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TO:

Photostatic copies
of this went to

D. Bell
Foley
Thompson
Graves
Young

From: LT. COMDR. McKAY

1

THE WHITE HOUSE
WASHINGTON

January 4, 1941

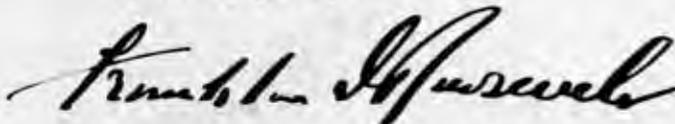
The Honorable
The Secretary of the Treasury

Dear Mr. Secretary:

I wish to acknowledge receipt of your letter of December 19 outlining the work of your informal committee. I think that your report is quite complete and thank you for it.

Mr. Knudsen informs me that your clearance procedure for foreign orders will in the future be amended to provide for priority rating on the item in question. As to orders for South America, arrangements are being made to provide necessary spare parts for aircraft without delay; and in conference with Mr. Nelson Rockefeller, it was decided to clear promptly all items not on the emergency list and apply priority ratings only to aircraft and motors, industrial and electrical machinery, chemical and petroleum products, textiles, and arms and munitions of all kinds. This leaves then for South American orders only the question of policy to be handled in advance of clearances, and it is my suggestion that this be done through a committee consisting of one representative each from the State Department South American Liaison Body, Export License Control, and the Treasury.

Cordially yours,



From Professor A. S. Yahuda.

*Thank him for letter. Say always
glad to hear from him*

12, Stockton Street,
Princeton,
New Jersey.

2

*Show this ~~White~~
Kuhur*

January 4th. 1941.

Dear Mr Morgenthau,

When I was in Washington some weeks ago, I regretted that owing to your absence, I was deprived of the opportunity of seeing you. Whilst there, I had talks with various personalities, among them Mr Ickes and Mr Berle, about the proposed loan to Spain for food supplies.

I was very glad to observe that some of the people I spoke to were in accord with me in opposing a policy of appeasement; and that even those who were inclined towards such a policy, admitted that the arguments advanced by me, deserved some consideration.

I see that that scheme is still being debated and I should like to observe that both sides: Suñer, the accomplice and tool of the Nazis, and the bulk of the army, who is opposed to any Nazi penetration of Spain, expect their salvation from the food supplies. Suner and the Falangists, who were afraid to encourage Hitler to let his army go through a hungry Spain and an army living in the most precarious conditions, hope that by feeding the hungry, Hitler will be at ease to risk the passage of his army through Spain to Gibraltar, and thence further to North Africa. On the other hand the army hopes that by pledging Franco not to go with the Nazis as

as a condition for American help, the army will be able to keep Hitler's hordes outside the borders of Spain.

I am still apposed to this policy particularly 1) because a hungry population and a badly fed army are a deterrent to to the Hitler-Suñer invasion plan; and the best nursery for the revolutionary germs against the dictatorship; and 2) because any concession to Spain will encourage the appeasers in America and the Hoover-Humanitarianists to divide public opinion on defense measures. But it seems that the sympathizers of feeding ^{Spain} are in a stronger position, ~~in Spain~~.

Now if America is determined to adopt ~~this~~ viewpoint in spite of the failure of all appeasement attempts, it should at least be utilised to strengthen the position of those circles of the Spanish army who are against Suñer and, to some extent, also against France. It is known in Spanish quarters that the Minister of War Varela and the generals Yagüe and Arranda have intimated to Franco their resolute decision ^{to resist} any attempt of ^a German invasion. It is also known that the Commander of Algeciras is not at all in favour of a German march against Gibraltar, as he, like many other Spaniards, realises that a German occupation of the British Rock would be more dangerous to Spain than the British as neighbours.

It is possible that a discreet and cautious approach to such men would provide some guarantee for frustrating the Suñer and Hitler plans. But I must repeat again that at the same time the Spanish Governement must be asked to give America all the available coal and minerals (copper, mercury etc) as part payment for the food, not so much because America is in need of them, but to prevent their

being sent to Germany and to secure in some way a part payment which otherwise could never be expected from a bankrupt Spain.

As to Suner's position in Franco's Cabinet: I may add to my previous information that his main object in taking in his hands the Office of Foreign Affairs, was not only to oust his predecessor, because he turned anti-Nazi after he realized the true aims of Hitler, but more probably to hamper ^{the efforts of} the Spanish Ambassador in London, the Duque de Alba, to keep Spain out of war. The Duque, who has Scottish royal blood in his veins, was always pro-British and not a great lover of the Nazis, especially since German bombers destroyed his beautiful Liria palace in Madrid with its world-renowned paintings and Manuscripts, among which there was a most precious illuminated Bible, valued at a million dollars. Of course, the Nazis charged the communists with having committed that vandalism; but the Duque knew better to whom it was due.

It may be that these facts and many others are known to you; and, as a matter of fact, I was hesitating whether I should write to you; but your kind appreciation of my previous information encouraged me to bring some of the facts known to me to your notice.

In conclusion I should like to inform you that I was all the time in close contact with my Spanish and other friends, and hope that something concrete may be achieved in connection with the formation of a united front of eminent Emigrés against Fascism and Nazism, especially in Latin America, which I was advocating since I arrived in this country.

Very sincerely yours
A. S. Yakovlev

P.S.

Under separate cover I am sending you a copy of my last book The Accuracy of the Bible as a token of my admiration of the great work you are accomplishing in helping your great President to check the oppressor nations and to bring back to a harassed world liberty and human rights.

May the New Year bring you happiness and good health to continue your work.

A.S.G.

restrains that before to your all... of the appro-
ments attending you. either there; the... various per-
sonalities, among them He takes... the proposed
Down to Spain for food supplies.

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... through a hungry Spain and...
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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

6

For Miss Chauncey

DATE January 4, 1941

TO Secretary Morgenthau

CONFIDENTIAL

FROM Mr. Cochran

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£27,000
Purchased from commercial concerns	£29,000

The Federal Reserve Bank of New York sold £15,000 in registered sterling to a non-reporting bank.

Open market sterling was steady at 4.03-3/4. There were no reported transactions.

Except for an improvement in the Cuban peso, the other currencies experienced little change. Closing quotations were:

Canadian dollar	14% discount
Swiss franc	.2321
Swedish krona	.3385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	8-1/4% discount
Chinese yuan	.05-9/16

We sold \$1,000,000 in gold to the Bank of Portugal, to be added to its earmarked account.

The Federal Reserve Bank reported that the Central Bank of El Salvador repaid \$70,000 of the three-month loans previously made to it by the Federal. Upon repayment, the Federal transferred \$71,061.42 worth of gold from the collateral account to the Salvadorean bank's own earmarked account. The amount of loans outstanding is now \$877,000, secured by \$989,579.61 in gold.

The State Department forwarded to us a cable stating that the Commonwealth Bank of Australia in Sydney shipped \$10,470,000 in gold from Australia to the Federal Reserve Bank of San Francisco. The disposition of this shipment is unknown at the present time. In the past such gold has been sold to the San Francisco Mint upon arrival, with part of the proceeds of the sale being credited to the British account, and part to the Australian account.

No gold or silver prices were received from Bombay today.

7

(Copied from a strictly confidential message showed by Mr. Pinsent of the British Embassy to Mr. Cochran in the Treasury at 11:45 a.m., January 4, 1941.)

Telegram from London dated December 30, 1940.

Confidential information from [redacted] informant] suggests that the New Wang Ching Wei Central Bank hopes to obtain backing of its propose [redacted] "ed" omitted] note issue by tapping exchange resources of the Chinese Stabilization Fund with the Chinese National currency [redacted] collected] in the puppet area and sent to Shanghai. They claim that 50,000,000 dollars Chinese, initially at disposal of this Bank, have already been exchanged into American dollars.

This information (for what it is worth) may be of interest to Mr. Morgenthau.

dm

War Plant Amortization Looms as 'Hill' Issue

By CHARLES T. LUCKY

Congress may be asked soon to amend that part of the Excess Profits Tax Act of 1940 which permits short-term amortization, for tax purposes, of the cost of new plants built for national defense production.

The fight over amortization was one of the sharpest of the last session of Congress, with the Treasury and the National Defense Advisory Commission disagreeing on several points.

Amortization is the device by which corporations, in computing taxes, take an annual credit for the depreciation of their plants. Ordinarily this credit against taxable income must be spread over many years. But many war materials plants will be useless, or relatively so, when the present emergency passes.

CAN BE ACCELERATED

Hence, the act of 1940 provides that corporations building new plants necessary for defense may amortize the cost in five years; that is, they may subtract one-fifth of the cost from their taxable income in each of those years.

The corporation can choose, after building such a plant, whether to amortize over the short route or the normal, longer period. If it wishes to amortize quickly, it must obtain a "certificate of necessity" from the Government.

However, it is provided that after Feb. 1, if the corporation wishes to take advantage of five-year amortization it must get this certificate before, rather than after, building the plant.

Defense officials, it is learned, may propose to Congress that this provision be replaced by one allowing a certain time limit, perhaps 90 days, in which to seek such a certificate after a plant has been built.

As a matter of fact, only a fraction of the expected number of manufacturers are taking advantage of the short term amortization.

It was charged last year that delay in passing a short term amortization law, giving certain assurances to concerns investing in arm plants that might soon be idle, had held back defense. The Treasury was criticized for seeking to link amortization with the excess profits tax, instead of favoring speedy enactment of a special amortization law.

REVENUES APPROVED PLAN

But it is pointed out that William S. Knudsen, of the Defense Commission, was among a group of defense officials who agreed that the amortization and excess profits tax should be handled together.

Treasury officials also have clarified their position on the question of Government control, after the emergency, of plants built especially for defense.

They say they never sought Government control over plants financed entirely by private capital—a position which, apparently from misunderstanding, was attributed to them last year.

Only where the Government reimburses the manufacturer in cash for his investment in a defense plant, Treasury officials say, did they insist that provision be made by statute for Government control of the plant after the emergency. The Defense Commission agreed that disposition of the plant should be handled not by statute but in each individual contract. This was the method eventually adopted.

Treasury officials also deny ever blocking a special amortization plan sought by the Navy Department in 1938 as a necessary preliminary to acceleration of the naval ship building program. Not amortization for tax purposes was concerned, they say, but computation of costs under the law limiting shipbuilding profits. The matter, it is contended, was disposed of within a month after the Navy first approached the Treasury, and involved no delays whatever.

The Treasury's readiness to co-operate in allowing special deductions for extraordinary expenses involved in defense production is also shown, officials say, by so-called "leasing" agreements signed with certain companies.

The Colt Patent Fire Arms Manufacturing Co., for instance, has been allowed to charge off as indirect factory expense the cost of special tools and dies useful only for defense work. This was done in computing present-allowable on certain Government contracts. Government officials, observing the

comparatively small number of firms invoking the five-year amortization provision in cases where they financed their own plants, believe this may be due to an anticipation of rising prices and rising costs.

Some manufacturers are believed to be reasoning that tax rates may be higher in a few years, and that spreading the amortization over a longer period might be advantageous because of this.

U. S. Plants Still Work On Outmoded Planes

Latest Type Craft Only Now Beginning to Come Off Lines

By CHARLES T. LUCEY,
World-Telegram Staff Writer.

WASHINGTON, Dec. 30.—It is becoming plain that William S. Knudsen's jarring admission of a 30 per cent lag in plane production, and his "terrible urgency" warning, did not come too soon or go too far.

He did not tell the complete story. He did not say, for example, that today, 16 months after Warsaw was bombed almost off the map, and six months after the break-through at Sedan, that American aircraft industry is still producing outmoded planes.

Planes are still coming off the production lines without self-sealing gasoline tanks, revolving turret tail guns, pilot armor, and with armament short of European standards.

Yesterday's Planes.

These, say government officials, are yesterday's planes. Today's planes are just beginning to come from the factories.

However, serious as the 30 per cent lag is, Washington is coming to admit that if the British and French had not come into the U. S. plane market two years ago, saying but millions to expand production facilities, the situation would be even more acute.

The matter of warplanes for export has been a subject of controversy ever since the day in January, 1929, when a two-engine bomber crashed in California, killing its American pilot and injuring a French military observer.

A knowledge of the story of French and British plane buying in this country, never fully told, is necessary to an understanding of the defense problems the United States faces.

That story began Oct. 1, 1928, after Premier Daladier returned to Paris from the signing of the Munich Pact. He lunched with Jean Monnet, banker, and William C. Bullitt, United States Ambassador to France.

Expected War.

Daladier knew Hitler meant war. France must get ready at once. Daladier was thinking in terms of air power, and he said across the table:

"If I had had 3000 or 4000 planes there would have been no Munich."

When could France get these planes? He feared that French industry was not geared to produce planes, especially engines, in the numbers needed to match Germany. England had its own hands full. So, the planes would have to come from the United States.

It was only a short time until Mr. Bullitt and M. Monnet were laying the case before President Roosevelt.

They found the President completely sympathetic. He believed that expansion of U. S. plane production capacity, growing out of French orders, would be of military benefit to this country.

Takes Up the Fight.

The President directed M. Monnet to Secretary of the Treasury Morgenthau, and the next night, at a dinner in the Morgenthau home in Washington, M. Monnet again described the problem.

In Secretary Morgenthau the French, and later the British, found a man who took up their fight.

The plane procurement job might have been handled as routine—a few minutes from Mr. Morgenthau's time when he could spare it from Treasury duties; a conference squeezed in here and there. The President didn't want that kind of job, and Mr. Morgenthau made the cause his own.

Today Mr. Morgenthau and those around him say events have shown how right he was—that two-thirds of present American airplane-factory capacity was built because of French and British orders.

Mr. Morgenthau did everything possible to enable M. Monnet to make a survey of what the French could expect. The study completed, M. Monnet returned to France. But there he found that opposition to plane purchases in this country was already being heard.

