

DIARY

Book 262

May 12 - 15, 1940

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**PARTIAL PARAPHRASE OF TELEGRAM RECEIVED**

**FROM: American Embassy, Berlin.**

**DATE: May 12, 1940, 9.a.m.**

**NO.: 1308.**

**My number 953, April 12, 5 p.m.**

The Reichsgesetzblatt of May 9 contains a decree dated May 3 establishing a Reichskreditkasse for the issuance of a special mark currency for the use of German troops in Denmark and Norway. An administrative announcement dated May 9 is given in the DEUTSCHE REICHSANZEIGER of May 10 describing the new currency which will be issued in denominations of fifty pfennings one, two, five, twenty and fifty marks. As related in my telegram under reference Reichskreditkassenscheine had already been issued to German troops of occupation in Norway and Denmark prior to the formal setting up of the Reichskreditkasse for these troops.

The regulations for the new Reichskreditkasse are almost identical with those establishing a Reichskreditkasse in Poland (see my number 1579, October 4, 4 p.m.) which with the reestablishment of the Polish Central Bank has now been discontinued and its currency withdrawn from circulation.

The following is confidential. The German soldiers of occupation are not allowed to take normal mark currency with them but are supplied with Reichskreditkassenscheine

to

to be used in territories of occupation. I learned at the Reichsbank that in spite of this prohibition many German troop units had carried great amounts of mark currency into Norway and Denmark. I was recently told by an official that this was one of the main causes of the recent expansion in circulation of Reichsbank notes. The official said that one of the great consumers of currency is the army and that this factor added to the Reich's difficulties of wise monetary management.

KIRK

FA:MSG

JI

PLAIN

London

Dated May 12, 1940

Rec'd 2:54 p.m.

Secretary of State  
Washington

RUSH  
1180, 12th.

Ministry of Economic Warfare asks whether there would be any objection on the part of the United States Government to a broadcast being given by the B B C in Flemish, French and Dutch to the effect that any holders of American bearer bonds who, fearing lest they fall into the hands of the enemy, may take them to the nearest United States consular officer and, after making a sworn declaration and burning them in the presence of the consular officer, will be issued with a certificate allowing them to obtain a renewal of the bearer bonds in due course.

Ministry of Economic Warfare feels that it is urgent that the B B C make such an announcement tomorrow. Accordingly, immediate reply is requested.

KENNEDY

KLP

(Conference at Secretary's Home)

Sunday,  
May 12, 1940  
8:30 p.m.

RE DISPOSITION OF AMERICAN  
SECURITIES IN HOLLAND

Present: Mr. Berle  
Mr. Bernstein  
Mr. Cochran  
Mr. Foley  
Mr. Ballantyne  
Mr. Gaston  
Minister Loudon  
Mr. Saher  
Mr. Plevin

Plevin: The British and French Governments were informed early this morning and they immediately got in touch with the Dutch Government and also a representative of the Bank of England. Now, those securities are held by about fifty different institutions and those institutions are what might be called scattered. Their idea was to take very drastic steps. This is something which perhaps they have to do under difficult conditions and it might take a little time to be able to get hold of the securities which exist and which are very numerous, because the Dutch estimates of the securities are even higher than our own estimates of those securities and will exceed about 600 million dollars.

H.M.Jr: American securities?

Plevin: Yes.

H.M.Jr: In the Netherlands?

Plevin: Yes. Those securities are in many banks. Their business was to keep those things in safe custody and they were working on the idea that if anything untoward happened in the Netherlands, the United States would always take steps to avoid the Germans using the securities. This money must be obtained if they are to continue buying here, so it is very important to be able to get the stock out and if the stock cannot be gotten out, to have some system by which they may be destroyed and upon proof of such destruction the American corporations and Government will issue new certificates.

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Now, I understand that a country in this position may give what they call, I believe, a cremation of such and on some basis this cremation certificate, such as U. S. Steel and so forth, can get new stock.

- H.M.Jr: Well, when you came in we were talking - I was just listening to Mr. Cochran, who has been in the Consular service. I don't know whether it is practical. I mean, if these were taken into the Central Bank of Netherlands and burned and an American diplomatic consular officer being present, he might certify to what the Central Bank of Netherlands was doing.
- Cochran: Ordinarily they don't certify the Central Bank officer's signature. It is usually a notary or someone of the foreign office and if it were a Central Bank governor, there should be someone from the foreign office or some judicial authority certify it and then the consular or diplomatic officer - it would be the consular officer in this case - would certify to the signature of this officer.
- H.M.Jr: Of the foreign officer?
- Cochran: Yes.
- Berle: They want a foreign officer, a notary, a clerk of court or any other judicial officer of the bar?
- Cochran: That is right.
- H.M.Jr: Do you want to ask Mr. Plevin anything? Then I am going to ask him to wait in the other room.
- Berle: One question, if I may. Have you the approximate distribution as between the United States Government bonds and the other securities?
- Plevin: Not at all.
- Berle: The figure you give is combined of all kinds?
- Plevin: Yes, I think it is all kinds and there are only about fifty of these.

Gaston: Mr. Plevin, of those bearer securities you speak of, would there be certificate numbers of record?

Plevin: There is an American certificate and Dutch certificates, you see, --

Gaston: Oh, they are not all American securities?  
(Mr. Frank entered the conference)

Berle: May I ask one other question? The suggestion was made in respect to the American securities, what happens to the bearer certificates out against them?

Plevin: Well, you see the bearer certificates are scattered amongst thousands of people. Now, those people will find a way to hide them. We don't know what they will do with them. The only grief of those people is the ownership of certain American securities which are under their custody.

Berle: I understand. My question was because I wonder what would happen if, after the process you suggested had been gone through with, the bearer certificates the Dutch Trust has issued then turned up, perhaps after a military occupation of the country, in Switzerland or Italy or some other place and were then presented here saying, "Here is your legitimate owner."

Plevin: The way I would do it if I was the Dutch Government, you see, would be to decide that all those assets have to become the property of the Dutch Government by being commandeered with proper conditions to give back to all people who have the certificate of such and such stock later on. The Dutch Government would take them by decree from the registered owners of those American securities.

H.M. Jr: Jerome, word came could we do something. They said there is 600 million dollars worth of American securities in Holland and they want to know whether we can help them by having them destroyed before a representative of the United States Government. They want an answer tonight.

The Netherlands Minister will be here at 9:00 o'clock.

Frank: And many of these are held against these certificates?

Pleven: Against the certificates. You see, the first attempt is going to be to take those securities physically out of Netherlands and it is only if it appeared impossible or after having to take half of them or something that they would like as a last resort to do something. This is why we have got to get in touch with you.

Bernstein: Those certificates are simply credit claims against the Dutch Trust, they are not claims against the American corporation.

Pleven: Oh, not at all.

Frank: There is a custodian there?

Bernstein: So that even though those bearer certificates are floating around, the American company only recognizes the Dutch trustee that happens to hold the American securities.

Pleven: I would think from the point of view of the American corporation, the only factor is the stock certificate, which is in the name of the holder.

Frank: Wouldn't most corporations there register - the usual by-laws, I would think, would recognize a lost or destroyed certificate on appropriate evidence and I shouldn't think they could get any better evidence than the United States Government. I shouldn't think there would be much question.

Berle: The only question comes in on bearer bonds and things of that kind and U. S. Government bonds or on stocks. On other bonds, they would go by the usual provisions of the corporate charter or trust indenture.

- Foley: I assume some of the securities are our own securities, Jerry, Treasury stuff.
- Frank: American things?
- Foley: They may very well be.
- Frank: But to the extent they are corporate stocks, I wouldn't think there would be much problem.  
(Mr. Plevin and Mr. Ballantyne retired from the conference)
- Cochran: There would be no use trying to make photostatic copies of all of those.
- Berle: Try again.
- Cochran: I don't think the Consulate would hold those.
- Bernstein: Supposing the possession of those things were turned over to the American diplomatic officers.
- Frank: Do you think the Germans would respect it?
- Bernstein: What problems would be presented?
- Berle: We don't take custodial accounts for foreigners.
- H.M.Jr: Excuse me, you are wrong. My father, when he was American Ambassador in Constantinople, took the physical property of 13 different countries that he was asked to represent when they left. I suppose that is different.
- Berle: That is a different case.
- H.M.Jr: I suppose that is different and he had the money in the cellar.
- Berle: That is a different case when you take over diplomatic property.
- Gaston: Why do we have --
- Berle: I would refer it to Mr. Cochran --

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- Cochran: I did the same thing. I was in Germany when the war broke out.
- Berle: We have never take foreign property for custody except diplomatic property.
- Cochran: We have used our good offices in looking after it, but I don't think we have actually taken it in.
- H.M.Jr: We would take English and French securities in Holland?
- Cochran: I don't know that we would do that. We would put our seal on the office that we would take over, but I don't think you would take the physical --
- H.M.Jr: My father took these - I think it was 13 countries that left Turkey and left their properties in the cellar of the Embassy.
- Berle: How much was public property? We have now under seal property of dozens of legations, and so forth, that have left their affairs in our hands.
- Cochran: But they were left in their own buildings.
- Berle: By the way, I might say that the Germans have been pretty systematically violating that. There is not much you can do about it against machine guns, but we haven't extended diplomatic immunity, that I know of, to property --
- Bernstein: Now, one thing, they may be a bit deluded. This fellow said they realized the Treasury's freezing would prevent the Germans from being able to use the funds and this proposal of theirs was simply to make available the funds to them, to the Allied side. If these are bearer securities, the Treasury's freezing order won't prevent the Germans from using them.
- Berle: Well, we haven't got that far yet, have we?
- Bernstein: Well, any Treasury things, or most Treasury things.

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Even if they can't be assured of getting a re-issue, they may want to burn them.

- Berle: I had it on my docket to call you tomorrow to start a little check on bearer securities coming through Switzerland and more particularly Rome, but that was tomorrow morning's job.
- Bernstein: It would be a terrific job to attempt to block bearer securities.
- H.M.Jr: Well, what are we going to tell these people?
- Berle: Well, if I may suggest --
- H.M.Jr: Is everything safe in Los Angeles?
- Gaston: Yes. There was only one of the Japanese tankers there and they searched that and there is another coming in.
- H.M.Jr: Somebody got worried that there were some troops on them.
- We were told yesterday that there were going to be ten or twelve tankers.
- Gaston: The report the Naval Intelligence got was that there were four Japanese tankers in the harbor yesterday and five or six more were expected.
- Frank: With troops?
- Gaston: Well, no, there seemed to be something funny about them. At 6:45 this evening we discovered a fishing boat discovered a submarine off the Coast of Maine which wasn't there.
- H.M.Jr: The island?
- Gaston: No, the submarine wasn't there. They saw it and then our men reported back in about 15 minutes that the submarine was the 125-foot Coast Guard patrol boat Travis.
- H.M.Jr: Another submarine.

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- Berle: Well, to get back to the practical solution of this, subject to Mr. Cochran's better judgment, the physical problem of cremating these in an American Consulate before a Consular officer who was besieged by all kinds of people with bombs being dropped on them strikes me as being out of the question. I do not see any reason why the foreign office should not detail somebody of sufficient standing who would go down to the Netherlands Bank and there witness the cremation, make a certificate and have our own Consuls instructed to witness his signature along with the statement of the bank, which ought to be pretty good evidence and why that wouldn't cover the situation. In some of these Consulates, there is no possible way you could cremate them. Cremating a bunch of bonds and securities is not the easiest thing in the world, unless you have a good working furnace.
- Cochran: No. In Amsterdam they have those little tile stoves. It would take a long time to burn them.
- Gaston: These bearer certificates issued by the Dutch trusts are purely a domestic proposition.
- Frank: Surely, that is no problem.
- Bernstein: It will be a problem that the Dutch trust will sometime have to meet.
- Frank: But that won't get them in the - that won't get America into difficulties.
- Gaston: If it is as Fleven suggests, the Dutch Government commandeers them, then their problem is with the Dutch Government, not with us.
- Berle: The American corporation recognizes the Dutch decree transferring title of those from the trust to whoever the Dutch representative becomes. That can be worked out and that is a legal question.
- Foley: I don't see how we can give them any kind of assurance at all that what they do in a hurly-burly over there in the next 24 hours or 48

hours would either be recognized by ourselves or the private corporations in this country.

Frank: But I think it would be pretty good evidence.

Foley: It would be pretty good evidence, but what --

Frank: Some transfer agency is going to have a headache.

Foley: They can't rely on any assurances we can give them. So far as their own securities are concerned, I don't know how much there might be there. We have a pretty complicated procedure for the issuance of new certificates when a bond has been lost or destroyed.

Frank: A U. S. Government bond?

Foley: Yes, and I think the statute requires security before another one can be issued. I don't think it is just a matter of regulation. We could go down on the Hill and we probably could take care of the situation without much difficulty. I think there would be a great deal of sympathy on the Hill, as we found out when we amended the foreign exchange powers here very recently. I don't see how we can go much beyond saying that we will do everything we can to help, but how effectual that will be, none can say. We won't know what the securities are and we don't know under what circumstances they would be transferred.

Berle: I didn't understand we were being asked for that assurance, did you?

Frank: Oh, the best you can do is give them good advice.

Easton: That is about all they are asking.

H.M.Jr: That is all, but the more I have thought of it since I have talked to you, I think it ought to be handled by the Netherlands Minister and not through the British Broadcasting System.

Berle: You may recall that when I talked to you, that was a preoccupation of mine.

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H.M.Jr: Yes. You agree, too?

Berle: Certainly.

H.M.Jr: I think it would be much more popular in this country if we need any legislation that we are doing it for the Netherlands Government and the British suggested that they wanted this broadcast from their official broadcasting station.

Berle: I will go a little bit further. I think it would be highly improper for us to create the impression that we have named the British Government or the British Broadcasting Company or anyone else our agents to effectuate an arrangement like this. It is all right from the British point of view, but I think we probably would run into a good deal of trouble here. The suggestion Mr. Cochran made is that we merely act as authenticating agents in creating a piece of evidence which, so far as private securities are concerned, would normally carry the situation with a bit of nuisance. The Treasury may see things different. I am not familiar with that and don't know how it fits with United States Government bonds.

Frank: Where are these things? Are they all in one place?

Berle: Most of them are in the Amsterdam banks. The Rotterdam Central Bank is on fire.

Frank: Have the Germans taken possession of Rotterdam?

Berle: No, but parts of it.

H.M.Jr: Is this thing clear in your mind as a Consular officer? What would you do if you were in Amsterdam and you couldn't get word to the State Department and they asked you to do this?

Cochran: I would go along with him and be a witness to it. I wouldn't do it in my office.

H.M.Jr: What kind of an official would you ask for? You

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are over there, you can't get any instructions and they are asking you to do this.

- Cochran: I don't know the Dutch law, but ordinarily a foreign service official or an officer of a court or a notary public, one of those three. It depends on the practice of the Consulate General in Amsterdam. They must have the signature on file of the person whose signature is now being authenticated. They must know he is still the duly authorized person.
- Berle: There wouldn't be any difficulty about that.
- Cochran: No. I wouldn't specify too frankly what officer he should have, but get him to have some Dutch official whose signature he is in a position to authenticate.
- H.M.Jr: Well now, that you will have to do and what is more, by word of mouth tell the Dutch Minister to do this and say you will confirm it through a cable to the Consular service and there is no publicity and that is the end of it.
- Berle: No, they will have to do the publicity.
- Cochran: Because ordinarily a Consul wouldn't take the responsibility of saying this document is good for 200 shares in General Motors.
- Berle: I would say, as he states it, I would see no point in broadcasting it. What they are really looking for are not the scattered private securities, but some 50 or 60 big pooled holdings. A broadcast is the worst way to do it, I would think.
- Cochran: There are just a few of those big concerns in Amsterdam.
- Berle: There are probably a lot more of small amounts which will drop out of the country.
- Gaston: If they want to use B.B.C., it is a Dutch official who should use B.B.C., of course.

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H.M.Jr: Do you have any question, Jerome?

Frank: Not the slightest. It is the obvious thing to do. You will have your own problem. I would think Ed might be right. You know that better, about government bonds. You may need some legislation.

H.M.Jr: He is doing his homework on the telephone.

Gaston: They have to give security.

H.M.Jr: I didn't have a chance to tell anybody except you what it was.

Berle: Well, Secretary Hull was out there this afternoon when Kennedy's wire came in and I chatted with him.

H.M.Jr: So he knows about it?

Berle: He knows about it. They want to work out the matter as well as possible.

H.M.Jr: While we are doing it, don't you think we might make the same offer to Belgium?

Berle: The Kennedy offer contemplated both Belgium and Holland. They wanted to broadcast the French and Belgian - Flemish, also Belgian, and would include the Dutch.

Frank: Probably there is no where near the securities in Belgium that there are in Holland. Holland has held a lot for a long time.

Berle: There are a lot of them. They have had them quite a while.

Frank: You will find them in Switzerland. There must be a terrible lot in Switzerland.

Cochran: Of course, since those two branches have been set up in New York, the Swiss bank corporation will hold a large part.

Frank: That is right.

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- Berle: My impression is that a good many of the Dutch securities are on the way over here.
- Cochran: There have been a good many shipped in the past. I know they had to increase their space as custodian service down there and put in more vaults.
- H.M.Jr: As soon as Ed comes in, we will ask him about the U. S. Government and then we will invite those gentlemen back.
- Berle: It seems to me we might. In that case, the only other thing we would have would be the cable instructions to our Consuls, which, if you think we will have the idea, I think it would be a simple narrative statement of the proposal, a statement that they are authorized to witness the destruction and/or authenticate the signature. I don't know how many of our men - I don't know what the demands on our men will be in the next few days. They ought to be pretty great and a couple of them have been bombed out of their Consulates and have had to set up temporary Consulates.
- H.M.Jr: How are you going to handle the U. S. Government bonds?
- Foley: Well, it requires a bond in connection with the issuance of a new certificate when the original has been lost or destroyed.
- Gaston: Both bearer and --
- Foley: I think so.
- Berle: I see where your surety companies take --
- Foley: Well, either that or we might be able to have that changed.
- Berle: The private securities all have that provision.
- H.M.Jr: Well, Ed, to do a little fast thinking, what I get from what Berle said while you were out, he is going to go back and draft a cable now

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as to securities in private companies in the United States. Is there anything special that he has got to put in there on U. S. Government bonds?

Foley: Well, I would like a little while.

H.M.Jr: How much time do you want? I should have told you what it was, but I didn't. How long do you want?

Foley: I will know more at midnight than I know now. Can you give me until midnight?

H.M.Jr: No. Take a chance.

Berle: My thought is this: I think Jerome was called on this. All you are doing is creating a document which is excellent evidence of the loss of these securities, bringing in play our law for the replacement of them. The intervening question, the Dutch decree for requisition, is an entirely different matter, but we don't have to settle that tonight.

Assume we do recognize the right to requisition, that is a separate question. Our cable would be adapted toward giving the Consul enough background so he knows what he is doing and then telling him that he may authenticate these certificates of destruction which are executed by somebody, presumably a bank in Holland, in the presence of a Dutch official who states that fact and whose signature and office the Consul witnesses and that is the document which --

Foley: You want to get it off tonight?

Berle: Yes. That document will then presumably be presented to you in the Treasury in the case of the Treasury certificates and these other fellows, the private corporations, in requesting the issue of the replacement certificate under their by-laws or under the appropriate statute, in the case of Treasury certificates.

Bernstein: It may be that as far as holdings of private securities are concerned, you will have to go

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further and have these things - the destruction witnessed by an American officer. Would that present an impossible burden? Supposing these banks can do all the work, the Netherlands Central bank can do all the work? They will have lists, a sheet which will refer to a hundred securities and all that the American Consular officer has to do is to see what they are throwing in the fireplace and check the list every time they throw something in the fireplace and then sign his name once.

Berle: Bernstein, about the last thing in the world that an American Consul, where there is real stress, will be doing is sticking around and checking things of that kind.

Frank: How can he help it?

Berle: We will do the best we can on that, but you have in mind that there are many, many hundreds of Americans in Belgium. With everything in the world going on, many of these men under fire and so on, they will be dealing with the situation as rapidly as they can but they won't go taking a happy walk to the bank unless life happens to be running fairly easy. There will be ships and sealing wax and everything in the world coming in on those boys.

Frank: I would like to raise a question about our long list. Maybe it is the best you can do, but you are going to have these things presented to dozens of different corporations. If you have one list, that list will get worn out by the time it makes the rounds, won't it? I would think you would have to do it by the corporation.

H.M.Jr: Have it photostated.

Bernstein: There are 50 trusts. Each trust would have the job of making out a sheet of all its securities with as full a description of it as you can get.

H.M.Jr: Bernie, they say the big bank is burning there. That wasn't a pun, either. You have got to

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think of some way that has never been done before that a transfer agent here in New York will recognize.

- Bernstein: It seems to me if there are only 50 trusts, you will need 50 certificates and I don't know why it need be more than a page or two long, listing the securities in some appropriate way and every time you just throw it into the fire and the guy signs his name and I don't know why it would take them more than an hour to do the whole batch. Those trusts must know what they are - they must have sheets giving inventories.
- Berle: They know what they do. The question is whether the Consul or whoever it is can verify all those lists. They won't be a page or a page and a half long. They will be endless pieces. They have flocks of bonds and they wouldn't be one bond, they would be 200 bonds, perhaps, of the same corporation and they will have stacks of lists.
- Frank: I suppose in Amsterdam - the Consul must have several deputies there.
- Cochran: A Consul General, two Consuls and two Vice Consuls.
- Berle: That is right, five of them. There are three in Rotterdam and a couple in the Hague.
- Cochran: Those are the diplomatic officers there.
- Berle: They are both now.
- Cochran: That is right.
- Berle: And we could, of course, if the Embassy staff isn't working too hard - which is a fat chance - some of the boys in the Embassy could also help the Consular officer.
- Cochran: I think it would be a good idea if the man could be present, but ordinarily we wouldn't ask a Consular officer to say that this certificate is a valid certificate of the ownership of shares.

Foley: I should think if this isn't a Consular officer - if there isn't a Consular officer there, someone in the foreign service would actually see these certificates destroyed. The chance of having the thing recognized by a transfer agency in New York isn't very good.

Frank: I don't think so.

Foley: Think you have got to have somebody there? I do. He is the fellow that has to take a chance. He is the guy that has to go out on the line. He has got confidence in these people and he trusts them. That is about all there is to it.

Frank: If he doesn't trust them, the transfer agency doesn't.

Berle: How many people are going to go out and take the chance --

Foley: That is what I think.

Frank: He ought to take the chance. He can't defend himself any. He might as well go busted.

Berle: If I saw a Treasury official doing that, I would feel a little bit happier about it.

Foley: I think we take as many chances as the State Department.

Cochran: Yes, we are getting a little bit conservative these days.

H.M.Jr: I am very pleased to see that Mr. Berle and I are just a couple of laymen here being snowed under by the lawyers.

Berle: I used to practice law myself and I am not quite sure I agree with Jerome on the question of what we really - what they really want is proof of the loss, don't they? Just why do they get a better proof out of an American Consul who happens to be there than out of anybody?

Bernateini: We are just checking on whatever --

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- Berle: The law of a private corporation is that lots of things get lost without having a policeman or a constable or somebody around to witness the loss and that happens all the time. I admit that it is quite a nuisance and the Allied purchaser must be in possession of these things because they have to have a good lawyer in New York to attend to that nuisance.
- Bernstein: This is what was done during the World War.
- Berle: But they weren't just shoving this on the Consul as the thing came on. There they had had the list made and in one case, at least, they had had it checked off long before and then when things got too hot they threw it over the dam. A lot of those were destroyed without benefit of American clergy and still fixed up later, though it was quite a chore to put through the transfers.
- Frank: Wouldn't it be possible that one of the Consular officers would have some American who would go there? I just have a feeling it would make it easier for these folks if you had some American whom the Consul would ask for to be a second witness.
- Berle: Haven't the New York banks --
- Bernstein: I wonder if there aren't transfer agents there.
- Cochran: Not for those Dutch concerns.
- Frank: Don't any of those American concerns have representatives there?
- Cochran: Not in the Netherlands.
- H.M.Jr: Does the National Bank have an agency?
- Cochran: Not in the Netherlands.
- Frank: Are there any English banks that do?
- Cochran: I couldn't say as to that.

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- Frank: Aren't there any large American corporations over there?
- Cochran: There are plenty in Belgium, but none in Amsterdam. What the Consul could do, he could be present and say he witnessed the burning, but I don't think you ought to ask him to identify each security.
- Bernstein: Could you create a Consular officer, provided you could get any American who was free who would be willing to devote a few hours to witness the burning?
- Cochran: He has to be accredited to the local officials there.
- Frank: More than that, the bank would find out about that and they would say you were putting something over on them.
- Berle: They would see a bomb coming down and somebody would say, "Run out into the square and get an American."
- Frank: I think you are going to put a pretty big burden on the Consular officer to identify each certificate.
- Cochran: But let him be present at the burning and then give him the certificate and he authenticates that.
- Frank: And they ought to get an important officer of some Dutch bank to be there. Get the President of the bank, or something.
- Berle: I will try to drag in a few wives and children whose houses have been wrecked and send them down to the bank.
- Cochran: If they could get it centralized --
- H.M.Jr: Can't we send out instructions so that if circumstances are such that they can do the thing and not neglect their work, it would be pleasing if they would offer their good offices to be of such and such assistance.

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- Berle: But I was trying to offer a case where actually you wouldn't be able to do that and that is in the case where actually - you probably will be able to get a good deal of that done in Amsterdam, assuming that it isn't bombed.
- Frank: Well, Amsterdam, I think, is where you might be able to. Couldn't they try to get some high official of the Dutch bank to be there?
- Berle: Failing that, I would - what he ought to get is a high official of the Dutch bank and a Dutch officer.
- H.M.Jr: Maybe they have a Supreme Court of Netherlands that isn't busy.
- Berle: I doubt if they are hearing many cases just now.
- Cochran: The Federal Reserve Bank of New York has the signatures of those top men in the Denederlansche Bank, I think.
- Bernstein: In any event, Mr. Secretary, I wonder if you don't want to tell them that they ought to destroy every sheet of value because they may be quite mistaken in relying upon the effectiveness of your order to keep the Germans from getting the value.
- H.M.Jr: My order?
- Berle: How do you mean?
- Bernstein: The freezing order, because if those are bearer securities, even regardless of your order, they are going to be able to realize on values, because they sell it to anyone. You are not blocking - you couldn't, without blocking all outstanding bearer securities, prevent that and consequently I think that ought to be impressed on them, that come what may, they burn everything.
- Berle: That is a good thing to impress on the Dutchmen.

H.M.Jr: Have you got it straight in your mind?

Berle: Yes.

H.M.Jr: Are you ready for them?

Berle: Yes.

H.M.Jr: Do you want to rehearse it, do you mind?

Berle: Certainly. I think as far as the cable is sent, it would be first to recite the substance of their proposal and then in view of the possible imminent capture of these securities, it is contemplated that the holdings of American securities shall be destroyed in the presence of trustworthy witnesses and it is desired to get trustworthy and adequate evidence of such destruction so that these securities may be replaced later at the request of their rightful owners and in compliance with our laws and practices. Accordingly, he is instructed in so far as possible to witness the destruction of the securities and to certify to the fact that such destruction without, however, undertaking to identify the securities but to certify the signature and qualifications of the Dutch witnesses to such destruction, which should include a competent bank official and a competent judicial, notarial or other officer of the Dutch Government and whose signature the Consulate would normally authenticate. Now, there is the question.

Foley: Who would identify the securities?

Berle: We don't care.

Frank: If worst came to worst --

Foley: He has got to, hasn't he?

Berle: If you want to say that, say it can't be done. Nobody can identify 600 million dollars worth of securities.

Frank: If worst came to worst, Congress could pass some legislation indemnifying the American

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corporations against loss on that kind of a certificate.

- Cochran: And then taking these in steps, the Consul can certify to the signatures of that local official. That local official may be satisfied with the signature of a Denederlansche Bank official, who in turn accepts the lists these several concerns turn in.
- H.M.Jr: If they could pick a bank official who - it is known that his signature is on file with the Federal Reserve of New York, it would be very helpful, preferably a bank official whose signature is on file with the Federal in New York.
- Frank: Maybe some of those bank officials are up at the front line right now.
- Berle: No, I think you will find them in the banks. I can see the Germans troops bearing down on the town while somebody is sitting in a bank counting securities.
- H.M.Jr: They will do a lot to save 600 million dollars.
- Cochran: If the Minister can get word in the Central Bank to pass word on to these concerns, I think that would be the most effective way of getting them in.
- H.M.Jr: Right. Jerome?
- Frank: Yes.
- Cochran: Because on the Bank's central board are representatives of every one of these corporations.
- Berle: The other thing you ought to say to him, it is up to the Dutch with such help as they can get to get that advice to the corporations and other people.
- H.M.Jr: And that we will not give out any publicity on this side. Everything will have to come from his Legation. I am satisfied where it came from the other day. You, too?

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Berle: I am, because I ran into something else that I know came from there.

H.M.Jr: I see. You know, we got this rather snooty telegram from the Central Bank of Netherlands that said, "How come all the publicity?"

All right, boys?

Foley: Yes.

Berle: I still don't know who got it first, whether it was across the street or not. I haven't figured it out yet.

H.M.Jr: Well, we have worked with them a good many years.

Berle: It doesn't matter.

(Mr. Loudon, Mr. Fleven and Mr. Ballantyne entered the conference)

Loudon: I have requested my lawyer to come, too.

H.M.Jr: Do you think he will be here in five minutes?

Loudon: He ought to.

Berle: We ought to probably indicate, I think, what the Minister probably knows as to our law in connection with the destruction of these certificates.

Loudon: Yes.

Berle: In practically all American corporations and even in connection with the Treasury where a bond or a share of stock is destroyed and destruction can be proved, the owner can obtain a new certificate later by going through certain procedures, which is that you have to prove the loss and advertise, usually, for a certain number of days in an American newspaper and then file a bond that you will hold the corporation harmless if the old certificate turns up and then a new certificate is issued to you. That would be the procedure which I assume would have to be followed. The Treasury has a slightly different procedure

which is a little more complicated, but it still follows the same general lines. A security lost in transit or shipment or something of that kind, again I believe there is an advertisement filed and a bond and so on. About all that can be done here would seem to be a method of proving that the certificates had been destroyed and using that document of proof as the foundation for the reissue of those certificates later. That seems to be the theory we are running on. Have I stated it exactly, Mr. Secretary?

H.M.Jr: Quite.

Berle: Our people might, I suppose, be of use in authenticating documents by witnesses to the physical destruction of those securities and that, I take it, is as far as we could probably go. Now, that would then mean that someone with a certificate of the ownership of the certificate before, plus the proof that it had been destroyed, would then turn up on this side of the water with this proof and request an issue to him of the equivalent certificate.

H.M.Jr: Can I interrupt you a minute? If you are going to do this for Belgium, too, would you want the Belgian Ambassador here now?

Berle: I think there is time on that, Henry.

H.M.Jr: We can handle that tomorrow morning.

Berle: Based on the military situation, I should guess there is a good deal more immediate possible stress in Holland than there is in Belgium, as far as we know now.

Loudon: I don't know, but - I am not so sure about it, but --

Berle: I am not, either. I merely indicate that the spearhead --

Loudon: Our needs are just as urgent - they are near Brussels and when they get to Amsterdam, we have just started our first line of defense. They are through the line of defense if they have crossed the canal.

Berle: That is true.

Loudon: Then there is --

Pleven: I have not heard that in Belgium they have this system.

Frank: I don't think that would make any difference, though, would it?

Loudon: May I ask another question? If you give those - may I say, this certificate of destruction, by the American Consul General of the American Legation, they must reach here. In that case, is it feasible that it will be handed to the American authorities who in turn will see fit to export them in the pouch?

Berle: I think that could be arranged, yes.

Loudon: Because I think that is absolutely necessary.

H.M.Jr: Absolutely.

Loudon: That is a vital procedure. Now, the second thing, if you do that and this pouch gets lost, therefore they can't be delivered here. In some way or other, can you then arrange that telegraphically the numbers of the certificates - if they are to go down, I would have nothing left.

Frank: Unless you could photostat that list.

H.M.Jr: Telegraph, I would say, is out. Mr. Berle doesn't even know if his telegraphic instructions will get through tonight.

Loudon: They will go over. I have rung up four times to The Hague. There is no nervousness in The Hague. There is nothing going on there.

Berle: That is true now. My thought is that that might not be true at any time.

Loudon: I would be very much surprised.

Berle: Well, in Rotterdam our Consulate has already been bombed and I imagine somewhere else.

Frank: I see no reason why photostats should not be made and retained in the Consulate.

Cochran: You would have one copy made which the Consulate would keep and one to the Dutch Bank and one put in our Legation files for transmission in the pouch?

Berle: That, I should think, would be the way to do it. We could make them in triplicate or something like that. We haven't lost any pouches that I know of so far.

Loudon: Of course. Rotterdam is a separate island and first of all we have had successes today in pushing back with troops and we had successes - Dordrecht has been recaptured and the reason that Rotterdam itself has not been cleaned up is that they have dropped again 5,000 parachutes. They keep on dropping as many as they can because from Rotterdam they hope to have the river and then be able even for the submarines to get through the inland waters and make off the Holland Coast to the English Coast.

H.M. Jr: 5,000 today?

Loudon: 5,000 today. The battle is shifting the whole time. As soon as they can get through that something is going on, we get more news. They gave out that the airfield is completely destroyed and in the city with the help of the Fifth Column who are all Germans who have lived there ten or fifteen years who snipe out the windows, it is not an outpost of the German Army. As long as we are still busy in Rotterdam, I have been specially instructed to take notice of this, that the main power of the Army in Holland - there is 99 percent of the Dutch Army still operating

and they think they can hold out for considerable time. They are not the least afraid for Rotterdam.

(Mr. Saher entered the conference)

H.M.Jr: I think, Mr. Berle, if you would go ahead and state the case --

Berle: I think maybe you are familiar with the general outline we are discussing.

Saher: Oh, yes, yes.

Berle: Under our law, when a certificate of stock or a bond is destroyed, there is a prescribed procedure for issuing a new certificate or a bond, as the case may be, that usually consists first of proof of destruction of the original. Second, usually advertising in a paper for any holder of the original to present it if he has it and third, the filing of bonds securing the corporation or what-not in case the original does turn up, after which a new certificate has been issued to the original owner or his transferee. All that can be done here, obviously, is to arrange a document which is the best proof of the destruction of the certificate and in the case of a certificate payable to bearer, bonds payable to bearer, the owner at the time of destruction.

Now, it is obviously impractical for any American officer to undertake to verify a list of many hundreds of millions - well, there is a military operation in progress, so that about all we can do would be to witness a destruction of the securities and to authenticate the signature of a responsible Dutch officer, a notary or a judicial officer or someone from the foreign office who might also have witnessed and verified the destruction and have some responsible Dutch banker, preferably a banker whose signature is on file with the Federal Reserve Bank of New York, which would mean an officer of the Netherlands Bank. Our thought was, therefore, that we might instruct our Consuls, if they were

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requested, to witness wherever possible the destruction of the securities and to authenticate the signatures of the responsible banker and of the responsible Dutch officer, together with the offices they hold and a statement of the - a concise statement of the facts and the list of securities as they were then furnished to him, which these people had verified. If he can verify them too and has time, so much the better, but he may be having other things to do about them in view of the military operations.

On that, the holder of those securities, aided by that evidence, could probably then get in most cases with perhaps some nuisance here, but could eventually get the reissue of securities to them. It may be highly desirable, I think, to have all bonds very thoroughly destroyed, because if those do get out and then get into the markets through Germany to Switzerland or to Rome or to any - Spain or to any other neutral country, that they would then turn up and they would, of course, invalidate any reissued certificate or if not invalidate them, at least give claim against whoever has them. That is about what we thought of doing, but the initiative as to requiring the destruction or suggesting the destruction and suggesting what ought to be done distinctly ought to come from the Dutch Government, because it is a Dutch matter, it would seem to me, or if we did it in the case of Belgium, then for the Belgian Government.

The suggestion as to how it ought to be done necessarily has to come from the country in which these securities are. We are not suggesting that anyone go and destroy our securities in this manner. This is a method by which we could furnish a document constituting proof of loss and at least prima facie proof of ownership at the time the destruction took place, which would make possible the reissuance of securities later on.

H.M.Jr:

I would like to add one thing. Your broadcasting station is still working, isn't it?

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Loudon: Yes.

