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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS
Tuesday, May 20, 1941.
5/19/41

Press Service
No. 25-28

The Secretary of the Treasury announced last evening that the tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be dated May 21 and to mature August 20, 1941, which were offered on May 16, were opened at the Federal Reserve Banks on May 19.

The details of this issue are as follows:

Total applied for - \$301,533,000
Total accepted - 100,519,000

Range of accepted bids:

High - 100
Low - 99.981 Equivalent rate approximately 0.075 percent
Average price - 99.982 " " " 0.070 "

(93 percent of the amount bid for at the low price was accepted)

-oOo-

May 20, 1941
9:01 a.m.

HMJr: Jere?

Jere
Cooper: All right, Henry.

HMJr: How are you?

C: Fine, thank you.

HMJr: How did things go yesterday?

C: Just fine. Fine. I was very
much pleased, Henry.

HMJr: You were?

C: Yes.

HMJr: Well, I'm delighted. Jere,
I'm calling up a little
belatedly about Miss Rhea.

C: Well, fine.

HMJr: She's a Junior stenographer
now, as you may most likely
know at \$1440.....

C: Yeah.

HMJr: And we worked out a way that
we could make her a Senior
stenographer at \$1620....

C: Uh huh.

HMJr: Now, would that be pleasing to
your constituent?

C: Sure. Right away?

HMJr: Immediately.

C: Fine. Thank you, Henry.

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HMJr: Well, we'll do this immediately.

C: Fine, appreciate it so much.

HMJr: Do it today.

C: Fine. Thank you, sir.

HMJr: I just wanted to make sure -
no use doing it unless it
it would please you.

C: Well, I'm pleased all right.

HMJr: Okay.

C: All right. Thank you, Henry.

HMJr: Be done today.

C: Thank you. Goodbye.

May 20, 1941
9:03 a.m.

HMJr:

W.N.
Thompson:

Yes.

HMJr:

I spoke to Mr. Cooper and he's simply delighted that we make her Senior stenographer at \$1620.

T:

Oh, that's fine.

HMJr:

I said we'd do it as of today.

T:

Fine, I'll put it right through.

HMJr:

He said he's simply delighted.

T:

That's fine.

HMJr:

And I said I don't want to do it unless he's going to pleased; oh, he said, I'd be tickled to death.

T:

Well, that's fine. All right, I'll put it right through.

May 20, 1941

At 9:25 am I called Steve Early and told him that congressmen on the Hill are going to figuratively watch every eye-lash of the President's this morning as to what he says at his press conference; that the President had been over the statement with me on Saturday and we gave it just the way he wanted it; that if he would take this statement to his bosom and give it enthusiastic support at his press conference we had a fighting chance to get the Bill through Congress; if he did not, we did not have as much chance as a snowball in hell.

Early said that he was going over to see the President immediately and would report my conversation to him.

May 20, 1941

Harold Graves

Secretary Morgenthau

At the 9:30 meeting I wish you would talk to me about what other foreigners you are planning to put on the air. I think putting Paderewski on was fine. I think I asked you about this before but I have gotten no report from you. There must be in this country many prominent Liberals who formerly were citizens of countries taken over by Hitler. I do not know who handles these speakers for the savings bonds campaign, but I wish you would bring it up at 9:30.

May 20, 1941

Harold Graves
Secretary Morgenthau

Please let me know at our 9:30 meeting this morning when I can see these movies which have been made out at Hollywood in connection with our defense savings bonds. I would like to set a definite time.

*Movies shown at
9:00 P.M. - 5/24/41*

finished

May 20, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Foley
Mr. Gaston
Mr. Cochran
Mr. Thompson
Mr. Haas
Mr. Schwarz
Mr. White
Mr. Kuhn
Mrs. Klotz
Mr. Bell
Mr. Graves
Mr. Sullivan

H.M.Jr: Everybody on the Zamzam was saved, they say.

Cochran: The report comes out of Berlin. She had been carrying contraband and was sunk.

Gaston: The German raider took them off.
(Mr. Graves entered the conference.)

Kuhn: The ticker said it was a raider, and they said if it had been a submarine it would have been impossible to save all the people.

Gaston: They don't say what it was.

H.M.Jr: It said all passengers and crew members of the Zamzam were rescued by a German warship

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which destroyed the ship. The Zamzam carried contraband and was sunk, and so forth. The passengers are now safe and will be looked after somewhere in occupied territory. Not a single life was lost.

Mr. Gaston is to have ready for my signature a letter to the President.

- Gaston: I have a report. I have talked this over with Waesche and he has several points of rather strong objection. He would like to have it talked over with the Navy before we submit it. He is quite strongly opposed to having it submitted. I thought perhaps you would want to give Waesche a chance to have his say on the matter.
- H.M.Jr: I told Frank Knox yesterday - I have talked to him two or three times - that nothing was done about the seven cutters and we were sitting back here waiting on the Navy, you see.
- Gaston: Yes, waiting their pleasure.
- H.M.Jr: So I told him that yesterday. Well, when will we get to take care of this memorandum? When will I hear?
- Gaston: He will be here tomorrow morning. I have a memorandum of what his objections are.
- H.M.Jr: I can't do it before Thursday.
- Gaston: All right.
- H.M.Jr: Thursday, Mrs. Klotz. What is the next one?
- Gaston: I can read this memorandum listing his objections if you want to take a look at it.

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It is rather short. He has three main points of objection to doing it at this time.

H.M.Jr: No, if you don't mind. What else?

Gaston: Senator Guffey is going to be in this morning. We re-examined the qualifications of the man he particularly wanted for that Pittsburgh job and we decided that if he cleared up a certain judgment against him, an old foreclosure, that we might recommend his appointment, but I attached the condition in talking to Bailey, his secretary, that he couldn't make any removals from that office without our - without the consent of the Bureau, since apparently his intention was to reorganize the whole office.

Guffey is coming in at eleven o'clock this morning with the man to talk that over, and I just wanted to check with you our position, which is the position of all the members of this political group, that we can appoint this man.

He seems to be a respectable citizen, although not too high grade, if he and Guffey will give us that promise that he will make no removals without our consent.

H.M.Jr: Good.

Gaston: John Wiley at my request attended another meeting called by Sherman Miles on this committee to devise a plan for the interchange and protection of information on the war. Very little progress was made, and the meeting was confined to considering a suggestion by General Miles that each department appoint a contact man who would give out on request to other departments such information as they

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thought proper to give out. Well, if they - I presume we could go along with such a plan as that if they want to report it to the President.

The idea is that a plan of interchange is to be reported to the President for his approval and this plan that they are considering now is simply that a contact man be appointed in each department who would give out such information to other departments on request as they thought proper to give out.

H.M.Jr: You recommend that?

Gaston: I see nothing wrong with that.

H.M.Jr: I was called on yesterday afternoon by the new economic adviser to the President of the United States, one Isador Lubin, and his job is to take the various statistics of Army and Navy and OPM and what they get from the State Department and make it make sense.

The President says he gets so many conflicting reports that he is just sick and tired of it. He has given Lubin a room and he has put bars around it and Secret Service men on the outside of the door.

I am serious. He has told Lubin he can't go to any dinners or any cocktail parties and that he has got to take the veil. He said, "You may have one drink too many and somebody will say they sunk some ships and you will shake a finger at them and say, 'You are a damn liar, I know it isn't so,'" so he says he has got to take the veil and just lock himself up in this room.

So I congratulated him on his opportunity and told him that we would give him everything

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that we had. He starts in first with one of George Haas' draftsmen. It is high time the President did do it, because we have run ourselves ragged here trying to - from the Treasury getting the President the kind of information he wants. If Lubin is there and will do it, it is fine. I don't know where it leaves Mr. Lauchlin Currie.

White: Oh, he - that was his idea originally about a year ago, and he proposed it and it didn't take. That was just a year or a year and a quarter ago. He never was in it.

(Mr. Bell entered the conference.)

H.M.Jr: Why does he need Lubin to do it with Lauchlin Currie there?

White: Well, if you ask me, I think he is making a mistake, but I imagine in his judgment he feels that either Lauch is too busy now or that Lubin will do a better job.

Gaston: I think that is true.

H.M.Jr: Yes.

White: Lubin is a good man and Currie is a better one for that job, in my opinion.

H.M.Jr: Well, anyway, I told him I was delighted and we would give him everything we could. He is working directly under the President and his contact is direct with the President. He doesn't clear through anybody else.

Gaston: I think somebody ought to concentrate on it exclusively.

White: Oh, it is a full time job. I agree with the

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Secretary, I think it is one of the most important jobs in the Government. It can be, rather.

H.M.Jr: Bell, this is a new follow-up system that we have established. "On May 14 Mr. Bell promised to secure for you from Mr. Young certain additional figures in regard to monies allocated under contract actually spent on the seven billion dollar Lend-Lease."

Bell: I don't know. It may be in the office. It was supposed to come in on Friday or Saturday.

H.M.Jr: Well, here is a memo for you on it.

Bell: Thank you.

H.M.Jr: And then we are waiting on you for a program on suggestions as to certificates, tax certificates.

Bell: I am ready. I was ready Friday, but you were tied up on the statement so I didn't bother you.

H.M.Jr: Are you ready?

Bell: Yes. We can do it right after this if you want to at the same time you are doing your financing.

H.M.Jr: All right. Is Sullivan sick? How far did I get?

Gaston: I think you had finished with me.

H.M.Jr: Foley?

Foley: Here is a letter to the President on the Lease-Lend.

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H.M.Jr: "Dear Mr. President:

"I have your note of May 16 in regard to the preparation of an agreement with the British to cover material made available to them under the Lend-Lease Act. I assume your note supersedes the instructions contained in your letter of March 13, a copy of which is enclosed.

"As the matter now stands, both State and Treasury have prepared drafts of an agreement. However, I am wholeheartedly in accord with your desire that the initiative and primary responsibility for working out such an agreement with the British should be centered in the State Department.

"I shall notify Cordell Hull at once that the Treasury stands ready to be of assistance in working out the agreement."

Have you got something for me to write Cordell?

Foley: Yes, sir.

H.M.Jr: Where is it?

Foley: Under that letter.

H.M.Jr: Wonderful.

Foley: If you will give it back to me, I will see that the right enclosures get attached.

H.M.Jr: Wonderful.

Foley: That looks all right to me.

H.M.Jr: All right.

Foley: It seems a little formal for the purposes involved, but it is all right.

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H.M.Jr: Well, on personal matters I believe in using lawyers.

Foley: You can handle the Empire State Building for that document.

H.M.Jr: Wonderful. It is all right. What else?

Foley: Nothing.

Cochran: You may have seen the report last night that Pinedo, the Ex-Minister of Finance of Argentina is coming up here, allegedly on British business.

H.M.Jr: Listen, young fellow, you are sending me too much to the house.

Cochran: Last night, I think, is the first time I have transgressed. One of those memos is quite interesting.

H.M.Jr: I know, but I just can't do it and I sent them back and I only half read them. I want to let you know that. The only one that sunk in was what is his name --

Cochran: Peacock?

H.M.Jr:is having trouble. Before the meeting I will call up Stanley, who wants to see me. I refused to see Clarence Dillon today. I will call Stanley and you fellows can listen in.

Now, is that copy of what you told me about Viscose - that ought to go to Bell and White and Foley.

Cochran: Yes, sir, it goes to all three of them.

H.M.Jr: Whatever you sent me last night, I just - it

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didn't register, because I wasn't feeling well.

- Cochran: If you give them back, I would like to speak to you about a couple of them.
- H.M.Jr: All right. I am just putting you on notice. Whatever came up last night did not register.
- White: Before you talk to Peacock, would you want to get the opinion of one of the men in the SEC on that matter?
- H.M.Jr: I want to hear what Stanley has got.
- White: Even before you talk with him?
- H.M.Jr: Well, let's just listen. It will be a one-way conversation because I am awfully rushed today.
- Which one of you birds is going to deliver these movies and Howard Dietz?
- Graves: Howard Dietz will be here late this morning, and I think that any time this afternoon that suits you we can show the pictures.
- H.M.Jr: Who does he work under?
- Graves: Harford Powel.
- (Mr. Sullivan entered the conference.)
- H.M.Jr: Is it here or here? (Indicating head and stomach)
- Sullivan: Nothing at all. I just pulled a Foley, that is all. I forgot to wake up. (Laughter)
- H.M.Jr: That is wonderful. It is all right.

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Bell: Why drag you in, Ed?

H.M.Jr: Well, at least Ed has this alibi, he hasn't got a wife to shake him in the morning.

Sullivan: I have got the right kind. She doesn't. (Laughter)

H.M.Jr: I wonder if this would be convenient? I could come down here tonight at nine o'clock.

Graves: Tonight? We will make it convenient.

H.M.Jr: And if Howard Dietz would care to come to my house for supper at seven-thirty in a business suit, I will be very glad to have him and then we will bring him down here and one and all who care to come, this is the showing on what they are doing on the movies - I mean, it is purely - I mean, I don't want you to feel you have to. If you would care to come or bring your wives or husbands, you are cordially invited at nine o'clock, everybody.

If you don't mind, whoever is coming, if they just would turn in their names - that goes for sisters, too, Ed. If they would give their names to Stephens so he could let the man at the door know.

But, as I understand, it will be an eight minute picture, won't it, and about seven of these shorts?

Graves: That is right. I am not sure what the length is. Is it eight minutes?

Kuhn: I think so, yes.

H.M.Jr: Anybody that cares to, but please don't feel that this is at all obligatory. It is only if you are at all interested. I am just asking as a matter of courtesy, but I would be delighted if you come, but please don't feel,

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anybody, that you have to come.

You (Graves) bring your own gang, will you?

Graves: Yes.

H.M.Jr: And you can tell Stephens who there will be. I can come at nine. That will be the best time. I thought it would be nice to have Dietz at the house. Is Mrs. Dietz here with him by any chance?

Graves: I doubt it very much. He is flying down.

H.M.Jr: Well, find out, and then let Mrs. Klotz know so she can let the house know.

Graves: Yes. He is giving so much time.

H.M.Jr: Yes.

Graves: By the way --

H.M.Jr: Excuse me. You (Kuhn) come first.

Kuhn: I have nothing.

H.M.Jr: Well, again, addressing you two, I know how many things you have got there, but Count Sforza, that I have asked about, is going to address some meeting in Washington Sunday night. I think we are missing an awful bet if we don't get - who is in charge of our Speaker's Bureau, Harold?

Graves: We don't have any such thing as a Speaker's Bureau. We have foreign language --

H.M.Jr: But who, for instance, handled Paderewski?

Graves: That comes in Mr. Powel's shop. Callahan is in charge of all the radio matters and he

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has an assistant named Sulds who looks after foreign language broadcasts and he contacted him through Sulds.

H.M.Jr: I am suggesting to you that we get somebody who would set up a Foreign Language Bureau.

Graves: We have it.

H.M.Jr: Well, who is in charge?

Graves: Sulds.

H.M.Jr: Well, who is Sulds?

Graves: Well, I don't know that I can describe him except that he is in charge --

H.M.Jr: Well, I am thinking in terms of somebody like Thomas Mann, somebody like that, you see.

Now, one of the men I would like to get besides Count Sforza - who was the Prime Minister of Germany who lectures up at Harvard?

Kuhn: Bruening.

H.M.Jr: You can get people like Bruening and Sforza and Paderewski and some Czechs, Dutchmen, Belgians, and so forth, and I think we could get some outstanding person to head up that thing and get one from each country and then on this newspaper thing, have their things translated for the particular foreign press.

Now, for instance, was Paderewski's talk put into Polish and sent to the Polish press?

Graves: I don't know. I suspect it was, but I don't know.

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H.M.Jr: I am going to see you fellows again Friday. Mrs. Klotz, put it down for ten-fifteen Friday. I mean, that same group.

Now, in this thing you said you were going to get out columnettes to the newspapers. If you have a Paderewski or somebody like that, those things should be put in the particular language and sent to the foreign language newspapers.

Graves: I haven't got that straightened out, but I will check.

H.M.Jr: Well, if we had somebody who could head up that thing. There are the most amazing people in this country, and it is a grand way to reach this population and show something else is being done. I really would like to go to town on it.

Graves: I think we are doing better than you suspect in that department right now. We are making these broadcasts in sixteen languages.

H.M.Jr: Yes, but you are not having these outstanding liberals, Harold.

Graves: Well, I will name you a few people. You sent me a note this morning and asked for some names of people that we have been in touch with, and I have got a few names.

Thomas Mann is one that has come and volunteered to help in any way he can.

Peter Yolles, whom you might not know, is a Polish editor who is a refugee.

Louis Adamic, Slovene, who has, I think,

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quite a reputation as a liberal. Albert Einstein.

Those are four internationally known people, of course.

- H.M.Jr: Is there a Netherlander or a Belgian?
- Graves: No Belgian and no Netherlander in this list I have.
- Schwarz: Hendrik Van Loon would help, I am sure.
- H.M.Jr: He would love to.
- Graves: He has already volunteered to help.
- H.M.Jr: He would be swell.
- Graves: We have some other interesting people who have volunteered. Paul Muni, for instance, and Charles Boyer, the French actor, and I have the name of Joe Dimaggio, the baseball player in New York.
- H.M.Jr: All right, but that isn't the - I am thinking more of these really top people as well as others and also making this thing quite important as a by-product.
- Graves: I think this man Sulds has done a grand job in this foreign radio department, and I would much prefer to stick with him as the manager of the thing than to turn in the direction of Thomas Mann, for instance.
- H.M.Jr: Well, you know me well enough - I make these suggestions. They are not in the form of orders, but I want results.
- Graves: Yes.
- H.M.Jr: Now, if this man Sulds will give me results, all right; but I want results.

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Graves: Well, I think that he is doing a very swell job in this foreign language thing.

H.M.Jr: At the ten fifteen meeting Friday, if you could report on that, will you?

Graves: Suppose I bring Mr. Sulds over?

H.M.Jr: That will be good.

Graves: And let him speak for himself.

White: I haven't heard any of the broadcasts, but I presume that almost the entire emphasis is on a contribution to maintain democracy and not--

Kuhn: That is what Paderewski did.

H.M.Jr: Along those lines, Harold, if you could step out of the room a minute, when you are through, I would like to get and give a copy to each person today and do it for a while, the things that go to the radio stations. I sent three of those to the President, all the same, today. Could you send over the ones that went out yesterday?

Graves: I can try. I don't know whether those are instantly available or not, but I will see.

H.M.Jr: You know what I am talking about?

Graves: I do.

H.M.Jr: I would like to see them and let the ninety-three group receive them each day until they get bored with them, the stuff that goes to the radio stations.

Graves: All right.

H.M.Jr: That other thing about the list of bond employees, did you get that memo on that?

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Graves: I did.

H.M.Jr: Could you bring that in at ten fifteen Friday?

Graves: Yes.

Gaston: I think it is very important to get hold of some Norwegians, Swedes, and Danes.

H.M.Jr: Well, I think--

White: This could be used as a vehicle for something far more important than the bond thing.

H.M.Jr: What do you think I am talking about, Harry? I mean, that is just what I have got in my mind. I won't say it is more important, but - nothing can be more important than our Defense Savings Bonds.

White: The proper answer to that is, "Says you."

H.M.Jr: And I answer, "Says I." (Laughter)

White: O.K.

Sullivan: Before Harold goes, Mr. Secretary--

H.M.Jr: But you get, Harry, what I am trying to do. I am not trying to rub it in. I think this is either the third or fourth time I have asked for Count Sforza, and I haven't got him yet.

Sullivan: The only--

White: He is pretty difficult to chase down. I don't know if you can find him or not.

H.M.Jr: He is going to be in town Sunday night. But I agree also with Herbert, if we can get a Norwegian and a Swede, a Chinese--

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Gaston: A Dane.

H.M.Jr: A Dane.

White: There are a lot of Mexicans in the United States. (Laughter)

H.M.Jr: After all, Harry--

Schwarz: Not refugees?

White: I thought that was a good suggestion.

Bell: It didn't go very well, Harry.

H.M.Jr: All right.

Sullivan: I have heard just one criticism about the broadcast, and I don't know whether it is well-founded or not, but I think I ought to pass it along. I have heard two or three people say they have listened to several broadcasts and in none of those broadcasts was it indicated how much they would gain on their investment. It was put entirely on a basis of a patriotic appeal and many of them had the assumption that if they put in so much money at the end of ten years that same amount of money would be there and there would be no increase in value.

H.M.Jr: Have you listened to the broadcasts yourself?

Sullivan: No, sir.

H.M.Jr: I have, and the ones I listened to, it was always put in.

Sullivan: I say I didn't know whether it was justified or not, but I would bring it up.

H.M.Jr: I don't think it is.

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Sullivan: All right, sir.

Graves: I might say apropos John's remark that our own criticism of our own broadcast is that we have probably over-stressed the selfish motives in this matter, the investment angle, and under-emphasized the defense angle. We are shifting in the direction of putting more emphasis on defense and less on the strictly investment angle of the thing. So you hear criticisms both ways.

H.M.Jr: Well, I want this group to know about it. That is what they are here for. I mean, let them think about it and let them criticize and suggest.

Graves: Well, I will see if we can get--

H.M.Jr: Oh, if you will have it by tomorrow morning. But get it to me today, will you? For me? Starting with the ones that - for Monday's broadcast?

Graves: You would like all copies, wouldn't you?

H.M.Jr: Anything that went out Monday and anything that goes out any day from now on. The others, you can begin to service them tomorrow.

Does that finish you, Kuhn?

Kuhn: Yes, sir.

H.M.Jr: Haas?

Haas: I have nothing this morning.

H.M.Jr: This is very much in the room. At nine twenty-five I spoke to Stephen Early and said, "Steve, you saw the tax statement." "Yes." "You know, I went over it with the President Saturday."

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"Yes." "All right, if the President will take it to his bosom with enthusiasm and claim it as his and give it a real push, we have got a fighting chance to get it through. If he doesn't, we haven't got as much chance as a snowball in hell." He said, "I will give that message immediately to the President, and I am on my way over."

Sullivan: Thank you very much.

H.M.Jr: I thank you.

Schwarz: You know, the President is holding today's press conference in the morning instead of afternoon.

H.M.Jr: I know. Somebody told me. Sullivan told me and Sullivan hoped that I could get something to him. I debated which was the better psychology, to let him do it on his own or put it up to him this way, and I did it this way, and I don't know whether I am right or wrong.

Sullivan: I think you are right.

H.M.Jr: I don't know whether I am right or wrong. Well, we will know within the hour. I don't know whether I am right or wrong, whether he will say, "Well, doesn't Henry think I know how to handle myself? Does he have to tell me what to do?" Or would he say, "Well, I want to get the bill through and -" I don't know how it would hit him, but I have done it anyway.

Sullivan: I am glad you did, whatever happens.

H.M.Jr: Wait an hour.

Sullivan: I am glad you did anyway.

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Schwarz: On Friday on the radio matter he said he had been thinking about more important thing, so at this particular juncture it might not be amiss to remind him.

H.M. Jr: Particularly if he is going to announce LaGuardia for home defense today.

Anything else, John?

Sullivan: I will send in those letters of Mr. Gulick's to those people and then if Mrs. Klotz will let me know when you have signed them, because Dr. Gulick wanted me to phone him so that he can work some other angles to persuade them also.

Ed, did you bring up that matter of the letter to Mr. Doughton?

Foley: No.

Sullivan: Well, I think that Ed and I and Mr. Helvering ought to see you about that matter sometime, either this morning or tomorrow.

H.M. Jr: Ask Stephens.

Foley: It isn't necessary to do that. If you call Doughton and ask him to withdraw the letter, I think that is all that is necessary.

Sullivan: I didn't know that it had been discussed, Ed.

H.M. Jr: I think I would let the thing cook another day.

Sullivan: All right, sir.

H.M. Jr: And let Doughton cool off.

Sullivan: He is cooling rapidly, and I think it would be well to let him cool a little bit more.

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H.M.Jr: All right. Now, I spoke to Congressman Cooper about his constituent and we are making her a senior stenographer, and he is delighted.

Sullivan: That is what, eighteen hundred?

Thompson: Sixteen twenty.

H.M.Jr: And he is delighted. I said, "Now, I don't want to do this unless your constituency will be very much pleased," and he said, "Henry, this is swell."

Sullivan: All the "jedges" happy?

H.M.Jr: So we split the difference with him. All right?

Sullivan: That is all, sir.

Graves: May I say one more word, sir?

H.M.Jr: Yes.

Graves: On this Texaco thing, we have taken their offer and thrown out the man that you objected to and are turning this over to Howard Dietz. I thought you should know that in view of your dinner engagement.

H.M.Jr: And they are turning this over to Howard Dietz?

Graves: Howard Dietz is going to run that program for us, with our help and under our supervision.

H.M.Jr: And any committee on that or not?

Graves: No committee.

H.M.Jr: Wonderful.

Graves: Except we might do as we like about that, but we have no plans for a committee. Dietz is

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going to manage that for us.

H.M.Jr: Well, now, I don't know what happened, but it worked out all right, did it?

Graves: If you are satisfied.

H.M.Jr: Well, what was the inside story?

Graves: You mean, what reason did we assign for objecting to the particular man suggested?

H.M.Jr: Just take a minute and tell us what happened. I mean, how did you do it?

Graves: Well, we went to Texaco and told them that we liked the idea of using their program, but we didn't like the committee idea and that we had a staff of our own that could manage this show and so we would take their offer and reject the committee.

H.M.Jr: Now, one thing. I talked to Elliot Roosevelt about this the other night at the White House. He tells me that - after all, he was in this business - he said this is the Fred Allen hour. Is that right?

Graves: The Texaco hour, is that it? I don't know.

H.M.Jr: And there is a great advantage in continuing the same hour and he used technical language and he said instead of using it - at the places where they use the Texaco plug, to use the Treasury plug, but he says the people are used to the hour and he said he is almost positive that if you find out that Fred Allen and his band, or whatever it is, is under a year's contract - and it wouldn't cost Texaco a cent. You might ask Howard Dietz.

Graves: Well, I will, but as a matter of fact I think that the Texaco company has no commitments

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with any entertainers for the thirteen weeks that they are giving to us.

H.M.Jr: Well, you might just ask.
Graves: Yes.
H.M.Jr: But I am pleased, aren't you?
Graves: Yes, very much so.
H.M.Jr: Chick?

Schwarz: Drew Pearson was a little bit snippy this morning on the Normandy. He says he had a scoop on May 1.

Here are the reactions of the press and radio on the tax thing.

H.M.Jr: "I can say, 'Today we freeze German funds. I predicted it two years ago.'" That is all right. Personally, they are very friendly.

The letter that he wrote to Cordell Hull discrediting - I mean, the idea that the Treasury told the story, was an act of friendship. Both of them are very friendly.

Schwarz: They just tried to save themselves after they mentioned you called them silly.

H.M.Jr: All right.

Harry? How is WPA, Harry, this morning?

White: I haven't got a good answer for that one.
(Laughter)

Gaston: He is the boy that works progress.

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- White: On the matter of Chinese coins, do you want to turn it over to the mint to mount or who could take care of that? I understand that you are going to donate them to the Treasury.
- H.M.Jr: The question is now, who comes to the mountin'? I will leave it to you to work out so that they are properly mounted.
- White: Hand engraved.
- Thompson: A whole mint collection is down in the National Museum, if you want to add this to it.
- H.M.Jr: I thought we might put it outside so if T. V. Soong comes in, he will trip over it.
- White: About two years ago you may remember we suggested an Inter-American Treasury bulletin and it went to the State Department and they felt that the money would not be available at the time. Since then Gaston has sent a letter this last week to the new committee which is formed to consider its adoption again, but the Inter-American Committee is offering to give us five thousand dollars for a preliminary survey so as to determine exactly how much it costs, et cetera, et cetera. All it amounts to is salary, probably, for one man and a clerk, a girl, maybe a couple of clerks to work on it. It isn't a formal grant, but it can be if you feel we want to accept it. I think it would be a good idea.
- H.M.Jr: Unless somebody has some objections, it is all right with me.
- Haas: It will take more than a clerk and one man, I can guarantee that.
- Gaston: You are speaking about editing it regularly,

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George. This is just a survey to see where the material should come from and the form of it.

White: The State Department is having difficulties in its negotiations with Mexico. Oil, land, and water has again cropped up, and they are going to ask us to, I think, undertake negotiations on the Stabilization Fund as a bundle of hay to sweeten their negotiations, so we are getting ready for it, but you haven't got your formal request yet.

H.M.Jr: It has to come over the signature of Cordell Hull.

White: Yes, it is supposed to be coming.

H.M.Jr: What else?

White: Mr. Taylor, who is the man that is going to China, is leaving by boat in a couple of days. I think it would be nice if you could see him for a minute.

H.M.Jr: Bell mentioned it, and I said I would like to see him.

Anything else?

White: That is all.

Bell: I have nothing.

Thompson: I have a letter in the Friedman case. Mr. Helvering feels that we oughtn't to send those letters out until all of the case has been completed. The Nucky Johnson case will be the last one.

H.M.Jr: But that is way, way off.

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- Foley: Well, they are being handled currently, Mr. Secretary. Nucky Johnson is the last one of the cases. I think maybe it would be wise to wait.
- H.M.Jr: All right.
- Foley: If you do it now, it is an anti-climax. The fellow really was after Johnson.
- Thompson: Mr. Holt in the Procurement - Hoyt in the Procurement Office in Albany asked to be transferred to Washington the other day. We can keep him in Albany, though.
- H.M.Jr: All right.
- Thompson: John Pehle wants to put in air conditioning in the three floors of the building he occupies. We can put in--
- H.M.Jr: Can you talk louder?
- Thompson: We can put in units that can be moved out. It will cost thirty-five thousand dollars to do it, but I believe it is necessary if they are going to work there. They are on the top floor and without it they couldn't work at all this summer.
- Bell: They couldn't get it in in time, could they?
- Thompson: They would be movable units that we could use very advantageously possibly in the Internal Revenue building or in many of the other buildings.
- H.M.Jr: Bell said, "Can you get them in in time?"
- Thompson: Oh, yes.
- H.M.Jr: What will you pay for them out of?

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Thompson: Out of the Foreign Funds Control.

H.M.Jr: Thirty-five thousand dollars?

Thompson: Yes. It will take about sixty units.

H.M.Jr: Are all the floors as bad?

Thompson: Well, the Raleigh Hotel is air conditioned up to the floors that we occupy.

H.M.Jr: What did you say?

Thompson: The Raleigh is air cooled up to the floors where we take over. The twelfth floor is never used in the summer time because of the excessive heat up there.

H.M.Jr: Why not start with the top floor?

Thompson: We can start with that.

H.M.Jr: Take the top floor.

Now, Dan, at twenty after, you and Haas and your group. I will be ready for you.

DEFENSE SAVINGS STAFF
ADVANCE NOTICE RADIO PROGRAMS

TUESDAY, MAY 20

Time: 9:30 - 9:45 A.M.

Station: WRC, Washington, D. C., and National
Broadcasting Company Red Network.

Program: "Bachelor's Children."

Time: 8:30 - 8:45 P.M.

Station: WINX, Washington, D. C.

Program: Emil Schram, Chairman of the Reconstruc-
tion Finance Company's Board of Directors,
will speak in behalf of the Defense
Bonds and Stamps.

Time: 9:00 - 9:30 P.M.

Station: WRC, Washington, D. C., and National
Broadcasting Company Red Network.

Program: Bob Hope's Show.

THESE PROGRAMS PROMOTE SALE OF DEFENSE BONDS AND STAMPS

May 20, 1941
10:25 a.m.

RE FINANCING

Present: Mr. Bell
Mr. Haas
Mr. Hadley
Mr. Lindow

H.M.Jr: Did they relieve you long enough, Lindow,
from English statistics to come in here?

Lindow: Yes, sir.

H.M.Jr: I want that book. I haven't seen that.
(Mr. Haas handed reports to the Secretary)

George, let's sit down here a minute. Let's
go back over the issues which we have had,
the taxable ones. Which are the ones. Let's
just see how they have behaved.

Haas: Have you got that list?

Lindow: Yes, I have it here.

H.M.Jr: Now, does it show the issue price.

Haas: It shows when it came out. We haven't got
the issue prices on these.

H.M.Jr: This is when it came out?

Haas: Yes, sir.

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H.M.Jr: And this is the bonds, '48-'50?

Haas: Yes.

H.M.Jr: They have all gone up nicely, haven't they?

Haas: That is right.

H.M.Jr: Have they gone up relatively more than --

Haas: Those have gone up - the taxable issues have gone up relatively more than the long term bonds.

H.M.Jr: Well, have we priced them too sweet?

Haas: Well, I think you had a situation where the market had a new type of thing so they will be very conservative initially in their prices and after the market got organized, they gave them a better standing in the market. I think what accounts for the shift in position is that situation.

Hadley: The two and a half percent bond is the one that started the taxables moving up. The first taxable bond hit a level and wouldn't move away from it for a month or so, and then when the new one came up, the two and a half's, it started moving up faster than anything in the market and it finally pulled the other two right along with it.

H.M.Jr: Which did that?

Hadley: The last one we put out.

Lindow: That has gone up about three points since it first came out. It has done better than the rest of them.

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H.M.Jr: I saw that in the weekly report. Well now, let's just see the next one.

Lindow: That is twenty-three.

Haas: This is what happened.

H.M.Jr: And now the next one is the notes.

Haas: That was anchored to the windward.

Bell: That is a small amount, you mean?

Haas: Yes.

H.M.Jr: Well, it is a good anchor.

Bell: That is a good price there now, too. You might use it again, if you want to. It is about twenty-six thirty-seconds.

H.M.Jr: That is the three quarters. That is all right.

Haas: Yes. We have got six hundred and some out.

H.M.Jr: Six hundred thirty-five. Then on this other one, we have five hundred thirty-one outstanding.

H.M.Jr: That is just above par, isn't it?

Haas: Yes, that is right.

Bell: It is just at par, isn't it?

Haas: Yes.

Hadley: They are selling at a much better rate now.

H.M.Jr: All right. That is that. We will leave this here a minute.

Have you (Bell) seen Haas' report?

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- Bell: No, I haven't. I didn't have time to read it this morning.
- H.M.Jr: Well --
- Bell: But I have it.
- H.M.Jr: Where do you want to start, Dan?
- Bell: Well, I think we might discuss for a moment the amount of the issue.
- H.M.Jr: All right.
- Bell: As I told you the other day, we could get by without any new money up until June. We have about a seven hundred million dollar balance going out of May. We lose anywhere from a hundred to a hundred and fifty million of that the first ten days and then we will begin to get taxes in and we will get some of it back.
- But that will make a billion dollar offering in June, so that it would probably be better to have five or six hundred million dollar offering at this time and relieve the market. In view of the strength of the market, I think it would do it a lot of good.
- H.M.Jr: Let's say we do six hundred million, just to have a figure. Where would that put us? You and I were talking about running that through to say the twentieth of June. Can you figure that? How would we go out at the first of July without any more financing?
- Bell: Without any more financing? We would go out at the first of July with about a billion and a quarter if we didn't have any new money in June.

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H.M.Jr: A billion and a quarter?

Bell: Yes. This statement that I figured, I figured that we won't have any new financing up until about June 15 and then we have a billion dollars and then we would go out of June with a billion six hundred seventy-three.

If you have six hundred million now you would go out with about a billion and a quarter.

H.M.Jr: Then we wouldn't have to do any financing in June?

Bell: Well, you will spend a lot of money, you see, in July and August. You really ought to have some financing in either June or July.

H.M.Jr: Could we go through until July?

Bell: We could, but --

H.M.Jr: Why not - we go out of June with a billion and a quarter? When would you have to do another financing?

Bell: Well, our balance would run down at the end of July to six hundred fifty million and then at the end of August it would go down to about two hundred million.

Now, we have got some financing to do either in July or August for the CCC.

H.M.Jr: How much?

Bell: And RFC. RFC has two hundred eleven million maturing on July 20 and the CCC has two hundred three million maturing on August 1, and it will need about two hundred million dollars additional cash in August, the first of August.

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They will owe us quite a bit of money by that time.

H.M.Jr: Say that again, will you please?

Bell: We have a maturity of RFC amounting to two hundred eleven million on July 20.

H.M.Jr: July 20?

Bell: July 20.

H.M.Jr: That is good.

Bell: We have a maturity of the Commodity Credit Corporation on August one of two hundred three million. We will have to raise an additional amount of new cash for Commodity Credit of about two hundred million dollars. I was wondering if you couldn't kind of get Commodity Credit and RFC together, say around July 15, and do the whole thing at once, about six hundred million dollars, refunding and new cash. That is what we started out to do, you know, put RFC on January and July.

H.M.Jr: That is all right. If we did that, then I might be inclined to increase the bills a little bit.

Bell: You don't have to make the decision about June yet. You might have another five or six hundred million dollars and then we would be well settled until September. We would get this thing back on a quarterly basis.

H.M.Jr: Well you know, I want you men to study it. I am impressed with the particular argument that Walter Stewart used and you fellows should think about it, that there is no cushion for the banks if they need some money except to sell their Governments and if there were

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more bills out that would be the cushion. It would be the same as cash. And if they needed some cash, if something went wrong and they had to raise a billion or two, they would sell their bills first rather than the Governments. What?

Haas: That is right.

H.M.Jr: See, and he thinks the cushion isn't big enough and except for the Government bills there really isn't any short term money around.

Haas: That is absolutely right.

Lindow: Yes.

H.M.Jr: So you people can think about that, you see, the possibility of instead of having a billion three of bills --

Bell: We had a billion seven.

H.M.Jr: Those will run off, won't they?

Bell: They will run off, but I should think we ought to roll those over. It would take our cash balance. We would have to raise that much more money.

H.M.Jr: When does that begin?

Bell: June 4, a billion six is the amount. June 4 is the first one. June 11 and June 18.

H.M.Jr: About two hundred each?

Bell: Yes, sir. It would be three hundred million dollars taken out of your balance in June.

H.M.Jr: Well, that would be the time we would have to decide whether we want to keep it and the

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possibility of doubling it and having two billion six of bills. I am just raising it, you see.

Bell: Yes.

Haas: I think Walter is right. There is a real money market function there and incidentally you are raising money.

H.M.Jr: Pardon?

Haas: There is a real money market function, as you point out, for these short term bills, and incidentally, it provides additional money to the Treasury which you need, both ways.

H.M.Jr: Well, of course, you just do it for ninety days, but I am impressed with the thing of having the cushion in the money market. What?

Haas: Then you would have to leave it there, Mr. Secretary, to keep the level up.

H.M.Jr: That is what I am talking about.

Bell: You wouldn't want to retire the three hundred that is already out. I think if the rate would stiffen a little, it would help a lot because you would get some of the corporate money.

H.M.Jr: Well, we wouldn't have to decide that until when?

Bell: We wouldn't have to do that until June. We could decide that on - let's see, it ought to follow this - June 18 is the last maturity for two hundred million dollars.

H.M.Jr: When is the first one?

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- Bell: June 4, so you would have to do it before June 4 or after June 18.
- H.M.Jr: No, but Dan, I mean the extra hundred million would begin to - when is the first time we have two hundred million?
- Bell: June 4, and the last one is June 18. We have got three weeks in there.
- H.M.Jr: When do you have to decide on the June 4 one? What will be the date?
- Bell: The week before, about May 28.
- H.M.Jr: I won't be here.
- Bell: Well, we can decide before you go away.
- H.M.Jr: Yes. Well, that is the way I am leaning. You might bring it up to the Open Market Committee, too, today.
- Bell: I think that would be all right. We ought to use it some time when a bond issue would help the market. I think this bond issue will help the market.
- H.M.Jr: Well, I am not talking today.
- Bell: Yes. Because if you have another situation like this in June you might not want to issue bills, you might want to put out another bond.
- H.M.Jr: That is true. Well, let's talk about if the thing is as good as it seems now, why not take five or six hundred million.
- Bell: I am in favor of that. Now, I don't know whether you can add a year or two by keeping this amount down to five hundred million. Some people in New York think you can. They

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say if it is a billion three that you can make this '56-'58. If you are going up to a billion and a half, then they think it ought to be probably '54-'56.

- H.M.Jr: Well, I can't see that a hundred million dollars will make much difference.
- Haas: I think it depends a lot on what securities you offer.
- Bell: Well, they are all thinking of two and a half.
- Haas: And a note?
- Bell: Well, they say open a note for the cushion. They have got, I think, a couple of suggestions. They say sell another two percent bond.
- Haas: Well, that is all right.
- H.M.Jr: Another what kind of bond?
- Bell: Two percent bond with the two and a half.
- H.M.Jr: That is Haas' suggestion, but the two percent can only be an alternative on conversion, not --
- Bell: A new bond?
- Haas: A new two, and the two and a half, those two would be on the conversions, Mr. Secretary, and the cash would be on the two and a half.
- H.M.Jr: Arguing for it, it is convincing on account of the large amount of bank holdings of the three and a quarter that will not go into two and a half.

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- Hadley: You have got a lot of savings bank demands where they couldn't get into this last issue and now have authorization to go ahead on the two and a half. That should take over.
- Bell: I think there are being some pretty fast shifts in this three and a quarter. Traphagen is, I think, third or fourth on the list.
- H.M.Jr: Where is that list of mine?
- Bell: He sold ten million of his twelve yesterday. I have it here. I was using it.
- H.M.Jr: Of course, George, there is this thing. I mean, I am arguing. Are you using it?
- Bell: I want to use it.
- H.M.Jr: Haven't you got another one?
- Bell: Yes, sir. Dan had one of his own and you have got one and I can get another one from my office.
- Lindow: I will get one.
- Bell: No, I have one. It is in my desk.
- H.M.Jr: Well, get him another one. This thing, George, if we go in for two percent demands, they will say you are catering to the banks.
- Bell: I don't like the two percent in the first place.
- Haas: Well, here is the - what are you going to do? If you put out a two and a half or put out some security, Mr. Secretary, that the - the banks, after all, are the important underwriters of any issue. If you put out an issue which they won't hold, they will take

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it because the premium is on it and then you have got this reshuffling in the market and the less reshuffling you get the better Treasury market we get after the financing and I think that is - with all the financing ahead of us, that is a very important consideration.

Now, this note thing, the banks sort of laughed about that anchor to the windward. Now after we have used it two times they want to put the anchor out and I don't think we need the anchor so much now. I think the short bond is enough of an anchor under these conditions.

Bell: We don't know of any bad news, do we, that is likely to be in this speech of the President's the twenty-seventh? I would hate to put out a security when the market might be --

H.M.Jr: Oh no. He told me, in the room here, that he was telling the newspapers he had put it off because he was too sick to think about it. He said he hadn't been able to think about it.

Bell: That is what Steve said.

H.M.Jr: To the press?

Bell: Yes. Steve said that.

H.M.Jr: He says, "Now that I feel better and almost all right, I can go ahead and write a speech; but I just wasn't in the mood to think about it."

Bell: There were a lot of shifts and churning in the market the last time we put out the two and a half's, but it didn't hurt the market any. It did it some good.

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Haas: Well, if you didn't have that net in the three quarters you would have been in a bad --

Hadley: Not on the last one. On the two and a half issue, they were just selling --

Haas: Well, the savings banks came in strong on that.

Bell: And there were a lot of shifts from the tax exempts.

H.M.Jr: Dan, get that savings bank fellow down here, will you?

Bell: Yes.

H.M.Jr: We can still run him in.

Bell: We can run him in on the eleven-thirty.

H.M.Jr: Isn't that the way it was done?

Bell: It will have to be at eleven-fifteen.

H.M.Jr: He was good. Well, I am torn between two things. I just don't know. Have you read this thing of George's?

Bell: No, but I will read it just as soon as I go back.

H.M.Jr: It will just take a minute. Does my talking interfere with you?

Bell: No, go ahead.

H.M.Jr: I will try to talk in a melodious voice. I wonder if it would do any good if we announced to the public the information we had about this thing and how this thing was held?

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- Haas: I have on Dan's desk a table which does that, and it tells every issue, who has got them, down the line.
- H.M.Jr: No, I mean just this issue.
- Haas: Well, that issue would be included in the table, isn't that right?
- Lindow: Yes.
- Haas: Along with the others and the idea was to put it in the bulletin and at the same time issue a press release and I think it would be good information for the market.
- H.M.Jr: Have you got where all of them are?
- Haas: Yes.
- Lindow: I have a carbon copy.
- Haas: It is this type of thing, Mr. Secretary.
- Lindow: The issues are listed on the second page, Mr. Secretary. These are summaries.
- Haas: Walk around, Lindow, and show him.
- Lindow: Sure.
- Bell: They are classified by banks and insurance companies.
- Haas: That is right.
- Lindow: Yes, by the reporting institutions, and here they are classified by their tax exemption provisions. Here is your August bond.
- H.M.Jr: Well, are you thinking of making the whole thing public?

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- Haas: Well, there is nothing - you are divulging no confidence, Mr. Secretary, that is just the total figures, broken down by individual issues.
- Lindow: May I add a word here? You see, out of eight hundred thirty-four million outstanding, these institutions hold all except two hundred twenty-nine million which is held by other investors.
- Now, they are broken down by commercial banks and insurance companies, so that you can get an idea --
- H.M.Jr: But what I was thinking of was just this particular issue. If they had this information on this issue, let's say that was given out just as soon as we could give it out for tomorrow morning's newspapers, wouldn't it help everybody in judging this thing and in pricing it? You see what I mean?
- Haas: Yes. Here is another thing, Mr. Secretary. If you give out the whole thing, it wouldn't have - I am just thinking out loud - it wouldn't have the appearance that you are trying to hand out a piece of information which will help the market. If you give out the whole thing which includes that, it has other information which would be helpful to the market, too.
- You remember in the discussions of the breaking point how far the banks would go on maturities and then they wouldn't take it any further. That is indicated rather definitely there by the percent.
- Lindow: For example, in the two taxable issues, the banks which reported there hold sixty percent

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of the shorter issue and forty percent of the longer issue, and I think that is very important information in judging the --

H.M.Jr: Well, I think that this little short notice, just before that, somebody might think it was something tricky. When would this come out in the Bulletin?