Estimate '41 Plane Production at 17,000**Foreign Orders Tripled
U. S. Plane Production**

By CHARLES T. LOCET

American industry in the last two years has turned out 2500 military airplanes for the British and French. France alone, before its collapse, laid \$95,000,000 on the line for planes and for factories to build planes. Britain, after learning it could not fight a cheap war, poured tens of millions into United States aircraft plants.

These foreign orders have been the chief factor in tripling American production of military aircraft in two years. This increased factory capacity has been cited repeatedly by President Roosevelt as being of immense importance to this country's own defense.

According to the United Press, aviation experts estimated today that between 16,000 and 17,000 military aircraft—more than double the output of 1940—will be built in the United States in 1941.

They also estimated that between 35,000 and 36,000 plane engines will come off assembly lines in the next 12 months.

That is the best that can be done in 1941, the experts say, unless some short-cut plan is found feasible to bring other industrial facilities, such as auto plants, into quick production.

The plane estimate exclude figures for several thousand other planes that will be built next year and which could be quickly converted for liaison and photographic work. The engine estimate is for motors of 1000 horsepower or more.

According to the Aeronautical Chamber of Commerce, there is now 23,500,000 square feet of productive floor space in plane factories. There are under construction new plants with 22,600,000 square feet.

PEAK IN AUGUST

The experts say it is their conservative conclusion that the peak of production would be reached by August, 1941. Then aircraft factories should be turning out planes at the rate of 1750 a month, they say. Defense Production Chief William S. Knudsen estimates present production at about 700 planes a month.

The experts say 8750 planes should be built in the last five months of 1941.

Engine production, according to the best private estimates available, is now 1850 a month. All, however, cannot be used immediately since in the case of one particular type of engine the reject rate is high. Experts expect the output to be doubled when facilities now under construction are ready, also probably in August.

In the last five months of 1941, engine production is expected to be 19,500.

The United States built 1025 military planes in the first half of 1940. When France was beginning to come into the market. Production was up only to 1112 in the last half. But in the first half of 1940, with France crying for help, output went to 2372. In the last six months production was about 3600.

ENGINE-MAKING JUMPS

In the spring of 1939, American industry could build 400 engines a month of the 1200-horsepower type used in fast fighter planes. In the spring of 1940, before this country's own defense program was really rolling, it could build 2000 such engines a month.

Officials of the Treasury, where Secretary Morgenthau directed the job of British-French plane procurement handed him by the President, cite this quickening of pace as evidence of the soundness of Mr. Morgenthau's fight for this program.

When the French tried to buy planes, here they found that the best had not been produced in substantial numbers.

Secretary Morgenthau's task was to bring the French mission and the plane manufacturers together, and he was determined from the first that there were to be no sky-high profits at French expense.

Those were hectic days for the French and the manufacturers, and for the Government officials who at Mr. Roosevelt's instance were trying to bring them together. Meetings would last all day at the Treasury, then adjourn to a hotel and go on far into the night. Time and again Treasury officials were called from their homes at night into a roomful of tense, weary men who had bogged down in their negotiations.

There was no publicity. Not until a bomber crashed in California with a French military observer aboard was the gist of the story known generally. The resultant uproar on Capitol Hill was terrific.

Congressmen demanded to know whether this country's most valuable military secrets were being divulged to France. Why was the Treasury carrying the ball, and why did the War Department know so little about it?

President Roosevelt provided what

represented his attitude and that of Secretary Morgenthau: The French wished to buy airplanes here; most of the aircraft plants were virtually closed for lack of orders; here was an opportunity to get them going and expand production capacity.

The uproar subsided, for the most part, and negotiations went on.

Jean Monnet, Premier Daladier's representative, had come to this country first in October, 1938, a month after Munich. After learning what the United States plane industry might be able to do, he returned to Paris. He was back with a mission in December, and in the next three months 300 to 500 planes were ordered from Curtiss-Wright, North American, Douglas and Martin. That completed the first phase of French buying.

SECOND PHASE

The second phase began with the invasion of Poland. Soon the United States' Neutrality Act had been amended in a special session of Congress, and that opened the way to huge French orders, particularly for plane engines. Deliveries of the first planes ordered began to come along very slowly, late in 1939.

The British and French pooled their purchasing efforts early in 1940, and appealed to the United States to do everything possible quickly.

Secretary Morgenthau turned his fullest energy to the job. He went to the Allison engine plant at Indianapolis, was shown but a single completed engine in the whole plant, and returned to impress on Alfred Sloan of General Motors the need for speed in engine output. General Motors poured men into the plant.

From this time on the accent was on speed.

U. S. and Britain Speed American Output Through Agreeing on Stabilization

By CHARLES T. LUCKY.

World-Telegram Staff Correspondent.

WASHINGTON, Jan. 2.—An agreement on standardization of the Curtis P-40, one of America's fastest fighting planes, is making possible the delivery of about 200 more of these ships to Great Britain this winter than had been anticipated, defense officials revealed today.

Curtis has produced the P-40 with the Allison "C" liquid-cooled engine, but recently has been preparing to produce the P-40D, which takes the faster Allison "F" engine.

Britain has been trying to get all the P-40's available at once. The Army has been trying to get production on the P-40D.

Meant 18 Planes a Day.

Some time ago William S. Knudsen, defense production director; Brig. Gen. Arnold, army air corps chief; Philip Young, of the Treasury Department's liaison committee directing British purchases, and officials of the British Purchasing Commission went to the Curtis plant at Buffalo to study this problem.

It was agreed that all production would be on the P-40 until Allison "F" engines were produced in quantity. The swing to the P-40D will be made in the spring, and hereafter both Britain and the Army will get the faster plane. The agreement means 18 planes a day instead of six, it was said.

Both Mr. Knudsen and Secretary of the Treasury Morgenthau have contended that too many different types of planes are being made. Both have devoted much time to standardization.

One recent study showed that the 1200-horsepower Model 1830 engine, made by Pratt & Whitney, has been produced in seven types—three for the Army, two for the Navy and two for Britain.

Differences Minor.

Officials say many of the differences in plane equipment are minor, such as types of glass for windshields, altimeters, engine starters, safety belts, gun sights, propeller shafts, ignition shielding, carburetors and carburetor adjustments, parachute flares, fuel-tank protection, gun cameras, fire extinguishers and radios.

Some defense experts say the really substantial production will come only when the United States and Great Britain develop a ship which will be identical in every respect for each service.

U. S. Acts to Speed Aluminum for Planes

Stettinius Calls Delays Temporary— New Plants Are Being Rushed

By CHARLES T. LUCKY,
World-Telegram Staff Writer.

WASHINGTON, Jan. 3.—A recent survey of aircraft factories has shed light on the delays forecast by Edward R. Stettinius, Jr., of the National Defense Advisory Commission, it was learned today. Mr. Stettinius called the delays temporary and said they would be offset by new aluminum fabricating facilities now being built.

The survey was made by agents of the Treasury Department and of the War and Navy departments. It was based on a study of delivery schedules on a type of bomber ordered in large numbers by the War and Navy departments, particularly aluminum.

Suggestions for expediting production until the new factories go into production include:

Reduce production of aluminum for non-defense purposes.
Obtain from each plane builder an itemized list of aluminum deliveries required monthly for the next year and then arrange for priorities to assure deliveries.
If necessary, place all aluminum production on a 24-hour, seven-day basis.

New fabricating facilities now being built, according to Mr. Stettinius, will increase capacity from two to five times that of last September.

One aircraft plant reporting the following delivery periods on certain fabricated items:

Aluminum castings, 10 to 30 weeks; wires and bar, 18 weeks; forgings, 20 weeks; sheet aluminum, 20 to 28 weeks, and tubing, 28 weeks. There has been no real shortage of aluminum, Mr. Stettinius has contended, but some aircraft manufacturers have complained of difficulty in getting aluminum.

West coast plane manufacturers have urged the government to do everything possible to arrange new aluminum production facilities in that region.

One manufacturer told government representatives that the most serious problem in meeting

Reports a Shortage

Another aircraft concern reported that it had been several thousand pounds behind on fabricated aluminum, chiefly sheets, needed for production.

Still another West Coast manufacturer reported that although delivery promises on aluminum parts were not satisfactory, a reserve on hand would permit a sizeable bomber program to proceed. Other firms said they were able to avert production difficulties through heavy aluminum orders placed months ago.

Received Shipments

Mr. Stettinius has said that several reports of shortages apparently arose from fear about future deliveries. But since September, he said, total shipments of aluminum materials to aircraft plants have exceeded the amount necessary for current military plane delivery schedules.

Aluminum alloy sheet mill capacity, now about 3,000,000 pounds a month, is scheduled to increase to 12,500,000 pounds a month by March, 15,000,000 pounds a month in August and 22,500,000 pounds by June, 1942.

These increases are expected to provide a monthly capacity in excess of requirements, including civilian requirements at 1940 levels, Mr. Stettinius said.

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BRITISH EMBASSY,
WASHINGTON, D.C.

4th January, 1941.

Personal and Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Harle Butler

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram received from London
dated January 2nd, 1941

Naval.

On January 1st at Tripoli were 3 cruisers, 4 destroyers, 20 large merchant vessels. Tanker "British Zeal" reported torpedoed 150 miles west of Dakar on December 31st was still afloat p.m. January 1st and has been boarded again.

2. Royal Fleet auxiliary "Attendant" mined and sunk in Thames Estuary a.m. January 1st and anti-submarine trawler "Bandolero" sunk in collision p.m. December 30th in Gulf of Sallum.

3. Since the beginning of the war 48,610 ships British Allied and neutral have been convoyed; representing shipping of 165 million gross tons with a cargo carrying capacity of 250 million tons. Total losses of ships in convoy amounted to 957,000 gross tons.

4. Mediterranean. An East-bound convoy of 4 French merchant ships escorted by an armed trawler was intercepted off the Spanish Moroccan coast outside territorial waters by 5 of our destroyers and is being escorted back to Gibraltar.

5. On December 30th a Naval trawler was in collision with a British destroyer in the Gulf of Sallum and sank.

6. Military. Libya. Check of Italian captured war material to January amounts to: field and medium guns 261, anti-tank guns 48, heavy anti-aircraft guns 20. Many pieces are unserviceable.

7. Albania. Central sector. During the mopping-up operations Greeks have occupied some heights and several

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small villages North East of Kocqre.

8. Peirus sector. Italians launched an unsuccessful attack with armoured fighting vehicles. Greeks captured one armoured fighting vehicle and eight guns.

9. Royal Air Force. Night of January 1st/2nd. A total of 161 aircraft were despatched as follows:

<u>Locality</u>	<u>Target Raided</u>	<u>No. of Aircraft</u>
Bremen	Industrial, shipping and transport.	113 heavy and 18 medium
Flushing	Train ferrys	14 Coastal
"Invasion Ports"	Docks and shipping	4 heavy 4 medium and 1 coastal.

10. All aircraft returned safely except 3 heavy bombers which crashed on landing. The crew of one aircraft is safe but crews of other two were all killed except for one person.

11. Italy. It is becoming increasingly evident that Italian air resources are being severely taxed. Our bombing of Adriatic ports has forced Italians to rely more and more on air transport and the presence of several German troop carriers indicates a serious effort by the Italians to develop air communications and (some words undecypherable) mean to do so by themselves. It is reliably reported that the aircraft supply situation for Albanian campaign is causing anxiety, especially as regards fighters owing to the requirements of the Libyan front.

12. Germany. Serious railway dislocation resulted from recent Royal Air Force raids on Mannheim owing to the cutting of the lines between Mannheim and Ludwigshaven;

this/

Regraded Unclassified

-4-

this sector is specially important since it carries military traffic between Germany and occupied France and also North-South traffic including coal supplies for Italy.

13. German Air Force. Night of January 1st/2nd. About 80 enemy aircraft were operating over the country. The attack was scattered and was not heavy. Reported one aircraft flew as far as Dublin.

14. Home Front. London. Night of January 1st/January 2nd. Two parachute mines were dropped in the London area; elsewhere only a few bombs are reported causing slight damage and few casualties.

15. France. It has recently been reported from Brittany that fishing activities which had been severely curtailed by lack of fuel are now in full swing and that fishermen have no difficulty in obtaining diesel oil. One French boat has even fished off the Irish coast.

G-2/2657-220

RESTRICTEDM.I.D., W.D.
January 4, 1940.
12:00 M.

No. 284

SITUATION REPORT

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

I. Western Theater of War.

1. Air Force Operations.

Last night the German Air Force made an exceedingly heavy attack on Bristol and also bombed a number of other British towns.

The R.A.F. last night raided Bremen for the third successive time, apparently on about the same scale as the night before.

II. Greek Theater of War.

Local ground attacks by both sides. Aerial activity was hampered by bad weather.

III. Mediterranean and African Theaters of War.

Preceded by a heavy aerial bombardment lasting most of the night, Australian units of the British North African forces, supported by tanks, attacked Bardia from the southwest at dawn, January 3. The attack broke through the outer defenses and is reported to have resulted in the capture of several thousand Italian prisoners.

RESTRICTED

CONFIDENTIAL

Transcript of Code Holloman
Received at the War Department
at 2:57 p.m. January 4, 1941.

London, filed 14:57, January 4, 1941.

1. During daylight hours of Friday, January 3, 67 planes of the Coastal Command were active. The night before 47 heavy bombing planes were used in attacks against Bremen. One bomber attacked an oil refinery in Amsterdam and the shipyard at Ruisen was the target of seven other British bombers. The results of flights of Coastal Command planes on that night were of no particular significance.

2. On January 3, 77 German planes were plotted over Britain. During the preceding night 100 German planes were used. Commercial and private properties in Cardiff and the central area of this city suffered considerable damage as a result of the German raid on that night. The gas distributing system was damaged and one ship in dock was hit. During the night of January 3-4 Bristol was attacked by German bombers.