H.M.Jr: Because the suggestion was made that we do this from the British Broadcasting Corporation. I think it would be much better if it were done by your own people rather than having it done by England.

Loudon: That I get in touch with The Hague?

H.M.Jr: Yes.

Loudon: Yes. But it is not a matter which I would like to telephone about.

H.M.Jr: No, but the suggestion was made - there is no reason why I shouldn't say it - you see, this came to us two ways. Mr. Berle received it from the American Ambassador in London and in the suggestion which came to him, they wanted this information so it could be broadcast over the English Government broadcasting station. We here feel whatever should be done, we would like to do it through you and you handle it with your government. Now, if your government wants to broadcast it, that is their business, but we think it would be a mistake from the reaction at home here to have it so to speak, being broadcast by the English Government to the world to go out and destroy American securities. That is just the way we look at it. Not being a diplomatic officer, I can say that.

Berle: A diplomatic officer could say that.

H.M.Jr: It came through the State Department and through the Allied Purchasing Commission.

Saher: The problem is, Mr. Secretary, that we should like to destroy the Dutch bearer certificates, because the Dutch bearer certificates might turn up once. Is that your meaning?

Berle: For us, we have no problem at all. The suggestion has been made, however, that because of the exigencies of the situation, a great many Dutch

men and more particularly some 40 or 50 Dutch administration trusts, not being able to do anything else, will wish to destroy their securities rather than let them fall into enemy hands and then will wish to apply for reissuance of those securities later on. That, of course, is their own problem and their difficulty. They have asked what can be done to assist them in obtaining a reissuance of those securities should they do that.

The procedure is strictly, therefore, at their suggestion and my only word as to the destruction of the bearer certificates would be that any bearer certificate which was not destroyed will eventually, of course, find its way into the world markets by other sources and if it does, there is no method yet worked out by which you can prevent the holder of that security from eventually realizing on it.

Frank: And the Secretary's impounding would be --

H.M.Jr: You realize that Mr. Frank is Chairman of our Securities and Exchange.

Frank: I was just saying it was pointed out by the Treasury that the Secretary's impounding would be inefficacious as to the bearer certificates if they got into some other hands.

Foley: We can't control it.

Saher: But we would not mind very much about these bearer certificates, because the bearer certificates --

Frank: I am not talking about the trust certificates, I am talking about bearer bonds or a share of stock endorsed in blank. Those must be destroyed, because the Secretary of the Treasury's impounding order will not be effected.

Berle: The bearer certificates of the Dutch trusts we don't consider are any concern of ours at all. That is probably a matter that will be entirely a Dutch problem.

- H.M.Jr: I wonder if they have another word for bearer certificates.
- Saher: No, we have the same name but I mixed up those things. I see that. Well, the most important part of the thing is the American stock certificates. They are in large quantities. They have always been there. There is no great risk with these certificates, because they are known here in the States as being in the hands of that special country, so there is no difficulty with that nor - there are very few and unimportant quantities of American stock certificates which are endorsed in blank. With these things, I would not even do anything at all because if - that may amount to half a million dollars, which would be very high. The most important items are the shares held directly in Holland. We have no time and I would not suggest to lose any - to make any discussion concerning these stock certificates endorsed in blank, because there is not - there may not even be a million of guilders. It is not important.
- Foley: That simplifies it very much.
- Berle: The remaining question is the question of bonds.
- H.M.Jr: U. S. Government bonds.
- Foley: Do you have any of our Treasury obligations?
- Saher: Not much.
- Frank: Any quantity of American bonds of American corporations?
- Saher: Not in great quantities.
- Frank: Many of them are registered.
- Saher: I don't think so.
- Foley: How much would be ours and how much would be private, the direct obligations?

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Frank: How many are --

Loudon: I was informed that there are in Netherlands, I think, 610 millions.

Frank: Are those all in Amsterdam?

Loudon: There are some in Rotterdam, too.

Foley: All under one control?

Saher: No, I guess that it might be under 40 or 50 different controls.

H.M.Jr: Now, may I ask, does Mr. Tripp's bank have any of those in his vaults? Whose vaults are these in, mostly?

Saher: Very often there is a brokerage which has its own safe installed and they are in the safe of that firm. They may be in some cases in the safes of larger banks and then we have what we call clearing banks, who don't do any normal business except act as clearing institutions.

Frank: Are those registered?

Saher: Oh, yes, in the name of the trust.

Frank: So there is no bearer problem here.

H.M.Jr: We feel here - we, in fact, are quite sure that the Denederlansche Bank, which Mr. Tripp - the signatures of his officials are all on file with the Federal Reserve in New York, so if they could be used, those gentlemen's signatures could be used, it would be very helpful.

Saher: Oh, surely, that is possible.

H.M.Jr: And you could ask - it would be very easy to find out - which of their signatures are on file here with the Federal Reserve in New York.

Saher: That is easy, very easy.

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H.M.Jr: And I should think that they have the machinery anyway. That building hasn't been attacked, has it?

Saher: That would be very easy.

H.M.Jr: Where is the Denederlansche Bank?

Cochran: In Amsterdam.

H.M.Jr: It hasn't been attacked, has it?

Loudon: Oh, no.

H.M.Jr: You know the top officials are on file here.

Cochran: Oh, yes.

Loudon: Those are all officials of Amsterdam, those are not officials of Rotterdam, of the agency of the national bank in Rotterdam.

Cochran: Our Federal Reserve Bank would only have the signatures of the main bank in Amsterdam.

Frank: It is a comparatively simple problem, then.

Saher: It is a simple problem and I would not lose time with the other problem because it is of no importance if you consider this problem.

Pleven: I would like to make clear, we were asked to obtain from you if you could advise your concerns that if they are advised by the Dutch Government to do something of this sort, this is all right from your viewpoint.

H.M.Jr: Mr. Berle, you are going to the State Department, aren't you, to get out such a message at once, isn't that right?

Berle: That is right.

Pleven: If it was found necessary to adopt this system of destruction, we wanted to be sure that your Consuls would know what to do.

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- Foley: Advice will be sent from here that this is contemplated.
- Saher: In other words, a Consul would say, "Well, what have I to do? I can't assume that responsibility."
- Berle: I wonder if the discussion hasn't gone a little bit farther than that, Mr. Plevin. The Minister of Economic Warfare requested us to authorize a broadcast by the British Broadcasting Company commencing tomorrow, that is to say, sometime at 2:00 or 3:00 o'clock this morning, so that either they have already discussed it at the Hague or they were going to go ahead anyway. Now, do you happen to know how that stands?
- Plevin: You see, my telephone call came through about 1:30 this afternoon.
- Saher: It is possible that they did not realize in London at their meeting that the most important problem concerning the destruction, the situation is very easy from many points of view. The American corporations know in general where these stock certificates are. They are there already for many years. There is no great danger of falsification of presentations of documents. That is all excluded. They might have thought in London that there are a great many other stocks that aren't, but that would make the thing very complicated.
- Berle: That is obviously what they were talking about, because they were thinking of a broadcast for a great number of little people.
- H.M.Jr: Aren't we all right now?
- Loudon: I don't know whether this --
- Saher: This is an important problem. It is understood that what we are willing to do is one hundred percent in conformity with American law. If you would need that, you would need your transfer agent and a representative in Holland and for

- 35 -

us the important problem is to replace the normal proof with the American law as you are handling these things here by some other kind of document.

Earle: That I don't think we can possibly do. We can't change over night the American law. All we can do is to create the best possible proof.

Saher: And the only thing we might even suggest is that you wouldn't advise the American corporations not to be too difficult with us.

H.M.Jr: Well, I think you realize that everybody here is very sympathetic and the best illustration is, we get a telephone call and we drop everything to give you gentlemen our attention. I think you will find the greatest sympathy here and it has even been suggested that if necessary, if this takes place, we go to Congress and try to get them to somehow or other validate this, if possible, our Congress, you see. I think you will find that everybody is very sympathetic.

Saher: Oh, yes, we have that feeling and we are very happy about it.

H.M.Jr: We can't give you anything in writing. We can't guarantee if you burn these things and everything else - but you will find that there is sympathy here.

Loudon: Is there anything I can do - is there anything you want me to do? I am absolutely willing to put any wire on any line in any code anywhere you want it as long as I know exactly what you want me to do.

Saher: No, your Excellency, I would suggest what there is to be done. I think, your Excellency --

Loudon: It is not --

Saher: At once wire to Holland and explain that it is necessary to do what gives the greatest possibility of getting new stock certificates issued over here. It is understood that it will be

- 36 -

of some influence when officials of the Netherlands Bank sign the documents and if possible one official of the Netherlands Government and then the American Consul or Consul General. If we get these three signatures, then we get a document which is not in the real sense of the word a legal document which we need, but it is a document which we might consider as giving us a fair chance to obtain the result we wish.

I should therefore suggest that you (Pleven) as well as our Minister give this word to The Hague and tell them you can't get a guarantee that a new stock certificate in America will be issued but you have a nice fair chance to get it.

- Berle: If you get a piece of evidence that will be accepted.
- Saher: That is right.
- H.M.Jr: I think you would be doing me a kindness and the Belgian Ambassador if you told him what happened here later tonight. He might like to know.
- Loudon: I will ring him up and I will ask him to come and see you, because I would like to --
- H.M.Jr: I think you might tell him what happened here so he will know. I think you will be doing him a kindness.
- Loudon: I will do that.
- H.M.Jr: Are you (Pleven) going to answer Monet tonight?
- Pleven: Yes, and I will tell him what happened and that you are kind enough to give your consideration to this problem and I will make it --
- H.M.Jr: With them, I mean you will work with them.
- Pleven: Yes.
- Loudon: I would like to add in the telegram I would also suggest if they deem it necessary in The Hague

to use that, to call in these other bearer certificates.

H.M.Jr: That is up to them. That is up to your government.

Again, Mr. Berle - when I get through saying that he can change it - but I wouldn't say that you are doing this at the suggestion or by authority of the United States Government.

Loudon: No, but I am suggesting it. I can always say it has been suggested to me, without saying it is the United States Government.

Berle: In that case, Mr. Ballantyne, since the suggestion has come to us that the British Broadcasting Company would like to broadcast something tomorrow and requesting immediate reply, I intend wiring our Embassy in London that as we see it there is no point in such a broadcast. At all events, if any such broadcast should take place, it should be at the instigation of the Dutch authorities and indicating what we have done. I don't know that we need to go so far as that. The immediate question was whether the British Broadcasting Company should broadcast something. There appears to be no need of that on your statement.

Saher: Yes, but the Minister just told me that nevertheless there are, as he has been informed, about 50 millions in the other amount and as we are now in the situation, we might consider 50 million. In a country which is in the horrible situation of our country, you know, every penny counts.

Berle: I agree entirely about that. If there is to be any broadcast, it would presumably be a broadcast by or on behalf of the Dutch Government.

Saher: I quite agree. I understand fully your standpoint. In a bit friendlier way, if you say there is no need for a broadcast, that is not up to the point, as I might think, but the good thing would be to say, well, it is better

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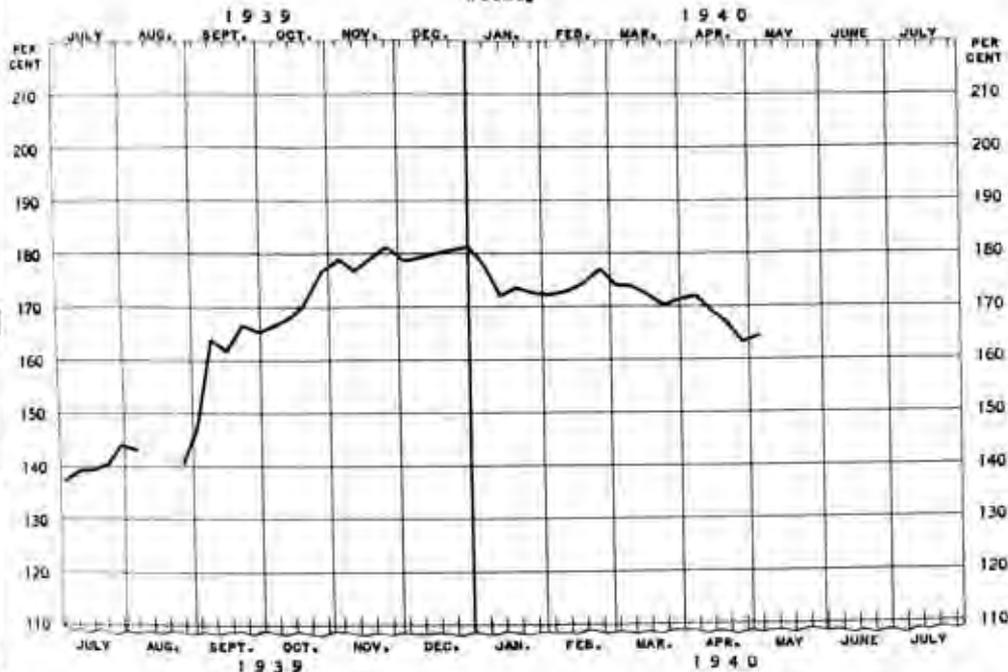
to do it in the Netherlands than in England and the Netherlands Minister will take care of that.

- Berle: I have but one difficulty. I had understood from the cable we got from our Embassy in London that this had already been arranged, but Monsieur Pleven tells me it is still a matter to be discussed with the Dutch Government. Plainly, therefore, it would be a little unusual if we cleared a British broadcasting release in advance of an arrangement between the British and the Dutch Government.
- H.M.Jr: Isn't your foreign minister in London?
- Loudon: In London or in Paris. He may be on his way to Paris.
- Saher: Mr. Berle, you said it is not necessary to make a broadcast. That is the only thing I wouldn't like to be said.
- Berle: I can say that, but I think perhaps a better way of putting it would be that it doesn't concern us but primarily it is a matter for the Dutch Government.
- H.M.Jr: All right, Mr. Minister?
- Loudon: All right. Shall I go home and drop the cable?
- H.M.Jr: If you want anything more tomorrow, we are available.
- Loudon: No, I think we know enough to drop the cable tonight.

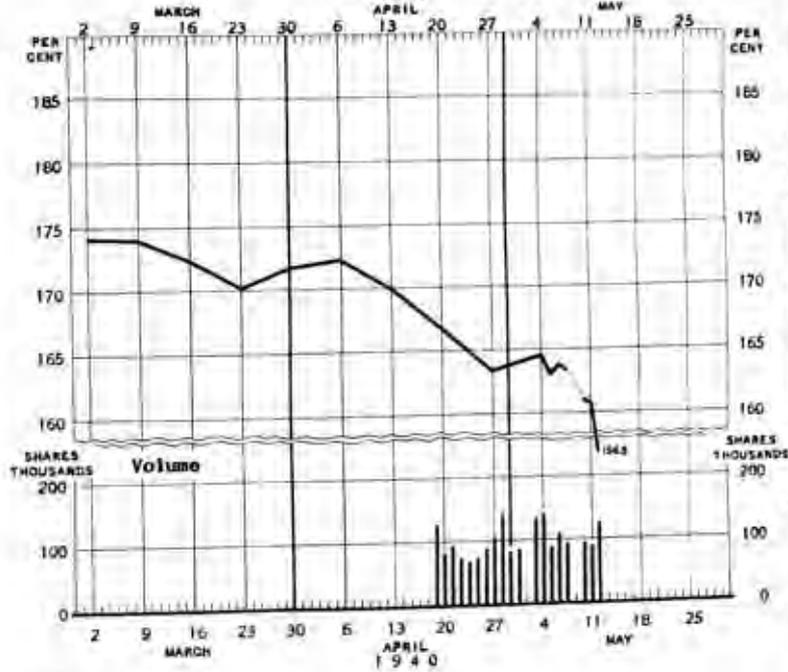
# ITALIAN STOCK PRICES (Milan)

Dec. 31, 1927 = 100

Weekly



Daily\*



\*DAILY FOR LATEST WEEK ONLY

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

## APPROPRIATIONS FOR STRATEGIC AND CRITICAL MATERIALS

|                   | <u>Submitted by<br/>Departments</u> | <u>Approved by<br/>President</u> | <u>Approved and<br/>Appropriated<br/>by Congress</u> |
|-------------------|-------------------------------------|----------------------------------|--|
| June 24, 1939     | \$25,000,000                        | \$25,000,000                     | \$10,000,000   |
| November 27, 1939 | 90,000,000                          | 15,000,000                       | 12,500,000   |
| May 8, 1940       | <u>12,500,000</u>                   | <u>12,500,000</u>                | <u>-0-</u>   |
| Totals            | \$127,500,000                       | \$52,500,000                     | \$22,500,000   |

May 13, 1940.



MEMORANDUM FOR THE SECRETARY:

The following appropriations have been made by the Congress for strategic and critical materials:

By letter of June 24, 1939, the Budget Officer, War Department, transmitted to the Bureau of the Budget an estimate of \$25,000,000. The President approved the estimate and transmitted it to Congress on July 10, 1939, in the same amount (House Document No. 396, 76th Congress). Congress approved \$10,000,000 which amount was carried in the Third Deficiency Appropriation Act of 1939, approved August 9, 1939 .....\$10,000,000

Under date of November 27, 1939, the Assistant Secretary of War and the Assistant Secretary of the Navy requested that the Treasury Department submit an estimate for the fiscal year 1941 in the amount of \$90,000,000. The Treasury transmitted this estimate to the Bureau of the Budget on December 1, 1939, for inclusion in its annual estimates for 1941. The President approved \$15,000,000 for inclusion in the annual Budget for 1941. Congress appropriated in the Treasury Department Appropriation Act for 1941 ..... 12,500,000  
Total Appropriations .....\$22,500,000

In addition, a supplemental estimate of appropriation was submitted to the Bureau of the Budget on May 8, 1940, approved by the President and transmitted to Congress in the amount of..... 12,500,000

Grand Total .....\$35,000,000

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Notes on Army Program Conference  
at the White House, May 13, 1940, 5:15 P.M.

There was some preliminary discussion between Mr. Morgenthau and Mr. Johnson with respect to increasing airplane engine production. Mr. Johnson's memorandum encompassed the possibility of building two or three Federally owned engine plants or duplicating existing facilities of the three established engine manufacturers.

Mr. Morgenthau took issue with such a program stating that he thought it was much more to the point to establish new privately owned companies in the airplane engine field. Mr. Johnson mentioned the possibility of Continental as it had developed an airplane motor which showed some promise.

Mr. Morgenthau went on to say that possibly a large private interest might be persuaded to buy out Continental, and that he would like to see at least two more private manufacturers in the engine field. Mr. Johnson countered with a statement that he would like to see at least three more private manufacturers making plane engines.

Mr. Johnson added that he thought probably Chrysler would be the best one to do such a job. Whereupon, Mr. Woodring recalled the experience that Packard had had in that field. Colonel Burns interjected with a remark that after all it was the time element that mattered, and that it was impossible to build a plant and train the personnel in a short time as evidenced by the experience of Allison which had been working on the whole project for four years and on its plant for the last eighteen months.

By that time General Marshall was ready to proceed with the meeting, stating that the figure of \$112,736,000 which represented the pay, rations, clothing, transportation, etc., for 38,000 men for twelve months had been reduced to \$15,229,000. The resulting difference was to be handled as a deficiency appropriation.

General Marshall said that three other general items had been changed, namely, all amounts for anti-aircraft had been collected into a single item whereas it had been distributed through several items heretofore; the amount for the modernization of planes and weapons for planes had been divided into two categories rather than lumped together; twenty heavy bombers had been entirely omitted from the list.

Mr. Woodring made the statement that the President said no items should be included on which production could not be started right away, and Mr. Johnson said there were no such items included. Mr. Johnson inquired of General Marshall about the \$98,000,000 for food and rations which had been cut from this list. General Marshall replied that he understood that it would be financed by a deficit appropriation.

Because of the confusing nature of the items, Mr. Morgenthau inquired as to just what the differences were between the list under discussion and what it had been at the morning conference with the President. Mr. Johnson replied that this \$98,000,000 item for food and rations, etc., for 38,000 men had been eliminated, and Mr. Woodring added that about a total of \$111,000,000 had been cut out.

Mr. Morgenthau inquired as to what delay there would be in getting production of commercial (essential) items, and Mr. Johnson replied that the delay could not be more than twelve months or those items would become non-commercial (critical) items.

Mr. Morgenthau suggested that the group meet at 10:30 tomorrow morning to talk on the aircraft factory situation. This was agreed to by Messrs. Woodring and Johnson.

Mr. Morgenthau reiterated his position that new companies in the engine field were more preferable than expansion of existing plants. Mr. Johnson said that such a program would be fatal, but Mr. Woodring replied that he was all for it. Mr. Johnson's position was taken primarily on the basis of the time element involved and he pointed out the fact that the Allison plant had depended on the Cadillac workmen of General Motors who had been specially trained.

Mr. Johnson said that Lycoming and Continental were two small companies, but perhaps they could be worked in on such a program. It was Mr. Morgenthau's suggestion that they be bought out inasmuch as increased pressure through large buying orders on the three manufacturers now in the field would give them indigestion. Mr. Johnson said that he did not think so and that any new companies in the field would have dropsy, gout, and consumption. To which Mr. Morgenthau replied that crowding would be just as bad.

Mr. Woodring pointed out the possibility that the production load, even though it were doubled at the present time, might double again in six months; a situation which the three established companies would find it impossible to meet. In support of this, Mr. Morgenthau stated that the Anglo-French Purchasing Board had already invested \$60,000,000 in the three established companies; that more business would swamp these companies, and that the location of the plants were in the wrong places.

He added, however, that he would be agreeable, and Mr. Johnson concurred, to a plan whereby 10 to 25 million dollars would go into new companies to get them started and the balance possibly into a duplication of existing facilities.

Mr. Morgenthau closed the session by reiterating his position that everyone should seriously consider the establishment of two or three new companies in the field before any other plan was adopted.

*P.Y.*

PY:bj  
5/15/40

48

CONFIDENTIAL

May 13, 1940

To: The Secretary

From: Mr. Young

General Brett informs me that the airplane engine capacity as of January, 1941, will amount to 24,000 engines of the 1000 horsepower class per year.

*BY.*

CONFIDENTIAL

May 13, 1940

To: The Secretary  
From: Mr. Young

In accordance with your instructions, I called General Brett to find out how many engines of 1000 horsepower and over the three airplane engine companies could produce as of January, 1941.

General Brett called me back at 12:45 and explained that the only accurate measure of productive capacity was in terms of horsepower rather than of engines. The latest estimate is that productive capacity of 2 million horsepower per month would be available by December, 1940, allocated as follows:

|                   |                    |
|-------------------|--------------------|
| Allison           | 400,000 horsepower |
| Wright            | 800,000 "          |
| Pratt and Whitney | 800,000 "          |

This 2 million horsepower would be equivalent to 2000 motors of 1000 horsepower each per month. This estimate includes allied orders but does not include estimated capacity on probable orders.

General Brett was very anxious that you understand how nebulous such an estimate is because the manufacture of engines of more than 1000 horsepower each would reduce the total number produced. The General was very cooperative and said that he had plenty of other figures if you did not like these.

*R.Y.*



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT  
PROCUREMENT DIVISION  
WASHINGTON

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May 13, 1940

MEMORANDUM FOR THE SECRETARY

There is attached hereto as a matter of information copy of a priority message which I received this morning, addressed to General Brett by Colonel Echols of Wright Field.

A handwritten signature in cursive script, appearing to read "H. J. Gallen".

att.

P R I O R I T Y

DHQ-T-627 5-8-40

GENERAL BRETT

WITH REFERENCE TO CONVERSATIONS THAT YOU AND MR. MORGENTHAU HAD AT THE ALLISON PLANT IN REGARD TO THE CHARGING OF DEVELOPMENT WORK WHICH WE WOULD BE GIVEN BY VARIOUS MANUFACTURERS IN RETURN FOR AUTHORITY FOR RELEASE FOR FOREIGN SALE, I AM SENDING YOU THE FOLLOWING SUMMARY TO DATE:

IN REGARD TO JUST EXACTLY WHAT FUNDS THE VARIOUS MANUFACTURERS WERE TO CHARGE TO THE ALLIES AND HOW THESE CHARGES WERE TO BE MADE WERE NEVER MADE IN THE FORM OF ANY FORMAL AGREEMENT. WITH EACH ONE DURING PROCESS OF NEGOTIATION, AFTER WE HAD DECIDED ON THE AMOUNT OF DEVELOPMENT FUNDS THAT THE AIR CORPS WAS ENTITLED TO RECEIVE REIMBURSEMENT ON, I THEN ASKED THEM THE QUESTION: "AS TO HOW MUCH OF THIS AMOUNT THEY INTENDED TO CHARGE DIRECTLY TO THE FOREIGN SALES." THE FOLLOWING IS A SUMMARY OF THE AMOUNT OF REIMBURSEMENT IN THE FORM OF DEVELOPMENT WORK THAT WE ARE SUPPOSED TO RECEIVE AND BASED ON THE INFORMATION THEY GAVE ME, THE AMOUNT THAT THEY INTENDED TO CHARGE TO THE FOREIGN SALES:

| <u>NAME</u>       | <u>BASIS OF NEGOTIATION</u> | <u>CHARGED TO ALLIES</u> |
|-------------------|-----------------------------|--------------------------|
| CURTISS AIRPLANE  | \$745,000.00                | ALL                      |
| BELL              | 510,000.00                  | ALL                      |
| LOCKHEED          | 1,100,000.00                | ALL                      |
| MARTIN            | 850,000.00                  | ALL                      |
| CONSOLIDATED      | 600,000.00                  | ALL                      |
| ALLISON           | 1,000,000.00                | ALL                      |
| CURTISS PROPELLER | 400,000.00                  | \$200,000.00             |
| HAMILTON STANDARD | 150,000.00                  | ALL                      |

DHQ-T-627 (CONT'D) - 5-8-40

| <u>NAME</u>         | <u>BASIS OF NEGOTIATION</u>               | <u>CHARGED TO ALLIES</u>   |
|---------------------|---|--|
| PRATT & WHITNEY     | \$ 750,000.00                             | ALL  |
| WRIGHT AERONAUTICAL | 750,000.00                                | NONE EXCEPT IN CASE OF<br>CANCELLATION OF CONTRACT,<br>IN WHICH CASE ALL |
| DOUGLAS             | NONE                                      |  |
| NORTH AMERICAN      | TWO PRODUCTION AIRPLANES PRICE NOT STATED |  |
|                     | <hr/>                                     | <hr/>  |
| TOTAL -             | \$6,855,000.00                            | \$ 200,000.00  |

NEGOTIATIONS WITH BOEING AND GENERAL ELECTRIC ON TURBO STILL PENDING

ECHOLS

EMK

COPY

May 13, 1940

MEMORANDUM FOR THE SECRETARY

There is attached hereto as a matter of information copy of a priority message which I received this morning, addressed to General Brett by Colonel Echols of Wright Field.

att.

P R I O R I T Y

54

DHQ-7-627 5-8-40

GENERAL BRETT

WITH REFERENCE TO CONVERSATIONS THAT YOU AND MR. MORGENTHAU HAD AT THE ALLISON PLANT IN REGARD TO THE CHARGING OF DEVELOPMENT WORK WHICH WE WOULD BE GIVEN BY VARIOUS MANUFACTURERS IN RETURN FOR AUTHORITY FOR RELEASE FOR FOREIGN SALE, I AM SENDING YOU THE FOLLOWING SUMMARY TO DATE:

IN REGARD TO JUST EXACTLY WHAT FUNDS THE VARIOUS MANUFACTURERS WERE TO CHARGE TO THE ALLIES AND HOW THESE CHARGES WERE TO BE MADE WERE NEVER MADE IN THE FORM OF ANY FORMAL AGREEMENT. WITH EACH ONE DURING PROCESS OF NEGOTIATION, AFTER WE HAD DECIDED ON THE AMOUNT OF DEVELOPMENT FUNDS THAT THE AIR CORPS WAS ENTITLED TO RECEIVE REIMBURSEMENT ON, I THEN ASKED THEM THE QUESTION: "AS TO HOW MUCH OF THIS AMOUNT THEY INTENDED TO CHARGE DIRECTLY TO THE FOREIGN SALES." THE FOLLOWING IS A SUMMARY OF THE AMOUNT OF REIMBURSEMENT IN THE FORM OF DEVELOPMENT WORK THAT WE ARE SUPPOSED TO RECEIVE AND BASED ON THE INFORMATION THEY GAVE ME, THE AMOUNT THAT THEY INTENDED TO CHARGE TO THE FOREIGN SALES:

| <u>NAME</u>       | <u>BASIS OF NEGOTIATION</u> | <u>CHARGED TO ALLIES</u> |
|-------------------|-----------------------------|--------------------------|
| CURTISS AIRPLANE  | \$745,000.00                | ALL                      |
| BELL              | 510,000.00                  | ALL                      |
| LOGANHEED         | 1,100,000.00                | ALL                      |
| MARTIN            | 850,000.00                  | ALL                      |
| CONSOLIDATED      | 600,000.00                  | ALL                      |
| ALLISON           | 1,000,000.00                | ALL                      |
| CURTISS PROPELLER | 400,000.00                  | \$200,000.00             |
| HAMILTON STANDARD | 150,000.00                  | ALL                      |

DHQ-T-627 (CONT'D) - 5-8-40

| <u>NAME</u>         | <u>BASIS OF NEGOTIATION</u>               | <u>CHARGED TO ALLIES</u>   |
|---------------------|---|--|
| PRATT & WHITNEY     | \$ 750,000.00                             | ALL  |
| WRIGHT AERONAUTICAL | 750,000.00                                | NONE EXCEPT IN CASE OF<br>CANCELLATION OF CONTRACT,<br>IN WHICH CASE ALL |
| DOUGLAS             | NONE                                      |  |
| NORTH AMERICAN      | TWO PRODUCTION AIRPLANES PRICE NOT STATED |  |
|                     | <hr/>                                     | <hr/>  |
| TOTAL -             | \$6,855,000.00                            | \$ 200,000.00  |

NEGOTIATIONS WITH BOEING AND GENERAL ELECTRIC ON TURBO STILL PENDING

ECHOLS

EMK

COPI

May 13, 1940  
8:55 a.m.

H.M.Jr: Hello.

General  
Marshall: Good morning, Mr. Secretary.

H.M.Jr: Good morning, General. I understand you telephoned me after I left you -- a message that you had from General Watson.

M: Yes, sir.

H.M.Jr: Well, would you want more time possibly this morning to review the thing and.....

M: Well, I think -- I can -- as it stands now I've got a full half hour, haven't I?

H.M.Jr: Yes.

M: Well, suppose -- can you add ten minutes to that?

H.M.Jr: Surely. I have nothing which is as important as that.

M: Well then suppose we make it a full forty-five minutes for me to talk to you before we go over there.

H.M.Jr: All right. Ten-fifteen?

M: Ten-fifteen.

H.M.Jr: Now, what.....

M: The sense of what he said was he was going -- you remember when I first made the presentation -- started to make the presentation to you Saturday, it was -- began on the basis of what the President had called on me for.

H.M.Jr: Right.

M: And what I had added to that little thing that has come over about anti-aircraft.

H.M.Jr: Right.

- 2 -

M: And then you put that aside to take in the broader program so it wouldn't be piecemeal.

H.M.Jr: That's right.

M: Well now, I gather from what General Watson said, two things. In the first place, that -- that the night before the Navy had a direct conversation with the President.

H.M.Jr: Yes.

M: And he had thrown them out on -- or at least seemingly thrown them out, on the basis of getting 20 thousand additional men.

H.M.Jr: Yes.

M: General Watson was adhering to this little thing, which he seems to have been somewhat responsible for, that anti-aircraft request.....

H.M.Jr: Oh.

M: .....for which I tacked on additional items for certain guns and ammunition.

H.M.Jr: Right.

M: And he stressed very much that we mustn't bring up the question of men. Well, I mean -- I just wanted to tell you that.....

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

M: .....-- that is his view.

H.M.Jr: .....--I've differed before with the President and I suppose that's why he has me around, and I've had plenty of time to think the thing over, and I'm convinced what we want is an all-around program.

M: Well that's -- there's no question in the world about that.

H.M.Jr: And I'm going to fight for that.

- 3 -

M: Well, that's what I've got to do.

H.M.Jr: And I also feel that the time has arrived where you've got to have the tools to work with and then you've got to be personally held responsible.

M: Yes, sir.

H.M.Jr: And you can't be held responsible unless you've got what you need.

M: Well, I've -- I just wanted you to know that slant on it because I suppose there's.....

H.M.Jr: Well, we'll.....

M: And I'll be over there -- I'll be over there at a quarter past ten.

H.M.Jr: I -- I think it's agreeable to you if I have those two budget men here.

M: Yes, sir.

H.M.Jr: We won't take them to the White House.....

M: Yes, sir.

H.M.Jr: .....but I think it's better to carry them with us. Don't you think so?

M: Suppose you do this, Mr. Secretary, get them over there about a quarter of an hour after I get there.

H.M.Jr: A quarter of an hour after.

M: Give me about fifteen minutes of your time.

H.M.Jr: You want -- you want it alone, I take it.

M: Yes, sir.

H.M.Jr: That's all right.

M: All right.

H.M.Jr: Thank you.

May 13, 1940  
2:15 p.m.

Harry  
Woodring: Mr. Secretary.

H.M.Jr: I've just come back.

W: Yeah.

H.M.Jr: When do you gentlemen think you'll be ready?

W: Well, I just went in to talk to Marshall and then -- probably be four or five o'clock before we have our phase of it. Now, Johnson of course will have to prepare, from his angle, the question of plant capacity and building of plants. That will have to come from down there and I don't know when that will be ready. But General Marshall said he would have his information sometime before five o'clock.

H.M.Jr: Well, why don't I do this.

W: All right, what?

H.M.Jr: Why don't I call up Harold Smith and suggest everybody -- we meet in the Cabinet room at five o'clock.

W: That's all right.

H.M.Jr: How's that?

W: That's all right.

H.M.Jr: Because I -- I don't want it over at the Treasury. I mean, I'm embarrassed enough. So.....

W: Well, that's all right. If that's all right with you you're welcome to come here, but I really think maybe the other is a little better.

H.M.Jr: Well, the reason I said the Cabinet room is because I understood you wanted it at my office.

W: Well, I think that -- I thought it would be a little better away from the War Department.

H.M.Jr: Well, let's have it at the Cabinet room.

- 2 -

W: All right.

H.M.Jr: How's that?

W: That's all right.

H.M.Jr: I'd like to do it the way you want; I don't care, because personally I'd much rather not come.

W: Um-hm.

H.M.Jr: But as long as it's set this way, if you want it in the Cabinet room we'll have it in the Cabinet room.

W: Um-hm. You don't think there'll be any undue alarm if we were -- meeting in the Cabinet room. I don't want to.....

H.M.Jr: Oh. Well, I mean you -- they don't know you're going to the Cabinet room.

W: No.

H.M.Jr: Could you.....

W: What do you think of meeting in General Marshall's office? Would you come here?

H.M.Jr: Well, I'll be seen going over there and that'll create more excitement.

W: Yeah, I guess so. Well, all right..

H.M.Jr: I mean, Edison is over there at the White House and -- I mean, supposing they don't know whether you're going to see the President or not.

W: That's right.

H.M.Jr: Huh?

W: All right, five o'clock at the Cabinet room.

H.M.Jr: And shall I let -- will you let them know or shall I let the others know?

- 3 -

W: Well, I'll tell General Marshall and I'll tell.....

H.M.Jr: Johnson.....

W: .....Johnson.

H.M.Jr: I'll get word to Harold Smith.

W: Now look, if we can get our end of it ready  
with General Marshall, I'll get you over a copy  
of that as early as I can.

H.M.Jr: Thank you so much.

W: All right.

H.M.Jr: Thank you.

W: O. K.

May 13, 1940

3:40 p.m.

Present:

Mr. Pleven  
Mr. Young  
Mrs. Klotz

HM, Jr: While I have it in mind -- oh, I will get Phil Young and then I don't have to do it all twice. (Phoned for Mr. Young to come to the meeting.)

General Marshall was here yesterday, our Chief of Staff, and I spoke to him about the Colt and he said that Colonel Burns is having a meeting called of the Colt manufacturers, here in Washington, to arrange with them to take care of both the Allies and the United States Army.

Mr. Pleven: That's very good. That's very good.

HM, Jr: I can say this to you, because I was with the President all morning, there is no disposition on the part of the Government not to see that you people get what you want. Quite the contrary. Quite the contrary. And every effort will be made to see that you continue to get what you have on order and that wherever we can be helpful we will accelerate. See?