Haas: At the end of the month.

H.M.Jr: I would rather do it that way. If I did it this way, they would say, "Well now -" I would rather do it in the bulletin.

Haas: They would think you were fertilizing it or something.

H.M.Jr: Well, they would read all kinds of things into it.

Haas: It would take them some time to digest that.

H.M.Jr: That is the point. I would rather do it in the Treasury Bulletin.

Haas: That is what we had in mind.

H.M.Jr: Who is editor of that now, anyway?

Haas: Our division.

H.M.Jr: Did you ever show it to Kuhn?

Haas: No, sir, we haven't.

H.M.Jr: I wish before the next one goes out you would go over it with him, will you?

Haas: Fine.

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H.M.Jr: And while we are talking, I see in the New York papers that the Federal Reserve of New York on the seventeenth is going to give out a statement for their district on savings bonds.

Bell: That went out over my signature, Mr. Secretary. Bob Rouse called me up some time ago on the telephone and asked me if he could and I said no, that I didn't think he ought to because I thought it would conflict with what we give out down here.

Somebody else called me, I think it was Sihler from Chicago, and I said no, and then somebody wired in and we took it up with Harold and his crew and they thought it ought to be given out and prepared a wire - it was Dallas. It came down for my signature and I said, "Well, I have been telling everybody no. We ought to get together on this and if you are going to do it, let's give every bank the same privilege. We can't tell some no and others yes."

They went back and considered it and they said they thought they ought to do it, and it would be an experiment because they are going to let every state do it when they get their states organized and the only thing we had to caution them about was that they would have to tell the newspaper people that it did not include what was in transit, that this was just what had been reported.

H.M.Jr: It is all going to be done on the same day.

Bell: No, it is just the right to give it out. It is only the local papers that are interested.

H.M.Jr: I think they will get better press that way.

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Bell: The trouble is they will add them all up and they will be so different from what we have got and they will begin to ask, "Where is the difference?"

The difference is the transit items. They have been asked to explain that.

H.M.Jr: Is every Federal Reserve Bank going to do it tomorrow?

Bell: There was no uniform date set. I think it might be a little better not to have a uniform date so as to keep it just of local interest.

Haas: Tomorrow you are going to have your report. Some of the wires are in already. From the first to the seventeenth, and then weekly thereafter.

H.M.Jr: Well, aren't we going to give it out?

Haas: I assume so.

H.M.Jr: Will the local ones give the same figure?

Bell: No.

Haas: Why wouldn't they give the same figure they wire in to you, Dan?

Bell: They will give the same figures as the Federal Reserve banks, but they don't get the post offices.

Haas: But they are just going to give out the Federal figures, not the post offices?

Bell: That is right.

Haas: Then they can reconcile them, because the

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Secretary would probably give out the post offices separate so you can tell the difference between them.

H.M.Jr:

Oh yes.

Bell:

If we separate them, yes. We have been giving out total figures, you know.

H.M.Jr:

But will the post office figures be in tomorrow?

Haas:

They will be in tomorrow, and they will be separate for you so you can see and you can give out a table which would make it possible for anybody to reconcile the figures that the banks give out with the total figure you give out.

H.M.Jr:

Well, I don't want a story to break Thursday that this thing is a failure and that is why we have to do this thing. So just watch your figures, if possible, because the sooner we can give out those figures tomorrow, the better.

Haas:

All right.

H.M.Jr:

When is the deadline you are going to receive them?

Haas:

They are supposed to have them all in today and I can keep the people here tonight if they are all in. If they are not in, we can get in touch with them to get them in. I think the Federal will come through.

Now, whether we get all the post offices - there are a hundred and eleven post offices.

Bell:

Eleven hundred, you mean. A hundred and eleven?

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Haas: Yes. We added eleven more to cover all the states.

H.M.Jr: They are only going to average it.

Bell: It went out to eleven hundred.

Haas: No, no, we cut that down. We worked out a basis for estimating the whole country on the basis of a hundred and eleven. There was a hundred. Now we have added eleven.

H.M.Jr: You had better watch that, George. You had better hit that the first thing in the morning.

Haas: Yes, sir.

Bell: I don't think it is a failure.

H.M.Jr: Well, they said in the Ways and Means it was a failure. You have got to watch it.

Bell: Taft said the same thing, and he said in his speech, "I don't think they will sell over three or four billion dollars this year." That would be a huge success, in my opinion, three or four billion dollars.

H.M.Jr: Well now, let's get down to this, gentlemen. Taking the Haas suggestion or that of his shop, Dan, and the fact that we do have to rely on the banks, supposing you just argue against it. Why shouldn't we do the one that Dan suggests? Have you seen it?

Hadley: I have got the ideas over the phone.

H.M.Jr: Let's just hear from Bell.

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- Bell: Do the one what?
- H.M.Jr: Why shouldn't we do the one, a two percent bond, and a two and a half percent bond for the fellows that want to convert, and get our cash out of the two and a half. What is the arguments against it?
- Bell: I don't think there is much arguing. You could do it either way. I don't think we need to do it that way, and I hate to offer two securities and not give the people who subscribe for cash and want to convert the same opportunity. Of course, we have done that in the case of notes, but not so many people were interested in them.
- H.M.Jr: I wouldn't want to raise any cash at two percent.
- Haas: No. We want to get those out to the real savers. That is the theory on that.
- Bell: Of course, you might wind up with a very small bond issue.
- H.M.Jr: That is right.
- Bell: That won't go so well.
- H.M.Jr: That wouldn't bother me. That would be good. You would say, "Well, you see the banks - we don't need the banks."
- Bell: It makes a nice issue, just one place.
- H.M.Jr: That is why I couldn't answer you. If it was one issue, I might keep the five hundred million, you see, but if it was two issues, I would go to six, you see, Dan.
- Come back to the original question. It makes a lot of difference whether it is one issue or

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two. You wouldn't hesitate if it was two to ask for six hundred, would you?

Bell: Except we don't need the money.

H.M.Jr: Can I have that thing a minute?

Bell: Yes.

H.M.Jr: Have you talked to Eccles today?

Bell: No, I haven't.

H.M.Jr: I will call him up. What percentage of this is held by the banks?

Haas: Forty-six percent?

Lindow: No, the August bonds? No, more than that. Forty-six by commercial banks.

H.M.Jr: But all together?

Haas: And the savings banks --

Lindow: And nine percent by mutual savings banks.

H.M.Jr: Where are you reading from?

Lindow: I have an additional table here.

Bell: It is on the second page of your table, I think.

Lindow: First column.

H.M.Jr: Oh. Well what is this?

Lindow: Those are some data which we got together just to analyze the situation.

Haas: Questions and answers.

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H.M.Jr: If you could type off that little table on
the top there, why can't I have the original?

Haas: You can, sir. Here it is.

(Telephone conversation with Mr. Eccles
follows:)

May 20, 1941
10:58 a.m.

Operator: Chairman Eccles.
HMJr: Hello.
Marriner
Eccles: Hello.
HMJr: Marriner?
E: Yes, Henry.
HMJr: Good morning. I thought you
would like to know how we are
thinking over here on this
financing...
E: Yes.
HMJr: I don't know whether you got
these figures - have you got
a pencil?
E: Yes sir.
HMJr: Hello?
E: All right.
HMJr: This issue that's coming due;
46% is held by commercial banks...
E: Yeah, I got those figures over
here.
HMJr: You have?
E: Yeah, I got the whole picture.
HMJr: Well.....
E: That's eight hundred and some
odd million and I think all
but about a hundred million of
it is held by banks, insurance
companies and the Fed and - well I have
the figures anyway.

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HMJr: Well, 21% is held other than by the banks, insurance and Federal Reserve.

E: Yes.

HMJr: It's 46% by the commercial banks and 9% mutual savings.

E: Yeah.

HMJr: Seventeen insurance and the Federal Reserve banks seven - total 79.

E: I have those figures.

HMJr: Right. Well now, here's what we were thinking about. In view of the high percentage of the banks, the fact that the banks have - oh, I don't think they have more than 10 or 12% above ten years. We were thinking of offering two bonds for the conversion; one a 2% bond and the other 2½.

E: Yes.

HMJr: And for the cash, only the 2½.

E: Yes.

HMJr: Not to squeeze the banks too much, you see?

E: Yes, but we - I tell you what we were thinking about yesterday - we discussed the thing a little yesterday and a, tentatively, we favor only the 2½ for cash, unless you want to give an option on the note of ¾, which I don't think is necessary and really wouldn't make any difference, no one took any the last time to amount to anything.

HMJr: That's right.

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E: A total of 65,000,000 out

HMJr: That's right.

E: And the Defense got over half of them.

HMJr: That's right.

E: So that it doesn't seem to be necessary, but there would be no - wouldn't be any objection. Now we thought, too, that instead of getting five hundred, six, seven hundred million - that the strength of this market is such and the amount of funds that are just waiting for some place to go and no capital market to go into that if you get a billion dollars, I don't think there would be any question about it and if so - we talked about the maturity of fifty-six, fifty-nine, or fifty-eight, either one. If you want less than the billion, it would possibly go fifty-seven, fifty-nine.

HMJr: I'm not sure if I understand your billions.

E: Do what?

HMJr: A billion what?

E: New money.

HMJr: Oh, you mean go out for a billion new money.

E: That's right, that's right. If you don't, in another thirty days or so you're right up against it again.

HMJr: No, we can run

E: Till the middle of June?

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HMJr: We can run - we can go the first of July and have a million and a quarter.

E: Yeah, yes. You could by having your balances go down some from what they are.

HMJr: Well, we could go out of June with a million and a quarter.

E: Well, that's by getting five hundred million.

HMJr: Yeah.

E: By getting five hundred million.

HMJr: Yeah.

E: Is that right?

HMJr: Five or six, I don't know.

E: Yeah.

HMJr: Six, Dan says.

E: Now, on the refunding - we debated a little, we didn't come to any conclusion on the very point you make, that is the two of - what would you make that, forty-eight fifty?

HMJr: Well, the first figures we had on the two and a half, we were figuring on this is fifty-five, sixty.

E: Yeah, fifty-five is pretty short.

HMJr: Sixty....

E: Sixty, be the maturity, wouldn't it?

HMJr: Yeah. And on the two, the boys were figuring on forty-nine, fifty-one.

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- E: Yeah, I think on your two and a half you could go fifty-six or fifty-seven, especially if you only going to get six or seven hundred million.
- HMJr: Well, they just thought that five years is better, it wouldn't cost us anything.....
- E: Yeah, yes.
- HMJr: It's going out to sixty, you see that gives - they are pretty crowded in that section there.
- E: You mean in the fifty-seven?
- HMJr: I mean if we went fifty-five, sixty we'd have a five year call, it doesn't cost the Treasury anything between say fifty-seven, sixty.
- E: Well - as I say, we were thinking that that might be over-pricing it a little bit if you go at fifty-five; we figured fifty-six or fifty-seven.
- HMJr: You just as soon go to sixty?
- E: I just as soon go to sixty, yeah.
- HMJr: Well, we say if we make it to fifty-five, sixty, or fifty-seven, sixty, that's something they can argue on.
- E: Yeah, yes. Well, the only question that I'd like to think about a little and that is the option of the two's.
- HMJr: I don't.....
- E: I don't see much difference, really from the banking standpoint whether they go forty-nine, fifty-one or whether they go fifty-six, I mean it's a bond, it's a
- HMJr: Well, the answer to it is this, Murriner, they don't.

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E: Well, of course, at the present time they have been increasing their bond holdings for earning purposes and I recognized in the past they have been more or less loathe to do it, and I think that if this was a note of short issue, I mean, but I don't see an awful lot of difference between the - when you get up to ten years whether it's ten or fifteen, it's so damn far off I can't anticipate what's going to happen.

HMJr: Yeah.

E: But of course, if they prefer the two, it will cost the Treasury a little less money than the two and a half. It is just a question of pricing two issues which is always a little more difficult than pricing one. Well, we'll think about it along that line.

HMJr: I want to give it to you - this is very preliminary.

E: Yes.

HMJr: And so you just know that....

E: We'll think about it along that line and we'll discuss the pros and cons a little further and then we will see you at three.

HMJr: Right.

E: All right, then. Thanks.

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H.M.Jr: Of course, you see where Marriner and I differ, he also takes the attitude, "Well, there is a big money market and you can tell them what to do and just make them take it and like it," and I have never taken that attitude. I have always tried to give them something I am reasonably sure that they will like, because I have got to come back to them so often and I don't think telling these babies you don't know your business and you will take a fifteen year bond and like it --

Haas: You raise your own interest rates.

H.M.Jr: That is true, too. And putting in the ten year two reduces it. I mean, the cost of the thing.

Bell: Here is what Chicago says.

"Discussion with principal banks, this district Chicago and elsewhere regarding views on Treasury offering referred to in Secretary's press report indicates ideas pretty well crystalized here for favoring a two and a half percent bond issue with maturity ranging from '58 to '60 and the respective optional dates two years earlier.

"Several favor an additional offering of two percent bonds maturing eight or nine years, especially if the offering is to be a billion dollars as has been suggested.

"The matter of reopening the three quarters percent notes of '43 only have luke warm interest excepting as a safety device.

"For the maturity of two and a half percent bonds, preference is for a maturity of fifty-eight rather than longer, but would doubtless

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subscribe regardless of maturity within above-mentioned range. Some selling of savings bonds would be stimulated by two percent bond offering as well as by two and a half percent bonds selling at a premium of one hundred one and a half."

- H.M.Jr: Well look, would you get off a wire to the Federal Reserve presidents and ask them all to send me a night letter tonight, giving me what they would like?
- Bell: Yes.
- H.M.Jr: You might just tell Eccles you are going to do it. What?
- Bell: O.K.
- H.M.Jr: Well, don't you think - or do you think it would be better to ask him to do it?
- Bell: Well, they like it better, but I don't see why you should because they are our fiscal agents.
- H.M.Jr: I want a night letter from every one of them.
(The Secretary held a telephone conversation with Mr. Stanley.)
- H.M.Jr: Well, I don't think we can go much further now, do you?
- Bell: No, I don't think so. Do you want to talk a minute about tax certificates?
- H.M.Jr: Yes.
- Bell: We talked about this some last week and assumed that what we wanted was something to take care of the little fellow, the man who is going to be hit pretty hard in this new tax program and

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not the man who has been paying pretty heavy taxes right along and knows how to take care of his situation, so that we have gotten up a scheme here of tax anticipation certificates which would be issued on a discount basis, four series, one for each tax. They could only acquire about twenty thousand dollars worth of them in a year, which would mean that they would pay five thousand dollars a quarter.

We thought that there ought to be a limit to the holdings of these securities in any one year, and we fixed that limit at twenty-five thousand dollars - or twenty thousand dollars.

Now, we thought we would let anybody hold them. The corporations can come in and buy them, too.

H.M.Jr:

Twenty thousand or twenty-five?

Bell:

Twenty thousand. That would be five thousand dollars for each quarter if they wanted to pay it that way. If we don't do it that way, it means quite a control job, policing, to see that the people get them that they are intended for, so we would just let everybody get them up to twenty thousand. And we started this discount at ninety-nine point forty.

Now, that is a little steeper than we had in the committee because we wanted to get something divided by five on a twelve months basis and that is a pretty good rate for the twelve months. We can put it out at about ninety-nine, but that wouldn't be worth anything. You might just read that. (Handing memorandum to the Secretary.) *dated and filed 5/16/44.*

H.M.Jr:

You won't forget about getting out a telegram to the bank presidents?

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Bell: No, I won't.

H.M.Jr: These certificates would be accepted at par only for payment of income taxes. What does that mean? If you don't use them for income tax purposes, what happens?

Hadley: You get back what you paid for them, only.

Bell: I am not so sure that that would work, but that is what we started with. Whether we ought to penalize them or not - that is one way of keeping people from buying them except just for tax purposes.

Hadley: If they don't do that it will create a market for them.

Bell: Of course, they are non-transferable.

H.M.Jr: I will tell you what I suggest, Dan. Just as soon as this thing is over, I would send this out as a telegram to the twelve banks and ask them to talk it over and report back. How would that be?

Bell: That would be fine. You could send it by letter and let it come back by air mail.

H.M.Jr: Why not tell them that we will begin discussing it next Monday and this thing will be out of the way.

Bell: Good.

H.M.Jr: If they would begin to discuss it next Monday.

Now, on this issue, Number one, how much are you going to put aside of the cash for Government?

Bell: Fifty million. We have sort of established a

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precedent of ten percent. I don't believe I would go over that.

- H.M.Jr: Then this is offered Thursday and it is open two days except we are giving two days on the fellow who has five thousand, or is it ten?
- Bell: Five, for those who wanted to subscribe to cash.
- H.M.Jr: How about on the conversion?
- Bell: I would give them up to Saturday. It is a bond issue. They would be pretty well scattered. It is a high coupon.
- Haas: It is quite concentrated, according to our figures.
- H.M.Jr: Well, it can be concentrated and the fellow that is hurt is the guy that has got ten thousand and --
- Haas: Maybe a small amount.
- Bell: He raises more fuss.
- H.M.Jr: Didn't we give the fellow up to ten thousand an extra day on conversion?
- Bell: I don't think so.
- Hadley: No, it was an extra day.
- H.M.Jr: We gave an extra day to anybody that had up to ten thousand, didn't we?
- Hadley: I think so.
- Bell: We will check.
- H.M.Jr: I think you will find that the fellow who had

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ten thousand or less had an extra day.

Bell: We had some kicks from some banks, so I guess we did.

H.M.Jr: I think two days is plenty.

Now, mind you, if you want to use our radio service, we have got six or seven hundred chains cooperating, if you want to put it on the radio. But they are doing it only on savings bonds.

Bell: You might. It would get you a larger cash subscription, maybe.

H.M.Jr: No, I mean a notice of the three and a half percent.

Bell: I suppose you would have to put the whole program on.

H.M.Jr: If you want to do it, we have got a wonderful service. Think about it.

Bell: All right.

H.M.Jr: But my thought is, if I am right, that I would give - I would only leave it open for two days. I think that is enough.

Bell: Ordinarily it is enough, and it gets the most of them. It gets about ninety or ninety-five percent.

Hadley: Saturday is such a short day there isn't much gained by leaving it open.

H.M.Jr: But I would give them Saturday, the fellows that had up to three thousand.

Bell: Oh, you would give them an extra day on the refunding, I see.

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H.M.Jr: Don't we always leave the refunding open two days?

Bell: Yes, I didn't get your last question.

H.M.Jr: We would leave the refunding open for Thursday and Friday, but if I owned ten thousand dollars at three and a quarter, I have got through until Saturday night to mail my thing in.

Bell: All right.

H.M.Jr: Then we are again doing the five thousand and I would give them an extra day.

Well, I would give them, the five thousand dollar - we close the cash off Thursday night. Then why not leave that open Friday and Saturday, the five thousand?

Bell: You can. We left it open just the extra day before. We didn't get very much.

H.M.Jr: Didn't you?

Bell: Not on the extra day. We had about the same amount as we had before, thirty-nine million, I think it was, just exactly what we had in December. It didn't get very many.

H.M.Jr: Well, I would leave it open Friday and Saturday.

Bell: It is all right.

H.M.Jr: I mean for the five thousand dollars.

Bell: I think that is enough.

H.M.Jr: And this thing I would take out and tell the Federal Reserve presidents to begin checking next Monday. I think, gentlemen, that is about as far as we can go.

✓
5/20/41

FROM: MR. SCHWARZ'S OFFICE

TO: The Secretary

Upon receipt of the story I gave to one of the Post's local men, the editor to whom I had talked (Ted Thackeray, executive editor), called me to ask a few more questions. On the basis of his queries, I think it would be a good idea, if you will so authorize me, to give out this morning the amount of tomorrow's borrowing and the fact that \$5,000 and under subscriptions will not be guaranteed allotment in full. Mr. Thackeray said he would like to send Sylvia Porter down to see you before the end of the month and I told him we would be glad to see her, but left the time vague in order to check with you.

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May 20, 1941
11:09 a.m.

Harold
Stanley:

Good morning, Mr. Secretary.

HMJr:

Hello, Mr. Stanley. How are you?

S:

First rate, thank you.

HMJr:

Mr. Stanley, I didn't know but what I might be able to save you a trip to Washington if you could tell me what you had on your mind.

S:

Well, we want to tell you about the proposed prices and terms and the fact that we are mending our contracts and rebating some of them on to the British Government.

HMJr:

Doing what?

S:

We are lessening the terms of our contracts, which is the equivalent of a rebate of a million dollars or more in price to the British government.

HMJr:

Well, that sounds.....

S:

And we want to explain to you, in view of your interest in the whole situation in this unusual trade, we want to tell you, we didn't expect you to approve it or disapprove, but want to tell you what we propose to do with large profits there.

HMJr:

Now, let me ask you this, Mr. Stanley. What's his name - oh, the Englishman who is handling the thing....

S:

Peacock?

HMJr: Yeah, They were down here - somebody was here yesterday...

S: Yeah, Peacock saw Cochran yesterday.

HMJr: Yeah, and they talked very discouragingly.

S: Yeah, yeah.

HMJr: But I take it from this, that you expect to go ahead.

S: We do - things may develop in the next few days that make it impossible, but we think we can. The markets are bad.

HMJr: Pardon.

S: The markets are bad, but we do expect to go ahead as of today.

HMJr: You do expect to go ahead?

S: Yeah.

HMJr: Well, now here's the thing - I got a little financing of my own....

S: Yes, I know you have.

HMJr: And I'm up to my ears today and tomorrow. Now.....

S: Could I do this, Mr. Secretary? Could I come down and see Foley and Cochran and tell them about this thing?

HMJr: Well, when is your deadline?

S: Our deadlines be signed on Friday.

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HMJr: Well, I could see you on Thursday.

S: All right, sir, fine.

HMJr: What?

S: Fine. I'll come Thursday.

HMJr: Well, now, you want to come in the morning or how do you come, do you fly or take the train?

S: Take the train, generally. I'd rather come in the morning if that suits you.

HMJr: You mean you'll come down on the midnight.

S: Yeah.

HMJr: Well - I can see you at - 10 o'clock.

S: That will be fine, Mr. Morgenthau.

HMJr: Now, do you want any of the English people here or not?

S: No, I'd like to have Foley and Cochran.

HMJr: That can be arranged.

S: Fine.

HMJr: Now, let me ask you this - has this got anything to do with what Clarence Dillon wants to see me about?

S: I don't know.

HMJr: Because I - he's one - I'm just not making any appointments for today or tomorrow.

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S: Yeah.

HMJr: I mean when I do this thing,
I can't think of more than
one thing at a time.

S: Right.

HMJr: But, somebody I take it, will
come with you from.....

S: From - right - from Dillon.

HMJr: Yes, well let's make it at
10 o'clock Thursday and you
say that you are thinking of
taking a million dollars less?

S: Yeah. Less than the contract
provides.

HMJr: I see. Now, do you want anybody
here from SEC?

S: No.

HMJr: You do not?

S: Don't need them, no. Everything
is in the clear over there, I
think.

HMJr: I see.

S: Or at least it will be. It's going
along all right. It wouldn't do
any harm to have Shaughnessy
there if

HMJr: Shaughnessy. Who is he?

S: He's a fellow in the SEC. Oh but -
but I think it is better not to have
them at all.

HMJr: Well that's all right, it's your
show.

S: Yeah.

- 5 -

H.M.Jr: Well, that's all right. It's your show.

S: Unless you want them.

H.M.Jr: Oh, no. I just didn't know whether

S: No, it's just for the Treasury. This is just for the Treasury.

H.M.Jr: Yeah. And you think you're going to go ahead.

S: Yeah. We hope so.

H.M.Jr: Well, as far as - of course, I don't know your market but my market is in good shape.

S: Yes, I know it is, Mr. Secretary, but the stock market is not.

H.M.Jr: I see.

S: Unfortunately it has been steadily declining. All the averages are down and it's just inertia. People don't want to buy stocks now. But, Mr. Secretary, while I'm speaking to you, have you seen Foley since I talked to him a few minutes ago?

H.M.Jr: No.

S: Well, there is a development and maybe this is what Clarence Dillon wants to see you about. I explained it to Foley, not wanting to bother you on the phone. It is that this fellow Salvage - yesterday he told me that he wanted to try to get ready to make an offer to buy all the securities from us instead of our selling them to the public, and I think it is fantastic but still he might be able to do it, and the only way he could do it would be by getting some money from Jesse.

H.M.Jr: Yeah.

- 6 -

S: And the reason I called was that I felt that you didn't want it done that way but nevertheless I had to say if he came in with money on the table

H.M.Jr: He did.

S: No, I say if he did, and we hadn't previously contracted for the sale and his money was more than we could pay that that would result in more for the British Treasury and we couldn't do anything except take it.

H.M.Jr: Yeah.

S: But I'm going to call him again in ten minutes and I've arranged the call, and tell him that I've been thinking about it and I'm awfully worried that this isn't what the Treasury wants, but I can't do anything about it.

H.M.Jr: Well, I - you know that he's talked to Jesse?

S: Well, I know that he talked to him sometime ago and I know that he plans to do it within the next two or three days. I told him that we - if anybody came along that could pay more than we could prior to Thursday that we'd have to consider it. Now, I think he cannot do it, but still he may, and he's apt to mess the darn thing up by fooling around.

H.M.Jr: Yeah.

S: But Peacock knows this. I told this to Peacock this morning, then I came back immediately and telephoned Foley.

H.M.Jr: Well, I'll get to Foley a little later.

S: Fine. All right, sir. We'll see you Thursday morning then.

H.M.Jr: That's right.

S: Thank you very much.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 20, 1941

TO SECRETARY MORGENTHAU

FROM E. H. FOLEY, JR.

Subject: American Viscose Corporation

Harold Stanley just telephoned me and reported these facts which he asked me to bring to your attention:

1. The underwriters contemplate completing arrangements on Friday of this week and offering stock to the public the early part of next week. The underwriters say that the market is soft, due to the Vichy and other developments abroad, and therefore they are apprehensive that they may not realize as much through a public offering of the stock as they had originally anticipated.

2. Samuel Salvage, a British subject, and according to Moody's 1939 Industrials Manual, chairman of the board of directors of the American Viscose Corporation, proposes that American Viscose buy the stock now held by the underwriters for \$64 millions. You will recall that the Salvage family retained approximately 4 percent of the Viscose stock, Courtauld's Ltd. retained approximately 5 percent of the

- 2 -

viscose stock, and the remainder, approximately 90 percent, which was acquired by the British Treasury, was turned over by the British to the underwriting syndicate headed up by Morgan Stanley & Co. and Dillon Read & Co.

Harold Stanley doesn't know how Salvage proposes to raise the funds with which American Viscose would buy the stock now held by the underwriters but suspects that the company would borrow \$40 or \$50 millions from Jesse Jones, take \$10 or \$15 millions out of the company treasury and make up any balance from interested parties.

If this deal were consummated, American Viscose would have a funded debt of approximately \$64 millions and the stock ownership would be divided between the Salvage family and Courtaulds Ltd. In this way the British (Salvage and Courtaulds) would continue to own all the equity in the company.

While this arrangement would require the approval of the underwriters as holders of 90 percent of the stock, Harold Stanley is afraid that the price of \$64 millions might be more than could be realized through a public offering. While Stanley does not believe the Salvage scheme is practical and does not carry out your wishes, he wants to lay the facts before you.

- 3 -

Recommendation

If you still want the Viscose stock sold to the American public, I suggest that you telephone Jesse Jones and discuss the Salvage proposal with him, as it seems inconceivable that anything like the money necessary to finance this arrangement could be obtained anywhere else. You might want to suggest to Jones that the underwriting syndicate fix an offering price for the stock and receive subscriptions from the public before any consideration is given to an R.F.C. loan against the Viscose stock. If subscriptions are not received in an amount in excess of \$64 millions, the public offering can be withdrawn by the underwriters and at that time there will be ample opportunity to take up the Salvage proposal.

I understand Stanley is coming in on Thursday. In the meantime is there anything you want me to say to him?

F. W. Fh.

82

5/20'41

Miss Chauncey:

Mr. Foley carried this
in to the Secretary at 12:50
and the Secretary called
Mr. Jesse Jones while Foley
was there.

McGuire

McGuire

May 20, 1941

SECRETARY MORGENTHAU

E. H. FOLEY, JR.

Subject: American Viscose Corporation

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2. Samuel Salvage, a British subject, and according to Moody's 1939 Industrials Manual, chairman of the board of directors of the American Viscose Corporation, proposes that American Viscose buy the stock now held by the underwriters for \$64 millions. You will recall that the Salvage family retained approximately 4 percent of the Viscose stock, Courtauld's Ltd. retained approximately 5 percent of the

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I understand Stanley is coming in on Thursday. In the meantime is there anything you want me to say to him?

(Initialed) E.H.F.Jr.

EHF:mp 5/20/41

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 20, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

Sir Frederick Phillips telephoned me this afternoon and came over at 4:15 p.m. He said that he desired to discuss Viscose. He reminded me that he had constantly been in favor of the out-and-out sale of Viscose and that he had not raised any question about it at any time. On the strength of reports which he has now received from New York, however, he thinks that he should enter the picture since the possibility arises of the banking group selling Viscose to the public at a price considerably lower than that which a group representing Courtald's and American Viscose might offer. It is Phillips' understanding that this group, headed by the man who has been in charge of American Viscose, would get \$20,000,000 from Courtald's, \$5,000,000 from another source, and borrow \$40,000,000 from Mr. Jones. Sir Frederick said that he had seen a letter addressed to Mr. Jones by a firm of Washington attorneys, and Mr. Jones' reply thereto, from which it appeared that Mr. Jones was favorably inclined toward granting the \$40,000,000 loan in question. This had, however, been several days ago, and Phillips thought the matter had not been carried further. He now hears from the bankers in New York, however, that instead of issuing the common stock at around 35, as heretofore anticipated, they may be obliged to issue it at 25. At an issue price of 30 for the common stock and 110 for the preferred, the gross proceeds would have been around \$70,000,000. If it may now be necessary, as anticipated, to let the common shares go at 25, the net return to the British Treasury, after counting out the banking group's commission, would be around \$58,000,000 or \$59,000,000. Phillips' concern arises, therefore, if a transaction should be continued which is likely to net the Treasury several million dollars less than the proposed transaction of the Courtald-Viscose group, calculated at \$65,000,000.

Phillips said that he was by no means satisfied with the new proposal of the Courtald-Viscose group. He thought that a better arrangement might be effected if he and his colleagues could go directly to see Jesse Jones. He asked our permission for this. At this point I told him that I would like to have Mr. Foley join us, since Mr. Foley had had certain conversations with the New York bankers this morning, and Foley and I separately had talked with the Secretary on this subject. When Mr. Foley came in, Phillips repeated what he had told me, as reported hereinabove. Mr. Foley let Phillips know that after the Secretary had talked with Harold Stanley this morning, when the latter indicated that the bankers were ready to go ahead with the deal, and after Foley had spoken a second time with Stanley, the Secretary had telephoned Mr. Jones in the premises. The latter had stated that some six weeks ago he had been approached by Salvage, representing the Viscose interests, but that no current negotiations were being carried on. Jones apparently thought the sale proposition was being consummated. It was agreed between the Secretary and Mr. Jones that the latter would get in touch with the Secretary if Salvage approached him again. All of this was explained to Phillips by Mr. Foley.

- 2 -

Phillips understood that the prospectus of the New York group would be issued Friday morning. Consequently, if there is to be any change in plans, the arrangements must be made at once. He is having Gifford or Peacock come to Washington to be here tomorrow morning. Mr. Foley and I promised to get an answer from the Secretary by early tomorrow morning as to whether Phillips should approach Jones directly. Foley and I reiterated to Phillips the importance of the Viscose transaction being a direct sale, from our Treasury's standpoint. Phillips appreciated this, but stressed his own worry of having to report to his Treasury that the Viscose might be sold through public issue at a price lower than that being offered by this other group. Mr. Foley discussed with him the possibility of some safeguarding arrangement which would permit Mr. Jones to step in in the event that there may not be a successful distribution at a price fixed sufficiently high to yield a net sum to the British Treasury at least equivalent to that which the new group is offering. No definite plan was agreed upon as feasible.

B.M.F.
8.11.76

May 20, 1941

I called up Lord Halifax at 7:20 this evening after reading Merle Cochran's message about Phillips wanting to go direct to Jesse Jones. I asked Lord Halifax who represents the British Treasury in Washington, and he unhesitatingly said, "Phillips." I said that I had been upset by Keynes' memorandum, and it was practically impossible to do what he asked. I asked Halifax if he had seen it, and he said that he had not. I suggested that he look at it. He said that I should carry on considering Phillips No. I and if there is any change he would let me know.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 20, 1941

TO Secretary Morgenthau
FROM Messrs. Cochran and White
Subject: British request for "relief" on outstanding obligations.

1. The British are asking for relief of \$650 million in addition to the \$300 to \$400 million relief on past contracts which you promised them on March 19.

The \$650 million they are asking for is to be used over the next two-year period on expenditures which the British say it is difficult to place under Lend-Lease for administrative and political reasons.

The immediate question is can this \$1 billion of relief be made available to them.

2. The following are measures that might be taken in order to fulfill your commitment of March 19, 1941, to relieve the British of \$300 - \$400 million of past commitments.

- (a) The War Department (with the D.P.G.) has already taken over \$98 million (49.6 million on supply contracts, and \$48.3 million on plants).
- (b) A further \$85 million -- mostly cash -- could be supplied by the transfer of the additional plant facilities which the War Department is ready to certify as necessary for national defense. The War Department prefers, however, that the R.F.C. do this because of legal problems involved.
- (c) An additional \$180 million of supply contracts can be taken over by the War Department if the White House tells Stimson to do so. Because these contracts (according to Mr. McGloy) were not placed before Lend-Lease legislation, the War Department feels that they cannot go ahead without specific instructions from the White House to do so.

Division of Monetary
Research

- 2 -

If all the above were done, the total relief would be \$363 million, which is the approximate sum you promised on March 19. Of this \$363 million, about half would probably be in cash; the remainder would be relief from future expenditures.

3. The remaining \$650 million of relief which the British are now requesting could be raised in one of the following ways:

(a) The White House could direct the Army to take over under Lend-Lease \$650 million of contracts.

(It is probably unnecessary to point out that this step would be in violation of the letter as well as the spirit of the testimony offered by yourself and Mr. Smith.)

(b) The R.F.C. may be able to make loans on British direct investments which, for one reason or another, are not available for sale. (Just what the R.F.C. could do would have to be taken up with Mr. Jones.)

(c) There is left undelivered from the French contracts which the British took over somewhere around \$125 million of goods. The War Department may take this over under the Lend-Lease arrangements which would provide the British with some \$56 million of cash and \$70 million in relief. It might be that such a step would not be regarded as a violation of either the letter or the spirit of the testimony because they are French and not British contracts. (However, though they were not contracts, they were commitments which the British had assumed prior to the Lend-Lease Bill.)

(d) Legally our Stabilization Fund could purchase \$650 million of sterling giving them dollars for it. However, you said before Congressional committees that you would not do so without coming to them first.

- 3 -

(e) If the British want to increase their cash holdings now in lieu of later receipts, we could pay now for future deliveries of wool, and possibly tin and rubber. We are to receive 250 million pounds of wool from Australia worth roughly \$100 million. There is here already and en route about \$40 million worth. The Defense Supplies Corporation (an R.F.C. subsidiary) could pay for the total amount of wool, thus making dollars immediately available to the British Government. (Of course, the British Government would have to make the necessary arrangements with Australia.)

(f) Or additional funds could be raised by increased sale of securities and of direct investments, along some such lines as were discussed in detail with the S.E.C. several months ago.

4. Congress may want to know when you go before them for additional appropriations, or when a final accounting is made, whether the British lived up to your promises. It might therefore be preferable to meet the present British request either by R.F.C. loans on, or purchases of, direct investments or advance payments on deliveries of strategic materials, or by asking Hopkins to alter his administrative procedure so that:

(a) The British can buy everything they need under the Lend-Lease arrangements in the United States, and

(b) The British could purchase for India and other Empire countries under Lend-Lease with the British Government being responsible for the obligation.

If these latter two steps are taken, the additional \$650 million which they now want could be reduced.

There are appended pertinent statements on this subject which have been made by Secretary Morgenthau and Budget Director Smith.

May 20, 1941

My dear Mr. Secretary:

Reference is made to your letter of May 2, 1941, in which you request information with respect to the status of War Department arrangements for taking over British contracts.

In Mr. McCloy's letter to the Under Secretary of the Treasury, dated March 17, 1941, it was stated that arrangements then under consideration by the War Department and Reconstruction Finance Corporation would relieve the British Government of contracts for supplies and plant facilities to the extent of \$427,560,000. Since that date the Congress has appropriated \$7,000,000,000 (Defense Aid Appropriation Act, 1941) to carry out the provisions of the Lend-Lease Act, and all of the \$427,560,000 program has now been taken over by the use of lend-lease funds, with the exception of \$97,900,000. Of the \$97,900,000, \$49,600,000 represents the actual amount of War Department funds obligated for the purpose of entering into new contracts to replace certain British supply contracts, and \$48,300,000 represents the face amount of British plant facility contracts, which are being replaced by contracts with the Defense Plant Corporation. In connection with the plant facility program, it should be understood that the face amount is the obligation of the original British contracts, the ultimate obligation of the Defense Plant Corporation being somewhat less than this, due to the fact that the Defense Plant Corporation will not acquire all of the facilities provided under British contracts. Likewise, in the case of British supply contracts, reimbursements to the British Government will be less than the actual cost to the British due to the fact that War Department procurement agencies are able to contract on a more favorable basis than the British Purchasing Commission.

In reference to your inquiry regarding the actual payments that may be expected to be made to the British Government as a result of this taking over of British equipment obligations, it is difficult for the War Department to give any reliable figure as reimbursement to the British Government under British contractual agreements with these manufacturers is a matter to be settled by the British Purchasing Commission and the manufacturers.

For your information, the British Purchasing Commission has entered into contracts for certain plant facilities amounting to \$85,600,000 in addition to the facilities represented by the \$48,300,000 referred to above. Study by the War Department indicates that in the interest of national defense the acquisition by the United States of these additional facilities is desirable. Accordingly, steps are now being taken by the War Department which it is hoped will lead to the further acquisition of these facilities by the Defense Plant Corporation. Inasmuch as the \$85,600,000 represents the face amount of the additional British facilities, it is not known at this time what the ultimate cost thereof will be, or how much reimbursement will be due the British Government under existing contracts.

The foregoing comprises the extent to which War Department arrangements for relieving the British Government of contracts placed in this country by the British Purchasing Commission have been made.

Sincerely yours,

(Signed) Henry L. Stimson

Secretary of War

The Honorable
The Secretary of the Treasury

COPY - am - 5/27/41

May 20, 1941.

Dear Cordell:

The President has sent me a copy of his letter to you dated May 16, relative to the working out of an over-all arrangement between the United States and Britain covering material provided under the Lend-Lease Act. I am also enclosing for your information a copy of a letter which I have received from the President on this matter and a copy of my reply.

I want to be of assistance to you in working out the final draft of such an agreement and am prepared to discuss with you the draft of the agreement prepared by the State Department and referred to in your letter of May 14, 1941.

Sincerely yours,

(Signed) Henry

The Honorable

The Secretary of State.

4 Enclosures

EHFJr.:vls - 5/19/41
SN76

By Messenger // 45

MAY 20 1941

Dear Mr. President:

I have your note of May 16 in regard to the preparation of an agreement with the British to cover material made available to them under the Lend-Lease Act. I assume your note supersedes the instructions contained in your letter of March 13, a copy of which is enclosed.

As the matter now stands, both State and Treasury have prepared drafts of an agreement. However, I am wholeheartedly in accord with your desire that the initiative and primary responsibility for working out such an agreement with the British should be centered in the State Department.

I shall notify Cordell Hull at once that the Treasury stands ready to be of assistance in working out the agreement.

Sincerely yours,

(Signed) Henry

The President

The White House.

BHFJr.:vls - 5/19/41
Enclosure

By Messenger

WASHINGTON

March 13, 1941.

Dear Henry:

I wish you would undertake to negotiate the "quid pro quo" with the British relative to the material up to \$1,300,000,000 which I am authorized to transfer to them. I should think it would be best if we could work out some kind of over-all agreement and I should like to discuss it with you when you have developed further the informal proposals which we talked about the other day. I think it would be wise to get this accomplished soon, because we must move forward with our transfers.

Very sincerely yours,

(Signed) FRANKLIN D. ROOSEVELT

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

THE WHITE HOUSE
WASHINGTON

May 16, 1941

Dear Henry:

I am enclosing a copy of a note I sent to Secretary Hull. I have given consideration to the question of what Department should take primary responsibility in working this out with the British and it seems to me that the initiative should be taken by the State Department but that the Treasury should be in on the provisions of the agreement.

Very sincerely yours,



Enclosure.

The Honorable
The Secretary of the Treasury

THE WHITE HOUSE
WASHINGTON

May 16, 1941

Dear Cordell:

I wish you would work out the over-all arrangement between the United States and the British Government relative to the consideration or considerations to be given us by the British in return for the material provided under the Lend-Lease Act.

I should like to discuss it with you at an early opportunity because I think it is important that we reach an agreement with the British at an early date.

Although I presume the agreement will not provide primarily for a return to us of cash, I think, nevertheless, you should consult with Secretary Morgenthau in regard to the broad provision of the agreement.

Very sincerely yours,

(Signed) FRANKLIN D. ROOSEVELT

The Honorable
The Secretary of State

HLH/lmb



DEPARTMENT OF STATE
WASHINGTON

May 14, 1941

My dear Mr. Secretary:

The draft of an over-all agreement to cover defense articles made available to Great Britain under the Lend-Lease Act, enclosed in your letter of April 25, has been under consideration for some time by members of the Department and representatives of the Treasury. The suggestions which have been made are to be incorporated in a new draft which, it is hoped, will be ready for early consideration. I shall get in touch with you as soon as the draft is ready so that we may discuss it.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

THE WHITE HOUSE
WASHINGTON

May 20, 1941

My dear Mr. Secretary:

I find that:

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

(2) Sections 4 and 7 of the Act of March 11, 1941 have been complied with by the necessary agreement on the part of His Majesty's Government in the United Kingdom;

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

I therefore authorize you to make the transfer to His Majesty's Government in the United Kingdom of the defense articles set forth in the annexed schedule.

I would appreciate it if you would arrange with the Chairman of the British Supply Council in North America for the time, method, and other details of the disposition.

Very sincerely yours,



The Honorable

The Secretary of the Treasury

TRANSFER DIRECTIVE NO D-34-T.

Defense Articles Authorized
for Transfer to the United Kingdom
by the Secretary of the Treasury

Acquisition Number	Articles	
	Quantity	Description
367	4,480 short tons	Brass rod and wire
450	32	Caterpillar tractors and spare parts
	11	Graders and spare parts
558	13	Caterpillar tractors and spare parts
	6	Graders and spare parts
703	600 long tons	Ground sulphur
767	2,000 lbs.	Sulfaguanidine powder

THE WHITE HOUSE
WASHINGTON

May 20, 1941

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I find that:

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

(2) Sections 4 and 7 of the Act of March 11, 1941 have been complied with by the necessary agreement on the part of His Majesty's Government in the United Kingdom;

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I therefore authorize you to make the transfer to His Majesty's Government in the United Kingdom of the defense articles set forth in the annexed schedule.

I would appreciate it if you would arrange with the Chairman of the British Supply Council in North America for the time, method, and other details of the disposition.

Very sincerely yours,



The Honorable

The Secretary of the Treasury

TRANSFER DIRECTIVE NO D-54-7.

Defense Articles Authorized
for Transfer to the United Kingdom
by the Secretary of the Treasury

Requisition Number	Articles	
	Quantity	Description
387	4,480 short tons	Brass rod and wire
450	32	Caterpillar tractors and spare parts
	11	Graders and spare parts
568	13	Caterpillar tractors and spare parts
	6	Graders and spare parts
703	600 long tons	Ground sulphur
757	2,000 lbs.	Sulfaguanidine powder

THE WHITE HOUSE
WASHINGTON

May 20, 1941

My dear Mr. Secretary:

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- (2) Sections 4 and 7 of the Act of March 11, 1941 have been complied with by the necessary agreement on the part of His Majesty's Government in the United Kingdom;
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Very sincerely yours,



The Honorable

The Secretary of the Treasury

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Defense Articles Authorized
for Transfer to the United Kingdom
by the Secretary of the Treasury

Acquisition Number	Articles	
	Quantity	Description
367	4,480 short tons	Brass rod and wire
450	32	Caterpillar tractors and spare parts
	11	Graders and spare parts
558	13	Caterpillar tractors and spare parts
	6	Graders and spare parts
703	800 long tons	Ground sulphur
767	2,000 lbs.	Sulfaguanidine powder

THE WHITE HOUSE
WASHINGTON

May 20, 1941

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- (2) Sections 4 and 7 of the Act of March 11, 1941 have been complied with by the necessary agreement on the part of His Majesty's Government in the United Kingdom;
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Very sincerely yours,



The Honorable

The Secretary of the Treasury

TRANSFER DIRECTIVE NO. D-34-7.