3. Thirty-five ships in convoy arrived from Canada, but it is believed that a 6,400-ton vessel of this convoy was lost. A 6,800-ton British vessel was sunk about 800 miles northeast of the Cape Verde Islands.

4. On January 3, at dawn, Australian troops in the Libyan theater broke through the outer defenses of Bardia. This successful

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assault followed heavy bombing which started during the night of January 1-2.

5. Eighteen tons of bombs were dropped on Tripoli by ten Wallington heavy bombers on the night of January 1-2.

END**Distributions:**

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence

A.C.**6-5****CONFIDENTIAL**

CONFIDENTIAL

Paragraphs of Code Indicators
Received at the War Department
at 4:35 P.M., January 5, 1941

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London, filed 15:45, January 5, 1941.

1. On Saturday, January 4, unfavorable weather prevented the success of minor bombing attempts of the British. Fifty-one reconnaissance patrols were sent out by them. During the preceding night a completely successful attack was carried out against Bremen for the third straight night. Weather conditions were very favorable. During the nights of January 3-4 and 4-5, and during daylight hours of January 4, planes of the Coastal Command on routine flights laid mines in German ports and attacked German cruisers and tankers.

2. Two of the 50 German planes that flew over England on reconnaissance missions on January 4 were destroyed. During the preceding night 200 German planes were plotted over Britain. During the night of January 4-5 the German attack was directed at the Avonmouth-Bristol area and no German planes were over London.

3. Unfavorable weather has slowed down the Greek forces in Albania but a steady advance is being made. Italian divisions in Albania now total 19 including the three new ones that have recently been identified there. These reinforcements have apparently had little effect on the campaign.

4. On January 4 word was received from General Sir Archibald Wavell, commanding the British Army in the Middle East that over 8,000 Italian prisoners had been taken. The Air Force, which is very active in this theater, is cooperating with the Army in the attack on Bardia. The Royal Air Force engaged five Italian fighters in this area and destroyed three of them. In addition, three Italian planes were destroyed

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on the ground by British boats.

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Distributions:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
AS - 2
G-5, 1

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE January 6, 1941.

TO Secretary Morgenthau

FROM Mr. Foley

Re: Definition of "national" in proposed
Executive Order on extension of "freezing"
control.

Mr. Wiley's comments on the above subject reflect a view which this office considered at length in drafting the definition of "national" finally adopted.

The problem raised is the extent to which we are prepared to go. Obviously, if we were to freeze the accounts of the approximately 5,000,000 resident aliens in the United States we would, in the process, presumably freeze certain Axis agent accounts, although clearly a large number of such agents are in fact naturalized citizens who would escape even that control. As Mr. Wiley indicates, we would be compelled to issue a general license of such broad proportions as to nullify the effect of the extended definition except in those specific instances where we had information connecting such persons with Axis operations.

The problem, therefore, resolves itself into whether it is preferable to include all of the group within the Order and then exclude all but a few by general license, or whether we should exclude the group in the first instance and thereafter apply the freezing control to those persons, be they resident aliens or American citizens, whom we definitely suspect of subversive activities. Some of the factors to be weighed will be the public reaction to any measure covering millions of resident aliens into our control in order to snare a few undesirables and also the tremendous administrative problems which may ensue. In weighing the two alternatives we felt constrained to suggest the less offensive course.

It should be noted that in the definition of "national" adopted, you are vested with the power of determining whether "any person * * * is, or has been, acting or purporting to act directly or indirectly for the benefit or on behalf of * * * [any] foreign country or national thereof" as well as "any other person who there is reasonable cause to believe" has been so acting. If you so decide, the accounts of such person are blocked. It is believed that any person who there was sufficient reason to suspect was an Axis agent as to cause his exclusion from a general license could, in view of the foregoing, be regarded as a "national" as the term is presently defined.

E. W. Fh.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE January 6, 1941

TO Secretary Morgenthau

FROM Mr. Wiley

I have been informed that in the proposed Executive Order prepared in the Treasury for general freezing the definition of "national" has been so written as to exclude resident aliens from the scope of the Order. I wish to suggest, if there is time or opportunity for reconsideration, that that limitation be taken out of the Order and the problem of resident aliens be handled entirely by license.

In the work of this office we have come across a number of highly suspicious resident aliens who are Axis citizens and are apparently engaged in Axis work. This number might be increased if Justice should succeed in revoking the naturalization of former Axis citizens. It is highly desirable that the funds of these persons be controlled so far as possible. While in the case of the invaded countries persons resident in the United States were properly excluded from the scope of the respective Orders, the situation would appear to be entirely different in the case of Axis citizens claiming residence or domicile in the United States. The concept of "residence" would appear to be such as to permit, indeed, a considerable amount of evasions, since residence can be easily claimed if that is to be the test. While it is true that it may be possible to cover Axis agents in this country under the provision concerning agents of governments and nationals of the frozen countries, we would be assuming a very difficult—and unnecessary—burden of proof, since a main purpose of our desire to control these accounts is to get evidence concerning the agency of these people. A general license to resident aliens with a provision for revocation in particular instances of suspicious persons or suspicious transactions would be most helpful in the work of this office in following the use of funds for subversive activity.

Wiley

HOLD FOR RELEASE

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January 6, 1941

CONFIDENTIAL: To be held in STRICT CONFIDENCE and no portion, synopsis or intimation to be published or given out until delivery of the President's message to the Congress HAS BEGUN.

1710

Release expected about 2:00 P. M., E. S. T., January 6, 1941.

CAUTION: Extreme care must be exercised to avoid premature publication.

STEPHEN EARLY
Secretary to the President

TO THE CONGRESS OF THE UNITED STATES:

I address you, the Members of the Seventy-Seventh Congress, at a moment unprecedented in the history of the Union. I use the word "unprecedented", because at no previous time has American security been as seriously threatened from without as it is today.

Since the permanent formation of our government under the Constitution, in 1789, most of the periods of crisis in our history have related to our domestic affairs. Fortunately, only one of these -- the four year War between the States -- ever threatened our national unity. Today, thank God, one hundred and thirty million Americans, in forty-eight States, have forgotten points of the compass in our national unity.

It is true that prior to 1914 the United States often had been disturbed by events in other Continents. We had even engaged in two wars with European nations and in a number of undeclared wars in the West Indies, in the Mediterranean and in the Pacific for the maintenance of American rights and for the principles of peaceful commerce. In no case, however, had a serious threat been raised against our national safety or our independence.

That I seek to convey is the historic truth that the United States as a nation has at all times maintained opposition to any attempt to lock us in behind an ancient Chinese wall while the procession of civilization went past. Today, thinking of our children and their children, we oppose enforced isolation for ourselves or for any part of the Americas.

That determination of ours was proved, for example, during the quarter century of wars following the French Revolution.

While the Napoleonic struggles did threaten interests of the United States because of the French foothold in the West Indies and in Louisiana, and while we engaged in the War of 1812 to vindicate our right to peaceful trade, it is, nevertheless, clear that neither France nor Great Britain nor any other nation was aiming at domination of the whole world.

In like fashion from 1815 to 1914 — 99 years — no single war in Europe or in Asia constituted a real threat against our future or against the future of any other American nation.

Except in the Maximilian interlude in Mexico, no foreign power sought to establish itself in this Hemisphere; and the strength of the British fleet in the Atlantic has been a friendly strength. It is still a friendly strength.

Even when the World War broke out in 1914, it seemed to contain only small threat of danger to our own American future. But, as time went on, the American people began to visualize what the downfall of democratic nations might mean to our own democracy.

We need not over-emphasize imperfections in the Peace of Versailles. We need not harp on failure of the democracies to deal with problems of world reconstruction. We should remember that the Peace of 1919 was far less unjust than the kind of "pacification" which began even before Munich, and which is being carried on under the new order of tyranny that seeks to spread over every continent today. The American people have unalterably set their faces against that tyranny.

Every realist knows that the democratic way of life is at this moment being directly assailed in every part of the world — assailed either by arms, or by secret spreading of poisonous propaganda by those who seek to destroy unity and promote discord in nations still at peace.

During sixteen months this assault has blotted out the whole pattern of democratic life in an appalling number of independent nations, great and small. The assailants are still on the march, threatening other nations, great and small.

Therefore, as your President, performing my constitutional duty to "give to the Congress information of the state of the Union", I find it necessary to report that the future and the safety of our country and of our democracy are overwhelmingly involved in events far beyond our borders.

Armed defense of democratic existence is now being gallantly waged in four continents. If that defense fails, all the population and all the resources of Europe, Asia, Africa and Australasia will be dominated by the conquerors. The total of those populations and their resources greatly exceeds the sum total of the population and resources of the whole of the Western Hemisphere — many times over.

In times like these it is immature — and incidentally untrue — for anybody to brag that an unprepared America, single-handed, and with one hand tied behind its back, can hold off the whole world.

No realistic American can expect from a dictator's peace international generosity, or return of true independence, or world disarmament, or freedom of expression, or freedom of religion — or even good business.

Such a peace would bring no security for us or for our neighbors. "Those who would give up essential liberty to purchase a little temporary safety, deserve neither liberty nor safety".

As a nation we may take pride in the fact that we are soft-hearted; but we cannot afford to be soft-headed.

We must always be wary of those who with sounding brass and a tinkling cymbal preach the "ism" of appeasement.

We must especially beware of that small group of selfish men who would clip the wings of the American eagle in order to feather their own nests.

I have recently pointed out how quickly the tempo of modern warfare could bring into our very midst the physical attack which we must expect if the dictator nations win this war.

There is much loose talk of our immunity from immediate and direct invasion from across the seas. Obviously, as long as the British Navy retains its power, no such danger exists. Even if there were no British Navy, it is not probable that any enemy would be stupid enough to attack us by landing troops in the United States from across thousands of miles of ocean, until it had acquired strategic bases from which to operate.

But we learn much from the lessons of the past years in Europe — particularly the lesson of Norway, whose essential seaports were captured by treachery and surprise built up over a series of years.

The first phase of the invasion of this Hemisphere would not be the landing of regular troops. The necessary strategic points would be occupied by secret agents and their dupes — and great numbers of them are already here, and in Latin America.

As long as the aggressor nations maintain the offensive, they — not we — will choose the time and the place and the method of their attack.

That is why the future of all American Republics is today in serious danger.

That is why this Annual Message to the Congress is unique in our history.

That is why every member of the Executive branch of the government and every member of the Congress face great responsibility — and great accountability.

The need of the moment is that our actions and our policy should be devoted primarily — almost exclusively — to meeting this foreign peril. For all our domestic problems are now a part of the great emergency.

Just as our national policy in internal affairs has been based upon a decent respect for the rights and dignity of all our fellow-men within our gates, so our national policy in foreign affairs has been based on a decent respect for the rights and dignity of all nations, large and small, and the justice of morality must and will win in the end.

Our national policy is this:

First, by an impressive expression of the public will and without regard to partisanship, we are committed to all-inclusive national defense.

Second, by an impressive expression of the public will and without regard to partisanship, we are committed to full support of all those resolute peoples, everywhere, who are resisting aggression and are thereby keeping war away from our Hemisphere. By this support, we express our determination that the democratic cause shall prevail; and we strengthen the defense and security of our own nation.

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Third, by an impressive expression of the public will and without regard to partisanship, we are committed to the proposition that principles of morality and considerations for our own security will never permit us to acquiesce in a peace dictated by aggressors and sponsored by appeasers. We know that enduring peace cannot be bought at the cost of other people's freedom.

In the recent national election there was no substantial difference between the two great parties in respect to that national policy. No issue was fought out on this line before the American electorate. Today, it is abundantly evident that American citizens everywhere are demanding and supporting speedy and complete action in recognition of obvious danger.

Therefore, the immediate need is a swift and driving increase in our armament production.

Leaders of industry and labor have responded to our summons. Goals of speed have been set. In some cases these goals are being reached ahead of time; in some cases we are on schedule; in other cases there are slight but not serious delays; and in some cases — and I am sorry to say very important cases — we are all concerned by the slowness of the accomplishment of our plans.

The Army and Navy, however, have made substantial progress during the past year. Actual experience is improving and speeding up our methods of production with every passing day. And to-day's best is not good enough for tomorrow.

I am not satisfied with the progress thus far made. The men in charge of the program represent the best in training, ability and patriotism. But we are not satisfied with the progress thus far made. None of us will be satisfied until the job is done.

Remember what our original goal was set too high or too low, our end objective is quicker and better results.

To give two illustrations:

We are behind schedule in turning out finished airplanes; we are working day and night to solve the innumerable problems and to catch up.

We are ahead of schedule in building warships; but we are working to get even further ahead of schedule.

To change a whole nation from a basis of peace time production of implements of peace to a basis of war time production of implements of war is no small task. And the greatest difficulty comes at the beginning of the program, when new tools and plant facilities and new assembly lines and ship ways must first be constructed before the actual material begins to flow steadily and speedily from them.

The Congress, of course, must rightly keep itself informed at all times of the progress of the program. However, there is certain information, as the Congress itself will readily recognize, which, in the interests of our own security and those of the nations we are supporting, must of needs be kept in confidence.

- 3 -

New circumstances are constantly begetting new needs for our safety. I shall ask this Congress for greatly increased new appropriations and authorizations to carry on what we have begun.

I also ask this Congress for authority and for funds sufficient to manufacture additional munitions and war supplies of many kinds, to be turned over to those nations which are now in actual war with aggressor nations.

Our most useful and immediate role is to act as an arsenal for them as well as for ourselves. They do not need man power. They do need billions of dollars worth of the weapons of defense.

The time is near when they will not be able to pay for them in ready cash. We cannot, and will not, tell them they must surrender, merely because of present inability to pay for the weapons which we know they must have.