Mr. Pleven: Mr. Secretary, that merely disposes of the matter which Mr. Purvis wanted me to take up with you because I happened to be in Washington today.

HM, Jr: I have had ample time to talk this morning and what I would like -- I haven't got -- so hard to get these figures, and I am carrying a figure in my mind that since the first of April that you have put up around \$40,000,000 to the airplane companies for plant expansion.

Mr. Pleven: Yes.

HM,Jr: I am also carrying a figure that before the first of April you put up around \$60,000,000. From the beginning.

Mr. Plevin: I have handed to you -- we have handed to you a complete statement.

HM,Jr: Since the first of April?

Mr. Plevin: Which was giving a complete breakdown.

HM,Jr: Am I right on the \$100,000,000?

Mr. Plevin: I think you are a little bit on the high side. I think the total is \$60,000,000.

HM,Jr: Your memorandum said \$60,000,000 originally, and then since the first of April I think it is \$40,000,000.

Mr. Plevin: No, I think it covers the whole.

HM,Jr: That's what I don't know. That's just it. Does it cover the same period? Then it must be more.

Mr. Plevin: It was \$60,000,000. That covers the whole. It was a summary of what was spent and what was to be spent.

HM,Jr: Is the \$60,000,000 -- since then you have gone forward with Wright?

Mr. Plevin: It included the forecast.

HM,Jr: In using a figure, should I use \$60,000,000?

Mr. Plevin: Yes. \$60,000,000.

HM,Jr: Is that for plant alone?

Mr. Plevin: For plant alone.

-3-

HM, Jr: Including training?

Mr. Pleven: Certain amount of training, but only \$3,000,000 or \$4,000,000.

HM, Jr: Now, on Pratt Whitney, how are you getting along?

Mr. Pleven: What we have not spent on Pratt Whitney we have spent on Wright. Where we planned to spend \$8,000,000, we are in fact spending \$10,000,000.

HM, Jr: Knowing what you want gave me a chance to talk to the President and with everybody there. You see? Assistant Secretary of War, Chief of Staff. And there is every disposition to leave it as it is or even be more helpful.

Mr. Pleven: That was really the thing I came for.

HM, Jr: And the Colt thing, I explained they are having a meeting on Wednesday with Colt -- the Army is -- to work it out that both the Army and the Allies be taken care of.

Mr. Pleven: Several firms have definitely given us the impression they only want to sell us if we clear the new plane and that was the thing that we were wondering, if word could be said to those people that it was not a question of saving dollars but question of saving time.

HM, Jr: When you get a specific case like Colt, tell me.

Mr. Pleven: You might like to know that the people who were giving us the impression, outside of Colt, were Du Pont, Hercules ....

HM, Jr: But you have not go up to the point of signing a contract.

Mr. Pleven: No.

-4-

HM, Jr: Colt, you have a contract.

Mr. Plevin: Yes.

HM, Jr: Now, the other thing, is this gun for  
the ....

Mr..Plevin: For all the planes.

HM, Jr: 37 m.m.?

Mr. Plevin: There are three sorts.

HM, Jr: It's for all of them?

Mr. Plevin: Covers all requirements.

HM, Jr: You will see what happens Wednesday. I  
would not worry too much. I would say that's the least  
of your worry.

Mr. Plevin: Thank you, Mr. Secretary.

oOo-oOo

TELEGRAM SENT

CK

GRAY

May 13, 1940

1 a.m.

AMERICAN EMBASSY

LONDON

RUSH

848.

Your 1180 twelfth. It is believed that any broadcast of the type proposed would occasion less misunderstanding if it were made by Netherlands and Belgian governments respectively since this government obviously does not suggest destruction of securities and the result of such destruction is the concern of the owners rather than of the United States.

The suggestion has been made by Allied Governments that Belgian and Netherlands nationals destroy American securities in case of threatened loss and at the same time provide themselves with evidence of destruction which may assist them in securing later replacement of these securities. For your information Treasury has been approached in this sense by British and French representatives. It has advised these representatives and also the Dutch Minister that of course no guaranty could

-2-#848, May 13, 1 a.m. to London.

could be given of replacement of destroyed securities but that Consuls would be authorized to authenticate the signatures of Dutch and Belgian officials who might witness such destruction and who might certify to the numbers and ownership of the securities destroyed. Such certificates, especially if, in addition to the officials there were included the statement of a Dutch or Belgian bank officer whose signature was on file with the Federal Reserve Bank of New York might well prove to be evidence of loss or destruction which would materially assist in obtaining renewal of the securities in due course.

You may wish to point out that there are only a few Consuls in Holland and Belgium, all very much occupied, and that it would be physically impossible for them to witness personally the destruction of securities save in important instances.

Foregoing sent after full discussion with Treasury.

HULL  
(AAB)

AB:AAB:VDM

## TELEGRAM SENT

OK

GRAY

May 13, 1940

1 a.m.

AMERICAN LEGATION

THE HAGUE.

RUSH

86.

"Treasury informs us that the Netherlands and Belgian Governments are considering advising their nationals to destroy American securities in their possession where there is danger that such securities might be lost or captured. In such cases the governments mentioned will probably advise the owners to accomplish the destruction in the presence of an appropriate notary or judicial officer and also a responsible official of a bank, preferably one whose signature is on file with the Federal Reserve Bank of New York. It is further intended to have the owner and these witnesses certify to the securities so destroyed, identifying them appropriately, and to request authentication of the signature of the Government officer by a consul of the United States, after which such certificates of destruction would be left with the consul to be forwarded to the United States by pouch.

You

hsm -2- No. 86, May 13, 1 a. m., to The Hague

79

You are authorized to receive such certificates and to authenticate the signatures of appropriate Government officials who have witnessed such destruction. In cases of importance and if circumstances permit you may, if requested, witness such destruction and state that fact in the document. You may also transmit such certificates by pouch. If requested execute in triplicate retaining one copy, giving one copy to interested party and forwarding original to Department. You should point out that authentication and transmission of such a document does not constitute an assurance that the destroyed securities will be replaced, but only creates documentary evidence which might be of assistance in case replacement is later sought. You should also make it clear that while every care will be taken to ensure the safe transmission and custody of such certificates the United States Government and its officers accept no responsibility in that connection.

Repeat to Consul General at Amsterdam, and to Consul at Rotterdam if practicable.

HULL  
(AAB)

A-B:AAB  
Eu:HSC

Same to Embassy, Brussels, as Department's 64, May 13, 1 a.m. less last paragraph, adding following paragraph:  
"Repeat to Consul General at Antwerp and to Consul at Brussels."

**TELEGRAM SENT**

**GRAY**  
**May 13, 1940**  
**2 a.m.**

**AMERICAN EMBASSY**  
**LONDON**

**RUSH**  
**849.**

**Department's 848, May 13, 1 a.m.**

**For your information following is text of telegrams sent to Embassy, Brussels, and Legation, The Hague, for repetition to consular officers in Belgium and The Netherlands, respectively:**

**QUOTE (Text of Department's No. 86, May 13, 1 a.m. to Legation, The Hague) UNQUOTE**

**HULL**  
**(ACB)**

**EU:HSG**



TREASURY DEPARTMENT  
WASHINGTON

May 13, 1940

MEMORANDUM FOR THE SECRETARY:

Mr. Peyser of the Federal Reserve Board phoned at 9:25 A. M. with respect to the situation in the Government bond market which was down then about 6/32's from the opening. Offerings were relatively small but there is no buying in the market. He said the Federal Reserve Board had not received any offers or made any purchases in support of the market but that if it continued to drop very fast today that it would undoubtedly have to go in.

WRS

I have a call in to talk to  
Mr. Rouse in New York to get his views  
WRS

May 13, 1940

General Watson called me and asked me who I thought ought to be at the conference this morning.

"Did I think the Director of the Budget?" and I said yes.

"Did I think Woodring?" and I said yes; by all means.

RE FOREIGN EXCHANGE

73  
May 13, 1940  
10:00 a.m.

Present: Mr. Gaston  
Mr. Foley  
Mr. Upham  
Mrs Klots

H.M.Jr: Cy, do you want to get in and help? Pull up a chair.

Upham: If I can help you, I certainly want to.

H.M.Jr: Don't be Jewish and answer a question by asking one. What I want to ask you is this: We are taking care of the money of five different countries. Bell has got this thing and he is away and Herbert Gaston is doing a swell job of pinch-hitting and he has also got Coast Guard and a half a dozen other things. I want you to sit with these two men for a couple of days and familiarize yourself with this whole question of being custodian for five countries and when you have got the thing and got it soaked up, I want you to take it on. In the meantime, just sit with these two fellows until you have got the stuff.

My understanding with Delano is that he can spare you and he is lending you to me and the main thing is that all of this stuff which is day and night - are you all right, is your heart sound?

Upham: Yes.

H.M.Jr: So sit with these two people and gradually absorb it and then you can begin to take the thing over, so that they can do their own stuff and get to know the personnel and everything else, but I want to push this thing on you. Then when Bell comes back - it is his responsibility and you report to him, see.

Upham: Sure.

H.M.Jr: But I want new blood and I want an extra spoke to my wheel and an extra tire and I want you to take this thing on. Weren't you in National City foreign exchange?

- 2 -

Upham: Yes, a long time ago.

H.M.Jr: That is all right, but get into this thing and just - it will take you a couple of days to soak it up. You look very healthy.

Upham: I am all right.

H.M.Jr: All right. I have got confidence in you and I wanted an old friend with a certain amount of intelligence and full loyalty and that is you. Go with these fellows now. They have got all of this, with Rotterdam burning. Go on.

From:—

75

Mr. Hefflinger

WEN



TREASURY DEPARTMENT  
WASHINGTON

May 13, 1940

MEMORANDUM FOR THE SECRETARY:

I talked to Mr. Rouse of the Federal Reserve Bank of New York at 10:30 A. M. He said there had been a fair volume of small offerings without many bids and that the System had gone into the market without any publicity or flare and had taken about \$300,000 out of the market in an effort to offset part of the excess offerings. He emphasized that the System had not shown its hand in the market. The market was a shade better around 10 o'clock (New York time) but did not show signs of continuing. It was the view of their trading desk that prices would not hold.

*mk*

*As of 11:15 A.M. - Washington - Federal had increased its purchases to \$500,000.*

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 13, 1940

TO Secretary Morgenthau

FROM W. H. Hadley

11:15 Daylight SavingGOVERNMENT BOND MARKET

Federal Reserve Bank has purchased \$300,000 long bonds in the market. Prices are steady at the moment at 10 to 15/32nds below Saturday.

CABLE

From: Amsterdam  
To: Federal Reserve Bank of N. Y.  
Date: Sent and received  
May 13, 1940

#168

STRICTLY CONFIDENTIAL.

Will you kindly note that the right to dispose of our gold account "F" and our dollar account "F" with your institution no longer belongs to our bank but have been transferred to the Netherlands Government effective today. If and when the Netherlands Government draws on the said account they will probably do so through the intermediary of the Bank of England.

sgd. De Nederlandsche Bank

Rec'd by phone from Mr. Knoke's Secretary - May 14/40 - 11:30 am  
ka

## CABLE

From: Amsterdam  
 To: Federal Reserve Bank of N. Y.  
 Date: Sent and received  
 May 13, 1940

#167

Our #153. Our credit in favor of Netherlands Minister in Washington. Credit increased with \$600,000 to \$6,960,000. Monthly drawings now allowed up to \$145,000. Please disregard further instructions our #153. New instructions reads as follows: in case balance of dollar account F not sufficient to cover said drawings you are authorized to take over as much gold of gold account F as necessary for the purpose.

sgd. De Nederlandsche Bank

Rec'd by phone from Mr. Knoks's Secretary - May 14/40 - 11:30 am  
 ka

"F" is the Dutch Gold  
 account which Central  
 Bank operates  
 H.M.M.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 13, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent telephoned this forenoon. He said that the Secretary of the Treasury had asked the British Ambassador to have Sir Frederick Phillips come to the United States. Pinsent stated that both the Ambassador and he would be delighted to see Phillips come over, and that the Ambassador is entirely ready to send the cablegram. Realizing, however, how difficult it may be to pry one of the busiest government officials away from London, the Ambassador would like to have some sort of a summary of the subjects which the Secretary of the Treasury would like to discuss with Phillips, so that he may use this as an argument in the request that this key man be sent to the United States. Pinsent wondered, also, whether we had considered the amount of conjecture which a visit by the Under Secretary of the British Treasury might cause in present circumstances.

I told the Secretary of this call at 11:30 this morning. He instructed me to tell Pinsent that he would be glad to receive Lord Lothian at his home this evening at 8:45. I telephoned Pinsent at once.

Pinsent called me back shortly afterwards to let us know that the Ambassador is dining at the Rumanian Legation tonight at 8:15. He would be glad to call at the Secretary's house at 8 o'clock, after dressing, or around 7:15, before dressing. The British Ambassador wants me to let them know whether either of these hours would meet the Secretary's convenience.



RDS

GRAY

London

Dated May 13, 1940

Rec'd 1:11 p.m.

Secretary of State,  
Washington.

1186, May 13, 6 p.m.

FOR THE SECRETARY OF THE TREASURY.

I took the liberty of sending a copy of your address to Montague Norman. I received an acknowledgement today with the following remarks: "In this connection I may remark, first, that the address goes to the root of the matter in showing that movements of gold are a by product and a symptom of more fundamental commercial and financial relations and will be corrected automatically if ever the world becomes normal again. And secondly that the following statement is true viz, 'every foreign country wishes it had more (gold): No foreign country likes to lose any of it: all countries accumulate it as soon as they can afford to do so'"

KENNEDY

HPD

*New Orleans*

84(a)

FEDERAL RESERVE BANK  
OF NEW YORK

32

OFFICE CORRESPONDENCE

DATE May 13, 1940.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

Mr. Bolton called at 11 o'clock this morning. He had two matters he wanted to talk to me about, he said. First, the problem of the Banque Belge pour l'Etranger, which he understood had their New York assets completely blocked. He thought it might be of value to us to know that this bank was a British institution registered in England and that full control was in London. I replied that we were thoroughly alert to the problem involved, that we had discussed the matter on Friday and Saturday with the Treasury in Washington and pointed out to the letter how handicapped the Banque Belge pour l'Etranger was as a result of the new regulations. I added that we had an appointment with them and their lawyers this afternoon and that we were anxious to do for the bank whatever it was possible for us to do.

Mr. Bolton then said that he had waiting outside of his office at that moment a London representative of an organization which had been established over the weekend in London to run the British Empire branches of the Netherlands Trading Society. As we knew, those branches were throughout the Far East and owing to the situation in Amsterdam and the blocking of Dutch funds in New York, that bank would probably have to default in its payments in the Far East. This organization had been established in London to meet the emergency situation. It could no longer get in touch with Amsterdam since communication between London and Amsterdam had been cut off early this morning and ~~was~~ consequently it did not seem to be able

FEDERAL RESERVE BANK  
OF NEW YORK

84

OFFICE CORRESPONDENCE  
CONFIDENTIAL FILES

DATE May 13, 1940,

SUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.

L. W. Knacke

2

to get anywhere at all. It had requests from all over the Far East for funds to meet local requirements. The British authorities would help to the best of their ability but the Trading Society had large assets in New York. He wanted to put that matter before me so that we knew what the situation was and realized the need of urgent consideration in case the organization should make an application here for licenses. I replied that needless to say we would do what we could if we received an application and had the problem explained to us.

Mr. Bolton repeated that Amsterdam was, at least at the moment, cut off from London; communication with Belgium on the other hand was pretty good.

If he had other matters in the future to which he wanted to draw our attention, he would make free from time to time to send us cables.

LWK:KW

HSM

PLAIN

London

Dated May 13, 1940

Rec'd 1:16 p. m.

Secretary of State,  
Washington.

1193, Thirteenth.

FOR TREASURY FROM BUTTERWORTH.

1. Sir Kingsley Wood, the new Chancellor of the Exchequer, is a solicitor by profession and has been a Member of Parliament since 1918. He is best known for the administrative ability he displayed as Postmaster General from 1931-35, when he improved technically the postal, telegraph and telephone systems and gave them commercial popularity. He is a middle-of-the-road, machine hardened Conservative. Although he has no special knowledge of national finance he is intelligent, approachable and will no doubt do what he is told.

2. The new Cabinet and Winston Churchill's pre-eminent position within it has given confidence to the City. British security markets closed higher on the day.

KENNEDY

McL

JI

GRAY

Milan

Dated May 13, 1940

Rec'd 2 p.m.

Secretary of State

Washington

27, May 13, 5 p.m.

FOR TREASURY DEPARTMENT. Today's prices as follows: 198.25; 337; 507; not listed; 370; 203; 1650; 62; 223.50. Volume 125,300.

Further selling offers forced quotations to new low levels for the year, apparent reason for it due to increasing political tension.

SCHOLES

HED

JT

CRAY

ANKARA

Dated May 13, 1940

Rec'd 3:50 p.m.

Secretary of State,  
Washington.

54, May 13, 6 p.m.

Belgian Minister to Turkey, Alexandre Paternotte de la Vailles requests that the Guarantee Trust Company of New York be authorized to make payments on his order out of his checking account and on his and his wife's (born Anne Cruger, bearer of an American passport issued by the Warsaw (\*) dated in 1938) order out of the safekeeping accounts held in their respective names.

HACHURRAY

CSB

(\*) Apparent omission

37

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Batavia,  
Java, Netherlands Indies.

DATE: May 13, 1940, 4 p.m.

Resident individuals and legal entities are prohibited from disposing of foreign currencies, credits or negotiable papers by the Netherlands Indies foreign exchange controls decree of May 11, which was published today. Also they are forbidden to dispose, either directly or indirectly, of domestic currencies, negotiable paper or credits to persons abroad. Legal entities and individuals who are nonresident may not acquire or dispose of foreign or domestic currencies, negotiable paper or credits per day exceeding one hundred guilders in value. Exemptions from these restrictions may be granted by the directors of the Java Bank.

The full text will be sent via air mail.

DICKOVER

EA:MSG

33

C A B L E

From: Catternes, Bank of England, London.  
To: Federal Reserve Bank of New York  
Date: May 13, 1940

#436/40 Personal and Confidential for Allan B. Sproul

1. We have been considering possible steps which might need to be taken to protect British Government exchanges/gold/ security holdings in the United States at present held in names of various British banks, including ourselves, against the risk of attachment at the instance of enemy interests.

2. H.M.G.'s legal advisors in Washington have expressed the view that complete protection against attachment can only be obtained by

a. transferring such assets into the name of a clearly identifiable nominee of H.M.G.

b. notifying the holding bank that such assets are held on behalf of H.M.G.

c. the British Ambassador to acquaint the United States State Department of the designation of the accounts held and that the funds in question are owned by H.M.G.

3. So far as the holdings in our name with you are concerned we fully appreciate that it is contrary to your policy to opening accounts in the name of a foreign Government.

4. But both H.M.G. and ourselves feel it is essential to take every precaution and I understand to this end H.M.G.'s diplomatic representative in Washington will inform Mr. Morgenthau of the necessity to protect our position as in #2 above. We felt that you would like to know before any such move is made in order that you may be aware of the background.

5. If we could have your reactions by cable we could then telephone you if that would be helpful.

(SIGNED) CATTERNES  
Bank of England.

Received by telephone  
From Mr. Knocks's Secretary  
5:15 p.m. May 13, 1940

*MMR*

RDS

GRAY

Paris

Dated May 13, 1940

Rec'd 5:23 p.m.

Secretary of State,  
Washington.

647, May 13, 6 p.m.

SECTION ONE.

FOR THE TREASURY.

Jenny devoted his article in yesterday's LE TEMPS to a discussion of the Keynes plan and its implications. He considers the measure as a tax rather than as a loan and stated that "its adoption would involve practically no advantages. On the contrary it would have the disadvantage of discrediting loans in general. In other words, it might easily lead to a reduction in the amount of capital freely offered for investment and thus favor the development of inflation." While admitting that consumption of non-essentials should be curtailed Jenny is opposed to any taxation scheme designed to force all funds not required for <sup>absolute</sup> necessities into the coffers of the state.

BULLITT

ILS

VRH

GRAY

Paris

Dated May 13, 1940

Rec'd. 6:30 p.m.

Secretary of State,  
Washington.

647, May 13, 6 p.m.  
(SECTION TWO).

Under such circumstances all manufacturing activities other than those required "to prevent people from dying of hunger and cold" would be directed toward the production of war materials and export commodities. Such a situation is not desirable because : (1) many enterprises which have been accustomed to supply the country with nonessentials could not be changed over into war industries; (2) industries producing for export also require a home market in order to prevent unit production costs from rising; and (3) "the entire industrial and commercial system except for that part connected with armaments would find itself progressively blocked which would mean such a destruction of capital invested at long term that the national economy would be dangerously weakened.

BULLITT

DX:

VRH

GRAY

Paris

Dated May 13, 1940

Rec'd. 5:30 p.m.

Secretary of State,  
Washington.

647, May 13, 6 p.m.

(SECTION THREE).

"The fact that Germany is proceeding along this path in no way proves that in order to conquer her the democratic nations must also follow it". Jenny concludes that the war must be financed according to "classical financial concepts". "The means of financing public expenditures are the same in time of war as in time of peace. These are taxation and loans, recourse to inflation being avoided at all costs". The state should seek to "sponge up" part of the increased purchasing power distributed by it through use of taxation and such taxation should be limited only by diminishing returns.

BULLITT

LMS

VRH

GRAY

Paris

Dated May 13, 1940

Rec'd. 5:15 p.m.

Secretary of State,  
Washington.

647, May 13, 6 p.m.

(SECTION FOUR)

The Ministry of Finance in a communique to the press issued today announced: (a) to facilitate the entry into France of merchandise from Belgium, Luxembourg and The Netherlands, the French Customs authorities have arranged that such merchandise be shipped direct to Customs warehouses located in the interior instead of being held at the frontier for Customs examination and the completion of exchange control formalities; (b) the personal effects of all refugees from the above mentioned countries will be admitted free of duty and their automobiles and other means of **transport** will also be admitted free on the presentation of an official "laissez passer"; (c) the exchange control regulations regarding the importation of gold, banknotes, coins and securities are temporarily  
suspended

-2- # 647, May 13, 6 p.m., from Paris

suspended in the case of refugees (please see Embassy's telegram No. 467, April 12, 7 p.m.).

BULLITT

DDX

133

GRMY

Paris

Dated May 13, 1940

Rec'd 5:55 p.m.

Secretary of State,  
Washington.

647, May 13, 6 p.m.

(SECTION FIVE)

However, customs declarations must be made regarding the means of payment imported by refugees; (d) during their residence in France such refugees will be classified as "persons considered as French" in so far as the exchange control regulations are concerned.

The Bank of France announced this afternoon that at the request of the Minister of Finance all Luxemburg accounts would be temporarily "blocked."

Normal and permanent budgetary revenue for the month of May 1940 totaled 5,500,000,000 francs an increase of 1,807,000,000 over the figure for the corresponding month of 1939. Revenue from indirect taxes exceeded budgetary estimates by 487,000,000. The rise in revenue was principally due to increases in the five per cent levy on revenue from professions (113,000,000) customs duties (502,000,000) business turn over tax (252,000,000) and sugar

-2- #647, May 13, 6 p.m., from Paris.

sugar and saccharine levies (39,000,000).

BULLITT

DDM

RDS

GRAY

Paris

Dated May 13, 1940 .

Rec'd 7:02 p.m.

Secretary of State,  
Washington.

547, May 13, 6 p.m.

(SECTION SIX)

One war levy the special 15% on professional revenues yielded 150,000,000 while the armament tax furnished 541,000,000. Normal and permanent revenue for the first quarter of 1940 totaled 15,740,000,000 francs an increase of 3,605,000,000 over the figure for the corresponding period in 1939 and 156,000,000 more than budgetary estimates.

By the terms of an arrête published in the JOURNAL OFFICIEL wholesalers and retailers are given until June 15 to draw up lists of prices charged by them (please see Embassy's telegram No. 319, May 10, 6 p.m.). Furthermore only the price of merchandise considered in commercial usage as "current sales" need be reported.

Another decree provides that the customs duties on potatoes will be suspended until June 30, 1940.

(END OF MESSAGE)

EULLITT

NPL

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Shanghai.

DATE: May 13, 1940, 6 p.m.

NO.: 414

The following is quoted from a letter in regard to Netherlands frozen accounts in the United States which I received today from the Netherlands Consul General here, and agreed to transmit for the appropriate attention of our Government:

"The Netherlands Trading Society and the Netherlands India Commercial Bank and this Consulate General should highly appreciate it if the following summary of the situation might be laid before the interested authorities.

The purpose of the blocking of these accounts in general is obviously to prevent that the invaders of Holland should divert these monies for their benefit.

However, no German pressure can be brought to bear on the agencies of the <sup>aforesaid</sup> ~~(it)~~ banks in Shanghai, the managers of whom are amenable to Netherlands Consular jurisdiction.

In view of the neutral status of Shanghai, endeavors are made to keep the city out of the war as much as possible. The American measure, however benevolent its intention, would speedily result in the closing of the local banks with the resultant loss of prestige.

It is suggested that an unblocking of the total <sup>of these</sup> ~~balances/~~ ~~of these~~ banks would in no way go against the spirit

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spirit of the measure taken by your Government. If this should prove unfeasible, might I urge a prompt decision on the application for licenses with regard to individual payments."

True it is that many exceptions have been made by belligerents to the application of restrictive measures <sup>growing out of</sup> ~~the~~ the European war, in Shanghai. The British Trading With The Enemy Act, for example, hasn't been made fully operative in Shanghai; so long as they do not take part in political activities, Germans are allowed to reside in the French concession. In this attitude is reflected the general concern to maintain Shanghai's neutrality and to avoid giving a pretense for intervention to the Japanese.

This telegram was repeated to Peiping and Chungking.

BUTRICK

EA:MSG

(Confidential)

P A R A P H R A S E

A confidential telegram (no. 213) of May 13, 1940, from the American Ambassador at Chungking reads substantially as follows:

After some general conversation during the course of a call which the American Ambassador made on May 12 on the Minister of Finance (Dr. Kung) at the latter's request, the Minister asked what the effect had been in Washington of the American Information Committee's message. The Minister remarked that now the Generalissimo, who had talked with him (the Minister) on May 11, would be likely to want to send a similar message. The import of the Minister's remarks gave the Ambassador the impression that the message would take the form of an appeal to the Government of the United States to back the attempts of the Chinese to maintain the currency as he (the Minister) mentioned assistance in this field to France by the United States and he spoke of information (?) quoted from statements of American examiners, he said, indicating that approximately a hundred millions (?) currency -- the property of individuals in China and Chinese banks representing capital which had fled China -- was held on deposit in banks in the United States. Dr. Kung spoke of press reports to the effect that the American Government had taken measures to freeze overdrawn

resources

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resources in the United States belonging to neutral nations taken over by Germany. He made a somewhat vague inquiry whether the Government of the United States could not make available to the Chinese Government the names of such depositors so that China might take some measures itself to utilize for itself such funds or whether the funds belonging to Chinese might not be used by the Government of the United States in steps to help stabilize ~~xxxxxxx~~ China's currency. The only request which the Minister of Finance made in connection with these matters was as indicated in the beginning of this telegram -- what the effect had been in Washington of the American Information Committee's message. He (Kung) said that China was crippled in (?) to make her support of Chinese currency successful by the fact that she had no control over foreign merchants and brokers and foreign banks in Shanghai; that China's efforts to keep open the market at Shanghai was causing China to suffer; and that not only would collapse of the currency destroy China's ability to resist in economic fields but it would also be disastrous to American investments and business in China. He expressed the hope that the Government of the United States would feel able to do something to contribute to the stabilization fund and to protect the American commercial position. Dr. Kung remarked that he had brought  
to

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to the attention of the British Ambassador the fact that half, at least, of the money raised and used in the Sino-British revenue fund had gotten back into British commercial hands and had in this way been of benefit to foreign business, including British.

The Ambassador reiterates that the Minister of Finance made no definite requests and he (the Ambassador) remarks again that the drift of the conversation was as indicated above. The conversation left the Ambassador feeling certain that Dr. Kung was preparing the ground for a message from General Chiang Kai-shek somewhat along the lines indicated above and perhaps addressed directly to President Roosevelt.

The Ambassador states that on May 12 the Financial Adviser to the Chinese Government (Dr. Young) asked entirely independently whether Kung had made known that General Chiang had called him in and had made inquiry concerning the situation with respect to prices and the effect of the present condition of the Chinese currency on prices.

May 13, 1940

The Netherlands Minister telephoned me (Mr. Moffatt) sometime between 1 and 2 o'clock this morning to say that he had just been on the telephone to the Hague in connection with Mr. Morgenthau's suggestion regarding the recorded destruction of American bearer bonds. He was told at the Hague that the news was very black; that the Germans had reached the Zuider Zee on the north; that the Dutch troops were exhausted having had no sleep for 3 days and nights; that allied help could not reach them in time. In the circumstances they regarded it as too late to take any measures on financial matters.

*(Furnished to Hmp by Mr. Cochran)*

P A R A P H R A S E

A confidential telegram (no. 214) of May 13, 1940, from the American Ambassador at Chungking reads substantially as follows:

With regard to the matters dealt with in his telegram no 213, the Ambassador feels that his knowledge of these matters is not sufficient to enable him to give advice on the subject. He is of the opinion, however, that the present moment is a critical one and that, if a way could be found to assist the Chinese Government to stabilize its currency and in this way help the Government to help itself, this would obviously afford protection at the present time to American interests and investments in China. The Ambassador remarks that it would seem advisable that the United States Government make some effort in view of the conditions which would ensue if the Chinese currency/collapse and he adds that in a large measure the United States has benefitted from others' efforts up to the present time.

CONFIDENTIAL

May 13, 1940

To: The Secretary

From: Mr. Young

In accordance with your instructions, I called George Haas at the Purchasing Board office in New York this morning and asked him to ascertain the amount of money put into engine plants classified as to British, as to French, and as to company, together with a three-way breakdown showing the amounts for plant expansion, personnel instruction, and taxes as of April 1st, and since April 1st.

George Haas told me at that time that just prior to my call Bones had called from Collins' office requesting the Purchasing Board statistician to furnish him information on gasoline. Haas told Bones not to make any more calls until he returned to Washington.

George Haas called me back on the telephone at 2:15 to say that he had found out that the Purchasing Board was also making independent reports direct to Collins and to the State Department. The Board wished to know what to do about those reports inasmuch as there was some duplication of material between reports and as the Board was subject to some varied instructions from different sources as to the reporting procedures.

It was Haas' suggestion that nothing be done on those reports until his return at which time we could take them up one by one, ascertain the necessity for them, and remove as much duplication as possible. I agreed with Haas and asked him to bring back complete information with respect to these other reports as well as copies of them if possible.

The Purchasing Board is evidently anxious to cooperate as it volunteered to send two men to Washington to work with Ballantyne on the reporting procedure if it could secure copies of our analyses.

*RY.*

MAY 13, 1940.

MEMORANDUM FOR THE SECRETARY:Shipping Situation.

The export cargo situation at New York, according to statistics of the Association of American Railroads is practically the same as last week.

The number of cars of export freight unloaded during the first week in May averaged over 700 cars per day as compared with an average for last month of 676 cars per working day. Export freight awaiting lighterage aggregated 3357 cars on hand on May 1st as compared with 3472 on May 6th. Business began to pick up toward the latter part of April and seems to be continuing. On May 8, export freight in storage in railroad terminals and warehouses was 4308 cars, with storage room available for 10,302 cars.

Loading of revenue freight for the week ended May 4th totaled 665,510 cars, the highest since January 13th, according to reports filed by the railroads with the Association of American Railroads and made public today. This was an increase of 20,990 cars from the preceding week this year, 93,485 more than the corresponding week in 1939 and 129,361 over the same period two years ago. This total was 102.94 per cent of average loadings for the corresponding week of the ten preceding years. Average car loadings for the ten-year period, 1930-39 were 646,502, based on the similar week each year.

Grain in cars, elevators and barges at New York amounts to approximately 1,217,000 bushels. Unloadings have shown a slight decrease this week. There were 147 cars of Grain on hand at New York on May 8th.

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There is very little activity in the export grain market; the rate to Antwerp continuing at 75¢ per 100 lbs. A rate of \$25.50 per ton May, was reported this week, from the River Plate to Antwerp.

The volume of business in the ocean freight charter market is not very active. Charterers continue to go slow due to unsettled Scandinavian tonnage situation. Inquiry for coal carriers continues moderately active. It was reported that two vessels were closed from North Atlantic ports to Italy recently, one at \$13.00 per ton, the other \$13.50.

It is reported that another large order for shells is being negotiated that will require 40,000 tons of steel. Steel production last week showed an advance of  $3\frac{1}{2}$  points over the previous week, a proportion of which is attributable to the volume of steel going into export.

*Paul Harris*

May 13, 1940.

Mr. Sullivan:

This morning, while awaiting the arrival of several persons who were to participate in a conference with members of the law firm of Sullivan and Cromwell, 48 Wall Street, New York, New York, I engaged Mr. Morris Darrell, a member of that firm, in the usual conversation, and, among other subjects, he referred to the war and the recent "bad news" concerning the same.

He stated that one thing which troubled him was the apparent superiority of the German air force and the fact that the Allies had not (in his opinion) sufficiently increased their orders for American planes. He added that he was in a position to know whereof he spoke because a member of his organization was attorney for a purchasing agent and was constantly in touch with the entire matter. He then explained that he was referring to Jean Monnet.

I interrupted to ask if all Allied purchases were not made through one individual and he explained that it amounted to about that, England and France each having their own purchasing agent and the French representative (I understood him to say) also acted as coordinator and that they were constantly in communication so that each knew of the other's activity.

Mr. Darrell also supplied the information that he was personally acquainted with the French representative, Mr. Jean Monnet, and that he was, in fact, counsel for the firm of Monnet and Murnane, in which Mr. Monnet had an interest. I ignored the name of Monnet but displayed some interest in the name of Murnane, remarking that it sounded familiar to me, and after a moment's hesitation, I asked if, by any chance, he was the individual I seemed to identify as one formerly connected with the International Match Corporation. Mr. Darrell said he was undoubtedly the man I had in mind and that my confusion could readily be understood because his name was often mentioned in connection with the Krueger matter, and explained that instead of being directly interested in the International Match Corporation, he was a member of the banking firm of Lee Higginson and Company, which handled most of the financial transactions of the Match Company in America.

I continued the conversation by asking if this firm, in which Mr. Murnane was now interested, was a successor to the old Lee Higginson firm. His reply was that the firm had no successor, and

Mr. Sullivan.

that Mr. Murnane was still engaged in the liquidation of the old partnership and was "doing an excellent job of it". He explained further that Mr. Murnane, in addition to his activities as liquidator of Lee Higginson and Company, was engaged in an International business with Mr. Monnet and had been very successful in that enterprise.

In answer to my query as to whether this was a brokerage firm, he replied in the negative and volunteered the further information that their activities were International in scope, practically all of which were being conducted in foreign countries. He stated that the firm had been quite successful in handling financial matters for persons interested in transactions in those countries whose laws prohibited the withdrawal of currency, such as Germany, Italy, etc. He said that one of the most recent large transactions that proved profitable was the sale of some coal-mining properties owned by certain Jewish interests in Czechoslovakia and their ability to get the proceeds from the sale out of Germany, that, of course, the sale was made in marks and in order to get the proceeds out of the country, it was necessary to barter with persons in other countries or with Germans who had interests outside of Germany. When I displayed an interest in such accomplishments, he went into considerable detail as to how those barter or trades sometimes occur, such as having ships and other articles built or commodities purchased in Germany for outside delivery, payment therefor being made in Germany with marks.

I expressed some surprise that a firm with a French name would meet with such success in dealing with Germans because of the apparent feeling of hatred in Germany against French subjects. Mr. Darrell replied that the firm never operated under its own name but usually in the names of its employees stationed at the places of operations, who were of an unusually high type. He said that the recent transaction concerning the sale of Czechoslovakian coal properties was handled through a prominent British lawyer, whose name I understood to be "Flick", and that he, in turn, employed the highest type of counsel in Germany, and that this method was usually followed in all important transactions.

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Mr. Sullivan.

Note: The revenue agent in his report of January 30, 1939, on the case of the partnership of Monnet, Murnane and Co. for the year 1937 stated that individuals of high standing were in charge of the offices in London, Paris and Shanghai. The names of some of these individuals are Mazot and Strathallan in Hongkong and Shanghai, Drummond in London, and Pierre Denis (Dennis) in Paris.

