

Book No. - 377

continued

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United States Savings Bonds  
Comparison of Present Plan with Plan for Reduced Intermediate Yields

Number of semi-annual periods held	Redemption value		Yield during period held		Yield during remainder of 10-year period	
	Present plan	Plan for reduced intermediate yields	Present plan	Plan for reduced intermediate yields	Present plan	Plan for reduced intermediate yields
0	\$75.00	\$75.00	.00%	.00%	2.90%	2.90%
1	75.00	75.00	.00	.00	3.05	3.05
2	76.00	75.50	1.33	.67	3.07	3.15
3	77.00	76.00	1.76	.88	3.10	3.25
4	78.00	76.50	1.97	.99	3.13	3.38
5	79.00	77.00	2.09	1.06	3.17	3.52
6	80.00	78.00	2.16	1.31	3.21	3.58
7	81.00	79.00	2.21	1.49	3.27	3.66
8	82.00	80.00	2.24	1.62	3.34	3.75
9	83.00	81.00	2.26	1.72	3.42	3.87
10	84.00	82.00	2.28	1.79	3.52	4.01
11	85.00	83.00	2.29	1.85	3.64	4.18
12	86.00	84.00	2.29	1.90	3.81	4.41
13	87.00	85.00	2.30	1.93	4.02	4.70
14	88.00	86.00	2.30	1.96	4.31	5.09
15	90.00	87.50	2.45	2.07	4.26	5.41
16	92.00	89.00	2.57	2.15	4.21	5.91
17	94.00	91.00	2.67	2.29	4.17	6.39
18	96.00	93.00	2.76	2.40	4.12	7.39
19	98.00	95.00	2.84	2.50	4.08	10.53
20	100.00	100.00	2.90	2.90	-	-

Treasury Department, Division of Research and Statistics.

Yields are nominal annual rates compounded semiannually.

Regraded Unclassified

2.

United States Savings Bonds  
Comparison of Proposed 2 and 2½ Percent Appreciation Plans

Number of semi-annual periods held	Redemption value		Yield during period held		Yield during remainder of 10-year period	
	2% plan	2½% plan	2% plan	2½% plan	2% plan	2½% plan
0	\$52.00	\$50.00	.00%	.00%	1.99%	2.24%
1	82.00	80.00	.00	.00	2.10	2.36
2	82.20	80.20	.24	.25	2.19	2.47
3	82.40	80.40	.32	.33	2.29	2.58
4	82.60	80.80	.36	.50	2.40	2.68
5	83.00	81.20	.49	.60	2.50	2.80
6	83.40	81.80	.57	.74	2.61	2.89
7	84.00	82.40	.69	.85	2.70	3.00
8	84.60	83.20	.78	.98	2.81	3.09
9	85.40	84.20	.90	1.14	2.89	3.15
10	86.20	85.20	1.00	1.26	2.99	3.23
11	87.20	86.20	1.12	1.36	3.07	3.33
12	88.20	87.20	1.22	1.44	3.16	3.45
13	89.20	88.40	1.30	1.54	3.29	3.55
14	90.40	89.80	1.40	1.66	3.39	3.62
15	91.60	91.20	1.48	1.75	3.54	3.72
16	93.00	92.60	1.58	1.84	3.66	3.88
17	94.40	94.20	1.66	1.93	3.88	4.02
18	96.00	96.00	1.76	2.04	4.12	4.12
19	97.80	97.80	1.86	2.13	4.50	4.50
20	100.00	100.00	1.99	2.24	-	-

Treasury Department, Division of Research and Statistics.

Yields are nominal annual rates compounded semiannually.

Regraded Unclassified

United States Savings Bonds  
Comparison of Present Plan with Plan for Reduced Intermediate Yields

Number of semi-annual periods held	Redemption value		Yield during period held		Yield during remainder of 10-year period	
	Present plan	Plan for reduced intermediate yields	Present plan	Plan for reduced intermediate yields	Present plan	Plan for reduced intermediate yields
0	\$75.00	\$75.00	.00%	.00%	2.90%	2.90%
1	75.00	75.00	.00	.00	3.05	3.05
2	76.00	75.50	1.33	.67	3.07	3.15
3	77.00	76.00	1.76	.88	3.10	3.25
4	78.00	76.50	1.97	.99	3.13	3.38
5	79.00	77.00	2.09	1.06	3.17	3.52
6	80.00	78.00	2.16	1.31	3.21	3.58
7	81.00	79.00	2.21	1.49	3.27	3.66
8	82.00	80.00	2.24	1.62	3.34	3.75
9	83.00	81.00	2.26	1.72	3.42	3.87
10	84.00	82.00	2.28	1.79	3.52	4.01
11	85.00	83.00	2.29	1.85	3.64	4.18
12	86.00	84.00	2.29	1.90	3.81	4.41
13	87.00	85.00	2.30	1.93	4.02	4.70
14	88.00	86.00	2.30	1.96	4.31	5.09
15	90.00	87.50	2.45	2.07	4.26	5.41
16	92.00	89.00	2.57	2.15	4.21	5.91
17	94.00	91.00	2.67	2.29	4.17	6.39
18	96.00	93.00	2.76	2.40	4.12	7.39
19	98.00	95.00	2.84	2.50	4.08	10.53
20	100.00	100.00	2.90	2.90	-	-

Treasury Department, Division of Research and Statistics.

Yields are nominal annual rates compounded semiannually.

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United States Savings Bonds  
Comparison of Proposed 2 and 2½ Percent Income Plans

Number of semi-annual periods held	Redemption value		Yield during period held		Yield during remainder of 10-year period	
	2% plan	2½% plan	2% plan	2½% plan	2% plan	2½% plan
0	\$100.00	\$100.00	.00%	.00%	2.00%	2.25%
1	99.00	98.90	.00	.05	2.12	2.38
2	98.20	98.00	.20	.25	2.22	2.50
3	97.40	97.20	.27	.39	2.34	2.62
4	96.80	96.50	.40	.51	2.44	2.74
5	96.20	95.90	.49	.62	2.56	2.86
6	95.80	95.50	.61	.76	2.66	2.97
7	95.40	95.10	.70	.87	2.78	3.09
8	95.10	94.90	.79	1.00	2.90	3.19
9	95.00	94.80	.91	1.12	2.99	3.29
10	94.90	94.80	1.00	1.24	3.11	3.39
11	94.90	94.90	1.10	1.35	3.23	3.48
12	95.00	95.00	1.19	1.45	3.35	3.60
13	95.30	95.20	1.30	1.55	3.44	3.73
14	95.60	95.60	1.40	1.65	3.56	3.82
15	96.00	96.00	1.49	1.75	3.69	3.95
16	96.50	96.60	1.59	1.85	3.83	4.04
17	97.10	97.20	1.68	1.95	4.01	4.20
18	97.90	98.00	1.78	2.05	4.17	4.31
19	98.80	98.90	1.88	2.15	4.45	4.50
20	100.00	100.00	2.00	2.25	-	-

Treasury Department, Division of Research and Statistics.

Yields are nominal annual rates compounded semiannually.

Room 278

Under Secretary

Exp. Loans

February 26, 1941

To Presidents, Federal Reserve Banks.

Boston, Mass.  
Burgess - New York, N. Y.  
Philadelphia, Pa.  
Cleveland, Ohio.  
Richmond, Va.  
Atlanta, Ga.

Chicago, Ill.  
St. Louis, Mo.  
Minneapolis, Minn.  
Kansas City, Mo.  
Dallas, Texas.  
San Francisco, Calif.

Am mailing you tonight memorandum on proposed savings bond program of the Treasury. Would appreciate it if you and your staff would carefully study this program on Monday and Tuesday and let me have your criticisms and suggestions late Tuesday evening by wire.

HLL

C O P Y

February 28, 1941

Dear Mr. Martin:

By direction of the Secretary, I am transmitting herewith a copy of a memorandum covering a proposed savings bond program which the Treasury now has under consideration. I would appreciate it if you and your staff would carefully review this proposed program and let me have your criticisms and suggestions by wire Tuesday evening so that we can have them here for study early Wednesday morning. If it would be helpful to you, you are free to call in any outside people you may deem advisable for consultation.

Very truly yours,

(s) D. W. Bell

Under Secretary of the Treasury

Mr. William McC. Martin,  
President,  
Federal Reserve Bank,  
St. Louis, Mo.

Same letter sent to all  
Presidents of the Federal  
Reserve Banks

DWB:ce

### Proposed Savings Bond Program

Three series of United States savings bonds are under consideration for use in connection with the forthcoming savings bond program. Each of these is designed to tap a different sector of investment demand, and it is proposed that all three be offered simultaneously. The first is a modification of the present form of savings bond, and is intended primarily for small investors. The other two are designed primarily for large individual investors and for limited purchase by institutions other than commercial banks.

The three proposed types are described in more detail in the remainder of this memorandum.

#### I. Savings Bond Offered Primarily for Small Investors

It is proposed that the present type of savings bond be retained, with one relatively minor modification. The modification relates to the yield allowed on the bonds if redeemed prior to maturity. The yield if held to final maturity would continue to be 2.90 percent. It is proposed, however, that the yields allowed in the event of intermediate redemption should be reduced substantially. The proposed reductions are shown in Table I, which compares the intermediate yields allowed under the present plan with those proposed for the new series. The primary purpose of this modification is to build up the yield during the remainder of the ten-year period if held to maturity as rapidly as possible. It is this yield (which is shown in the last column of the table) which determines the decision of a holder of the bonds whether to redeem them or hold them to final maturity. It is felt that this yield should be built up as rapidly as possible, thus providing a substantial inducement to holders of the bonds to retain them to final maturity.

It is proposed that the limit on the maximum amount of the bonds of this type which may be purchased by any one individual in any one year be fixed at \$5,000 maturity value, as compared with \$10,000 for the present type of savings bond. Sales would continue to be restricted to natural persons.



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## II. Savings Bonds Designed Primarily for Larger Investors

It is proposed that two types of savings bonds be offered primarily for larger investors. These bonds would be eligible for purchase by any class of investor except commercial banks, and could be purchased up to a total amount of \$50,000 original issue price by any investor in any one year. This limit could be taken in either type of bond or divided between the two in any way desired by the investor, and would be in addition to the \$5,000 maturity value permitted to be purchased of the bond described in the first section of this memorandum.

One of the proposed new series would be an appreciation-type security similar to the existing savings bonds, while the other would provide a current income. Both securities would yield a return of approximately 2-1/4 percent if held to final maturity. Their yield for the period held if redeemed prior to maturity would also be approximately the same. The two securities are compared in this respect, and their intermediate redemption values are shown in Table II. Both types would be redeemable only on semiannual dates and on thirty days' written notice, such notice to be irrevocable when once given.

The appreciation-type security would be the same as the existing series of savings bonds, except that it would have an issue price of 80, rather than 75, thereby reducing the yield to maturity from 2.90 percent to 2.24 percent. The intermediate redemption values would also be reduced more sharply than is proposed in the case of the bond described in the first section of the memorandum. These values would still be generous, however, as compared with open market yields for corresponding periods.

The income-type of security presents a somewhat more difficult technical problem. It would bear a current return at a level rate of 2-1/4 percent per annum, payable semiannually throughout the period. In order to compensate for the high current return in early years, it has been considered necessary to reduce the intermediate redemption values below the original sales price by an amount sufficient to cut intermediate yields to the same

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level as those on the appreciation-type security. The reduced intermediate redemption values thus arrived at would reach a minimum of \$94.50 per \$100 of original issue price after the bond has been held 4-1/2 years.

This scale of intermediate redemption values is that which would be available to the original purchaser should he desire to redeem the security prior to maturity. It is proposed, however, that in the event of the death of the original purchaser during the ten-year period, his successor in interest should have the right for a reasonable period after the death of the original purchaser to obtain the full purchase price of the bond, rather than the reduced intermediate redemption value named in the instrument. This provision is proposed primarily in order to make the securities attractive to life tenant and remainderman trusts.

Table I  
United States Savings Bonds  
Comparison of Present Plan with Plan for Reduced Intermediate Yields

Number of semi-annual periods held	Redemption value		Yield during period held		Yield during remainder of 10-year period	
	Present plan	Plan for reduced intermediate yields	Present plan	Plan for reduced intermediate yields	Present plan	Plan for reduced intermediate yields
0	\$75.00	\$75.00	.00%	.00%	2.90%	2.90%
1	75.00	75.00	.00	.00	3.05	3.05
2	76.00	75.50	1.33	.67	3.07	3.15
3	77.00	76.00	1.76	.88	3.10	3.25
4	78.00	76.50	1.97	.99	3.13	3.38
5	79.00	77.00	2.09	1.06	3.17	3.52
6	80.00	78.00	2.16	1.31	3.21	3.58
7	81.00	79.00	2.21	1.49	3.27	3.66
8	82.00	80.00	2.24	1.62	3.34	3.75
9	83.00	81.00	2.26	1.72	3.42	3.87
10	84.00	82.00	2.28	1.79	3.52	4.01
11	85.00	83.00	2.29	1.85	3.64	4.18
12	86.00	84.00	2.29	1.90	3.81	4.41
13	87.00	85.00	2.30	1.93	4.02	4.70
14	88.00	86.00	2.30	1.96	4.31	5.09
15	90.00	87.50	2.45	2.07	4.26	5.41
16	92.00	89.00	2.57	2.15	4.21	5.91
17	94.00	91.00	2.67	2.29	4.17	6.39
18	96.00	93.00	2.76	2.40	4.12	7.39
19	98.00	95.00	2.84	2.50	4.08	10.53
20	100.00	100.00	2.90	2.90	-	-

Treasury Department, Division of Research and Statistics.

Yields are nominal annual rates compounded semiannually.

Comparison of Proposed Appreciation and Income Plans for New Series of United States Savings Bonds Yielding 2-1/4 Percent if Held to Final Maturity

Number of semi-annual periods held	Redemption value		Yield during period held		Yield during remainder of 10-year period	
	Appreciation plan	Income plan	Appreciation plan	Income plan	Appreciation plan	Income plan
0	\$ 80.00	\$100.00	.00%	.00%	2.24%	2.25%
1	80.00	98.90	.00	.05	2.36	2.38
2	80.20	98.00	.25	.25	2.47	2.50
3	80.40	97.20	.33	.39	2.58	2.62
4	80.80	96.50	.50	.51	2.68	2.74
5	81.20	95.90	.60	.62	2.80	2.86
6	81.80	95.50	.74	.76	2.89	2.97
7	82.40	95.10	.85	.87	3.00	3.09
8	83.20	94.90	.98	1.00	3.09	3.19
9	84.20	94.80	1.14	1.12	3.15	3.29
10	85.20	94.80	1.26	1.24	3.23	3.39
11	86.20	94.90	1.36	1.35	3.33	3.48
12	87.20	95.00	1.44	1.45	3.45	3.60
13	88.40	95.20	1.54	1.55	3.55	3.73
14	89.80	95.60	1.66	1.65	3.62	3.82
15	91.20	96.00	1.75	1.75	3.72	3.95
16	92.60	96.60	1.84	1.85	3.88	4.04
17	94.20	97.20	1.93	1.95	4.02	4.20
18	96.00	98.00	2.04	2.05	4.12	4.31
19	97.80	98.90	2.13	2.15	4.50	4.50
20	100.00	100.00	2.24	2.25	-	-

Treasury Department, Division of Research and Statistics.

Yields are nominal annual rates compounded semiannually.

February 28, 1941  
11:16 a.m.

H.M.Jr: Hello.

Operator: Mr. Harriman is expected back about 11:30 or quarter of 12:00.

H.M.Jr: Well, is there anybody there in his office?

Operator: I'll see. (Pause). I have his secretary.

H.M.Jr: Hello.

Robt. P. Meiklejohn: This is Mr. Meiklejohn, Mr. Harriman's assistant. Can I help you?

H.M.Jr: Yes. This is Mr. Morgenthau. Will you tell Mr. Harriman that I've been thinking over very carefully his request to let him have some of my statisticians to go with him to London and in view of the shape this whole thing is taking in the last few days, I think that the Treasury should contract its activities with regard to that sort of thing rather than expand, and I wish Mr. Harriman would see if he can't get somebody from the Statistical Section of O.P.M. rather than the Treasury.

M: All right. I'll tell him that.

H.M.Jr: Because I want to contract our activities rather than expand.

M: I'll tell him that.

H.M.Jr: Thank you.

M: You're welcome.

3/1/41

91

HM JR took this to the White House  
with him today at 11:30.

592 ✓

February 28, 1941.

Dear Mr. President:

The Coast Guard vessels which seem most suitable for convoy work are the ten cutters of the 250-foot class built between 1928 and 1932. The names of the vessels and the years in which they were completed are:

CHELSEA	- 1928	ITASCA	- 1930
PONTCHARTRAIN	- 1928	SARANAC	- 1930
TAKOE	- 1928	SEBAGO	- 1930
CHAMPLAIN	- 1929	SHOSHONE	- 1930
MENDOTA	- 1929	CAYUGA	- 1932

The over-all length of each is 250 feet, molded beam 42 feet, maximum draft 18 feet, displacement 1,979 tons, speed 16 knots. The gross tonnage of the first five is 1,632 and of the later five, because of minor changes in power plants and internal arrangement, is 1,573. All are oil-burning turbo-electric. The first five develop 3,000 horsepower and the later five 3,200.

With the exception of one, the SHOSHONE, all of the vessels are now on the east coast and all are in such condition as to hull and machinery that they could be turned over immediately. Consideration has to be given, however, to the armament and other equipment they would need for convoy service. Although a program of arming and equipping all ten for service with our Navy has been in progress, it seems far from certain that this equipment will meet British needs and it seems probable also, in view of the history of the destroyers turned over to the British, that some structural changes will be desired. This work could probably best be done in American yards.

We have consulted the Navy Department on this point and the Embassy has asked advice from London. The time when the ten cutters can be turned over for actual

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convey work will of course depend upon the extent of the changes and additions desired and the speed with which we can get the work done.

The transfer of these ten vessels means the loss of about half the fleet of cruising cutters and the program of work laid out for the year will of course have to be drastically revised. Among cutters of the large sea-going class there will remain seven of the new 327-foot type and four 240-foot ships that are now twenty years old. Of the seven 327-footers one, the CAMPBELL, is now on Navy service in Portugal.

The following steps appear to be necessary to adjust this year's program to the equipment available:

(a) International Ice Patrol - The recommendation is renewed that the International Ice Patrol be abandoned for this year. Such patrol of the Grand Banks area as may be necessary from time to time would be carried out to the extent that vessels are available. If the regular International Ice Patrol is continued it will have to be done with vessels of the 125-foot class, which are ill suited for this work.

(b) Greenland Patrol - This patrol can be made by the Arctic cutter NORTHLAND, the 165-foot ice breaking cutter COMANCHE, and a vessel of the 240-foot class. Efforts are being made to obtain the BEAR OF OAKLAND from Admiral Byrd for Greenland duty, upon the return of that vessel from the Antarctic, about May 1. This is not quite as extensive patrol of Greenland as had been planned for the coming summer, but it may be sufficient.

(c) Atlantic Weather Stations - To maintain a two-station patrol in the North Atlantic will require five vessels of the 327-foot class. This will be a full-time duty for these five vessels, and they could not be diverted for other use. Strong representations have been made by the British Government, the State Department, the Weather Bureau, and the Civil Aeronautics Administration to maintain



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a third station on this Atlantic Weather Patrol, which would require at least two more vessels. These are not available. It is recommended that immediate steps be taken to obtain and equip seven merchant vessels for this duty. There appears to be no doubt but that all of the 327-foot cutters will shortly be needed for more important duty. It ought to be possible to obtain for this work seven of the Danish ships now tied up in our ports. If the bare boats could be chartered they could be manned by Coast Guard crews.

(d) Cadet Practice Cruise - No vessels whatever, of suitable type, are now available for the Cadet Practice Cruise, during the coming summer. This cruise is a very important part of a cadet's training. It is urgently recommended that immediate action be taken to obtain the Danish training ship DANMARK, now immobilized at Jacksonville, Florida. Preliminary negotiations have been undertaken through the State Department.

(e) Bering Sea Patrol - Two of the 250-foot cutters were scheduled for Bering Sea Patrol during the coming summer. The Coast Guard has no replacements for these vessels and, consequently, the activities of the Coast Guard in the Bering Sea will need to be somewhat curtailed this coming summer. The patrol will have to be made entirely by small craft, with the exception of the HAIDA (240-foot class).

(f) Cruise to American Colonies Southwest of Honolulu - The TANEY (327-foot class) makes periodic cruises to the colonies established on Baker, Howland, and Jarvis Islands, and is the only vessel available for this duty. This duty can be continued only as long as the TANEY remains available for Coast Guard activities.

(g) General Duties - Many other duties of the Coast Guard - such as: neutrality patrol, law enforcement, assistance to vessels in distress, towing of vessels for the Maritime Commission, and other emergency tasks, will have

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to be curtailed.

For some time we have felt the need of additional and better equipment to take care adequately of ice conditions on our Eastern coast, in the rivers, the Great Lakes and on the Alaskan coast. We lack also vessels entirely suitable for coping with ice conditions in the harbors of Newfoundland and Greenland and Iceland; nor do Canada or Great Britain have suitable vessels for this purpose, which may continue for some time to come to be of great importance.

The replacement of the ten cutters to be transferred will give us an opportunity to remedy this lack. As a part of our National defense needs it would seem prudent to equip the Coast Guard with ships specially constructed to overcome difficult ice conditions wherever they are called upon to perform service.

I am therefore suggesting a program for the construction of ten dual purpose ships at an estimated cost of \$22,500,000 (\$2,250,000 each), and respectfully ask your permission to submit a deficiency estimate in that amount. These would be combination ice-breakers and cruising cutters, 250 feet in over-all length and approximately 42 feet beam, similar to the ten cutters to be transferred except that the bow characteristics would be materially different and the vessels would be more staunchly constructed, in order to break ice and to penetrate ice-fields. Perhaps a half-knot of speed (of the 16 knots of the present cutters) would be sacrificed for more rugged construction and better ice-breaking qualities. In addition to their value for working through ice the vessels would also have all necessary useful qualities for towing, rendering assistance at sea and other varied Coast Guard work.

To summarize, the program I desire to suggest for your approval is as follows:

- (1) Submit deficiency estimates in the amount of \$22,500,000 for ten dual-purpose cutters.

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- (2) Undertake negotiations to obtain and equip seven merchant ships for weather patrol purposes, to be manned by Coast Guard crews.
- (3) Negotiate for the purchase of the Danish training vessel DANMARK for Coast Guard cadet training.

Faithfully,

Secretary of the Treasury.

The President,

The White House.



APPROVED THE COMMANDANT, U. S. COAST GUARD

AND REFERRED TO NO. CR-21

311  
46

## TREASURY DEPARTMENT

UNITED STATES COAST GUARD

RESTRICTED

WASHINGTON 27 February, 1941

SECRET

MEMORANDUM FOR SECRETARY OF THE TREASURY:

Subject: 250-foot Class Coast Guard Cutters; rearmament conversion; estimated completion dates

Inclosure: 1. Schedule of 250-foot Class Rearmament Conversion; equipment required for Completion

1. The subject class of Coast Guard cutters now in the process of being converted to Gunboats (XPG) for national defense under general specifications prepared by the Navy Department includes the following vessels permanently stationed at the ports noted:

CAYUGA	Boston, Massachusetts
CHAMPLAIN	Stapleton, Staten Island, New York
CHELAN	Boston, Massachusetts
ITASCA	San Diego, California
MENDOTA	Norfolk, Virginia
PONTCHARTRAIN	Stapleton, Staten Island, New York
SARANAC	Galveston, Texas
SEBAGO	Norfolk, Virginia
SHOSHONE	Alameda, California
TAHOE	New Bedford, Massachusetts

2. In general, the rearmament of vessels of this class provides for the following ordnance equipment and related alterations and modifications:

- Install two 5"/51 Cal. guns
- Install three 3"/50 Cal. antiaircraft guns
- Install four .50 Cal. antiaircraft machine guns
- Install one Y-gun with six depth charges
- Install two 8-charged depth charge tracks
- Install echo ranging equipment (underwater listening device)
- Provide signalling searchlights
- Provide two 24" high intensity searchlights
- Install altimeter range finder and 2½ meter range finders
- Install fire control telephone systems
- Provide magnetic mine protection
- Modify magazines for war-time ammunition allowance
- Revise accommodations and facilities to provide for 150 enlisted men and 12 officers

CR-21-311-46-RESTRICTED  
 Memorandum for Secretary of Treasury  
 27 February, 1941

Provide chemical warfare defense equipment  
 Furnish steel helmets  
 Install various alarms, light dimming and control switches  
 Provide electric lanterns

3. The first phase of the conversion of vessels of this class has been completed on all vessels except the SHOSHONE and a schedule has been prepared for their return to various shipyards and Navy yards beginning 1 March, 1941, at which time all equipment which has been accumulated since completing the first part of the work will be installed and every effort made to finish the conversions to the extent available material and equipment will permit. Items such as, range finders, searchlights, .50 Cal. machine guns, a limited number of 3"/50 Cal. A.A. guns and hydraulic depth charge controls have been ordered since early in the conversion program, but excessive delay has occurred in their deliveries, and in the case of several items, deliveries are not anticipated during the forthcoming visits of the vessels to the shipyards. This delay is due to the length of time required for the manufacture of the fire control and ordnance equipment and also to the deferred priority assigned the Coast Guard in the receipt of defense material and equipment. In the case of four of the cutters, the MENDOTA, PONTCHARTRAIN, SARANAC and TAHOE, scheduled to proceed to the Navy Yard, New York, for conversion completions, the lack of equipment was brought to the attention of the Navy Department, and I am advised that department has arranged to furnish the missing items of equipment which will permit approximately 100 per cent completion of the conversion work.

4. Satisfactory completion of the remaining six vessels of the class is dependent on the receipt of the items of equipment mentioned above, deliveries of which have been subject to extraordinary delay. The only possibility which would allow these six vessels to be completed during the proposed overhaul period would be the Navy Department supplying the missing equipments by granting earlier priority to equipment now under manufacture or diverting that now delivered and earmarked for Naval units under construction or conversion.

5. The present schedule for the return of vessels of the 250-foot Class for conversion completions is:

CAYUGA	17 March - 15 April - Navy Yard, Boston
CHAMPLAIN	1 - 21 March - Coast Guard Depot

CR-21-311-46-RESTRICTED  
 Memorandum for Secretary of Treasury  
 27 February, 1941

CHELAN	15 - 30 March - Coast Guard Depot
ITASCA	21 January to 11 March - Coast Guard Depot
MENDOTA	15 - 31 March - Navy Yard, New York
PONTCHARTRAIN	1 - 31 March - Navy Yard, New York
SARANAC	3 - 31 March - Navy Yard, New York
SEBAGO	1 - 21 May - Coast Guard Depot
SHOSHONE	25 March - 25 May - Coast Guard Depot
TAHOE	15 - 31 March - Navy Yard, New York

6. To expedite the completion of the conversion on the ten vessels of the 250-foot Class, the following alternate schedule is recommended providing the work on the vessels can be given priority at the Boston and New York Navy yards. Four of the vessels, the MENDOTA, PONTCHARTRAIN, SARANAC and TAHOE, as noted above, are scheduled to proceed to the Navy Yard, New York, during March, and preliminary work in connection with their completion has been initiated and no change in this schedule is recommended. As noted above, the missing equipment for these four vessels will be furnished by the Navy Department and their requirements are not included in the tabulation inclosed which lists the material and equipment required to permit completion of the remaining six vessels of the class. The modified schedule which will provide for completion of the conversions on all vessels of the class by 15 April, 1941, is as follows:

CAYUGA	17 March - 15 April - Navy Yard, Boston
CHELAN	15 March - 15 April - Navy Yard, Boston
CHAMPLAIN	1 - 21 March - Coast Guard Depot
ITASCA	21 January - 11 March - Coast Guard Depot
SEBAGO	24 March - 15 April - Coast Guard Depot
SHOSHONE	15 March - 15 April - Coast Guard Depot
MENDOTA	15 - 31 March - Navy Yard, New York
PONTCHARTRAIN	1 - 31 March - Navy Yard, New York
SARANAC	3 - 31 March - Navy Yard, New York
TAHOE	15 - 31 March - Navy Yard, New York

7. It is urgently recommended that it be arranged by the Navy Department to furnish either by granting higher priorities or diverting from vessels now under construction or conversion 7 3"/50 Cal. antiaircraft guns, 24 .50 Cal. machine guns, 12 24" high intensity searchlights, six 2 1/2 meter range finders, 12 hydraulic depth charge release controls, 300 sound powered telephone jack boxes and 150 sound powered telephone plugs for installation on the six vessels of the 250-foot Class for which previous arrangements to obtain this equipment have not been completed.