Defense Articles Authorized
for Transfer to the United Kingdom
by the Secretary of the Treasury

Acquisition Number	Articles	
	Quantity	Description
567	4,480 short tons	Brass rod and wire
450	32	Caterpillar tractors and spare parts
	11	Graders and spare parts
558	15	Caterpillar tractors and spare parts
	6	Graders and spare parts
703	600 long tons	Ground sulphur
757	2,000 lbs.	Sulfaguanidine powder

May 20, 1941
1:00 p.m.

H.M.Jr: Hello.

Operator: Secretary Jones.

Jesse Jones: Hello. How are you?

H.M.Jr: Oh, pretty good. Two things, Jesse. We're going to talk about our financing today at 3:00 o'clock with the Federal Reserve Board. If you've got any ideas, I'd like to benefit.

J: Be all right if I come over?

H.M.Jr: That's the purpose of the call.

J: I'd be delighted.

H.M.Jr: All right. It's at 3:00 o'clock today.

J: 3:00 o'clock today.

H.M.Jr: Yeah. The other thing, Stanley of Morgan-Stanley was calling that they hope still to make an offering and I didn't know whether anybody had been talking to you about this Viscose deal or not.

J: No, they haven't.

H.M.Jr: All right, because I'd very much like to see it offered to the public. I think they should.

J: Yeah. I think that's what they're going to do.

H.M.Jr: Well, they're nervous as hell because there is some other fellow that has been flirting around, a man by the name of Salvage.

J: Well, he's in the company now.

- 2 -

H.M.Jr:

Yes.

J:

Well, he was down to see me, I guess, Henry, it's been six weeks or seven weeks ago when the deal - soon after it was first made but they've never really - and then I think I had a letter from their lawyers, but I had understood that there was nothing definite about it or anything like that at all. So I'm sure that there's nothing in the way of their going right along. I understand they are going right along.

H.M.Jr:

Well, this fellow Salvage - they didn't know whether he was going to run to you and they're very nervous about the whole thing because they've got a bad market.

J:

Yeah.

H.M.Jr:

But if it is at all possible, on account of all the publicity and the effect on Congress, I'd like to see it offered publicly.

J:

Well, I think it will be.

H.M.Jr:

You do.

J:

That is I know nothing to the contrary. I've understood - let's see now. I've talked with, well, at least two members of the syndicate have mentioned to me that they were going - Dillon was one.

H.M.Jr:

Well, Clarence Dillon has been trying to see me and I haven't seen him.

J:

Yeah. Well, he mentioned it to me some days ago. I told Dillon way back yonder that if we could be helpful, if when they got ready to market it if they wanted to reset it on a basis of part loan and part stock that we'd be glad to discuss it with them.

- 3 -

H.M.Jr: Well, that I hadn't heard.

J: And then he told me after that that they thought they wouldn't pursue that, that they were going to do it on a stock basis, and I told him that was perfectly all right, I only wanted to be helpful if we could be.

H.M.Jr: Well, if this fellow Salvage approaches you, before you see him, would you mind giving me a ring?

J: I'll be delighted.

H.M.Jr: Thank you, Jesse.

J: It just happened that - there's something going wrong with us because I was fixing to pick up the telephone to call you when the phone rang.

H.M.Jr: Well, that shows we were both having pleasant thoughts.

J: Maybe so.

H.M.Jr: Well, I'll see you at 3:00.

J: O.K.

Under Secretary

Rep. Loans

May 20, 1941

To Presidents, Federal Reserve Banks:

Boston, Mass.
~~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.

Please advise the Secretary by night letter tonight the views of bankers and others in your district concerning the proposed Treasury financing which will probably be announced Thursday. The Treasury expects to refund the August maturity of eight hundred thirty-four million dollars and raise additional cash of not more than six hundred million dollars.

BILL

W. B.

May 20, 1941.

Dear Mr. Sontree:

For the Secretary I am acknowledging
your letter of May 17th.

Mr. Neaghen will be glad to see you
the next time you come to Washington. When
you are here, if you will get in touch with
me I shall be glad to consult the Secretary's
calendar in order to arrange an appointment.

Sincerely yours,

H. S. Klotz,
Private Secretary.

Mr. V. Ernest Sontree,
86 Pine Street,
New York, New York.

GEV/dbs

56 PINE STREET
NEW YORK

May 17, 1941

Private & Confidential

The Honourable Henry Morgenthau,
Secretary of the Treasury,
Washington D.C.

Dear Mr. Morgenthau,

Through the good offices of Sir Frederick Philipps and Sir Edward Peacock, (with the latter of whom I am led to think you are aware I am at present associated), it has been brought to my attention that I have been quoted as having made some flippant remark about your goodself to some newspaper correspondents, and I hasten to deny such a false imputation.

In the first place, the phrase attributed to me is not one I am in the habit of using, and certainly not in respect of our high government officials for whom I have the greatest respect. Incidentally, I might mention that although British-born, I am an American citizen since 1908 and as such I am particularly anxious that you should not think I would speak disparagingly about you or any one else connected with the Administration. In the second place, I have not had any interviews with newspaper correspondents; the only newspaper man I know or have knowingly met in America, is one who has contributed an article occasionally to one of the New York papers and who is quite reliable, and I am sure no such malicious statement would emanate from him, nor have I ever said anything to him which would occasion such a story.

I regret that I do not have the privilege of knowing you as if I had I am sure you would recognize that I am not the kind of person who would make such a remark. Indeed, I feel so keenly about it that I would esteem it a favor to be permitted to call upon you in order to remove any vestige of a thought which may linger in your mind that I have done so. If you could spare me a few minutes, I should be only too glad to run down to Washington for this purpose and to pay you my respects. Could you make me an appointment, I should appreciate it ever so much if you could.

Believe me dear Mr. Morgenthau,

Yours sincerely,

Wmest Seabee

For release to the morning papers
Tuesday, May 20, 1941.

Office of Chauncey W. Reed,
321 House Office Building,
Washington, D. C.

The Minority Members of the Coinage, Weights and Measures Committee of the House of Representatives want to limit the maximum price of foreign gold to \$35 an ounce.

They would reduce the Stabilization Fund from two billion dollars to two hundred million dollars. The Minority report sets forth that one billion eight hundred million dollars of the Stabilization Fund is now lying idle in the Treasury, and should be devoted to helping defray the expense of the National Defense in order to reduce the amount of inflationary borrowing.

The Minority Members of the Committee foresee a growing danger of debasement of the currency to help meet the defense costs. They believe the danger of inflation is becoming more actual and imminent because of conditions which have developed and insist that the temptation for the Administration to take the easy road to inflation in order to finance the National Defense must be removed for the safety of the nation.

The Minority Report in full follows:

MINORITY VIEWS ON H. R. 4646

Essentially H. R. 4646 would continue until June 30, 1943 the President's power (1) to alter the gold content of the dollar within the limits proscribed by the Act of January 30, 1934, and (2) the operation of the \$2,000,000,000 Exchange Stabilization Fund.

After careful study of the facts and issues involved, we, the Minority Members of the House Committee on Coinage, Weights and Measures, are opposed to the bill in its present form. We will support the measure, however, if the House will accept two amendments: (1) an amendment to fix the maximum price to be paid for foreign gold at \$35 an ounce; and (2) an amendment to reduce the Exchange

- 2 -

Stabilization Fund to \$200,000,000.

I.

We oppose the continuation of the President's power to reduce the gold content of the dollar for two reasons. Our first reason is that past results do not justify extending this grant of power. Originally it was asserted that the reduction of the gold content of the dollar would raise the general price level. In this it failed. Subsequently, the administration argued that the power should be continued so it could deal effectively with competitive currency depreciation abroad. Again it failed to produce the anticipated results. Our second reason for opposing this legislation in its present form is that devaluation would constitute a distinctly inflationary threat, - a threat which would jeopardize the entire national defense effort.

Failure to Increase Prices. When President Roosevelt, on January 31, 1934, reduced the gold content of the dollar by 40.94 percent, he thereby raised the world price of gold from \$20.67 an ounce to \$35 an ounce, or 69 percent. The alleged reason for this devaluation was to increase prices and exports. The supporters of the President's action declared that a 69 percent increase in the price paid for gold would stimulate a corresponding rise in commodity prices. President Roosevelt's action failed to accomplish this objective. As a matter of fact prices that should have increased the most actually declined. In August 1939, the last month before the outbreak of World War II, wholesale commodity prices, as measured by the Bureau of Labor Statistics, were only 75 percent of the 1926 level compared with the January 1934 figure of 72.2 percent, an increase of but 3.9 percent in nearly 6 years, or about 0.7 percent a year. Although the American farmer was to be the major beneficiary of this program, in August 1939 the wholesale price of farm products was only 61.0 percent of the 1926 price level compared with 68.7 percent in January 1934, an increase of 3.9 percent. According to the

- 3 -

proponents of the measure, wheat and cotton prices should have increased about 69 percent. Actually the farm price of wheat declined from 69.4 cents a bushel in January 1934 to 54.5 cents a bushel in August 1939, whereas cotton declined from 10.36 cents a pound in January 1934 to 8.70 cents a pound in August 1939.

It was also alleged that devaluation would stimulate agricultural exports and thus reduce burdensome farm surpluses. Agricultural exports in the fiscal year 1939, however, were less than in the fiscal year 1933, the year prior to devaluation.

Competitive Currency Depreciation. When the administration sought to have this power continued in 1937 and again in 1939, it argued that the President needed this power as "a club behind the door" to prevent other countries from engaging in a currency war. In fact, Secretary of the Treasury Mergenthau went so far as to declare that "this power is a weapon . . . in the monetary field . . . as important as a powerful Navy in the field of defense against armed attack." The mere existence of the power would discourage other countries from depreciating their currencies to gain a competitive advantage, or so it was argued. As stated by the Majority of this Committee in its report on similar legislation two years ago:

"In the present unsettled international situation, stability is given to international exchange rates by the existence of the power in the United States to deal promptly and effectively with currency depreciation abroad. The mere existence of this power serves to discourage other countries from further depreciating their currencies in order to acquire a competitive advantage in the world markets, and has given added protection to our world trade."

The weapon, however, failed to prevent currency depreciation, and a further decline in exports of leading farm products. Between July 1939, when the President approved the legislation extending his power, and the fall of France, the currency of that country depreciated 25 percent in terms of the dollar.

- 4 -

Between July 1939 and March 1941 the British pound has depreciated 15 percent; the Spanish peseta 17 percent; the Japanese yen 15 percent; and Chinese currency 41 percent. As Secretary Morgenthau has admitted: "During the last 2 years the international exchange markets have been more disrupted than they have been in the past 20 years." To argue that the Administration needs this power in order to meet competitive devaluation in other countries is to let the policies of weaker nations govern our monetary policy.

Inflation and the National Defense Effort. Two years ago we, the Minority Members of this Committee, recommended that "the present price of gold should remain stabilized at \$35 an ounce, until and unless Congress should, at some time, by appropriate legislation, decree otherwise." Today we do not stand alone. On December 31, 1940 the Board of Governors of the Federal Reserve System, the presidents of the Federal Reserve Banks, and the Advisory Council to the Board of Governors of the Federal Reserve System, in a joint statement to Congress, strongly supported our earlier recommendation. They warned that monetary causes of inflation should not and cannot be ignored. Their report declared:

"... While inflation cannot be controlled by monetary measures alone, the present extraordinary situation demands that adequate means be provided to combat the dangers of over-expansion of bank credit due to monetary causes.

"The volume of demand deposits and currency is fifty percent greater than in any other period in our history. Excess reserves are huge and are increasing. They provide a base for more than doubling the existing supply of bank credit. Since the early part of 1934 fourteen billion dollars of gold, the principal cause of excess reserves, has flowed into the country . . . The necessarily large defense program of the Government will have still further expansive effects. Government securities have become the chief asset of the banking system, and purchases by banks have created additional deposits. Because of the excess reserves, interest rates have fallen to unprecedentedly low levels. Some of them are well below the reasonable requirements of an easy money policy, and are raising serious, long-term problems for the future wellbeing of our charitable and educational institutions, for the holders of insurance policies and savings bank accounts, and for the national economy as a whole." (Federal Reserve Bulletin, January, 1941.)

- 5 -

Thus as a consequence of the defense effort the dangers of inflation are not more actual and imminent than they were even two years ago. Although inflation did not result from devaluation of the dollar in January 1934, the situation now existing is in no way comparable. In the years prior to the defense emergency the economic system was operating far below full capacity, whereas at present we are operating very close to capacity. As production approaches capacity, the danger of inflation becomes ever more acute. Since inflation can ruin the efficiency of our entire defense program, administrative spokesmen repeatedly emphasize that a major objective of governmental price policy today is to prevent inflation. For example, a major purpose of the Office of Price Administration and Civilian Supply created by executive order on April 11, 1941, is, according to the President, to avoid "unwarranted price rises." Similarly, the President created the Priorities Division of the Office of Production Management to allocate certain scarce materials to prevent the prices of such materials from being grossly inflated by unusual and inequitable demands. Certainly the administration is aware that inflation must be guarded against now more than ever before in the nation's history.

In addition to jeopardizing the national safety, inflation would impose an especially severe burden on those least able to bear it. The Director of Research of the Board of Governors of the Federal Reserve System recently observed:

"It is much more accurate to say that in general inflation temporarily favors the rich as against the poor. It does so because the rich do not spend their entire income on necessities and, therefore, are not so seriously affected as the poor who must use all their income to pay for food, clothes, and shelter. It favors the rich also because their profits from a rise in value of property and investments in equities may more than offset their losses from a rise in the cost of living.

"Inflation favors the speculator as against the investor, because the rapid rise in securities and commodities may afford the speculator an opportunity to reap large profits, while the investor in fixed interest-bearing obligations finds the buying power of revenues declining. Finally, inflation favors the slick as against the conscientious. It affords an opportunity for clever

- 6 -

manipulators to profit by an unstable situation and it completely baffles the careful, thrifty citizen who finds that habits and traditions do not protect him against the destructive forces of an inflationary movement. Such benefits as are derived from inflation by the rich, the speculators, and the unscrupulous, however, are themselves temporary in nature, because in the end the entire economy is disrupted and the ill-gotten gains of the profiteer are lost in the ensuing deflation." (Federal Reserve Bulletin, April, 1941).

It was to prevent such disastrous consequences that the Board of Governors of the Federal Reserve System in the above mentioned report to Congress concluded: "In view of the completely changed international situation during the past year, the power to further devalue the dollar in terms of gold is no longer necessary or desirable and should be permitted to lapse." This recommendation, it should be observed, goes farther than the recommendation we so earnestly beseech the House to accept.

Conclusion

Devaluation of the dollar has produced a number of consequences other than those which the administration alleged would result. One consequence of raising the world price of gold to \$35 an ounce has been to subsidize Japan in her war with China through the purchase of \$700,000,000 of gold from Japan since 1936.

Forcing interest rates down was another consequence of raising the world price of gold. As observed in the April 1941 Federal Reserve Bulletin: "Since 1934 the dominant and basic factor tending to reduce interest rates has been the large inflow of gold." In June 1935 the average rate of interest on the gross public debt was 3.56 percent, but by December 1940, it had declined to 2.56 percent. In view of the heavy burden placed upon the Treasury to finance the vast increase in the public debt, can it be said that the Treasury closed its eyes to this hidden consequence of devaluation? Although low rates of interest saved the Treasury millions, abnormally low returns on legitimate business investments have cost the general public billions. Still worse, this policy prolonged the depression,

retarded recovery, and thereby has slowed up the people's efforts to rearm America. The enormous inflow of gold which made it possible for the Treasury to finance its offerings at unprecedentedly low rates has virtually ceased.

Our study reveals but two possible reasons why the administration could desire to have this power continued. First, despite its repeated disavowals, the administration could wish to have this power available so that it might finance national defense by again "clipping the coin." Certainly the administration's fight to continue the existence of this power indicates that it means to use it. There are certain to be some persons in high position who would be tempted to use the easy road of inflation as a means of financing a part of the defense program. It would seem that any administration devoted to sound principles would want to abolish this temptation.

This brings us logically to the second reason for which the administration may desire the continuation of this power: that is because it wants power for the sake of having power. The President asserts that he needs this power because he cannot predict the future. Secretary Morgenthau asserts the President will not abuse the power. On the basis of this argument it could as logically be argued that the President should be trusted with all power bestowed or reserved by the Constitution upon the Congress, the courts, and to the States and the people. Such a course pursued to its limits would surrender constitutional government and establish totalitarianism.

These are the only two reasons apparent to us to explain the administration's determined fight to have this legislation enacted in its present form. Nor has the administration revealed any others. These are reasons which we, members of the opposition, whose function it is to police and audit the administration, cannot support. Accordingly we supported in the Committee and we will support on the Floor of the House of Representatives an amendment which would prohibit the President from buying foreign gold at more than \$35 an ounce. This in effect

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would prevent the President from further devaluing the dollar and thereby inflating the currency. Once this action is taken, it would then be possible to return to specie payments, that is to say, to the full conversion standard which permits convertibility of all currency into gold, or vice versa, at the option of the holder. If this should be done, it would prevent the President from further devaluing the dollar because the proceeds that would result from such devaluation, would accrue to the private holders of gold, instead of to the government. Such action would assure the confidence of the people in the integrity and stability of government bonds.

II.

The second previously mentioned objective of this bill is to continue until June 30, 1943 the Exchange Stabilization Fund. This fund of \$2,000,000,000 was established by Section 10 of the Gold Reserve Act of 1934. It was obtained from the increment accruing to the Treasury from the decrease in the weight of the gold dollar and the consequent increase in the dollar value of gold held by the United States.

The reason for the existence of the Exchange Stabilization Fund was to stabilize our currency in terms of other currencies, especially the pound and the French franc. In the majority report of this Committee on the legislation for extension of the Exchange Stabilization Fund in 1939 it was stated that the main reason for such an extension was to make possible the continuation of the Tripartite Monetary Agreement between Great Britain, France and the United States. This majority report declared: "Your Committee believes that experience in connection with the Tripartite Declaration and arrangements made pursuant thereto, amply justifies the extension of the power of the Government to continue to participate therein on an equal footing by means of its own stabilization fund." But Secretary of the Treasury Morgenthau asserted in the hearings just held by

this Committee that the Exchange Stabilization Fund has practically no holdings in pounds or francs. Consequently the Secretary by his own admission proved that the fund is no longer being used to accomplish the main objective for which it was continued in 1939.

Now the Secretary of the Treasury alleges that this fund is being utilized only as a source of loans to foreign countries to bolster their currencies. Already loans of \$50,000,000 each have been made to China and Argentina in addition to the loan to Brazil in 1937.

It should be remembered that only \$200,000,000 of the Exchange Stabilization Fund ever has been actually used by the Treasury. Secretary Morgenthau admitted before this Committee that this \$200,000,000 was sufficient for all such operations the Treasury was contemplating. Last summer we increased the lending power of the Export-Import Bank by \$500,000,000 to accomplish identical objectives. Loans by this bank to foreign countries allegedly serve to bolster the internal economies of those countries. Thus the need is still further reduced for stabilization fund activities.

In effect the remaining \$1,800,000,000 in the Exchange Stabilization Fund is lying idle in the Treasury at the very time when taxes on the American people are being greatly increased for defense purposes. The interest on this sum at current rates is more than \$45,000,000 a year. Consequently we recommend that this \$1,800,000,000 in the inactive account of the Exchange Stabilization Fund should now be used by the Federal Government to reduce the amount of borrowing that will have to be done through the banking system. This will be highly advantageous for there are certain inflationary tendencies resulting as a consequence of governmental deficit financing.

The Secretary of the Treasury asserts that the money in this account is a "nest egg" being held in trust for the benefit of the American people as a

- 10 -

whole, and that the money should only be spent for a worthy purpose. There can be no more worthy purpose, benefitting the whole nation, than financing national defense. Certainly if the money in this fund is used for this purpose now, it will remove all temptation to use it for a less worthy cause on some unforeseen future occasion.

III.

In view of these irrefutable facts set forth in the foregoing, we the Minority Members of the House Committee on Coinage, Weights and Measures, stand opposed to the bill in its present form. We will support the measure, however, if the House will accept two amendments: (1) an amendment to fix the maximum price to be paid for foreign gold at \$35 an ounce; and (2) an amendment to reduce the Exchange Stabilization Fund to \$200,000,000.

Respectfully submitted:

Chauncey W. Reed
August H. Andresen
E. Harold Cluett
Leonard W. Hall
Hugh D. Scott, Jr.
Richard P. Gale
William H. Stevenson

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 20, 1941

TO SECRETARY MORGENTHAU

FROM

EDWARD H. Foley, Jr.

For your information,

Congressman Cochran just informed Larry Bernard that the House Rules Committee has approved a rule limiting debate on extension of the devaluation and stabilization powers to four hours. The rule will be called up for consideration on the House floor on Monday, May 26. After the rule has been adopted consideration of the legislation will commence.

It is unlikely that the debate on the rule and on the legislation will be completed in one day, and will, in all probability, run over into Tuesday.

We are preparing material for Cochran and his associates to use on the floor.

E. H. F. J.

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TO: MISS CHAUNCEY:

Mr. Foley carried the original of the attached letter to the Secretary at the 9:30 meeting, 5/14/41, which was signed, dated, and mailed from Mr. Bernstein's office. I am returning to you the original and a carbon of the accompanying memo for your files.

5/16/41

MR. FOLEY

HW 10 1941

My dear Senators:

**Many thanks for your letter of May 9, 1941,
transmitting a photostatic copy of a table prepared
at the SEC showing investments of certain large
American corporations in Axis-controlled countries.**

**I am making the information available to the
State Department and the Department of Justice.**

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

**Honorable Joseph C. O'Mahoney,
United States Senate,
Washington, D. C.**

**ORIGINAL MAILED FROM
MR. BERNSTEIN'S OFFICE
5-15-41**

BB:rd - 5/18/41.

MAY 15 1941

My dear Senators:

Many thanks for your letter of May 9, 1941, transmitting a photostatic copy of a table prepared at the SEC showing investments of certain large American corporations in Axis-controlled countries.

I am making the information available to the State Department and the Department of Justice.

Sincerely,

W. H. Morgenthau, Jr.
Secretary of the Treasury.

Honorable Joseph C. O'Mahoney,
United States Senate,
Washington, D. C.

ORIGINAL MAILED FROM
MR. BERNSTEIN'S OFFICE
5-15-41

EB:rd - 5/13/41.

MAY 15 1941

My dear Senators:

Many thanks for your letter of May 9, 1941, transmitting a photostatic copy of a table prepared at the SEC showing investments of certain large American corporations in Axis-controlled countries.

I am making the information available to the State Department and the Department of Justice.

Sincerely,

1st H. Morgenthau, Jr.
Secretary of the Treasury.

Honorable Joseph C. O'Mahoney,
United States Senate,
Washington, D. C.

ORIGINAL MAILED FROM
MR. BERNSTEIN'S OFFICE
5-15-41

EB:ard - 5/15/41.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 13 1941

TO Secretary Morgenthau
FROM Mr. Foley

Senator O'Mahoney by telephone and letter told you of large investments belonging to big American companies in Axis-controlled countries, and that this situation presented the possibility of the Axis bringing pressure on such companies through the medium of releasing or withholding income from their investments.

In our discussions with the State and Justice Departments relating to economic defense and extension of freezing control we have repeatedly made this same point. However, if you like, I should be glad to tell Acheson and Shea of the point which Senator O'Mahoney made and furnish them with copies of Senator O'Mahoney's letter and the table which he sent to you showing the investments of certain large American corporations in Axis-controlled countries.

Do you want this done?

S. W. Fh.

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TO:

MISS CHAUNCEY:

The original and attachment were
sent to Lt. Stephens at 4:00 p.m. 5-20-41
for the Secretary.

MR. FOLEY

May 20, 1941

SECRETARY MURKIN

L. H. VOLKY, JR.

Lester P. Barlow

You have asked for the facts in the Barlow litigation: In a private relief bill, Congress, last summer, voted \$200,712.00 to L. P. Barlow in satisfaction of his claim against the United States for infringement of a patent on a bomb which Barlow had invented many years ago.

About twenty-five years ago Barlow entered into a contingent legal fee arrangement in connection with his invention with a lawyer in Los Angeles by the name of Clark. Barlow claims that he settled with Clark in 1934 for the sum of \$12,000.00. However, Clark brought suit in the District of Columbia against Barlow, joining you and the Treasurer of the United States as co-defendants, claiming that he is entitled to half the money appropriated to Barlow.

This litigation is still pending. On the advice of the Department of Justice, where the litigation is being handled, we have paid to Barlow one-half of the money appropriated but have withheld payment of the balance pending final

- 2 -

disposition of the Clark litigation.

In cases of this character we act merely as a stakeholder. In the opinion of the Department of Justice, we are safe in making payment pursuant to Court order or when the litigation involving an adverse claim has been disposed of.

Since the case is still pending in the Courts, I don't see how you can be criticized for following the advice of your counsel, i.e., the Attorney General.

(Initialed) E. H. F., Jr.

EHF:mp 5/20/41

BARLOW

LESTER P. BARLOW, BOMB INVENTOR WHO WAS VOTED \$592,719 BY CONGRESS LAST SESSION IN SATISFACTION OF A JUDGEMENT HE OBTAINED AGAINST THE GOVERNMENT, SAID TODAY HE HAD FILED SUIT AGAINST SECRETARY MORGENTHAU TO COMPEL PAYMENT OF THE SECOND HALF OF THE AWARD.

HE SAID MORGENTHAU HAD PAID HIM \$296,359 ON OCT. 31, 1940 BUT HAD WITHHELD THE BALANCE "BECAUSE I HAVE REFUSED TO EITHER SETTLE, COMPROMISE OR DISPOSE OF A DEMAND ASSERTED AGAINST ME BY A LOSS ANGELES LAWYER FOR SERVICES ALLEGED TO HAVE BEEN FURNISHED TO ME MORE THAN 25 YEARS AGO," HE ALSO ASKED \$12,594 DAMAGES.

5/20--R115P

MAY 20 1941

My dear Mr. Secretary:

The Treasury Department is currently studying various aspects of transfers of dollar accounts — particularly European and Asiatic — from New York to Latin America. For this reason, as well as for a more accurate control of foreign funds, the Treasury Department will be grateful if the United States embassies and legations in the Latin American republics can be instructed to make a report on the following questions:

1. To what extent are the Central Bank and commercial banks accepting dollar deposits for European and Asiatic accounts?
2. To what extent are local branches or affiliates of European and Asiatic banks transferring dollar deposits to the Central Bank and to other local banks?
3. To what extent do the exchange control authorities regard such dollar deposits as part of their exchange availabilities? Does a commercial bank have to turn over such deposits to the exchange control authorities? If so, why does it accept dollar deposits?
4. Do the Central Bank and commercial banks maintain dollar reserves behind such dollar deposits?
5. To what extent may dollar deposits be freely withdrawn or transferred by the depositors?

It will be appreciated if the reports on these questions can be transmitted to the Treasury in the near future.

Sincerely yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

The Honorable,

The Secretary of State.

FAS:cmh
3/27/41

By _____
File to Mr. Thompson

MAY 20 1941

Dear Mr. Gagnedy:

In connection with a Treasury study of defense and non-defense expenditures, it would be very helpful if we could get from your office answers to the enclosed questions.

I realize that any data or documents which you may provide us in answer to these questions will necessarily be subject to a number of qualifications and reservations. It is my wish to have your staff indicate these in brief accompanying statements.

Your cooperation in making available to us such information as you may have on these questions will be greatly appreciated.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. John H. Gagnedy,
Administrator, Federal Works Agency,
Washington, D. C.

Enclosures

File to Mr. Thompson

5/16/41

By Message:

QUESTIONS ON WPA OPERATIONS

1. a. What is the recommended WPA appropriation for fiscal 1947?
- b. How much of previous WPA appropriations will be carried over into fiscal 1947?
- c. What is the average number and the monthly estimate of WPA employees expected in fiscal 1947?
- d. In what categories of prospective employment in industry, unemployment and newly unemployed in the 1948 budget based?
- e. What are the total number of persons eligible for assignment to WPA and unassigned?
2. a. What are the estimated expenditures for fiscal 1941 and for fiscal 1942 by types of projects?
- b. What is the estimated Government contribution of funds toward WPA projects in fiscal 1941 and in fiscal 1942 (by types of projects)?
- c. What is the total estimated WPA expenditures on materials, equipment and other non-labor costs for fiscal 1941 and for fiscal 1942 and the estimates by type of projects?
3. a. What funds have been allocated for projects to be operated by other Federal agencies in fiscal 1941 and what are the estimated allocations for fiscal 1947? List by agencies.
- b. How many men are now employed on WPA projects operated by other Federal agencies? List by agencies.
4. a. What is the number employed on WPA projects by type of worker and by wage group since the beginning of fiscal 1947? Distinction between skilled and unskilled, supervisory and other, and by skill classification will be useful.
- b. What are the monthly expenditures and assignments for the WPA since the beginning of fiscal 1947?
5. a. What is the total estimated WPA expenditures and the estimated average WPA employment on defense projects for fiscal 1941 and for fiscal 1947?
- b. What funds have been allocated from the WPA appropriation to the War Department, the Navy Department, the National Guard and the Coast Guard in fiscal 1941 and what are the estimated allocations for these agencies in fiscal 1947?

- 2 -

- c. What are the estimated expenditures of funds and the estimated employment on local projects certified by the War Department and the Navy Department for fiscal 1941 and for fiscal 1942?
- d. What are the estimated expenditures of funds and employment on other local defense projects?

The distribution of any of the above totals by type of project will be useful.

- a. What are the estimated expenditures for vocational training projects for fiscal 1941 and for fiscal 1942?
- b. How many workers have completed training courses in the vocational training projects and how many are now in training courses under WPA projects? Distribution by types of skills will be useful. Data on how many and what types of trainees have been placed in private employment will also be useful.

We shall be grateful for copies of rules, regulations, and procedures, particularly insofar as they may help in understanding answers to the above questions.

WJ:cmh
3/27/41

MAY 10 1941

Dear Mr. Jenkins:

I have your letter of May 9, 1941, asking me to furnish you with specific recommendations on how a reduction of one billion dollars in expenditures can be accomplished.

When I appeared before the Ways and Means Committee I stated that I thought a billion dollars could be saved in the non-defense items included in the 1942 Budget. I suggested that a large part of the savings could perhaps be made in the items for Civilian Conservation Corps, National Youth Administration, Work Projects Administration, public works and aids to agriculture and recommended that these items be reviewed with that in mind. It seems to me, with a Budget contemplating expenditures of more than \$12,000,000,000 on account of national defense alone, which sum is larger than any total Budget we have had during any previous peace time period, that we should take another look at the non-defense expenditures. This is a matter to be worked out by the Congress in cooperation with the Bureau of the Budget, since the Treasury does not have the details that go to make up these non-defense items, including items that I specifically pointed out for review. I feel that as head of the Treasury I have performed my duty to maintain a sound fiscal position for this Government in suggesting that the non-defense expenditures be re-studied with a view to eliminating at least \$1,000,000,000. I made this suggestion because of the change in the situation since the Budget was submitted last January.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Thomas A. Jenkins,
House of Representatives,
Washington, D. C.

WTH:mlb
5-16-41

By ~~Morgenthau~~ 4/10/41

File to Mr. Thompson

MAY 20 1941

Dear Mr. Jenkins:

I have your letter of May 9, 1941, asking me to furnish you with specific recommendations on how a reduction of one billion dollars in expenditures can be accomplished.

When I appeared before the Ways and Means Committee I stated that I thought a billion dollars could be saved in the non-defense items included in the 1942 Budget. I suggested that a large part of the savings could perhaps be made in the items for Civilian Conservation Corps, National Youth Administration, Work Projects Administration, public works and aids to agriculture and recommended that these items be reviewed with that in mind. It seems to me, with a Budget contemplating expenditures of more than \$12,000,000,000 on account of national defense alone, which sum is larger than any total Budget we have had during any previous peace time period, that we should take another look at the non-defense expenditures. This is a matter to be worked out by the Congress in cooperation with the Bureau of the Budget, since the Treasury does not have the details that go to make up these non-defense items, including items that I specifically pointed out for review. I feel that as head of the Treasury I have performed my duty to maintain a sound fiscal position for this Government in suggesting that the non-defense expenditures be re-studied with a view to eliminating at least \$1,000,000,000. I made this suggestion because of the change in the situation since the Budget was submitted last January.

Sincerely yours,

(Signed) H. Wergentzen, Jr.

Secretary of the Treasury.

Honorable Thomas A. Jenkins,
House of Representatives,
Washington, D. C.

By *[Signature]*

File to Mr. Thompson

WTH:mlb
5-16-41

WAYS AND MEANS COMMITTEE

THOMAS A. JENKINS
19th Dist. Ohio

Congress of the United States
House of Representatives
Washington, D. C.

THOMAS A. JENKINS
19th Dist. Ohio

MISS ANNE HUNT
SECRETARY

May 9, 1941

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

Dear Mr. Secretary:

When you appeared before the Ways and Means Committee on April 24th advocating the passage of a bill seeking to raise additional revenue of \$2,500,000,000, you very properly stated that this proposed increase in taxation was the largest ever attempted in the history of our Government and that it was "without precedent."

During your appearance before our Committee it was my privilege to ask you a few questions about a matter in which I think the Nation is profoundly interested. I refer to the matter of the reduction of Government expenditures. I mean Government expenditures outside of expense incident to National Defense. At that time you and I agreed that the expense of Government outside of National Defense could be reduced at least a billion dollars per year. At that time you expressed as your view that you "thought a billion dollars might be saved from CCC and NYA and Public Works and other non-defense items," and you further stated that you thought "certain things in Public Works could be postponed." And you further stated that you had pointed out an item of \$500,000,000 for soil conservation, which should be studied with the idea that from these various sources it would be possible "to save a billion dollars in 1942."

Further in our discussion I raised the point as to whether it would be possible and practical to reduce all non-defense expenditures by 25%. You indicated that it would not be wise to make a general cut of 25% applicable to all expenditures but that you thought that if Congress "would re-examine all non-defense items out of the total there would be a possibility of saving a billion dollars."

Now that the public hearings on the big tax program are about to conclude and the Committee will soon be writing the bill in Executive Session, I should like very much if you will give me your specific recommendations on where this reduction of expenditures to the extent of at least a billion dollars per year can be best accomplished.

I hope that you will submit your recommendations to me at the earliest possible moment.

With assurances of profound respect, I am,

Sincerely yours,

Thomas A. Jenkins

TAJ:G

HOLD FOR RELEASE

HOLD FOR RELEASE

HOLD FOR RELEASE

July 20, 1941

CONFIDENTIAL: To be held in STRICT CONFIDENCE and no portion, synopsis or intimation to be published or given out until the READING of the President's Message has begun in the Senate or the House of Representatives. Extreme care must therefore be exercised to avoid premature publication.

STEPHEN EARLY
Secretary to the President

TO THE CONGRESS OF THE UNITED STATES:

In my Budget message to the Congress in January, I estimated that \$995,000,000 would be required during the ensuing fiscal year for continuing the relief program by the Work Projects Administration of the Federal Works Agency. Since the transmission of that message funds appropriated or recommended for national defense have been substantially increased and the lend-lease program has been set in motion.

While the increase in defense expenditures will have an important bearing on employment, we cannot anticipate an increase in employment in the same proportion as the increase in expenditures for next year. Moreover, this increase will not necessarily result in a corresponding decrease in unemployment. The labor force will increase, partly due to natural growth and partly due to additional enrollment of workers such as students who during normal times would continue to pursue an education. Also, many youth and workers on military farms will obtain jobs during the present emergency.

An additional factor militating against as great a reduction in unemployment as might appear possible is that there are many of the presently unemployed who have little chance to be absorbed by the defense effort. Certain regions of the country are not affected by defense activities, and many types of workers are not in demand.

After weighing all factors I recommend an appropriation of \$686,000,000 for the next fiscal year, of which \$11,000,000 will be required for administrative expenses of agencies other than the Work Projects Administration. The remainder will provide for an approximate monthly average of 1,000,000 persons to be employed on the relief program.

It has been customary in recent years to provide in the relief appropriation an amount for allocation to Federal agencies for construction and other projects falling within the several categories set forth in the relief act. The agencies receiving such allocations frequently have projects of a similar nature included within state Work Projects Administration programs. It is my belief that most of these projects, and particularly those of the War, Navy, Agriculture and Interior Departments, should be provided for in the state programs. I therefore recommend that provision be made for a limited amount, not to exceed \$5,000,000, for Nation-wide Federal non-construction projects. I further recommend that \$600,000 be set aside for allocation, with the approval of the Director of the Bureau of the Budget, to those Federal agencies engaged in the planning of projects, or the review of projects submitted through State Work Projects Administration programs. This sum will offset the 4 percent administrative allotment now made in connection with the allocations to Federal agencies for projects.

- 2 -

During the current year the Work Projects Administration has been authorized to train workers for manual occupations in industries engaged in production for national defense. I recommend the broadening of this authority to accelerate the employment of Work Projects Administration workers in private industry.

The Work Projects Administration is now required to remove from employment those persons who have been continuously employed for 18 months, and to make investigations at least once in 12 months to determine the continuing need of each project worker. I believe that the first requirement works a great hardship on many people. The second requirement is unnecessary and costly. I recommend the elimination of these requirements from the 1942 act.

Under existing law aliens are denied the right to employment on relief projects. I believe that this works a hardship upon a class of persons whose private employment opportunities are becoming increasingly limited. I recommend the removal of this barrier to permit the employment of aliens who are otherwise eligible under the act.

Administrative employees of the Work Projects Administration, and similar employees in other Federal agencies whose salaries are paid from relief funds, have been barred from the benefits of Executive Order No. 7936, dated June 24, 1938, and the Act of November 26, 1940, extending the classified civil service of the United States. I recommend that this discrimination be eliminated.

There are several sections in the current relief act with respect to political activities. While there is no particular objection to the re-enactment of these provisions, most of them appear to be unnecessary because of the passage of the Hatch Act and amendments thereto.

FRANKLIN D. ROOSEVELT

The White House,

May 20, 1941.

EXECUTIVE ORDER

1804

ESTABLISHING THE OFFICE OF CIVILIAN DEFENSE
IN THE OFFICE FOR EMERGENCY MANAGEMENT
OF THE EXECUTIVE OFFICE OF THE PRESIDENT

By virtue of the authority vested in me by the Constitution and statutes, and in order to define further the functions and duties of the Office for Emergency Management of the Executive Office of the President in respect to the national emergency as declared by the President on September 8, 1939, to assure effective coordination of Federal relations with State and local governments engaged in defense activities, to provide for necessary cooperation with State and local governments in respect to measures for adequate protection of the civilian population in emergency periods, to facilitate constructive civilian participation in the defense program, and to sustain national morale, it is hereby ordered as follows:

1. There is established within the Office for Emergency Management of the Executive Office of the President the Office of Civilian Defense, at the head of which shall be a Director appointed by the President. The Director shall discharge and perform his responsibilities and duties under the direction and supervision of the President. The Director shall receive no salary or other remuneration for his services, but shall be entitled to actual and necessary transportation, subsistence, and other expenses incidental to the performance of his duties.

2. Subject to such policies, directions, and regulations as the President may from time to time prescribe, and with such advice and assistance as may be necessary from the other departments and agencies of the Federal Government, and utilizing the operating services and facilities of such departments and agencies as far as possible, the Director shall perform and discharge the following described duties and responsibilities:

- a. Serve as the center for the coordination of Federal civilian defense activities which involve relationships between the Federal Government and State and local governments, territories, insular possessions, and the District of Columbia (as hereinafter used in this Order the term "State and local" shall include territories, insular possessions, and the District of Columbia); establish and maintain contact with State and local governments and their defense agencies; and facilitate relationships between such units of government and the agencies of the Federal Government in respect to defense problems.
- b. Keep informed of problems which arise from the impact of the industrial and military defense effort upon local communities, and take necessary steps to secure the cooperation of appropriate Federal departments and agencies in dealing with such problems and in meeting the emergency needs of such communities.

- 2 -

- a. Assist State and local governments in the establishment of State and local defense councils or other agencies designed to coordinate civilian defense activities.
- d. With the assistance of the Board for Civilian Protection, described in paragraph 4 of this Order, study and plan measures designed to afford adequate protection of life and property in the event of emergency; and sponsor and carry out such civil defense programs, including the recruitment and training of civilian auxiliaries, and disseminate to appropriate officials of the Federal Government and State and local governments such information concerning civil defense measures as may be necessary to meet emergency needs.
- e. With the assistance of the Volunteer Participation Committee, described in paragraph 5 of this Order, consider proposals, suggest plans, and promote activities designed to sustain the national morale and to provide opportunities for constructive civilian participation in the defense program; review and approve all civilian defense programs of Federal departments and agencies involving the use of volunteer services in order to assure unity and balance in the application of such programs; and assist State and local defense councils or other agencies in the organization of volunteer service units and in the development of their activities.
- f. Maintain a clearing house of information on State and local defense activities in cooperation with appropriate Federal departments and agencies.
- g. Review existing or proposed measures relating to or affecting State and local defense activities, and recommend such additional measures as may be necessary or desirable to assure adequate civilian defense.
- h. Perform such other duties relating to participation in the defense program by State and local agencies as the President may from time to time prescribe.

3. The Director may provide for the internal organization and management of the Office of Civilian Defense. He shall obtain the President's approval for the establishment of the principal subdivisions of the Office and the appointment of the heads thereof.

4. There shall be in the Office of Civilian Defense a Board for Civilian Protection (hereinafter referred to as the Board) to be composed of the Director as Chairman and a representative of each of the following departments and agencies of the Federal Government to be designated by the heads thereof: Department of War, Department of the Navy, Department of Justice, Federal Security Agency, and such others as the President may from time to time determine. In addition, each of the following organizations shall be invited to designate a representative to serve as a member of the Board:

- a. The Council of State Governments
- b. The American Municipal Association
- c. The United States Conference of Mayors

- 3 -

The Board shall advise and assist in the formulation of civil defense programs and measures, appropriate to the warlike needs of each part of the Nation, designed to afford adequate protection of life and property in the event of emergency. The members of this Board shall serve as such without compensation, but shall be entitled to actual and necessary transportation, subsistence, and other expenses incidental to the performance of their duties.

6. There shall be in the Office of Civilian Defense a Volunteer Participation Committee (hereinafter referred to as the Committee) consisting of the Director as Chairman and not more than twenty members, representative of the various regions and interests of the Nation, to be appointed by the President. The Committee shall serve as an advisory and planning body in considering proposals and developing programs designed to sustain national morale and to provide opportunities for constructive civilian participation in the defense effort. The members of the Committee shall serve as such without compensation, but shall be entitled to actual and necessary transportation, subsistence, and other expenses incidental to the performance of their duties.

8. The Director is authorized, with the approval of the President, to appoint such additional advisory committees and subcommittees, with respect to State and local cooperation, national morale, civil defense planning, civilian participation, and related defense activities, as he may find necessary or desirable to assist him in the performance of his duties. Such advisory committees may include representatives from Federal departments and agencies, State and local governments, private organizations, and the public at large. The members of advisory committees shall serve as such without compensation, but shall be entitled to actual and necessary transportation, subsistence, and other expenses incidental to the performance of their duties.

7. Within the limitation of such funds as may be appropriated to the Office of Civilian Defense, or as may be allocated to it by the President through the Bureau of the Budget, the Director may employ necessary personnel and make provision for the necessary supplies, facilities, and services. However, the Office of Civilian Defense shall not such statistical, informational, fiscal, personnel, and other general business services and facilities as may be made available to it through the Office for Emergency Management or other agencies of the Government.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

May 20, 1941.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 20, 1941

TO Secretary Morgenthau
FROM Herbert Merillat

HEARINGS OF WAYS AND MEANS COMMITTEE
Tuesday, May 20, 1941

Little of interest happened today. Testimony was hurried along with almost no questioning by members (except lengthy cross-examination of two witnesses as to the political color of the Dies-investigated organizations they represented). Cooper and Jenkins indicated the likelihood of an increase in the tax on tires and tubes by questioning a witness for the tire industry on the desirability of a floor stock tax. Carlson emphasized the bad effect of a high tire tax on farmers.

Although no witnesses are listed for tomorrow, termination of the Hearings is being postponed to give witnesses a chance to criticize the Treasury's excess profits tax proposals.