At this point the conversation was interrupted by the arrival of the others.

*Ralph R. Reed*

Ralph R. Reed

May 13, 1940  
9:01 a.m.

H.M.Jr: Hello.

Operator: Lord Lothian.

H.M.Jr: Hello.

O: Go ahead, please.

H.M.Jr: Hello.

Lord  
Lothian: Yes.

H.M.Jr: Henry Morgenthau, Jr.

L: Good morning, Mr. Morgenthau.

H.M.Jr: How are you, sir? Lord Lothian, the reason I'm calling you is this. There is so much going on that affects me that I wonder if your Government could send over here right away -- just -- if he only stayed here a week -- Sir Frederick Phillips.

L: Whether he could send -- whether they could send Phillips over?

H.M.Jr: Yes, if he just stayed here a week.

L: Yes.

H.M.Jr: There are so many things that I think need smoothing out between your Treasury and myself.

L: Yes.

H.M.Jr: And it would be very helpful and -- to me -- if he could come for a week.

L: I'll -- I'll see to that at once. And if -- supposing he can't come, is there anybody else you would like?

H.M.Jr: Well, the only trouble is he and I have gotten acquainted, you see?

L: Can do what?

H.M.Jr: We've gotten acquainted, you know. And he is of sufficient importance over there that I do hope that they can send him. I just don't happen to know anybody else that.....

L: Yes.

H.M.Jr: And I do know Sir Frederick Phillips.....

L: Yes.

H.M.Jr: .....and there is so much going on that if they could let him come over for a week.....

L: I'll send that request straightaway, Mr. Morgenthau.

H.M.Jr: Would you do that?

L: I'll do that this morning.

H.M.Jr: Thank you.

L: All right.

H.M.Jr: Thank you.

May 13, 1940  
9:26 a.m.

H.M.Jr: Hello.

Operator: Senator Glass.

H.M.Jr: Hello.

O: Go ahead.

H.M.Jr: Hello.

Carter  
Glass: Hello, Mr. Secretary.

H.M.Jr: How are you?

G: Fairly good, thank you.

H.M.Jr: Senator, I had a little matter - I'd be glad to do it on the phone or I'd be glad to come and see you this afternoon at your convenience. Which is easier for you?

G: Well, whichever you care.

H.M.Jr: Well, it's in regard to this bill that -- for the R.F.C. Are you going to be in later this afternoon?

G: Well, I have an engagement at five o'clock.

H.M.Jr: At your hotel?

G: I can manage to be here earlier, though, if you want?

H.M.Jr: At your hotel?

G: Yes.

H.M.Jr: At five o'clock?

G: Yes.

H.M.Jr: Could I be there -- come and see you, say at a quarter to five.....

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G: Well.....

H.M.Jr: .....or four-thirty.

G: Better come earlier than that.

H.M.Jr: Four-thirty?

G: Yes.

H.M.Jr: At four-thirty.

G: Yes.

H.M.Jr: I just don't think we ought to have any banking legislation at this time.

G: Well, I'm not quite sure that we should have.

H.M.Jr: I mean, it just -- it opens up the whole thing, that's all.

G: I introduced the bill by request.

H.M.Jr: Yes. And all -- I just think that -- well, I'm just head-over-heels trying to be helpful on this European situation.

G: Yes.

H.M.Jr: And I don't want to get into any fight now on banking legislation.

G: All right. You come up and we'll talk it over.

H.M.Jr: At four-thirty?

G: Yes.

H.M.Jr: Thank you so much.

May 13, 1940  
9:51 a.m.

H.M.Jr: Hello.

Operator: Mr. Helvering. Go ahead.

H.M.Jr: Hello.

Guy  
Helvering: Hello.

H.M.Jr: Guy, you're going to have to do this on the phone because I'm getting ready for a White House meeting at eleven.

H: That's terrible over there.

H.M.Jr: What?

H: That's terrible over there, isn't it?

H.M.Jr: Yeah. No, but -- can't you clear this on the phone?

H: Yes. Well, here's what I've run into, Mr. Secretary. I'm not getting so very much support from our own forces on this Annenberg thing.

H.M.Jr: Yes.

H: They have come up from their two and a half million to six million.

H.M.Jr: Yeah, that's your own staff.

H: No, no, the taxpayer.

H.M.Jr: Oh.

H: And which he wants to pay a million dollars' cash and then get time on the payments.

H.M.Jr: Yeah.

H: Well, I'm convinced in my own mind he owes a great deal more tax than that and I'm convinced also of this fact, that he can't -- he can't really pay with what he's got what he actually owes.

- 2 -

H.M.Jr: Can't he borrow it from the R.F.C.?

H: (Laughs) Well, I don't know.

H.M.Jr: They've made stranger loans than that over there.

H: Yeah, that's right. Now, -- but there are some very questionable items in there that will reduce that tax about a million dollars.

H.M.Jr: Yeah.

H: But I'm just -- I'm just of the opinion to go below eight three would just be uncautionable.

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

H: But I'd be willing to recommend that with the idea of sustaining that with a reasonable degree of accuracy.

H.M.Jr: Eight three.

H: Yeah.

H.M.Jr: Now, wait a minute. Wait a minute. Bargain day, just a minute. Wait a minute, Foley and Sullivan are here, let me ask them.

H: Yeah.

H.M.Jr: (Talks aside to Foley and Sullivan) Hello.

H: Yeah.

H.M.Jr: Foley and Sullivan say they'll go along on eight three.

H: Yeah.

H.M.Jr: O. K.?

H: Yes, I don't know whether they'll offer that. They're coming in again this afternoon. That's what I think we ought to stand on and if not go to trial.

H.M.Jr: I'm with you.

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H: All right.

H.M.Jr: It would be a swell trial.

H: All right.

H.M.Jr: O. K.

May 13, 1940  
10:05 a.m.

H.M.Jr: Hello.

Operator: Go ahead.

Sumner  
Welles: Good morning, Henry.

H.M.Jr: Hello, Sumner.

W: Henry, our Minister in the Hague, George Gordon, called me up about five o'clock this morning.

H.M.Jr: Yeah.

W: The situation is breaking very rapidly.

H.M.Jr: Yeah.

W: And he had three messages that he wanted me to give the President at the urgent request of the Prime Minister. One of them related to the urgent request that before it was too late the governmental balances in this country be released to the Dutch Government. That, of course, did not include any request with regard to private balances; solely governmental balances.

H.M.Jr: Yeah.

W: And the President asked me to call you and tell you that he thought that ought to be done immediately. I knew that you have been talking it over but I didn't know whether any decision had been reached as yet.

H.M.Jr: No, because -- there's no rush about it except in the mind of the Minister.

W: Well, this didn't -- this didn't come from the Minister here. It's from the Prime Minister in the Hague.

H.M.Jr: Well, it's all so -- I mean, it's -- we can do it just as well if we have the legal authority -- we can do it just as well tomorrow or the next day, see? I mean, I don't know why they're in such a sweat about it, but I've been getting Gaston is sitting here with me -- it's just -- the

- 2 -

Dutch Minister has just been talking to him and Berle called me up fifteen minutes ago about the same thing.

W: Um-hm.

H.M.Jr: Give me a little time to talk it over with our own people. If we feel that by being slow that it means we can't do it, then I'll do it at once, Sumner, see?

W: Yes, yes.

H.M.Jr: If I find that I could do it just as well a week from today, then give me a little time.

W: Why sure, Henry, I'm simply talking to you at the request of the President. I don't know the practical details involved.

H.M.Jr: I don't either but they've been working on it all night.

W: Yeah.

H.M.Jr: But if -- I'll assure you that if by hesitating it means that tomorrow or a week from tomorrow I couldn't give them, I'll do it at once and take the chances.

W: Yeah.

H.M.Jr: If, on the other hand by taking my time and be sure that I'm doing what is legal, I want a little time.

W: Yes.

H.M.Jr: That's fair enough, isn't it?

W: I understand, Henry. All right.

H.M.Jr: Is that the main thing?

W: That's -- that's all, yes.

H.M.Jr: Do you feel as blue about it as the Netherland's Minister does?

W: Well, the details that our own Minister gave me at five this morning couldn't have been worse.

- 3 -

H.M.Jr: I see.

W: They are landing transport planes, the Germans are, in Rotterdam every minute, pouring in there.

H.M.Jr: Yeah.

W: And from the north they are coming in and they have broken into the inner circle of fortifications, the Utrecht, Rotterdam, Amsterdam circle.

H.M.Jr: I see.

W: So it's a question of a short time, I should imagine.

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

W: All right, Henry. Thank you.

H.M.Jr: Thank you.

May 13, 1940  
2:38 p.m.

H.M.Jr: Hello.

Operator: Secretary Wallace.

H.M.Jr: Right. Hello.

Henry A. Wallace: Hello.

H.M.Jr: Hello, Henry.

W: Yes.

H.M.Jr: Morgenthau.

W: Henry, Zeke was in this morning and we were talking over this world picture and our situation in this country, and -- you see I've been out of town all the time since this last thing broke.....

H.M.Jr: Yeah.

W: .....and frankly I feel, of course, as everybody does, greatly disturbed. Zeke had some ideas it seemed to me might have some merit. I wondered if you would care to talk to him and me.

H.M.Jr: Well, yes, as soon as I get a breathing spell, but I'm just sunk today, Henry.

W: Of course you are.

H.M.Jr: Give me a little time and I'll call you and when it's convenient for you I'd like to get together.

W: Well, that'll be just fine.

H.M.Jr: Delighted to.

W: Or would you do me the honor of coming over to lunch one of these noons?

H.M.Jr: Sure, love to.

W: How are you fixed for tomorrow noon?

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H.M.Jr: Well, I've got this -- this Army thing I'm working for the President on, Army budget for some reason or other.

W: Yeah. How would Wednesday noon do?

H.M.Jr: Wednesday would be all right.

W: Well, that'll be fine. Let's plan on Wednesday at one o'clock then.

H.M.Jr: Just a second. Let me look at my calendar.  
(Brief pause) Wednesday is all right.

W: All right. Fine.

H.M.Jr: Be delighted to.

W: That'll be fine.

H.M.Jr: One o'clock?

W: One o'clock Wednesday.

May 13, 1940  
3:32 p.m.

H.M.Jr: Hello.

Operator: Lord Lothian.

H.M.Jr: Hello.

O: Go ahead.

H.M.Jr: Hello, Mr. Ambassador.

Lord Lothian: Yes.

H.M.Jr: I don't want you to give up your dinner tonight.

L: Oh, no, that's quite -- I've settled that all right, Mr. Morgenthau.

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

L: Well, I mean, I know how busy you are these days, these other things don't count at all.

H.M.Jr: Well, I -- I feel badly.

L: Don't do that, really, because I've simply arranged to go around afterwards, that's the Rumanian Minister and have -- I want to have a talk to him. I was going right after dinner.

H.M.Jr: My trouble -- I've been -- I'm just desperate on time and I've got to go back to the White House at five and I don't know when I'll get back.

L: Quite. Don't -- don't give it a thought, Mr. Morgen -- Secretary. I'll go -- I'll be there at eight forty-five. I'll have a bite beforehand and I'll go around and see the Minister afterwards. That's all fixed up already. So that's -- that's perfectly all right.

H.M.Jr: Well, would you come and have a bite with us?

L: Well, a very small bite. What time?

H.M.Jr: Seven-thirty and then you could leave right afterwards.

- 2 -

L: Well, that's very nice of you, Mr. Secretary. Are you sure that.....

H.M.Jr: Just my wife and myself.

L: Are you sure that's convenient?

H.M.Jr: We'd love to have you.

L: Well then I'd love that very much. I'll come then at seven-thirty.

H.M.Jr: At seven-thirty and then you can leave right afterwards.

L: That's right, yes.

H.M.Jr: Because.....

L: Thank you a lot.

H.M.Jr: Thank you.

L: Goodbye.

H.M.Jr: Goodbye.

May 13, 1940  
5:05 p.m.

H.M.Jr: Hello.

Henry Steagall: All right. How are you?

H.M.Jr: My heartiest congratulations.

S: Thank you, sir. Thank you.

H.M.Jr: You made a magnificent run.

S: I escaped with my life.

H.M.Jr: Well, it.....

S: Didn't do enough to brag about.

H.M.Jr: .....sort of teach them a lesson.

S: I've got a little more than I've been getting. I've got about 6,000 majority, which is pretty good in my district.

H.M.Jr: Well, it shows what the people think of you.

S: Good considering that I didn't make a campaign and I had a hard campaign made against me. Outcanvassed and everything.

H.M.Jr: I know.....

S: Feel pretty good about it.

H.M.Jr: Well, you have every reason. I'm proud of you.

S: Thank you, sir. Mighty sweet of you to say that. You want to be heard -- any of your people heard on this little bill down here?

H.M.Jr: Well, I tell you how I feel. If somebody can -- if you want somebody to go up there would it be all right if Preston Delano and Foley came?

S: That would be all right.

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H.V.Jr: What?

S: Anybody you want.

H.M.Jr: Well, I think I'd let Preston Delano and Ed Foley go up. I tell you, one of the reasons, I don't want it to seem as though it was a feud, see?

S: I think you're entirely right about that and I think your -- your plan is very good. It may be that we can work it out some kind of way to kind of -- there's not enough involved in that -- difference there to have it advertised around here that we've got a quarrel on.

H.M.Jr: You know, Jesse is a fine fellow and for him to stoop to this little stuff isn't like Jesse, you know.

S: Well, I can understand how he'd rather not be bothered with having to -- as a matter of detail -- how it could be simplified to some extent.

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

S: But I don't understand how he'd care enough about it to have any question about it.

H.M.Jr: Well, that's the way I feel and we've been doing it this way since '33 and if I suddenly came up there and said, "Now look, Congressmen, I want to introduce a bank-holding bill tomorrow." Here it is the middle of May, you know -- or something like that. And there are a lot of things in bank legislation that has nothing to do with this bill.

S: Yes. Now I tell you, I don't know but what your decision is a nice way to handle that. I don't like to throw it around here that we're quarreling amongst ourselves over some petty stuff.

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

S: I'm glad you feel that way about it.

H.V.Jr: All we do is to give the Republicans ammunition.

S: I know it. Well, I'm going to tell the Committee what you said to me about that.

W.M.Jr: Good. And.....

S: I think -- I think they'll appreciate your viewpoint.

W.M.Jr: You see, Jesse shot too fast on this thing. It didn't clear through the Budget, you know.

S: Yes.

W.M.Jr: And he should have given the Director of the Budget a chance and given me a chance.

S: Yes.

W.M.Jr: Now, he came over here and showed us the bill and we had our report ready Wednesday, and he dropped this thing in the hopper Tuesday night.

S: Wh-huh.

W.M.Jr: Now that's a little bit too fast, you know. And if he'd have given us time we could have ironed it out in the office of the director of the Budget.

S: Well, you let those gentlemen be down here in the morning and -- where I can get them if I need them, and if you want them to appear -- I -- I guess Mr. Jones will be back tomorrow probably, or put up Claude Hamilton. He didn't quite finish the explanation of the.....

W.M.Jr: Well.....

S: .....technical provisions of the bill, but you have whoever you want down here tomorrow.

W.M.Jr: I'm on call -- if you give me a ring I'll come hustling up there, but I don't want it to seem like an administration fight inside.....

S: No, I don't blame you. I think the other way is a good way to do it, and.....

W.M.Jr: But if you change your mind, I'm here.

S: All right. All right.

- H.M.Jr: Now, while I've got you on the phone. Sometime, if I could talk to you about this housing bill. I'm very much interested in that.
- S: Well now listen, let me tell you. I'm interested too now and I've got my sleeves rolled up to work at that and we're in confusion about it. I'd love to talk with you at length about it, but here's what happened. We made a mistake, which I knew darn well when we were making it, but the boss said do it and of course I did it. I first told him what I thought about it. We all knew we were going to lose the fight on that rule.
- H.M.Jr: Yes.
- S: And it was a mistake to take it up, because put the boys on record. They voted us down. Now, we've got to do something to save their darn faces.
- H.M.Jr: Yeah.
- S: And some of them want to save their other ends, and are going to be wanting more than that before they're through with it.
- H.M.Jr: Yeah.
- S: But I've had them over and over here together. We've got this young fellow from Tennessee, who is in Cordell Hull's district, by golly.....
- H.M.Jr: I know.
- S: .....who made a mean fight against us and then we've got another boy from Oklahoma, who is just a kind -- a peach of a boy all right, but a little conservative about everything. We've gotten the thing smoothed out except those two men.
- H.M.Jr: Yeah.
- S: Now, we're in this situation. Cox, who was against us the other time and thought it was crazy that I had mentioned rule housing in the bill, I did that and knew we were having trouble with the bill, and I put it in there partly because I thought it

would get votes on both ends of the thing, you know, urban and rural.

H.W.Jr: Yeah.

S: So Gene asked me when I was before the Rules Committee.

H.W.Jr: Yeah.

S: Of course he said, "I don't mean to be unkind in my attitude about this bill but I'm sure the gentleman doesn't think there'll ever be such thing as rural housing in his section of the country or mine under this bill." I said, "Listen Gene, you'll have a rural housing project in your district before you go out of Congress."

H.W.Jr: Yeah.

S: Well, by golly, he's got one started already.

H.W.Jr: Wonderful!

S: And now he is enthusiastic.

H.W.Jr: Well, what do you know about that.

S: But he wants us to save the face of these fellows in the House by a bunch of amendments, which we can do and not ruin the bill.

H.W.Jr: Yeah.

S: But he says now before we get a rule he wants these boys on our side of the committee all to agree to go along so that there will be no danger of defeating the bill.

H.W.Jr: I see.

S: Well, if these boys wanted me to go along, we're going to have to take a ruling and go in there and fight it out anyhow.

H.W.Jr: Yeah.

S: That's what we're going to have to do.

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

S: And these -- I had the President talk to these boys and I understand one of them is all right. I'm going to see them both in the morning and I'm going to know in the next 24 hours where we are and I'll talk to you again about it.

H.M.Jr: Now, may I.....

S: I may give you some work to do.

H.M.Jr: Well, I'm ready. Now let me tell -- did you know that I've talked to Sam Rayburn?

S: Yes.

H.M.Jr: And did Sam tell you that if you get the bill out he'll pass it?

S: Well, Sam -- Sam's fully convinced. I talked with Sam.

H.M.Jr: I mean, that's just.....

S: any doubts you know about the politics of this thing. We can't back off that program on the eve of election, you know.

H.M.Jr: Well, Sam did me the kindness to come down here and talk to me.

S: Yeah, he's all right.

H.M.Jr: And Sam says if you'll get the bill out he'll pass it so fast you won't be able to see it.

S: Yeah. Well listen, Mr. Secretary, I think we can pass the bill over the opposition of these boys, and I think that's what we're going to have to do. But here's the story. The Bill doesn't have to be gotten out. It's already on the calendar of the House.

H.M.Jr: Oh.

S: They merely voted down the rule. We've got to have another rule, see? There's where we are.

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H.M.Jr: Well, just remember I'm at your service.  
S: Thank you, sir, and I may give you some work to do.  
H.M.Jr: It will be a pleasure.  
S: Thank you. Goodbye.

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE May 13, 1940.

TO Secretary Morgenthau  
FROM Mr. Cochran

CONFIDENTIAL

After opening at a lower level, sterling moved erratically in a thin market today. The first quotation was 3.19, more than nine cents lower than the closing rate on Saturday. Immediately after the opening it fell to 3.15, and then moved quickly up to 3.23. A weaker tendency was in evidence during the afternoon and the closing quotation for sterling was 3.16.

Sales of spot sterling by the six reporting banks totaled £529,000, from the following sources:

|  |          |
|--|----------|
| By commercial concerns.....                  | £153,000 |
| By foreign banks (Europe and Near East)..... | £376,000 |
| Total.....                                   | £529,000 |

Purchases of spot sterling amounted to £163,000, as indicated below:

|  |          |
|--|----------|
| By commercial concerns.....                                | £124,000 |
| By foreign banks (Far East, Europe and South America)..... | £39,000  |
| Total.....   | £163,000 |

The Irving Trust Company reported that it had sold cotton bills totaling £12,000 to the British Control on the basis of the official rate of 4.02-1/2.

The Bank of Manhattan reported that it had purchased £2,000 for spot delivery from the British Control at 4.03-1/2. The funds will be used to pay for a shipment of whisky.

Developments in the other important currencies were as follows:

The New York banks continued to quote French francs on the basis of a sterling-franc cross rate of 176.40 francs per pound. The closing quotation for that currency today was .0179.

There were no quotations given for the Dutch guilder and the belga.

The Swiss franc continued to decline today, touching a low of .2220 at the close.

The closing discount for the Canadian dollar was 18%.

The reichsmark moved off to a low of .4000 at the close.

We purchased \$10,000,000 in gold from the earmarked account of the Bank of France.

The Federal Reserve Bank of New York reported that the Bank of England made the following shipments of gold from England, which were consigned to the Federal:

- \$6,243,000 to be earmarked for the account of the Bank of England.
- 2,255,000 to be earmarked for the account of the Swiss National Bank.
- \$8,498,000 Total

The Bombay spot silver quotation worked out to the equivalent of 43.26¢, up 1/4¢.

Spot silver in London rose 3/16d to 21-3/16d. The forward price, fixed at 21-1/16d, showed a gain of 1/8d. The United States equivalents were 31.32¢ and 30.76¢.

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

We made eight purchases of silver totaling 403,423 ounces under the Silver Purchase Act. Of this amount, 150,000 ounces represented sales from inventory, 60,907 ounces consisted of new production offered to us on a spot basis, and the remaining 192,516 ounces were new production from foreign countries, for forward delivery.



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STRICTLY CONFIDENTIAL  
TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 13, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Chairman Eccles of the Board of Governors of the Federal Reserve System telephoned Mr. Gaston's office at 11 o'clock this forenoon. I was present and Mr. Gaston asked Mr. Eccles to talk with me. Mr. Eccles stated that up until today the Federal System had not been purchasing any Government securities. The market had declined somewhat on Friday and Saturday, but there had been outside buying, and none of the dealers made any offers to the Federal. The market was sufficiently orderly not to justify any intervention by the Federal.

This morning the Federal has been observing the market on the basis of the longest issue, the 60-65 bonds, which opened at 105.30/32. The market worked down one-half point after a short interval. There were practically no buyers. Offers were not heavy. It was possible that these were being made in the way of feelers. But after the market had gone off about one-half point in the first hour, the Federal thought intervention was in these circumstances desirable. Such intervention has been made through operating through only one dealer, and no bids have been placed in the market. The System did not want any public statement made at this time. They thought this might be an invitation to the market. So far at least this morning, the Federal System is trying out this plan of purchasing through one dealer, with as much camouflage as possible, and endeavoring to prevent any publicity.

Mr. Eccles said that the Executive Committee of the Open Market Committee felt that, as a matter of policy, they should let the market work down, but not become panicky. The idea is to keep purchases small, but to increase buying as prices decline. This, Eccles felt, should tend to stabilize.

There is not a panic such as there was last September. Eccles felt that a mistake had been made in September of buying too much at first and then withdrawing too soon. The policy now should be to give outside buyers a chance to come in, but for the Federal to buy enough to keep the market from breaking open.

At the time Mr. Eccles spoke to me the purchases by the Federal had reached \$300,000. The System was leaving discretionary power in the hands of the New York Bank. There had been no call from the Bank for further instructions, which led Eccles to believe that the market was not particularly active. In this connection, Eccles stated that they would prefer to have the Treasury communicate with the Board in Washington if any instructions or advice is to be given on the matter of open market operations.

Mr. Eccles reminded me that last Autumn the Treasury had some of its own funds to invest. He suggested that if we have any at this time that the Federal go along as heretofore and be responsible for looking after the market, but give the Treasury an option at the close of business on any securities which the System had bought and that the Treasury might care to take over for its own portfolio. Shortly after Eccles had spoken with me, the Secretary telephoned me that he also had had a conversation with Eccles. He had asked Eccles to keep in touch with me in regard to the market. The Secretary also asked me to provide a memorandum of our conversations with Eccles, and to submit to the Secretary after lunch a statement as to investment funds available in the Treasury.

Mr. Hadley, after consultation with Mr. Heffelfinger, has provided me with the following statement at 12 noon today:

"INVESTMENT FUNDS AVAILABLE

Available funds for investments include \$4,000,000 cash for Postal Savings which could be used immediately.

In addition to this cash available, Postal Savings holds \$96,500,000 2% special notes which could be redeemed and the funds used in the market. Also, F. D. I. C. has \$71,000,000 of the special 2s, part of which might be redeemed and the funds used.

This gives a total of \$4,000,000 cash readily available and \$167,500,000 in special 2s which could be used if necessary.

RESERVE BANK OPERATIONS TODAY

So far today, Federal Reserve has purchased outright \$500,000 long bonds and has made a switch of \$450,000 from short into longer bonds.\*

A handwritten signature in dark ink, appearing to be 'B. M. P.', is located at the bottom center of the page.

GROUP MEETING

May 13, 1940  
9:30 a.m.

Present: Mr. Young  
Mr. Gaston  
Mr. Thompson  
Mr. White  
Mr. Sullivan  
Mr. Foley  
Mr. Schwarz  
Mr. Cochran  
Mrs Klotz

H.M.Jr: This young Wilmerding, I would like you to find out who he is working for and what he is doing and is he available for anything else.

Thompson: I think he is. He is working for Eddie Bartelt, but I think we could make him available.

H.M.Jr: Well, find out what he is doing and how much he gets paid and out of what fund, will you, please? How are you feeling?

Thompson: Pretty good.

H.M.Jr: Any better?

Thompson: Not as well as I would like to be.

H.M.Jr: Any better?

Thompson: Not yet. I get new glasses today. Maybe that will help me.

H.M.Jr: Are you going to have them pink?

What else?

Thompson: Nothing else.

H.M.Jr: Harry? I asked Lord Lothian to have Sir Frederick Phillips over here this morning. He informed the State Department. Berle just telephoned that the Netherlands Minister phoned him at 2:00 o'clock that the Dutch troops were exhausted and the Germans were taking the Zuider Zee and that it just wasn't even worth burning up the stuff. Berle says he doesn't think it is nearly as bad as that.

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He says they have just taken that part of Holland which they couldn't defend anyway, but he sent the stuff out and he said he would send it to me and did I have any idea of what we could do and I said no, the rest was up to them.

You (Schwarz) have got to be awfully careful now what you tell. I am letting you sit in, but don't go talking to the press, see. I don't want you to say that you don't know what I am doing, see. I mean, if there are any doubts, you had better ask either Gaston or me what you can or cannot tell.

Schwarz: It is the usual routine.

H.M.Jr: Is press at 3:00 today?

Schwarz: Yes.

H.M.Jr: I would just as lief have it at 3:00.

Schwarz: Fine. They are expecting to come at 3:00.

White: Do you expect to confine yourself to one or two topics, or would you like sort of an agenda to discuss with them?

H.M.Jr: The main thing I want is this question of weekly inventory. This whole question of American securities and all the rest of the stuff. Why wait until midnight with the main bank of Amsterdam burning to come to my house like they did last night and try to get this thing straightened out? We had a two and a half hour meeting last night at the house. I said something about Belgium and Berle says, "I don't know," but if the English have got the securities why don't they send them over here now and not wait until the night before the Bank of England is burning. The principal question is this question of inventory. I want a net position each week, Harry, free sterling - until they make up their mind you will have ample time to talk to me about it.

White: All right.

H.M.Jr: Phil?

Young: You asked me to remind you this morning in respect to the new routine of Collins making a request through Haas to New York.

H.M.Jr: I told George myself when he went up there, no more Collins stuff. Do you think I ought to tell him that? I don't think it is necessary.

Young: We can let it go and see what happens.

H.M.Jr: If you think I had better tell him, I will tell him. I am in no mood for any fooling.

Young: Let's try it out for a week and see how it works.

H.M.Jr: Make a note, will you, Phil, what I would like prior to the first of April is the amount of money that the English have put into engine plants by companies for construction, for training men, and for any tax purposes, whatever the breakdowns are, you see, by companies. And then since the first of April, how much, you see.

Young: The French, too?

H.M.Jr: Yes, English and French.

Young: That is a cumulative figure as of the first of April and a separate figure since April?

H.M.Jr: Yes.

White: We are still, as far as I am concerned, not getting any figures as to expenditures by other than these British and French accounts. I don't know whether you intended to get --

H.M.Jr: It is unimportant for the time being, Harry. Then what I want is, you (Young) might call up General Brett direct for me, can General Brett tell me how many engines of a thousand horsepower and over

does he think, the way the orders stand today, the English and our own, that these three engine factories will be able to produce by January. In January, how many engines of a thousand horsepower or over does he think by January, '41, these companies will be able to produce, you see. I would like him to do that for me, see.

Young: Right.

H.M.Jr: And tell him that if - as the picture changes, could he let me have it as it exists today and then if there are any changes, would he bring it up to date. If he needs any help on that from our end, we would be glad to give it to him. January 1, how many engines of a thousand horsepower and over can these companies produce, both for our own needs and - total production. Pratt and Whitney, Curtiss-Wright, and the other one.

Herbert, what about that six million dollars they transferred?

Gaston: I didn't know about it.

H.M.Jr: There was six million dollars transferred last week to the Federal Reserve and he was to have roughly \$130,000 a month.

Foley: That was only when Amsterdam fell, Mr. Secretary. He couldn't touch that until Amsterdam had fallen and he had gotten word either from the foreign minister there or the minister in London that Amsterdam had fallen.

E.M.Jr: I didn't know that clause was in there. George Harrison didn't tell me.

Cochran: Berle just mentioned on the phone to me this thing of a general license for --

H.M.Jr: But George Harrison read the cable to me over the telephone and --

Foley: That is what the Minister said to us, Mr. Secretary.

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H.M.Jr: I am going to put Cy Upham in charge of this foreign exchange thing, just borrow him and put him in charge of the whole thing so we have one extra spoke to our wheel. He has had four years of experience in foreign exchange and I have got to have somebody. Gaston has to pinch-hit on it when Bell is sick, and so forth and so on, so I am bringing Cy up and I am going to put him in charge of the whole works so that we have an extra man, you see. It will take him a couple of days to get used to it, but Cy worked in the foreign exchange of the National City for four years, did you know that?

Foley: No, I didn't.

H.M.Jr: Besides that, he is an attorney and I have personal confidence in him, but we need somebody else. I mean, we need more people around here. Have you (Schwarz) got that?

Schwarz: Yes, sir.

H.M.Jr: Anything else?

Young: No, sir.

H.M.Jr: General Marshall is coming in alone at 10:15.

Slotz: Mr. Helvering is down here.

H.M.Jr: Yes.

Schwarz: Do you want to say anything about the nature of it?

H.M.Jr: No. Don't tell anybody he is here unless they see him and if they see him, it is up to him to say what he is here for.

Schwarz: Same thing on Sir Frederick Phillips?

H.M.Jr: He has got to come over here first. We don't even know he is coming. That would also be

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the British Embassy. First, they have to say he is coming and if anybody sees General Marshall here, it is up to him to say why he is here. He was here Saturday for two hours and nobody saw him. Did you know that?

Schwarz:

No.

E.M.Jr:

He was here for two hours Saturday. Let Marshall do his own explaining.

White:

I wonder if there might be a good story ready when Phillips comes over that might be interpreted as laying the groundwork for a possible credit. It will get a lot of guesswork and publicity, so there should be a good excuse ready.

E.M.Jr:

Work one out. The best excuse in the world is I am not satisfied with the information I am getting on the money spent here and I have sent for him and I want him to put it all together.

White:

I think that is a good story.

E.M.Jr:

That is the fact, that I can't get it. They have got some of it in Canada, some of it here and some in London, and I want the top man in the Treasury to come over here and put the pieces together.

Cochran:

I have the text of Moffatt's memorandum on that conversation. I didn't know whether you wanted to keep that or not.

E.M.Jr:

Where did you get this from?

Cochran:

I phoned Berle's office. You wanted me to phone and get a copy of the messages which they sent. They gave me this because Moffatt had just brought it down and they are sending over the others.

Mr. Berle brought up the points, as I say, of these general licenses for the Dutch and also for Norway.

E.M.Jr:

Well, I am awfully busy today.

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- Cochran: I asked about Matthews and he asked me to phone the State Department. Did you get a report on Government bonds?
- H.M.Jr: Incidentally, you can tell my very good friend, Mr. Danny Bell, unless he proves to me otherwise that I think it is absolutely on his shop that that message never went over to the President of the United States about that last payment of two hundred and some odd thousand dollars on the Finnish loan which they told us to hold in suspense and which we were supposed to get legislation and as far as I can find out we have never got any legislation and we never did anything about the Finnish debt and that is absolutely on Dan, unless he can prove it is on some lawyer or somebody.
- Thompson: I went over the file.
- H.M.Jr: It is absolutely on Dan. I can't do everything that I am - he was told to fix that thing up. It was up to him to prepare the legislation and to go over there with the whole thing and there must be a lot of stuff.
- Thompson: There is, yes, there is a great file on it. The file indicates that in view of the legislation authorizing loans from the Export-Import Bank that this other thing was dropped. That is the way it stands. I have it all drafted.
- H.M.Jr: Well, dig it out and sit down on it with Foley, will you, and with Cochran, because I feel very much embarrassed on this whole thing, because just fortunately they have no follow-up system at the White House, but if they did I can't say Dan forgot about it. I am going on the theory he did. It is absolutely on him, as I say, unless he can say he gave it to Foley or Sullivan or somebody and they fell down, but let's pick it up and at least go through the motions of sending it over there. I think it is terrible.
- Thompson: I talked to Dan about it last night.

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- H.W.Jr: Just because these fellows put up a good fight - you speak to Dan about it.
- Thompson: Yes. He said he understood that in view of the legislation passed the matter was dropped and the State Department people refused to go along with it.
- H.W.Jr: I would like to get the letter off and signed. It is just today everybody is excited about rubber and tin. I wrote a letter recommending that they spend 95 million dollars, either 90 or 95 million dollars in cash. Did you know about that? Get that letter out of the Budget office, will you, showing that I was on record for 90 million dollars in this year's appropriation? The President has discovered rubber and tin and I am on record, I think, for 90 million dollars. I would like to show it to him. Now they are all excited about it to think they have just discovered strategic war materials. I want the whole heart of the whole 90, whatever was left in the balance of the appropriation.
- White: Did Herbert tell you of passing interest about that ship that is going to Finland? It is not important, but of some interest in connection with that.
- H.W.Jr: I am - the Army was ready to let Finland have the arms and the President told them in Cabinet not to let them have any arms.
- White: He passed on the information to you about the shipload of American ammunitions going to -
- H.W.Jr: No, I didn't know a thing about it. Finnish arms from either Army or Navy. I just can't understand it. What is it?
- White: A ship either was leaving or was about to leave - loaded with ammunition, the biggest armament order, they said, that they had ever had leave. Some of it was consigned to Sweden and some to Finland. There was no food on the ship. It was going to Petsamo.

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H.M.Jr: No food?

White: That was merely in line with what he had told you.

H.M.Jr: Yes, but the President now suddenly switches and says we shouldn't help them on their arms. I think it is a mistake.

White: You mean you think they should get arms now?

H.M.Jr: If the Army and Navy has some obsolete stuff that they want to sell at ten cents on the dollar, why shouldn't we sell it to Finland?

White: He said the Finns were starving.

H.M.Jr: But I am coming back to the President of the United States suddenly - he is taking the attitude, "To hell with Finland, they are lost."

Foley: You can't get arms in there, can you, now?

H.M.Jr: Yes. They have their own ships. They can go up to Petsamo, which is up there in the Arctic Sea, and they can go in there perfectly all right. That is just the point. They would go up here (indicating on map).

Foley: I see.

White: Is it the President's view that they never will be able to use those arms?

H.M.Jr: The view is that the Germans will get them. They come right in here. They have got this 250-mile road here connecting up with the railroad. Nobody disturbs them and they have got a perfect way and that is a nice free port up there at Petsamo. I can't read this language on the map, but that is the name of the port, isn't it, Petsamo?

Gaston: That sounds right, yes.

H.M.Jr: They come in here and they have got their own lines and they go up there and they built a

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thousand mile long highway two years ago and they can also come right down perfectly okay.

Gaston: The Russians compelled the Finns to cede them a port on that Petsamo harbor which covers the entrance. The Russians have complete command of that any time they want to block it.

H.M.Jr: Yes, but they haven't yet.

All right, John?