R. R. WAESCHE

- 3 - Commandant

7/24

MEMORANDUM TO THE PRESIDENT

There has been an amendment proposed to H.R. 1776 by Senators Taft and Byrd which Senator Byrnes has indicated he is willing to accept in substance. Its implications are so serious we think it ought to be called to your attention.

This amendment provides that no defense articles procured out of appropriations made to the War and Navy Departments after the effective date of H.R. 1776 can be transferred under the bill without the consent of Congress.

This amendment would seriously cripple the contemplated operations under the bill. It would make it impossible effectively to carry out a joint procurement program. It would mean practically that we would have to have a separate Army, Navy and foreign aid program. It would also take away the flexibility that is necessary in disposing of defense articles.

- 2 -

We have felt justified in bringing this to your attention because no amendment to which administration Senators have been receptive cuts so close to the heart of the bill.

Do you have any suggestions for us?

*Henry L. Stimson*

Secretary of War

*Henry M. Vignetta Jr.*

Secretary of the Treasury

*Fourestal*

Acting Secretary of the Navy

February 28, 1941



February 28, 1941

My dear Mr. Smith:

For your information, I am sending you copy of a memorandum signed by Secretaries Stimson, Forrester and myself, which was transmitted to the President today.

Yours sincerely,

(Signed) E. Marganahan, Jr.

Honorable Harold D. Smith,  
Director of the Budget.

By Messenger 241

February 28, 1941

My dear Harry:

For your information, I am sending you copy of a memorandum signed by Secretaries Stimson, Forrester and myself, which was transmitted to the President today.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Harry Hopkins,  
The White House.

By Messenger 2<sup>41</sup>

February 28, 1941

My dear Mr. Secretary:

For your files, I am sending you a copy of the memorandum which we sent to the President today.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable Henry L. Stimson,  
Secretary of War,  
Washington, D.C.

By Messenger 2<sup>41</sup>

February 28, 1941

My dear Mr. Forrestal:

For your files, I am sending you  
a copy of the memorandum which we  
sent to the President today.

Yours sincerely,

(Signed) H. Morganthau, Jr.

Honorable James Forrestal,  
Under Secretary of the Navy,  
Navy Department,  
Washington, D.C.

By Message 2<sup>41</sup>

77<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

# H. R. 1776

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IN THE SENATE OF THE UNITED STATES

FEBRUARY 26 (legislative day, FEBRUARY 13), 1941

Ordered to lie on the table and to be printed

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## AMENDMENT

Intended to be proposed by Mr. BYRD to the bill (H. R. 1776) further to promote the defense of the United States, and for other purposes, viz:

- 1 On page 3, line 10, after the period, insert the follow-
- 2 ing new sentence: "Defense articles procured from funds
- 3 hereafter appropriated shall not be disposed of in any way
- 4 under authority of this paragraph except to the extent
- 5 hereafter specifically authorized by the Congress in the Acts
- 6 appropriating such funds or otherwise."

2-26-41—A

February 22, 1941

Under Secretary Hall

Mr. Cochran

At 11:30 this morning Mr. Maxwell Hamilton, Chief of the Far Eastern Division of the Department of State, telephoned me to ask for an appointment for his assistant, Mr. Jones, to present a memorandum to the Treasury Department setting forth State Department views on the Chinese Stabilization arrangement. I explained to Mr. Hamilton that pressure of financing had prevented the Treasury from calling any joint meeting on this question the past two or three days, but that we hoped to get on it again soon. Mr. Hamilton stressed the urgency of the matter insofar as the Department of State was concerned.

At 2:40 this afternoon I received Mr. Jones, who handed to me the attached informal memorandum. He said that this had been cleared with the appropriate officials in the Department of State, including Secretary Hall.

I reminded Mr. Jones of our conversation some days ago with Dr. Soong and let him know that the British Treasury people had provided us with a copy of a message sent from London to Chungking, but that we had received since that meeting no other documents which might have served as a basis for the remarks which Dr. Soong made from a penciled memorandum. Mr. Jones confirmed that he likewise had received nothing other than the London-Chungking telegram which had been handed to us. I am uncertain, therefore, whether the message from London which Phillips had used as a basis for his memorandum to the Treasury had also served as the basis of Dr. Soong's memorandum, or whether some later message is involved. We should clarify this with the British when they next meet with us.



ENC: 4K: 2. 28. 41

February 12, 1941

INFORMAL MEMORANDUM IN REGARD TO  
THE CURRENCY SITUATION  
IN CHINA

Officers of the Department understand that Sir Frederick Phillips has presented to the Treasury Department on behalf of the British Government a plan for dealing with the Chinese currency situation which, if accepted, would serve as a substitute for the draft agreement which has been tentatively worked out between the Treasury and Mr. T. V. Soong in Washington. The draft as agreed upon between the Treasury Department and Mr. Soong provides certain procedures whereby this Government would aid the Chinese Government in stabilizing the exchange value of the Chinese yuan with respect to the United States dollar and other foreign currencies, procedures which allow a continuation of the present policy of maintaining a free market for Chinese currency. Conversations which have thus far been had with Mr. Soong have assumed that a free market for Chinese currency would be continued.

According to our understanding of the matter, the British plan to conclude at an early date a payments agreement between the British Empire and Japan and between the British Empire and China. These two steps would result in the disappearance of the free market for sterling in China.

We

- 2 -

We understand that the British plan calls further for the establishment of external exchange control by the Chinese Government, the freezing of Chinese balances in the British Empire and in the United States, and the operation of exchange controls in the British Empire and in the United States to the advantage of the Chinese National Government, i.e., the Government of the United States and the governments of the various areas of the British Empire would provide that exchange accruing from current Chinese exports from occupied areas must be turned over to the Chinese National Government if the commodities concerned are to be accepted in the British Empire or in the United States. The British Empire and the United States would therefore be helping China enforce exchange control in the occupied areas. The free market for Chinese currency would, of course, largely disappear and presumably the Chinese National Government would fix an exchange rate for future transactions.

There is reason to believe that if the preceding measures were taken, the following developments would have to be taken into account:

(1) The Japanese would probably decline to allow exchange accruing from exports from Shanghai and

Tientsin



- 3 -

Tientsin and other occupied ports to be made available to the Chinese National Government. There is little doubt that they would promptly declare the currency of the Chinese National Government invalid in the occupied areas and substitute the currency of their own puppet banks therefor, instituting at the same time full export and import control providing that no exports could take place until the exchange involved should accrue to the puppet banks. The result of conflicting Japanese and British policies would be a stalemate in which trade between the occupied areas and countries other than Japan would be cut off, except for the export and import trade with occupied China which would probably be carried on through Japan, and the occupied areas would be thrown largely upon Japan for both imports and exports. Any hope, therefore, that the Chinese Government would under the British plan derive foreign exchange from the trade of the occupied areas would seem to be wholly illusory. Moreover, the Japanese could argue with considerable reason, if the foregoing should transpire, that China, Great Britain, and the United States had destroyed the free market for China's currency and that they had no alternative but to put their own currency and trade measures into

operation.

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operation. The adverse effect of these developments not only on Shanghai but on the large guerrilla-controlled hinterland and upon the resistance to Japanese policies which is maintained in those areas would probably be great. The circulation of the Chinese currency throughout China, including the occupied areas, tends to cause the Chinese to continue to regard Chungking as their legitimate government, and is therefore an important unifying factor.

(2) Perhaps the most important immediate effect to the United States of putting the British plan into effect would be that the large quantities of Chinese National currency at present circulating and hoarded at Shanghai and in the central and north China hinterland amounting to between three or four billion yuan or more would be pushed back into the interior where the Chinese National Government is endeavoring at the present time to prevent a runaway inflation. Either the owners of Chinese National currency would take that currency from Shanghai into the interior or the Japanese would collect it, in exchange for puppet currencies, and smuggle it into the interior. The result of a great addition of the circulating medium in free China, where investment opportunities for private capital are meager, would be probably to cause inflationary forces operating there

- 5 -

there to get out of hand and thereby undermine the authority of the Chinese National Government.

Both this Government and the British Government are concerned that the strength and authority of the Chinese National Government be maintained. We feel that the acceptance of the British plan would not be in accord with that general policy. If the preceding developments took place they would appear to be working in the opposite direction. This Government is carrying out as a measure of self-defense a broad policy of aid to countries resisting aggression and, as part of that policy, recently announced the extension of a loan of \$100,000,000 to the Chinese Government. Shortly after that announcement, the British Government announced that it was similarly making a large sum available to the Chinese Government, partly for currency stabilization purposes and partly for increased purchases within the British Empire. The effect of the proposed British plan would seem to be not only not to make a material contribution to the support of the Chinese currency, but to make difficult American efforts to support that currency. Should the British Government proceed to negotiate a payments agreement with China, the inability of China to sell her surplus of sterling in the open market and to obtain therefor gold dollars would exert additional pressure on the Chinese currency.

It

- 6 -

It would seem to be preferable as a matter of policy to keep the situation in China on as even a keel as possible during the coming months and to avoid, if possible, drastic measures affecting China's economy. If China can be tided over during the next few months a new and more hopeful situation may present itself. It would seem to be useful to have a plan such as the British have in mind thoroughly discussed and worked out as between the British and ourselves as a necessary emergency measure to be put into operation if the Japanese seize Shanghai and establish full trade and exchange controls or if the further maintenance of a free market for the Chinese currency should otherwise seem to be completely untenable. However, it is suggested that it is highly desirable to continue for a while longer the policy which this Government and the British Government have followed since the beginning of hostilities in the Far East, namely, that of holding our ground as long as possible and of retreating only when obliged to do so. Such a course of action may require a greater expenditure of funds but in our opinion the returns for that expenditure would be substantial.

copy:kma  
2/28/41

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 23, 1941

TO Secretary Morgenthau  
 FROM Mr. Cochran

At 11:45 on February 21 Mr. Dave Schenker of Securities and Exchange telephoned me. He said that Mr. Quinn, representing an investment trust group in New York which had been in touch with S. E. C., had heard rumors that the British were negotiating directly with various firms "on the Street" in regard to sale of direct investments in this country. He wanted to know how S. E. C. should go about effecting liaison between Quinn and Sir Edward Peacock.

I told Mr. Schenker that I could only renew the advice which I had given his office after a personal conversation with Sir Edward Peacock, namely, that all parties applying to our Government offices here in Washington for information about or contact with Sir Edward Peacock's office and his functions should be referred directly to his at 15 Broad Street, New York, in care of the British Purchasing Commission. Schenker said that he recalled this message from me, but that Quinn seemed hesitant in taking such a forward step. I assured Mr. Schenker that Sir Edward's reports of callers and their efforts to interest him in their propositions indicated no excessive modesty on the part of New York operators, and again told him the Treasury was definitely following the policy suggested by Peacock, without making any exceptions in behalf of special pleaders.

When Mr. White and I were with the Secretary on February 24 I mentioned the above conversation. Mr. White stated that Mr. Schenker had spoken with him on the subject and was sending over a memorandum to the Secretary indicating the people who had been in touch with him concerning British direct investments, and asking advice in the premises. The Secretary took the position that the policy of referring every-  
 one directly to Sir Edward Peacock should be followed by the S. E. C. as well as by the Treasury, and that there should not be any confusing of this policy through S. E. C. approaching more than one officer in the Treasury. The Secretary said he wanted this handled through me. At the Staff meeting of February 25 the Secretary reminded the group that he desired that Mr. Young be his contact with the British Purchasing Commission and that I be the contact with the British Embassy. When he asked whether any of the other officers had direct contact with the Embassy, Messrs. Gaston and Fehle stated that they sometimes saw Stepford. I remarked that this had been agreed upon, since Stepford dealt with certain shipping matters which Mr. Gaston controlled, and occasionally went on to see Mr. Fehle on Foreign Funds matters after he had filed his memoranda on this subject with me.

February 28, 1941  
11:45 a.m.

H.M.Jr: Hello.

Operator: Mr. Schenker.

David  
Schenker: Hello, Mr. Secretary.

H.M.Jr: Hello.

S: I'm sorry to bother you but Mr. Quinn has  
come to Washington and my phone literally has  
been ringing innumerable times every day with  
respect to that British situation.

H.M.Jr: I'm going to be available at 3:00.

S: Well, may we come over for 5 minutes?

H.M.Jr: Who is we?

S: Just Frank Quinn and myself.

H.M.Jr: Sure.

S: Fine. Thank you.

February 28, 1941  
11:50 a.m.

*no meeting at 11 pm today*

RE AID TO BRITAIN

Present: Mr. Gaston  
Admiral Waesche  
Mrs. Klotz

Gaston: Mrs. Herbert is typing the last few lines of a letter to the President for your signature.

H.M.Jr: What do I do, read this?

Gaston: There is a memorandum that was really prepared before the discussion with the Navy Department on the status of these cutters.

H.M.Jr: Should I read this? Have you got a copy of this?

Gaston: No, I haven't a copy of that.

Waesche: I don't think it is necessary for you to read that, Mr. Secretary. I can just tell you in a very few words what it contains.

H.M.Jr: Please.

Waesche: That simply gives you the present state of conversion of these ships for Navy use, and it runs all the way from the Shoshone, which hasn't been touched, to one of the other vessels, which is almost completed. Under the present plans, the Navy of course have not given priority to all of those ships. They have been

- 2 -

given priority before which they expect to use on the ones in the Caribbean Sea. In the present setup those ships would not be ready until April or May with those particular type of guns. When I took it up with the Navy yesterday, there was no question in their mind that the British would not want that armament, and they simply said, "We are not going to send these guns over on these ships for the British to take off and use them for something else." They were very positive those were not the guns which the British would use. Then we cabled London yesterday to find out what armament the British would want on these ships, so that practically scraps that whole conversion program. As far as the material already in the ships are concerned, the machinery and the hull are in the pink of condition, all ten of them, and it is only a question now of finding out what the British want put on there, and as soon as we get that word, the Navy have told me they would give me an estimated date--

H.M. Jr:

Let me interrupt you. I hope you didn't consider just the armament. Let me tell you what happened in the case of the destroyers. My informant is the President of the United States. One of the many reason why there was such delay in putting these destroyers in the service, I understand they have four boilers each, and the English took one boiler out in order to make room for more full capacity. They said they could get along with less speed, but they wanted them to stay out longer. And then on the bridge of our destroyers, it is covered with steel, and they find that they have lost more men from broken necks because when they dropped these bombs the concussion throws the men up, and they hit their heads on the top of these steel roofs, and they break their necks. Furthermore, they want to



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be able to see the planes when they come. Therefore, they removed the top of all these bridges. Now, the point of the story is, the bridge is open, there is no protection, so - if we are going to do this thing so they will be able to use them this spring, the English ought to be able to see them or have a plan of them and say, "To put them into service, this is what we need." So when they leave and are delivered up to Halifax, these things are in the condition they want, not just as to guns, but everything. So if you could - if you didn't make it all inclusive, I would ask the British - here is the type of ship we are thinking of letting them have under the Lend-Lease. "What would you want done to this ship so that when it is delivered to Halifax, the next day it goes into service with the first convoy that goes out," you see.

Waesche: Yes, sir.

H.M.Jr: Or if this ship is of no use, all right. Now, I should think one of the things which would help them would be, if you haven't got a man in Halifax, send one up there and let him take a look at these ones the Canadians are building, how are they equipped.

These new Corvettes which they are building - but it would be better, I think, to let the British say, "Here, now this is fine and wonderful, but we want the following things done to these ships before we can use them under our ideas." There is no use arguing with them. Unless they were in condition so that they can be used this spring, I would lose most of my interest. Now, is that plain what I am saying?

Waesche: Yes, sir.

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- Gaston: Of course the ships themselves can all be delivered right now.
- H.M.Jr: I know, Herbert, but if you send them over to England and they go through the thing, it is another three months, and the whole idea is lost, but if they have - as I understand it, these convoys go over of from 40 to 60 ships, and they are having one, two, or three destroyers, that is all, for the whole thing. I mean, and that is why they are losing so many. They only have, I understand, sometimes as few as two. Have you heard that?
- Waesche: Yes, sir, I have. I was talking to the Navy yesterday.
- H.M.Jr: Am I right?
- Waesche: Yes, sir, and also they were saying - they talked about those convoys over there yesterday. They were saying that the guns that we have on these ships would not stop those German planes, that they usually report those German bombers come down there and shoot over those convoys about two hundred feet up in the air and one bomb to each merchant ship.
- H.M.Jr: But the point I am getting at is, from their daily experience there are undoubtedly things that they want. We can do those things very, very rapidly here, so that they get them in the spring, and I don't want them to leave here and have them lie over in some port in England for three months.
- Waesche: The only question in my mind is, of course, whether the Navy is to make these arrangements with the British by putting the Navy in there,

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which, of course, I think it is a Navy job, but I am not in a position to go over and tell the Navy I want them to do this, that, and the other thing.

H.M.Jr: Well, I am, and so is the President. Don't hesitate about that. I will drive it home.

Weesche: To my mind, just as you say, there should be somebody from the British authorities who knows what they want come down here with the Navy and Coast Guard and say, "Here is the ship. Now what do you want done to it?"

Gaston: Yes. The final thing is to find out what the British want done.

H.M.Jr: They have got the people here.

Make a note, Herbert, please, gross tonnage of the earlier five, I would like to have you give the date of when those are available. The meeting is tomorrow morning. I just got word.

Gaston: Twenty-eight and twenty-nine the first five, and thirty-one and thirty-two the second five.

H.M.Jr: Now, if you don't mind, I would change this letter. It isn't what I want. I would simply put in here, "We have asked the Navy to ascertain from the British what will be necessary to convert these ships so that they would be ready to be put to the use that they want and depending upon what we hear from the British and depending upon the speed with which the Navy will make it available, we are unable to tell you," you see.

Gaston: Yes.

H.M.Jr: In other words, there are two factors, one,

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how quickly the British can get them; and, two, how quickly our own Navy can act on them.

Gaston: That is just listing what is being done now, and then I say in the last paragraph--

H.M.Jr: I think it is confusing, if you don't mind, all that stuff may come off.

Gaston: Yes.

H.M.Jr: I would simply, after the first paragraph, introduce a new paragraph in place of this one.

Gaston: The second paragraph there is descriptive of the boats, I think.

H.M.Jr: No.

Gaston: Isn't it?

H.M.Jr: No. I would cut this out because what we are doing now may be of no use to the British.

Gaston: Yes, we realize that.

H.M.Jr: So I would just say with the exception of one - then I would say we are asking the English and when we hear from that, we will put it up to the Navy and it will depend on how quickly the Navy will do it. We can then tell you.

Gaston: It is really the Navy that has asked the British.

H.M.Jr: Well, say so.

Gaston: Yes.

H.M.Jr: You say they could probably all be completed by March 15.

Gaston: That was the old changes.

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- H.M.Jr: Well, you have got this time limit here.
- Gaston: Yes.
- H.M.Jr: I just think you could say, with the exception of one, they are all on the West Coast; and then, however, we do not know what armament the British will desire, and the Navy Department has asked and so forth. Time of delivery would therefore depend on that. Now, if you will fix that up and get it back to me this afternoon.
- Gaston: Yes. Now, we have--
- H.M.Jr: Now, there should be a companion letter which would go with it - oh, I think I would put it on the same thing. "Now, Mr. President, if we do this, the Coast Guard needs the following in exchange." I would put it right in the same letter.
- Gaston: Well, there is the other thing too, of what this is going to do to our present set-up. We can't get ships immediately. What this is going to mean to us, and what help we will have to have in being able to cover our - there is a memorandum on that.
- H.M.Jr: Do you understand what I want on this letter?
- Gaston: Yes.
- H.M.Jr: Don't say the President's emergency fund, because he always hits the ceiling on that. Say the deficiency appropriation. He says there is no emergency fund. He says that consistently, so say deficiency appropriation.
- Gaston: Should we cover this in the same letter?

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H.M.Jr: Yes, I would.

Gaston: And summarize that whole situation in the same letter.

H.M.Jr: Yes, I would.

Gaston: The International Ice Patrol is rather an involved subject.

H.M.Jr: But it is brief and short. I would put it all in one letter so I can have it before I go home.

Gaston: Now, on the type of ships--

H.M.Jr: Oh, yes.

Gaston: The Admiral had a memorandum here suggesting initially what the Navy would undoubtedly want is the 327 footers, but adding to that what he wants and the service men want would be an alternate, and I think we had better turn that around and say nothing about the 327 footers, and say what we really want. What we really want in the Admiral's opinion, the opinion over there, is a vessel of the Cayuga-Champlain type but lengthened to 210 feet and with more power so as to give her 20 knots speed and still make here a usable boat for Coast Guard purposes.

Waesche: In other words, speed is determinate. We feel our seagoing vessels should have 20 knots speed. Then when you start with the speed, that determines the length and the power and to get 20 knots you have got to have a vessel about 310 feet long.

Gaston: It costs about a half million less per vessel than the Bibb type.

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H.M.Jr: Do you mind if I differ with you? What I would ask, and I think from the standpoint of national defense, looking after everything else, I would like you to tell me, in order to keep free of ice, all of the Atlantic ports, to keep free of ice our base at Newfoundland, to have enough ships to send up to Greenland and to Iceland, I would put that in first because I think it comes first, and I think, in the long run, that Coast Guard has a - has more justification for its existence, it is more popular with the Congressmen, more political appeal in the broader sense, than if you get into this other thing, this deep seagoing stuff, which, with the Navy so big anyway - I don't know.

Waesche: I follow you very closely. The only reason we need the seagoing ships at all is for these special cruises and--

H.M.Jr: Now, look, Admiral, you are not going to be doing those. Let's be frank. You are not going to be doing those, but if I can say and you can say to the Congressmen, "After all, here are so many harbors that we cannot keep open, so many inland lakes where they can't bring the iron ore down, and if you are going to expect us to keep Halifax open, because the Canadians don't have any ice breakers, I take it--"

Waesche: That is right.

H.M.Jr: "And if you expect us to go to Greenland or Iceland - now there is the talk, you know, of shipping to Iceland and then trans-shipping from there to England. There is a job for Coast Guard to do."

Waesche: Of course the type of ship which is best suited for that sort of work is this type that we are planning to use, the type of the Cayuga.

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- Gaston: The large 310 boat is what he is talking about. If you are going to do deep sea work, and after all, the Coast Guard can't abandon its function of rescue at sea, and if you are going to do that type of work, you have to have a ship that is workable in heavy seas. You can't have these small ships that pitch all over and stand on their noses in heavy seas.
- H.M.Jr: Now, Herbert, let's be practical. Would you please give me a list, what - this ship, for instance, the one like you had in Cleveland, it is a--
- Waesche: A hundred and sixty-five feet long.
- H.M.Jr: That is an ice breaker, isn't it?
- Waesche: Yes, sir.
- H.M.Jr: What I want to know is, whatever that one is, that type of ship, how many do you need of those and how many smaller ones do you want and what would they cost, and I certainly would give those priority over deep sea rescue work.
- Waesche: I agree, Mr. Secretary, but I think you will find that - well, 225 to 250 foot is the type of ship we want. For example, we got appropriations from Congress to build a Greenland cutter to break the ice up there. We studied the ships around Greenland. We had boys in Washington who had been aboard all these ships. We started out with a 200-foot ship, and Smith and all the people who were up there in Greenland came down and said it was too short, so we have now raised it to 230 feet. Now then, from 230 feet - as a matter of fact, Smith, Iceberg Smith, wanted a 250-foot ship for the Greenland cutter to go up there and work in the ice, to be able to take care of herself in



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heavy seas and heavy gales that are going around the south coast of Greenland, and going into Newfoundland and so forth, and when you get below 250 foot - you take the Escanaba--

H.M.Jr: Now look, I want two different things. One that can go up to Greenland and Iceland or whatever is necessary and whatever is the most efficient ship. They keep getting bigger and bigger all the time. These Corvettes that they have are much smaller than your boats, that they are building in Canada. They are what, 250 feet?

Waesche: I think they are, yes, sir.

H.M.Jr: I want to know how many - don't blow it up - of the big ones do you need, seagoing ice breakers, see, and what will they cost and how many do you need for the harbor work that won't go to sea? Now, can I get a list of that?

Waesche: Yes, sir.

H.M.Jr: And see how much they cost.

Waesche: Yes, sir.

H.M.Jr: And if you gentlemen will be back here again at four o'clock, I will see you at four o'clock.

Waesche: I will be back at four.

H.M.Jr: And then after you have got that and totaled that, then we will talk last about the thing that Herbert Gaston is talking about.

Gaston: Well, you are talking about the same thing. If you get a heavy ice breaker type of around 250 feet, you have got an all-purpose boat that can go out to sea and work, but these - this Itasca

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type is a compromise vessel. She is not a good ice breaker or sea boat, either one.

- H.M.Jr: What I am asking for is from your experience what is the best type of thing that will work in heavy ice and can go - clean out Halifax or clean out the Newfoundland base or can go to Greenland or Iceland, and then I know what I am talking about. That is a function that the Coast Guard should have and you can defend, but as soon as you get into the other thing, you are going to be in something that the Navy wants.
- Waesche: I follow you, and I agree with you 100 percent.
- H.M.Jr: If you don't, don't say so, but be back here at four o'clock with Mr. Gaston, how many of these big fellows do you want and how many do you need, how many more do you need to do the harbor work, which is a different type of thing, isn't it.
- Waesche: Yes.
- H.M.Jr: Running from here - the Hudson up to Albany, you don't need that type of boat, do you?
- Waesche: No, sir.
- Gaston: One hundred twenty-five foot.
- Waesche: We have given that considerable thought in the Coast Guard, and we feel we can consolidate our needs into about three classes of ships. One would be of the Cayuga class, 250 feet. The only reason we shot it up to 300 feet, we did feel that we should have more speed in it.
- H.M.Jr: That is where you and I differ. You are thinking of 20 knots and I am thinking of the best

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ship to break ice. You can't get an ice breaker with a beam that is going to go 20 knots. Am I right?

Waesche: That is true, and of course the second type was this intermediate type of around 175 feet, and the third type was around a small 80-foot boat for the harbors.

H.M.Jr: Come back thinking in terms of ice.

Gaston: Then maybe we want to go into the question of whether we want a big ice cutter that can actually break heavy ice. This country has none except the car ferry up on Lake Michigan. The Russians have them.

H.M.Jr: I think we should have them.

Gaston: We have never had anything that will really break any ice.

H.M.Jr: I was talking about something like the Russians have that will break ice up in Greenland and Newfoundland.

Gaston: That is a different ship.

Waesche: That is a much different ship, and of course it is a large ship. They have got to get weight. These two ice breakers up on the lakes are three thousand-ton ships, over 300 feet long.

H.M.Jr: Do you know how to build one?

Waesche: Oh, yes. As a matter of fact, we have the plans of the Russian ice breakers over there.

H.M.Jr: But will you think of ice breakers and not in terms of speed?

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Waesche: Yes, sir.

H.M.Jr: Because you can't get an ice breaker with speed.

Waesche: No, the two don't go together.

H.M.Jr: Then think about it, and then say, "Mr. Morgenthau, we will want this kind of ship."

If I talked to him, "Mr. President, I want the Coast Guard - and it is the place for Coast Guard to keep this thing open, Greenland, Newfoundland, Iceland," he is going to like it, and I think I am going to get somewhere. I have failed every time up to now, and we have failed because the Navy sticks a dagger in our back on this thing. I don't think they want to get in this ice breaking business. I think it is a function, and I think it is a chance of keeping Coast Guard going, so please don't try to jam that 20-knot thing down me because I can't - I have been unsuccessful with the President now for seven years.

Waesche: All right, sir, I realize your position.

H.M.Jr: Think it over, Herbert.

Gaston: All right.

H.M.Jr: Four o'clock

1st Draft

February 28, 1941

Dear Mr. President:

The Coast Guard cutters which seem most suitable for convoy work are the ten vessels of the 250 foot class built between 1928 and 1932. The vessels are the CAYUGA, CHAMPLAIN, CHELAN, ITASCA, MENDOTA, PONTCHARTRAIN, SARANAC, SEBAGO, SHOSHONE, and TAHOE. The over-all length of each is 250 feet, molded beam 42 feet, maximum draft 16 feet, displacement 1,979 tons, speed 16 knots. The gross tonnage of the earlier five built is 1,632 and of the later five, because of minor changes in internal arrangement, is 1,573. All are oil burning turbo-electric. The earlier five develop 3,000 horse power and the later five 3,200.

With the exception of one, the SHOSHONE, all of the vessels are now on the east coast and all are in such condition as to hull and machinery that they could be turned over immediately. We are, however, in process of adding additional armament to all of them to put them on a war basis. This work includes degaussing, under water sound equipment, addition of searchlights, depth charge racks, range finders and additional guns. Armament as agreed to with the Navy would include two 5 inch broad-side guns, three 3 inch, 50 caliber anti-aircraft guns, four 50 caliber machine guns and one Y gun for depth charges.

