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January 1, 1941

I called up Jerome Frank today, and asked him please to hurry up and get this Bethlehem crowd ready so that by Monday I would be able to tell the British that they were lined up. They gave Quinn the authority and their blessing, and it is up to him to line up the rest of the crowd.

Frank asked me whether I had done anything about Beardsall, the attorney who used to be with FDIC. I said he should keep his fingers crossed and look out for him. He is a great friend of Jesse Jones, and it probably was Jones who got him the job with the Bank of America.
January 1, 1940

From nine until ten o'clock Wednesday night, Bell and White were at the house with me discussing what we should do about the Ecotes' article.
THE

TRUSTEE SAVINGS BANK

GAZETTE

VOL. XI. No 1.

JANUARY, 1941

INTERIOR OF THE SAVINGS BANK OF GLASGOW'S NEW PREMISES AT HILLHEAD
NEW YEAR'S MESSAGE

It has been customary for the Chairman of the Association to address a New Year's message to the Trustee Savings Banks through the medium of the Gazette. This is, in a matter of fact, and we all recognize the sincere feeling with which these messages have been written.

Unfortunately, Sir George Rainy has been laid up for some weeks and is unable this year to write his own message. I feel sure that every one connected with the Trustee Savings Banks will sympathize with his speedy recovery, and wishes him as far as the circumstances of the time permit, a happy and prosperous year in 1941, and many to follow. We owe him heartfelt gratitude for his leadership and indefatigable work.

On behalf of the Trustee Savings Banks Association, of the Chairman, and in all humility on my own behalf, I send our best wishes to the Trustee Savings Banks for their prosperity, their protection, and all peaceful blessings in the year upon which we have entered. Further, I express the hope that we know in the Chairman's mind, namely his conscientious and loyal service and assistance which he received from the Banks and from our colleagues, to all of whom he would wish to tender his very grateful thanks.

When last year's New Year message was sent out to the Banks in the course of the greatest War Savings Campaign ever launched, and Sir George Rainy expressed the belief that the Banks would prove themselves worthy of the trust they hold in the national life. How well founded was this belief has been amply proved by their contribution in the war efforts last year, when they placed in the Government's hands a sum many times as great as that raised by them in the previous year and the last piece of work he executed. The Bank had just been completed when Mr. Sutherland died suddenly, and his passing will be a great loss to the Glasgow Savings Bank, for he had been for many years their skilled advisor and friend.

Falkirk

We reproduce below a photograph of the new premises of the Falkirk Savings Bank at Whitburn Road, Bathgate. After being in existence for twenty-three years as a separate concern, Bathgate Savings Bank amalgamated with Falkirk in 1937, and the total funds at amalgamation were £14,000. Since then the Bank has been open full time and the progress has been extraordinary, for the funds of the Bank amounted at the end of September last to no less than £195,000. The existing accommodation proved inadequate to cope with this expansion of business, and the Trustee decided to secure larger and more convenient premises. The new branch office was opened on October 17th, and no formal ceremony taking place owing to current circumstances.

Obituary

Mr. James Maxtone Graham

We record with deep regret the death, which occurred on October 20th last, of Mr. James Maxtone Graham, the Chairman of the Scottish Savings Committee. Mr. Maxtone Graham joined the Committee in 1924, succeeding the late Sir Alexander Wright as Chairman in 1911. Members of the Scottish Savings Committee in extending sincere condolences to Mr. Maxtone Graham and family in their great loss.

Dr. John Lamont

It is with deep regret that we record the death, which occurred on November 17th, of Dr. John Lamont, M.B., B.S. (Scot.), L.L.D., Chairman of the Bute Savings Bank, Rothesay.

WAR WEAPONS WEEKS

As it well known, War Weapons Weeks are being held throughout the country; up to the end of December no less than one hundred and twenty-two such "Weeks" had been celebrated, and there are many more to follow. However varied have been the results in the cities and towns in which
they have been held, the vacations are but degrees of success, for the response has, we understand, amazed even the most optimistic organizers among the National Savings Committee, to whom we tender our respectful congratulations upon the success of their efforts.

Trustee Savings Banks, too, have played their part, and it is gratifying to note how many have been prepared to set up locally for this special purpose, and have been in the forefront in making arrangements, participating in the publicity, the business accruing to the Bank, and the mobilization of war efforts.

We have pleasure in reproducing below the experiences of two of our Banks during their respective War Weapons Weeks. Viewed as they are from different standpoints, they give what must be typical examples of the ways in which the Trustee Savings Banks have responded to the further opportunity to share in the great work for the national cause.

Lincoln

During the past year special efforts have been made to stimulate National Savings on a large scale under the National Savings Week and War Weapons Week, and in order that Trustee Savings Banks retain their place as one of the principal fund agencies in the country and enjoy the full benefits of the National Savings Movement, it was felt that a special drive was necessary to make up for the fall-off in the purchase of savings for the purpose of the purchase of National Savings Certificates, for, despite the Daily Press advertisements issued by the National Savings Committee and local efforts, many people still think of National Savings only in terms of the National Savings Certificate. It was bearing these points in mind that I planned the campaign for "Lincoln War Weapons Week."

From the commencement I had the advantage of being on the local savings committee and the appropriate special War Weapons Committee, and to know exactly what form Lincoln's effort was to take. I also had the advantage of knowing and having the sympathies of several members of the committee and by exploiting this to the full, we were able to have a popular and enthusiastic Tank placed at our disposal for "War Weapons Week."

I intended the tank to be used as a sub-office of the Bank for the week and to have business actually transacted at the Tank Gun Turret. However, the latter idea had to be scrapped owing to the fact that the War Office evidently realized that the Tank embodied several new ideas, and consequently that it must be mounted by a twenty-four hour a day guard. We overcame this difficulty by hiring a large portable tent and having it alongside the tank.

The whole exhibit was arranged on a site near the main shopping street, and although it was quite apart from the displays arranged by the Lincoln War Weapons Committee, as this was so large that it could not be accommodated in the city centre. This was a great advantage to us.

To support and stimulate the appeal of the Bank, it was decided to create every hundredth hundredth new account opened at the Tank or Bank with 50p at the Bank's expense, and to present the purchaser of each thousandth National Savings Certificate with one National Savings Certificate free of cost. The public was acquainted with these arrangements by the insertion of paragraphs and small editorials in the local papers during the fortnight preceding Weapons Week and by advertisements during the week itself.

The War Weapons Week opened in excellent season, but despite this fact, the public were so aware of the Tank and its purpose that we actually did six times as much business there than was transacted at the official booth at the Weapons Exhibitions.

On the Wednesday of the Week I had been able to arrange for a battle-tank to be passed over by the city of Lincoln. The leader line consisted of the facilities of the Bank and the special attractions which we were making for new accounts, to which I have already referred.

This, to my mind, was the high spot of the week. The public simply surged in great masses to obtain the leaders as they fell and I must admit that, from my viewpoint on the Speaker's platform, I felt some anxiety at the safety of the crowd as they struggled to obtain them.

The days following the leader raid proved to be a nightmare to the staff. The Bank was practically disorganized owing to the rush of the public to conduct business through us, and, notwithstanding the fact that everyone worked until very late at night, it was quite impossible to complete the reviews of each day's business before the next day's work was before us.

It all proved well worth while, however, the total expenses for the whole week were about £1, and the expenditure resulted in our figures for the week being four times as great as the average weekly figure taken over the preceding ten weeks, which were in themselves well above the average. We also opened a very large number of new accounts and of these I have only found two which were obviously opened for the sole purpose of having a cry for a five pounds.

The black-out was hailed with relief on the closing Saturday by the exhausted staff; for it terminated our campaign, but it was with quiet satisfaction that one made only's way carefully homeward in the darkness for not only had the Bank played a prominent part in the Lincoln War Weapons Week but it had also fared extremely well in the process. What a week!

C. R. STILES,
Acting Arinumy Lincoln Savings Bank

Wolverhampton

When it was announced that War Weapons Week was to be held in the period November 16th to 23rd, it was realized that, with the year ending mid-week in the period, we could expect an unusually busy time.

We suffered a severe blow in the first week of November, when the senior assistant was called up. The staff remaining was the Acting Manager, one clerk, a junior of three weeks' experience, and a temporary assistant. No help being available from our Branches we had to carry on to the best of our ability.

The rush of business started immediately the doors opened on the Tuesday, and the pressure increased. From the time of opening each day the Bank was full of people and our accommodation, inadequate even for normal business, was turned to the utmost on occasions. It was impossible for more people to get in and the staff had to have it understood that the selling of certificates and dealing with deposits, must be postponed until after closing time.

To add to our difficulties throughout that week we had a period of early "alerts," and it was felt that the staff could not be kept on the premises to deal with the accumulated work. As a consequence work piled up and it was not possible to bring down the interest at the rates of the Annual Balance.

By the end of the week the rush was at its height and on the last Saturday morning, in the three hours to 6.30 to 9.30 p.m., we had 243 transactions of deposit or repayment plus 150 increased sales of Certificates, etc.

We opened 52 New Accounts and dealt with 1,527 transactions of deposit and repayment plus 1,272 Direct Transfer transactions. These figures do not give a true impression of the number of people dealt with, as it has to be realized that most of the Certificates sold were to individuals and groups for cash. Numerous enquiries had to be answered and normal business of cashiering cheques etc. carried on.

The efforts of that week were well worth while. Wolverhampton aimed at £1,000,000 and raised over £1,106,000, and our share in this was as follows:

- Cash Deposited: £80,663
- National Savings Certificates sold: £19,740
- Savings Stamps sold: £11,612
- Three per Cent. Defence Bonds: £4,017
- Two and a Half per Cent. National War Bonds: £5,000

Total for Week: £114,911

I have nothing but praise for the way in which my depleted staff worked and I should not like to face the prospect of another War Weapons Week in the immediate future.

ALBERT HARRISON,
Arinumy Wolverhampton Savings Bank

Appendix below is a list of forthcoming War Weapons Weeks which have been arranged in the places at which there are Trustee Savings Banks and branches.

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ASSOCIATION NOTES

Election of Officials for 1940-41

President
Sir Spencer J. Portal

Executive Committee
Sir George Rance (Chairman)
Major B. E. Fletcher (Deputy Chairman)
Mr. W. Louis Lawton (Hon. Treasurer)
Mr. J. R. Pindar (Hon. Secretary)
Mr. H. Sanders (North-East Area)
Mr. E. C. C. Evans (South-East Area)
Councillor W. F. Wing (Southern Area)
Mr. H. Oliver Horne (Scottish Area)
Mr. H. B. Robinson (Northern Ireland Area)

Clerk
Mr. E. M. Campbell (Edinburgh)
Mr. A. L. A. Donaldson (New) (Bank)
Mr. John Mack (South-East Area)
Mr. Kenneth Stewart (Manchester)
Mr. W. J. Scotty (Ayr)
Mr. T. H. H. Walker (Dundee)

Firm
Messrs. Thomas, Gough & Son, Chartered Accountants

Scottish Savings Committee

Lord Abinger, who has been appointed Chairman of the Scottish Savings Committee to fill the vacancy created by the death of Mr. Maitland Graham, has had a distinguished legal and business career. He is a former Lord Advocate for Scotland, and during the years 1910 to 1922 he was Secretary for Scotland.

Trustee Savings Banks Inspection Committee

The Trustee Savings Banks Inspection Committee have appointed Mr. R. C. Greig, C.A., a Trustee of the Glasgow Savings Bank, to be a member of the Committee in the place of the late Sir J. H. Henderson.

New Banks

Although details of the funds of the Banks in November last are not yet available, it appears likely that the combined funds of the New Banks will show an increase of approximately £20,000 over the previous year. Outstanding achievements include: Portsmouth, highest in total funds; Luton, highest increase for the year; Cardiff, exceeds the £20,000 mark in its third year. Congratulations!

Amalgamation

As from November 21st last the Luton Savings Bank is amalgamated with the London Savings Bank.

New Zealand—A Kindly Thought

The Association Office was cheered recently to receive the following letter from Mr. F. E. Sutherland, General Manager of the Auckland Savings Bank, New Zealand.

The gazette issued in October last reached us in the morning, and I am almost too excited to read the remarkable growth in deposits during the twelve months ended August 31st last. I think it is in instances where figures speak volumes, as regard to the Banks themselves and their depositors,

"It is difficult for those of us so far from the present theatres of war fully to appreciate how the Old Country is carrying on with the efforts and sacrifices of the men overseas. The bombing of non-combatants and the wanton destruction of the old landmarks are all too real, and yet amidst this turmoil, ordinary business practices and new high limits are being attained.

"These figures are further evidence of the confidence of the people in the standing of the Banks, and the financial stability of the country.

"The writer was in the last War and enjoyed numerous experiences in the hospitality of the people of both England and Scotland. The personnel of our own Bank has responded splendidly, and at the present time, to prevent the men feeling too much above the war age and have endeavored to enable men over the War age and have endeavored to enable men over the age of 60 to save, and to adapt themselves to using female assistance in positions that were never thought of prior to the War. The own savings are on the upward trend and the gale avails of the third year of War. The Trustee Savings Banks in New Zealand decided to cooperate with the New Zealand Government in a National Savings Scheme. This scheme has been inaugurated and extends the sale of War Bonds. Notes, life-insurance Accounts, and Savings Accounts are being opened and are available at interest at a rate of 3 per cent., but the premium is not returned until June 30th, 1941. The minimum bond is £2,500.

"These are immediately put over to the Treasury, and the Bank receives 3 per cent. on the premium.

"It was thus seen that the third year of work that the Trustee Savings Banks above is doing is without cost to the Government. I hope you do not mind my writing to you personally on this matter, but I felt that something more was needed for that just ordinary business contact.

"I do not know whether you are still producing the Yeat Book, but if so, I should be glad if copies thus far could be forwarded to me together with an application for it.

Page Six
January 1st, 1941

My dear Mr. Secretary,

As you have perhaps already heard, my Government are sending Air Chief Marshal Sir Hugh Dowding to this country to act as head of the British Air Commission at Washington on technical matters. According to our latest information he is expected to arrive very shortly after the New Year. As you know, Sir Hugh Dowding is one of the most distinguished officers of the Royal Air Force and was in charge of the Fighter Command during last summer's battles over Britain.

Believe me,

My dear Mr. Secretary,

Very sincerely yours,

[Signature]

The Honourable

Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.
Air Marshal Dowding Arrives For Plane-Production Talks

Sir Hugh to Confer With Morgenthau, Army, Navy Officials

Air Marshal Sir Hugh Dowding, former chief of Britain's sky defenses, arrived in Washington yesterday to confer with Treasury Secretary Morgenthau and officials of the Army and Navy on plans for integration of American plane production with England's supply needs.

Sir Hugh, the tall, thin World War pilot whose genius for organization and understanding of plane design is credited with developing Britain's valiant air defense, declined to see reporters until after his conference with Morgenthau.

He said as yet no appointment had been made for him to see the Treasury chief, but British Embassy sources said the conference probably would be held tomorrow. He is expected to spend about a week with officials of the British Purchasing Commission here and afterward to visit several American plane factories.

GEN. DOWDING

"On Tuesday at 3 p.m. after my visit with Morgenthau I expect to grant a kind of general interview and, perhaps, to answer some questions." Sir Hugh promised.
London, filed January 1, 1941.

1. On Tuesday, December 31, 29 planes of the Coastal Command were active and the Fighter Command engaged in minor activities only. The Bomber Command launched day attacks against airfields in Holland and France and against oil installations in Germany without a great deal of success. During the night before the British operated only nine patrols and engaged in no bombing activities because of unfavorable conditions.

2. During daylight hours of December 31, 22 German planes were plotted over Britain, practically none of them were fighters. During the preceding night no German planes of any sort were over Britain because of adverse weather.

3. Ten ships in a convoy from Sierra Leone arrived in Britain without mishap.

4. On December 31 a tanker of British registry was damaged by a mine off Liverpool.

5. A total of 314 individuals were seriously injured and 69 were killed in the recent raids on London. All of the fires started by these raids had been put out by December 31. Food warehouses and three munitions plants were damaged severely and there was some damage to dock facilities. The lack of high water pressure in the "city" was the most serious damage to utility services. Service is still not available in subway stations at six points, but services have now been resumed at three railroad
stations which were damaged. The central telegraph office has resumed service after having been knocked out temporarily, but as yet there are no telegraph connections with Southeastern and Southern England. Telephone communications between London and Southeastern England have not yet been resumed and one London exchange is entirely out of commission. Other types of communications are now in order.

6. On December 31, British bombers based in Malta attacked Torre Annunziata, a suburb of Naples. Attacks were also made on a chemical plant at Cotrone and against Palermo and Taranto.

LEE

Distribution:
- Military Aides to the President
- Secretary of War
- State Department
- Secretary of Treasury
- Asst. Secretary of War
- Chief of Staff - 2
- War Plans Division
- Office of Naval Intelligence
- AC - 2
- G-3, 1

CONFIDENTIAL
Secretary of State,
Washington.

1st January 1, 7 p.m.

Following his annual New Year's reception the President of Venezuela formally inaugurated the new Central Banks in the presence of high Government officials, the Diplomatic Corps and "representatives of all national activities". During the ceremony it was announced that a loan had been concluded with the National City Bank thus providing exchange which will make possible the immediate cancellation of foreign commitments already contracted and restore normal conditions of commercial interchange. I was informed by one of the directors that the loan is for $10,000,000.

CORRIGAN

TPV
CHINA'S NATIONAL CURRENCY AND NATIONAL UNITY

The reported opening of the long-heralded "Central Reserve Bank" in Nanking on 1st December has not only ushered in a new phase in the currency war between China and Japan, but has also brought added importance to the problem of China's war-time monetary policy. Like its counterpart, the "Federated Reserve Bank of North China", the new bank is obviously designed to obtain at China's expense foreign exchange to support a currency which is otherwise without any backing, and more significantly, to create out of the note-issues a weapon wherewith to consolidate the economic harvests of the military aggression. But unlike its counterpart in the North, it has never been such favoured by the Japanese military who feared, legitimately enough, that the new Bank may be availed of as a source of revenue to finance an "independent" army of the puppet Government, which Japan can never afford to tolerate.

Though in many respects the prospects of the new Bank are no brighter than its predecessor, the Hup Hsin Commercial Bank of Shanghai, its immediate and implied threats to the position of the national currency are no less obvious and the probability of its success would appear to depend not so much on what the puppet Government desires to do, as on the ability or inability to appreciate the bearings of monetary policy and currency control upon the larger national issues at stake and to examine the problem in the light of these broader considerations. The problem is admittedly as serious as the need for solution is urgent.

Proposed Exchange Certificate

One of such solutions, reported in the Chinese press to have received the serious consideration, if not the approval, of the authoritative quarters, is the proposed issue of the so-called "War-Time Exchange Certificates", into which only the national currency circulating in the unoccupied areas, will be made convertible at certain fixed rates. In its essence, it amounts to an artificial differentiation of the national currency according to the temporary political conditions obtaining in the areas in which they happen to circulate, and an arbitrary discrimination against those circulating in the occupied areas. In the ultimate analysis, however, it amounts to an abandonment of the national currency in the occupied areas and with it, a complete abandonment of the national currency policy.

Sino-Japanese Currency War

Obviously, such an approach to the currency problem not only fails to understand the basic political significance of a unified currency, but also overlooks completely the political implications of China's war-time monetary policy and the grave repercussions, once that policy is lightly discarded. It must be recognized at the outset that the unified national currency system, introduced in November 1935, is at once the symbol and the instrument of national political unity. It is by concerted choice, not by pure chance, that the national currency came to possess such an immense and invisible power. The unique and unified national currency occupies a position which is in influence as unrivalled as it is historically unprecedented. It is not therefore a mere coincidence that the reformed currency has been known as the national currency,
Case there is in effect the larger national as contrasted with the pure currency aspect of the problem.

In whatever form or disguise, the Japanese currency maneuvers in China have been

interestedly directed towards destroying the integrity and uniformity of the national currency as an instrument of political and economic control, in order to capture the last weapon they need to complete their military conquest of a large and rich part of China. It is to the credit of the policy of persistently maintaining under extremely difficult conditions the integrity of the national currency, that the Japanese have been prevented from reaping as great economic benefits as their initial military success would superficially appear to suggest. The so-called occupied areas are controlled by the Japanese only at certain well garrisoned points and lines of communications. In these areas the unshakeable faith in the national currency has been responsible for the continued loyalty and allegiance to the National Government and for the continued maintenance and activities of the guerrilla forces.

Indeed, the Japanese have cancelled, for example, the use of the "Federal Reserve notes" in connection with the import and export trade of North China, but that role remains in the last analysis to be financed through the national currency. Because the national currency remains the only acceptable circulating medium to the peasants, as exporters who receive the "F.R.E." notes from the importers for their link transactions have to sell the "F.R.E." notes to obtain the national currency, while the importers who receive the national currency have to sell it for the "F.R.E." notes to the exporters with whom their transactions are linked. The continued practice of quoting foreign exchange in Peihsia in terms of the national currency, the 20 percent premium in case of foreign exchange of the national currency in Peihsia as compared with Shanghai, of its large volume of the national currency still circulating in the North, estimated at 300,000,000, notwithstanding legal prohibitions and severe punishments to the contrary, all speak of the unshakeable confidence in the national currency.

Future consequences

To introduce the "War-Time Exchange Certificate", or for that matter any other kind of new currency in the unoccupied areas alone would at once destroy the unique position of the national currency, thereby impairing its effectiveness as an instrument of political and economic control, which Japan has repeatedly attempted to do in vain. More dangerous, it is tantamount to a complete abandonment of the people in the occupied areas and tends to encourage political regionalism. The temporary loss of territories would appear to sink into comparative inconsequence when compared with the loss of support and allegiance of the people. Psychologically, the shock to confidence, which any sudden unexpected change in the traditional policy is bound to entail, would inevitably lead to a scramble for foreign exchange and a competitive hoarding of whatever commodities that can be had, leading to a runaway inflation and social unrest, with consequences no less serious than political non-allegiance.

What is more, under the present international alignment, the course to the ultimate victory would appear to be an active guerrilla warfare, and an intensified economic warfare, in combination with a large-scale military counter-offensive. But neither the guerrilla warfare nor the economic warfare would be possible without maintaining the integrity and continuity of the national currency, which as we have seen is at once the guarantee of the unalloyed loyalty to the National Government and the mainspring of
guerilla activities and economic non-cooperation in the occupied areas. It is the
more imperative to preserve a weapon that has more than proven its effect.

China's war-time currency is no longer a pure and simple monetary problem. It is
definitely a much larger problem involving much wider issues and more far-reaching con-
sequences than was generally recognised. To study the currency question, it is essential
to examine it in the light of past experience and accomplishments from a much wider angle
of the possible political stakes and political consequences involved. Anything short
of such broad considerations is certain to miss the issue and the essence of the looming
currency war.
Notes on Conference at the Home of the Secretary, 6 P.M., January 1, 1941

Those present, Secretary Morgenthau, Dr. T. V. Soong, General Now, Colonel Chennault, and Philip Young.

Secretary Morgenthau opened the conference by stating that it looked very doubtful if any of the long range heavy bombers could be made available to the Chinese. He added that, although the idea had the backing of the President, the Army felt that it just couldn't release any of those ships at the present time. The Secretary said, however, that there was a good possibility of getting some P-40 pursuit ships, and he inquired from Dr. Soong as to how many ships they would have to have in order to start operations. Dr. Soong and General Now carried on quite a conversation discussing the various uses and tactical maneuvers for which the P-40 would be used and then decided that probably twenty-seven ships would be required.

The idea of using these P-40's was to protect the Burma Road from Japanese raids, and twenty-seven ships would mean three squadrons of nine each. Both General Now and Colonel Chennault felt that that number of ships would be required before any could be put into the air. The general theory was that two squadrons totaling eighteen ships would operate at a relatively low level while one squadron of nine ships would operate at a high level to protect the lower ships from attack.

The Secretary inquired as to whether that number would include spares, and General Now replied that it would not. It was General Now's feeling that there should be nine more bringing the total up to thirty-six if spares were to be included. The Secretary explained that these ships would have to come from British deliveries, that the situation was a very complicated one because, in order to get the British to release the planes, arrangements would have to be made for doing more for the British at a later date. Dr. Soong said he realized the complications involved and greatly appreciated the efforts of the Secretary and the President in attempting to work out something.

The Secretary went on to say that it would probably be possible to get a few ships at a time after the initial batch so that the number would probably be increased up to about one hundred over
the next three months. The Secretary inquired as to the number of spare engines which would be necessary and asked the Chinese as to whether they wanted to purchase all of the 150 so-called "rejects" from Allison. General Now said he thought ten or twelve engines would be sufficient for spares, but the Secretary said it seemed to him the Chinese should have an allowance of at least fifty per cent for spares. Colonel Chennault agreed with the Secretary that fifty per cent was the proper proportion.

The Secretary asked Philip Young to tell the Chinese about the guns. It seemed that there were 122 machine guns suitable for aircraft and of an odd calibre already manufactured and available at the Colt plant. These guns had been made by Colt on a rumor that the Chinese or some similar nation would like to buy them, and as no order had ever materialized the guns were still on the shelves. Preliminary investigation had shown that these guns could be used in the P-40, and that they could be sold to the Chinese who presumably had ammunition for that particular calibre.

In this way, it was pointed out that the British could be asked to release less guns than they would have to otherwise, and at the same time it would be helpful to the Chinese who, according to Colonel Chennault, were in a position to supply the ammunition. After conferring with Colonel Chennault and General Now, Dr. Soong said that, of course, they would be delighted to buy the guns.

After some general discussion which brought out no new facts, it was agreed that the Secretary would talk with the interested Government Departments and with the British in an effort to see if the latter would release the P-40's for the Chinese. The understanding was that the planes would be released with guns, except for the 122 guns at Colt, and with a reasonable amount of .50 calibre ammunition. The definite statement was made at this conference that the Chinese had or could supply .30 calibre ammunition for the wing guns so that the British would not have to part with that.

The Secretary in closing the conference promised Dr. Soong that he would get in touch with him as soon as he had any information to report as to the attitude of the British.
RE ECCLES' ANNOUNCEMENT OF FEDERAL RESERVE BOARD'S REPORT

Present:  Mr. Gaston
          Mr. Bell
          Mr. Haas
          Mr. White
          Mr. Kuhn
          Mrs. Klotz

H.M.Jr: Have you had a chance to read this?
Kuhn: The Eccles thing?
H.M.Jr: Yes.
Kuhn: Yes.

H.M.Jr: Have you read it all?
Kuhn: Yes. That is, I read what is in the Times this morning.

H.M.Jr: No Times has come yet.
Kuhn: I also read that Krock was all sweetness and light this morning on the Treasury.

H.M.Jr: On what?
Kuhn: Did you see that?

H.M.Jr: I can't get a copy of the New York Times.

Kuhn: He said it is widely assumed that this means a battle between the Treasury and the Federal Reserve, but, as a matter of fact, there is reason
to believe that the Treasury is going along with Mr. Eccles as Mr. Morgenthau himself has expressed similar opinions, and that the whole thing was done very politely and sweetly, that Mr. Eccles had seen Mr. Morgenthau before his report, and this is politically very bold but very good.

White: Sweetness and light with a sting, with a purpose.

H.M.Jr: Why?

White: Well, I mean his sweetness and light consists in saying that the Treasury is going along with them in this.

(Mr. Haas entered conference)

H.M.Jr: You don't understand, Harry. Ask him afterward, and don't worry. Harry is always - says what he thinks. He thinks it is a trap, that is what he means. He thinks it is a trap.

Kuhn: It was in a sense of pressure to get the Eccles thing pushed through.

White: It would be hard now for the Secretary to disagree with that.

Haas: There is a drop in excess reserves. Then over here, you remember the long debate where we decided to do it in two bites but announced it all at once? (Exhibiting chart to Secretary)

H.M.Jr: Yes.

Haas: That is there.

H.M.Jr: It is not much ahead.

Haas: Not much ahead of that one.
H.M.Jr: Isn't this the one?
Haas: Yes, but that has no effect, the excess reserves.
H.M.Jr: It is the same.
Haas: Right there on that one.
H.M.Jr: I mean the net cash deficit did start.
Haas: That started about the first time, the first one. The first one had no effect. The bond market reached a new high. Then they started really tipping it up, you see. They took it in two bites. Then they announced both bites at the same time. So the effect of it all came at once.
H.M.Jr: Do you think this is safe, Harry? I mean, you see, the first time--
Haas: That is that same story. You helped write it.
H.M.Jr: Here is the first announcement, and, of course, there is where the cash deficit went off. Here is where they began to really reduce this thing.
White: I shouldn't draw on those charts to support your position, Mr. Secretary. It seems to me it is a general position you take. Because the minute they begin arguing about--
H.M.Jr: Am I safe to say that the last time they had this thing, it took 18 months to get the bond market straightened around?
White: I would be a little reluctant to make that statement.
Haas: The bond market took it up to there. That is right. To get up there again it took it over 18 months.
White: But I think your strongest position--

H.M.Jr: To give you a little of the background, I am seeing the President at 9:30. I want to hit this thing, and hit it just as hard as I can, but I am not going to do it unless I have got a hundred percent backing of the President, you see. We had this meeting, this dress rehearsal last night.

(Mr. Gaston entered the conference.)

White: Do you want any figures in your mind?

H.M.Jr: Yes.

White: Do you (Gaston)--

H.M.Jr: No, he hasn't had a chance.

Haas: Go ahead, Harry.

White: Do you want to ask me or do you want a table?

H.M.Jr: Go ahead.

White: You would like to know what is the percentage of reserve which is required now.

H.M.Jr: I didn't ask George that.

White: The maximum which they can do now is 26 percent on the two cities, New York and Chicago, 20 on the Reserve cities, and 14 in the country banks, and they have got it about a sixth or a seventh under that, that is, 22 and three-quarters, 17 and a half, and 12.

H.M.Jr: What does that amount to?