I do not recommend that we make them a loan of dollars with which to pay for these weapons -- a loan to be repaid in dollars.

I recommend that we make it possible for those nations to continue to obtain war materials in the United States, fitting their orders into our own program. Nearly all of their materiel would, if the time ever came, be useful for our own defense.

Taking counsel of expert military and naval authorities, considering what is best for our own security, we are free to decide how much should be kept here and how much should be sent abroad to our friends who by their determined and heroic resistance are giving us time in which to make ready our own defense.

For what we send abroad, we shall be repaid, within a reasonable time following the close of hostilities, in similar materials, or, at our option, in other goods of many kinds which they can produce and which we need.

Let us say to the democracies: "We Americans are vitally concerned in your defense of freedom. We are putting forth our energies, our resources and our organizing powers to give you the strength to regain and maintain a free world. We shall send you, in ever-increasing numbers, ships, planes, tanks, guns. This is our purpose and our pledge."

In fulfillment of this purpose we will not be intimidated by the threats of dictators that they will regard as a breach of international law and as an act of war our aid to the democracies which dare to resist their aggression. Such aid is not an act of war, even if a dictator should unilaterally proclaim it so to be.

When the dictators are ready to make war upon us, they will not wait for an act of war on our part. They did not wait for Norway or Belgium or the Netherlands to commit an act of war.

Their only interest is in a new one-way international law, which lacks mutuality in its observance, and, therefore, becomes an instrument of oppression.

The happiness of future generations of Americans may well depend upon how effective and how immediate we can make our aid felt. No one can tell the exact character of the emergency situations that we may be called upon to meet. The Nation's hands must not be tied when the Nation's life is in danger.

- 6 -

We must all prepare to make the sacrifices that the emergency — as serious as war itself — demands. Whatever stands in the way of speed and efficiency in defense preparations must give way to the national need.

A free nation has the right to expect full cooperation from all groups. A free nation has the right to look to the leaders of business, of labor, and of agriculture to take the lead in stimulating effort, not among other groups but within their own groups.

The best way of dealing with the few slackers or trouble makers in our midst is, first, to shame them by patriotic example, and, if that fails, to use the sovereignty of government to save government.

As men do not live by bread alone, they do not fight by armaments alone. Those who run our defenses, and those behind them who build our defenses, must have the stamina and courage which come from an unshakable belief in the manner of life which they are defending. The mighty action which we are calling for cannot be based on a disregard of all things worth fighting for.

The Nation takes great satisfaction and much strength from the things which have been done to make its people conscious of their individual stake in the preservation of democratic life in America. Those things have toughened the fibre of our people, have renewed their faith and strengthened their devotion to the institutions we make ready to protect.

Certainly this is no time to stop thinking about the social and economic problems which are the root cause of the social revolution which is today a supreme factor in the world.

There is nothing mysterious about the foundations of a healthy and strong democracy. The basic things expected by our people of their political and economic systems are simple. They are:

Equality of opportunity for youth and for others.

Jobs for those who can work.

Security for those who need it.

The ending of special privileges for the few.

The preservation of civil liberties for all.

The enjoyment of the fruits of scientific progress in a wider and constantly rising standard of living.

These are the simple and basic things that must never be lost sight of in the turmoil and unbelievable complexity of our modern world. The inner and abiding strength of our economic and political systems is dependent upon the degree to which they fulfill these expectations.

Many subjects connected with our social economy call for immediate improvement.

As examples:

We should bring more citizens under the coverage of old age pensions and unemployment insurance.

We should widen the opportunities for adequate medical care.

We should plan a better system by which persons deserving or needing gainful employment may obtain it.

I have called for personal sacrifice. I am assured of the willingness of almost all Americans to respond to that call.

A part of the sacrifice means the payment of more money in taxes. In my budget message I recommend that a greater portion of this great defense program be paid for from taxation than we are paying today. No person should try, or be allowed, to get rich out of this program; and the principle of tax payments in accordance with ability to pay should be constantly before our eyes to guide our legislation.

If the Congress maintains these principles, the voters, putting patriotism ahead of pocketbooks, will give you their applause.

In the future days, which we seek to make secure, we look forward to a world founded upon four essential human freedoms.

The first is freedom of speech and expression — everywhere in the world.

The second is freedom of every person to worship God in his own way — everywhere in the world.

The third is freedom from want — which, translated into world terms, means economic understandings which will secure to every nation a healthy peace time life for its inhabitants — everywhere in the world.

The fourth is freedom from fear — which, translated into world terms, means a world-wide reduction of armaments to such a point and in such a thorough fashion that no nation will be in a position to commit an act of physical aggression against any neighbor — anywhere in the world.

That is no vision of a distant millennium. It is a definite basis for a kind of world attainable in our own time and generation. That kind of world is the very antithesis of the so-called new order of tyranny which the dictators seek to create with the crash of a bomb.

To that new order we oppose the greater conception — the moral order. A good society is able to face schemes of world domination and foreign revolutions alike without fear.

Since the beginning of our American history we have been engaged in change — in a perpetual peaceful revolution — a revolution which goes on steadily, quietly adjusting itself to changing conditions — without the concentration camp or the quick-lime in the ditch. The world order which we seek is the cooperation of free countries, working together in a friendly, civilized society.

This nation has placed its destiny in the hands and heads and hearts of its millions of free men and women; and its faith in freedom under the guidance of God. Freedom means the supremacy of human rights everywhere. Our support goes to those who struggle to gain those rights or keep them. Our strength is in our unity of purpose.

To that high concept there can be no end save victory.

FRANKLIN D. ROOSEVELT

January 6, 1941

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Release expected about 2:00 P. M., E. S. T., January 6, 1941.

CAUTION: Extreme care must be exercised to avoid premature publication.

STEPHEN EARLY
Secretary to the President

TO THE CONGRESS OF THE UNITED STATES:

I address you, the Members of the Seventy-Seventh Congress, at a moment unprecedented in the history of the Union. I use the word "unprecedented", because at no previous time has American security been as seriously threatened from without as it is today.

Since the permanent formation of our government under the Constitution, in 1789, most of the periods of crisis in our history have related to our domestic affairs. Fortunately, only one of these — the four year War between the States — ever threatened our national unity. Today, thank God, one hundred and thirty million Americans, in forty-eight States, have forgotten points of the compass in our national unity.

It is true that prior to 1914 the United States often had been disturbed by events in other Continents. We had even engaged in two wars with European nations and in a number of undeclared wars in the West Indies, in the Mediterranean and in the Pacific for the maintenance of American rights and for the principles of peaceful commerce. In no case, however, had a serious threat been raised against our national safety or our independence.

What I seek to convey is the historic truth that the United States as a nation has at all times maintained opposition to any attempt to lock us in behind an ancient Chinese wall while the procession of civilization went past. Today, thinking of our children and their children, we oppose enforced isolation for ourselves or for any part of the Americas.

That determination of ours was proved, for example, during the quarter century of wars following the French Revolution.

While the Napoleonic struggles did threaten interests of the United States because of the French foothold in the West Indies and in Louisiana, and while we engaged in the War of 1812 to vindicate our right to peaceful trade, it is, nevertheless, clear that neither France nor Great Britain nor any other nation was aiming at domination of the whole world.

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In like fashion from 1815 to 1914 — 99 years — no single war in Europe or in Asia constituted a real threat against our future or against the future of any other American nation.

Except in the Maximilian interlude in Mexico, no foreign power sought to establish itself in this Hemisphere; and the strength of the British fleet in the Atlantic has been a friendly strength. It is still a friendly strength.

Even when the World War broke out in 1914, it seemed to contain only small threat of danger to our own American future. But, as time went on, the American people began to visualize what the downfall of democratic nations might mean to our own democracy.

We need not over-emphasize imperfections in the Peace of Versailles. We need not harp on failure of the democracies to deal with problems of world reconstruction. We should remember that the Peace of 1919 was far less unjust than the kind of "pacification" which began even before Munich, and which is being carried on under the new order of tyranny that seeks to spread over every continent today. The American people have unalterably set their faces against that tyranny.

Every realist knows that the democratic way of life is at this moment being directly assailed in every part of the world — assailed either by arms, or by secret spreading of poisonous propaganda by those who seek to destroy unity and promote discord in nations still at peace.

During sixteen months this assault has blotted out the whole pattern of democratic life in an appalling number of independent nations, great and small. The assailants are still on the march, threatening other nations, great and small.

Therefore, as your President, performing my constitutional duty to "give to the Congress information of the state of the Union", I find it necessary to report that the future and the safety of our country and of our democracy are overwhelmingly involved in events far beyond our borders.

Armed defense of democratic existence is now being gallantly waged in four continents. If that defense fails, all the population and all the resources of Europe, Asia, Africa and Australasia will be dominated by the conquerors. The total of those populations and their resources greatly exceeds the sum total of the population and resources of the whole of the Western Hemisphere — many times over.

In times like these it is immature — and incidentally untrue — for anybody to brag that an unprepared America, with one hand, and with one hand tied behind its back, can hold on to the whole world.

No realistic American can expect from a dictator's peace international generosity, or return of true independence, or world disarmament, or freedom of expression, or freedom of religion — or even good business.

Such a peace would bring no security for us or for our neighbors. Those who would give up essential liberty to purchase a little temporary safety, deserve neither liberty nor safety.

As a nation we may take pride in the fact that we are self-started; but we should afford to be self-headed.

We must always be wary of those who with sounding brass and a tinkling cymbal preach the "ism" of appeasement.

We must especially beware of that small group of selfish men who would clip the wings of the American eagle in order to feather their own nests.

I have recently pointed out how quickly the tempo of modern warfare could bring into our very midst the physical attack which we must expect if the dictator nations win this war.

There is much loose talk of our immunity from immediate and direct invasion from across the seas. Obviously, as long as the British Navy retains its power, no such danger exists. Even if there were no British Navy, it is not probable that any enemy would be stupid enough to attack us by landing troops in the United States from across thousands of miles of ocean, until it had acquired strategic bases from which to operate.

But we learn much from the lessons of the past years in Europe — particularly the lesson of Norway, whose essential seaports were captured by treachery and surprise built up over a series of years.

The first phase of the invasion of this Hemisphere would not be the landing of regular troops. The necessary strategic points would be occupied by secret agents and their dupes — and great numbers of them are already here, and in Latin America.

As long as the aggressor nations maintain the offensive, they — not we — will choose the time and the place and the method of their attack.

That is why the future of all American Republics is today in serious danger.

That is why this Annual Message to the Congress is unique in our history.

That is why every member of the Executive branch of the government and every member of the Congress face great responsibility — and great accountability.

The need of the moment is that our actions and our policy should be devoted primarily — almost exclusively — to meeting this foreign peril. For all our domestic problems are now a part of the great emergency.

Just as our national policy in internal affairs has been based upon a decent respect for the rights and dignity of all our fellow-men within our gates, so our national policy in foreign affairs has been based on a decent respect for the rights and dignity of all nations, large and small. And the justice of morality must and will win in the end.

Our national policy is this:

First, by an impressive expression of the public will and without regard to partisanship, we are committed to all-inclusive national defense.

Second, by an impressive expression of the public will and without regard to partisanship, we are committed to full support of all those resolute peoples, everywhere, who are resisting aggression and are thereby keeping war away from our Hemisphere. By this support, we express our determination that the democratic cause shall prevail; and we strengthen the defense and security of our own nation.

Third, by an impressive expression of the public will and without regard to partisanship, we are committed to the proposition that principles of morality and considerations for our own security will never permit us to acquiesce in a peace dictated by aggressors and sponsored by appeasers. We know that enduring peace cannot be bought at the cost of other people's freedom.

In the recent national election there was no substantial difference between the two great parties in respect to that national policy. No issue was fought out on this line before the American electorate. Today, it is abundantly evident that American citizens everywhere are demanding and supporting speedy and complete action in recognition of obvious danger.

Therefore, the immediate need is a swift and driving increase in our armament production.

Leaders of industry and labor have responded to our summons. Goals of speed have been set. In some cases these goals are being reached ahead of time; in some cases we are on schedule; in other cases there are slight but not serious delays; and in some cases — and I am sorry to say very important cases — we are all concerned by the slowness of the accomplishment of our plans.

The Army and Navy, however, have made substantial progress during the past year. Actual experience is improving and speeding up our methods of production with every passing day. And today's best is not good enough for tomorrow.

I am not satisfied with the progress thus far made. The men in charge of the program represent the best in training, ability and patriotism. They are not satisfied with the progress thus far made. None of us will be satisfied until the job is done.

No matter whether the original goal was set too high or too low, our objective is quicker and better results.

To give two illustrations:

We are behind schedule in turning out finished airplanes; we are working day and night to solve the innumerable problems and to catch up.

We are ahead of schedule in building warships; but we are working to get even further ahead of schedule.

To change a whole nation from a basis of peace time production of implements of peace to a basis of war time production of implements of war is no small task. And the greatest difficulty comes at the beginning of the program, when new tools and plant facilities and new assembly lines and ship ways must first be constructed before the actual material begins to flow steadily and speedily from them.

The Congress, of course, must rightly keep itself informed at all times of the progress of the program. However, there is certain information, as the Congress itself will readily recognize, which, in the interests of our own security and those of the nations we are supporting, must of needs be kept in confidence.

New circumstances are constantly begetting new needs for our safety. I shall ask this Congress for greatly increased new appropriations and authorizations to carry on what we have begun.

I also ask this Congress for authority and for funds sufficient to manufacture additional munitions and war supplies of many kinds, to be turned over to those nations which are now in actual war with aggressor nations.

Our most useful and immediate role is to act as an arsenal for them as well as for ourselves. They do not need man power. They do need billions of dollars worth of the weapons of defense.

The time is near when they will not be able to pay for them in ready cash. We cannot, and will not, tell them they must surrender, merely because of present inability to pay for the weapons which we know they must have.