Sullivan: I have a memorandum of my conference with Jim Vinson Saturday morning. You also asked me to remind you this morning about the Federally-owned airplane plant that he is going to suggest.

H.M.Jr: I can't do it today.

Sullivan: No, I didn't think so. Do you want me to suggest it to you later?

H.M.Jr: Let's just let it ride.

Sullivan: All right, sir. Now, on the abandonment of duplicate tax returns, I think before we do anything about it I should go over it with you and I should also talk with Doughton and Cooper and Senators Harrison and LaFollette.

H.M.Jr: Use your own judgment and whatever you do is okay.

Sullivan: Then I will go ahead and see them today, sir.

H.M.Jr: I will read this, it is short. You use your own judgment.

Sullivan: That is just what you and I discussed and it is all under control.

H.M.Jr: Let me take a minute. If I don't do it now, I won't do it at all. What has got me sunk, on top of everything else, the President has wished the Army budget on me and that is what Marshall was here for two hours on Saturday and that is why he is coming here today. I am in complete

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disagreement with the President and complete agreement with General Marshall. I think the time is coming that you have got to say to the Chief of Staff, "What do you want? It is up to you to have it and we hold you responsible," instead of letting a lot of people say, "What you need is this or you need that and you don't need this and you don't need that." The time has come to say to the Chief of Staff, "What do you want? All right, you can have it if it is within reason," and give him an all-round figure and quit trying to tell the Chief of Staff what he does or doesn't need and that is why your Army is in such a lousy shape and if they would let me tell the story to the country, I could get the money for them. I can tell it or he can tell it, but if they knew what I know and what he knows, you would get the money over night. It is Greek to me. Is it okay?

Sullivan: It is, sir.

H.W.Jr: All right. I can't study it, but it is all right.

Sullivan: That is all, sir.

H.W.Jr: Ed?

Boley: I have a memorandum here on the issuance of duplicate U. S. securities and the issuance of duplicate bonds and stocks by private corporations. My own suggestion is that I think we have to consider the publicity angle. We might, in so far as the issuance of duplicate stock certificates by private corporations is concerned, speak to George Harrison and have him speak to Loree, because the Guaranty is the transfer agent for most of the large stuff and they could tell us very quickly what they would have to have.

H.W.Jr: Do it, between the two of you.

Boley: All right.

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H.M.Jr: Do it, between the two of you.

Foley: All right.

H.M.Jr: What else?

Foley: That is all.

H.M.Jr: Herbert?

Gaston: The Netherlands Minister repeated what Berle had already told you, that he had started to talk to The Hague last night and in the midst of his conversation they told him it was too late, they couldn't do that now. We will just have to forget that. Then this morning he got this message from them:

"We deem that underlying shares of American securities deposited with the central administration trusts in Amsterdam fall under Banking Emergency Act. Therefore, the revenue of these securities is blocked and also after transferring books. A point, however, is not clear. That is whether license is required for such a transfer. Through such a license transfer can be made impossible. Immediate addition to Banking Emergency Act for that purpose is desirable."

In other words, what they want is that if our Executive Order and law do not block the transfer of those shares - this is a question of law that we should talk about over here, I suppose, and report back to him. The main point they are interested in is whether the transfer of those underlying shares in America --

H.M.Jr: I don't care about it. Good God, do it. You fellows do it. Take the responsibility and argue about it. We argued about it for two and a half hours last night. Either you can or can't do it. What about this money in the Netherlands Government?

Foley: Well, Herbert, I told the Secretary that that six million dollars that the Dutch Minister gets which he can disburse up to \$132,000 a

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month doesn't become available to him and he didn't become the general paymaster for the Americas until Amsterdam falls and he gets word either from the Minister in London or from his foreign office.

H.W.Jr: And I think you are wrong.

Foley: That Amsterdam has fallen. Isn't that what he told us?

Gaston: I don't know, Ed.

H.W.Jr: When I come back from the White House, tell me so I can keep my face with the President and Welles. If it is a matter of doing something to save their money - if Amsterdam falls or if they lose out - well, you heard my conversation. I want to do it that way. But if by postponing it I can do it the legal way, then I want to postpone it. That is clean-cut, isn't it?

Gaston: Yes.

H.W.Jr: You two (Foley and Gaston) stay. I want to see you on something here. That is all.

May 13, 1940  
9:33 A.M.M

H.M.Jr: Hello.

Operator: Go ahead, please.

H.M.Jr: Hello.

Adolf  
Berle: Hello.

H.M.Jr: Yes, Berle.

B: Henry, I sent those telegrams last night.

H.M.Jr: Good.

B: However, the Dutch Minister tried to get ahold of me between one and two o'clock this morning and he didn't raise me, and got Pierrepont Moffat instead, and he had telephoned the substance of the conversation we had last night to the Hague.

H.M.Jr: Yes.

B: They told him that the news was black and that the Germans had reached the Zuider Zee on the north; the Dutch troops were exhausted, and the Allied help probably couldn't reach them in time. And accordingly they regarded it as too late to take measures on financial matters. Now, meanwhile we had authorized our Consuls to authenticate documents along the line we described in the event that they were asked and to assist in witnessing it where they could if they had -- if the circumstances permitted and it was an important job and so forth. So that the machinery is all set there if these people in London or the Hague change their mind about it.

H.M.Jr: Yeah.

B: Now, should anything more be done. I suppose we leave it now for the Allied Command to get to work on it.

H.M.Jr: I don't see what else we can do.

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- B: I don't see. I may add that our military -- the Military Intelligence Liaison Officer has been in this morning. He doesn't regard the news as black as -- apparently Loudon got it over the telephone. His view is that what actually happened is that the Germans took the northern of Holland, which couldn't be defended anyway, and that was indicated in any event and that for the rest the lines seemed to be holding fairly well except for one plunge across the Masse River and across the Albert canal and that seems to be a kind of a spurt.
- H.M.Jr: Yeah.
- B: Something that unless they, as they put it, unless the men are supermen they probably couldn't maintain themselves. Of course the main -- main bodies of troops haven't come into action yet.
- H.M.Jr: All right, Adolf. Two things, one, if you could just let me have a copy of those cables.....
- B: They are ready and on the way. I should have sent them over -- I didn't send them over last night. There was nobody to send them to. It was about midnight.
- H.M.Jr: The other thing, if you'd make a note, you might tell Mr. Hull. I called up Lord Lothian this morning.....
- B: Right.
- H.M.Jr: .....and asked him please to send Sir Frederick Fisher over here to see me -- Sir Frederick Phillips.
- B: Frederick.....
- H.M.Jr: .....Phillips.
- B: .....Phillips.
- H.M.Jr: He's the top civil service man in the British Treasury.
- B: Yes, I know.

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- W.M.Jr: And very able. He was here two years ago.
- B: Oh, he's very good.
- W.M.Jr: And I asked them please to send him over here at once, because there are so many things that are left until the last minute and I want to talk with that man. So he said, "Would anybody else do?" And I said, "No." But I'd like the State Department to know that I did ask for him.
- B: I shall be very glad.
- W.M.Jr: And if you could back me up on the thing by saying something to Lord Lothian or if Mr. Hull would, I really need somebody like that so they don't always leave everything to the last minute.
- B: Yes, and the number of irregulars that show up here really get into each other's way pretty soon.
- W.M.Jr: Pretty bad.
- B: We've had Gwatkin and Dean Bates and so forth, and the Allied Purchasing people and one thing or another all working a little at cross-purposes.
- W.M.Jr: Well, the Allied Purchasing Mission, as far as I'm concerned, we're getting along beautifully.
- B: Yeah.
- W.M.Jr: Gwatkin and Rist I refuse to see as you know.
- B: Yes.
- W.M.Jr: I did see them once before they left, but I didn't want anything to do with them, but I do want Sir Frederick Phillips over here because he -- at least he knows what it's all about. You know him, don't you?
- B: Yes, I do. Not well but I.....
- W.M.Jr: He's very able, you know.
- B: Oh, very able and very quiet and he knows his job.

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H.M.Jr: That's right.

B: Right. All right, sir. I'll do that.

H.M.Jr: Thank you.

B: Goodbye.

May 13, 1940  
4:58 p.m.

H.M.Jr: Hello.

Operator: Senator Wagner.

H.M.Jr: Hello.

Robert Wagner: Henry.....

H.M.Jr: How are you, big boy?

W: All right. I -- I -- you're as hard to get as Hitler.

H.M.Jr: Go to hell.

W: Say, Henry, I just -- I didn't know whether you understood the other day when I talked to you. You know, I knew nothing about this bill, its introduction, until after it was introduced.

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

W: I didn't know but what you thought maybe that I had some knowledge it was coming up.

H.M.Jr: Well, I didn't know.

W: No, I had no -- nothing. Here's the only thing that I knew about. Two months ago Jesse talked to me and immediately when he talked about this one provision I said, "Well, that's a conflict between you and Henry." He said, "Well, it may be." "Well," I said, "So far as I'm concerned you'll have -- you and Henry will have to straighten that out."

H.M.Jr: Yeah.

W: Otherwise -- now that's the -- the next thing I knew is when the old man told me that Jesse would like to have hearings last Friday. Well, I said, "It can't be done. I don't know but what I want to study the bill first and we'll have to have a regular meeting." Now -- so I want you to know that very clearly, because I certainly wouldn't have introduced a bill that -- which affected any of your powers without asking you about it.

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

W: That you should take for granted.

H.M.Jr: Yes.

W: I didn't -- I wasn't.....

H.M.Jr: I was a little surprised, Bob.

W: Yeah. Well, I -- I thought of -- only after I got off the phone and I said, "I wonder if Henry had any idea that I knew about it." I didn't know a damn thing about it until the next day when Miss Adams of -- of the office told me that the Senate had introduced that bill and that night -- no, the following morning Jesse tried to get ahold of me.

H.M.Jr: Well, how.....

W: I told him I hadn't had a chance to study the bill but now here's -- here's a strange situation. I'll read you his -- the last paragraph of his report, which I only just got incidentally. Just about ten minutes ago.

H.M.Jr: Yeah.

W: (Aside: Where is that provision?) Just one moment I want to read -- oh, in the very end he says, "I have discussed this bill with the President and it has his approval."

H.M.Jr: Yeah.

W: Now, I know that that's not so, but I don't know how to bring it out because the General called me up a little while ago.

H.M.Jr: Yeah.

W: And he told me that the President was -- was opposed to those provisions, you know, that apply to your power.

H.M.Jr: Yeah.

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- W: Now, I better call back to find out whether I can say that publicly or not, in view of what he has said here in his report that the President told him that he was for the bill. How am I going to work that out?
- H.M.Jr: Well, you've been at this so much longer than I have
- W: Well I mean, I'd better find out
- H.M.Jr: The fact remains it never cleared through the Budget Office. That's the simplest thing.
- W: Yeah.
- H.M.Jr: I -- I don't like to drag the President in. The fact it never -- it's never gone through the -- the only thing the Director of the Budget ever did was to send up my memorandum and he never had a chance to pass on it, so why don't you put it on him instead of the President?
- W: Well, I'd better -- in view of the fact that Wat -- the General just called me up and I didn't have -- (clearing his throat) I've got a nasty cold -- and I didn't have Jesse's report, see?
- H.M.Jr: Well, I don't know.....
- W: Now, in view of the fact that I've got his report, I think I'd better call back and say at least what Jesse says in his report to the committee. Here are twenty members -- nineteen members of the committee and Jesse says the President approves this bill. Now.....
- H.M.Jr: Well, you.....
- W: .....that shouldn't be left unanswered.
- H.M.Jr: Well, haven't -- well, you've got Jones' report which is his and you've got the report from the Director of the Budget, which is official.
- W: No, I -- we haven't got a report from the Director of the Budget. (Aside: Have we?)

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H.M.Jr: Well, ours went through the -- ours went to the Budget and was forwarded by the Budget.

W: Yes, yours was forwarded by the Budget.

H.M.Jr: Yes.

W: But there isn't anything -- any direct statement there that this is not in conformity.....

H.M.Jr: Well, why not ask Jesse to get a statement out of the office of the Budget?

W: Ask what?

H.M.Jr: Ask Jesse Jones to get the Director of the Budget to tell you where the thing stands.

W: Yeah.

H.M.Jr: Well listen, you know this game so much better than I do.

W: Yes, well I -- I wondered how much talk you have had, you see, because I just got this -- the two came almost together. I just -- the General.....

H.M.Jr: I haven't had much but I wasn't sure, on account of my conversation, just how you felt, so where I've been, I don't mind telling you, is I've been over with Carter Glass. See?

W: Have you?

H.M.Jr: I've just come back.

W: Oh, I see.

H.M.Jr: And -- I didn't know just how you felt and Carter told me that he's against those two provisions.

W: He is?

H.M.Jr: Definitely.

W: Oh well then I don't have to bother about any further.

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- H.M.Jr: No, I just left him and he says that he thinks ten years is too much and why increase it to fifteen, and he says as to the other thing he thinks that I've done a swell job and he isn't going to change it.
- W: Yeah. Well, I didn't know you did that. If you did that, of course, that's all O.K. with me.
- H.M.Jr: No, I've just come back and Carter Glass says -- he says he's going to send for Jesse and tell Jesse that he isn't going to support him on those two things and he never read the bill.
- W: Yeah.
- H.M.Jr: He said he never read the bill before he dropped it in.
- W: I see.
- H.M.Jr: And he said.....
- W: He never talked to me about it neither.
- H.M.Jr: He said he's sending for Jesse and tell him that on both of those provisions he is not going to support him and he's going to vote against him.
- W: Well then all right. Then I won't bother any further about it.
- H.M.Jr: So if you've got Carter Glass, you've got General Watson and little me.
- W: Yeah. All right. All right, fine, Henry. Thank you very much.
- H.M.Jr: Thank you.
- W: Goodbye.

May 13, 1940

2:40 p.m.

Present:

Mr. Foley  
Mr. Gaston  
Mr. Bernstein  
Mr. Upham  
Mr. Cochran  
Mrs. Klotz

HM, Jr: Now, Mr. Gaston, what do you want to clear with me now?

Mr. Gaston: Some general licenses and a general license for the withdrawal of funds from the accounts of the Government of the Netherlands and accounts of the Government of Belgium and the Belgian National Bank.

HM, Jr: All right.

Everybody happy?

Mr. Foley: We have no alternative. We also have agents and instrumentality for the two Governments but I think that's going further than they ask us to go and I think we should limit to merely what they requested at this time.

HM, Jr: O. K.

Mr. Gaston: Another general license on the four principal banking institutions of the East Indies. The two Java banks and the others. We think that we will ask them whether they really want that.

I think that's all we want to get signed now, isn't it Bernie? We had two conversations with the Minister and his friend, Dr. Saka came down, and we discussed what he should do in regard to the securities held in Holland and we advised, at Mr. Bernstein's

-2-

suggestion a decree transferring all these securities to the Netherlands Government and this man Saur is going to take that up with them. That will be very valuable to them in trying to establish title in the right people to those securities later if they want to negotiate to sell them.

HM, Jr: All right. What else? I tried to get His Majesty's Ambassador to come and see me at a quarter of nine, but he has to go have dinner at the Rumanian Legation. Mr. Berle can give up a dinner and Jerome Frank can walk out in the middle of dinner to help them, but Lord Lothian can't give up his.

Mr. Cochran: I got a message back to him that that is the only hour you could see him.

HM, Jr: Now, what else? You like this work, Cy?

Mr. Upham: I am beginning to understand their language.

HM, Jr: Well, when you don't know, ask Father Bernstein.

Mr. Upham: I will have to find out about this "Father" Bernstein business.

HM, Jr: Did you get my talk into those two places?

Mr. Foley: It was introduced that same night you mentioned it to me, in the House by Somers of Brooklyn. We gave it to Wagner the same day and Wagner did not put it in and the last I heard of it he had not put it in yet. It's in the House but not in the Senate.

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## TREASURY DEPARTMENT

WASHINGTON

May 13, 1940.

MEMORANDUM FOR THE SECRETARY:

The following is reported for your information:

| <u>Vessel</u>       | <u>Destination</u> | <u>Commodity</u>                  |
|---------------------|--------------------|-----------------------------------|
| SS LJUBICA MATKOVIC | Marseilles, France | 616 bbls. Molybdenum concentrates |
| " " "               | " "                | 74 drums " "                      |
| " " "               | " "                | 357 " " "                         |
| " " "               | " "                | 112 " " "                         |
| " " "               | from Naco, Mexico  |                                   |
| " " "               | to Marseilles, Fr. | 107 bbls. " "                     |
| " " "               | Ditto              | 108 " " "                         |
| " " "               | Ditto              | 110 " " "                         |

The above vessel sailed from New York at 3 p.m. on May 10.

Basil Harris

May 13, 1940

3 p.m.

Present:

Mr. Foley  
Mr. Gaston  
Mr. Upham

HM, Jr: If I go up on the Hill, I have never gotten angry before a committee, but I don't want to go before the committee and say, "Well, if I had not had this power we never could have done the thing on the Bank of America and we had two letters from Jones asking to subscribe and neither of which we complied with because we did not think it was good."

Mr. Upham: I only know of one request that was not acted on, last March. He sent that over really at our request.

HM, Jr: No, he did not. What I think, in the humor that I am in, that it is much better I don't go up on the Hill because I might -- I think he was kind of dirty, Jones was.

Mr. Gaston: I sort of agree with that and it dramatizes with the newspaper men a conflict between you two.

HM, Jr: I think two things will happen this afternoon. One, I will find out from Pa Watson whether he phoned and he will. And if he phoned to these people, Wagner and Stegall, that the President does not want it then we go and see -- you and I, Foley -- go and see Glass at 4:30. I have an appointment with him at 4:30. If the Senator says O.K., we will skip it. If Glass says O.K., and Wagner and Stegall are told by the President he does not want it, then I think let Delano go up in a very dignified way and I will simply say I am too busy, this is too unimportant.

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Mr. Foley: I told Ford you were at the White House twice and were probably over there now and you might not be able to go down tomorrow and you might want to send Preston Delano.

HM, Jr.: I just remembered I have a press conference and if they ask me, "I have said how I felt. It is very unimportant. I have nothing to add to what is in my letter. So many more important things, this seems to be very important to Mr. Jones, but it's very unimportant as far as I am concerned." I won't even mention Jones' name.

Mr. Foley: I would not say it is too unimportant.

Mr. Gaston: I would say "in view of other matters that are pending, it is relatively unimportant."

HM, Jr.: Why not put it this way: everything I have had to say, I have put in my letter."

Mr. Foley: "I have given my views to the committee. It's up to the committee."

Mr. Gaston: The newspapers have practically made Jones out a liar already, because "While Mr. Jones said he had the support of the President, it was noticed that Administration supporters in the committee were against him."

HM, Jr.: I will simply say I wrote my letter to the Director of the Budget and it has gone up to the committee and I think the committee understands my position. I have nothing more to add.

Mr. Foley: It's up to the committee.

HM, Jr.: But we got everybody except Stegall and I think by sunset we will have Stegall.

Mr. Foley: If our fellows stick to this, the Republicans will vote against it en masse and that's 11 votes. If Stegall loses, he has not got enough votes to get the bill on.

-3-

HM, Jr: Well, he won't do it if the President  
tells him he's not interested.

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May 13, 1940

My dear Mr. Hoover:

This will acknowledge receipt of your two letters of May 10th, one reporting further on the activities of the Amtorg Trading Corporation and the other giving information concerning Mr. August T. Gausebeck.

I have read both these communications with interest and thank you for sending the information to me.

Yours sincerely,

(signed) H. Morgenthau, Jr.

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

May 13, 1960

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

JOHN EDGAR HOOVER  
DIRECTOR

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

May 10, 1940

Personal and Confidential

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

Dear Mr. Secretary:

I have ascertained from a confidential source that one August T. Gausebeck, who is the head of the Robert C. Mayer & Company of 50 Broadway, New York City, investment bankers who handle much of the German business in this country, sometime ago made a contact with my informant and told him that he wanted to donate \$500,000 to the Republican Presidential campaign. The informant inquired of Gausebeck why he wanted to do this, whereupon Gausebeck gave as his reason that if a Republican were elected, then there would be favorable trade treaties between the United States and Germany, whereas if President Roosevelt were re-elected, that would be impossible.

Gausebeck was informed that such a donation would be impossible since the laws prohibited donations in such sums, and Gausebeck then stated that they would have the donations made in small lots from different people; that they had contributed to Father Coughlin in amounts of \$100 to \$500 at a time, and that they had the office employees send it in \$5 and 10 bills.

I, of course, have been unable to corroborate any of the above information, but am endeavoring to procure further details.

Respectfully,

J. Edgar Hoover

J. L. Lewis  
AM 187

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

May 10, 1940

Personal and Confidential

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

Dear Mr. Secretary:

With further reference to the activities of the Amtorg Trading Corporation, I have just received the following information:

It has been ascertained that the Amtorg Trading Corporation is purchasing latex, a raw rubber, from Brazil because of the British embargo on rubber from the Dutch East Indies and the Malay States, these being the principal sources of rubber. The British Consulate in New York City recently wrote a letter in substance as follows:

"Two consignments of fine rubber recently arrived from Brazil, allegedly consigned to the Amtorg Trading Corporation, through the Chase National Bank, the Brazilian shipper allegedly being one Farah. The shipment consisted of 358 cases in one consignment and 294 cases in the other, a total of 141 tons. I have not learned how this rubber is to be shipped outward if it is true that it is ultimately to be destined for Russia."

I have also learned that there has been some correspondence between the Frank D. Roff Company, Inc., of Hoboken, New Jersey, who are rubber dealers, and their agents of Manaus, Brazil, the name being I. A. Saver. Saver wrote to Roff on March 12th telling him that he had been informed through third parties that there was a new buyer in the market who, to the best of his belief, was the Amtorg Trading Corporation. He asked what Roff knew about them and stated that they were buying "Up River Fine," which is a

Honorable Henry Morgenthau, Jr.

Page Two

grade of rubber costing sixteen cents, which is considerably above the market. Roff replied that the Amtorg Trading Corporation was a New York purchasing agent for Russia; that they had been picking up all the rubber they could get, but since the United States was frowning on this they were finding it difficult to get people in New York to sell to them; that the Government was trying to build up a reserve of another grade of rubber, and they asked all citizens not to ship more than normal amounts abroad, as a result of which the most reputable dealers would not sell to Amtorg at the present time. Saver again wrote on April 1st from Brazil, stating that he noted what was written and that he thought it best not to have anything to do with Amtorg; that for Roff's information he was given to believe that Amtorg was buying rubber in a round-about way; that they were buying rubber from firms in Rio and other places, mostly German firms, who in turn buy their rubber in Brazil and ship on neutral vessels and then reship from Rio and other places to Japan or New York in transit, presumably to Vladivostok or some other Russian port.

I have also ascertained that on about April 2nd a steamship arrived in New York from Brazil with one lot of 318 cases and another of 183 cases; that later, on April 19th, there arrived 850 cases from Brazil of Para rubber, which was consigned to the Claremont Terminal of the Lehigh Valley Railroad for shipment on the S.S. "Illinois," an American-owned ship, to Vladivostok, Russia, but the owners of the S.S. "Illinois," upon discovering it was a shipment of rubber, consigned to Russia, refused to take it. It is still on the dock of the Claremont Terminal.

On April 23d twenty tons of rubber came to the N. A. Aschlett Company of New York from Brazil. The firm of Steinhardtter & Nordlinger, 99 Hudson Street, New York City, is doing business in the importation of Brazilian rubber.

Honorable Henry Morgenthau, Jr.

Page Three

If I receive any further information concerning the above matters, I will be very glad to advise you at once of the same.

Respectfully,

J. Edgar Hoover

May 14, 1940  
9:20 a.m.

H. V. Jr: Hello.

HARRY  
Woodring: Henry?

H. V. Jr: Yes, Harry.

W: Look, I've talked to my people over here about these -- some of my own close advisers, about this shadow plant and these others, and they are of the opinion that maybe the time factor on taking Continental and Lycoming, say, and letting them develop their own motor -- they only, they say, are building now 300 horsepower stuff -- to build up big ones, that the time factor would be a great lag there. But they suggest, and I'm just giving you this to think over before we get over there so it won't be cold to you, you know.....

H. V. Jr: Right.

W: And they say that the solution of the thing is that inasmuch as we have certain rights in the -- Wright Aeronautical and the Pratt and Whitney and others, that the thing to do is to take a plant like Continental and Lycoming and then transfer over to them, because they have -- transfer over the manufacture of the Wright whirlwind or the Pratt and Whitney, because they say that those people have management there that's already -- has knowledge in building engines; that they have artisans and skilled mechanics that are up on that and trained in the fine machining of engines. And they think that in a short time, about half of what the other plan would -- the shadow plant would develop, that these companies like that could start manufacturing the engine that is already developed, and also that Wright and Pratt and Whitney probably no doubt have extra jigs and dies.

H. V. Jr: Well, I don't know but it sounds like a very good idea and at the same time it would give these people a little bit more money to develop their own engines.

W: At the same time they could carry along their own engine and it wouldn't be putting the Government

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into the business of competing with other plants. It would keep the Government out of the business.

H.M.Jr: Well, it sounds very interesting. I've got Bob Hinckley here; we're talking about it.

W: Oh, are you? Well, I just thought I'd give you that to think over before.....

H.M.Jr: I'm going to tell him -- I'm going to bring him along because he's got some very good ideas on this.

W: Yes, he -- I think so too. I think that would be a good idea.

H.M.Jr: Then we're seeing you at ten-thirty.

W: All right.

H.M.Jr: Thank you.

W: Goodbye.

May 14, 1940

MEMORANDUM FOR THE PRESIDENT:

For the purpose of coordinating and expediting the necessary preparedness activities of the Government, I recommend the following:

I. That you obtain from Congress an appropriation of at least \$100,000,000, to be expended at your direction, for the purpose of expanding plants and equipment in the industries manufacturing airplanes, ordnance, equipment and munitions for our military and naval branches where it is necessary to bring production capacity up to the required standard.

II. That you create the following Committee to be clothed with ultimate authority subject to your approval and charged with the duty of increasing the production capacity in the pertinent fields of industry to the point where military needs can be currently met within the period of the next twelve months. In order that the needs of the Allied Powers now purchasing military equipment in this country may be given adequate and sympathetic consideration, I suggest that you make the Secretary of the Treasury the Chairman of the Committee. The other members should be the Assistant Secretary of the Navy, the Assistant Secretary of War, and the head of Civil Aeronautics Authority, with authority for them to designate as alternates in the various fields the heads of the activities under consideration.

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Notes on Army Program Conference  
at the White House, May 14, 1940, 10:30 A.M.

Secretary Woodring opened the conference by stating he presumed its primary purpose was to discuss the air phase of the national defense program, and that he felt very strongly against the establishment of Federally owned engine factories.

General Marshall said that he had revised the figures for national defense, and he proceeded to read the revised amounts pointing out the differences between that list and the previous draft. When he had completed reading, he pointed out that his conception of this list was that it represented a wellrounded basis upon which expansion could take place. He added that he thought it highly necessary to build a solid foundation, filling in the gaps now evident in the present army, and initiating production of those non-commercial (critical) items which will be needed when the army is expanded.

General Marshall regarded this list as a basic requirement which could neither be overlooked nor reduced if a national defense program were inaugurated. To disregard this list, he added, would be to walk right into the middle of a national scandal. Further, that this was not the time for recriminations but the time for constructive effort.

Mr. Johnson read two memoranda; one prepared in response to the President's request, and the other prepared by Mr. Johnson as a compromise program. He promised that he would give copies of these to Mr. Morgenthau. These memoranda were organized on a triple basis: first, what was needed in the way of air force today; secondly, what was needed for increased protective force; and, thirdly, for an augmented protective force.

Mr. Johnson said that the number of planes should increase proportionately with the increase in the army during these three stages. General Marshall disagreed with this relationship inasmuch as the air force of the army should be similar to the situation of the navy, namely, it should be at least 75 per cent mobilized at all times.

Mr. Johnson said that the principal change in his compromise memorandum was that it reduced the number of airplane factories

- 2 -

to be built from 30 to 16. Mr. Morgenthau suggested that the President's suggestions be tabled, and that General Marshall write the ticket for the Air Corps. General Marshall replied that the first step was to establish a sound base for the production of pilots. Further, that at the present time, even though the Allies were receiving four new planes for every one received by the army, the latter did not have sufficient pilots trained to handle this existing plane capacity. Mr. Morgenthau explained that he would like to see the question of United States plane capacity discussed apart from that portion of our capacity now employed for Allied production.

He went on to say that General Marshall had laid down this basic program and that certainly General Arnold ought to be able to outline the sort of air corps program that should accompany it. General Marshall pointed out that because of Allied orders, the G.H.Q. Air Force reserves was now down to 15 per cent and that it should be greatly increased.

It was General Brett's estimate that by January, 1941, the total plane production capacity would amount to 15,000 planes per year, of which 11,000 would go to the Allies, and 4000 to the United States. On a monthly basis this would amount to 1250 planes per month, of which the army would receive 240, the navy 100, and the Allies 900.

Mr. Morgenthau pointed out that a 50 per cent increase in the airplanes industry as a whole would be necessary if the army were to receive the number of planes it wished to get. Thus, if there were a production of 22,000 planes per annum, the army would be caught up on its program.

Mr. Morgenthau inquired as to the possibility of securing this increased production, and General Marshall replied that, although it was a sound idea, pilots were also needed. General Arnold said that \$106,300,000 would be needed for the initiation of pilot training. Therefore, this amount of \$106,000,000 for pilots, plus five plane plants or \$50,000,000, plus two engine plants or \$20,000,000 would total \$176,000,000, representing increased capacity. (This amount would also include approximately \$24,000,000 for pilot training.)

Mr. Morgenthau asked Mr. Hinckley what he thought about the situation. Mr. Hinckley replied that he had an idea aimed at the expansion of commercial airways to include freight, mail and

- 3 -

express service. Increased demand on the part of commercial air lines for heavier equipment, for additional amounts of equipment, and new types of equipment would stimulate domestic plane and engine production along those lines which would be of the greatest benefit to the army. Mr. Morgenthau thought that would be a very constructive approach, and General Marshall was definitely interested in Mr. Hinckley's proposal.

Mr. Woodring insisted that the group had not yet worked out the answers to the President's questions and that the material was not ready for presentation. Mr. Johnson countered to the effect that the material in hand was exactly that desired and gave a very clear picture of the situation.

Mr. Morgenthau inquired as to what legal right or what leverage could be used to force engine manufacturers to license other engine companies. General Arnold replied that he thought there was no legal right, but there was plenty of leverage which could be used if it were politic to do so.

*Py.*

PY:bj  
5/15/40

May 14, 1940

MEMORANDUM FOR THE PRESIDENT:

For the purpose of coordinating and expediting the necessary preparedness activities of the Government, I recommend the following:

I. That you obtain from Congress an appropriation of at least \$100,000,000, to be expended at your direction, for the purpose of expanding plants and equipment in the industries manufacturing airplanes, ordnance, equipment and munitions for our military and naval branches where it is necessary to bring production capacity up to the required standard.

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*HX*

White House May 14, 1940 178

CHANGES MADE IN THE PROPOSALS  
OF May 12, 1940

|   | <u>Cash</u><br><u>Appropriation</u> | <u>Contract</u><br><u>Authorization</u> | <u>Total</u>         |
|---|-------------------------------------|---|----------------------|
| Proposals of May 12th.....  | \$560,027,623                       | \$ 97,759,634                           | \$657,787,257        |
| <u>Reduction</u> of 27 bombers.....   | -5,682,304                          | -8,500,000                              | -14,182,304          |
| <u>Reduction</u> of 38,000 men and<br>shelter and essential items<br>therefor.....          | -76,434,850                         | —                                       | -76,434,850          |
| Deferment of powder contracts<br>and transfer of requirements<br>from cash to contract..... | -17,611,681                         | <del>17,611,681</del>                   | —                    |
| <b>TOTALS.....</b>  | <b>\$460,298,788</b>                | <b>\$106,871,315</b>                    | <b>\$567,170,103</b> |

The manufacture of powder requires approximately one month. The manufacture of the other components of a complete round of ammunition requires up to nine months. It is essential, therefore, in any ammunition program that contracts for components be let well ahead of the manufacture of the powder. Furthermore, there is available in bulk 20,000,000 pounds of World War powder which is good enough to be loaded if it is to be used shortly thereafter and 6,000,000 pounds of new powder. Therefore, there should be no delay in procuring all other components without delay.

3&LP Branch  
14 May 1940

*Non-Commercial*  
BREAKDOWN OF PRINCIPAL CRITICAL ITEMS ENCLOSED IN

\$240,000,000 ESTIMATE

|                                     |           |
|-------------------------------------|-----------|
| A.A. Guns, 90 mm                    | 21        |
| Sound Locators                      | 170       |
| Lead Computers                      | 132       |
| Guns, 37 mm A.A.                    | 215       |
| Machine Guns, Cal. 50 A.A.          | 568       |
| Semi-automatic Rifles               | 45,770    |
| Anti-tank guns, 37 mm               | 96        |
| Mortars (60 mm & 81 mm)             | 982       |
| Machine Guns, Cal. 50               | 670       |
| Gun 75 mm modernized (Split Trail)  | 274       |
| Howitzer, 75 mm Pack                | 53        |
| Howitzer, 105 mm                    | 60        |
| Howitzer, 155 mm Hi-Speed           | 397       |
| Gun, 155 Hi-Speed                   | 256       |
| Gun, 155 mm New Long Range          | 8         |
| Howitzer, 8"                        | 24        |
| Scout Cars                          | 388       |
| Light Tanks (156 Light & 32 Medium) | 188       |
| Tractors (Medium & Heavy)           | 659       |
| Bridge Steel Portable               | 38        |
| Searchlights Mobile 60"             | 175       |
| Ponton Bridge 10 ton & 23 ton       | 10        |
| Water Supply Equipment              | 43        |
| Gas Masks                           | 762,324   |
| Cloth, O.D. Wool (yds)              | 5,011,518 |
| Tents, Pyramidal                    | 43,010    |
| Field Ranges                        | 844       |
| Radio Sets, various types           | 7,201     |

*Continued*  
BREAKDOWN OF PRINCIPAL ESSENTIAL ITEMS  
INCLUDED IN \$74,000,000 ESTIMATE FOR EXISTING UNITS

(This does not include such equipment for the  
 38,000 men required to bring the Regular Army up to  
 280,000).

|   |         |
|---|---------|
| Motor vehicles.....                       | 24,000  |
| Tool sets.....                            | 17,000  |
| Blankets.....                             | 350,000 |
| Shoes, service, pairs.....                | 500,000 |
| Raincoats.....                            | 750,000 |
| Suits, working, one piece.....            | 500,000 |
| Suits, underwear.....                     | 900,000 |
| Field lanterns.....                       | 1,600   |
| Vacuum tubes for radio.....               | 30,000  |
| Flashlights.....                          | 10,000  |
| Signal Panel sets.....                    | 1,000   |
| Sets camouflage equipment.....            | 350     |
| Camouflage nets.....                      | 2,000   |
| Sets topographical equipment.....         | 115     |
| Coils, barbed wire.....                   | 14,000  |
| Aircraft cameras.....                     | 500     |
| Rafts, penumatic (Air Corps reserve)..... | 500     |
| Flying jackets.....                       | 2,000   |
| Parachutes.....                           | 2,000   |

B&LP Branch  
 14 May 1940

**BREAKDOWN OF PRINCIPAL SEACOAST DEFENSE ITEMS  
(INCLUDING SEACOAST DEFENSE ANTI-AIRCRAFT EQUIPMENT)  
CONTAINED IN THE PROPOSALS OF May 14, 1940.**

**1. Atlantic and Gulf Coasts:**

a. Battery construction.- 155mm emplacements at Harbor Defenses of New Bedford, Narragansett Bay, Long Island Sound, Delaware, Chesapeake Bay, Charleston, Key West, Pensacola, Galveston, and modernizing and improving existing batteries at harbor defenses of Long Island Sound, Southern New York, Sandy Hook, Delaware and Chesapeake Bay.

b. Seacoast fire-control materiel. for completing and modernizing fire-control installations for seacoast armament and providing seacoast searchlights at Harbor Defenses of Portland, Portsmouth, Boston, New Bedford, Narragansett Bay, Long Island Sound, Southern New York, Sandy Hook, Delaware, Chesapeake Bay, Charleston, Key West, Pensacola and Galveston.

c. Underwater defense.- Providing shore installations and mine equipment for mine projects at Portland, Portsmouth, Narragansett Bay, Delaware and Chesapeake Bay.

d. Antiaircraft materiel.- Antiaircraft guns, automatic weapons, fire-control equipment, for Harbor Defenses of Portland, Portsmouth, Boston, New Bedford, Narragansett Bay, L.I. Sound, Southern New York, Sandy Hook, Delaware, Chesapeake Bay, Charleston, Key West, Pensacola and Galveston.

