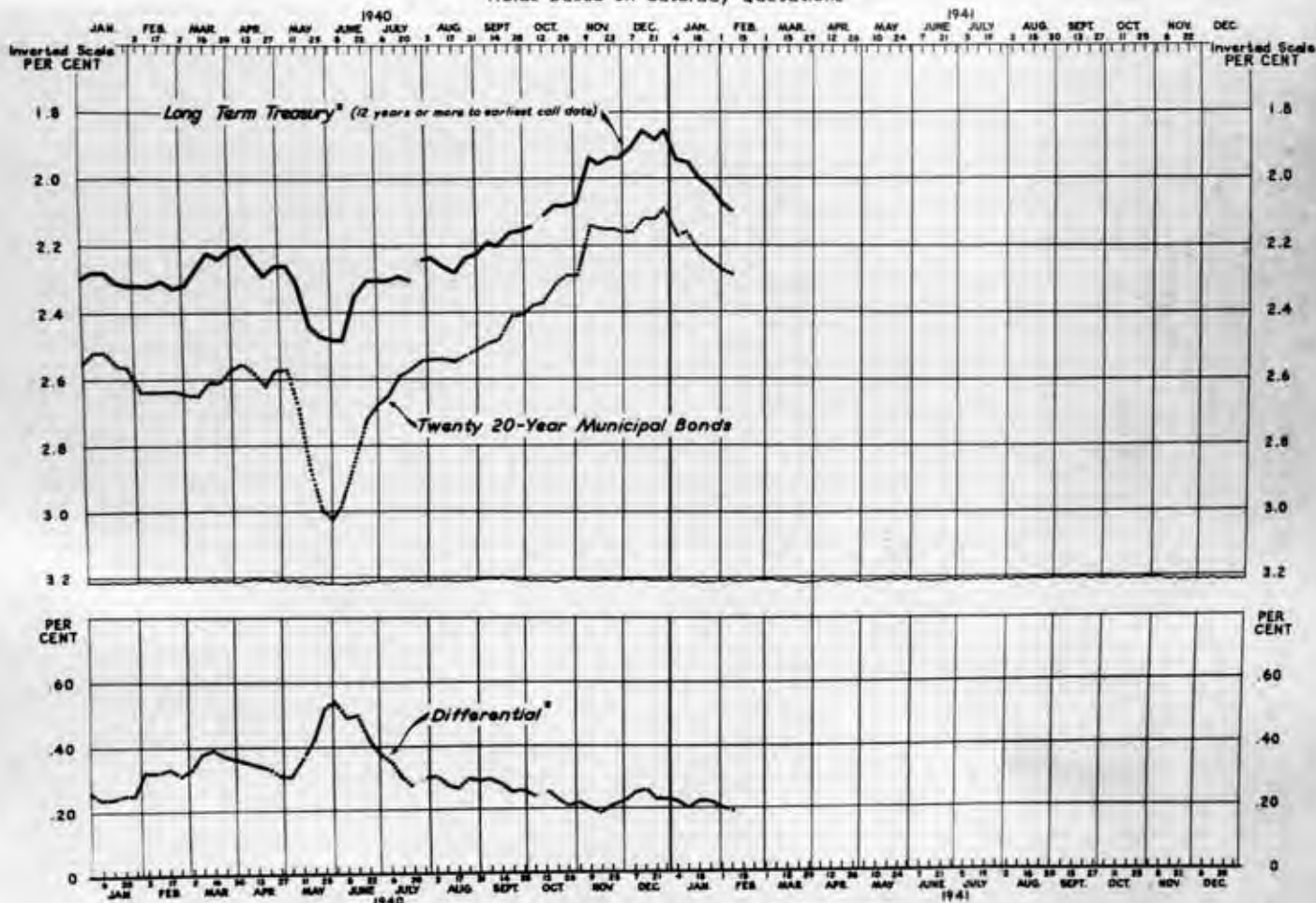
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS



* Change in composition of Long Term Treasury average

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY
AND DOW-JONES AVERAGE OF MUNICIPAL BONDS

