

Book No. - 348

continued

from

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*see Bud's note of 1-17-41*

January 15, 1941.

MEMORANDUM TO THE PRESIDENT:

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If the rumor is correct, do you wish his income taxes checked before such an appointment is announced?

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/s/ H. Morgenthau, Jr.

CONFIDENTIAL

By messenger 5:30

January 15, 1941

George Haas  
Secretary Morgenthau

Please bring to my attention those charts which you made showing what happened to bank stocks at the time that Eccles gave out his statement.

I also wanted to ask you whether you have or have not asked Leon Henderson to look into who dealt in these bank stocks the day before January 1st. Please talk to me about this at the earliest possible moment.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 15, 1941

TO Secretary Morgenthau

FROM W. Foley

There was a meeting in the Attorney General's office today attended by the following: Messrs. Jackson, Arnold, Snea, and L.W.C. Smith of Justice, Berle, Henderson, Ginsberg and Bernstein. Mr. Berle read a memorandum containing his suggestion of setting up an economic defense council and calling for the organization of a number of subcommittees functioning in a variety of areas. Governor Arnold appeared to agree with this approach to the problem. In response to an inquiry from the Attorney General, Bernstein said that it would be undesirable to attempt to work out a blueprint of our whole economic life but that we should simply try to set up an economic defense board, giving it wide powers so that it could start to function and then the board would submit a report to recommend to the President the acquisition of additional powers. After further consideration it was decided to follow this approach. It was turned again to the Treasury's proposed Executive Order. It was decided to eliminate the Secretary of War and the Secretary of the Navy from the committee and to substitute the Attorney General. Instead of being called a board it will be called the Civilian Economic Defense Committee. The Secretary of State is in effect given veto power on the committee.

With respect to Title II relating to freezing control, Attorney General Jackson said he was entirely satisfied with an Executive Order extending the control to continental Europe subject to approval by the State Department. Mr. Berle said this approach to the question was very much more satisfactory than his plan including the whole world and then excluding certain areas by special license. Mr. Berle agreed to let us know what countries State Department was willing to include in the Order.

Title III was approved with the deletion of a sentence in the coordination of foreign buying section that is essentially immaterial.

The Attorney General is drafting an additional title which will relate to certain court proceedings in anti-trust matters, patent questions, industrial espionage, etc. This work would be administered by the Department of Justice. Attorney General Jackson asked Bernstein to advise you that this was the material he was referring to at the last Cabinet meeting.

E.H. F.H.

THE WHITE HOUSE  
WASHINGTON

JAN 15 1941

My dear Mr. Secretary:

I have considered your memorandum of December 16, 1940, relative to the reorganization plan proposed by the Treasury Department for distributing the functions of the Bureau of Marine Inspection and Navigation among the Maritime Commission, the Coast Guard, and the Bureau of Customs. As you perhaps know, the Bureau of the Budget is conducting an intensive study of the problem of maritime regulation, other than its economic phases, in order to determine any reallocations of functions that may appear desirable, particularly in view of existing defense requirements.

I should prefer to delay any action concerning this matter until the Bureau has submitted its findings. As to the January 20 dead line under the present Reorganization Act, I am reasonably confident that it will be possible to secure any necessary transfers of such maritime functions through either renewed reorganization authority or legislation.

Sincerely yours,



The Honorable,

The Secretary of the Treasury

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE January 15, 1941.

TO - Secretary Morgenthau  
 FOR Miss Chaunoy  
 FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transaction in the account of the Central Corporation of Banking Companies, Budapest, maintained with the Guaranty Trust Company of New York.

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>
January 14	\$ 106,200	National City Bank, N.Y., by order of National Bank of Hungary, Budapest



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE January 15, 1941

TO Secretary Morgenthau  
 FROM Mr. Klaus

## FBI reports:

December 13. Summary of air raid precautions organization in the Atlantic Command Section of Canada (that is, New Brunswick, Nova Scotia, and Montreal). (At Mr. Gaston's direction copies have been furnished to Coast Guard and Customs.)

January 10. Economic conditions in Hungary have become very poor since Italy's intervention and German pressures for raw materials and cereals. Hungary has lost her main source of supply for manufactured wool and cotton goods in Italy; her crops are poor; she is unable to transport materials to or from Russia.

January 11. Eighty per cent of the American Bosch Corporation at Springfield, Massachusetts, nominally held by the Stockholm Enskilda Bank, is actually held in a voting trust for the German Reichsbank; George Murnane, New York City financial consultant, is chairman of the voting trustees.

January 11. On November 18 and 19 the Bank of Canton, San Francisco, withdrew \$100,000 in \$100 bills and \$543,000 in \$1,000 bills from the American Trust Company, San Francisco; prior to that time the Bank of Canton had made deposits to the American Trust Company of \$367,000, consisting mainly of checks to the order of T. A. Soong (T. Y. Soong?); On December 26 the Bank of Canton withdrew \$50,000 in \$100 bills immediately after having made a deposit of a \$50,000 check drawn on the Royal Bank of China signed by Chiang Kai-Shek. The Bank also deposited on December 23 a check for \$250,000 endorsed to the China Development and Finance Corporation; this amount is still not drawn against.

January 13. \$6,071,010, representing the proceeds of two shipments of Japanese gold which arrived November 12 and 13 in San Francisco, was deposited by the Yokohama Specie Bank with the Bank of California and then transferred by telegraph to the Chase National Bank for the account of the Yokohama Specie Bank, New York City.

h.s.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE January 15, 1941

TO For Miss Chamberlayne  
Secretary Morgenthau

FROM Mr. Cochran

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	\$51,000
Purchased from commercial concerns	\$23,000

The Federal Reserve Bank of New York purchased \$42,000 in registered sterling from a non-reporting bank, and sold \$10,000 to another non-reporting bank.

Open market sterling was first quoted at 4.03-1/2 and it remained at that level throughout the day. Transactions of the reporting banks were as follows:

Sold to commercial concerns	\$14,000
Purchased from commercial concerns	-0-

Closing quotations for the other currencies were:

Canadian dollar	14-1/4% discount
Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	8-1/8% discount
Chinese yuan	.05-5/8

We sold \$400,000 in gold to the Bank of Portugal, which was added to its earmarked account.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$4,434,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

No gold or silver prices were received from Bombay today.

The price fixed in London for spot silver was unchanged at 23-1/4d. The forward quotation was 1/16d lower at 23-3/16d. The dollar equivalents were 42.21¢ and 42.10¢ respectively.

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Handy and Harman's settlement price for foreign silver was unchanged at  $34\frac{3}{4}\phi$ .  
The Treasury's purchase price for foreign silver was also unchanged at  $35\phi$ .

We made three purchases of silver totaling 105,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

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RESTRICTED

G-2/2657-220  
No. 293

M.I.D., W.D.  
January 15, 1941.  
12:00 M.

SITUATION REPORTI. Western Theater of War.

1. Air. No operations of consequence. Bad weather prevailed.

II. Greek Theater of War.

1. Ground. Patrol and artillery activity reported.

2. Air. The Greeks and British bombed Valona twice. There was considerable Italian air activity over Greek rear areas.

III. African and Mediterranean Theaters of War.

1. Ground. Artillery action on the Tobruk front. Patrol and artillery actions in the vicinity of Giarabub, some 150 miles south of Bardia. Giarabub is still held by a small Italian garrison placed there for flank security. It is assumed an effort is being made by the Italians to supply this garrison, which is practically isolated.

In East Africa, patrol activity is continuing in the neighborhood of Kassala.

2. Air. British air activity over the Libyan desert was hampered by sandstorms.

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

RESTRICTED

## CONFIDENTIAL

Paraphrase of Code Radiogram Received  
at the War Department 9:21  
January 15, 1941.

London, filed 15:00, January 15, 1941.

1. During the night of January 13-14, the French coast was mined and the invasion ports were attacked by small groups of planes from the Coastal and Bomber Commands.
2. On January 14 and during the following night there were no German airplanes over England.
3. On January 13 and 14 and during the following night British planes attacked Italian transportation facilities and airfields in the Middle Eastern theater. At Benina the British destroyed six Italian planes. It is now known that a total of 20 Italian divisions are in Albania.
4. The 9,100-ton British cruiser SOUTHAMPTON was severely damaged just west of Sicily in the same naval-air battle in which the destroyer GALLANT, and the aircraft carrier ILLUSTRIOUS were severely damaged as was reported in our cablegram of January 13. The damage to all of these vessels was inflicted by German dive bombers. Twelve of these dive bombers were shot down. It is obvious that Sicily has been turned over to the Germans for use as a base from which German aircraft will attempt to break the British sea lane at points between Tunis and Sicily.
5. The Russians have now concentrated seven tank brigades, 35 Infantry divisions, and four Cavalry divisions in the Odessa and Kiev Military Districts in the Ukraine. The British feel that this

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## CONFIDENTIAL

is not a defensive measure and that the lack of defensive action in this area on the part of the Germans indicates that Russia may occupy eastern Moldavia in Rumania in accordance with a pre-arranged agreement with the Germans.

6. The most serious results of the German raid of January 13-14 on Plymouth were the wrecking of the gas supply and the fire damage.

7. The activities of British night fighter planes have been increased recently and some increased success is reported. German night fighter planes are now being used against British bombers on bombing missions in Germany. At present these German fighter planes are not effective against British bombers.

SCANLON

## Distributions

Secretary of War  
 State Department  
 Secretary of Treasury  
 Asst. Secretary of War  
 Chief of Staff  
 War Plans Division  
 Office of Naval Intelligence  
 AG  
 G-3  
 AB

CONFIDENTIAL

January 16, 1941  
9:25 a.m.

H.M.Jr: Hello.

James  
Forrestal: Yeah.

H.M.Jr: Jim, this is in answer to a call of yours.

F: Oh, what I wanted to ask you about was on this Biggers Brothers thing. The Corn Products Co. and the Colgate Company would like to take a look and have asked - I had a call from New York - as to how they should go about it or were they welcome.

H.M.Jr: Well, the thing for them to do is to get in touch with Gifford. See?

F: Yeah.

H.M.Jr: Until their man arrives, a man they're sending over here who'll be here next week, Gifford is handling it this week.

F: Yeah. O. K. Well, then he can direct them after that.

H.M.Jr: Pardon?

F: He can direct them. If anyone else comes to him then he can tell them who it is.

H.M.Jr: Yes. You may know him, a man by the name of Peacock.

F: Oh, I know Peacock, yeah. E. R. Peacock.

H.M.Jr: Is he good?

F: Not very fast - he's honest.

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

F: But he's typical .....

H.M.Jr: He's a Canadian, I think.

- 2 -

F: Yeah. He's a typical - not very (laughs) -  
he's a nice fellow. Very nice fellow.

H.M. Jr: And honest.

F: I think so.

H.M. Jr: Well, he's the fellow who is coming over.  
They don't want to announce it until after  
he clears Bermuda though.

F: Yeah. O. K., Henry.

H.M. Jr: Right.

January 16, 1941  
9:29 a.m.

H.M.Jr: Hello.

Operator: Mr. Knudsen.

Wm. S. Knudsen: Yes.

H.M.Jr: Bill, Henry speaking.

K: Yes, Henry.

H.M.Jr: Good-morning.

K: Good-morning.

H.M.Jr: You're coming to have lunch with me, I expect you, and would it be agreeable to you if I also have Stettinius?

K: Sure.

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

K: Sure, it's your lunch.

H.M.Jr: ..... we have some priority troubles .....

K: It's your lunch.

H.M.Jr: Well, I mean, you know, and I'd like to clear up as much as I could.

K: All right.

H.M.Jr: So I'll ask him too.

K: All right.

H.M.Jr: And I'm going to have Phil Young there.

K: All right.

H.M.Jr: Thank you.

K: I see another list over here from the Admiralty.

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H.M.Jr: Another list of what?

K: Of the Admiralty requirements. I got that this morning.

H.M.Jr: Would you want me to have Purvis there and then we can .....

K: No, no, no, no. But this Admiralty requirement list I suppose is on top of the other one, isn't it?

H.M.Jr: I don't know, Bill. The last three or four days I've just been concentrating on my testimony and .....

K: Well, I haven't been asked to testify so I'm all right.

H.M.Jr: Well, they will, don't worry.

K: What's that?

H.M.Jr: They're going to ask you.

K: They are?

H.M.Jr: Well, they said so.

K: But I don't have to do anything until they do, do I?

H.M.Jr: No.

K: I see. All right.

H.M.Jr: I'll try to get hold of Stettinius.

K: All right.

January 16, 1941  
9:30 a.m.

## GROUP MEETING

Present: Mr. Gaston  
Mr. Kuhn  
Mr. Thompson  
Mr. Graves  
Mr. Young  
Mr. Haas  
Mr. Wiley  
Miss Chauncey  
Mr. Schwarz  
Mr. Cochran  
Mr. Pehle  
Mr. Sullivan

H.M.Jr: Is this thing on this Greek woman that my father is interested in O.K.?

Pehle: Yes, sir.

H.M.Jr: All right, will you let her go? Herbert, have you the "Manhattan" off the beach yet?

Gaston: It will take about a month, probably, to get her off. She has got to be dredged off.

H.M.Jr: I told McKay it was a good excuse, so if you will get something to me before four o'clock I will take it up at Cabinet.

Gaston: I have already taken it up with Waesche. It is a most glaring example of bad navigation.

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H.M. Jr: What else have you?

Gaston: You mentioned an appointment with Acosta. He suddenly went back to Cuba. He will return later.

I have a telegram from Al Cohen, who says that Campbell, Chase National Bank, telephoned Donald Douglas asking him to assign one of his best men to accompany Willkie to England to interpret the technical phases for him. Douglas asked him to get in touch with the Secretary. He would like to assign his Chief Engineer, who he believes would bring back valuable information for the Government as well as aircraft industry, and he would like your suggestions along the line of having the engineer given authority to report findings to you upon his return. Also, if agreeable, would like to have engineers prior to departure receive information from the Secretary, instructions, as to any information required. Douglas will not supply the request until assured the Administration has no objection to the plan.

H.V. Jr: According to Kintner and Alsop, only two people are going. If you read the article, you can see Willkie called up Hull and Hull called up the President and they decided that Willkie should take two people with him. What I would do is, why don't you - Merle goes over every day to the State Department. Let him take that over and ask Mr. Hull's office what they would like us to do.

Gaston: I thought Douglas' attitude was very good. He thinks his Chief Engineer could learn something useful, but he doesn't want him to go without --

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H.M.Jr: Well, you (Cochran) go over there every day, don't you?

Cochran: Well, I missed the last two or three days when we were so busy here.

H.M.Jr: Yes. And if they say it is all right, let Gaston know. Let him know by one o'clock. That is ten o'clock San Francisco time.

Cochran: I will go over at twelve o'clock.

H.M.Jr: What else?

Gaston: Marvin McIntyre called me up yesterday about the French prisoners, and he wanted to know principally where they were, and I told him they were being held at San Juan; and then he told me this group which had approached the President was asking to see the President, and he wanted to know -- his idea was that the President shouldn't see them until after he had had a chance to talk to State and Justice on the question, and I told him I thought that was right.

H.M.Jr: Did you see the letter I wrote to the President?

Gaston: No, I didn't.

H.M.Jr: I said, "We have got the prisoners, we are holding them, where do we go from here?"

Gaston: That is exactly what I wanted to know. Maybe I was wrong in not having raised this question when it came up, but there was no policy question as far as we were concerned. It was all worked out between State, Justice, and the French Ambassador.

H.M.Jr: There is a woman by the name of Mrs. Thompson

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from Red Bank, New Jersey, who evidently called up Mrs. Roosevelt.

Gaston: There is an organization working on it and they are trying to see the President.

H.M. Jr: I think it is a prison organization.

Gaston: I thought that might be, because McIntyre told me he had talked to Bennett about the people.

H.M. Jr: It is a prison organization.

Gaston: You see, they have turned those people loose because they couldn't feed them at Devils Island.

H.M. Jr: I am tickled that you didn't bother me. It didn't bother me, but I think the President has a bull by the tail now.

Gaston: He has got them stopped.

H.M. Jr: If he had moved nothing, he would have been much better off; but he most likely - he has got a bull by the tail. Just what the President is going to do I don't know, but I threw it right back at him by saying, "Where do we go from here?"

Gaston: On Saturday, Yost from the State Department called Johnson and asked him to hold up a shipment of radium and a shipment of zinc not covered by the Controls at all, and Johnson called me and I tried to get hold of Colonel Maxwell and I couldn't; but I have had an understanding with Maxwell that we will not hold up anything extra legally unless he talks it over with me, and I decided that we should and I didn't get Maxwell. We did not hold up

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the radium, and then I talked to Maxwell later and he said that was all right. He thought those fellows were needlessly excited. But I did raise the question both as to controls on radium and controls on rubber tires, a lot of which are going out through the West Coast; and we are getting up some figures on it.

Maxwell sends me a copy of a note which he sent to Colonel Bates of his Planning Division, asking him to look into the subject of radium and see whether it ought to be held up.

H.M.Jr:

What else?

Gaston:

That is all, except that the Maritime Commission is asking us to collect a lot of figures as to ships using our merchant ship control powers to do it. I will have to look this thing over and see how elaborate it is going to be.

When Wallace returned from Mexico, Ed Grayton, our Supervisor of Customs on the Border, met him at Brownsville and he questioned him on opium in Mexico.

H.M.Jr:

He spoke to me about it.

Gaston:

I have asked Johnson to start a drive with Avillo Comacho to see whether we can't get some more effective cooperation because there is a lot of opium in Mexico now.

H.M.Jr:

What are you going to try to do, grow bigger and better poppies? Make two poppies grow where only one poppy grew before? That is what the Department of Agriculture does.