146

STANDARD FORM NO. 14 A
APPROVED BY THE PRESIDENT
MARCH 10, 1925

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

URGENT TELEGRAM

L. S. Rogers,
President, The Texas Company,
Chrysler Building,
New York, New York.

THE TREASURY DEPARTMENT ACCEPTS WITH PLEASURE YOUR GRACIOUS OFFER OF THE USE OF YOUR
RADIO TIME OVER COLUMBIA BROADCASTING SYSTEM, BEGINNING JULY SECOND YOUR GOVERNMENT
SINCERELY BELIEVES THAT THROUGH SUCH COOPERATION AND HELPFULNESS AS YOU HAVE SHOWN THE
PLAN OF SAVING FOR DEFENSE WILL BECOME A REALITY TO ALL AMERICANS ACTIVE PARTICIPATION
BY ALL OUR CITIZENS WILL ASSURE FOR AMERICA A MORE SOLID ECONOMY AND A MORE SECURE
FUTURE WE WILL MAKE GOOD USE OF THESE RADIO FACILITIES BY BRINGING THE RADIO AUDIENCE

TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Expenses of Loans

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

2-24117

May 20, 1941

147

STANDARD FORM NO. 14 A
APPROVED BY THE PRESIDENT
MARCH 10, 1925

TREASURY DEPARTMENT
WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

2-14117

- 2 -

A PROGRAM OF WHOLESOME ENTERTAINMENT AND OF MESSAGES THAT CONCERN EVERY AMERICAN

HOME

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

WU:fl

UNITED STATES SAVINGS BONDS AND SAVINGS STAMPS

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

CONFIDENTIAL

(In thousands of dollars)

Date	All Bond Sales				Post Office Bond Sales	Bank Bond Sales				Savings Stamps
	Total	Series E	Series F	Series G	Series E	Total	Series E	Series F	Series G	
May 1941										
1 & 2	\$ 35,781	\$ 5,087	\$ 4,678	\$ 26,016	\$ 4,405	\$ 31,377	\$ 682	\$ 4,678	\$ 26,016	\$ 1,135
3	30,401	2,593	3,648	24,160	1,310	29,091	1,283	3,648	24,160	106
5	14,969	2,982	2,087	9,900	1,581	13,387	1,401	2,087	9,900	113
6	14,967	3,845	2,092	9,030	1,607	13,360	2,238	2,092	9,030	91
7	17,802	3,872	2,155	11,775	1,351	16,451	2,521	2,155	11,775	99
8	16,925	4,565	1,210	11,151	1,235	15,690	3,329	1,210	11,151	82
9	15,189	4,011	1,591	9,586	1,156	14,033	2,855	1,591	9,586	81
10	13,800	4,156	1,415	8,229	1,187	12,613	2,969	1,415	8,229	71
12	17,051	4,542	1,578	10,930	1,485	15,567	3,058	1,578	10,930	92
13	19,887	4,374	2,219	13,294	1,220	18,667	3,154	2,219	13,294	92
14	18,019	4,421	1,621	11,977	1,106	16,913	3,315	1,621	11,977	81
15	16,984	4,255	1,952	10,777	1,116	15,867	3,139	1,952	10,777	91
16	17,470	4,062	1,528	11,880	1,054	16,415	3,007	1,528	11,880	102
17	13,612	2,706	1,104	9,802	867	12,745	1,839	1,104	9,802	68
19	15,788	4,205	1,550	10,034	1,355	14,433	2,849	1,550	10,034	112
Total	\$278,645	\$ 59,676	\$ 30,429	\$188,541	\$ 22,037	\$256,608	\$ 37,639	\$ 30,429	\$188,541	\$ 2,417

Treasury Department, Division of Research and Statistics.

May 20, 1941.

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

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

May 20, 1941.

Dear Bob:

In a telephone conversation with Henry on May 9, you expressed interest in what we might be able to learn on the matter of marine re-insurance and I had some investigations made by Customs.

I am enclosing copies of a memorandum to me from the Commissioner of Customs, a confidential report to him from the office of the Supervising Customs Agent in New York, and some auxiliary papers.

Sincerely yours,

Herbert E. Gaston
Assistant Secretary of the Treasury.

The Honorable

The Attorney General.

Enclosures.

HEG/mah

OFFICE OF THE COMMISSIONER OF CUSTOMS

MAY 16 1941

TO: ASSISTANT SECRETARY GASTON

FROM: W. R. JOHNSON.

There is transmitted herewith for your information the original of a report dated May 13, 1941, from the office of the Supervising Customs Agent at New York, relative to investigation of possible leakage of information as to marine cargoes insured in the United States, incident to reinsurance thereof abroad. Photostatic copies of the exhibits to the report are also transmitted.

In substance the investigation discloses (1) that no shipments to Great Britain are insured in the United States but are insured under a British Government subsidy plan, (2) that of war risk cargo insurance written in the United States, 98% is reinsured by an American pool and only 1% thereof is reinsured abroad, that 1% being reinsured in London, (3) that no German insurance companies have engaged in marine insurance in the United States since World War I, (4) that the only companies handling marine insurance possibly having Axis interests are one Swiss, one Italian, and two Japanese companies, all other companies being unquestionably American or British controlled.

The investigation also discloses that the only current information furnished reinsuring companies is contained in "provisional advices" which, as will be noted from Exhibits B-1 and B-2, are so limited in specifications as to be of little value for naval or military purposes of belligerents.

W. R. Johnson

Enclosures.

✓



CUSTOMS AGENCY SERVICE
SUPERVISING CUSTOMS AGENT
P. O. BOX 128
CANNON STREET ANNEX

TREASURY DEPARTMENT
UNITED STATES CUSTOMS SERVICE

NEW YORK, N. Y.

May 13, 1941.

STRICTLY CONFIDENTIAL

Hon. W. R. Johnson,
Commissioner of Customs,
Treasury Department,
Washington, D. C.

Sir:

Reference is made to Bureau teletype (Mr. Shamhart) of May 10, 1941, directing that investigation be made as to the possibility of leakage of information in connection with the reinsurance abroad of marine cargoes insured in the United States.

Due to the short time available thorough investigation has not been made of all details in this rather large subject but we have gone far enough to definitely state the following facts, which were verbally reported to Mr. Gaston and Mr. Johnson at the customhouse here on May 12, 1941:

1. None of the shipments made by the British Purchasing Commission or under the Lease-Lend Act are insured in the United States. If insured at all, such shipments are insured under the British Government subsidized scheme which currently provides insurance at a premium of only 2-1/2%, as against 10% asked by commercial companies in this country.

2. The same condition exists as to practically all commercial shipments between the United States and Great Britain.

- 2 -

3. Of all war risk cargo insurance written in the United States, 98% is reinsured by an American pool, and only 1% of this amount is reinsured abroad, all such insurance being effected in London.

4. There have been no German insurance companies engaged in marine insurance in the United States since the last war. Of the companies now in this business, the only ones who might be suspected of having Axis interests are one Swiss, one Italian and two Japanese companies. All the other companies are unquestionable American or British controlled. One American company with possible German interests is engaged in fire and casualty insurance but is not believed to write marine insurance.

Practically all of the information contained in this report was obtained from the following named officials of the American Cargo War Risk Reinsurance Company, 99 John Street, New York, N. Y.:

Henry C. Thorn (Insurance Company of No. America)
Chairman of the Underwriting and
Rate Committee of the Exchange

Frank B. Zeller (Royal Insurance Company)
Chairman of the Reinsurance Sub-Committee
of the Exchange

Percy Chubb (Chubb & Son)
Member of the Underwriting and
Rate Committee of the Exchange

This Exchange was organized June 17, 1939, for the purpose of reinsuring cargo war risks, and the above-mentioned three officials are its active members. A report made by Mr. Thorn to William D. Miller, Chairman of the Exchange, and dated September 17, 1940, gives considerable background; we were unable to obtain a copy of this report but understand that one has been filed with the Maritime Commission in Washington, which will undoubtedly be made available to the Bureau if required.

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Inclosed marked Exhibit A is a list of the membership of the Exchange; opposite each name appears the percentage by which they share in the reinsurance risks; members marked "nil" reinsure with the Exchange but do not share in the reinsurance risks. All members of the Exchange are bound by contract to reinsure exclusively through the Exchange.

The membership of this Exchange includes 98% of all organizations writing cargo war risk insurance in the United States. The only organizations known to be engaged in this business and not members of the Exchange are -

Halifax Fire Insurance Company, Halifax, N.S.
Canadian-owned. Was in Exchange but withdrew.

Rhode Island Insurance Company, 80 John Street,
New York, N. Y. American-owned. Said to be
doing very little business.

U. S. Lloyd, managed by Cornwall & Stevens,
70 Pine Street, New York, N. Y. American-
owned, not affiliated with London Lloyds.
Is said to be doing very little business.

La Fonciere, of French origin, formerly in
business at San Francisco. Not heard from
in recent years.

Assicurazioni Generali (General Insurance Co.)
of Trieste and Venice, Italy, represented by
S. D. McComb & Company, 116 John Street, New
York, N. Y.; believed to be entirely Italian-
owned. Withdrew from Exchange about six
months ago and is understood to be doing very
little business since.

Pilot Reinsurance Company of New York, 70 Pine
Street, New York, N. Y., organized after the
last war by Paul Schreiner, formerly a United
States manager of the Munich Reinsurance
Company of Germany. Marine insurance men

- 4 -

know very little about this company, from which it may be safely assumed that it does not engage in marine insurance. There are some very well-known American insurance men and bankers in its board of directors, including the following:

Paul Schmidlapp,
Vice President Chase National Bank

Cecil P. Stewart,
President Frank B. Hall & Company

J. S. Frelinghuysen,
Former senator from New Jersey

S. W. La Frenz,
Chairman of the Board, American Surety Co.

Philip Wickser,
Chairman of the Board, Buffalo Insurance Co.

As stated above, the American Cargo War Risk Reinsurance Exchange reinsures 98% of all war risk cargo insurance written in the United States. Information as to its activities is available to all of its members who participate in the reinsurance risks, but the only information circulated by it to such members consists of daily "provisional advices", samples of which are inclosed marked Exhibits B-1 and B-2; it will be noted that these advices contain no more information than is necessary to enable the reinsurance participants to make the proper charges in their books.

The work of compiling these daily advices and of collating the amount of insurance on the cargo of each vessel is done by Albert Wilcox & Company, Inc., 99 John Street, New York, N. Y., who, as a corporation, are secretary and treasurer of the Exchange. This firm is thoroughly American in its composition and interests and has been over thirty years in the insurance business.

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Among the members listed in Exhibit A who participate in the reinsurance and thus receive the daily advices are only three who might be suspected of having Axis sympathies:

Fuso Marine and Fire Insurance Company,
99 John Street, New York, N. Y.;
Japanese-owned.

Tokyo Marine and Fire Insurance Company,
111 John Street, New York, N. Y.;
Japanese-owned.

Switzerland General Insurance Company, Ltd., of Zurich,
56 Beaver Street, New York, N. Y.; has been
in business in New York for over fifty years
and is believed to be Swiss-owned.

All of the other members are known to be British or American controlled and are regarded as definitely pro-British in sentiment.

The Exchange reinsures among its members up to \$2,500,000 cargo on any vessel. The several members of the Exchange make daily reports to it of the insurance accepted by them, showing the name of the insurer, name of vessel, sailing date, ports of departure and destination, commodity, amount of insurance and rate of premium. This information is collated by Wilcox' office staff on card-punching machines in such a way as to show the total amount of insurance on the cargo of any vessel. This work is usually not completed until six weeks to two months after the sailing of the vessels concerned.

The excess over \$2,500,000 on any cargo is reinsured with a London pool. The members of this pool and the extent of their participation in the reinsurance are listed in Exhibit C, from which it will be noted that the pool will take up to \$2,000,000 of such reinsurance. All the members of this pool are known to be British except Ralli Brothers, who are Greek-owned, and

- 6 -

the Switzerland General Insurance Company, Ltd., which is an affiliate of the company of the same name in New York City mentioned above.

The reinsurance with the pool is effected in every case through C. T. Bowring & Company (Insurance) Ltd., 52 Leadenhall Street, London E.C.3, England, but the amount so reinsured is less than 1% of the total amount reinsured by the Exchange itself. The amounts so reinsured in London since October 10, 1939, are listed in Exhibit D.

The reinsurance with the London pool is effected by direct cablegrams or letters to Bowring in London, which, of course, pass through the British censorship. Cablegrams are sent only when the insurance on a single cargo exceeds \$2,700,000, i.e., when the amount to be reinsured in London exceeds £200,000. These cablegrams contain the minimum of information necessary to effect the reinsurance; the following are examples:

PRESIDENT JACKSON SEVEN HUNDRED FORTY THOUSAND
DOLLARS FAR EAST UNITED STATES ATLANTIC
KOOKABURRA TWO HUNDRED TWENTY FIVE THOUSAND
DOLLARS AUSTRALIA UNITED STATES PACIFIC
MORNIACGULL TWO HUNDRED SEVENTY THOUSAND
DOLLARS UNITED STATES ATLANTIC EAST COAST
SOUTH AMERICAN ONE HUNDRED PERCENT EXCESS
DISREGARD DEFICIENCY

ETLAUER PRESIDENT JACKSON FAR EAST UNITED
STATES NOW ONE MILLION DOLLARS ONE HUNDRED
PERCENT EXCESS

Cablegraphic advices are provisional only and are generally sent in advance of the sailing of the vessel. More definite information is sent to Bowring in writing after all the insurance on any cargo has been collated. These reports are made on a printed form which shows the name of the vessel, the sailing date, points of departure and destination, kind of cargo (the reports usually state "general cargo").

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total amount of insurance on the cargo, and amount covered by London reinsurance. These reports are not sent until six weeks to two months after the sailing of the vessel, this time being required to assemble the data.

The foregoing information applies particularly to war risk insurance on cargoes. Most cargoes are also insured against ordinary marine risks but, unfortunately, information with regard to such insurance is not readily available because there is no central organization or clearing house for its reinsurance, each company finding reinsurance for itself to such extent and in whatever market it finds necessary or desirable.

The organizations engaged in writing ordinary marine insurance are the same as those listed in Exhibit A plus the same six organizations mentioned above as non-members of the American Cargo War Risk Reinsurance Exchange.

Of all these organizations, Mr. Thorn and the other gentlemen interviewed considered it very likely that the two Japanese companies would seek reinsurance in the United States or British market; it is understood that both these companies are doing very little business and that they are, in fact, for sale at this time. The Italian company, Assicurazioni Generali, used to reinsure in continental Europe but it has done practically no business since the war. No information is at present available as to the Switzerland General Insurance Company, Ltd., but this can be ascertained if desired.

Our investigation also touched on the question of both ordinary and war risk insurance on hulls, i.e., the vessels themselves. While the gentlemen interviewed have little information on this subject they were able to tell us that practically all such insurance written in the United States is reinsured

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by the American Marine Insurance Syndicate, 99 John Street, New York, N. Y. This organization was formed after the passage of a special act of Congress which exempted such organizations from the operation of the Anti-Trust Laws. This organization was approved by the Maritime Commission and a member of that Commission (at present Mr. Ogden) regularly attends the meetings of their board of managers.

We were also informed that the Navy Department made a thorough investigation of the operations of this Syndicate two to three years ago as to the insurance of naval vessels under construction and that Mr. Day of the Judge Advocate's Office, Navy Department, has full information on this subject.

Respectfully,

E. R. Norwood

E. R. NORWOOD,
Customs Agent.

S. J. Kennedy
S. J. KENNEDY,
Treasury Representative.

Respectfully forwarded:

APPROVED.

E. Lewis
E. LEWIS,
Supervising Customs Agent.

Report in triplicate

Enclosures:

Exhibits A, B-1, B-2, C & D

DE:SGA

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(A)

AMERICAN CARGO WAR RISK REINSURANCE EXCHANGE

ADDENDUM NO. 2 TO REINSURANCE CONTRACT

Effective as to all sailings on and after July 1st, 1940, it is agreed that the "Percentage of Reinsurance Accepted" by the subscribers to the Reinsurance Contract dated "New York, September 15, 1939" shall be as hereinafter set forth opposite the names of the subscribers hereto and not as originally set forth in said Reinsurance Contract.

IN WITNESS WHEREOF the subscribers hereto have caused these presents to be duly executed by their officers or agents thereunto duly authorized.

New York, July 1, 1940.

<u>COMPANY</u>	<u>PERCENTAGE OF REINSURANCE ACCEPTED</u>	<u>SIGNATURE</u>
Hartford Fire Insurance Company	5%)	
Citizens Insurance Co. of N.J.	Nil)	
Northwestern Fire & Marine Ins. Co.	Nil)	(Sgd.) J. S. Gilbertson
New York Underwriters	Nil)	
Twin City Fire Insurance Company	Nil)	
Home Insurance Company	5%)	
Franklin Fire Insurance Company	Nil)	
City of New York Insurance Company	Nil)	
Carolins Insurance Company	Nil)	
Homestead Fire Insurance Company	Nil)	
New Brunswick Fire Insurance Co.	Nil)	
Halifax Fire Insurance Company	Nil)	(Sgd.) J. W. Morrow
Georgia Home Insurance Company	Nil)	
National Liberty Insurance Company	Nil)	
Baltimore American Insurance Co.	Nil)	
Paul Revere Fire Insurance Co.	Nil)	
Gibraltar Fire & Marine Ins. Co.	Nil)	
Federal Insurance Company	2.295%)	
The Sea Insurance Co., Ltd.	2.0825%)	
The Marine Insurance Co., Ltd.	1.7%)	
The London Assurance	1.775%)	(Sgd.) Chubb & Son
Alliance Assurance Co., Ltd.	.85%)	
Merchants Fire Assurance Corp. of N.Y.	.2975%)	
American Insurance Company	1.5%)	
American Eagle Fire Ins. Co.	.8%)	
Continental Insurance Co.	1.8%)	
Fidelity Phenix Fire Ins. Co.	1.8%)	(Sgd.) S. D. McComb, Manager
Firemen's Insurance Company	1.5%)	
Glens Falls Insurance Co.	1.8%)	
Handover Fire Insurance Co.	.8%)	

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<u>COMPANY</u>	<u>PERCENTAGE OF REINSURANCE ACCEPTED</u>	<u>SIGNATURE</u>
Columbia Fire Insurance Company	Nil)	
Commerce Insurance Company	Nil)	
Concordia Fire Insurance Company	Nil)	
First American Fire Insurance Co.	Nil)	
Fulton Fire Insurance Company	Nil)	(Sgd.) S. D. McComb,
Girard Fire & Marine Ins. Co	Nil)	Manager
Maryland Insurance Company	Nil)	
Milwaukee Mechanics Ins. Co.	Nil)	
National-Ben Franklin Fire Insur. Co.	Nil)	
Niagara Fire Insurance Company	Nil)	
Caledonian Insurance Company <i>in</i>	1.50%)	(Sgd.) S. D. McComb
Providence Washington Insurance Co.	90% of 1%)	
Anchor Insurance Company	10% of 1%)	(Sgd.) J. C. Keegan
Automobile Insurance Company <i>of</i>	1%)	
Standard Fire Insurance Company	Nil)	(Sgd.) F. Maccabe
of Hartford		
Insurance Company of North America	8%)	
Philadelphia Fire & Marine Ins. Co.	.75%)	
National Security Fire Insurance Co.	.75%)	(Sgd.) H. C. Thorn
Alliance Insurance Company	.25%)	
Central Insurance Co. of Baltimore	.25%)	
National Fire Ins. Co. of Hartford	.4%)	(Sgd.) Platt Fuller & Co.,
Yangtze Insurance Association Ltd. & <i>Co.</i>	.4%)	H.C.T.
Springfield Fire & Marine Ins. Co.	.4%)	Springfield F. & M. Ins. Co. Per Platt Fuller & Co. Gen'l. Marine Agents (Sgd.) By H. C. Thorn
The Connecticut Fire Insurance Co.	.6%)	
Great American Insurance Company	.8%)	Carpenter & Baker,
Detroit Fire & Marine Insurance Co.	.2%)	Marine Managers
Potomac Insurance Company	.2%)	(Sgd.) J. Whitney Baker,
Puho Marine & Fire Insurance Company <i>of</i>	.2%)	Bres-
Globe & Rutgers Fire Insurance Company	2%)	Talbot Bird & Co., Inc.
Eagle Star Insurance Company <i>of</i>	1.5%)	(Sgd.) J. T. Byrne, V.P.
Universal Insurance Company	1.5%)	
Fire Association of Philadelphia	1-1/2%)	
Lumbermen's Insurance Company	Nil)	(Sgd.) Thomas S. Devere-
The Reliance Insurance Company	Nil)	Marine Secretary
Philadelphia National Insurance Co.	Nil)	

COMPANY	PERCENTAGE OF REINSURANCE ACCEPTED	SIGNATURE
American & Foreign Insurance Co.	1.784%	(Sgd.) F. P. Zeller Marine Manager &/or United States Manager
Royal Insurance Company	1.0704%	
Liverpool & London & Globe Ins. Co., Ltd.	.5352%	
British & Foreign Marine Ins. Co., Ltd.	1.6056%	
Thames & Mersey Marine Ins. Co., Ltd.	1.6056%	
Queen Insurance Company of America	.892%	
Newark Fire Insurance Co.	.5352%	
Star Insurance Company of America	.446%	
Federal Union Insurance Company	.446%	
Maritime Insurance Co., Ltd.	.36%	
Ocean Marine Insurance Co., Ltd.	.36%	
Reliance Marine Ins. Co., Ltd.	.36%	
Capital Fire Insurance Company	Nil	
Seaboard Insurance Company	Nil	
Atlantic Mutual Insurance Company	3.00%	(Sgd.) William D. Winter, President
Union Marine & General Ins. Co., Ltd.	1%	(Sgd.) W. C. Spelman Marine Manager
Norwich Union Fire Ins. Soc. Ltd.	1%	
Phoenix Assurance Co., Ltd. of London	Nil	
Columbia Insurance Co., of N.Y.	Nil	
Commercial Union Assurance Co., Ltd.	3%	(Sgd.) W. Betteridge Underwriter &/or Marine Agent
Commercial Union Fire Insurance Co.	Nil	
California Insurance Company	Nil	
American Central Insurance Company	Nil	
British General Ins. Co., Ltd.	Nil	
Palatine Insurance Co., Ltd.	Nil	
Union Assurance Society, Ltd.	Nil	
Century Insurance Co., Ltd.	1%	(Sgd.) W. Betteridge, Underwriter
Switzerland General Ins. Co., Ltd. of Zurich	.8%	(Sgd.) W. J. Maloy
Fireman's Fund Insurance Company		Fireman's Fund (Sgd.) F. E. McBride
Home Fire & Marine Insurance Co.	5%	
Ccidental Insurance Company	Nil	
Aetna Insurance Company	2%	(Sgd.) M. W. Morron, Secretary
World Fire & Marine Insurance Co.	Nil	
Piedmont Fire Insurance Company	Nil	
Westchester Fire Insurance Co.	1.3875%	Appleton & Cox, Inc. (Sgd.) H. E. Manee
Indemnity Mutual Marine Ins. Co.	.45%	
Royal Exchange Assurance Co.	.75%	
Tokio Marine & Fire Insurance Co.	.9375%	
United States Fire Insurance Co.	1.20%	
Agricultural Insurance Company	.50%	
North River Insurance Company	.975%	
Western Assurance Company	.30%	
Seaboard Fire & Marine Ins. Co.	.225%	
Pacific Coast Fire Insurance Co.	.375%	
Empire State Insurance Co.	.30%	
Standard Insurance Co. of N.Y.	1%	
American General Insurance Company	Nil	



PERCENTAGE OF
REINSURANCE
ACCEPTED

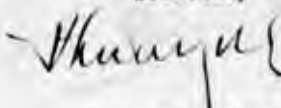
SIGNATURE

COMPANY	PERCENTAGE OF REINSURANCE ACCEPTED	SIGNATURE
Bay State Insurance Company	6/10 of 1%	(Sgd.) William R. Healy
Old Colony Insurance Company	2/10 of 1%	Pres
St. Paul Fire & Marine Ins. Co. }	1.73333% }	
Phoenix Ins. Co. of Hartford }	1.38666% }	
Sun Insurance Office Ltd. W. }	.86667% }	
Security Insurance Company }	.86667% }	
Providence Washington Ins. Co. }	.34667% }	Wm. H. McGee & Co., Inc.
Equitable Fire & Marine Ins. Co. }	Nil }	(Sgd.) H. Jackson, Pres
Northern Assurance Co., Ltd. Pa }	.5% }	
Patriotic Insurance Company }	Nil }	
Sun Underwriters Insurance Co. Pa }	Nil }	
East & West Insurance Company }	Nil }	
Export Insurance Company	.5% }	(Sgd.) W. F. Higgins, V
Quaker City Fire & Marine Ins. Company	1/2% }	(Sgd.) Gilbert Mather, President
North British & Mercantile Ins. Co., Ltd. Pa	.12% }	
Pennsylvania Fire Insurance Co.	.06% }	
The Commonwealth Insurance Co. Pa	.03% }	
The Mercantile Insurance Co.	.03% }	
The New Zealand Ins. Co., Ltd. NZ	.10% }	
Northwestern National Ins. Co.	.10% }	(Sgd.) Albert Ullmann
Northeastern Insurance Company	.40% }	Underwriter &/or
Metropolitan Fire Reassurance Co.	.20% }	as Marine Agent
Atlas Assurance Co., Ltd. Pa	.24% }	
*National Union Fire Ins. Co.	.20% }	
American Equitable Assurance Co.	.20% }	
American Reserve Insurance Co.	.20% }	
Fidelity & Guaranty Fire Corp.	.12% }	
Standard Marine Ins. Co., Ltd. Pa	1.5% }	
Orient Insurance Co. of Hartford, Conn.	Nil }	(Sgd.) W. J. Roberts
Union Insurance Society of Canton, Ltd. Pa	1% }	
Utah Home Fire Insurance Co.	1/2% }	(Sgd.) A. B. Knowles, General Agent

We hereby certify that the foregoing is a true copy of an original agreement on file in this office.

ALBERT WILLCOX & CO., INC.
Secretary

By



Vice President

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9.

AMERICAN CARGO WAR RISK REINSURANCE EXCHANGE
ROOM 1608 - 99 JOHN STREET
NEW YORK

PROVISIONAL ADVICE NO. 492

of the listing below Provisional Advices received today for values over \$500,000.:-

1. "MARROCO" (Brazilian) sailing April from East Coast South America to U.S. Atlantic on Cargo valued at \$504,000.
2. "CUBACA" (American) sailing May from West Coast South America to U.S. Atlantic on Provisional No. 490 advised \$1,644,000. Increased to \$1,869,000.
3. "REIN K" (Norwegian) sailing April 19th from U.S. Atlantic to India on Provisional No. 484 advised \$1,020,000. Increased to \$1,206,000.
4. "EXECUTOR" (American) sailing April from India to U.S. Atlantic on Provisional No. 488 advised \$1,588,000. Increased to \$1,687,000.
5. "GOCHANARRA" (Swedish) sailing May from East Coast South America to U.S. Atlantic on Cargo valued at \$730,000.
6. "TROECH MERCHANT" (Norwegian) sailing March from India to U.S. Pacific on Provisional No. 487 advised \$1,328,000. Increased to \$1,486,000.
7. "JAPARA" (Dutch) sailing March from Dutch East Indies to U.S. Atlantic on Cargo valued at \$705,000.
8. "MORMACPORT" (American) sailing May from U.S. Atlantic to East Coast South America on Provisional No. 491 advised \$961,000. Increased to \$1,123,000.
9. "MORMACSTAR" (American) sailing April from East Coast South America to U.S. Pacific on Provisional No. 488 advised \$628,000. Increased to \$798,000.
10. "TAMM EVANS" (American) sailing May from U.S. Atlantic to East Coast South America on Cargo valued at \$605,000.
11. "MORONI HAVEN" (American) sailing May from West Africa to U.S. Atlantic on Cargo valued at \$614,000.
12. "MORONI KING" (Panamanian) sailing May from India to U.S. Atlantic on Burlap valued at \$739,000.
13. "MORONI THOMIAN" (American) sailing April 30th from U.S. Atlantic to India on Provisional No. 483 advised \$1,003,000. Increased to \$1,153,000.
14. "MORONI WOLF" (American) sailing May 5th from U.S. Atlantic to China on Provisional No. 487 advised \$678,000. Increased to \$775,000.

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13. "FORMACGULL" (American) sailing April from East Coast South America to U.S. Atlantic on Cargo valued at \$613,000.
14. "FORMACTERN" (American) sailing April from U.S. Atlantic to East Coast South America on Cargo valued at \$587,000.
15. "POELAU LAUT" (Dutch) sailing April from Dutch East Indies to U.S. Atlantic on Provisional No. 487 advised \$1,336,000. Increased to \$1,498,000.
16. "PRESIDENT FILLMORE" (American) sailing April from Straits Settlements to U.S. Atlantic on Provisional No. 487 advised \$555,000. Increased to \$1,032,000.
17. "PRESIDENT HARRISON" (American) sailing April from Straits Settlements to U.S. Atlantic on Provisional No. 485 advised \$1,749,000. Increased to \$1,903,000.
18. "PRESIDENT JACKSON" (American) sailing April from Dutch East Indies and India to U.S. Atlantic on Provisional No. 484 advised \$1,419,000. Increased to \$1,559,000.
19. "PRESIDENT MONROE" (American) sailing April from U.S. Atlantic to China, Philippines and Far East on Provisional No. 485 advised \$664,000. Increased to \$799,000.
20. "SOETELSDIJK" (Dutch) sailing April 25th from U.S. Atlantic to Dutch East Indies on Provisional No. 486 advised \$993,000. Increased to \$1,159,000.
21. "STEEL INVENTOR" (American) sailing March from Far East to U.S. Atlantic on Provisional No. 477 advised \$2,197,000. Increased to \$2,313,000. (Vessel reported arrived at Honolulu April 27th).
22. "TEMBATE" (Brazilian) sailing April from Alexandria and Port Said to U.S. Atlantic on Cargo valued at \$606,000.
23. "TAMPA" (American) sailing April 26th from U.S. Atlantic to China and Philippines on Provisional No. 485 advised \$727,000. Increased to \$942,000.
24. "TERRAN" (American) sailing April from Dutch East Indies to U.S. Atlantic on Provisional No. 487 advised \$989,000. Increased to \$1,627,000.
25. "TERRAN" (American) sailing May 3rd from U.S. Atlantic to South Africa on Cargo valued at \$523,000.

ALBERT WILCOX & CO., INC.
Secretary.

ALBERT WILCOX
MAY 7, 1921.

AMERICAN CARGO WAR RISK REINSURANCE EXCHANGE
ROOM 1808 - 88 JOHN STREET
NEW YORK

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CONFIDENTIAL

PROVISIONAL ADVICE NO. 490

We are listing below Provisional Advices received today for values over \$500,000.:-

1. "ADMIRAL COLE" (American) sailing May from Straits Settlements to U.S.Pacific on Provisional No. 489 advised \$750,000. Increased to \$1,426,000.
2. "BERGANGER" (Norwegian) sailing April from East Coast South America to U.S.Atlantic on Provisional No. 485 advised \$1,197,000. Increased to \$1,350,000.
3. "CARETTA" (Panamanian) sailing April from Dutch East Indies to U.S.Atlantic on Provisional No. 488 advised \$670,000. Increased to \$1,148,000.
4. "CURACA" (American) sailing May from West Coast South America to U.S.Atlantic on Provisional No. 488 advised \$1,195,000. Increased to \$1,644,000.
5. "EXCELSIOR" (American) sailing April 30th from U.S.Atlantic to India on Provisional No. 487 advised \$991,000. Increased to \$1,091,000.
6. "GUNDY" (Norwegian) sailing May from U.S.Atlantic to India on Provisional No. 489 advised \$1,110,000. Increased to \$1,945,000.
7. "HAWAIIA" (American) sailing April from Australia to U.S.Atlantic on Provisional No. 489 advised \$3,694,000. Increased to \$3,797,000. (60.95% of \$1,297,000. to cover).
8. "HEAVA" (Dutch) sailing April from Dutch East Indies to U.S.Atlantic on Provisional No. 489 advised \$2,313,000. Increased to \$2,494,000.
9. "HARPOSA" (American) sailing April from Australia to U.S.Pacific on Provisional No. 488 advised \$633,000. Increased to \$808,000.
10. "HASTIN BAKKE" (Norwegian) sailing April 16th from U.S.Atlantic to Persian Gulf and India on Provisional No. 484 advised \$666,000. Increased to \$781,000.
11. "HONG KONG CITY" (American) sailing March from Far East to U.S.Atlantic on Provisional No. 485 advised \$2,127,000. Increased to \$3,418,000. (68.9% of \$918,000. to cover).
12. "HERTO" (Dutch) sailing March from India and Dutch East Indies to U.S.Pacific on Provisional No. 487 advised \$1,289,000. Increased to \$1,451,000.

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13. "NORMACGULL" (American) sailing April from East Coast South America to U.S. Atlantic on Cargo valued at \$613,000.
14. "NORMACTERN" (American) sailing April from U.S. Atlantic to East Coast South America on Cargo valued at \$587,000.
15. "POELAU LAUT" (Dutch) sailing April from Dutch East Indies to U.S. Atlantic on Provisional No. 487 advised \$1,336,000. Increased to \$1,498,000.
16. "PRESIDENT FILLMORE" (American) sailing April from Straits Settlements to U.S. Atlantic on Provisional No. 487 advised \$555,000. Increased to \$1,032,000.
17. "PRESIDENT HARRISON" (American) sailing April from Straits Settlements to U.S. Atlantic on Provisional No. 485 advised \$1,749,000. Increased to \$1,903,000.
18. "PRESIDENT JACKSON" (American) sailing April from Dutch East Indies and India to U.S. Atlantic on Provisional No. 484 advised \$1,419,000. Increased to \$1,559,000.
19. "PRESIDENT MONROE" (American) sailing April from U.S. Atlantic to China, Philippines and Far East on Provisional No. 485 advised \$664,000. Increased to \$799,000.
20. "SOETELSDIJK" (Dutch) sailing April 25th from U.S. Atlantic to Dutch East Indies on Provisional No. 486 advised \$993,000. Increased to \$1,159,000.
21. "STEEL INVENTOR" (American) sailing March from Far East to U.S. Atlantic on Provisional No. 477 advised \$2,197,000. Increased to \$2,313,000. (Vessel reported arrived at Honolulu April 27th).
22. "TAUBATE" (Brazilian) sailing April from Alexandria and Port Said to U.S. Atlantic on Cargo valued at \$606,000.
23. "TAMPA" (American) sailing April 26th from U.S. Atlantic to China and Philippines on Provisional No. 485 advised \$787,000. Increased to \$942,000.
24. "TANIAN" (American) sailing April from Dutch East Indies to U.S. Atlantic on Provisional No. 487 advised \$989,000. Increased to \$1,627,000.
25. "TARA" (American) sailing May 3rd from U.S. Atlantic to South Africa on Cargo valued at \$523,000.

ALBERT WILCOX & CO., INC.
Secretary.

ALBERT WILCOX
MAY 7, 1941.

COVER NOTE NO. 31242UNDERWRITERS

RALLI BROTHERS INSURANCE COMPANY LIMITED.....	
(as and from 15th January, 1940, known as the Orion Insurance Co. Ltd.)	
*CORNHILL INSURANCE COMPANY LIMITED.....	20,000.
SWITZERLAND GENERAL INSURANCE COMPANY LIMITED.....	25,000.
C.T. BOWRING AND COMPANY LIMITED.....	4,000.
ENGLISH AND AMERICAN INSURANCE COMPANY LIMITED.....	2,500.
WORLD AUXILIARY INSURANCE CORPORATION LIMITED.....	10,000.
MOTOR UNION INSURANCE COMPANY LIMITED.....	10,000.
ALLIANCE ASSURANCE COMPANY LIMITED.....	15,000.
MARINE INSURANCE COMPANY LIMITED.....	10,000.
INDEMNITY MARINE ASSURANCE COMPANY LIMITED.....	50,000.
PHOENIX ASSURANCE COMPANY LIMITED &/or ASSOCIATED COMPANIES.....	26,667.
LONDON GUARANTEE AND ACCIDENT COMPANY LIMITED.....	13,333.
YORKSHIRE INSURANCE COMPANY LIMITED.....	20,000.
EAGLE STAR INSURANCE COMPANY LIMITED.....	10,000.
PROVINCIAL INSURANCE COMPANY LIMITED.....	40,000.
BRITISH AND FOREIGN MARINE INSURANCE CO. LTD.....	30,000.
MERCHANTS MARINE INSURANCE COMPANY LIMITED.....	15,000.
CANTON INSURANCE OFFICE LIMITED.....	10,000.
LLOYD'S UNDERWRITERS.....	1,658,500.
	2,000,000

* Cancelled August 11, 1940

As of 5/5/41 - \$1,194,000. part of \$2,000,000. excess of \$2,500,000.
(Add'l. \$25,000. cancelled Deficiency - 40.3%)
Participation - 59.7%)

COPYENDORSEMENT

Attaching to and forming part of CONTRACT NO. 33269 CARGO &/OR
ADVANCES etc.

of LLOYD'S AND COMPANIES

issued to MESSRS. ALBERT WILLCOX AND CO. INC. Secretary
AMERICAN CARGO WAR RISK REINSURANCE EXCHANGE,
Room 1609,
99 John Street, NEW YORK.

It is understood and agreed that effective for all shipments by vessels sailing on and after 11th August, 1940, the limit of protection under this contract is reduced to \$1,448,000. part of \$2,000,000; the Cornhill Insurance Co. Ltd. having cancelled their \$20,000. line as and from that date.

As agreed by Underwriters.
All terms and conditions remaining unchanged.

C. T. BOWRING & CO. (INSURANCE) LTD.
(SIGNED) S.H. BUCKENHAM
Director.

13th August, 1940.

COPY

Attaching to and forming part of CONTRACT NO. 39269
of LLOYD'S & COMPANY
issued to AMERICAN CARGO WAR RISK REINSURANCE EXCHANGE, NEW YORK.

It is understood and agreed that the limit of protection under this Contract is reduced to as follows:-

- (a) For sailings on and after 26th May 1940 to \$1,900,000.
part of \$2,000,000.
- (b) For sailings on and after 12th July 1940 to \$1,468,000.
part of \$2,000,000.

As agreed by all Underwriters.
All other terms & conditions remaining unchanged.

C.T. BOWRING & CO. (INSURANCE) LTD.

(SIGNED) S.H. BUCKENHAM
DIRECTOR.

6/8/40.

WAR RISK EXCESS COVER NO. 33269
(PLACED WITH BOWRING)

Attached 10/10/39 - Limit \$2,000,000. Excess of \$2,500,000.

As of 5/26/40 - \$1,900,000. part of \$2,000,000. excess of
 \$2,500,000. (\$100,000. Cancelled-
 Deficiency 5% Part.-95%)

As of 7/12/40 - \$1,468,000. part of \$2,000,000. excess of
 \$2,500,000.
 (Add'l. \$432,000. Cancelled-Deficiency 26.6%
 Participation 73.4%)

As of 8/11/40 - \$1,448,000. part of \$2,000,000. excess of
 \$2,500,000.
 (Add'l. \$120,000. Cancelled-Deficiency 27.6%
 Participation 72.4%)

As of 2/27/41 - \$1,378,000. part of \$2,000,000. excess of
 \$2,500,000.
 (Add'l. \$70,000. Cancelled -Deficiency 31.1%
 Participation 68.9%)

As of 4/10/41 - \$1,338,000. part of \$2,000,000. excess of
 \$2,500,000.
 (Add'l. \$40,000. Cancelled-Deficiency 33.1%
 Participation 66.9%)

As of 4/18/41 - \$1,234,000. part of \$2,000,000. excess of
 \$2,500,000.
 (Add'l. \$104,000. Cancelled-Deficiency 38.3%
 Participation 61.7%)

As of 4/23/41 - \$1,219,000. part of \$2,000,000. excess of
 \$2,500,000.
 (Add'l. \$15,000. Cancelled -Deficiency 39.05%
 Participation 60.95%)

As of 5/ 5/41 - \$1,194,000. part of \$2,000,000. excess of
 \$2,500,000.
 (Add'l. \$25,000. Cancelled -Deficiency 40.3%
 Participation 59.7%)

~~10115~~ Friday
finished

May 20, 1941

Harold Graves

Secretary Morgenthau

I wonder if you could make up a list of companies which now have some regular plan of deducting a certain amount from their employees each week for defense bonds. What I have in mind is that I would like to keep up to date a list of companies that are doing this and how many employees each company has; also, if possible, how many bonds are bought by the employees of each particular company.

What I have particularly in mind is to try to get some idea what percentage of the total workers we are reaching regularly through deductions from the pay rolls. I would like to watch how this list grows.

Discussed at Savings Staff
meeting on May 23 -
See memo listing companies
having pay deduction
plans filed under date of
5/21/41 -

OFFICE OF PRICE ADMINISTRATION AND CIVILIAN SUPPLY
WASHINGTON, D. C.

May 20, 1941

MEMORANDUM

TO: Secretary Morgenthau
FROM: Leon Henderson

In my testimony before the Ways and Means Committee on May 7, I stated the principle that new excise taxes should be levied and existing excise tax rates should be increased only on commodities that compete with defense for raw materials, scarce labor, machines and plant capacity. A list of commodities the sale of which might be taxed in accordance with this principle was furnished to Mr. Stam, on his request:

1. Air-conditioning equipment.
2. Aluminum ware and aluminum foil.
3. Clocks and watches.
4. Household and other electrical appliances (e.g. toasters, waffle irons, electrical mixers, pressure cookers, hair driers, etc.).
5. Jute products.
6. Lamps and ornamental fixtures.
7. Measuring instruments.
8. Metal furniture and furnishings (these use stainless steel, chrome, alloy metals).
9. Metal signs for advertising and display.
10. Mirrors.
11. Oil burners.
12. Oil cloth and linoleum (these use linseed oil, tung oil and jute).
13. Passenger automobiles and motorcycles, new and second-hand.
14. Paints and varnishes.
15. Phonographs.
16. Photographic apparatus (e.g. cameras, lenses, meters, enlargers, etc.).
17. Photographic film.
18. Radio receiving sets and other radio apparatus.
19. Refrigerators, mechanical.
20. Rubber footwear
21. Rubber tires and inner tubes.
22. Rubber, other goods, except surgical.
23. Sewing machines, domestic use.
24. Slot machines.
25. Washing machines.
26. Yachts and motorboats.

GMW

PLAIN

London

Dated May 20, 1941

Rec'd 12:42 p.m.

Secretary of State,
Washington.

2020, Twentieth.

FOR TREASURY.

A Bank of England notice to banks indicates that the British Treasury has arranged that persons normally resident in non-enemy countries outside the sterling area who come to the United Kingdom for war work may remit home in foreign exchange specified proportions of the proceeds of such war work married persons up to 50 percent and single persons up to 25 percent of their war pay. The funds of such persons held in the United Kingdom and not derived from war work will not be affected. Canadians, such Americans as members of the Eagle Squadron, etc. and volunteers from British and other communities in Latin-America are among those to benefit.

The British Treasury has explained to the Embassy that as regards the meaning of "war work" the arrangement automatically covers persons attached to any fighting,
medical

-2- 2020, Twentieth from London

medical or defense service, or any technicians or persons engaged in industry who have come at the British Government's request, while other cases will be decided on their merits.

WIN.NT

RR

May 20, 1942

File

Mr. Cochran

Mr. Herbert Gold, American Consul General recently arrived from Casablanca, Morocco, called on me at 2:30 p.m. May 18. He had left word at the Department of State that the Treasury would be glad to receive him whenever he might be in Washington.

Mr. Gold talked with me for some time. He was very definite in his impression that General Veyrand would not cut off from Petain and follow an independent course in present circumstances. He thought that a mere assurance from us that we would give him some support would not be sufficient to cause him to adopt an independent course involving armed resistance to the Germans and Italians. He said that if we had armed forces immediately available in ample quantity to give Veyrand strong support and to sustain his own efforts, it would be a different story.

Referring to the sending of American supplies to Northern Africa, Gold thought that French promises would be of little use if goods are involved which could be utilized by the Germans in any fashion to strengthen their own war effort. That is, if North Africa receives anything of use to Germany and Germany demands it, Germany will get it. Gold is not returning to Africa, and will probably be transferred to a post in England. He may be reached at the Hotel George Mason in Alexandria for the next few days.



FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

CONFIDENTIALDate May 20, 1941.To FilesSubject Recent Withdrawals from RussianFrom W. H. RosellAccounts in New York

After increasing about \$10,000,000 to \$40,300,000 during the first quarter of 1940 as a result of the import and sale of gold, Russian deposits appear to have been drawn down rather substantially in recent weeks, so that balances nominally held in Russian accounts probably amount to only around \$25,000,000 at the present time. Except for \$3,500,000 transferred to the Amtorg Trading Corporation, all of this reduction represented transfers to other foreign accounts. According to data received by Mr. Knoke, since mid-April a total of \$6,650,000 has been paid out of the Russian account at Chase, which holds the bulk of the Russian State Bank balances in this District, to accounts of third countries. Of this amount, \$2,750,000 was paid to Swiss account, \$1,250,000 to the account of the Banque Mellie Iran, and a similar amount to that of a Russian bank in China. Smaller amounts were also transferred to Swedish, British, and Finnish accounts. In addition, \$3,795,000 has been transferred from the Russian account at this bank to that of the Swedish Riksbank and \$750,000 to the Swiss National Bank since early April.

From the information available to us, it is, of course, impossible definitely to determine the underlying reasons for these transfers. Of the various possibilities, one or a combination of the following probably is the most likely:

- (1) Payment in dollars for Russian purchases from these countries.
- (2) Reimbursement for purchases made in the United States by these countries on behalf of Russia.

(3) Preparations against the eventuality of the blocking of Russian assets in this country.