White: In terms of amounts, what it is is the total reserves - required reserves are seven billion,
seven point one, a little more than that.

H.M. Jr:

If they want the whole--

White:

If they want the whole hog, the total reserves would be five point seven. In other words, they would reduce it about a billion dollars. They would increase the reserve requirements by about a billion if they went the whole hog without any new legislation.

H.M. Jr:

That is the only figure I want. Now, wait a minute, that isn't right. The statement, as I remember it, is this: If they can increase them another billion they have the power. That is number one.

(Mrs. Klotz entered the conference.)

H.M. Jr:

Number 2, where this statement is a trick is that if Congress took this thing at its face value, it would automatically raise it a billion--

White:

That is right.

H.M. Jr:

... and freeze it at that point.

White:

On the lower limit. It would freeze the floor and raise the ceiling--

H.M. Jr:

By another seven million.

White:

Raise the ceiling from the present ceiling of eight billion two required reserves to 16 billion five. In other words, it would take--

H.M. Jr:

Where do you get your 32? I thought you had six now.

White:

Six is what the excess is, that is, what is left. I am taking how much--
H.M.Jr: Now wait a minute, how much is locked up now?

White: There is now required seven billion one.

H.M.Jr: Seven billion one? And how much are they?

White: There is 14 billion total reserves.

H.M.Jr: Yes, but we haven't got locked up 17 billion one, have we?

White: Seven billion one.

H.M.Jr: Then if they raise it, they raise it to eight.

White: If they raise it, they will raise it to eight point two.

H.M.Jr: Oh, because you fellows were talking six last night.

Bell: Yes, I thought it was six. I was thinking of 13 billion. You say the reserves are 14 billion now?

White: The present reserves that are held are 14 billion, and there is required against that seven point one.

H.M.Jr: What is the situation now? What is the technical description of the situation?

White: The situation now is that the reserve requirements are seven point one billion. They have to keep those in reserve.

H.M.Jr: Today, and they could raise them about another billion.

White: And they could raise it about another billion.
H.M.Jr: Interrupt, George, if you want to.
Haas: That is all right.
H.M.Jr: They could go to eight.
White: They could go to eight.
H.M.Jr: And leave another six.
White: If they went to eight point two, they would leave a little less than six.
H.M.Jr: And this authority they are asking gives them additional authority to lock up another eight?
White: Another eight which doesn't exist so that there would be two and a half billion shy.
H.M.Jr: That is different than last night's figures.
Bell: And the eight billion would be frozen.
H.M.Jr: I understand.
Bell: Under this proposal...
White: Yes. You asked how much total deposits there were. About 40 billion demand deposits in the member banks. That does not include non-member banks.
H.M.Jr: Dan, will you read this for me? This was the first - are you through, Harry?
White: Yes, unless you want some other figures.
H.M.Jr: This was the first memorandum of the Federal Reserve that the same crowd gave me on December 3; and, if my memory serves me right, and I want you to read this thing, what they recommended at that time was - I had better take it with me. I want
to show what - it was a long-term bond that they recommended at that time.

Bell: You mean on the financing?

E.K. Jr: Yes.

Bell: Yes, they recommended that you sell a bond that would appeal to the private investor, but Eccles has put a memorandum on there for consideration in favor of the short term.

E.K. Jr: A long bond should be issued at this time, they say. He says here, "Due to the large volume of excess reserves of bank deposits, it is possible that inflationary tendencies will develop sometime in the future. There will be other uncertainties regarding the banking situation. Unless these questions are settled the market can't be expected to take a long-time bond."

The point I am thinking about is this. This is what I am proposing to say. Here on December 3 they come in and recommend a long-term bond, knowing that they are going to come along and do the other thing, see, and if we had done that, followed their advice, what would the purchasers of these bonds say to us two weeks later?

Bell: In view of this recommendation--

E.K. Jr: Yes.

White: They recommend a long-term bond, realising at the same time that interest rates will rise and knowing at the same time that they are going to recommend measures which will tend to rise, both of which the bond prices will fall, so if they expect bond prices to fall, why should they recommend a long-term bond? If they don't expect interest rates to rise, why are they worrying about
the prices of bonds?

H.M.Jr: I mean it is definitely insincere and bad advice.

White: I have one bit of information that might come up. There is a lot of talk about how the falling bond prices are going to ruin institutions. I had one of the boys look it up. One percent of the assets of endowed institutions consists of governments.

H.M.Jr: Now, I have got five minutes. Dan, on sleeping over this, what is your advice?

Bell: Well, I still feel that we should say as little as possible on it. I still feel that we should say that it is being studied and that--

H.M.Jr: That is your advice?

Bell: Yes.

H.M.Jr: Are you through, or did you just drop your voice?

Bell: I am through.

H.M.Jr: All right. Herbert?

Bell: But I have no other thoughts.

H.M.Jr: Have you got another thought?

Bell: No.

H.M.Jr: Herbert?

Gaston: It goes back to Eccles having submitted this to you. The fact that he did submit it to you, which was quite proper, didn't imply your approval. You didn't give your approval.

H.M.Jr: I very, very carefully said that I felt free to
say anything - I would only accept it on the
basis - I was free to say anything I wanted.

Gaston: Yes. Now, as to this thing, it has to be very
carefully studied. Certainly you are not going
to assent to anything that will force an arti-
ificially higher level of interest rates which you
do not believe to be justified.

H.M.Jr: When I come back on my table, Mrs. Klotz, have
that part underlined where he talks about
"together we stand or divided we fall." It is
right in the last page of the statement, you
see, right at the end. The point that I have
in mind is--

White: There are two ways of ending the division.

H.M.Jr: Yes. I have told this to Eccles, there can only
be one Secretary of the Treasury in two.

White: Aren't you thinking of raising that with the
President?

H.M.Jr: No. That gets it on a personal basis. This is
an attack on him, this isn't an attack on me.
This is always after the horse is gone. When
I read all of this stuff, I think I should have
put up a tougher fight on the whole question.

White: In the expectation that he would have changed
his mind?

H.M.Jr: No. Well, I might have.

White: Well, he claimed he was speaking for 30 men,
and he wouldn't change his mind.

Klotz: He wouldn't change his mind.

H.M.Jr: Well, he is in the position he can say that I put
Bell: Well, that is a good statement, Mr. Secretary, but about 90 percent of it should have come from the President rather than Eccles. That is the trouble, I think.

H.M. Jr: Kuhn, would you, when I leave here, go with White and soak up as much as you can in the next half hour, please? He will give you how my mind is running, what I am thinking of, see. You know, Herbert, because I told you over the telephone.

Gaston: Yes, I have the impression it goes a little too far at this stage of the proceedings.

H.M. Jr: My feeling is this, I mean - always depending upon what the - if the President says hit it and hit it hard, then I think the thing to do is to - I have two chances. I have this morning or Monday, and I think if I wait until Monday, then everything is going to Jell and there will be other articles like Krock’s and so forth and so on, and if I am going to hit it, do I hit it this morning or do I hit it Monday? Do you want to give a curbstone opinion?

Kuhn: You should do it this morning.

H.M. Jr: If I am going to do it?

Kuhn: Yes, because tomorrow morning editorials and columns will be out.

H.M. Jr: All right, I will let you know when I come back. I am going to go over to the White House.

Gaston: Yes.
In The Nation

JAN. 2, 1941.

The Federal Reserve Board and the Treasury

By ARTHUR KROCK

WASHINGTON, Jan. 1.—The anti-inflation recommendations of the Federal Reserve Board to Congress today came as suddenly, and politically seemed so bold, that the immediate and general expectation was of a bitter battle over the proposals between the board and the Treasury. This was prophesied in several places. Yet there are good reasons to expect the contrary unless the President himself instructs the Treasury to oppose the board’s report.

Among the reasons are these:

The Eccles recommendations include a repeal of the Treasury’s power to issue silver certificates against the reissue of silver, and currency against purchases of foreign silver; also that the stabilization fund be used to hold down the mounting excess reserves which, by their very existence, are inflationary in themselves. But Secretary Morgenthau has never seemed personally to like the silver program; and some who have discussed the excess reserves with him are sure he acknowledges that these cannot be held down or absorbed without some extra tools.

The Federal Reserve Board proposes that the President’s authority further to devalue the dollar be extended under the Thomas amendment to issue $2 billions in greenbacks be withdrawn. When the devaluation clause came up for extension last year, and strong opposition to this showed in Congress, the administration had to yield. Right to retain the power which was narrowly raised prices and increase the national income. But it is said that no disposition on the Treasury’s part to oppose again was raised and for other reasons, the national

The Eccles Theory

In supporting the new proposals Mr. Eccles has been faithful to a monetary policy once recommended as an anti-inflation program. The Treasury’s head ceased to be an ex-officio member of the board and there were often both more conservative economic theories to have any responsibility for its mists and its financiers. It was consistent in views. Nevertheless, he has to advocate spending, increased government deficits and executive inflationary powers in one period, and it is consistent in his theory to take an opposite position now. For Mr. Eccles is generally a believer in the Keynesian idea. This is that governments should spend their way out of depressions and keep taxes light, but that when national income rises governments should move toward a pay-as-you-go tax system and put sharp checks on inflationary influences. His basic philosophy has thus compelled him to refer at one time to a huge national debt as a “bleeding” and at another time to propose measures to cut down that debt.

The President has always seemed to be impressed with Mr. Eccles’ theory and practice, though the administration has occasionally intervened to prevent the accomplishment of some of his ideas. The fact that no bank in the Federal Reserve chairman’s chain ever failed is cited frequently by the President as one reason why he thinks Mr. Eccles must be a pretty good financier.
January 2, 1941
10:56 a.m.

RE ECCLES' ANNOUNCEMENT OF FEDERAL RESERVE BOARD'S REPORT

Present:

Mr. Foley
Mr. Sullivan
Mr. Haas
Mr. Gaston
Mr. Bell
Mr. White
Mr. Kuhn
Mrs. Klotz

H.M. Jr:
The President's first reaction was that this thing was under study. He said he didn't want to get into a fight, that it was too unimportant. He said, "After all, what is the Federal Reserve Board anyway." He was under the impression that he could control this thing through the Senate Banking and Currency, and I disillusioned him as to that. I said they would like this. He said, "What about Wagner?" and I said, "Wagner will like this." Then he said, "What about Steagall?" and I said, "You can't count on Steagall." He pointed out something which I hadn't thought of before, that it was up to his administrative assistant, who is a monetary expert, to have brought this matter to his attention. He said, "Why didn't he?" I said, "I can't tell you." I know we gave him a copy. It is a very good point, too.

Bell:
That is what the papers are contending, that they are assuming it had the approval of the President because Currie was here. I think that is a little unfortunate.
Well, after all, being absolutely down Currie's line, I had a perfect right to bring him in and consult with him and get his ideas.

Yes, I think you had too.

But, after all, if Currie knows anything, if his training is good for anything, this is his field, but the President raised the point, why didn't he bring it to him. I said, "Well, I didn't know." Do you know?

Well, I knew the President would raise that point.

Well, it never occurred to me.

There are certain difficulties. The thing was told to him in confidence.

By me?

Oh, no.

It wasn't told to him by me. I furnished him a copy of it.

I see. From that point of view--

Didn't I furnish him with a copy of it?

Not to my knowledge.

Didn't you let him see a copy?

No.

Oh, yes.

I didn't have to because he had seen a copy, but he didn't see it from me.

You (Klotz) just look up our records. I gave you
(White) a copy.

White: Oh, yes. You didn't say that I couldn't show it to him but that wasn't in the picture because he had already seen it, but he had seen it in confidence.

Klotz: That is what I did. You said to show the copy to Mr. White and to tell Mr. White that you wouldn't - you told Mr. Eccles you wouldn't do anything until you consulted with Mr. Currie and Mr. White.

White: But I wouldn't have hesitated to have shown him a copy in the light of that statement had I not learned that he had seen a copy. But he didn't get it from me.

H.M. Jr: But my record is perfectly clear. I consulted Currie at least on two occasions. Well, anyway, the President wants our analysis of what this means and its implications for his own confidential use. If you boys will have it ready Monday, I will go over it with you. Now, I would like White and Haas to collaborate on it and show it to everybody here before I see it on Monday, and sometime Monday we will go over it together. Now, I tried my best to get the President to let me come out with a - I said that the thing would jell and the press would like it, Banking and Currency of the Senate is going to like it, you can't rely on Steagall. I pointed this out to him. His first reaction was, well, all of these things which he did were when we were at the bottom and he might have needed them to get the country going, but he says, "Now there is no depression in sight." So I said, "Well, how about if England went under tomorrow." Of course, he hadn't thought of that. And I had ample opportunity - I took an hour to tell him about - I think this is a fight of the money owners against the money borrowers and that the only thing that Aldridge evidently wasn't successful in putting over was free coinage of gold,
that I thought he had kicked the money changers out in 1933 but they are back knocking on the door again. So I had ample chance and I had time to explain to him what the locking up of this money, the seven or eight, meant. I told him I had no objection, that if the Federal Reserve wanted the authority to handle excess reserves - but I said I did strenuously object to freezing it at the lower level, automatically raising it another billion, and I said the chances were one in three that the bond market would go down, go down very sharply, but I said if they simply wanted the power to increase, if and when it is necessary, leaving it flexible, that I had no objection to that.

Bell: That is right.

H.M. Jr: And I haven't now.

Bell: And the increase might not do any harm, a billion dollars at this time; but, nevertheless, locking it there might do some harm at a time when you would want to unlock it and couldn't.

H.M. Jr: Well, I explained to him, and the more I talked the more he seemed to get it, that suppose England went under. He said, "If all the banks in the English banking system were under control of the Germans, what would we need?" The man hadn't thought about the thing, you see, about having his hands untied. I said, "Do you think you can go back to Congress again and get the right to devalue the dollar?" I said, "Wouldn't that be a terrific fight?" He said, "You bet your life it would." I said, "You have demonstrated to the country over eight years that you can be trusted to these powers and not abuse them, so why take them away from you." I said, "You have demonstrated for eight years you can handle this power." I said, "You put me in the Treasury so that you could be free, and you have
been free from that day to this. Well, what he feels is this, you see. This comes so sudden. He said he wants to put it on the table and keep walking around it and taking a look at it. If Arthur Krock wants to make a hero out of me and - I carried the torch on the Hill and got the President's power renewed twice or three times.

Hill:

Twice.

White:

That was an inspired story by Krock.

Hill Jr.:

He got that from Elliott Thurston. He is his pal and the stories are being made about the conservative Secretary of the Treasury, and so forth and so on. It is all right with me, but I told the President on the question of public reaction; timing, he is a past master and I wouldn't argue with him, that if he wanted to withhold saying something at this time, that is all right with me.

Easton:

That reserve requirement thing can be fixed up very simply, giving them complete power over reserves with the approval of the President.

Hill Jr.:

Hell, you see his attitude is this, "Henry, this is so unimportant, the Federal Reserve system is so unimportant, nobody believes anything that Harrimer Eccles says or pays any attention to him." He said, "The important thing is the war. England, that is the important thing." He said, "Don't give the newspapers the satisfaction of getting into a row with him. Don't give them that satisfaction. If you talk, you will give them another headline tomorrow," and on the question of public reaction, I can't hear a better public relations counsel than Mr. Roosevelt, and I am willing to take his advice.

White:

What happened at the press conference?
H.M.Jr: I simply said three words, "No comment on the matter."

Klotz: No, "The matter is under study."

H.M.Jr: You have got the press conference?

Reporter: It is in the office.

H.M.Jr: Are the girls doing it?

Reporter: Yes.

Klotz: "The matter is under study."

Bell: And there were no questions after that?

H.M.Jr: Oh, plenty of questions, but I said it would just make the matter easier for discussion. Are we going ahead with our study with Mr. Wagner? Yes. Is it finished? No.

Bell: The bond market went off half a point in the first 45 minutes. It is churning around a little. Well, we had a nice statement all fixed up for you to make at the press conference.

H.M.Jr: Had you? Let's see it.

(Mr. Kuhn handed statement to the Secretary)

White: Well, it was only to be made orally. If you were going to give it as a release, it would be improved.

H.M.Jr: "Chairman Eccles showed me the special report of the Federal Reserve Board on monetary and reserve matters before making it public. This was a courtesy that I appreciated.

"I was not asked to give my approval to it and it was clearly understood that I reserved my
opinion as to the merits of the various proposals made by the Board of Governors.

"I have very serious doubts as to the wisdom of some of the Board's recommendations. I certainly don't think this is a time to lock up financial resources any more than it is a time to lock up any physical resources that we shall need in our defense effort; nor is it a time to increase the cost to the government and the people of making full use of any resources.

"In so far as this report draws public attention to the danger of inflation in our defense effort, I am glad that it has been made. You will remember that I mentioned it to you weeks ago, and said that it was one of my chief concerns. I have been having constant discussions about it with Leon Henderson, and both of us are determined to nail any sign of rising spiral, and to nail it hard, as soon as it appears. Specifically, what I have in mind is the sudden rise in one or two commodities that are essential to the defense effort. There has been no all-round rise; we are seeing to it that there shall be none. We are not going to let prices run away or even begin to run away. Where they show signs of doing so, we are determined to stop the process at the very beginning.

"That to my mind is the first and best way to guard the people of this country against inflation. The first and best way, in other words, is not to let it start. That is another reason why I have doubts, serious doubts, about the recommendations in Mr. Eccles' report. Moreover, a rise in interest rates at the present time would tend to push prices up at the very moment when we want to keep them down. It would hamper the defense effort and create the very evils which the Treasury and the Defense Commission are working to avoid. This is not the time for tinkering
with money rates. It is the time for a resolute job on the prices of physical things. That is the job the Administration is now doing."

(Mr. Foley and Mr. Sullivan entered conference)

It is a very nice statement. Now, just so there can be no misunderstanding as to the Treasury helping any columnists or anybody else, let me tell you a little story that happened at my house last night between six and seven. I mean it just happened to come to my mind at this moment. I had General Mow and Mr. T. V. Soong and General Chennault there, and we were talking about the planes and so forth and so on, and then I got on to a matter which is very confidential. Having no ulterior motive in mind, any more than I have now, I simply said, "As you know, Mr. Soong, if what I am saying to you now ever appears in the paper or you ever say you talked to me about it, I will just say I never saw you." I repeated it three times, and he got it. So then he looked at me and he said, "Well, Mr. Secretary, I want to tell you that I can't tell you how disturbed I was when that story appeared in the paper about the Chinese planes and what they needed," and he said, "General Mow talked to a newspaper man and after I saw it, I sent for General Mow and I said, 'General, you are a military man. You go back to China for court martial,'" and he said, "You know in war times what that means." And he said, "General Mow should be very, very grateful that you received him so graciously, because now he does not have to go back to be court martialed." So Chennault stayed behind and I said, "Well, what is all this? He didn't tell it half to me." He said, "The true story, after this appeared in the paper, General Mow shot his mouth off." He said Soong sent for him, and he says, "General, here is a pistol. You are a soldier. You know what to do."
H.M.Jr: Yes.

White: What was the matter with the pistol.

Bell: No report was there?

H.M.Jr: He thought the Chinese would get a bad press, so he didn't do that.

Klotz: He didn't say that, that is cute.

H.M.Jr: Yes. (Laughter)

No, he said, "That is impossible. You can't do that. The Secretary wouldn't like it."

Klotz: That sounded like you.

H.M.Jr: I told the story to the President this morning, and he liked it very much. He thought he might use it the next time.

Klotz: I think they all got it.

White: So if we are sent a pistol, I gather, from this Office, we all know what to do with it.

Klotz: You will do what How did. (Laughter)

H.M.Jr: I don't think we would - I thought it was a very amusing story.

Foley: Don't look at me. (Laughter)

He takes all the humor out of it when he does that.

Sullivan: I don't even know what he is talking about so he shouldn't look this way.

Gaston: He wasn't looking at you. Don't worry. Or should you worry? (Laughter)
H.M. Jr.: Don't you think it is a good story, Dan?
Bell: It is a good story. I think it went over pretty well.
White: I think we all got it any way. (Laughter)
Bell: You don't have to repeat it.
H.M. Jr.: Well, I feel lots better, and I know General How did too. So if you people - before we get on - I sent for you two people. How is your old stomach?
Sullivan: Oh, the stomach is fine.
Foley: It was, not now. (Laughter)
Sullivan: Just the same.
White: You know something you are not telling us, Ed.
H.M. Jr.: There is a man up at Amherst by the name of Professor Peter Odégarde who, I think, teaches social science, but what he really teaches is propaganda. If you could call up both Professor Viner and Walter Stewart on the phone and ask them whether they know anything about him, see, or who he is, or if you can call up - do you know anybody in Columbia? Do you know the head of the school of journalism up there?
Kuhn: Ackerman? No.
H.M. Jr.: Ask him and ask Stewart. I understand he is a great friend of Justice Frankfurter. They all say he is good. I would like to get him down here Tuesday to stay a day or two and talk things over generally. What I want him to do is sort of make a study of what is the best method of approach for us on getting over the selling of bonds and taxes and that. He isn't a man that
could do the thing, but he is the outstanding authority on Russia, Germany, South America, Mexico, the whole art of propaganda. They say he is a wonder. I think if we could get him down here a couple of days, he would be very useful.

Kuhn: I will find out about him and let you know.

H.M. Jr: Would you? Now, the other thing, Ed, the President says he doesn't need me Saturday and Sunday. I will check with him before I go away. And - but at nine thirty Monday morning, he wants a finished, complete plan on the fire hose for England.

Foley: You were going to give me a memorandum and then talk to me.

H.M. Jr: Is that the story? I have got Purvis in the other room, and I will see him about fifteen minutes, something I want to clear up with him on the planes for China, and then I will have him in and I will give it to you verbally. Now, so much for that. Now, who has - this thing which I gave to you, is the Bureau of the Budget waiting on that?

Foley: No, they have got a copy, and Smith has gone over it, and we have also cleared it informally with Justice, but this is to put the thing formally on the record, and that letter is only an incorporation of what you signed.

H.M. Jr: Whether it goes half an hour earlier or later doesn't make any difference.

Foley: No.

H.M. Jr: Then the other thing, John, who do I look to for the legislation on the debt limit and the tax exempts on Federal securities and guaranties?
Sullivan: We have the one on tax exempts prepared, sir.
H.M.Jr: Is it finished?
Sullivan: That is finished, sir.
H.M.Jr: How about the debt limit?
Sullivan: I got your note of the thirtieth this morning, and that is being worked on this morning.
H.M.Jr: When will that be ready?
Sullivan: I hope it will be ready this afternoon. There won't be any figures though.
H.M.Jr: Those two pieces of legislation I would like to take with me when I go to the country.
Bell: We are going to finish this afternoon on the debt limit.
Foley: We prepared a letter on both of those, and we had a meeting in Dan's Office on Tuesday afternoon, and we spent several hours on it, and we are redrafting it in the light of that conference. That will be ready--
Bell: ....this afternoon.
Foley: We are going to have another conference this afternoon so I think we had better draw John in on what we have already done, and then consolidate these two proposals.
H.M.Jr: All right. Well, let's say tomorrow morning at ten thirty. We will take an hour and go into the question of legislation, anything that the Treasury wants, thinks we need, you see. That will include our bank holding thing, too.
Foley: Well, we saw Glass at ten thirty this morning,
and we left our bill with him and a comparative analysis of our bill and the bill he introduced two years ago. He says he wants to talk to Wagner and Adams and Byrnes and Crowley, and I asked him if he would want us to talk to those gentlemen or help him, and he said, no, he didn't want us to do anything until after he had seen them and talked with them and then he would get in touch with us again, and I reminded him that after seeing him the other time we had called Senator Wagner and we had that request for a conference with Senator Wagner still outstanding and undoubtedly he would get in touch with us when he got in town next week, and he said that would be all right, but, otherwise, he doesn't want us to do anything until after he has checked with these people and then come back and talked to us further.

E.M. Jr: Don't you think you had better try to do a job on Leo just the same?

Bell: Delano has done something on that.

Foley: Delano talked with Leo just before we went over there, and he has already explained the thing to him and he is going to call Leo now and tell him the result of this conference. The only thing I think we want to be careful about is not to give Glass the impression that we are running around trying to sell a bill of goods, and I don't want to get the bill out all over town. I think we ought to be careful just to leave the bill with the Senator until he wants us to give it to somebody else, but we can talk to Leo generally.

E.M. Jr: You mean you believe in the Chinese system?

Foley: Yes, I believe in the Chinese system.

Bell: I think Leo is a little luke warm, although he
Foley: said he would go along. He probably will tell a different story to Glass.

On the liquidation of the voting stock in insured banks held by holding companies, after the cut-off date, Leo is disinclined to go along with it. He says if the quarterback tells him to carry the ball through that hole, he will go through that hole, and if that is what you and the President want, he will go along, but he wants it clear that that is so. Now, Glass says that he doesn’t want to introduce something he can’t pass, and I think maybe these people are going to tell him that our bill is too drastic. It is much more drastic than the bill McAdoo joined with him in putting in in 1938, but if we could get him to agree to give the Comptroller negative control over the payment of dividends by national banks and the FDIC over the payment of dividends by state insured banks, and get that into his bill that he introduced in 1938, I think we have enough to control the situation and maybe that is the way the thing will work out.

E.K., Jr.: Early was there also. He says that the report to Congress yesterday was made with the knowledge of the President, but that the President studied it before approving or disapproving the program. Now, I say I can only say that we have the matter under study and that is all. That ties it up. Well, let’s anybody who has any ideas as to what they need in the way of legislation - those of you who are here are invited back at ten fifteen tomorrow, but for God’s sake get together, as much as possible, between now and ten fifteen, see, so that we don’t - at least in the Treasury we are working together.

Sullivan: Is that going to include the tax program, too?

E.K., Jr.: Anything. Tomorrow morning. Anything that
anybody has got in mind. Come in at ten fifteen tomorrow morning.

Bell: We have got the Chinese agreement in the mill, and Dr. Soong would like to sign it before Monday. Monday is the day that the puppet bank goes into operation.

H.M.Jr: Why not?

Bell: I think maybe we will clean it up either today or tomorrow morning.

H.M.Jr: I am here.

Bell: We might be able to sign it tomorrow afternoon after Cabinet. What time are you leaving.

H.M.Jr: Well, depending upon the weather or the trains and so forth. I am going to take a reservation for the four and five o'clock trains. Bob, my son Bob, wants to go with me. It will be four or five.

White: If there is to be any publicity to avoid the repetition of the last difficulty, maybe it could be done now.

H.M.Jr: Difficulty on what?

White: Didn’t you have to do it over twice.

H.M.Jr: What?

White: If there is to be any publicity.


White: On the signing of the agreement.

H.M.Jr: Yes. Well, that is Kuhn.
Kuhn: Any movies this time?

White: Sure, why not?

H.M. Jr: Well, whatever there is - I am willing to do the movies, but I think White's point is good, but I am going to take reservations on the four o'clock and the five o'clock train.

Bell: Better try to do it in the morning then.

Gaston: It ought to be done tomorrow morning if it is to be done.

H.M. Jr: Well, Ed, I want to clean up this thing with Purvis, and then I will have you come back. Now, is there anybody else here on this English plan except Ed? Well, I want you (Kuhn) to sit in so that you have the background. I will let you know.

Klotz: How about Philip Young?

H.M. Jr: Oh, yes.
Chairman Roolf showed me the special report of the
Federal Reserve Board on monetary and reserve matters before
making it public. This was a courtesy that I appreciated.
I was not asked to give my approval to it and it was
clearly understood that I reserved my opinion as to the merits
of the various proposals made by the Board of Governors.

I have very serious doubts as to the wisdom of attempt-
ing to put into effect all of the Board's recommendations at
this time. This applies with particular force to the proposal
to increase reserve requirements. If this would have the
effect of creating a scarcity of money and forcing up interest
rates, certainly this would be very unfortunate, in my
opinion. I don't think this is a time to lock up financial
resources any more than it is a time to lock up any physical
resources that we shall need in our defense efforts; nor is it
a time to increase the cost to the government and the people
of making full use of any resources.
In so far as this report draws public attention to the danger of inflation in our defense effort, I am glad that it has been made. You will remember that I mentioned it to you weeks ago, and said that it was one of my chief concerns. I have been having constant discussions about it with Leon Leonowicz, and both of us are determined to call any sign of a rising spiral, and to nail it hard, as soon as it appears. Specifically, what I have in mind is the sudden rise in one or two commodities that are essential to the defense effort. There has been no all-round rise; we are seeing to it that there shall be none. We are not going to let prices run away or even begin to run away. Where they show signs of doing, we are going to stop the process at the very beginning.

That is my mind is the first and best way to guard the people of this country against inflation. The first and best way, in other words, is not to let it start. That is another reason why I have doubts, serious doubts, about the recommendations in Mr. Bolles' report. If we accept these recommendations, we would have a run-away-in-prices before the proposed remedies would have any effects. Moreover, a rise in interest rates at the present time would tend to push prices up at the very moment when we want to keep them down. It would hamper the defense effort and create the very evils which the Treasury and the Defense Commission are working to avoid. This is not the time for tinkering with money rates. It is the time for a resolute job on the prices of physical things. That is the job the Administration is now doing.
January 2, 1941
11:35 a.m.

RE CHINESE PURCHASING PROGRAM

Present: Mr. Purvis
         Mr. Wilson
         Mr. Young
         Mr. Ballantyne
         Mrs. Klotz

H.M.Jr:  What about these letters that I am to write on priorities?

Young:   Yes. We have worked up some cases on some forms which blew up to some extent last night because BPC didn't want to sign the form which was made up. However, we shall have some revised cases made out on a comparable basis by noontime, I hope.

H.M.Jr:  Well, you are carrying it?

Young:   Yes.

H.M.Jr:  It is up to you to get it to me.

Young:   Yes.

H.M.Jr:  Does that mean, for instance, that in the case of Consolidated, they are being held up on putting the Sperry bomb sights into Consolidated?