The Navy has agreed to give, at your direction, urgent priority to completing these changes and they could probably all be completed by March 15, with the exception of one vessel, the SHOSHONE, which is enroute from the Pacific Coast. With respect to this vessel, it would probably take about two weeks longer.

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However, we do not know what armament the British would desire and the Navy Department has asked the British to cable advice on this point. Time of delivery would therefore depend on what reply we get from the British.

Respectfully,

Secretary of the Treasury.

The President,

The White House.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 26, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 12:15 today, Mr. Pilsent, Financial Counselor of the British Embassy, called on me. He said that Sir Frederick Phillips wanted me to know that the negotiations of the British Government with Finance Minister Gutt of Belgium, a member of the Belgian Government set up in London, toward the borrowing of Belgian gold by Great Britain had not succeeded. It appears that Gutt will not take an independent decision toward the end desired by the British, but is in consultation with Special Ambassador Thomas in this country in the premises. Phillips stated that the British Treasury officials here in Washington have not been in touch with Thomas and do not contemplate contact with him. I stated that I had not seen Thomas for several months and thought he spent most of his time in New York. I asked Phillips whether he had any information as to a probable early visit to the United States by Minister Gutt. He replied in the negative. (It will be recalled that I recently learned that Minister Gutt might be coming to the United States, and had been told by the State Department that he had applied for a diplomatic visa to enable him to make this trip.)

Pilsent told me that Deputy Finance Minister Clark of Ottawa is accompanied to Washington this time by Mr. Wong, who has been connected with the Dominion Government for some years, and who may remain in Washington for some time as liaison officer on financial subjects.

The British Treasury officials had called to London after Sir Frederick Phillips' conversation with Secretary Morgenthau yesterday morning. A wire from London had crossed this message. The British are endeavoring to follow Secretary Morgenthau's advice that they take care of their own financial position pending the passage of the Lease-Lend Bill. Toward this end the British will send down some more gold from Canada, possibly as much as \$25,000,000, representing the balance that the British still hold in Canada, together with certain accretions from new shipments to Canada from Australia and elsewhere. The British are also prepared to "switch" French gold in Canada against gold held scattered throughout the world by the British. The British officials here are cabling London today for details as to their gold and dollar position as of February 26. They are seeking information particularly in regard to \$40,000,000 which has been reported as held in Australia by the Exchange Equalization Account of Great Britain. Pilsent is not sure whether there is still this much in Australia, or whether this was a figure of some weeks ago that has been established by shipments of gold from Australia to America.

Pilsent asked me to let him know whenever we have word of shipments of gold from Canada, in order that their figures may be coordinated. I promised this and gave him certain data which we had received the past two days.

P. 2.

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Pinsent read to me extracts from a message which the Embassy had received from London reporting that the American Embassy there was making vigorous protest against the British rules requiring payments of legacies into blocked accounts. The British Government did not contemplate replying to such protest until the Embassy in Washington might ascertain whether the American Treasury had any feelings on this subject. That is, the British authorities are appreciative of the immense assistance which the United States is arranging to grant Great Britain. They do not know, however, whether the American Treasury would desire that dollar resources of Great Britain be diminished through exceptional release of dollar exchange to pay off legacies due American citizens, or whether we would prefer that the rule be rigidly enforced and dollar assets conserved.

*B. M. S.*



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE February 28, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

When Mr. Pinsent was with me at 12:15 this noon, I told him that I was still receiving inquiries from various individuals and concerns who desire to acquire British direct investments in this country. Likewise Mr. Schenker of the S. E. C. was being approached by such parties. I was following the practice uniformly of referring such inquirers directly to Sir Edward Peacock in New York, and had advised Mr. Schenker's office to do likewise. Pinsent agreed that this was the proper procedure. I told him, however, that some of these people had not obtained satisfaction when they had endeavored to contact Sir Edward Peacock directly, and that the S. E. C. had received complaints on this ground.

At 3 o'clock this afternoon the Secretary received Mr. David Schenker of S. E. C. and Mr. Cyril Quinn of the Tri-Continental Corporation. Messrs. White and Cochran, together with the stenotypist, were present. Mr. Schenker told the Secretary of his unsuccessful efforts in placing directly in touch with Sir Edward Peacock a number of parties who had indicated a desire to acquire particular British investments in this country. Furthermore, Mr. Quinn, with whom the S. E. C. had worked directly in advancing the plan for investment trusts to take over British investments, had not been invited to call on Sir Edward Peacock. Mr. Quinn stated that he had refrained from making a direct approach, but had heard gossip to the effect that the British are already dealing with certain concerns on the "Street" After a considerable conversation, which continued after Mr. Quinn had left the meeting, and which the stenotypist has reported, I came to my office and telephoned Sir Frederick Phillips, requesting that he and Mr. Pinsent come to see me at 5 o'clock this afternoon. When these gentlemen appeared I told them that I had been present when the Secretary had telephoned Sir Frederick from the meeting above mentioned. The Secretary had wanted me to give Sir Frederick and Mr. Pinsent, for the Ambassador's information, a definite explanation of his position in the premises. He was much embarrassed that the S. E. C. was able to report that the individuals who had been referred to Sir Edward Peacock by it had not been received by him and were not able to present their propositions. The Secretary desired that Sir Edward Peacock invite Mr. Quinn to come to his office for a meeting on Monday next. I presented to Phillips a copy of the attached memorandum which Mr. Schenker had sent to me after the conference this afternoon. I told Sir Frederick that in addition to inviting Quinn to his office, Peacock should also address a letter to Mr. Schenker stating that he had received by reference from the Secretary of the Treasury the list of inquiries with respect to British direct investments which Mr. Schenker had submitted, and ask that these inquirers be recommended to get directly in touch with him, Sir Edward Peacock. I stressed upon my visitors the importance of these listed inquirers, in particular, being received by Sir Edward, or at least someone definitely in authority, whenever they might call.

Phillips appreciated the position of the Secretary, especially considering the fact that Peacock had not yet been able to sell any direct investments and that this

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argument might be raised at any moment while Congress is debating the Lend-Lease Bill and its supplementary appropriation measure.

Phillips and Piment both promised to cooperate with us thoroughly. Since Peacock will be in Canada tomorrow and Sunday, Phillips may request Gifford to get directly in touch with Quinn tomorrow and either offer to receive him or make the appointment for him with Peacock for Monday.

A handwritten signature in dark ink, appearing to be "B. M. P.", is centered on the page below the typed text.

## MEMORANDUM

DATE February 28, 1941.

TO: The Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury.

FROM: David Schenker.

## SUBJECT:

I am herewith sending you an itemized list of the inquiries I have received with respect to the British direct investments in this country.

1. Cyril Quinn, of Tri-Continental Corporation, New York, N. Y., who represents a substantial group of investment companies.
2. Arthur Bunker, of Lehman Corporation.
3. Wilder Bellamy, of the National Bond and Share Corporation, New York, N. Y.
4. Raymond McGrath, of American General Corporation and a representative of the United States & Foreign Securities Corporation.
5. Frank Ryan, of John J. Ryan & Sons, 40 Worth Street, New York, N. Y., Worth 2-3423, who represents a group interested in purchasing American Viscose Co.
6. Carl M. Loeb, of Rhoades & Co., 61 Broadway, New York, N. Y., who are interested in the purchase of  
Oxo, Ltd., Boston;  
Bovril of America, Inc., Philadelphia;  
Hartley's Marmalade Co.;  
R. T. French Co., Rochester, N. Y.
7. Prentiss L. Coonley, Washington Building, Washington, D. C., Republic 6016, of Freeport Sulphur Co., who represents a group who are interested in purchasing any chemical or mining properties of the British.
8. Donald MacCradden, vice president of Moody's Investors Service, New York, N. Y. who is interested in the Oxford University Press or any other publishing companies owned by the British.
9. Ernest Kuneo, 40 Wall Street, New York, N. Y., Whitehall 3-5038, who represents a group who is interested in purchasing Dunlap Tires.

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10. Arthur Ross, of the Central National Corp., 22 East 40th Street, New York, N. Y., Lexington 2-7300, who is interested in H. Reeve Angel Co., Biwater Sales Corporation, and New York Real Estate properties.
11. Mr. Waddell, of Barret, Herrick & Co., 60 William Street, New York, N. Y., who represents a group who is interested in New York real estate and dock properties of the British in New York City.
12. Walter H. Merritt, of Merritt and Bangs, 36 West 44th Street, New York, N. Y., Murray Hill 2-0320, who represents a group interested in  
Burroughs Wellcome & Co., Inc., Tuckahoe, N.Y.;  
Cycloz Ltd.;  
Yardley & Co.;  
Brown & Williamson Tobacco Co.; and  
small drugs and cosmetics companies.
13. Floyd B. Odlum, of Atlas Corporation, which is interested in Burroughs Wellcome & Co., Inc., Tuckahoe, N. Y., and other situations.
14. Norman L. Myers, Washington Building, Washington, D. C., District 0637, who represents a group interested in purchasing the National Portland Cement.
15. Serge Rubenstein, 63 Wall Street, Whitehall 3-3833, who is interested in purchasing the English minority interest in the Chosen Corporation, the English company, or the English minority interest in the British-American Securities Co., an American company.
16. Edward J. Dimock, 49 Wall Street, New York, N.Y., Hanover 2-5141.
17. James Ryan, Bingham, Inglar, Jones & Houston, 99 John Street, New York, N. Y., Rector 2-4646.
18. Frank H. Barnett, Henderson & Co., 340 Pine Street, San Francisco, California, Douglas 1303.
19. W. R. Dameron, Dover, Delaware, Phone Dover 1032.
20. Benjamin Becker, Levinson, Becker, Peebles & Swiren, 1 North La Salle Street, Chicago, Illinois. Central 8130.

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE February 28, 1941

TO Secretary Morgenthau  
FROM E. H. Foley, Jr.

At 2:30 o'clock this afternoon Mr. Sullivan and I attended a conference at the office of Solicitor General Biddle. With us were Messrs. Wenchel and Kades.

Representing the Department of Justice in addition to Solicitor General Biddle were Assistant Attorneys General Clark and Shea, Special Assistants to the Attorney General Gardner, Key, Raum and Tweedy, and Mr. Sidney Kaplan, one of Mr. Shea's principal assistants.

The first question discussed was whether or not the Government should ask the United States Supreme Court to review the case of Standard Oil Co. v. Lee, decided by the Supreme Court of Florida on December 20, 1940 [199 So. 325]. This case involves the question whether sales of gasoline, by the Standard Oil Company to contractors for use in the construction of the Naval Air Station at Jacksonville which is being built by the United States on a cost plus basis, are taxable under the Florida Gasoline Tax Act. The Court held that although the tax falls ultimately upon the Federal Government and increases the cost to the Government, the burden was consequential and remote and that the tax was therefore constitutional.

I stated that I thought the Government should ask for a review of the case and argue in the Supreme Court that the tax was constitutional urging the Court to overrule earlier cases to the contrary. [Panhandle Oil Co. v. Mississippi, (1928) 277 U. S. 218; Indiana Motorcycle Co. v. United States, (1931) 283 U. S. 570]

Mr. Shea stated that he took a contrary view of the case; i.e., that he wanted the Department of Justice to ask for certiorari and argue in the Supreme Court that the tax was unconstitutional. Although Solicitor General Biddle did not express himself, it was clear that none of the other representatives of the Department of Justice, except possibly Mr. Kaplan, agreed with Mr. Shea. Mr. Shea then stated that he thought that, if the Supreme Court was asked to review the case on this basis, the Department of Justice should recommend legislation prohibiting the imposition of sales, gross receipts, and similar taxes upon transactions involving national defense matters.

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Mr. Sullivan stated that introduction of such legislation, even if it did not pass, would kill any chance of enacting a statute at this session subjecting future issues of state and municipal securities to the Federal income tax. I took the same position and stated that I felt that the Treasury's position was the same as that taken by the Attorney General in a letter to you dated April 17, 1939 relating to a proposal that the California Retail Sales Tax be challenged with respect to Government purchases, in which the Attorney General had said:

"Resistance to the tax coming from the Federal Government would be inconsistent with the position of the Government generally in cases involving constitutional immunity from taxation."

This is consistent with the position which Solicitor General Read took when he appeared before the Court in James v. Dravo Contracting Co., [(1937) 302 U. S. 134], and which has been the Administration policy since that time. Mr. Clark agreed with me that but for this policy we would not have progressed toward eliminating tax-exempt securities and salaries.

The Solicitor General then expressed the opinion that he felt the proper course was to go before the Supreme Court in the Standard Oil case, presenting in a neutral fashion, both sides of the controversy, with a view to getting a final determination by the Supreme Court of the validity of nondiscriminatory taxes applicable to sales to the United States, or its agencies, and not to ask for legislation at this session, but that he would submit the entire matter to the Attorney General for his decision.

After a rather desultory discussion concerning the applicability of state price fixing (fair trade) laws to sales and deliveries to the Federal Government, I pointed out that Mr. Oliphant in 1937 had ruled that the Treasury's contract with Sears Robuck for tires to be delivered in Colorado was enforceable notwithstanding the fact that Sears Robuck may have violated the Colorado statute forbidding sales below cost; and, further, that the Comptroller General had advised the Treasury that state sales taxes could be paid as part of the cost of goods purchased for the Government, whenever it was necessary under state judicial decisions to pay the tax. Mr. Gardner asked for a copy of the opinion of Mr. Oliphant and references to the Comptroller General's decision, which we are sending to the Department of Justice.

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I then asked for an expression of opinion from those present upon the desirability of proceeding against bondholders of the Port of New York Authority, as recommended in my memorandum to you of February 21, 1941. Every one agreed that it ought to be done promptly except Mr. Raum who did not feel that the constitutional issue would be settled in the case. In view of Mr. Raum's reluctance, the Solicitor General said he would like to consider the matter for a few days and asked me to give Mr. Raum a memorandum. I gave him a copy of my memorandum to you.

As a result of the conference Mr. Sullivan and I both feel that it would be extremely bad policy for the Administration to ask for legislation of the character suggested by the Department of Justice which would grant state tax immunity to defense contractors. We also feel that the fact that there was only one dissent expressed against our instituting a test case in connection with Port Authority bonds confirms our view that this is sound policy and will aid materially in securing ultimately a statute eliminating future issues of tax-exempt securities.

*E. W. F. H.*

Op. No. 291.

Dec. 14, 1937.

My dear Admiral Peoples:

A question has been raised as to the possible effect of the Unfair Practices Act of the State of Colorado (Session Laws, 1937, Ch. 261, approved May 6, 1937) upon the Department's contract with Lear-Robuck & Company for tires and tubes under Classes 5 and 49 of the General Schedule of Supplies, with particular reference to Section 3 of the Act, which makes it unlawful for any corporation engaged in business in Colorado to sell, offer for sale, or advertise for sale any article or product "for less than the cost thereof to cash vendor", the term "cost" being further defined in subsections (a) and (b) of Section 3.

It appears extremely doubtful that this Act would be construed as applicable to a contract entered into with the United States in Washington. But even if it be assumed that the Act might be so construed, in my opinion it would not affect the validity of the contract with respect to orders of tires and tubes for delivery in Colorado, notwithstanding the provision of Section 3 that any contract made in violation of the Act is an illegal contract. State laws may not be so applied as to exert control over officers of the United States in the performance of their duties, or so as to interfere with the exercise of Federal functions (Arizona v. California, (1931) 283 U.S. 423, 431; Johnson v. Maryland, (1920) 294 U.S. 51, 55; Shio v.



Op. No. 291.

Dec. 14, 1937.

My dear Admiral Peoples:

A question has been raised as to the possible effect of the Unfair Practices Act of the State of Colorado (Session Laws, 1937, Ch. 261, approved May 6, 1937) upon the Department's contract with Sears-Roebuck & Company for tires and tubes under Classes 8 and 49 of the General Schedule of Supplies, with particular reference to Section 3 of the Act, which makes it unlawful for any corporation engaged in business in Colorado to sell, offer for sale, or advertise for sale any article or product "for less than the cost thereof to such vendor", the term "cost" being further defined in subsections (a) and (b) of Section 3.

It appears extremely doubtful that this Act would be construed as applicable to a contract entered into with the United States in Washington. But even if it be assumed that the Act might be so construed, in my opinion it would not affect the validity of the contract with respect to orders of tires and tubes for delivery in Colorado, notwithstanding the provision of Section 9 that any contract made in violation of the Act is an illegal contract. State laws may not be so applied as to exert control over officers of the United States in the performance of their duties, or so as to interfere with the exercise of Federal functions (Arizona v. California, (1931) 283 U.S. 423, 451; Johnson v. Maryland, (1920) 254 U.S. 51, 55; Ohio v.

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Thomas, (1899) 173 U.S. 276, 283; and see Franklin Oil Company v. Bag, (1928) 277 U.S. 218, 222; and I feel that this rule clearly frees Government officers from the necessity of ascertaining in each case, in order to insure the complete validity of supply contracts, whether the prices offered by a bidder comply with the laws of all states where deliveries may be desired. See, also (1937) 17 Comp. Gen. 287, 289; (1936) 16 Comp. Gen. 348, 350; (1936) 16 Comp. Gen. 97, 98; and (1935) 15 Comp. Gen. 425, 426.

I am thus of the opinion that the contract is valid and that the contractor may legally be required to furnish tires and tubes in Colorado at the prices provided by the contract. See (1909) 28 Op. Atty. Gen. 127, 128. Further, it may well be that under such circumstances the contractor could not be subjected to the criminal penalties provided by Section 11 of the Act. In Osburn v. Bank of United States, (U.S. 1824) 9 Wheat, 738, the following dictum appears (at 867):

"Can a contractor for supplying a military post with provisions, be restrained from making purchases within any state, or from transporting the provisions to the place at which the troops were stationed? or could he be fined or taxed for doing so? We have not yet heard these questions answered in the affirmative. It is true, that the property of the contractor may be taxed, as the property of other citizens; and so may the local property of the bank. But we do not admit, that the act of purchasing, or of conveying the articles purchased, can be under state control."

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The above statement was cited with approval and the first two sentences thereof were quoted in a dissent in Jehann v. Maryland, (1930) 294 U.S. 91, 96. See United States v. Gardner, (1893) 149 U.S. 210; Shin v. Thomas, (1899) 173 U.S. 276; Ambrosini v. United States, (1902) 157 U.S. 1. See also Fidelity & Deposit Co. v. Pennsylvania, (1916) 240 U.S. 319; Halsell & Hays v. Mitchell, (1906) 269 U.S. 514. But whatever the situation may be with respect to the contractor's criminal liability, the Department is, of course, under no obligation to act as its legal adviser. The contractor should be required to make deliveries in Colorado in accordance with the contract, and to settle with the State authorities any question which may be raised as to the legality of such action.

Very truly yours,

(Signed) Herman Cliphant.

General Counsel.

Hon. C. J. Peoples,

Director of Procurement.

END:TAM:hbk 12/6/37  
Copied:rgs  
2/26/41

February 28, 1941  
2:37 p.m.

H.M.Jr: Hello.

Operator: Secretary Wickard.

Secy.

Wickard: Hello. I just had a call from Pa Watson saying that our friend, Campbell, is going to Europe because the British want him, and he's not going officially - he's just going. Do you know anything about that?

H.M.Jr: I don't know a damn thing about it. I was at the White House for supper last night and he was there. It's the first time I ever met him, and I was amazed to learn that he was going to go. That was the first that I knew about it. I thought the matter was dead because Purvis never mentioned it to me again.

W: Yes. Well, I didn't know whether you knew that he was going at all or not and that's the reason I called you.

H.M.Jr: No, I only learned of it there and I met him, but what has happened I don't know.

W: Well, I understand he's not going officially, but I understand that the British have requested him to come according to the information that the President has had. Now, I know what kind of an inside worker he is and he's build up his own case, as I told Pa Watson, but Pa told me that the Boss has said he may go if he wishes and if they want him to come so I think the thing is a closed issue.

H.M.Jr: I think so.

W: Now, one other thing I want to talk to you about. Have you heard anything about whether Mr. Purvis has some breakdown of the British fruit requirements?

H.M.Jr: Not that I know of.

W: We get that from some other sources. One thing that gives us trouble all the time is that we hear from two different sources concerning the British requirements. Apparently they have a

- 2 -

Food Ministry that gets one set of figures together and communicates with us over here and then some of it comes through Purvis. We don't know which one we should give our attention to.

H.M.Jr: Why don't you send for Purvis and have a heart-to-heart talk with him.

W: Have Purvis come over.

H.M.Jr: I would.

W: Well, I expect that's a good idea.

H.M.Jr: I'd send for him.

W: I tell you what we were doing. You remember the President asked me to make some study of the refrigerated space and we're working on that. Of course if we knew about what they wanted why we could come a little more nearly satisfying the query as to whether the space would be adequate or not.

H.M.Jr: Well, Claude, I would send for him, and just tell him what you told me.

W: Yes.

H.M.Jr: O.K.?

W: Yeah.

H.M.Jr: Thank you.

W: Should I - if the President says anything about my getting in touch with Purvis through you - that is not necessary?

H.M.Jr: Oh, no. Just call him up - don't bother - you and I know each other well enough.

W: All right.

H.M.Jr: You won't have any trouble with me.

W: All right. How is this thing shaping up? Like we talked about the first of the week as far as .....

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H.M.Jr: Yeah, I think so.

W: ..... as far as the purchasing of .....

H.M.Jr: You see I don't know how Harry will feel about the whole thing but as far as I'm concerned until it crystallizes I'd certainly call up Purvis. Later on maybe Harry will want you to do it through him.

W: I see. Well, I didn't know whether there had been any further discussion along this line or not. I hadn't heard anything from the White House and I didn't know whether you had any more information on it or not.

H.M.Jr: No, not now, and I'm not trying to be either. There's just nothing to tell.

W: All right.

H.M.Jr: Right?

W: O.K.

February 28, 1941  
2:41 p.m.

H.M.Jr: Hello.

Wm. S.  
Knudsen: This is Bill.

H.M.Jr: Hello, Bill.

K: When you had us for lunch yesterday, I didn't know the numbers of the planes that are coming through that carry the 2 3350 engines, and there are four of them. There are two 4-motor bombers, B-29 and B-32; there is a 2-motor bomber, B-33 and there is a Bell pursuit plane, P-62. They are all due in October of this year.

H.M.Jr: Now those planes are going to have what kind of an engine?

K: The big motor - the 2200 h.p. you were talking about, the 3350.

H.M.Jr: Oh, they're going to take - did they take the Wright or the Pratt-Whitney?

K: No, they're taking the Wright.

H.M.Jr: And those planes will take the big engine.

K: That's right. I knew that they were in development but I didn't know the numbers of them when I spoke to you so I thought I'd call you and tell you.

H.M.Jr: But the Army has no orders for those big engines.

K: Well, they have now in the 12,000 program, you see - in the program that follows this they have these engines.

H.M.Jr: Oh, that's in the program which is yet to come.

K: That's right.

H.M.Jr: Of course I didn't know that.

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K: No. That's the reason I called you up to tell you that I knew these planes were coming through and the main part of the engines you showed me yesterday of course were for the stratosphere planes. You remember that.

H.M.Jr: That's right.

K: But here are four new developments.

H.M.Jr: That's a 4-engine .....

K: Two 4-engines, a 2-engine and a pursuit.

H.M.Jr: Yeah, so there is something coming along.

K: Yes, sir.

H.M.Jr: And the engines will be included in this next program.

K: Yes, sir.

H.M.Jr: Well, that's encouraging.

K: All right.

H.M.Jr: Thank you.



February 28, 1941  
3:00 p.m.

RE AID TO BRITAIN

Present: Mr. Cochran  
Mr. White  
Mr. Quinn  
Mr. Schenker

Schenker: Mr. Secretary, I have had quite a few requests from people who are ostensibly reputable --

H.M.Jr: Like Mr. Quinn?

(Laughter.)

Schenker: He is superficial.

H.M.Jr: I see. I just wanted to be sure.

Schenker: And of course these people keep calling me, as Mr. Quinn has been calling me. Now, I feel that I am in this position. If I tell these people I have nothing to do with it, I have no contact with the British themselves, that is all right with me, see. Somehow or other when I implicate that, they don't believe that, so they persist in calling me. Now, Mr. Quinn finds himself in this position, that he has got this group and they have made fairly extensive plans and he hasn't heard from them.

I also understand, although I am not sure of this, that Bobby Lehman wrote to the British and said he was ready to talk to them, and I

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think they didn't even acknowledge his letter.

So what I would like to find out for myself, is whether I should just drop the whole business and tell these people, as far as I am concerned it is all off, and just call the British or what.

Mr. Quinn has a little different angle. He feels that he would like to be helpful in the picture and that he has got an idea that he would like to formulate a plan that may be of some help.

H.M. Jr:

Have you seen Sir Edward Peacock?

Quinn:

I haven't gone to see him, Mr. Secretary, because I followed - talking with Dave, I followed the policy of having - this thing having been mentioned to them and just waiting until they were ready to talk. I had the feeling that they probably were busy and that I didn't know whether I was to move or not. In the meantime, there have been all these stories, which I don't know how accurate they are, saying that there is a change in plan; and I didn't want to move until I got worrying a little bit.

H.M. Jr:

No, there is no change in plan.

Quinn:

I appreciate they must have quite a job getting this stuff assembled and getting their own figures on it.

Schenker:

Why don't you give the Secretary your idea with respect to one operation?

Quinn:

Here is the thing that has been running through my mind, and I will just broach it. It seemed to me that this group of investment companies,

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we are in a position where if they did - did want to buy and the price was attractive and business seemed good, that they would be able to move without the 20-day waiting period, because they would be, in effect, buying for investment, and that under those circumstances, you had, it seemed to me, this desirable thing. I am speaking now from the British point of view. You had this thing that if you picked out something that was doable and could be done relatively easy, they would be doing something.

At the same time, I counted up the number of shareholders roughly represented in that group, and there is something like 500,000 shareholders.

H.M.Jr:

In what group?

Quinn:

In that group of investment companies, so that if the transaction were profitable from the point of view of the investment companies, that profit would go to a large number of shareholders scattered all over the country, and I would think that from their point of view they would get the maximum of psychological benefit out of that transaction, and then I think it would be very unfair to push them into a lot of transactions now, even if that were the desirable thing to do, because you can't move too fast on it.

H.M.Jr:

But haven't they sent for you or anything?

Quinn:

No, sir, they haven't. I talked to Dave about it for a minute, and my feeling was that I didn't know quite - I had the feeling that I ought to sit quiet and wait.

Schenker:

The impression I got, Mr. Secretary, the last time I saw Mr. Peacock over at Chairman Frank's

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was that they would let me know, and he clearly indicated that it would be no useful purpose served in anybody calling him because they had a routine answer, "We are working on it, and we are not prepared to talk," and that is the answer to all these people. Virtually all of them have gotten the answer I suggested. "Don't prejudice yourself by relying on me, and you call up, yourself." That was the answer they received in almost every instance.

- Cochran: Have they received that recently, too?
- Schenker: As recently as three days ago.
- Cochran: Because for a while they told me that, and then they said they were in shape to receive the people.
- Quinn: I have heard rumors that there were negotiations with people, but two of the rumors I checked up myself and were not correct.
- H.M.Jr: They haven't sold anything yet?
- Schenker: They haven't even carried on negotiations.
- H.M.Jr: Yes, they have been carrying on negotiations, but they haven't made any sales. How many can I tell them you have got? Have you got a dozen?
- Schenker: I have got 20 requests and these are for virtually specific properties. One is the Oxford Press, one fellow wants the New York Real Estate, the Freeport Sulphur Company, the R.B. French Company, and these people are interested in specific companies; and one of the biggest ones is a fellow who represents a group and is interested in buying Viscose and told me his idea was 60 to 100 million dollars and they would pay cash right on the barrel head. These

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people are different people. He called up, and he was one of them who called up recently. He said that at that time.

My only concern, Mr. Secretary, is that I don't want them to say to me, "You prejudiced me, I relied upon you, or I would have done business with them directly." I tell them to do that, but somehow or other --

(Telephone conversation with Mr. Phillips follows.)

February 28, 1941  
3:10 p.m.

H.M.Jr: Hello.

Operator: Sir Frederick Phillips.

H.M.Jr: Hello.

Phillips: Hello.

H.M.Jr: Phillips, Morgenthau. I have here with me Mr. Schenker of the Securities and Exchange Commission and Mr. Quinn, who got together that investment trust group.

P: I see.

H.M.Jr: Now they say they haven't heard a thing from anybody and they want to know if the English are interested in selling. Mr. Schenker here has 20 separate requests from 20 people who want to buy 20 different English properties and he says he doesn't know what to do. He said nobody representing the British Government seems to be interested.

P: Well, I had a talk with Peacock when he was here and he told me he was going to get in touch with Mr. Schenker on this at once. I don't know whether he has done so; I suppose he hasn't.