Gaston:

Yes, in this country. Not very successfully. As to that, you know, they tried experiments

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all over the country raising opium and they didn't have any luck with any of them, and then Anslinger found that out in Southern Minnesota there were some Bohemian farmers growing great quantities of the opium poppy and not having any trouble about it at all. Twice our men have gone down into Mexico and in cooperation with the Mexicans have destroyed some poppies, but they have gone right on marketing them and they are actually --

- H.M.Jr: I am tickled to death you are doing it. I forgot to tell you about it.
- Gaston: Well, we got the report from Grayton on it.
- H.M.Jr: That was Wallace's message to me from Mexico.
- Gaston: I told Johnson to get busy on this before we get pressure from somewhere else.
- H.M.Jr: Anything else?
- Gaston: That is all.
- H.M.Jr: I thought the boys were satisfied the way we distributed and held back and added a little bit to the mystery.
- Schwarz: That is right. It made it more impressive when they did get it. I thought the press generally this morning was very good. The treatment of the story was good. However, we found a few instances - we found a few and Mr. Kuhn noticed some which he called to our attention of sniping, whether it was partisan or not. The Herald Tribune had some apparently on its own and the A.P. indicated some unfriendly comments from other departments. I think it might be well in your press conference this morning --

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H.M.Jr: Along what line?

Schwarz: Well, the Herald Tribune, for example, claims, which is inaccurate, that the figures came from our Division of Monetary Research and it was not explained whether they were British official figures, which you did explain. I think it would be well to make that point. They say secondly, we didn't take into consideration the Empire gold production, which is included on this statement of receipts and expenditures. It is just totally inaccurate.

H.M.Jr: What else?

Schwarz: And the Associated Press story said that other departments disputed the figures.

H.M.Jr: Well, I read the papers and I got hold of Harry and yanked him out of bed at a quarter of eight and told him to get hold of Eccles and Goldenweiser so they would be ready at 10:30. White will be here to explain it. But I understand that there is some suspicion on the part of the newspapers that we have been holding back and maybe the Federal Reserve is right. What have you done, Harry, since I have talked to you?

White: Eccles wasn't available and wouldn't be available until ten. Goldenweiser is probably in his office now and can be reached. Gardner couldn't be reached yet. They may be there now. We are right. The article garbles both what we said and what they said and where there is a difference between the articles I think there is an adequate explanation.

(Mr. Sullivan entered the conference.)

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There may be some difference of opinion on some points, and I took the liberty without asking you to get in touch with Playfair, and he wanted to bring somebody down. I told him to be in my outer office at half past nine, and told him to read the Post. I hadn't read it yet, and didn't know it was in there; and I said that we may want his help in some explanation, but after reading the article, I don't think so; but he will probably be there and if the Federal Reserve Board people, with whom I left word to come as soon as they came to their office --

- H.M.Jr: What would you think of having them either here or having the press meet them in your office after my press?
- White: The British?
- H.M.Jr: No, the Federal.
- Schwarz: I think you ought to have them in your conference, Mr. Secretary, if it is that important, to scotch it the following day.
- White: I would prefer to first see what they have to say, because there may be a difference of a point of view --
- H.M.Jr: I don't want a free-for-all in my office.
- White: That is right, but the article, as I say, garbled both reports; but there is a discrepancy.
- H.M.Jr: No, I am not worried so much about what the press said, but I am going back to the fact that I was taken off a little bit by this Federal Reserve Bulletin. I think we ought

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to have our figures and theirs and they ought to have a chance to sit down with the press. I think it should be in your office, not in mine. Have some one from the Federal and say, "All right, now, here is where we do or don't agree." What do you think, Herbert?

- Gaston: If there is some detail to study, I think it would be better to do it in there, but I think the main points ought to be raised here.
- H.M.Jr: Should I have anybody here from the Federal when I do it, or not?
- White: I wouldn't.
- Gaston: They are not attacking your figures, are they? They are just earlier figures and --
- White: The main discrepancies you can clear up here. Now, what the Federal Reserve Board has done, it has gone back to before the war and on the basis of certain estimates and on the basis of what other data they can get for the whole Empire, they have arrived at certain conclusions as to what they have. They have made certain errors, there are certain things they couldn't have known, but there does remain a discrepancy which it is very difficult to explain, of several hundred million dollars, as I think I told you. I know I told you that. That is why I kept insisting that that is what the British told us, but I think the British will be able adequately to explain the difference. The Federal Reserve Bank couldn't have all the information, because nobody has the information because the British are not publishing exactly what their dealings are with their various Empire countries and between

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their Empire countries and elsewhere. So that we are wholly in the clear and they have already made some errors which will be easy to point out and the papers made other errors, and I am sure that the British will say that this - such and such are the facts, which they haven't included, which we don't know, so that they will justify the figures which you used.

Cochran: You have that letter, Harry, that the British wrote the other day, and I gave you, commenting upon the Federal Reserve figures?

White: Yes, I have; but their comments aren't so hot. That is why I had them down here.

Cochran: You may remember, Mr. Secretary, that before they published that in the Federal Reserve Bulletin, Walter Gardner telephoned and wanted a clearance with you. I tried to talk him out of putting anything in and then when he did send this up, Harry and I looked at it and I told him, "We are not passing upon the correctness of this at all. We have the latest figures and we cannot give them to you. Those can only be given up in Congress."

They understood our reservations at that time.

Schwarz: I would simply reiterate, Mr. Secretary, the statements that you made yesterday and point out that the Federal's figures were August, '39, and if some of the boys want more details, we could arrange for them to talk to Harry.

White: Well, if you let me indicate clearly the big discrepancies ten minutes before your conference,

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you will be in a position to judge what you want to say and what you want to refer them back to us in my office.

H.M.Jr: You had better go now.

White: I would like as much time as I can get.

H.M.Jr: You had better go.

(Mr. White left the conference.)

Kuhn: I think you should scotch whatever you can at this press conference this morning. For example, the AP story quoting the Federal Reserve makes it seem that the Federal Reserve figures were for last August but they were for August, 1939, which is a very material difference, and you did point out that you had these figures officially from the British. You did show and include in the figures the gold production. It is apparent that the attack they are going to make on you - the only attack they seem able to make is the truthfulness of your figures.

H.M.Jr: Too bad the Federal had to do that.

Gaston: It is worse than too bad. They just had no business to do it.

Kuhn: Did any of this come from the Commerce Department?

Cochran: The Commerce Department published most of those same figures just a few days before, you see, and the Federal, Gardner, said, "We are obligated to put those in our Bulletin now," and they wanted our interpretive comments.

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- Kuhn: It looked almost this morning as if some of the reporters had gone through other Government departments, including perhaps Commerce, to break down your case.
- H.M.Jr: I was just wondering if it would do any good to call Eccles and tell him I am going to discuss it, does he want to send Goldenweiser here at 10:30. What do you think, Herbert?
- Gaston: There isn't very much time. It would be quite desirable to get together with him beforehand.
- H.M.Jr: Oh, you can't stop them anyway. They will talk, what is the difference. We can show where ours is right and theirs is wrong, and so on. You can't stop them from talking or Commerce from talking. They will talk.
- Schwarz: I would just stand by your own figures. You have emphasized several times that they are the best available and they are up to date, which is important.
- H.M.Jr: I will have Harry here. He will be ready. He has had plenty of time.
- Schwarz: You saw the Post's article on gold, the figures inside.
- H.M.Jr: Yes.
- Schwarz: There is one other thing I have, which is a request from the National Broadcasting Company. They have an annual March of Dimes program in connection with the President's birthday.
- H.M.Jr: I didn't go last year.

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Schwarz: I think Herbert is going. Will you go this time?

Gaston: All right.

H.M.Jr: Four thirty, January 27. I will send you a memo.

Gaston: All right.

H.M.Jr: Merle?

Cochran: I gave you a memo on the French gold in Martinique, and you asked me to speak about it. Lacour-Gayet will be in this afternoon, I think. They are selling it piecemeal up here and earmarking it for use in their trade in North Africa.

H.M.Jr: If you will give me a memorandum, I will try to take it up in Cabinet, because I want to make sure the President knows about it.

Cochran: This is the same memorandum I gave you.

H.M.Jr: Isn't that too long?

Cochran: I will see if I can condense it any. Have you anything new on it, John?

Fahle: No.

H.M.Jr: Yes, it is too long.

Cochran: I can condense it some.

H.M.Jr: Do you have a copy of it?

Cochran: Yes, sir.

H.M.Jr: Get me a memorandum and I will take it and see how it goes.

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Cochran: Yes. Then would we be seeing you after Cabinet? Lacour-Gayet wanted to see me around four or five.

H.M.Jr: Yes.

Cochran: I will make an appointment with him late then.

H.M.Jr: Yes. Try to do it in half a page.

Cochran: I can do it.

H.M.Jr: And you might tell Mr. Hull's office that I am going to bring it up at Cabinet.

Cochran: All right. Atherton is the one.

H.M.Jr: Serve notice on Hull that I am bringing it up, so he will know.

Wiley?

Wiley: Nothing.

H.M.Jr: Not a thing? Phil, Knudsen will be here for lunch. I don't know whether Stettinius will be here or not, but I am counting on you to have all of your troubles. This will be your chance at lunch, to unburden yourself, on Priorities and so forth.

Young: I will certainly go hungry.

H.M.Jr: Well, you can have lunch at 12:30. You can ask Mac whether Stettinius is coming. I don't know.

Young: All right, fine. The War and Navy Departments, I found out day before yesterday have established a new joint board to handle South American

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purchasing, which is another duplication again of what is going on.

H.V.Jr: Well, what about that letter to the President?

Young: I talked to McKeynolds about it on the telephone in an attempt to find out what was meant by the State Department member of that committee. He didn't know anything about the letter. He wanted to know if I could send him a copy of it. Is that all right, to send him over a copy?

H.V.Jr: Sure. Army and Navy?

Young: An Army and Navy joint board to work with the State Department directly on South American purchasing.

H.V.Jr: Leaving us out?

Young: Yes. Nothing is said about us. Of course, nothing in the President's letter is said about either the Army or Navy. I thought I would like to take that over to Mack and talk to him about that situation, straighten the thing out all the way around.

H.V.Jr: All right.

Young: We had a meeting in my office the other day of the various people and agencies interested in South America that we could find who are working on it, and three of the five represented had never seen each other at all. They are all working on the same problem.

H.V.Jr: Don't discourage me so much, Philip. I like to believe in Democracy.

Young: Oh, I don't think it is discouraging. I think

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it is more amusing than discouraging.

H.M.Jr: All right?

Young: Yes.

H.M.Jr: I think it would be nice if I am going to bring up this question of Marine Inspection if you would call up Jesse Jones and just put him on notice I am going to bring it up in Cabinet.

Gaston: Yes, I will do that. He is in town, isn't he?

H.M.Jr: As far as I know. Ferdie?

Kuhn: You wanted to talk to me about a letter from Archibald MacLeish, referring to Henry Luce.

H.M.Jr: Yes. Well, I had a chance the other night, and as a result of that he asked Odegarde to come up and see him, so that is all right.

Kuhn: Good.

H.M.Jr: I am seeing you and Odegarde at ten. John?

Pehle: I understand a story came out of Martinique yesterday that the Treasury had allowed only 600,000 a year for imports. Of course, the story was entirely wrong. It is 600,000 a month.

H.M.Jr: Did you tell that to Chick?

Pehle: Yes, I told Chick's office and suggested that they tell them that the 600,000 a year was entirely wrong but refer them to State, because State is the one that fixed the figure. The French asked for about a million two and State gave them 600,000. State has never said so, but I take it that the figures that they

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got, the 600,000 was fixed, because they picked up some papers the French had sent home indicating that is what they needed.

- H.M.Jr: Six hundred thousand a month?
- Pehle: Yes. They have asked for more, and State recently wrote --
- H.M.Jr: Even I believe what I read in the papers.
- Gaston: The story said Export Control.
- Schwarz: And further down it said the license of funds.
- Pehle: Well, it was all wrong, but the figure was set by the State Department and not by us, really. That is all.
- H.M.Jr: John, we made good use of your tax figures on England. Nobody printed them, but we got them in the record anyway.
- Sullivan: I wish they would print them. I think they would be very helpful in another bill.
- Haas: They were in some papers I read.
- Schwarz: I saw some of them.
- Gaston: They were on the United Press ticker.
- H.M.Jr: Now, John, if you would have for me something that I can give to the President in the way of a page to show him the legislation that we need on the debt and the legislation that we need on taxing future governments, you see.
- Sullivan: Your whole program?

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H.M.Jr: Yes.

Sullivan: I have that.

H.M.Jr: Well, if you could give it to me in form for the President, simply say, "My dear Mr. President, this is the proposed suggestion and Mr. Sullivan and I would like to have a chance to discuss it with you at an early date."

Sullivan: Very well. Then you merely want me to put my memorandum to you in the form of a memorandum from you to the President?

H.M.Jr: No, you can put it from you to me, and I will simply say, "This is Mr. Sullivan's memorandum, and at an early date Mr. Sullivan and I would like to have a chance to discuss it."

Sullivan: I have that in the office now if you want it.

H.M.Jr: If you get it to Miss Chauncey I will sign it and send it over. It is the next order of business.

Sullivan: All right, fine.

H.M.Jr: It is the next order of business. I will get it over to him this morning.

Sullivan: Fine. I will bring it right in.

H.M.Jr: I think we ought to discuss it with him before we talk to the leaders on the Hill.

Sullivan: I do too.

H.M.Jr: If you will get it to Miss Chauncey, I will sign it and send it over.

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Sullivan: All right, sir.

H.M.Jr: At least your program is launched. Did anybody on the Hill fuss, "Why don't we come up with the rest of the stuff?"

Sullivan: No. I have been a little bit surprised about that. Of course, House Ways and Means was organizing and they had to fill the vacancies and they didn't fill them until the latter part of last week, so that held them up.

Gaston: Bell was sick yesterday afternoon. He looked as if he was coming down with the flu.

Sullivan: It is terrible traveling out away from town. I knew I couldn't get in and I telephoned in for a car at five minutes past eight and they didn't get out there until about half past nine. It is awful traveling, and Dan may be up against the same thing.

Gaston: They were sending a car out for Dan when I got in at about a quarter after nine. But he is sick, I am sure of it.

H.M.Jr: All right. John?

Sullivan: Yes, sir.

H.M.Jr: You stay behind. I want to ask you something.

Sullivan: Yes, sir.

H.M.Jr: George? I see tallow has gone up 50 per cent.

Haas: It is relatively easy to explain.

H.M.Jr: Tallow is a part of a hog, isn't it?

Haas: No, that is cattle.

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- H.M.Jr: Oh, it is off of beef? It is to beef what lard is to a hog?
- Haas: Most tallow, about 90 per cent, is not used for edible purposes.
- H.M.Jr: Why is it up 50 per cent?
- Haas: In the first place, it is tied up with the whole oil and fat situation, and the Department of Agriculture has to make a sharp decrease in spring hog production. In addition to that, the demand for vegetable oils is increasing. Russia and Japan are buying large quantities.
- H.M.Jr: Would that do it?
- Haas: That would help, and it means that some of these edible fats are now being diverted to soap uses, you see, where they were using vegetable oils before.
- H.M.Jr: Can't they get all the coconut and --
- Haas: They can, but the price has gone up, you see, and there are trade reports that the Russian purchases are probably filtering into Germany. You see, that is one of the shortages in Germany.
- Gaston: We ought to do something about the export control on fats.
- H.M.Jr: What will we do, Herbert?
- Gaston: Send a memorandum to Colonel Maxwell.
- H.M.Jr: Why don't you fix me up a memorandum on fats and let me send it to Leon Henderson, because that is my agreement with Leon, to give him the first chance.

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- Gaston: I think we ought to raise the question of export control in the memorandum, the possibility of export control.
- H.M.Jr: Will you let Mr. Gaston collaborate?
- Haas: You asked that I bring that to your attention. (Handing paper to Secretary.)
- H.M.Jr: Oh.
- Haas: You remember at that luncheon appointment, Henderson volunteered and you acquiesced, to go ahead and asked me to send him a copy of the chart also with the price, which I did as soon as I got out of the meeting. The next development, Harry called me the first thing Monday and said you had talked to him and to get in touch with SEC. I asked Harry this morning if we did anything. He said, "Yes, I called up Frank and Frank was a little skeptical about this. He said he would want to take it up with his board before he did it," so Harry doesn't know whether he has done anything about it or not.
- H.M.Jr: Well, you call up and just do it once more. Call up Leon Henderson.
- Haas: All right.
- H.M.Jr: He is a member of the board. Ask Leon Henderson whether they have done anything. It is National City and the Chase?
- Haas: Those are the main ones. Central Hanover, also.
- H.M.Jr: Would you?
- Haas: Yes, I will tell him that. On that other,

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IT&T matter, they haven't finished that yet. They expect to have it very soon, both the common and the bonds. I thought you might want to take up this stuff with Knudsen at lunch today. You know, Boeing said they were changing their schedules because of difficulties in securing raw materials, and you asked that we write and ask them particularly what materials they needed. They came back and the Boeing situation is that they can't get aluminum and it is holding up flying fortresses for 60 days; and Jacobs are having trouble with magnesium, so there are two bottlenecks in production. Boeing spells it out and tells all the difficulties. He has made all the efforts he could in Washington, he said, and got nowhere.

H.M.Jr: Good.

Harold? Still waiting to see you and Norman.

Thompson: We will keep on McKay's neck.

H.M.Jr: I asked McKay this morning whether all the requests for appointments were filled, and there was none for you two guys.

Thompson: I thought it was continuing?

H.M.Jr: No, I looked at McKay's docket this morning and there was no request there from either of you fellows.

Thompson: I didn't know you had to renew it every morning.

H.M.Jr: No, he went back for a month.

Thompson: I spoke to him three times since you mentioned it the last time. I didn't speak to him today.

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H.M.Jr: You ask him when you go out whether I didn't go back for one month on every request.

Thompson: Maybe he didn't consider my mentioning it as a request. I just asked him when the appointment was.

H.M.Jr: Well, the Cuban isn't here, so you get 10:45 tomorrow. I don't know why you fellows don't want to see me. (Laughter). I am suspicious.