Young:   How soon will you be held up on Sperry sights because of priorities? Do you know?
Ballantyne: Until the spring.

Purvis: What is the difficulty? I hadn't heard about it.

Ballantyne: They have to take - see if I am right - the Norden sight out of these planes and put in the Sperry.

Purvis: Well, we knew that.

E.M.Jr: As I understand, the Priorities Board is holding the thing up.

Young: You have got more bombers coming on; and, while there are enough Sperry sights released by the Army at the moment to cover the immediate planes, the bombers coming out in the spring will not be equipped with Sperry bomb sights because of the bottleneck on optical instruments, primarily, over which the Army and Navy have assumed first class priority, and you can't get the lenses in your Sperry bomb sights.

E.M.Jr: But right now is there a delay in those 20?

Young: No, I think they have adequate sights.

E.M.Jr: I understand that Sperry had some of these on the shelves.

Young: The British have taken over all the Sperry sights that the Army had on order plus what they had in stock.

E.M.Jr: How many is that?

Young: It is about a hundred.

E.M.Jr: Well, that keeps them going for a while.

Purvis: But that doesn't take care of the spring deliveries?

Young: None of the spring deliveries.
H.M. Jr: Well, we can get it cleaned up. And there is a good chance of getting you 9 more Consolidated bombers. There were 29 in that order. There is a good chance of getting another nine. Is there any little thing that you want to take up before Morris Wilson comes?

Purvis: Well, I would like to ask you, for instance, you remember the old motor torpedo boat question?

H.M. Jr: Very well.

Purvis: Would there be any harm - our people are prepared to take those. Would there be any harm in my opening that ball with Secretary Knox again?

H.M. Jr: Not whatsoever. I think this - it is quite all right. I think that when we do this thing now, whatever you do, if you don't mind--

Purvis: Quite.

H.M. Jr: I would open the whole thing. You see, when I get into this thing - as soon as we get Wilson and get this Chinese thing, I want to make a little speech for the benefit of Foley who is doing the legislation and the deadline on it, the President wants it at nine-thirty Monday morning, and I would like to have you here, and then you can fill in, you see.

Purvis: May I ask this question on that, then? The intention - could the intention be handled, perhaps, a little less dangerously from the British viewpoint? My understanding is that if the weapon could be returned as is, if it could be repaired, bearing in mind the President's case, however, as he put it on Sunday, could we not achieve the simplification that it would go if it was agreed that it was America's contribution to keeping it - its defenses intact? That would get rid of an awful lot of difficulties we will otherwise get into. Because I see already that
especially difficult thing creeping in, tin and rubber. Tin and rubber, after all, will be our working capital.

H.M. Jr: Look, don't take too seriously anything you see in the paper on this thing. I am going to make a little speech for the benefit of Foley and whoever is going to work with him on it, and, after you hear it, if you don't mind--

Purvis: Quite.

H.M. Jr: If I am any use to Mr. Roosevelt, it is that he says these things, and he knows perfectly well when he says them if I don't think they are workable, it is up to me to tell him so. He has often said to me, "I have a hundred ideas, and, if two of them are good, I think I am lucky." But he has a press conference the way I do, and they press him and he has got to think of something, and he hasn't thought the thing through. Well, tin and rubber come to his mind. Well, that doesn't mean it is going to be tin and rubber.

Purvis: No. As a matter of fact, I think it was put in his mind.

H.M. Jr: And you can't--

Purvis: But it would be a tremendous simplification if it were made that way. I believe I could give the Chinese story sufficiently and the note would come along with him, that is all.

H.M. Jr: Let's do that because I am awfully tight on time.

Purvis: Yes. The situation is that at the present time - This is really off the record, because they don't want to put this in writing for certain reasons, but what is happening is the P-40's are being built up in England for squadron
purposes. The first deliveries took place in September, the second in October. It takes about a month for them to get there. They then have to have certain tuning up done in conformance with British practice, and then they have got to be formed in squadrons, and we can't hope, ever, in shipping planes over there of a new type like that to build them into squadrons under two or three months, so that they are actually flying. Now, actually, they are, however, being used, I understand, in the Far East and the last 44 are in this number. I believe, off the record again, the 44 have gone already down there and that 50 more are routed under construction, which I am not supposed to put on the record because it is information for the enemy.

H.M.Jr: Well, you know my record.

Purvis: Fifty being sent, to be perfectly frank, to Takoradi from which they are flown across the desert to Khartoum up into the campaign.

H.M.Jr: Just where is Takoradi?

Purvis: Takoradi is on the West Coast of Africa. It is around about here (indicating on map). Then it is flown right across the desert.

H.M.Jr: How do they get them there? I have seen dispatches that planes were going there.

Purvis: By boat.

H.M.Jr: By boat?

Purvis: Yes. Morris Wilson is supposed to give you something on this, see, but actually then what is done is to take that right across to Khartoum and into the campaign.
H.M. Jr: Do they fly across?

Purvis: Yes. Takoradi is farther down. It must be in British territory.

H.M. Jr: I thought it was right in around here.

Purvis: Probably in Nigeria. It must be in British territory.

H.M. Jr: I think it was somewhere around here.

Purvis: That is what it would be. It is well around into British territory. It has got to be, I think.

H.M. Jr: And the boats go from us to there?

Purvis: We have got direct boats to Takoradi.

H.M. Jr: I have seen that in dispatches, and I just wondered.

Purvis: That is it. That is the fellow.

H.M. Jr: Here is the British mandate, the Cameroons.

Purvis: That is what it is, I am sure. It would be either Cameroons or Nigeria.

H.M. Jr: Haven't they taken over the French somewhere here?

Purvis: Yes, but you see I would think they wouldn't come too far down because then you get into Equatorial Africa with jungle, whereas here you can fly over the desert.

Young: I have got an atlas in my office.

H.M. Jr: Oh, no.

Purvis: I am sure that is the answer. That is really what is happening. The result is that our people
are rather coming into an active campaign. They are genuinely worried about loss of planes in the very critical three months that we talked about.

H.M. Jr: Well, here is the thing. They think the Far Eastern thing is critical, the Administration does. We think the drive on Singapore is critical, you see, and we are very anxious to give these people a hundred of these P-40's. Now, how many have you got on the docks in New York awaiting shipment, do you know?

Purvis: That I don't.

Ballantyne: Forty-four.

Purvis: Forty-four is it?

Ballantyne: Yes.

Purvis: Then that is the 44 for Takoradi.

H.M. Jr: There are 44 there?

Ballantyne: There are 44 on the docks.

H.M. Jr: I am surprised you have so few. There are 44 there, and those are going to Takoradi.

Purvis: That is probably the difficulty of shipping, probably, to get frequent opportunities to Takoradi.

H.M. Jr: Well, do you want to make a counter proposal?

Purvis: Well, what I would like to do is, I have put this up to Morris and he may bring in that, but that is your problem, is to get something to the Chinese immediately, is that right?

H.M. Jr: Yes. Have you got a proposal? I wish he would be waiting here instead of my waiting for him.
Purvis: I am sorry. I didn't know quite where we were going to tackle the legislature first.

H.M.Jr: No, I want to get--

Purvis: Yes. I can put something on the table on that. Can we assume that I will get you before lunch some suggestions?

H.M.Jr: But you don't know what the answer is.

Purvis: Well, England won't give way to us in any way. Otherwise, every plane that is lost to them is a loss from the point of view of the campaign. Therefore, as a proposal, it just doesn't work out. Anything that has got to go is that amount lost to the campaign.

H.M.Jr: You mean we have got to take it.

Purvis: I mean, we shall - either Morris has got to take the responsibility with me or it has just got to be put up to us that this has got to come.

Young: Here is Takoradi on the map.

H.M.Jr: Gold Coast?

Purvis: Gold Coast, yes. That is just where you said.

H.M.Jr: A little bit further around. Gold Coast.

Purvis: This is a vital matter, is it?

H.M.Jr: If I tell you that we had a meeting in Mr. Hull's Office at which Secretary Stimson and Secretary Knox, General Marshall, two or three of his top people, Admiral Stark, two or three of his top people, plus myself and after this meeting, running an hour and a half, it was decided with that number of people there that they thought this was a good move.
Purvis: Yes, yes. Did they weigh, at that time, the possible detriment to the--

H.M.Jr: Yes. Here is what they weighed. The proposal was to take 12 of your Consolidated bombers. That was the proposal, to take 12 of these Consolidated bombers. And they said no, they thought you needed those more and could put them to better use than the Chinese.

Purvis: Yes, quite.

H.M.Jr: And is a compromise rather than taking these 12 from you General Marshall said no, you ought to have those. The compromise was that here are three hundred planes which can come along in May, June, and July.

Purvis: Yes.

H.M.Jr: And we will be giving you two for one.

Purvis: Yes. Could we spin them out over a greater period so as to give them at least some of these going directly?

H.M.Jr: Yes.

Purvis: If we could spread it over six instead of three -- as I say, I am not authorized to make any--

H.M.Jr: What do you mean.

Purvis: Six months.

H.M.Jr: No, they have got to have enough, you see, to do a job on the Burma Road. That is where they are going to go, to keep that thing open. I don't know--

Purvis: And the United States hasn't any further stuff?
H.M.Jr: I have got a terrible job to do for the Greeks next. I am blocked up on time.

Purvis: I am sorry. He said he could be here in five minutes flat. We have been much more. He can say very little more than I have said. It is simply that I told him that he had to have a written statement of a position that could be put on the record. But there is really nothing more in it than that.

H.M.Jr: Incidentally, the Chinese will take the contract over. They pay direct.

(Mr. Wilson entered conference)

Purvis: Morris, I have just said to the Secretary we are not empowered to make any counter offer to this suggestion because everything is a drop of blood out of the thing--

Wilson: You are speaking for China now?

Purvis: Yes. And these are really needed for the campaign in the Far East, the ones that are currently going, is that right?

Wilson: The Middle East. I have a memorandum. May I read this?

H.M.Jr: Please.

Wilson: "A squadron of fighters are 16 aircraft on the front line with at least 32 to 40 aircraft in reserve to insure serviceability of the front line during continuous periods of enemy action. Behind each service squadron there has to be a training squadron equipped with the same type in order that pilots may be fully trained in battle tactics on the new aircraft type before taking their place in the battle line. There are on order for England under present contracts
eight hundred eighty P-40's. This total is roughly sufficient for 16 squadrons with a total establishment of 54 each. Present contract totals would thus equip eight front-line squadrons and eight training squadrons behind them. To build up the strength of these squadrons will involve a period extending to June 1941. Allowing for the time required for delivery by sea, re-erection in England, and delivery to service squadrons, the time required to build up even this limited number of squadrons by June 1941 makes it overwhelmingly important that there should be no interruption in the flow of aircraft during the early months of 1941, if we are to be prepared for this serious enemy pressure in the several theaters of war which will develop in the early spring. So far as deliveries already made might have been expected to come into the battle line, it is pointed out that shipments were not made until the beginning of October 1940. We got deliveries in September, but they only shipped in October. Allowing 60 days for shipment, re-erection, and delivery to service units, the first aircraft were with the training squadrons by December 1940. The training of personnel on this new type had then to take place so it would not be possible to have battle experience of that type in the front line before February 1, 1941, or thereabouts." These figures don't include any of the three hundred that we have been discussing in the last few weeks. This, in answer to your query, Arthur, yesterday, have any of these planes actually been in the front line and where are they? This was prepared by Self and me, some of it from information off the record. We are told they are going to the Far East. We learned that through service men who come out here. London doesn't tell us where they send these things. We just learn it through conversations.
H.M.Jr: Is that the whole memorandum?
Wilson: That is the whole thing, yes. In other words, they are busily engaged at the present time building up a fighting line of these planes down in Egypt.

Purvis: I understand from the Secretary that the first thought had been to take Consolidated bombers from us, but that the point was made that they would be less – the Chinese would have less - I mean that we would loose more with bombers and they would get less.

Wilson: Yes.
Purvis: And that this was reached as something to help with the Burma Road.

H.M.Jr: And I might say that this whole thing started with the President and then people who sat in on this were Mr. Hull, Mr. Stimson, General Marshall, Admiral Stark and his staff, so it has been something which has gone all over the - I mean it isn’t just a thing lightly arrived at.

Wilson: If this were just an ordinary trade that came across the street, from the War Department or the Navy, you would deal on it at a different level, but this comes from the highest level and that is why I say your people over there are so disturbed.

H.M.Jr: How many days do they work, six, Curtiss?
Young: Six, yes.
H.M.Jr: You see, what they asked to do, the original proposal, was to get these over there in January, February, and March, wasn’t that it?
Wilson: Fifteen in January, twenty-five in February, and twenty-five in March.

H.M. Jr: What I would like to do - this is my proposal, that we take two a day for 18 days, that is three weeks. It gives them 36, and that is what they need. I mean, I asked him how many they needed to - before they could put them in the air, you see what I mean, and they have three squadrons of nine each. They figure three squadrons of nine each would give them three reserve for each squadron.

Wilson: That is about right.

H.M. Jr: And he said with that number, they are prepared to defend the Burma Road, and then the proposal is one a day after that, so the thing, the way I figure it, would run about 13 weeks. It would take about 13 weeks, the way I figure it. The first would take three weeks, and then one a day after that would take 10 weeks, so it would be 13 weeks to complete the thing. On the machine guns--

Wilson: That would be 36 in June.

H.M. Jr: Instead of 50.

Wilson: It wouldn't be feasible to delay the whole thing for 30 days?

H.M. Jr: No. the whole thing is - you know, you people - we think you have got even more at stake than we have. All military information shows that the march is to the south by the Japanese. The only way they can get this thing in is through the Burma Road, and these people haven't got a thing to keep that Road open. Given these planes, they can keep that Road open and keep these fellows occupied, and we think it is a tremendous influence in the whole Far Eastern picture, and
both Hongkong and Singapore are at stake.

Purvis: The situation is developing very fast whereby we ought to have, surely, over here sitting with your people, General Staff people, who could help us in a situation of this kind because, Mr. Secretary, you can see that from an argument – from a purely supply angle without due appreciation of the joint general staff view on such a project as this, it is awfully difficult for us, isn't it Morris?

Wilson: Oh, we are just messenger boys in things like this.

H.M.Jr: So am I.

Wilson: Oh, no, you can make decisions. But we can't make any.

H.M.Jr: Oh, no, this isn't - I didn't have a bad night and wake up in the morning and say, "I want the Chinese to have so many planes," but this meeting took place in Mr. Hull's office where all these people sat around and everybody sat around and discussed this thing after we were asked to do it by the President, and as a result of a long conference where everybody had his ear in, they started to take 12 Consolidated bombers, and they thought they could be used better. It isn't a question of that or this. The President is determined that China get something at this time, and he has the full backing of his military advisors, you see. He has the complete backing of the Army and Navy general staffs on this, that this is highly important. I don't know - I know your staff knows how far we have gone on the Philippines, but I am not even going to mention it. We have gone our limit that we can as far as the Philippines go, and this is a general staff, Army and Navy - they are completely back of the President. Now, I had the Chinese in and this is
the minimum. I said, "How much do you think is the minimum?" and they are going to ship these things by boat to Burma and then they go up the Irawadi River and they are in there and they have got a factory right in there and they have the aviators. This isn't an idle gesture. It means a diversion as far as the Japanese are concerned. I can't weigh the military thing, but I know that after very, very careful consideration, this is what Mr. Roosevelt wants, with the complete backing of the Secretary of State and the Army and Navy.

Purvis: I think we must feel it that way. There is no way - could you make it one every two days after the--

E.M.Jr: No, because my instructions are to clean this up in the first three months.

Purvis: I see.

Wilson: This is just 50, 25, and 25.

E.M.Jr: Well, it isn't quite that. It is 36.

Purvis: Thirty-six in the first three weeks.

E.M.Jr: First three weeks, and then one a day after that.

Wilson: Oh, yes, yes. Oh, however, we are not quibbling about that. The last word, Mr. Secretary, that--

E.M.Jr: What I am saying is two a day for three weeks, and then one day, and then this would - as to when it would go into effect, Philip has found a hundred and twenty-five machine guns which Colt ordered - built without any order for China, and they are on the shelves, and those can go into the wings, so that takes care of the wing guns; but the 50-caliber guns, when they are going to come, I don't know, but all I know is each plane
has to have two 50-caliber guns. That is all I know. They have got to have two 50-caliber guns, but the wing guns, we found a hundred and twenty-five, and we are giving them also - they haven't said yes, but I think they will. They are going to take 50 of these so-called rebuilt Allison engines for spares.

Purvis: It really comes to this, Morris, we have no option.

Wilson: Oh, no, Mr. Morgenthau has said to us what Beaverbrook asked us to find out. He said, "Find out from Mr. Morgenthau, is this what we call palace command? If it is, then there is no use to discuss it."

H.M.Jr: This is - what the President and his Cabinet and his Army and Navy officials think that with these very scarce, that this is the best distribution at this time.

Purvis: Then so far as--

H.M.Jr: I mean, I, as I say, can't say - all I can assure you is, it has been very, very carefully weighed and in return, for whatever it is worth, you get two for one. I mean you do get three hundred in May, June, and July for whatever it is worth.

Wilson: Oh, yes.

H.M.Jr: Do you see?

Wilson: Well, I will get on the air with him.

H.M.Jr: You can get three hundred planes by giving up one.

Wilson: Curiously, this command crossed a report that we had from the other side, Beaverbrook saying that he had just put up to the Cabinet the statement
of our position in regard to the deliveries from
the United States and so on and so on, and asking,
this sound somewhat ironic, asking if you could
do anything to speed things up.

H. M. Jr: I am going to tell you, I have got another order
from the President which I got on New Year's Eve,
and I am not looking to you, I am looking to the
Army, but just how I am going to do it - he told
me he wants 60 planes for the Greeks. The Greek
Minister came in on New Year's Eve, and the Presi-
dent was in a good humor, so he said, "We will
double what we are going to give you." So I
said, "Well, double zero is zero."

Purvis: I suppose the British feel they have got their
RAF actually down there.

H. M. Jr: I know. I needn't tell you how I feel, but here
is the situation and carefully weighed, and I
have got to see that it is carried out, that is
all.

Wilson: Well, apropos of that, is it fair for us to
infer from what you have just said that we can
forget about the Greek thing so far as we are
concerned, that you are going to deal with that
across the street?

H. M. Jr: No, I can't give you a promise.

Wilson: But we need do nothing about it at the moment.

H. M. Jr: There is nothing you need to do about it. It is
my baby, and I don't like it.

Purvis: Either its face or its form.

H. M. Jr: What I am thinking of doing is, I am looking -
my father, when he was ambassador in Turkey used
to have an Armenian secretary, whose name I can't
think of, but I am thinking of retaining him to fight the Greeks for me. (Laughter)

Purvis: Yes, and a very good time to do it too.

Wilson: We would be very glad to pay half the salary.

H.M.Jr: The Armenians are the only people I know that can out-trade the Greeks. Andonian, that is his name. He was his secretary the whole time he was there.

Purvis: Well, let us put this to London clearly as it is, Morris. It has just got to be done.

Wilson: Oh, yes, oh, sure, there is nothing - we will tell them there is no further discussion about it.

H.M.Jr: Now, can I, so that I won't be getting too many details, can I leave it between the Mission and Philip Young so that this thing can begin to go at once? I don't know how long it takes to put - to begin to crate these things for China, you see what I mean, so that these first - they make use of the 125 guns which will be for--

Wilson: If you are thinking of us, we will act the minute I get back to the office. I will get on the telephone and then the idea is, I will tell you (Young) right away.

H.M.Jr: I would like to tell it to the President, and I would like to tell T. V. Soong that it is accomplished. If I could be kept out from now on, I mean, because there are details to be worked out. Do they need the thing in Chinese marking and that sort of stuff?

Young: No. They can take them the way they are.

H.M.Jr: Well, what I was figuring, two a day for three
weeks, and then six a week after that. That gives them their first squadron and after that they are--

Purvis: Quite.
H.M.Jr: Now, could I--

Purvis: That is that. We fully appreciate your position.
H.M.Jr: When you first smell ether, it smells sweet.

Wilson: Well, I think the first thing I will say to the Minister is that the Greek thing is in cold storage just at the moment.

H.M.Jr: Right at the moment I want to get this thing sewed up, and then we are going after these Brewsters, are they?

Young: Republics.

Wilson: Arthur, have you got that Greek thing? I had great difficulty in getting it.

Purvis: I am sure you had.

Wilson: You are through with me?

H.M.Jr: Yes.

Wilson: Good morning.

H.M.Jr: Remember in your talk that we first were going to take 12 of your Consolidateds.

Wilson: I will tell him that.

H.M.Jr: Now, we have a good hope to get you nine more Consolidateds.
Wilson: I won't forget to tell him that.

H.M.Jr: There is a good hope of getting you nine more. As a matter of fact, Phil, General Marshall said if he got some good trade — well, he is two-thirds committed to it, you see, so I think that might cheer them up a little bit.

Purvis: He will need all the cheer.

H.M.Jr: There is a sixty-six and two-thirds percent chance of getting you nine more Consolidateds. There are twenty-nine in that run and the suggestion I made is that you get all twenty-nine, and I think there is a sixty-six percent chance that you will get them.

Wilson: Thank you. I will tell them that.

H.M.Jr: It was carefully weighed, and they thought you should have these Consolidated rather than China, but that was the original proposal. I am going to try my best to get you the other nine, and those will be coming immediately, you know.

Purvis: Morris, we are going to get a half ownership in the Burma Road.

Wilson: Thank you.

H.M.Jr: I thought you had that now. And they have the ammunition and all that, but I would like, if I could, to be able to tell T. V. Soong this is an accomplished fact, you see.

Wilson: I will get after it right now.

H.M.Jr: Thank you.

(Mr. Wilson left conference)
H.M. Jr.: Philip, I would like it if those two a day for the Chinese could start next Monday.

Purvis: I wonder whether we have any that are packed that could have markings changed or something like that in order to get the feeling that you want.

H.M. Jr.: That would be swell.

Purvis: We might explore that as a thought, don't you think?
NOTE ON NEED FOR BUILDING UP DELIVERIES OF
P.40's TO ENGLAND AND MIDDLE EAST

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1. A squadron of fighters has 16 aircraft in the front line with at least 32 to 40 aircraft in reserve to ensure serviceability in the front line during continuous periods of enemy action.

2. Behind each service squadron, there has to be a training squadron equipped with the same type in order that pilots may be fully trained in battle tactics on the new aircraft type before taking their place in the battle line.

3. There are on order for England under present contracts 880 P. 40's. This total is roughly sufficient for 16 squadrons at a total establishment of 54 each.

4. Present contract totals would thus equip 8 front line squadrons and 8 training squadrons behind them.

5. To build up the strength of these squadrons will involve a period extending to June 1941.

6. Allowing for the time required for delivery by sea, re-erection in England and delivery to service squadrons, the time required to build up even this limited number of squadrons by June 1941 makes it overwhelmingly important that there should be no interruption in the flow of aircraft during the early months of 1941 if we are to be prepared for the serious enemy pressure in the several theatres of war which will develop in early spring.

7. So far as deliveries already made might have been expected to come into the battle line, it is pointed out that shipments were not made until the beginning of October 1940. Allowing sixty days for shipment, re-erection and delivery to service units, the first aircraft with the training were squadrons by December 1940. The training of personnel on this new type had then to take place, so it would not be possible to have battle experience of the type in the front line before February 1941 or thereafter.

Note: The total of 880 aircraft given in Paragraph 3 does not include any of the 300 aircraft now being discussed for additional deliveries in May, June and July, 1941.
January 2, 1941
12:05

RE AID TO BRITAIN

Present: Mr. Purvis
         Mr. Foley
         Mr. Cox
         Mr. Young
         Mr. Ballantyne
         Mrs. Klotz

H.V. Jr.: You gentlemen sit still while I give you a little speech.

       Here is the thing. And I say, we have to have it by 9:30 Monday morning. As I get it, what I think the President wants and he is groping for is legislation which would give him a free hand to have the Army and Navy place orders in this country for the material that they need, and adding to these orders as much more of a particular commodity as they think we will be called upon to lend to England or to China or to Greece.

       Now, in the conversations that we had with them, he said quite frankly that he couldn't envisage even what we might need. Do you remember?

Purvis: Yes.

H.V. Jr.: And that when Mr. Purvis told him that he was going to give him an inventory— he finally got to the inventory as to what the English need—
he said, "Well, that is fine, because we don't have such a thing ourselves." And I am getting the thing - I am going to tell him it the way I see it, and then Purvis, who was with me, can fill in.

As I see it, for instance, what he could say is this, that we need a thousand tanks or ten thousand tanks. Well, that is what we think we need, and the English say they need five thousand. "Well, all right, Army, create the facilities for 15,000 tanks and go ahead and build those facilities," the Army placing the order for that.

Now, the President was very clear in his discussions with us that he wanted the extra facilities built and that it is just too bad if the manufacturer is going to worry what happens afterwards, because nobody can tell anyway, but he very definitely wants these additional facilities created so that we can have the capacity to take - build as much as we now see that we need, plus what we know that the English want, or any other country that might need it.

Now, I think that that is as to the - I mean, this is the way I assimilated it, after thinking it over, what he needs and what I think he should want.

Purvis: Yes, and he visualizes sacrifices of civil goods, luxury goods, in doing it.

H.M. Jr: He gave examples and said, "After all, people can get along without cream separators, but after all, they are people that make a highly technical piece of machinery; I am sure they can make gun mounts or anything else."
But then the point that he made, which I thought was significant to show how he was thinking, he wants Congress to leave it to him to say, "Well, of these 15,000 tanks, as the situation arises I may want to give so many to England, so many for ourselves, and so forth." He says, "You can't tell from day to day," and he wants a blanket authority from Congress. He, as Commander in Chief, should have the discretion to say how much he can distribute. In other words, he doesn't want to tie it down that the English get so much, the Greeks get so much, China gets so much. In other words, after thinking the whole thing over and getting all the information, we need 15,000 tanks and we need them in a year.

All right, go ahead and build the capacity. The Army places the order, and then he, the President of the United States, can say, "Well, of those I am going to lend so much to this and so much to that." Are we together so far?

Furvis: Correct.

F.J.: Now, as to the lending and the method of repayment, I don't know any law but if the word can be simply lend and leave it very much up in the air as to how they should be repaid, I think that that is what he wants, because it is to show that he doesn't know and he hasn't got anybody else working on this, as far as I know. It is very much up in the air, and how can he say if and when the war is over what England will want to give back to us, what she wants to do about the civil population, whether it is wise to build up a big force in India or Australia, where the weak
spots are that have to be strengthened, or just how quickly we want the thing back, what do we need for the reconstruction period and what does England need, and one of the things that is worrying England and after all, certainly talking for myself, we are not going to be short sighted and I think in my prognostication so far I said what would happen. I don't think I have been very far wrong.

Purvis: Correct.

W.M. Jr: Certainly there will be every reason in this country to do everything possible to help England during the reconstruction period, provided there is a just peace.

Purvis: Yes.

W.M. Jr: I add that. So I think - and I am sure that they will want a just peace after going through Versailles. We are certainly not in our generation going to make the same mistake twice.

Purvis: Never.

W.M. Jr: Now, this part I haven't studied, but I have looked a little bit ahead and I certainly think that that - we will throw our weight of our influence on that side. In other words, to go back to the free trade as far as possible and raising the standards of living of the people of the world so there isn't over again - I hope in the time of my life and the time of my children - a repetition of what happened due to the shortsightedness of Versailles.

Purvis: Right.
H.M.Jr: And no one has discussed this with me, but this is my own feeling, and I think that that is where we will want to throw our weight in and I am sure that it will be sympathetically received on that side, but if there was this thing of again setting the stage so that in another 20 years we would be right where we are now, I don't think we would want to be a party to it. So I don't think that England and Sir Frederick Phillips, who is here for the Treasury, want to worry too much. They have just got to trust Mr. Roosevelt and this thing of lending and how it is to be repaid, the words "in kind" - the most elastic words.

Foley: On such terms and conditions as the President shall prescribe.

H.M.Jr: I think I have outlined what he has told us, plus what I have added of my own interpretation to what I think he wants, plus what I think is good.

Now, I have finished. You were there, you heard the whole thing.

Purvis: I think cutting out all the necessary detail that surrounded it, I think that - and certainly that last thought of yours is very definitely what he had in mind, because he said we would have to perhaps trust - I mean he made a very significant remark.

H.M.Jr: About being trusted and about if he knew the English people, the English knew that he knew them.

Purvis: That is right, I remember that part of the conversation.

H.M.Jr: You know he said to Lothian, "I know the English people," and Lothian said, "Yes, they know
that you know them."

Purvis: That is what he said.

H.M.Jr: But isn't that about the thing?

Purvis: Yes. I think that is what he has very definitely in mind. The thought I would like to introduce which was not said by him at all, in fact the reverse, but it does seem to me - think it over - that if the situation could be left so elastic that he could decide either at that time or that there would be nothing said that would destroy the possibility of his deciding, that where weapons have actually been demolished they wouldn't necessarily have to be rebuilt and replaced as such or in kind - I mean, otherwise that might go as America's contribution to the war. What could be returned, what still existed, or what had to be repaired, but the rest might be --

H.M.Jr: Look --

Purvis: It is the same thought you have to leave it open so that he can do it that way.

H.M.Jr: I wouldn't worry too much about this thing. I was with the President for an hour this morning on another matter. The only thing that all of us are worrying about is, we want to make sure that you win.

Purvis: That is right.

H.M.Jr: And I know that he is not worrying, and neither am I, what is going to happen after you win. All of our thought and all of our energy and everything we have got has got to go toward that one thing, and certainly as long as I am here there will be everything that I can do
after the war is over to see that there will be some kind of a rationalized world where people like the English and ourselves can live and let other people live.

Purvis: That is right.

H.M.Jr: And to try to set the stage when we might hope to go for 40 years instead of 20, but I mean – and that gets down to a question of just how broadminded all of us are in trying to make room for everybody so that everybody can have enough to eat and enough to wear and a house over his head, and not have this economic pressure which drives people to war.