I do not recommend that we make them a loan of dollars with which to pay for these weapons — a loan to be repaid in dollars.

I recommend that we make it possible for those nations to continue to obtain war materials in the United States, fitting their orders into our own program. Nearly all of their material would, if the time ever came, be useful for our own defense.

Taking counsel of expert military and naval authorities, considering what is best for our own security, we are free to decide how much should be kept here and how much should be sent abroad to our friends who by their determined and heroic resistance are giving us time in which to make ready our own defense.

For what we send abroad, we shall be repaid, within a reasonable time following the close of hostilities, in similar materials, or, at our option, in other goods of many kinds which they can produce and which we need.

Let us say to the democracies: "We Americans are vitally concerned in your defense of freedom. We are putting forth our energies, our resources and our organizing powers to give you the strength to regain and maintain a free world. We shall send you, in ever-increasing numbers, ships, planes, tanks, guns. This is our purpose and our pledge."

In fulfillment of this purpose we will not be intimidated by the threats of dictators that they will regard as a breach of international law and as an act of war our aid to the democracies which dare to resist their aggression. Such aid is not an act of war, even if a dictator should unilaterally proclaim it so to be.

When the dictators are ready to make war upon us, they will not wait for an act of war on our part. They did not wait for Norway or Belgium or the Netherlands to commit an act of war.

Their only interest is in a new one-way international law, which lacks mutuality in its observance, and, therefore, becomes an instrument of oppression.

The happiness of future generations of Americans may well depend upon how effective and how immediate we can make our aid felt. No one can tell the exact character of the emergency situations that we may be called upon to meet. The Nation's hands must not be tied when the Nation's life is in danger.

We must all prepare to make the sacrifices that the emergency — as serious as war itself — demands. Whatever stands in the way of speed and efficiency in defense preparations must give way to the national need.

A free nation has the right to expect full cooperation from all groups. A free nation has the right to look to the leaders of business, of labor, and of agriculture to take the lead in stimulating effort, not among other groups but within their own groups.

The best way of dealing with the few slackers or trouble makers in our midst is, first, to shame them by patriotic example, and, if that fails, to use the sovereignty of government to save government.

As men do not live by bread alone, they do not fight by armaments alone. Those who man our defenses, and those behind them who build our defenses, must have the stamina and courage which come from an unshakable belief in the manner of life which they are defending. The mighty action which we are calling for cannot be based on a disregard of all things worth fighting for.

The Nation takes great satisfaction and much strength from the things which have been done to make its people conscious of their individual stake in the preservation of democratic life in America. Those things have toughened the fibre of our people, have renewed their faith and strengthened their devotion to the institutions we make ready to protect.

Certainly this is no time to stop thinking about the social and economic problems which are the root cause of the social revolution which is today a serious factor in the world.

There is nothing mysterious about the foundations of a healthy and strong democracy. The basic things expected by our people of their political and economic systems are simple. They are:

Equality of opportunity for youth and for others.

Jobs for those who can work.

Security for those who need it.

The ending of special privilege for the few.

The preservation of civil liberties for all.

The enjoyment of the fruits of scientific progress in a wider and constantly rising standard of living.

These are the simple and basic things that must never be lost sight of in the turmoil and unbelievable complexity of our modern world. The inner and abiding strength of our economic and political systems is dependent upon the degree to which they fulfill these expectations.

Many subjects connected with our social economy call for immediate improvement.

As examples:

We should bring more citizens under the coverage of old age pensions and unemployment insurance.

We should widen the opportunities for adequate medical care.

To should plan a better system by which persons deserving or needing gainful employment may obtain it.

I have called for personal sacrifice. I am assured of the willingness of almost all Americans to respond to that call.

A part of the sacrifice means the payment of more money in taxes. In my budget message I recommend that a greater portion of this great defense program be paid for from taxation than we are paying today. No person should try, or be allowed, to get rich out of this program; and the principle of tax payments in accordance with ability to pay should be constantly before our eyes to guide our legislation.

If the Congress maintains these principles, the voters, putting patriotism ahead of pocketbooks, will give you their applause.

In the future days, which we seek to make secure, we look forward to a world founded upon four essential human freedoms.

The first is freedom of speech and expression — everywhere in the world.

The second is freedom of every person to worship God in his own way — everywhere in the world.

The third is freedom from want — which, translated into world terms, means economic understandings which will secure to every nation a healthy peace time life for its inhabitants — everywhere in the world.

The fourth is freedom from fear — which, translated into world terms, means a world-wide reduction of armaments to such a point and in such a thorough fashion that no nation will be in a position to commit an act of physical aggression against any neighbor — anywhere in the world.

That is no vision of a distant millennium. It is a definite basis for a kind of world attainable in our own time and generation. That kind of world is the very antithesis of the so-called new order of tyranny which the dictators seek to create with the crash of a bomb.

To that new order we oppose the greater conception — the moral order. A good society is able to face schemes of world domination and foreign revolutions alike without fear.

Since the beginning of our American history we have been engaged in change — in a perpetual peaceful revolution — a revolution which goes on steadily, quietly adjusting itself to changing conditions — without the concentration camp or the quick-lime in the ditch. The world order which we seek is the cooperation of free countries, working together in a friendly, civilized society.

This nation has placed its destiny in the hands and heads and hearts of its millions of free men and women; and its faith in freedom under the guidance of God. Freedom means the supremacy of human rights everywhere. Our support goes to those who struggle to gain those rights or keep them. Our strength is in our unity of purpose.

To that high concept there can be no end save victory.

FRANKLIN D. ROOSEVELT

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 6, 1941

M. S. CHANCE

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Following the conference held in the Secretary's office and attended by Sir Frederick Phillips, Mr. Pinsent and Mr. Gifford, the sale of British securities was speeded up, and effort made to dispose of blocks through private sales and through concerns having wide distribution facilities over the country. The practice was also commenced as of December 16, 1940, of providing the Secretary daily with a list, by name, of the securities sold each day, indicating the number of shares or par value of bonds and the price obtained therefor. After the first few days the system was inaugurated of indicating by asterisks blocks of 1,000 shares and upwards sold outside national exchanges.

There follows an itemization of the net proceeds from sales from December 16:

December 16	\$1,151,479
December 17	838,449
December 18	1,759,386
December 19	3,346,822
December 20	1,573,624
December 21	204,469
December 23	1,157,637
December 24	111,682
December 26	3,785,724
December 27	1,234,392
December 28	1,170,817
December 30	2,094,338
December 31	2,300,141
January 2	4,790,505

J. M. S.

January 6, 1941
9:30 a.m.

GROUP MEETING

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

H.M.Jr: Good morning, everybody. You might be interested in the result of a discussion that Gaston and I had the other day on ships.

After talking with Waesche, it was agreed that I take it up at Cabinet and it was agreed that other than putting our own crews on board the ships, anything less than that would be useless, and I thought - I mean Gaston was right in his analysis and I thought it was interesting, and I want to say that Knox spoke up, Herbert, and said that he had the men ready and the President said, no, Henry would take care of it.

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Gaston: Very good.

H.M.Jr: So I thought that was rather interesting. And the other thing which I want to say in this room, that for reasons that I can't explain, no move of any kind is to be made on ships, I mean in any way to give anybody a tip off. They want the whole thing to die down. So even moving a ship - the whole thing, all committees are being discharged publicly.

Gaston: Yes.

H.M.Jr: If you want to know privately, I will tell you why, see. So even moving a ship from one place to another would be against the plan that they have.

Gaston: I thought that might be the situation. That is the reason I raised that question about moving the ships.

H.M.Jr: That was only decided at Cabinet. They were going to let everything die down. So that is that.

Gaston: Yes. Right.

H.M.Jr: And while I am on that, I checked my records and I did say I would take up all legislation. (Laughter) I have no other confessions that I am willing to make.

White: You mean the six of us were right?

H.M.Jr: No.

Bell: You mean the six of us were right?

H.M.Jr: No.

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Bell: Six of us and the record.

H.M.Jr: Thank God for the Stenotype. He was right.

Sullivan: His vote counts for more than all the rest of us.

H.M.Jr: Harry, I admitted everything in which I was wrong last week.

White: I can't afford to. (Laughter)

H.M.Jr: That is a pretty good answer.

Gaston: I haven't anything except that I have the day pretty well occupied with a series of meetings in connection with this Defense Communications Board. We have about 300 people coming in at 10:30 this morning for the meetings on the communications in defense.

H.M.Jr: I will try very carefully not to disturb you. Anything else?

Gaston: I think that is all. Archie Lochhead handed me a letter to him from the New York Chapter of the American Institute of Banking, asking that you address them on February 1. I gave the letter to Mr. Schwarz.

H.M.Jr: What is the honorium?

Gaston: The honorium is a chance to sell them a bill of goods.

H.M.Jr: It is not worth it.

Gaston: They are young bankers, the hope of America.

H.M.Jr: You thank him. Anything else?

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Gaston: Nothing else.

H.M.Jr: I only talked to you (Foley) four times yesterday. Did you get to Hall?

Foley: I talked to him on the telephone. We sent a copy out to Hackworth and Hackworth called and said he had no suggestions.

H.M.Jr: I thought we would stay right after this meeting, and there are a couple of questions I would like to ask. Mr. Sullivan?

Sullivan: Nothing.

H.M.Jr: Chick?

Schwarz: Edgar Mowrer called me this morning. He would like to see you for a few minutes during the first part of this week or whenever it is convenient this week for you.

H.M.Jr: Well, I am waiting to hear from General Dowding. He announced that he wouldn't see anybody.

Schwarz: Tomorrow?

H.M.Jr: Today, isn't it?

Schwarz: The radio said he would be here tomorrow.

H.M.Jr: Tomorrow. How often has Mowrer asked?

Schwarz: This is the second time.

H.M.Jr: And I have got the radio fellow too that wants to see me. What is his name?

Foley: Kaltenborn.

H.M.Jr: Well, if Mowrer can get here at 11:15 --

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Schwarz: He will make it. He will be glad to.

H.V.Jr: Eleven fifteen. I would like you to sit in with him. Wait a second, I have got White from eleven to eleven thirty. Are you ready on that banking?

White: It wasn't on that banking. It was on something else. I don't think we will need more than ten of fifteen minutes.

H.M.Jr: Tell Wovrer I can see him at eleven thirty.

Schwarz: Eleven thirty.

Sullivan: Is Kaltenborn coming in this morning?

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

Sullivan: I would like to see him when he comes. I know him and I think I can do some good with him on something else.

H.M.Jr: I see.

Pehle: On this I. T. & T. matter which has now come to a head, we now have a letter from Cordell Hull saying the matter has been discussed with the President and having already received his approval in principle of the proposed release of funds, he perceives no reason why a license should not be granted.

H.M.Jr: Well, there is nothing to do then, is there, Dan?

Bell: I don't think so. I don't understand what approval in principle means. I don't know whether you discussed it with the President or not.

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H.M.Jr: No.

Bell: There was some indication, wasn't there, of what --

Pehle: They discussed it with the President, and the first time Mr. Hull discussed it with them he said, "No, not now," and then Mr. Hull took it up again with him and he said, "Yes." I take it the amount was not given at the first, but it amounts to about seven million dollars of Roumanian gold.

H.M.Jr: How much Roumanian gold is there?

Pehle: About 28million. It is about a forth of all the Roumanian assets in this country.

Bell: I think you will have to approve it.

H.M.Jr: You think what?

Bell: I think we will have to approve it. We raised the question with the State Department as to whether this was the preferenced - and apparently they sort of glossed over that, didn't they, John? They said they didn't think they could go into that at this time.

Pehle: I think that is what they decided.

H.M.Jr: How do you know that Mr. Hull saw the President twice on it?

Pehle: I only know he saw the President from what Mr. Livesey told me, but the letter says this matter has been discussed with the President.

H.M.Jr: May I see the letter? Well, there is nothing to do but do it.

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White: I think in justice to all other creditors, that some publicity might be given to that so as to acquaint other creditors with the acceptance of that principle so there won't be any favoritism; so if there are other creditors that have funds that they would like to get out on that basis, they would know that it is being done.

Bell: I take it it will receive publicity.

Pehle: I think the minute it comes out it will receive --

H.M.Jr: Well, I think also from the standpoint of speculation in the stock that if you are going to do it, I would announce it tonight after the market closes so there is no inside information.

Cochran: There has already been a story in the press that this was anticipated.

H.M.Jr: I would do it after three o'clock tonight.

Bell: We will merely announce that we have granted the license.

H.M.Jr: That is enough.

Pehle: Should we take an affirmative step to see that nothing is announced before then? They are working out the deal this morning between the Federal Reserve Bank who sent a man down with the checks --

H.M.Jr: Don't accept it until three o'clock.

Pehle: Don't give any license until three o'clock?

H.M.Jr: That is right.

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Pehle: We are taking a chance on a possible revocation coming through from Roumania before then, and it is 13 million dollars.

H.M.Jr: All right, do it the way we used to do the gold prices. Before the ink is dry let Chick go to the Dow Jones people and put it on the ticker the same second. The second it is signed, tell Chick Schwarz and he tells it to the boys and within five seconds it is on the ticker and nobody gets a break.

Pehle: I think that is better. I know they are worried about a revocation.

H.M.Jr: All right, we will do it that way, the way we used to handle the gold prices.

Pehle: The other matter was, I mentioned before --

H.M.Jr: You can do it another way. You can do it before the market opens.

Pehle: What time does it open?

H.M.Jr: Ten o'clock.

Bell: It wouldn't be ready that soon, would it?

Pehle: We will be ready. We are ready right now. Whether they will be ready I don't know.

H.M.Jr: Couldn't you say we are going to approve it?

Schwarz: Then everybody will have the information before the market opens.

Pehle: Yes, I think we can do that. Can I go out and start it?