It should be noted that the principal recipients of the recent transfers have been Sweden and Switzerland, both of whom now have trade agreements with Russia. The agreement with Sweden, signed last September, provided for the exchange of Swedish manufactured goods for Russian raw materials, chiefly oil, fodder, and manganese ore in the amount of 75,000,000 kronor, or about \$13,000,000. In addition, Sweden granted a credit of 100,000,000 kronor, or about \$24,000,000, to Russia to be applied against the purchase of Swedish products, thereby allowing Russia to import more than she exports to Sweden. The Swiss agreement, signed last February, likewise provided for the export to Russia of manufactured products in return for grain, lumber, oil and cotton. The turnover under this agreement was estimated to be around \$25,000,000.

If any of the recent transfers to these countries represented commercial transactions, they must, therefore, have been for Swedish and Swiss exports not covered by the agreements or possibly for Swedish or Swiss purchases of American goods destined for Russia. Of the recent transfers to the Ekra bank account here, amounting to \$5,795,000, about \$1,300,000 was for the account of the Swedish Clearing Board (clearingswäsendet) and, therefore, must fall within the commercial classification, as opposed to capital transfers. With a virtual embargo in effect on many vital American products to Russia it is logical to expect some increase in Russian imports from other markets, particularly Sweden and Switzerland. In this connection it may be significant to note that some part of the Russian funds at Chase which were transferred to other foreign accounts represented funds which previously had been held in export letters

-3-

of credit accounts but which had been released because of the cancellation of Russian orders in this country. The extent of the curtailment of our exports to Russia may be seen from the fact that total American exports to Russia during the first three months of 1941 amounted to only \$15,400,000, or only slightly more than one half those of the comparable period in 1940.

Furthermore, the belief that Russia may have also been buying American goods through European neutrals is substantiated by a report received last January that a Swiss bank was then negotiating a transaction of 1,000,000 Swiss francs covering a shipment destined for Russia from an American automobile manufacturer.

On the other hand, the possibility that some part of the Russian transfers to other foreign accounts was made in anticipation of a possible blocking of Russian assets here cannot be ignored. Even after allowing for the \$1,300,000 which we know was made through the Swedish clearing office, there still remains over \$3,000,000 of unexplained transfers to Sweden since early April and \$3,500,000 to Switzerland, together with smaller, though significant, payments to China and Iran. These payments may reflect, in part at least, either the opening or increasing of dollar accounts in these countries, such as Japan has done in Brazil, or an actual conversion of dollars into foreign currencies. In the case of the first alternative, these funds, while outside Russian accounts in this country, would of course, still be affected if all foreign funds in the United States were frozen. If the latter is true, these funds are now entirely beyond the scope of our control.

As long as there was a possibility of being able to use Russian funds here for the purchase of American goods, the risk of "freezing" may have been worth taking. With American markets virtually closed, however, this incentive

-4-

is no longer present. Whether the recent Russian withdrawals have as yet been used for purchases in other markets or are now available for future purchases seems relatively unimportant. The important point is that these funds are now less subject to our control, and, therefore, more readily available to Russia, even if Russian funds in this country are "frozen" in the future.

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DEPARTMENT OF STATE
WASHINGTON

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In reply refer to
In 859B, 7962/138

May 20, 1941

STRICTLY CONFIDENTIAL

My dear Mr. Secretary:

I enclose herewith, for the attention of Mr. E. Verle Cochran, paraphrases of telegram no. 76, May 15, 2 p.m., from the American Consul at Godthaab, Greenland, and the Department's no. 54 in reply to the Consul regarding a proposal submitted by the Governors of Greenland for a procedure under which financial transactions between American armed forces in Greenland and natives thereof are to be effected. In this relation reference is made to a meeting held in the office of the Honorable Adolf A. Berle, Jr., Assistant Secretary of State, on May 17 which Mr. Batchelder and Mr. Dietrich of the Treasury Department, Captain D. W. Rose of the Navy Department, and Major J. B. Gilchrist of the War Department attended and at which it was agreed that this Government should make every effort to comply with the procedure of the Governors of Greenland outlined in the Consul's telegram referred to above.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury

It was also agreed that the Treasury Department would issue the necessary directives to the War and Navy Departments for the putting into effect in so far as this Government's armed forces in Greenland are concerned of the procedure suggested by the Governors.

The Secretaries of War and of the Navy are being furnished with a copy of this letter for their information.

Sincerely yours,

For the Secretary of State:

(s) A.A. Berle, Jr.

Adolf A. Berle, Jr.
Assistant Secretary

Enclosures:

1. Paraphrase of telegram no. 75, May 13, from Godthaab.
2. Paraphrase of telegram no. 54 from Department to Greenland.

PARAPHRASE OF TELEGRAM

To: Secretary of State
From: American Consul, Godthaab, Greenland.
Date: May 13, 1941, 2 p.m. Rec'd 11:59 p.m. 14th
No. : 75

Governors Svane and Brun have requested me to telegraph to you for your consideration under the provisions of Article 9 of the Agreement Relating to Greenland the following substance of a memorandum and oral explanation which they gave to me today.

(a) The Government of Denmark has maintained for two centuries the economy of Greenland on a stable basis by: (1) a State monopoly of all trade on the Island; (2) low fixed prices for merchandise sold to the natives (they sell certain necessities at a loss); and (3) keeping the price paid to the natives for their services and produce depressed to a level commensurate with the standard of living appropriate to a relatively primitive, hunting and fishing people under benevolent Government tutelage.

(b) The Greenland authorities now are afraid that uncontrolled expenditures on the part of United States armed personnel in Greenland will provide some of the Greenland natives with an increase in purchasing power

- 2 -

which will result in (1) establishing an undesirable difference in the standards of living between the remainder of the population and the group thereof which obtains the benefits of the United States expenditures; (2) inducing the latter group to abandon their normal ways of life for others less suitable to their unsophisticated nature; and (3) a financial burden on the Greenland administration in replenishing the relatively small stocks of merchandise in the Government stores.

(c) The Governors, therefore, propose, in order to avoid in so far as practicable the foregoing expected undesirable results from United States expenditures, especially the latter, to prohibit all financial transactions between the natives and United States armed personnel except those carried out by means of a trade certificate, the basic unit of which will be called a "skilling". These skillings will be made available to United States armed personnel at a fixed rate of 20 skillings to the United States dollar and will be redeemed by the Greenland authorities: (1) from the Greenland natives in Greenland kroner at a rate which will be changed from time to time to accord with current Greenland Government policies and needs or in trade goods, and (2) from United States armed personnel in dollars at the

rate

- 3 -

rate at which they were originally obtained from the Greenland authorities. These trade certificates would not be permitted to circulate outside of Greenland.

(d) Since they are anxious to put into effect the plan as soon as practicable, the Governors are desirous of receiving an early expression of the views of the United States Government with respect to the plan which they propose.

PENFIELD

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PARAPHRASE OF TELEGRAM

TO: American Consul, Godthaab, Greenland

FROM: Secretary of State

DATE: May 17, 1941, 10 p.m.

NO.: 54

We have discussed the Governors' proposals submitted in your telegram No. 75 of May 13 with representatives of the Treasury, Navy and the Army. It was agreed that the procedure appears to be completely feasible and the necessary orders will be given to the American personnel concerned to cooperate in making the procedure successful. The plans of the War Department contemplate that United States dollars will circulate within the areas leased to us but that the American personnel will not be permitted to offer American currency outside such areas. It will be required that they obtain skillings for purchases outside the leased areas. The only qualification which the War Department suggests is that its supply officers when desirous of obtaining supplies locally may be permitted to use United States currency when purchasing supplies from Greenland Government stores. They will, however, use skillings when purchasing supplies from natives. When dollars are used as indicated in the foregoing, they would, of course, be passing only between the supply officers and the Greenland Government and would not, therefore, appear to upset the Governors' plan.

The Navy Department does not expect to have any of its personnel ashore except for temporary purposes. They will be given orders, however, not to offer United States currency to individuals in Greenland but to purchase with

- 2 -

such currency the skillings which they may require for incidental purchases ashore.

We presume that simple arrangements will be made by which United States armed personnel will be able to purchase skillings within the leased areas and under which they may redeem dollars for skillings when desirable or convenient to them.

Please inform Governors Svane and Brun that we greatly appreciate their courtesy in submitting their plan to us for our comments and assure them that United States forces in Greenland will be pleased to cooperate in the procedure in every possible way.

HULL

Copy:alm 5-21-41

WT

GRAY

BERLIN

Dated May 20, 1941

Rec'd 5:15 p.m.

Secretary of State,
Washington.

1980, May 20, 5 p.m.

For Treasury from Heath and for Department's information.

The semi official DIENST AUS DEUTSCHLAND criticizes what it terms the "American Canadian currency stabilization agreement" which it alleges to be a precursor of an economic and later a political union of the Anglo Saxon countries under the leadership of the United States. It asserts self righteously that in the summer of 1940 Economics Minister Funk rejected the idea of a European currency union as destructive of political independence and economic welfare of smaller states.

MORRIS

CSB

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE May 20, 1941

Secretary Morgenthau
from Mr. Cochran

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Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns £30,000
Purchased from commercial concerns £17,000

The Federal Reserve Bank of New York sold £15,000 in registered sterling to the American Express Company.

Open market sterling was again quoted at 4.05-1/4. Transactions of the reporting banks were as follows:

Sold to commercial concerns £5,000
Purchased from commercial concerns - 0 -

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

Canadian dollar	12-3/4% discount
Bulas franc	.2320
Swedish krona	.2385
Belchamar	.4005
Lira	.0505
Argentine peso (free)	.2380
Brazilian milreals (free)	.0505
Mexican peso	.2070

The Cuban peso was not quoted in New York, since there was a holiday in Cuba. In Shanghai, the yuan advanced 1/16¢ to 5-13/32¢. Sterling was quoted at 3.91-5/8, up 3/4¢.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, the price fixed for spot silver was 25-1/2d, up 1/16d. The forward quotation was unchanged at 25-7/16d. The U.S. equivalents were 42.67¢ and 42.56¢ respectively.

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

We made three purchases of silver totaling 150,000 ounces under the Silver Purchase Act. This silver consisted of new production from various foreign countries, and was bought for forward delivery.

The report of May 14 received from the Federal Reserve Bank of New York giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$7,334,000, a decrease of \$60,000 in the short position since May 7. Net changes were as follows:

Country	Short Position May 7	Short Position May 14	Change in Short Position*
England**	\$ 670,000	\$ 751,000	+ \$ 81,000
Europe	3,455,000	3,438,000	- 17,000
Canada	209,000 (Long)	360,000 (Long)	- 151,000
Latin America	520,000	498,000	- 22,000
Japan	1,464,000	1,381,000	- 83,000
Other Asia	1,526,000	1,661,000	+ 135,000
All others	32,000 (Long)	35,000 (Long)	- 3,000
Total	\$7,394,000	\$7,334,000	- \$ 60,000

*Plus sign (+) indicates increase in short position, or decrease in long position.
Minus sign(-) indicates decrease in short position, or increase in long position.

**Combined position in registered and open market sterling.

[Handwritten signature]

CONFIDENTIAL

BRITISH EMBASSY,
WASHINGTON, D. C.

20th May, 1941

PERSONAL AND
SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

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

TELEGRAM RECEIVED FROM LONDON MAY 18TH, 1941Naval

During air attacks on Suda Bay 15th and 17th British 6300 ton ship severely damaged feared total loss. Another 6000ton ship damaged by near miss. 1,000 ton tanker set on fire and Greek 5700 ton ship caught fire, blew up and sank. Suez Canal now understood to be open. South East Crete on 17th British Hospital ship attacked by aircraft.

2. Registan ocean boarding vessel intercepted French schooner 480 miles north of the Akres. Escorting her to harbour.

3. Malta Air raids on morning of 16th and during night of 16th - 17th. One destroyer was hit and three torpedo aircraft damaged at an aerodrome.

4. Military Tobruk. On 15th our fighting patrols supported by cruiser tanks advanced 2500 yards west within Medawar salient. Night of 15th - 16th we repulsed enemy counter-attacks within salient. On 16th the salient was consolidated with an average of 600 yards gain.

5. Sollum At least 40 tanks mostly medium but some thought larger were used to recapture Capusse by the enemy; ten of our infantry tanks destroyed. Enemy later brought up further tank reinforcements in the area Capusse-Bardia.

Our mechanised force withdrawn 12 miles South West of Sollum harassing enemy vigorously. Operation cost the enemy 500 prisoners and considerable loss of armoured fighting vehicles.

6. Iraq /

-2-

6. Iraq - On 16th our advance troops from Palestine reached the area south of Lake Harbaniya.
7. Royal Air Force. Night of 17th - 18th. 194 aircraft sent out, Calogne 95, Boulogne 15, Rotterdam 14, one aircraft missing.
8. Libya. 16th - Our fighters destroyed two enemy fighters on the ground and one in the air and destroyed vehicles of large M. T. convoy near Derna. Two Hurricanes lost.
9. Greece On the 17th - Beau fighters from Crete attacked 3 aerodromes. Large number of enemy aircraft seen on the ground and several hit by machine gun and cannon fire. One of our aircraft failed to return.
10. Syria and Iraq On 16th aircraft on reconnaissance reported several enemy machines on Syrian aerodromes. Following day Iraqi aerodromes attacked; one large enemy aircraft set alight on the ground and two M.E. 109's shot down by Gladiators.
11. German Air Force 17th - Fighter sweeps by small formations took place over Kent. One enemy fighter destroyed and two damaged; 2 of our fighters lost. Night of 17th - 18th. Only 70 aircraft were operating including 20 mine layers and 20 night fighters.

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MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, May 20, 1941.

AIR BULLETIN
No. 20
G-2/183-314

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed.

This document is being given an approved distribution and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction see Letter TAG 350.05 (9-19-40) M-E-M.

AIR OPERATIONS
MARCH 16-APRIL 15, 1941
INCLUSIVE

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CONFIDENTIAL

CONFIDENTIALAIR OPERATIONS
MARCH 16-APRIL 15, 1941
INCLUSIVE1. WESTERN THEATERa. Germany(1) Day Operations

In concentrating its main attack against British shipping, The German Air Force continued to take a heavy toll on convoys in the period March 16-April 15. The average number of airplanes reported active over England and waters adjacent to the British Isles for day operations was 43.

During the month of March, the German Air Force reported sinking 41 ships totaling 185,000 tons and inflicting damage to an additional 400,000 tons. Although the British have not stated their total losses for this same period, they report that they lost 53 ships totaling 239,875 tons from all causes during the first two weeks in March. The number sunk by the German Air Force was not indicated. During the period April 1 to April 10, the German Air Force reported sinking 45 ships totaling 226,000 tons, and submarines claimed 15 ships totaling 106,000 tons.

In the week beginning March 12, the British reported that their navy escorted 822 vessels, which brought in more than a million tons of merchandise. They stated that ten of these ships were sunk.

Both the British and the Germans state that the heaviest shipping losses during any single day's action in waters adjacent to the British Isles occurred on April 1. After an attack on a convoy west of Pembroke, the British reported the loss of three tankers totaling 23,000 tons and the possible loss of two more tankers totaling 16,000 tons. The Germans stated that their air force sank seven tankers totaling 54,000 tons, damaged five ships totaling 38,000 tons, and set fire to three more ships totaling 27,000 tons in the same area.

In addition to reconnaissance patrols, several heavy defensive patrols were maintained. On March 27 there were 120 planes active along the Belgian and French coasts, while on March 31 the heaviest patrol of the period operated with 330 planes over the Dover Straits.

Several harassing attacks were made against ports and harbor

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facilities along the south coast and upon a number of airdromes. On March 20 the Germans reported 32 bombardment planes, 27 pursuit planes, and 24 reconnaissance planes over England, with attacks made on two airdromes and three harbors. Attacks were executed on March 27 against an air depot in the Shetland Islands and against harbor facilities in five locations.

Three planes conducted a surprise attack from the "lowest altitude" against the airdrome at Warmwell on April 1. The German Air Force reported destruction of a number of large hangars and barracks, as well as 12 to 14 British bombers and 8 to 10 pursuit planes on the ground.

There were few reports of daylight mining of harbors and channels. Fifteen planes were reported mining off the mouth of the Humber River on April 1, and 27 more were engaged in spotting seaborne traffic.

A few instances of air combat were reported during this period. On March 27 near Hastings, six Messerschmitts engaged ten Spitfires with no losses reported on either side. Southwest of Folkestone another engagement occurred between two Messerschmitts and five Spitfires; the German Air Force reported that it downed one British plane but suffered no losses. Combat between two Messerschmitts and nine Spitfires was reported over the Dover Straits on March 31 at altitudes of 24,000 to 27,000 feet.

Practically all daylight raiding over England is now being carried out by the Me-109 and Me-110. While they carry the same load, the Me-109 is used for short distance raids and the Me-110 for long distance raids. Each airplane can carry one 500-pound bomb, two 250-pound bombs, or four 110-pound bombs.

The take-off is made under overload conditions on an extra long and very smooth runway. At a point 2700 feet from the starting point, a white stripe is painted across the runway and a sign board is placed along the side. At this point, and not before, the pilot allows the wheels to leave the runway. His speed is said to be about 160 miles per hour.

It has been rumored that the Germans have developed and put into use a rocket arrangement to assist in the take-off. No particulars are available except that the entire mechanism may be dropped after take-off.

(2) Night Operations

During the period March 16-April 15, the German Air Force continued to direct its main night attacks towards destruction of ports

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and harbor facilities and, secondarily, towards heavy bombardment of industrial centers. Operations of the air force were carried out with a nightly average of 203 planes.

On March 18, the Germans sent 464 planes over England; 378 of these made a severe attack upon objectives in Hull. Numerous fires and explosions along the water front, heavy casualties, and a great deal of damage to private property were reported. On the same night, 70 planes attacked Southampton and 36 bombed London.

The following night the Germans reported 505 planes on missions over England, with 479 of them dropping 490 tons of high explosive and 100,000 incendiaries on London and giving the city its heaviest air raid of the year. The air force reported concentrating its attack on port works on both sides of the river between London Bridge and Bend of the Thames. London reported severe damage to several manufacturing plants, industrial properties and gas installations, as well as heavy casualties and a great deal of damage to private property. The German Air Force reported no airplane losses in this raid, although the British stated that one plane was shot down by anti-aircraft and another was probably shot down by night fighters.

Two severe raids were carried out on harbor objectives in Plymouth - one on March 20 with 125 bombers, and the other on March 21 with 166 planes. Dock yards and warehouses were heavily hit and many fires were reported. The British reported that damage to the Royal Dock Yards was not serious, but an area of two square miles was burned out in the business district.

Harbor works at Hull were again bombed on March 31, with 47 planes releasing 39 tons of high explosives and 22,000 incendiary bombs. During this night, 26 planes bombed objectives in Great Yarmouth and reported starting many fires. On April 3, Hull was again raided by 27 bombers, and Avonmouth was attacked by 49. The German Air Force reported that 183 bombers were used over England on April 4 and that 83 of these again bombed Avonmouth with heavy damage to flour mills and a zinc factory north of the city.

The Germans state that 517 planes were sent over the British Isles for bombing missions on April 7. Of these, 212 attacked harbor installations in the lower Clyde Estuary; 83 raided objectives in Glasgow; an undetermined number bombed Dunbarton, in Scotland; 97 attacked railway and port facilities at Greenock, near Glasgow; 89 bombed objectives at Liverpool, and 27 raided industrial objectives in Bristol. The Germans reported the loss of five planes during these operations. The R.A.F. stated that the five planes were shot down by night fighters without loss to themselves.

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On the following night, April 8, the Germans stated that they sent 364 bombers over England with 43 of these attacking harbor facilities at Portsmouth and starting a number of large fires in the vicinity of the Navy Yard. German long distance night-pursuit planes reported shooting down two British bombers over English soil during these operations, while R.A.F. night-pursuit reported shooting down five German planes. Night operations of long distance night fighters are reported increasing in importance.

On April 9 the Germans reported sending 450 bombers over England. Attacks on harbor facilities at Tynemouth and South Shields on the East coast were carried out by 116 of these planes, and damage to dock works and gas works was claimed. Objectives in Southampton were raided by 22 bombers, with hits claimed on factories north of the city, and the dock area of Ipswich was reported fired by 11 dive bombers. During these activities, long range German night pursuit pilots stated they shot down five British pursuit planes. The 219 planes which the Germans reported over England on April 11 concentrated their main attack against industries at Bristol, but 38 bombers raided harbor facilities at Avonmouth, the port of Bristol, and 26 other planes attacked objectives at Portsmouth.

Heavy attacks were made against main industrial centers. Bristol was the objective of a bombing attack by 53 planes on March 16. After raiding planes had started numerous fires in the initial phase of the attack, bombers dropped high explosive bombs and land mines. The public water and gas distribution systems suffered severe damage. On the same night 109 planes which bombed industries at Avonmouth caused severe damage to the National Smelting Works.

Industries in both cities were again bombed on March 29, as well as on April 3, when 50 planes caused serious damage to the National Smelting Company plant, which is now out of operation indefinitely. Coventry was bombed by 237 airplanes during the night of April 8, and Portsmouth was bombed by 43 planes. In each case there was much destruction to industrial areas. The Daimler plant at Portsmouth was severely damaged, and production was considerably curtailed.

These raids were followed on April 9 by a 237-plane bombing of factories in the Cardiff area. On the same night considerable damage was reported to industrial plants at Birmingham, and on the following night these plants were bombed by 206 planes, with concentration on factory areas in the northeastern part of the city. The Germans state that planes raided industrial targets at Bristol on April 11.

Attacks were carried out on British airdromes in South

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England, East Anglia, Yorkshire, and in other inland regions during the period under consideration. The British reported 230 German planes active against airdromes of Norfolk and Suffolk on the night of March 18. A harassing attack against the airdrome at Pembroke, in Wales, resulted in destruction of 19 planes on the ground. Reports indicated that attacks were made on searchlight positions during several raids on flying fields.

Mining operations were carried out by the German Air Force in the Humber River, in the Bristol Channel, and along the Southwest Coast and Liverpool Bay. Mine laying operations of major importance were reported in the Humber and Thames estuaries on April 4, with 80 mine-laying planes participating, and extensive mining operations were reported in Liverpool Bay on April 13. British night pursuit was generally ineffective in intercepting activities of mine-laying planes.

(3) Effect of German Bombing Raids

Damage inflicted by German raiders was mostly upon harbor facilities and shipping, although there were also attacks upon inland targets, such as airfields, munitions plants, and manufacturing plants - especially airplane plants. Effects of these raids have been discussed in preceding paragraphs. Bombings by one to three airplanes occurred in many towns with a few casualties in each and with some interruption of services.

During the period March 16-April 15, London received fewer raids than in any previous month of the war, and during a period of eight successive nights it was not attacked at all. On the night of March 19, however, it was so severely bombed that more than 1000 persons were killed.

Shipyards in Portsmouth, Bristol, and Southampton received severe damage from attacks made upon them during this period. These objectives were usually attacked by small numbers of bombers, but with sufficient frequency to delay work over a longer period than if they had been attacked intensively for one night.

b. Great Britain(1) Day Operations

During the period March 16-April 15, the daylight activity of the R.A.F. was directed primarily against shipping along the Netherlands coast, patrols over the French channel ports, and fighter patrols over Occupied France. Except for fighter sweeps, these missions were carried out by the Coastal Command.

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In addition, bombers made an attack upon the Gneisenau and the Scharnhorst at Brest on April 3, but the results of this attack were not observed by the British. On April 11 a small formation of planes from the Bomber Command made an attack upon the Island of Norderney, site of a naval base. Direct hits were reported upon buildings.

In raids against shipping, particular stress was laid on attacks upon motor torpedo boats, or E-boats, and the British report destruction of a number of these by bombing and machine-gunning.

The number of planes sent out in daylight raids was not stated, except that three of the Fighter sweeps comprised small formations of six to 26 planes. In these sweeps, fighters make quick attacks upon certain designated areas, usually centering their effort upon airfields or concentrations of troops and equipment.

(2) Night Operations

Both the number of bombing planes used and the number of missions flown in this period showed an increase over those for the preceding month. Designated targets were concentrated upon to a greater extent; that is, attacks upon important targets such as Kiel, Lorient, and Brest were repeated two or three times.

During the last half of March, the average number of planes dispatched on the nine nights in which missions were flown was 89, while during the first two weeks of April, the average number of bombers for 11 nights was 118. Thus the average number of planes per night for the twenty nights was 105.

During the week March 15-22, three attacks were made upon the Lorient naval base, reportedly used by submarines and for assembly of submarines. Attacks were also made upon neighboring manufacturing plants which supply parts for the submarines. Severe damage to both objectives was reported.

Brest was attacked seven times during a period of twenty days, with two German 26,000-ton battleships Gneisenau and Scharnhorst, as targets. In these seven raids, a total of 560 planes were used, and on one day, March 30, the number of planes used was 108. Hits and near misses were claimed, but the actual extent of damage done has not been reported. The two ships are still there, according to British reports.

Oil storage tanks and refinery plants at Rotterdam were attacked by small formations of two or three bombers on each of eight nights during the month.

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Kiel was attacked four nights, with the naval base and canal as primary targets. On two successive nights, April 7 and 8, the Kiel area was attacked by 348 bombers which dropped 320 tons of high explosive and 50,000 incendiaries. Ninety-one of the high explosive bombs, or about one-fifth of the total high explosives, were large caliber bombs of 1,000 pounds or more. The British report that ten Manchester bombers were employed marked the first announcement of tactical use of this plane. These ten planes carried a total of forty 1,000-pound bombs, as well as many incendiaries.

Cologne, Emden, Bremerhaven, Bremen, Wilhelmshaven, and Dusseldorf were attacked during the period by formations of bombers numbering from 16 to 54 per night. Industrial areas of these cities were raided at least twice each.

On April 9, Berlin was attacked by 80 bombers, and considerable damage was reported by the British. The Germans admitted that a number of large buildings - principally museums, hotels and the like - were destroyed.

The Coastal Command laid mines on the French, Netherlands, Danish, and Norwegian Coasts and made nightly raids upon shipping and patrol boats in the Channel area and in the North Sea.

In the second week of April, British night fighters were able to down 21 German bombers in five nights. This was probably due to the fact that the moon was at its brightest during this period and also that the number of German bombers used was considerably increased. The British state that Douglas DB-7's were used as night fighters for the first time on April 10 and that they were very successful.

(3) Effect of British Bombing Raids

The Germans report that British air raids have been responsible for damage to industries, harbor works, and railways, and for considerable destruction of public buildings.

They state that objectives in Kiel have been hit harder than any other by the R.A.F. Although military damage in Kiel was small, as a result of the attack of April 7, public utilities were forced to suspend activities for a short time and damage was reported to industrial facilities, as well as to the Nympe, a cruiser which lay in the harbor. Forty-three buildings were destroyed and 180 were badly damaged; 84 persons were reported killed, and 1500 were rendered homeless. According to the Germans, a number of military buildings were hit in the attack of April 8. In addition, production was restricted in the Germania Shipyard, 80 dwellings were destroyed, 150 persons were killed, and 100 were wounded.

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After the raid of March 17 on Bremen, the Germans reported some damage to industrial plants and to railway trackage, with 25 persons killed and 33 wounded. They also reported damage in the Bulkan shipyard at Bremen as a result of a raid during the night of April 9.

Two raids on Emden brought the admission that 124 houses and buildings were destroyed, that 414 were damaged, and that three industrial plants were damaged. Other industrial damage in Germany was reported on March 27 at Dusseldorf and on March 18 at Wilhelmshaven, although the latter was slight.

Germany reported no industrial or military damage as a result of the raids of March 23 on Berlin and stated that such fires as were started were quickly put out. After the attack of April 9, however, they reported serious damage to ten public buildings, two churches, and 19 dwellings, with 11 persons killed and 74 wounded.

In occupied territory, the Germans admitted damage to airdrome facilities, factories, harbor installations at Lorient, and some railway properties, as well as destruction of part of an antiaircraft barracks and a military telephone exchange at Brest. The raid on Brest on April 4 brought some destruction of railroad property, but casualties were small, and the Germans state that the Scharnhorst and the Gneisenau were not hit. On April 14, damage to petroleum storage was reported.

At Bordeaux, the Merginac airdrome was attacked, and the Germans admitted destruction of a barracks with serious losses in personnel. Daylight attacks on April 7 resulted in damage to a steel factory in Holland, several other factories in occupied territory, and several airdromes.

The Germans stated that 55 high explosive bombs and 260 incendiaries were released over Berlin on March 12, and an eye witness adds that most of the bombing was executed from altitudes in excess of 20,000 feet. The results of the bombing, he says, appeared to be relatively insignificant for the metropolitan district as a whole. A 500-pound bomb landed within 50 yards of one of the buildings at Air District Headquarters in Berlin, but it caused no great amount of property damage. Several hits were scored in residential areas where 26 people were killed and 25 were injured. Damage to military objectives was said to be nil. There are reports of much activity in connection with construction of air raid shelters and instruction of the populace in recent methods of air raid protection.

After air raids on Hamburg during the night of March 12 and 13, an eyewitness reported that two large warehouses were burned out in the harbor district and that many residences and a large lumber

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yard were set on fire. A general look around Hamburg, he added, did not reveal many outward signs of damage. The Germans reported that 480 high explosive bombs and 1800 incendiaries were dropped during the two raids.

A reliable observer reports from knowledge gained in France that there has been heavy damage to oil refineries and storage tanks north of the Loire. In Northern France, those refineries which escaped destruction are unusable because of destruction of their storage tanks. Elements not destroyed in the course of actual military operations were sabotaged by the French Army. All storage tanks and refineries of the oil centers in the regions of St. Nazaire and Bordeaux fell intact into the hands of the Germans, together with great quantities of gasoline of all grades. The R.A.F. has frequently raided oil plants near Bordeaux, with considerable damage to the Texas Corporation plant and others. This observer reported that the important aviation gasoline depot at St. Herblain, near Nantes, has not been bombed although the British know of its existence. This may be due to the fact that it is a "dispersed" target.

In Occupied France, the observer stated, the German oil problem involves transportation and distribution rather than supply. Many canals in France are still unusable; war damage to railroad bridges was very considerable; repairs have been makeshift, and additional damage to railroad and canal networks has resulted from air raids. According to the observer, the transportation problem in France is such that the prolonged presence of the Gneissau and the Scharnhorst in Brest may be due to delays in refueling.

It has been recently reported that an attack on the Focke-Wulf factory in Bremen during January resulted in destruction of about 80 Focke-Wulf Condors.

2. MEDITERRANEAN THEATER

a. Germany

(1) Operations

The German Air Force operated over the Mediterranean and North Africa with a daily average of 54 planes for a period of 21 days. During ten days of this period, the Germans reported that 47 bombers and 30 fighters, on the average, were active daily in the area. Operations were mainly concentrated against Malta, ports and harbor facilities, and shipping.

Numerous attacks were carried out against military objectives, especially airdromes and harbor facilities, at Malta. In the action

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against Malta on March 22 the Germans employed 22 planes. They stated that seven British planes were shot down when eight Messerschmitts met 20 Hurricanes in fighting over the island and that there were no German losses. The British reported the loss of five of their planes and one German plane during this combat. The following day, after two raids on Malta, the British reported that ten German planes had been brought down by pursuit and that five had been shot down by antiaircraft fire. They admitted damage to shipping and bomb hits on one cruiser and one destroyer.

A few night attacks were made on Malta during the period under consideration. On the night of March 25 the British said that ten bombers and 20 pursuit planes made a successful bombing raid from a high altitude. On March 30 the Germans reported successful attacks had been made on airdromes at Malta without opposition by British pursuit planes, but the British reported two raids with little resulting damage. On April 3 the Germans reported that 654 Axis planes had dropped some 2,200 bombs on Malta since the end of January.

The German Air Force saw considerable action against convoys and British naval operations in Mediterranean waters. During the early evening of March 16, according to German statements, two reconnaissance planes attacked a group of warships off Crete, torpedoed two battleships, and scored one hit in each case. These battleships were thought to be the Warspite and the Berbera. One of the ships emitted a great amount of green and yellow smoke after being hit.

On March 19 British ships and destroyers west of Crete were bombed by German planes, but no results were given. On March 26, after a convoy southwest of Crete had been attacked by German planes, the British admitted the sinking of 3 small cargo boats. During operations over the Mediterranean on March 29, the German Air Force reported that the aircraft carrier Formidable had been hit by a 3000-pound bomb, and on April 13, off Tobruk, they reported bombing and sinking an auxiliary cruiser of 2,000 tons, as well as a hit on a 4,000-ton ship.

The Germans state that their air control of the Mediterranean has rendered passage of ships extremely insecure; that very few ships have moved through the Straits of Sicily since the middle of January; that any ships following this course have done so under cover of darkness, and that the British have been forced to abandon the sea route east of Crete.

The Germans report further that the activities of their air force in Africa rendered much simpler the operations of Axis troops in Libya, and that attacks in Cyrenaica - especially Benghazi, Derna, and Tobruk - rendered these ports almost useless to the British.

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They add that German troop columns advancing into Cyrenaica received extremely effective support from dive bomber formations.

In North Africa the German Air Force operated against Libyan ports and British troop movements inland and made attacks against harbor facilities at Bengasi and Tobruk. British troop movements were attacked in four raids near Aghella on March 22. Forty-one German dive bombers attacked a concentration of British tanks and armored cars to the east of Soluch, and the Germans claim that pursuit formations protecting these dive bombers shot down three Hurricanes during the ensuing fight. Excellent air force support of German mechanized ground forces was reported during drives against British troops in Cyrenaica as the former advanced on the Sollum area.

Various reports state that the Germans made extensive use of transport by airplane in Libyan operations. On April 11 German long-range aircraft were reported assisting in the supply of forward elements in the Mechili area of Libya. Two JU-52's operating as supply carriers were shot down near Mechili during these activities.

Several attacks were directed against British ground forces and objectives in Tobruk harbor. The British reported that during a drive of German mechanized forces on Tobruk on April 14, British fighters shot down nine German planes operating in support of the ground troops. One fighter squadron is being maintained within the confines of the Tobruk inner defenses.

(2) Effect of Axis Bombing Raids

Twelve attacks were made upon the Island of Malta during the period March 16-April 15, and there were reports of severe damage to harbor facilities, airfields, and civilian property. British bombers which had been stationed at Malta were forced to withdraw, because of German and Italian raids. Fighters were unable to disperse attacking planes before bombs were dropped and they could attack only after bombers had pulled out of their dives.

In Africa, the airfields at El Aghella, Agedabia, Bengasi, and Tobruk were bombed frequently by German planes before the British evacuated. After the British had been cut off in Tobruk, troops there were subjected to a number of bombings and machine-gunnings by German and Italian planes; British fighters attempted to protect these troops by using defensive patrols.

The Suez Canal was mined to the extent that it was held inoperative until March 19, when it was opened to traffic for four days. Its use is intermittent.

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The attack which the Germans made upon the harbor of Piraeus, Greece, on April 12 was probably the most strategically successful unaided Air Force operation of the war to date. Harbor facilities were so badly damaged that they could not be used, and since Piraeus was the only port available on the east coast of Greece for use by the British in landing troops and supplies, their operations in Greece were seriously handicapped.

Belgrade, Yugoslavia, was bombed on April 7, and German reports state that the central part of the town was nearly demolished. Skoplje was also bombed, with considerable damage to the city.

b. Great Britain

The British state that the R.A.F. was used more extensively for cooperation with the army in active sectors of Africa during this period than during any previous period. This was particularly true in Ethiopia and Eritrea, where the R.A.F.'s reconnaissance, artillery spotting, and photography were of extreme help to the advance of the ground troops. The R.A.F. also prepared for the advance of ground forces by bombing attacks on troop concentrations and supply depots.

Keren and Asmara, in Eritrea, were repeatedly bombed with railway facilities, airfields, supply dumps, and motor transport columns as targets. Diredawa, Gondar, and Addis Ababa, in Ethiopia, were bombed frequently, and attacks were made on airfields, railroads, supply columns, and troop concentrations. In Libya, most attacks were directed against harbor works, transports, and supply ships at Tripoli.

During the naval battle between the Italian and British Mediterranean fleets, the R.A.F. was credited with having conducted the reconnaissance which kept track of the Italian fleet. On March 28, the R.A.F. made the initial bombing attack, which caused extensive damage and threw the Italians into such confusion that the task of the British fleet, when it appeared on the scene after dark, was greatly facilitated.

Before the end of March, all bombers had been removed from Malta as a result of heavy attacks made by German and Italian planes upon the island. Many bombing planes had been destroyed on the ground. Fighter forces remaining on Malta were augmented for better protection of towns and harbors.

When the German advance into Libya began on March 24, the R.A.F. afforded British ground troops some cooperation in their retirement toward Egypt. Reconnaissance of and attacks upon advancing

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columns were made, and airfields at El Agheila and Bengasi, occupied by German units after the British withdrawal, were attacked. Fighter patrols provided protection from attacking German planes for British troops trapped at Tobruk.

The advance of British troops from Sollum to El Agheila was reckoned as unusually rapid, although it took 73 days. The R.A.F. was credited with making this rapid advance possible. The German columns, however, later gained this same area in 19 days despite the retarding effect of Italian demolitions against the British advance and the added destruction to communications occasioned by the British retreat. Obviously the German Air Force turned in a superior performance.

3. GREEK THEATREa. Germany

Extensive German Air Force activities in this theatre first took place on April 6, when the Germans reported attacking Belgrade with a group of 494 bombardment planes in three waves; they stated that the city was largely destroyed in this raid. Another group consisting of 60 Ju-87 dive bombers and 65 pursuit planes raided Yugoslavian airfields and Croatia, while a third group of several hundred bombers and 120 pursuit planes attacked objectives in Northern Serbia.

The British reported that 50% of the Yugoslavian Air Force had been destroyed within the first 48 hours of hostility, and by April 11, not more than 25% of this air force remained.

The following escaped to Cairo: 20 seaplanes, 8 fighters, 3 bombers, the Air Force Commander, and 125 pilots.

A fourth German group, operating with a very strong formation, attacked the Metaxas line and Yugoslavian positions in Southern Serbia.

A fifth group, consisting of 150 bombardment planes, operated against the coastal area of Yugoslavia from Italian bases. During the first phase of operations - April 6 to April 11 - the German Air Force provided close, intense, and efficient support for all movements of the German Army. This support was confined to efforts of a major strategic nature and to night operations with mines against harbors and channels. Bombing attacks were delivered from high altitudes in waves, and mine layers released their mines at about 200 feet altitude. At the start of these activities, large forces of Italians and Germans were concentrated near Brindisi and Bari on the Italian Adriatic Coast. These units included armored elements for landing.

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operations on the west coast of Greece and several squadrons of Italian and German combat planes.

The British estimate that on April 5, German Air strength in the Balkans for use against Greece and Yugoslavia was as follows:

Reconnaissance bombers.	50
Single-engine pursuit planes.	350
Twin-engine pursuit planes.	78
Dive bombers.	205
Other bombers	88

This total of 781 planes included the first combat reserve.

From other sources, it is stated that a total of 594 bombers were engaged in only three of these five missions on April 6. In the two smallest formations, 185 pursuit planes operated. Further, 250 Ju-52 transports arrived in Bulgaria on April 6.

On the first day of the German invasion of Greece, ports and airdromes were targets for strong attacks by Axis planes. The British admit that as a result of German raids on Piraeus during the night of April 6, one British ship was sunk, three others were damaged, and harbor facilities were so seriously damaged as to be useless for a period of several days. The next night Belgrade and a number of airfields were severely bombed. In the Rupal Pass, low-flying planes were employed against troops. During the daylight hours of April 7, six German planes were reported shot down in combat with the British north of Salonika.

The Germans reported that the Italian Air Force was engaged in successful operations in the vicinity of Zara, on the Dalmatian Coast, during the few days before April 9.

According to German reports, the major attack on the ports of Piraeus and Salamis was launched on April 9, and 40,000 tons of shipping, as well as oil tanks and docks, were hit.

During daylight hours on April 11, the Germans reported that 117 bombers, 31 pursuit planes, and 49 Stukas were active in this theatre, with most of the planes attacking Yugoslavian ground forces. During that night, Piraeus and Salamis were again attacked, this time with 46 bombers; one merchant ship was sunk, and petroleum tanks, an electric plant, a flour mill, and the docks were all damaged. Four German planes were said to have been shot down April 11.

Ground troops were attacked throughout the day of April 12 by 165 bombers, while the harbors were again attacked by 45 dive

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Bombers which sank one ship and damaged seven others. During the following days, the German Air Force supported ground units attacking the Yugoslavs, the Greeks, and the British on all fronts. On April 14, the airdrome at Bitolj was taken by German parachute troops.

The second phase of aerial operations in this theater began on April 14. Dive bombers concentrated on shipping, airdromes, and harbors, while other bombers, employed singly, operated from altitudes as low as 1,000 feet. Seldom opposed, they flew directly to their targets, regardless of antiaircraft fire. It is significant that no bombers were reported shot down on this date.

In some cases, as many as 40 unescorted Ju-88's participated in a single pattern attack on port facilities. Casualties to German aircraft during night operations, few in number, were caused mainly by medium-sized antiaircraft artillery.

Up to April 15, losses during day operations were caused mainly by pursuit. As a result of lack of sufficient Allied pursuit protection, the Germans were not intercepted until they appeared above the targets they planned to attack.

Because of the rapid advance of the German Army and the counter air operations conducted by the German Air Force, forward airdromes had to be hurriedly abandoned in favor of unsatisfactory intermediate positions.

b. Italy

Italian activities have taken place mostly in conjunction with those of the German Air Force. It was reported on March 20 that Italian air units which had been operating against Malta were replaced by German squadrons and that squadrons stationed in Sicily had been transferred to the Bari area on the Italian Adriatic Coast. Those Italian air units replaced by German forces in Libya were reported to have been sent to Albania. The Germans stated that between April 1 and April 10 the Italian Air Force sank five ships totaling 51,000 tons. Many Italian planes were reported destroyed on the ground by British attacks on various airdromes.

In the Greek theater alone, the Italians had lost 221 airplanes up to March 25, according to British official claims.

On April 7 the Italians had 13 planes destroyed on the ground in the Addis Ababa region. A few days later 31 more Italian planes were taken over by the British at the Addis Ababa airdrome.

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From March 16 to April 7, the activity of British planes based in Greece consisted mainly of routine attacks upon areas in which Italian troops were concentrated - that is, near the Albanian cities of Tepelini, Valona, Elbasan, and Berat. Shipping at Durrazo was attacked, as were airfields at Calato and Scarpento in the Dodecanese and at Brindisi in Italy.

On April 4 the British estimated that the strength of the German Air Force for use against the British and Greeks in the Balkans consisted of 781 planes, as broken down in Paragraph 3a. These figures include combat reserves.

At the beginning of the German thrust into Yugoslavia, the Greek Air Force consisted of two squadrons of Gladiators and five squadrons of Blenheims. Maintenance of these units was the responsibility of the British.

At the same time it was estimated that the R.A.F. in Greece had twelve squadrons of 16 aircraft each. These comprised a cooperation squadron of half Lysanders and half Hurricanes, three Wellington squadrons, five Blenheim-IV squadrons, and three Hurricane squadrons.

The first report of contact between German and British planes in the Greek theatre occurred on April 7, when 30 German planes were attacked north of Salonika. It was claimed that six German planes were destroyed in this sortie. Motor parks and a large German motor convoy were bombed in the vicinity of Strumitza. During the preceding night, railway communications and facilities at Sofia, as well as the railway bridge at Pitrich and German motor convoys in the same area, were attacked in a large scale raid.

For the remainder of this period, attacks made by the British consisted of bombing and machine-gunning of German motor transport columns and concentrations in the area of Ptolemais and Monastic, and in immediate support of ground troops.

During the period March 16-April 15, according to one report, two new types of tactics were used in this sector - one by the British, who ground-strafed an airdrome at Valona; the other by Italian pursuit, which attacked formations of British bombers on their return from night missions. One bomber was destroyed and the remaining five were damaged to some extent. Blenheim short-nose bombers were used in the ground strafing.

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4. GENERAL NOTE ON CASUALTIES

The following table gives the airplane losses, as reported and as confirmed, according to official communique:

<u>COUNTRY</u>	<u>WESTERN THEATER</u>		<u>MEDITERRANEAN THEATER</u>	
	<u>Reported</u>	<u>Confirmed</u>	<u>Reported</u>	<u>Confirmed</u>
Great Britain	153	79	205*	38
Italy			109	47
Germany	88	49	179	20

*This figure includes Greek and Yugoslavian losses as reported in German and Italian communique.

5. G-2 COMMENT

Some American observers believe that the British are losing a considerable tactical advantage by not flying in formation on night bombing missions. It is known that several missions have been failures because bombs were not concentrated on targets and also because there were many near misses of vessels.

Many lucrative hits could have been obtained by flight pattern bombing. Since the British bomb sight is not stabilized and since precision bombing is impossible, full avoiding action can be taken by formations of three or four bombers. The resultant spread of the pattern would materially increase the possibility of hits. The theory, allegedly proved by mathematics, that a given number of individually aimed bombs will produce more hits than could result from the same number of bombs in a pattern, has been discredited so far as the British are concerned.

Numerous reports from neutral sources stress the ineffectiveness of British bombing, and the British privately admit it. It is noteworthy that, although the tonnage of high explosive bombs aimed at the berth of two warships at Brest was double the tonnage at other targets during the same period, the warships remained afloat; definite confirmation of damage to them is lacking. Up to April 15, 508 bombers had attacked them at night, and it appears certain that destruction would have resulted had pattern bombing been employed.