Now, that is the whole thing.

Purvis: That is right, that is the whole thing; and there is nobody, I believe, that the British people would rather trust in that regard than the President of the United States.

H.M.Jr: Well, they have got to trust him.

Purvis: But I mean I don't think there is anybody they would rather trust.

H.M.Jr: Here I am and whatever authority or capacity I have, I am letting you know how I feel.

Purvis: Can Congress be expected to grant powers of a broad kind?

H.M.Jr: Well, that is what the President wants. Now, he can see, and then he wants me at 9:30 so that immediately after he can give it to the leaders, Monday morning.

Now, am I asking you something which is impossible?
Foley: No, not at all.

H.M.Jr.: When do you gents think you could have something for me to look at?

Foley: When do you want it? You tell us.

H.M.Jr.: How long since you have worked all night, Cox?

Cox: Three days. I am getting out of training.

H.M.Jr.: I mean counting New Year's Eve out. (Laughter)

Foley: That was only night before last.

H.M.Jr.: Well --

Foley: We can do it.

H.M.Jr.: Here is the thing. I am giving you people tomorrow morning for Treasury legislation, 10:30.

Foley: We can have something on this by 10:30 in the morning.

H.M.Jr.: I don't mean a finished document with all your references.

Foley: No, it won't be finished, but we know now what we want to do, and how we would like to go ahead and I would like to tell you a little bit of what I have in mind if I may.

H.M.Jr.: If you will. I waited until Purvis was here.

Purvis: This was quite in accord with the general picture.

H.M.Jr.: If they gave you a memo, and all the details with what you have read in the paper, I think it would
be misleading.

Pu. Vis:

Quite.

H. M. Jr:

Go ahead, Ed.

Foley:

Last June, a statute was passed which gives the President in his discretion certain powers, and the statute is entitled "to authorize the Secretaries of War and of Navy to assist the governments of the American Republics to increase their military and naval establishments and for other purposes." Now, that discretion is given to the President and then he may authorize the Secretary of War to use the facilities of our arsenals and our gun plants and the things that are operated and controlled by the government to produce for sale to the South American republics war supplies and things that they need to build up their defense, and the same thing is true in so far as the Navy is concerned. He may authorize the Secretary of the Navy to use our ship yards and our navy yards and our gun plants and so forth to build for South American order and for their use, gun boats and war ships and airplane carriers and submarines and all the rest of it.

Now, I think that if we start with that statute which is a legislative framework, and we enlarge it to include such countries as the President in his discretion may deem proper and necessary and then enlarge it further to permit orders to be placed with private manufacturers for airplanes and guns and every other thing that is necessary to carry on a war, and then to sell or otherwise lease or dispose of on such terms and conditions as he may prescribe that materiel, and then --
H.M. Jr.: Can I interrupt you? One point the President made very clear, he wants this direct, no RFC, no monkey business. Remember?

Purvis: That is right.

H.M. Jr.: No monkey business. Army places the contracts direct, no corporations, no monkey business and no - he said, "We don't want to fool the public, we want to do this thing right out and out."

Purvis: He went so far as to say the Neutrality Act would probably have to be amended to permit of a belligerent - of the United States Government loaning goods to a belligerent government.

Foley: That we would have to trim out of this statute. This statute has that in there. It says, "Provided further that no transactions authorized herein shall result in expense to the United States nor involve the extension of credits by the United States," and that, of course, we will have to get out of there.

Purvis: It does not contemplate any change in the Johnson Act.

H.M. Jr.: And also he said, "I want to do this right out in the open." This will be an order of the Army to the manufacturer.

Foley: In so far as expanding the plant facilities are concerned, I should think that within what we have now we have got all the power we need. I don't think we need any additional power to do that. We have got the full resources of the RFC available through the Defense Plant Corporation to build and to lease or to otherwise dispose of under some kind of a management operation,
contractor or something of that character, plant facilities that are necessary to meet these orders that would be placed not only for our own use but for your use or any other country's use. So I think we can limit it to enlarging the countries, this statute, and also enlarge the powers in the statute by authorizing the work to be done under private contract with private manufacturers and then get a large appropriation, whatever is necessary, to carry out the purpose of this act.

H.M.Jr: Well, it sounds all right. I will tell you, Arthur, if you would be in here tomorrow, you may have to wait a little bit, about a quarter of eleven.

Purvis: Yes, I will.

H.M.Jr: And then I would be glad to have you listen and we will do some of the other Treasury things first, you see.

Purvis: Thank you very much.

H.M.Jr: You come in at quarter of eleven, you see. We will have something for you to see.

Now, while I am hitting on all six - are you through? (Foley)

Foley: Yes, I am through.

H.M.Jr: There is an entirely different thing which I want you to be thinking about which also the President hasn't thought through. During this interim - and Cox is in on this and Phil - we have got to find some way that these orders can be placed, legally.
Now, Phil has managed a letter of intent, but this whole thing has bogged down and there is some way certainly amongst us here, there are brains enough and hearts here to do this thing. There are brains enough to find an interim plan, letter of intent, or something you see, like you did with the airplane people. You give these fellows a letter and you say, "Go ahead and get everything lined up."

Purvis: In many cases that would involve the putting down of a much lesser sum if the President's prohibition did not apply against the signing of a letter of intent as we have viewed it as applying against assigning of a contract. If we could get it to that point that a letter of intent could be used, undoubtedly the sums that could be required to ease us over, it would be a palliative.

H.M. Jr: If by chance we could also have that by 9:30 Monday, you see, so he could lay this before the Congressional leaders and say, "Now look, here are two things, the permanent legislation and the emergency act, and the Army is going to go ahead and get a fellow — well, they are short on machine guns. Now, all right, we have got to have double capacity of machine guns and they are going to tell such and such an organization to go ahead and build a plant in Kansas City and St. Louis to do the thing up to the point of actually spending the money, but they have got to get the materials and the plans drawn and so forth and so on. I mean, they are not going to spend the money, but they are going to have everything so that when the day comes that the bill passes, the whistle blows and the steam shovel begins to function. I mean, to use an example, when I had Procurement and
Buildings and they voted so many hundred post offices that we should build and the bill was going through, the day the President signed the bill they started to dig for a post office in every congressional district in the United States. They voted 150 million for national defense in July, and they haven't, I don't believe, spent a dollar of it yet. What I envisage is that everything will be done up to the point that when he signs the bill, they have gone so far that the steam shovel will begin to work that day, which would save you three months, wouldn't it?

Purvis: Oh, undoubtedly. That would bridge the gap if we can get a situation which is sufficiently substantial for the manufacturer to see that it is going to mean business.

H.M.Jr: My post office example is very good. I mean, they vote 360 post offices or whatever it is. Now we go ahead and get the contractor, get the design, we get everything down until actually the fellow was ready to start the steam shovel when the President signed it. Which would save six months.

Purvis: Knudsen is the man who has got to understand that or whoever is the Procurement head.

H.M.Jr: I hope - you see, the Budget - this is Treasury gossip and White House Budget - is over there right now seeing the President, trying to get an Executive Order fixed up which will say what Mr. Knudsen's duties are. That hasn't been signed yet. But once we know that, whoever the person is we work with, I take it if I have such and such a plan the President will say "this is fine" and go ahead and do it.

Purvis: That is right, get it all up to date.
But no one else is thinking on this thing the way you and I are, so if we could have something for him, you knowing what your needs are - and that is why I shied off doing torpedo boats because we don't want to --

Don't let's muddy the issue.

Here is what the British want, this is their priorities, this means additional plant capacity; now why can't we go ahead up to the point of putting the steam shovel to work, which would mean from three to six months argument, etc., etc.

Now, I don't - I know it can be done.

Well, the RFC is ready to go ahead now and build the capacity.

The President doesn't want the RFC.

Not on building capacity?

Yes, he did mention that we might get some money in the interim.

That is right. He asked did they have any authority left.

Jesse will build plants without any orders being placed.

He raised that.

He raised that. He said he felt that there was the unexpended contractual balances wherever they might exist. He mentioned his own in connection with ships, merchant ships. He then referred to the possibility of also getting from the RFC certain interim funds and then he
raised himself the difficulty which he said ought to be legally considered as to whether one had the right to use balances totally in the construction of a plant without including any payment for the actual goods that come out of the plant.

Foley: Well, that the RFC clearly has, and that is why the RFC is ideal and that is why I mentioned that I didn't think we needed to have any additional authority in so far as the capacity of production is concerned. RFC has not only the funds, but they have the power to build a plant now, even though no orders are in sight for the plant. They have got the power to do it, and they wouldn't have to wait until this money was available and this authority - they could start right now and they could begin to build all over the country different kinds of manufacturing plants with a view to authority being placed for the orders.

H.M.Jr: If Congress decided in its wisdom to do it.

Foley: But they could build them and just leave them there and wait.

Purvis: I think it is hopeful. I am delighted to see the way you are tackling it.

H.M.Jr: While I happened to be hitting on all six, I wanted to go through the whole line. I think that is the thing. Do you think of anything, Philip?

Young: No. Jesse told McCloy over at the War Department he was ready to go ahead on that basis. It might take a little persuading.

H.M.Jr: When did he tell him that?
Oh, about a week ago.

Well, this would be a whole program, you see. Now, what I think the President should do, when he sees the leaders at ten o'clock Monday, say, "Well now, here is what - the kind of legislation I want and this is what I am proposing to do in the interim. Can I get backing on the Hill for it?" you see. And if they would say, "Yes, it is all right."

Yes.

Does the President have any objection to using the monies over in the War Department which have been scraped together for Fourth Quarter maintenance to place orders pending the RFC's production capacity expansion?

I thought they had done that.

I used the terms that contractual balances might be available.

That would be for the orders and the RFC funds for the plants.

That is right.

So you could go ahead on both fronts to some extent, to a limited extent.

Well --

Now then, could we - if we could get a talk - could Sir Frederick Phillips join with the crowd where there is any - so that he can come into this thing and realize how it is going?

Let him come in at eleven tomorrow. Anybody
that you want to pull along with you, bring them at eleven. Not too many. Weir and Phillips?

Purvis: That would be the maximum.

H.V. Jr: I don’t think you need any help between now and eleven, do you, Ed?

Purvis: Well, if you do, we are available at any point.

H.V. Jr: "Well, fairly early in the game I think we ought to have somebody from the Attorney General’s office sit in with us. How about eleven tomorrow? Would that be a good time? Think it over.

Foley: All right. I don’t think it is necessary at eleven tomorrow, because if we draw them in they will want to do it their way and not our way. Let’s get something down. There won’t be any question of legality here. This isn’t like an executive order that has to be approved. We can draft it so it is constitutional all right.

H.V. Jr: There are two ways in Washington to do a thing. Go around and tell everybody what you are doing and ask for their cooperation and get nowhere, or do it as secretly as possible --

Purvis: And fight it out to a finish.

H.V. Jr: And then give it to the President.

Purvis: Yes. Well, I must say I am very relieved and I think it is quite in accord with the spirit of what he has said. Now, I think we should leave you and I thank you very much.

H.V. Jr: Well, that is the thing.
January 2, 1941
2:10 p.m.

H.M.Jr: Hello.

Wm. S. Knudsen: Hello.

H.M.Jr: Bill?

K: I just wanted to wish you a Happy New Year.

H.M.Jr: That's what I wanted to wish you.

K: Thank you so much.

H.M.Jr: How are you?

K: Pretty good, sir.

H.M.Jr: And your family?

K: Fine, thanks.

H.M.Jr: I'd like to see you sometime, whenever it's convenient.

K: All right. Later in the afternoon?

H.M.Jr: What's that?

K: Later in the afternoon?

H.M.Jr: Today?

K: Yes.

H.M.Jr: I'd rather do it the first thing in the morning.

K: Fine.

H.M.Jr: How about 9:15?

K: I'll pick you up.

H.M.Jr: You want to pick me up at the house?

K: Uh-huh.
H.M. Jr: What time?
K: You set the time.
H.M. Jr: Oh ....
K: 8:30?
H.M. Jr: 8:30 will be all right.
K: All right, sir.
H.M. Jr: Because I'd like to tell you what the status of the English situation is.
K: Yeah. All right, sir.
H.M. Jr: I'll see you tomorrow morning.
K: Yes, sir.
H.M. Jr: Good-bye.
January 2, 1941
3:45 p.m.

RE CHINESE PURCHASING PROGRAM

Present: Mr. Soong
Mr. Young

H.M. Jr: This is what happened this morning. I saw Mr. Purvis and I told him it was the wish of this Administration and I hope that not later than next Monday, if possible, they would give you two planes a day for 18 working days, that is three weeks, or 36 planes, and then one plane a day for the next ten weeks, or a total of a hundred; that there were these 125 guns which Colt had and which were available; but that these planes must have - how I don't know, but they just must, each of them, have two 50 calibre guns.

Now, they agreed to this program. I said the final details would be between you and Mr. Purvis, with Mr. Young assisting you, but I considered it an accomplished fact, that I could say it was finished. As to the details, that was between you and them and the Curtiss Company, and Mr. Young can assist you.

Has anything happened since then?

Young: Not that I know of.

H.M. Jr: So the rest is up to you. But that is the proposal. Two a day until the 18 working
days are over, which would be three weeks, when you will have 36, and then one a day for ten weeks; so in 13 weeks, beginning Monday, you ought to get a hundred planes, 13 weeks. That is that.

Now, have I stated it all, Philip?

Young: That is all there is to it.

H.M.Jr: So I think if you - any time you can call up Mr. Purvis and say you want to talk to him about it. He is here in Washington now.

Soong: I thank you for it.

Young: No ammunition included.

H.M.Jr: No, except that I said each plane must have two 50 calibre guns. Those are the two that fire through the propeller.

Soong: No ammunition for that?

Young: For the 50 calibre? No.

H.M.Jr: Who has the ammunition?

Young: The British have some 50 calibre ammunition.

H.M.Jr: Well, they will have to give it to them. There is no use of giving them the planes and guns without the ammunition.

Young: You don't have 50, but you do have 30, don't you?

Soong: Yes.

H.M.Jr: But no 50?

Young: No.
H.M.Jr: We will have to, Philip. There is no use doing this thing half way. Enough ammunition to keep the planes going. It will have to come out of that pool. We have gone to all this trouble now, and I don't want to have planes without any ammunition. So that is that.

Soong: Well, thank you very much, Mr. Secretary.

H.M.Jr: I hope with Mr. Bell that we will get - when are we going to be ready on that?

Soong: I hope it will be tomorrow.

H.M.Jr: Is that when it is? I hadn't heard.

Soong: Thank you.

H.M.Jr: Good-bye.
January 2, 1941
3:55 p.m.

H.M.Jr: Hello.
Operator: Harold Smith.
H.M.Jr: Hello, Morgenthau.
Harold Smith: Yes.
H.M.Jr: How are you coming?
S: Pretty good.
H.M.Jr: Anything new on that Order that I'm personally interested in?
S: No, there isn't. We just took over this Defense Commission order and that's gotten a little snarled up and I think he wants to straighten that out first.
H.M.Jr: I see. So there's nothing new on the one I'm interested in.
S: No, no.
H.M.Jr: How do you feel about it? Have you had a chance to read it?
S: Yeah. As I look over it as it stands now, I just have one quick reaction to it, that the factor of production ought to be left out of it and that it ought to be solely on the Cabinet level.
H.M.Jr: Well, that's something that I wouldn't fight about.
S: Yeah. Well, that reaction comes out of trying to balance off a little pulling and hauling that has been going on this week in connection with reorganization of the Defense Commission itself.
H.M.Jr: Just a little pulling and hauling, huh?
S: (Laughs). I just got through telling the President that my shoulder sockets were all sore I'd been yanked around so much.
H.M.Jr: Well, I'll call you again or if you happen to have anything on that .....  

S: Yeah. Well, I tell you, I think there is no use in taking it over to him until he gets this other - now he's revised this and I think there is going to be a little struggle over it and we thought the other Order would be signed today in which event we'd get this other one into the hopper. But it wasn't signed today and he's going to see Hillman and Knudsen and I suspect there's going to be some fireworks in other directions, I don't know.

H.M.Jr: O. K.

S: All right.

H.M.Jr: Thank you.
January 2, 1941

I spoke to Justice Frankfurter tonight, and asked him whether he would be ready to look over our proposed legislation on how to lend war materials to England. He said he would be very glad to have it left with him so that he could read it.

Justice Frankfurter also was kind enough to say that he had a conversation with Justice Brandeis. Justice Brandeis told him that after having talked with me he found that I seemed to have ideas which fitted in with his more closely than anybody else connected with the Administration. I evidently had made a hit with the old man.
MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Supplementing my previous memoranda, the following charter of a vessel of the United States to an alien is considered of interest:

SS SCHCHARIE (Official No. 217799) - Application filed by the South Atlantic Steamship Company for approval of charter to Mitsubishi Shoji Kaisha, for one voyage with a cargo of gasoline and lubricating oil from a United States Gulf port or ports to a port or ports in Japan, loading commencing on or about December 15, 1940. Approved 12/7/40.
Honorable Henry Morgenthau,
Washington, D. C.

Dear Henry:

Enclosed is a brief memorandum on the silver item I mentioned to you this afternoon. If I get any more reasonably authentic dope I'll pass it on to you.

Your suggestion that we go out to La Osa together on January 30th or 31st for a week or so hit the bull's eye with me and immediately filled me with a yearning for the great open spaces. Following our talk I made inquiries from counsel about the case I referred to and find it is more than likely that I can get away for that week, but I won't know positively until January 20th. In the meantime, please make my plane reservations with yours on the assumption that I will be able to go. Aside from the pleasure of being with you, the trip is really important to me because I have practically run out of my supply of stories, and I want to replenish it from Dick at the earliest possible moment. Incidentally, I am confidentially informed that one or two of our old ranchmates (no, I don't mean Flore) are going to be at La Osa around the end of the month.

Sincerely,

Harold

Inc
New York, January 2, 1941

To the Honorable Henry Morgenthau:

I understand that during the past few months the airplane industry has been using increasingly important quantities of silver solder. This is made of an alloy containing 50% silver and 50% zinc and cadmium combined.

The indications given to me of quantities of silver being consumed for this purpose sound so fantastic to me that I hesitate even to quote them without further investigation. I am making inquiries through various channels and will transmit any further information received that sounds reliable.

Harold K. Hochschild.
January 2, 1940

Messrs. Kuhn, White and Bell prepared the attached drafts for the Secretary's use at his press conference when he expected to be asked for comment on the Coeles' statement. However, the Secretary was at the White House while the men were working on the drafts and returned just in time to hold his press conference. He, therefore, did not have an opportunity to see these drafts before he met with the newspaper men. His comment at the press conference was, "I would say that the matter is under study."
Chairman Eccles showed me the special report of the Federal Reserve Board on monetary and reserve matters before making it public. This was a courtesy that I appreciated.

I was not asked to give my approval to it and it was clearly understood that I reserved my opinion as to the merits of the various proposals made by the Board of Governors.

I have very serious doubts as to the wisdom of attempting to put into effect any of the Board's recommendations at this time. This applies with particular force to the proposal to increase reserve requirements. If this should have the effect of creating a scarcity of money and forcing an increase in interest rates the results would be very unfortunate. In my opinion I don't think this is a time to lock up financial resources any more than it is a time to lock up any physical resource that we shall need in our defense effort; nor is it a time to increase the cost to the government and the people of making full use of any resource.
In so far as this report draws public attention to the danger of inflation in our defense effort, I am glad that it has been made. You will remember that I mentioned it to you weeks ago, and said that it was one of my chief concerns. I have been having constant discussions about it with Leon Henderson, and both of us are determined to nail any sign of a rising spiral, and to nail it hard, as soon as it appears. Specifically, what I have in mind is the sudden rise in one or two commodities that are essential to the defense effort. There has been no all-round rise; we are seeing to it that there shall be none. We are not going to let prices run away or even begin to run away. Where they show signs of doing so, we are going to stop the process at the very beginning.

That to my mind is the first and best way to guard the people of this country against inflation. The first and best way, in other words, is not to let it start. That is another reason why I have doubts, serious doubts, about the recommendations in Mr. Eccles' report. If we accept them as recommended we would have a movement in prices before the recommendation would have any effect. Moreover, a rise in interest rates at the present time would tend to push prices up at the very moment when we want to keep them down. It would hamper the defense effort and create the very evils which the Treasury and the Defense Commission are working to avoid. This is not the time for tinkering with money rates. It is the time for a resolute job on the prices of physical things. That is the job the Administration is now doing.
The excerpt appears to be a section of a document discussing financial or economic issues. The content is too fragmented and unclear to provide a coherent translation or explanation. The visible text suggests a discussion of processes or operations, possibly related to financial transactions or economic decisions. Due to the quality and nature of the image, a precise interpretation cannot be accurately rendered.
DEFINITIONS

"Control" defined as ownership of more than 10% of voting stock for electing directors, or domination of election of majority of directors, of an insured bank or any other company. Sec. 2(7), page 2.

"Holding company" of an insured bank defined as:

1. Any company which "controls" insured bank.
2. Any company which "controls" another company which "controls" insured bank.
3. Every company in a system of "controlled" and "controlling" companies in which any company or combination of companies "controls" the insured bank. Sec. 2(8), page 2.

"Affiliate" of an insured bank defined as:

1. Any "holding company" of the insured bank.
2. Every company in a system of "controlling" and "controlled" companies in which any company is "controlled" by the insured bank or by the "holding company" of such insured bank or by any company or combination of companies in the system.
3. Any company having one or more shareholders who own more than 50% of the voting stock for electing directors of both the company and the insured bank. Sec. 2(9), page 3.

RESTRICTIONS UPON HOLDING COMPANIES

Does not abolish existing holding companies, nor require them to dispose of any bank stock which they now hold, or which they may acquire before the effective date of the Act, but merely imposes the following restrictions upon holding companies and insured banks "controlled" by holding companies:

1. Existing holding companies may not acquire any more voting stock of any insured bank, and no company may acquire sufficient voting stock of an insured bank to become a holding company.
- 2 -

(Thus existing holding companies are not abolished, although they may not acquire any additional voting stock in insured banks and no new holding companies may be established.) Sec. 4, page 4.

(2) An insured bank controlled by a holding company cannot make loans to or collateralized with securities issued by, purchase securities from, or invest in securities issued by, the holding company or any other "affiliate" of the bank. Sec. 3, page 3.

(3) An insured bank "controlled" by a holding company cannot establish any new or additional branches. Sec. 5, page 5.

(4) No "voting permit" to a holding company to vote the stock of a bank, under existing legislation, may be granted or extended by the Board of Governors of the Federal Reserve System without the consent of the Board of Directors of the Federal Deposit Insurance Corporation. Sec. 8, page 7.

DIVIDEND RESTRICTIONS

After the date of approval of the Act it shall be unlawful for any national bank to declare or to pay any dividend over the objection of the Comptroller of the Currency, or for any State insured bank to declare or pay any dividend over the objection of the Federal Deposit Insurance Corporation. (This section will prevent holding companies from bleeding insured banks through excessive dividends prior to the termination of holding company control on June 30, 1944, and will protect insured banks against payment of excessive dividends after June 30, 1944, if groups of persons should devise means to circumvent this Act and continue their control over insured banks.) Sec. 5, page 3.

Insured bank may not pay any dividends to any holding company so long as such holding company holds any voting stock of such insured bank, or of any holding company of such bank, acquired in violation of this Act. (This section only prohibits payment of dividends to the holding company if it has acquired additional voting stock in the insured bank after the effective date of the Act, and has, accordingly, acquired the stock in violation of the Act. Otherwise, the section does not cut off dividends from insured banks on stock now held by holding companies or acquired by them prior to the effective date of the Act.) Sec. 10, page 8.
SANCTIONS FOR ENFORCING ACT

Board of Directors of Federal Deposit Insurance Corporation can obtain injunctive relief from courts to enjoin violations of Act. Sec. 6(3), page 5.

Company violating Act subject to fine of not exceeding $100,000. Individual violating Act subject to fine not exceeding $10,000, or not exceeding five years' imprisonment, or both. Sec. 6(1), page 4.

Board of Directors of Federal Deposit Insurance Corporation may remove from office, after hearing, any officer or director of an insured bank, who is responsible for, or fails to disclose to proper authorities, any violation of the Act. Sec. 6(2), page 4.

ACT TO BE ADMINISTERED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION

SANCTIONS FOR ENFORCING ACT

Board of Directors of Federal Deposit Insurance Corporation can obtain injunctive relief from courts to enjoin violations of Act. Sec. 9, page 7.

If an insured bank or any holding company of such insured bank violates the Act, the insured bank may become ineligible to receive deposits of public funds of the United States, and may have its insurance terminated by the Federal Deposit Insurance Corporation. Sec. 11, page 9.

Violation of Act a misdemeanor. $5,000 fine for each violation by a company, and $5,000 or not exceeding one year's imprisonment, or both, for each violation by a natural person. Sec. 14, page 12.

ACT TO BE ADMINISTERED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION

Regraded Unclassified
A BILL

To provide for the regulation of bank holding companies and affiliates, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

That this Act may be cited as the "Bank Holding Company Act of 1938".

Sec. 2. (1) "Insured bank" means any operating bank, banking association, trust company, savings bank, or other banking institution, the deposits of which are insured in accordance with the provisions of section 12B of the Federal Reserve Act, as amended.

(2) "Person" means any individual, partnership, association of persons, or company.
any company or combination of companies control the insured bank.

(9) "Affiliate" of any insured bank means any company which with respect to the insured bank is a holding company, every company in any series or succession of companies constituting any system of controlling and controlled companies, in which any company is controlled by the insured bank or by such holding company or by any company or combination of companies in such system, and any company having one or more shareholders who have legal or equitable ownership of more than 50 per centum of the number or par value of the outstanding shares of capital stock or voting rights for electing directors or the domination, directly or indirectly, in any manner of the election of a majority of the directors of an insured bank or any other company, and wherever used in this Act the word "control" in any grammatical form shall have this meaning.

(10) "Effective date" means the date of enactment of this Act.

Sec. 3. It shall be unlawful for any insured bank, directly or indirectly or by any device whatever (1) to make any loan or extension of credit to any of its affiliates or to invest any of its funds or any funds administered by it, in any securities issued or guaranteed by any of its
1 affiliates; or (2) to purchase any securities from any of
2 its affiliates; or (3) to make any loan or extension of
3 credit to any person secured by any collateral consisting
4 of any securities issued or guaranteed by any of its affiliates.
5 Notwithstanding the foregoing, any insured bank, which
6 prior to the effective date, shall have made any loans, exten-
7 sions of credit, or investments which by virtue of this section
8 would constitute prohibited loans, extensions of credit, or
9 investments if made after the effective date, shall have three
10 years after the effective date within which to collect, sell,
11 or otherwise dispose thereof. During said three-year period
12 any such loans or extensions of credit may be renewed or
13 extended, but no renewal or extension shall be given beyond
14 said period. Within two years after the effective date,
15 where necessary to save itself from loss, any such insured
16 bank may accept securities issued or guaranteed by its
17 affiliates, as payments to apply on or as collateral security
18 for loans or extensions of credit made prior to the effective
19 date to any person other than one of its affiliates, and in
20 such event the insured bank shall collect, sell, or otherwise
21 dispose of such securities within three years after the
22 effective date.
23 Sec. 4. It shall be unlawful for any company to acquire
24 any capital stock, or voting rights for electing directors,
25 of any insured bank or of any holding company of any
26 insured bank, if such company is or upon such acquisition
27 would become a holding company of any insured bank.
28 Sec. 5. No insured bank shall establish or operate or
29 be permitted to establish or operate any new or additional
30 branches while such insured bank is controlled by any hold-
31 ing company.
32 Sec. 6. Every company shall before the expiration of
33 sixty days after the effective date cause to be filed with the
34 cashier or secretary of every insured bank as to which it is
35 an affiliate, an affidavit to be signed by one of its executive
36 officers having knowledge of the facts, which shall set forth
37 as of the effective date (1) the total number and par value
38 of the outstanding shares of capital stock and total number
39 of voting rights for electing directors of such insured bank,
40 which such company owns or holds, the names of the per-
41 sons in whose names such shares or rights are issued and a
42 full description of any instruments evidencing such shares
43 or rights; (2) the amount of any indebtedness of such com-
44 pany to the insured bank, direct and indirect, the maturity
45 dates, and the person in whose name such indebtedness
46 stands, if other than the company; and (3) an itemized
47 statement of its assets and liabilities as of the last day of the
48 preceding month and of its earnings for the current fiscal
49 year to the last day of the preceding month, if the company
50 be directly or indirectly indebted to the bank. Within

Regraded Unclassified
the books and records thereof, as shall be necessary or proper to disclose the condition of any insured bank or the effect of the relations between any holding company or affiliate and any insured bank, upon the Federal deposit insurance system or any insured bank. And such investigations shall be made at the expense of the Corporation; and it shall be unlawful for any insured bank, holding company, or affiliate knowingly to make any false statement or report to the Corporation or to refuse authorized representatives of the Corporation access to any information required in connection with any such investigations.

Sec. 8. After the effective date, the Board of Governors of the Federal Reserve System shall not, without the consent of the Board of Directors of the Federal Deposit Insurance Corporation, grant or extend the operative effect of any voting permit to any holding company affiliate under the provisions of section 2 of the Banking Act of 1933, as amended (U. S. C., title 12, sec. 61).