H.M.Jr: Well, to put it mildly, it's very embarrassing for me to be apologizing all the time.

P: Yes, I know. I thought Peacock was actually getting in touch with him. It was only two or three days ago.

H.M.Jr: Well, evidently he didn't.

P: Evidently he didn't. I'll get in touch with him to make sure he does.

H.M.Jr: Well, something ought to happen.

P: Yes, I think.

H.M.Jr: Neither the Securities and Exchange or myself know what to answer these people.

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P: Yes, I agree. I'll get in touch with Peacock at once on that.

H.M.Jr: And why can't he send for Mr. Quinn. He's in New York, but he's here sitting here now.

P: Yes.

H.M.Jr: And what I'm going to do is I'm going to ask Mr. Schenker if he'll send you the list that he has.

P: Yes, all right. I'm quite glad.

H.M.Jr: He'll send you the list and if Mr. Peacock could send for Mr. Quinn why I'm sure he'd be glad to come around and see him Monday.

P: Right. If Mr. Schenker will do that I'll see that it is got on with at once.

H.M.Jr: And I'm preparing a formal memorandum in answer to the one that I received from the Ambassador. I hope to have it Monday.

P: Right-o.

H.M.Jr: Thank you.

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- H.M.Jr: Is that plain enough?
- Quinn: Quite.
- H.M.Jr: He said that Peacock was supposed to have gotten in touch with you (Schenker) in the last couple of days. You can lead a horse to water, you know.
- Quinn: Well, I felt I didn't want to move, Mr. Secretary, until I got oriented.
- H.M.Jr: I am glad you came in, and I have got nothing up my sleeve, but all I hope is that somebody on the Hill doesn't send for me and ask me the same question.
- Quinn: I think you get a little of that impression talking to some of the various people. They say that -- well, we don't think anything will happen.
- Schenker: Just stalling until the Lease-Lend Bill passes.
- H.M.Jr: I would like you (Schenker) to stay, if you don't mind. I am glad you came in, Mr. Quinn.
- Quinn: Right, sir, thank you, Mr. Secretary.  
(Mr. Quinn left the conference.)
- H.M.Jr: Now, let me tell you something you can repeat to Jerome, but I don't want it to go to your Board. I got this memorandum from the British, you see, and I am talking as much for the benefit of Cochran and White as for yourself. Have you (Cochran) got copies of it?
- Cochran: No, not of the memorandum.



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H.M. Jr:

In this thing, what they have done is, they say they will turn over all their direct investments to the President and he should go ahead and tell them when to sell and when not to sell. Now, I told - it was brought in by Halifax and I told him my first reaction. I said, "I am not going to let the President be put in that position, if the British investors get sore, they can be sore at Sir Edward Peacock but not at my President."

He asked me to take this thing, and I wouldn't take it, and I said furthermore, "I don't want to get in the business of selling properties and be stuck with that kind of tar." I said, "I have got a clean organization, and I don't want to get mixed up."

Well, I went over to see the President and his immediate reaction was the same as mine, that they were dumping it all in our laps.

Now, I haven't answered them yet formally, but they say that the trouble is that they are having great, great difficulty in making sales. Now, the first thing that they tried to put through was the sale of this --

Cochran:

Viscose.

H.M. Jr:

Viscose. How did they try to do it? They went to J.P. Morgan to get a loan, you see, and no passing of title. I told them absolutely no.

I said, "They want title to pass, but they certainly don't want J.P. Morgan to do it." I think they brought it in here three times, always a little bit different, and we always said "no." I am talking in the room here.

Schenker:

I understand.

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H.M.Jr: The understanding is that before anything passes, they will let us take a look at it and see that there is nothing that any Trust or anything which is - which we think is contrary to what the administration would like to have, and it is the only thing that they have brought in here.

Schenker: I am convinced, Mr. Secretary, that this group could handle Brown and Williamson, possibly American Viscose. They could do it expeditiously, fast, paying the money, and not disrupting the market because they would hold substantially all of it in their portfolios and possibly at some subsequent date undertake a secondary distribution when they had the chance to effect the registration.

Now, American Viscose, I have got these people who have been on me. They say, "Mr. Schenker, I am not kidding, those people are prepared to buy that and we are prepared to pay 60 to 100 million dollars depending on what the income is, and we will give them a cashier's check."

H.M.Jr: Now, I have got to talk to you. This is terribly confidential, you see.

Schenker: I will forget it as soon as you tell me.

H.M.Jr: I mean you have just got to be - you just can't even - some things are confidential and some things are extra-confidential.

Schenker: Sacred.

H.M.Jr: Well, they are, because this whole bill is tied up in this thing, and these fellows, you see, tell us how much money they have got. They don't know whether they can last until the bill is passed, and I have told them they had to, not to come around and bother me, because there is nothing that I can do for them until the bill

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passes, but then if the bill passes, I might consider - I haven't told them yet - that we might go up to the Hill and say, "Now, look, gentlemen, here is 900 million dollars worth of direct investments, and we would like a vote of confidence or approval from Congress that we can advance against that from the Stabilization Fund 75 per cent of what we think is the value;" but the English are going to have to do the selling, we are not going to sell it. If they come to us and say, "Is it a satisfactory price?", we will say, "Yes" or "No" but they have got to do the negotiating, you see, we don't want to get in on it. I would want the help of the S.E.C., the Evaluation Section, and so forth and so on, because we haven't got it and you fellows have.

Schenker: We have a big staff.

H.M.Jr: And the President said, well, he thought that sounded all right and Jones hoped to get a bill. He wants to do the business. You saw that story in the Wall Street Journal of all the stuff Jones had been giving out. He is crazy to get his finger in this thing. What is going through my head is this. I am thinking of calling up the British Ambassador in view of this thing and ask him when he can come down with Phillips and just give them - read them the riot act and simply say, "A representative of the S.E.C. has 20 different business men, and they can't even get into see this fellow Peacock."

Schenker: They haven't sent for Quinn, and Quinn can get together 50 or 60 million dollars just like that.

H.M.Jr: And here is Phillips, says he hasn't got the money.

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- White: Don't you think your last telephone conversation will stir them up?
- H.M.Jr: No. Halifax came to see me. I would like to give it back to him. He brought me a message for the President from the Prime Minister.
- Schenker: I think the most unfortunate thing that can happen, Mr. Secretary, is for the American Government to handle that.
- H.M.Jr: You agree with me?
- Schenker: . Oh, there is no doubt about it. With all the rumblings that you get about Ed Flynn being at the Mayflower and everything else, I wouldn't get within 50 miles of him, because as soon as you suggest the name and if you ever sold them the property, three weeks later I would be up on the Hill with a subpoena, where did I get this fellow's name?
- H.M.Jr: You are with me a hundred per cent, but I couldn't get that over with Purvis, he couldn't understand that. I could, for instance, get the evaluation section over there to give me some idea of what the property is worth, if we made a loan, but we haven't arrived at that point yet. I could get that and keep it between the S.E.C. and the Treasury. There is no reason why Jesse should get into this. Do you see any reason why?
- Schenker: No. But I think Mr. Jones is making preparations to go ahead, because I got some phone calls and I called Wright over there and he referred me to Mr. Johnston, and Mr. Johnston said he was in the throes of preparing the form of procedure that will have to be followed with individuals who desire to make loans against these investments and they haven't abandoned them,

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I don't think, and they said they would be prepared in the early part of March.

H.M.Jr: Who is this fellow?

Schenker: Costello. That is the individual I spoke to.

White: Well, something will be done. It depends - if nothing is done they will have a stronger case to come before Congress, particularly if they are able to say that nothing has been taking place.

H.M.Jr: Well, he has got to get legislation. Mind you, Jones is talking to the President. He has got to get the Johnson Act knocked out, before he can do it, although Jones claims, and you (Schenker) are an attorney, the Johnson Act does not include a government corporation.

White: Well, that is what your legal staff claims, too.

Schenker: Well, the only thing I want to do, Mr. Secretary, is to get myself out of this position. I knew that you were anxious to know whether there was any --

H.M.Jr: Well, can you see now? I can't give you a yes or no.

Schenker: Well, I will stay with it as long as you want me to. I think maybe I should.

H.M.Jr: I would stay with it this way and see what happens, and I would tell anybody to get in direct touch with Sir Edward Peacock and tell them if they can't get in to see him, within twenty-four hours from the time they get the refusal, to let you know, that they are to see Sir Edward Peacock, and if they can't get in

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within twenty-four hours you tell them to let you know and you bring it to my attention. How is that?

- Schenker: All right, I will.
- H.M.Jr: Do you think, Harry, I should try to get Halifax down here and make a big thing out of it?
- White: I would be inclined to wait and see --
- Schenker: Wait until Monday in the light of the conversation.
- White: See what they do with Quinn and the others and until you have also finished your memorandum and had a chance to suggest what you are --
- H.M.Jr: What do you think, Merle?
- Cochran: Exactly the same.
- H.M.Jr: I didn't mince matters any, did I?
- White: He got it. Phillips gets that kind of thing. It was very clear.
- H.M.Jr: Now, Phillips told me when he was in here - you (Cochran) check my memory. I didn't see him alone, did I?
- Cochran: I was with you.
- H.M.Jr: Didn't he say he was absolutely opposed to doing this thing through a mortgage.
- Cochran: Yes, sir. He said he wanted an out and out sale. You said, "I agree with you. We have the same principle but for different reasons."
- Schenker: I am surprised they haven't taken this approach.

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I don't know how expeditious it is. I thought what they were going to do is probably take a company like American Viscose and give out a 50 million dollar debenture issue and they stay with the equity stock and control the company. I am surprised they haven't broached that. Have they?

White: I doubt whether that would be legal, would it?

Schenker: Why?

White: Well, wouldn't that run into both the Johnson and Neutrality Acts?

Schenker: Well, it is a private company.

White: Yes, but they are agents of the Government. But Mr. Secretary, there is one point you stated. I wonder if it is correct. If it isn't correct you may want to correct it. As I understood it, you told Mr. Schenker, and he would pass it on to his chairman, that Halifax stated they were going to turn these properties over to the President. It was my understanding that what they were going to do was, they wanted to turn the problem over to you and they will do whatever you say. I don't think they were going to turn the properties over.

Cochran: In one of these - there were two memos, the first and the second one. I have a copy of the first and not the second. In that second one, as I recall it, they included that vesting of title in the United States also.

H.M.Jr: That is right.

Schenker: The only thing I would like to tell the chairman, if I may, Mr. Secretary, is - I don't know whether you want him or anybody to know - I think he may

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feel there is some compulsion to tell the rest of the Commission. I think I would only like to tell him that - ask him whether the Commission would be prepared if at some time it becomes necessary to assist the Treasury in the evaluation of these properties and nothing about whether title should be turned over or a loan, because if it ever leaks out I don't want to be --

- H.M.Jr: And tell him nothing else.
- Schenker: Because I think he would be duty bound to tell the Commission.
- H.M.Jr: That has happened before.
- Schenker: Not that I am casting anything on Jerry. He would be bound to tell the rest of the Commission and the stenographers and all of that.
- H.M.Jr: Let me tell you what he did once before. We got these daily figures on the sales of English stock. I said, "Do you want these?" and he said, "No." Isn't that right? Or was it the list of - no, it was the list of the stocks, and he said, "No," because he says, "I can't guarantee you secrecy." It was the list. Wasn't it?
- White: It was the list.
- H.M.Jr: He said, "I don't want it."
- Cochran: Well, we had the talk also on the daily sales, because he had us put it up to him in such a way that he wasn't permitted to pass it on. He said if it were on his own responsibility, he would feel obliged to.
- Schenker: Well, the only thing I will tell him is that I talked to you and that you talked to the British and told them to get moving and so forth and



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you also asked whether the Commission would be in the position to assist the Treasury if at some time they wanted our assistance in connection with the evaluation of these properties.

H.M.Jr:

Yes, and then I think you (Cochran) might send for Phillips and tell him I am very much upset over this thing, you see, and for him to come in one day and say he is broke and the next day I hear that there are twenty people who want to buy businesses. The two and two just don't add together, and I am very much upset.

Cochran:

As a matter of fact, I spoke to Pinsent this noon on it. He was in to see me at 12:00 o'clock on some other things I would like to mention after awhile, and I said, "I am still referring people up there and the S.E.C. definitely has a problem because people are looking to the S.E.C., and they haven't had any answers," and I said, "I don't know how my people have fared, I haven't had any comebacks."

H.M.Jr:

Why don't you send for them, Phillips and Pinsent both, and Phillips will repeat it to the Ambassador, and you tell them I am really not only embarrassed, I am very much upset, that here are the people, they say they are here as a group with a hundred million dollars, who want to do business and they can't do it, and on the one hand he says he is going to go broke and on the other hand here are people with their tongues hanging out trying to get this business.

Cochran:

Did you want Mr. Schenker to give that list by mail to them?

Schenker:

No, I will give it to you.

Cochran:

I could give them this list when they come in.

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H.M.Jr: He has got a copy there.

Schenker: I will get it with the names and addresses and have it over before 4:30.

Cochran: All right, I will try to get them here at 5:00 then.

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

Schenker: Yes.

Cochran: It is direct evidence that we have this problem.

H.M.Jr: And Merle, bear down on them.

Cochran: I will.

H.M.Jr: Bear down on them and tell them that - was it yesterday they were in here?

Cochran: Yes, yesterday morning.

H.M.Jr: Yesterday they were in here in the morning doing the pauper's act, and then the next day I get this, and I am getting very much upset and displeased.

Cochran: I will get them both so it will get to the Ambassador.

H.M.Jr: Get them both and tell them that - well, I am. I am not bluffing. And then you (Schenker) see when you send these messages to me, I have got no answer. But if you tell these business men, now go and see this fellow Peacock, if they can't get in to see him in twenty-four hours, tell them to let you know and you let me know.

Schenker: All right, thank you, Mr. Secretary.

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H.M.Jr: Now, do you see why? I haven't been answering you for that reason.

Schenker: And with respect to Mr. Frank, I forgot what you told me about this other thing. I will just confine it to that.

H.M.Jr: That would be terrible if it got out.

Schenker: I forgot it.

February 28, 1941  
4:00 p.m.

*Coast Guard Cutters*

RE AID TO BRITAIN

Present: Mr. Gaston  
Mr. Waesche

H.M.Jr: How are you coming?

Gaston: All right. I wrote a letter. I did not incorporate recommendations for new instructions in the letter and simply said that you expected to submit a program next week with estimates on the construction.

H.M.Jr: Oh, you are not ready?

Gaston: Well, I didn't know that the program - it could easily be added on the last page, but I wasn't quite sure.

H.M.Jr: You didn't put the date of these things in? Oh, yes, you did.

Gaston: Yes, there are groups of five.

H.M.Jr: I would like to put in the whole --

Gaston: Well now, as the Admiral and the officers have agreed upon it, it is rather short and sweet and it could be put in.

H.M.Jr: I hate to do it in two bites.

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- Gaston: We could just put it in on the last page, those two paragraphs.
- Waesche: Part of this is already incorporated. You begin in the middle.
- H.M.Jr: Well, you can't put it that way. You will have to say, if it meets with his approval.
- Waesche: Yes.
- H.M.Jr: Well, I mean it is essential. "With your approval this would be included." That is all right. It is a little bit too snappy, a little bit too terse.
- Gaston: Yes, I will word it that way.
- H.M.Jr: Now, let me just talk to you. This isn't the way to present it, you see. I would say something like this, Herbert. "For some time we have felt that we have not been able to adequately take care of ice conditions in our - ice conditions along the coast, in our harbors and rivers and lakes."
- Waesche: "And in Alaska."
- H.M.Jr: "And in Alaska," yes. "We do not have the adequate equipment for ice breaking to get into harbors in Newfoundland and Greenland, and if the world conditions continue as they are at present, neither Canada or England or ourselves are equipped with the necessary ice-breaking vessels.
- "Therefore, as a part of our national defense needs, it would seem prudent to equip Coast Guard with the ships especially constructed to do an ice-breaking job wherever they may be

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called upon to do so."

Waesche: Wouldn't you want to bring out the point that this is a dual-purpose vessel, that in addition to doing that, we will so equip these vessels so they can carry on their off-shore patrol?

H.M.Jr: What I want to say is, "In view of this situation, we present to you a request for money to build ten dual-purpose ships." But I wanted to lay the foundation. You just - "Which can both do the ice-breaking job and off-shore patrol," see?

Waesche: Yes.

H.M.Jr: And then I will again say, "These ships will be of unique character," or something. I don't think that is necessary. But the point that I want to catch in the beginning is, so he won't say, "Oh, I don't want any more for Coast Guard, Newfoundland, Greenland, and so forth." But if you just say it like this, it is no good. Do you get it, Herbert?

Gaston: Yes, I do. Of course, it will further strengthen the argument. Of course he ought to see that he is taking away ten of the best ships we have and that we have asked for more ships before losing those ten, but this will strengthen the argument.

H.M.Jr: Well just to say you are taking away ten - he said, "I will give you the ten," but I have said that this is going to do the thing and --

Waesche: Here we are getting ten ships which will do not only the work that those ten did before, but they do the ice-breaking job as well.

Gaston: The danger of pressing that too much is that

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they will say, "Now, you will get these ten and they are all ice-breakers. You won't need any more ice-breaking equipment." But we will.

H.M.Jr: Well, I am surprised you don't ask for some of these smaller ones for the harbors.

Waesche: We did ask for four in our last budget, and they cut out two, and those again are dual-purpose vessels. They do all this harbor work of carrying customs inspectors and harbor patrol and supervising of anchorage and all of that, but at the same time, when winter comes along they are needed for ice.

Gaston: Well, Admiral, we didn't ask for four, we asked for twelve.

Waesche: We started on a program of two a year and this last budget we asked only for four to bring us up to this program of two a year, and they gave us two. We asked for ten altogether, and we so far have gotten four out of the ten.

Gaston: Yes, I will do that.

H.M.Jr: If you could work that up, Herbert, and get it to my house tonight.

Gaston: You would like it up there tonight?

H.M.Jr: Yes, just so it is up there tonight. All you have got to do is change the last page. But you get the idea. And I think this is a little bit too wordy. I think you have got enough, and then he is taking away ten and we come in and say --

Gaston: Yes, I will condense that.

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- H.M.Jr: Are you with me on that?
- Gaston: Oh, yes. I think it will be of double value.
- H.M.Jr: I don't know that --
- Gaston: This will give us an opportunity to build the ships that are specially designed for ice work. You see Greenland is not so much ice-breaking as it is for ice work. They need a bow for forcing their way through a field of ice. It is very different from the lake job of breaking ice.
- H.M.Jr: I don't say that we have got to go into Halifax, but I do point out that neither England nor Canada has any of this equipment, if I am right.
- Waesche: Yes, sir.
- H.M.Jr: Canada and England have nothing like this?
- Waesche: No, sir. They have a few sealers up there. They don't belong to the ships, but there are a few sealers that work in the ice.
- H.M.Jr: But Government?
- Waesche: No government ships. And of course these sealers have little power to stand the ice pressure.
- H.M.Jr: How do you feel after working this this way?
- Waesche: Oh, I think we can prove our point, Mr. Secretary, and this will meet our purposes very nicely. There is one other point I wanted to make which I told Herbert outside.
- H.M.Jr: How much beam would these have?



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- Waesche: About 42 or 43 feet, I think.
- H.M.Jr: I think I would put that in the letter.
- Gaston: Yes. I think it is in this draft here. I will work it in. The keel would be 42 feet.
- Waesche: There is some question as to whether there is any need for a high-powered heavy ice-breaker such as the Russians have in the Arctic up in the northern Greenland waters. We discussed that a little today, but I stayed off that at the present time, but I am going to get Iceberg Smith on this coming Greenland cruise which is going up there very soon.
- By the way, I have a memorandum from the State Department, from Penfield, whereby there is only a little snow on the ground up there now, and they could come up any time. So I am going to have Smith this summer when he is up there go into thoroughly a study as to whether there is any need for this Government to have a four- or five-thousand ton ice-breaker such as the Russians have for that Arctic ice, but that is too big a problem for us to decide down here in such a short space of time.
- Gaston: It would cost about five million, wouldn't it?
- Waesche: Yes. It would be about a four- or five-thousand ton ship, 350 feet long, with propellers on bow and stern and a regular ice-breaker such as the Russians have up in the Arctic..
- H.M.Jr: Where would we use such a ship?
- Waesche: The only place we would need it would be if - on the east coast of Greenland. If we want to get into the east coast of Greenland almost any time of year or even in the summertime, to be sure of

- 7 -

getting in then you have got to get one of those Arctic ice-breakers.

H.M.Jr: How about if we wanted to get into Halifax?

Waesche: We don't need anything like that for Halifax.

H.M.Jr: O.K. I am satisfied with this. I am willing to go to town on it. I think he will get this. Are there yards where these could be built?

Waesche: Yes, sir, I won't say we won't have any difficulty, but we do know - when we get ten of these we will have a lot of people interested in it. When we have one ship they are not bothered so much.

H.M.Jr: How long before you can get the first one? I mean how long before they will be commissioned?

Gaston: Can you have one in a year?

Waesche: I would say a year and a half. It would be a year to a year and a half. Not more than a year and a half, because it would just be a modification --

H.M.Jr: And the last one?

Waesche: Oh, they would come along within a month or two of each other. We ought to get them all in two to two and a half years.

H.M.Jr: What would you do with the personnel on these ten ships, how would you occupy them?

Waesche: You mean for the time being? Well, we have need right today, urgent need, for over half of them, and the rest we will be able to find - we will find jobs for them. As a matter of fact, we will use them all on getting this Coast Guard

- 8 -

reserve started. We have got this reserve going through, and we can use most of those people on the reserve problem.

H.M.Jr: You know the President approved this letter?

Gaston: Yes, I haven't had a chance to tell the Admiral. He has approved the contract thing, so we can do the 10 per cent contract thing.

Waesche: That is good.

H.M.Jr: He approved it, and I forgot to sign mine. I sent it over without signing it, and he signed it and Forster over there said, "It is all right, the President signed it, but for heaven's sake, get the Secretary to sign it too." So we got it this time. I think you have got two out of three chances of getting the ten when we give up the other ten.

Gaston: My gosh, we ought to have.

Waesche: We would be very much up against it without them.

H.M.Jr: Anyway, on that appeal, that basis, and not on the speed basis. This is a useful ship.

Waesche: It is. These ten ships they are taking away are really all-round purpose ships. They are our most valuable ships.

H.M.Jr: These ten replacements would be valuable ships.

Gaston: What did you say, 14 and a half knots?

Waesche: About 15 and a half knots.

Gaston: Power plants are a little better now. You ought to get pretty close to what you do now.

- 9 -

- H.M.Jr: What do you call economy speed on this?
- Waesche: About 11 or 12 knots.
- H.M.Jr: It would be a swell ship not to get sea-sick in, wouldn't it? They won't roll with that beam, would they?
- Waesche: No, they would be very stable in a sea.
- Gaston: If you want a real ride you ought to take one of those 165-footers. You haven't been out on one of those, have you?
- H.M.Jr: No.
- Gaston: Or take one of the Comanche type for some nice pitching.
- H.M.Jr: O.K., gents. Say, you don't have to give me anything. I came back on the Campbell.
- Gaston: I don't think I told you - about this Danmark thing. We have been working on this Danmark thing to buy that for 365 thousand dollars. That Danish training ship. We haven't the money and have to get the appropriations.

2nd Draft

February 28, 1941.

Dear Mr. President:

The Coast Guard vessels which seem most suitable for convoy work are the ten cutters of the 250-foot class built between 1928 and 1932. The names of the vessels and the years in which they were completed are:

CHELAN	- 1928	ITASCA	- 1930
PONTCHARTRAIN	- 1928	SARANAC	- 1930
TAHOE	- 1928	SEBAGO	- 1930
CHAMPLAIN	- 1929	SHOSHONE	- 1930
MENDOTA	- 1929	CAYUGA	- 1932

The over-all length of each is 250 feet, molded beam 42 feet, maximum draft 16 feet, displacement 1,979 tons, speed 16 knots. The gross tonnage of the first five is 1,632 and of the later five, because of minor changes in power plants and internal arrangement, is 1,573. All are oil-burning turbo-electric. The first five develop 3,000 horsepower and the later five 3,200.

With the exception of one, the SHOSHONE, all of the vessels are now on the east coast and all are in such condition as to hull and machinery that they could be turned over immediately. Consideration has to be given, however, to the armament and other equipment they would need for convoy service. Although a program of arming and equipping all ten for service with our Navy has been in progress, it seems far from certain that this equipment will meet British needs and it seems probable also, in view of the history of the destroyers turned over to the British, that some structural changes will be desired. This work could probably best be done in American yards.

We have consulted the Navy Department on this point and the Embassy has asked advice from London. The time when the ten cutters can be turned over for actual

- 2 -

convoy work will of course depend upon the extent of the changes and additions desired and the speed with which we can get the work done.

The transfer of these ten vessels means the loss of about half the fleet of cruising cutters and the program of work laid out for the year will of course have to be drastically revised. Among cutters of the large sea-going class there will remain seven of the new 327-foot type and four 240-foot ships that are now twenty years old. Of the seven 327-footers one, the CAMPBELL, is now on Navy service in Portugal.

The following steps appear to be necessary to adjust this year's program to the equipment available:

(a) International Ice Patrol - The recommendation is renewed that the International Ice Patrol be abandoned for this year. Such patrol of the Grand Banks area as may be necessary from time to time would be carried out to the extent that vessels are available. If the regular International Ice Patrol is continued it will have to be done with vessels of the 125-foot class, which are ill suited for this work.

(b) Greenland Patrol - This patrol can be made by the Arctic cutter NORTHLAND, the 165-foot ice breaking cutter COMANCHE, and a vessel of the 240-foot class. Efforts are being made to obtain the BEAR OF OAKLAND from Admiral Byrd for Greenland duty, upon the return of that vessel from the Antarctic, about May 1. This is not quite as extensive patrol of Greenland as had been planned for the coming summer, but it may be sufficient.

(c) Atlantic Weather Stations. - To maintain a two-station patrol in the North Atlantic will require five vessels of the 327-foot class. This will be a full-time duty for these five vessels, and they could not be diverted for other use. Strong representations have been made by the British Government, the State Department, the Weather Bureau, and the Civil Aeronautics Administration to maintain

- 3 -

a third station on this Atlantic Weather Patrol, which would require at least two more vessels. These are not available. It is recommended that immediate steps be taken to obtain and equip seven merchant vessels for this duty. There appears to be no doubt but that all of the 327-foot cutters will shortly be needed for more important duty. It ought to be possible to obtain for this work seven of the Danish ships now tied up in our ports. If the bare boats could be chartered they could be manned by Coast Guard crews.

(d) Cadet Practice Cruise - No vessels whatever, of suitable type, are now available for the Cadet Practice Cruise, during the coming summer. This cruise is a very important part of a cadet's training. It is urgently recommended that immediate action be taken to obtain the Danish training ship DANMARK, now immobilized at Jacksonville, Florida. Preliminary negotiations have been undertaken through the State Department.

(e) Bering Sea Patrol - Two of the 250-foot cutters were scheduled for Bering Sea Patrol during the coming summer. The Coast Guard has no replacements for these vessels and, consequently, the activities of the Coast Guard in the Bering Sea will need to be somewhat curtailed this coming summer. The patrol will have to be made entirely by small craft, with the exception of the HAIDA (240-foot class).

(f) Cruise to American Colonies Southwest of Honolulu - The TANEY (327-foot class) makes periodic cruises to the colonies established on Baker, Howland, and Jarvis Islands, and is the only vessel available for this duty. This duty can be continued only as long as the TANEY remains available for Coast Guard activities.

(g) General Duties - Many other duties of the Coast Guard - such as: neutrality patrol, law enforcement, assistance to vessels in distress, towing of vessels for the Maritime Commission, and other emergency tasks, will have

- 4 -

to be curtailed.

I expect to be able to lay before you for your approval early next week a program, with estimates, for new vessels to be constructed to replace the ten vessels to be transferred and to give you further information as to the time schedule for delivery of the ten vessels to the British.

Faithfully,



February 28, 1941

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- 4 -

to be curtailed.

For some time we have felt the need of additional and better equipment to take care adequately of ice conditions on our Eastern coast, in the rivers, the Great Lakes and on the Alaskan coast. We lack also vessels entirely suitable for coping with ice conditions in the harbors of Newfoundland and Greenland and Iceland; nor do Canada or Great Britain have suitable vessels for this purpose, which may continue for some time to come to be of great importance.

The replacement of the ten cutters to be transferred will give us an opportunity to remedy this lack. As a part of our National defense needs it would seem prudent to equip the Coast Guard with ships specially constructed to overcome difficult ice conditions wherever they are called upon to perform service.