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Individual bombing success is impaired by the inability of many pilots to locate their targets, and faulty navigation is largely responsible. It can be assumed that, since the crews of flight leaders' airplanes are more experienced than others, they will locate targets more frequently. It follows that formations can place more bombs in a target area than individual sorties.

A more serious result of faulty navigation is the loss of crews and planes on the way back to England and upon attempting to land. Navigation schools continue their output, but practical navigation has been termed "terrible." So much reliance has been placed on radio aid that when the radio fails, the crew is nearly always lost.

Thus the contributing factors to ineffective bombing may be listed, according to relative importance, as follows:

- a. Faulty navigation and inability to locate targets;
- b. Fear, for several reasons, of the return trip;
- c. Intense cold and discomfort of crew;
- d. Low performance of bombing planes;
- e. Poor use of a poor bomb sight;
- f. Decentralized command to individual crews;
- g. Antiaircraft fire.

With regard to the poor showing of German bomber formations, it should be noted that these factors obtained:

- a. Formations were too large and were inadequately escorted;
- b. Airplanes had no turrets and were lacking in defensive fire power;
- c. Teamwork was lacking;
- d. There was extremely poor air discipline, and this condition resulted in formation break-up and stragglers; these stragglers are always considered easy prey for fighters.

Of general interest is the fact that the British have been fairly successful in "bending" the radio beams utilized by the Germans under certain conditions. This has caused the bombs to drop in non-vital areas. By determining beam intersection, the British have also been able to discover the locale of the immediate targets. Thus defense forces can anticipate the scene of activity.

A necessary gadget for bombers is the electrical fuse setter. Inasmuch as the bomb load is inaccessible during flight, the device is remote-controlled. Two settings are provided - long delay and instantaneous. The purpose of the gadget is to permit safe and rapid jettisoning of the bomb load at extremely low altitudes.

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Sufficient time has now elapsed and sufficient experience has accumulated to permit reopening the old controversy regarding expediency of day bombardment. While most observers readily admit that day raids are not feasible at present, they are not united in their explanations. Some think that, regardless of performance, a bomber cannot succeed in a mission when opposed by fighters; others feel that such a decision is immature because the British have never had a high-performance bomber. Light may be thrown on this subject after the new types of four-engine craft have been engaged. But one point is evident - there must be adequate defensive fire power. There must be power turrets - a four-gun turret in the tail, another in the upper mid-section, a two-gun turret in the nose, and at least one two-gun turret in a dust bin underneath. There must also be mutually supporting fire. It is known that when German bombers retained a compact formation, British fighters looked elsewhere for action.

The advent of the B-17 type bomber may conceivably alter the entire strategy of bombing. These fast planes, adequately armored and armed, manned by experienced crews, and equipped with a precision bomb sight, might be able to fly in formation during daylight and to attack vital targets effectively.

The difficulty of intercepting a 300-mile-an-hour plane above 25,000 feet is too well known to require elaboration. Antiaircraft need not be considered at such altitudes. The most important modifier is weather; there are few days in England when the ceiling exceeds 7,000 feet, but ceilings improve further to the south and east. This condition could be fruitfully utilized by effecting rendezvous "on top" en route. Surprise could be gained at the target, and thus an accurate bombing approach of at least 45 seconds would be afforded. The operation of many planes at staggered altitudes is extremely confusing to antiaircraft defense, and precision bombing, at present, requires daylight.

It is believed, therefore, that daylight raids on German-held terrain will be attempted in the near future, and that large numbers of four-engine He-177 bombers will soon be employed against English objectives during daylight. These bombers will probably be heavily armed and armored. None has been brought down to date.

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Copy of Unneeded Sublogram
Received at the War Department
May 20, 1941.

London, filed May 20, 1941.

1. Following is the gist of the leading editorial in the London Times today: The Prime Minister has now defined the duties of Lord Beaverbrook. In addition to general Cabinet duties he will be Deputy Chairman of the Supply Section of the Defense Committee. He will also be referee on questions of priority in supply.

2. There should be one production program, not three production programs for Army, Navy and Air Force. The single program will be made up item by item of requirements for the three services, but will not then set out in one comprehensive scheme of production. There is the same need for a High Command of Production as for a High Command of War itself. This needs to possess quality of the sense of the practicable. Programs on paper which are not pinned down accurately to supplies of materials, machines and man hours of work and transport are no sure bases for calculation of war power. What has become an admitted necessity for transport by sea and land is equally a necessity for industry and the organization of production-- a single governmental authority capable of converting into industrial terms the demands of the War Cabinet for the armed forces and the essential requirements of civil population and of bringing the whole resources of industry into the war effort. From whatever point the argument begins, it swings around to the imperative need for production strategy with a unified central control.

3. **Comment:** This move is of great interest since it is first effective move after twenty months of war to really establish priorities and to unify production. Also because it explains to large degree the confusion in the demands made upon the U.S.A. which have only reflected the confusion here. It indicates clearly that it will pay the U.S.A. to take every precaution to avoid similar errors.

4. The Batt-Burrisson mission requests a copy of this to be furnished Mr. William L. Batt, Sr., Office of Production Management.

END

Distribution:

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

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G-2/2657-220; No. 396 M.I.D., W.D. 12100 N., May 20, 1941.

SITUATION REPORTI. Western Theater.

Air: No British and only minor German offensive operations. Weather assumed to have been unfavorable.

II. Grecian Theater

German troops occupied the Aegean island of Antikytera, 35 miles northwest of Crete on May 12th.

A German air borne attack on Crete began at dawn May 20th, supported by combat aviation. The British government reports that parachute and airlanding troops participated in this attack, and that the enemy is holding positions on the Canea-Melami road, in the extreme western part of the island. British counterattacks are said in London to be making progress against the invaders.

III. Mediterranean and African Theaters

Ground: North Africa. There is no change in the situation at Tobruk. In the Sollum area patrols are active.

East Africa. Torrential rains have slowed down operations in the Gondar and Jimma regions where Italian resistance continues.

Air: Axis. The Italians bombed Mersa Matruh.

British. The R. A. F. raided Benghazi.

IV. Middle Eastern Theater.

Iraq: The British garrison at Habbaniyah is moving on Baghdad with relatively strong aerial support. There has been skirmishing south of Basra.

Syria: British and Free French planes are continuing the bombardment of Syrian airdromes.

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**Paragraph of Code Indigra
Received at the War Department
at 11:15, May 20, 1941.**

Same, filed May 20, 1941.

Many Germans in the guise of tourists are en route to Tunis and French Morocco, also to Iraq by way of Turkey, according to a Vatican source believed reliable. It is reported that in Libya German soldiers are sick with bacillary dysentery. Due to pressure of the Fascist government a thorough search of Vatican City residents who are suspected of espionage is being conducted by the police of the Vatican.

FINIS

Distribution:

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

CONFIDENTIAL

CONFIDENTIAL

217

Paraphrase of Code Intelligence
Received at the War Department
at 10:00, May 20, 1941.

Sofia, filed May 20, 1941.

Troops and material are being moved northward by the Germans, using both road and rail. A German pilot tells me that the Germans are flying many planes from Rumnia to Sofia and thence to Athens. Air units and motor transportation are moving to the south, passing through Sofia en route.

JAWIN

Distribution:

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

CONFIDENTIAL

Paraphrase of Code Cables
 Received at the War Department
 at 17:11, May 21, 1941.

SECRET

By authority A. C. of S. G-2
 Date MAY 22 1941 (HNMZ)
 Initials

Cairo, Filed 23:16, May 20, 1941.

1. The following is a summary of information regarding the situation in Crete.

2. British Military Intelligence anticipates an attempt at landing from ships on the night of May 20 and the early morning of May 21. The fleet has been moved up to the vicinity of Crete to prevent this. All planes which can be made available in the Sella-Alexandria area have been based in the vicinity of Mersa Matruh with the intention of intercepting air transport at Crete and to attack the base air fields in Greece.

3. All British planes were withdrawn from Crete in the evening of May 19. Parachute and air-borne troops landed throughout May 20 in the area Ganea-Malasa-Soda Bay. It is estimated that 3000-3500 landed. Military authorities expect 7,000 more will be transported by air.

4. The communications between Crete and Mersa Matruh are so unreliable that proper timing for the interception of transports by fighter squadrons will be impossible. Nocturnal and efficient searchlight protection in Greece make successful attack on air bases problematical.

5. The hospital and beach in the vicinity of Ganea have been taken by the Germans. They have also taken and are using the Heraklion airfield. General Freyberg stated that at 3:30 p.m. the military situation was under control. However, later in the afternoon of the 20th one hundred

SECRET

SECRET

219

sixty 4-engine transports flew over Gato and dropped troops
and mail over.

72128

Distributions:

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

SECRET

+

May 21, 1941

MEMORANDUM FOR THE SECRETARY'S DIARY

On Tuesday, May 20, 1941, at 10:00 p.m., at the Secretary's house, Secretary Morgenthau and Mr. Foley discussed the sale of the Viscose Company.

The Secretary said he had read Mr. Cochran's memo and was disturbed by it. Foley told the Secretary that two courses suggested themselves: (1) Go ahead with the sale of the stock as planned, and (2) let Jesse Jones agree with the underwriters to take off their hands the stock that was not taken by the public (the price of the stock having been fixed to net \$65 millions, the bottom figure named by Phillips).

Mr. Morgenthau said that he didn't want to be in the position of having refused to allow Phillips to see Jones but, on the other hand, he was very anxious from his own standpoint, as well as from the standpoint of the British, to see the sale go through as arranged. Secretary Morgenthau then telephoned Harold Stanley in New York and told him that he would be tied up until Wednesday with his own financing and asked him whether Phillips would lose anything if Phillips didn't

- 2 -

see Jones until Stanley and Morgenthau could talk the whole deal over on Thursday. Stanley said that he appreciated Secretary Morgenthau's position and thought Phillips would lose nothing by waiting. Stanley authorized Morgenthau to tell this to Phillips. It was then arranged that Stanley would meet with Morgenthau, Phillips, Peacock, Cochran, and Foley Thursday at 9:15 a.m.

Secretary Morgenthau then telephoned Cochran and Phillips and asked them to come to his house, where he told them of his conversation with Stanley. When Morgenthau told Phillips that Stanley was of the opinion that Phillips would lose nothing by waiting until after the conference with Morgenthau on Thursday morning to see Jesse Jones, Phillips agreed to wait.

Phillips then showed Morgenthau correspondence which Peacock had picked up between Jones and Max Gardner which Phillips said to him indicated that Jones had offered to loan \$65 millions against the Viscose stock. The Secretary asked Phillips if he had seen the May 8 letter in which Jones told Gardner that nothing would be done without Morgenthau's approval. Phillips said he had not seen that letter.

- 3 -

Morgenthau pointed out that the May 8 letter which Jones had shown him during the afternoon was after the correspondence which Phillips had just handed to Mr. Morgenthau. Mr. Morgenthau suggested to Phillips that he ask for the later correspondence which Phillips agreed to do. Phillips also promised to furnish Morgenthau with copies of the Jones letters.

Phillips explained that he was afraid that the price to be fixed for the stock would net him less than \$65 millions and he would not be in a position to do anything about it. Morgenthau then told Foley to call Stanley in the morning and put Stanley on notice that Morgenthau might ask Stanley to defer the offering until after Memorial Day. Phillips expressed entire approval of this action and said that he would be able to sleep comfortably.

Secretary Morgenthau then told Phillips that he was very much disturbed by Keynes presence in this country; that he had called Halifax and asked him who was the No. 1 boy for the British Treasury in this country; that Halifax had replied that Phillips was the chief representative of the British Treasury in the United States; that he didn't like to

- 4 -

deal with a number of people; that he had been informed that Keynes had come to this country to upset the Viscose public offering; and that the relationship between the British and the U. S. Treasury might be disrupted by the presence of too many people in this country. Phillips assured Morgenthau that Keynes had nothing to do with the sale of the British assets but was here solely to develop the Lease-Lend plan which Keynes had put before Morgenthau. Morgenthau told Phillips that his name was not on the Keynes plan. Phillips said that Morgenthau should consider his name as being on the plan and would be glad to put it there if Morgenthau would return the plan to him.

The meeting broke up at 11:25 p.m.

8.11 76

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Phillips then showed Mergenthan correspondence which Peacock had picked up between Jones and Max Gardner which Phillips said to him indicated that Jones had offered to loan \$85 millions against the Viscose stock. The Secretary asked Phillips if he had seen the May 8 letter in which Jones told Gardner that nothing would be done without Mergenthan's approval. Phillips said he had not seen that letter.

- 3 -

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- 4 -

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The meeting broke up at 11:25 p.m.

(Initialed) E. H. F., Jr.

KHF:mp 5/21/41

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 21, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 10:30 last night the Secretary asked me to come to his home. Upon my arrival there I found that Sir Frederick Phillips and Mr. Foley had already arrived. The Secretary brought up with Phillips the question of Viscose, concerning which Phillips had talked with Foley and me before dinner, as reported to the Secretary in the memorandum of May 20 which I had sent to the Secretary's residence at 7 p.m.

The Secretary told Sir Frederick that he had talked by telephone with Harold Stanley in New York shortly before Phillips' arrival. Stanley saw no reason why any interest should suffer if the matter of Phillips approaching Mr. Jones should be delayed until after Stanley and a representative from Dillon and Read meet with the Secretary at the appointed hour of 10 a.m. Thursday. It was agreed, therefore, that Phillips and Gifford or Peacock, whichever may come from New York today to join Phillips, should not get in touch with Jones today. The arrangement is for Phillips to come to our Treasury at 9:15 on Thursday morning, bringing with him anyone he may wish, for consultation with Mr. Foley and myself. At 10 o'clock the Secretary will then receive us, together with the two bankers from New York.

During the conversation leading up to the above conclusion, Phillips repeated what he had told Mr. Foley and myself in the late afternoon, principally concerning his unhappiness over a sale being consummated which might yield the British Treasury less foreign exchange than a loan arrangement. The proposition of Salvage was not entirely clear or understandable to him, and he felt that he should make a direct approach to Mr. Jones to see if some better arrangement might worked out than the Salvage plan, if the bankers are not able to carry through their deal to yield a net amount equivalent to that which might obtained through a loan transaction. Phillips made the additional point that the British Treasury permits arbitration in England to determine the proper amount of sterling which should be paid to British holders of direct investments in this country which are liquidated under the present setup. To the extent that this deal may deteriorate, insofar as the New York price is concerned, the British Treasury will receive that much less in dollar exchange and will conversely be obliged to pay that much more in sterling equivalent to the British owners.

The Secretary reaffirmed the extreme importance to our Treasury of having this transaction go through as a sale. He asked Mr. Foley to telephone Harold Stanley this morning to the effect that he would expect to see him on Thursday at 10 a.m. and would at that time request that the whole transaction be postponed indefinitely.

- 2 -

If it does not appear at that time that the market can satisfactorily absorb the prospective issue. Phillips agreed that it was not imperative that the transaction be completed at once, and offered no objection to the postponement idea.

Speaking very frankly with Phillips, the Secretary told him that he felt that one prime purpose of Keynes' visit to the United States was to kill the Viscosa sale. Phillips had no information to this effect and doubted it. The Secretary said that he had received no word from the Chancellor of the Exchequer or from the British Embassy in regard to Keynes' visit. His only word had come from our Ambassador in London. He told Phillips, therefore, that he had become quite confused and did not know who was the representative of the British Treasury in the United States with whom he should deal. Phillips replied that he himself was such representative. The Secretary told Phillips that he had earlier asked this same question of Lord Halifax and the Ambassador had said that Phillips was the Treasury representative here. The Secretary let Phillips know plainly how confusing and embarrassing it is to have this second approach through Keynes. Furthermore, the Secretary was not at all pleased with the Keynes memorandum. He noted that the transmitting letter was signed only by Keynes. Phillips stated that the text of the memorandum had been cabled to London at the same time that it had been submitted to our Treasury, and he thought that it could be accepted definitely as a British Treasury proposition. When the Secretary made the point that Phillips' signature did not appear thereon, the latter indicated his willingness to sign it if the Secretary desired. The Secretary asked me this morning to obtain Phillips' signature and gave me the original document for this purpose. The Secretary spoke in very nice terms of the relations which had existed between Phillips and himself in the several years that they have worked together in full cooperation and mutual understanding. The Secretary wants such relationship and contact to continue. If the British Government or Keynes thought that greater advantages for Great Britain could be obtained through Keynes following any other approach than Phillips or going to anyone else Keynes was welcome to go wherever he pleased.

The Secretary reminded Phillips of the difficulty of obtaining the Lend-Lease legislation, and felt that the Treasury here had been as helpful as possible toward this end. Phillips was most appreciative of the Secretary's efforts and was sure that his own people appreciated them. In this connection, the Secretary stated that Under Secretary Forrestal of the Navy had just returned from London and had told him at lunch yesterday that there had been no criticism in British Government circles of the attitude which Secretary Morgenthau had taken toward the British, and particularly on the question of liquidating securities and other investments in this country. There might have been some unhappiness in Bank of England circles, but none on the part of those officials responsible for the conduct of British policy.

Upon leaving the Secretary's residence at 11:20, Mr. Foley and I took Sir Frederick Phillips, at his request, to the British Embassy, where he sought entry into the locked doors of the Ambassador's private residence, presumably to report on the meeting.



C O P YBRITISH EMBASSY,
WASHINGTON, D.C.

21st May, 1941.

Dear Mr. Secretary,

I have looked further into the matter on which you called me on the telephone last night, and write to confirm, as I then said, that Phillips is the official representative of the Treasury. But I must not leave room for any misunderstanding about Keynes's position.

Keynes has come officially to discuss the particular problem he has explained to you, and is instructed by the Chancellor of the Exchequer to deal in that particular matter as the Chancellor's personal representative with full authority. But as he is naturally working in close cooperation and agreement with Phillips I do not think any difficulty should arise.

Believe me,

dear Mr. Secretary,

Yours sincerely,

Halifax /s/

The honourable Henry Morgenthau, Junior,
Secretary of the Treasury.

May 21, 1941
8:59 a.m.

HMJr: Hello.

Operator: Secretary Jones

HMJr: Hello.

Jesse Jones: Hello, Henry.

HMJr: Jesse?

J: Yeah.

HMJr: Good morning.

J: Good morning.

HMJr: Are you at your home?

J: Yes sir.

HMJr: Last night I had a visit from Phillips at eleven o'clock at my house.

J: Yeah.

HMJr: And he's all upset over this Viscoose deal, and he showed me two letters, one from Max Gardner to you and one from you to Gardner, which was either May 5 or 6

J: Except which?

HMJr: Which was somewhere around May 5, 6, or 7, I don't know - somewhere in there.

J: That's right.

HMJr: Which they consider a commitment. Now I wonder if couldn't know at least as much as the English do and whether you would mind sending me the copies of the correspondence between yourself and Gardner, so I'll know just where we stand.

- 2 -

J: I'll be very glad - I showed you the letter last night.

HMJr: Yeah. Well, they had two other letters which preceded that.

J: Two letters from me?

HMJr: One from Gardner to you and one from you to Gardner.

J: Yeah.

HMJr: My memory - so much happened - I think the one you showed me was May 8.

J: May 7.

HMJr: Well, the ones that they had were two other ones which I think came before that and - I'd just like to know what all the - I'd like to see all cards.

J: I'll be very glad to show them to you, sir.

HMJr: Could you get it over to me this morning, Jesse?

J: Yeah.

HMJr: And this is what I'm doing, I told Phillips to keep his shirt on and then I talked last night to Stanley - Harold Stanley and he said he'd be down here tomorrow morning.

J: Yeah.

HMJr: And until I see what the price is that they are going to get, so I'm to hold everything.

J: Henry, I think it's robbery.

- 3 -

HMJr: Yeah, well I don't.....

J: It's robbery and I don't think it ought to be permitted.

HMJr: I don't know what you offered them, you see, I mean they considered an offer.

J: I offered them nothing.

HMJr: Well, I'm just giving you what....

J: I'll be very glad to do this. I had a call last night and again this morning and I told him I understood that the thing was over and that they were going to go ahead and offer this stuff Tuesday.

HMJr: Well

J: But I have thought from the Beginning and I haven't changed my opinion that instead of helping the British they are hurting us.

HMJr: Who?

J: The bankers.

HMJr: Well, that may be so but....

J: And every dollar that they fail to get what this is worth is a dollar out of our Treasury.

HMJr: Well, no disagreement on that.

J: Yeah.

- 4 -

HMJr: And I say, once I have that
and when I see them tomorrow
I am going to get in touch with
you, see?

J: Okay. I'll get this to you as
soon as I get down .

HMJr: Pardon.

J: I'll get this to you as soon
as I get down.

HMJr: And I also sent word to them
not to make - that the bank is
not to make any commitment
today so that when they come
down tomorrow, they say it's
too late.

J: Okay.

HMJr: So the situation is so that
nothing can happen between now
and tomorrow morning.

J: All right, I'll do that.

HMJr: See? Thank you.

FEDERAL LOAN AGENCY
WASHINGTON

JOSE H. JONES
Acting Administrator

May 21, 1941

Dear Henry:

As per our telephone conversation this morning and at your request, I enclose copy of a letter to me from G. Mac Gardner, on behalf of the Viscose people, and copy of my reply. After sending the first reply, which I am perfectly willing to stand upon, I remembered some conversations which you and I had had regarding British securities, and recalled the letter, substituting the one in which I stated to Mr. Gardner that if he wished to pursue the subject I would want to discuss it with you. This I would have done in any event.

The RFC could very well afford to make a loan to the Viscose Company of \$20,000,000, which I believe could be paid back from earnings in ten or fifteen years, even allowing for increased taxes. With the proceeds of that loan and the other \$25,000,000 suggested by Mr. Gardner in his letter, the British Treasury would receive more money to pay for its purchases in this country by several million dollars than it will receive through the sale of the company to and through the underwriting bankers, according to their contemplated offering price, and British subjects would still own approximately half of the equity in the company, the other half and the management resting with United States citizens.

Aside from this fact, the bankers should not take approximately 8%, or \$5,000,000, for their services from a people whose backs are to the wall fighting for their existence; and who we are trying to help.

Sincerely yours,

Joseph P. Kamp
Administrator

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

C O P Y

FEDERAL LOAN AGENCY

Washington

May 7, 1941

Dear Governor Gardner:

Your letter of May 5th received.

I am informed that the banking syndicate headed by Morgan Stanley and Company and Dillon, Read and Company is preparing to offer shares of stock in a reorganized American Viscose Corporation at an early date.

Replying to your letter, you are advised that there is no reason why the RFC should not make a loan to the company under substantially the plan you outline.

If you wish to pursue it, I would want to discuss it with the Secretary of the Treasury.

Sincerely yours,

(Signed) Jesse H. Jones

Administrator

Honorable O. Max Gardner
Gardner, Morrison, Rogers & McGuire
Woodward Building
Washington, D. C.

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Honorable O. Max Gardner
Gardner, Morrison, Rogers & McGuire
Woodward Building
Washington, D. C.

Law Offices

GARDNER, MORRISON, ROGERS & McGUIRE

Washington, D. C.

Suite 1126 Woodward Building

May 5, 1941

Hon. Jesse Jones
Washington, D. C.

Dear Mr. Jones:

Pursuant to the conversations I have had with you with reference to the American Viscose Corporation and Mr. Samuel A. Salvage, I am writing in their interest and at their request to ask you to consider favorably the following:

Assuming that the plan under which a majority of the shares of this corporation, which have at least tentatively been sold to a group of investment bankers, to be in turn offered to the American public, may possibly be recalled; and

Assuming that the stockholdings in the American Viscose Corporation were to be so readjusted that a majority of the common stock should become American-owned; and

Assuming that the corporation should put up \$20,000,000 out of its substantial cash and security assets; and

Assuming that substantially \$5,000,000 of New American money should be put into the corporation;

Then, would the Reconstruction Finance Corporation, or the proper subsidiary, be willing to make a loan of \$40,000,000 or thereabouts, along the general lines of the loan made to the Brown & Williamson Tobacco Company, to the end that this loan, plus the other above mentioned funds, might be used to duplicate or perhaps increase the sum to be realized by the British treasury under the plan proposed by the banking syndicate.

The purpose of this inquiry and the motive behind it is, as I have stated to you, to leave to the British some life-line after the present world crisis is past in their corporate and property holdings in America, and to realize for the British treasury the dollars now needed and realizable from this corporation, and to make this corporation American-owned, at least in a majority.

Mr. Jones

- 2 -

5/5/41

As I have personally stated, I believe that there are strong public policy reasons for the favorable consideration of this plan, or some other substantially similar to it.

With highest esteem, believe me

Sincerely yours,

O. Max Gardner (signed)

O. Max Gardner

OMG:Y

May 21, 1941.

Memorandum For the Secretary's Diary

On Wednesday, May 21, at 9:50 A.M., Foley told Mr. Stanley that after the Secretary had spoken to Mr. Stanley last evening the Secretary had asked Sir Frederick Phillips to come out to his house. As a result of that meeting the Secretary asked Foley to tell Mr. Stanley two things - first, when he had made the appointment for 9:15 tomorrow morning he had forgotten that Harold Smith was coming in at 9. He would appreciate it if Sir Frederick Phillips and Cochran and Stanley met in Foley's office until he was through with Smith and then he would ask them to come into his office. Mr. Stanley inquired if Sir Edward Peacock would be there too, and Foley said that Mr. Stanley could have anyone there he wished. Foley assumed that if Peacock was in town Sir Frederick would bring him; and second, if, after the situation was thoroughly examined tomorrow morning with everyone and Mr. Morgenthau was not satisfied with the price, would there be any inability or hardship if the offering was deferred for a few days or if it went over into the week after Memorial Day?

Stanley said that if they were not going ahead with it on schedule it would be necessary to postpone it indefinitely - he and his people were in the middle of the momentum and it was a touch and go proposition whether it would go over at all, and if there was some obvious hitch now it goes cold and freezes to death, and it is very difficult to ever pick it up again. Then next week is a short week - a holiday comes in it, and it will be hard enough to move it when you have a start on a Monday. Then too the President is going to make a speech on the 27th and no one knows what that is going to do to the market. Stanley thought it was pretty important for it to go ahead on schedule. Stanley said that Peacock understands that fully. Stanley told Foley that he didn't know what Phillips' rank was, but the Viscose matter is really entirely in Peacock's hands. Stanley said he knew of no trouble between those two, but since the matter is resting entirely with Peacock he wanted to be certain that he was in on the conference. Stanley went on to say that it was the market conditions which made him apprehensive about any delay after they started the matter rolling.

- 2 -

Foley asked if it could be put off until after Memorial Day? Stanley said that if there was any delay it would have to go over until after Memorial Day - it is really a matter of what the market will be, because if there is any jam or mess it is just hard as the devil to put the thing back on a momentum. Foley said he could appreciate the difficulties in this. Stanley said that they were talking to 150 people around the country today and giving them the facts as they now are; if Stanley calls them tomorrow and changes the basis, then it puts a hitch to the thing and it may not be picked up by anyone.

Foley said he did not have in mind that anybody was going to ask Stanley to postpone the sale, but the Secretary wanted to know if it could be done if necessary. That was the reason why Foley was putting the question up to Mr. Stanley. In other words, Foley wanted to be sure that nothing would be done between now and tomorrow which would make it impossible for Stanley to defer the sale. Stanley said that they would be in a terrible mess, but nothing will be done that will prevent the Secretary asking for a deferment after the meeting if that is what he decides.

Stanley said that he had been thinking over what he had said last night about Phillips not losing anything by not talking to Jesse today, and he thinks that puts him in a position in which he doesn't want to be. The Secretary will not know until tomorrow what is being done, and Stanley thought it would do no harm if Phillips and his people talked to Jesse and broke the ground. It is really a matter of what the Secretary wants - a public or a private arrangement on the company. Foley said that there was no question what the Secretary wanted. Stanley said he was afraid if something happened to defer the plans, he will be in a position where they can say he had blocked their doing anything else. Stanley said he was now of the opinion that he would have no objection to their talking to Jones today. Fact is, Stanley thought he had better let them do it so they can say they had explored all possibilities. Foley said he appreciated Stanley's position. On the other hand, the Secretary is tied up today until 3 p.m. and will not be available for anything but his own financing and Foley felt that there wasn't very much he could do until then because the Secretary had asked that nothing be done until after the conference tomorrow.

- 3 -

Foley said that Phillips had seemed to be satisfied with the statement that if the fixed price was not satisfactory all the way around, then it would be deferred until they had a chance to look around.

S. 1-76

C
O
P
Y

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

Box 650
Benjamin Franklin Station
Washington, D. C.

May 21, 1941

Dear Cochran,

I am asked to confirm the view which seems to prevail in London that even if the assets belonging to the Belgian and Dutch National Banks here were unfrozen there would be competing claims between the Director of the Belgian National Bank in London and the Dutch Government on the one hand, and the Belgian and Dutch National Banks situated in occupied territory on the other hand, so that it would be a matter of great difficulty for the Belgian and Dutch Governments to obtain these funds.

Would you agree with this view?

Yours sincerely,

(Signed) F. Phillips

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

COPY - 5/23/41 - dm

May 21, 1943

Mr. Felle

Mr. Cochran

When Mr. Stepford was in my office yesterday chatting upon several matters I got the impression that he would be most appreciative if you might see fit to pass on to him anything of interest which you receive from your investigational people in New York on cases which have been brought to our attention by Stepford. Stepford did not want to approach us directly with any definite request. May I suggest, however, such extended cooperation in the premises as you may find feasible.



(Init.) E. H. C.

HMC:dm 5/21/43
HMC:lsp 5/22/43

May 21, 1941
10:17 a.m.

HMJr: Hello.

Operator: Mr. Traphagen.

HMJr: Hello.

John Traphagen: Hello, Mr. Secretary.

HMJr: How are you?

T: I'm fine. I hope you are well.

HMJr: I'm all right.

T: I'm sorry I wasn't able to get down there. I hope you understand it.

HMJr: Perfectly. Well, this time instead of trying to do something for the Republic of Columbia, I'm trying to do something for the Republic of the United States.

T: Well, I think it's going to be easier.

HMJr: I hope so.

T: (Laughs) I think so.

HMJr: As one of the large holders of this issue, what do you think would look attractive to convert it to?

T: Well, I think I understand you have had in mind some two and a half and fifty-six to fifty-seven.

HMJr: Yeah, something along that...

T: I think they'd go very well.

- 2 -

HMJr: You do?

T: Yes. I think they'd be attractive.

HMJr: Fifty-six, fifty-seven or fifty-six, fifty-eight.

T: Yes, I think either one would go all right. I think the fifty-six, fifty-eight might go a little better than the fifty-seven, fifty-nine, but I think either of them would go.

HMJr: Either fifty-seven or fifty-nine.

T: I think so.

HMJr: Yeah.

T: I think either one.

HMJr: I see.

T: You don't want to take the - I think if you don't want to go into a very long bond

HMJr: Longer than the two and a half?

T: Well, I was thinking of something very long.

HMJr: Not at this time.

T: No.

HMJr: Not at this time.

T: Well, I think those two and a half would go very well, Mr. Secretary.

- 3 -

HMJr: Do you think both the conversion and the cash all in one issue?

T: Yes, I think you could. I understood from Mr. Bell yesterday that you were going to ask for from five to six hundred million.

HMJr: Yeah, that's right.

T: I think that if you didn't go above six hundred million, they'd go all right.

HMJr: The banks wouldn't feel that we were forcing them into something?

T: No, I don't think so. You'd probably offer something very short wouldn't you, as a hedge?

HMJr: Well, I didn't know whether some people say it isn't necessary, what do you think?

T: Well, I would think - I don't think many of them will go, but I think if I were doing it I'd would have a short hedge there.

HMJr: What kind of a hedge?

T: Well, I have in mind something like you did before.

HMJr: The same one?

T: Yes, I think that - those were forty-threes wasn't they?

HMJr: Wait a minute and let me ask.

T: Those were the three quarters of March forty-three.

HMJr: Yeah.

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T: Well, I think I'd offer those I don't think you have many kickers but if something happened over night, I think that it might be well to have those out.

HMJr: Don't you think it will be kind of silly, I mean they'd think we were silly?

T: No, I don't think so.

HMJr: What about a one percent, as a hedge?

T: Well, I think - I don't think there's any question about the three quarters going if things look bad. You thinking about some ones of a longer date?

HMJr: Oh well, whatever the right date would be.

T: Well, I think you could sell the three quarters.

HMJr: You do?

T: Yes. I think those would always go. I think the banks would take those under any conditions.

HMJr: I see. Well, now when you say the hedge, you thinking for the conversion only or the conversion and the cash?

T: Well, I was thinking of both.

HMJr: You were?

T: I think it would go in both instances.

HMJr: I see.

- 5 -

T: I think the banks would pile into those very short notes in the event of anything happening abroad that was upsetting.

HMJr: Uh huh. Well.....

T: I think the market is in awfully good shape.

HMJr: I agree.

T: Awfully good shape.

HMJr: Are you people going to be in the market for - take some of the cash offering.

T: Yes,

HMJr: You are?

T: We are going to take - we'll put in our limit.

HMJr: You will?

T: As it looks right now.

HMJr: Good. Well, thank you so.....

T: We'll go up to the limit.

HMJr: Thank you so much.

T: I was up in your country on Sunday.

HMJr: Were you riding?

T: Well, I went up to the horse show.

HMJr: Oh yes.

T: And I stopped over at that little inn - that Fox - what do they call it, the Foxly Inn?

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HMJr: Just where?

T: Well, it's over at Hopewell.
It's a lovely place.

HMJr: I don't even know about it.

T: Well, you'll have to hunt
it up, it's a lovely spot.

HMJr: Near Hopewell?

T: Yes, I think it's at Hopewell
Junction. It's called the
Foxly Inn.

HMJr: Must be new.

T: It's a lovely spot.

HMJr: Isn't that interesting.

T: We spent the night there and
found it delightful.

HMJr: For heaven's sakes.

T: Well, I hope to see you soon.

HMJr: I hope so.

T: Thank you very much.

HMJr: Goodbye.

T: Goodbye.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

Miss Channing
TO Secretary Morgenthau
FROM Mr. Cochran

DATE May 21, 1941

At 10:20 this morning the Secretary asked me to find out whether Mr. Gifford would be in town today. I telephoned the British Treasury people at once. Mr. Playfair informed me that Sir Edward Peacock would arrive in Washington at one o'clock this afternoon and would stay overnight. Gifford is remaining in New York to attend to that end of their business.

J.M.P.

May 21, 1941
11:35 a.m.

RE FINANCING

Present: Mr. Bell
Mr. Haas
Mr. Hadley
Mr. Lindow
Mrs. Klotz

Bell: That telegram, I think, is from Chicago and they sent that to New York yesterday.

H.M.Jr: Have you all seen this?

Haas: No, sir.

Bell: No one has seen it yet.

H.M.Jr: Have you got that last stuff that you had yesterday, Hadley?

Hadley: Yes, sir.

H.M.Jr: Where is Fleming?

Bell: Cleveland.

H.M.Jr: Does this mean just for the exchange or also for the cash, the three quarters?

Bell: Well he (Leach) means that the refunding would only go into the notes, but a two and a half percent bond for both cash and refunding and then the anchor of the three quarter note.

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He says banks and insurance companies contacted in the fifth district suggested for the cash offering two and a half percent bonds. They also wanted an option between the same two and a half and an additional issue for the March three quarter percent notes for refunding. He was at our conference yesterday, too, so he had the advantage of hearing the discussion.

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

May 21, 1941
11:44 a.m.

HMJr: Hello.

Operator: Allan Sproul.

HMJr: Hello.

Allan Sproul: Hello, Mr. Secretary.

HMJr: How are you?

S: Fine.

HMJr: Well, I hope you see everything clearly; I don't.

S: (Laughs) Well, we have canvassed the market; the dealers seem to see it clearly.

HMJr: They do?

S: The large majority of them say one issue, anything up to one and a half billion and '56-8 or '57-'59.

HMJr: '56-'58 or what?

S: Or '57-'59.

HMJr: Yeah.

S: One dealer, however, Mr. Rich said if the cash is over five hundred million that he would be in favor of a 2½ or '57-'59 and a note - four or five-year notes.

HMJr: Yes, I see.

S: My own view is that listening to them and thinking about it over night, that the amount you are going for, about a billion and a half or a little less, the one

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issue at 2½ at '56-'8 would be the best package and just as a gesture opening up the two year note.

HMJr: Two year note?

S: Yeah.

HMJr: Oh, you mean the 3/4?

S: Yeah.

HMJr: For both conversion and cash?

S: Yes, and I don't think you'd get much on either one unless there's something very terrible happens.

HMJr: Yeah. Well, now - but here's the thing - now the people that we saw like Burgess and the various bankers, they all were talking '54-'56.

S: Uh huh.

HMJr: They seemed to think that '56-'58 was too long. None of them seemed to care much about a five year note or 1½ note.

S: No.

HMJr: They seemed - they weren't quite consistent, they were all talking about the 2½, but now this Baltimore man, the first man from Baltimore said we've got thirty million and we think that's enough and we wouldn't buy any more of the long bonds, we'd save our money and buy something else shorter.

S: Uh hun.

HMJr; You see.

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- S: Yeah.
- H.M.Jr: The banks all seem to be afraid of anything beyond '54-'56, but insurance companies are not.
- S: No.
- HMJr: They are perfectly happy. Now you take the Travelers' - well, we'll take anything, we need it; Equitable take anything. The insurance - the Mutual Savings Banks though also talked '54-'56.
- S: Well, I don't think they'd stick it.
- HMJr: Pardon?
- S: I don't think they would stick at '54-'56 though. I think they'd be looking more at the coupon than at the maturity.
- HMJr: Now, can you just wait one second, I just want to look at this sheet here a minute. Just a minute. Now, you are talking '56-'58, aren't you?
- S: Yeah.
- HMJr: '56-'58, let me just see a minute. I'm going to take a few minutes now. '56-'58. Well, our boys figure $1\frac{3}{8}$ points, they figure 101 - well, they figure $1.28\frac{1}{32}$ nds to a low of $1.8\frac{1}{32}$ nds - that's quite a spread.
- S: Well, if you waited - if you await the calculation for the additional amount that's going to come in the market, we'd figure it the same way. Under present prices they'd show higher than that - the premiums - but awaiting it for the additional amount coming in the market, we'd agree on that.

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HMJr: You would?

S: Yeah.

HMJr: Now, does it make much difference in your mind whether it's - runs over a little billion and a half or under a little billion and a half?

S: I think it does. I think to do a '56-'8 with safety and every evidence of success it should be under rather than over the billion and a half.

HMJr: Well, if you take five hundred million, it's a billion four, isn't it?

S: Yeah.

HMJr: And 10% over gives you a billion - one billion, four fifty. Now if we put it 50 for the Government do they count that too?

S: No they would not.

HMJr: They don't?

S: It's the Market amount. So, I think you'd be safe on that sort of a set-up.

HMJr: (Talks aside) Just a minute. Bell was saying it's a billion, four. The five and five fifty, and eight hundred million (talks aside)yeah, it's a billion, four.

S: A billion, four.

HMJr: Yeah.

S: I think you'd be quite safe on that.

HMJr: Uh huh. Let me ask Bell a minute. (Talks aside) Bell says the extra hundred million doesn't make a hell of a lot of difference.

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S: Well you.....

HMJr: Hello?

S: Anything I say - anything around a billion, five or less is all right. I don't think you can be dogmatic about a hundred million more or less, either.

HMJr: Just a minute, Bell wants to say something.

S: Yeah.

(Aside. Bell: You might take the hundred million cash and leave the governments out of this picture for a moment. There isn't a lot of cash available for investment and you might have to redeem the 2's. Now, the next issue that comes along, we might get the cash because Leo Crowley - there isn't much actual cash so we might leave that out and take the hundred million cash.)

H.M.Jr: Bell makes this very good suggestion. He says our government accounts haven't got any money to speak of to invest, so leave off the 50 million for the government accounts and take 600 million cash.

S: Well, what the market will look at will be the amount of the exchanging $\frac{3}{4}$ plus the - whatever you take for cash. If you take 600 million that will be

H.M.JR: That's a billion four and add 60 to that so it comes just under a billion and a half.

S: Yeah. I think that would work very well.

H.M.Jr: What's the matter with that?

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- S: I think that's fine.
- H.M.Jr: Well, let's at least agree on that.
- S: Yes, I'm for that.
- H.M.Jr: Let's agree on that. Wait a minute.
(Aside. Bell: Let me ask this question: We have had two suggestions this morning, the bankers leaning toward a '54-'56 and the others leaning toward a '56-'58. What would you think if this two and a half were '55-'58, three year spread between call date and maturity?)
- Bell makes this suggestion. The bankers all say '54-'56. Bell raises the point what about a '55-'58 issue?
- S: Well, I think they'll look at the maturity date rather than the call date. I think a '55-'58 would be all right but I don't think it would make much difference in their attitude toward it.
- H.M.Jr: Well, it's better than a '56-'58 and wouldn't give them a chance to kid themselves a little bit.
- S: Yeah, that's all right.
- H.M.Jr: I mean, wouldn't they kid themselves a little bit?
- S: They might do that. I see no harm in it but I don't think it would do much good either.
- H.M.Jr: Yeah. Of course it wouldn't cost anything.
- S: No.
- H.M.Jr: But in both cases you'd open our little 3/4's of a percent note.

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S: Yes, I should say so.

H.M.Jr: For both things.

S: Yeah.

H.M.Jr: I feel that way too. You don't think they'll laugh at it?

S: No, no. I think they'd understand that that's a safety-valve and except for an extraordinary situation it is just a gesture.

H.M.Jr: I don't like the expression, safety-valve, if you don't mind. That's when you've got too much pressure and blow off. Do you mind anchor?

S: Yeah, we'll throw that expression out and call it an anchor to windward.

H.M.Jr: We never blow off here? Well, that is, hardly ever.

S: (Laughs).

H.M.Jr: Bell says and open up the 3/4% for cash also?

S: Well, I don't see how you'd do that unless you put an amount on. I think that wouldn't be understood in the market.

H.M.Jr: Oh. Bell thought that was your suggestion.

S: No, that's just the exchange. Open up on the exchange but the cash is all in the one issue.

H.M. Jr: Well, I personally think it makes more sense just to give them an alternative on the conversion.

S: That's right. I think so too.

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H.M.Jr: And then these banks can't say we're trying to force them into a long issue.

S: No, no. I think that's right. I think that's the only place, really, where it serves any purpose is on the conversion.

H.M.Jr: You see we're only five minutes of 12:00. Is there any way of getting you gentlemen again in about fifteen or twenty minutes, or where will you be?

S: We'll be here.

H.M.Jr: Could you have your lunch at your desk today?

S: Well, I'll have it right here in the bank anyway and be right on call.

H.M.Jr: Well, the point is, I've got to settle this between now and in the next hour. You see?

S: Yes.

H.M.Jr: So if you could be on call

S: We'll be on call right through the next hour.

H.M.Jr: Yeah. Well, I'll give you a 5-minutes' - you know.

S: Right.

H.M.Jr: But in the next hour I've just got to make up my mind.

S: We'll be on call and expecting to hear from you.

H.M.Jr: Let me ask you this. Is there much - do you get in talking with the dealers that there is much demand? I mean, do people want to get in on this?

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- S: I'll let Mr. Rouse answer that. He can tell you what some of them said.
- Robert Rouse: I'd like just to run through some of these names you're familiar with. Levy at Solomon Brothers: "What the market wants is a 2½% bond of 1957-59 and they don't need anything else up to a billion and a half, but throw in the 2-year, ¾ for luck."
- Belmer at Discount Corporation exactly the same except for a '56-8. Also Repp. Chris Devine, who day before yesterday was talking in terms of '56-8 for any amount over 500 million of new money, now has switched to 2½'s of '57-'59.
- H.M.Jr: 2½ of '57-'59, and what was he before?
- R: '56-8. I was just trying to give you the change that has come over the market in the last day or two.
- H.M.Jr: In other words, he'd go a little further on it.
- R: He go a little further out, and I talked to him about the possibilities of something shorter and he said no this is what they want and be my judgment to give it to them.
- HMJr: Yeah.
- R: The Bankers Trust Company, Port Folio Department say they don't want taxable bonds themselves, they only have two million rights.
- HMJr: Who is this?
- R: The Bankers Trust. They would exchange them for preferably 2½, keep them for a while and then sell them and then buy tax exempt bonds.

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HMJr: Yeah.

R: Their Dealer Department thinks the right thing to do are 2½'s of '56-'8 or '57-'9, either one would be entirely satisfactory.

HMJr: I see.

R: C. F. Child's & Company, 2½'s, '56-'8 or '57-'9, believe that '56-'8 would be worth a hundred and one and ¾ right away, markets in very excellent shape.

HMJr: Yeah.

R: Blair & Company, Wood over there, 2½'s of '57-'9, he called in a little while ago and he said that he had heard rumors of '54-'56, '55-'7, and what was the world coming to, that this was a cinch at '57-'59.

HMJr: Yeah.

R: First Boston, Lanston over there feels that a '56-'8 would put 2½ percent bond in the same category as the 2½ two months ago and would go on the same basis, open up at one hundred one and a quarter and quickly move to a hundred one and 7/8.