Sec. 9. Whenever it shall appear to the Board of Directors of the Federal Deposit Insurance Corporation that any person is engaged or about to engage in any acts or practices which constitute or will constitute a violation of the provisions of this Act, the Board in its discretion may bring an action in the proper district court of the United States or the Supreme Court of the District of Columbia, to enjoin such
holding company shall continue to hold any shares of the
1 capital stock or voting rights for electing directors of such
2 insured bank, or of any company which is a holding company
3 with respect of such insured bank, acquired in violation of
4 any provision of this act.
5
6 Sec. 11. Whenever the Board of Directors of the Fed-
7 eral Deposit Insurance Corporation shall determine, after
8 reasonable notice to the company affected an opportunity for
9 a hearing, that any insured bank or any company which with
10 respect to any insured bank is a holding company has violated
11 any provision of this Act, and that such action is necessary
12 for the protection of the public or the safety and integrity of
13 the Federal deposit insurance system, it may make a finding
14 of the facts of such violation. Upon making such finding,
15 the Board of Directors of the Federal Deposit Insurance Cor-
16 poration may cause the same to be published in the Federal
17 Register and thereafter the insured bank shall be ineligible
18 to receive deposits of public funds of the United States or of
19 any public officer, agent, or instrumentality of the United
20 States. Upon making such finding, the Board of Directors
21 of the Federal Deposit Insurance Corporation may proceed
22 to terminate the insured status of the insured bank, in like
23 manner as provided in subsection (i) of section 12B of the
24 Federal Reserve Act, as amended. Upon notification in
25 writing by the Board of Directors of the Federal Deposit In-

1 acts or practices and to enforce compliance with this Act,
2 and upon a proper showing a temporary or permanent injunc-
3 tion, decree, or restraining order shall be granted without
4 bond. The Corporation may transmit such evidence as may
5 be available concerning such acts or practices to any United
6 States attorney or to the Attorney General, who, in his dis-
7 cretion, may institute appropriate criminal proceedings under
8 this Act. The proper district for the commencement of any
9 injunction proceeding pursuant to this section shall be any
10 district wherein any act or transaction constituting the viola-
11 tion occurred or in which the defendant is an inhabitant or
12 transacts business, and process in such cases may be served
13 in any district in which the defendant is an inhabitant or
14 transacts business or wherever the defendant may be found.
15 Judgments and decrees so rendered shall be subject to review
16 as provided in sections 225 and 347 of title 28 of the United
17 States Code, and section 7, as amended, of the Act entitled
18 "An Act to establish a court of appeals for the District of
19 Columbia", approved February 3, 1893 (D. C. Code, title
20 18, sec. 26). No costs shall be assessed for or against the
21 Corporation in any proceeding under this Act brought by it
22 in any court.
23
24 Sec. 10. It shall be unlawful for any insured bank to
25 pay to any holding company, directly or indirectly, any
26 dividend on any shares of its capital stock so long as such

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insurance Corporation to the Board of Governors of the Federal Reserve System of any such finding of such violation on the part of any holding company and request for such revocation, the Board of Governors of the Federal Reserve System forthwith shall proceed to revoke any voting permit theretofore granted to such holding company as a holding company affiliate under the provisions of section 2 of the Banking Act of 1933, as amended (U. S. C., title 12, sec. 61). The Board of Directors of the Federal Deposit Insurance Corporation shall have the right, upon such terms and conditions as may be consistent with the public interest, the safety and integrity of the Federal deposit insurance system and the purposes of this Act, to review, suspend, modify, or revoke any order or finding made pursuant to this section.

Sec. 12. Any person or party aggrieved by an order issued by the Board of Directors of the Federal Deposit Insurance Corporation under this Act may obtain a review of such order in the circuit court of appeals of the United States within any circuit wherein such person resides or has his principal place of business, or in the United States Court of Appeals for the District of Columbia, by filing in such court, within sixty days after the entry of such order, a written petition praying that the order of said Board be modified or set aside in whole or in part. A copy of such petition shall be forthwith served upon any member of said Board, or upon any officer thereof designated by the said Board for that purpose, and thereupon the said Board shall certify and file in the court a transcript of the record upon which the order complained of was entered. Upon the filing of such transcript such court shall have exclusive jurisdiction to affirm, modify, or set aside such order, in whole or in part. No objection to the order of said Board shall be considered by the court unless such objection shall have been urged before said Board or unless there were reasonable grounds for failure so to do. The findings of the said Board as to the facts, if supported by substantial evidence, shall be conclusive. If application is made to the court for leave to adduce additional evidence, and it is shown to the satisfaction of the court that such additional evidence is material and that there were reasonable grounds for failure to adduce such evidence in the proceedings before said Board, the court may order such additional evidence to be taken before the said Board and to be adduced upon the hearing in such manner and upon such terms and conditions as to the court may seem proper. Said Board may modify its findings as to the facts by reason of the additional evidence so taken, and it shall file with the court such modified or new findings, which, if supported by substantial evidence, shall be conclusive, together with its recommendation, if any, for the modification or setting aside of the original order.
The judgment and decree of the court, affirming, modifying, or setting aside, in whole or in part, any such order of said Board shall be final, subject to review by the Supreme Court of the United States upon certiorari or certification as provided in sections 346 and 347 of title 28 of the United States Code. The commencement of proceedings under this section shall not, unless specifically ordered by the court, operate as a stay of said Board's order.

Sec. 13. It shall be unlawful for the individual directors, officers, or agents of any company to authorize, order, or do any act constituting in whole or in part a violation of the provisions of this Act by such company.

Sec. 14. Any person who knowingly violates any provision of this Act shall be guilty of a misdemeanor; any company which knowingly violates any provision of this Act, upon conviction thereof, shall be punished by fine of not exceeding $5,000 for each violation, and any natural person who knowingly violates any provision of this Act, upon conviction thereof, shall be punished for each violation by fine of not exceeding $5,000 or by imprisonment for not exceeding one year, or by both, in the discretion of the court.

Sec. 15. No provision in this Act shall apply to, or be deemed to include, the United States, a State, or any political subdivision of a State, or any corporation which is wholly owned, directly or indirectly, by any one or more of the foregoing, or any corporation which is managed by a person or persons appointed pursuant to law by the President of the United States or the Governor of a State or the chief executive of any political subdivision of a State, or any officer, agent, or employee of any of the foregoing acting as such in the course of his official duty or to any company which is determined by the Board of Directors of the Federal Deposit Insurance Corporation, on application for exemption or of its own motion, to be only incidentally a holding company and to be primarily engaged in business other than holding the stock of or managing or controlling banks, banking associations, savings banks, or trust companies, or to be only incidentally or temporarily an affiliate of any insured bank.

Sec. 16. If any provision of this Act or the application of such provision to any person or circumstances shall be held invalid, the remainder of the Act and the application of such provision to persons or circumstances other than those as to which it is declared invalid shall not be affected thereby.
To provide for the regulation of bank holding companies and affiliates, and for other purposes.

By Mr. Glass and Mr. McAnoo

Read twice and referred to the Committee on Banking and Currency

January 9 (calendar day, March 51, 1938)

A BILL
January 2, 1941

A BILL

To regulate the control of insured banks by holding companies, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Section 1. This Act may be cited as the "Bank Holding Company Act of 1941".

Section 2. Definitions. When used in this Act unless the context otherwise requires—

(1) The term "company" means any bank, corporation, partnership, association, joint stock company, business trust, or organized group of persons, whether incorporated or not, or any receiver, trustee, or other liquidating agent of any of the foregoing in his capacity as such, but shall not be deemed to include the United States, a State, any political subdivision of a State, or any agency of the United States, of a State, or of any political subdivision of a State.

(2) The term "insured bank" means any bank the deposits of which are insured under the provisions of section 12f of the Federal Reserve Act, as amended.

(3) The term "voting security" includes any security entitling the owner or holder thereof to vote in the direction
or management of the affairs of a bank, either directly or through any other person or company, and any security issued under or pursuant to any trust, agreement, or arrangement whereby a trustee or trustees or agent or agents for the owner or holder of such security are entitled to vote in the direction or management of the affairs of a bank.

(4) The terms "own", "control", "hold", and "acquire", as applied to voting securities are intended and shall be deemed to include the receipt, possession or enjoyment, directly or through any other company, entity, device, or status whatsoever, of any legal, equitable, or beneficial right, title, or interest in any voting security.

(5) The term "Board" means Board of Directors of the Federal Deposit Insurance Corporation.

(6) The term "State" means any State of the United States or the District of Columbia.

The preceding definitions shall be broadly interpreted so as to prevent the evasion or circumvention by any device whatsoever of the provisions of this Act or of any rule or regulation thereunder.

Section 3. Prohibitions. After June 30, 1944, it shall be unlawful (a) for any company to own, control, hold, or acquire more
than 10 per centum of the voting securities of an insured bank, or
(b) for more than 10 per centum of the voting securities of an in-
sured bank to be held by a trustee or trustees for the benefit of the
shareholders, members or participants of any one company, or (c) for
any company to control in any manner, either directly, or indirectly
through any other company or individual, or otherwise, the manage-
ment or policies of an insured bank, or the election of a majority of the
directors of an insured bank.

Section 4. Exemptions. Notwithstanding the foregoing, the prohibi-
tions contained in section 3 of this Act shall not apply to any com-
pany which is determined by the Board (a) not to control the manage-
ment or policies of any insured bank, or (b) to control only incidentally the
management or policies of one or more insured banks, the company being
primarily engaged in business not closely related to banking, when
such control will not, in the opinion of the Board, adversely affect the
banking business or the public or be inconsistent with the general pur-
pose of this statute. In addition, section 3 of this Act shall not be
construed as prohibiting any company from acquiring in good faith any
voting securities of an insured bank in satisfaction of debts previously
contracted in the course of its business, but no voting securities so
acquired in excess of the amounts prescribed in section 3 of this Act
shall be owned, controlled, or held by such company for a longer period
than six months.

Section 5. Dividend Restrictions. After the date of the approval
of this Act, it shall be unlawful for any insured bank, over the objection
of the Comptroller of the Currency if such bank is a national banking
association, or a bank or trust company doing business in the District of Columbia, or over the objection of the Board if such bank is not a national banking association, or a bank or trust company doing business in the District of Columbia, to declare or to pay any dividend on any of its capital stock when, in the opinion of the Comptroller of the Currency or the Board, as the case may be, the declaration or payment of any such dividend would not be compatible with the best interests of such bank, its depositors or other creditors, or with the public interest.

Section 6. Sanctions. (1) Any company which knowingly violates any provision of this Act or of any rule or regulation thereunder, upon conviction thereof, shall be subject, for each violation, to a fine of not exceeding $100,000, and any individual who knowingly violates any provision of this Act or of any rule or regulation thereunder, upon conviction thereof, shall be subject, for each violation, to a fine of not exceeding $10,000, or to imprisonment for not exceeding five years, or to both, in the discretion of the court.

(2) Whenever, in the opinion of the Board, any officer or director of an insured bank is responsible for any violation of any of the provisions of this Act, or of any of the rules or regulations thereunder or, having knowledge of a violation, fails to disclose such violation to the proper authorities, the Board may cause notice to be served upon such director or officer to appear before the Board to show cause why he should not be removed from office. A copy of such order shall be sent to each director of the bank affected, by registered mail. If after granting the accused director or officer a
reasonable opportunity to be heard the Board finds that he is responsible for, or having knowledge thereof has failed to disclose to the proper authorities, any such violation, the Board in its discretion, may order that such director or officer be removed from office. A copy of such order shall be served upon such director or officer. A copy of such order shall also be served upon the bank of which he is a director or officer, whereupon such director or officer shall cease to be a director or officer of such bank. Any such director or officer removed from office as herein provided, who thereafter participates in any manner in the management of such bank, shall be deemed to have violated this Act and shall be subject to the penalties prescribed in subsection (1) of this section.

(3) Whenever it shall appear to the Board that any person is engaged in or about to engage in any acts or practices which constitute or will constitute a violation of any of the provisions of this Act, or of any rule or regulation thereunder, the Board may in its discretion bring an action, in any court granted jurisdiction in such cases by this Act, to enjoin such acts or practices and to enforce compliance with the provisions of this Act or of any rule or regulation thereunder, and upon a proper showing a permanent or temporary injunction or decree or restraining or mandatory order shall be granted without bond.

Section 7. Jurisdiction. The District Courts of the United States, and the United States Courts of any Territory or other place subject to the jurisdiction of the United States, shall have original jurisdiction over any proceedings instituted under any of the provisions of this Act or of any rule or regulation thereunder, and, concurrently with State and
Territorial courts, of all suits in equity and actions at law brought to enforce any liability or duty created by, or to enjoin any violation of, any provisions of this Act, or of any rule or regulation thereunder. No costs shall be assessed for or against the Board in any proceeding under this Act brought by or against the Board in any court.

Section 8. Administration. (1) The administration of this Act is hereby vested in the Board which shall have authority to make, issue, amend and rescind such rules and regulations (including definitions of banking, technical and trade terms used in this Act) as may be necessary or appropriate to carry out the provisions of this Act.

(2) The Board, in its discretion, may investigate any facts, conditions, practices, or matters which it may deem necessary or appropriate for the purpose of determining whether any company or individual has violated or is about to violate any provision of this Act or of any rule or regulation thereunder, or for the purpose of aiding in the enforcement of the provisions of this Act, or aiding in the prescribing of rules and regulations thereunder, or in the obtaining of information to serve as a basis for recommending further legislation concerning the matters to which this Act relates. For the purpose of any investigation or any other proceeding under this Act, any member of the Board, or any officer thereof designated
by it, is empowered to administer oaths and affirmations, subpoena witnesses, compel their attendance, take evidence, and require the production of any books, papers, correspondence, memoranda, contracts, agreements, or other records which the Board, or any such member, or any such officer, deems relevant or material to the inquiry. Such attendance of witnesses and the production of any such records may be required from any place in any State or in any Territory or other place subject to the jurisdiction of the United States at any designated place of hearing. In case of contumacy by or refusal to obey a subpoena issued to, any person, the Board may invoke the aid of any District Court of the United States or of any United States Court of any Territory or other place subject to the jurisdiction of the United States, in requiring the attendance and testimony of witnesses and the production of books, papers, correspondence, memoranda, contracts, agreements, or other records. Any such Court may issue an order requiring such person to appear before the Board, any member of the Board, or any officer thereof designated by the Board, there to produce records, if so ordered, or to give testimony touching the matter under investigation or in question; and any failure to obey such order of the Court may be punished by such Court as a contempt thereof.

Section 9. **Separability of Provisions.** If any provision of this Act, or the application of such provision to any person or circumstances, shall be held invalid, the remainder of this Act and the application of such provision to persons or circumstances other than those as to which it is held invalid, shall not be affected thereby.
CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns..................£163,000
Purchased from commercial concerns........£ 73,000

Of the sterling sold, £90,000 was used to cover the importation of tin, and the rest for various commercial purposes.

The Federal Reserve Bank of New York sold £30,000 in registered sterling to a non-reporting bank, and bought £20,000 from another non-reporting bank.

Open market sterling was quoted at 4.03-3/4 until late afternoon. It closed at 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns..................£10,000
Purchased from commercial concerns........£ 2,000

Closing quotations for the other currencies were:

Canadian dollar .......................... 14% discount
Swiss franc ................................ 2.321
Swedish krona .......................... 2.385
Reichsmark .................................. 4.005
Lira ........................................ 0.0505
Argentine peso (free) .................. 2.365
Brazilian milreis (free) .............. 0.0505
Mexican peso .............................. 5.066
Cuban peso ................................ 8-11/16% discount
Chinese yuan .............................. 0.05-5/8

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada, Ottawa, shipped $1,006,000 in gold to the Irving Trust Company, New York, for account of the Banco Melliie Iran, Tehran, for sale to the New York Assay Office.

The State Department forwarded a cable to us stating that the Chase Bank, Hong Kong, shipped $742,000 in gold from Hong Kong to the Chase National Bank, San Francisco, for sale to the U.S. Mint.
A gold price equivalent to $33.93 was received from Bombay this morning, unchanged from the quotation of December 28. Silver in Bombay was 1/2¢ higher at the equivalent of 44.31¢.

In London, the prices fixed for spot and forward silver both declined 1/16¢, to 23-1/4d and 23-3/16d respectively. The dollar equivalents were 42.22¢ and 42.10¢.

Bundy and Harris'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 six purchases of silver totaling 1,260,000 ounces under the Silver Purchase Act. Of this amount, 720,000 ounces represented sales from inventory, and the other 540,000 ounces consisted of new production from foreign countries, for forward delivery.
The Federal Reserve Bank of New York reported the following transaction in the account of the Pénzintézeti Kaszpont, Budapest, maintained with the Guaranty Trust Company, New York:

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount Debited</th>
<th>Paid To</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31</td>
<td>$20,000</td>
<td>Chase National Bank, N.Y., for account of the Reichsbank, Berlin, in favor of Reichspostzentralamt Auslandsschreibungen, Berlin, for account of the Director General of the Royal Hungarian Posts, Budapest in accordance with letter of December 2.</td>
</tr>
</tbody>
</table>
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

TO     
SECRETARY MORGENTHAU

FROM    
MR. COCHRAN

DATE     JANUARY 2, 1941

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transaction in
the account of the Credito Italiano, New York, maintained with the Chase National
Bank, New York.

Date
December 31

Amount Debited
$300,000

Paid To
Check in favor of Banco
di Napoli Trust Co., N.Y.

Regraded Unclassified
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 2, 1941.

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transaction in the account of the Deutsche Asiatische Bank, Shanghai, maintained with the Chase National Bank, New York.

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount Debited</th>
<th>Paid To</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31</td>
<td>$70,000</td>
<td>Chase National Bank, N.Y., for the account of the Credit Suisse, N.Y.</td>
</tr>
</tbody>
</table>

Regraded Unclassified
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 2, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19:

<table>
<thead>
<tr>
<th>Date</th>
<th>No. of Shares Sold</th>
<th>Proceeds of Shares Sold</th>
<th>Nominal Value of Bonds Sold</th>
<th>Proceeds of Bonds Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 23</td>
<td>82,966</td>
<td>1,154,861</td>
<td>5,000</td>
<td>2,766</td>
</tr>
<tr>
<td>24</td>
<td>2,450</td>
<td>111,682</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>185,795</td>
<td>3,785,724</td>
<td>N11</td>
<td>N11</td>
</tr>
<tr>
<td>27</td>
<td>45,583</td>
<td>1,234,392</td>
<td>N11</td>
<td>N11</td>
</tr>
<tr>
<td>28</td>
<td>59,562</td>
<td>1,170,817</td>
<td>N11</td>
<td>N11</td>
</tr>
<tr>
<td></td>
<td>376,446</td>
<td>7,1457,176</td>
<td>5,000</td>
<td>2,776</td>
</tr>
</tbody>
</table>

Sales from February 22 to December 21:

<table>
<thead>
<tr>
<th>Date</th>
<th>No. of Shares Sold</th>
<th>Proceeds of Shares Sold</th>
<th>Nominal Value of Bonds Sold</th>
<th>Proceeds of Bonds Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 22</td>
<td>2,731,346</td>
<td>93,030,725</td>
<td>5,897,500</td>
<td>4,515,322</td>
</tr>
</tbody>
</table>

Total for December 22:

<table>
<thead>
<tr>
<th>Date</th>
<th>No. of Shares Sold</th>
<th>Proceeds of Shares Sold</th>
<th>Nominal Value of Bonds Sold</th>
<th>Proceeds of Bonds Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 23</td>
<td>3,107,792</td>
<td>100,483,201</td>
<td>5,902,500</td>
<td>4,518,098</td>
</tr>
</tbody>
</table>

Miss Poate reported sales of non-vested securities for the week ended December 21 totaled $950,000.
SECRET OF STATE

Washington

RUSH

2, January 2, 4 p.m.

In his address this morning at the ceremony of taking the oath of the new constitution President Arias devoted the following paragraph to the foreign debt:

"Almost no progress has been made with respect to the foreign debt which as you will recall amounts to a very heavy sum for us Panamanians a people small as respects population and area and little developed commercially and industrially. The principal of over twenty-one millions without counting interest which is accumulating month by month bears heavily upon us for which reason we have made a special effort to effect a conversion of the debt on terms as favorable as possible for Panama without prejudicing the creditors. Unfortunately our efforts have not met on the part of the bondholders with the full cooperation which we have hoped in order to reach a solution satisfactory for all interested parties. That is what has induced us to grant on different occasions an extension of the period of expiration of the proposed readjustment plan for successive periods of one month and the present extension runs until January 25. But this expedient necessitated particularly by the stagnation of stock exchange operations in the United States during the recent presidential campaign is not to be continued indefinitely: Our Government will not avoid the imperious duty of seeking a rapid and definite solution for this urgent problem."

UN SIGNED
Secretary of State
Washington.

7, January 2, 5 p.m.

Embassy's 1665, (27576) December 3, 9 p.m.

The collection of laws No. 31, December 19, 1940 which has just been received contains a resolution of the Soviet of Peoples Commissars in accordance with which the customs tariffs of Lithuania, Latvia and Estonia are replaced by the customs tariffs of the Soviet Union as of December 10, 1940. The Chief Customs Administration in Moscow has informed the Embassy today that the customs frontiers between the former Baltic states and the Soviet Union proper and between those territories themselves were abolished on the date indicated.

STEINHARDT.

Embassy

ccopy
Chungking, January 2, 1941

Subject: Opinions of Vice Minister of Finance Regarding China's Financial Condition.

AIR MAIL

The Honorable
The Secretary of State,
Washington, D. C.

Sir:

I have the honor to refer to a conversation between Mr. Y. C. Koo, Vice Minister of Finance, and an officer of the staff of this Embassy regarding the financial condition of the Chinese Government. During the interview the above-mentioned official expressed his personal opinion that China needs additional American financial advisers to assist the Government in utilizing the new loans and to aid the country in conducting economic warfare against Japan.

Mr. Koo expressed considerable satisfaction over the American and British loans and stated that it is his personal opinion that the financial position of Government is stronger now than it has been for some time. According to him the consistent attempts of Japan to weaken the national currency and undermine the Chinese economic system almost met with success and were as serious, if even not more so, than the military operations. The two new loans, in addition to the fact that China has been able to resist Japan for almost three years and a half, leaves no doubt in the Vice Minister's opinion that the country is in an excellent position to hold out for another year.

In connection with this Anglo-American assistance he stressed, however, that Japan will undoubtedly direct new economic measures against China in the hope of nullifying any benefits which may be derived from the loans. It is therefore necessary that every effort be made by the Chinese Government to obtain the maximum advantage from the loans and at the same time to combat Japan with economic warfare as well. He considers the establishment and early operation of the stabilization fund of utmost importance and stressed the necessity of American assistance and advice in this matter if the fund is going to be operated properly.
With regard to the Japanese economic warfare, Mr. Koo referred to
German economic advisers in Japan and in particular to a person who
recently arrived there who is believed to have been the second man in
the Reichsbank and an expert on economic warfare. The presence of this
official leads the Chinese Government to assume that Japan is contemplating
additional economic measures against China. The Vice Minister felt that
if additional measures are taken against this country his Government will
not know how to retaliate and will have to depend solely on the recent
financial assistance to help it survive which will weaken the nation’s
financial position again. Rather than continually absorb these repeated
Japanese attacks at the expense of weakening the financial and economic
position of the country, he proposes that China retaliate by starting
economic warfare against Japan which will help counteract all such enemy
coves. At present he is convinced that China can accomplish something in
that way and claims it is only along these lines that his country can win
the struggle. The difficulty of conducting such a policy, however, rests
in the fact that China lacks men with sufficient training to compete with
the German experts who are directing Japanese policy. The Vice Minister
elaborated at considerable length on this topic and said that he has been
giving it closer attention than any official since the conflict started and
as a result of his observations and studies he has reached the conclusion
that China must have the assistance of expert economic advisers who can
assist the country in counter economic warfare. He requested that his
remarks be made known to the Department and that they be given serious
consideration. The above statements are Mr. Koo’s personal views and as far
as is known do not represent the official attitude of the Government. It
is not at all improbable, however, that Mr. Koo intends to make suggestions
along these lines to his superiors. Mr. Koo’s closing remark was: “We
deeply appreciate the valuable assistance you have given us in the form
of loans but unfortunately we need more. We now require American brains
to show and to help us use the money to the best advantage”.

Mr. Koo is considered one of the ablest younger men in the Government
and his opinion is highly regarded by the Generalissimo. In addition to
holding the position of Vice Minister of Finance he is Manager of the
Farmers Bank of China and Director of the Central Planning Board which is
commonly referred to as the “Brain Trust of China”. Not only is he noted
for his ability but also for his honesty and opposition to official graft
and corruption.

It is felt that his opinions regarding the present financial position
of the National Government present a clear and correct picture. He might
be over optimistic in believing that American advisers would accomplish
all he thinks they could in preserving China’s financial position and
waging economic warfare against Japan. However, he is correct in feeling
that the Chinese are rather dazed by some of Japan’s moves and the mere
presence of foreign advisers with whom the Chinese could discuss some of
their problems—would have a splendid psychological effect. On the other
hand, there seems little doubt that foreign advice would be extremely helpful at this time when there is a certain amount of dissatisfaction with officials in high positions and an apparent lack of harmony.

Respectfully yours,

Nelson Trusler Johnson.

Original and two copies by air mail to the Department
Two copies by air mail via Hong Kong
Copy to Embassy, Peiping

851
JMJ:HHK

True copy of signed original.

COPIED: aja
SECRET

From: Spagent, Shanghai, China.
To: Secretary of the Treasury.

Message from Mr. Nicholson.

Cyril Rogers, Chairman of the Sino-British Stabilization Fund Committee, left Hongkong for the United States by clipper on December 28th and is due in Washington about January 5th, where, it is believed, he will join T. V. Soong and then proceed to London. Rogers' departure from Hongkong was quite secret and, I understand, H. H. Kung is greatly displeased because Rogers did not advise him of his intended trip when the latter was in Chungking a few days before his departure. This disclosure is liable to reflect on Soong who will be blamed for conspiring with Rogers to keep his departure secret from Chungking authorities. The American Consul General in Hongkong states that Rogers was most disagreeable and assumed a high-handed attitude, demanding all kinds of special privileges when applying for a visa to the United States.
From: Spagent, Shanghai, China.
To: Secretary of the Treasury.

Message from Mr. Nicholson.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Batavia
DATE: January 2, 1941, 2 p.m.

On the twenty-fourth of December an agreement was entered into by the Yokohama Specie Bank of Tokyo and the Java Bank, the purpose of the agreement being "facilitating monetary traffic (omission) the Netherlands Indies".

The Japanese Bank, under the terms of the above-mentioned agreement, will have with the local bank an open account for 2,000,000 guilders. The local bank will in turn have 4,500,000 yen in a similar account in Japan. Dollar exchange on the New York market will be eliminated, until further notice, by using these balances and with the two currencies stabilized. Under the agreement the excess must be paid in dollars if either balance should exceed the limitations aforementioned.

The agreement was negotiated with the advice and consent of the local authorities, although it is called a private arrangement between the two banks. It is my opinion that the agreement is of considerable value to Japan financially and as a propaganda instrument, although in local circles there is a tendency to regard it as having little or no importance.

At the present time the text of the agreement is not available;
available; as further details become known I shall report
them.

On the twenty-eighth of December Yoshizawa arrived
here, but there has been no resumption of negotiations.
Probably because he thinks the conference will go on for
several months, he has taken a large residence. European
developments will no doubt be anxiously watched by both
sides.

FOOTE.
DEPARTMENT OF STATE
WASHINGTON

January 4, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses 7 copies of paraphrase of telegram of January 2, 1941, from the American Consulate General, Batavia, Java, reporting on an agreement concluded by the Yokohama Specie Bank of Tokyo and the Java Bank.

Enclosure:

From Batavia,
January 2, 1941.
Gray

(paris)

Vichy

Dated January 2, 1941

Rec'd 5 a.m., 3rd

Secretary of State,

Washington.

8, January 2, 9 p.m.

For the Treasury from Matthews.

Expenditures during the first quarter of 1941 in the total amount of 39.7 billion francs are authorized in the ordinary and extraordinary budgets which were published in yesterday's Journal Officiel. Of this amount, 12.1 billion francs are allocated for the liquidation of expenses resulting from the war; 10 billions for the army, navy and air force, 5.1 billions for the national debt and 3.1 billions for public works and other unemployment projects. The sums needed to meet the costs of the German army of occupation are not included in the budgets, being carried in a special account with the Bank of France.

Matthews

Emb
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, (Paris) Vichy
DATE: January 2, 1941, noon
NO.: 2

CONFIDENTIAL.
Reference is made to telegram of December 23, 10 p.m., No. 877 from the Department.

I have been told by a high official of the French Finance Ministry that an attempt has in fact been made by the Germans to buy the block of shares which the Schneider-Creusot Munitions Corporation holds in the Hungarian Credit Bank. Authorization for the deal was, however, refused by the Finance Minister, to whom the matter had been referred in accordance with the recent changes in France's exchange control regulations.

My informant said he doubts whether the Marshal's personal attention was brought to the proposed transaction, and he said he does not believe that the Germans actually have custody of the managing director general of the Schneider-Creusot Munitions Corporation.

I was told by the Finance Ministry official that apparently the Germans merely consider the aforementioned changes in the exchange measures as unimportant modifications in the existent system, and do not yet realize that their primary purpose is to prevent the sale to them of French owned foreign and French securities.

END OF MESSAGE.

MATTHEWS.
PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy
DATE: January 2, 1941, 5 p.m.
NO.: 4

FOR THE TREASURY FROM MATTHEWS.
Reference is made to telegram of December 18, 8 p.m., No. 856 from the Department.

There is no representative of the American Friends Service Committee stationed at Vichy. Therefore I asked our Consul General at Marseille to keep a close eye on milk distribution to French children; the headquarters of the Committee is at Marseille.

In a letter from the Consul General at Marseille he reports that a "great difficulty" confronts Mr. Kershner, the head of the Quakers organization in France, in view of the fact that milk exports from Switzerland are not permitted by the Swiss Government. Seventy tons of milk were purchased in Switzerland by the Committee, and this purchase has been paid for in full, but delivery has not been made. The letter from the Consul General continues that with past supplies "substantial stocks of which are apparently still on hand Mr. Kershner and his associates have been making distribution through the Secours National in a large number of centers in unoccupied France and a considerable shipment of milk was sent recently to Paris where its distribution will be supervised by two members.
members of Mr. Kershner's organization. The Quakers are not only distributing milk but clothing and such medicines as are available to them.