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H.M.Jr: Why don't you go ahead and go out and if you can get it out before ten o'clock, everybody gets - eleven million dollars to the stockholders of I. T. & T. is a tidy sum. Schwarz can go with you. Go ahead, Schwarz.

Cochran: Has Knoke spoke to you this morning?

Pehle: No, but I will call him right away.

Cochran: He was trying to get me.

(Mr. Pehle and Mr. Schwarz left the conference.)

Kuhn: I have nothing except that Amherst Professor whom you want to see tomorrow. Are you going to see him tomorrow?

H.M.Jr: I phoned him yesterday. Did you know I phoned him?

Kuhn: No.

H.M.Jr: Yes. I phoned him. You (Klotz) make a note. Odegarde will be here at 9:15 Wednesday.

Kuhn: I have got a couple of other suggestions, but they can wait until he gets here.

H.M.Jr: Good. 9:15 Wednesday.

Kuhn: May I see you a minute or two before Mowrer comes in?

H.M.Jr: Sure.

Kuhn: I think I know what he has got in his mind.

H.M.Jr: Dr. Viner, what I would like to do, if you

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would concentrate for me, first, everybody in the shop here - not everybody - you can find out from Mr. Bell, but Bell and White and Haas have been working on an answer for the President, a confidential memorandum, on the Eccles memorandum, and if you could get in on that before I see it, I would appreciate it.

Now, the other thing, at the same time you talk to Haas, he will tell you what I was thinking of in terms of a positive program. I mean, the two things - I mean rather than, if you don't mind, this foreign stuff. This is in your field. You did the banking study for me. The two things, one the President asked us to analyze the Eccles thing and point out the good and bad points. The other thing is, I have an idea as to a positive program and I told it to Haas. Bell laughed at me.

Bell: No, I didn't laugh at you. I laughed at the air up there on the farm.

H.M.Jr: I mean you laughed with me. You thought the air was a little strong up there. It is all right but get that from - you could be most useful to me if you would just stick on that. I mean, the other stuff - well, that is right now what I need. I think you could help me most there. I don't know what is the status of that memorandum to the President.

Bell: Well, it was in fine shape Saturday night, wasn't it, George? Harry hadn't seen it. I don't know whether he has seen it this morning.

Haas: Harry saw it late Sunday.

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- White: Well, I think there is a little difference of opinion that you might help resolve if you could by any chance give us some indication of what the purpose of the memorandum is. The memorandum as it is presently drafted is in my opinion satisfactory for one purpose and not satisfactory for another, and I think it is a little weak to give the President - I should like to see it made much stronger. On the other hand, if the President is going to use it to give to the Federal Reserve Board as an answer to them --
- H.M.Jr: What he said was, "Henry, give me a memorandum which I will memorize and then destroy.
- White: I don't know whether the other men understood that but if they did --
- H.M.Jr: He said, "I will memorize it and then destroy it. I will show it to nobody."
- White: Then I feel that the present memorandum is much too weak, but we will have another - if we have another opportunity this morning --
- H.M.Jr: You have, because the President - I told Foley last night - isn't seeing me until 9:30 tomorrow on this legislation for the British, so I am not going to - so this other thing I won't get to until tomorrow.
- White: If you are going to see him at 9:30 tomorrow - do I understand that?
- H.M.Jr: Yes.
- White: Then I think you ought to reserve some time late this afternoon --

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H.M.Jr: but I am not going to see him on this subject.

White: Oh.

H.M.Jr: It is on aid to Britain legislation at 9:30.

White: Then we will have time to iron out our difficulties, I think.

H.M.Jr: I think the papers are all wrong on what he is going to say. The message that I got was that he had not finished his message to Congress, and he was going to work on it this morning.

Foley: I think that is true. Ben was over here and when I went home last night I left Ben over at the White House where they were still working. Sam had called him just before we left. He had talked with Sam two or three times.

H.M.Jr: I don't think this aid to Britain is in the thing. It is in?

Foley: Yes.

H.M.Jr: It is in?

Foley: Yes.

H.M.Jr: This form?

Foley: Yes.

H.M.Jr: He has taken our form?

Foley: So far as Ben knew it was consistent with what they had in there. The only thing that Ben wanted done was to set the message up in such a way that he wouldn't foreclose the possibility of doing something by way of

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lease or some such arrangement under existing law in the event the legislation didn't go through, but he said he hadn't - he told Sam that he hadn't been advised that he could do it under existing law and Ben was trying to get him to put back in again the language that he drafted that would say that he wanted the benefit of Congressional approval of the thing --

- H.M.Jr: Is there a way he can do it under existing law?
- Foley: Yes.
- H.M.Jr: I mean through the RFC?
- Foley: No. He has got power in so far as the Army is concerned. The Navy could turn the stuff over to the Army and then the Army could do it.
- H.M.Jr: But he had our original memorandum Friday afternoon. Well anyway, I don't want to rush this Eccles thing, and I will not be able to get it today. I want - Viner can't do it in one day, and do me a good job any more than the rest of you, so we will get at it some time tomorrow.
- White: That will give us adequate time. Senator Wagner said that they apparently were pushing to get this Taft Bill which embodies Eccles' suggestions. I haven't seen the bill, so I don't know whether it is all or some, and they want to get it before the committee as quickly as possible and talk a little to them about it, and he said, "Well, we are not going to let them sweep us off our feet," so I don't know what the progress of that will be, but they - apparently they had hoped to get it before Congress at once.

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- H.M.Jr: I can't be swept off my - I mean, now that the situation is as it is, whatever I send the President I want to have time to think about it, and I want time for everybody to think about it. So I mean I won't touch it today. Where was I? Viner? Haas?
- Haas: Allison killed a small delivery, and I put in a telephone call and here is the explanation I just got.
- H.M.Jr: Give that to Philip Young. The British - they have 66 engines on hand at Allison awaiting instructions from the British. Can you give a copy of this to Viner? How do you like it?
- Haas: It is a maiden's answer to a maiden's prayer on one point of view, and a nightmare from somebody elses.
- H.M.Jr: I tell you one fellow that is going to like it is "North Dakota Gaston."
- Gaston: Thanks very much.
- H.M.Jr: Herbert, we are going back to good old first principles, Non-Partison League and so forth and so on.
- Gaston: In that connection I was going to ask if I might submit a short memorandum to Messrs. Viner, White, and Haas and Federal Reserve.
- H.M.Jr: Sure. Just take a look at that headline on that memorandum.
- Gaston: Very interesting.
- H.M.Jr: All right?

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- Gaston: That is Larry Sultzer's favorite.
- Haas: I put a list of people on there that are interested.
- (Mr. Schwarz and Mr. Pehle returned to conference.)
- Schwarz: John has just talked to Knoke, who has asked us to hold this up an hour. He can explain the reason I think, that we should.
- Pehle: The transaction is going through just at eleven o'clock, and they are afraid to announce it in advance for fear there may be either a revocation or some sort of attachment that will hold it up; but they agreed to our announcing it just as it goes through.
- H.M.Jr: O.K. That gives the boys a chance to buy the stock for one hour. Shall we make a little pool and buy some of I. T. & T?
- Viner: Can I step out for a minute?
- Gaston: Two of them have gone out already.
- H.M.Jr: How about a little pool? Do you think 10,000 shares is enough to divide up? (Laughter)
- Foley: We had better sell it short and hold up the news.
- White: It is already out, Ed.
- Gaston: I neglected to tell you that Lucey finished his series Saturday evening of a story on taxation which has been checked over. He sent me quite a bunch of clippings. The heads of some of them were very good.

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- H.M.Jr: George, when you leave the room call up Purcell and tell him that I want a copy of all transactions of I. T. & T. from ten to twelve this morning, who did the business. From ten to twelve I want actually every transaction of I. T. & T.
- Haas: And the parties involved.
- H.M.Jr: And the parties involved.
- Bell: You ought to ask him if there has been any activity in the past week also.
- H.M.Jr: You might ask that.
- Pehle: They got the word Saturday from the State Department that it was going to go through.
- H.M.Jr: Then let's start with Friday. I want to know every share sold and who bought it, and who the actual buyer is, beginning with Friday morning. Let's start with Thursday and do it right. (Laughter) Every share sold, who bought it, and whose account and so forth, beginning with Thursday, through until tonight.
- White: What is the date of that letter from Secretary Hull?
- Pehle: It was dated January 4, Saturday.
- H.M.Jr: Well, let's start with Thursday morning through Monday night.
- Pehle: How about sales today?
- H.M.Jr: Everybody.

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Haas: Going to get it?

H.M.Jr: From Thursday morning, every sale and who the actual buyer is.

Gaston: It might help to have a little graph of the movement of I. T. & T. in the market for the last two or three months up to this point.

H.M.Jr: I just wanted to know who is getting in on it. Take a look at it the way Gaston said.

Young: As a result of your efforts, Meigs at the Defense Commission with Knudsen's approval has passed on all of these South American aircraft accessory applications, and parts, and so on, cleared them all, on their responsibility regardless of the Army or Navy.

H.M.Jr: Good.

Young: Which they hope to continue to do and Nelson Rockefeller is very appreciative of what we did over here on it.

H.M.Jr: Does he know it?

Young: Yes. We worked with Meigs on it.

H.M.Jr: Good.

Young: And as a result of that, we boosted to the limit minimum limit for clearance up to 50,000 on all of those various --

H.M.Jr: Do you think we could get out a story on that?

Young: Yes, I should think so, probably. We haven't got the official documents back yet. We probably will get them today.

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- H.M.Jr: When you get them, Chick, why don't you work on them with Bob Horton?
- Schwarz: Fine.
- Young: Knudsen was very cooperative the other day on priorities, and that procedure is now established, I hope.
- H.M.Jr: Yes. The Executive Order setting that Board up hasn't gone through yet, has it?
- Foley: No, I saw Smith coming out of Knox's office last night, and I asked him and he said he wasn't going to do anything on it until he got the office of Production Management Executive Order signed. He is having trouble with that.
- Gaston: Steve Early asked the Secret Service to investigate the source of Gene Duffield's story, saying that Hillman was to be shoved to one side in that Executive Order and given no authority.
- H.M.Jr: And, of course, you did it.
- Gaston: Well, I learned about it after they had made some inquiries and I told the Chief that I thought the inquiry by investigative agencies as to the source of stories was a silly business, and Steve Early ought to know it.
- H.M.Jr: Did you kill it?
- Gaston: I haven't definitely killed it. They had already done some work.
- H.M.Jr: I wouldn't do it.
- Gaston: All right, I will tell Chief Wilson.

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- H.M.Jr: Why don't you call up Steve and simply say that I - you can use me and say I will not have the Secret Service used for that purpose.
- Gaston: The man talked to Gene Duffield and, of course, Gene just laughed at him, and said, "I don't tell where I get my stories."
- H.M.Jr: I would call up Steve and tell him as far as Secret Service is concerned, we just don't do that kind of thing. He knows better than that. Do you mind calling him up?
- Gaston: No, I don't mind calling him up.
- Schwarz: Gene told me about the investigation and said that he got the story from three different people and he wasn't going to name any of them.
- H.M.Jr: I would call up Steve and would you please call up Gene Duffield yourself and tell Gene that we have killed it, and it was done without either your knowledge or my knowledge? Will you apologize to him?
- Gaston: I will do that. The Chief just told me about it late Saturday.
- Viner: What a story that would cause in the press if that came out.
- H.M.Jr: Well, fortunately Duffield is a friend. It is an outrageous performance. Early knows better than that. If he wants to do that kind of thing, let him use F.B.I.
- Young: The British have applied for an export license for the erection and maintenance drawings of the Curtiss SEC-4 dive bomber, which are the 50 dive bombers at Martinique. So far as I am

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able to find out, those are the only Navy bombers of that model which are outside of the country.

H.M.Jr: Yes.

Young: I don't know what that means.

H.M.Jr: All right?

Young: But it seems peculiar they should have applied for that.

H.M.Jr: Now, that stuff which came over from Maxwell, have you got anywhere for the Greeks?

Young: On the Republic planes. I have been checking into that. I am trying to find out just now where the planes are. There are about 12 yet to come out of the factory. The rest of them have already been delivered to the Army and part of them will be shipped to the Philippines from the West Coast.

H.M.Jr: Philip, in the next day or two we have just got to do something for the Greeks, because I don't want the President to ask me why not.

Young: Have you talked to anybody on the Republic P-43's, which are the new ones?

H.M.Jr: The Greeks, no, but I am perfectly willing to.

Young: Because they come along in January, February, and March.

H.M.Jr: I am perfectly willing to.

Young: I think that that ought to be taken up with General Marshall, probably, because he talked about them the other day in that meeting when

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the Secretary called his office.

H.M.Jr: Tell Mack that whenever I get through with Foley, I want to see you and we will talk about that, and I will do it at that time. Will you please?

Young: Right.

H.M.Jr: Harry?

White: Here is some various material on shipping, (handing charts to Secretary) and we are ready to talk to you on oil if you want to at any time.

H.M.Jr: Well, don't leave this here. You hold onto this oil matter, will you please?

White: Yes. The oil and gasoline are still going in very substantial amounts to Japan. I just thought you ought to know that.

H.M.Jr: Well, what is his name, Sumner Welles, made a remark to me the other day which I think we might follow up. He said, "I thought we were going to drop the octane content of export gas to 67." He said, "I am surprised we haven't done it before." So just keep that in mind.

White: Yes. Of course, the public doesn't know that this stuff is going. The public seems to think that it is embargoed.

H.M.Jr: Well, we will see.

White: Then there are other things about oil. There is no hurry about it.

Senator Wagner made a comment which may be of interest --

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H.M.Jr: I got a call from him.

White: Well, on the holding companies?

H.M.Jr: Yes.

White: He told you?

H.M.Jr: No, I haven't spoken to him.