I am therefore suggesting a program for the construction of ten dual purpose ships at an estimated cost of \$22,500,000 (\$2,250,000 each), and respectfully ask your permission to submit a deficiency estimate in that amount. These would be combination ice-breakers and cruising cutters, 250 feet in over-all length and approximately 42 feet beam, similar to the ten cutters to be transferred except that the bow characteristics would be materially different and the vessels would be more staunchly constructed, in order to break ice and to penetrate ice-fields. Perhaps a half-knot of speed (of the 16 knots of the present cutters) would be sacrificed for more rugged construction and better ice-breaking qualities. In addition to their value for working through ice the vessels would also have all necessary useful qualities for towing, rendering assistance at sea, and other varied Coast Guard work.

To summarize, the program I desire to suggest for your approval is as follows:

- (1) Submit deficiency estimates in the amount of \$22,500,000 for ten dual-purpose cutters.

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- (2) Undertake negotiations to obtain and equip seven merchant ships for weather patrol purposes, to be manned by Coast Guard crews.
- (3) Negotiate for the purchase of the Danish training vessel DANMARK for Coast Guard cadet training.

Faithfully,

Secretary of the Treasury.

The President,

The White House.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 28, 1941

TO Secretary of the Treasury

FROM Alan Barth

The Senators opposing H. R. 1776 have refrained with ostentatious virtue from embarking on a formal filibuster. Yet, in effect, they have been engaged in a filibuster — deliberately delaying action on the bill — ever since it moved over from the House to the Senate.

The plea of the isolationists is that they need more time in which to prepare and present their case. It seems worthwhile, therefore, to take a glance at the time which has already been accorded them and the use which has been made of it.

H. R. 1776 was introduced in Congress on January 10. For a period of two weeks, the House Committee on Foreign Affairs listened patiently and courteously to the opinions of 15 opposition witnesses, ranging in expertness and erudition from the Reverend Gerald L. K. Smith who represented the Committee of One Million to Mr. George H. Cless, Jr., of Glens Falls, N. Y., who confessed with disarming candor that "I do not represent any group, organization, or association of any kind. I am here today to speak for only one person — myself . . ."

When the Senate Foreign Relations Committee undertook consideration of the measure, it heard a total of 41 witnesses. Well over half of these — 29 in fact — registered opposition arguments. Five of the 29 had already expressed their views at considerable length before the House Committee.

The bill went to the floor of the House on February 3, and was debated there through February 8. It has been before the Senate for consideration on the floor ever since the Foreign Relations Committee reported it out on February 13. Every Senator opposed to it has had full opportunity to express his point of view. Proponents of the bill, indeed, have kept their advocacy of it to a minimum in the hope of exhausting the rhetoric of the opposition as speedily as possible.

But the Senators opposing H. R. 1776 by no means confined their forecasting of doom to the Senate floor. One reason why they may have felt a reluctance to participate in night sessions on the bill was that they preferred to devote this time to broadcasting their message to the people at large via the radio. The patience of attentive members of Congress during the long debate was exceeded only by that of the general public whose radio loudspeakers for more than an entire month have blared repetitious warnings of death and dissolution for the Republic.

Senators Wheeler, Walsh and Taft have each indulged themselves in two radio outbursts against the Lend-Lease measure within the past week. Senators Hiram Johnson, Nye, LaFollette, Reynolds, Lodge, Denaher, Capper, Johnson of Colorado, Chavez, Tobey, Clark of Missouri and Clark of Idaho, have confined themselves to a single oratorical effort apiece on the air. They have been bolstered to be sure, by the eloquence of others, such as Alf Landon, John T. Flynn, General Hugh Johnson, General Robert Wood, Norman Thomas, Hamilton Fish, and lesser lights who have availed themselves of the free time put at their disposal to discuss the issue by the major radio networks. The number of speeches and the quantity of time allotted to fulminations on the bill over local stations are incalculable.

Despite the flow of words which has fattened the Congressional Record and titillated the air waves, the isolationists have succeeded in making converts neither among the people nor among their colleagues who will vote on the question in the Senate. But the winning of support by persuasion is no part of their program. Their plain strategy is to compound delay until an explosion in the Pacific makes the public unwilling to release any part of our defense equipment, or until a disaster in Europe makes release of the equipment too late to be of service. A filibuster in the ordinary sense is obviously hopeless. The opposition cannot continue to talk until the Senate adjourns. It may, however, be able to talk until time itself defeats the very purpose of the bill. Its method of keeping this country from involvement in war is to court the very conditions which make involvement inevitable.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 28, 1941.

TO Secretary of the Treasury

FROM Alan Barth

THE PRESS AND PUBLIC OPINION ON H. R. 1776

Since current editorial comment continues to pursue the trend previously reported toward acceptance of H. R. 1776, it seems useful at this time to examine its relationship to public opinion. Newspapers, in the recent past, have revealed themselves as markedly antipathetic to the political judgments of their readers.

A rather curious parallel is apparent, however, between the geographical distribution of editorial opinion on H. R. 1776 and the election returns of November, 1940. On the current foreign policy issue, newspapers divided, at the outset, not at all as they divided during the fall campaign, but rather as their readers divided when they went to the polls on November 5.

GEOGRAPHICAL DISTRIBUTION

Southern newspapers solidly support the Administration position on foreign policy. With few exceptions, they endorsed the original version of H. R. 1776, encouraging amendment of it only as a form of enlisting northern support for a basic program which they regarded as their own.



Conversely, the editorial opposition to the bill has been strongest in the middle western farm belt — in those very states, indeed, which by fairly narrow margins recorded their electoral votes in November for Wendell Willkie. Newspapers in this section are by no means preponderantly against the measure; they merely exhibit more antipathy toward it than is apparent elsewhere.

Contrary to a rather widespread assumption, newspapers in the far west are not inimical to the Lend-Lease proposal. The majority are supporting the President, just as their readers supported him, despite editorial fulminations, in November.

A considerable scattering of opposition is to be found among New England newspapers. Here, too, it is certainly not in the majority; yet, as among the people of this region during the campaign, it is sufficient to be formidable.

These findings conform closely with the Gallup Poll analysis of sectional differences of opinion on the Lend-Lease proposal. Gallup showed, on February 11, in favor of the bill; South, 77 per cent; far west, 55 per cent; New England and middle Atlantic states, 54 per cent; west central states, 53 per cent.

In addition, Gallup showed a single section, composed of the east central states of Ohio, Michigan, Illinois and Indiana, in which the opinion favorable to the measure was only 39 per cent, with 35 per cent opposed. Chicago, he reported, is "the hub" of the sentiment against aid to Britain. It is also, through the headquarters of the America First Committee, the American Peace Mobilization and the Chicago Tribune, the hub

of the propaganda drive against H.R. 1776. Almost exclusively from this source emanate such artificial protests as the mothers' march on Washington or resolutions by the D. A. R. and the Daughters of 1812.

#### TREND

In every sector, according to the Gallup reports, sentiment for the bill has risen steadily since its introduction. The lag between Gallup samplings of public opinion and publication of the results makes it difficult to gauge popular reaction to the more recent amendments proposed in the Senate. But these amendments undoubtedly leveled a large measure of the remaining opposition.

Newspaper support of the bill has grown similarly, as the Administration has accepted revisions of the bill's original form. But the growth of this support has merely kept abreast of the published Gallup reports. This seems to indicate that the newspapers are expressing what their readers thought some time in the past and lag behind the swifter evolution of popular opinion. Newspapers, in short, have reflected, more than they have affected, public thinking.

One other inference seems warranted from these observations: The consideration which basically motivates public opinion on H. R. 1776 is trust or distrust of President Roosevelt. The arguments as to the dictatorial possibilities or the dangers of war involvement inherent in the bill are the rationalizations of editorial writers. A majority of the public backed the President in November in large measure because it had confidence in his conduct of foreign affairs. A similar majority backed him when the Lend-Lease issue was first broached. That majority has been increasing steadily in direct ratio to the growing sense of national unity under the President's leadership.

February 28, 1941  
4:21 p.m.

Cordell  
Hull:

Hello, Henry?

H.M.Jr:

Hello. How are you?

H:

All right. Secretary Stimson called me up about that Jim Byrnes amendment and it's a little bit hard for me to get my teeth in it. I wanted to see what your slant is on it.

H.M.Jr:

Well, we got up this little memo which War and Navy and we signed and then sent it over. Did you see it?

H:

Yes, I saw - I didn't see whether you signed it or not.

H.M.Jr:

Yeah, I signed it. Would you like me to send you a photostat of what I sent.

H:

Well, I've got a copy of that. Now, what I'm trying to get to is, first, you think it's a serious matter, do you?

H.M.Jr:

Yes, because I think it would make it very, very difficult for the Army and Navy to operate.

H:

Byrnes didn't confer with anybody?

H.M.Jr:

Not in our shop. Well, now, wait a minute. He asked one of our men - the way we heard about it - he asked somebody down here whether they wouldn't draw it up for him, you see, and I guess that's the way it came, and we refused to. We refused to draw it up.

H:

Yes. Well, what I'm trying to get at is to get enough material here to talk to Byrnes. Stimson wanted me to talk with him and I'll be glad to talk to any of those fellows over there but it's, as I said, hard for me to get my teeth into the thing.

H.M.Jr:

Well, would this be helpful? The lawyer here who has been following it is Oscar Cox. Would you like him .....

- 2 -

- H: I think he came over. I think he was with the War Department man who came into my office.
- H.M.Jr: With McGloy?
- H: Yeah. They gave me some data and I just wanted to see how you were impressed with this thing.
- H.M.Jr: Well, I think it would make it very, very difficult for the Army and Navy.
- H: Well, I'll call up two or three of these fellows and talk with them and see if I can get anywhere. You haven't heard whether the President talked to Byrnes or not.
- H.M.Jr: No, I sent it over by letter around 1:30 o'clock and I haven't heard from him since. In that we asked him to let us know, you see, in the memorandum whether there was anything we could do.
- H: You asked the President.
- H.M.Jr: Yes, and I've not heard from the President.
- H: Well, then I think we'd better hear from him so we'll know just what - don't want to work at cross-purposes.
- H.M.Jr: Well, I haven't done anything and my boys haven't done anything other than to send this over to the President.
- H: Well, now I don't want to step out in front of the President on this because these amendments have generally been considered by you and him there and Stimson and among them, that is relating to this part of the bill.
- H.M.Jr: Well, he's been sort of handling it himself and so I didn't want to do anything/ he asked me to. unless
- H: Yes. Now, I've been spending some little time in helping fight off the Ellender amendment and some others that I'm familiar with and I want to help on this in any way I can if the President wants to make a fight on it.

- 3 -

- H.M.Jr: Well, I don't know whether he does or he doesn't but it's in his lap right now. We're doing absolutely nothing until we hear from him.
- H: Well then there's nothing for me to do.
- H.M.Jr: Well, that's of course up to you but .....
- H: The only thing I could do would be to talk to some Senators, you know.
- H.M.Jr: Well, as I remember it we say, "Will you advise us what you'd like us to do," and I haven't heard from him so I'm not going to move.
- H: Yes. I see. All right then. You let me know any of you. I'll be reading up on this thing and if and when you want me to protest to a few of those Senators I'll be mighty glad to do it.
- H.M.Jr: Thank you so much.

February 28, 1941  
4:33 p.m.

H.M.Jr: Hello.

Wm.

McReynolds: So far we haven't found any more men who were drawing money from the British Commission and the Federal Government too. I found that that fellow had been transferred to Knudsen's rolls after they moved over to O.P.M. and they were paying him \$22.00 a day as a consultant for whenever he worked in addition to his drawing - his firm drawing \$2,000 a month from the British Commission.

H.M.Jr: Uh-oh.

McR:

Bill is praying over it today. He hasn't made a report to me on it. I talked to Hervey Emerick this morning and he said he'd try and get a report in my hand before the end of the day but I haven't got it yet. I'm going to call him again later. But I thought you might like to know. We haven't found anybody else in the same category yet and I'm having them all checked.

H.M.Jr: O.K., Mac.

McR: Right.

February 28, 1941  
4:38 p.m.

H.M.Jr: Hello.

Morris  
Troper: This is Troper talking. (Joint Distribution  
Committee).

H.M.Jr: Yes.

T: Where would that meeting be on Sunday,  
Mr. Secretary.

H.M.Jr: It will be at my home.

T: At your home, and what is the address?

H.M.Jr: 2211 - 30th Street. It's just off Massachusetts  
Avenue.

T: Off Massachusetts Avenue.

H.M.Jr: That's important because 30th runs down to  
Georgetown.

T: I see. Is there any Northwest or anything  
connected with it.

H.M.Jr: Northwest, yes.

T: Now, I'm trying to arrange the following:  
For what time would you want that?

H.M.Jr: Well, how many would there be?

T: Well, I'm trying to arrange for Edward Warburg,  
Harold Linder, Harold Ginsberg, Paul Baerwald  
and myself. That would be five.

H.M.Jr: Well, we'd be glad to have them for supper.

T: Well, what time would that be?

H.M.Jr: 7:30.

T: May I confirm that to your secretary?

H.M.Jr: Surely. Well, you'd better send me a telegram  
to that address because I - send a telegram to  
my address.

- 2 -

T: Now I'll repeat it. 2211 - 30th Street, N.W.

H.M.Jr: Yes. Off Massachusetts. And that would be at .....

T: Yes, you see there is a conference going on down at Princeton today and tomorrow and some of the people I couldn't reach, but I thought that that's a varied group and there are at least three nice young men there and I thought that - now will you have Ed Greenbaum there?

H.M.Jr: Yes. I'll get word to him.

T: I see. Anybody else that you were thinking of having.

H.M.Jr: Well, if I could get him I'd get Justice Frankfurter.

T: I see. Well, then I'll tell these people and I'll confirm it by telegram for 7:30 Sunday evening - this Sunday.

H.M.Jr: When do you think I'd know?

T: Well, I'll find out in a little while and I'll send a telegram immediately.

H.M.Jr: I mean I'd hear still today.

T: Yes, you'll hear this evening.

H.M.Jr: And if you don't remind repeat in the telegram who is coming.

T: Yes.

H.M.Jr: So I'd have it.

T: Yes.

H.M.Jr: Well, that'll be fine.

T: Well, I'm doing the best I can. All right, sir. Glad to talk to you. Thank you very much.

H.M.Jr: Thank you.



February 28, 1941

4:45 p.m.

Harry Hopkins just called me up and said that after checking all over town, he finds that the best lawyer, the most resourceful lawyer, in town is Oscar Cox, and he would like to have him. So I said that he was asking a lot but I would give him anything to help him. Then he said that what he really wanted was me. I told him that I would be here any time he wanted to get me on the telephone or see me.

Then Hopkins told me he didn't want to build up his own statistical organization and could he use Haas? He said that he would have to be talking to me all the time, and if he gave me somebody else's figures I would only have Haas check them any way, and so if he gave me Haas' figures he said that I would be better satisfied. I told him that we could try it and see just how much he needed Haas as we go along.

I asked Hopkins why he didn't speak to the President and get him to call up Cordell Hull and get Hull to talk to Byrnes about killing the so-called Byrnes amendment. This is the one we wrote the President about today. He asked me if I thought it was really important and I said, "Yes."

It certainly is interesting that the more Hopkins goes into this job the more he wants the Treasury people, and I think he had better move over here.

\*\*\*\*\*

MEMORANDUM TO THE PRESIDENT

There has been an amendment proposed to H.R. 1776 by Senators Taft and Byrd which Senator Byrnes has indicated he is willing to accept in substance. Its implications are so serious we think it ought to be called to your attention.

This amendment provides that no defense articles procured out of appropriations made to the War and Navy Departments after the effective date of H.R. 1776 can be transferred under the bill without the consent of Congress.

This amendment would seriously cripple the contemplated operations under the bill. It would make it impossible effectively to carry out a joint procurement program. It would mean practically that we would have to have a separate Army, Navy and foreign aid program. It would also take away the flexibility that is necessary in disposing of defense articles.

- 2 -

We have felt justified in bringing this to your attention because no amendment to which administration Senators have been receptive cuts so close to the heart of the bill.

Do you have any suggestions for us?

*Henry L. Stimson*

Secretary of War

*Henry M. Vignetta Jr.*

Secretary of the Treasury

*Fourestal*

Acting Secretary of the Navy

February 28, 1941.

February 28, 1941  
5:00 p.m.

H.M.Jr: Hello.

Operator: Secretary Stimson.

Henry L.  
Stimson: Henry?

H.M.Jr: Yes, Harry.

S: I'm a good deal troubled about that Byrnes amendment to that bill. I think it would just take the guts out of the whole thing.

H.M.Jr: I agree with you.

S: Now I called up Cordell this morning and I asked him if he would help in it and I sent him a set of my own remarks on that subject and you see he hadn't taken any part in the analysis of the bill before the committee. I gave him the points which I thought would show the important - what we thought was the important part of the bill and how this thing would destroy it. I sent him a copy of the argument that I think has been drawn up between Cox and McCloy in regard to what the amendment would do to the proposed system as I had set it out in my statement to the Senate and the House both.

H.M.Jr: Yes.

S: Well, I called him up again and he has read them and told me he .....

H.M.Jr: I don't hear awfully well.

S: I say, I called him up again and talked with him again on the phone and he has prepared himself and is ready to go into action but he doesn't want to do so unless the President wants him to.

H.M.Jr: Yeah. Well, he called me - I don't know whether it was before or after - and he asked what my position was and I said that in this note which we all signed, the last sentence, we said we were all waiting to hear from the President what he wanted us to do.

- 2 -

- S: Well, now frankly this is the situation. As soon as I heard of it, which was yesterday afternoon, I called the President up myself and told him just this - told him I thought this would take the guts right out of the bill and he told me that he thought so too and was doing - gave me the impression that he was handling it so I told him I was very glad to hear that and that if there was anything I could do why to let me know. His voice sounded very husky - gave me the impression at once that his cold was worse again and I thought that it was the part of humanity not to talk any longer about it and I just hung up. Now, I've done all that I dare do towards stirring him up but you as his close personal friend perhaps now can carry the ball a little bit further and pull the string that will start Cordell going.
- H.M.Jr: Well, that thing undoubtedly got into the President's hand by 2 o'clock or earlier. I sent it over by special messenger; I sent a copy of it to Harry Hopkins and one to the Director of the Budget and, frankly, with the man sick I don't like to call him up.
- S: Well, I'm in the same position as you with the addition that I've already called him up once. This would be a second time.
- H.M.Jr: Has that been introduced?
- S: Why no, it's in rumor position. It hasn't been introduced but it has been talked about - it may have been introduced but it hasn't been yet fathered absolutely by Byrnes and the leaders although the papers reported them as saying that they didn't see any objection to it. That's what scared me.
- H.M.Jr: Yeah. Well, frankly - you want my straight answer - in view of the condition of his health I don't want to call him up. He's got that memorandum and that was a strong memorandum.
- S: Henry, here's the point: the President's whole effort may be ditched by the failure to pull the string on Cordell to get after Byrnes. Now I

- 3 -

don't like to see that rest in that way.  
Would a call to Harry Hopkins help?

H.M.Jr: Yes, I think it would.

S: Because I think someone - I can't sit still  
and watch the highwaymen killing a friend.

H.M.Jr: I tell you what I'll do - let me see if I can  
get Harry Hopkins and if I can I'll talk to  
him and I'll call you .....

S: You can because I've just talked with him  
on another matter that the President has given  
us - you know that matter of the reconciliation  
of the programs - the British programs - and he  
is there now. You can get him.

H.M.Jr: Well, I'll see if I can get him and I'll call  
you back and let you know what he says.

S: Well, I'm at the hospital to see how Palmer  
is - he's been very sick.

H.M.Jr: Well, I'll call him anyway.

S: You can get me at my house as soon as I get  
from the hospital there, or - I don't think  
it's necessary for me to wait .....

H.M.Jr: No, no, you go ahead and I'll let you know  
later tonight.

S: All right.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE February 25, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Pinsent called on me between 5 and 6 o'clock on February 20. He said that rumors were current in New York that the Irish Free State was endeavoring to obtain a loan there. I told him that the Treasury had absolutely no information with respect to any attempted or contemplated borrowing by the Irish Free State Government in the United States. Mr. Pinsent reminded me that the Irish Free State is in the sterling area and that the British Government is responsible for providing her with dollars. There would be quite a complication, therefore, if the Irish Free State should be able to borrow on our market, when Great Britain is forbidden, while the latter still has the responsibility of keeping the Irish supplied with dollars.



February 26, 1941

## MEMORANDUM FOR THE PRESIDENT:

There have just been returned to me by Mr. Hoover, Director of the Federal Bureau of Investigation, all requests heretofore made for investigations by his Bureau of individuals proposed for appointment by the Advisory Commission and other organizations coming under the General Jurisdiction of the Office for Emergency Management. In only 73 of the 489 cases referred for investigation have completed reports been received from the Federal Bureau of Investigation. In view of the extreme slowness with which the Bureau was able to furnish service in this matter, I have made no effort to convince Mr. Hoover that he should reconsider his decision to discontinue these investigations. However, it seems quite impractical to undertake ourselves the work of investigating these cases, particularly since they require inquiries in all parts of the country, and without an organization set up with field headquarters it would be not only difficult, but very expensive to conduct adequate investigations. Therefore, I have made a personal request of the Secretary of the Treasury that he authorize the Treasury's investigative organization to undertake this work for us. He told me that he would be willing to have this done only at your direction. I have, therefore, prepared and attach hereto a draft to him for your signature, making such a request. In view of the urgent need for very prompt and thorough investigations of all major personnel recruited for the defense agencies, plus the fact that the Treasury's investigative organization is the largest and most widely distributed one, I hope you will be willing to make this request.

Wm. H. Webber:las

*David*



February 26, 1941

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

I have just received a memorandum from Mr. McReynolds to the effect that investigations of persons proposed for employment in the several defense organizations which he has requested of the Federal Bureau of Investigation have been unsatisfactory because of the slowness with which the Bureau was able to handle them. I have, therefore, instructed him to turn over to you all cases requiring investigation and I wish you would have your investigative service arrange to handle them very promptly and thoroughly. McReynolds will make the usual form of request for this work to be performed by the Treasury under authority of the provisions of the Economy Act.

THE WHITE HOUSE  
WASHINGTON

February 28, 1941

## MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

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February 28, 1941

My dear General:

I would appreciate it if you would arrange an appointment for me to see the President on next Thursday, March 6th, and hope that you can make it his first appointment.

My purpose in seeing the President is to lay before him, at that time, my plans for selling Defense Savings Bonds.

Yours sincerely,

(Signed) E. Margenau, Jr.

General Edwin M. Watson,  
Secretary to The President,  
The White House.

By Messenger 535

February 23, 1941

My dear General:

I would appreciate it if you would arrange an appointment for me to see the President on next Thursday, March 6th, and hope that you can make it his first appointment.

My purpose in seeing the President is to lay before him, at that time, my plans for selling Defense Savings Bonds.

Yours sincerely,

(Signed) E. Maguire, Jr.

General Edwin M. Watson,  
Secretary to The President,  
The White House.

By Messenger

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Yours sincerely,

(Signed) E. Maguire, Jr.

General Edwin M. Watson,  
Secretary to The President,  
The White House.

By Message

February 28, 1941

My dear Mr. President:

I am sending you herewith, for your confidential information, a copy of the latest statement of aircraft shipped to the United Kingdom and other points. The figures represent planes which have been received at the assembly points listed during this last week.

Yours sincerely,

(Signed) H. Morganthau, Jr.

The President,  
The White House.

By Messenger 5<sup>21</sup>

February 28, 1941

My dear Mr. President:

I am sending you herewith, for your confidential information, a copy of the latest statement of aircraft shipped to the United Kingdom and other points. The figures represent planes which have been received at the assembly points listed during this last week.

Yours sincerely,

(Signed) E. H. Rosten, Jr.

The President,  
The White House.

By ~~Handwritten~~

February 20, 1941

My dear Mr. President:

I am sending you herewith, for your confidential information, a copy of the latest statement of aircraft shipped to the United Kingdom and other points. The figures represent planes which have been received at the assembly points listed during this last week.

Yours sincerely,

(Signed) H. H. Henshaw, Jr.

The President,  
The White House.

By Messenger



CONFIDENTIAL

(To Keep You Posted)

February 26, 1941

To: The Secretary

From: Mr. Young

Re: British Aircraft Shipments.

Attached herewith is the latest statement of aircraft shipped to the United Kingdom and other points. This statement is submitted in the same form as the one which you received last week. As you will recall, the figures represent planes which have been received at the assembly points listed during this last week.

P.Y.

## STRICTLY CONFIDENTIAL

STATEMENT OF AIRCRAFT SHIPPED TO U.K.  
& OVERSEAS COMMANDS

Type	Destination	Assembly Point	By Sea during week ending Feb. 1.41	By Air during week ending Feb. 22.41
<u>Douglas</u>				
Boston II	U.K.	U.K.	14	-
<u>Lockheed</u>				
Hudson III			-	4
Hudson IV	U.K.	U.K.	1	-
<u>Glenn Martin</u>				
Maryland	M.E.	Capetown	16	-
<u>Consolidated</u>				
PBY	U.K.	via Bermuda	-	-
<u>Brewster</u>				
Buffalo	F.E.	Singapore (via Panama)	27	-
			38	4

British Air Commission  
February 24th, 1941

STRICTLY CONFIDENTIAL

Copy given  
to Mrs. Jones  
3/1/41

February 28, 1941

My dear Mr. Secretary:

I am attaching herewith for your information a copy of a memorandum dated February 26th, concerning British requests for clearance pending in the War Department.

Sincerely,

(Signed) H. Morganthau, Jr.

Secretary of the Treasury

The Honorable,

The Secretary of War.

bj

By Message 3/1

February 22, 1941

Dear Harry:

I am sending you herewith a copy of my letter to Secretary Stimson together with a copy of the memorandum referred to concerning British requests for clearance pending in the War Department.

Sincerely,

Honorable Harry Hopkins,  
The White House.

bj

By Messenger 5<sup>35</sup>

February 22, 1941

Dear Harry:

I am sending you herewith a copy of my letter to Secretary Stimson together with a copy of the memorandum referred to concerning British requests for clearance pending in the War Department.

Sincerely,

Henry

Honorable Harry Hopkins,  
The White House.

bj

By Messenger

February 20, 1941.

## MEMORANDUM

TO: The Secretary

FROM: Mr. Young

Re: British requests for clearance pending in the War Department.

For your information, there is presented below a listing of requests for clearance filed by the British Purchasing Commission with the President's Liaison Committee through this office and which at this writing are held by the War Department:

<u>Date Filed</u>	<u>Material</u>	<u>P.N.R. No.</u>
Oct. 23, 1940	37 MM A.P. Shot (Projectile only)	21-07-3 Alt.
Nov. 2, 1940	2-Pounder A. P. Shot	1 Alt.
Dec. 2, 1940	HA-73 Parasit Aircraft	370
" " "	P-39 Parasit Aircraft	371
" " "	Boston Bombers	372
" " "	Bomber - Martin 157	373
" " "	Hudson Reconnaissance Bombers	374
" " "	Bomber - Lockheed-37c	375
" " "	Howard Trainer Aircraft	376
" " "	Hawk 57A - Aircraft	377
" " "	HA-73 - Parasit Aircraft	378
" " "	Typhoon - Parasit Aircraft	379
Dec. 9, 1940	Miss. Spare Barrels, Gun Components, Howitzers, etc.	414
Dec. 12, 1940	Fuse No. 253 for 20 MM H.H. Shell (Hispano Suiza)	192-02-6
Dec. 21, 1940	4" Mark XVI Loose Barrels	A-13-B
Dec. 31, 1940	Anti-Tank Carriages for 37 MM Guns	358 Alt.
Jan. 3, 1941	Bofors A. A. Mounts	501
Jan. 9, 1941	Pratt & Whitney Engines	563
Jan. 22, 1941	Binoculars 6 x 30	598
" " "	" " "	599

- 2 -

<u>Date Filed</u>	<u>Material</u>	<u>P.N.R. No.</u>
Jan. 23, 1941	4 <sup>1/2</sup> 50 Cal. U.S. Naval Cartridge Case	602
Jan. 27, 1941	20 MM Hispano Suisse Cannon for Aircraft Mounting	610
Jan. 28, 1941	Para No. 253 for 20 MM H. H. Shell (Hispano Suisse)	192-87-6 Alt.
Feb. 3, 1941	6 x 30 Prismatic Binoculars with Graticules	648
" " "	6 x 30 Prismatic Binoculars with Graticules	648 Alt.
Feb. 4, 1941	Steel Galv. Zinc Powder Boxes	670
" " "	" " " " " " " "	671
Feb. 7, 1941	Spares for P. & V. Engines	524 Alt.
Feb. 10, 1941	Binoculars 6 x 30	598 Alt.
" " "	6 x 30 Prismatic Binoculars with Graticules	648 Alt.
Feb. 11, 1941	Binoculars 6 x 30	598 Alt.
" " "	" " " " " " " "	599 Alt.
" " "	6 x 30 Prismatic Binoculars with Graticules	648 Alt.
Feb. 17, 1941	Nitration Solvent	422-R
Feb. 19, 1941	Steel Galv. Zinc Powder Boxes	670 Alt. Lot.
" " "	" " " " " " " "	671 Alt. Lot.