All right. Anything?

Foley: No, I haven't anything.

H.M.Jr: All right.

January 16, 1941  
10:04 a.m.

Alfred  
Jaretzki: Hello, is this Mrs. Klotz's Secretary?

H.M.Jr: That's right.

J: Well, I'm sorry Mrs. Klotz isn't in.  
Say, Henry .....

H.M.Jr: She happens to be home very sick.

J: Oh, I'm awfully sorry to hear that. Henry,  
I may come down over the weekend with Lotta  
for the Inauguration. If you're going to  
be around I thought I'd like to come in and  
see you sometime.

H.M.Jr: I'd like to you see anytime.

J: Well, I mean, are you going to be in over  
the weekend?

H.M.Jr: I'll be home.

J: Yeah, sure.

H.M.Jr: Give me a ring.

J: Well, shall I give you a ring or why don't  
you drop me a line and let me know when it's  
convenient for us to drop in.

H.M.Jr: No, why don't you just call up through the  
Treasury

J: Well, sometime Sunday afternoon are you  
apt to be home or .....

H.M.Jr: I don't know - well, just give me a call,  
Alfred, and we'll see.

J: All right.

H.M.Jr: We'll surely get together.

J: Yeah. Fine. Good-bye, Henry.

H.M.Jr: Good-bye.

January 16, 1941  
11:15 a.m.

## RE OPEN MARKET

Present: Mr. Szymczak  
Mr. Haas  
Mr. Bell  
Mr. Hadley  
Mr. Murphy  
Mr. Eccles  
Mr. Goldenweiser  
Mr. Rouse  
Mr. Sinclair  
Mr. Piser  
Mr. Draper

H.M.Jr: What does this thing look like before the rest of the people come?

Bell: It will take a seven-eighths coupon to do a five year, and the question I think you will want to discuss with them is to whether you want to stick to the five years or whether you want to stick to the same coupon and bring it down or whether you want to have less in the last coupon, which is three-quarters, make it one-half or something.

H.M.Jr: I won't make it less than that.

Bell: Then it will have to be a seven-eighths coupon. Do you agree with that?

Hadley: That is right.

Haas: That will be pretty thin, a full five years, February.

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- Bell: Yes.
- Walt: It will be pretty thin. We thought about 18/32nds.
- Bell: That is about what it was last time.
- (Mr. Eccles, Mr. Szymczak, Mr. Dresner, Mr. Goldenweiser, Mr. Piser, Mr. House, and Mr. Sinclair entered the conference.)
- W.F.Jr: I have never come to a meeting less prepared. I spent the last two weeks getting ready for my testimony yesterday.
- Walt: You got by pretty well from the press reports. One of them tried to play up the fact that you and Mr. Tinkham had gotten into difficulties.
- W.F.Jr: Tinkham treated me nicely. I said it was just a question of confidence in the President and he said, "I don't have as much as you do." And I said, "That is why you are here." He just sat down and laughed. He didn't get mad, he just laughed.
- Bell: It got the headlines.
- Szymczak: Some day he is going to shave his beard.
- W.F.Jr: We need a little money, gentlemen. We thought next week we would go into the market. Bell, do you want to say something? I have never been so cold on anything.
- Bell: Well, as you say, we do need the money. Our balance last night or - night before last - was down to 696 billion, and by the end of the month it will go down close to 400 million if we do not have any financing. What this schedule

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contemplates is 500 million dollars about the 23rd, and in February we will have to have another 500 million, either the Treasury or the RFC; and, of course, we don't want an RFC issue unless we have our legislation, and in March it contemplates a billion dollars; and with those three financing operations, our balance on January 31 would be 880, on February 28 it would be 888, and going on March it would be one billion 779. That would be pretty well spent before the end of the year. We would probably have another financing in May.

According to the Budget estimates, the RFC will need a billion 300 million dollars this year. They have only got - let's see, they had a 200 million issue in August, I think, so they would have another billion if their estimates were right. I don't think their estimates are right.

Eccles: Who has that?

Bell: RFC. Between now and June they would need about a billion dollars, a billion three for the year.

Eccles: Have they ever used more than half their estimates?

Bell: No, they haven't, but they have got quite a lot of commitments out on this defense program, and they need about 700 million dollars next year, and for this year we have got about a billion dollars of refunding for guaranteed, so we have got a lot of financing cut out for us in the next 12 months. I think the only question to discuss this morning, probably, is as to where this 500 million should go. I take it you want to still stick to the taxable note, and whether you want it to go a full five years

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or maybe stick to the three quarters coupon or it may be less than a three quarters coupon.

H.P.Jr:

That is the purpose of the meeting.

Eccles:

Well, we have been discussing it this morning before coming over, and it seemed to us that the problem is comparatively a simple one with a question of not having very much choice in the matter. It is the President financing. It is our understanding that the financing was going to be confined to the defense notes; and although I suppose some other financing may be possible, it was not in accordance with what we understood was the policy here, that is, to not go too close to the limit until you have got additional legislation.

H.M.Jr:

We haven't changed that.

Eccles:

So we assumed that there was no option on this but there was a question of defense notes and we were of the opinion that a three quarter note - the longest maturity that you could get a three quarter note in would be the preference, that is December '44. That is a good - the premium is 18/32nds and with a short maturity we felt that it would be inadvisable to give too much of a premium, and you had out out a three quarter note before and a three quarter note now at this maturity would give 18/32nds premium on today's market.

It is a good period to have it fall due, whereas some of the shorter periods might be more likely to conflict with other financing and with other maturities.

Ezmozak:

Well, there is considerable falling due in that period, but even so --

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- Bell: The 4% bond is callable on that date.
- Eccles: But it is far enough off - of all the periods in between here, it seemed to come in about as well as any.
- Bell: September is a good date. There is only 280 million dollars maturing.
- Eccles: That is true, but you have got a bigger premium.
- Bell: I didn't think it was quite that high.
- Eccles: You have got 2/32nds in September, and you are only giving 18/32nds if you go to December.
- Sinclair: That might change between now and next week.
- Eccles: That is right, but I am just looking at it as of today. I don't think that it makes a great deal of difference whether it is September or December except there was a slight preference for the longer maturity.

Now, another thing that we seemed to feel was that we would take cash instead of a war loan deposit. Of course, these will largely be taken by banks and we have got to be - I think until the whole question of tax legislation on Government securities and the question of banking and monetary excess reserves - that it is going to be difficult to put out any long term financing to the extent that it may be necessary without that financing being taken to the banks, a lot of it, and that so long as it is going to, then it would seem that a short financing, assuming that the banks will take a substantial amount of it, is better than a long term financing with the bank taking it because in the short financing, you can refund

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it and get it out into long term financing at some later periods.

H.M.Jr:

Right.

Eccles:

Into the savings groups.

Bell:

They got 75 per cent of the last issue in cash. A war loan doesn't mean much.

Eccles:

Why not take all cash? It means darned little. It is just a nuisance, isn't it?

Bell:

It doesn't make much difference to us whether it is in the Federal or in the banks.

H.M.Jr:

Does the Federal feel strongly on that?

Szymczak:

There isn't enough of it at the present time. It is just the idea of principle.

Bell:

There is 500 million there now, and it will be below that before the 23rd.

Eccles:

The point is the banks have such large - such very large balances that they could very easily transfer or make the payment, you see, to the credit of the Treasury right at the Federal.

Szymczak:

There isn't enough involved to make much difference.

H.M.Jr:

I just saw the editorial today about Jones and the excess reserves, but he must have said something which I didn't see. Did he say something?

Sinclair:

He said something about a week ago, didn't he?

Tracer:

He said he didn't understand this excess reserves thing.

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- H.V.Jr: When did he say that?
- Draner: In the Post this morning.
- H.V.Jr: I saw the editorial in the Post, but I didn't --
- Eccles: Well, Jones said more than that.
- Sinclair: He said it at a press conference.
- Eccles: He said later - he said first in St. Louis when talking of excess reserves, he said that he didn't know anything about it. He didn't know anything about excess reserves. Then later in talking about the question of interest rate structures and inflationary possibilities, Jesse said that he hadn't seen any indication of inflation at all, and that what he was for was for the banks getting more money out and he was - he wanted a low interest rate. I mean, that was the general effect.
- H.V.Jr: There is nothing he said the last day or two?
- Szymczak: No.
- Eccles: He hasn't said a thing. It was two weeks ago.
- Bell: Apparently he made this statement on his way back from Texas. I didn't see it either.
- Eccles: The press boys met him at the station in St. Louis, as I get it, "What about this reserve statement," and Jesse said he hadn't seen it. "Well, what about excess reserves," and he said, "I don't know anything about it.
- Szymczak: That was some time ago.
- H.V.Jr: There is nothing recent?
- Szymczak: No.

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- H.M.Jr: I haven't read the papers this week. Well --
- Szymczak: well, that tells the story, Mr. Secretary. As the Chairman related it, three quarters and then get it wherever it fits.
- H.M.Jr: What I would like to do is this. I haven't had a chance to do a darned thing on this, and in the next day or two - and then - let's see, Tuesday, Marriner, I would like to call you up on the phone. Monday is Inauguration, isn't it?
- Eccles: Yes.
- H.M.Jr: Tuesday, and we were thinking of doing this Thursday, you see.
- Szymczak: When would you announce it, Wednesday?
- Hell: Thursday morning. We ought to get our notices out Wednesday noon.
- H.M.Jr: And then we will get down to serious business on this thing.
- Szymczak: Well, the whole thing resolves itself to the question of where you are going to place it and what coupon.
- H.M.Jr: Yes. And I take it - have you got a formal memorandum you are going to leave with us or not?
- Eccles: No, we just have Piser's - asked Piser to prepare a memorandum as to what the picture was, and it is just what he has given. We have no memorandum of recommendation. We just had a memorandum here of information.

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- H.M.Jr: Let's go around. Sinclair?
- Sinclair: Mr. Secretary, I am entirely in accord with what the Chairman has said this morning. I say this morning, Marriner.
- Eccles: I got you. (Laughter)
- H.M.Jr: It is almost noon.
- Goldenweiser: I have nothing to say, Mr. Secretary.
- H.M.Jr: Piser?
- Piser: The only difference that I would have would be on the present market. If a three quarters issue was chosen, I think I would prefer to make it September '44 rather than December, partly because the maturities are smaller in September than in December, and partly because I think a premium of 18/32nds is a little small on the type of market we have at the present time.
- Szymczak: well, that is as of today, however.
- Piser: As of today.
- Draper: I agree with the Chairman.
- H.M.Jr: With no time limitations?
- Eccles: I want to get that down, Ernest.
- Draper: All right, put it right in the record. (Laughter)
- H.M.Jr: How about New York?
- Rouse: Well, I would like to comment on the market a little bit.

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H.V.Jr: Please.

Rouse: It has been an uncertain market and as you know the last note issue was taken in New York and a good part of it is what was - what was not taken in New York has come back to it, and I think the principal market for a note issue is there. The large banks would be the principal buyers of additional note issues. Certainly at this general level of rates. They feel in view of the size of the expenditures that come along and the problems, the legislation, aid to Britain, the various things that are up, your own bill, which hasn't come in as yet --

H.M.Jr: What bill?

Rouse: The bill looking to the authorization of the issuance of taxable Treasury bonds.

H.M.Jr: Yes. I haven't done anything, as I say. I have just been under water here for weeks. I only told Sullivan this morning that I am now ready to talk with him, but I mean I have just been absolutely under water.

Rouse: Well, there are a number of things that the market is looking at, and waiting to be resolved. It has been an uncertain market, and a thin market; and in view of that and the volume of financing to be done, particularly in March, which is the next buying point that the market is looking at, and the decline of the note that was issued in December to under par, the fundamental necessity of keeping the market in good condition as far as the Treasury can do it for successive operations, and I think the general feeling there is that we see it in the market that a half a point on a note is ample for perhaps three or four years. Perhaps

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it should be a little sweeter, but there is some opinion to that score, but I think in general they feel that a half to five eighths of a point is ample margin for the type of note that the Chairman recommended. That is all I have.

Eccles: well, December is a full half point, a little better than a half point.

Szymczak: December '44?

Eccles: Yes, December is a little better than a half point in today's market.

Hadley: My estimates on the December issue for '44 don't run as high as 18/32nds. The best I can do on it is 15/32nds.

Eccles: We will let you and Piser row that one out.

H.M.Jr: That is right, I agree with that.

Hadley: So that it isn't as rich as you might indicate and on that basis, I think September might be better, but I think the December would go just as well.

House: I think when we get down to a point of refinement there we can wait a few days and study it more closely, find out where the right answer should be.

H.M.Jr: Dan, do you want to say anything more?

Bell: No.

Szymczak: Three fourths, same as Marriner, three fourths coupon, September and December, '44.

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H.V.Jr: Murphy?

Murphy: I would agree with the Chairman. We have the December '44 note priced at 18/32nds, the same as Piser, and I think that it would go all right in today's market. Of course, it might be a different story on Tuesday.

Szymczak: Yes.

H.V.Jr: George?

Haas: I have no comments.

Szymczak: I wouldn't want to sweeten it too much.

H.V.Jr: Well, if it is agreeable to you people, I will get in touch with the Chairman Tuesday, either Bell or I will, and unless there is something else here, Mr. Bell and I would like to talk to the Board members and Dr. Goldenweiser about these figures that they are trying to make a difference between, the Treasury's and the Federal Reserve's bulletin, if we could have a few minutes. Have you got anything, Henry?

January 18, 1941  
11:40 a.m.

CONFIDENTIAL

Present: Mr. Knapp  
Mr. Kindelberger  
Mr. Bell  
Mr. Szymczak  
Mr. Goldenweiser  
Mr. Draper  
Mr. White  
Mr. Gardner  
Mr. Cochran  
Mr. Eccles

Mr. White: Merle, just to get it straight, what was the message that you told the Federal about the publishing of the Bulletin?

Cochran: Walter Gardner telephoned me and said they had these figures that the Department of Commerce had released, and he felt they had to carry them in the Federal Reserve Bulletin, and I said, "I hope you don't have to, Walter. Rather than discourage the idea, I shall check the figures." He said he wanted to put in some interpreted comment and I said, "I hope you don't have to publish them because we are getting accurate figures and up to date figures from the British, and which we couldn't give, we can't release, we are getting them with the prospect that we will have to present them to Congress."

Goldenweiser: Didn't we send you the text, Merle?

Cochran: They sent it up and I told Walter - I said, "We can't check this for corrections as to

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figures," and he said, "Well, we are using the figures that the Department of Commerce has gotten out;" and so when I got it up here, Harry White and I just read it over and didn't attempt to check the figures at all. I told Walter, I said, "You may be way off," and I said, "If you are, I can't check the figures."

Eccles: Let me ask you this. These figures that Gardner discussed with you are the figures of the Commerce Department, that they had already released?

Cochran: I hadn't read the Commerce report. It was in the press and I got it the next day.

Eccles: But I mean Commerce has released them.

Cochran: Commerce has released them.

Eccles: So all the Fed has done is come along with the figures that Commerce released with qualifications.

Cochran: I haven't changed the figures. That was my idea.

Eccles: Is that right, Dr. Goldenweiser?

Goldenweiser: Yes.

Eccles: The Commerce figures which had been previously released were qualifications that Gardner felt should be given, that Congress hadn't given them. That is in line with what the Bulletin has done for a good many years, isn't it? I mean, the Bulletin has done that sort of thing currently.

(Mr. White, Mr. Kindelberger and Mr. Knapp entered the conference.)

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- H.M.Jr: Harry, would you explain to the Federal Reserve Board what I asked you to do this morning?
- White: The Secretary asked me to get in touch with Mr. Eccles to explain to him the --
- H.M.Jr: Will you talk louder.
- White: To explain to him that the press was apparently under the impression that there was a discrepancy between the figures of the present assets of Great Britain and those which the Secretary gave before the committee and the -- he asked that you might want Mr. Goldenweiser and Mr. Gardner to come down and see if there was any discrepancy and what the reasons for it were.
- Well, I couldn't reach Mr. Eccles, and Mr. Goldenweiser was enroute, and we reached Mr. Gardner, who came down, and we very quickly saw that the particular article which gave rise to some of the difference arose as a consequence of misunderstanding of what was in the Bulletin. They took figures that the Bulletin ascribed for the whole British Empire, and they assumed that that also applied to Great Britain and they didn't make the appropriate allowance for certain factors and made certain errors, so that they were not quoting in general the Bulletin as accurately as they might. Then with respect to the estimates which Walter has and those that we have as to the current expenditures and receipts of the British Empire since the first of the year, there were some data which the Bulletin stated they did not have. There were some items --
- Gardner: For which we gave no figures.

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White:

Yes, for which you gave no figures, and therefore nobody could say that there was any difference because there were certain elements which were not reported.

This morning we had Mr. Playfair and his assistant from the British Empire down to make certain that there was no disagreement that couldn't be explained between the estimates that Walter was making and those that we were using. Now, there are certain items such as shipping, capital movements, interest payments, about which one would never know exactly. It is a question of estimation.

They spent the first couple of hours this morning on it, and Walter can now indicate the degree of agreement which there is among all of us.

I have just done but one other thing, Mr. Secretary, to anticipate further questions during the course of the next few weeks on this matter, I suggested that the Federal Reserve Board estimates of their current balance of payments and the Treasury estimates and the Department of Commerce and the British - that we get together and see whether we can't agree on one balance. I don't think there will be any difficulty, because I think discrepancy after discrepancy was ironed out. There may be some difference left, we will see. We are meeting this afternoon, and we will get a current balance of payments and the current assets in the light of the information which we now have, from which I presume or expect that there will be agreement or at least if there is a discrepancy, we will know why there is such a discrepancy, so that by tonight or tomorrow there will be, so

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far as the Government is concerned, who certainly will have better information than anybody in this country, agreement.