HMJr: I see

R: The market is very strong underneath. There's a good deal going on and wants to go on, they don't want to push prices, but nothing is coming in for sale. And it's really in as good condition for an offering of this character as it's been for a long, long time.

HMJr: Just hold on for a minute. Anybody talking 2½?

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R: No sir, no one.

HMJr: Have you heard anything from the West Coast?

R: No, I've talked only in the middle west, but Hank Knight telephoned in from the Continental....

HMJr: Yeah, what he say?

R: He said 2½, '56-'8 or '57-'9, and he'd pray that the premium didn't get too big before he could buy some.

HMJr: Well, the people you have seen are much more bully than the ones I've seen.

R: Yeah, I've certainly found it so. The Guaranty people here were talking '56-'8 to me this morning and also if the amount was over 500 million new money, they would like to see a five year 1-1/8% note. I don't know how that jibes with what Gardner told you down there.

HMJr: Bell says he said a 1% note. Well, what else?

R: Well, that pretty well covers.....

HMJr: Well, the way they talk there isn't much sense going below '56-'8.

R: Well, I don't see it much myself. They really want that bond, that is your savings banks, your insurance companies, and your country banks. The big commercial banks will do an underwriting job on that type of bond and - or they'd do it on a 2, it doesn't make much difference,, they'll go along with it....

HMJr: Would it help.....

- 1 2 -

R: But they wont keep them permanently, they'll sell them out to these other holders and buy tax exempt bonds in '43 to '49 range.

HMJr: Would it help any if I announced it's going to be 600 million cash, would that sort of settle it a little bit?

R: I think that would help, yes sir.

HMJr: At least they'd know better where they are.

R: But the market had that statement in the Wall Street Journal on Monday of up to a billion dollars of new money.

HMJr: Well, I better get that straightened out.

R: And it's adjusted itself in the light of that and in talking '56-'8 this morning, the rights, that is the 3-1/4's of '41 moved up from one hundred one, twenty-two to a hundred and one, twenty-six bid.

HMJr: On an expectation of a billion cash.

R: That has been in the market and it's also been on the basis of '56-'8, the discussion this morning. Although I think the discussion this morning is more hinging on six or seven hundred million. I don't think they are thinking in terms of a billion cash now, I think they are thinking in terms of six or seven hundred million.

HMJr: Afl right. I'll be calling back again. What you told me is very helpful.

R: Well, we'll be on call here.

HMJr: Thank you.

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H.M.Jr: I thought we would get out the six hundred million thing. I am surprised.

Bell: I am surprised that --

H.M.Jr: That New York seemed so bullish.

Bell: Well, they are either tied to the ladder or in the depths, one or the other. They never have been on the ground. Apparently this is a lot of buying power on the market.

(Mr. Schwarz entered the conference.)

(Telephone conversation with Mr. Eccles follows:)

(Mr. Schwarz left the conference.)

May 21, 1941
12:04 p.m.

HMJr: Hello.

Operator: Chairman Eccles.

Marriner
Eccles: Hello.

HMJr: Marriner?

E: Yes, Henry.

HMJr: I've been working on this financing all morning and one thing that I'd like to do before we decide anything else - there's some talk out that we were going to borrow a billion of cash and we here now feel that 600 million will be plenty, and we are not going to put in any amounts for the Government accounts, which would bring it - keep it below the billion and a half, you see?

E: Yes, that's 8 and 4, be a billion and four.

HMJr: And an over run of say 60 million.

E: An over run of 60.

HMJr: Would bring it just under a billion and a half. Now, the Government accounts are well invested, we have no money to speak of - I mean we wanted to put in 25, we might put in a little, we don't - Dan said we don't have to put in any for the Government.

E: Well, I would think it not advisable personally to put any in, holding the Government funds for some time when you might need them, because at the present time on the basis of this market - certainly the market doesn't need them.

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HMJr: Well, if that's agreeable with you - just hold the wire a minute I'm going to give it out as 600 million, you see I want to get that straightened out.

E: Yes.

HMJr: And I want to talk to you about the rates.

E: Yeah, I'll hold the line.

HMJr: Just a minute (Aside to Schwarz) Release immediately that the cash amount is going to be 600 million. Get that out quick, will you?

Schwarz: Right , sir.

Hello?

E: Yes. Let me ask you this on the 600 million - you figure that that's all you are going to need new money to carry you through July 1 with an adequate balance.

HMJr: That's what Dan Bell says, yeah.

E: Okay.

HMJr: Now we are all right on that?

E: Yeah.

HMJr: And that's counting on turning over those.....

E: Those bills.

HMJr: Those bills.

E: The 300 million.

HMJr: Yeah, we're all right.

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- E: And that will carry you through on July 1 as over a billion - Dan said yesterday about a billion and a quarter.
- H.M.Jr: That's right.
- E: Yeah.
- H.M.Jr: That's right. A billion and a quarter. Now, the people that I saw this morning, the insurance people, were in a fine humor. They'll take anything. The two, three bankers thought that this issue - one issue had and they were talking '54-'56. Hello?
- E: Yeah, yeah.
- H.M.Jr: Now, I just talked to New York and they there say '56-'58 or '57-'59, plus in the case of the conversion again to re-open that 3/4% note just in case the world should go to hell tomorrow.
- E: Yes.. Well, there can't be any objection to the note, it's already out but the results in the past have been almost meaningless, but I certainly wouldn't have any objection to it, if you or the New York fellows thought it was necessary and especially if you go out to '57.
- H.M.Jr: Well, I don't think it's necessary.
- E: I don't either at all. I wouldn't hesitate a minute
- H.M.Jr: But it doesn't cost anything and it's just a gesture. It's just a gesture.
- E: Yes. Well, it does this. If you don't give them the 2's, which I hope you won't give them
- H.M.Jr: Well, we're not thinking of the 2's now

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- E: Well, that's fine. Now, then if you don't give them the 2's then you can say to the banks, well, we're giving you the 3/4's here if you don't want the long stuff. Here's a short 3/4 issue; you don't have to take the 2 1/2's; we're giving you something here.
- H.M.Jr: And they can't say we tried to jam a long bond down their throat without any alternatives.
- E: Well, no, they can't. There is this argument in favor of opening the 3/4 note. It is giving them some right - you're recognizing a right to take a short issue, if there are some of them feel that they don't want the 2 1/2's.
- H.M.Jr: That's right.
- E: Of course they're going to take the 2 1/2's even to sell them. Well, now, what do you feel on the maturity? Of course '54-'56, I can't help but - I'm always amused at these fellows. They never learn to be fair, do they.
- H.M.Jr: No. What I need is about another ten or fifteen minutes, Marriner, and then I'd like to call you back on the maturity.
- E: Fine.
- H.M.Jr: But I need another ten or fifteen minutes, but I wanted to get out on the ticker the \$600 million.
- E: Yes. Well, my only suggestion for more was a question of whether you needed it. If you don't need it there certainly is no sense in taking it.
- H.M.Jr: If we go out the 1st of July with a billion and a quarter
- E: That's all you need.

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- H.M.Jr: And with no big maturities facing us now we're in nice shape.
- E: Yes, yes. There is no need of taking more than that.
- H.M.Jr: And another thing if we go too heavy on the cash - some of the New York financial writers have already said, well, the fact that I need cash now shows that the Defense Savings Bonds aren't going any too well. Of course it's silly but you know - anything to throw a rock.
- E: Yeah. Well, then there is no need of giving them the opportunity of throwing any rocks if that's what they are doing. On the savings thing, of course it's a little early to say yet, but don't you feel that considering the newness of it and the limited time in advertising that it has come along fairly well.
- H.M.Jr: Well, personally and privately, I don't want to say this publicly, I'm simply delighted but I've been very conservative you see.
- E: Well, the reason I mention - the Advisory Council, they were in here all day Monday and you know they are from - you know the Council group, they're the banker group and they're a pretty reactionary bunch most of them. They were raising the question about - don't you think the savings thing hasn't gone over very well, we understand there is this and that and the other. See? Well, I said, I think that's wrong. I said, I don't, although I haven't heard the Treasury say officially one way or the other, but I said that it would certainly be my view, and John McKee backed me up in the thing, that when you consider this - the newness of this thing and the amount that has been

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gotten in that I think that everyone ought to be pretty well satisfied.

H.M.Jr:

Well, my God, if \$257 million in seventeen days

E:

Well, I said, there's \$5 billion a year if it is kept up the way - but they said that there are a lot of trust funds that went in to begin with that won't go in later. I said that that was true but there are a lot of funds from increased employment and increased wages that is going to go in more and more into some of the other issues so there's going to be an offset and it seems to me - and further than that this advertising is just getting well under way.

H.M.Jr:

Haven't even started.

E:

And I said, it seems to me that I think you fellows if you've got any such an idea in your mind that you're just kidding yourself, that the Treasury financing problem in my opinion is going to be an easy one and they're not going to have to pay more than $2\frac{1}{2}\%$ and it would be my opinion that they might do like the British are figuring on and that's reducing the rate. So, I said, don't get it in your mind here that you're going to get a bigger rate.

H.M.Jr:

Well, I'm glad you said it because

E:

Well, George Harrison was pressing a little for - George is on the Council you know and George is anxious to get - said the insurance companies need $2\frac{3}{4}\%$ or 3 and they don't care how long the maturity is and I said, you'll be damn lucky if you get $2\frac{1}{2}\%$.

H.M.Jr:

Well, Marriner, if this thing would keep up at the rate of \$15 million a day, I personally think it's wonderful.

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- E: Well, I agree with you and I hadn't heard you say and I was just
- H.M.Jr: Well, I've been on the conservative when they asked me and I've said it has gone pretty well. I'd much rather let the figures speak for themselves.
- E: Well, of course I think that is the proper attitude to take because you don't want anybody to let down. You want them to feel that it's just pretty well and keep on pressing.
- H.M.Jr: That's right. Well, I'll be calling you back. I'm glad you gave the thing a good send-off with your Council because I don't know what they expect when a thing like this - we're not doing what they did in the World War and I don't expect to.
- E: Well, the Council wasn't critical. The main question is they were just wondering how it went over and some of them seemed to have the impression, see, that it wasn't going over too well. They weren't themselves being critical; they were just trying to find out, see. So I told them that I couldn't speak officially but I could give them what my impressions were of the thing and as far as I know I had no reason to think that the Treasury didn't feel likewise.
- H.M.Jr: That's right. Well, I'll be calling you back in a little while.
- E: O.K.
- H.M.Jr: Thank you.

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H.M.Jr: Kansas City says fifteen to seventeen years with the exception that a number feel that the three quarters percent note should be offered for five years. Well, that is along the lines we are talking of.

Day, where is he?

Bell: Frisco.

H.M.Jr: He says two and a half interest rates, '58-'59, and callable '56 and '57.

Bell: Blair in New York, I think, reflects Giannini.

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

Haas: I think it is an easy shot, and I don't think you have to worry much. There are a good many things you can do and they will all work out. The only thing that has bothered me, Mr. Secretary, on this whole thing, and not very strongly, is that I think it is like in a game of pool, you have got an easy shot to make and the next shot has got to be for position and the suggestion that we made was made so it would leave the two and a half percent bond in a position like it is today so the next time you can lengthen it.

Now, if you get it messy out there you will come back and say, "Let's leave that alone. That is a messy thing," or you want two and three quarters and you have got to start back again. That is the only thing that bothers me. There is evidence that there is weight being put on it, because these men when they came in were going to take account of that by pricing it rich, but as I said to start with, I don't think we will have any trouble and the thing will go over and maybe between now and the next financing a

- 5 -

lot of other things will happen which will overshadow anything we have now to strengthen the market.

So if you feel this three quarters note and the two and a half is right, I think it is an easy shot.

H.M.Jr: Where would you put the two and a half?

Bell: There isn't much we really can do to prevent any situation out there from being messy some time or other along the line, is there?

Haas: Well, you can keep it light, but I am not going to stick out in the face of the thing too much. I think the Secretary's question about where would I place it, I think I would be inclined to take the '56-'58.

Lindow: I would take the '56-'58, too, on grounds that with everything going into one issue, because I don't think you will get any substantial subscriptions into the note, that we have to keep it fairly rich to take care of any difficulties which might arise out there.

I think if we had a middle term bond, which I am not going to reopen either, that there would be some less demand out in the long market and we could probably get a little longer issue without any difficulty, but rather than take a chance, I would be inclined to take the '56-'58, which I don't think there would be the slightest difficulty about.

Hadley: I have been for the '56-'58 right along, and I am still for it.

Haas: Like Ed Wynn, that is your story and you are stuck with it.

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H.M.Jr: Dan?

Bell: I favor the '56-'58. I think there are two other choices we might consider. One is the '55-'58 and the '55-'57, which kind of gets in between what the dealers say they want and between the banker groups. It will be a little richer than your '56-'58 and probably go over two dollars in premium in a short period.

Haas: It is funny, Mr. Secretary, how you bring new styles out, you know, on the little anchor. Now they like the anchor so well they want to wear it in their lapel whether it is raining or not.

H.M.Jr: Yes, they like the idea.

Lindow: I was going to say I think the '55-'58 will go just as well as the '56-'58, but I haven't heard any particular discussion from the dealers and the bankers about how they would receive it.

H.M.Jr: No, I think they would be taken a little bit by surprise.

Hadley: The last five bond issues we put out have all had the two year calls, and this just fits the pattern.

H.M.Jr: Where is the chart showing where '56-'58 falls?

George, you have got to give me something good.

Haas: I will give you a new set-up on it. That isn't so hot.

Bell: I can show you on this thing.

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H.M.Jr: Here, this is all right. Which is this, the call?

Haas: Fifty-six is the call. This is the year over in this column.

Bell: Nine hundred nineteen million callable in '58.

H.M.Jr: Well no, September 15, '56-'59. I can read this. That is September. This would be dated when, this one?

Lindow: This would be June.

Bell: This would be dated June 3, but it ought to probably mature or be callable March 15, '56.

H.M.Jr: Yes.

Bell: You have got nine hundred eighty-two million callable in September, '56-'59.

H.M.Jr: What is the matter --

Bell: Do you want to put it on top of that?

H.M.Jr: No, just make it June.

Hadley: That would be three months before.

Haas: Of course, the option period, Dan, means it spreads over this but that doesn't make any difference.

Bell: What I am trying to get is a little more interest payment in March and September. We have got a terribly heavy interest payment in June and December but let's let that go.

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Haas: It would be a little sweeter if you made it March.

Hadley: March is perfectly all right.

H.M.Jr: Well, I don't want to do anything that seems - why March? Wouldn't the normal thing be to make it --

Lindow: June.

Bell: No, I don't think so, because you are not issuing it on June 15. You are issuing it in May. You are offering in May and you can make your interest payment date any time.

H.M.Jr: But when will interest begin to draw, from when?

Bell: June 3rd.

H.M.Jr: That is all right.

Bell: Your first interest payment date will be September 15.

H.M.Jr: You have got this '55-'60 as March 15.

Hadley: That is '55.

H.M.Jr: But Mr. Bell talks about not having enough in March.

Bell: I am talking about interest payments.

H.M.Jr: This is interest payments.

Bell: But the volume of interest payments in March is about fifty or sixty million dollars less than June and December.

H.M.Jr: Would that make you happy?

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Bell: Yes, it would make me happier and it is getting to be quite a problem in the Federal Reserve Banks of handling these coupons.

H.M.Jr: That is all right. But it would be dated June?

Bell: Dated June 3 and we would adjust the interest on the three and a quarter on June 3.

H.M.Jr: This would put it two and a half. The last one was '52-'54, wasn't it? When did we get out that, how long ago?

Lindow: In March.

Hadley: That was eleven-thirteen years. This would be almost fifteen-seventeen.

Lindow: That was dated March 31.

H.M.Jr: But I meant the last one. Well, this area isn't too crowded.

Bell: Oh no, we have got a lot of room in there. There will be a lot more in there before the year is over.

(Telephone conversation with Mr. Eccles follows:)

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

May 21, 1941
12:25 p.m.

HMJr: Hello.

Operator: Chairman Eccles.

HMJr: Marriner, the thing is clearing up here now. We feel here - the '56-'58.

Marriner
Eccles:

'56-'58. Well, I'd go out to '56-'59. I'd take 3 year option. These fellows, I'm sure, they talk about figuring the maturity and they figure the - they always do that to get a little better price. The call date is really - when you get within 3 years of a maturity you can't imagine the Government paying 2 $\frac{1}{2}$ % for that money. I mean, nobody is figuring it on that basis I don't believe. They talk about it but I think they figure on the call date and therefore I'd take as big an option, if it were me, as I could get. A '56-'59 is 15-18 year. The other of course is 15-17. Would that be June, '56?

HMJr: Well, it'll start June 3, but it will be March, 15th coupon....

E: March, 15th coupon...

HMJr: And Bell says that about 50 million dollars less coupons in March, 15th than the other and that evens it up.

E: Well, that's still a little shorter, but...

HMJr: Well.....

E: They are putting out only 600 million with the demand - if it were me I wouldn't hesitate a minute to make it '59, if you want that much of an option. You were talking of a five year option yesterday.

HMJr: Well.....

- 2 -

E: But, I certainly wouldn't hesitate to take 3 - it'll go just as quickly and get an easier subscription - the 600 million isn't going to satisfy the demand - that's what I'd do on it, but there isn't very much difference.

HMJr: Well...

E: I'm glad you are not going less than '56 though.

HMJr: No, we wont. And then on the conversion we can open up that old 3/4.

E: Well, I think that's a good - the more I think of it, the more I think that the option to take a 2% bond as against a 2 $\frac{1}{2}$, really isn't an option to take anything short anyway. Because a 2 isn't short.

HMJr: No.

E: But when you do give them an option - to say if you don't want the long bond you are giving something that the banks really ought to take. Now they wont take it, but you'd at least shut them up from any complaint.

HMJr: Well, we are the closest we have ever been on it.

E: (Laughs) Oh, I wouldn't say that, it isn't that bad.

HMJr: I appreciate the help and it will be one or the other, and so I'll let you know a little later.

E: Well, that's all right. Fine.

HMJr: Thank you.

E: Thank you.

May 21, 1941
12:29 p.m.

HMJr: Hello.

Operator: Sproul.

HMJr: Hello.

Allan
Sproul: Hello, Secretary.

HMJr: Well, I've been talking and we have been thinking here - we sort of feel that this time we'll go along with you fellows.

S: Well, I hope you are right.

HMJr: '56-'58.

S: That's the way it still looks to me.

HMJr: Eccles wanted it '56-'59.

S: Well, I'd go for '56-'58.

HMJr: Well, that's the way we feel and give them a chance on the conversion on the 3/4 note.

S: I'd do that.

HMJr: Well, I think that's what we'd do and I think that I'll call you up at 2 o'clock - I'll call you about 5 minutes of 2, our time which is 5 minutes of 3, yours, just for a final check.

S: Fine.

HMJr: I call you sharp 5 minutes of 2, my time.

S: Right.

HMJr: For a final check.

- 2 -

S: All right, sir, we'll be here.

HMJr: Thank you.

S: Goodbye.

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H.M.Jr: And no five thousand?

Bell: No?

H.M.Jr: That is right.

Bell: You have really made up your mind?

H.M.Jr: Yes.

Bell: I think that is a mistake, because we have satisfied a lot of people on that, particularly the small country banks that because of their capital structure can't put in a large subscription in order to get any more than a thousand dollars or five hundred dollars of security.

(Telephone conversation with Jesse Jones follows:)

May 21, 1941
12:30 p.m.

HMJr: Hello.

Operator: Secretary Jones.

HMJr: Hello.

Jesse Jones: Hello, Henry.

HMJr: Jesse, on the Treasury financing, this is the way we are thinking. on this offer of conversion, the $2\frac{1}{2}\%$, '56-'58.

J: '56-'58.

HMJr: That's 15-17 years.

J: 15-17 years, yes.

HMJr: Well, the last time - only last March we did '52-'54. Hello?

J: Yeah.

HMJr: And for $2\frac{1}{2}\%$. And then the fellows that convert just kind of have an anchor, we are going to reopen that $3/4\%$ short note. I don't suppose anybody will take it.

J: You mean that's got 2 years anchor?

HMJr: Yeah.

J: I see, you just offer $2\frac{1}{2}\%$ bond.

HMJr: That's all.

J: I see.

HMJr: And for conversion and for cash and also on the conversion so that they can't say well we don't want your bonds, you can give us something else - well if you want

- 2-

something, here's a 3/4% note.

J: How long is that note?

HMJr: That note is (Just a second)
3 years (Wait a minute) it's
due in 3/15/43.

J: I see.

HMJr: 3/15/43.

J: I think that's all right, Henry,
the 2 1/2's will go very, very well.

HMJr: Well, we have spent a lot of
time, we have been all over the
United States and I'm simply
amazed at the underlying strength
and the desire to invest.

J: Yeah. People want to help.
And that's the way they can
help, that's the way everybody
can help a little, you know.

HMJr: That's right.

J: Thank you.

HMJr: Jesse?

J: Yeah.

HMJr: The thing I called you on earlier -
I'll get something on that, won't
it?

J: Oh yes, I sent you something just
a while ago.

HMJr: Did you?

J: I was just looking to see what
letters had been exchanged and
I could only find the one from
Gardner, so I sent you that over
with a note -memorandum from me.

HMJr: Thank you.

- 2 -

something, here's a 3/4% note.

J: How long is that note?

HMJr: That note is (Just a second)
3 years (Wait a minute) it's
due in 3/15/43.

J: I see.

HMJr: 3/15/43.

J: I think that's all right, Henry,
the 2 1/2's will go very, very well.

HMJr: Well, we have spent a lot of
time, we have been all over the
United States and I'm simply
amazed at the underlying strength
and the desire to invest.

J: Yeah. People want to help.
And that's the way they can
help, that's the way everybody
can help a little, you know.

HMJr: That's right.

J: Thank you.

HMJr: Jesse?

J: Yeah.

HMJr: The thing I called you on earlier -
I'll get something on that, won't
it?

J: Oh yes, I sent you something just
a while ago.

HMJr: Did you?

J: I was just looking to see what
letters had been exchanged and
I could only find the one from
Gardner, so I sent you that over
with a note - memorandum from me.

HMJr: Thank you.

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H.M.Jr: Well, I will put in a call for the President and you won't have to sit here.

Oh yes, you want to argue with me.

Bell: We have to have all that goes over, but we won't send that over, I take it, until around three.

H.M.Jr: That is right. Well, you had better come back here at --

Bell: I would like to start on the things --

H.M.Jr:three o'clock.

(Mrs. Klotz entered the conference.)

H.M.Jr: You wanted to argue on that thing.

Bell: On the five thousand dollar preferred allotment, there has been going on now for - I think it was a year ago last December we started it. We have got - the first one was twenty some million, and the last two on bonds have been about thirty-nine million apiece. I feel that it has met a demand for that type of investment in the low group.

Now, those things have been done while we had the savings bond program going all the time, but I don't think it has interfered and there has always been a lot of criticism because a small country bank could not get any of these securities. Kansas City has always been on our neck because they couldn't get any.

H.M.Jr: I will make a deal with you.

Bell: Yes?

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H.M.Jr: I will make the five thousand only applicable to the commercial banks.

Bell: Oh.

H.M.Jr: And they are excluded from the other.

Bell: Yes, that is right.

H.M.Jr: And we will make it for them and the other fellows go to the defense bonds.

Bell: Of course, you have some individuals, you know, that want current income.

Haas: They can get it on the "G".

H.M.Jr: That is where I want them to go. I will make the deal with you, just make it for commercial banks.

Bell: No, I think it is a little too difficult to police.

H.M.Jr: Why not? You have defined commercial banks, haven't you? You defined them when you excluded them.

Bell: We said anybody that accepted demand deposits.

H.M.Jr: Yes. I kind of like that.

Bell: You do?

H.M.Jr: Yes. Think it over.

Bell: No, I don't like to have any circular offerings of securities.

H.M.Jr: Well, the other fellow has his chance now.

Bell: I would leave it open as far as you could to everybody.

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- H.M.Jr: No. Well, I don't know how these fellows feel. After we discussed it yesterday, everybody was against it. How do you feel, George?
- Haas: This is the first I had heard about it. I thought your suggestion sounded pretty good to me. There may be some complications when you put it into circular.
- H.M.Jr: Well, talk on the principle and then we will talk about the mechanics afterward.
- Bell: As to whether it should be eliminated or included?
- H.M.Jr: Yes.
- Bell: I had three against me yesterday, three to one.
- H.M.Jr: Oh, I would like to have it included. Some of the letters coming in from the banks claim that they can't get anything.
- Bell: I take it your apprehension is that if you let them buy this, it will cut down the sales of the savings bonds.
- H.M.Jr: Sure.
- Haas: I think your suggestion is O.K. Make it applicable to commercial banks only. I think it is all right, the principle and everything else.
- Lindow: I agree with that, too, because in this case the rate is higher on these bonds than they will be able to get on the "F" and "G" and there would be a direct competition there, I should think.
- H.M.Jr: It is higher?

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Lindow: It is two point four, isn't it?

Bell: Two point five. It is a longer maturity. This is a longer range.

H.M.Jr: Two point thirty-eight here.

Bell: No, that is the price in the market.

H.M.Jr: Well, two point thirty-five. The other thing was figured two point forty-eight.

Bell: On a subscription the coupon was the same, but this is a longer investment than the "G" bond by two years.

Haas: The savings bonds are a little better than this.

Bell: The "G" bond is a better investment than this.

Haas: Sure, so I think the Secretary's second idea is a good one.

H.M.Jr: If you want to keep the country banks and say so in your announcement and explain why we want to give the small banks a chance and they can't get into the other thing, all right, they can take this instead.

Haas: It is a good gesture.

Bell: Well, I think it is creating another special obligation to a group which I think we want to stay away from as far as we can.

H.M.Jr: No. If you - I won't do it the other way, Dan.

Bell: Then I would cut it out all together.

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H.M.Jr: What?

Bell: Then I would cut it out all together.

H.M.Jr: You would cut it out all together?

Bell: I think I would. We have had a plea here for a special type of obligations for insurance companies and so far we have turned them down and I think this does help the small banks and I think it also helps some people who want income and can get in and out and the market would --

H.M.Jr: Well, that is the Defense Savings Bonds.

Bell: No, it isn't the Defense Savings Bonds because the man takes his two and a half "G" bond and he can't get out of it except at a very small rate, whereas this one he can take up to five thousand and a year from now sell it on the market.

H.M.Jr: If you don't mind, I don't want the five thousand unless you want to do it for small banks, and you don't want that.

Bell: I don't believe I would. I think it complicates it a little to say that any bank that has demand deposits can subscribe to these.

H.M.Jr: Well, this way it is open to anybody.

Bell: I mean for this registered security.

H.M.Jr: Well, shall we leave it out? All right.

Bell: Now, we have had on the --

H.M.Jr: I have got to get --

Bell: On the exchange subscriptions, a ten thousand

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dollar limit and we kept it open two days.
Do you want to keep that open Saturday?

H.M.Jr: Don't you think so?

Bell: That is all right.

Now, would you want to raise that to twenty?
The last time we got several kicks from people.
Of course, twenty didn't cover them all.
Some had up to a hundred thousand dollars
and they claimed they didn't get the notice
in time. I don't think it would do any harm
if you wanted to raise it to twenty.

H.M.Jr: Do you think it is important?

Bell: Well, it just gets in a few more people. We
get to their lock boxes.

H.M.Jr: I will split the difference with you. Fifteen?

Bell: All right, I don't care.

H.M.Jr: What?

Bell: I would just as soon leave it at ten.

H.M.Jr: Well, make it fifteen.

Bell: It is all right.

Guaranty Trust - Garner

293

$2\frac{1}{2}\%$ - 56-58 (not sure)

does not like 2% Bond

would prefer 5yr
note at 1%.

Plca for straight $2\frac{1}{2}\%$

54-56

55-57

Int. Life.

Either $2\frac{1}{2}\%$ or 2%

Burgess,

54-56

2 1/2

lean towards one issue

June a kept 1945 for
1% note.

Har. Ins. - Baker

56-58

57-59

one issue,

Helfeld Savings BK.

295

$\frac{1}{2}$ 56-58 } two
270 49-51 } issues

wants this
single issue

54-56

Graham - Baltimore

296

Shrout - Louse
one issue

56-58 *

57-59

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE May 21, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Harry Hopkins lunched with the Secretary this noon. At 2 o'clock the Secretary had the following officers join him and Mr. Hopkins in his office: General Byrnes and Messrs. Young and Cox from Mr. Hopkins' office, and Messrs. Bell, Foley, White and Cochran from the Treasury Department.

The Secretary opened the conversation by asking for certain information in regard to Vultee planes for Sweden, which he said Mr. Hopkins had now arranged to take over from the British and permit the proceeds paid therefor to be counted on the \$300,000,000 to \$400,000,000 of relief which the Treasury promised the British. The Secretary stated that Sir Frederick Phillipe was coming in at 4 o'clock this evening and that he would inform him of the above-mentioned arrangement.

The Secretary explained that Mr. Hopkins and his assistants had volunteered to explain to the Treasury officers the working end problems of Lend-Lease. Mr. Hopkins introduced the subject, dividing it into two sections, namely, procurement under the Lend-Lease system, and handling of contracts entered into prior to March 11, 1941. Furthermore, there is the question of obtaining agreements with those countries which it is contemplated shall benefit from Lend-Lease facilities. It was Mr. Hopkins' feeling that only those countries which are actually fighting are automatically eligible for Lend-Lease facilities. He remarked, however, that others, including Latin American countries, are applying, and a definite policy with respect to individual agreements must be developed. Returning to this point later in the meeting, Secretary Morgenthau brought to Mr. Hopkins' attention the fact that the President had originally instructed him to draw up a type agreement for Lend-Leasing. This had been done by the Treasury two months ago. The State Department had submitted a counter draft, including less materialistic terms but more economic philosophy. A few days ago the President had informed Secretary Morgenthau in writing that the negotiation of the agreements in question should be the responsibility of the State Department, with the assistance of Treasury. It was the Secretary's suggestion, therefore, that Mr. Hopkins might want to see how this matter now stands in the Department of State.

At the request of Mr. Hopkins, General Byrnes then made a few remarks. He spoke of the \$1,300,000,000 which could be utilized under appropriations allotted to the Army and Navy prior to March 11, and to the \$7,000,000,000 made available by the Lend-Lease Act of March 11 and the appropriation of March 17, 1941. Mr. Cochran raised the question as to whether we were talking of \$7,000,000,000 plus \$1,300,000,000. Mr. Hopkins stated that the \$1,300,000,000 could be considered separate. He explained that the various United States Governmental agencies were going ahead with their own programs. He turned to Mr. Young to cite statistics as to the progress which is actually being made through allocations under the Lend Lease system. Mr. Young gave a total of \$4,100,000,000 as allocated out of the \$7,000,000,000 on the date of his last report, which was of May 14.

Mr. Young broke down the figures of his latest report by types of articles and agencies responsible for the orders covered by the allocations. The data which he gave are mainly available from the reports which Under Secretary Bell receives, so the figures which Mr. Young cited are not repeated in this memorandum.

Mr. Hopkins then turned to the aviation program. He said that out of the \$2,000,000,000 appropriated for aircraft, \$1,900,000,000 has already been allocated. This includes many bombers, but not the new \$2,700,000,000 bomber program. Mr. Hopkins felt, however, that the Army itself could go ahead with orders on their own account for bombers. If necessary, the Army can at some later date seek a supplemental appropriation of its own for this purpose. Considering that the bomber program can be taken care of this way, Mr. Hopkins thought that the elasticity of the Lend-Lease arrangement should take care of most other contingencies. He saw no reason whatever for Mr. Keynes to worry over the financing of the Lend-Lease system. Hopkins said that is the job of the American officials. He was somewhat caustic in his remarks over Keynes wanting to draft the second Lend-Lease Bill.

Considering that the flexibility of the Lend-Lease setup will permit switching of funds to take care of urgent allocations, Hopkins said that his main interest now is to relieve the Treasury of the commitment of from \$300,000,000 to \$400,000,000 which the Secretary made after consultation with responsible officers in this Government whose cooperation was solicited, and after procuring the specific approval of the President to the commitment which the Secretary was undertaking. He said we should concentrate on working out the means of taking care of this commitment. Mr. Hopkins made the point that the new \$7,000,000,000 Lend-Lease program was pyramided on our own \$32,000,000,000 armament program. Little assistance can be given the British out of materials which were on hand when the Lend-Lease became effective, since the arsenals had been cleaned out pretty thoroughly prior to that time. Some few rifles have subsequently been shipped out of the old supplies, but it is ridiculous to think of lend-leasing such items as second-hand underwear.

Mr. Hopkins described the scramble of various services for materials and other supplies now being newly produced which enter into armaments. He said it is our job to see that England gets as much as possible and as soon as possible under the Lend-Lease system. At this point Mr. Harry White remarked that the report was current at a meeting of Government officials which he attended this week that the Army was quite lagged in its program of orders. Mr. Hopkins was aware that the Administration was being constantly criticized, and that charges were rife that one branch or another of the Government might be remiss in its share in the common plan, but now that he is within the central organization for the Lend-Lease system he is not at all convinced that many of the current reports are well founded. Nevertheless, he thought there was the unpleasant necessity of having a cockle-burr-placer in every organization and invited cure to visit his and other services. General Byrnes asked Mr. White for specific instances in which the Army might be remiss. When Mr. White refrained from giving details, Mr. Hopkins suggested that he would be doing a real service if he spoke with the General later and gave him in confidence any information which he possessed.

- 3 -

The question of the first report to be made to Congress on the progress of the Lend-Lease program was discussed. Such a report is due June 11, since the bill was passed on March 11. Hopkins said that he was going to experience some embarrassment in making this report, and welcomed any suggestions. He fears that revelation of the fact that since passing of the Act on March 11 only \$17,000,000 of Lend-Lease material has been placed afloat may be discouraging news. He pointed out, however, that it is obviously impossible to expect that such articles as ships and planes ordered under this program could be available at this time. He is quite happy over the progress that is being made by the Maritime Commission and complimented the efficiency of Mr. McVickery (?). He said, however, that progress on some of the other articles must necessarily be slow and that it is a constant fight to get production along and to get releases for Great Britain of articles which other services themselves desire.

General Byrnes, upon questions being placed to him, explained that as items are agreed upon under programming, they are certified for lend-leasing. The sheet which Mr. Young used in reporting to us does not show, however, total programming that may already be practically agreed upon. When the discussion reached this question, Mr. Hopkins volunteered that his organization would study and give the Treasury an idea as soon as possible as to the date on which more funds must be sought from Congress for the carrying out of the Lend-Lease program. Secretary Morgenthau agreed that this was a point of vital interest to the Treasury.

In discussing his job, which Mr. Hopkins assured us was a tough one, he said that there were some people in the picture who do not want to see England win; others are afraid of daring programs and thus hold back general progress. He is not at all satisfied with production. He thinks it could be speeded up much more rapidly than at present, and that our cause urgently requires it. He is giving his best efforts to getting things moving. With this purpose in mind he volunteered to consult with us frequently and offered to give us any information on his plans and operations which might be of assistance to us in our study of the Treasury's side of the problem. Mr. Hopkins' last thought was that the whole Lend-Lease affair deserves most intensive study by all of us. He wondered whether it was already out of date. Some people think that we should make everything available to Great Britain without this Lend-Lease arrangement. Would the Lend-Lease system be scrapped if we got into the war?

At 4 p.m. Sir Frederick Phillips came to the Secretary's office. Messrs. Bell and Cochran were present. The Secretary told Sir Frederick that Mr. Hopkins had let him know that his organization was prepared to relieve the British of the 144 Vultee planes, which contracts the British now hold. The Secretary attached, however, two strings to this transaction. It was desired that the proceeds from this relief measure be made available to Mr. Purvis for the purchase of goods which it is difficult to include under the Lend-Lease program. Secondly, the sum involved in this transaction should be applied toward reducing the Secretary's commitment to relieve the British from \$300,000,000 to \$400,000,000 of contracts. Sir Frederick understood the conditions which the Secretary stipulated, and said he would study them. While the meeting was in course, a memorandum came from Mr. Young to the effect that on the 144 Vultee planes, the total price of which was \$11,375,135.38, the British have paid down to date \$5,687,567.69. Included with the planes are 15 spare engines, 15 spare propellers and \$1,315,000 worth of spare parts. In talking with Mr. Cochran later about this, Phillips recalled that the planes had originally been ordered in this country by Sweden. The United States Government had then intervened to take the

- 4 -

contracts away from the Swedes and make them available to the British. The first plan under this latter arrangement was to have the planes pass through Canada. Phillips understood that Laughlin Currie had been instrumental in arranging for Mr. Hopkins now to take over the plane contracts from the British and make them available to China. Thinking aloud when in Mr. Cochran's office, Phillips was not at all sure that the two conditions to the arrangement were compatible. That is, he thought that if the sum involved was credited as relief to the British under the \$300,000,000 to \$400,000,000, the same funds could not be earmarked for use in purchasing goods difficult of lend-leasing. He promised, however, to go into the question carefully.

While Sir Frederick was with the Secretary on this visit, he and the Secretary exchanged certain further information in regard to the Viscose question, including correspondence. It was definitely arranged that Sir Frederick, together with Sir Edward Peacock, should come to the Treasury at 9:15 on Thursday morning, to have a preliminary meeting with Messrs. Foley and Cochran, together with Harold Stanley and a representative of Dillon and Read, and then later on meet with the Secretary at 10 o'clock.

Before Phillips left, the Secretary spoke with him at one side on the matter of the Keynes memorandum. The Secretary asked if any great harm would result from a week's delay in our answer. He assured Phillips that we were doing everything to make progress in British behalf, and especially on the \$300,000,000 to \$400,000,000 relief point, in the meantime. Phillips saw no reason for an immediate reply being urgent. While Phillips was with the Secretary the latter had shown him a letter from the British Ambassador. When Phillips came to Mr. Cochran's office after the meeting it was suggested by Cochran that Phillips might care to sign the memorandum which Keynes had submitted, as agreed upon at the Secretary's residence the preceding evening. Phillips thought that the Ambassador's letter to Secretary Morgenthau, explaining and confirming the purpose of Keynes' visit to this country, eliminated the need for this, but Phillips promised to sign later if we desired.

3: *[Handwritten signature]*

May 21, 1941
1:55 p.m.

H.M.Jr: Hello.

Allan
Sproul: Hello, Mr. Secretary.

H.M.Jr: Everything look all right?

S: It looks the same to us.

H.M.Jr: Nothing has happened since we talked.

S: Not a thing except the rights have gotten a little stronger if anything.

H.M.Jr: How do you mean stronger?

S: I mean the price of rights has gone up a little.

H.M.Jr: Well, that's all right, isn't it?

S: Sure. It means the market is thinking in terms of about what we were discussing as paying up the rights.

H.M.Jr: Well, you wouldn't change it any?

S: No, I would not. I've had one call from the City Bank's bond man telling me that anything beyond '54-'56 was too long but I still wouldn't change.

H.M.Jr: That's what Burgess said.

S: Is it? Well, this was Leo Kane over there.

H.M.Jr: Well, I think we'll stick by the arrangement.

S: That's a March dating, Mr. Secretary?

H.M.Jr: We're going to date it March 15th.

S: Yeah. I think that's right.

- 2 -

H.M.Jr: And I think it begins to draw interest on June 3rd.

S: Good.

H.M.Jr: I think that's what Bell said.

S: Well, that's fine.

H.M.Jr: All right. Now, I expect you fellows to take care of that girl up there in New York.

S: (Laughs). I'm not sure we're going to do that today.

H.M.Jr: Can't you get her to come around to your press conferences?

S: Well, I could get her to come around but I don't know whether it will do any good or not.

H.M.Jr: Well, they say they're going to write a straight story tonight.

S: Good. Are you going to release this before tomorrow morning?

H.M.Jr: For tomorrow morning.

S: Good.

H.M.Jr: Thank you.

S: Thank you, sir. Good-night.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 21, 1941

to Secretary Morgenthau

FROM W. H. Hadley

TREASURY BONDS

<u>Coupon</u>	<u>Maturity</u>	<u>Yield</u>	<u>Estimated Price</u>	<u>Possible High & Low Premium</u>	<u>Most Probable Premium</u>
2 1/2%	3/15/54-56 (12 3/4-14 3/4 yrs.)	2.25	102.24	2 pts. 24/32	2 1/2 pts.
		2.30	102.7	2 pts. 7/32	
*	6/15/54-56 (13-15 yrs.)	2.26	102.22	2 pts. 22/32	2-14/32
		2.31	102.4	2 pts. 4/32	
	9/15/54-56 (13 1/4-15 1/4 yrs.)	2.27	102.20	2 pts. 20/32	2-10/32
		2.32	102.1	2 pts. 1/32	
	12/15/54-56 (13 1/2-15 1/2 yrs.)	2.28	102.18	2 pts. 18/32	2 1/4 pts.
		2.33	101.30	1 pt. 30/32	
	6/15/55-57 (14-16 yrs.)	2.31	102.9	2 pts. 9/32	2 pts.
		2.36	101.21	1 pt. 21/32	
	9/15/55-57 (14 1/4-16 1/4 yrs.)	2.32	102.7	2 pts. 7/32	1-28/32
		2.37	101.19	1 pt. 19/32	
	12/15/55-57 (14 1/2-16 1/2 yrs.)	2.33	102.3	2 pts. 3/32	1 3/4 pts.
		2.38	101.15	1 pt. 15/32	
	3/15/56-58 (14 3/4-16 3/4 yrs.)	2.34	102.	2 points	1-20/32
		2.39	101.12	1 pt. 12/32	
	6/15/56-58 (15-17 yrs.)	2.35	101.28	1 pt. 28/32	1 1/2 pts.
		2.40	101.8	1 pt. 8/32	

* Outstanding issue on this date.

COPY

May 21, 1941

My dear Mr. Chisum:

Your letter of May 17 has given us real pleasure.

I am glad that you think so highly of the appointment of Dean Pickens to the Defense Savings Staff here at the Treasury. All of us who have met him are confident that he will be of immense service to the country.

Thank you very much for writing me such a friendly and encouraging letter.

Sincerely yours,

[Signed] H. Morgenthau, Jr.

Mr. Melvin J. Chisum,
812 North 45th Street,
Philadelphia;
Pennsylvania.

FK/hkb
5/20/41

File to Mr. Thompson

Copy to NMU

"FOR THE HIGHEST DEVELOPMENT OF NEGRO JOURNALISM"

NATIONAL NEGRO PRESS ASSOCIATION

OFFICE OF THE FIELD SECRETARY

MELVIN J. CHISUM

421 Jackson Avenue
OLINGOE, ILL.

312 North 46th Street
Philadelphia
Penna

May 17, 1941.

Secretary Morgenthau,
United States Treasury,
Washington, D. C.

My dear Mr. Secretary:

By reading ^{the} a copy of a letter which I wrote the President a few weeks ago, you will perceive that I am strong for the New Deal and all its works.

You will please accept my earnest praise for the wisdom which you displayed in having added the services of Dean William Pickens to the staff of the sales division of the treasury Department. In all this vast country of ours, you could not have made a better choice.

Dean Pickens, is one of the most extensively traveled men in America; he is much loved and highly respected by Negroes all over the world, and his connection with Treasury will sell more bonds to the colored people in this Nation than any other agency which you might have chosen. The very fact that Dean Pickens is associated with the Department, gives a great lift of encouragement to my people that is a good thing for them to do, to purchase these securities, and it is my conviction that nothing nor no one can make plain the road and clear the reasons why we should buy heavily of these bonds as can Dean Pickens.

You have made a grand choice Mr. Secretary and all those who think will applaud your selection of Dean Pickens, who is a great man amongst men in this land of ours, and I am.

Yours very respectfully,

Melvin J. Chisum

612 North 46th Street
Philadelphia
Penna

April 28, 1941.

President Roosevelt,
The White House,
Washington, D. C.

Dear Mr. President:

The quality of our affection and our faith in you was given full test, gone now, November 5, 1940. A very large majority of us told the world by the way we voted for you Mr. President, that those who love the Lord and this country--our great country, have full confidence in your unquestioned great leadership; you have the "go" signal from us all, to do the things which in your judgment is the best thing.

That vast majority which was with you on November 5, 1940 has added to its number greatly and we all stand in line, in back of you Mr. President in full support of a complete and all-out job of patrolling the seven seas if in your judgment it is necessary and in doing everything else which the momentous exigencies demand.

Use our Navy, use our air planes and use our stalwart marines if you think you need them Mr. President and those of us who love this country will say amen and more power to you.

You have it from Mr. Rockefeller in his letter to Mr. Sulzberger, that tells you what the really big folks want to see you do, Mr. President, and in my humble way, I am trying to emphasize what the great hosts of us little fellows think about the task which is in your wise and willing hands.

These momentous times admit of no delays and you don't have to linger for us to catch up with the procession, all of those middle-of-the-roads who are known by many fancy names are mere pacifists and appeasers, but the American citizen who is ready to go the full length of his cable-tow is with you and back of everything which you do.

This writer, an ordinary, hard pressed black man of 59 in good health and willing to serve any cause which supports your plans, Mr. President, speaks the sentiment of the souls of the blackfolks in this country, we say to you, Mr. President, we are back of your high purposes and with you to the bitter end; no matter where your leadership takes us, we will follow faithfully and will hold on and hold out to the end.

- 2 -

May the good God above us all, keep you and preserve your every effort to a successful conclusion, this is my prayer, and I have the honor to subscribe myself.