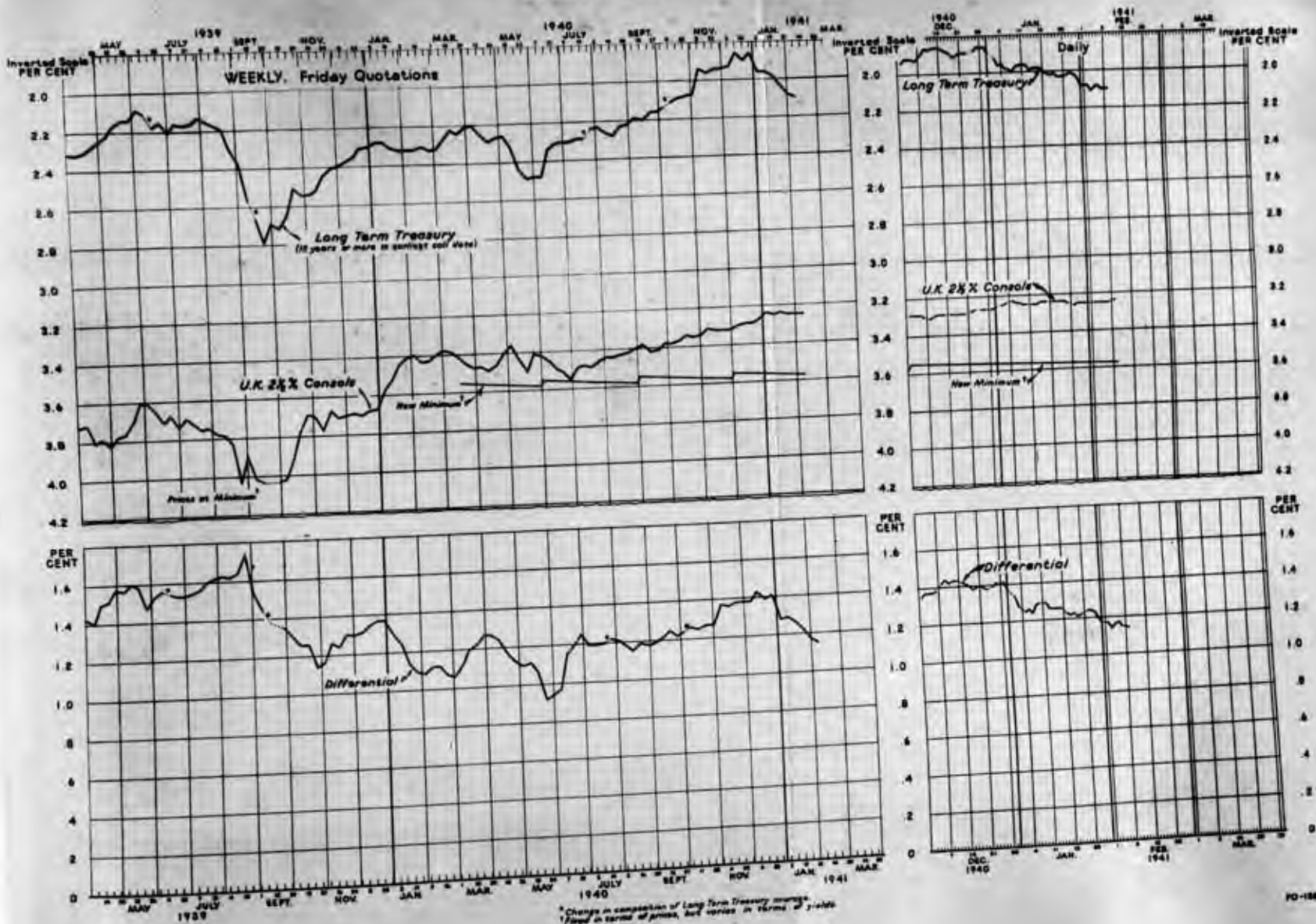
Yields Based on Saturday Quotations



^aBreak in line indicates change in composition of Long Term Treasury average

Chart VII

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY
BONDS AND U.K. 2½% CONSOLS



RESTRICTED

G-2/2657-220
No. 313

M.I.D., W.D.
February 11, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: German. Minor air activity over England. The Germans claim that their night fighters destroyed 12 British planes last night.