Now, Walter can indicate --

- H.M.Jr: That is what I would like, because I mean the Government ought to be together within the limits of - that we are all humans.
- Draper: May I ask a question, Mr. Secretary? Who published the figures in the first place?
- White: Which figures?
- Draper: These figures that we are talking about, this seven billion dollar figure.
- White: That is in your publication, the seven billion of the British Empire liquid assets as of August, 1939.
- Draper: But wasn't that taken from a release by the Department of Commerce?
- Gardner: That was the basis of part of that - of the figures. I might say that the table that was published in the Bulletin was the position of the British Empire, gold and dollar resources of the British Empire, at the outbreak of the war.
- Now, that table seems to be accepted on all hands. I mean, there is no disagreement between us and the Treasury and the British on that - on the figures that were published.
- Eccles: The British economists. I saw a report from London in reference to it.

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White:

With one exception, Walter, I think we had better mention, that the estimates which the Department of Commerce has and which we both had to depend on, of the value of the direct investments and of securities is somewhat different than what we would put now in the light of the additional information that we have.

Gardner:

What we have been doing this morning is seeing whether that table could be harmonized with the tables that were given out yesterday and which showed the position of the British Empire not at the beginning of the war but currently, and showed in fact that the position not of the entire British Empire but of the United Kingdom alone.

Now, we are in substantial agreement as to what it is that has caused the loss of assets to the British that is shown in yesterday's figures that we can trace practically all of what has happened to the British position between August '39, for which we gave figures, and the end of 1940, for which figures were published in the morning's papers. There are differences of certain items which will amount to a hundred million dollars or so. I think we have --

Eckles:

We won't quarrel about a hundred million.

White:

There may be even as much as several hundred million.

Gardner:

We have already turned up admittedly certain errors in the British figures and there are other figures on which there is room for doubt just because they must be subject to estimate, but there is no reason for the

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public having any - getting any impression that there is a discrepancy between what we published for the beginning of the war and what you have published currently. We did give certain figures for what had happened in the intervening period. The only figures we gave, however, were unquestionably accurate figures such as those that had already been given to the public and where figures - and on the other items which had involved change in the British position, we merely gave broad comments, no figures whatsoever, because we were not at liberty to do so, and in any case, we didn't know the exact stories in detail.

H.M. Jr:

Well, I think that if the Federal Reserve and Commerce and the Treasury could get together; and then if Ham Fish or somebody continues to make an issue, we might the three of us, get out a joint statement or something like that, you see, from all three groups, Marriner.

McCles:

Well, of course, if the press or anybody in Congress are attempting to give the public an impression that this isn't the fact, certainly either a joint statement should be given out or the Federal Reserve should answer them by saying that this statement specifically was as of September at the time of the war and it has been - that we do, see, agree with the figures of the Treasury as of the present time as applying to Great Britain as against the British Empire, which your figures of September, as I understand it - that is, the figure of September '39, was --

White:

It had the British Empire and a breakdown.

Gardner:

We showed the British Empire broken down,

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but the figures that we gave for what had happened subsequently, the only figures we could give were four figures. We showed what the British Empire had produced in gold, and therefore added to its resources subsequently. But that was the British Empire, including Canada. Yesterday's statement would exclude it.

We also showed what the British Empire had sold to us, but that also included the Canadian sales.

Goldenweiser: In the way of goods, you mean?

Gardner: In the way of goods, and we also showed what they bought from us and that also included Canadian purchases, so that the press, applying those figures, which were the only ones - the only items that we mentioned in terms of figures, to the assets at the outbreak of the war, came out with a very different figure from that which was published yesterday, but we - at the - in giving those figures, we had pointed out that there had been substantial capital withdrawals and use of British resources for other purposes, and we furthermore commented on this whole situation with regard to repayments and those are the things which do account for the difference in the figures.

Eccles: Well, what would you think as the best way, Walter, to handle it? Do you think that if nothing further comes of it, anything should be said? Do you think enough has already been said?

W.M.Jr: No.

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- Eccles: That there should be an answer or do you think if nothing further has been said, it should be dropped?
- H.M.Jr: At my press conference at which White was here, they asked me a lot of questions. For some reason or other, they don't seem to be bothered with what the Department of Commerce has said, I don't know why, but somebody had put the Federal Reserve Bulletin in their hands. I tried to point out that --
- Eccles: Isn't the best way for the Federal Reserve to --
- H.M.Jr: I just wanted to give you all of it. Then I told the boys to go back to Harry's office, the newspapermen, and he would see them; and I don't know what happened back there. That is what I want you to know, you see. I don't know what happened back there.
- White: Yes. They asked --
- H.M.Jr: I want you to get it all. There may be something on the ticker now which I haven't seen.
- White: They asked a lot of questions about both statements, but --
- Eccles: That was this morning?
- H.M.Jr: Yes. I had mine at 10:30 and then I saw that they weren't satisfied. I didn't want to shut them off. I asked you to come 15 minutes late. I wasn't through then, and I asked them to go back to White's office

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and they would finish, and I don't know what happened.

White:

They asked a large number of questions on the statement and other items. They did not question, with the exception of that gold production figure, they said it was a billion one and I pointed out it was much less, but it was a 16 months figure which they were quoting. They did not question the Federal Reserve Board figures or ours and I asked them specifically, three times, whether they were satisfied in the light of my explanation, that there was no disagreement between the Board's present knowledge of what the assets were and ours, that there may be some room for differences of a hundred million or so in the estimating of - not between the Board and ourselves, but anyone that estimates it, but that - any discrepancy - and did they want to ask any questions whatsoever - all the Federal Reserve Board figures.

I said Mr. Gardener was there and would be glad to answer any questions. They said no, definitely not. I repeated it again, was there any question in their mind, and they said, "Oh no, they --"

Szymczak:

Harry, was Mr. Gardner there at the time?

White:

No, he wasn't, because they were asking other questions and he was next door, and I said, "He is right here, ready to come in if there is the slightest question you want to ask him," and they said, "No." They apparently were not interested in that. They were interested in other questions of a character such as what those nominal assets meant, what trade there was, et cetera,

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but I do think that if we can get a balance of payments prepared and agreed upon to show what they have, what happened to the money, and what they have got, that that ought to be ready in the Senate hearings, so that the Secretary might amplify the present statement with that current balance of payments if you don't see fit to issue it beforehand; but whatever the statement is, there will be agreement on it of the three Government agencies and the British.

- H.M.Jr: What I would like to suggest is this, that if these newspapermen are not satisfied and we find they are coming over to the Federal Reserve, why then if you gentlemen could see your way clear of making a statement, I think it would be very helpful.
- Eccles: Do you know whether they have bothered over there at all?
- Szymczak: But in the meantime, go ahead and prepare this thing and have it ready.
- H.M.Jr: That is right.
- Gardner: I came over here the first thing this morning --
- Bell: Mr. Secretary, I think you ought to get a statement to the Chairman of the Committee that is having hearings now. I think Fish is going to dwell upon that with these people that are coming from the outside more and more, and I would get it right into the first part of the hearings before they get outside people and get an explanation of this difference in the hands of the Chairman and let him make it public and a part of the record.

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- White: Don't you think, Mr. Bell, that there might be some value in letting them go off on that tangent, letting them go build up an erroneous thing and then correct them.
- Eccles: The trouble is you never catch up with the damn thing.
- H.M.Jr: I think that Bell is right. I think if the Federal Reserve could get something into the hands of the Chairman --
- Eccles: As I understand Bell's point, it is your suggestion that the Secretary make this statement or file this before the Committee in which he shows that there really isn't any difference between the figures that he has submitted and the Federal Reserve figures, that the thing has been misinterpreted here and that in reality, why - in other words, he could file that before the Committee and - or we could --
- Szymczak: Why can't we do this?
- Eccles: Or we could make a statement --
- Draper: Well, the Secretary has already been called and it would be just amplification of his previous remarks.
- Bell: I am not so sure that when you read over your testimony you won't get the impression that you - you left the impression with that Committee that you would try to find out that difference, didn't he, Harry?
- White: It may be. I think it might be so interpreted, but there is also another way of handling it, a suggested way. This statement could

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be prepared; the press would be delighted to print it, all of them. They could get it in the press tomorrow. And then there are any number of friendly Congressmen who could see that it is placed in the record and in that press statement of that kind, it would be possible to say that the three agencies collaborated or are in complete agreement.

- Haymerak: Why can't you have a combination of the two, do exactly what Mr. Bell suggests, send it over to the Chairman of the Committee and release it to the press.
- H.M. Jr: But you had better bring Commerce in while you are at it.
- White: Yes, we are already getting in touch with them.
- Eccles: Who?
- White: Commerce. Those are the only agencies I can think of.
- Eccles: We don't raise any question about the Commerce figures, do we? They weren't as complete as what you (Gardner) had.
- Gardner: No.
- White: Well, the Commerce figures about which there may be some doubt is their estimate of the value of British investments in the United States. The British authorities feel that is greatly overstated.
- H.M. Jr: They didn't stress it, but I think this. I saw, for instance, what Mr. Hull did

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yesterday with three important questions under international law, and he avoided answering them. He goes back to his office, he sits down, he writes it, and he gives it out to the press this morning as a supplement to his statement, and I think that --

Eccles: He gives it out --

H.M.Jr: But I think this will bedevil us unless the Federal does something about it.

Draper: Why can't we issue this joint statement?

Eccles: We could do this.

H.M.Jr: Think about it.

Szymczak: Do you want us to send it to you and then --

H.M.Jr: I would like you gentlemen to think about it. Anyway that is agreeable to you, and if it is agreeable to the Chairman, if he --

You are going home with me, aren't you - home at noon, aren't you?

Bell: Yes.

H.M.Jr: If he would contact Harry White and work it out any way that is agreeable, but I do feel that some way as soon as possible that something ought to be gotten into the hands, if possible, of the papers for tomorrow morning.

Eccles: Gardner, do you think you fellows can prepare a statement that will be ready for tomorrow morning's paper?

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- Gardner: Yes.
- Bell: Don't you think, Mr. Secretary, that it ought to be done just like your statements were handled? You can give them to the Chairman and in his opening statement tomorrow morning he can say this question was raised, and I have your statement now that explains the difference, and I am going to put it in the record and hand it to the press at the same time.
- Eccles: Why not let the Secretary say he has a statement from the Federal Reserve --
- Bell: He won't be there.
- Eccles: What I mean is, let the Secretary send a statement so that the Chairman of the Committee, see, can say, "I have a communication from the Secretary of the Treasury with reference to this apparent discrepancy between the Federal Reserve and the Treasury and I have here a statement from the Federal Reserve sent to the Secretary of the Treasury and the Secretary of the Treasury is making the record.
- H.M.Jr: That is right. That is the way to do it.
- Eccles: You complete your record that way.
- Szymczak: It shows complete cooperation.
- H.M.Jr: Complete cooperation, which is important at this time.
- Szymczak: Yes, especially at this time.
- Eccles: The Treasury has made a record that they have got to clarify, haven't they?

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H.M.Jr: I think the way Marriner has just said it, he puts these figures in my hand, and I write to Chairman Bloom.

"My dear Mr. Chairman, the Federal Reserve have been kind enough to give me a statement in view of the questions which were raised, which is the difference between my statement and the figures in the Federal Reserve Bulletin. - I would appreciate it if you would make this public."

Szymczak: I think it shows --

Bell: Have it made a part of the record.

Eccles: What objection do you see to that, Gardner?

Gardner: Well, I think that is - the only thing is that the figures would harmonize, the two sets, I think, which we have seen in detail for the first time today.

Now - and it is figures which have been outside our province for the most part. I am just wondering if we are the appropriate agency to do the harmonizing. We can rush through a job on these British figures and checking them with the material that we have, and that the Treasury has. I mean, it would have to be a common job. But we are not the original source of the harmonization of figures. The figures that cover this interval between the beginning of the war and the current situation.

H.M.Jr: Well, who is?

Gardner: The Treasury - the British are the main source of those figures.

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- W.M.Jr: That is what I said yesterday. I said over and over again, "I am not giving United States Treasury figures, I am giving British Treasury figures."
- White: I think Walter's concern is that some of those figures, we have to accept what they say and they do represent a discrepancy of possibly several hundred million dollars over what we might have thought would have been the case --
- Eccles: Well, say that, then.
- White: But our own figures are seven or eight hundred million out of the way each year. I mean the Department of Commerce balance of payments.
- Goldenweiser: I think it should be indicated in a statement that figures of this sort cannot be accurate to the last hundred million, because they involve a large amount of estimating.
- Gardner: Certain figures that complete the picture are figures that we could get from no other source at all.
- Eccles: Than the British.
- Gardner: Than the British, namely, how they have used their dollars with other countries than the United States.
- White: Or what their shipping earnings have been.
- Gardner: And what the present payments have been on goods. Those are all figures which we get from the British.
- Now, should the Federal Reserve be issuing

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a tabular statement which harmonizes this situation at the outbreak of the war with the situation now? As I say, we have come into contact with these figures only yesterday.

Draper: Walter, if you state that they come from the best source that is available, how is that compromising the Federal Reserve?

Gardner: Oh, I don't mean it would compromise us. I would be glad to do it on the basis of that material. It would be a rush job on the basis of that material, and if it is appropriate for us to do it, I think we should do so.

Draper: I think we ought to get the figures, Mr. Chairman, for tomorrow's papers.

Eccles: You have got to do it. It seems to me - if we say nothing and the Secretary says nothing, you naturally are going to leave the Committee of Congress and you are going to leave the public with the idea here that we really have a real important disagreement.

H.M.Jr: That is right.

Eccles: Now, you can't - that is an impression, and that impression will grow, and it seems to me that - now, if that was a fact, that is one thing, but we have now - it has been admitted that that isn't a fact. There isn't any substantial disagreement.

Now, there ought to be some way of clearing the record just as quickly as possible, and letting the Congress know and letting the public know that there isn't any substantial disagreement, and state the reasons for it.

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Gardner: Well, we can do it.

Bohlen: That is all there is to it. Well then, I would say this - of course, the other members of the Board aren't here, but three members are and I don't think there would be any question with the Board. I will mention it to the others as soon as we get back. I would say this, then, that Gardner and Goldenweiser here, representing - I mentioned Mr. Goldenweiser because he is the Director of the Division, and after all, he is responsible for the Bulletin and so that - I would say that it is up to you people, together with White, to work out a statement that will clarify the erroneous impression that Congress has got of the public.

Now, as to what you say and how you do it, it seems to me it is pretty well up to you fellows, knowing all the facts as you do, to work it out, and I would say to authorize them to do just that. Does that agree with you, Ernest?

Ernest: Absolutely.

E.S.Jr: Mack?

Bohlen: Sure.

White: To make sure there is no subsequent disagreement, we will also get the Department of Commerce to agree.

Bohlen: Yes.

E.S.Jr: This is what I said. I told the press conference, "There is no major blunder in

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the figures which are submitted."

Draper: Well, that is a good preliminary, but that doesn't nail it down.

H.M.Jr: No, no. I think it is important to have all the talk and everything else - I can see each fellow saying over and over again, "Well, the Federal Reserve says so and so," and then if you begin to - they can just undermine this whole bill; and I think we all want to see it passed, and I think Bell's suggestion of you getting it into my hands tomorrow morning --

Eccles: What I mean is for them to work with Harry and some of the people from Commerce, and they together should be able to prepare a statement that can be sent to the committee.

H.M.Jr: Thank you.

January 16, 1941

After Cabinet HM, Jr told Mr. Cochran the President referred this matter to Mr. Hull and Mr. Hull said he needed 24 hours because they have just received a report from Mr. Murray who has returned from an inspection of Africa and pending reading that report he would make no decision.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE January 16, 1941

TO Secretary Morgenthau  
 FROM Mr. Cochran

The French Embassy has raised the question of the disposition of part of the French gold stock (totaling around \$245,000,000) at Martinique. I have told the French that the Treasury could not accept the idea of receiving this gold under earmark or purchasing it in Puerto Rico. I have let them understand that New York is the only port on our Atlantic seaboard at which we earmark or purchase foreign gold. The French idea is to ship from Martinique small amounts, the first quantity to be \$10,000,000. The Treasury is asked to give the assurance that it will either purchase such gold or earmark it for the French Government with the Federal Reserve Bank at New York. The French request that in such event either the proceeds of the gold sale or an amount of dollars in their blocked account equivalent to the gold that is earmarked be placed in a free account available to pay for the purchase of goods to be exported to Martinique or via Martinique to Northern Africa.

The French stress the need for petroleum products in Northern Africa for use in harvesting and threshing grain. They picture the distress and starvation that might result from inability to harvest the vitally important cereal crops of French Northern Africa.

The French undertake not to attempt to ship any goods from this hemisphere with the proceeds of their Martinique gold unless the British give navicerts therefor. The French have intimated that the question may later be raised of shipping wheat and corn directly to continental France, but they realize that the question of obtaining navicerts for this purpose may still be difficult.

The Treasury certainly should not hesitate to buy all or any part of the French gold at Martinique which may be offered for delivery at New York. It will be simple for the Treasury Department to work out arrangements for the utilization of the gold or its dollar proceeds provided the Department of State agrees with us in permitting the use of the dollars for certain exports, to be made under our surveillance and subject to British navicert rules. The alternative might be that the French would endeavor to ship gold from Martinique to Latin America, dispose of it there, and obtain goods in Latin America for Martinique and Northern Africa.

*B. M. S.*  
 Pres. referred this to Hall  
 he said he would let  
 answer in 24 hours.  
*[Signature]*

January 16, 1941

After his return from Cabinet, HM, Jr said to Mr. Gaston: "I said to the President, 'I know you have turned me down on this thing once and I don't mind being turned down the second time'. He said, "You were not turned down. You were told to take it up with Budget." I said, 'That's the same as a turn down.' He said, "Well, take it up with Budget again".

Gaston said Bailey in the Budget is the stumbling block; he is antagonistic to Coast Guard.