**2. Puerto Rico:**

a. Battery construction.- Construction of a 12-inch seacoast battery at San Juan Harbor and construction of a 155mm gun emplacements at six localities on the Island of Puerto Rico. *We have the guns.*

b. Seacoast fire-control.- Materiel and installation of fire-control equipment for 12-inch seacoast battery of San Juan.

c. Ammunition storage.- Construction of storage magazines at Fort Miles Depot.

d. Antiaircraft materiel.- Procurement of antiaircraft guns and fire-control equipment for the Island of Puerto Rico.

**3. Panama:**

a. Battery construction.- Construction of tool houses and magazines for 75 and 155mm guns on both coasts.

b. Seacoast fire-control materiel.- The purchase of fire-control equipment for existing batteries, Panama.

c. Searchlights.- For the installation of searchlights and the construction of access roads to outlying batteries and searchlight positions.

d. AA materiel.- For the procurement of antiaircraft guns, automatic weapons and fire-control materiel to meet existing shortages in the project.

WPD

5-14-40

INCREASE REQUIRED TO ADD 38,000  
ENLISTED TO THE REGULAR ARMY AND BRING IT TO PEACE  
STRENGTH (280,000).

---

Add cash requirements of \$76,434,850.

In the revised proposal of May 14, 1940, a reduction is made for the 38,000 enlisted increase and temporary shelter, and commercial (essential) items of equipment for the 38,000. The revision, however, does contain provision for the remaining requirements in non-commercial (critical) items of equipment for the Protective Mobilization Plan Force, which force includes any such increase.

B&LP Branch  
14 May 1940

*White House*

*May 14, 1940*

SUMMARY OF ADDITIONAL REQUIREMENTS FOR NATIONAL DEFENSE  
IN ADDITION TO THE 1941 BUDGET AND THE SUPPLEMENTAL ESTIMATES OF \$18,000,000,  
EXCLUSIVE OF NEW AIRCRAFT.

|  |                      |
|--|----------------------|
| Provision by Joint Resolution for the immediate increase of<br>15,000 enlisted men.....  | \$ 17,146,812        |
| Antiaircraft equipment, both mobile and seacoast defenses.*.....   | 47,383,264           |
| Antiaircraft ammunition.....   | 16,775,060           |
| Funds to speed up production of materiel on current contracts<br>and in the Military Appropriation Bill and the \$18,000,000<br>of supplemental estimates now before the Senate.*..... | 31,918,168           |
| Commercial (essential) items still required by existing units<br>of the Regular Army and the National Guard.....   | 74,321,054           |
| Modernization of combat airplanes:   |                      |
| Air Corps.....   | 5,000,000            |
| Heavier and additional weapons and ammunition.....   | 23,188,200           |
| Maintenance during fiscal year 1941 for the increase of 15,000<br>men.....   | 15,260,254           |
| Remaining requirements in non-commercial (critical) items of<br>equipment for the Protective Mobilization Plan force<br>(less antiaircraft).*  | 262,466,549          |
| Plants to speed up ammunition production.*.....  | 44,275,000           |
| Additional amounts for seacoast defenses less antiaircraft:  |                      |
| Atlantic Coast, U. S.*.....  | 6,799,016            |
| Panama *.....  | 2,585,206            |
| Puerto Rico.*.....   | 3,559,010            |
| Anchorage Air Base.....  | 8,752,560            |
| Procurement Planning and Industrial Mobilization.....  | <u>7,739,950</u>     |
| TOTAL.....   | <u>\$567,170,103</u> |
| Cash appropriations.....   | \$460,298,788        |
| Contract authorizations.....   | <u>106,871,315</u>   |
| TOTAL  | \$567,170,103        |

\* Including speed-up.

B&LP Br.  
5-14-40

## JOINT RESOLUTION

Authorizing \$17,146,812 for the Military Establishment in order to increase the enlisted strength of the Regular Army for the balance of the fiscal year, 1940.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That there is hereby appropriated out of any money in the Treasury not otherwise appropriated, to be immediately available, the sum of \$17,146,812 to be expended in the discretion of the Secretary of War for all expenses incident to recruiting, maintaining, and equipping during the balance of the current fiscal year 15,000 additional enlisted men in the Regular Army, such expenses to include but not to be restricted to pay, construction, rations, shelter, sanitation, medical and hospital care, clothing and equipage, transportation, armament and equipment, travel, the purchase, maintenance, repair, and operation of passenger-carrying vehicles, the employment of persons and the procurement of supplies and services at the seat of government and elsewhere, and other expenses necessary but not enumerated above.

## Proposed obligation of 15,000 man increase in Regular Army

|  |              |
|--|--------------|
| 1. Complete the organization of a sixth division<br>(part already in existence) .....                              | 4,000        |
| 2. Provide essential supporting troops for a second<br>Army Corps .....  | 3,000        |
| 3. Complete the Mechanized Brigade .....   | 2,000        |
| 4. Organize one pack artillery regiment and complete<br>another already in existence .....                         | 2,000        |
| 5. Organize an Engineer General Service regiment and<br>complete an Engineer aviation regiment .....               | 800          |
| 6. Organize two heavy artillery battalions .....   | 1,000        |
| 7. Fill shortages in existing medical units .....  | 400          |
| 8. Provide additional supply, administrative and<br>service units and personnel required by this<br>increase ..... | <u>1,800</u> |
| Total  | 15,000       |

(1)

INCREASE IN THE REGULAR ARMY OF 15,000 MEN BY JUNE 30 AND OF 38,000 ADDITIONAL BY SEPTEMBER 30, 1940, TO REACH PEACE STRENGTH (280,000)

To maintain until the end of the current fiscal year and equip with essential items an increase of 15,000 men, will require..... \$ 17,146,812

To maintain during the fiscal year 1941 the 15,000 increase and to maintain and equip the 38,000 additional with essential items will require..... 91,860,504

The totals include funds for training, pay, travel, subsistence, clothing; transportation; temporary shelter and temporary hospital facilities; essential items of equipment, etc.

The appropriations involved are shown on the inclosure.

Encl.

B&LP Branch  
11 May 1940

## STATEMENT OF FUNDS TO BE APPROPRIATED BY JOINT RESOLUTION

| Appropriation Title                      | Increasing Army<br>by 15,000 En-<br>listed Men for<br>period May 11,<br>1940 to June 30,<br>1940. | Additional<br>Critical<br>Items of<br>Equipment | Total      |
|--|---|---|------------|
| Salaries, A.G.O.                         | \$ 3,550  | -   | 3,550      |
| Salaries, C.S.O.                         | 720   | -   | 720        |
| Printing and Binding                     | -   | -   | -          |
| Contingent Expenses, War Dept.           | 3,000   | -   | 3,000      |
| Special Field Exercises                  | -   | -   | -          |
| Welfare of Enlisted Men                  | 3,800   | -   | 3,800      |
| Pay of the Army                          | 284,142   | -   | 284,142    |
| Travel of the Army                       | 468,498   | -   | 468,498    |
| Finance Service                          | 5,022   | -   | 5,022      |
| Regular Supplies                         | 12,259  | -   | 12,259     |
| Subsistence of the Army                  | 172,730   | -   | 172,730    |
| Clothing and Equipage                    | 4,095,837   | 39,820  | 4,135,657  |
| Incidental Expenses of the Army          | 50,000  | -   | 50,000     |
| Army Transportation                      | 4,452,434   | 114,405   | 4,566,839  |
| Horses, Draft and Pack Animals           | -   | -   | -          |
| Barracks and Quarters (Temp.shelter)     | 4,211,854   | -   | 4,211,854  |
| Construction & Rep. of Hospitals (Temp.) | 324,500   | -   | 324,500    |
| Signal Service of the Army               | 241,000   | 266,310   | 507,310    |
| Medical and Hospital Department          | 51,110  | -   | 51,110     |
| Engineer Service, Army                   | 139,167   | 773,685   | 912,852    |
| Ordnance Service & Supplies, Army        | 399,858   | 661,645   | 1,061,503  |
| Chemical Warfare Service, Army           | 10,831  | -   | 10,831     |
| Organized Reserves                       | 360,635   | -   | 360,635    |
|  | 15,290,947  | 1,855,865                                       | 17,146,812 |

OFFICE OF THE BUDGET OFFICER FOR THE WAR DEPARTMENT  
May 10, 1940.

ESTIMATES TO MAINTAIN AND EQUIP WITH ESSENTIAL ITEMS.

308

AN AVERAGE INCREASE OF 48,250 ENLISTED MEN FOR FISCAL YEAR 1941

(ACTUAL INCREASE 53,000)

| <u>Appropriation Title</u>                                 | <u>Amount</u> |
|--|---------------|
| Salaries, Office of Secretary of War .....                 | \$ 1,620      |
| Salaries, Adjutant General's Office .....                  | 143,520       |
| Salaries, Office of Chief of Finance .....                 | 23,580        |
| Salaries, Office of the Quartermaster General ..           | 32,320        |
| Salaries, Office of the Chief Signal Officer ...           | 34,260        |
| Salaries, Office of the Surgeon General .....              | 61,560        |
| Salaries, Office of Chief of Ordnance .....                | 48,000        |
| Contingent Expenses, War Department .....                  | 36,150        |
| Printing and Binding, War Department .....                 | 46,234        |
| Special Field Exercises .....                              | 3,180,000     |
| Welfare of Enlisted Men .....                              | 73,349        |
| Pay of the Army .....                                      | 25,507,670    |
| Travel of the Army .....                                   | 1,334,840     |
| Finance Service, Army .....                                | 92,500        |
| Subsistence of the Army .....                              | 7,907,758     |
| Regular Supplies of the Army .....                         | 1,965,168     |
| Clothing and Equipage .....                                | 10,322,785    |
| Incidental Expenses of the Army .....                      | 425,000       |
| Army Transportation .....                                  | 9,639,736     |
| Horses, Draft and Pack Animals .....                       | 658,070       |
| Barracks and Quarters (Temporary Shelter) .....            | 13,606,871    |
| Construction and Repair of Hospitals (Temp. Shelter) ..... | 2,261,585     |
| Signal Service of the Army .....                           | 565,700       |
| Medical and Hospital Department .....                      | 918,016       |
| Engineer Service, Army .....                               | 1,771,000     |
| Ordnance Service and Supplies, Army .....                  | 3,409,117     |
| Chemical Warfare Service, Army .....                       | 220,842       |
| Organized Reserves .....                                   | 7,573,253     |
| <br>   |               |
| TOTAL .....  | \$91,860,504  |

BOWD 5/10/40

**EXTENSION OF ESTIMATE ON ANTI-AIRCRAFT ARTILLERY,  
AMMUNITION AND OTHER ITEMS SUBMITTED TO THE PRESIDENT  
BY THE SECRETARY OF WAR IN MEMORANDUM DATED MAY 9, 1940,  
TO INCLUDE COST OF EXPEDITING DELIVERY ON A 3-SHIFT BASIS.**

|   | <u>Normal Cost</u> | <u>Additional<br/>Cost to<br/>Speed Up</u> | <u>Total</u>  |
|---|--------------------|--|---------------|
| Cost of speeding up deliveries of articles now under manufacture which pertain to the classes of items listed below |                    | \$ 10,000,000                              | \$ 10,000,000 |

Cost of new items to be manufactured

| <u>Item</u>   |                |               |                |
|---|----------------|---------------|----------------|
| Antiaircraft Artillery  | \$ 27,000,000  | 6,200,000     | 33,200,000     |
| Antiaircraft Ammunition   | 22,000,000     | 12,800,000    | 34,800,000     |
| Field Artillery Ammunition<br>for 105 mm How, 155mm Gun,<br>and 75 mm Gun                 | 3,250,000      | 1,300,000     | 4,550,000      |
| Field Artillery Materiel  | 3,250,000      | 950,000       | 4,200,000      |
| 48 - 105 mm Howitzers   |                |               |                |
| 8 - 155 mm Guns   |                |               |                |
| 24 - 8" Howitzers   |                |               |                |
| 12 - 75 mm Pack Howitzers   |                |               |                |
| Modernization of 3" AA Ammunition<br>(Mechanical Fuses)                                   | 500,000        | 200,000       | 700,000        |
| Guns & Ammunition for Aircraft  | 25,000,000     | 8,500,000     | 33,500,000     |
| Sub-Total Materiel  | \$ 81,000,000  | \$ 39,950,000 | \$ 120,950,000 |
| Facilities needed to provide for manufacture of above items and for storage of ammunition | 30,300,000     | 7,337,000     | 37,637,000     |
| Total   | \$ 111,300,000 | \$ 47,287,000 | \$ 158,587,000 |

By Appropriations as follows:

|                                   | <u>Cash</u>    | <u>Contract</u> | <u>Total</u>   |
|-----------------------------------|----------------|-----------------|----------------|
| Ordnance Service & Supplies, Army | \$ 101,664,500 | \$ 36,285,000   | \$ 137,949,500 |
| Construction of Bldgs & Utilities | 20,637,500     | —               | 20,637,500     |
|                                   | \$ 122,302,000 | \$ 36,285,000   | \$ 158,587,000 |

CONFIDENTIAL

## MEMORANDUM FOR THE PRESIDENT:

Subject: Status of Antiaircraft Artillery and Ammunition.

1. In compliance with your request, transmitted by General Watson, regarding the status of antiaircraft artillery and ammunition, the following information is furnished:

| ARTILLERY                    |  |                                  |            |                         |                                      |
|------------------------------|--|----------------------------------|------------|-------------------------|--------------------------------------|
| Caliber                      | In Service and<br>under Order<br>June 30, 1940 | Included in<br>1941<br>Estimates | Total      | Total Re-<br>quirements | Funds Re-<br>quired for<br>Shortages |
| .50                          | 1,140  | 0                                | 1,140      | 2,710                   | \$ 5,500,000                         |
| 37mm                         | 564  | 408                              | 972        | 1,493                   | 11,500,000                           |
| 3 inch                       | 508  | 0                                | 508        | 508                     | 0                                    |
| 90mm                         | 72   | 89                               | 161        | 350                     | 10,000,000                           |
|                              |  |                                  | Total -    |                         | \$27,000,000                         |
| AMMUNITION (Complete Rounds) |  |                                  |            |                         |                                      |
| .50                          | 41,535,000                                     | 2,740,000                        | 44,000,000 | 100,000,000             | \$ 7,000,000                         |
| 37mm                         | 706,000  | 85,000                           | 800,000    | 2,500,000               | 8,500,000                            |
| 3 inch                       | 842,000  | 0                                | 842,000    | 952,000                 | 2,500,000                            |
| 90mm                         | 24,000   | 20,000                           | 45,000     | 160,000                 | 4,000,000                            |
|                              |  |                                  | Total -    |                         | \$22,000,000                         |
| Grand Total -                |  |                                  |            |                         | \$49,000,000                         |

2. Time, in material requirements, is of course the dominant factor, and approximately two years will elapse after appropriations are made before deliveries can be secured on most of these items. This period could be reduced by increasing the number of working shifts - and by paying more for such procedure, and also by the adoption of industrial mobilization methods.

This antiaircraft materiel is of great importance. It is largely defensive in nature, though most of it is of types essential for the field army.

In submitting this statement of purely antiaircraft deficiencies, I would like to comment on the fact that there are equally serious shortages of other items of materiel. For example:  $3\frac{1}{2}$  million dollars for ammunition for 105mm howitzers, 155mm guns, and 75mm guns;  $3\frac{1}{2}$  million dollars for 48 - 105mm howitzers, 8 - 155 mm guns, 24 - 8-inch howitzers and 12 - 75mm pack howitzers;  $\frac{1}{2}$  million dollars to modernize 3-inch antiaircraft ammunition (change fuses to mechanical type); 25 million dollars for guns and ammunition for aircraft.

(SGD) HARRY H. WOODRING  
Secretary of War

CONFIDENTIAL

SUMMARY OF ADDITIONAL REQUIREMENTS FOR NATIONAL DEFENSE  
(BEYOND 1941 BUDGET AND SUPPLEMENTAL ESTIMATES) THAT WILL BE SUBMITTED TO  
THE WAR DEPARTMENT SUBCOMMITTEE, COMMITTEE ON APPROPRIATIONS, U.S. SENATE.

|  |                  |
|--|------------------|
| Additional funds to speed up production on current contracts<br>for materiel.....  | \$ 15,000,000    |
| Additional funds to speed up production of materiel in the<br>Military Appropriation Bill and the \$18,000,000 of<br>supplemental estimates now before the Senate..... | 16,918,168       |
| Remaining requirements in <u>critical</u> items for existing units<br>of the Regular Army and National Guard * .....   | 7,159,584        |
| Remaining requirements in <u>essential</u> items for existing units<br>of the Regular Army and National Guard .....  | 74,321,054       |
| 27 heavy bombers as an operating reserve.....  | 14,182,304       |
| Modernization of existing combat airplanes.....  | 28,188,200       |
| Additional amounts for seacoast defenses for Puerto Rico<br>and Panama * .....   | 15,890,125       |
| Provision during fiscal year 1941 for the increase of 53,000<br>enlisted men.....  | 91,860,504       |
| Remaining requirements in critical items of equipment for the<br>Protective Mobilization Plan Force * .....  | 297,885,581      |
| Essential facilities to speed up ammunition production * ....  | 44,275,000       |
| Additional amounts for seacoast defenses, Atlantic Coast,<br>Continental United States * .....   | 18,467,415       |
| Restoration of project as submitted to Congress for the<br>Anchorage Air Base, Alaska.....   | 8,752,560        |
| Restoration of the program as submitted to Congress for Pro-<br>curement Planning and Industrial Mobilization.....   | <u>7,739,950</u> |
| TOTAL ADDITIONAL REQUIREMENTS.....   | \$640,640,445    |

\* Including speed-up.

B&LP Branch  
11 May 1940

5-11-40

Statement on Program for the Air Corps.

The Acting Chief of the Air Corps states that the present procurement program can not be accelerated unless this program is augmented by such an increase of planes over and above the present program as would justify an increase in existing productive facilities. This would also involve an increase in the strength of the Air Corps. The War Department has asked the Senate Appropriations Committee to increase the amounts now carried in the House bill by \$21,861,835 to provide 109 planes for maintenance of combat units. The Senate Committee was also informed that it is very desirable to provide 27 additional heavy bombardment planes at an estimated cost of \$14,182,304 to complete an operating reserve in that type.

The status of estimates is as follows:

|            |                     |                                 |
|------------|---------------------|---------------------------------|
| 57 planes  | \$6,530,109         | provided by House               |
| 109 planes | \$21,861,835        | submitted to Senate             |
| 27 planes  | <u>\$14,182,304</u> | asked by Chief of the Air Corps |
|            | \$42,574,248        |                                 |

This amount need not be included in any supplemental estimates if it is to be covered in the 1941 Army Appropriation Bill. Further augmentation in the Air Corps personnel and equipment will not be requested unless the situation as it affects this country becomes more critical than is apparent at this particular time.

The Regular Army of the United States shall consist of \* \* \* and such other officers and enlisted men as are now or may hereafter be provided for. Except in time of war or similar emergency when the public safety demands it, the number of enlisted men in the Regular Army shall not exceed two hundred and eighty thousand, including the Philippine Scouts.

May 14, 1940

My dear Mr. Hoover:

Thank you for your two letters of May 10th, giving further results of your investigation of German funds in the United States and of Mullen & Company.

*Letter on German Funds given to Mr. Cactus 9/19/40*

I shall be glad to have you keep me informed of any later developments.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

May 14, 1940

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Thank you for your two letters of May 10th, giving further results of your investigation of German funds in the United States and of Mullen & Company.

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Yours sincerely,

(signed) E. M. H. M. H. Jr.

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

May 14, 1940

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

JOHN EDGAR HOOVER  
DIRECTOR

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

May 10, 1940

Personal and Confidential

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

Dear Mr. Secretary:

With further reference to the activities of Muller and Company, I have received confidential information to the effect that Muller and Company had requested the Columbia Smelting and Refining Company to submit a bid on 2,000 tons of electrolytic copper, 1,000 tons of zinc, and 200 tons of tin for the Roumanian Government Steamship Lines. I am advised that the Columbia Smelting and Refining Company is very doubtful as to whether it will submit such a bid.

Any further information which I receive concerning this matter I will gladly transmit to you.

Respectfully,

J. Edgar Hoover

May 14, 1940

4:45 p.m.

Present:

Mr. Easton  
 Mr. Graves  
 Mr. Cochran  
 Mr. Young  
 Mr. Thompson  
 Dr. Hare  
 Mr. Sullivan  
 Mr. Cotton  
 Dr. White  
 Mr. Schwarz  
 Mr. Foley  
 Mrs. Klotz

Mr. Jr. McReynolds will be here in the morning and I thought if you (Thompson) could come on for a half a day and teach him the job and then about noon you leave and you'll be gone for two weeks.

Mr. Thompson: Fine, I will be a new man.

Mr. Jr.: I sent word to Mac he had better play golf this afternoon. It would be the last chance he would have, and every Saturday afternoon he could have off for golf. Two full weeks now, Thompson.

Mr. Thompson: I think I am more tired than I realize.

Mr. Jr.: I thought if you would be here in the morning and tell him what's happening and as soon as he is full of it you're off and take your two full weeks. You have earned it.

Herold?

For those of you who are interested in the State of Missouri, you may or may not know that Mr. McMutt -- not McMutt, Bowman Elder -- has paid us the full tax on \$375,000. He has given us a check for \$84,000, and Mr. Graves and Mr. Helvering recommended the acceptance and

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did accept it so that the \$235,000 on account of the Two Per cent Club. So they gave us a check for \$84,000. So who am I to throw away money or refuse to take it?

Dr. White: \$84,000 on \$235,000?

HM, Jr: No penalty.

Mr. Graves: You get into pretty high brackets there.

HM, Jr: They just won't let the lawyers have anything to do with this. They just pay it. That settles the Two Per cent Club. Right?

Mr. Sullivan: Yes.

HM, Jr: We have no case now, have we?

Mr. Gaston: Pretty expensive privacy. I don't doubt he spent it for political purposes.

HM, Jr: That's his business and it's worth \$84,000 to him not to talk. And, needless to say, we are not talking because it is against the law.

Just so that none of you feel sorry or hurt poor me, when Jesse Jones said he would rather have a 15-year real estate loan than Government bonds, the nastier Jones gets the more pleased I am that Carter Glass threw out the two proposals personally. Senator Glass personally, I think more than anybody else, let Jesse have it. So the nastier he gets -- and he certainly was nasty -- the better I feel about it that they gave him short work in the Senate, and they certainly did. First time he has ever gotten trimmed, isn't it?

Mr. Foley: On something he wanted very much for himself.

Mr. Gaston: I certainly liked that phrase in yesterday's report, "Mr. Jones said he had the President's approval but it was noticed Administration supporters were opposing it".

HM, Jr: Just wanted to say hello. Anybody got anything? If you people want another laugh, George Harrison

- 3 -

called me today on something and he said, "I thought I ought to tell you that Harriner Eccles said I shouldn't call you up in case the Government Bond Market went down, that he was going to let you know personally." So I said, "I would like you to call me." He said, "Are you asking me?" "Well, from now on I will call you." He said Eccles told him not to call me. So it's all right with me. Eccles can tell Alsop and Kintner first how he saved the bond market and I wish you could have heard George Harrison laugh. Have you ever heard of anything like that? Eccles told him not to call me on the Government Bond Market. Nobody else was to talk to me. Amazing!

Phil, I would like to see tomorrow or Thursday Colonel Jacquin and it's in connection with the engine for the so-called block bombers.

Mr. Young: Which do you prefer?

HM, Jr.: A little bit better Thursday afternoon.

Mr. Cotton: I have a rather academic question. How would you like the Treasury to vote on the Chilean loan? It's carried anyway no matter how you vote.

HM, Jr.: I saw it in the papers. Vote with the Administration.

Dr. White: See which way Jones votes and vote the other way.

Mr. Cotton: That's what I have done so far.

HM, Jr.: I warn you, it's a bad day to tackle me on anything serious. I refuse to be too serious tonight for I fear I might cry.

Mr. Gaston: We gave a general license to the Belgian Govt.

HM, Jr.: 11:30 Thursday for Jacquin. If anybody else wants to come with him, all right, but I have a particular reason for wanting to see him. And before you go home I want my Army papers back.

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Mr. Young: What I wanted wasn't there. I wondered if your filing system was bad.

HM, Jr: That goes in the safe tonight. All of them. What are you (Sullivan) sitting on the end of your chair for?

Mr. Sullivan: Thurman Arnold called up. He was disturbed on some problems we might be getting into on purchases of crucial supplies that we don't know about and wondered if he could see me tomorrow, and I wondered if you wanted me to take Phil with me or find out first.

HM, Jr: Crucial? That's not military.

Mr. Sullivan: Crucial is the word he used.

The Maritime Commission -- I mean, the Budget is with us on the opposition to the measure of the Marine Bill. That's what we discussed with Mr. Harris.

HM, Jr: That's when somebody buys something for \$25,000 and sells for \$22,000,000 and doesn't want to pay the tax.

Mr. Sullivan: The Budget wrote to us that they would interpose no objection to our objections to the Bill, so we got ahold of the Maritime Commission and found out the Bureau of the Budget had not interposed any objections to their introducing the Bill. So the Maritime Commission thinks the Budget is with them. So we called back over to the Bureau of the Budget and they said, "No, we are with you fellows."

HM, Jr: In the room, the nicest word I can think of is they are a bunch of sissies. And that's a compliment. C.E.? You got it under control?

Mr. Sullivan: Yes, we have it under control but we are going to have a fight.

HM, Jr: We just licked Jones.

Norman?

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Mr. Thompson: Mr. Bell is feeling fine and he had planned to come in tomorrow and thinks he will have to stick to his plan.

HM, Jr: He might as well stay out until Friday.

Mr. Thompson: I urged him to and he said he wouldn't be happy unless he came back.

HM, Jr: Do you think I should call him? I asked for him and Mrs. Bell and both were not at home.

Mr. Thompson: I urged his family not to come in because you said Friday, but he said he has it on his mind and had to get back.

HM, Jr: Who am I fighting on this no tax on sale of ships?

Mr. Sullivan: The Maritime Commission.

HM, Jr: Well, need any help?

Mr. Sullivan: Not yet.

HM, Jr: Hollar.

Mr. Sullivan: Aye, aye, sir.

HM, Jr: Ed?

Mr. Foley: No.

HM, Jr: Herbert?

Mr. Gaston: No. The State Department ruled our way and various protective devices on ships, particularly the degaussing equipment. Incidentally, we got \$8,000,000 on the Coast Guard.

HM, Jr: Oh, it's up on the Hill?

Mr. Gaston: It's up on the Hill. Do you know what that does and crews? It increases the CAMPBELL from 100 to 175 men. It means, -- and you put guns on it. It adds 75 men to the crew.

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HM, Jr: In order to operate the guns?

Mr. Gaston: Yes.

HM, Jr: And if we had the money, how long would it take to make gun mounts?

Mr. Gaston: At the mercy of the Navy.

HM, Jr: Incidentally, the Navy has in its bill guns for the Coast Guard, \$2,000,000. I don't know whether the President thought it was so funny that tin hats in the Navy was for us and then the Navy had the same thing. Do we have tin hats -- our own hats on our men?

Mr. Gaston: I did not know it.

HM, Jr: Something new I take it.

Incidentally, how is Mason? I don't like to say too much, but the last three or four days, what we have done and been able to do to help the President on the War Department Bill, if I never came to Washington for anything else I think that will be worth having done. I want to also say in the room that I consider General Marshall a great star. He's a great fellow. Have great admiration for him. He's a soldier.

Mr. Foley: Want to tell John about Hathcock tomorrow. That's probably what Doughton is coming down for.

HM, Jr: Let it go until tomorrow. One thing: Better get the story from Graves so we get a good break. I'm dropping some more Procurement people.

Mr. Schwarz: Right. We have been talking about it.

HM, Jr: The boys know this was quite a feud on.

Mr. Schwarz: They were up there, many of them, listening to him.

HM, Jr: Have they said anything?

Mr. Schwarz: Our boys here are glad we won. They don't think any more of him as a result of his conduct, his tactics.

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HM, Jr: The way he acted, the better the victory. After all he picked the battleground. I did not. He initiated it and everything else. We are not going to do anything.

Mr. Schwarz: The result speaks for itself.

HM, Jr: It took a little work.

Mr. Schwarz: He charged yesterday that we worked over the weekend and they sat tight.

HM, Jr: Worked on who?

Mr. Schwarz: On the people on the Hill.

Mr. Foley: You worked on me Sunday.

HM, Jr: I did not do anything over the weekend. Tried to see Glass and could not. All I did over the weekend was Holland.

Mr. Sullivan: And you refused an invitation to the races.

HM, Jr: That's right. Jones invited me to go to the races on Saturday. It was a nice fight, but this Army-Navy Bill the President is sending up is great stuff and I feel happy I had a little something to do with it. I must have spent four hours with General Marshall in the last couple of days.

Dr. White: Bob Kintner was around trying to get a story on preparedness.

HM, Jr: It's a question of knowing too much. I am getting to help out. I would not be doing it if you had a War Department, but with Woodring and Johnson coming into a meeting where they don't talk to each other, the President had to use me because these fellows come into a meeting and won't show each other a memorandum and won't even talk to each other. The President calls me his Moderator. That is terrible. O. K.

May 14, 1940

2:30 pm

Present:

Captain Collins  
Mr. Graves  
Mrs. Klotz

HM, Jr: We have been waiting for ten days to see you people. This man Graves is so busy you never can see him. Harold McNutt Graves.

Mr. Graves: Speaking of that, we have word from our boys that our 2% Club is settled. That the man paid the tax. I will leave with you a memorandum, if you care to have it. They paid the tax on all the income that was set up against the Club. Of course the implication is pretty strong that they had some reason for not wanting us to know where that money went, because they paid \$84,000 to avoid it.

I intend, unless you have something for me to do, to go out there tomorrow for a couple of days to go over the other cases hanging fire, McKinney, Greenlee, McHale.

HM, Jr: O.K. I will take it home and read it. You don't expect me to congratulate you, do you?

Mr. Graves: No.

HM, Jr: O.K. I just wanted to know.

Mr. Graves: Captain Collins and I have prepared a memorandum which summarizes the situation in the Procurement Division.

HM, Jr: When are you going to go out there?

Mr. Graves: I was planning to leave tomorrow. Be back possibly Friday morning and possibly on Saturday.

-2-

HM, Jr: (Reading attached memorandum.)

"Re : Further Reduction of Force in the  
Procurement Division.

The more important functions of the Procurement Division may be classified as follows:

1. Purchasing for emergency relief projects, supported by separate annual appropriations.
2. Permanent statutory functions, supported by annual appropriations and performed for the benefit of the Government departments generally. These include:
  - (a) The making of indefinite-quantity, or term, contracts for commonly used supplies;
  - (b) The disposition of surplus Federal property; and
  - (c) The promulgation of standard specifications for Government purchases.
3. Reimbursable services, supported by collecting the costs from the departments receiving the benefit of the services. These include:
  - (a) A warehouse for the storage, issue, and delivery of supplies in common use;
  - (b) Fuel yards for the storage, issue, and delivery of coal;
  - (c) A Garage for storing and servicing Government trucks and passenger cars.
  - (d) A furniture shop; and
  - (2) A typewriter repair shop.

To this list of reimbursable services should be added a function more recently assumed,

-3-

nominally on a reimbursable basis --

- (f) The making of purchases for certain Government departments, principally the Treasury, the Federal Works Agency, and the Federal Security Agency, and the purchasing of heavy equipment for the Civilian Conservation Corps.

For a number of years the Procurement Division has expended a greater amount for the functions enumerated in paragraph 2 above than has been appropriated by Congress for those functions. Similarly, it has expended a greater amount for the services enumerated in paragraph 3 above than it has collected from the departments utilizing those services. In both instances, the deficiency has been met by using funds appropriated by Congress for emergency relief purposes.

A survey which has just been completed shows that during the 9-month period from July 1, 1939, to February 29, 1940, the emergency relief funds so used amounted to \$623,295.10. For the entire fiscal year 1940, it is estimated that this figure will approach \$1,000,000.

So far as this condition was then known, it was brought to your attention by our memorandum of February 6, and to meet the situation you authorized and directed certain changes in the policy of the Procurement Division, the principal effect of which was to restore small buying to the departments served, leaving the Procurement Division to function as a purchasing agency only with respect to relatively large-scale transactions. Almost 400 emergency relief employees have now been dismissed as the result of this change in policy."

HM, Jr: Out of the 400, please make a note, I want to know how many are placed in other Departments. We once set up a committee for that purpose. Hopkins did, two or three years ago.

Captain Collins: They are supposed to go over to a Registration Committee and re-register.

-4-

HM, Jr: I would like to know.

Captain Collins: Yes, sir.

HM, Jr: I would like to know. Please.

(Resumed reading)

"While this action has substantially alleviated the difficulty, it appears from the study just concluded that it is not sufficient to insure a solvent position for the Procurement Division. We now estimate that unless further steps are taken, the Division's operations during the fiscal year 1941, emergency relief transactions excluded, will show a deficit of approximately \$365,000. We are committed to the Bureau of the Budget and the House Committee on Appropriations not to permit the further use of emergency relief funds for functions unrelated to emergency relief. We are, therefore, compelled to make up this deficit by a further curtailment of expenditures or by increasing service charges, or by a combination of both these expedients.

"We propose to study each department and branch of the Procurement Division with a view to effecting at once all possible operating economies, and to increasing service charges, beginning July 1, next to the extent that this is warranted and necessary. In any case, further reductions of personnel will be inevitable, possibly reaching a total of from 100 to 150 persons out of 939 now employed in the District of Columbia."

HM, Jr: That's over and above the 400?

Mr. Graves: That's right.

HM, Jr: Gee whiz!

(Resumed reading)

"The necessary reductions will fall most heavily, if not exclusively, upon the emergency relief employees of whom there remain 309 on the District of Columbia payroll at the present time."

HM, Jr: Well, I have been over this once. I don't

-5-

see what else there is to do.

Captain Collins: No, sir. We are still going into it from every angle.

Mr. Graves: There is no other way.

HM, Jr: But please see what's happened to those other people, will you, at once?

Mr. Graves: Yes, sir.

Now, there is one other thing I would like to speak to you about at this time. You told me the other day when we last talked about this that you agreed with my recommendation, which concurred with Captain Collins, that at this time we make no effort to take over further purchasing in the Procurement Division.

HM, Jr: That's right.

Mr. Graves: That's a matter that had been pending in the Bureau of the Budget, because the Bureau made an engagement with us to get additional money if it was decided to take over additional purchasing. I went over Friday and spent hours there going over this situation and they fully acquiesce in the assertion that we will not.

HM, Jr: Who's the fellow you go over to see?

Mr. Graves: Blandford, the ranking officer. He feels we ought to do something constructive about this and not leave the thing go with the abandonment of this proposed increase in the functions of the Procurement Division. So in that discussion this proposition developed: that we would recommend, subject of course to your approval because it will have to be your recommendation to the President, the issuance of an Executive Order which will create an Advisory Committee to advise with the Director of Procurement with respect to operations of the Procurement Division. I think it would be a good step practically, apart from the desire of the Bureau of the Budget that we give this thing a constructive appearance. So I am

-6-

working that out with the Bureau of the Budget and in due time we will bring some documents to you to consider.

HM, Jr: O. K. It's a lousy suggestion, but if you think it needs window dressing I will go along with you.

Mr. Graves: It is face saving and window dressing. That closes my business.

HM, Jr: Anything else?

Captain Collins: We had a meeting, just before I came over, in my office and Captain Heiss was down from the War Department to say that Dr. Feis and Colonel Rutherford were over with the President this afternoon for \$65,000,000 additional, critical materials.

HM, Jr: It came from the President?

Captain Collins: They were with him this afternoon. First I heard of it. So we will know more after the meeting is over. The meeting is set for 3 o'clock.

HM, Jr: They called you before the meeting?

Captain Collins: Heiss mentioned it in the meeting that Feis had asked Rutherford, in charge of strategic materials, to go with him to the White House at 3 o'clock this afternoon for a discussion of \$65,000,000. That's in addition to the \$12,500,000 that went up the other day.

HM, Jr: I sent an estimate over for \$90,000,000.