British. Fairly large daylight raids were executed against northern France and probably in limited force against north-west Germany on the 10th. Last night the R.A.F. operated in some force over northwest Germany, attacking Hanover in particular.

II. Greek Theater of War.

Ground: Local operations only.

Air: Widespread Italian bombing outside the combat zone. There was a sharp fighter action over Klisura.

III. Libyan Theater of War.

Ground: The British are mopping up the area Bengasi-El Agheila.

Air: The Fleet Air Arm bombed Tripoli on the night February 9th-10th.

IV. East African Theater of War.

Ground: No important changes in the situation.

Air: The R.A.F. was active, apparently in small force, over several points in Eritrea.

V. Mediterranean Theater of War.

Air: Axis. Malta was attacked on the night of the 10th.

British. The R.A.F. raided Sicily and southern Italy, concentrating on the German base near Catania.

Note: This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

RESTRICTED

RESTRICTED

MILITARY INTELLIGENCE DIVISION,
WAR DEPARTMENT,
Washington, February 11, 1941.

TENTATIVE LESSONS BULLETIN,
No. 85
G-2/2657-235

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

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COMMENTS OF AN AMERICAN UNOFFICIAL OBSERVER
ON THE FALL OF FRANCE

SOURCE

This bulletin is based upon comments made in late January, 1941, by an American observer who is without official status, but whose military background and education render his opinions interesting and probably valuable. The observer was in France before, during, and after the German invasion. He was given access to certain sources of information not normally available to other observers.

CONTENTS

1. INTRODUCTION
2. MORALE
3. STAFF ORGANIZATION
4. LACK OF AIRCRAFT
5. EMPLOYMENT OF TANKS
6. SHORTAGE OF ANTI-TANK GUNS
7. LIGHTS FOR NIGHT MOTOR MOVEMENTS
8. REMARKS ON OPERATIONS

RESTRICTED

RESTRICTED1. INTRODUCTION

The principal reasons for the defeat of France were a marked deficiency in French equipment as compared with the German, particularly in aircraft, tanks, antiaircraft and antitank weapons; defective staff work on the part of the French, and poor utilization of the means at their disposal.

2. MORALE

Inferior morale was not a basic cause of French defeat, but rather a by-product, and it cannot be held responsible for the initial decisive disasters. Morale became bad after these disasters as a result of the fact that troops were called upon to fight under impossible conditions. The French fought well with what equipment they had until it was obvious that they could do nothing effective, and morale cracked only when troops without proper equipment were repeatedly called upon to accomplish hopeless tasks. Bad morale accounts for the rapidity with which France declined in the late stages, but not for her actual defeat.

3. STAFF ORGANIZATION

The French staff, badly organized from the beginning became almost completely disorganized during active operations. Considerable friction resulted from the failure of Gamelin and Georges to work together harmoniously. Gamelin was, in effect, superimposed upon Georges as a commander, and disagreements between the two frequently resulted in counter orders.

4. LACK OF AIRCRAFT

During the decisive fighting in May, the Germans had complete control of the air, and their bombing attacks were effective. In addition, all French arms were handicapped by the absence of airplanes for artillery observation, reconnaissance, and liaison. This deficiency was particularly grave in view of the fact that the French tactical system stressed centralization and placed great reliance upon artillery.

5. EMPLOYMENT OF TANKS

Since the French allotted a tank company - or sometimes four or five tanks - to almost every division, they were unable to form as strong or as many armored units as they otherwise might have. The divisions often used these tanks poorly and in many cases employed them merely as movable pillboxes.

The operations of General Delattre's division around Rethel

RESTRICTED

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in the latter part of May indicated what results might have been expected from more concentrated employment of tanks. This division, a reserve unit with several tanks attached, encountered leading German elements soon after May 14, and in a counterattack it drove the Germans back and knocked out four of their tanks. These were repaired and added to the unit's tank strength. Having acquired a taste for mechanized operations, General Delattre sent out night raiding parties to steal tanks from adjacent French divisions. He considered that these divisions had less use for the tanks than he did, since he was holding a bridgehead. Eventually General Delattre had a "mass" of 15 tanks, which proved effective in counterattacks and helped his division put up a defense that was relatively successful as compared to that of other units.