January 16, 1941.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

Admiral Waesche's memorandum, attached, was written before receipt of the President's letter, dated January 15, which came over this morning, in which he states that he would prefer to delay action until the Budget Bureau has submitted new findings. The President mentions the possibility of legislation if the reorganization authority is not renewed. It is our belief that to get legislation enacted in the proper form would be difficult and result in long delay. We fear that the Congressional Committee would so qualify and restrict our powers as to make adequate reorganization and reform of the present systems of examination and inspection extremely difficult. We believe that in view of national defense considerations the matter is extremely urgent and we think the President should give a great deal of weight to the fact. There is no difference of opinion among the chief maritime agencies of the Government, that is, the Maritime Commission, the Navy Department, and the transportation member of the Advisory Commission for National Defense (Mr. Budd).

The fact that such an order is being considered has leaked out and been given wide publicity. The result is that the few who are interested in perpetuating the present inefficient set-up are raising money and conducting propaganda to oppose it and of course a request for legislation would open a forum for interminable objections.

We hope it may be possible to convince the President that further delay is unwise.

*ms.*



THE COMMANDANT OF THE UNITED STATES COAST GUARD

WASHINGTON

16 January 1941.

SECRET  
 - The Secretary of the Treasury.  
 (Via Assistant Secretary Gaston)

The inexcusable stranding on a calm, clear, full-moonlight sea of the Steamship MANHATTAN, the second largest passenger liner flying the United States flag, points again to the urgent need for immediate action (within the next three days) of sending to Congress a reorganization order dividing the functions of the Bureau of Marine Inspection and Navigation among the Maritime Commission, the Bureau of Customs and the Coast Guard. A few years ago the MORRO CASTLE and MOHAWK disasters caused public indignation, investigations and a lot of new legislation. Some years previous to the MORRO CASTLE disaster the Steamship EASTLAND capsized with the loss of 112 lives, again resulting in national agitation, investigations and additional legislation. Previous to the EASTLAND disaster the Steamship GENERAL BROWN sailed with the loss of 937 lives. The Country was aroused and investigations and new legislation followed.

We are not operating a safe and efficient Merchant Marine at a time in our history when the safe and efficient operation of merchant ships is of primary and urgent importance in the defense of our Nation. The solution of this problem has been before the Bureau of the Budget for several years. Three days remain for action. It must be done under the President's reorganization authority. If direct action by the Congress is attempted the proposed legislation would be so emasculated as to defeat the purpose. The plan for remedying the situation has the approval of the Secretary of the Treasury and his advisers, the Secretary of Commerce (I understand), the Under Secretary of Commerce, the Chief of Naval Operations, the Chairman of the Maritime Commission, the Transportation Member of the Advisory Council for National Defense and a number, if not all, of the steamship companies. It is seldom that the solution of a serious problem has such universal approval by interested agencies.

The Country and the Congress have, to a large extent, lost confidence in the men who man our ocean-going merchant ships. The efficiency of our merchant seamen at this time is second in importance only to the efficiency of our military and naval forces.

Any further delay in carrying out your recommendation to the Bureau of the Budget will extend indefinitely this serious weakness in our national defense.

*R. E. W. Searche*

R. E. W. SEARCHE.

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THE WHITE HOUSE  
WASHINGTON

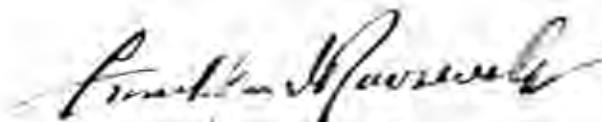
JAN 15 1941

My dear Mr. Secretary:

I have considered your memorandum of December 16, 1940, relative to the reorganization plan proposed by the Treasury Department for distributing the functions of the Bureau of Marine Inspection and Navigation among the Maritime Commission, the Coast Guard, and the Bureau of Customs. As you perhaps know, the Bureau of the Budget is conducting an intensive study of the problem of maritime regulation, other than its economic phases, in order to determine any reallocations of functions that may appear desirable, particularly in view of existing defense requirements.

I should prefer to delay any action concerning this matter until the Bureau has submitted its findings. As to the January 20 dead line under the present Reorganization Act, I am reasonably confident that it will be possible to secure any necessary transfers of such maritime functions through either renewed reorganization authority or legislation.

Sincerely yours,



The Honorable,

The Secretary of the Treasury

MEMORANDUM

January 16, 1941

To: Mr. L. W. Knoks

From: Mr. R. W. Gidney  
Vice President, Federal Reserve Bank

Mr. Orie E. Kelly, president of the Lawyers Trust Company, telephoned me a few minutes ago that an account has been opened concerning which he is somewhat worried. The depositor is Eusabio Rodrigo of Mexico City who was introduced by one of the Trust Company's old depositors who is in the restaurant business. The checks were drawn on New York City banks by banks in Mexico. The Lawyers Trust Company's vice president who handled the transaction had further identified Mr. Rodrigo by his passport. I understand that the deposit was made yesterday and that \$100,000 was drawn today in large bills. I told Mr. Kelly that his information seemed of interest and that I thought we should communicate it to the appropriate Federal authorities and ask them to get in touch with him concerning it. He said that this is what he would like us to do.

(Rec'd. by phone from Mr. Knoks's Office  
11:55 a.m., Jan. 16, 1941 - ek)

Conference Notes on Luncheon  
with Secretary Morgenthau, 1:00 P.M.,  
January 15, 1941.

Those present at the luncheon were Secretary Morgenthau, Mr. William S. Knudsen, Mr. E. R. Stettinius, Jr., and Philip Young.

Secretary Morgenthau briefly discussed the situation with respect to the lend-lease bill and his testimony yesterday. During the course of this discussion, the Secretary mentioned the fact that he had cited the Studebaker and Buick cases in his testimony as an example of how production might be held up due to the pending legislation.

The Secretary asked Mr. Young to explain his troubles on priorities to Messrs. Stettinius and Knudsen. Mr. Knudsen interposed and said that he had had to take hold of the thing during the Defense Commission reorganization as nobody else would do it. He added that Mr. Young had shown him a priorities form, and he had approved it and that all the clearances would receive a priority rating.

Mr. Young gave Mr. Stettinius a summary of the background of the Liaison Committee emphasizing the fact that the Committee handled other countries besides British and the Dutch. He added that several conversations had taken place between the Liaison Committee and Don Nelson, also conversations with Cliff Hill and other members of the original priorities group. None of these conversations had produced results with respect to working out foreign priorities and the fact that Mr. Nelson had taken an extended vacation had made it impossible to accomplish anything during the month of December and the first ten days of January.

Mr. Young told Mr. Stettinius that the Liaison Committee would be glad to work out any procedures or any forms desired. Up to the present the Committee had had to work out its own forms as it had been unable to secure any cooperation of any kind. Mr. Stettinius was greatly surprised at the fact that the cases which the Liaison Committee had submitted had not yet been worked out and promised to look into all the cases and call Mr. Young before 3 o'clock that afternoon.

In addition to this priorities discussion, the matter of financing British contracts was considered. Mr. Young told the Secretary that he had been asked by the War Department as to whether the Treasury had any strings attached to money refunded

- 2 -

to the British for the placing of contracts, and, secondly, as to whether the ban on the British financing contract applied to new contracts negotiated by the British for which such money would be used.

After some discussion, it was agreed among the persons present that the Treasury had no restrictions on the money returned to the British by way of refunds, but that the British should not be allowed to sign any contracts during this interim period pending passage of legislation which were not first approved by the Secretary of the Treasury or his representative.

After the luncheon broke up, Mr. Stettinius told Mr. Young that he would do four things:

(1) Telephone by 3 o'clock as to the status of existing priorities cases;

(2) That he would use the P.N.R. procedure and adapt it to priorities requests in the future;

(3) That he would appoint a first class executive to specialize on foreign priorities; and

(4) A sub-committee of the Priorities Board might be appointed consisting of representatives of State, War, Navy, and Defense to handle the foreign priorities situation.

*(preliminary  
negotiation  
report)*

*P.H.*

ooOoo

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE January 16, 1941

TO Secretary Morgenthau  
FROM Mr. Haas 

Mr. Leon Henderson called again today at 3:15 p.m. to say that they were working on the bank stock investigation and that they were going to take a stand on it. He indicated that the report of the investigation probably would be transmitted to you by Mr. Jerome Frank.

January 16, 1941.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

Al Cohn called me from Los Angeles at 3:15 P.M. with reference to his telegram, received this morning, in which Donald Douglas asked your advice as to whether he should permit his Chief Engineer to accompany Wendell Willkie to England. The purpose of Al's telephone call was to tell me that Willkie had withdrawn his request for an engineer, stating that he would not take one with him but would rely on such engineering information and advice as he could obtain in England. The fact that Douglas delayed in order to ask advice from Washington (or more likely the mere fact that he asked for time to make a decision) may have influenced Willkie. Al said they had been informed that Willkie would take with him only the two "old friends" who were mentioned in newspaper stories today. These are Landon K. Thorne, a director of the First National Bank of New York, and John Cowles, Publisher of the Minneapolis Star Journal.

Al told me that he had learned the real low down on the Willkie expedition. He said Willkie was going across at the request of some of his big money friends to investigate particularly the economic and political situation in Great Britain. These friends are said to have been concerned about stories that England is "going socialistic" and this may have a bearing on the attitude of these people toward aid for Britain. You will recall that a few days ago Mark Sullivan wrote a column in which he expressed great concern regarding statements by Dorothy Thompson that England would never be the same again, and that the working groups would demand a greater share in political and economic government. Sullivan raised rather bluntly the question whether American business leaders would want to support a nation which is evolving into a socialistic economy.

I should say that Al's version of the purpose of the Willkie mission bears the stamp of strong probability.



January 16, 1941.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

Al Cohn called me from Los Angeles at 9:15 P.M. with reference to his telegram, received this morning, in which Donald Douglas asked your advice as to whether he should permit his Chief Engineer to accompany Wendell Willkie to England. The purpose of Al's telephone call was to tell me that Willkie had withdrawn his request for an engineer, stating that he would not take one with him but would rely on such engineering information and advice as he could obtain in England. The fact that Douglas delayed in order to ask advice from Washington (or more likely the mere fact that he asked for time to make a decision) may have influenced Willkie. Al said they had been informed that Willkie would take with him only the two "old friends" who were mentioned in newspaper stories today. These are Landon K. Thorne, a director of the First National Bank of New York, and John Cowles, Publisher of the Minneapolis Star Journal.

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Copy to Mr. Cochran.

January 16, 1941  
4:46 p.m.

H.M.Jr: Hello.

Operator: Mr. Currie.

Lauchlin Currie: Hello, Mr. Secretary.

H.M.Jr: Lauch, I've just been a little bit more rushed than usual today.

C: I know you have, yes.

H.M.Jr: Could you give me an inkling of what's on your mind?

C: Yes. It's a question I want to discuss with you about an invitation I have had to go to China for a little visit, and I talked it over with Fairley. He seemed to think it would be extremely worthwhile from the point of view of the Treasury but I wanted to consult you - with you further. I've encountered a little opposition here in my own building - the State Department.

H.M.Jr: Well, it would be interesting to me on one basis, that you take me along as your assistant.

C: (Laughs). Well, that was the next thing I was coming to, Mr. Secretary. I hoped to borrow one of your people as my assistant who really knows something about the country, which I don't.

H.M.Jr: I mean, is it the Chinese who want you to go?

C: Yes, and I didn't take it very seriously but I passed it along to the President and to my surprise he thought it was quite worthwhile. I'll look into it pretty carefully and provided I can be back around the first of March, which means I'll have to leave immediately - (laughs) - in other words, Monday, and so it was a little bit rushed, that was all. Perhaps it's crazy, I don't know, but he seemed to think it was worthwhile and Harry seemed to think it would be helpful.

- 2 -

H.M.Jr: He did.

C: Yeah.

H.M.Jr: Well, Harry's been wanting to go and I won't stir.

C: Why not? (Laughs)

H.M.Jr: But as far as I'm concerned your going, I think it - I'd be delighted.

C: Well, that would be fine.

H.M.Jr: Jealous as hell, but I'd be delighted.

C: (Laughs). It does sound like a - to be perfectly truthful I'm rather tempted because it sounds like a nice junket and I never would get out there in the ordinary course of events.

H.M.Jr: I think it would be very interesting.

C: And perhaps I could be a little helpful, I don't know.

H.M.Jr: Well, you talk to Harry as to which man you want - I don't know which one you want - but talk to Harry about it, will you?

C: I'll do that, yes, Mr. Secretary. And that was all I had on my mind.

H.M.Jr: Right. I haven't yet sent my - finished any memorandum for the President on that Eccles plan.

C: Well, he's been so rushed that I'm sure that doesn't make any difference.

H.M.Jr: I don't think so either.

C: No, and he's trying to squeeze out a few minutes work on his Inaugural - I don't know  
.....

H.M.Jr: Well, I'll be seeing you soon.

C: All right, sir. Good-bye.

January 16, 1941  
4:55 p.m.

RE BRITISH PURCHASING PROGRAM

Present: Mr. Purvis  
Sir Frederick Phillips  
Mr. Young  
Mr. Cochran  
Mr. White

H.M.Jr: Were you up there?

Purvis: I didn't dare to go.

H.M.Jr: I think the way I worked it out entirely on my own and the fact that the British Government had told us we could do it, made a good impression; but we have got a few little things.

We are having troubles trying to justify the difference between the Federal Reserve Board's figures and our own, and the Department of Commerce's, and I want Harry White to tell Sir Frederick the troubles we are having which might have been avoided if nine months ago your treasury had given us the figures we asked for, and now they have got to work right straight through the night; and Harry White tells me that the figures were there all the time.

White: I am not sure about that. I say that the man who knows most, apparently all the figures, it is the first time I have seen him, and by

- 2 -

night we will have the data that I assumed the British would have, because I know that they are very competent in getting all that stuff and had we had it, we would have been all - in the first place, we wouldn't have had this last minute rush, and in the second place, we would have been able to answer all the questions much more easily; and fortunately we will now be in the position --

(Telephone conversation with Mr. Wayne Taylor follows:)

January 16, 1941  
4:56 p.m.

H.M.Jr: Hello, Wayne.

Wayne G. Taylor: Yeah, hello, Henry.

H.M.Jr: How are you?

T: Fine, and you?

H.M.Jr: I'm alive.

T: Well, that's about all I report too.

H.M.Jr: Wayne, Harry White is working in his office with a group from your place and also from Federal Reserve trying to make all three agencies' figures agree as to what the English have or haven't, you see.

T: Yeah.

H.M.Jr: We have the English down too. I don't know who is over from your shop.

T: Probably Amos Taylor.

H.M.Jr: Taylor.

T: Yeah.

H.M.Jr: And they say it will take them most of the night. Now what I'm hoping for is that when this is in shape tomorrow if they could bring it to your attention, and I've taken it up with the Federal Reserve Board, and I'd like to get some kind of a statement that I can send up to Chairman Bloom which will say to him that Commerce, the Federal Reserve and the Treasury altogether, with a possible exception, we may be out maybe \$100 million. See?

T: Yeah.

H.M.Jr: But what I'm afraid of is - they keep going over and over it again - well, the Commerce says one thing, Federal Reserve says another,

- 2 -

Federal says that there's \$7 billion and so forth and so on and the Treasury just had the wool pulled over its eyes - I mean, meaning me.

T: Right.

H.M.Jr: So if tomorrow you could send for these boys and then when you're ready if you'd get in touch with Harry White and as I say if it's possible, I would like something. The Federal Reserve Board says they're going to give me a statement and if I could get something from you .....

T: Be glad to have it.

H.M.Jr: And then I could transmit it to Bloom and say .....

T: Yeah.

H.M.Jr: Otherwise, I'm afraid that they'll keep .....

T: Oh, yeah, and you've probably discovered from talking to Amos Taylor - Harry has - that there has to be some discrepancy and it's just a question of judgment and I don't see any reason why we can't get together on it.

H.M.Jr: Well, if you would personally take an interest in it in the morning, I would appreciate it.

T: I will indeed.

H.M.Jr: And Harry is available.

T: Right.

H.M.Jr: Thank you.

T: Fine.

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Phillips: It isn't Allen you have been talking to.

White: Yes, it was Allen.

Phillips: You know, he was kept for three weeks at Lisbon.

White: Am I correct in saying that this is the first time he has been in Treasury?

Phillips: Yes. He only got here yesterday.

H.M.Jr: He only got here yesterday?

Phillips: He started on the 20th of December.

H.M.Jr: White thought he had been here all the time.

Purvis: He is your (Phillips') assistant.

H.M.Jr: So he only got here yesterday?

Phillips: Yes.

H.M.Jr: Well, he is going to get a good workout today.

Phillips: But you told me the other day he has the stuff if he ever got here.

White: Well, it makes it very easy for us. I mean, when they put up a question - you see, unfortunately, somebody is feeding some of the reporters and some of the men on the Hill - somebody who knows a little about it - and they are asking these questions. Is that all the interest payments? How about this? How about that? Unfortunately, up to now we have had only net figures. That is, the results have been the same but there has been no way of explaining.

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- H.V.Jr: I got a little excited because I thought good God, if this fellow has been staying up at the Embassy all the time after what I had been through, it would have been easier. They are not guilty. That is another Lisbon tragedy. Schlessler, Lehman, Allen.
- White: Were they all tragedies? (Laughter)
- H.V.Jr: All right. You are excused, Harry.  
(Mr. White left the conference.)
- H.M.Jr: I just wanted to give him a chance - when he came in he burned me up, and I thought I would pass it along.
- Cochran: They were after me the other night to get this man on the plane.
- H.M.Jr: I was very much pleased with the acceptance, but I still have got my troubles with Jones and he says you weakened his heart, but not his head. (Laughter)
- The principal purpose of my calling for you was this. This whole question was raised at Cabinet again, of how we could take over the money that you paid out on the contracts, you see, not the way the Army is doing it, but the whole lock, stock, and barrel.
- Purvis: Stuff we put down in advance of deliveries, you mean?
- H.M.Jr: That is right, the whole business, the 550.
- Purvis: Which is in anticipation of deliveries, which means that it has gone further than the Neutrality Act originally intended, and that

- 5 -

that was to pay on deliveries?