The above listing includes only those requests which have been filed by the British Purchasing Commission. No official notification of War Department action with respect to these requests has been received by this office.

Copies of this list are being sent to General Burns, Admiral Spear, and Mr. Knudson. These copies are going forward today.

2/26/41.

TREASURY DEPARTMENT  
INTER-OFFICE COMMUNICATION

DATE February 28, 1941

TO Secretary Morgenthau

FROM H. D. White

Subject: Changes in U.K. Gold and Dollar Exchange Assets.

On January 8, the British submitted estimates to us that their "cash" resources--gold and official dollar balances--would be exhausted by the end of January and that a deficit of \$250 million would be incurred by the close of February. That is to say, the expected drain on their cash assets in the two months was estimated at \$600 million.

There are appended two tables:

1. The first table shows that the United Kingdom had \$270 million of gold and official dollar balances on January 31 and \$208 million on February 19. This latter figure excludes receipts of newly mined gold in February and assumes that the British have not sold gold outside the U. S. since January 31. (They have sold less than \$150,000 to us in February.)

The drain on dollar exchange assets in January was \$134 million and the estimated drain from February 1 to 19 was \$78 million, or a total of \$212 million since December 31, 1940, as compared to British estimate for the 2-month period of \$600 million.

Inasmuch as the British direct investments have not been touched and their securities sales have been about what they anticipated, it is evident that the British were in error either as to their dollar expenditures or their dollar receipts or both. The major source of error seems to have been in the forecast of expenditures, which included large sums for new program--sums which were not spent.

2. The second table is computed as a rough check upon the drain on assets. It gives estimates, based upon British information, of British dollar expenditures and receipts for the 7-week period. This shows that if expenditures from January 1 to February 19, 1941 were at the rate anticipated by the British for the year 1941, the drain on assets would have been \$280 million. This is \$70 million higher than the drain on assets shown in table I. If the British estimates are accepted, the most plausible explanation of the difference would be in deferment of payments due Canada or in seasonal movements.



## 1. Gold and Dollar Exchange Assets of the United Kingdom

(In millions of dollars)

	Dec. 31 1940	Jan. 31, 1941	Feb. 19, 1941	Decrease Since Dec. 31, 1940
Gold	292	154	154 *	138
Official dollar balances	54	116	54	-
Private dollar balances	302	298	299 **	3
Marketable U.S. securities	616	562	545	71
Direct and miscellaneous investments	<u>900</u>	<u>900</u>	<u>900</u>	<u>-</u>
Total	2,164	2,030	1,952	212
Of which there are avail- able, according to British	1,811	1,697	1,610	

2. Estimated Dollar Expenditures and Receipts of  
British Empire, excluding Canada and Newfound-  
land, from January 1 to Feb. 19, 1941

(in millions)

Dollar Expenditures

a. Payments of British Purchasing Missions in U. S. January, as reported by British.....\$180 February 1 to 19 (British forecast for Feb. on a pro-rata basis)..... <u>100</u>	\$280	
b. Deficit with Canada required to be settled in gold or dollars (British estimate made early in January; Feb. forecast on a pro-rata basis)	50	
c. Other dollar payments to U. S. and other countries (British estimate for 1941 on a pro-rata basis).	<u>110</u>	
Total		\$440

Dollar Receipts

a. Dollar Receipts for commodity exports and service transactions (British estimate for 1941 on a pro-rata basis)	90	
b. Newly-mined Australian and South African gold (British estimate)	<u>70</u>	
Total		<u>160</u>
Net dollar expenditures, Jan. 1 to Feb. 19, 1941.....		<u>\$280</u>

- \* This figure is based on the assumption that the U.K. sold no gold out of its monetary stock to countries other than U.S., Feb. 1 to 19. U.S. sold only \$142,000 of gold to U.S., January 31 through February 18. Another small shipment of \$203,000 is reported in transit to this country.
- \*\* This is the sum of British private dollar balances in the N.Y. F.R.D. on February 11 (\$276 million) and outside the N.Y. F.R.D. on January 29, (\$23 million).

February 23, 1941

Dear Nelson:

Your letter dated February 14th is postmarked at 4 p.m., February 27th, and was received by me on February 28th at 9:04 a.m.

I have read the contents of your letter and have brought it to the attention of Mr. Pehle, who is in charge of foreign funds.

Yours sincerely,

(Signed) E. Morgan Kousser, Jr.

Honorable Nelson A. Rockefeller,  
Coordinator of Commercial and Cultural  
Relations Between the American Republics,  
State Department Building,  
Washington, D. C.

*Copy of this letter + incoming  
to Mr. Pehle 3/4/41*

February 28, 1941

Dear Nelson:

Your letter dated February 14th is postmarked at 4 p.m., February 27th, and was received by me on February 28th at 9:04 a.m.

I have read the contents of your letter and have brought it to the attention of Mr. Fehle, who is in charge of foreign funds.

Yours sincerely,

(Signed) E. Moughanau, Jr.

Honorable Nelson A. Rockefeller,  
Coordinator of Commercial and Cultural  
Relations Between the American Republics,  
State Department Building,  
Washington, D. C.

*Copy of file sent to Mr. Fehle 3/4/41  
for his information*

COUNCIL OF NATIONAL DEFENSE  
COORDINATOR OF COMMERCIAL AND CULTURAL RELATIONS  
BETWEEN THE AMERICAN REPUBLICS

STATE DEPARTMENT BUILDING  
WASHINGTON, D. C.

February 14, 1941.

My dear Mr. Secretary:

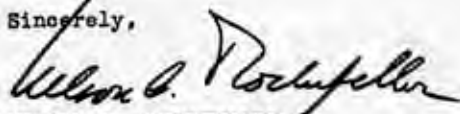
We understand that the extension of the Foreign Funds Control Regulations to include Central and South America is being considered. In case this is done, I am offering certain suggestions which I believe may considerably alleviate the apprehensions which would be almost certain to arise.

I feel it would be particularly helpful if the central banks of the various countries, where they exist, could be informed of the extension in confidence before it takes place and be given assurances that would place them in a more receptive and cooperative spirit.

It also seems important that any publicity or regulations issued at the time of the extension be written so as to convince our neighboring countries that no confiscations or unnecessary impairment of their normal activities need be feared.

Undoubtedly these thoughts have already occurred to you and your associates, but in view of the importance of the matter to our relations with our neighbors, I have taken the liberty of bringing them to your attention.

Sincerely,

  
NELSON A. ROCKEFELLER,  
Coordinator

The Secretary of the Treasury

Washington, D. C.

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE February 28, 1941

TO Mr. White

FROM Mr. Southard

Subject: Trade Agreements Committee consideration of a flaxseed  
concession to Argentina

1. At a meeting on Tuesday, February 25, 1941, the Trade Agreements Committee again debated this question and finally agreed, with only the Tariff Commission majority dissenting, on a reduction of the tariff from 65 cents to 50 cents per bushel, without quotas. Mr. Wheeler says that the AAA is prepared to defend this much of the concession (as long as it is not made responsible for it), on the ground that it will help to prevent the development of the domestic flaxseed into one more "surplus" commodity. Any greater concession — even though hedged by a quota — the Department of Agriculture is not prepared to support.

2. No one can be sure whether the Argentines will regard a reduction of the duty to 50 cents as worth very much. Mr. Hawkins doubts that they will and I personally share his doubts. Argentina is worried about its future prospects for the export of cereals and meat. In the case of meat, we are apparently going to be able to offer them an important concession only on canned meat. In the case of cereals, flaxseed is apparently the only possibility.

3. I realize that our domestic agricultural policy, the present abnormal state of foreign trade, and the impossibility of forecasting post-war trade conditions all combine to diminish one's enthusiasm for a trade agreement as a major contribution to Argentine-American relations. But I think it is worth noting that a few days ago the German Ambassador to Argentina, on his return from Berlin, warned Argentina that her trade relations with the United States have no future and that post-war Germany would become the biggest buyer of Argentine goods. He specifically asserted that Germany would buy Argentine corn, wheat and meat and that we would not. He therefore urged the Argentines to maintain "an indispensable common respect" for the Germans in Argentina who, he said "have contributed to the creation of industries and commerce and have given their active life" to Argentina. This is the sort of appeal that makes sense to the Argentines and its effectiveness is certainly going to be increased if it becomes once more apparent that we are prepared to make only the most niggardly concession on agricultural products.

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE February 25, 1941

TO Secretary Morgenthau  
FROM Mr. Cochran

While talking with the Secretary today on various problems, I reminded him that some days ago I had mentioned the visit of the Spanish Ambassador and our plans to begin the refining in the Assay Office at New York of the remaining Spanish silver which had been held up by litigation.

I told the Secretary that in this complicated case there was some difference of opinion among his staff as to how much of a fee should be paid the Treasury's special counsel, Mr. Stimson, and whether this should be deducted from the balance due the Spanish Government on account of their silver sales to us. I recommended to the Secretary that this matter was sufficiently important that it should come up to him, through the usual departmental channels, in written form, recommending specifically what amount of legal fees should be paid and also setting forth opinions as to the proper source of the funds for such payment of legal fees. I thought that there should be no contact with the Spanish Ambassador until a decision on these points is reached within the Treasury. I felt this matter deserved especially careful review. Considering the possibility of unfortunate reactions either if a fee might be paid to a Cabinet member or to his firm in an amount which might by some be regarded as on the generous side, or if the Spanish Government might find ground for a new complaint against this Government, alleging that the latter was withholding from it funds to pay Treasury counsel without a specific agreement providing therefor.

The Secretary agreed with the above suggestions.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE February 25, 1941

TO Secretary Mergenthau  
FROM Mr. Cochran

On February 24 Dr. Ames Tayler telephoned me from the Department of Commerce that Consul Horace H. Smith from Shanghai had completed his tour of duty in the Department of Commerce, following a similar one in the Department of Agriculture, and was now available for two weeks in the Treasury Department before returning to his post.

Before receiving Mr. Smith in the Treasury that afternoon, I talked with Messrs. Livesey and Bailey (Assistant Chief of the Division of Foreign Service Personnel) in the Department of State and with Mr. White in the Treasury. It was the understanding that the State Department would like to have Mr. Smith sit with us here for a couple of weeks, to give us the benefit of such information as he might have of use on China, and to obtain from us any suggestions which might improve his reporting work from Shanghai, particularly in view of our contemplated Stabilization arrangement with China. Mr. Smith accompanied me to Mr. White's office and has been given a desk in Mr. White's division. It is suggested that he be presented to Under Secretary Bell before his fortnight tour of duty expires.



SUBJECT: JAPAN'S GOLD POSITION

CONFIDENTIAL

The Honorable

The Secretary of State

Washington

Sir:-

I have the honor to refer to Department's instruction No. 2098 dated January 4, 1941, and to the memorandum relative to estimated monetary gold stocks of Japan, attached thereto.

The Department's attention is invited to this Embassy's despatch No. 5168 dated November 22, 1940, subject: "Japan's Gold Position". The only additional statistics now available are those covering gold shipments during 1940, which show that these aggregated 2,239,485.278 troy ounces or 69,648 kilos valued at Yen 328,953,425.48. Comparative figures for 1939 are 4,819,759.970 ounces, 149,894 kilos, and Yen 660,958,733.81. These data indicate a reduction of 53-1/2% in volume and 50% in value.

Our estimates of collection for January-October, 1940 may have been somewhat low as there are rumors afloat to the effect that, although the Government has not actually enforced the Gold Compulsory Purchase Law promulgated in October, 1940, a nationwide collection of gold articles is now being meticulously carried out on the basis of the census of gold holdings taken during 1938, and that this pseudo collection is actually a confiscation of holdings even though it is cloaked in patriotic garb. However it is not believed that receipts of exportable gold from this source during 1940 equaled the estimate for 1939, but they may have reached something like 8,000 kilos.



- 2 -

By using the figures for total shipments during 1940 of 69,648 kilos and an estimated 8,000 kilos for collections, the tabulation of stocks at the end of October, 1940 on page 2 of our despatch No. 5168 will be changed as follows to show the position at the end of 1940.

	<u>Kilos</u>
Balance on hand Jan. 1, 1940.....	62,895
Estimated production 1940.....77,000	
Estimated gold collections, 1940..... 8,000.....	<u>85,000</u>
Total resources Dec. 31, 1940.....	147,895
Estimated domestic consumption 1940.. 3,600	
Exports, 1940.....69,648.....	<u>73,248</u>
Stocks on hand January 1, 1941	74,647
Equivalent to:	
	\$86,000,000
	Yen 366,360,000

It is believed that these figures will throw additional light on the position as viewed by the writer of the memorandum attached to the Department's instruction No. 2098.

Respectfully yours,

Joseph C. Grew.

FSW/mp  
563.4

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FOR THE PRESS

IMMEDIATE RELEASE

FEBRUARY 29, 1941

STEEL INDUSTRY REPORT BY JANO DUNN

123  
1730

At the request of the President, Mr. Jano Dunn has made an exhaustive survey of the capacity of the steel industry to determine whether it has adequate facilities to meet the combined requirements of the United States and British defense programs and expanded demands for civilian uses. Mr. Dunn is senior consultant to the Production Division of the Office of Production Management, but in this instance made his report direct to the President.

The study was requested by the President because of conflicting estimates of steel requirements during the next two years and of the consequent ability of the industry to meet all demands placed upon it. This question is of such importance to the defense program and the national economy as a whole that the President requested Mr. Dunn, as a qualified authority capable of presenting an impartial, factual study, to make a special report on the subject.

The investigation on which it was based was carried out over a period of six weeks. During the course of his inquiry Mr. Dunn consulted with a great many economists and experts, both in government and industry, and representatives of organized labor in the steel industry. He has acknowledged the valuable assistance of many of these persons.

Mr. Dunn has accepted the estimates of Melvin de Chazeau, economist attached to the Materials Branch, Office of Production Management, on probable requirements of steel for civilian uses during 1941 and 1942. These estimates are based on the assumption of a national income of 80 billion dollars in 1941, 90 billion in 1942, and a greatly increased demand for steel for civilian uses as a result of the rise in national income.

However, the Dunn report includes information on actual capacity for production of steel ingots which has never been known before and which demonstrates that that capacity is considerably higher than was generally realized.

The report concludes that if certain measures are undertaken there will be an excess of ingot-producing capacity over total requirements of 10,100,000 tons during the present year and 2,100,000 in 1942. These measures that must be taken to attain capacity production include the elimination of potential bottlenecks in output of pig iron and coke, an even distribution of orders throughout the industry, and a shortening of the period of time during which steel-making facilities are normally closed down for repair work.

Mr. Dunn has arrived at a new measure of steel capacity which he has called "reliable capacity." The difference between "reliable capacity" and "reported capacity" is that "reliable capacity" takes into account certain existing facilities for the production of steel castings which are not included in reported statistics of the industry and that the period of time normally consumed for repairing facilities can be reduced at a nominal increase in cost to the steel companies. This increased expenditure in the interests of time-saving is justified by the emergency nature of demands on the industry.

- 2 -

The report estimated that, on the basis of existing facilities at the beginning of the year, a shortage of 1,130,314 tons, or 2.3%, in capacity for production of pig iron would result if the industry were to operate at reliable capacity throughout the year. In 1942 a potential shortage in the production of pig iron of 544,481 tons is anticipated on the basis of existing facilities if the industry were to operate at capacity during that year.

Coke shortage during 1941, on the same basis, is estimated at 5,360,315 tons, or 12%, and during 1942 at 2,670,806 tons. Total cost of removing these deficits by construction of additional facilities would be \$59,545,975 in 1941 and \$29,462,964 in 1942. Some of these facilities are already under construction.

Mr. Dunn has recommended that this increase in facilities be undertaken and that if it does not occur normally that it be pro-rated over the industry by the Director General of the Office of Production Management. His recommendation along these lines is based on the conviction that the normal relationship between pig iron and scrap going into ingot steel should be maintained and that adequate supplies of coke should be available both for steel making and for home and commercial heating purposes. Pending the installation of new facilities, however, any shortages that might arise from these directions could be met (1) by increasing the ratio of scrap to pig iron going into ingots and (2) by diverting coke from use in home and commercial heating units to the steel industry. If such expedients are found necessary it is agreed that they should be made temporary by the creation of new pig and coke facilities to maintain normal balance and practices in the industry and to minimize any disturbance of civilian consumption of coke.

The Dunn report strongly emphasizes the necessity of even distribution of orders throughout the industry if maximum overall production is to be reached and maintained. In other words, one producer must not be allowed to acquire a large backlog of orders for delivery well into the future while another producer is operating at less-than-maximum capacity. This might involve a considerable shifting of orders and require users of steel to deal with different sources of supply than they have in the past. Mr. Dunn recommended that unless such distribution takes place by voluntary action of the industry that the Director of the Division of Priorities assume responsibility for the task.

Reliable capacity for steel ingots at the beginning of this year, with ample allowances for periodic shut-down for repairs, is reported in the Dunn study as 57,576,099 tons per year. This is roughly 3,500,000 tons higher than previously supposed. Completion of additional facilities, now under way, will raise reliable annual capacity to 91,124,718 tons by the end of the year. It should be clearly understood that these figures on capacity represent the maximum rate of operations that could be continued over an extended period of time. Mr. Dunn has concluded that the industry could, under proper conditions, operate indefinitely at a rate of slightly more than 102% of reported capacity, which heretofore has been the normal measure of steel capacity.

Ingot production in January was at the highest point in the history of the country, amounting to 5,943,084 tons. However, the Dunn report makes the interesting observation that while this figure represents 97.1% of "reported capacity" it is only 94.5% of "reliable capacity". When compared with reliable capacity that will exist at the end of this year, January production would represent only 91% of that capacity.

- 1 -

Direct defense requirements for steel in 1941 are estimated in the Dunn report at 5,100,000 tons. There is not much controversy over this figure. Exports of steel, mostly to England and Canada, are placed at 13,400,000 tons. Civilian requirements, based on a national income of eighty billion dollars, are estimated at 61,000,000 tons, making a total of 77,500,000 tons or 10,100,000 less than the reliable capacity of the industry to produce ingots. Naturally, if the national income is less than eighty billion dollars, civilian requirements will be less and the safety margin correspondingly increased. For instance, if the national income in 1941 reaches only seventy-seven billion dollars, surplus capacity is estimated at 14,100,000 tons.

Surplus capacity in 1942, based on a national income of ninety billion dollars, is estimated at 2,100,000 tons. Again, if the national income in 1942 reaches but 87 billion dollars, surplus capacity would be 6,100,000 tons.

While exact figures in every category cannot be collected, the Dunn report finds that capacity for rolled and other steel products is generally well in excess of ingot capacity, ranging from 50% in certain sectors to an average of 15%. The conclusion is that if orders are properly distributed, total requirements for fabricated products can be met without unusual delay. This should not be taken to mean that at no time during the course of the defense program will any user of any steel product face difficulty in obtaining prompt deliveries. During a period of tremendous industrial expansion, with requirements for specific products undergoing frequent changes, the development of temporary choke points in certain spots from time to time appears to be inevitable.

However, the statistics unearthed by Mr. Dunn's study and the conclusions drawn from them, present an encouraging picture to the directors of this nation's defense program, to good neighbor nations, and to users of steel and steel products for civilian consumption.

In view of the importance of steel capacity and the necessity of having an up-to-date picture of the situation, the President has asked Mr. Dunn to make this survey and report the starting point of a continuing study. Mr. Dunn has accepted this assignment and will revise his statistics and conclusions periodically, reporting directly to the President on his findings.

WAR DEPARTMENT  
OFFICE OF THE CHIEF OF STAFF  
WASHINGTON

February 28, 1941.

MEMORANDUM FOR SECRETARY MORGENTHAU:

Re: Malcolm Wheeler-Nicholson.

Malcolm Wheeler-Nicholson is a former officer of Cavalry, Regular Army. He has had some success as a short story writer, and in addition to his recent article in Harper's criticizing the Army, he has written a book, "Battleshield of the Republic", along the same line, which has recently been published. Some time ago he submitted a rather lengthy document to the President in criticism of Army organization, administration and personnel system.

His military record is highly discreditable. In 1920 he was placed provisionally in Class B (below minimum standard required for commission in the Army), but was restored to Class A by order of the President. In 1922 he was again placed provisionally in Class B, and in the same year he was tried by general court-martial and found guilty of disorderly and discreditable conduct. He was finally placed in Class B on September 25, 1922, and the action of the board was approved by the President.

He was wholly discharged from the service on December 26, 1922, it having been determined that his inefficiency was due to his own neglect and misconduct.

The records in The Adjutant General's Department indicate that his difficulties were the result of drinking, bad debts and false official statements.

He is a good writer and has the faculty of dramatizing dry facts. His material is readable and some of his criticisms have been justified, although the weaknesses he emphasizes are thoroughly appreciated by the War Department.

W. B. S.

For Miss Gandy

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE February 26, 1941

**CONFIDENTIAL**

TO Secretary Morgenthau  
FROM Mr. Goodrum

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns £23,000  
Purchased from commercial concerns £ 8,000

Open market sterling opened at 4.03-1/2 and closed at 4.03-3/4. Transactions of the reporting banks were as follows:

Sold to commercial concerns £2,000  
Purchased from commercial concerns £8,000

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

Canadian dollar	14-1/4% discount
Swiss franc (commercial)	.2323
Swedish krona	.2385
Belchmark	.4005
Lira	.0505
Brazilian milreals (free)	.0505
Mexican peso	.2066
Cuban peso	6-27/32% discount

On February 26th the Ministry of Finance in Argentina announced that pending the organization of corporations to export raw commodities, the dollar exchange resulting from such exports to be used to pay for imports into Argentina (Decree of November 29, 1940), all dollar exchange derived from exports previously dealt in in the free market must be surrendered to the Argentine Control at 4.2125 pesos to the dollar (\$4.2370). The announcement also stated that all such dollar exchange surrendered would be auctioned to the highest bidder in order to pay for imports other than those for which official exchange is provided. These new regulations tend to restrict the scope of the free market which will now be reduced to financial transactions, capital repayments and similar operations. As a reflection of the reduced utility of the free market the free peso declined from .2365 at yesterday's opening to .2345 at today's close.

In Shanghai, the U. S. equivalent of the yuan was 5-5/8¢, up 1/32¢. Sterling was 3.93-1/2, up 2-1/8¢. In Hong Kong, both the H.K. dollar and sterling were unchanged in terms of United States currency at 24-5/8¢ and 3.94, respectively.

We sold the following amounts of gold to be added to the earmarked accounts of the banks indicated:

\$ 7,500,000	to the Bank of Java
<u>2,550,000</u>	to the National Bank of Yugoslavia
\$10,000,000	Total

The Federal Reserve Bank of New York reported that the Bank of Mexico shipped to it \$51,000 in gold, for sale to the Assay Office.

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

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

There were no purchases of silver under the Silver Purchase Act.

During the month of February our purchases of silver were considerably reduced from the total of 9,149,600 ounces during January. During the current month we purchased 3,661,871 ounces, the sources of which were as follows:

<u>Type of Silver</u>	<u>Ounces</u>
New Production	
1. From various countries	2,556,871
2. From Canada under agreement	500,000
Inventory	<u>605,000</u>
Total	3,661,871

*J. M. R.*

**CONFIDENTIAL**

February 28, 1941

**MEMORANDUM FOR THE SECRETARY:**

Attached is a summary report of the projects which have been worked on in the Division of Tax Research during February, 1941.

*RAB*

**Attachment**



Monthly Report on Projects in the  
Division of Tax Research  
February, 1941

I. New projects

1. Tax revision, 1941

A series of brief memoranda concerning certain possible revisions of the individual surtax, estate and gift taxes, liquor, wine and beer taxes, soft drinks tax, tax on passenger automobiles and motorcycles, check tax, admissions tax and stock transfer taxes were completed.

(Mr. Ecker-Racz and staff)\*

2. Tax-exempt securities

(a) A brief statement was prepared for the use of Mr. Doughton on H.R. 2959 relating to tax-exempt securities. (Mr. Ecker-Racz)

(b) A memorandum was prepared relating to tax-exempt securities of Great Britain and Canada indicating the issues, tax status, and amounts outstanding. A memorandum containing similar data for other countries is in process. (Mr. Ecker-Racz and Mr. Mannen)

\* Persons listed as working on the different projects do not include those who acted largely or exclusively in a consulting or reviewing capacity. In general, the person, if any, actively in charge of the project is listed first.

- 2 -

- (c) A table showing the treatment of interest from governmental obligations under State income taxes is in process. (Miss Wells)
- (d) A memorandum relating to the taxation of Federal securities under State and local intangible property taxes was prepared. (Mr. Ecker-Racz)
- (e) A digest of legislative proposals pertaining to the elimination of tax-exemption of government securities is in process. (Mr. Mannen)

3. Prepayment of income taxes

A memorandum is in process analyzing the problems involved in a system of prepayment of income taxes and outlining possible plans for prepayment. (Mr. Atlas)

4. Taxation of banks and insurance companies

A memorandum analyzing statistical information relating to the profits and income tax payments of banks has been prepared. A similar memorandum on insurance companies is in process. (Mr. Mills)

5. Taxation and the cost of national defense program

A memorandum on the effect of State and local taxes on the cost of the national defense program was prepared. (Mr. Ecker-Racz)

- 3 -

6. Social security

An analysis of the Social Security Board's legislative program for 1941 is in preparation.

(Mr. Ecker-Racz)

7. Income tax

(a) Examples comparing present and proposed individual income taxes on net incomes of selected sizes under certain proposed surtax rate schedules were prepared.

(Mr. Zorach)

(b) An analysis of the personal exemption and credit for dependents based on data supplied by the Income Tax Study is in process.

(Mr. Zorach)

8. Excess profits tax

An analysis of the relief provisions of the excess profits tax law is in process. Examples were prepared of (1) types of situations affected by the relief provisions and (2) companies in the munitions business which, because their last fiscal year ended before December 31, 1939, were not subject to the excess profits tax for 1940. (Mr. Campbell)

- 4 -

9. Excise taxes

A comparison of the British and United States excise taxes on selected commodities showing British rates, Federal rates and highest and average State rates was prepared. (Mr. Atlas)

10. Tax suggestions

A summary of tax suggestions received in the Division from October 1, 1940 to February 20, 1941 were classified into those worthy of study or adoption and those which are apparently not useful. (Mr. Zorach and Mr. Mills)

11. Intergovernmental fiscal relations

Memoranda have been prepared showing (a) what the Division of Tax Research has done in the field of Federal, State and local fiscal relations, and (b) a possible program for further research on this subject. (Mr. Ecker-Racz)

II. Continuing projects

1. Income tax collected at source

A memorandum analyzing the problems involved in the collection of the individual income tax at source is in process. (Mr. Atlas)

- 5 -

2. Excess profits tax

An analysis of special treatment afforded financial, personal service and public utility companies, the professions and agriculture under the World War and present excess profits taxes of the United States, Great Britain and Canada, is in preparation. (Mr. Mills)

3. Federal excise taxes

A memorandum analyzing possible additional sources of excise tax revenue is in process. (Mr. Campbell)

4. Federal sales taxes

A memorandum on the value added and other possible forms of Federal sales taxes is in preparation. (Mr. Farioletti and Mr. Copeland)

5. Foreign taxes

- (a) Memoranda on the latest changes in Canadian and Australian taxes are in preparation. (Mr. Atlas and Miss Hughes)
- (b) In collaboration with the Division of Monetary Research, a study of the Haitian fiscal system is in process. (Miss Wells)

- 6 -

6. Amount of surtax net income by brackets

A table showing for 1938 the amount of surtax net income falling within each surtax bracket of the surtax rate schedule is in process.

(Miss Hughes)

7. Treasury Bulletin

An article for possible publication in the Treasury Bulletin is in process comparing taxpayers' reported state of residence in 1936 with the states in which they filed their income tax returns. (Miss Coyle and Mr. Zorach)

8. Undistributed profits and income taxation

Reports on the following subjects have not been actively prosecuted during the month:

(1) Analysis in the light of issues raised by the undistributed profits tax of the statistics made available from income tax returns and other sources.