6. SHORTAGE OF ANTITANK GUNS

In addition to the fact that French divisions had insufficient numbers of antitank guns, the divisional echelon appears to have been missing in many cases.

7. LIGHTS FOR NIGHT MOTOR MOVEMENTS

The French used one impressive device in night motor movements. Motorcyclists placed small, shaded, red lamps, operated by batteries, on stands at 100-yard intervals along highways and at 10-yard intervals on curves. These facilitated rapidity of movement. Motorcyclists constantly picked the lights up after the passage of the column and replaced them in front of the column.

8. REMARKS ON OPERATIONS

When the Germans invaded Belgium on May 10, French troops moving forward to meet them, as well as regimental and divisional staffs, appeared elated. They felt that at last the Germans were out from behind the West Wall and that the Allies were marching to victory. Many officers at GHQ felt the same way. Corps staff officers, however, were wary and tended to view the situation with apprehension. Some French officers say that Gamelin was reluctant to order the advance and did so only under political pressure.

The best of the French units on the left moved into Belgium on schedule or even ahead of time without being vigorously attacked by German aviation. General Giraud's Seventh Army made its last march by day and got into position 14 hours ahead of time. The havoc wrought in rear areas by German aviation, however, was ominous.

The French placed great reliance upon difficult features of the terrain in front of General Corap's Ninth Army, through which the Germans later made their initial penetration. In actuality, however,

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although the Ardennes present extremely unfavorable ground for the French system of tactics, they are an ideal battleground for German units accustomed to decentralized action and commanded by leaders in whom great initiative has been fostered. General Corap's army apparently did not get into position on time, and the Germans crossed the Meuse before the main body of the army was set along the river. Most of the French were in hastily dug fox holes when they were attacked.

The Germans chose a sector about five miles wide for the initial attack, and the manner in which they proceeded against this narrow front was extraordinary. Preparation made by dive bombers was extremely effective; French officers estimated that 300 to 400 planes were used in three or four waves. They started their dives at about 4000 feet and did not pull out until they were very close to the ground - some say they came as low as 50 feet. After dropping bombs, the planes circled back and machine-gunned the French. The first wave usually made its machine gun attack soon after the fourth wave had finished dropping bombs.

The ground attack was led by hundreds of German tanks equipped with flame throwers and advancing almost hub to hub. They presented an extremely vulnerable target, but the danger of their mission was lessened by the fact that most of the few French anti-tank guns had been knocked out. The tanks were followed in turn by motorcyclists with sub-machine guns, and by infantry in fast cross-country carriers. Motorized divisions followed up the Panzer divisions. By the time the ground attack had begun in one sector, bombers were preparing another selected sector. In the initial breakthrough, the Panzer units, after penetrating the defenses to their front, fanned out and exploited laterally in order to break down the shoulders of the gap; later they exploited in great depth.

The ease with which the Germans swept through the extension of the Maginot Line is explained by the fact that the concrete works were almost without personnel for defense. The bulk of the troops had gone forward, and the pillboxes were manned by only a few reserve formations. These were not familiar with the terrain and in some cases did not even know how to operate the weapons in the pillboxes. The Germans who broke through Corap's army attacked before these weakly manned defenses were coordinated, penetrated them, and then attacked similar defenses in other sectors from the rear.

At Vervins on the evening of May 14 - just after the situation had become extremely serious - General Corap stated that he had been ordered to occupy an extremely wide front, although his troops, mostly first and second line reserves, were badly equipped and ill trained. He had assigned wide frontages to his units, but he had been unable to retain adequate reserves. Moreover, he admitted he had

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little idea as to what was going on and pointed out that his means of liaison and communication were inadequate; for example, the army had only two staff cars for liaison service. Corap was relieved about two days after he had made this statement.

A number of foreign correspondents were permitted to interview General Corap at Vervins. They were sent back to Cambrai in an old school bus which the staff was able to requisition only after five hours of negotiations. Two days later, the headquarters of the first group of armies hurriedly abandoned Cambrai at midnight without notifying these foreign correspondents, who did not even realize they had been left behind for some twelve hours. This incident reveals the extent of French demoralization.