END SECTION ONE.
Mr. Kerschner said that although the Secours National was in active charge of the distribution of supplies in unoccupied France, his own people kept a close personal check on this distribution also and that no case had arisen as yet where he had any reason to believe that the relief went elsewhere than to the French children for whom it was intended. He also expressed his conviction that whatever was being sent to Paris would be given only to French children there. Up to this time his organization has had no difficulty whatever with the German authorities and has, apparently, been impressed with the correctness of the latter with respect to this distribution.

Kerschner himself, says his executive secretary, personally oversees a "great variety of projects such as delivery of food to 140 school canteen in Marseille where 10,000 children receive a noon day meal; delivering milk to 90 nurseries and clinics in Marseille where 4,000 children receive half a liter of milk a day."

I am making attempts to check milk distribution through other sources, and shall try to keep as careful a watch as possible on this matter.

END OF MESSAGE.

MATTHEWS.
Secretary of State,
Washington.

1, January 2, 11 a.m.

Berlin’s 5071, December 16, 6 p.m., repeated to Vichy.

French Ministry of Finance confirms that negotiations have been concluded for the sale of Mines De Bor stock to Germans. French owned bonds in the Skoda Werke of Pilsen have also now been sold to them. As French held stock in that enterprise was sold to German interests after Munich the Ministry considers the present transaction of "minor importance".

Repeated to Berlin.

MATTHEWS
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy
DATE: January 2, 1941, 10 p.m.
NO.: 9

FOR THE TREASURY FROM MATTHEWS.

Tonight I had dinner with Couve de Murville. He is leaving again for Paris and Wiesbaden. In confidence he admitted that demand had been made by the German authorities, and they are receiving, the Belgian gold which was held at Dakar and which totalled about 8,000,000,000 French francs, he said. However, with a smile he remarked that he had proved to the German authorities that to transport it by airplane it would take two years. I said that I presumed ship transportation would be employed for the part that had not yet reached metropolitan France. He said that delays were quite likely even then, considering transportation difficulties. Couve continued that he was encouraged by the tactics of delay being developed by the French in complying with requests from the German authorities. In defense of the earlier French attitude he said that in 1918 it had taken the Germans far longer than six months to develop their "passive resistance" to the demands of the Allies. Despite curiosity concerning French gold, Couve said that the Germans really had not asked for any of it.

At
At dinner Guindet, who is chief of the Foreign Exchange and Foreign Finance Section of the Finance Ministry, was with us. He said that the Germans had finally stopped altogether with their issues of kredit kassenschein. Since the beginning of the occupation he said the total amount which had been put in circulation was around 12,000,000,000 francs, which he did not think was really excessive.

As for German purchases of French securities, Couve said that they are not using the 400,000,000 francs being accumulated daily under costs of the army of occupation in more than moderate quantities for buying into French industries. He said that the Germans did not seem to be in a great hurry to do so, but that he feels they are vexed with the fact that industry in France is operating at only 10 percent of normal operation; the Germans are in fact bending effort to increase production in France. In Germany he said he thought there is a real shortage of labor, and he believed that no negligible number of allegedly "volunteer" French workmen is being taken from occupied France to work in factories in Germany. From his experiences at Wiesbaden Couve does not think that the civilian population in Germany will suffer any serious privations this winter. The Germans are better off in many respects than before, he said, thanks to the occupied countries, but he feels shortages are developing.
developing particularly in rubber, and in wool, cotton, lubricating oils and ferro-alloys. Certain amounts of aluminum are being obtained from France, he said.

Couve remarked that he has much more optimism now than he had when here last, about the British powers of resistance. The speech of the President of course delighted him.

When I asked how Lacour-Gayet and Alphand were getting along, both Couve and Guindet remarked laughingly that it seemed to be just a question of asking that dollars be unblocked and getting the same answer that they could not be unblocked. They did not show the slightest annoyance about this matter.

END OF MESSAGE.

MATTHEWS.

EA: LWW
Secretary of State
Washington
II, second.
FOR TREASURY.

1. The payments agreement with Paraguay mentioned as under negotiation in the Embassy's telegram No. 3673 of November 7, 11 p.m. is now in operation. A Bank of England notice to banks stating that "as a result of arrangements made with the Argentine and Paraguayan authorities the sterling proceeds of entrepot trade undertaken by Argentine firms who export goods of Paraguayan origin to the sterling area may be credited to Argentine special accounts. "The agreement includes arrangements for individuals resident in Paraguay to open sterling area accounts. Total government expenditure in the thirty-one days of December was sterling 397.2 million as compared with the sterling 423.7 million reported in the Embassy's telegram No. 3945 of December 4. For the five weeks ended November 30 revenue totalled sterling 94.7 million leaving a deficit of sterling 291 million per cent or sterling 105 million of which was financed by
by savings and 63.6% per cent or sterling 186 million by increases in the floating debt as compared with the respective November percentages of 41.3% and 58.7%. The weekly average supply expenditure remained at the high level of about sterling 81.2 million in December which was slightly above the record level of sterling 80.8 million established in November as compared with about sterling 68 million the weekly averages in August and October. The total expenditure in the first nine months of the fiscal year was sterling 2.708 million if the present level of total expenditure is maintained and account is taken of debt service; the total expenditure for the fiscal year ending next March 31 will be over sterling 3.760 million or close on sterling 295 million more than the estimates contained in the supplementary budget of July 13 the deficit for the nine months stands at sterling 1,955.7 million. About sterling 835 million of this deficit has been raised by savings net and the remainder by an increase in the floating debt. The pace of the increase in the floating debt gives rise to comments on the need for much greater savings if the inflationary trend is to be held in check especially in the absence of any indication that a further supplementary budget is likely before the end of the fiscal year.

JOHNSON

RPL
MEMORANDUM

TO: The Secretary
FROM: Mr. Young

RE: Planes at Martinique

January 2, 1941

From time to time we have talked to Mr. Hodgkin of the Bellanca Aircraft Company, which is seeking orders from the British and other foreign governments.

On December 20 he said that they had been approached with reference to their willingness to recondition the planes at Martinique for a South American country and wondered if we were interested. We said that we should be glad to learn about the proposal informally.

On December 23 and December 25 he gave us further details, which are summarized as follows:

1. They have been discussing the possibility of Bellanca reconditioning the French planes at Martinique with Mr. Levine of Ladenberg Thalmann, a New York banking house.

2. The deal presumably is to be one between Martinique and the Cuban Government, whereby the planes will be sold to Cuba in exchange for food for Martinique.

3. Apparently, this deal has the blessing of the Vichy Government.

4. Mr. Hodgkin does not know the person in the French Government who is negotiating the deal, nor does he know who is negotiating the deal for Cuba.

5. Ladenberg Thalmann come into the picture because the bulk of the food to go to Martinique will have to come from the United States and some financing arrangements will be necessary.

Mr. Hodgkin inquired whether we were interested in the transaction and indicated that he and Ladenberg Thalmann would be willing to be guided in any way we might suggest.
I pointed out very definitely that we had no interest in the transaction formally in any way and had not the power to do anything about it or to issue any instructions. In the course of our discussion, however, it was indicated informally to Mr. Hodgkin that the picture would be much clearer if there were available the following additional information:

1. The name of the agent acting for the Cuban Government.

2. The name of the agent acting for the French Government.

3. The type of financing which would be required and the method by which it would be worked out.

4. The technique proposed for getting the planes to the United States in order that they could be reconditioned by Bellanca.

I gather that Mr. Hodgkin will be in sometime soon and pass on to us any additional information which he may have picked up. Have you any suggestions with reference to the course you would like to have me follow?

K.B.

Since the above was dictated Mr. Hodgkin called to say that later information indicates that the French may not be in this deal at all yet, but that possibly the British have a hand in it. He expects to be in town on January 3 with complete information.
My dear Mr. Morgan, 

I write to thank you and your wife very much indeed for your kindly gift of apples and chocolates, both of a quality one never sees here. They have been immensely appreciated by all of us. What a magnificent speech the President made the other day. It will undoubtedly rank with the greatest
speeches of all time.

My wife and I enjoyed the privilege of meeting him in Tuscaloosa very much.

It is generally supposed to be a mistake to meet a man for whom one has long cherished a deep admiration, but as in so many other respects, he is an exception. You are indeed lucky to have such a man at the head of your nation in those
days when moral leadership may make or mar a nation.

Our best wishes to you all for the New Year.

Yours Very Sincerely,

A.H. Richards
MEMORANDUM FOR THE SECRETARY'S DIARY

Land-Lease Legislation to Aid England

Thursday, January 2, 1941

After the meeting in Secretary Morgenthau’s office from 12:10 to 12:40 p.m., and pursuant to the Secretary’s and Foley’s suggestion, Cox prepared the first draft of the legislation to carry out the policy stated by the Secretary at that meeting.

From 4:20 to 11:50 p.m., Foley and Cox revised the proposed joint resolution and prepared a memorandum on the plan to be used in the interim—until the legislation is passed.

Annexed are copies of the draft of the resolution and the interim plan prepared today.

Friday, January 3, 1941

After the meeting in the Secretary’s office from 11:28 to 11:25 a.m., the following met from 11:30 a.m. to 12:30 p.m. and went over the legislation in detail: Mr. Foley, Dr. White, Arthur Purvis, Sir Frederick Phillips, D. W. Bell, and Oscar Cox. It was suggested by Dr. White that Purvis get up the detailed reasons why the joint resolution should be passed quickly. From 12:40 to 1:05 p.m., Cox discussed with Mr. Foley the implications of the section which authorized the United States to procure arms, munitions, and implements of war in a foreign country when they cannot be produced in the United States, indicating to him that if our tank capacity were fully used we could procure tanks from Canada and lease them to the British under the proposed legislation as it stands.

Between 2:15 and 3:00 p.m., Foley and Cox made several corrections in the proposed legislation. Cox cleared with D. W. Bell and Mr. Foley the change in section 5(b), providing that the approval of the Budget is necessary in order that the monies resulting from a lease, etc., can be used by the War Department or Navy.

From 3:05 to 4:25 p.m., Foley and Cox went over the bill with B. V. Cohen. He suggested that the proviso suggested by Bernstein that “no such transaction shall be entered into in violation of international law as interpreted by the Department of State” be omitted. He also suggested the broadening of the powers of the President by making it clear that vessels now owned by the British, for example,
can be repaired and outfitted in our navy yards and that a case such as a bare boat charter by the United States be covered so that the United States could sub-charter.

From 4:35 p.m. to 5:35 p.m., Mr. Foley, Benjamin V. Cohen, Felix Frankfurter, and Cox went over the joint resolution again. Mr. Frankfurter made the following comments: (a) Should the various powers and methods of acting on behalf of or on the part of the foreign government be so particularized; (b) Should there be a particularization of the countries; (c) Shouldn’t the word "consideration" be omitted; (d) That a title such as "Joint Resolution to Promote the Defense of the United States" might be used. Mr. Cohen suggested that section 1 of the resolution state that "This act shall be known as an act to aid nations whose defense is related to the defense of the United States"; (e) It might be a good idea to have a preamble stating in quotable language the need for and purposes of the resolution; and (f) That the word "welfare" be omitted on the first page of the joint resolution reading "whose defense the President deems to be related to the defense or welfare of the United States".

From 5:50 p.m. to 6:50 p.m., the joint resolution was revised by Foley and Cox in the light of this afternoon’s conference.

Saturday, January 4, 1941

At 9:45 a.m., Secretary Morgenthau telephoned Foley from Fishkill, suggesting that he get in touch with Speaker Rayburn about the proposed legislation.

At 10:54 a.m., Foley and Cox went over to the office of Secretary of War Stimson. He called in Mr. McCoy and they both went over the proposed joint resolution. When Mr. Stimson finished going over it, he said that he thought the proposed resolution was broad enough. Mr. Stimson said that McCoy was ready to go over the resolution in more detail at any time we wanted him to do so.

At 11:30 a.m., Foley and Cox left Secretary Stimson’s office to go to the office of Speaker of the House—Samuel Rayburn. They conferred with him and Mr. Beaman, the Legislative Counsel, from 11:55 to 12:10. Mr. Foley told Mr. Rayburn that he had just talked to Secretary Morgenthau, who advised him that in yesterday’s Cabinet meeting with the President, he suggested that Mr. Foley talk to the Speaker about the legislation to execute the lease-lend policy.

Mr. Rayburn said that he would be pleased to have Mr. Beaman assist in the drafting of the legislation.
From 12:20 to 1:10 p.m., Foley and Cox had lunch with Mr. Beaman, Mr. John O'Brien, Mr. Morgan, and Mr. Perley, of the Legislative Counsel's Office, and discussed the proposed legislation. They then adjourned to Mr. Beaman's office and continued going over the draft until about 5 o'clock.

Upon returning to the Treasury, Foley and Cox had the redraft typed up. Copies of it were sent to Felix Frankfurter, Benjamin V. Cohen, and McCloy.

At 7:00 p.m., Mr. Charles Ballantyne dropped in to present to Cox several questions which were raised by Sir Frederick Phillips: (1) Whether the act was broad enough to authorize the take-over of existing orders, and (2) whether the legislation was broad enough to authorize the Army and Navy to dispose of property which it now has. Cox pointed out to him that question (1) was answered by existing legislation and that the only issue presented was whether or not enough funds were available to do the taking over, and that question (2) is completely covered by the proposed legislation.

About 8:00 o'clock, John O'Brien called Cox at home to say that he would be available tomorrow. Cox said that we would not bother him unless it was necessary. O'Brien added that he might feel hurt if we did not call on him for help tomorrow.

Sunday, January 5, 1941

From 11:15 to 11:44 a.m., Foley and Cox went over the draft. At 11:18, Mr. Foley telephoned Felix Frankfurter at his home and advised him of the changes made in the bill, particularly the addition of the new subsection 6—the catch-all section. Mr. Frankfurter said he liked it very much and suggested that we add the words "to effectuate the purposes of this act" at the end of the section. He also said that he had only one other suggestion to make—that the word "vital" be used in the place of "related" in the title of the bill. At 11:50 a.m., Mr. John O'Brien came in and with Foley and Cox continued going over the draft until 1:35.

At 12:45 p.m., Secretary Morgenthau called Foley to ask him how he was getting along.

From 2:20 to 7:10 p.m., Mr. Foley, Mr. O'Brien, Mr. Bernard, Mr. McCloy, Colonels Greenbaum and Quenton, B. V. Cohen, and Oscar Cox went over the resolution again and prepared several redrafts.

At 4:25 p.m., Secretary Morgenthau called Foley and asked him to show the bill to Dean Acheson.
From 5:42 to 6:25 p.m., Mr. Foley discussed with Secretary Knox the latest draft of the bill, which Mr. Foley delivered to him. Mr. Knox thought the bill was satisfactory. At the Secretary's suggestion, Mr. Foley also spoke to Secretary Hull, who asked to have Green Hackworth go over the bill in his behalf. Mr. Hackworth was satisfied with the proposed legislation.

Between 7:10 and 7:30 p.m., Foley and Cox prepared the first draft of a memorandum to the President summarizing the proposed legislation.

At 7:26, Dean Acheson came in and went over the proposed bill. He could find nothing wrong with it and said that he wished he could make a brilliant suggestion, but that he had none to make.

At 8:15 p.m., Secretary Morgenthau called Foley from Ossining and told him that the meeting at the White House on the legislation was postponed from tomorrow until Tuesday morning.

From 10:00 p.m. to 11:50 p.m., Foley and Cox revised the memorandum to the President and the summary of the bill.

**Monday, January 6, 1941**

Foley and Cox worked on the revision of the joint resolution most of the morning.

At 3:40 p.m., Cox discussed with Mr. Foley the memorandum on the resolution which we had revised this morning. During the afternoon O'Brien, McCloy, and Greenbaum called Cox about changes which they thought ought to be made in the resolution.

At 4:15 p.m., Secretary Morgenthau went to the White House with Foley to discuss the joint resolution.

**Tuesday, January 7, 1941**

Foley and Cox spent most of the morning revising the bill and talking to John O'Brien about changes.

At 11:00 a.m., Secretary Morgenthau and Mr. Foley went to Secretary Hull's office to discuss with him the draft bill to give aid to the democracies. Hull called in Hackworth, and after Secretary Morgenthau had explained in particular detail all that had transpired at the White House the afternoon before, the bill was taken up
section by section. Hull thought it would be better to make the measure an independent one rather than an amendment to Public Resolution No. 83. This would enable us to steer it to the proper committees. It was thought that the Foreign Affairs Committee in the House and the Finance Committee in the Senate would be ideal. Hull remarked that Garner had permitted the Foreign Relations Committee to be packed with isolationists and he wanted, if possible, to avoid the difficulties he had encountered with the amendments of the Neutrality Act.

Hull also thought we should not name the countries we desired to aid but make the language general. This change was agreed to by Secretary Morgenthau. Backworth had a suggested change in regard to the consideration language which was also adopted.

It was decided that Foley would redraft the bill and bring it back as soon as possible for Hull's initials.

It was also decided that Hull would ask Rayburn, McCormack, and Decherl to meet with him and Morgenthau in Hull's office tomorrow morning and later with Senators Berkley, Harrison and the Senate Parliamentarian to discuss legislative strategy. The meeting broke up at 12:30.

At 12:37 p.m., Speaker Rayburn telephoned Mr. Foley to learn the latent status of the legislation. Foley said that it stands this way: Foley had a very good afternoon with Beam and his boys all afternoon on Saturday. Mr. O'Brien, Mr. Beam's assistant, came to the Treasury on Sunday and we worked all day on the bill and got a general agreement with the boys and with Knox, Stimson, and Hull. Yesterday after the speech Foley said they had a good session with the President. Stimson had raised the question of making this an amendment to existing legislation and suggested this be made an independent legislation and then hand it to you fellows and let you decide where it could best be handled. Speaker Rayburn said that he would have to know where it is to go before the bill came up to him. He thought it wise to decide which committees were to handle it, and then before the President did anything more, to call in the members of those committees. Foley said that the Secretary and he had just had a long conference with Secretary Hull and there were a few changes, but they were in language and not in substance. Hull wanted to get in touch with Rayburn and McCormack either in his office or the Speaker's, whichever arrangement would cause the least publicity, and discuss possible strategy. Foley thought that this meeting would probably be tomorrow morning. At that time they could discuss the committee to handle the legislation. Rayburn said if they had the meeting in his office, he wanted to have the parliamentarian there. Foley said that the Secretary had suggested that if Rayburn came down town he might want to bring his parliamentarian. Rayburn said that would be fine.
At 1:07 p.m., Foley spoke to Middleton Beaman, the House Legislative Counsel, on the telephone, bringing him up to date on the status of the legislation and discussing further changes which Beaman and his staff had in mind.

At 1:55 p.m., Foley discussed with Eddie Greenbaum some of the changes which the Army wanted made in the proposed legislation.

At 2:10 p.m., Foley and Cox spoke to Beaman and O'Brien about further suggested changes in the bill.

At 2:35 p.m., Foley told Hackworth that he had made the changes which were agreed upon. Foley talked with Beaman and made some other word changes to satisfy him. Foley is having it typed up now and would like to take it over to Hackworth's office a little after three to show it to him. Hackworth said he would see Foley at that time.

Mr. Foley and Mr. Cox went to Mr. Hackworth's office at 3:15 p.m., Mr. Foley explained to Mr. Hackworth the changes that were made in the proposed bill to embody the suggestions made by Secretary Hull and Mr. Hackworth, and also the latest changes suggested by Mr. Beaman, the House Legislative Counsel.

Mr. Hackworth looked over the changes and said they were satisfactory to him. Foley, Cox, and Hackworth then went to Secretary Hull's office where, at 3:25 p.m., Secretary Hull approved the bill.

After Foley and Cox left Secretary Hull, he called them back and said that he was a little concerned about the Executive Order because of the delicate situation vis-a-vis Russia and Japan. Secretary Hull said he thought, for what it was worth, his men should put before the Treasury the various considerations which they had in mind on this score. Mr. Foley said he had already arranged for some of the Treasury boys to get in touch with State Department representatives to go over the situation. Foley added, if Secretary Hull still had reservations, he would have an opportunity to bring them to Secretary Morgenthau's attention at the legislative strategy meeting tomorrow.

When Mr. Foley returned to the Treasury he obtained Secretary Morgenthau's approval to the bill.

Foley and Cox then went to Secretary Knox's office where Secretary Knox's approval was obtained at 4:20 p.m. Secretary Knox asked Foley to point out the provisions in the bill covering ships. He then initialed the bill without further comment.

After that, Foley and Cox went to Secretary Stimson's office. At 4:29 p.m., Secretary Stimson initialed the bill after he read it and the changes were pointed out to him.
At 5:05 p.m., Secretary Morgenthau and Foley went to the White House where the President approved the bill at 5:15 p.m., after a brief discussion of the changes. The President commented that he was not to be outdone. He was in a grand humor and joked about the dispatch with which the draft was initialed and returned to him.

The President then discussed legislative strategy. Secretary Morgenthau told him that Secretary Hull was calling a meeting of the leaders in his office tomorrow morning. The President indicated that the bill should be introduced simultaneously in both Houses. Foley suggested that the bill be handled by McCormack in the House and Barkley in the Senate. The President thought it would be good to have Senator Harrison handle it in the Senate if there was a chance that it might go to the Finance Committee.

Secretary Morgenthau said he would call Secretary Hull and tell him that the bill had been approved by the President and see that the arrangements for tomorrow’s meetings were carried out.
JOINT RESOLUTION

To amend Public Resolution Numbered 83, approved June 15, 1940, entitled "Joint resolution to authorize the Secretaries of War and of the Navy to assist the governments of American republics to increase their military and naval establishments, and for other purposes"

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That Public Resolution Numbered 83, approved June 15, 1940, entitled "Joint resolution to authorize the Secretaries of War and of the Navy to assist the governments of American republics to increase their military and naval establishments, and for other purposes" be, and is hereby, amended to read as follows:

Section 1. The President may, from time to time, when he deems it in the interests of the national defense, authorize the Secretary of War, the Secretary of the Navy and the head of any other department or agency of the Government concerned, any other law to the contrary notwithstanding: to manufacture in arsenals, factories and shipyards under their jurisdiction, or otherwise procure, any weapon, ship, boat, aircraft, munitions or equipment or component parts thereof, or machinery, tools, or material or supplies necessary for the manufacture, servicing or operation thereof, or
any other article or commodity needed for defense, on behalf of the
government of any American republic, of Great Britain, Greece, China
or any other country whose defense against the forces of foreign ag-
gression the President deems to be related to the defense or welfare
of the United States; to sell, transfer, exchange, lease, lend, or
otherwise dispose of, to any such government any such article, or any
like article to which the United States now has or hereafter acquires
title, possession or control, upon such terms as the President may deem
satisfactory, including, but not limited to, a sale, transfer, exchange,
lease or loan providing for payment or repayment in kind, or property,
or for any other direct or indirect consideration or benefit to the
United States which the President may deem satisfactory; on behalf
of any such government, to test, prove, repair, outfit and otherwise
to treat any such article owned, leased or otherwise held by any such
government, as if it were for the use of the United States, and to com-
municate to any such government plans, specifications, or other infor-
mation relating to any such articles; Provided, however, that no action
shall be taken hereunder which in the light of the over-all defense
position of the United States is inimical to the defense or welfare of
the United States.

Section 2. In carrying out the transactions authorized by section 1,
the Secretary of War, the Secretary of the Navy and the head of any depart-
ment or agency concerned are authorized, in their discretion, and provided
that it be not inconsistent with any defense requirements of the
United States or its possessions, to communicate or transmit to the
government of any country to which section 1 is applicable, and to
any duly authorized person for the use of any such government any in-
formation pertaining to any article, therein referred to, for the
use of such government in using any such article, or manufacturing
such article within its own jurisdiction, and to export any such
article and information for the use of any such government.

Section 3. All contracts or agreements made for the dispo-
sition of any article or information pursuant to section 1 shall
contain a clause by which the foreign government undertakes not
to transfer title or possession of such article or information
by gift, sale or otherwise, or authorizes the use of such article
by or under the direction of any other foreign government.

Section 4. The Secretary of War, the Secretary of the Navy
or the head of the department or agency concerned, as the case may
be, shall when any such article or information is exported immediately
inform the department or agency designated by the President to ad-
minister section 6 of the Act of July 2, 1940 (54 Stat. 1090), of the
quantities, character, value, terms of disposition and destination
of the articles and information so exported.

Section 5(a). There is hereby authorized to be appropriated
from time to time, out of any moneys in the Treasury not otherwise
appropriated, such amounts as may be necessary to carry out the provisions and accomplish the purposes of this joint resolution.

(b) All moneys, and all property received from any government to which section 1 applies and which is converted into money, shall revert to the respective appropriation or appropriations out of which funds were expended in acquiring the article for which such consideration is received, and such moneys shall be available for expenditure for the purpose for which such expended funds were appropriated by law, during the fiscal year in which such funds are received and the ensuing fiscal year.

Section 6. The Secretary of War, the Secretary of the Navy and the head of the department or agency concerned shall in all contracts or agreements for the disposition of any such article fully protect the rights of all citizens of the United States who have patent rights in and to any such article which is hereby authorized to be disposed of and the payments collected for royalties on such patents shall be paid to the owners and holders of such patents.

Section 7. The Secretaries of War and of the Navy are hereby authorized to purchase arms, ammunition and implements of war produced within the jurisdiction of any country to which section 1 is applicable if such arms, ammunition and implements of war cannot be produced in the United States.

Section 8. The President may, from time to time, promulgate such rules and regulations, not inconsistent with law, as may be
necessary and proper to carry out any of the provisions of this joint resolution; and he may exercise any power or authority conferred on him by this joint resolution through such department, agency or officer as he shall direct.
MEMORANDUM FOR THE SECRETARY

Interim Plan

Pending the enactment of the proposed joint resolution authorising the placement by the United States of orders on behalf of foreign governments and leasing to foreign governments the articles so ordered, the following interim plan can be used for:

1. The expansion of productive facilities for defense material;
2. The procurement of such material.

(1) Expansion of Production Facilities

The R.F.C. and the War and Navy Departments presently have funds available for the expansion of defense production. The R.F.C. has a revolving fund of $1,500,000,000 for such purposes. Of this amount approximately $400,000,000 is probably still available.

By a recent decision of the R.F.C. to reduce the take out obligations of the War and Navy Departments about $40,000,000 more has been made available to these departments for defense plant expansion. In addition to other plant expansion funds which these departments still have available, further funds for this purpose could be made available by releasing all R.F.C. take out funds which have been set aside by Army and Navy.

There would appear to be ample funds for the additional plant expansion program. If any more funds become necessary, the note issuing power of the R.F.C. could be increased by the amount necessary to accomplish this objective.
Procurement

For the actual placement of additional orders the War Department has available: (a) $60,000,000 for the procurement of aircraft, aircraft engines and aircraft parts; and (b) $430,000,000 for the procurement of ordnance items. The War Department is prepared to make these funds available for the foregoing purposes, instead of using them, for example, for April - June 1941 maintenance of aircraft, with the idea in mind that the War Department can get further appropriations later for such maintenance and similar purposes.

In all probability, the Navy Department can make similar funds available.

By spreading the procurement orders with these funds and dovetailing them with plant expansion, the program can be carried forward so that the necessary deliveries can be made as soon as the proposed joint resolution is enacted.
**TREASURY DEPARTMENT**

**INTER OFFICE COMMUNICATION**

**DATE February 14, 1941**

**To:** Miss Burdick  
**From:** F.L. McGuffey

**Time Schedule on memo of 1/2/41**  
**re "Lease-Lend Bill"**

<table>
<thead>
<tr>
<th>Time</th>
<th>Action</th>
<th>Personnel</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>11:10 am</td>
<td>Called</td>
<td>Secretary Morgenthau</td>
<td>Outlined his plan for leasing equipment to Britain.</td>
</tr>
<tr>
<td>11:50 am</td>
<td>Called</td>
<td>Foley, Cox</td>
<td>Told them what the President had in mind regarding leasing equipment to Britain. Foley to have prepared by 10:30 a.m. tomorrow a draft of permanent legislation giving the President all the powers that are necessary to get and lease the equipment to Britain and other democracies; and also a memorandum on an interim plan for handling the same problem.</td>
</tr>
<tr>
<td>11:30 am</td>
<td>Edited</td>
<td>Foley, Cox</td>
<td>Gave the Secretary the draft of Joint Resolution amending Public Resolution #83; also an interim plan.</td>
</tr>
<tr>
<td>12:00 am</td>
<td>Conference</td>
<td>Foley, White, Arthur Purvis, Sir Frederick Phillips, D. W. Bell, O.S. Cox</td>
<td>Preparing memorandum setting forth the reasons why the Joint Resolution should be passed quickly.</td>
</tr>
<tr>
<td>4:30 pm</td>
<td>Called</td>
<td>Foley and Cox</td>
<td>Discussed with Foley the section authorizing the United States to procure arms, etc., in a foreign country when that cannot be produced in the United States.</td>
</tr>
<tr>
<td>PERSONS INVOLVED</td>
<td>REMARKS</td>
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<tr>
<td>Bell, Foley, Cox</td>
<td>Incorporated changes made by the group at the 11:30 meeting. Cleared with D. W. Bell change in the draft which would make it necessary to have the approval of the Bureau of the Budget in order that money resulting from the leases, etc., can be used by the War and Navy Department.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cohen, Foley and Cox</td>
<td>Discussed the proposed Joint Resolution. Cohen suggested that Mr. Bernstein's change: &quot;no transaction shall be entered into in violation of international law as interpreted by the Department of State&quot; should be taken out. Cohen thought the President's powers should be broad enough to permit British owned vessels to be repaired and outfitted in the navy yards of the United States.</td>
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Justice Frankfurter made the following comments:
1. Should the various powers and methods of acting on behalf of or on the part of a foreign government be so particularized.
2. Should there be a particularization of the countries.
3. Shouldn't the word "consideration" be omitted.
4. That a title such as "Joint Resolution to Promote the Defense of the United States" might be used.
5. It might be a good idea to have a preamble stating in quotable language the need for and purposes of the resolution.
6. The word "welfare" be omitted on the first page of the Joint Resolution - "whose defense the President deems to be related to the defense or welfare of the United States."