(Mr. Atlas and Mr. Copeland)

(2) Analysis of the proposal to allow corporations with five or less shareholders to be treated for tax purposes as partnerships. (Mr. Mills)

- 7 -

### III. Routine Assignments

#### 1. Technical review of forthcoming Treasury publications

- (a) The work of the Philadelphia project analyzing income, excess profits and estate tax returns is in final stages of completion. Among the portions of the study reviewed were (1) volume 3 of the Income Tax Study, 1936, (2) procedures for the analysis of dividends and (3) table outlines for the excess profits tax study. (Miss Coyle)
- (b) Four press releases for the complete report "Statistics of Income for 1938, Part 2," were reviewed. (Miss Hughes)

#### 2. Digests and comments on other studies

The following studies are pending analysis:

- (a) A memorandum from the Price Stabilization Division of the Advisory Commission of the Council of National Defense entitled "The Effect of the Tax Structure on Saving and Consumption." (Mr. Farioletti)

- 8 -

- (b) The report "Concentration and Composition of Individual Incomes, 1918-1937" prepared by the Temporary National Economic Committee. (Miss Coyle)
- (c) The report "Million Dollar Incomes" by L. H. Parker. (Miss Coyle)
- (d) The report "Study of the Delaware State Income Tax Yields" by Walter G. Wilson. (Miss Coyle)
- (e) The article "British War Taxes and Corporate Earnings" in the National City Bank Bulletin for December, 1940. (Mr. Copeland)

3. Statistics

- (a) In connection with the supervision of the statistical work of the Bureau of Internal Revenue, various proposals for statistical compilations were examined including suggested tabulations from the corporation income and excess profits tax returns. (Mr. Blough, Mr. Shere and Miss Coyle)



- 9 -

- (b) Administrative reports and statistics of the Bureau of Internal Revenue are graphed and commented upon for Mr. Sullivan's information. (Mr. Campbell)
- (c) Data relating to different taxes, digests of tax items, and congressional activity on tax items of interest to the Division are currently prepared. (Staff members)

4. Correspondence

The Division handled correspondence pertaining to tax matters. (Staff members)

BRITISH EMBASSY,  
WASHINGTON, D. C.

Personal and Secret

February 28th, 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Asifax*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

Telegram received from London

dated February 26th.

Naval.

At 21/25 "Amoor" escorting eastern coast convoy off Norfolk coast was torpedoed and sunk by E-boat and British Minor (CA) 1100 tons in the same convoy was also torpedoed and at 2.30/26.

2. "Dainty" sunk by aircraft off Tobruk p.m. 24th 20 casualties.

3. In Mediterranean, Kasteloritso Island occupied dawn 25th. Enemy air activity caused withdrawal of Ladybird from harbour and reported permanent garrison might have to be landed by night.

4. At (words undecypherable) on February 25th coastal aircraft unsuccessfully attacked four merchant vessels and escort vessels off Sogne Fiord also without seeing results (words omitted) bombed two E-boats off Stadlandet and attacked convoy of merchant vessels off Ostend but scored no hits.

5. Night of 25/26th small force of aircraft bombed docks at Boulogne.

6. Three merchant vessels bombed or torpedoed western approach last few days have arrived safely in harbour.

7. R.A.F. night of 24th/25th

Attack on Brest. On account of searchlights and flares detailed results could not be observed but over 50 bombers dropped bombs in target area. The aircraft reported missing has returned safely.

8./

8. Daylight 24th One Blenheim attacked submarine assembly and repair station at Flushing bursts being observed on target. In afternoon six medium bombers escorted by three squadrons of fighters with a further five squadrons in support unsuccessfully bombed enemy shipping off Dunkirk. In course of this operation our fighters destroyed 3 ME 109's and a fourth probable. One of our fighters is missing.

9. Night of 25th/26th

114 bombers despatched. Main targets: Dusseldorf industrial area 80 aerodromes 17 and Boulogne 8. One aircraft is missing.

10. Lybia. Night of 24th/25th

Nine Wellingtons attacked Tripoli, hits being made on Customs wharf and shipping. Numerous fires and a violent explosion were caused. One aircraft is missing.

11. German Air Force. Daylight 25th Enemy activity mainly confined to sea reconnaissances and patrols.

12. Night of 25th/26th

About 100 aircraft operated, activity being widespread over east Anglia and Lincolnshire. One enemy aircraft was shot down by a night fighter.

13. Aircraft casualties in operations over and from British Isles. German: Fighters - three destroyed, one probable, Bombers - one destroyed, totals four destroyed, one probable. British One fighter (bomber reported missing yesterday has returned safely).

14. Home Security Night of 25th/26th. Damage

done negligible except at Hull area where many  
fires were started and at Harwich where gas  
and water mains were damaged. Very few casualties.  
All fires have been extinguished.

BRITISH EMBASSY,  
WASHINGTON.

Personal and  
Secret

28th February, 1941

Dear Mr. Secretary,

I enclose herein for your personal and secret information copies of the latest reports received from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Stalifax*

The Honourable  
Henry Morgenthau, Jr.,  
United States Treasury,  
Washington, D.C.

REPORT RECEIVED FROM LONDON,  
DATED FEBRUARY 24TH, 1941

NAVAL

MANISTEE ocean boarding vessel torpedoed 500 miles west of Butt of Lewis a.m./23rd.

Three M/S trawlers whilst sweeping off Cardiff have been damaged by mine explosions - one of these only slightly damaged.

2. GUSE while sweeping at Herak Tobruk was sunk by coast .....
3. No further news received of pocket battleship sighted by GLASGOW search continues.
4. One of the ships bombed on the 22nd by Fokke-Wulf a/a has been found and taken in tow.
5. Suez Canal still closed and one mine reported detonated.
6. Mine destroying home waters continues satisfactorily. Mines being detonated regularly off numerous ports.
7. Four enemy A/C bombed Benghazi a.m./23rd. Six bombs on the water front and some near; little damage - no casualties.
8. SHROPSHIRE bombarded Medun near Brava a.m. 22nd considerable damage caused.
9. HIPPER class cruiser still at Brest 23rd AA/C attacked this ship night of the 23rd/24th, frustrated by weather.
10. Military. Italian Somaliland

To 8 p.m. 22nd. Our forces have taken Jumbo and captured 22 Italian officers 85 other ranks and much material including arms and ammunition. A pontoon bridge has been completed at Yente.

-8-

11. Royal Air Force Night of 23rd/24th.

Seventy-one aircraft were sent to docks at Calais, Boulogne and Den Helder. Numerous fires were started at Boulogne but elsewhere results were unobserved.

Two aircraft were missing.

12. Eritrea. On 21st South African Hurricanes destroyed six aircraft and six hangars at Massawa aerodrome. One Hurricane was lost.

13. Greece On 22nd Blenheims shot down three enemy aircraft.

14. German Air Force During daylight 23rd enemy aircraft carried out continuous patrols of the Straits and made one sweep over East Kent Coast.

15. Night of 23rd/24th. A small scale bombing attack was made on the Humber area and there was slight activity over Eastern and South Eastern England and the London area.

16. Aircraft casualties in operations over and from the British Isles. German: Nil British - two bombers missing.



TELEGRAM RECEIVED FROM LONDON  
DATED FEBRUARY 25th. 1941

NAVAL

MANISTRE, having been torpedoed February 24th for the second time presumed sunk. No trace of her or survivors found yet.

2. Terror sank off Derna a.m. Feb. 24th, having been near missed in two bombing attacks February 22nd and February 23rd. No casualties. Enemy does not know of this loss.

3. Situation Bengasi being made difficult for ships owing to enemy air activity being little hampered by anti-aircraft and fighters, however 5 or 6 enemy aircraft have been shot down including one torpedo aircraft by Peony's anti-aircraft gun.

4. Three ships reported torpedoed in outward convey a.m. February 24th in N.W. approaches. Salvage of all three is possible.

5. Eastbound convey in Straits of Dover was shelled before dawn February 24th by enemy shore batteries. No damage reported.

6. A.M. Feb. 19th. 9 aircraft attacked anti-aircraft cruiser Voyager and some Corvettes off Bengasi. No damage caused though there were near misses.

7. R.A.F. Night of Feb. 24th/25th. 63 heavy and 7 medium bombers attacked Hipper class cruiser at Brest. All returned safely, except one heavy bomber.

8. Preliminary report of reconnaissance a.m. February 25th, shows ship still there but photo

photographs not good enough to show if damage caused.

9. ETHIOPIA.

On February 23rd, 7 South African Air Force Hurricanes machine-gunned Makale aerodrome and destroyed 8 enemy aircraft on the ground and one in the air. One Hurricane is missing.

10. Our medium bombers also considerably damaged aerodrome buildings at Addis Ababa.

11. GERMAN AIR FORCE.

Yesterday limited also entirely to patrols in Straits and night of February 24/25, scattered raids by 28 aircraft in East Anglia and mining by 19 aircraft off Liverpool.

12. Aircraft casualties in operations over and from British Isles. Germans, nil. British, 1 bomber missing.

G--2/2657-220  
No. 327

RESTRICTED

M.I.D., W.D.  
February 28, 1941  
12:00 M

SITUATION REPORT

I. Western Theatre of War.

Air: German. The High Command claimed long range bombers had destroyed 13 ships and damaged 6 others.

British. Bad weather left both British and German planes grounded during the night.

II. Greek Theatre of War.

Ground: No change.

Air: Nothing to report.

III. Mediterranean and African Theatres of War.

Air: The Italian High Command reported both Italian and German planes bombed and machine gunned British armored forces in North Africa.

Ground: Libya. A reconnaissance unit of armored fighting vehicles, believed to be German, was encountered west of El Agheila and driven back by British mechanized forces.

Italian Somaliland. Italian forces are reported demoralized. Many prisoners and much war materiel have been captured.

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

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March 1, 1941

At six o'clock this afternoon, Cordell Hull called me and said he had arranged a meeting in his Department for 11:00 Sunday. Hull said he had arranged for Barkley and Jimmy Byrnes and Senator George to come to his place, and he wanted to know if I thought it was all right inasmuch as he still says he doesn't know anything about this particular amendment although it has been explained to him carefully.

It was suggested that Colonel Stimson take the leadership and explain. He said he would most likely have his experts and he thought that I would want to bring Oscar Cox. I said, "No, I will bring Oscar Cox's boss, Ed Foley."

There seems to be a lot of stuff going on behind the scenes between Hopkins and Hull, who evidently don't want Foley, but I do, and Foley's done a swell job on this, and I am not going to let him be sidetracked by either Hull or Hopkins.

Then Hull said would we check with the Bureau of the Budget because it seems that Jimmy Byrnes has been talking to somebody in the Budget. I said that we would be there at 11:00. I then called up Foley and told him of my conversation. He said that as far as he was concerned, he would not feel hurt if I took Oscar Cox. I said that it wasn't a question of feelings but since he had done a perfectly swell job, there was no reason to take Cox. Furthermore, I wasn't going to let Hopkins or Hull tell me how to run my shop. When I told Foley that I wanted him by my side, he said that that is where he wanted to be.

March 1, 1941

CONFIDENTIAL

Dear Mr. Ecks:

Permit me to acknowledge, on behalf of Secretary  
Nargathan, the receipt of your letter of February 27,  
enclosing your compilation for the week ended February 19,  
1941, showing dollar disbursements out of the British  
Empire and French accounts at the Federal and the means  
by which these expenditures were financed.

Faithfully,

E. Marie Cochran  
Technical Assistant to the Secretary

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

For Miss Chauncey

Noted

H. M. Cochran

FEDERAL RESERVE BANK  
OF NEW YORK

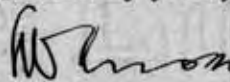
February 27, 1941.

CONFIDENTIAL

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

I am enclosing herewith our compilation for the week ended February 19, 1941, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,



L. W. Knoke,  
Vice President.

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

Enclosure

TO THE SECRETARY OF THE TREASURY  
TECHNOLOGY DIVISION  
FEB 28 1941  
RECEIVED

RECEIVED  
FEB 28 1941  
TECHNOLOGY DIVISION

ANALYSIS OF BRITISH AND FOREIGN ACCOUNTS  
(In Millions of Dollars)

Week Ended Feb. 19, 1941.

Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE						
	DEBITS				CREDITS				DEBITS			CREDITS			
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities Official (b)	Other Credits (c)	Net Incr. (+) or Deor. (-) in Balance	Total Debits	Gov't Expenditures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Deor. (-) in Balance
1939															
Aug. 31 - Sept. 27	94.3	3.6	90.7	207.8	185.4	-	22.4	+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	3.2	-	138.8	+ 33.3	88.6	61.8	106.4	76.2	35.0	41.2	- 12.4
Nov. 2 - 29	191.7	8.9	182.8	105.8	57.8	-	48.0	- 85.9	78.6			82.9	55.1	27.8	- 4.3
Nov. 30 - Jan. 3	97.7	8.7	89.0	75.2	50.5	-	24.6	- 22.5	86.8	28.1	58.7	109.2	98.9	15.3	- 22.4
1940															
Jan. 4 - 31	54.8	16.8	38.0	43.4	20.6	-	22.8	- 11.4	81.5	31.5	30.0	55.9	50.1	5.8	- 5.6
Feb. 1 - 28	124.2	15.4	108.8	108.3	56.7	-	51.6	- 15.9	72.7	32.8	39.9	71.5	54.8	16.7	- 1.2
Feb. 29 - Apr. 3	115.5	14.5	101.0	94.0	60.9	14.0	19.1	- 21.5	99.6	35.9	63.7	105.0	75.4	29.6	- 5.4
Apr. 4 - May 1	113.4	26.1	87.3	86.4	46.8	20.0	19.6	- 27.0	84.8	22.4	55.4	78.7	60.7	18.0	- 6.1
May 2 - 29	100.9	23.6	77.3	125.2	93.2	12.0	21.0	+ 25.3	101.4	57.0	44.4	145.4	126.2	19.2	+ 44.0
May 30 - July 3	223.2	145.3	177.9	312.3	301.3	3.0	15.0	+ 36.1	166.7 (e)	127.3 (e)	82.4	345.1 (e)	335.6	9.5 (e)	+ 156.4
July 5 - 31	249.7	156.7	93.0	225.0	212.2	2.0	10.8	- 24.7	7.3	5.3	1.0	3.2	3.0	0.2	- 4.1
Aug. 1 - 28	251.1	180.2	70.9	294.8	257.4	1.0	26.4	+ 33.7	8.9	0.5	8.4	10.9	10.4	0.5	- 2.0
First year of war	1,793.2	605.6	1,187.6	1,822.2	1,356.1	52.0	420.1	+ 35.0	866.3	416.6	449.7	1,095.3	900.2	195.1	+ 220.0
Aug. 29 - Oct. 2	316.8	244.2	72.6	308.9	271.5	6.0	31.4	- 7.9	8.6	4.4	4.2	1.3	-	1.3	- 7.3
Oct. 3 - 30	196.7	167.2	29.5	198.5	160.5	6.0	32.0	+ 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	+ 18.5	0.8	0.1	0.7	0.7	-	0.7	- 0.1
Nov. 28 - Dec. 31	234.6	206.6	28.0	198.0	111.4	25.0	60.6	- 38.6	2.1	-	2.1	0.6	-	0.6	- 1.5
War period through Dec. 31	2,782.3	1,425.5	1,356.8	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+ 220.1
Jan. 2 - 29	197.4	162.9	34.5	259.9	176.7	32.0	31.7	+ 52.5	1.7	-	1.7	0.5	-	0.5	- 1.2
Jan. 30 - Feb. 28															
Feb. 29 - Apr. 2															
WEEK ENDING:															
Jan. 29	41.8	37.6	4.2	19.6	1.0	12.0	6.6	- 22.2	0.4	-	0.4	0.1	-	0.1	- 0.3
Feb. 5	46.5	40.1	6.4	23.2	-	10.0	13.2	- 23.3	0.1	-	0.1	-	-	-	- 0.1
11	37.4	31.3	6.1	14.1	-	6.0	8.1	- 23.1	-	-	-	0.1	-	-	+ 0.1
19	40.7	38.2	2.5	19.6	-	6.0	13.6 (r)	+ 21.1	0.1	-	0.1	0.1	-	0.1	-

Average Weekly Expenditures Since Outbreak of War  
 France (through June 19) \$12.2 million  
 England (through June 19) \$7.7 million  
 England (since June 19) \$2.6 million

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

Week ended Feb. 19 \$ 0.2 million  
 Cumulation from July 6 \$ 132.5 million

(See footnotes on reverse side)

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts during more recent months apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26 and returned the following day.
- (f) Includes about \$4 million of return payments and about \$3 million transferred from the accounts of British authorized banks with New York banks.

RECEIVED  
 TREASURY DEPARTMENT  
 841 FEB 28 PM 12 01  
 OFFICE OF THE  
 TECHNICAL ASSISTANT  
 TO THE SECRETARY

STATEMENTS OF CANADIAN AND AUSTRALIAN ACCOUNTS  
(In Millions of Dollars)

Week Ended Feb. 19, 1941.

Confidential

PERIOD	BANK OF CANADA								COMMONWEALTH BANK OF AUSTRALIA						
	DEBITS				CREDITS				DEBITS			CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
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	15.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	-	-	-
Nov. 2 - 29	9.9	0.7	9.2	14.4	13.3	-	-	1.1	+ 4.5	-	-	-	-	-	-
Nov. 30 - Jan. 3	30.0	-	30.0	22.8	15.3	3.0	-	6.5	- 7.2	2.5	-	2.5	5.8	5.8	-
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
Feb. 1 - 28	23.1	-	23.1	17.0	16.1	-	-	0.9	- 5.1	3.3	0.1	3.2	2.4	3.2	0.2
Feb. 29 - Apr. 3	42.3	-	42.3	49.5	29.3	-	-	0.2	- 12.6	3.0	0.3	2.7	2.2	1.6	0.6
Apr. 4 - May 1	58.2	-	58.2	42.9	24.8	15.0	-	5.1	+ 4.7	2.3	-	2.3	2.0	1.8	0.2
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
May 30 - July 3	44.1	-	44.1	72.5	72.2	-	-	0.3	+ 28.4	2.3	-	2.3	5.9	4.4	1.5
July 4 - 31	28.2	-	28.2	117.6	96.3	-	-	2.1	+ 89.4	4.6	-	4.6	5.0	4.2	0.8
Aug. 1 - 28	18.7	-	18.7	73.6	53.9	-	-	19.5	+ 54.9	6.8	3.0	3.8	3.0	3.4	1.6
First year of war	323.0	15.6	306.4	504.7	412.7	20.9	-	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	5.1
Aug. 29 - Oct. 2	44.3	-	44.3	43.9	15.4	-	-	27.5	0.2	- 0.4	8.7	2.5	6.2	8.0	6.7
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
Oct. 31 - Nov. 27	55.2	-	55.2	69.6	49.2	-	-	16.7	+ 34.4	5.1	0.6	2.5	3.6	2.1	1.5
Nov. 28 - Dec. 31	48.0	-	48.0	60.6	42.5	-	-	15.7	+ 12.6	4.8	-	4.8	6.8	4.8	2.0
War period through Dec	477.2	16.6	460.6	707.4	534.8	20.9	-	110.7	+230.2	57.9	14.5	43.4	62.4	50.1	12.3
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
Jan. 30 - Feb. 25															
Feb. 27 - Apr. 2															
WEEK ENDED:															
Jan. 29	13.9	-	13.9	15.4	5.2	-	-	10.2	-	+ 1.5	0.9	-	0.9	0.9	-
Feb. 5	8.4	-	8.4	7.1	4.6	-	-	2.3	0.2	- 1.3	2.6	1.7	0.9	2.2	0.6
11	1.9	-	1.9	9.7	3.4	-	-	4.3	2.0	+ 7.8	1.0	-	1.0	0.5	-
19	12.9	-	12.9	4.5	3.7	-	-	0.2	0.6	- 8.4	0.2	-	0.2	0.3	-

Weekly Average of Total Debits Since Outbreak of War  
Through Feb. 19 \$ 6.9 million



## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 1, 1941

*M. J. O'K.*

TO Secretary Morgenthau  
FROM Mr. Cochran

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£22,000
Purchased from commercial concerns	£93,000

Open market sterling was steady at 4.03-3/4. Transactions of the reporting banks were as follows:

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

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

Canadian dollar	14-3/8% discount
Swiss franc (commercial)	.2323
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2342
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	6-27/32% discount

In Shanghai, the U. S. equivalents of both the yuan and sterling were unchanged at 5-5/8¢ and 3.93-1/2, respectively. In Hong Kong, the H.K. dollar expressed in terms of U.S. currency was 24-1/2¢, off 1/8¢. Sterling was also lower at 3.92, off 2¢.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped to it \$4,277,000 in gold for account of the Government of Canada. The gold will be sold to the U.S. Assay Office in New York.

*J. M. P.*

For Miss Chauncey

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 1, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

<u>Date</u>	<u>Account Debited</u>	<u>Amount Debited</u>	<u>Paid To</u>
February 28	Central Corporation of Banking Companies, Budapest	\$150,000	National City Bank of New York for account of the National Bank of Hungary, Budapest
	National Bank of Hungary, Budapest	\$164,700	National City Bank of New York for credit of Spool Cotton by order of J. and P. Coates, Ltd., on behalf of and in favor of Hungarian Thread Company, Budapest

*[Handwritten signature]*

3/1/47

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# FINANCING DEFENSE

*By*

ROSWELL MAGILL

*Professor of Law, Columbia University  
Former Under-Secretary of the Treasury  
of the United States*

*Advance copy of an article which will appear in the  
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# FINANCING DEFENSE

by Roswell Magill

Professor of Law, Columbia University

Former Under-Secretary of the Treasury  
of the United States

FIFTY YEARS ago, the burning question before the town meeting was whether the road money should be spent on North Street or South Street, and whether the town should go into debt in order to raise money to build a new school building. These were simple, understandably questions, which villagers could debate with intelligence and assurance. The democratic process was a very good way to settle them.

Today the questions before New England town meetings may be similar, but the questions before our larger democracies, the states and the nation, are far more complex. Shall we trade destroyers to England for naval bases? Shall we grant great authority to the President to lease-land? Shall we proceed with a 17½-billion-dollar budget, and how?

There are so many facets and so many implications in just all these questions they are so big and so difficult that at the sight of them the average citizen is apt to draw completely into the shell of his small daily occupations, to leave their solution wholly to his representatives and such "experts" as may present themselves. Yet the democratic process demands that the average citizen—*you and you and you*—shall have a reasonably lucid understanding of great public questions, and shall be prepared to take his part in their decisions. One good use of our democracy is to prefer ways and means for presenting the pros and cons of public issues in order, stable form to the forum.

This article is an attempt to outline some of the major issues of public finance in that form. It will be no substitute for longer technical articles in the many technical journals. It will necessarily be oversimplified. My single aim is to make it short, objective, and intelligible.

THE PARADOXICAL 1941 BUDGET MESSAGE presented in Congress early in January, looked at one deficit of a little over a billion dollars for the current fiscal year, and a surplus of 9 billion 200 million dollars for the next fiscal year. The sum of these two anticipated deficits is almost the same as the total of the estimated net receipts for the two years. In other words, during

the fiscal years 1941 and 1942, present Federal taxes will pay only about 50 per cent of estimated Federal expenditures. The prospect is actually a little worse than that for the proposed expenditures do not include the cost of such aid to Great Britain as other countries as well as granted by Congress directly or under the Lend-Lease bill. Thus the deficits may very well be larger than those anticipated in the budget.

The President's budget message did not indicate specifically how these budget deficits should be met. It did suggest that additional taxes should be imposed this year, but contained no express recommendations either as to the kind of taxes to be utilized, or the amounts which should be raised thereby. In the absence of other provision, the deficits must be met, of course, by further



## SOME HIGHLIGHTS

from *This Very Clear Statement Regarding Taxation*

During the fiscal years 1941 and 1942, present Federal taxes will pay only about 50 per cent of estimated Federal expenditures.

The Treasury is already a partner of every individual and of every business in the land. In many instances the Treasury is now entitled to more than half of the net income.

To raise more money requires increases in present taxes and a reduction in present exemptions.

The major taxes apt to be increased are the income tax, personal and corporate; the estate and gift taxes; and the miscellaneous sales taxes.

If the income tax is to be made to produce considerably more revenue, the increases in rates will necessarily affect the lower income brackets.

The tax exemption now accorded to the interest on some municipal, State, and Federal securities ought to be eliminated for the future, in order to improve the equal operation of the tax and to eliminate that last avenue of escape from surtaxes.

The corporate rate now stands at twice the figure employed only ten years ago, and the excess profits tax is a still further burden.

borrowing, Congress has already authorized an increase in the debt limit from 49 billion to 55 billion dollars, to provide for this possibility. It is anticipated, however, that there will be at least one revenue act of 1941. There were two in 1940.

SO LONG AS THE LAMM-LENO BILL is pending, it may be impractical for the Administration to formulate and announce more specific plans for financing our vast defense expenditures. As soon as our obligations under that bill and in the present situation become clearer,

ROSWELL MAGILL writes authoritatively on subjects of government finance and taxation. He has had unusual facilities to study these problems through intimate contacts with the U. S. Treasury Department during Republican and Democratic Administrations, and in practical life. At the age of 45 years, he has attained a national reputation through his writings and lectures. He is the author of several books on taxation.

After graduating from Dartmouth in 1916, he entered the University of Chicago Law School, but his studies were interrupted by service in the World War. He received his law degree from the University of Chicago in 1920, and has been instructor in law in that university. Since 1927 he has been professor of law in Columbia University in New York, and is also engaged in active legal practice as a member in income tax and revenue law in the firm of Livingston, Baerholm & Miller.

Mr. Magill served as special attorney in the Treasury Department under Secretary Andrew W. Mellon in 1923. He was sent to Puerto Rico by President Coolidge in 1925, and again in 1928-29, as adviser to their Tax Commission. In 1938-39 he performed a similar service in Mexico. He became assistant to Secretary Morgenthau in 1940, and was called back in 1937 as Under-Secretary of the Treasury to assist in a proposed revision of the

The excess profits tax . . . needs careful thought and revision; . . . the tax is notably discouraging to young, rapidly growing businesses.

In all probability sales and excise taxes are in line for increases, and possibly a general manufacturers' sales tax might be imposed.

Sales taxes bear with more severity, comparatively, upon the poor than upon the rich.

It should be possible in times like these to reduce expenditures for public works, public highways, unemployment relief, and agriculture, for example, by a total of one billion dollars.

In a time of increasing national income, it would seem wise to cause more than half of total expenditures to be paid out of taxes. We or our children must foot the bill some day, and these years may be better than the future.

We face real dangers and should restrict borrowing so far as we can.

Congress should adopt means for better coordination of appropriations and revenue legislation.

An advisory council on fiscal policy is badly needed. We have great talent in the business and financial fields. We need to mobilize the best of it in the governmental service.

The Administration would render a great service by taking the country into its confidence as to its fiscal program; suggesting the kinds and amounts of additional taxes proposed to be imposed, and the amounts to be raised by borrowing.

The Treasury is already a partner of every individual and of every business in the land. In many instances, the Treasury is now entitled to more than half of the net income of the individual and the business. Businessmen in particular find it increasingly hard to operate on a budget, in plan ahead, when there is no certainty whatever as to taxes—always a major element of cost.

Last year's budget became (by the summer and fall of 1939), almost fantastically unrealistic as a forecast, either of receipts or expenditures. Possibly we confront the same situation this year. Should corporations budget for a tax rate of 30 per cent? (The present rate is 24 per cent.) Many of them are doing so. Is the excess profits tax slated for an increase? How about the sales taxes on automobiles and tires and gasoline? How about the individual income tax?

WE ALL KNOW THAT THIS IS AN UNSTABLE, crazy world.

No plan or prophecy has any guarantee of permanency. But surely we, the people, are entitled to the best judgment of our local representatives as to what the future holds for us, so far as they can determine it. We will pardon them if they are wrong. It is harder to pardon them if they leave us in a complete fog as to what our local burden is likely to be. We should like to be able to give up our lives for the sacrifices which they see ahead of us.

Probably the President and Congress will tell us their local plans in good time, perhaps even at the time this article appears. In the absence of an official statement, what may we reasonably expect? No layman can hope

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to give an exact forecast, but at least the major possibilities can be explored.

**T**HE FEDERAL GOVERNMENT is already employing nearly all the major forms of taxation, and employing them heavily. To raise more money by taxation, therefore, requires increases in present forms of taxes, and a reduction in present exemptions to bring in more taxpayers. The major taxes apt to be increased are the income tax, personal and corporate; the estate and gift taxes; and the miscellaneous sales taxes. Let us glance at each of these principal sources of revenue.

**1.** THE INCOME TAX is generally regarded as one of the fairest forms of taxation, since income is a good register of the ability to pay taxes. Although the income tax rates were sharply increased just last year on the brackets above \$10,000, the rates on incomes below that figure were not greatly changed. The exemptions were lowered by 20 per cent. For more revenue, the normal rate might be decidedly increased; the exemption from surtaxes (now \$4,000, plus the personal exemption and credit for dependents) might be lowered; and the surtax rates from \$6,000 to \$150,000 or thereabouts might be raised.