The French were impressed by the ability of the German anti-aircraft defense to keep abreast of a rapid advance. One French colonel commanding an aviation bombardment unit told of bombing a German division which was holding a bridgehead south of Maastricht on May 11. He was not surprised at encountering strong anti-aircraft fire, for the German unit had made only a short advance. Three days later, however, he received orders to attack the same division, which meanwhile had advanced 100 kilometers, and he was amazed to find that anti-aircraft fire was even heavier than before. Some French officers stated that German anti-aircraft units moved with advanced elements - ahead of main bodies - and established themselves in such a way as to protect critical points.

The French defensive, hastily organized along the Somme and the Aisne by Weygand after the disaster in Belgium, sought to "mouse-trap" the German Panzer divisions. The main body of defenders, holding a few antitank centers, were to let the tanks through into the rear areas where organized antitank centers were located. After passage of the tank elements, these forward troops were expected to resist the foot elements which followed, and it was believed that the depth over which antitank defenses had been organized would permit entrapment of the tanks. The principal hope was that the tanks would be involved in such long, drawn out operations that they would run out of gas behind the French lines.

There was little time, however, for coordinating this type of defense; each division commander did what he could, but the number of troops necessary for creating an antitank zone which would be sufficiently deep could not be mustered. The depth of the zone was only about 10 miles, and in many parts of it the defenses were necessarily perfunctory.

During the first three days of their attack, which started on June 5, the Germans did not use the bulk of their tanks; on many parts of the front they employed an infantry-artillery attack. In addition,

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the shortage of gasoline which had been hoped for did not develop among such German mechanized units as effected penetration at the start of the attack. There were insufficient French reserves to close the gaps which were created, although closure was a fundamental requirement of the defense system improvised by Weygand.

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Summary of Code Intelligence
Received at the War Department
at 2:00, February 11, 1941.

London, filed, February 11, 1941.

1. On Monday, February 10, British planes of both the Coastal Command and the Bomber Command engaged in the most severe offensive launched by the Royal Air Force since the beginning of the war. Fighter planes escorted three separate formations of Blenheim bombers in individual attacks on the invasion ports of Boulogne, Dunkirk and Calais. Invasion vessels, harbor installations and buildings were damaged severely. Following this two separate sweeps over the Eric Hoc-Calais region by formations composed of three squadrons of Spitfire fighters each. British medium bombers made a successful attack on a Dutch manufacturing plant and bombed other northwestern German, Dutch and French ports with equal success. The British lost one fighter plane and the Germans lost three planes of this type in these activities. During the preceding night a fire was started at a German naval base as a result of the activities of planes of the Bomber Command in northwest Germany.

2. During the night of February 10-11 German planes were active against airfields in east Yorkshire, Suffolk and Norfolk. There was no reported damage to military installations. During the preceding day German air operations against England were minor. One

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attack was made on Messeter and German planes were over the Straits of Dover.

5. In the Greek theater British planes attacked German aircraft and German losses were four planes confirmed and three others probable. Fires were started and two Italian planes were destroyed during British air attacks on Galate (?) and Maritza, Rhodes. Kenya-based British planes cooperated with land forces in British advances in this sector. Land forces in the Amara-Ghera region of Britain also received the support of the Royal Air Force. In addition British planes in this area were responsible for the destruction of two Italian planes.

6. The Imiza airfield in Greece was attacked by five Axis bombers but there was no damage to military installations. Throughout daylight hours of February 10 Axis planes were on reconnaissance missions around the island of Malta but no planes were able to penetrate inland.

7. Forty loaded railroad trains are on the way from Germany to southwestern Bulgaria carrying German Air Force bombs, ammunition and fuel.

8. It is thought that vessels of all sizes will be able to proceed through the Suez Canal by March 5. The Canal is now able to handle all vessels of 8,000 tons or less.

9. Off the coast of Wales at Cardiff a cargo boat of Belgian registry was beached after having struck a mine. A Japanese

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297

naval mission on the way to Berlin is aboard the Japanese vessel
AMERICA MARU between the Panama Canal and Lisbon. As seen on
February 8 a German naval vessel thought to be a cruiser of the
AMIRAL HIPPER class was traveling in a northerly direction
about 900 miles off the west coast of Ireland.

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