White: Oh. He said that he didn't like this death sentence on the holding companies. He was very reluctant and he was going to take it up with Glass. I didn't discuss it with him. I am merely passing that comment on. I didn't know whether you knew where he stood or not. He said he was wondering whether some compromise might not be found.

H.M.Jr: I am sure, but I am not going to compromise. Somebody else can, but I am not going to. You can't compromise with a death sentence. Harold?

Bell: I think you might give the President authority to extend that period, Mr. Secretary, by executive order. It would help some.

H.M.Jr: Oh, that puts him on the spot.

Bell: Well, that doesn't hurt. You might have people trying to buy broken up companies, and they might wait right until the deadline and then --

H.M.Jr: Well, they shouldn't.

Bell: And then get them very cheaply.

H.M.Jr: Well, they have got three years under the bill.

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- Bell: Yes, I know, but if they have this authority to extend it, they will never know when the date is actually going to come.
- H.M.Jr: On the other hand if we work it the other way around, if they thought it was going to be extended, they might keep postponing it.
- Bell: Well, they would have to work it out some time and the deadline would be whatever the end of the period was in the President's authority rather than a definite three year period.
- H.M.Jr: Well, we will think about it.
- Harry, what happened to that book that you had on all the English assets which you said I might take to Cabinet?
- White: I have another copy. I gave it to Mrs. Klotz.
- H.M.Jr: Do you have it?
- Klotz: Yes.
- White: That is as of several weeks ago. We can give you additional information now. It wouldn't change very much.
- H.M.Jr: Well, Stewart is going to be here for two days, today or tomorrow, and I want him to take a fresh look at that thing for me. I want everything prepared for him so he can take it and go in a room and lock himself up and then be prepared to ask us questions as though he was a committee on the Hill. The question that I am going to have to answer is why the English haven't got more money, you see. I mean, the English asset position in the thing, I want to turn over to him tomorrow morning. I am going to ask him just to concentrate on that.

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Will you have it ready, Harry?

White: Yes, sir.

H.M.Jr: Dan?

Bell: Bob Pierce who is the manager of the National City's branch in Paris will be in town tomorrow. I thought you might like to talk to him.

H.M.Jr: You talk to him.

Bell: I am going to talk to him.

H.M.Jr: I am just so far behind on my appointments.

Bell: I thought I would let him talk to all the other boys, Pehle and White and so on.

H.M.Jr: Sure.

Bell: May we show Archie Lochhead the draft of the Chinese agreement and get his comments?

H.M.Jr: Please.

Bell: Last spring when we had our Federal Reserve conference, we rode the Federal Reserve Banks of San Francisco, Dallas, and Atlanta pretty hard for not policing their subscriptions, and Clark of San Francisco said he would make another attempt. He sends in a list now which is very good, but the type of security might have had something to do with reduction. The Bank of America group, which subscribed for 44 million 500 thousand of the July bond, subscribes for a million and a half of the December note; and the Stewart group, which subscribed for 44 million of the July bonds, subscribed for 5 million of the December note and that whole group, The Bank of America and

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Trans-America and the Stewart group, subscribed for a hundred million dollars of the July note - or the July bond and for the December note only seven million, so they really did some work on it, if this is any indication. I think the type of security had something to do with it.

H.M.Jr: I don't get the significance.

Bell: Well, the Trans-American group has been the worst offender in padding, and we have never been able to control them because they go through so many companies and these various companies scattered around on the Pacific Coast put in subscriptions that they could never pay for and shouldn't get them. That is the way the banking group has gotten a large amount of government securities which they have put on the market. He has gone to all of them --

H.M.Jr: Who has?

Bell: Clark.

H.M.Jr: Who is he?

Bell: He is the Vice-President of the Federal Reserve Bank of San Francisco.

H.M.Jr: I see.

Bell: And apparently it has had some results.

H.M.Jr: Will you remember that when we go to testify on the bank holding bill as one of the evils of the bank holding companies?

Bell: Yes, I would be delighted.

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H.M.Jr: It is a very good point, it is an excellent point. Will you remember that when we go up to testify?

Bell: Yes, I will. May I see you about five minutes today some time?

H.M.Jr: Sure. Tell McKay that after Foley you come and then Young.

Bell: All right.

Thompson: Your testimony before the Appropriations Committee is all ready. Do you want to go over it?

H.M.Jr: Who is all ready?

Thompson: Bell, Gaston, Haas and White.

H.M.Jr: Let Ferdinand Kuhn read it, please.

Thompson: I have a proposal here for Mr. Bartelt to consolidate the Treasury emergency relief accounting and disbursing offices. They have got to vacate their present quarters --

H.M.Jr: Which office will you close?

Thompson: Close the Albany office. We must vacate on that.

H.M.Jr: Will I get a kick back on that.

Thompson: There will probably be a lot of kick backs on it, but it seems to be a desirable thing to do.

H.M.Jr: Then in order to save us - who does my politics?

Thompson: Mr. Gaston.

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H.M.Jr: What office is this?

Thompson: The emergency relief accounting and disbursing offices.

H.M.Jr: That comes under who?

Thompson: Bartelt.

H.M.Jr: Would you mind calling up the Chairman of the New York Democratic Committee, Mr. James Farley? Explain what it was and was it all right with him to do this? It was something I would like to do. I think if Farley knows about it beforehand --

Bell: The kick would come from two Senators also, Mead and White.

Thompson: Twenty-three employees would be dropped.

H.M.Jr: I think if Wagner and Mead knew about it beforehand and Farley, if you don't mind. There is no hurry. Don't bother with it today. You can do it tomorrow.

Thompson: It also involves the dismissal of Mr. Grubb, who is the accountant in charge at New York City.

H.M.Jr: Give Gaston a memorandum on it, and if he could call up these three people saying this is what is going to happen, see?

Gaston: Yes.

H.M.Jr: I just want Foley to stay behind.

January 6, 1941
10:17 a.m.

H.M.Jr: Well, Harry spoke to me about the thing and it's perfectly all right with me.

Senator
Robert
Wagner:

It seems to me this: now, of course, I'm going to do what he wants as you know, but when the public is anxious about things and wants to know, it seems to me - and at a time like this, I don't think it's wise to keep them uninformed.

H.M.Jr: Well, I agree with you.

W: Now, I don't know, if he has a different idea it's just another case where it'll put me on the spot because they'll be after me on the Committee, you know.

H.M.Jr: Yes. Well, the point is this: I don't think that the President can get his legislation through unless he does tell the Congress what the situation of the British is. See?

W: That's my opinion, and I think I'm going to tell him that. Has anybody told him that at all?

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

W: The trouble is you know they don't tell him these things.

H.M.Jr: Not that I know of, but if he asks me, I'd certainly tell him that, and I've been preparing myself just for that kind of a call from the Hill because I was sure that when they got his suggestions as to how to do this thing the first question they're going to ask is, well, just how broke are they?

W: Yeah, and it would be a better thing if I started that rather than to have it started in Foreign Relations where undoubtedly that legislation would have to go, but of course it would be in the form of an amendment to the Neutrality Act I would imagine.

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- H.M.Jr: I don't think that that's the way it's going to be, Bob.
- W: Well, I don't know. I haven't asked him and I only know what I read in the paper. They're not very accurate.
- H.M.Jr: Yeah.
- W: Well, there's nothing else you have on your mind?
- H.M.Jr: Well, yes, this other thing. We've been working with Carter Glass on this bank holding thing and anytime that you're ready I'd like to talk to you about it.
- W: Now he talked to me the other day about that and he told me - he said that you had talked to him but of course he wanted me to be consulted. Well, I said
- H.M.Jr: Well, you know
- W: Yes, well now wait a minute. I said, now, I told Henry Morgenthau at one time that on these matters he should always talk to you
- H.M.Jr: That's right.
- W: and it was entirely - that it was a very clear understanding about that Carter. He needn't worry about that, and he talked about me introducing it. I said, no, you introduce it now that it's set. Well, he said, there are a couple of matters there that I'm not sure that I'm with the Secretary on and I'd like to discuss those with you because I want your judgment as to what we can get out of the Committee and all that sort of thing. So I said, all right, I'll talk to you as soon as you're ready. Now he'll probably want to talk to me. Now what he had in mind particularly I think is, he said to me that he don't like that idea of

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H.M.Jr: I see.

W: He'd like to have it the way he had it when he introduced the bill, you know, from now on.

H.M.Jr: Well, you mean to freeze

W: To freeze, yes, exactly.

H.M.Jr: Well, that doesn't suit me at all.

W: So I said what we'd better do, Carter, is when we are ready let's ask the Secretary to meet with us and let's talk it out that way, which was agreeable to him.

H.M.Jr: I'd like to do that very much.

W: Now, that's the status of it.

H.M.Jr: Well, now, if you'll set the time

W: Did you give it to Steagall?

H.M.Jr: No. Carter told us not to.

W: Yeah. Well, he doesn't get along well with him.

H.M.Jr: But I made it perfectly plain to him that when I saw him that I was simply carrying out the suggestion, because you always say to me....

W: Oh, yeah. Well, there's no - I told him that same thing myself too. Oh, I think what he wanted to be sure of was that it was all right with me as chairman, you know.

H.M.Jr: Well, I had a call in, you remember, and you called me.

W: Oh, yeah. Well, there's no talk about that. I cleared that with him, but I think he wanted to make sure for himself. So I tell you, I'll talk to him today

H.M.Jr: Will you, and will you do this: I'd like to mention it to Barkley and when we meet I wish that Barkley would sit in on it.

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W: Yes.

H.M.Jr: So you mind if I call Barkley?

W: Not a bit, not a bit. I don't mind any of those things.

H.M.Jr: Well, and then I'm going to say that if and when we meet, I would like to meet with you and with Carter and with Barkley.

W: Yeah. That's fine with me.

H.M.Jr: All right, because once before I didn't tell Barkley before I came up on the Hill and he was hurt.

W: Yeah.

H.M.Jr: So I don't want it to happen again.

W: All right.

H.M.Jr: So it would help me a little bit if he could be included.

W: Oh, sure, that's all right with me.

H.M.Jr: Well, in not too distant future - do you think you can do it this week?

W: Well, I'm going to try to. I'm settling down. I'm dieting and I've lost about 8 pounds now and I feel a little better.

H.M.Jr: God, you must be handsome as hell.

W: (Laughs).

H.M.Jr: The line for the girls forms on the right, eh.

W: You can't think of those things these days - you can, but not me.

H.M.Jr: All right.

W: All right, Henry.

January 6, 1941
10:25 a.m.

H.M.Jr: Hello.

Senator
Barkley: Hello.

H.M.Jr: Alben, Henry talking.

B: How are you?

H.M.Jr: I'm fine. Alben, I've been talking with
Senator Glass over a proposed bill on bank
holding companies. Hello?

B: Yeah.

H.M.Jr: And I'm very anxious that we do something,
and he has it under consideration, and Wagner
said he'd like to have me come up and talk
to him and when I do I'd like very much if
you'd be there.

B: All right. You haven't fixed any time yet.

H.M.Jr: No. If you'd like to have something in advance -
to give you an idea - to read it before we come
up, I'll be glad to send it up to you.

B: All right. Suppose you do that.

H.M.Jr: Well, I'll send it up, but we've fussed
around with these bank holding companies now
and I think it's time we did something.

B: Yeah. Well, I think Glass has, as I understand
it, has always been rather sympathetic with
the proposal that they ought to be handled.-
used to be - I don't know whether he - I haven't
talked to him lately.

H.M.Jr: Well, here's the difference between the way
I'm thinking and the way Glass is. Glass would
like to freeze the present situation and simply
say well whatever it is at present we'll let
that - but they can't grow. I'd like to have
it so that over a period of say several years
these kind of companies be liquidated and we
don't have bank holding companies.

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B: Sort of a death sentence.

H.M.Jr: Definitely.

B: A postponed execution of it.

H.M.Jr: Yeah. Give them three years.

B: Yeah. Well, I'll be glad to talk with you about it and in the meantime get any memorandum you want to send over.

H.M.Jr: I'll send one up today.

B: All right.

H.M.Jr: Thank you.

B: Good-bye.

JAN 6 1941

My dear Senator Barkley:

In accordance with our telephone conversation relative to the bank holding company problem, I am transmitting herewith a short memorandum comparing the principal features of S. 3575 (75th Congress), the bank holding company bill introduced by Senators Glass and Hodge in 1938, a copy of which is enclosed, and the type of bill preferred by the Treasury Department which was recently discussed with Senator Glass. In addition, I am enclosing a memorandum giving some of the salient facts concerning Transamerica Corporation and the Bank of America National Trust and Savings Association and the difficulties which the office of the Comptroller of the Currency has encountered in the supervision of that bank.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Sen. Alben W. Barkley,
United States Senate.

*Orig. ^{enclosed} sent by Special
Messengers at 4:55 p.m. 1/6/41
from General Counsel's office*

Enclosures
HJM:vic - 1/6/41

STRICTLY CONFIDENTIAL

COMPARISON OF S. 3575 (75TH CONGRESS) AND BANK HOLDING COMPANY LEGISLATION CONTEMPLATED BY THE TREASURY DEPARTMENT.

S. 3575, introduced by Senators Glass and Hodge in 1938, if enacted into law, would operate to "freeze" the bank holding company situation by prohibiting further expansion of bank holding companies and by placing certain restrictions upon the operations of such companies. The bill in brief defines a holding company of an insured bank as a company which owns or holds more than 10 percent of the shares of capital stock of an insured bank or dominates the election of the majority of directors of an insured bank. (Sec. 2(7) and (8), page 2.)

S. 3575 would not abolish bank holding companies or require them to dispose of any bank stock which they hold or acquire prior to the effective date of the Act, but would prohibit them from acquiring any more voting stock of any insured bank and would prohibit any company from acquiring sufficient voting stock of an insured bank to become a holding company. (Sec. 4, page 4.) An insured bank which is controlled by a holding company would not be permitted to make loans to or collateralized with securities issued by, purchase securities from, or invest in securities issued by, the holding company or any of its subsidiaries; nor could such a bank establish any new or additional branches. (Sec. 3, page 3; sec. 5, page 5.)