Cohen suggested that section one of the resolution state that "This Act shall be known as an Act to aid nations whose defense is related to the defense of the United States."

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<tbody>
<tr>
<td>Justice Frankfurter, Cohen, Foley and Cox</td>
<td>Redrafted Joint Resolution incorporating the suggestions made at the conferences.</td>
</tr>
<tr>
<td>Foley and Cox</td>
<td>Asked him to get in touch with Speaker Rayburn. This was the request from the President made at Cabinet Meeting yesterday.</td>
</tr>
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</table>
Sec'y Stimson, Foley
McCloy and Cox

Went over the Joint Resolution and Secretary Stimson
thought the Joint Resolution was broad enough.

Speaker Rayburn, Foley
Cox and Beeman

Foley passed on the request of the President made at
the Cabinet Meeting yesterday to the Secretary - Foley
was to discuss the proposed legislation with Speaker
Rayburn. Speaker Rayburn said he would be pleased to have
Beeman help with the drafting of the legislation.

Foley, Cox, Beeman
O'Brian, Morgan and
Perley

Began drafting the Joint Resolution. Copy of the
redraft was sent to Justice Frankfurter, Cohen and McCoy.

Cox and Charles
Bellantyne (FPM)

Gave Cox questions that had been raised by Sir Frederick Phillips:
1. Is the Act broad enough to authorize the taking over of
existing orders? This question is covered by existing legislation, the
problem here is enough available money to take over the
existing orders.
2. Is the Act broad enough to authorize the War and Navy
to dispose of property which we have on hand?
Proposed legislation completely covers question #2.

Foley, Cox and
O'Brien

Secretary Morgenthau wanted them to have a draft
ready to be taken to the White House at 9:30 a.m. on Monday
1/6/41. They were considering the draft written after
conference all Saturday afternoon in office of the Legisla-
tive Counsel.

Justice Frankfurter

Foley told him that a subsection had been added to
section six - a catch-all section. Frankfurter suggested
that there be added at the end of section six these words
"to affectuate the purposes of this Act."
Frankfurter suggested that the word "vital" be in-
serted in lieu of the word "related" in the title of the bill.
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<tr>
<th>Person(s)</th>
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<tbody>
<tr>
<td>Foley</td>
<td>Wanted to have a progress report on the bill.</td>
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<tr>
<td>Foley</td>
<td>Asked him to show the draft of the Joint Resolution to Dean Acheson.</td>
</tr>
<tr>
<td>Sec'y Hall</td>
<td>Foley told him that he had tried to get him earlier but had missed him at the office. Secretary Morgenthau is in the country and had asked Foley to get in touch with Secretary Hull. Hull said he had sickness in his family and wouldn't be able to do much with it. Suggested that Foley get a copy of it to Backworth, and let him look it over.</td>
</tr>
<tr>
<td>Sec'y Knox and Foley</td>
<td>Foley left him a copy of the latest draft. Said it was satisfactory.</td>
</tr>
<tr>
<td>Backworth</td>
<td>Told him of the proposed statute as drafted by Beaman along the lines suggested by the President. Secretary Morgenthau out of town and had asked Foley to get in touch with Secretary Hull and tell him about the statute. Foley told Backworth that he had talked to Secretary Hull who had told him that he had sickness in his family and suggested that Foley get in touch with Backworth and give him a copy of the statute. Foley also going to give a copy to Secretary Hull. The President wants the draft at 9:30 Monday morning.</td>
</tr>
<tr>
<td>Foley &amp; Cox</td>
<td>Prepared memo for the President summarizing the proposed Joint Resolution.</td>
</tr>
<tr>
<td>Dean Acheson</td>
<td>Went over the Joint Resolution; could find nothing wrong with it and had no suggestions to offer.</td>
</tr>
</tbody>
</table>
Told him that the President would not see them on the statute until Tuesday. He had to go over his message to Congress to be given at noon on 1/6/41 on the State of the Union.

Foley who was out so Hackworth talked with Bernard

Said he had gone over the bill and thought it was a good job. He had only one suggestion, that section 3(a)(2) was unnecessarily repetitious — Bernard told him that perhaps he was right, but that seemed the best way to say it and it was agreed not to change it. Hackworth had one question about section 3(a)(6). Asked Bernard if he thought the bill would pass — Bernard said yes. Hackworth replied that he certainly hoped it would, and that he was glad to hear Bernard say that he thought it would.

Gave to the President the latest draft of proposed legislation. The President asked what Morgenthau and Foley thought of the idea of setting up a corporation similar to RFC, Export-Import Bank or Commodity Credit to handle this whole problem. Foley explained that if this were done it would be necessary to repeal the Johnson Act as well as the Neutrality Act. He explained that the Johnson Act did not apply to the Government. After this explanation, the President dropped the corporation plan and told Secretary Morgenthau to get the initials of the Cabinet Officers who were also interested in this Joint Resolution and bring it back to him.

Morgenthau told Hull what had taken place at White House yesterday afternoon. Bill was discussed section by section. Hull thought it would be wiser to make the measure an independent one rather than an amendment to the Pub. Res. No. 23. This would enable the Administration to refer to a more sympathetic committee. Hull thought the House Foreign Affairs Committee and the Senate Finance Committee would be the ideal committees to handle the bill. Hull suggested that the countries we were going to aid not be specifically set forth. Morgenthau agreed to this change. Foley was to redraft the statute and bring it back for Hull's initials. Hull was to ask Speaker Rayburn, John McCormack, Lewis Derchler to a meeting with him and Morgenthau tomorrow morning. He was to have Barkley, Harrison and Watkins for a meeting in the afternoon. The purpose of the meeting would be to decide on strategy as well as to discuss the bill.
<table>
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<th>PERSONS INVOLVED</th>
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<tbody>
<tr>
<td>Foley</td>
<td>Foley expressed appreciation for the help of the Legislative Counsel.</td>
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</table>

1. Hull, Stimson and Knox are now in general agreement on the proposed statute.
2. Foley told him that Stimson raised objection to bill's being handled by committees so antagonistic to the Administration policy.
3. Stimson suggested that the bill not be in the form of a Joint Resolution, but as an independent statute.
4. Hull is going to call a meeting of the House Leaders and the Senate Leaders tomorrow so that there might be an agreement on the strategy of committee assignments.

<table>
<thead>
<tr>
<th>Foley</th>
<th>Foley told him of suggestions made by Secretary Hull and Hackworth.</th>
</tr>
</thead>
</table>
|                | 1. On page 2 in subparagraph 1 of section 3(a) Secretary Hull wanted to omit specific reference to the countries to be aided. He wanted it to read "for the government of any American republic or any other country belligerent or neutral.

2. Hackworth wants to say in section 3(a)(2) "To sell, etc. to any such government any defense article, and to accept payment or repayment in kind or property or any other direct or indirect benefit to the United States which the President deems satisfactory." Beaman thought this ought to come out of "Z" and be put in "b" so that it would apply to "3" of section 3(a) as well.

Foley said he was committed on Hackworth's language, but would see what he could do about "b."

3. Stimson has suggested, and Hull agrees, that the first five lines be taken out and the statute made an independent statute rather than an amendment to Public Resolution #83. They thought this would help on committee assignment.

4. Beaman said he thought section 3(a)(6) didn't make sense. Foley said it was there to make certain that "food" was covered. Beaman said he thought that it ought to come out.

| Greenbaum | Told him that the new title was "To furnish support to those nations whose defense is vital to the defense of the United States."
|           | Told him of the suggestions made by Hull and Hackworth. Also that the Congressional Leaders were going to get together.
|           | Greenbaum said that he thought that section 3(a)(2) should be put in section 3(b). Foley said that this had been done. |
All four of them agreed that section 3(a)(6) should read "To sell, transfer, exchange, lease, lend, or otherwise dispose to any such foreign government any defense article"; and to put in section 3(a) "the terms and conditions upon which any such foreign government receives any aid authorized under section (c) shall be those which the President deems satisfactory and the benefit of the United States may be payment or repayment in kind or property or any other direct or indirect benefit which the President deems satisfactory.

Foley told Beeman that section 3(a)(6) had been removed from the bill.

Beeman thought that we ought to strike out "notwithstanding any other provisions of the law.

O'Brien suggested a change in section 4 which provides that contracts must contain a clause by which the foreign government undertakes that it will not, without the consent of the President, transfer title or possession of such article or otherwise authorize their use by any other foreign government. Congress was to add "or permit its use by anyone not an officer, employee or agent of such foreign government. O'Brien thought that there was a marked difference in policy between the two suggestions.

Closed to him the redraft of the statute containing the suggestion was by Secretary Hull at the H.R. conference. The draft was satisfactory to Beeman.

Secretary Hull initialed the bill.

After Hull had initialed the draft, he called Foley and Cox back and told them that he was concerned about the Executive Order on Economic Defense, Board because of the delicate situation vis-a-vis Canada and Japan. Foley said he had arranged for some of his people to get in touch with Treasury State Department representatives and go over the proposed Executive Order. Foley said that Hull would have an opportunity to talk to Mr. Argentina about that tomorrow.
President also initiated the bill, stating that he was not to be ousted. Joked with the Secretary about the dispatch with which the draft was initiated and returned to him.

They discussed the legislative strategy. Secretary Morgenthau told him about the proposed meeting tomorrow with the Congressional Leaders to be held in in Secretary Hull's office.

President suggested that the bill should be introduced simultaneously in both Houses.

Foley suggested that the bill be handled by McCormack (Majority Leader in the House) and by Senator Barkley (Majority Leader in the Senate). The President thought it would be good to have Senator Harriman handle it in the Senate if there was a chance of the bill's being referred to the Senate Finance Committee.

Morgenthau said he would call Hull and tell him that the President had approved the bill, and see that the arrangements for the meetings tomorrow were carried out.
By Rear Admiral

Thank you very much for your letter of December 27, enclosing the two memoranda referring to defense production.

Sincerely,

(Signed) E. H. Freeman, Jr.

Rear Admiral G. Davis,

HER/ARF
By dear Chester:

Thank you very much for your letter of December 27, enclosing the two memoranda regarding defense production.

Sincerely,

(Signed) H. Magnin, Jr.

Hon. Chester C. Davis,
The Advisory Commission to
The Council of National Defense,
Federal Reserve Building,
Washington, D. C.

HMC/nff
My dear Chester:

Thank you very much for your letter of December 27, enclosing the two articles regarding defense production.

Sincerely,

(Signed) H. Magrath, Jr.

Re: Chester G. Davis,
The Advisory Commission to
The Council of National Defense,
Federal Reserve Building,
Washington, D. C.

HCG/xxi
December 27, 1940.

Personal and Confidential

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

Dear Mr. Secretary:

Pursuant to your telephone call yesterday, I am sending you herewith two memoranda. Only the first, on "Decentralization of Defense Production," deals directly with the question you posed.

It seems to me that either of two alternative courses may be taken. Both require that the President issue a strong directive as to the policy to be followed.

In one case, the President would issue the order directly to the Secretary of War and the Secretary of the Navy, and depend on them to see that it is carried out without reference to or dependence on any outside agency.

In the other case, the directive would be issued to the War and Navy Departments, but the cooperation of an agency outside the service departments would be enlisted to aid in the development and execution of the policy.

My suggestion follows the second course.

The other memorandum, which is headed "In General," is volunteered because it seems to me to be very important that the forthcoming executive order should rationalize the whole defense picture, as far as possible. It is particularly important, I think, that the field and functions of the Advisory Commission be clearly defined, and its relationship to the Office of Production Management and other defense agencies be definitely stated.

With personal regards and best wishes of the Season, I am,

Sincerely,

Chester C. Davis

Enclosures (2)
December 27, 1940.

DECENTRALIZATION OF DEFENSE PRODUCTION.

There are two aspects to the problem of decentralization of defense production: (1) the distribution of supply orders to existing manufacturers, and, (2) the distribution of projects calling for new or expanded plant facilities. These two aspects will be considered in order.

1. Distribution of Supply Orders.

Large, well-established firms, accustomed to bidding on government orders, and meeting government specifications, have a definite advantage over new and smaller contractors. Procurement officers of Army and Navy naturally turn first to accustomed sources of supply. It requires a fresh point of view and real determination to overcome established habit and inertia.

The Advisory Commission does not have control over the placing of supply orders by the Army and Navy. The Coordinator of National Defense Purchases has had limited authority to advise and coordinate Army and Navy purchases. Most standard articles are purchased by the Army and Navy on the basis of competitive bids. While broad authority has been given to negotiate contracts, this has been exercised only where supplies are not normally available. By inserting some limitations in the invitations for competitive bids, the Coordinator of Defense Purchases has obtained some wider distribution of orders, notably for shoes and textiles. In most instances negotiated contracts have resulted in orders being placed with the outstanding
firms in the usual well-known industrial areas. Little real effort has
been made to negotiate such contracts with smaller companies outside the
customary areas.

The Production Division of the Commission was authorized by the
President to clear all contracts of any importance which was interpreted to
cover all contracts of $500,000 or more. However, only slight attention
was given by the Production Division to the wider distribution of orders in
order to encourage decentralization of industry.

2. Location of Government-financed Plants.

Under the Appropriation Acts the "recommendation" of the Commission
is required for certain expenditures by the Secretary of War to expedite pro-
duction. The Commission is therefore given an opportunity to review the
plants and sites proposed under such Acts. However, the Army has consulted
with the Commission only after the requirements have been established and
most of the field work concluded. This has frequently forced the Commission
to recommend the proposed plans in order not to delay armament. Frequently,
however, suggestions are presented in the hope that they may influence
later plans.

As in the case of supply contracts, most of the expansion pro-
posed has been for established industries within well-known industrial areas.
The Commission has not been able to establish working arrangements which would
enable its staff members who are interested in decentralization to work effec-
tively with the Army and Navy.

Naval appropriation acts have not required Commission "recommend-
tions". Consequently the Navy industrial expansion has largely been without
the knowledge or advice of the Commission.
PROCEDURE TO ACCOMPLISH DECENTRALIZATION

Without a clear sense of the relative positions of the Office of Production Management and the National Defense Advisory Commission, it is difficult to recommend procedure to accomplish the desired distribution of supply orders for the Army and Navy and the decentralization of new factories and facilities required in the armament program.

The following suggestions, therefore, may be entirely incompatible with the organization that is visualized for the future. They merely indicate one way in which the desired policy may be carried into effect.

I. Policy Directive.

The President should issue positive directives to the Secretary of War and the Secretary of the Navy. These directives should establish a definite policy in two fields:

(a) Supply contracts must be distributed in such a manner as to make full use of the facilities throughout the country, large and small, wherever they can do an efficient production job at reasonable prices.

(b) Further location of new government-financed defense factories should be discouraged in regions that are already heavily industrialized and in which the existing labor supply is certain to be fully employed by existing factories when the armament program reaches full stride. The rule should be laid down that a new defense plant will be placed in such an industrial area only if no other place for its successful operation can be found. Even the expansion of existing plants in industrialized regions should be scrutinised carefully to determine whether the desired production
must be secured as efficiently in a new location.

II. Procedure to Implement Policy.

(a) Distribution of Orders. Authority must be granted to the Coordinator of Purchases to require procurement officers of the Army and Navy to distribute orders in accordance with this policy.

(b) Decentralization of New Plants. Create a board composed of members of the Advisory Commission with an administrative officer, similar in its organization to the Priorities Board, to work with the branches of the War and Navy Departments in: (1) planning the entire program for expanding industrial facilities; (2) determining the number and size of new plants required; and (3) participating in the process of selecting sites for government-financed factories required by the expanded armament program.

Approval by this board of a site finally chosen should be required in the case of both Army and Navy. The Army and Navy should be directed to work with this board in their initial consideration of sites for new factories, and no project should be submitted to the Commission for final approval or attempts made to negotiate contracts with private companies without the approval of this board.

It would strengthen the hands of this board if future appropriations to finance new plants and facilities continued the Commission's responsibility to recommend or approve expenditures. This board would operate along the lines of the policy laid down by the President and would be in a position to refer questions of general policy to the whole Commission.

The Coordinator of Purchases should be required to consult with the board on policy matters relating to the effort to distribute supply orders. If
the Coordinator is authorized to give final approval to the contracts for
industrial plants, such approval should be subject to suggestions as to
policy from the foregoing board.
Creation of the Office of Production Management leaves the Defense organization picture far from clear. Efforts should be made now before the looseness of the set-up is demonstrated, to tighten it up; to run a common thread through the component parts so that the function of each can be seen in relation to the others.

The Advisory Commission is left floating in the air. Heretofore it has been in the anomalous position of a commission to advise a non-functioning, non-meeting body -- the Council of National Defense. It has drawn what authority it possessed from three sources.

1. Its chairman was the President. It met and advised with and reported to the President.

2. It exercised functions delegated to one or more of the Commissioners, for example, clearance of important contracts was delegated to Mr. Knudsen, administration of priorities to a board composed of Knudsen, Henderson, and Stettinius, and the basis for cooperation between the Commission and the Coordinator of Purchases was laid in an executive order.

3. It was required by statute to "recommend" certain expenditures authorized in three appropriation bills for a total of $703,000,000 to be expended for new plants, facilities and to expedite production for the Army. It was also authorized by statute to issue certain certificates required by the Second Revenue Act of 1940.

Now certain of these functions will pass to the Office of Production Management, such as priorities and coordination of purchases. Opportunity for the Advisory Commission to advise with the President will inevitably be restricted as the work of the Office of Production Management takes more of his attention.
Just how does the Advisory Commission fit in? Is it made subordinate and advisory to the Office of Production Management? Is it coordinate with the Office of Production Management, each heading up in and meeting with the President? Or will it tend to pass out of the picture from disuse and absorption of its functions elsewhere?

The Advisory Commission has lacked a general nerve center with the assigned responsibility to see that its functions as a Commission as distinguished from functions of the individual Commissioners were properly discharged. Unless an executive center is provided for the new Office of Production Management it is likely to be subject to the same handicap and develop the same defects. Differences between the representative of industrial management and the representative of labor, between the Secretary of War and the Secretary of Navy and between the heads of the armed services and the other two, will probably develop. They should be resolved wherever possible without submission to the President. A strong competent organizer, possibly an executive secretary, is needed.

The Advisory Commission should not be permitted to knock around loose. Its field of work should be clearly delineated and its tie-in with the new agency and the old ones in the defense picture should be defined.

There is still the need for someone under the President to run a common thread through the multiplicity of commissions, committees, and agencies that have been assigned important defense functions to do.
January 2, 1941

At 7:00 o'clock, I called up Mr. Neville Butler of the British Embassy and thanked him for his note. I asked him if he had heard of the result of my conference with Purvis today, and he said that he had not. I told him that I would tell Purvis tomorrow to send him a memorandum setting forth the results of our 11:00 o'clock meeting.

I then called up General Marshall, and told him that today I had notified the English that they definitely had to give up a hundred planes to the Chinese, and that they had taken it very badly. I told Marshall that I was wondering if there wasn't something we could do to make them feel better, and I asked him whether he thought it would be possible to give them the nine Consolidated 4-engine bombers. He said he didn't want to ask the English for something which was difficult for them to give up, but if they would tell him what was the least difficult to give up on their part in exchange for these bombers, he would be glad to consider it. He said that after all, when he signs these certificates he has to make it look fairly realistic.

Marshall then asked me what is going to happen in the future about these certificates which both he and Admiral Stark have to sign, and I told him in confidence what the President had in mind. I said, however, that in the meantime, during the interim period, I would have to continue to bother him about nine planes or any other thing for the English.

I feel that General Marshall's whole attitude is very friendly, and I couldn't ask for better cooperation.

I then called up Arthur Purvis and told him that General Marshall's attitude was that he had to get something from the English, and he would leave it to the English to say what they felt they could give up most readily. Purvis thought that that was more than fair, and he would try to give them the answer by 11:00 o'clock tomorrow.
I suggested to Purvis that he keep Neville Butler posted. He said that he had already sent him a memorandum about the meeting this morning, which should reach him in about a half hour.

I asked Purvis what he thought about our meeting this morning, and he said that he was much more encouraged, and that he thought it was a splendid meeting. He was really quite enthusiastic about it.
2nd January, 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

[Signature]

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.
Attacks on Shipping. British merchant vessel (5,000 tons) bombed and set on fire in North Western approaches yesterday and has been abandoned. Greek ship (4000 tons) also attacked in the same area but no report of damage received.

2. Yesterday afternoon, a coastal convoy was unsuccessfully attacked by aircraft in the Thames Estuary.

3. It is understood that progress is being made with the clearing of the block in the Kiel Canal referred to previously.

4. On December 28th eight enemy bombers and seven fighters made two attacks on Sollum but only caused slight damage. Our Hurricanes shot down one bomber and one fighter (confirmed) one fighter (unconfirmed) and damaged four other bombers.

5. In the Southern area Italians now have four infantry divisions, part of one armoured division, and various other units totalling 80,000 - 90,000 men.

6. During the night 29th/30th, twenty-seven aircraft despatched to attack aerodromes in occupied territory, inland port at Frankfurt, marshalling yards at Hams and docks and shipping at Boulogne. Reports not yet received. Two aircraft missing.

7. German Air Force.

During raid on Plymouth night of 28th/29th over a thousand incendiaries but only nine high explosive bombs were dropped. Most damage was done to dwelling houses. Casualties now reported at eleven killed and thirty-four seriously injured.

8. During December 29th main enemy activity took place.
place over the Channel and North Sea, and the majority
of our fighter aircraft were directed against these airc-
raft for the protection of shipping. One enemy bomber
was probably destroyed and two others damaged. Six
enemy aircraft operated inland, and Crews was bombed, one
war factory being damaged, but not seriously.
9. During the night of December 29th/30th an
intense but comparatively short attack was made on London
by about 140 enemy aircraft. Attack developed from
18.00 hours to 22.00 hours. Main attack concentrated
on the City and practically the whole area from St. Pauls
to the Guildhall and from the Guildhall to Finsbury
was set on fire. The roof of the Guildhall was destroyed
and St. Lawrence Jewry Church gutted. Various key
points including docks were affected but details not yet
available. Up to the present the number of casualties
reported is remarkably small.
10. Aircraft casualties in the above operations
over and from the British Isles.
Enemy: one bomber probably destroyed, 2 bombers damaged.
British: two heavy bombers missing. In assessing com-
parative results it will be appreciated the summaries
of casualties do not include enemy night bomber casualties
approaching or returning from this country.
Telegram from London dated December 31st.

Royal Air Force.

4. Home Front. Night of December 29th/30th. Owing to very bad weather conditions only ten bombers attached certain targets in Germany and aerodromes in German occupation.

5. There were no operations by our bomber command during night of 30th/31st.

6. Home Security. London night of 29th/30th. All fires are now out except for some smouldering factories. One platinum factory; work seriously reduced from loss of gas pressure. One diving apparatus and one machine tool factory seriously damaged by fire.

7. Railways. Services to three London railway termini temporarily stopped but since resumed. Six underground stations temporarily closed.

Public utility. No really serious damage either to gas or electric services. Water supply normal except in city and other central areas where pressure is low.

Docks/
Damage. Some damage to docks and considerable damage to certain food warehouses in the dock areas.

Telecommunications. One main telephone exchange completely out of service. Central telegraph office and Phenomena temporarily out of action. London temporarily not in telephonic communication with South East England and telegraph service with South and South East England is severely interrupted. Communication between London and important towns in other districts are available.

9. The Guildhall was burnt out as were several churches and nine hospitals were affected to a varying extent by fire.

9. Casualties so far reported: Killed 89, seriously injured 314.

10. Romania. It now seems probable that German troops destined for Romania are those of twelfth army. This army has recently been in South West Poland and is commanded by Field Marshal List. Average strength of an army is 10-12 divisions. Projected train movements suggest that this figure may be exceeded to allow for internal security in Romania. There are indications that the army will include mostly motorised and armoured divisions.
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TENTATIVE LESSONS BULLETIN
NO. 80
0-2/2657-235

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, January 2, 1944

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

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MISCELLANEOUS OBSERVATIONS
ON THE GERMAN ARMY

SOURCES

The sources of these observations are listed in accompanying footnotes.

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2. NOTE ON MOTORCYCLES
3. NOTES ON CZECH TANKS IN USE BY GERMANY
4. RAFTING OF HEAVY TANKS

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1. USE OF THE ARBEITSDIENST

The Reichs Arbeidsdienst is composed mainly of young men who are undergoing a period of service prior to their entry upon regular military training and duty. Indications are that these men are used for miscellaneous tasks in the rear areas and that they are kept out of combat zones insofar as possible.

The existence of such organizations as the Arbeidsdienst has enabled the German Pioneers to restrict the number of their functions as combat engineers and thus to strengthen their proficiency as an integral part of the combat team.

Among the duties of the Arbeidsdienst in time of war are the following:

- Cultivation of occupied farm areas, as in Poland;
- Construction and maintenance of important highways;
- Salvage of equipment, munitions, and material, both friendly and enemy;
- Policing of battlefields;
- Construction of runways for all types of air fields;
- Passive protection—including camouflage, sandbagging, etc.—of important military establishments;
- In emergencies, construction of any type under the supervision of construction engineers.

2. NOTES ON MOTORCYCLES

The field performance of motorcycles in the German Army has been found generally unsatisfactory. Reliable reports indicate that a military model of the Volkswagen is replacing motorcycles as they become unserviceable.

3. NOTES ON CZECH TANKS IN USE BY GERMANY

a. Anti-Gas Protection

It is now established that the Czech tank known as

1. From the report of an American official observer in Berlin, November 5, 1940.
2. From the report of an American official observer in Berlin, December 16, 1940.
3. The Volkswagen is a very small and inexpensive automobile manufactured under government subsidy and originally intended for use by the masses of people.
4. From a British official source, October 10, 1940.

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the C.K.D.V.8 H. has collective anti-gas protection. Since equipment used in Czech tanks can probably be adapted for use in any type of tank, it may be encountered in later German models.

The interior of the tank can be made gas-proof by means of fitting gas filters to all louvres and raising the air pressure to 1 1/2 atmospheres. The fighting compartment is separated from the engine chamber by an air-tight bulkhead. An electric fan drawing air through a large gas filter raises the inside pressure, but if this pressure becomes too high, an automatic release valve permits air to escape into the engine chamber.

The C.K.D.V.8H, also has an eccentric track adjuster which allows quick slackening of tracks for high-speed road travel.

b. Vulnerable Points

All Czech tanks appear to have a most vulnerable point alongside the engine compartment. An attempt has been made to reduce vulnerability by fitting angle sections in staggered positions on each side of the gap. Since these restrict air circulation, however, and cause overheating of engines, they have been removed. There is another vulnerable point behind and between the bogey wheels.

4. RAFTING OF HEAVY TANKS

Available information indicates that the heaviest load which can be taken on a standard German ponton bridge or raft is 13 tons. It is known that most German armored divisions had a certain number of 22-ton Mark IV tanks, while at least three divisions had Mark V and VI tanks, which weigh about 35 tons. The strengthening of ponton equipment to meet these heavy loads would not have been a simple matter. Probably the Germans, having decided that provision of bridging equipment for these comparatively few but very heavy loads could not be justified, arranged for their transportation across rivers and canals by rafting.

There is evidence of the use of a large raft, probably designed for this purpose. It consists of box girder sections about 60 feet in length and supported at the end by piers, each of which consists of two double pontoons. The girder is very similar to the British small box girder, Mr. II. The exact load capacity of the raft is not known, but the buoyancy of the four double-ponton piers would be sufficient to carry a distributed

5. From a British official source, July 25, 1940.

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load of about 45 tons. It can be assumed that the strength of the super-structure is proportionate.

At the moment when a tank is driven onto such a raft, the whole weight of the tank must inevitably be taken by only one pier. The maximum load which could be driven onto the raft when floating, consequently, would be only about 23 tons. In order that this difficulty may be overcome, the site chosen is of such a nature that one pier grounds while loading. It is known that the pontoons used are strong enough to take the load under these conditions. The unusual length of the raft and the great strength of the superstructure are required by the method of loading used. The raft must be so long as to permit the transference of sufficient weight to the offshore end in order that the grounded pier may be freed. This effect is accomplished when the tank is driven beyond the center of the raft.

Shore bays, approximately eight feet long and constructed of fabricated lattice girders, are provided on each bank for running the tank on and off the raft.

Ferrying is probably effected by means of a cable stretched across the river; by towing or pushing with a 100 horse-power motor boat, which is part of the pontoon equipment; or by using two or three smaller outboard motorboats.
I. Western Theater of War.

On December 31 German bombing attacks on railroad stations and harbors in Southeast England caused some damage and fires in warehouses. Neither side engaged in bombing on the night December 31-January 1.

On January 1 a British bombing of Bremen started large fires. German planes bombed central and southern England. A series of bombs were dropped in various parts of Ireland on the night of January 1. The German High Command reports that 43,000 tons of high explosive bombs and 1,800 tons of incendiaries have been dropped on British territory from August 3 to December 31.

II. Greek Theater of War.

Local clashes by ground elements in contact were reported. Italian air attacks against ground troops and materiel continued.

III. Mediterranean and African Theaters of War.

The British siege of Bardia continues. Artillery is shelling the town. On the Sudan and Kenya frontiers patrols are active and there is some artillery fire.

On December 31 the R.A.F. bombed Valona, Taranto, Palermo, Naples and Crotone. Both British and Italian air attacks were made on ground troops and materiel. The British bombed Italian airfields in Libya.
London, filed 16:00, January 2, 1942.