H.M.Jr:

My counselor isn't here. I refuse to answer it. (Laughter). All I know is, the figure is 550 and Frank Knox read that figure.

Now, as a result of this thing, the President instructed Mr. Knox, Stimson and myself to get together, you see, and, for your background - I mean, Jones doesn't like it very much, but he said if I would get somebody in touch with him, and I said I would get you in touch with him because it is contracts, or both of you gentlemen, he would see you himself provided, he told us, that he could do the trading himself; so we all said he could do the trading himself, so if tomorrow you gentlemen will see him, he will see you; but I would get hold of Jesse and he has been given the job of negotiating with you to buy the 550 million dollars worth of contracts.

Purvis:

The question is - I see certain things sticking up about types, type questions I am thinking of and also --

H.M.Jr:

Well, I am frankly alive and that is all. This was a terrific ordeal to go through to get ready for. It is the most important testimony I have given since I have been in Washington. I doubt if I will ever have to give another one like it, I hope not.

Purvis:

No.

H.M.Jr:

But you see it was particularly difficult because they asked Mr. Hull a difficult question and his answer was, "Well, the Bill was drawn up in the Treasury."

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Furvis: I noticed that.

H.M.Jr: So that didn't make life any easier.

Furvis: Oh no.

H.M.Jr: But it is going fine, and Mrs. Morgenthau was up and heard Stimson and said he was magnificent. Stimson was grand.

Furvis: Good.

H.M.Jr: And so if you would get in touch with Mr. Jones tomorrow, maybe you can get somewhere.

Furvis: The last thing he said after dinner was to ask me to come along about the same time of night I did before.

H.M.Jr: Well, maybe you can still go tonight, but that is the principal thing, and then I am still waiting for this --

Furvis: Yes, you are quite right and really we are working awfully hard, but we are so determined not to give you - we had another long meeting this morning and another yesterday morning, and the statements are being prepared and we are trying to give you an absolutely finished product.

H.M.Jr: Bill Knudsen said, "When you get this statement, tell the British that this statement is the statement to end all other statements."

Phillips: I have seen three statements of that type already.

H.M.Jr: Well, when this one comes, this is to end all other statements and the other thing, in making a report to you gentlemen on my daily work for you, at lunch we had Knudsen

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and Stettinius, and did he launch the priorities at three o'clock?

Young:

He called me at 3:30 and he said he was shocked to find that nothing officially had been done about them, and at that point he had Blackwellsmith and his Assistant Director of Priorities, Jim Towers, and Hill, the Deputy Administrator, all sitting around the table going over these cases item by item to clear what they could tonight, and they would do what more they could tomorrow.

H.V.Jr:

That was a result of the luncheon. Now, the other thing which I hope will be agreeable to both of you gentlemen is this.

I noticed that during December other than these 60 ships you signed contracts for around 10 or 11 million dollars. While this bill is pending, so that I don't wake up and find that some Congressman or Congresswoman has said, "Well, I thought you said the British weren't buying anything more, but in such and such a town they have just placed a contract," if you could marshal your forces so that before signing any contracts you would let Phil know.

Purvis:

All right.

H.V.Jr:

You see?

Purvis:

Definitely.

H.V.Jr:

Because I don't want to get up there - I made the statement yesterday that for all practical purposes you had stopped buying, and it made quite an impression, you see, and I don't --

Purvis:

Even in the press it was commented on.

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- H.M.Jr: Oh yes, and I don't want to be caught off base. For the whole of December you only bought ten or eleven million dollars. It oughtn't to be very difficult.
- Purvis: We are running into the area where - for instance, there was a terrible cable the other day about Rotax Magnets, where they were held up.
- H.M.Jr: Well, I promise you that if you get the thing in here in the forenoon, you will get an answer before five o'clock; and if you get in here before noon, you will get a yes or no on it; and if I am not here, Phil, you are authorized to say yes or no before five o'clock; so if you get it in before noon --
- Purvis: We will do that. It is all right, there will be more delays in our shop.
- H.M.Jr: On the Boeing, you (Young) wrote me about the Boeing contract which they didn't sign until the 11th.
- Young: Fairey is down in my office now and says it is all completely wrong, that story.
- H.M.Jr: Well, you wrote it to me and I wrote back to you to find out just how long the delay was in England because we burned ourselves up on that.
- Young: Surely.
- H.M.Jr: Now, the other thing, I told these people, Knudsen - and this doesn't agree with you - they asked me this question. The Army has got - Mr. Stimson has a way that he is trying to buy back some contracts.
- Purvis: That is right. I hope with your approval, because we are constantly --

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H.M.Jr: All right, fine. McCloy sent one of his attorneys to my house at eight o'clock this morning to ask me whether he could go and see Mr. Jones, because he couldn't get him to take over the real estate.

Now, on that in the talk with Knudsen, they asked me, "Well now, what about this money, you see, that you get back." It is the same thing you will find with Jones. And in the respending of that money until the bill gets passed I would like to be consulted, if that is agreeable.

Purvis: Certainly.

H.M.Jr: They asked me - I said, "We will pass on each case individually."

Purvis: On its merits.

H.M.Jr: When I say "I", I mean Young as my representative. And then Knudsen isn't going to let any contracts unless we O.K. it, and I am not going to let anything unless Phillips O.K.'s it. I mean, in other words, Phillips is going to have to say to me, as long as he is here, "Yes, the money is here," because today - didn't they say that somebody said that they had the 40 million dollars for those two thousand horse engines?

Young: That is right.

H.M.Jr: You see? Now, certainly before 40 million dollars goes through and Bill Knudsen says to me, "Have they got the money?" I am going to ask the representative of the British Treasury.

Purvis: Yes.

- 10 -

Phillips: Yes.

Purvis: This links right up with our discussions this morning.

H.V.Jr: And then they will say, "How are you going to do it?" Which is going to be, to use Knudsen's language, "the United States standard stuff and which is going to be the bastard stuff." That is what he calls it. He says anything that isn't standard is bastard; so my answer was, "Are you getting personal?" and he said, "No," and he said, "I am not going to give any rule of thumb. Each contract will have to stand on its own." Is that all right?

Phillips: Are you going to be fairly confident about these so-called bastard contracts?

H.M.Jr: How do you mean, tough?

Phillips: Is it a fact that you will be influenced pretty much by the question of whether they are for standard type stuff or for purely British types?

H.M.Jr: I don't know what you mean by being tough, but I can tell you what Knudsen said, that he isn't going to pass on any so-called bastard contracts. In other words, the contracts that the Army and Navy propose to let are going to be only standard.

Purvis: Coming to two things, may I suggest --

H.M.Jr: Excuse me. So therefore, there is all the more reason that you should husband all of your funds for so-called bastard contracts.

Purvis: That is right.

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H.M.Jr: Does that clear it for you?

Phillips: Yes, that is clear.

Purvis: That is quite clear.

H.M.Jr: But I didn't want to be moving so fast and have you say, "Well now, wait a minute, this is impossible."

Purvis: May I ask a question here which I think you will want cleared and may be willing to help us clear?

H.M.Jr: Yes.

Purvis: It is an easy one, I think. Sixty million dollars of this Army Department money was allocated for aircraft, both sides agreeing to the situation and the orders placed. It was understood they would be for United States standard types. Therefore, the Air Commission and the Army agreed what those were. This morning Self tells me that there is a breakdown. Someone has suddenly said that they aren't United States types. Admittedly, the layouts and the materials are the same, but the frequency of the radio is British and not the other.

Now, he has held it up. I thought, will you help us - I am getting the formula, and I was going to ask you whether you could get Mr. Stimson and Colonel Knox to agree that in contracting British type --

H.M.Jr: I will tell you what I am going to do. You have got to save me a little bit. I mean as to what use I am put.

Purvis: Correct.

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- H.M.Jr: You and the Air Mission will have to ask to see Mr. Stimson some morning yourself.
- Purvis: Yes, good.
- H.M.Jr: Exhaust that first. Then if you find that you are turned down, then come to me; but go in the morning early to see Mr. Stimson yourself. Then if you fail, come and see me, but don't use me up on this.
- Purvis: Excellent.
- H.M.Jr: But I am sure if you get to Mr. Stimson, you won't have any trouble. I am sure of it.
- Purvis: Good. Thank you.
- H.M.Jr: Have you, either of you gentlemen, heard from your home government as to the reaction of my testimony on the financial side?
- Phillips: No, sir, I haven't yet.
- H.M.Jr: I mean, have you heard --
- Phillips: It is a little early, isn't it? Would they have got very much of it yet?
- Purvis: They couldn't get anything yesterday.
- H.M.Jr: Well, they would have had it in the London morning papers today.
- Purvis: Yes. They are six hours ahead. They are six hours, not five, owing to daylight saving time.
- H.M.Jr: I got through at six, which was midnight. It might not have gotten in in the morning.

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Purvis: I think it is very probable with things as they go there now.

H.M.Jr: If you get something, would you --

Phillips: Yes, certainly.

H.M.Jr: I would like very much to have it, because I wasn't able to listen to any British broadcasting stations. My short wave radio didn't work last night.

Purvis: I didn't get anything on the radio either.

H.M.Jr: If you have something, it would be very good. Were you satisfied from your treasury's standpoint? I mean, under the circumstances.

Purvis: He wants his counsel, just a minute.

H.M.Jr: Well, under the circumstances.

Phillips: Yes, but you mustn't forget, sir, that right and necessary as it was to give these figures, they are not known to the British public. It will come as a little bit of a shock to them.

H.M.Jr: Oh yes.

Purvis: I wondered whether they would publish it.

Phillips: Oh, they will publish it all right.

H.M.Jr: I didn't mean - I meant that once having given the figures to me, were you satisfied with the way I used them?

Phillips: Certainly, sir.

Purvis: Oh, I think in the most excellent manner.

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- H.D.Jr: Once having given them to me.
- W.C.V. Jr: Do you know, it was with a sense of relief that I read that whole statement this morning. I really honestly believe that we are going to get a real benefit from it.
- H.D.Jr: I am just as sure of anything that I ever was that you never could have gotten this bill through unless we had gotten that information out. I am positive of it, because good God, here is the Vice-President up until four more days, and he sat there for practically one hour at Cabinet today arguing about how rich the Empire was and that I was just a softie, Garner, you see, and the President came to my rescue because he saw I was getting more and more excited. It is the last time Garner attends Cabinet. But he kept saying, "What is the matter with Morgenthau? Twelve months ago he said they had it, and now he says they haven't." It is all my fault.
- W.C.V. Jr: Well, I felt like saying, "Won't you please sit down and read the newspapers," but I am just exclaiming, you see, so I think it was right. To go up and talk about how well off you were and ask for collateral and all the rest of that stuff..... And the representatives were very complimentary, people like Tinkham and people like that. They were very complimentary.
- W.C.V. Jr: Really, the fellow who had been difficult with Hull?
- H.D.Jr: And Ernest Rogers, very complimentary, perfectly satisfied.
- W.C.V. Jr: Well, you are on awfully firm ground for the

- 15 -

future, anyway. It is very difficult to get shaken off that much.

H.M.Jr: It sets the basis - they say, "Why the bill?" and the bill is because you people haven't got the dollars after this year.

Purvis: That is right.

H.M.Jr: One other thing that I want to say to you; in these things that I talk with the people that come down, you see, I know it isn't necessary to say, but I want to say it. For instance, Forrestal called me up today, how could Foreign Products Company or something get in touch with the British, and I said, "Now look, all anybody has to do is call up Mr. Gifford and in about another week or so there will be somebody else here;" but I want you to know that if anybody comes to you and says he is a friend of mine, he is just a God damned liar. Now that is plain everyday English.

Phillips: Yes. They haven't tried it yet.

H.M.Jr: I have no friends, you see. I just want to make it perfectly plain. I have no friends, so if anybody claims or says he is a friend of mine, you will know that he is being wholly untruthful. I have no friends.

Purvis: Well, I am sorry. You have one if I may be counted.

H.V.Jr: Yes, but you don't want to buy any stocks.

WAR DEPARTMENT  
 WAR DEPARTMENT GENERAL STAFF  
 MILITARY INTELLIGENCE DIVISION G-2  
 WASHINGTON  
 I.B. 11

G-2/2267-115

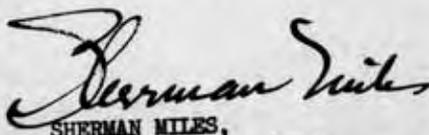
January 16, 1941

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

Subject: British, Allied and Neutral  
 War Shipping Losses.

The following is a tabulation of British, Allied  
 and neutral shipping losses for the week of January 5, 1941:

	<u>Number</u>	<u>Gross Tons</u>
British	3	18,208
Allied	4	19,348
Neutral	<u>0</u>	<u>---</u>
TOTAL	7	37,556



SHERMAN MILES,  
 Brigadier General, U. S. Army,  
 Acting Assistant Chief of Staff, G-2.

## CONFIDENTIAL

O-2/2267-4-36

O-2  
CMB-AT

I. E. No. 15

January 16, 1941

## MEMORANDUM FOR THE CHIEF OF STAFF:

Subject: British Merchant Shipping Situation.

1. The following comments are made on the attached Office of Naval Intelligence paper on this subject comparing M. I. D. and O. N. I. data:

a. O. N. I. does not accept the probability that the British have lost more tonnage than officially admitted. This is debatable and not material in this estimate.

b. The only real difference between O-2 and O. N. I. data is in the minimum shipping required. O. N. I. states that it has no accurate data but believes that 18,000,000 tons is too low. In April, 1918, British shipping fell to a low of 14,400,000 tons. The fact that short hauls to continental Europe are not available, that the Mediterranean is now closed, and that east British ports cannot now be used for unloading all affect the British situation adversely. But in 1918 Britain was hauling about 55 percent of the A. E. F., there were twice as many British troops in the Middle East as at present, the total number of British troops was 2½ times that at present, there was much cross-channel shipping to the S. E. F., the average speed of merchant ships was lower than at present, and Britain was hauling 2,000,000 tons a year for France and Italy. Taking all things into account it is considered that an increase of 25 percent as a bare minimum of tonnage is a liberal allowance for a rough estimate and the figure of 18,000,000 tons is adhered to. Two other methods of computation, too long for inclusion, give results that tend to bear out this figure.

2. All information available points to the conclusion that British shipping losses will not be vital during 1941 if the rate does not increase materially.

SHERMAN HILES,  
Brigadier General, U. S. Army,  
Acting Assistant Chief of Staff, G-2.

fx  
Incl.

CONFIDENTIAL

CONFIDENTIAL

COPY

198

Office of Naval Intelligence  
January 6, 1940

## ESTIMATE OF BRITISH MERCHANT SHIPPING SITUATION

Comparison of M.I.D. and O.N.I. Data

(O.N.I. Data as of 11/1/40 unless otherwise indicated; M.I.D. Data undated)

	<u>M.I.D.</u>	<u>O.N.I.</u>
	GROSS TONS	
	(over 500)	(over 1600)
British Empire Shipping Situation 9/1/39.....	18,000,000	17,750,000
Neutral Shipping on Time Charter.....	3,800,000	3,790,000
Neutral Shipping on Voyage Charter.....	700,000	500,000
Shipping Conquered Countries Available to British	3,000,000	3,000,000(est)*
Purchased from Neutrals, including United States.	250,000	407,000
Built in Empire During War.....	1,000,000	829,000
Captured Shipping and Transfers from Great Lakes.	<u>1,000,000</u>	<u>994,000</u>
Gross Total Available.....	27,750,000	27,270,000
Sunk During the War, British, Allied and Neutral.	5,000,000	3,800,000
		<u>(4,350,000)¶</u>
Net Total Remaining Available.....	22,750,000	22,920,000
		<u>over 1600</u>
Minimum Shipping Required for Empire Needs, inclu-		
sive of Military and Naval Use and Ships under		
Repair — a Rough Estimate (British Shipping over		
1,600 Tons in These Categories Fell to 14,400,000		
Tons in 1918 When Principal Movement A.E.F. Was		
Taking Place.).....	<u>18,000,000</u>	No accurate data.***
Present Surplus over Bare Minimum.....	4,750,000	No accurate data.
Empire Building During 1941, Estimated.....	1,200,000	1,165,000
Purchases from Other Than Occupied Neutrals, 1941	<u>250,000**</u>	
Gross Surplus Available, December 31, 1941	6,200,000	No accurate data.
Probable 1941 War Losses Based upon Present Rate of		
Sinking.....	<u>4,700,000</u>	4,100,000
Net Surplus as of Dec. 31, 1941, over		
Minimum.....	1,500,000	No accurate data.

\*\*\*Believed low, but no accurate data available. See special note attached.

\*\*Believed a reasonable assumption.

\*Total tonnages of Belgium, Denmark, Holland, and Norway were approximately 8,700,000 tons. No data available as to what proportion of this tonnage might be classified under this heading.

¶At end of 1940.

CONFIDENTIAL

## CONFIDENTIAL

Special Note to Accompany This Table

The War Department figure on minimum shipping requirements is based upon World War Records and thus enjoys a certain pragmatic status. From 1914 to 1918 dairy products and other foods for the United Kingdom were imported from the Lowlands and France; also the Mediterranean life line was maintained with slight interruption to vital trade. The neutral Scandinavian and Iberian vessels were employed in the British supply train as well as parts of the French and Italian merchant marine. Yet after U. S. entry into the War major dislocations of normal trade routes were unavoidable. One example may be pertinent. When locomotives were needed overseas it was found that only the vessels of the Bethlehem Steel Company which brought ore from Cuba had sufficiently large hatchways for loading these engines. English ore vessels normally engaged in carrying ore from Spain had been diverted to trans-channel crossings to ferry coal to France. The U. S. Government took from its own coastal trade a sufficient number of vessels to substitute for the English ore vessels and sent them to England, took the English ore vessels and sent them to Cuba; thus the original vessels on the Cuba run shipped locomotives abroad and the Bethlehem Steel Company brought in Cuban ore with English ships. Thus, excepting on the elusive basis of past (and rapidly changing) experience, an estimate of tonnage required to sustain Great Britain's war effort is unpredictable. It is understood that the Maritime Commission is now struggling with tonnage requirements for U. S. strategic materials. This problem is one that would appear relatively simple but has many confounding ramifications. Even Lord Lothian's study does not attempt to convert to shipping requirements the amount of food and materials of war which the study says will be required to prosecute the war in 1941.