The top surtax rates, up to 75 per cent, are already about as high as they can be made for maximum productivity. Moreover, it has been estimated that if all persons receiving \$10,000 or more were allowed to keep only \$10,000, and were required to pay the Treasury the balance, a total of only 2 billion 321 million dollars additional would be raised. Hence, if the income tax is to be made to produce considerably more revenue, the increases in rates will necessarily affect the lower income brackets. At the same time, the tax exemption now accorded to the interest on some municipal, State, and Federal securities ought to be eliminated for the future, in order to improve the equal operation of the tax and to eliminate that last avenue of escape from surtaxes.

The corporate tax rate now stands at twice the figure employed only ten years ago, and the excess profits tax is a still further increase in tax burden, of large proportions in some cases. Nevertheless it is unlikely that the rates on individuals will be raised without a coincident increase in corporate rates. The excess profits tax will no doubt ultimately be sharply increased. Before that occurs, however, it needs careful thought and revision, for it is now highly discriminatory in its actual operation, as applied to competitive businesses. There are also too many cases of severe inequities under the present provisions. For example, the tax is notably discouraging to young, rapidly growing businesses.

**2.** ESTATE TAX AND GIFT TAX exemptions are comparatively large, and the rates have not been raised since 1935, except for the flat 10 per cent increase applied to a number of taxes in 1940. Estates under \$300,000 are still not very heavily taxed. Death taxes are a comparatively equitable form of taxation, and probably less stinging to business initiative than some other forms of imposts. Several hundred millions additional could be raised in an emergency in this way.

**3.** THE FEDERAL GOVERNMENT already employs a wide variety of miscellaneous sales and excise taxes, the chief being those on sales of tobacco, liquor, and gasoline. In all probability all of these are in line for increases, and possibly a general manufacturers' sales tax might be imposed as well. It would exercise some deterrent effect upon private purchases, and thus upon inflation, and in both respects might thus indirectly aid the Federal program for defense expenditures. It would produce a large return. On the other hand, sales taxes bear with more severity, comparatively, upon the poor than upon the rich. They ought not to be increased unless other taxes are being decidedly increased too, and then only after a pretty careful study of the probable consequences.

**I**F NATIONAL INCOME shows a marked rise, as there is every reason to believe that it will, Congress might well decide to limit new or increased taxes for 1941 to one billion or two billion dollars. We already have a high-powered fiscal engine, which will produce a tremendous amount of revenue, increasing as income and employment rise. The ordinary Federal budget could be balanced by taxes now in effect. Nevertheless, in a time of increasing national income, it would seem wise to cause more than half of total expenditures, both emergency and ordinary, to be paid out of taxes. We or our children must foot the bill some day, and this may be better times than the future.

If the Executive and Congress manifest courage in cutting down present ordinary expenditures, and demotion in restraining new spending, the problem of financing defense can be considerably simplified. Much greater cuts could and should be made than have so far been proposed. It should be possible in times like this to reduce the great expenditures for public works, public highways, unemployment relief, and agriculture, for example, by a total of about one billion dollars, without serious impairment of necessary governmental services.

Emergency expenditures, however, will have to be met by borrowing for the most part. A discussion of the probable effects of a vast increase in our public debt and the possibilities of rises in price levels or inflation would require much more space than is available here. All would agree, however, that we face real dangers, and that we should restrict borrowing so far as we can. As a corollary, Congress should adopt means for better coordination of appropriations and revenue legislation—for a strict adherence to the letter and the spirit of the budget.

An advisory council on fiscal policy is badly needed. We have great talent in the business and financial fields. We need to mobilize the best of it in the government service, for in times like these the best advice the country can get is none too good. Our defense preparations are now, and probably will continue for years to be, enormously costly, and our normal modes of life are bound to be disrupted for a generation. We need to make every effort to the end that our fiscal policies may be intelligently directed, that we may use our resources as effectively as we know how to use them, and that we may meet the dangers and difficulties that we face.

3/1/41

MEMORANDUM FOR MR. FORRESTAL

The proposed Byrd amendment to the Lease-Lend Bill operates to retain for Congress control over disposition of any implements of war paid for out of funds appropriated after the passage of the bill. It provides as follows:

"Defense articles procured from funds hereafter appropriated shall not be disposed of in any way under authority of this paragraph except to the extent hereafter specifically authorized by Congress in the acts appropriating such funds or otherwise".

The production theory underlying the Lease-Lend Bill is based upon the conception of one large program to manufacture the required materials for both ourselves and the British without distinguishing in advance for whom the production is intended. Under this program the Navy would undertake to procure the Navy items on the program without earmarking at the time appropriations are sought whether the items are for United States or British account. From this procurement effort a pool of

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Navy materials would result. This pool would be financed from one appropriation for the Navy Department divided among the appropriate bureaus.

Assume that this bill passes as amended. If then for example the pool acquires five thousand Oerlikon A.A. guns (and by the time they are manufactured and paid for as above outlined, the British are still holding out), it might be considered advisable to transfer say two thousand of them to the British. Under the Byrd amendment if the pool was financed as assumed, out of United States Naval Appropriations, the transfer could not be made without obtaining congressional authority specifically as to the items involved. This would be cumbersome and would greatly delay the effectiveness of any aid that could be rendered. The other alternative would be to separate the British and American Programs and have separate appropriations for each and separate procurements for each. This would destroy the flexibility of the "arsenal for democracy" philosophy by freezing the program as separate and distinct with no ability to interchange without going back to Congress

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for express approval. Likewise it would raise the difficulty of two procurement programs which in the past has been shown to be quite considerable.

As has been said, the worst thing that can be done is to give the British a little aid but not enough to count. If the programs are handled as separate procurements, in approaching Congress for appropriations there would be constant political pressure to cut down the amount of British requirements. This can not help but have a bad effect on real aid to England by attempting to short change it for political rather than military reasons. Also if there are two procurement programs, one labeled United States and the other British, there will be an inevitable tendency to slow up work on foreign account by individuals executing the program who happen to differ with the High Command on the aid-to-Britain question. This, of course, will result in inefficient total procurement, and perhaps even production, for things which may, in fact, ultimately be used by our Army and Navy.



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If the amendment is eliminated and the program handled before Congress as a joint appropriation for the Navy and the British for naval equipment and supplies, although Congress may ask for a breakdown, it can be truthfully asserted that all procurement asked for is for American defense and would be used for our own services if England collapses.

The fundamental objections to the amendment therefore are that it would require assignment of items in advance of manufacture at the time of appropriation, thus destroying flexibility in the program, or in the alternative it would require going back to Congress for specific approval of each transfer at the cost of delay in resulting action.

I have not mentioned the present limitations on the transfer of implements of war procured from funds appropriated prior to the passage of the Lease-Lend Bill. As you know, the limit on such transfer for the Army and Navy combined is \$1,300,000,000.

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Under the Taft Amendment, no defense article can be disposed of without specific authorization from Congress, irrespective of whether it was financed from funds appropriated before or after the passage of H.R. 1776. In addition, no such article can be disposed of unless Congress has made an appropriation for the benefit of the receiving Government which has a sufficient unexpended balance to reimburse the Navy for the cost of the article in question.

This would mean that there could be no unrestrained disposal of existing articles previously financed up to the \$1,300,000,000 limitation in the Act. Likewise, the Taft Amendment is subject to the objections previously discussed under the Byrd Amendment.

3-1-41  
LBL:djb

Typed: djb -- 3-3-41

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 1, 1941

TO Secretary Morgenthau  
FROM Mr. White

The appended memorandum on the current Argentine situation makes the following main points:

1. The Treasury Stabilization loan and the Export-Import Bank credit to Argentina have been held up. The Argentine Congress, paralyzed by an election dispute between Radicals and Conservatives, has not acted on these dollar credits. Neither of these parties is pro-Axis or anti-American. Radicals refuse to permit further legislation until something is done about two recent, allegedly fraudulent, provincial elections.

2. Since the loan negotiations of last November, Argentina's total gold and foreign exchange holdings have remained about the same, despite the gloomy predictions of the Prebisch delegation which forecast gold losses of \$10 million monthly or more. Gold and foreign exchange assets of the Central Bank (at home and abroad) have fluctuated between \$430 and \$445 million and balances in the United States of private Argentine banks and individuals between \$95 and \$100 million. Increased assets of the Central Bank in New York represent, largely, transfer of holdings from Buenos Aires.

3. Argentina has recently sold 120,000 bales of cotton and 50,000 tons of wheat to Spain with British approval. Rumors of larger deals involving 500,000 tons of wheat and 15,000 tons of meat are persistent. Reports that German firms have bought up most of the wool clip are not regarded as significant since the firms involved are old and well-established dealers who have always bought and sold large amounts of Argentine wool.

4. As predicted by the Prebisch delegation, modifications in the exchange control system were announced February 22, 1941. No export exchange is hereafter to be sold in the free market. Exchange for non-essential imports is to be auctioned off to the highest bidder. Exchange for essential imports will presumably be allocated at the official selling rates as before. Preferences as to exchange rate and volume of imports will still be granted to England under the new system.

Attachment

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE February 27, 1941

TO Mr. White

FROM Mr. Spiegel

Subject: Current Argentine Situation

1. There has been no legislative action by the Argentine Congress on the Stabilization Fund and Export-Import Bank credits. La Prensa, influential Argentine newspaper, insists that Congressional sanction of these loans is necessary since neither the Executive nor the Central Bank has the power to borrow funds for purposes of industrial development.

During the present session, The Chamber of Deputies has been paralyzed by a conflict between Conservatives and Radicals, neither of which can be characterized as anti-American. The Radicals insist that two recent provincial elections were fraudulent and refuse to permit passage of further legislation until something is done about these elections.

Finance Minister Pinedo tried to negotiate an agreement that would permit the Pinedo Plan, passed by the Senate in December, to be voted on by the Deputies. This Plan calls for purchase of grain surpluses, the financing of housing and manufacturing projects, and increased member bank reserves with the Central Bank. It contains a clause which would grant legislative approval for the recent dollar credits. Pinedo failed and resigned, followed shortly thereafter by Foreign Minister Roca, the other strong member of the Cabinet. An article in the proposed budget law can also be construed as granting the Executive power to utilize the recent dollar credits but action on this is also blocked by the current dispute.

2. Argentina has recently sold 120,000 bales of cotton to Spain with British approval. The contract has not yet been signed but agreement in principle has been reached. (Annual exports 75,000 - 220,000 bales.) This virtually cleans out Argentina's current exportable surplus of cotton. Payment is to be made over a two-year period but the currency in which payment is to be made has not been specified in reports reaching the United States. There has been conjecture to the effect that blocked sterling is the medium of payment, though Argentine officials have declared they are not interested in increased holdings of blocked sterling.

Recent reports likewise indicate that Britain has approved the delivery of 50,000 tons of Argentine wheat to Spain out of British stocks. (Annual Argentine exports 2-4.5 million tons.) Here again

the method of financing is not indicated. Cable advices from Buenos Aires indicate that the wheat transactions may be financed by securities available to Spain and credit advanced by Argentina. There have been persistent rumors of larger deals involving sales of as much as 500,000 tons of wheat and 15,000 tons of meat.

3. Reports have recently appeared in the press that two German firms (Staudt and Lahusen) have bought up four-fifths of Argentina's wool clip. A Washington Post editorial (February 16, 1941) suggests that this wool will be shipped to Germany via the Pacific and argues that the United States should have purchased commodities such as this instead of lending \$110 million, much of which the Editor believes will be spent on dubious developmental projects.

The firms mentioned are old and well-established firms — one of them the largest in the business — which would naturally be expected to continue buying up wool and selling to a varied list of customers despite the war. The State Department evidently feels there is nothing unusual in the situation and no cause for alarm.

4. President Ortis, temporarily retired from active duty by illness, has recently declared to the press that he would in due time resume office. Meanwhile, Acting President Castillo has shown increasing disregard for the policies of Ortis and is rumored to be engineering a Conservative-Radical deal. Under this plan the Radicals would be placated by intervention in one of the two provinces where elections are disputed but the Conservatives would retain control of Buenos Aires City and Province. This virtually assures the Conservatives of victory in the Presidential election two years from now and probably gives the Presidency to Justo.

5. Argentina's total gold and foreign exchange holdings on both official and private account increased \$45 million in the period January-June 1940 but have since declined \$15 million. The total now comes to \$540 million.

Movements in this total are explained mostly by changes in the following constituent items. Total gold and foreign exchange holdings of the Central Bank remained stable during the first six months of 1940 but since then have declined \$20-25 million. On the other hand, balances in the United States of private Argentine banks and individuals have been increasing steadily since the end of 1939, the increase amounting to \$30 million in the period January-June 1940 and \$5 million since then.

6. Though total gold and foreign exchange holdings of the Argentine Central Bank have declined, it is true that gold on earmark in New York has increased by \$10 million and that balances at the New York Federal Reserve Bank and at private commercial banks in New York have increased by \$20 million since the middle of 1940. These recent increases in New York assets, however, represent transfers of assets from Buenos Aires to New York and not net increases in total holdings. These shifts are shown in the balance sheet of the Central Bank where the item "Gold at home" has declined \$50 million and the item "Gold and foreign exchange abroad" has increased \$25-30 million.

7. The increase in bank balances held in the United States by Argentine banks and individuals may arise out of the flow of European capital to Argentina. More specifically, this may represent flow of funds or other European funds to Argentine dollar accounts. To the extent to which this has occurred, Argentine bankers have assumed an equal dollar liability. Nevertheless, these funds are presumably available to the Argentine Central Bank in case of emergency.

8. Argentina has certain unrecorded foreign currency assets belonging to the Exchange Control and/or the Treasury. These, however, are not large enough to change the picture. As of November 15, 1940, these unreported assets amounted to about \$35 million, of which \$30 million may have consisted of blocked foreign currencies.

A clue as to the existence and size of unreported dollar assets is found in the fact that United States Treasury figures as to New York assets of the Central Bank have recently run \$5-10 million higher than the balance sheet figure for assets abroad. A further indication of unreported assets may possibly be afforded by the fact that gold shipments from Argentina to the United States since the summer of 1940 have totalled \$60 million, whereas the "Gold at home" account of the Central Bank has declined only \$50 million.

9. The deterioration in Argentina's economic position is caused by the decline in exports since June, 1940. Immediately prior to that time Argentine exports were moving well. Average monthly exports dropped from \$46 million in the period January-June, 1940 to \$25 million in the period July-December, 1940. The decline was almost entirely due to loss of Continental European markets. Average monthly shipments to Continental Europe were \$21 million during the first six months of the year but since then have ceased almost entirely, dropping to an average of \$1 million monthly.

The net result was an export surplus for the year 1940 of roughly \$50 million. Since Argentina must meet invisible payments of \$100 million annually, this leaves a considerable foreign exchange deficiency (excluding consideration of any capital flow to Argentina).

10. As predicted by the Argentine delegation last November, modifications in Argentina's exchange control system have recently been announced.

(a) Exchange from exports hitherto sold in the free market is to be sold at a new buying rate of 4,218 pesos per dollar. Most export exchange will still be sold at the old official buying rate of 3,35 pesos per dollar.

Division of Monetary  
Research

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(b) Importers of non-essential products are hereafter to bid for exchange at Central Bank auctions. (Essential imports will enter at the old official selling rates of 3.73 or 4.23 pesos per dollar as before.) If, as is expected, the auction exchange rate is to be an effective means of controlling non-essential imports, it must frequently go considerably above the present free-market rate in order to be a deterrent.

(c) Apparently trying to meet American objections against long-continued discriminations, the Argentines say this new plan will make it possible to remove all import quotas on specific commodities although certain preferences as to exchange rate and volume of imports will still be granted to England. But it is difficult to see how exchange auctions for non-essential imports will eliminate the necessity for quotas on essential imports.

Statistical AppendixGold and Foreign Exchange Holdings of the Argentine Central Bank

(Millions of Dollars)

End of	Total	Gold at Home	Gold and Foreign Exchange Abroad
December, 1939	454	403	51
June, 1940	453	403	50
September, 1940	440	385	55
December 15, 1940	429	353	77

Assets of the Argentine Central Bank in New York

(Millions of Dollars)

Last week of	Total	Earmarked Gold	Balance at New York Federal Reserve Bank	Balance at New York commercial banks
December, 1939	62.9	60.3	1.2	1.4
June, 1940	66.6	62.7	2.1	1.8
September, 1940	39.0	27.2	7.6	4.2
December, 1940	88.7	72.8	9.9	6.0
January, 1941	97.7	72.8	10.0	14.9

Argentine Short Term Dollar Assets in the United States

(Millions of Dollars)

Last week of	Total	Central Bank	Private
December, 1939	58	3	55
June, 1940	89	4	85
September, 1940	107	12	95
December, 1940	115	16	99
January, 1941	116	25	91

Gold Movements from Argentina to the United States

(Millions of Dollars)

	Monthly Amounts	Cumulative Total
Jan.-June, 1940	-	.030
July	.004	.034
August	.009	.043
September	17.815	18.858
October	19.982	37.840
November	12.983	50.824
December	8.247	59.071
January, 1941	-	59.071



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Division of Monetary  
ResearchArgentina's Trade Position  
(Millions of Dollars)

	1940		1939	
	First 6 mos.	Last 6 mos.	First 6 mos.	Last 6 mos.
Exports	278	150	241	231
Imports	<u>208</u>	<u>167</u>	<u>153</u>	<u>182</u>
Balance	+70	-17	+88	+49

Average Argentine Exports per Month  
(Millions of Dollars)

	1940		1939	
	Period Jan.-June	Period July-Nov.	Period Jan.-June	Period July - Nov.
Total	<u>46</u>	<u>24</u>	<u>40</u>	<u>37</u>
United Kingdom	<u>14</u>	<u>12</u>	<u>14</u>	<u>14</u>
Other Europe	21	1	17	14
U.S.	6	5	4	5
Other Western Hemisphere	5	5	4	3
Asia, Oceania, Africa	1	1	1	2

Argentina's Trade Balance with Various Regions  
(Millions of Dollars)

	1940		1939	
	Jan.-June	July-Nov.	Jan.-June	July-Nov.
Total	+ 71	- 25	+ 88	- 38
United Kingdom	+ 40	+ 34	+ 53	+ 41
Other Europe	+ 73	- 7	+ 40	+ 20
U.S.	- 21	- 20	+ 1	- 2
Other Western Hemisphere	- 10	- 18	+ 1	- 16
Asia, Oceania, Africa	- 12	- 14	- 7	- 5

MMM

PLAIN

Calcutta

Dated March 1, 1941

Rec'd 12:01 a.m., 3rd

Secretary of State,  
Washington.

First.

Budget proposals raise excess profits tax to two thirds and surcharge on income taxes to one third. Excise duties on matches doubled and new excise duty ten percent ad valorem on pneumatic tires and tubes introduced. Specific import duty on rayon yarn and thread increased to five annas per pound. All these presumably effective April 1st.

GROTH

HSM

Copy:bj

JR

GRAY

Berlin

Dated March 1, 1941

Rec'd 8:50 p.m., 2nd.

Secretary of State,  
Washington.

772, March 1, 3 p.m.

By a decree of the Reich Minister of Economics dated February 18, 1941, and published in the Reichgesetzblatt number 22 of February 28, 1941, the property of all German co-operative societies including the co-operative buying organizations in Hamburg and Vienna has been transferred to the German Labor Front. The decree states that the interests of the present members of these co-operatives will be fully safeguarded.

According to an article appearing today in the VOLKISCHER BEOBACHTER the Labor Front proposes to reorganize existing co-operative stores into "model retail stores" which will be handed over to individual retailers. Veterans of the present war will be given preference in the distribution of individual stores and therefore this part of the proposed measure will not be put into effect until the end of the war. The VOLKISCHER BEOBACHTER further emphasizes that the present measure only applies to consumer cooperatives and does not affect  
the

-2- #772, March 1, 3 p.m., from Berlin.

the position of producer, credit and other cooperative societies.


This transfer of consumer cooperatives to the Labor Front parallels a similar action taken in 1933 soon after the assumption of power by the National Socialist Party when the Labor Front absorbed the former free labor unions and took over their property and assets without compensation. The party has always been opposed on principle to the participation in retail trade of "big business" whether private in the form of department and chain stores or cooperative but has until now hesitated to take decisive steps against consumer cooperatives probably in view the popularity they enjoy with the population.

The present transfer of consumer cooperatives to the Labor Front means a great increase in wealth and power for Dr. Leys' organization which he states now has an annual income of about six hundred million marks per annum from membership fees alone. It is suggested that the distribution of thousands of retail stores to individual traders with preference being given to those who have fought in the present war may become a powerful instrument of patronage in Leys' hands and add to his organizations financial power.

Inform Commerce, Treasury.

KLP

MORRIS



BRITISH EMBASSY,  
WASHINGTON, D. C.

Personal and Secret

March 1st, 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Hahfax*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram received from London  
dated February 27th, 1941.

Naval. Outward convoy of 39 ships during February 26th and early 27th was attacked by U boats and aircraft.

2. Four ships torpedoed of which one certain sank, one probably sank, one returning to harbour. Eight bombed of which one sank, four burning, three hoped to salvage.

3. British ship of 7,764 tons bombed, set on fire off Cromarty in the a.m. February 26th. Fire soon controlled and ship towed into harbour.

4. Two British trawlers off Fastnet shot down Fokke Wulf aircraft, escorted by two fighters which attacked them on February 23rd.

5. Royal Air Force. Night of February 26th/27th. 145 bombers despatched to attack industrial areas at Cologne and invasion ports. Four aircraft have not yet returned to their base.

6. German Air Force. Daylight February 26th. With the exception of submarine patrols in the Straits activity consisted mainly of occasional raids over coastal districts in East Anglia and Kent. Industrial damage reported is negligible and casualties very few.

7. Night of February 26th/27th. About 150 aircraft operating of which 50 attacked Cardiff-Bristol area.

8. Malta. On February 26th Luqa aerodrome attacked by about 60 German bombers escorted by 20-30 fighters - 2 Junker 87s were destroyed and 7 others probably destroyed by our fighters. A.A. fire brought

-2-

down 5 Junker 87s and probably 4 more. Three of our fighters are missing. Damage was caused to hangars and buildings and aerodrome was rendered unserviceable but there were only 4 service casualties. Six of our aircraft on the ground were burnt and four were badly damaged.

9. Aircraft casualties in operations over and from British Isles: British: Fighters 5 (two pilots safe), Bombers 4. Germans: Nil.

RESTRICTED

G-2/2657-220  
No. 328

M.I.D., W.D.  
March 1, 1941  
12:00 M

SITUATION REPORT

I. Western Theater of War.

Air: German. Minor activity over England.

British. Normal offensive activity. Wilhelmshaven, Emden and Boulogne were bombed, as were several airdromes in northwest Germany and Holland.

II. Greek Theater of War.

Ground: Local operations.

Air: British made a successful interception of an escorted bomber group and claim to have inflicted severe losses.

III. Mediterranean and African Theaters of War.

Ground: Eritrea. The British northern column is now in contact with Italian troops holding covering positions north of Cleren.

Italian Dodecanese Islands. British forces have withdrawn from Castellorizzo which has now been reoccupied by the Italians.

Air: Axis. Attacks on shipping along the Libyan coast are inflicting steady losses.

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



Paraphrase of Code Radiogram  
Received at the War Department  
at 0:35, March 1, 1941.

London, filed 13:56, March 1, 1941.

1. On Friday, February 28, planes of the British Coastal Command engaged in the usual patrols. There were no flights of British bombers over the Continent on this day or during the preceding night.

2. During the night of February 28-March 1 one German plane was plotted over Norfolk and Suffolk, two more over Norwich and London and four others were active in the Portsmouth area. No loss of airplanes and no damage has been reported. During the preceding day a small number of German planes were on patrol duty and reconnaissance missions over the Dover Straits. Only three German planes crossed the coast line and one of these was shot down by the British. No British planes were lost.

3. British air activities in the Middle Eastern theaters were as follows: British planes based in Egypt supported the advances of ground troops into southern Ethiopia and Italian Somaliland; Malta-based British planes engaged in reconnaissance flights; the towns of Assab, Eritrea, and Berbera, British Somaliland, were attacked by British bombers from Aden; nine Italian planes were destroyed by British fighters from Greece that escorted bombers in an attack on the airfield at Valona, Albania; over the complete front line in the Albanian theater Italian aircraft losses as a result of British fighter plane activities were 25 confirmed and nine probable; in the Eritrean theater the operations of land forces in the vicinity of Asmara and Hara were supported by British planes from the Sudan. The British are experiencing great difficulty in

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taking the city of Suez. British reconnaissance over Sicily, Libya, reveals that about 50 German airplanes are located in the area surrounding this town.

4. At sunrise on February 28 parachute mines were dropped in Malta harbor by ten Axis planes. One of the Axis planes was shot down and there have been no reports of the damage done to the harbor.

5. A reconnaissance unit of armored fighting vehicles, thought to be German, was engaged by a British mechanical force about 50 miles west of Agheila, Libya. The reconnaissance unit was forced to retreat in the direction of Tripoli.

6. The Italian airfield on Hotel Gritso, one of the Dodecanese Islands, was destroyed by a British force which landed there. As soon as the airfield was wrecked the British departed.

7. An armed Italian vessel, flying British colors, was attacked and sunk by the British in the Indian Ocean 250 miles southwest of the Maldivo Islands.

8. One British vessel was sunk and two others were damaged when a convoy made up of a small number of British ships was attacked off the east coast of England by German aircraft. A British minesweeping vessel in the Suez Canal sunk after striking a mine.

SECRET

**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  
6-3

-2-

CONFIDENTIAL

Paraphrase of Code Radiogram  
Received at the War Department  
at 10:20, March 2, 1941.

London, filed March 2, 1941.

1. On Saturday, March 1, planes of the British Coastal Command successfully bombed a German cargo boat off the Danish coast. During the same day three German fighter planes were shot down during an offensive sweep carried out by British fighters over the northwestern section of France. There were no activities of the Bomber Command planes on this day. During the preceding night Wilhelmshaven was the target of a large formation of British bombers and lone British bombers carried out raids on occupied Dutch and north German airfields. In addition a small formation of bombers attacked harbor facilities at Emden and Bielefeld. It was thought that these night raids were successful but observation of results was very difficult. No British planes were lost during any of these raids.

2. During the night of March 1-2, 20 German planes were plotted over the Cardiff-Ferriby area, 10 others were active over the coastal region from Flamborough Head to the Humber River, and two more were plotted over London. In addition small numbers of German planes were active over Norfolk, Yorkshire, Hampshire, Suffolk and Wales. One German plane taking part in these attacks crashed. Except for minor damage to private property in London there have been no reports of the damage done as a result of these raids. During the preceding day small numbers of German planes caused minor damage during attacks on Hampshire, Norfolk, Kent and Suffolk. Other German planes were on patrol duty over the

CONFIDENTIAL

Strait of Dover. Two German planes were shot down.

3. British air activities in the Middle Eastern theaters were as follows: British planes from the Sudan attacked a railroad troop transport between Khartoum and Jambou in Ethiopia and the railroad station at Jambou with machinegun fire and bombs and were responsible for the destruction of one Italian fighter plane; British planes from Greece carried out a severe attack on Gandra and intercepted 50 Italian planes near Topoloni with losses to the Italians of 14 planes confirmed, 11 probable and three damaged; one German bomber was shot down by British aircraft over Benghazi, Libya; an Italian motor transport at Neghelli in Ethiopia was attacked by British bombers from Egypt.

4. There are no reports of Axis aircraft operations in Middle Eastern theaters.

5. An unconfirmed report which has been received by the British War Office from a source that is believed to be not entirely reliable indicates that two German armored divisions have arrived in the Libyan port of Tripoli. While no evidence can be found to confirm this report it is thought by the War Office that some German armored forces are in Libya near the town of Sirte. It is known that the German Air Force has occupied an airfield at this town.

**SECRET**

**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  
6-5

March 2, 1941

Eccles phoned this afternoon and said he would like to come over to see me Monday morning about the Chicago Bank Presidency situation. Please give him an appointment for Monday morning. *(Appointment given for 10:45.)*

Please also see that Monday morning early Eccles is given a copy of what we asked the 12 bank presidents to do out of Bell's office Friday night in connection with the defense savings bonds. I think we sent them a telegram and a letter, and I would like Eccles to get one copy of what went out Friday by telegraph and by mail. *(Copy furnished Eccles.)*

March 2, 1941

Spoke to Harry Hopkins at ten minutes to seven. He said he had not heard a report on this morning's meeting, and I gave him a very discouraging and gloomy report because that is the way I felt about it. I said the trouble was the President had not taken my original suggestion and ask Cordell to carry this bill.

I suggested that Harry get the President to call up Hull and ask him how things went this morning. I said that it is the natural thing for the President to do. Harry said that maybe Cordell had called the President, and I said, "I'm sure that he hasn't because they weren't on that kind of a basis." I also told Harry that after we found out this morning just what the Budget has told Senator Byrnes and whether we agreed with the Budget, I would get in touch with Harry.