1. On Wednesday, January 1, planes of the British Coastal Command operated the usual patrols with no important results. Some planes were sent out on daylight bombing missions but unfavorable weather conditions prevented them from carrying out these missions. During the preceding night no planes were dispatched because of bad weather.

2. Forty-eight German planes were plotted over Britain on January 1, but their activity was limited. During the night of January 1-2, there was no concentration of German raids but attacks were scattered among many points in Britain.

3. On January 1, a 5,000-ton Swedish ship in Liverpool Bay was damaged by a mine. German aircraft attacked, but did no damage, to a convoy traveling westward in “Churchill’s Channel”. Off Dakar a British 8,000-ton tanker and a 9,000-ton vessel of Norwegian registry were torpedoed.

4. In the Isthmian theater, the British report that the area between Bardia and Tobruk is in their hands and that army patrols have advanced as far west as Tobruk.

5. The British claim to have control of the air in all Middle Eastern theaters, where they are carrying out normal aircraft activities.

Distribution:
- Military Aide to the President
- Secretary of War
- State Department
- Secretary of Treasury
- Amt. Secretary of War

Chief of Staff - 2
War Plans Division
Office of Naval Intelligence
AG - 2
G-5, 1

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Paraphrase of Code Radiogram
Received at the War Department
at 11:06 A.M., January 2, 1941

Berlin, filed January 2, 1941.

Positive confirmation received that advance elements
of the German air force are now in Italy. Aviation Signal
troops have been seen in Venice and it is estimated that more
than 100 Ju-88 transport planes and 2000 aviation personnel
have passed through that city headed south. At Bologna, railroad
trains German aviation motor transportation reported moving
south.

PETTEN

Distribution:
Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
January 3, 1941
9:30 a.m.

GROUP MEETING

Present:
Mr. Haan
Mr. Young
Mr. Cochran
Mr. Gaston
Mr. Sullivan
Mr. Thompson
Mr. Graves
Mr. Kuhn
Mr. Schwarz
Mr. Pehle
Mr. Wiley
Mr. White
Mr. Foley
Mr. Bell
Mrs. Klotz

Gaston: I have that letter you suggested. I still think it is wrong.

H.M. Jr: Well, we will read it out loud. Herbert thinks this is wrong.

"My dear Mr. President:

"The only way the Federal Government can be assured that German and Italian merchant vessels immobilized in our ports will be incapable of causing serious damage to channels, terminals, merchant shipping, or waterfront property generally, is to seize these vessels immediately and remove their officers and crews, and I therefore recommend that I be empowered to take this..."
step, for which I now have legal authority.

"There are two German merchant ships and twenty-eight Italian merchant ships at present immobilized in our harbors. One German ship is in Boston harbor, and the other at Port Everglades, Florida. The Italian ships are scattered along the Atlantic and Gulf coasts, with the exception of one Italian ship at Portland, Oregon, one in the Panama Canal Zone, and one in Puerto Rico. I am attaching hereto a list of these vessels by name, their locations, and other pertinent data.

"All these vessels are under as close surveillance by the Coast Guard as can be given without actually placing guards on board or seizing the vessels. Placing guards on board without taking possession of the vessel would only result, I feel sure, in sabotage, which could not be prevented as long as officers and crews remained on board.

"As an example, the Italian tanker Brennero, loaded with lubricating oil, is immobilized at Port Newark, New Jersey. There is nothing, short of seizure or maintaining armed guards on board, to prevent this vessel from getting underway and charging along the waterfront at Bayonne, New Jersey, where there is the greatest concentration of oil terminals in the world, and where a serious fire would be a national disaster. While this vessel might be moved to a point where the possibility of damage would be less, only actual seizure would be complete assurance against destructive acts.

"A very careful study has been made of the situation presented by these immobilized vessels, and I therefore recommend that you give me instructions to proceed immediately to seize these ships."
H.M. Jr: Well, I didn't know that you had to remove the officers.

Gaston: Well, you would have duplicate crews aboard, and I don't see any point in letting the other crews remain aboard. They would just create trouble. You would have to remove their officers and put them somewhere.

H.M. Jr: Well, that I wouldn't do.

Gaston: I don't think it would do just to put three or four or half a dozen men aboard a ship and then rely on their preventing the regular crew of the vessel from doing damage. The only way you could be assured that there wouldn't be any damage done is to take the crews off and put them somewhere else.

H.M. Jr: Does Waesche agree with that?

Gaston: Oh, yes.

H.M. Jr: Well, I wouldn't do that.

Gaston: I don't think you can select out the German and Italian ships without causing very serious complications. I think for one thing you invite--

H.M. Jr: Well, Herbert, then you might just as well say, which I am not ready to say, that the Coast Guard cannot do what the President expects us to do, and that is to see that these ships are not either scuttled or let out into the channels and damage the waterways. I will not accept the responsibility as Secretary of the Treasury. I will not accept that responsibility.

Gaston: Scuttling will be minor danger. There are a lot more things they could do. They could smash the machinery. They could have done it at any time, and they haven't done it.
H.M. Jr: That doesn't mean they won't. Was it the St. Louis during the War? What was that boat they smashed the machinery?

Gaston: All of them.

H.M. Jr: Well, I am not going to accept it.

Gaston: The only way you can prevent that sort of thing from happening is to take the boat, which I don't think we have any precedent for doing. We can violate precedents, but I think we will invite reprisals of different sorts. For instance, there has never been any sabotage ordered by Germany or Italy in this country, none at all.

H.M. Jr: What about the St. Louis and those boats during the War? When we took them over, the machinery was damaged.

Sall: After we declared war?

Gaston: Yes, absolutely, after it was known that we were declaring war.

H.M. Jr: In view of the steps and in view of the position the President has taken, and Secretary Knox, I am not going to sit there as custodian of these ships there; I won't take the responsibility.

Gaston: The only way is to take the ships, and of course in view of our normally neutral position, there is a question of our authority to do that and there is a question of whether we want to incur what will happen if we do that.

H.M. Jr: Do you mind if I put this up to Waesche at eleven-thirty with you here?

Gaston: No, I don't mind at all.
H.M. Jr: Have you any objection?

Gaston: Oh, no, not at all.

White: Herbert, if you wanted to spend enough money, couldn't you put a duplicate crew or a larger crew on board?

Gaston: Well, that is what we are talking about. That means taking possession of the ships and the safest, most convenient way to do that is to take the other crews off and then you will be sure they won't be doing anything you don't want them to do.

White: But you don't have to take the other crews off.

Gaston: It would be the logical thing to do.

H.M. Jr: Well, that makes it impossible. Well, I am not going to take the responsibility and not carry it out.

Gaston: If we were at war or about to declare war, of course, we would do it.

H.M. Jr: Knox is willing today to put the Marines on those ships.

Gaston: Sure, they want to get in on the thing. If you raise the question with them, they say, "Oh, we will take these ships."

H.M. Jr: Sure, and the slightest thing happens, Knox is perfectly justified to say, "I told Morgenthau I wanted to do it, and he sent for Gaston and Gaston said everything was all right. He had charge of the situation."

Gaston: Well, it is perfectly evident that we are not in complete control of those ships unless we have our own crews aboard them. Lots of things
can be done.

E.H.Jr:  
I want to be in a position to say, "Mr. President, I can not guarantee that one or two or three things will not be done to impede traffic or this or that or the other unless - now, if you don't want to give me that authority, all right."

Gaston:  
We can't guarantee either that there won't be other kinds of acts of sabotage having nothing to do with ships occur at any time. Nobody can guarantee that.

E.H.Jr:  
Herbert, if you don't mind, we will bring this up at eleven-thirty. I won't be in that position, that is all there is to it. Eleven-thirty. I just won't take that. I mean, it is an honest difference of opinion.

Gaston:  
Yes. Well, there is no perfect way of handling this thing. You can't - the chances you just can't assure yourself against.

E.H.Jr:  
The point is, the Navy is willing to do it. We have said that we are looking after ships. This is our responsibility. All right. Well, now, either we do a good job or we don't.

Gaston:  
Yes, we are doing and are prepared to do the best job that can be done under the present situation in which we are at peace.

White:  
Well, does doing a good job require taking off their crews? I think it is merely a matter of expense.

E.H.Jr:  
I don't think it does.

White:  
Put more men on there.

Gaston:  
I don't just get your point, Harry. You have
got to put an adequate crew aboard to insure yourself that no damage will be done by the foreign crew that is on that ship. Why embarrass yourself by keeping the foreign crew on and add to it the number of men you will have to put on the ship to prevent them from doing damage.

White: I suppose there is a political, not a military, reason that the Secretary doesn't want to take their crew off.

Gaston: I can't imagine there would be any political reason, because either our crew is in charge or they are not. They are mere boarders. The foreign crew are mere boarders on that ship if our crew is in charge. We would have to put more men on to watch that crew if we left them on.

White: You mean it isn't possible merely to put enough watchers which would act in the same capacity that the Marines might act there, that that would be taking over control?

Gaston: Yes, certainly. You can't have three men watch thirty or forty.

White: No, but you could have 10 or 15 men watch them.

M.M.Jr: And make those men prisoners on their own ship. It is better to have them prisoners ashore.

Gaston: Sure.

M.M.Jr: What is the situation with those Latvian ships up in Baltimore, that one ship?

Gaston: You mean under the United States Marshall?

M.M.Jr: Yes.

Gaston: They have no--
H.M. Jr: Well, Herbert--

Gaston: They have no guarantee that damage won't be done to that ship. It is only the interests of the owners and the crew of the ship.

H.M. Jr: Well, I have got a definite sense of responsibility on this thing, and I am not going to be put on the spot by the Navy or Mr. Roosevelt.

Gaston: Well, I think it may be a good thing to get their views on the thing.

H.M. Jr: I won't do it, and, if Coast Guard doesn't want to do it, I am not going to — then let — say let the Navy do it.

Gaston: There isn't any question of Coast Guard not wanting to do it. They are perfectly willing to do anything that they are directed to do and so am I. I am merely saying I don't think it is a wise thing to do.

H.M. Jr: Well, that is your privilege, but I am not saying whether it is a wise thing or not a wise thing, but I say I am not going to sit in this chair knowing that any night they might cut the cables and slip the ship out into the channel and sink her, and then I am held responsible for that damage. I will not take that responsibility.

Gaston: Well, I think it is a good idea to talk it over with the President or Cabinet, whether they understand the situation.

H.M. Jr: I am willing and want to say that we will take the necessary steps to see that they can't do it. Then if the Cabinet says they don't want me to do it, then I am relieved of that responsibility.
Gaston: Yes, that is right. That is, if they simply say they want things to go on as they are.

H.M. Jr: Yes, but then it is the Cabinet's responsibility but not mine.

Gaston: That is right.

H.M. Jr: But that was the purpose of the letter to read it at Cabinet and make a recommendation that we be permitted to put enough men on ship board, not to take the crews off, to put enough men on ship board, whatever the number is, so that they can not maneuver the ship around so it can do any damage.

Gaston: Well, as to that, I say the logical thing is to take the other crews off.

H.M. Jr: Well, that is where I differ with you.

Gaston: Because you are taking control of the ship and those other men are just prisoners on board that ship?

H.M. Jr: No.

Gaston: And there are more convenient and economical ways of handling those men as prisoners. Instead of having 15 or 20 men aboard the ship, we can have six men aboard the ship.

H.M. Jr: As far as handling it, look at the difficulties of handling those fellows off the Columbus, one of the most difficult problems the Administration has.

Gaston: Exactly. Whether you leave them on or take them off, you still have a difficult problem. If you leave them on, you have got to have a much larger guard on board the ship in order to insure control of it.
E.M. Jr: But you have still got the men living in their own berths, you don't have to try to find a place ashore for them the way you do for the crew of the Columbus.

Gaston: Then you have to have some place for your own men to live.

E.M. Jr: They can live in the first class passenger cabins.

Gaston: These are mostly freighters.

E.M. Jr: Let's do it at eleven-thirty.

Gaston: Yes, right.

E.M. Jr: Ed?

Foley: The time to appeal in the Spanish silver cases expired so the decision in the Circuit Court of Appeals in our favor stands, and they are dismissing—

E.M. Jr: What case?

Foley: The Spanish silver case that Stimson handled for us in the lower court.

E.M. Jr: Did Stimson ever get paid for that?

Foley: I don't know whether he has been paid or not. I haven't seen the bill.

E.M. Jr: Would you find out?

Foley: Yes. I don't know if he ever submitted a bill. Has he been paid?

Bell: I think so. We had a question, you remember, about charging it to the cost of silver.
It was deferred until the suit was settled. He has never been paid anything, and we still owe the Spanish something on the silver that we never paid to the Loyalists, five percent.

I don't think he ever submitted a bill.

Oliphant had up the question as to whether we shouldn't charge it to the Federal Reserve Bank of New York.

I think that was at the time it was retained, Dan, as to how he would be paid. But I don't think the bill has been submitted. If it has, I have never seen it.

Here is a memorandum for the diary on the meeting with Glass yesterday.

All right. Will you give Leo Crowley a copy of that letter to the President?

Yes. And a copy to Delano?

Yes.

We will be ready on all that legislation at a quarter after ten.

Good. I hope I will be too.

We are ready on it also. And here are some newspaper articles.

From now on, give those to Kuhn, and I wish you would talk to Kuhn about this whole subject about handling this fight, the whole question of this tax exempt fight, how are we going to handle it and all the rest of it. Will you have a talk with him?
Sullivan: Yes.

H.M.Jr: My mind is running along about the possibilities of getting a man down here whom Kuhn could select to do that and nothing else.

Cochran: I have nothing.

Wiley: Nothing.

Pehle: Do you want to see me later on on that letter you sent down to Mr. Hoover?

H.M.Jr: Oh, that can wait.

Pehle: One of our people, Stemple, has an offer to go with Export-Import Bank in a much better job; and, as a matter of fact, he has more or less already accepted before he cleared it with us. Warren Pierson is going to use him as his assistant.

H.M.Jr: Stemple?

Pehle: Stemple, yes.

H.M.Jr: Where does he come from?

Pehle: New York. He has extensive banking experience. He is a pretty good man. I don't see that we can stand in his way.

Lacour Gayet was in the other day and said that the French Ambassador had a tentative agreement with Sumner Welles with regard to some of the gold at Martinique. Do you know about that?

H.M.Jr: Not a thing.

Pehle: I didn't either. The proposal was to send to some United States port, apparently Puerto Rico, some of the gold at Martinique on the condition
that we would release an equivalent amount of funds that are frozen, the French funds, and they would use the funds in buying supplies in this hemisphere to send to North Africa. Whether Welles agreed to anything like that I don't know, but I told them we wouldn't do anything or discuss any details unless we heard from the State Department. It rests there.

On the I. T. & T. matter, Livesey called me about two days ago and said that the matter had been put up to the President, who said, "No. Then he called back to say that that might be a little premature, and the President had said, "Not now," so he said they would take it up again with him when it came to a head. Well, it is coming to a head right now, because the I. T. & T. has signed the agreement with the Roumanian Government, subject to the licenses being issued, and the cable is coming over from the Roumanian Central Bank to the Federal to sell the gold necessary and pay the dollars to the I. T. & T., so as soon as the application has come in, we will notify the State Department, and then we will hear from them again.

That is all.

Phil, Mr. Knudsen called for me this morning, and he brought up this question of priorities. It seems that some list that I sent the President was - the President referred it to him. Was that the list showing the 20 different countries and the different odds and ends that they want?

Young:

Those plane tables, did you send that to the President?

H.M. Jr:

I must have. Well, it is - Knudsen's position is, if we want anything cleared on any priorities, send it to him and he will do it at once.
I will send them about six today, then.

I told him you would. I think you had better take them over yourself. He said yesterday he had cleared seven planes of Lockheed.

I hadn't heard about it.

Well, he seems to think he is going to do it all. He said certainly any parts for any planes that have been sold must go. I think I would walk over there today and just find out what he has in mind. He says if you will bring them to him - he says, "Nobody has asked me to clear anything." He says, "I am the boss." I couldn't argue with him. I didn't have my facts. But he seemed excited about it, so I said, "Well, wonderful, we will see how good you are." He says, "Try me, try me."

That is easy enough.

He says, "Try me." So I would call him up and go over and see him today.

Fine.

I won't even stop to sign it because I won't have time to do it, so while I am at Cabinet this afternoon, go over and see him.

Meigs called me yesterday, who is the air man under Knudsen there. He said he is perfectly willing to take all the responsibility for clearing all of these smaller requests for planes and parts. He called me back later to say that he had talked with Brett about it, and Brett said it was O.K. with him provided we would accept his clearance on it.

Well, then, he said, "Suppose you had the clearance and you could get it through Colonel Maxwell."
Anyway, I am telling you please to go over and see Mr. Knudsen this afternoon and see just what he has in mind.

Young:

Right.

E. M. Jr.:

O. K.?

I have nothing, Mr. Secretary.

E. M. Jr.:

To bring you up to date, Phil, in talking with General Marshall, last night, on the nine more Consolidateds, his position was, if the English will tell me what they can spare the best - he says, "I don't want to ask them for something to embarrass them," in other words, what they need the least, that he can use for a swap on the nine, he will do it, and I told that to Purvis last night and he is to give us an answer this morning, see. Will you follow through on it?

Young:

Yes.

E. M. Jr.:

In other words, whatever they can say they can spare the best - something that he can, as he says, save his face with, he will release the nine.

Young:

Right.

E. M. Jr.:

Harry?

White:

Chen sent back a young man, Chi, who he took over the Burma Road with him who reported on the condition of the Road, etc., but he made one comment that I want to raise here to see whether anything should be done about it. He mentioned in the course of the conversation I had with him that there were quite a few Chinese bankers who had just come here and wanted to know what convention was going on or whether we were having a conference, and I began to be curious, and I said, "No, we haven't," and I asked him now he knew they were here. He said he had met a few,
and I let the matter drop. The idea occurred to me later, why should they all be coming over here now, unless they got worried about the possibility of imposing exchange control and are making arrangements with banks here to get out from under ahead of time, and I am wondering whether we could find out about it, because they have got a hundred and seventy-five million dollars here, and I am willing to bet a dollar to a doughnut that over a hundred million of that is in the hands of individuals who have no business to have it over here.

H.M.Jr: You are too suspicious, Harry.

White: Well, why do they all come over all of a sudden, Chinese bankers here? (Laughter)

H.M. Jr: Why are my son and I going up to New York tonight? To see "Panama Hattie."

White: You might look these Chinese over. Isn’t there some way we can find out what is going on?

H.M. Jr: Bob, last night, says, "You tell the President at three-thirty, Daddy, it is a matter of national defense, and you want to study the Panama situation." He says, "You needn’t tell him it is "Panama Hattie." Just tell him it is the Panama situation." So that is a notice to everybody that the boss is leaving at three-thirty on the four o’clock train. I will be back Sunday night, I think, or Monday morning. Well, you have got all of these would-be detectives around here.

White: Well, I’ll put the proposition up to them.

Sullivan: Sammy Klaus will take care of that. (Laughter)

H.M. Jr: All right, Harry.

White: That is all. Any time you want to know about
that Burma Road, I will be glad to report to you, but on the whole his comments were very favorable with respect to that.

H.M.Jr: Would you (Klotz) ask the White House usher that - Sunday night somebody was in who had been over to China and taken some remarkable pictures which they showed Sunday night, and I would like to get them for downstairs. It is on the bombing of Chungking.

White: He had a long movie film of the Burma Road.

H.M.Jr: Excuse me, I am mixed up on Sunday night. I went to see him yesterday morning. What was yesterday morning?

Klots: Thursday.

H.M.Jr: He showed it to them Tuesday night.

White: Chen took a moving picture especially for you. It hasn't arrived yet. When it arrives, Mr. Chen would like to bring it down.

Schwarz: Sylvia Porter has written a piece in which she predicts the Fed's recommendations will split Congress wide open. We are collecting all the editorials from that all over the country which will take several days.

White: Which reminds me of something, Mr. Secretary. Senator Wagner's secretary called me up and wanted to know what this was all about, and I asked him some questions. He said that - (Laughter) that this fellow, I have forgotten his name, it sounds like Goldsborough, said that the Administration was for it, and he was for it, and he helped write it, and he was going to push it. Some important Congressman. Isn't there a Goldsborough.

Foley: There is a Goldsborough on the FDIC who used to
be a Congressman from Maryland.

White: No, somebody there now. I am awfully sorry, I have forgotten the name. But apparently there is an opinion among many up here that this is all right with the Administration because the Administration hasn't said anything to the contrary, and I took the liberty of telling him that if Senator Wagner asked him any questions about it, he had better ask Senator Wagner to get in touch with you before he makes any statement on it.

H.M. Jr: Let him get in touch with the President.

Bell: I see Early helped write it. It says in the paper this morning that Early helped write this statement.

Schwarz: It said he helped on the timing.

H.M. Jr: I saw last night what I called the most exclusive club in Washington, Dr. McIntyre's office, and he said that the Star was much too enthusiastic over what he had said. He hadn't said that at all. That is the interpretation they got.

Schwarz: United Press on the other hand said they concluded that the Treasury was opposed to it because we had refused to approve it. So you can get either interpretation.

H.M. Jr: Well, Harry will give them an interpretation (facetiously).

White: I will ask them some more questions.

H.M. Jr: That is right.

White: But I don't want any toy pistol.

H.M. Jr: All right. (Laughter)
Harold? If you and Norman would press McKay to give you two gents an appointment, I would like to clean up that thing. I don't know whether you think I have forgotten about it or not. On that personnel matter.

Graves: You mean today?

H.H. Jr.: Not today, Monday. I don't know why you two are so retiring about it.

Thompson: There are so many pressing you now.

H.H. Jr.: Well, anyway--

Graves: O.K.

H.H. Jr.: Dan?

Bell: George has the annual report ready for release. He thinks it ought to go out probably tonight in view of the criticism we had last year that it was released too late for the boys to read. Now, it has the eight year review in it which we talked about before, and I think George has done an excellent job of it. Is it all right with you for it to go out tonight?

H.H. Jr.: Sure. I can't look at it.

Bell: Well, it has the usual release, that it can't be published until after the Budget message.

H.H. Jr.: It is all right.

Easton: You know, Steve Early has raised some questions in the past about the timing of giving that out in view of the fact that it does have budget figures in it.

Schwarz: This copy does not have them.

Easton: Oh, that is all right.
Bell: They eliminated 10 pages of budget figures. I guess we won't be able to sign the Chinese agreement today because we have heard nothing from Soong. It had probably better go over until Monday.

H.M. Jr: All right.

Bell: There is one question raised in the agreement. We had in the draft that we sent them last week not to exceed five million dollars a month, and he said that wasn't enough and that he would like to see it increased some. So we thought maybe we would put in eight million dollars a month so as to get rid of the money by the time the fund authority expires, which would be June 30. Now, Harry raises a question of whether that isn't just a little high and maybe we had better stick to our original five. Do you have any feeling about it?

H.M. Jr: No.

Bell: We still have control over it even though it is eight million a month.

H.M. Jr: Harry thinks it is all right.

Bell: Well, he raises a question. I think he could be argued out of it but--

H.M. Jr: Why can't you do the same as you did with the Argentinians? I understood it if you thought the fund was going to lapse you would shovel it out the last month.

Bell: We would do that, but he is arguing it would make his position a little better with his board and psychologically it would be better for the timing of this new bank coming in, that a larger sum would look better. I don't think it makes a lot of difference.
H.M. Jr: We will never get a penny of it back, so what is the difference?

White: The thought in my mind, Mr. Secretary, is this: Not that you get any of it back, but they are constantly teetering on the edge of making peace with Japan or not, and I thought the longer we could stretch out our control over them, the longer we can be certain that they are going to use the money, they will act in such a way as we would like them to. It isn't that the money will be any safer because the money is bound to fly the coop, but I think it is a question of 10 months rather than six months unless at some time you feel differently and want to give them more. That is the only thought I had.

H.M. Jr: With that argument, let's make it 10 months. It puts off the day until Harry comes around and asks us to give them some more.

White: That is right.

Ells: Of course you have the authority to increase that five million a month.

H.M. Jr: The last month.

Ells: Well, any time.

White: No, any time, if you see fit.

H.M. Jr: O.K. Who is going to watch all of these things? Does that come under you (Cochran) that you are going to watch the Argentine and China?

White: No. We are going to - I mean, as many can watch it as want to. (Laughter) I mean the fact that somebody else will watch it won't exclude the fact that we will, and you remember we are going to send a man down there.

Regraded Unclassified
Yes. Well, I want to get in on that. Before the man goes, I want to look him over.

White: Yes. And I was going to raise the question we would also like - no matter who goes to China, we would like to send one of our young men down there to watch a while.

Bell: Watch him.

H.M. Jr: Well, in any case, seeing that there are going to be lots of watchers, I still think that besides everybody else watching it, that you ought to watch it too.

Cochran: All right, sir.

White: The Stabilization Fund, I should think, sir.

Bell: Merle will spend the money.

H.M. Jr: All right.

Schwarz: I would suggest Tuesday then, instead of Monday. The President's message Monday will blanket everything.

H.M. Jr: What else?

Bell: Guy Emerson, the vice president of the Bankers Trust Company, had a great deal to do with the last liberty loan campaign. He was Ben Strong's right-hand man. He had charge of all the advertising and the forms and so forth. He has got quite a file on his whole campaign.

H.M. Jr: Would you give it to--

Bell: Well, I haven't got it. What I want to do is send Gene Sloan and Broughton to New York to see Emerson and Pope, who will report together on that whole scheme and what they worked out and was used for the rest of the country.
H.M.Jr: Just as long as it is no indication any way that we are going to use them.

Bell: Oh, no, not at all. They are perfectly willing to cooperate and give us anything they have got.

H.M.Jr: That is all right. So long as there is no indication. Because those aren't the kind of people I am going to use this time.

Bell: Well, you don't have to use them.

H.M.Jr: I wouldn't.

Bell: Guy Emerson is a good man.

H.M.Jr: No, I don't want any New York bankers in on this thing. You can't have the money until - you can't own it and lend it both, so you have got to be on one side of the table or the other.

Bell: Do you mind if we discuss with them what they have in the files?

H.M.Jr: I don't mind your getting what they have, but I mean there is a conflict between the fellows that have the money to lend and the people that have got to borrow it, and I am not going to do what they did in the last one, have the fellows sit in here from the banks and run this show. So, if that is understood, just to go down and get what they have in their files, it is all right, but there isn't a more vicious, anti-Roosevelt man in the United States than Colonel Pope.

Bell: This isn't Colonel Pope. It is his brother. (Laughter)

H.M.Jr: But I mean there is no more vicious anti-Roosevelt man.
Bell: I don’t know how he stands, but it isn’t Colonel Pope.

H.M.Jr: You know how I feel about those kind of people. I don’t have any objection.

Bell: Well, I didn’t want to make any arrangements with them to come down here at all. I just wanted Broughton and Sloan to go to New York and see what Guy Emerson has in his files. He told me that he thought he had the most complete file on the liberty loan campaign because he traveled all over the country and talked to all the Federal Reserve Banks and he helped them work out their systems and arrange their advertising.

H.M.Jr: I don’t mind this, just as long as it is one-way traffic. If they want to give us something.

Bell: It really saves a lot of money in advertising because they got these large firms to give all of their advertising space to liberty loan and at the bottom they would just say the space contributed by, say, Sears-Roebuck Company, and it really saved an awful lot of money.

White: Mr. Secretary, before final decision is made with respect to the kind of campaign on bonds, I wonder whether there might not be a little discussion. I have, myself, some very serious doubts about the appropriateness of the kind of campaign that was carried on during the War for the sale of liberty bonds. I didn’t know whether you were making up your mind already or not.

H.M.Jr: Kuhn is checking on the various people that I can get down, people like this professor from Amherst, Odegarde, and several other people who can sort of advise me as to what is the best method of approach and study all of this stuff that has been done before, you see. Now, Odegarde
is a good New Dealer who voted for Roosevelt and so forth and so on, and there are other people like that. I asked, a couple of weeks ago, the Librarian, MacLeish, if he could find some Roosevelt Democrat who was in the advertising business and so forth and so on and - I mean I am looking for somebody along those lines. Now, we could go to the universities and get a couple of people, but before I make any move or anything else, I want that kind of an angle, Harry, see. That is the way I am going at it. And Kuhn is lining these people up. I am just beginning to get into the thing. I read Broughton's memorandum, and it is a very nice memorandum, but there is nothing in it that would help me.

Bell: Well, it is a memorandum of what happened during the last War.

M.M. Jr: That is right.

Bell: That is all. We didn't ask him for any suggestions.

M.M. Jr: Well, I didn't know - yes, I think on the last page there were some suggestions.

Bell: Only as to using the present force.

M.M. Jr: Yes.

Bell: The organization is much better now than it was in '17. We have an organization that they didn't then.

M.M. Jr: Well, let the boys go up and get what they have, but I just want to keep the thing wide open.

Bell: I understand that. O.K.

Bell: That is all.

H.M.Jr.: All right.

Thompson: You have been interested for sometime, Mr. Secretary, in a plan for staggering pay days.

H.M.Jr.: Yes.

Thompson: Mr. Bell's organization has a draft of legislation which would accomplish that. It goes a little beyond that. I didn't know but what you would want to discuss it with--

H.M.Jr.: If Bell says it is all right, it is all right with me.

Bell: All it does is submit to the Bureau of the Budget a proposal for consideration. It involves a five-day week and staggered pay days, and it involves the merchants in town and the bankers and everybody else, and all I want to do is lay it before the Budget and not send it to Congress at this time.

Hite: Do you approve the five-day week, Dan?

Bell: Yes, I am approving the five-day week.

Hite: Attaboy!

Bell: I don't see much use of coming down here on Saturday if you work 39 hours the other five days. Then I am in favor of it.

Hite: I think the Government ought to lead in the general direction of social progress.

Bell: Particularly the progress.

H.M.Jr.: He saw you wink, Harry. You didn't get Bell that time.

O.K., gents.