Captain Collins: Is that the one that was cut to \$12,500,000?

HM, Jr: Yes. I am for it. Everybody now is all excited about it. I get very much amused. What other good news?

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Captain Collins: I just saw the paper when  
I came in. There is no such thing as good news.

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# TREASURY DEPARTMENT

WASHINGTON

712

May 9, 1940.

MEMORANDUM FOR THE SECRETARY:

Re: Further Reduction of Force in the  
Procurement Division.

The more important functions of the Procurement Division may be classified as follows:

- 1.--Purchasing for emergency relief projects, supported by separate annual appropriations.
- 2.--Permanent statutory functions, supported by annual appropriations and performed for the benefit of the Government departments generally. These include--
  - (a) The making of indefinite-quantity, or term, contracts for commonly used supplies;
  - (b) The disposition of surplus Federal property; and
  - (c) The promulgation of standard specifications for Government purchases.
- 3.--Reimbursable services, supported by collecting the costs from the departments receiving the benefit of the services. These include--
  - (a) A warehouse for the storage, issue, and delivery of supplies in common use;
  - (b) Fuel yards for the storage, issue, and delivery of coal;

- (c) A garage for storing and servicing Government trucks and passenger cars;
- (d) A furniture shop; and
- (e) A typewriter repair shop.

To this list of reimbursable services should be added a function more recently assumed, nominally on a reimbursable basis--

- (f) The making of purchases for certain Government departments, principally the Treasury, the Federal Works Agency, and the Federal Security Agency, and the purchasing of heavy equipment for the Civilian Conservation Corps.

For a number of years the Procurement Division has expended a greater amount for the functions enumerated in paragraph 2 above than has been appropriated by Congress for those functions. Similarly, it has expended a greater amount for the services enumerated in paragraph 3 above than it has collected from the departments utilizing those services. In both instances, the deficiency has been met by using funds appropriated by Congress for emergency relief purposes.

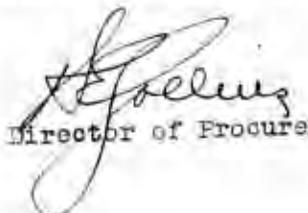
A survey which has just been completed shows that during the 8-month period from July 1, 1939, to February 29, 1940, the emergency relief funds so used amounted to \$623,295.10. For the entire fiscal year 1940, it is estimated that this figure will approach \$1,000,000.

So far as this condition was then known, it was brought to your attention by our memorandum of February 6, and to meet the situation you authorized and directed certain changes in the policy of the Procurement Division, the principal effect of which was to restore small buying to the departments served, leaving the Procurement Division to function as a purchasing agency only with respect to relatively large-scale transactions. Almost 400 emergency relief employees have now been dismissed as the result of this change in policy.

While this action has substantially alleviated the difficulty, it appears from the study just concluded that it is not sufficient to insure a solvent position for the Procurement Division. We now estimate that unless further steps are taken, the Division's operations during the fiscal year 1941, emergency relief transactions excluded, will show a deficit of approximately \$365,000. We are committed to the Bureau of the Budget and the House Committee on Appropriations not to permit the further use of emergency relief funds for functions unrelated to emergency relief. We are, therefore, compelled to make up this deficit by a further curtailment of expenditures or by increasing service charges, or by a combination of both these expedients.

We propose to study each department and branch of the Procurement Division with a view to effecting at once all possible operating economies, and to increasing service charges, beginning July 1, next, to the extent that this is warranted and necessary. In any case, further reductions of personnel will be inevitable, possibly reaching a total of from 100 to 150 persons out of 939 now employed in the District of Columbia. The necessary reductions will fall most heavily, if not exclusively, upon the emergency relief employees, of whom there remain 309 on the District of Columbia pay roll at the present time.

  
Assistant to the Secretary.

  
Director of Procurement.

Approved

May 14, 1940.

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COMMITTEE ON BANKING AND CURRENCY

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CHARLES W. TOBEY, New Hampshire

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AMEND RECONSTRUCTION FINANCE CORPORATION ACT

TUESDAY, MAY 14, 1940

UNITED STATES SENATE, SUBCOMMITTEE ON  
RECONSTRUCTION FINANCE CORPORATION MATTERS  
OF THE BANKING AND CURRENCY COMMITTEE,  
Washington, D. C.

The subcommittee met, pursuant to call, at 10:30 a. m. in room 301, Senate Office Building, Senator Robert F. Wagner presiding.

Present: Senator Wagner (chairman of the subcommittee), Adams, Radcliffe, Hughes, Herring, Smathers, Townsend, and Frazier.

Present also: Senator Glass.

Senator WAGNER. The subcommittee will come to order. We will proceed with a hearing on S. 3938 introduced by Senator Glass. The committee reporter will make the bill a part of the record at this point.

(The bill, S. 3938, is as follows:)

(S. 3938, 76th Cong., 3d sess.)

A BILL to authorize the purchase by the Reconstruction Finance Corporation of stock of Federal home loan banks, to amend the Reconstruction Finance Corporation Act, as amended; and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (1) section 304 of the Act approved March 7, 1933 (48 Stat. 1, 6), as amended, is amended further by inserting after the case "Sec. 304," and before the first sentence thereof the following: "(a) The Reconstruction Finance Corporation, upon the approval of the Federal Loan Administrator, may purchase at par any part of the stock of the Federal home loan banks owned by the United States, as evidenced by certificates, receipts, or otherwise, and the Secretary of the Treasury is authorized on behalf of the United States to sell such stock to the Corporation; and any stock so purchased by the Corporation shall be held subject to the same conditions, requirements, rights, and privileges now provided by law for or in connection with the ownership by the United States of such stock, including all dividend and retirement provisions. (b)"; and (2) section 304 of the Act approved March 9, 1933 (48 Stat. 1, 6), as amended, and section 1 of the Act approved June 10, 1933 (48 Stat. 110), as amended, are amended further by inserting after the words "Secretary of the Treasury" wherever they appear therein the words "or the Federal Loan Administrator".

Sec. 2. That (a) section 5 of the Reconstruction Finance Corporation Act, as amended, is amended further by substituting for the figure "\$350,000,000" appearing in the third proviso of the third sentence of the third paragraph thereof the figure "\$500,000,000"; and (b) section 3 of the Act approved January 31, 1935 (49 Stat. 1, 2), as amended, is amended further by substituting for the words "January 31, 1945" appearing in the first sentence thereof the words "January 31, 1955".

Sec. 3. That section 208 of the Act approved August 23, 1935 (49 Stat. 684, 706), as amended, is amended further by substituting (a) for the word "ten" wherever it appears in the third sentence thereof the word "fifteen", and (b) for the figure "40" appearing in the third sentence thereof the figure "60".

Sec. 4. That section 2 of the Reconstruction Finance Corporation Act, as amended, is amended further by adding immediately after the first paragraph thereof the following:

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"The Corporation is authorized to make payments from time to time to the Secretary of the Treasury in amounts to be determined by the Corporation, with the approval of the Federal Loan Administrator, for the partial retirement of its capital stock at par or in payment of dividends from earnings.

"Notwithstanding the provisions of section 9 of the Reconstruction Finance Corporation Act, as amended, section 205 (a) of the Emergency Relief and Construction Act of 1932, or any other provision of law, the aggregate amount of notes, debentures, bonds, or other such obligations which the Corporation is authorized to issue and have outstanding at any one time shall not be decreased or affected by reason of any cancellation or retirement of capital stock."

Sec. 5. The Reconstruction Finance Corporation shall purchase stock of any Federal home-loan bank under section 1 hereof, or retire capital or pay dividends under section 4 hereof, in an aggregate amount not to exceed \$300,000,000 to be determined by the Secretary of the Treasury; the Reconstruction Finance Corporation, upon the approval of the Federal Loan Administrator, to determine that portion of such aggregate which shall be used for purchase of such stock, for retirement of capital, or for payment of dividends hereunder.

Senator WAGNER. Senator Glass, do you care to say anything in regard to your bill before we hear Mr. Jones?

Senator GLASS. No; I do not care to say anything at this time. I introduced the bill by request.

Senator WAGNER. Have you anything you would like to have made a part of the record at this point?

Senator GLASS. It might be well to introduce into the record a letter I received from Mr. Jones.

Senator WAGNER. That will be made a part of the record by the committee reporter.

(The letter from Jesse H. Jones, Federal Loan Administrator, dated May 13, 1940, is as follows:)

FEDERAL LOAN AGENCY,  
Washington, May 13, 1940.

HON. CARTER GLASS,  
United States Senate, Washington, D. C.

DEAR SENATOR GLASS: I favor the adoption of the Glass bill, S. 3938, for the following reasons:

A. It authorizes the return to the Treasury of \$300,000,000 from its investments in lending agencies in keeping with the President's Budget message; permits the Reconstruction Finance Corporation, with the approval of the Federal Loan Administrator, to determine what portion of said sum shall be returned (1) by the purchase of all or any part of the \$124,741,000 of the capital stock of the Federal Home Loan banks held by the Treasury; (2) by the retirement of Reconstruction Finance Corporation capital stock; and (3) by the payment of dividends from earnings of the Corporation.

\$300,000,000 can be returned to the Treasury in this manner without affecting the efficiency or impairing the solvency of the Reconstruction Finance Corporation or the Home Loan banks. The stock in the Home Loan banks is a sound investment and pays dividends in excess of the cost to the Reconstruction Finance Corporation of the money necessary to buy such stock from the Treasury.

B. It increases the amount available for loans to railroads by \$150,000,000, which is necessary if we are to aid the roads in reorganizing, and enable them to borrow at reasonable rates from private sources. Also the general limitation date on maturities of Reconstruction Finance Corporation loans is raised from 1945 to 1955.

C. It permits the Reconstruction Finance Corporation to buy or make loans upon preferred stock in banks and insurance companies upon the request of the Federal Loan Administrator, when approved by the President, instead of upon the request of the Secretary of the Treasury, only, as at present. This is a proper function of the Federal Loan Administrator.

The Reconstruction Finance Corporation is responsible for each such investment and must determine whether it shall be made. The amendment would facilitate the work and obviate unnecessary delay.

D. Under existing law national banks may make loans on improved farm land and improved business and residential properties in an amount not to exceed 60 percent of the appraised value of the property when secured by a first mortgage.

when installment payments are required sufficient to amortize 40 percent or more of the principal amount of the loan within a period of not more than 10 years.

The amendment permits such loans where 60 percent of the loan will be amortized within 15 years, instead of 40 percent within 10 years. The amendment does not change the requirements as to security, it does not change the ratio of payments, nor the total amount a bank may have invested in such loans, which may not exceed 60 percent of the amount of its time and savings deposits, nor more than its paid in and unimpaired capital, plus its unimpaired surplus funds, whichever is the greater.

The longer maturity makes a better loan from the standpoint of both the bank and the borrower, because of the larger proportion of the loan that will be amortized. It makes possible the stimulation of business and employment through financing the construction and rehabilitation of business buildings, and gives banks a little more latitude in finding profitable investments for some of their unemployed funds, and enables them to serve better their communities. A prudent borrower may not be willing to have too large a percentage of his mortgage mature in too short a period. Experience in recent years has proved that a loan regularly and properly amortized seldom gets in trouble.

I have discussed the bill with the President, and it has his approval.

Sincerely yours,

JESSE H. JONES, Administrator.

Senator WAGNER. We will now hear from Mr. Jones.

#### STATEMENT OF JESSE H. JONES, FEDERAL LOAN ADMINISTRATOR, WASHINGTON, D. C.

Mr. Jones, may we hear from you with reference to S. 3938, which as I understand is proposed legislation recommended by you and introduced by Senator Glass?

Mr. JONES. First I would say that I sent each of you a letter in regard to the matter.

Senator WAGNER. No doubt all members of the subcommittee have the letter. And Senator Glass has put into the record the letter he received from you.

Mr. JONES. I tried in that letter to outline the purposes of the bill and to give our reasons for favoring the proposed legislation.

Senator WAGNER. All right.

Mr. JONES. This manner of giving the Treasury \$300,000,000 in accordance with the President's budget message is in our opinion the soundest and best way to do it from the standpoint of the Reconstruction Finance Corporation, from which is expected the \$300,000,000.

Senator TOWNSEND. You say "from which is expected the \$300,000,000." For what purpose is it expected?

Mr. JONES. To return to the Treasury capital in lending agencies not now needed.

Senator TOWNSEND. Well, by that do you mean to say that you have \$300,000,000 of capital you do not need?

Mr. JONES. I did not say it exactly that way, Senator Townsend. We can provide the Treasury with the \$300,000,000 without impairing the solvency or efficiency of the Corporation.

Senator TOWNSEND. Do you mean to say that that is possible?

Mr. JONES. Yes; that is possible. Obviously and quite naturally I am trying to comply with the President's budget message, and to do it in the best and soundest way it can be done.

Senator TOWNSEND. I can understand that, that you feel that what you are trying to do, but if you had your own way about it, that the way you would do it?

Mr. JONES. Very nearly. I think it is proper for the R. F. C. to own capital stock in home-loan banks that is now owned by the Treasury, for the reason that it is contemplated that stock will be repaid from time to time as the banks do not need the capital. I think the R. F. C. has the organization and facilities better to bring that about than the Treasury, and I think we can keep in closer touch with it. Banks are now under the supervision of the Federal Loan Administrator, and I believe that plan would be sound. That would put \$124,741,000—

Senator TOWNSEND (interposing). The real object back of all this is to keep going beyond the \$45,000,000 debt limit, is it not?

Mr. JONES. Well, nobody has told me what the object was, except you now.

Senator TOWNSEND. But you do know that, do you not, without anybody telling you?

Mr. JONES. You can testify to that, perhaps.

Senator TOWNSEND. No; I do not want to testify to it. I want your opinion on it.

Mr. JONES. I shall not argue that. I might say, however, if anybody wanted to know my opinion about it, that—

Senator GLASS (interposing). That is what you are called up here for, Senator TOWNSEND. Yes.

Mr. JONES. I am going to give you an observation now that is not called for by your consideration of this bill but that is pertinent: If I were the Congress I would not hesitate to increase the debt limit to \$50,000,000,000.

Senator TOWNSEND. We might not think it proper but at any rate we do not think we ought to go round the bush. If we are going to do it we ought to say: Let us increase the debt limit, but not go to the R. F. C. and say to them, "We want \$300,000,000 from you, and extract it like pulling teeth."

Senator GLASS. And then you say to issue bonds to cover that amount?

Mr. JONES. Do you mean to borrow the money to do this?

Senator GLASS. Yes.

Mr. JONES. That is correct.

Senator GLASS. That would seem to show the situation.

Senator TOWNSEND. Is not that irregular bookkeeping, Mr. Jones?

Mr. JONES. Senator, I would not say that it was at all.

Senator TOWNSEND. Is it not a new method of bookkeeping to say the least? We held hearings here and tried to keep other people from adopting that method, held those hearings a few years ago.

Mr. JONES. I think it is actually sound and proper for the R. F. C. to own this stock. The stock pays dividends producing substantially more than cost to the R. F. C. It has substantial earnings and surplus, and I will be very glad to give you that figure if you want it.

Senator TOWNSEND. I recognize that, but I think if the R. F. C. has \$300,000,000 in stock it does not need it ought to put that money back in the Treasury in the regular way.

Mr. JONES. This is going to be a regular way.

Senator WAGNER. Senator Townsend, what do you mean by "regular way"?

Senator TOWNSEND. Not by a method of going round the bush.

Mr. JONES. Let me explain a little further. I did not finish what I had in mind when I referred to the \$124,741,000 of the \$300,000,000. Now, if you had not had any question on your debt limit, or of needing this money to be returned to the Treasury, I had intended recommending to the directors of the R. F. C. that we pay the Treasury out of our earned surplus a substantial dividend. I would have done that in any event, and had talked to them about it before this question was ever raised. That amount probably would have been not more than \$125,000,000, or perhaps \$100,000,000, but I thought we had earnings enough so that we could give that much money back to the Treasury, and that we should do it. I intended to so recommend before this question was raised. If we pay them dividends of \$100,000,000 and buy the stock then we would only have to reduce our amount by \$75,000,000 in order to give them the entire \$300,000,000. If you should raise the debt limit or if they should not give the entire \$300,000,000, we would not have to reduce our capital by \$75,000,000.

We have outstanding at this time a total of \$1,881,000,000, I think it is, of investments, and in the main they are sound investments. So we have \$285,000,000 of earned surplus. I cannot imagine that it would take more than \$125,000,000 under any circumstances to cover all losses. That would leave us \$160,000,000 of surplus, and that is a sound surplus, and we could return that money to the Treasury if we wanted to. So I had thought we would probably give them back \$100,000,000. I thought that would please the conservative element in Congress.

Senator TOWNSEND. Is there not the prospect, in fact has there not been made the statement that the President is going to send up on the Hill a recommendation that we raise probably \$800,000,000 to (\$1,000,000,000 for armament, for the War and the Navy Departments and other purposes? If he does there is going to have to be something done about the debt structure. And if that is coming why don't we take it all at one time at bat?

Mr. JONES. And not do it piecemeal?

Senator TOWNSEND. Yes; why ask for this \$300,000,000 now?

Mr. JONES. That is for the Congress to determine.

Senator TOWNSEND. That has probably developed since you recommended this legislation.

Mr. JONES. Yes; that has been developing in the last few days pretty fast, and properly so, I suppose. But even in that event, Senator Townsend, it would not hurt us at all to handle the matter in this way, to give the Treasury back \$250,000,000 or \$300,000,000 if we did it in this manner.

Senator WAGNER. I do not see anything irregular about this. What is there irregular about this, Senator Townsend? You indicate that it is an irregular method, and what is it? If you can spare the transfer of \$300,000,000 why should not that be done?

Mr. JONES. I see no reason why it should not be done.

Senator GLASS. The Treasury raises no objection to that provision of the bill.

Senator WAGNER. I understand that. I would not subscribe to anything that is irregular, because that connotes there is something wrong about this. I think it is perfectly proper.

Mr. JONES. There is nothing irregular or improper about it.

Senator WAGNER. That is what I say.

Senator TOWNSEND. It is adopting a method of bookkeeping that has not been the custom. Is not that a fact, Mr. Jones?

Mr. JONES. Well, you have not had any custom on this sort of thing.

Senator TOWNSEND. Have you heretofore been accustomed to adopting this method of bookkeeping?

Mr. JONES. I said a moment ago that we would have paid the Treasury a dividend this year had this question not been brought up.

Senator TOWNSEND. Well, that is all right; but why do it in this way?

Mr. JONES. We would not have paid the \$300,000,000 because we could not have afforded it, but we could have returned some of our capital. I would rather buy this stock in home-loan banks than to reduce our capital because of the uncertainty in the world and the fact that the R. F. C. will be called upon undoubtedly to do many things that private capital and private interests will not do and cannot afford to do, but that the R. F. C. can and should do as a Government agency.

Senator TOWNSEND. Have you not authority now to buy that stock?

Mr. JONES. No; and the Treasury has not authority to sell it. That is the reason it is put here in this bill. I might say that this manner of doing the thing is our own. We figured out this manner of giving the money. It was not the suggestion of the Treasury Department. All they want is \$300,000,000 and it is our business to find the best way to give it back to the Treasury without impairing the solvency and efficiency of these corporations.

Senator WAGNER. Well, that is that. Will you now go to the other items of the bill?

Mr. JONES. I am ready.

Senator WAGNER. I think it would be better for you to proceed in that way.

Mr. JONES. Does any other member of the subcommittee desire to ask me any questions?

Senator WAGNER (chairman of the subcommittee). Have any of the members of the subcommittee any questions they would like to ask before Mr. Jones proceeds to discuss other items of the bill?

(A pause without response.)

Mr. JONES. What is the next one?

Senator WAGNER. The next is your \$150,000,000.

Mr. JONES. The railroad loans?

Senator WAGNER. Yes; the railroad loans.

Mr. JONES. We are out of available lending funds to railroads; and we are in that position by reason of an inadvertency in the drafting of the bill, which I think was in 1934, when we asked the Congress to give us authority to guarantee railroad loans as well as to make them, but to treat guaranteed loans the same as though they were loans actually made.

Senator GLASS. Before we get to that let me say that we have not completed section 1 of the bill yet.

Mr. JONES. What else do you wish?

Senator GLASS. What is the reason for making this provision for the purchase of the stock of Federal home-loan banks, now authorized to be done by the Secretary of the Treasury with the approval of the President, also by the lending agency? In other words, to have two persons do what one is required to do now. And the Treasury is opposed to it.

Mr. JONES. I know. They do not want to give up the authority. It is clearly the function of the R. F. C. and the Federal Loan Administrator and in no sense a function of the Treasury. We are not required to have the approval of the President or the Secretary of the Treasury in making any other loan we make. But in the hurry with your banking act, on March 9, 1933, the present procedure was set up as to how we can help banks by putting in capital. In practice if a bank—well, I will take Lynchburg because I do not think we have had any applications from Lynchburg.

Senator GLASS. No.

Mr. JONES. If a bank in Lynchburg needed some capital they would go to Richmond—

Senator TOWNSEND (interposing). You are talking now about any national bank, I take it?

Mr. JONES. Yes. If any bank needs capital, and in the case I started to illustrate with they would go to Richmond and make application to the R. F. C. Our agency at Richmond would investigate the matter and determine whether in their opinion the capital was needed, and if it was proper for the R. F. C. to put it in, and how. Our agent would come to us with a recommendation. We would review it, I mean our executives and staff and the men in charge of that branch of our business.

Senator TOWNSEND. You are speaking of the present plan and not the future plan?

Mr. JONES. Yes, the present plan. Then they make their recommendation to the directors of the R. F. C., and they approve it. Then we send over a perfunctory letter to the Secretary of the Treasury to the effect that X Bank of Lynchburg needed the capital, and that we thought it advisable to put it in. That letter is turned over to a clerk, and that clerk considers the matter for a period, which has averaged 2 weeks in the last year, to determine whether in his opinion it should be done.

In other words, the policy there is taken over by the Treasury. Obviously the Secretary of the Treasury cannot know about all these various and sundry things. He must operate through his boards, through his clerks. Then that clerk determines, we will say, that he does not think the bank needs that capital. So he turns it down. He has to be persuaded and argued with, and that necessarily brings about delay. It is not the way it should have been done in the beginning, but we had no other check then on the R. F. C. We say to the Treasury: You now have the Federal Loan Administrator, and this plan would obviate a lot of delay and a lot of irritation, the irritation being to people who need the money, people in the community affected.

Senator GLASS. Have you not acquired stock in some five thousand or six thousand banks?

Mr. JONES. We have acquired capital notes of some sixty-two hundred banks. This plan would remove all of the rough edges. It is highly desirable, and it is a plan that would avoid unnecessary delays.

and irritations. If you prefer to leave it like it is, do so, but this is the way it ought to be done. The other way is not necessary and not the way it should be done.

Senator TOWNSEND. Have you had cases where the Treasury has disapproved your action?

Mr. JONES. A good many of them. In addition to that it is the delay, the unnecessary red tape.

Senator TOWNSEND. Then they have approved over five thousand?

Mr. JONES. Yes.

Senator TOWNSEND. And disapproved some?

Mr. JONES. Yes, but not a great many. We have on an average a delay of 2 weeks and sometimes much longer. I could cite you a number of cases and I am sure you would probably agree with the R. F. C.'s findings. At all events, if the R. F. C. now thought it should buy stock in a bank, or lend on stock in a bank, and the Federal Loan Administrator approved it, it still would have to have the approval of the President, and there it must be done through somebody else.

Senator TOWNSEND. Then the Comptroller's office has nothing to do with it?

Mr. JONES. The Comptroller's office and the Treasury are one and the same.

Senator GLASS. It was not so intended by law. The Comptroller of the Currency is supposed to be an absolutely independent office. The law does not even require him to report to the Secretary of the Treasury. It requires him to report to the Congress.

Mr. JONES. That is the way it should be, but that is not the way it is.

Senator GLASS. You say that is not the way it is being done, but that is what the law requires.

Mr. JONES. That is correct. The Comptroller of the Currency has just as much authority as any other clerk in the Treasury and no more. That is, he assumes no more authority. The general counsel—

Senator TOWNSEND (interposing). Is that because he does not assume the authority that rightfully belongs to him, or because he accedes to the wishes of the Secretary?

Mr. JONES. He accedes to the wishes of the Secretary in order to hold his job.

Senator TOWNSEND. Is he appointed by the Secretary of the Treasury?

Mr. JONES. He is appointed by the President, but under the law the Secretary of the Treasury employs the deputies and fixes their salaries. So it is an incongruous thing if I know what that word means, but it is so nevertheless.

Now, getting back to the question of advisability of helping a bank, there is nobody in the Treasury who has ever run a business or a bank. How in the name of goodness can they know what is proper? They cannot.

Senator GLASS. I think the R. F. C. has done wonderfully wise work in administering an utterly unsound law. I do not think the taxpayers of this country should ever have been required to boost mismanaged and corrupt banks.

Mr. JONES. We do own stock now in about 4,500 banks.

Senator GLASS. Yes.

Mr. JONES. And we have gotten our money out of 2,700 of them. They are gradually working out. We are having to nurse them and to advise with them, although a great many of them are no trouble at all. There are a few hundred of the 4,500 that need watching, need help, that we have to advise with. I do not think that ultimately we will lose any money through our investment in banks; in fact, I am sure we will not, notwithstanding the fact that we will have to take some substantial losses.

Senator TOWNSEND. That will depend a good deal upon what happens to business, I mean in the matter of the banks.

Mr. JONES. Obviously so.

Senator GLASS. The taxpayers of the country should not be required to boost mismanaged banks. Every one of them ought to have been allowed to fail that would otherwise fail, when the banks generally were failing.

Senator WAGNER. Right there, since we are discussing that section of the bill, I think it is only fair to read the report of the Secretary of the Treasury on it, on the section to which Mr. Jones has just referred:

Under existing law the Reconstruction Finance Corporation may, upon the request of the Secretary of the Treasury, made with the approval of the President, subscribe for preferred stock in banks or insurance companies, or make loans secured by such stock. Section 1 (2) of the bill would permit such purchases of preferred stock and such loans to be made upon the approval either of the Secretary of the Treasury or the Federal Loan Administrator. The reason for this change in the law is not apparent. The existing provisions of law in this respect were enacted in 1933 as part of the emergency banking legislation. The machinery established at that time for providing banks with needed additional capital funds has worked satisfactorily. The Treasury is aware of no compelling reason why the set-up should be changed at this time, and recommends against the proposed change.

Mr. JONES. May I comment on that?

Senator WAGNER. Surely.

Mr. JONES. It has worked satisfactorily because of the patience of the R. F. C. and of the people who have had to have help. If that is the only place to get it you have to wait on the pleasure of the fellow who is going to say yes or no as the case may be.

The Secretary states that he knows of no compelling reason. He does not know of any reason to the contrary except that these clerks in his office do not want to give up the powers they have of saying yes or no. They would not know what a compelling reason was. I am speaking now of the clerks who do these things. It is not fair to them because they do not understand it. There is not one who would know how to go into your city or town or community and determine whether a bank should have more capital or not.

I am speaking a little bit critically of the Comptroller's office and of the Treasury but not near as critically as I could if I were to give vent to my actual feelings and opinion about the situation.

I think the present plan is restrictive. I do not think those clerks would know how to examine a bank. If you were running a good bank they would feel they would have to find something to criticize. I think the banks of the country would be better off without the office of the Comptroller of the Currency.

Senator TOWNSEND. I notice, Mr. Jones, in the concluding paragraph of your letter you say:

I have discussed the bill with the President, and it has his approval.

Mr. JONES. Yes; I discussed every item of the bill with the President, and it has his hearty approval. I did it as late as Saturday afternoon.

Senator GLASS. It is perfectly apparent to me that the Secretary of the Treasury does not want to give up any existing authority; also that the Administrator of the lending agencies wants to acquire this authority.

Mr. JONES. I do not want to acquire it. I want to facilitate the work.

Senator GLASS. Well, you cannot do that except by acquiring this additional authority.

Mr. JONES. Yes. The directors of the R. F. C. are not going to do any foolish things. You can rub my name out of the bill, and his, too, and the President's, and you have loaned \$10,000,000,000 without the approval of the President or of the Secretary of the Treasury, and we are going to get it all back.

Senator GLASS. I think you have done remarkably good work with an utterly bad law.

Mr. JONES. I thank you. This is up to you gentlemen.

Senator TOWNSEND. I think you have done a wonderful job, but do not think you will get all the money back.

Mr. JONES. We will get it all back, and bring some more back with it.

Senator TOWNSEND. Well, I am afraid not.

Senator WAGNER. What about this section of the bill?

Mr. JONES. There is no reason against it except that some clerk in the Treasury wants this power. I might say further that only about 20 percent of the banks are national banks. Why then should the Comptroller's office, or the Secretary of the Treasury who is the Comptroller's office, say whether a State bank can have some help or not. It should not be.

Senator TOWNSEND. You are speaking of State banks that are members of the Federal Reserve?

Mr. JONES. Of both. The Comptroller's office has absolutely nothing to do with a member bank or a nonmember bank as to this matter, and about 60 percent of our banks are nonmember banks, and only about 20 percent of them are national banks.

Senator TOWNSEND. In case you want to make a loan to a State bank, what about that?

Mr. JONES. If it did not suit the fellow to approve it, where are you? I think that is all I can say now on that subject. What is the next thing?

Senator WAGNER. You had just briefly referred to railroad loans.

Mr. JONES. I started to say that when we asked for the privilege of guaranteeing a real estate loan instead of making it, it was approved by this committee. Senator Couzens was the most interested member at the time. Senator Fletcher was the chairman of the committee, and while it was on the floor the thought occurred to Senator Couzens that there ought to be a limit. I was sitting in the press gallery—

Senator GLASS (interposing). You meant railroad loans and not real estate loans.

Mr. JONES. I am talking about railroad loans.

Senator GLASS. But you said real estate loans.

Mr. JONES. I beg pardon. Senator Fletcher sent up a note to me and asked what limit should be put on it. As I have said, Senator Couzens raised the question. I sent him back a note and said \$350,000,000 in addition to the present loans then outstanding and committed. I thought that would give us enough.

Senator TOWNSEND. How much was that?

Mr. JONES. About \$800,000,000 total. But it was intended to give us a revolving fund of about \$800,000,000. The language in the act as it came out did not permit this \$450,000,000 that we then had outstanding and committed, to become a part of the revolving fund. As these loans are repaid that money dies insofar as relending is concerned, so our present revolving fund is only \$350,000,000. We had in the bill last year, and in the Wheeler-Lea bill, an increase of \$150,000,000. You passed that bill last year and we are simply retiring that. So we are now entirely out of funds for railroad loans.

Senator WAGNER. Do you still have applications for railroad loans coming in?

Mr. JONES. Oh, yes. And some of these railroads will come out of the courts, out of reorganization, and we have to help them because private money will not help.

Senator TOWNSEND. What percentage of the railroad loans are guaranteed loans?

Mr. JONES. Very, very few. In two or three instances maybe.

Senator TOWNSEND. What proportion of your \$450,000,000 has been paid off? What is the amount of the loans to railroads now?

Mr. JONES. Including \$202,000,000 of railroad securities we bought from the P. W. A., we have authorized a total of \$1,398,000,000 in railroad loans. We have actually spent for those loans \$896,000,000; \$405,000,000 has been repaid.

Senator TOWNSEND. Of the \$450,000,000, or was a portion of that the revolving fund?

Mr. JONES. Some of it is the revolving fund. The most of it represents the older loans, and some P. W. A. loans were sold. So we have outstanding now about \$490,000,000 in railroad securities or loans, and we have commitments now outstanding of something like \$10,000,000 more than our available funds, but our commitments are not all taken. Therefore we can over-commit some but not a great deal.

Senator TOWNSEND. Have you collected \$10,000,000 from the \$470,000,000 that is still in your revolving fund, or if you do collect it you can still use it?

Mr. JONES. Yes, but we still need this \$350,000,000.

Senator RADCLIFFE. Those with the amount of your old loans unpaid amount to about \$450,000,000?

Mr. JONES. No; they amount to more than that.

Senator RADCLIFFE. You had \$490,000,000.

Mr. JONES. We have \$155,000,000 of loans where railroads are in receivership, and we have a lot of loans where railroads are not in receivership, like that B. & O. and the New York Central, and I cannot name all of them; but we have a substantial amount of loans to railroads not in receivership.

Senator RADCLIFFE. I understood you to say that your outstanding loans were about \$490,000,000, with \$10,000,000 of commitments, and that your revolving fund was \$350,000,000.

Mr. JONES. The revolving fund only applies to loans made and authorized since this limitation of \$350,000,000 was put on.

Senator RADCLIFFE. But if you have exhausted \$350,000,000 and had only \$490,000,000, that would seem to indicate that you have only \$140,000,000 of old loans.

Mr. JONES. No; I cannot give you the exact figures, and it is a little confusing, but that is not the way it works out.

Senator TOWNSEND. If the total loans are \$490,000,000 and you have loaned all of the \$350,000,000 revolving fund, and you must have it all the time, it would seem that you only have the difference between \$350,000,000 and \$490,000,000.

Senator RADCLIFFE. That is the way it struck me at first thought.

Mr. JONES. Mr. Mulligan, do you know how much of our railroad commitments have not been disbursed?

Mr. MULLIGAN. The story about that is that out of \$471,000,000 there is \$20,000,000 P. W. A., which I leave out; but with \$471,000,000 outstanding, \$207,000,000 of which represents a part of the \$350,000,000 that has been disbursed since February 1, 1935, and the \$264,000,000, a part of the old amount—there is \$207,000,000 outstanding and \$152,000,000 of commitments.

Senator TOWNSEND. But your total is \$471,000,000.

Mr. MULLIGAN. Yes, sir.

Senator TOWNSEND. And you have \$350,000,000 in the revolving fund, and it is bound to be that amount and cannot be less because it is a revolving fund.

Mr. JONES. That is right.

Senator TOWNSEND. The difference between \$471,000,000 and \$350,000,000 is \$121,000,000.

Mr. JONES. Of the loans that were outstanding at the time when the \$350,000,000 limit was put on, we still have \$264,000,000 outstanding.

Senator TOWNSEND. Then you have not loaned the full \$350,000,000.

Mr. JONES. It has not been disbursed. \$207,000,000 of it is outstanding, and there are commitments for \$252,000,000.

Senator RADCLIFFE. That is in addition to the \$471,000,000?

Mr. JONES. Yes, sir.

Senator TOWNSEND. Then you add your commitments.

Mr. JONES. We have loans outstanding of \$210,000,000, and have commitments of \$152,000,000.

Senator TOWNSEND. You have the \$152,000,000 for your commitments?

Mr. JONES. No. Add it to your \$207,000,000.

Senator TOWNSEND. Then that represents \$359,000,000.

Mr. JONES. That is right. And we have only \$350,000,000.

Senator RADCLIFFE. Then your figure of \$490,000,000 disregards the commitments.

Mr. JONES. That included \$264,000,000 of old loans.

Senator RADCLIFFE. The \$490,000,000 did not include the commitments.

Mr. JONES. No. That represented loans outstanding at the time.

Senator TOWNSEND. When you make a commitment you have the money to loan, have you not, out of the \$350,000,000?

Mr. JONES. We expect to have it.

Senator TOWNSEND. Well, you must have it.

Mr. JONES. We have overcommitted a little.

Senator TOWNSEND. You have overcommitted \$10,000,000.

Mr. JONES. That is right.

Senator TOWNSEND. I still cannot get it through my skull and it must be a little thick I suppose.

Senator RADCLIFFE. It did not include the commitments. It is only the loans actually made, I mean the \$470,000,000.

Senator TOWNSEND. You do not make commitments unless you have the money. But Mr. Jones says he has made commitments of \$10,000,000.

Senator RADCLIFFE. That other figure represented loans plus commitments.

Senator TOWNSEND. All right, \$471,000,000 plus \$150,000,000.

Senator RADCLIFFE. Whatever the figure is.

Senator TOWNSEND. That represents \$621,000,000 of which you have \$350,000,000 in your revolving fund.

Mr. JONES. Yes, sir.

Senator TOWNSEND. That would leave \$271,000,000 of old loans.

Mr. JONES. That is right, or pretty close to it. But the fact remains that we have no more money with which we can make railroad loans or commitments, and we have need of this \$150,000,000.

Senator GLASS. If you have already loaned \$491,000,000 why do you fix the limitation at \$500,000,000?

Mr. JONES. The 500 million limitation, Senator, is merely increasing the revolving fund.

Senator GLASS. By \$10,000,000?