Your obedient humble servant,

May 21, 1941
3:45 p.m.

H.M. Jr: Hello.

Operator: Aubrey Williams.

Aubrey Williams: Say, you won't take offense at my telling you some of the stuff that's coming to me about this fellow Pickens.

H.M. Jr: Pickens.

W: He was appointed in this bond sales thing.

H.M. Jr: Yes, yes.

W: Have you got any stuff on him?

H.M. Jr: On him?

W: Yes.

H.M. Jr: Well, I mean, I don't

W: Last year he went up and down the country denouncing the President from one end of the land to the other and I got Walter White, whom he works for, to make a tour following him to talk and

H.M. Jr: Can you talk a little louder? I can hardly hear you.

W: I got Walter White after a terrible struggle to go to the same places that Pickens went to and to organize meetings to say what the President had done. But this fellow had gone to about eight cities and had damned the President up and down from one end of the line to the other.

H.M. Jr: Did Walter White know this?

W: Walter White knows it perfectly well.

- 2 -

- H.M.Jr: Well, I'll be damned.
- W: I've had - I don't know what you've had, but I've had already two or three letters and one from this chap, Sheppard, who is chairman of the Judiciary Committee of the House of Representatives of Pennsylvania, a negro and a very fine person, who has supported the President in season and out, and he writes me: "I speak the sentiments of thousands of ministers who have not forgotten the insults heaped upon them by the same William Pickens and that this matter will be given due consideration at the national gathering which meets in Cleveland, Ohio in September."
- H.M.Jr: Well, I'm delighted to get it and I'll look into it at once. It's all news to me.
- W: He's writing the President the views of many of those who worked so hard for his re-election and I thought you ought to know it.
- H.M.Jr: Well, I'm delighted and I'll look into it at once because if the accusations are true, I don't want anybody like that around me.
- W: Of course, it's one of the biggest jobs that has been given a negro since the Administration has been here in pay and it's a very hard thing for them to take.
- H.M.Jr: Well, I'll look into it at once.
- W: Fine.
- H.M.Jr: Thank you for calling me.
- W: Good-bye.

May 21, 1941

Harold Graves

Secretary Morgenthau

I wish you would talk to me about getting the longest movie that I saw last night over to the President for him to see.

*Movie sent to
Miss Lehman on
5/21/41 -*

May 21, 1941

Dear Missy:

I am sending you herewith the film, "America Preferred".

I would appreciate your arranging that it be shown to the President at the first opportunity.

Sincerely,

(Signed) E. Morgenthau, Jr.

Miss Marguerite A. Le Hand,
Secretary to the President,
The White House.

By Messenger

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE May 21, 1941.

TO Secretary Morgenthau
FROM Mr. Schwarz *CS*

NEW YORK POST

This afternoon's New York Post is carrying a page one AP story on Defense Bonds, an editorial blaming Hess for crowding our story out for a bit and a Rollin Kirby cartoon showing a man passing up a bank or postoffice window with a "Buy Now" Bond sign and the cartoon bears the caption: "You Can't Help That Way."

The news story is given as much prominence in the 7th (Blue Final) edition as was given to Sylvia Porter's piece yesterday. It follows:

DEFENSE BONDS AT \$257,000,000

Washington, May 21 --(A P)--Secretary Morgenthau announced today that the Treasury receipts from the sale of Defense Savings Bonds in the first seventeen days of the program, which began May 1, totaled \$257,646,000.

Face value of the bonds was slightly higher, since some of them are sold on a discount basis.

Morgenthau made no comment on the figures which he made public in a brief statement, but recently he said at a press conference that his advisers had told him \$300,000,000 would be a satisfactory total for all of May.

Other Treasury officials said they considered that a good record had been made and that sales were far from "bogging down."

- 2 -

The sales through last Saturday included \$167,767,000 of Series G Bonds (interest-bearing bonds sold at face value in denominations of \$100 to \$10,000), \$28,221,000 of Series F (similar to Series G except that they are sold on a 26 per cent discount basis) and \$61,658,000 of Series E ("Baby" bonds sold in denominations of \$25 to \$1,000 at 25 per cent discount).

The statement gave no figures on sales of Savings Stamps, which are sold at 10 cents to \$5 each, but the sales were reported at more than \$2,000,000.

Bond sales in the New York Federal Reserve District totaled \$82,300,000.

ooOoo

The editorial, entitled "Anybody You Know?", is as follows:

A family, living here in New York, got excited about the Treasury's Bond and Stamp issue when it was first announced. They talked about it at supper and decided they would buy a \$50 Bond in father's name, and that each of the two children would start saving stamps. Everybody felt good about the decision; for a long time the family had wanted to participate in the defense effort, but they hadn't been able to think exactly what to do. This was the proper solution.

Father, who was to do the actual buying, forgot to stop at the bank the following day. He decided to wait until the next Friday, but when Friday came he forgot again. And then Hess floated out of the sky, the Defense Savings publicity was crowded off the front pages and the family forgot completely about their resolution.

Until yesterday, that is, when news came that the issue is selling badly. The family felt a little guilty, as though their oversight had caused the failure. Father swears he won't forget again.

ooOoo

New York Post

MAY 21 1941

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New York Post
MAY 21 1941



YOU CAN'T HELP THAT WAY

New York Post

MAY 17 1941

S. F. PORTER SAYS—

Treasury's New Borrowing
Bares Defense Bond Failure

A big story lies behind the Treasury's huge borrowing deal due this week—a story that, sadly enough, is neither reassuring as to the nation's willingness to finance the defense program, nor indicative of Secretary Morgenthau's ability to inspire Americans toward wholehearted support.

Here's the story:

(1) The Treasury's pending financing—it will total between \$1,300,000,000 and \$1,800,000,000—implies an admission on the part of Morgenthau that the defense bond drive has been a failure to date.

(2) The rapidity with which the Treasury returned to the admittedly dangerous method of financing defense through borrowing from American banks suggests a lack of enthusiasm in government circles for the bond campaign.

(3) The distinctly unsatisfactory publicity buildup for the bond drive reveals a confusion of purpose and an amount of misunderstanding in the Treasury Dept.

All of this comes out of the late announcement from Washington that tomorrow or Thursday, Morgenthau will offer new government bonds in the open market for refunding and new cash borrowing.

Background

On May 1, the campaign to sell government bonds to every American citizen was initiated in a rush of last-minute publicity. There hadn't been much preliminary work done on acquainting the public with the necessity for buying the bonds.

There hadn't been much effort to explain the terms of the stamps and Series E, F and G bonds to citizens unfamiliar with finance.

But there was a lot of fanfare at the beginning of the month. And satisfactory progress was reported during the first two or three days.

Then the lull and the shouting—essential factors in any selling drive and especially in one as important as this—died down.

The posters promised by the Treasury aren't arriving at the banks and other sales agencies. The newspaper, magazine, radio and other mediums for publicity aren't being used to the extent they could be. Corporations are not being helped in efforts to start employee subscription plans.

The whole program is being permitted to bog down at a crucial time. And on Friday, while announcing that in the first two weeks \$216,845,000 in stamps and

bonds had been sold, Morgenthau disclosed his intention to borrow new cash from the banks.

Not even the most pessimistic government bond dealer in Wall Street expected the Treasury to be back in the open market for funds three weeks after the bond selling campaign got under way.

A Success

Of course, the pending financing will be a tremendous success. Virtually every sale by the Treasury in the regular market since 1933 has been enthusiastically received.

All Morgenthau has to do is place attractive coupon rates and maturities on the bonds and the banks and insurance companies will buy as many obligations as they can get.

Success for this operation is important but it's not the major point now, for to finance defense without inviting an inflationary blowoff, the Treasury must dig into the savings accounts of average families.

On all sides there was much criticism of Morgenthau's "admission of failure."

Part of the cash to be raised will be used to refund the \$834,000,000 3½ per cent bonds maturing Aug. 1. At least \$500,000,000 and possibly as much as \$1,000,000,000 will be borrowed above that.

The general opinion is that the Treasury will sell long-term bonds—possibly 2½s due in the mid '50s or 2¼s due in the '60s—and will offer an additional issue of ½ per cent notes to investors desiring to keep their funds in short-term maturities.

Every indication is that the issues will be in great demand. They will be oversubscribed. They will rise to immediate premiums. And the subscription books on the securities will be closed within 24 hours of the announcement of sale.

Financial Nightmares

A glance at the national defense financing task before the Treasury today well may cause nightmares for any economically literate citizen.

In the next fiscal year, the Treasury must borrow \$6,333,000,000, Morgenthau disclosed a few weeks ago. National defense expenditures currently are running at about \$800,000,000 a month against \$150,000,000 monthly a year ago. So far this fiscal year, defense payments are running about four times the total of the 1940 fiscal year.

The Treasury's working cash balance today tops the \$1,500,000,000 mark, but that's not enough to pay for two months of defense spending.

New York Post**MAY 22 1941****Defense Bond Sale
Is 'Satisfactory'**

WASHINGTON, May 22 (AP). —Secretary Morgenthau asserted today that the Treasury's defense savings campaign was "entirely satisfactory" and pledged himself against any compulsory methods of selling government bonds to the public.

He made the statement at a press conference when asked about a statement this week by Rep. Crawford (R-Mich.), who said the program was failing to raise sufficient money and predicted a compulsory savings program as a result.

"We have been averaging \$15,000,000 a day in sales and I consider an average of \$15,000,000 entirely satisfactory," the Secretary said.

DEFENSE SAVINGS STAFF
ADVANCE NOTICE RADIO PROGRAMS

WEDNESDAY, MAY 21

Time: 7:00 - 7:30 P.M.

Station: WMAL, Washington, D. C., and National
Broadcasting Company Blue Network.

Program: "Quiz Kids" Program.

Time: 8:00 - 9:00 P.M.

Station: WJSV, Washington, D. C., and Columbia
Broadcasting System.

Program: Texaco Star Theatre.

THESE PROGRAMS PROMOTE SALE OF DEFENSE BONDS AND STAMPS.

May 21, 1941

Dear Mr. Rodgers:

Your letter of May 20 gives me an opportunity to confirm my telegraphic acceptance of your offer to let us use your radio time over the Columbia Broadcasting System for thirteen weeks this summer.

These radio hours will be of immense help to the Treasury. I am indeed grateful to you for this fine and generous contribution to national defense.

Sincerely yours,

~~(Signature) W. S. Rogers, 527~~

Mr. W. S. S. Rodgers,
President, The Texas Company,
135 East 42nd Street,
New York, N. Y.

FK/hkb
5/21/41

File to Mr. Thompson

THE TEXAS COMPANY
135 East 42nd Street

W.S.S. Rodgers
President

May 20, 1941

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

Sir:

The Texas Company is pleased to offer to the United States Government the radio time on 88 stations, from Coast to Coast, which we have purchased from the Columbia Broadcasting Company, for the period beginning July 3, 1941 and continuing for thirteen weeks. This is the one-hour Wednesday evening period which normally carries the Fred Allen Texaco Star Theatre Program.

It is our hope that you will be able to use this time in helping to bring to the attention of the people of this Country the advantages of purchasing Defense Bonds and Savings Stamps.

Very truly yours,

/s/ W.S.S. Rodgers

WSSR-WAD

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 21, 1941

TO Mr. Graves
FROM Gale F. Johnston
RE: Salary Savings Plans

Following are listed a number of companies that have announced salary savings plans for Defense Savings securities:

Bowery Savings Bank
General Electric Company
Metropolitan Life Insurance Company
Lincoln National Life Insurance Company
New York Life Insurance Company
Jefferson Standard Life Insurance Company
Atlantic Life Insurance Company
Liberty Life Insurance Company
Southeastern Life Insurance Company
The National Life Insurance Company of Vermont
North Carolina Provident and Mutual Life Insurance Company
Federal Reserve Board
Federal Reserve Banks
Potomac Electric Power Company
Riggs National Bank
South Carolina National Bank (15 branches)
Standard Oil Company of New Jersey
United States Rubber Company
Lever Brothers Company
General Time Instruments Corporation
First National Bank of Columbia
Citizens and Southern Bank
Bank of Hartsville
Commercial National Bank of Spartansburg
Sonoco Products Company
Rock Hill Finishing Company
American Telephone and Telegraph Company
Armor and Company
International Harvester and Company
W. T. Wright and Company
Kraft Cheese Company

The latter five companies had plans in effect for the sale of the Series D Bonds.

- 2 -

We have been advised indirectly of many other plans to be offered by prominent corporations, but as yet we have not received details of their plans.

A number of units of the Federal Government have plans in effect, some of which are working smoothly. Messrs. O'Malley and Touchstone have been in touch with most of the Federal agencies on routine matters. However, no particular effort has been made in this connection, as we are awaiting a reply to the suggestions and outlines attached to the memorandum of Mr. O'Malley of April 28.

It is felt that if and when the hundreds of thousands of Federal employees indicate an interest in the Defense Savings program by the purchase of these securities, either through payroll savings plans or through other methods suggested, that this will have a very excellent effect on the country.

Mr. Touchstone, who with Mr. O'Malley did effective work on salary savings sometime ago, but whose services were ended when it was decided that the sponsorship of such plans should not come from the Treasury, has been recalled and will report back here this week. He will take care of the salary savings program and the many requests that are coming from corporations throughout the country. It is our intention to push this very important phase of our marketing program, and we hope to give you encouraging reports on its progress. You will be interested to know that many of the above new plans were worked out with the help of different ones in our organization. We are well equipped to proceed immediately on this program, and have about prepared material and gathered samples for assistance in pushing the plan.

Our reports on the reception given these various plans are not complete. However, we do know that in numerous instances the employees surprised their employers by their whole-hearted desire to get into this program on a systematic basis. We do know that all of the employees of the Bowery Savings Bank, Federal Reserve Board, Federal Reserve Bank of St. Louis, the South Carolina National Bank and its fifteen branches, and the First National Bank of Columbia report that one hundred per cent of their employees accepted the plan.

The effect of salary savings buying of course will not be felt for several months because employees are accumulating their funds in small amounts and will not buy a bond until at least \$18.75 has been accumulated.

A. J. G.

5/21/44

FOREIGN LANGUAGE RADIO ACTIVITIES-- 22 languages --

Czech	Croatian
Slovak	Ukrainian
Portuguese	Chinese
Lithuanian	Russian
Hungarian	Japanese
Swedish	Roumanian
Norwegian	Italian
Greek	Polish
French	Spanish
Finnish	German
Slovens	Jewish

ITALIAN TALENT

Atilio Piccirilli

Ugo Facci

Judge Ferdinand Pecora

Guiseppe Bellanca

Angelo Patri

Dr. Gaetano Salvemini

Guy Lombardo

Frank Capra

GERMAN TALENT

Luise Rainer

Dr. Anton Lang

Dr. Albert Einstein

Senator Robert F. Wagner

Gisella Newkirk

Dr. Emil Ludwig

Dr. Walter Damrosch

Kurt Weill

CZECHO-SLOVAKIAN TALENT

Charles Pergler

Dr. Ales Hrdlicka

SPANISH TALENT

Xavier Cugat

SWEDISH TALENT

Dr. A. J. Carlson

AUSTRIAN TALENT

Ludwig Bemelmans

Elissa Landi

Paul Muni

Franz Werfel

NORWEGIAN TALENT

Vera Zorina

ROMANIAN TALENT

Konrad Bereovici

FRENCH TALENT

Claudette Colbert

Lily Pons

Charles Boyer

YUGOSLAVIASLOVENE (OR SLOVIAN)

Lewis Adamic

PORTUGUESE TALENT

Dr. Racul D'Eca

RUSSIAN TALENT

Igor Sikorsky

Dr. Otto Struve

Prince Serge Obolensky

Dr. Gregory Zilboorg

HUNGARIAN TALENT

Joe Pasternak

Dr. Stephen F. Wise

Dr. Bela Schick

POLISH TALENT

Peter Yolles

Dr. L. Bostan

Leopold Stokowski

Ignace Jan Paderewski

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM J. J. O'Connell, Jr.

May 21, 1941.

For your information

The regular weekly meeting of the Price Administration Committee, held at 11 o'clock this morning, was cut short because Mr. Henderson had an appointment at the White House at 11.45.

The discussion followed the usual pattern, and centered around the recent order fixing a ceiling price for combed yarn, the rising price of hides and the ever present problem of shipping rates and scarcity of available bottoms. Reference was also made to the price situation in the oil industry. It was pointed out that there have been two recent increases in the price of crude oil and that the price of gasoline has also been going up. Mr. Henderson advised that he has a group working on the oil situation and hopes to be able to take some steps which will keep the situation under control.

The meeting adjourned before 12 o'clock.

Joseph J. O'Connell Jr.

339

Treasury Department
Division of Monetary Research

Date..... May 21 19

To: Mrs. Klotz

From: Mr. Kamarck

The Secretary requested that Mr. Buchman be interviewed. The letter from Mr. Buchman asking to see the Secretary is appended.

Although I wrote a memorandum summarizing the interview, I do not think the Secretary would be interested in the memorandum.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 21, 1941

TO Secretary Morgenthau

FROM Mr. Kamarok

Subject: Interview with Julius H. Buchman, May 20

1. Mr. Buchman is an architect associated with two Austrian refugees, Dr. Herrey and his wife, who are supposed to be experts on road traffic problems. According to Mr. Buchman, the Herreys have made studies on a number of important problems, such as the determination of the capacity of a road, the setting of safe speeds on all types of roads, the most efficient methods of traveling in convoy and the means of increasing the capacity of roads through traffic controls.

2. Mr. Buchman has made contact with all the appropriate agencies, such as the Bureau of Public Roads, the Army Engineers, the Interstate Commerce Commission, and National Resources Planning Board.

3. His sole reason for writing to the Secretary was to know if the Secretary would have anyone to suggest who might be interested in Dr. Herrey's ideas.

4. It seems to me that Mr. Buchman is already in contact with all of the agencies which can make an expert appraisal of the Herreys' work, and I so informed him. I also told him that if we did have any suggestions to make we would get in touch with him.

BLACKSTONE HOTEL
1016 Seventeenth St. N.W.
Washington, D. C.

May 19, 1941

Hon. Henry Morgenthau, Jr.
Treasury Dept.
Washington, D. C.

Dear Mr. Morgenthau:

After conversation with your Secretary this morning, I am writing you this note to clarify my purpose in asking for an appointment with you.

I am the second son of Edwin Buchman, deceased, and the nephew of Julius Buchman, deceased; I am a graduate of Williams College, 1928, A.B. & BK, a student of architecture at M.I.T., Yale University, and Bahhans in Dessau and Berlin, Germany.

At the present time I am associated with Dr. Herrey and his wife, Erna Vohsen, Ph. D., who are immigrants on a quota visa (Austro-German), which they applied for directly after the Munich agreement in 1938. Both Dr. and Mrs. Herrey have carried on in England since 1937 comprehensive research in the field of traffic and road communications, and were able to show its application in an exhibition in 1939 under the sponsorship of the Royal Institute of British Architects, opened by Herbert Morrison, now Home Secretary in the British War Cabinet.

During their comparative short stay here which is to be permanent as they made early application for citizenship, Dr. Herrey has lectured at Harvard and Yale and has in a large measure reproduced the tangible representation of his research in the graphs, diagrams, and drawings which were sunk in transit from England last year.

Both the Herreys and I feel that this research has progressed to the point where its application to certain problems of the Army engineers and to new problems of traffic due to dislocation of certain transportation facilities could be of benefit in their solution.

Our visit here has not been from the idea of selling this research, but rather in offering it for discussion; then if the value were determined, it

would be our policy to cooperate with the interested technical experts of the War Dept. and the Public Roads Administration, as well as the Interstate Commerce Commission in a consultive capacity.

I should very much enjoy meeting you and hearing any suggestions you might have regarding these matters.

Sincerely yours,

/s/ Julius H. Buchman.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London.

DATE: May 21, 1941, 10 p.m.

NO.: 2048.

This telegram is for the Treasury and is confidential.

(a) It is suggested in financial news reports today that the mobilization of dollar resources by Ireland may be an indication that the British authorities will expect the Bank of Ireland to satisfy the dollar requirements of Irish importers which up to this time have been secured, in the same manner as British importers, through the Bank of England. However, the British Treasury has confidentially advised this Embassy that such an intention does not exist. In view of the fact that the furnishing of ordinary dollar needs to Irish importers and the acquisition of dollars from ordinary Irish exporters, etc., has heretofore been carried out satisfactorily, it is desired that the arrangement should not be disturbed. A request for dollars for purchasing ships was not viewed by the British Treasury as covering an "ordinary requirement", however, and apparently the Government of Ireland determined for that purpose to fall back on their dollar resources. We have been requested to handle the foregoing information in strict confidence.

(b) The Statist for May 17 contains an article on inflation possibilities and control in the United States which may be of interest.

WINANT

EAG:SG

PARAPHRASE OF TELEGRAM RECEIVED

FROM: ^{American} Legation, San José, Costa Rica.

DATE: May 21, 1941, 6 p.m.

NO.: 114

It has been learned from a reliable source that F. Reimere and Company and Guillermo Richards and Company, German firms, (which withdrew their dollar accounts from the local banks) last week sent \$75,000 to Chile. It was reported that Argentina also received some.

This telegram was reported to Buenos Aires and Santiago.

DUYRE

RECEIVED
MAY 22 1941
11 41 AM '41

TO THE SECRETARY
LEGATION OF COSTA RICA
SAN JOSE

EAJPAK

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE May 21, 1941

TO Secretary Morgenthau
FROM Mr. Wiley

FBI reports from Honolulu that as of March 10, 1941, the Yokohama Specie Bank in Honolulu had sold to local residents in Hawaii certificates of deposit, usually of 10 years' maturity, on the parent bank and branch banks in Japan amounting to at least 30,817,456.02 Yen, or approximately \$7,400,000. A similar situation appears to exist in the Sumitomo Bank in Hawaii whose certificates of deposit are made the obligations of the main office in Osaka, Japan.

Wiley

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 21, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£54,000
Purchased from commercial concerns	£69,000

Open market sterling held steady at 4.03-1/4, and there were no reported transactions.

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

Canadian dollar	12-7/8% discount
Swiss franc	.2320
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2375
Brasilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	2-7/16% discount

In Shanghai, the yuan in terms of our currency declined 1/32¢ to 5-3/8¢. Sterling moved off 3/8¢ to 3.91-1/4.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$4,114,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

We were informed that the Bombay gold price for May 17 was equivalent to \$34.05, or 22¢ lower than the price for May 10. In the same period, the Bombay silver quotation moved off 1/16¢ to 44.44¢.

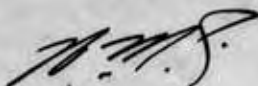
In London, the price fixed for spot silver was 23-7/16d, off 1/16d. The forward quotation was also 23-7/16d, unchanged. The U.S. equivalent of this price is 42.56¢.

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

-2-

We made two purchases of silver totaling 100,000 ounces under the Silver Purchase Act. Both of these consisted of new production from various foreign countries, bought for forward delivery.

We also purchased 300,000 ounces of silver from the Bank of Canada under our regular monthly agreement. So far this month we have purchased 650,000 ounces from that source, as compared with the agreed monthly limit of 1,200,000 ounces.



CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 21, 1941

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Summary of Military Reports

Libya-Egypt

According to British Military Intelligence, the axis will not be able to accumulate sufficient supplies at the front for a serious advance on Egypt before June 1. For the present the axis troops are apparently preparing to remain on the defensive.

The axis has four Italian infantry divisions which are still west of Benghazi. At the front in the Tobruk-Sollum area, the axis has five divisions (less than 100,000 men). There are two German Panzer, one Italian armored division and two Italian motorized divisions. (These would have a total of less than 1,000 tanks.) (London, Military Attache, May 18)

In order to create a diversion from Iraq, the British may attempt to relieve the garrison at Tobruk with a limited offensive.

The British convoy which recently passed through the Mediterranean to Egypt consisted of only five ships not six. The four ships that arrived in Egypt brought 203 tanks (73 twelve-ton and 130 twenty-six-ton) and 24 planes. (This accession probably more than doubles the previous tank strength of the British. The axis total of almost 1,000 tanks undoubtedly is more than double the British strength, which at a maximum cannot be more than 400 tanks.) (Cairo, Military Attache, May 16)

Eastern Mediterranean

A continued concentration of German strength southward towards Greece is apparently occurring. New German air units are appearing in Bulgaria. There were, a few days ago, about 100 German air transports in Sofia and an equal number is supposed to be at Belgrade. On May 19, 100 such transports left their Romanian bases to go south while there were already 100 transports in Greece.

According to various reports, the Germans are sending ships loaded with munitions and oil from the Black Sea through the Dardanelles to Greece. On May 20, German troops on a number of ships left Constantza ostensibly for Batum but probably for Greece to be used against Crete. (Bucharest, May 15; Sofia, May 17; London, May 20)

CONFIDENTIAL

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

London, filed May 18, 1941.

1. British Air Activity over the Continent.

2. Night of May 16-17. British made serious bombing attacks on Cologne and smaller scale raids on Belgrade. The Coastal Command bombed shipping facilities and shipping in Willemoord (Holland), Cape Gris Nez, La Pallice, Bioggio, and Gains. Airfields in Occupied France were bombed successfully by Hurricanes.

2. German Air Activity over Britain.

2. Night, May 17-18. German air activity was of minor proportions and limited chiefly to coastal patrols in East Anglia. Single planes were active over the Salisbury Plain, Cambridge, Watlington and Colchester.

2. Daylight, May 17. Air activity remained at a minimum, a few missions being performed by single bombers with no damage reported. Throughout the day, however, offensive missions were performed by small groups of fighters over Kent.

3. German Air Losses over Britain.

2. Daylight, May 17. One plane was shot down and 2 damaged in fighter attacks over Kent.

4. British Air Activity, Middle East Theater.

2. Daylight, May 17.

(1) Egypt. British planes based in Egypt bombed the airbase at Hama and Gama as well as the harbor at Benghazi. A convoy of approximately 100 Axis trucks was machine gunned with destruction and damage to a number of vehicles.

CONFIDENTIAL

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(2) Algeria. In the Agha Alagi and Gendar areas troop columns were bombed and machine gunned.

(3) Malta. British fighters based on Malta attacked airfields at Halcei and Argos and Sannai (Greece).

(4) Palestine. A Shyriani plane patrolling from Palestine observed a number of German planes in 7 airfields in Syria.

(5) Iraq. British bomb attacks on Mosul and Basrah airfields continued.

5. Aria Air Activity, Middle East Theater.

a. Night, May 17-18. German planes bombed Salim and Tchrash without success.

(1) Malta. Twenty-five German planes bombed the airport at Malta without military damage resulting.

(2) Syria. The total of 90 German planes bombed Suda Bay and 2 airfields on the island. Some destruction was reported.

6. German Air Losses, Middle East Theater.

a. Night May 17-18. Two German planes were shot down in raids on Tchrash and Salim.

b. Daylight, May 17.

(1) Libya. Four German planes were shot down by fighters in the course of British attacks on Libya airfields and harbors.

(2) Syria. About 250 German planes which had been observed on the ground at three Greek airfields were all heavily attacked with heavy machine guns and cannon from fighter planes. Many hits were observed.

(3) Iraq. Three German planes were shot down and 4 damaged in an attack on airfields at Mosul and Basrah.

-3-

CONFIDENTIAL

(b) **Spain.** In the course of German attacks on the island of Crete, 2 planes were shot down by anti-aircraft fire.

7. **Spain.** More German planes have been observed arriving in Spain but no information has been received of German activities in western up to date.

8. **Italy.** Four Italian infantry divisions have been identified as still remaining west of Benghazi. The British Military Intelligence reports that 2 German armored divisions, 1 Italian armored, and 2 Italian motorized divisions in the Tobruk-Sidi Barrani area are apparently preparing to remain on the defensive. It is estimated that sufficient supplies for a serious attempt to advance for these five divisions cannot be accumulated before the first of Jan.

22

Distribution:

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



SECRET

By Authority A. G. of S. G-2

Date **MAY 19 1941** BPH

**Paraphrase of Code Cables
Received at the War Department
at 13:42, May 18, 1941.**

353

Cairo, filed 13:32, May 16, 1941.

1. In reference to my cable of May 13 in regard to a convoy of six British ships which passed through the narrow south of Sicily under heavy air bombardment without loss save one ship which struck a mine, the number of ships should have been five, not six. On the four which arrived at Alexandria were 73 twelve-ton cruiser tanks and 130 twenty-six-ton infantry tanks with 24 planes. This reinforcement of equipment and tanks makes the situation more favorable.

2. It is the opinion of this office that in order to create a diversion from Iraq, the British may attempt to relieve the garrison at Tebruk.

3. May 14. One Messerschmitt, four Junkers 90's and four unidentified German planes were observed at Palmyra and six Me 109's at Erbil (?). It is thought that the new agreement between the Vichy Government and German makes legal the crossing of Syria by German planes and servicing them en route.

4. The amount of Axis shipping between Benghazi and Tripoli continues to be considerable.

5. Malta was heavily bombed for four hours. Two Hurricanes were destroyed and four damaged.

6. Nov 11. The British captured Sallam and Halfaya Pass by attack with limited objective.

FELLERS.

Distribution:

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, G-2
WPD
ONI
Air Corps
Assistant Chief of Staff, G-3

SECRET

SECRET

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

Date 20 May 41 Mull
InitialsParaphrase of Code Intelligence
Received at the War Department
at 07:05, May 20, 1941.

London, filed 14:05, May 20, 1941.

1. Information derived from sources we consider authentic reported on the morning of May 20 a number of transports of German troops embarked at Genoa a few days ago. The disembarkation point was announced as Eilat but British Military Intelligence considers the possibility that they may be being sent through the Dardanelles to the Island of Crete.

2. Troops from German air transports landed near Gass on that island at dawn May 20. Their strength has not yet been reported but British Military Intelligence states that 100 Junkers 50's were based on Greece and that a second hundred left their Russian bases May 19.

III

Distribution:

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

SECRET

Paraphrase of Code Radiogram
Received at the War Department
at 8:43, May 16, 1941.

Bucharest, filed 17:40, May 15, 1941.

1. Much shipping activity prevails in the Black Sea ports of Rumania and Bulgaria. Twelve larger ocean vessels are held in Rumanian ports at the disposition of the German High Command. These twelve ships fly the following flags:

German - 8
Italian - 2
Rumania - 2

2. On May 13th, the steamers JALOVA, CORNELIA and ITHAKA, all flying the German flag and totalling 15,000 tons sailed from Constantza for Salonika. These ships carried munitions, gasoline, oil and mines, as well as a number of small motor torpedo boats. On May 14th, the Rumanian ship CAMPINA and the Italian ships JOSEPHINA and GETARDI also sailed for Salonika with gasoline and oil.

3. It is rumored in Bucharest that a Turkish ship will sail from Constantza for Rhodes. This ship will have a cargo of gasoline and oil.

4. I am informed that an Italian Admiral will arrive at Constantza to command "naval units" which vague rumors speak of as already being in the Black Sea.

5. On May 6th, a Rumanian submarine was completed. About June 1st, a second will also be ready. Rumania will then have in commission four submarines totalling 3,650 tons.

RATAY

Secretary of War
Chief of Staff
Office of Naval Intelligence

State Department
War Plans Division

Secretary of Treasury
Under Secretary of War
Assistant Chief of Staff, G-2

CONFIDENTIAL

CONFIDENTIAL

357

**Paragraph of Code Indigum
Received at the War Department
at 1837, May 17, 1941.**

Sofia, filed May 17, 1941.

Troop transport planes of German origin numbering about 100 are here and at Belgrade an equal number is reported. In Sofia this date there are appearing new air units.

JMW

Distribution

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

CONFIDENTIAL

BRITISH EMBASSY,
WASHINGTON, D.C.

21st May, 1941

PERSONAL AND
SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

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

TELEGRAM RECEIVED FROM LONDON

MAY 19TH, 1941.Havel

Newcastle has intercepted French 5,100 ton ship carrying 1700 Indo Chinese troops about 300 miles south of Freetown. No attempt sabotage, but Captain refused to cooperate., Armed guard placed on board. Ship being escorted.

2. A.M. May 18th Suda bombed. "Galvia" Corvette damaged, oiler Olma set on fire.
3. Night of May 17th/18th. Suez Canal mined again - now only open south of kilometre 60.
4. British "City of Shanghai" torpedoed and sunk by gun fire from U-Boat P.M. May the 10th about 900 miles west of Freetown.
5. Military Tobruk. Now known that two posts reported captured by the enemy are still in our hands. Dawn May 17th our troops recaptured further post. Two enemy medium tanks and 25 German prisoners were taken.
6. Duke of Aosta has accepted terms of capitulation. Our troops to occupy Toselli Pass at 6 A.M. May 18th, enemy allowed to collect wounded May the 18th, Duke of Aosta, General Grusci and the whole garrison of approximately 7,000 formally surrendered May 19th.
7. Iraq. One of our columns from Palestine has arrived at Habbaniya having been twice attacked by German aircraft. Our casualties slight.
8. Royal Air Force. Night of May 18th/19th. Of 77 aircraft, 70 attacked shipyards at Kiel; all returned safely.
9. Libya. Night of May 16th/17th. Heavy bombers attacked Benghazi harbour. May 17th Hurricanes machine gunned large enemy supply columns moving east towards Tobruk, Bardia and

Capuzzo./

-2-

Capusse. Nineteen vehicles destroyed, others damaged road, traffic interrupted and petrol dump destroyed.

10. Greece. Same night heavy bombers attacked three German occupied aerodromes good results. At one, hangars hit, 4 enemy aircraft destroyed on the ground. Two Wellingtons also attacked Maritsa aerodrome Rhodes set fire to petrol or ammunition dump.

11. Syria May 17th. Three Blenheims set fire to two enemy aircraft at Palmyra and met inaccurate anti-aircraft fire returning over Damascus.

12. German Air Force. May 18th. Enemy activity slight; one fighter destroyed, two damaged. Night of May 18th/19th. Only little sea mining; one enemy aircraft destroyed.

13. Egypt. During operations by eight enemy bombers against the Suez Canal night of May 17th/18th two enemy aircraft destroyed by anti-aircraft fire, one by fighters.

BRITISH EMBASSY,
WASHINGTON, D.C.

21st May, 1941

PERSONAL AND
SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

TELEGRAM RECEIVED FROM LONDON MAY 20TH, 1941

Naval Bangor, mine sweeper and two M/S trawlers attacked, Lyme Bay by 9 enemy aircraft A.M. May 19th. Slight damage only. Two aircraft damaged.

2. Ships in Lowestoft night of May 19th/20th shot down one enemy aircraft.

3. CRETE A.M. May 20th. Heavy air attack developed on Maleme and Suda Bay A/A defences. Large forces of enemy aircraft engaged. 6 A.M., G.M.T. reported air borne troops landed south and southwest of Canea. Reported 9 A.M., G.M.T. about 1500 enemy troops in New Zealand battle dress landed from gliders parachutes and troop carriers Canea and Maleme areas and military report the situation in hand. Enemy bodies of parachute troops have landed at Retimo.

4. ROYAL AIR FORCE EGYPT, MAY 18TH. Sollum area 28 Blenheims bombed and continually harassed advancing enemy mechanized forces until they withdrew towards Capuzzo; the same day fighters attacked convoys southwest of Appolonia destroying and damaging several vehicles.

5. IRAQ, MAY 19TH Our aircraft active over Fallujah and Habbaniya, providing patrols and attacking military targets in support of ground operations. Two Valentias and four Douglas aircraft carried troops Fallujah, occupied by us May 19th without any casualties.

6. GERMAN AIR FORCE, May 19th. Fighter engagements took place over Kent and the channel, 5 German, 4 British aircraft destroyed. We lost one pilot. Night of May 19th/May 20th 25 enemy aircraft were plotted, majority engaged against us in bombing and mine-laying.

CRETE May 17th/May 18th. Enemy aircraft carried out

severe

severe bombing raids. Heraklion Aerodrome was rendered temporarily unserviceable. Two enemy aircraft shot down by anti-aircraft fire. No Royal Air Force casualties reported.

CONFIDENTIAL

Paraphrase of Code Cablegram
Received at the War Department
at 06:31, May 21, 1941.

London, filed 13:09, May 21, 1941.

1. British Air Activity over the Continent.

a. Night of May 19-20.

Air activity was canceled on account of unfavorable weather conditions.

b. Day of May 20.

Air activity was canceled on account of unfavorable weather conditions.

2. German Air Activity.

a. Night of May 20-21.

German air attacks were on a reduced scale and concentrated on Farnmouth and Portreath. Scattered individual planes were observed over Newton, Milford Haven and the Humber. Sea patrols operated in the Bedford and Liverpool areas.

b. Day of May 20.

Fighter missions were accomplished over northwestern Scotland and Kent. There was little activity in patrolling and reconnaissance over the coasts. On account of bad weather, British fighters did not make contact.

3. British Air Activity, Middle East Theater.

a. Day of May 20.

CONFIDENTIAL

1. British planes based in Egypt attacked a motor convoy of over 100 Axis vehicles on the road Bengasi-Aghaila and damaged many. The port of Bengasi was again bombed.

2. Palmyra. German airplanes on the airport of Palmyra (Syria) were again bombed and machine gunned.

3. IRA. Heavy columns northeast of Fallujah were the targets of British air attacks as was also the airfield at Rashid.

4. German Air Activity, Middle East Theater.

a. Day of May 20.

1. Libya. Near Sollum a British column was machine gunned by German planes.

2. IRA. German planes bombed Bahariya and Fallujah.

3. Greece. In the dusk just before dawn, this date, an extremely heavy bombing and machine gun attack was effected against airports, and particularly the antiaircraft positions, followed immediately by troops carried in air transports, gliders and paratroopers. This attack had been preceded on May 18-19 by uninterrupted bombing of all the landing fields and antiaircraft positions on Crete. In the attack, at least 1,500 Germans were dressed in the combat uniform of New Zealand soldiers. One detachment which had gained and occupied a strong position has not yet been taken care of. The situation elsewhere is reported to be under control.

END

Distribution:

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

Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence
Air Corps
G-3

CONFIDENTIAL

RESTRICTED

G-2/2657-220; No. 397 M.I.D., W.D. 12:00 N., May 21, 1941.

SITUATION REPORTI. Western Theater.

Air: Bad weather prevailed. Minor German and no British offensive operations.

II. Greek Theater.

The German attack on Crete continues. There is considerable evidence to suggest that German reinforcements are steadily arriving in Crete, and that at least one airdrome is now in German hands. Reports from London that German troops have been landed on Crete by Axis ships remain unconfirmed. One German air landing was effected in the vicinity of Rethymo. The German invasion has been strongly supported by bombardment aviation.

III. Mediterranean and African Theaters.

Ground: North Africa. In the Sollum area patrol activities continue.

Air: Axis. Harassing attacks on troops in Egypt. Malta was bombed.

British. Air support of patrols which included an attack on Fort Capusso, western Libya, incident to which the Germans claim five bombers downed.

IV. Middle Eastern Theater.

Iraq: Methodical British advance toward Baghdad from Habbaniyah has been reinforced.

Syria: Transit of and operations by German planes continue.

Turkey: Rail transit of axis-controlled munitions to Iraq confirmed.

V. Western Mediterranean Theater.

Economic: Spanish grain harvest has begun. This suggests June 20th as about the earliest convenient date for passage of German troops through Spain.

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Purposeless of Code Radiogram
Received at the War Department
at 11:35, May 21, 1941.

Madrid, filed May 21, 1941.

I agree with belief of trustworthy source that report
of Italian occupation of Balearics, which report had also been
heard here, is without foundation.

RACKER

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Paraphrase of Gado Sublogren
Received at the War Department
at 08:17, May 21, 1941.

Cairo, filed 19:00, May 19, 1941.

1. A Muslim Holy War cannot be declared unless by popular movement. A Holy War to a Muslim is a sacred cause. It is imperative that he take his part, as well as his entire family. Death in Holy War is noble and sacred. However, such a war in its nature must be defensive, not offensive. The obligation to join is complete and final.

2. The struggle in Iraq cannot become a religious war. However, those forces combatting the British are influenced and their enthusiasm has been increased by the approval which the Muslim religious authorities grant them. The Mufti has not been influenced by the Nazis. His anti-British attitude was adopted before Nazism was heard of and was solely actuated by his hatred of Jews. It is not impossible that the British expectation of trouble between the Mufti (Amin el Husseiny) and Rashid Ali will take place, since Germany has made both the same promises. In Egypt, however, there is no report of any such disagreement. The Mufti hopes for a united free Arabic people; Rashid Ali dreams of a free Iraq.

3. In any event a Holy War declared by the Mufti will not be accepted as important by Egyptian Muslims. Their own religious leaders they consider of greater authority than Amin el Husseiny. Despite the fact that his religious authority is inconsequential, his importance as a political figure is great. He has been the root of more trouble for the British than any single Arab.

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4. The position of Mufti is a legal religious title which was originated by the Ottoman Government. There is a Mufti for each country. The position of Mufti is occupied in Egypt by an official of the State. Amin el Husseiny was not only Mufti but head of the Muslim Council in Palestine and directed the Muslim charities. His early attitude for a long while was pro-British. He became opposed to them principally because of their making Palestine a national Jewish home. After his change of heart, the Mufti journeyed through the whole Muslim world agitating against the Zionist movement. He has intimated in responsible positions in Iraq, Afghanistan, India, Egypt and Iran. The binding influence in these friendships is a common anti-Semitism. The British protection of the Jews in Palestine has raised the importance of a Mufti and made his movement international.

5. Prevailing British opinion is that the Mufti is an asset to the Germans but not an influential power. The Egyptians, however, consider him the greatest leader of the Arab peoples now alive. He is 52, wise, subtle, capable, energetic and determined. His family in Palestine is prominent and he claims to be in direct descent from Mohammed.

6. With regard to the struggle in Iraq, the Egyptian is of two minds. Being an Arab he is in emotion pro-Iraq but being reasonable he is pro-British and afraid that too large forces may be transferred from the campaign in Libya to Iraq and thus Egypt may be endangered. The result of these conflicting emotions is apathy. No Muslims from Syria and Palestine are joining Rashid and no Egyptian volunteers have been received by either the Germans, the British, or Iraq.

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7. At the moment the Mufti is in Iraq, having taken refuge there after the British ordered his arrest. If he comes back to Palestine, he will be thrown in jail as an Arab agitator against the Jews and the Empire. The British claim that the Mufti is being paid by the Axis, has no influence among the Moslems since any one of them would accept bribes from any power as long as the purpose was to fight the Jews. The British also have bribed leaders in Iraq with small success on account of their protection of the Jews.

8. If the Mufti declares a Holy War, it will be anti-Semitic and not a religious war. Amin el Husseiny is a religious figure turned political.

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

Date MAY 23 1941 ()

Initials

Paraphrase of Code Cablegram
Received at the War Department
at 11:15, May 21, 1941.

Cairo, filed May 17, 1941.

The following is a summary of the Middle East Theater for the week beginning May 9.

1. The Italians are relieving German troops in the Peloponnese. The island of Cythera has been evacuated by Axis troops. There are no evidences of any movement at Melos. The British are of the opinion that a German attack on Crete is imminent. The occupation of this island is essential to the Germans in that fighter protection based on it can protect their bombers en route to Libya and in operations against the Royal Navy.
2. The garrison of Crete consists of a large part of the New Zealand division evacuated from the Balkan mainland, reinforced by 4,000 Marines. General Freyberg, who commands the troops, is embarrassed by the presence of the Greek government and some of their forces.
3. If the Germans succeed in their operations against Crete, the encirclement of the Aegean Sea will be completed. I feel myself that the capture of Crete is attended with difficulty and that the major objectives of the Germans should be the British naval base, (at Alexandria) the Suez Canal and the oil producing territories. Crete is not a decisive objective.
4. There are in the Mediterranean area 369 German planes, and in the Balkans 786, of which 60% are considered, at present, unserviceable. Some estimates of air transport planes place them as high as 600.

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5. Italian aircraft in Libya is estimated to be around 364, with 128 in East Africa, 150 in the Dodecanese Islands and 184 in Albania. Forty per cent of these are thought to be, at present, unserviceable.

6. Air observers have reported a large number of unidentified planes on fields at Tripoli, Benghazi, Aleppo, Beirut, Esam and Esam. Air units arriving from the Balkan campaign in the number of four to six squadrons, both fighters and bombers, are being observed in the process of taking on gasoline on the Island of Rhodes and in Syria in passage to Iraq.

7. During the week there were heavy raids on Crete, Malta and Tobruk. It is reported that the airfields are being constructed by the Germans in the vicinity of Athens. Axis planes have intensified their torpedo attacks by air.

8. The British are scattering their ammunition dumps widely in the vicinity of the Suez Canal and the East Delta of the Nile. The shipping facilities in the port of Alexandria are being cleared.

9. It is reported that the 22d Guard Brigade (British) is in Makhin (Makain) southwest of Tobruk) and that the 7th Armored Brigade is at Bulliaman (vicinity of Sollum).

10. The British were surprised by the number of German tanks in Libya. The Germans succeeded in pushing the British out of Halfaya and Sollum.

11. Military authorities here insist that major land operations on Egypt by the Axis would be impossible on account of the difficulty of supplying troops.

12. In the Sollum area sharp skirmishes are continuous.

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13. The German Army has an anti-tank gun which is capable of penetrating the armor on the British 26-ton tank. On this account the British have had to alter their tactical procedure. This anti-tank weapon was not employed in France and the Netherlands.

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