S. 3575 contains a number of sanctions for enforcing its provisions. If a holding company acquired any additional stock in an insured bank after the effective date of the Act and thereby violated the Act it would be unlawful for such insured bank to pay any dividends to such holding company. (Sec. 10, page 8.) A violation of the Act would constitute a misdemeanor, with a \$5,000 fine for each violation by a company, and a \$5,000 fine or not exceeding one year's imprisonment, or both, for each violation by a natural person. (Sec. 14, page 12.) If an insured bank or a holding company of such insured bank violated the Act, the insured bank might become ineligible to receive deposits of public funds of the United States, and might have its insurance terminated by the Federal Deposit Insurance Corporation. The Federal Deposit Insurance Corporation also could obtain injunctive relief from the courts to enjoin violations of the Act.

Although S. 3575 might help the situation somewhat by placing certain restrictions upon the activities of bank holding companies and insured banks controlled by such companies, it is believed that the bill does not go far enough to remedy the evils inherent in the control of insured banks by holding companies. The draft of legislation which the Treasury Department has in mind would prescribe a definite period within which holding

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company control of banks would have to be terminated. It would make it unlawful after June 30, 1944 for any company to own or control in any manner more than 10 percent of the voting securities of an insured bank or to control in any manner the election of the majority of the directors of an insured bank. A violation of the Act would subject a violating company to a fine, and a violating individual to a fine, or to imprisonment, or both. The Board of Directors of the Federal Deposit Insurance Corporation would be authorized to obtain injunctive relief from the courts to enjoin violations, and would also be authorized, after hearing, to remove any officer or director of an insured bank who was responsible for, or failed to disclose to proper authorities, any violation of the Act.

In addition, the draft of legislation contemplated by the Treasury Department would provide that after the date of the approval of the Act it would be unlawful for any national bank, over the objection of the Comptroller of the Currency, or any State bank insured by the Federal Deposit Insurance Corporation, over the objection of the Corporation, to declare or to pay any dividend. Such a provision would be necessary to stop holding companies from bleeding banks by the declaration and payment of excessive dividends in the period between the date of approval of the Act and the termination of holding company control of banks on June 30, 1944. In addition, such a veto upon excessive dividends would be necessary after 1944 in order to insure that no company or group of individuals who might devise a scheme to circumvent the Act and obtain control of an insured bank could bleed the bank by dictating the declaration and payment of excessive dividends. Such a veto over excessive dividends would constitute the most effective single method for assuring the continued soundness and stability of the banks insured by the Federal Deposit Insurance Corporation.

75TH CONGRESS
3D SESSION

S. 3575

IN THE SENATE OF THE UNITED STATES

JANUARY 5 (calendar day, MARCH 2), 1938

Mr. GLASS and Mr. McADOO introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A BILL

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

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Bank Holding Company
4 Act of 1938".

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

10 (2) "Person" means any individual, partnership, asso-
11 ciation of persons, or company.

1 (3) "Company" means any corporation, incorporated
2 bank, banking association, insured bank, joint-stock com-
3 pany, business trust, or trustees of any voting trust.

4 (4) "Director" means any director or trustee of any
5 company, or any individual who performs similar functions
6 in respect of any company.

7 (5) "Securities" include notes, drafts, acceptances,
8 bonds, debentures, capital notes, voting trust certificates,
9 capital stock, treasury stock, warrants, and rights to sub-
10 scribe to or certificates of deposit for any of the foregoing.

11 (6) "Capital stock" includes common and preferred
12 stock, capital notes, and debentures.

13 (7) "Control" means the legal or equitable ownership
14 or holding of more than 10 per centum of the total number
15 or par value of the outstanding shares of capital stock or total
16 number of voting rights for electing directors, or the domina-
17 tion, directly or indirectly, in any manner of the election of
18 a majority of the directors of an insured bank or any other
19 company, and wherever used in this Act the word "control"
20 in any grammatical form shall have this meaning.

21 (8) "Holding company" of any insured bank means any
22 company which controls the insured bank or controls any
23 other company which in turn controls the insured bank, and
24 every company in any series or succession of companies in
25 any system of controlling and controlled companies, in which

1 any company or combination of companies control the in-
2 sured bank.

3 (9) "Affiliate" of any insured bank means any com-
4 pany which with respect to the insured bank is a holding
5 company, every company in any series or succession of com-
6 panies constituting any system of controlling and controlled
7 companies, in which any company is controlled by the in-
8 sured bank or by such holding company or by any company
9 or combination of companies in such system, and any com-
10 pany having one or more shareholders who have legal or
11 equitable ownership of more than 50 per centum of the
12 number or par value of the outstanding shares of capital stock
13 or voting rights for electing directors of both the company
14 and the insured bank: *Provided*, That notwithstanding the
15 foregoing, any company engaged solely in the business of
16 (a) operating a safe-deposit vault; or (b) holding or op-
17 erating the building and premises occupied by any insured
18 bank, shall not be an affiliate of the insured bank.

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

21 SEC. 3. It shall be unlawful for any insured bank,
22 directly or indirectly or by any device whatever (1) to
23 make any loan or extension of credit to any of its affiliates
24 or to invest any of its funds or any funds administered by
25 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

1 insured bank, if such company is or upon such acquisition
2 would become a holding company of any insured bank.

3 SEC. 5. No insured bank shall establish or operate or
4 be permitted to establish or operate any new or additional
5 branches while such insured bank is controlled by any hold-
6 ing company.

7 SEC. 6. Every company shall before the expiration of
8 sixty days after the effective date cause to be filed with the
9 cashier or secretary of every insured bank as to which it is
10 an affiliate, an affidavit to be signed by one of its executive
11 officers having knowledge of the facts, which shall set forth
12 as of the effective date (1) the total number and par value
13 of the outstanding shares of capital stock and total number
14 of voting rights for electing directors of such insured bank,
15 which such company owns or holds, the names of the per-
16 sons in whose names such shares or rights are issued and a
17 full description of any instruments evidencing such shares
18 or rights; (2) the amount of any indebtedness of such com-
19 pany to the insured bank, direct and indirect, the maturity
20 dates, and the person in whose name such indebtedness
21 stands, if other than the company; and (3) an itemized
22 statement of its assets and liabilities as of the last day of the
23 preceding month and of its earnings for the current fiscal
24 year to the last day of the preceding month, if the company
25 be directly or indirectly indebted to the bank. Within

1 twenty days after the close of each calendar month there-
2 after, if there has been any change in any of the matters
3 covered in such affidavit, except item 3 thereof, during such
4 month, the company shall file a like report, so long as it
5 shall continue to stand in the relation of an affiliate to such
6 insured bank. Every company shall file within thirty days
7 after the last day of June and December of each year with
8 the cashier or secretary of every insured bank as to which
9 it is an affiliate a like sworn itemized statement of its assets
10 and liabilities as of the last day of June and December of
11 each year and of its earnings for the current fiscal year to
12 the last day of June and December of each year. Every
13 insured bank shall retain such affidavits and statements on
14 file as a part of its records for at least three years.

15 SEC. 7. Every insured bank, holding company, and
16 affiliate shall file with the Federal Deposit Insurance Cor-
17 poration such annual, semiannual, quarterly, and other
18 periodic and special reports, the answers to such specific
19 questions and the minutes of such directors', stockholders',
20 committees', and other meetings, as the Corporation by
21 order may prescribe as necessary or appropriate for the
22 proper consideration of the condition of any insured bank
23 or for the proper supervision of the Federal deposit insur-
24 ance system, and the Corporation may make such investiga-
25 tions of any insured bank, holding company or affiliate, and

1 the books and records thereof, as shall be necessary or
2 proper to disclose the condition of any insured bank or the
3 effect of the relations between any holding company or
4 affiliate and any insured bank, upon the Federal deposit
5 insurance system or any insured bank. And such investi-
6 gations shall be made at the expense of the Corporation;
7 and it shall be unlawful for any insured bank, holding com-
8 pany, or affiliate knowingly to make any false statement
9 or report to the Corporation or to refuse authorized repre-
10 sentatives of the Corporation access to any information re-
11 quired in connection with any such investigations.

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

19 SEC. 9. Whenever it shall appear to the Board of Direc-
20 tors of the Federal Deposit Insurance Corporation that any
21 person is engaged or about to engage in any acts or practices
22 which constitute or will constitute a violation of the provi-
23 sions of this Act, the Board in its discretion may bring an
24 action in the proper district court of the United States or the
25 Supreme Court of the District of Columbia, to enjoin such

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 9, 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 SEC. 10. It shall be unlawful for any insured bank to
24 pay to any holding company, directly or indirectly, any
25 dividend on any shares of its capital stock so long as such

1 holding company shall continue to hold any shares of the
2 capital stock or voting rights for electing directors of such
3 insured bank, or of any company which is a holding company
4 with respect of such insured bank, acquired in violation of
5 any provision of this act.

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 surance Corporation to the Board of Governors of the Fed-
2 eral Reserve System of any such finding of such violation on
3 the part of any holding company and request for such revoca-
4 tion, the Board of Governors of the Federal Reserve System
5 forthwith shall proceed to revoke any voting permit thereto-
6 fore granted to such holding company as a holding company
7 affiliate under the provisions of section 2 of the Banking Act
8 of 1933, as amended (U. S. C., title 12, sec. 61). The
9 Board of Directors of the Federal Deposit Insurance Cor-
10 poration shall have the right, upon such terms and conditions
11 as may be consistent with the public interest, the safety and
12 integrity of the Federal deposit insurance system and the
13 purposes of this Act, to review, suspend, modify, or revoke
14 any order or finding made pursuant to this section.

15 SEC. 12. Any person or party aggrieved by an order
16 issued by the Board of Directors of the Federal Deposit
17 Insurance Corporation under this Act may obtain a review
18 of such order in the circuit court of appeals of the United
19 States within any circuit wherein such person resides or has
20 his principal place of business, or in the United States Court
21 of Appeals for the District of Columbia, by filing in such
22 court, within sixty days after the entry of such order, a
23 written petition praying that the order of said Board be
24 modified or set aside in whole or in part. A copy of such
25 petition shall be forthwith served upon any member of said

1 Board, or upon any officer thereof designated by the said
2 Board for that purpose, and thereupon the said Board shall
3 certify and file in the court a transcript of the record upon
4 which the order complained of was entered. Upon the
5 filing of such transcript such court shall have exclusive
6 jurisdiction to affirm, modify, or set aside such order, in
7 whole or in part. No objection to the order of said Board
8 shall be considered by the court unless such objection shall
9 have been urged before said Board or unless there were
10 reasonable grounds for failure so to do. The findings of
11 the said Board as to the facts, if supported by substantial
12 evidence, shall be conclusive. If application is made to the
13 court for leave to adduce additional evidence, and it is shown
14 to the satisfaction of the court that such additional evidence
15 is material and that there were reasonable grounds for failure
16 to adduce such evidence in the proceedings before said Board,
17 the court may order such additional evidence to be taken
18 before the said Board and to be adduced upon the hearing
19 in such manner and upon such terms and conditions as to
20 the court may seem proper. Said Board may modify its
21 findings as to the facts by reason of the additional evidence
22 so taken, and it shall file with the court such modified or
23 new findings, which, if supported by substantial evidence,
24 shall be conclusive, together with its recommendation, if any,
25 for the modification or setting aside of the original order.

1 The judgment and decree of the court, affirming, modifying,
 2 or setting aside, in whole or in part, any such order of said
 3 Board shall be final, subject to review by the Supreme Court
 4 of the United States upon certiorari or certioradone pro-
 5 vided in sections 346 and 347 of title 28 of the United States
 6 Code. The commencement of proceedings under this section
 7 shall not, unless specifically ordered by the court, operate
 8 as a stay of said Board's order.

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

13 SEC. 14. Any person who knowingly violates any pro-
 14 vision of this Act shall be guilty of a misdemeanor; any
 15 company which knowingly violates any provision of this
 16 Act, upon conviction thereof, shall be punished by fine of
 17 not exceeding \$5,000 for each violation, and any natural
 18 person who knowingly violates any provision of this Act,
 19 upon conviction thereof, shall be punished for each violation
 20 by fine of not exceeding \$5,000 or by imprisonment for not
 21 exceeding one year, or by both, in the discretion of the
 22 court.

23 SEC. 15. No provision in this Act shall apply to, or be
 24 deemed to include, the United States, a State, or any politi-
 25 cal subdivision of a State, or any corporation which is

1 wholly owned, directly or indirectly, by any one or more of
2 the foregoing, or any corporation which is managed by a
3 person or persons appointed pursuant to law by the Presi-
4 dent of the United States or the Governor of a State or the
5 chief executive of any political subdivision of a State, or any
6 officer, agent, or employee of any of the foregoing acting
7 as such in the course of his official duty or to any company
8 which is determined by the Board of Directors of the Fed-
9 eral Deposit Insurance Corporation, on application for
10 exemption or of its own motion, to be only incidentally a
11 holding company and to be primarily engaged in business
12 other than holding the stock of or managing or controlling
13 banks, banking associations, savings banks, or trust com-
14 panies, or to be only incidentally or temporarily an affiliate
15 of any insured bank.

16 SEC. 16. If any provision of this Act or the application
17 of such provision to any person or circumstances shall be
18 held invalid, the remainder of the Act and the application
19 of such provision to persons or circumstances other than those
20 as to which it is declared invalid shall not be affected
21 thereby.

75TH CONGRESS }
2d Session } **S. 3575**

A BILL

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

By Mr. Grass and Mr. McAdoo

JANUARY 5 (calendar day, MARCH 2), 1938
Read twice and referred to the Committee on
Banking and Currency