Mr. JONES. No, by \$150,000,000.

Senator GLASS. If you loaned \$490,000,000, it seems to me—

Mr. JONES. Well, the limitation.

Senator TOWNSEND. All you want here is to increase your revolving fund by \$150,000,000?

Mr. JONES. That is all we want.

Senator TOWNSEND. And you collect it out of old loans and bring it back; it is no new money?

Mr. JONES. No; we merely use the \$150,000,000.

Senator WAGNER. It is an increase of \$150,000,000 by authorization—which I think you need, under the circumstances.

Mr. JONES. We undoubtedly need it; because when they go into receivership, they have got to have it. There is no other place where they can get it.

It is exactly what we did last year when we asked for a \$150,000,000 increase.

Senator TOWNSEND. Next is an extension of your limitation of R. F. C. loans from 1945 to 1955. Why do you ask for an extension now, when 1945 is 5 years off?

Mr. JONES. Well, it is desirable, Senator, to be able to give longer terms on these loans. There is a little confusion now in our law; some of it can be done and some cannot. Some kinds of loans we can make for as long a period as we want to, and others we cannot.

Senator TOWNSEND. What in the law limits it?

Mr. JONES. I cannot explain it.

Senator TOWNSEND. What?

Mr. JONES. I have been trying to get my lawyer to explain it to me for 2 weeks, and he has not been able to do it; so I am sure I cannot do it to you.

It just permits our extending loans. In some cases a loan already made cannot be extended beyond 1945.

Senator TOWNSEND. Well, businessmen like you and me are terribly handicapped, are we not?

Mr. JONES. We certainly are—by lawyers.

Senator GLASS. As Mr. Jefferson said, it is impossible to expect any sensible action from any Congress that contains 156 lawyers; and I think this one contains that many.

Mr. JONES. More, I think, Senator.

Senator HUGHES. We sometimes make a mess of it, as it is. I do not know what would happen if we had more lawyers.

Mr. JONES. That is desirable, Senator. A man comes in and needs perhaps more than 4 years' time, to be able to pay his loans back; and this would enable us to make it as long as 14 years.

Senator TOWNSEND. I thought you had sufficient authority.

Mr. JONES. We thought so, but we find we cannot extend a loan that is already made. We can make a new one, and this is just clarifying that.

Senator HUGHES. That is occasioned by the wording of some of the statutes, I suppose?

Mr. JONES. Yes.

Senator SMATHERS. Of the lawyers' construction of them?

Mr. JONES. Yes. It is not a serious matter. It is desirable.

Senator HUGHES. It is not serious, if you can get this authority?

Senator WAGNER. Now we come to another controversial section—section 3.

Mr. JONES. What is section 3, Senator?

Senator WAGNER. That is extending real-estate loans from 10 to 15.

Mr. JONES. Yes.

Senator GLASS. Well, I am learning something, now, about the bill that I introduced.

Mr. JONES. One of your troubles is that you trust your friends.

Senator GLASS. Yes, and I find that I cannot; because I am utterly opposed to commercial banks filling their vaults with real-estate loans. Goodness knows, they are filled up to the brim now with United States bonds—62 percent of all the indebtedness in the banks. And now to fill them up further with real-estate loans does not appeal to me.

Mr. JONES. Senator, if you live with the proposition, I think you would feel differently.

Senator GLASS. Why, for 50 years a national bank was not permitted to make a single, solitary real-estate loan; it was not permitted to own any real estate except the bank in which it conducted its business. That happened for 50 years; and I do not see any reason why we should now liberalize that section of the bill. We liberalized it once and made it 10 years instead of 5.

Senator WAGNER. You have the reports both from the Secretary of the Treasury and the Federal Reserve System opposing that particular provision; and I should like to hear from you.

Mr. JONES. Well, that is the best proof that it is right.

Senator HUGHES. Senator Glass, the State banks used to make a good many of those loans, and now they are not making them.

Senator GLASS. They are not making them?

Senator HUGHES. They are not making them.

Senator GLASS. Well, they ought not to be made.

Senator HUGHES. How is real estate to get started to be developed or to proceed in any way if you do not have some loans? They have got to be financed.

Senator GLASS. Well, they ought not to be financed by commercial banks. Commercial banks are supposed to be liquid and prepared to respond to any demand upon the deposits.

Senator TOWNSEND. What evidence have you, Mr. Jones, that there is a real demand for this extension of time? That is the thing that I want to know. I had a real feeling that the banks were now able to take care of all the applications they had, and that they were doing it. Now, perhaps they are not. I should like to get your reaction on that.

Mr. JONES. Well, I was waiting for Senator Glass to get through testifying.

Senator GLASS. Well, my testimony is that it is an utterly bad provision of the bill that I introduced; and if I had had an opportunity to read the bill before I introduced it, I would have told you so then; but Mike Flynn, of the Wall Street Journal, took the liberty of coming into my office and taking my paper out, without my knowledge, and keeping me blind for about two hours and a half.

Mr. JONES. I am going to try to convince you that it is a good provision.

Senator GLASS. You cannot do it; but go ahead.

Mr. JONES. Let me try.

Banks can now lend on real estate for 25 or 30 years.

Senator ADAMS. Would you be good enough to speak just a little louder, please?

Mr. JONES. Banks can now lend on real estate for 25 or 30 years, if the loan is insured by the F. H. A.; and that loan may be for 80 or 90 percent of the cost of the property. So why not leave it to the judgment of the banker, if he wants to make an amortized loan on unproved farms or business property that is income bearing and leave it to his judgment whether he will make a loan running for half as long.

Senator GLASS. What is the necessity for change, if he can make a loan for 25 or 30 years?

Mr. JONES. You cannot do it on a business property. There is now ample credit for residential property. There is no place to go to borrow money on a business building of any character, except to life-insurance companies; and they largely lend 30 to 40 percent. They claim to lend up to 50 percent, but they do not. It is very restrictive.

Senator TOWNSEND. But you can make all those loans—any that you have mentioned—from the R. F. C. account?

Mr. JONES. Would you rather have the R. F. C. make them?

Senator TOWNSEND. I am asking you that question.

Mr. JONES. Yes.

Senator GLASS. Certainly I would rather have you do that. The commercial banks have no business loading their portfolios up with loans of this description.

Senator TOWNSEND. If you can do it, how much demand have you had that you have not been able to supply? That is the question I had.

Mr. JONES. Senator, I am trying to create a demand and I am trying to do something that will create work, for the building of a business

building or the modernization or rehabilitation of a business building, as well as a residence. We are all trying to get people back to work.

Senator TOWNSEND. I understand that; but I still want to know if you have been able to do it in the R. F. C. Everybody knows that you have been able to do it.

Mr. JONES. We do not offer to do it.

Senator TOWNSEND. Why?

Mr. JONES. Because we think the banks ought to do it.

Senator GLASS. They are not loans that are readily payable.

Mr. JONES. They are better, Senator, than loans secured by stocks and bonds.

Senator GLASS. Well, I am not talking about gambling, now. I am talking about real estate.

Mr. JONES. Well, who borrows from the banks? I should like to have the banks have some place to invest their money.

Senator GLASS. Well, a great many people borrow from them who have no business borrowing from them.

Mr. JONES. Well, hardly enough borrow from them to enable them to pay their expenses.

Senator GLASS. That is because the Government has gone into the banking business and has deprived the banks of that much business.

Mr. JONES. Well, that is why I am opposed to having the R. F. C. go into this. We try to help banks make loans.

Senator ADAMS. How much unused loan capacity is there now in the R. F. C.?

Mr. JONES. About a billion dollars.

Senator ADAMS. And there are 50 billions in the banks?

Mr. JONES. Yes, sir.

Senator GLASS. Fifty billions of what?

Senator ADAMS. Deposits.

Senator GLASS. Yes; but deposits of money or of United States bonds?

Senator ADAMS. They originally were money of depositors, which they put through the window.

Senator GLASS. Yes.

Senator ADAMS. A large part of the funds, of course, has gone into Government bonds, as well as other loans.

Mr. JONES. No bank has been hurt in this country from real-estate loans made by the bank, where the banker did not lend more than 60 percent of the value and where he loaned it on improved property; and you cannot find a bank in the United States that has lost on that kind of a loan.

Real estate that was held by banks when the trouble came, back 10 years ago, largely was not on loans made on real estate; it was where the loans had been made on stocks and bonds, and without security, and so forth; and when the fellow went broke and his stock went down to nothing and the security was of no value, they went after the borrower and said, "Give us some more security." And all he had, maybe, was a town lot or a little building or some kind of real estate; and the banking fraternity regards that as a real-estate loan.

It was not a real-estate loan at all. It was a loan on stocks and bonds that had not been amortized; and so it winds up as a real-estate loan; and it was not a real-estate loan.

You cannot find in the United States a bank that has been hurt by an amortized real-estate loan on business property; and I challenge the Treasury Department to find one and come up and tell the committee. I give them a week's notice.

Senator ADAMS. If you could confine your loans to 60 percent of the depressed value, that would be one thing; but the difficulty is in boom values and it is in working up your tables of value.

Senator TOWNSEND. Yes.

Senator ADAMS. I know that in our part of the West we went through real-estate booms, and loans of 60 percent of the value proved to be bad because the value was wrong.

Mr. JONES. But the bank was not seriously hurt by that, because it did not make enough of them to hurt it.

Senator TOWNSEND. I was not arguing against that, but I have been saying that I do not seem to be able to find enough demand for it.

Mr. JONES. You have not been looking for it, have you?

Senator TOWNSEND. Yes. I am president of a little bank down there, and I was trying to find out from you if you had a demand which you had to turn down, for loans of long standing. You say you do not have.

Mr. JONES. Senator, I repeat that I am trying to create a demand and am trying to put people to work and to give the bank a means of using these funds. It is better to put part of the funds in a good loan of that kind than to put it all in stocks and bonds.

Senator TOWNSEND. I agree with all that, but I do not think the demand is there.

Mr. JONES. All right. It is only permissive; you do not have to make the loans. If somebody wants to build a store building or rehabilitate a store building, and he wants to pay you back a thousand dollars a year for 15 years, or something like that, it enables you to make loans on which our bank examiners cannot come in and hit you on the head and say, "Charge that off."

Senator TOWNSEND. Well, in the bank of which I am president we now do that.

Senator HERRING. All he is asking is that the national banks be permitted to do what you do, and to have its approved policy.

Senator GLASS. It is very necessary for a commercial bank always to be in a position to respond to the demands on it.

Mr. JONES. Your deposits are insured.

Senator GLASS. This whole thing belongs to investment banking, and it does not belong to commercial banks.

Mr. JONES. But you do not have any more investment banking; there is not any more investment banking, to speak of.

Senator GLASS. Well, "to speak of."

Mr. JONES. There never has been, Senator, any investment banking in real estate, except these fellows who sold bonds—which we are all against. There has never been any sound investment banking in real estate.

Senator GLASS. There ought not be, by commercial banks. ||

Mr. JONES. A few weeks ago or perhaps a few months ago when we had a little flare-up, some Government bonds went down 9 points and some went 6 or 5 or 7 or 8 points down. |||

Senator ADAMS. You mean thirty-seconds?

Mr. JONES. No; points—from 109 to 107, or something like that. Back in 1922 some of them went down 20 points—and not just Government bonds but other securities and other bonds. They go down. They have quoted an equity value in newspapers; and the examiner goes in and says, "What is the bond worth?"

"Well, it is worth 80."

It cost 100, and he has the bank charge off the 14 points.

Senator TOWNSEND. Not in governments; he cannot ask them to charge them down below par.

Mr. JONES. All right; but if he has to sell the Government bonds, whom has he got to sell them to?

My point is that if you have a good mortgage made under these restrictions, and which is current, the bank examiner is not going to be able to tell you to charge it down. It does not depreciate in value, and the bank examiner cannot bother you.

But if you buy some Bethlehem bonds at 90 or 100 and they go down to 80, they will make you charge it down.

But all the top-hat bankers say, "That is all right, but do not make a real-estate loan."

Senator ADAMS. Part of it is the element of liquidity, and the other is in safety; that is, the liquidity is in the bonds and the safety is in real estate.

Mr. JONES. Senator, there is no liquidity in bonds. You try today to sell 200 million of Government bonds and see where your liquidity is. Who is going to buy them?

Suppose you try to sell them today, or suppose you try to sell any other bonds: There is no real market. There is a quoted market, but nobody offers to buy and sell anything, and there is no real market. Of course, now when we are dealing in these billions and billions, there is no market for these bonds.

Senator TOWNSEND. That was the evidence yesterday.

Mr. JONES. Why, certainly. I would rather have a good mortgage than these bonds; because the bank examiner can make me charge the bonds down, but he cannot make me charge the mortgage down.

I happen to have been in the real-estate business for 40 years, and I know it is a sound business. I know it is as necessary to have office places of business and to have hotels as it is to have the clothes you wear; and it ought to have its place in lending and its place in banks.

You limit the amount the banker can lend to 60 percent of the amount of his deposits; so the limitations will not permit any bank to get hurt by these loans, and it may do some good. It cannot do any harm.

Senator GLASS. I just do not agree with you that the commercial banks have any business making loans on real estate.

Mr. JONES. Senator, the commercial banks are too restricted now. Let's let them do something.

Senator GLASS. I do not know whether there are any restrictions on God's earth. You are constantly giving the advice to let people run in debt. The curse of this earth is that the whole world is in debt.

Mr. JONES. Well, the Nation is in debt; and we have to follow the leader, haven't we?

Senator GLASS. Well, not in that way.

Mr. JONES. We have ability to make these loans, but we do not make them.

Senator GLASS. Why?

Mr. JONES. Because we think the banks ought to have that opportunity.

Senator GLASS. Oh, pshaw! You are not making them because you do not think they are a sound proposition.

Mr. JONES. No; I beg your pardon; we could lend five or ten billion dollars that we have not loaned because we have not been willing to do so.

Senator WAGNER. I know that in New York there is no demand for office buildings just now.

Mr. JONES. No; but New York is not the only spot in the country.

Senator WAGNER. But isn't that true?

Mr. JONES. It is true in New York and in Chicago, and it might be true in Philadelphia.

We are now building office buildings in Houston, and we do not need to borrow the money to do it, because we have them financed.

But you cannot go on forever without building office buildings and hotels and apartment buildings and stores and theaters and things that are just as necessary as any part of your life.

Senator WAGNER. Well, the other day I heard some testimony that there was no demand for any investment money for those purposes at all, at the present, because we are so overbuilt in that regard that there will not be any demand for additional money for the construction of that kind of building for some time to come.

Mr. JONES. As I said a while ago, I am trying to create the demand.

Senator WAGNER. But we heard nothing about there being any difficulty in getting loans. The difficulty was in getting customers for such a building. That is the reason it is not now being undertaken.

Mr. JONES. Well, as I said before, I am trying, if possible, to create something or find something.

Nothing in it can hurt. The only hurt in this is the hurt feelings of the Comptroller's Office and the Treasury. They do not like it.

Senator GLASS. Why do you think this Government would be denying commercial banks, for 50 years, the right to make loans on real estate? Didn't the commercial banks get on fairly well then?

Mr. JONES. I do not think it was a good law.

Senator GLASS. Well, I do; I think it was a good law. But I was persuaded to let them make loans for 5 years and then some fellow like you induced us to make an extension so that they could make them for 10 years; and now you want to make them for 15 years.

Mr. JONES. I should like to make it 15; and the only objection that the Federal Reserve has got and that Eccles has got—

Senator GLASS. I do not care anything about that.

Mr. JONES. He wants to make it 20 years, but he wants to rewrite the whole Federal Reserve Act.

Senator GLASS. I know he does. If he keeps on much longer, it ought to be rewritten; because they are ruining the system.

Senator WAGNER. He says, on that point:

The Board is not advised of any substantial reason for an immediate liberalization of the existing power of national banks to make real estate loans—

Mr. JONES. They have not waked up for 2 years, over there; they have been asleep and have nothing to do.

Senator WAGNER (reading):

and is opposed to the enactment of piece-meal banking legislation where no great or immediate urgency exists—

and so on. I am going to put the entire letter into the record:

TREASURY DEPARTMENT,  
Washington, May 10, 1940.

MY DEAR MR. CHAIRMAN: Further reference is made to your letter of May 8, 1940, requesting the views of the Treasury Department on S. 3938, a bill to authorize the purchase by the Reconstruction Finance Corporation of stock of Federal home-loan banks; to amend the Reconstruction Finance Corporation Act, as amended; and for other purposes.

Section 1 (1) of the bill would authorize the Reconstruction Finance Corporation, upon approval of the Federal Loan Administrator, to purchase at par any of the Stock of the Federal home-loan banks owned by the United States, and would authorize the Secretary of the Treasury to sell such stock to the Reconstruction Finance Corporation. The Secretary of the Treasury holds \$124,741,000 of the capital stock of the Federal home-loan banks and although existing law provides for the retirement of the stock held by the Secretary of the Treasury, there is no provision authorizing the transfer or sale of such stock. The Treasury does not have any objection to section 1 (1) of the bill.

Under existing law the Reconstruction Finance Corporation may, upon the request of the Secretary of the Treasury, made with the approval of the President, subscribe for preferred stock in banks or insurance companies, or make loans secured by such stock. Section 1 (2) of the bill would permit such purchases of preferred stock and such loans to be made upon the approval either of the Secretary of the Treasury or the Federal Loan Administrator. The reason for this change in the law is not apparent. The existing provisions of law in this respect were enacted in 1933 as part of the emergency banking legislation. The machinery established at that time for providing banks with needed additional capital funds has worked satisfactorily. The Treasury is aware of no compelling reason why the set-up should be changed at this time and recommends against the proposed change.

Under existing law the Reconstruction Finance Corporation may, with the approval of the Secretary of the Treasury, and under such rules and regulations as he may prescribe, sell on the open market the whole or any part of the preferred stock, capital notes, or debentures of any national bank, State bank, or trust company acquired by the Corporation. Section 1 (2) of the bill would change the existing law so as to permit the Reconstruction Finance Corporation to sell such securities with the approval of either the Federal Loan Administrator or the Secretary of the Treasury. The Reconstruction Finance Corporation now has the authority to make such sales on its own initiative provided at least 60 days' notice of any proposed sale is given to the issuer or maker. (See sec. 5 (c) of the Reconstruction Finance Corporation Act, as amended.)

While the Treasury has no particular objection to this change in the law if it is divorced from the other changes referred to above, nevertheless, it is subject to a general objection from the standpoint of the confusion that might arise when either one of two public officers can authorize action with respect to a particular subject.

Under existing law the total amount of loans, commitments, etc., by the Reconstruction Finance Corporation to railroads, or their receivers or trustees, may not exceed at any one time \$350,000,000 in addition to the loans and commitments made prior to January 31, 1935. Section 2 of the bill would raise this limitation to \$500,000,000.

The Reconstruction Finance Corporation may now make loans or advances or renewals or extensions of loans or advances and may permit loans or advances to run so as to mature not later than January 31, 1945. Section 2 would change this date to January 31, 1955.

From the standpoint of the Treasury there appears to be no objection to the changes proposed by section 2 of the bill.

Section 3 would amend the existing law under which national banks may make real-estate loans in an amount not to exceed 60 percent of the appraised value of the real estate offered as security and for a term not longer than 10 years, if the loan agreement provides for installment payments sufficient to amortize 40 percent of the principal within the 10 years, so as to authorize such loans to be made for a period of 15 years provided at least 60 percent of the principal is amortized within the 15 years.

National banks can now make "real-estate loans secured by first liens upon approved real estate, including improved farm land and improved business and residential properties" if the amount does not exceed "50 percent of the appraised value of the real estate offered as security" and for a term of not more than 5 years. Certain exceptions are made. For instance, the foregoing limitations and restrictions do not apply to real estate loans which are insured under the provisions of title II of the National Housing Act. Another exception is that a real-estate loan may be made "in an amount not to exceed 60 percent of the appraised value of the real estate offered as security and for a term not longer than 10 years if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which the installment payments are sufficient to amortize 40 percent or more of the principal of the loan within a period of not more than 10 years." It is the italicized 40 and 10 in the preceding sentence which would be changed by the bill. The 40 would be changed to 60 and the 10 to 15. Thus, national banks would be permitted to make real estate loans of longer maturity than at present, provided the higher amortization is included.

Prior to the enactment of the Federal Reserve Act, national banks could not make real-estate loans. Their power to do so has been progressively liberalized since that time, and there is a substantial body of opinion to the effect that it has been already too greatly liberalized. Accordingly, the Treasury recommends against section 3 of the bill.

The Secretary of the Treasury holds all the stock of the Reconstruction Finance Corporation, in the total amount of \$500,000,000. Section 4 of the bill would authorize the Corporation, with the approval of the Federal Loan Administrator, to make payments to the Secretary of the Treasury for the partial retirement of its capital stock at par, or in payment of dividends on such stock from the earnings of the Corporation. Since, under existing law, the aggregate amount of the notes, debentures, bonds, or other obligations of the Reconstruction Finance Corporation issued and outstanding is based upon the amount of the Corporation's subscribed capital, the bill provides that the aggregate amount of such obligations which the Corporation is authorized to issue and have outstanding shall not be decreased or affected by reason of the cancellation or retirement of any of the capital stock of the Corporation. From the standpoint of the Treasury there is no objection to this amendment.

Section 5 provides that the aggregate amount used by the Corporation to purchase stock of Federal home loan banks under section 1, or to retire the capital stock of the Corporation or pay dividends on such stock under section 5, may not exceed \$300,000,000, the aggregate amount to be determined by the Secretary of the Treasury. The Reconstruction Finance Corporation, with the approval of the Federal Loan Administrator, is to determine what portion of the aggregate amount determined by the Secretary of the Treasury shall be used for the purchase of stock of the Federal home loan banks, the retirement of the capital stock of the Reconstruction Finance Corporation, or the payment of dividends on the capital stock of the Corporation. The Treasury has no objection to this provision.

With the exception of the provisions to which objection is made above, the Treasury Department recommends enactment of S. 3938.

I have been advised by the Director of the Bureau of the Budget that there is no objection to the submission of this report to your committee, with the understanding that no commitment would thereby be made with respect to the relationship of the proposed legislation to the program of the President.

Very truly yours,

HERBERT E. GASTON,  
Acting Secretary of the Treasury.

Hon. ROBERT F. WAGNER,  
Chairman, Committee on Banking and Currency,  
United States Senate, Washington, D. C.

## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

HON. ROBERT F. WAGNER,  
Chairman, Banking and Currency Committee,  
United States Senate, Washington, D. C.

Washington, May 18, 1940.

DEAR SENATOR WAGNER: This is in response to your letter of May 8, 1940, requesting an expression of the Board's views with reference to S. 3938, a bill to authorize the purchase by the Reconstruction Finance Corporation of stock of Federal home-loan banks; to amend the Reconstruction Finance Corporation Act, as amended; and for other purposes.

The only section of this bill which directly affects the Federal Reserve System is section 3, which would amend section 24 of the Federal Reserve Act relating to the authority of national banks to make real estate loans. Section 3 would liberalize in some respects the power of national banks to make real estate loans but it would represent only a partial approach to the problem in a bill dealing primarily with unrelated subjects. It would not in any way affect the power of State member banks and other insured State banks to make such loans.

The Board is not advised of any substantial reason for an immediate liberalization of the existing power of national banks to make real estate loans and is opposed to the enactment of piecemeal banking legislation where no great or immediate urgency exists. The existing laws are unsatisfactory in many respects because they reflect the cumulative results of various attempts to meet competitive conditions and specific situations and emergencies. The Board would prefer that further detailed amendments to the banking laws be postponed until the problem can be given adequate consideration as part of a comprehensive review by Congress of the existing banking laws, such as that which your committee has been authorized to make pursuant to Senate Resolution No. 125.

Therefore, if S. 3938 is to be enacted, the Board would prefer that section 3 be omitted. If your committee is not disposed to omit section 3 from the bill, however, the Board hopes that the committee will give consideration to the following:

Section 24 of the Federal Reserve Act applies only to national banks and authorizes them to make real estate loans secured by first liens on improved real estate, including improved farm land and improved residential and business properties, subject to certain limitations and restrictions. It provides, among other things, that:

"The amount of any such loan hereafter made shall not exceed 50 per centum of the appraised value of the real estate offered as security and no such loan shall be made for a longer term than five years; except that (1) any such loan may be made in an amount not to exceed 60 per centum of the appraised value of the real estate offered as security and for a term not longer than ten years if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which the installment payments are sufficient to amortize 40 per centum or more of the principal of the loan within a period of not more than ten years, and (2) the foregoing limitations and restrictions shall not prevent the renewal or extension of loans heretofore made and shall not apply to real-estate loans which are insured under the provisions of Title II of the National Housing Act."

Section 3 of the bill would amend this provision so as to permit amortized loans to be made for terms not longer than 15 years, instead of 10 years, if the installment payments are sufficient to amortize 60 percent, instead of 40 percent, or more of the principal of the loan within such period.

The Board would favor a liberalization of the power of national banks to make real-estate loans on an amortization basis, provided that the law were also amended at the same time so as to do everything within the power of Congress to place all insured banks on an equal competitive basis with respect to such business.

The laws of the 48 States governing the making of real estate loans by State banks are far from uniform. Banks organized under the laws of some States are permitted to make real-estate loans on a much more liberal basis than national banks, whereas banks organized under the laws of other States are subject to more severe limitations than national banks. This places national banks at a competitive disadvantage in some States and State banks at a competitive disadvantage in other States.

Inasmuch as all State banks derive their corporate powers from the laws of the States in which they were organized, it is impossible for Congress to enlarge their corporate powers; but any enlargement of the powers of national banks has a

tendency to encourage the enactment of State legislation similarly enlarging the powers of State banks. On the other hand, since State banks can be members of the Federal Reserve System and can have their deposits insured only with the permission of Congress and by complying with such conditions as Congress may prescribe, it is possible for Congress to require them to conform to the same limitations and restrictions in exercising their corporate powers as Congress has prescribed for national banks.

In order to eliminate unjust discriminations between various classes of banks subject to the jurisdiction of Congress and to place all of them on an equal competitive basis with respect to making real-estate loans, in so far as it lies within the power of Congress, therefore, it is respectfully recommended that, if section 3 of the bill is enacted, it be coupled with a provision requiring all insured banks to comply with the same limitations and restrictions on the making of real-estate loans as are applicable to national banks.

Very truly yours,

(Signed) CHESTER MORRILL,  
Chester Morrill, Secretary.

Mr. JONES, Senator, when he comes to rewriting the Federal Reserve Act, then he is going to want these loans made for 20 years, and not 15. I know, because I talked to him.

Senator GLASS: Well, he is not going to rewrite the Federal Reserve Act any time soon.

Mr. JONES: That is why I want you to fix this amount.

Senator WAGNER: I will read to the committee that portion of the Secretary's letter which refers to this section:

Section 3 would amend the existing law under which national banks may make real-estate loans in an amount not to exceed 60 percent of the appraised value of the real estate offered as security and for a term not longer than 10 years, if the loan agreement provides for installment payments sufficient to amortize 40 percent of the principal within the 10 years, so as to authorize such loans to be made for a period of 15 years provided at least 60 percent of the principal is amortized within the 15 years.

I think that describes that accurately.

National banks can now make "real-estate loans secured by first liens upon improved real estate, including improved farm land and improved business and residential properties" if the amount does not exceed "50 percent of the appraised value of the real estate offered as security" and for a term of not more than 5 years. Certain exceptions are made. For instance, the foregoing limitations and restrictions do not apply to real-estate loans which are insured under the provisions of title II of the National Housing Act. Another exception is that a real-estate loan may be made "in an amount not to exceed 60 percent of the appraised value of the real estate offered as security and for a term not longer than 10 years if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which the installment payments are sufficient to amortize 40 percent or more of the principal of the loan within a period of not more than 10 years." It is the italicized "40" and "10" in the preceding sentence which would be changed by the bill. The "40" would be changed to "60" and the "10" to "15." Thus, national banks would be permitted to make real-estate loans of longer maturity than at present, provided the higher amortization is included.

Prior to the enactment of the Federal Reserve Act, national banks could not make real-estate loans. Their power to do so has been progressively liberalized since that time and there is a substantial body of opinion to the effect that it has been already too greatly liberalized. Accordingly, the Treasury recommends against section 3 of the bill.

That is their comment on that section.

Mr. JONES: He has had no complaint from anybody that it has been too greatly liberalized; I mean he has no complaint from any banker. Because if you consider the banker who would make one of these loans, if he won't make it, he won't make it. He does not need a law to tell him not to make it. If he would make it, he ought to be permitted to make it. He ought to be permitted to run his bank.

Senator FRAZIER. Why is it that the average commercial bank has been afraid to make real-estate loans or, at least has not made any real estate loans?

Mr. JONES. Real estate loans have always been cursed—improperly so, because it is the best security they can have if they make the loan properly.

Senator ADAMS. Another reason is that the deposits are payable on demand; and they want their funds in such shape that if the depositors come in, they can meet their demands. And you cannot cash real estate loans.

Mr. JONES. You can cash them better than Government bonds.

Senator ADAMS. Well, of course, it is a terrible thing to disagree with a man in your position.

Mr. JONES. Well, it is a fact.

Senator TOWNSEND. Give an illustration of that, please. That is rather startling.

Senator ADAMS. You see, you are from Houston, and I think you are judging the United States by Houston.

You see, we have not had Jesse Joneses in all our towns, and they are not prospering like Houston.

Mr. JONES. What did you want?

Senator TOWNSEND. I want an illustration of why real estate loans can be cashed in better than Government bonds.

Mr. JONES. If the occasion comes around where your banks are required to pay out their deposits to the depositors, they can only pay them by the Government's printing money to pay them with.

What are your deposits—50 billions?

Senator ADAMS. Roughly.

Mr. JONES. Suppose the depositors of 20 billions would come in and ask for their money: Where are you going to get it? It is going to be printed, and Congress is going to print it.

Senator GLASS. Yes, and we are on an irredeemable basis now.

Mr. JONES. I would a good deal rather have my money invested in the property over there [indicating].

Senator GLASS. Yes, and it is difficult to determine what the property is worth. You would have to go through a process of delay, and in the meantime the man who deposited the money would be gone out of the bank.

Mr. JONES. How are you going to determine how much money it is worth?

Senator GLASS. Well, I cannot determine that, and nobody can. But once we could.

Mr. JONES. Nobody can determine it now.

Senator TOWNSEND. I am frank to say I am encouraged by what you say; but I have been afraid, before, that it was not as liquid as Government bonds.

Senator GLASS. I have a piece of property I should like to sell, but I cannot get a taker for it.

Senator FRAZIER. I believe it was the bankers who said that they cannot make loans on real estate and on offices because the Comptroller's office and the examiners would not stand for it.

Mr. JONES. That is right. The Comptroller's office is too restrictive. That is why I say we would be better off without it.

Canada has no bank examiners; England has no bank examiners; France has none.

Senator FRAZIER. They seem to have a different system than we have, and perhaps they do not have the crooked bankers that we have.

Mr. JONES. Well, these banks are being run for profit, and they ought to be allowed to run them as they see fit.

Senator GLASS. You would advocate no restrictions?

Mr. JONES. I do not think there ought to be many.

Senator WAGNER. Will you discuss section 4 and section 5 now, Mr. Jones?

Senator TOWNSEND. Section 4 authorizes the R. F. C. to make payments to the Secretary of the Treasury for partial retirement of its capital stock or payment of dividends.

Senator WAGNER. I do not see any objection to that.

Mr. JONES. That is not controversial, is it?

Senator WAGNER. I should not think so.

Section 5?

Senator TOWNSEND. Why should you be required to purchase stock of the Federal home loan bank? Why should you be required to do that?

Mr. JONES. I tried to answer that for you awhile ago, and I stumbled around a good bit. I cannot do a very good job of answering that.

Senator TOWNSEND. Perhaps I did not understand it, then.

Senator ADAMS. It is just too plain, is it not?

Senator GLASS. Well, I confess to simplicity. It is the first time in the 40 years that I have been in Congress that I introduced a bill which I did not understand, but just because I had confidence in the man who gave it to me.

Mr. JONES. Thank you very much for that, Senator.

Senator FRAZIER. Are you going to vote for it now?

Senator GLASS. No; I am not going to vote for that real estate proposition.

Senator ADAMS. I have been embarrassed; because I understood that Senator Glass introduced the bill and I had confidence in it, but now my confidence is wabbling a little.

Senator HERRING. Mr. Jones, your thought is that if this is increased from 10 to 15 years, it would encourage people to build buildings, because they would know the deadline is not 10 years but is 15 years, and you would have only 40 percent left unpaid instead of 60 percent left unpaid, when it is due; and that would encourage people, because they would have a breathing spell?

Mr. JONES. That is right. If you are a prudent investor, you would be willing to let it come due in 15 years, but you would not be willing to let it come due in 10 years.

Senator HERRING. And then there would be only 40 percent left?

Mr. JONES. That is right.

Senator TOWNSEND. But the chairman has raised the point that there is no need for it.

Senator WAGNER. I have not heard any testimony of a need for it.

Senator HERRING. That may be the reason; the 10-year limit may be the reason, whereas a 15-year limit might encourage it.

Mr. JONES. Senator, I do not say it will put everybody to work, but it may put somebody to work.

Senator GLASS. Anybody who cannot pay his debt in 10 years has no business going in debt.

Mr. JONES. I think it would be a very helpful amendment to the bill.

Senator WAGNER. Does the committee want to go into executive session now? Is there anything further?

Senator ADAMS. Mr. Chairman, were you going to have any further discussion of section 5? I came late; perhaps that has already been covered. That is where you permit \$300,000,000 to go into the Treasury, so it will be available there to be spent by the Treasury and not on the indebtedness of the Federal Government.

Mr. JONES. I testified, Senator, that this was the R. F. C.'s method, with my cooperation and insistence, of giving to the Treasury \$350,000,000 and paying it back out of the capital of these lending agencies; and we can do this without impairing their solvency in any way.

Senator ADAMS. Your capital is represented by R. F. C. notes outstanding, is it not?

Mr. JONES. Yes, the capital stock of \$500,000,000 was appropriated by Congress in 1932.

Senator ADAMS. But you do not have anything that does not represent a borrowing from the Federal Treasury or a borrowing for which the Federal Treasury is responsible?

Mr. JONES. That is correct.

Senator ADAMS. So it is pure bookkeeping?

Mr. JONES. Just bookkeeping; except I said before you came, I think, that if this proposition had not come up, I was going to advise the R. F. C. to pay a substantial dividend back to the Treasury, out of our earnings this spring. Now we can. We have got a total gross earnings of \$285,000,000. I think at least \$150,000,000 or \$100,000,000 of it is perfectly sound.

Senator ADAMS. How much was charged off awhile back?

Mr. JONES. Nothing.

Senator ADAMS. Was an item charged off 2 years ago?

Mr. JONES. By Congress?

Senator ADAMS. Yes.

Mr. JONES. Yes; appropriations. But you appropriated the money; it was not our business. Congress appropriated R. F. C. money, when they should have appropriated directly from the Treasury.

Senator ADAMS. That is what we are doing here—asking you to put money back, so that we can appropriate without borrowing it ourselves.

Mr. JONES. That is right; we are putting some money back, that you can appropriate.

Senator TOWNSEND. Don't you think that since the question is bound to come of the increase of the debt in the form of 800 million or a billion, it ought to come up together and not piecemeal?

Mr. JONES. Senator, there is absolutely good reason for doing this, even if you are going to increase the debt to \$100,000,000,000.

Senator ADAMS. Mr. Jones, if you had more confidence in Jesse Jones than in Congress would you vote for this section 5?

Mr. JONES. I would vote for the bill. There is nothing wrong with it; there is no bad bookkeeping in it.

Senator ADAMS. I was saying that I have more confidence in Jesse Jones than I have in Congress.

Mr. JONES. Well, I haven't. I think Congress is all right.

Senator GLASS. Oh, good gracious alive. You don't think anything of the kind.

Senator HUGHES. I think I have a better opinion of it than a good many members of it have, themselves.

The CHAIRMAN. Congress is all right when they vote our way, and Congress is all wrong when they vote against our way.

Senator GLASS. Well, they always vote against my way.

Senator HERRING. We are going to vote with you on your bill here.

Senator GLASS. Well, I am not—not on that real-estate proposition.

Senator SMATHERS. I move we go into executive session.

Senator WAGNER (chairman of the subcommittee). Gentlemen, we shall go into executive session.

(Thereupon, at 12 o'clock noon, the subcommittee went into executive session, and the committee reporter was excused.)