CONFIDENTIAL

G-2/2267-115

I.B. 11

January 16, 1941

**MEMORANDUM FOR THE SECRETARY OF THE TREASURY:**

**Subject: British, Allied and Neutral  
War Shipping Losses.**

The following is a tabulation of British, Allied and neutral shipping losses for the week of January 5, 1941:

	<u>Number</u>	<u>Gross Tonnage</u>
British	3	18,308
Allied	4	19,348
Neutral	<u>0</u>	<u>—</u>
<b>TOTAL</b>	<b>7</b>	<b>37,556</b>

**SHERMAN HILLS,**  
Brigadier General, U. S. Army,  
Acting Assistant Chief of Staff, G-2.

*14-72-1 Jack  
copy with info*

February 7, 1941.

STRICTLY CONFIDENTIAL

Mr. White

Mr. Kanarek

Subject: Comment on the Military and Naval Intelligence  
Memoranda on the British Shipping Situation

1. Military Intelligence agrees with our conclusion that the present British shipping situation is not critical. Naval Intelligence adopts the safe but inconclusive approach that there is insufficient data and therefore no conclusions can be reached.

2. We came to the conclusion that the present British position is not critical even though our estimates throughout were conservative. Military Intelligence is much bolder and comes out with the conclusion that even on December 31, 1941, the British will have a surplus of a million and a half tons of shipping over minimum requirements. Our memorandum, I believe, is more correct in pointing out that the British need a reserve of shipping available for contingencies over and above their present requirements. It is, therefore, probably unrealistic to conclude that the British will have a surplus of tonnage at the end of 1941.

3. The approach of both Naval and Military Intelligence is somewhat different from ours. They both, for example, include tankers with all other shipping tonnage. We exclude them since the British tanker position is good and the demand for tanker tonnage is highly specialized. The British agree with us in this.

4. While not strictly relevant, it is interesting that Naval Intelligence does not accept the probability that the British have lost more tonnage than they have officially admitted. Military Intelligence is more skeptical. We know that they have lost more tonnage than they have admitted.

AMK/jm  
2/7/41

January 16, 1941

My dear Mr. President:

I am inclosing herewith a memorandum entitled "Suggested Tax Program".

Mr. Sullivan and I would like to have a chance to discuss it with you at an early date.

Yours sincerely,

The President,  
The White House.

**MEMORANDUM**

January 7, 1941.

**TO:** Secretary Morgenthau  
**FROM:** Mr. Sullivan  
**SUBJECT:** Suggested Tax Program

1. Amendment to general relief provision in Excess Profits Tax Act.
2. Immediate introduction of bill raising debt limit and removing Federal tax exemption on future issues of Federal securities.
3. Introduction of bill to provide for Federal taxation of future issues of state and municipal securities and state taxation of future issues of Federal securities.

This should be a separate bill and hearings should be requested immediately after the enactment of No. 2.

4. Revision or repeal of Excess Profits Tax after returns have been studied.
5. Additional revenue to be raised from among the following sources:

Estate and Gift taxes	\$100,000,000
Personal Income taxes	500,000,000
Excise taxes	
Soft drinks	95,000,000
Liquor	175,000,000
Coke taxes	45,000,000
Admissions (reduction in exemp- tion 10¢)	25,000,000
Automobile (additional 2%)	40,000,000
Gasoline (additional 1¢ per gallon)	225,000,000
Additional occupational taxes on liquor	30,000,000
Tobacco	<u>35,000,000</u>
<b>Total</b>	<b>\$1,270,000,000</b>

- 2 -

6. Technical amendments to Internal Revenue Code.
7. Repeal of community property exemption.
8. Repeal of percentage depletion.
9. Creation of Federal Tax Commission.

JLS:kb

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Lisbon, Portugal

DATE: January 16, 1941, 10 p.m.

NO.: 17

The following is strictly confidential from Murphy:

On December 23 I was told at Dakar by Valin, who is the director of the Banque de l'Afrique Occidental, that the French military authorities at (omission) <sup>Kayes</sup> now have in their custody 1,250 tons of the Bank of France's gold. Kayes is on the Senegal River in the French Sudan, and from Dakar is about 500 miles due east. Near the town is a fort which has reinforced concrete casements, and the gold is stored there.

There is stored at Kayes 53 or 54 tons of gold belonging to the Bank of Poland and 200 tons belonging to the Bank of Belgium, in addition to the Bank of France's gold.

Valin told me that at the instance of the Germans, all of the gold belonging to Belgium and Poland is now in the process of being transferred to France by plane, for delivery to the Germans; he said that they were handcuffed and could not do anything, that they did not own the gold, and Belgium and most of Poland are now controlled by the Germans.

I put the question to Valin whether thus far there had arisen the matter of shipping French gold for delivery to the Germans; he said vigorously that it had not, and

- 2 -

and that the Germans would never be successful in capturing the gold belonging to France.

I had a talk with the representative of the Bank of Poland, Michalsky, who is in Dakar with the Polish gold at present. Michalsky still believed that the gold belonging to the Bank of Poland was at Kayes; apparently the decision to transfer it to Europe was not made known to him.

END OF MESSAGE.

PELL

TO THE SECRETARY  
TECHNICAL ASSISTANT  
OFFICE OF THE

SA & MN  
TI MM IN

RECEIVED  
TECHNICAL ASSISTANT  
OFFICE OF THE

EA:LWW

JT

GRAY

OTTAWA

Dated January 16, 1941

Rec'd 2:31 p.m.

Secretary of State,

Washington.

14, January 16, 11 a.m.

The breakdown of the conference held this week at Ottawa to revise the financial relationship between the Dominion and the nine provinces before it even reached the step of discussing the Sirois proposals on their merits was due in part to the personal political ambitions of Premier Hepburn of Ontario and in part to the survival of a sectional spirit which made certain provinces unwilling to surrender any taxing powers to the Dominion Government unless in so doing they could drive a good bargain.

As far as war financing is concerned, the Dominion Government will undoubtedly soon have to invade tax fields hitherto reserved for the provinces, and to take other measures (for instance there has been some talk of eventually rationing gasoline which the provinces tax heavily) that will curtail provincial revenue. The financial well being of the provinces will for the rest of the war be a secondary consideration in Ottawa.

Unless

-2-

Unless the deterioration of provincial finances leads to a reopening of the question, the full effects of the failure to bring about an orderly division of revenue and expenditure between the Dominion and the provinces will only be felt after the war. Canada's difficulties in returning to a peace time economy are bound to be magnified by the confused and on the whole unsatisfactory financial picture which will then prevail.

In the purely political sphere the breakdown of the conference is an unquestioned blow to Mr. Mackenzie King's prestige--the first that has been dealt him in many months--but the responsibility for the break is so clearly focused on Premier Hepburn that the latter, although the immediate victor may prove the ultimate loser.

MOFFAT

HPD

Copy:bj

TO THE SECRETARY  
OF THE TREASURY  
OTTAWA

22 MAR 1946

RECEIVED  
DEPARTMENT OF  
TREASURY

DEPARTMENT OF STATE  
Washington

January 16, 1941

In reply refer to  
EA 462.00 R 196/  
B.I.S./913

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses herewith two copies of a paraphrase of telegram no. 7 dated January 14, 1941 to the American Legation at Belgrade with further reference to the sale of gold by the Danmarks National Bank to the B.I.S., and the sale of an equivalent amount of gold by the B.I.S. to the National Bank of Yugoslavia.

Enclosure:

To Belgrade, no. 7,  
January 14, 1941.

## PARAPHRASE OF TELEGRAM SENT

TO: American Legation, Belgrade.

DATE: January 14, 1941, 9 P.M.

NO. : 7

FROM TREASURY.

Reference is made to Legation's no. 17 of Jan. 11, and our no. 2 of Jan. 6, 1941.

There are two transactions which are concerned: Transaction no. 1 involves approximately one million dollars of gold; issuance of a license for this transaction has already been made. Transaction no. 2 involves approximately half a million dollars of gold; the license application is still awaiting action.

HULL  
(FL)

EA:GL:MSG

462.00 R 196 B.I.S./913

EA:MSG

eh:copy

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Dakar, French West Africa

DATE: January 16, 1941, 11 a.m.

NO.: 25

FOR TREASURY.

The Bank of France's gold is still in the French Sudan, at Kayes. Regular Air France planes are being used to send to France the gold belonging to Belgium and Poland. According to my information, the return of the Belgian and Polish gold was demanded by the Germans.

WASSON.

EA:LWW

TO THE SECRETARY  
TECHNICAL ASSISTANT  
OFFICE OF THE

RECEIVED  
JAN 16 11 15 AM '41

RECEIVED  
JAN 16 11 15 AM '41

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE January 16, 1941

TO SECRETARY MORGENTHAU

FROM O. S. Cox

Subject: H.R. 1776

In connection with Congressman Fish's asking Secretary Stimson if the bill empowered the President to give away the Navy, Fish said he had been unable, by reason of the differences in your and Secretary Hull's testimony, to be clear in his mind as to what the bill provides on this point. Congressman Fish also said while Secretary Stimson was testifying that you yourself had made conflicting statements about the giving away of the Navy. Fish stated that in answer to a question put by him, you said the President was not empowered to give away the Navy. He added that you had said, in answer to another member of the Committee later on, that the equipment purchased with the \$17,500,000,000 of defense appropriations could under the proposed bill be given away.

Chairman Bloom and Congressman Johnson both stated that you had not said any such thing and that the record would show what you did say on this subject.

ASC

January 16, 1941

Dear Mr. Secretary:

This will acknowledge receipt of your confidential letter of January 10th and the confidential mimeograph of a form letter to various newspapers, magazines and news associations.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Frank Knox,  
Secretary of the Navy.

*mailed 1/21/41*

January 16, 1941

Dear Mr. Secretary:

This will acknowledge receipt of your confidential letter of January 10th and the confidential mimeograph of a form letter to various newspapers, magazines and news associations.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Frank Knox,  
Secretary of the Navy.

January 18, 1941

Dear Mr. Secretary:

This will acknowledge receipt of your confidential letter of January 10th and the confidential mimeograph of a form letter to various newspapers, magazines and news associations.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Frank Knox,  
Secretary of the Navy.

1. ~~Mr. Gaston~~ *WGS*

216

2. ~~Mr. Kahn~~

3. ~~Mr. Schwarz~~ *@*

The Secretary would like to have any  
comment you may care to make on this.

DEPARTMENT OF THE NAVY  
OFFICE OF THE SECRETARY  
WASHINGTON

(30)A7-2(1).  
Serial 023316.

CONFIDENTIAL

JAN 10 1941

Dear Mr. Secretary:

Attached is a copy of a letter which is being forwarded to all American news, magazine, radio, and news photographic agencies in the United States and outlying possessions.

This letter is being sent with the thought that voluntary censorship on certain subjects might be adopted by the agencies in the interest of national defense so far as the Navy is concerned.

Yours sincerely,

*Frank Knox*

FRANK KNOX

Enclosure

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

DEPARTMENT OF THE NAVY  
Office of the Secretary

(SC)A7-2(1)  
Serial No. 0298916

CONFIDENTIAL

December 31, 1940

Dear

As the present emergency has become more critical, many news, magazine, radio and photographic agencies have requested me to advise them as to the manner in which they can make their services more helpful to the Navy. This cooperative attitude is much appreciated.

Speaking not only as Secretary of the Navy but also as a former newspaper publisher, I believe that if further assistance is requested of publishing agencies in the interests of national defense, it will be gladly extended.

At the moment, the Navy finds itself seriously hampered in the proper conduct of its preparations for the present emergency because of dissemination to the public - and thereby to unfriendly powers - of certain details concerning these preparations.

Your cooperation, therefore, is requested after January 15, 1941 in the avoidance of publicity - unless announced or authorized by the Navy Department - on the following subjects:

- (1) Actual or intended movements of vessels or aircraft of the U. S. Navy, of units of naval enlisted personnel or divisions of mobilized reserves, or troop movements of the U. S. Marine Corps;
- (2) (Mention of) "Secret" technical U. S. naval weapons or development thereof;
- (3) New U. S. Navy ships or aircraft;
- (4) U. S. Navy construction projects ashore.

In making this request, I wish to assure you that the Navy Department will continue to release information concerning the foregoing subjects to an extent that is consonant with public interest and with the effectiveness of the Navy's preparations.

A similar confidential letter is being sent simultaneously to all the listed American press, magazine, radio and photographic agencies.

Sincerely,

/s/ FRANK KNOX  
Secretary of the Navy

January 13, 1941.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

With reference to the confidential letter to you from Secretary Knox, dated January 10, and the confidential mimeograph of a form letter to various newspapers, magazines and news associations:

- (1) I note the circular letter has already been sent out.
- (2) I think it unwise.

Voluntary suppression of news is a very valuable instrument in a critical emergency, but it should not be overworked. To use these powers in the present situation is to weaken their authority when a real emergency occurs. I don't think the newspapers and magazines are printing anything seriously detrimental to the National interest at this time. When they do so individual cases could be handled separately. Foreign agents probably know as much or more than any American publication has printed about our military "secrets."

*M.S.*

*(Original to Mr. Kuhn)*

January 13, 1941.

**MEMORANDUM**

**TO: Secretary Morgenthau**

**FROM: Mr. Gaston**

With reference to the confidential letter to you from Secretary Knox, dated January 10, and the confidential mimeograph of a form letter to various newspapers, magazines and news associations:

- (1) I note the circular letter has already been sent out.
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Voluntary suppression of news is a very valuable instrument in a critical emergency, but it should not be overworked. To use these powers in the present situation is to weaken their authority when a real emergency occurs. I don't think the newspapers and magazines are printing anything seriously detrimental to the National interest at this time. When they do so individual cases could be handled separately. Foreign agents probably know as much or more than any American publication has printed about our military "secrets."

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

January 14, 1941.

TO SECRETARY MORGENTHAU  
FROM MR. KUHN

About Secretary Knox's letter on censorship:

I think this step ought to be taken, but only on the following two conditions:

1. That naval policy, as distinct from naval operations, should continue to be discussed perfectly freely in the press and elsewhere.
2. That the reasons for Secretary Knox's action should be explained by the President himself at a press conference, or if that is impossible, by Secretary Knox at a press conference. Secretary Knox's letter, without any other public explanation, will sound arbitrary and arouse wholly unnecessary antagonisms in the public mind.

*F. K. J.*

January 14, 1940.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Schwarz 

Secretary Knox's circular is by all odds the best method for an initial approach to the problem of controlling defense information. The only question it leaves in my mind is one of timing--whether the situation is such today that methods indicative of war-time censorship are warranted. No matter how much stress is laid upon the fact that the Navy circular calls for voluntary cooperation, I am convinced that many editors and news agencies will consider that the moral suasion of the Navy Department is so great today as to make the request tantamount to an order.

Already I have heard grumbling from members of press association bureaus here in Washington and I should not be surprised if some isolationist newspaper like the Chicago Tribune were to violate the confidence requested by the Navy and cite the circular as evidence of a further drift by the Administration toward actual participation in war.

My own feeling is that the great majority of our people are not fooling themselves about what they now mean by the words "national defense" and, with such an appraisal of public opinion, the implications of the Navy circular should not be unpopular. Certainly, assuming that our current military situation is such that the requested restrictions are necessary, I believe that Secretary Knox has been wise in starting with a request for voluntary cooperation rather than by invoking immediately all of the legal authority that may be at his command.

TREASURY DEPARTMENT  
INTER-OFFICE COMMUNICATION

DATE January 16, 1941

TO Secretary Morgenthau  
FROM Mr. Haas *HA*

I called Mr. Leon Henderson with regard to the investigation of bank stock purchases. He said that the chart which I had sent him had escaped his attention until last evening, but that he would start working on the matter immediately.

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE January 16, 1941

TO Mr. Thompson

FROM Mr. Haas *HA*

In further response to your request of December 26, 1939, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the month of December 1940.

## DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under  
Way, and the Names of Persons Working on Each,  
for the month of December 1940

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 28, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

## I. Projects or studies completed

1. Review of current developments in the high-grade securities markets was prepared, and a memorandum was transmitted to the Secretary on December 18. - Mr. Haas, Mr. Murphy, Mr. Turner, Mr. Purvis

This review contained, in addition to analysis of the current situation, the following special study:

The market value of tax exemption (page 3). -  
Mr. Turner

2. A memorandum was prepared containing recommendations with respect to the December financing, including estimated yield bases and probable premiums on suggested issues, and was transmitted to the Secretary on December 3. - Mr. Haas, Mr. Tiohton, Mr. Turner, Mr. Conrad
3. In connection with the December financing, a memorandum was prepared containing a supplemental proposal designed to reconcile two desirable but conflicting objectives, and was transmitted to the Secretary on December 5. - Mr. Haas, Mr. Murphy
4. A table was prepared on December 5, on suggested issues of Treasury securities, based on closing bid prices, November 30, 1940. - Mr. Murphy, Mr. Tiohton

- 2 -

5. At the request of the Secretary a memorandum was prepared and was transmitted to him on December 6, on the pricing of a 5-year Treasury note, National Defense series. - Mr. Haas, Mr. Murphy, Mr. Conrad
6. Two tables were prepared of probable yield bases and premiums of a suggested Treasury 5-year Defense note, and a 1-year Defense note, and were completed on December 9 and 10, respectively. - Mr. Turner, Mr. Conrad
7. At the request of Mr. Heffelfinger there were prepared a table showing the average length of maturity of the interest-bearing public debt as of November 30, 1940; and a table, with chart, showing the average length of maturity of the interest-bearing public debt, as of December 31, for each year from 1929 through 1939, and for November 30, 1940. This material was transmitted to him on December 13. - Mr. Murphy, Miss Lagos
- Seven proposals of the RFC, that the Secretary of the Treasury request that corporation to purchase the preferred stock of Banks, were examined. - Mr. Murphy, Mr. Turner, Mr. Purvis, Mr. Stringham
8. Yield rates on United States securities, direct and guaranteed, on the basis of over-the-counter closing quotations were calculated daily. These were summarized each day in a table showing for each issue the closing price and yield that day, the change in price and yield from the preceding day, and the price range since date of issue and also for the years 1935 and 1940 to date. A chart for each issue was kept up to date showing recent daily price and yield figures together with comparative monthly data since 1933 or since date of issue. - Mr. Brown, Mr. Moody, Mr. Kroll
10. At the request of the Secretary, arrangements have been made to secure periodically from the British Purchasing Commission certain information regarding purchases in the United States by the British Empire. - Mr. Haas, Mr. Lindow, Mr. March
  - (1) Weekly statements are received covering the itemized purchases by British Empire Governments through the Commission, the itemized purchases made by these Governments with the knowledge of the Commission but not through its facilities,

- 3 -

and inquiries made by the Commission or with its knowledge for future purchases. Similar statements are received showing, by itemized contracts, deliveries made with respect to orders placed by Great Britain through the Commission. The details with respect to orders and deliveries are classified by some twenty-five commodity groups designed especially for the purpose.

These data are reviewed and edited in the Division each week and a report is then prepared summarizing in dollar volume the information on orders and deliveries, by commodity groups. This report consists of eight statements; the first three summarize orders placed by the individual governments of the British Empire for the current week and the totals to date; the next three statements summarize total orders of the British Empire on a historical basis; the last two statements present data on deliveries with respect to orders placed by Great Britain through the British Purchasing Commission. These weekly commodity statements were prepared on December 6, 14, 20, and 28, and were transmitted according to instructions by the Secretary.

- (2) The Commission also supplies the Division each week with the data required to prepare statements giving the details concerning the physical volume of airplane and airplane engine orders in the United States by the British Empire. The material for these statements is contained in a group of worksheets prepared by the Commission, but it is necessary for the Division to consolidate and coordinate the information contained in the Commission's statements. The finished tables show, by company and by type of plane or engine, the following information: (a) summary of orders, deliveries, and exports; (b) history of orders; (c) history of deliveries; (d) scheduled deliveries of unfilled orders; (e) options; scheduled deliveries; (f) spare parts: orders, deliveries, unfilled orders, and options; and (g) secondhand units: orders, deliveries, and scheduled deliveries of unfilled orders. These aircraft reports were prepared, and were transmitted on December 6, 14, 20, and 28, according to instructions by the Secretary.

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- (3) Reports are prepared each week showing commitments by the British Empire Governments for capital expenditures in the United States and for extraordinary charges designed to expedite deliveries. The data for these statements are provided by the Commission but the tables actually are prepared in the Division. Revised tables showing capital commitments were prepared, and were transmitted on December 14, 20, and 28, according to instructions by the Secretary.
- (4) Monthly statements also are prepared with respect to certain activities of the Commission. One of these statements shows the physical volume of iron and steel purchases by, and deliveries to, the British Government. A revised monthly report is in process of preparation. This statement will show the United States mill schedule with respect to British orders of selected iron, steel, and alloy materials. A similar schedule of British purchases of ferrous metals, ferrous alloys, and other metal alloy products also is being prepared.
- (5) Information is being prepared also by the British Purchasing Commission which will make possible the regular issuance of similar statements concerning contractual deliveries on orders placed in the United States by the British Empire for (a) explosives and propellants, (b) toluol, (c) shells and bombs, (d) small arms ammunition, (e) ordnance, (f) automatic small arms, (g) sub-machine guns, revolvers, and rifles, (h) tanks and equipment, and (i) non-ferrous metals.
- (6) Statements summarizing British requirements as of December 1, 1940 were prepared for the Secretary by the British Purchasing Commission with the assistance of the Division on December 7. These statements showed estimated future payments of the British Purchasing Commission with respect to present balances due and certain projected programs, and the current position of the sterling area in United States dollars and gold. Two of these tables were later combined by the Division in order to produce a simplified statement. A summary of the projected programs included in the foregoing report and of one additional program was prepared on December 17. This summary classified the various programs by four commodity groups and showed the value of the product and the amount of capital required in each case.

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11. At the request of the Secretary, arrangements have been made to secure periodically certain information regarding purchases in the United States by the Netherlands Purchasing Commission, and Lindeteves, Inc.

Weekly statements are received covering in dollar volume the itemized purchases in the United States by the Netherlands Purchasing Commission, and the volume of deliveries made thereon. Similar statements are received concerning the activities of Lindeteves, Inc., a large private commercial organization operating in the Dutch East Indies. The details with respect to orders and deliveries for these purchasing agencies are classified by the same twenty-five commodity groups used for reporting orders placed in the United States by the British Empire.

These data are reviewed and edited in the Division each week. Reports are then prepared for each of these agencies summarizing the information on orders and deliveries, classified by commodity groups. Reports covering orders of the Netherlands Purchasing Commission were prepared, and were transmitted on December 6, 14, and 20, in accordance with instructions by the Secretary. Similar reports for Lindeteves, Inc., were prepared, and were transmitted on December 4, 14, 21, and 31, also on instructions by the Secretary. - Mr. Haas, Mr. Lindow, Mr. March

12. At the request of the Secretary on May 23, arrangements were made for securing weekly until September 11, and after that fortnightly, from more than forty airplane and airplane engine manufacturers data on deliveries, new orders, unfilled orders, and estimated deliveries by months on the unfilled orders. Analytical tables are prepared every other week showing this information by type of plane or engine and by class of purchaser. Reports for the fortnights ended December 7, and 21, were prepared on December 11, and 26, and were transmitted according to instructions by the Secretary. - Mr. Haas, Mr. Tickton, Mr. D. J. Leahy

13. At the request of Under Secretary Bell, various memoranda and charts were prepared for use in the Friday discussion group, considering matters of general interest in connection with defense financing. - Mr. Haas, Mr. Murphy, Mr. Daggit, Mr. Turner

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The material presented during the month included the following:

- (1) An analysis was made of recent price movements, illustrated by two wall charts: the first showing the movements of an index of 16 industrial raw materials and of an index of 12 foodstuffs since August 1939; and the second showing the movements of the NICB cost-of-living index compared with the BLS index of 863 commodities since 1935, and the BLS index of 28 basic commodities compared with the BLS index of 863 commodities since August 1939. (Charts presented at the meeting on December 13). - Mr. Daggit, Mrs. May
  - (2) Presentation of an analysis of "J. M. Keynes' Plan to Pay for the War", was continued. The analysis was based on an earlier review of the book "How to Pay for the War", which considered the general problem of war or defense production, the Keynes' plan, its possible applicability to the United States, and similar plans advanced in the United States. (Outline begun at meeting on November 29 continued at meeting on December 13). - Mr. Turner, Mr. Murphy
14. A memorandum was prepared citing the inconsistencies in the terminology used in classifying the public debt and proposing a new, consistent terminology, and was transmitted to Under Secretary Bell on December 6. - Mr. Lindow
  15. A recommendation was prepared and was transmitted in a memorandum to Under Secretary Bell on December 16, with respect to the coupon rates to be placed on the bonds of the Tennessee Valley Authority to be issued by the Treasury Department. - Mr. Haas, Mr. Murphy, Mr. Conrad
  16. At the request of the Secretary, in connection with a speech which he had under consideration, background information was prepared and transmitted to him on December 11. Included were certain data on specified bank holding companies; a summary of press items and critical comments on two New York Times articles on the effect of Federal taxes on corporate profits; tabulations showing the increases in corporate earnings in the third quarter of 1940 as prepared by various sources, together with Standard Statistics estimates for the fourth quarter of 1940; tables comparing the effects of the tax rates in the 1939 and 1940 Revenue Acts on corporate earnings; and a memorandum on "Some Fundamental Considerations with Respect to Defense Finance". - Mr. Haas, Mr. Murphy, Mr. Daggit, Mr. Tickton, Mr. Turner

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## II. Projects or studies under way

1. Study of the relationship between the yields and maturities of high-grade securities immediately preceding major bear markets in such securities. - Mr. Turner
2. Comparison of relative amplitude of price fluctuations of long-term and short-term securities. - Mr. Lindow, Mr. Conrad
3. Study of the effect of the maturity, call period, coupon, premium, and size of the issue on the prices and yields of U. S. securities. - Mr. Conrad
4. Memorandum comparing and contrasting war and depression deficit-financing. - Mr. Murphy
5. Review of war-financing measures in belligerent countries in the present war. - Mr. Murphy, Mr. Purvis, Mr. Stringham
6. United States Savings Bonds. - An analysis of factors affecting sales and redemptions of United States savings bonds, as a guide to future experience. - Mr. Conrad
7. At the request of the Division of Statistical Standards, Bureau of the Budget, on September 20, a review is being made of the "Base Book of Financial Statistics", to be issued by the Federal banking authorities. - Mr. Murphy
8. At the request of Under Secretary Bell on October 14, a memorandum is being prepared on a memorandum submitted by Mr. John Evans, President of the First National Bank of Denver, Colorado, in reference to United States Government bonds now owned by the Federal Reserve System and its member banks, and suggestions concerning a refunding and change in form which would appear to be in interest of the Treasury Department, the Federal Reserve System, the member banks, the Federal Deposit Insurance Corporation, and the public generally whose money is deposited in member banks. - Mr. Murphy
9. At the request of Under Secretary Bell replies are being prepared to certain questions asked by the Wagner Committee preparatory to its investigation of banking and monetary conditions pursuant to Senate Resolution 125. - Mr. Haas, Mr. Murphy, Mr. Turner, Mr. Conrad, Mr. Purvis

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10. At the request of Under Secretary Bell on November 12, a study is being made of the relationship between the amount of currency in circulation and the volume of bank deposits. - Mr. Turner, Mr. Stringham
11. An estimate is being made of the distribution, by classes of holders, of tax-exempt securities outstanding as of June 30, 1940. - Mr. Lindow, Mr. Conrad
12. At the request of Under Secretary Bell on December 20, a memorandum is being prepared on the estimated reduction in excess reserves possible under the existing law. - Mr. Turner, Mr. Stringham
13. Assistance was given the Legal Division and the Division of Tax Research in the preparation for the General Counsel of two groups of examples of the possibilities of tax avoidance by means of tax-exempt securities (for use of Mr. Walker Stone). These examples were transmitted to Mr. Foley on December 17 and 27. Additional instances are in preparation. - Mr. Murphy
14. At the request of the Secretary on December 1, organization charts were prepared of four bank holding companies, and were transmitted to the Secretary, to the General Counsel, to the Comptroller of the Currency and the First Deputy Comptroller of the Currency, on December 11, 13, 17, 18, and 21. Additional material is in preparation. - Mr. Tickton

#### Revenue Estimates

##### I. Projects or studies completed

1. The regular monthly statement was prepared for the Bureau of Accounts, showing the latest revised estimates of receipts, by months and by principal sources of revenue, for the period December-June 1941, and was transmitted on December 4. - Mr. Delcher
2. The regular monthly summary comparison of estimated receipts and actual receipts in November 1940 on the daily Treasury statement basis, was prepared. - Mr. Delcher
3. The regular monthly detailed comparison of estimated and actual receipts in November 1940, and for the period July-November 1940, based on the collections classification, was prepared. - Mr. Delcher

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4. The usual detailed estimates of Federal revenues by sources for the fiscal years 1941 and 1942, were completed for use in the Budget of the United States Government, fiscal year 1942, and were transmitted to the Bureau of the Budget on December 19. - Mr. Haas, Mr. O'Donnell, Mr. Daggit, Mr. Leahey, Mrs. May, Mr. Chevraux, Mr. Wilson, Mr. T. L. Smith, Mr. Bronfenbrenner, Mr. R. R. Smith, Miss Hagedorn
5. An estimate for use in the preparation of the Secretary's Annual Report was completed of Federal revenues by sources, based on the law existing in December 1940, assuming two specified levels of national income. - Mr. Haas, Mr. O'Donnell, Mr. Daggit, Mr. Leahey, Mrs. May, Mr. Wilson, Mr. T. L. Smith, Mr. Bronfenbrenner, Mr. R. R. Smith
6. For use in the preparation of the Secretary's Annual Report, a comparison was made, on the basis of the calendar year 1941 forecast levels of business activity, of the relative strength of the present tax structure with that which prevailed immediately prior to and immediately following the passage of the Revenue Act of 1932. - Mr. O'Donnell, Mr. Daggit, Mr. Leahey, Mrs. May, Mr. Wilson, Mr. T. L. Smith, Mr. Bronfenbrenner, Mr. R. R. Smith
7. For use in the preparation of the Secretary's Annual Report, tax collections were allocated to the estimated year of incurrence of the tax liability for the calendar years from 1933 through 1939. - Mr. O'Donnell, Mr. Leahey, Mr. Wilson, Mr. T. L. Smith, Mr. Bronfenbrenner
8. The estimated tax liabilities determined in the project listed as item 7 above, were then allocated to groups of related sources in a new classification. - Mr. O'Donnell, Mr. Leahey, Mr. Wilson, Mr. T. L. Smith, Mr. Bronfenbrenner

## II. Projects or studies under way

1. Tentative plans for a WPA statistical project in connection with work on the excess-profits tax, as well as material proposed to be obtained from the Securities and Exchange Commission, are being reviewed in accordance with requests by the Division of Tax Research on July 12 and 17. - Mr. T. F. Leahey
2. At the request of the Division of Tax Research on July 12, an estimate is being made of the additional revenue which would be derived if mutual insurance companies other than life insurance companies taxable under Section 207 of the Internal Revenue Code were

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made taxable in the same manner as stock insurance companies other than life insurance companies taxable under Section 204, and at the same time the exemption under Section 101(11) were restricted to local mutual companies of the assessment type. - Mr. T. F. Leahey

3. A forecast is being prepared on the basis of the 1942 Budget of the United States, of the monthly distribution of estimated revenue for the fiscal years 1941 and 1942. - Mr. O'Donnell, Mr. Daggit, Mr. T. F. Leahey, Mrs. May, Mr. Wilson, Mr. T. L. Smith, Mr. Bronfenbrenner, Mr. R. R. Smith, Miss Hagedorn
4. As one of a series of projects for revising and improving methods of estimating revenues, a new study was begun of the gasoline tax. - Mrs. May, Mr. R. R. Smith

Economic Conditions Related to Fiscal  
and Revenue Matters

I. Projects or studies completed

1. Memoranda on the business and price situation were prepared, and were transmitted to the Secretary on December 2, 9, 16, 23, and 30. - Mr. Haas, Mr. Daggit, Mrs. May, Mr. Chevraux, Mr. Smith

These memoranda contained in addition to analysis of the current situation the following special studies:

- (1) A forecast of freight car shortage in fall of 1941, and a forecast of freight carloadings at the 1941 peak. (Comment with charts in memorandum of December 9). - Mr. Daggit, Mr. Chevraux
  - (2) A comparison of the price index of 28 basic commodities with monthly spot prices of lumber, steel scrap, mine, and wool. (Chart in memorandum of December 23). - Mr. Daggit, Mrs. May
  - (3) A comparison of prices of building materials as a whole and of various groups to show the relative amplitude of the rise in lumber prices. (Chart in memorandum of December 23). - Mr. Daggit, Mrs. May
2. Memoranda on employment under the Work Projects Administration were prepared, and were transmitted on December 3, 9, 16, and 31. - Miss Hagedorn

1. In accordance with arrangements previously made an estimate of employment in the airplane industry by geographic areas was prepared for November, and was transmitted on December 12, according to instructions by the Secretary. - Mr. Tickton
2. At the request of the Secretary, a table is prepared each week summarizing exports of petroleum products, scrap iron, and scrap steel, from the United States to Japan, the U.S.S.R., Spain, and Great Britain, as indicated by departure permits reported daily by the Office of Merchant Ship Control. The tables were prepared for the weeks ending December 7, 14, 21, and 28. On December 9, 16, 23, and 30, the original and 13 photostats were transmitted to Assistant Secretary Gaston. In addition, each week two photostats were transmitted to Mr. Young, one of which was for Mr. Purvis. - Mr. Tickton, Mr. C. J. Leahy
3. Compilations were made of daily quotations on selected commodities and daily and weekly figures on selected business indexes, foreign and domestic security transactions, security prices, exchange rates, etc., as well as other data for the Secretary's chart book. - Mr. Chevrax
4. Comments were prepared on the commodity situation as of November 29 and December 13, for information in connection with the Friday meeting of December 13. - Mr. Daggit, Mrs. May
5. A letter was forwarded to the Bureau of the Budget on December 2, transmitting two tables showing various forecasts of the FRB new index of industrial production and of the Bureau of Labor Statistics all-commodity price index for the calendar years 1940 and 1941, and for the first six months of 1942. - Mr. Haas
6. Two charts were prepared, one showing the movement of basic commodity prices and the other showing composite building material prices, lumber prices, and lumber stocks. Copies of the charts, which had been included in the Business memorandum of December 16, were supplied to the Secretary for use by the President. - Mr. Daggit

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9. At the request of the Secretary on December 16, a memorandum was prepared, on the amount and value of the butter under loan or owned by the Department of Agriculture, and was transmitted to him on December 16. - Mr. Daggit, Mrs. May
10. At the request of the Secretary on December 12, a letter to Mr. Leon Henderson was prepared for signature of the Secretary on December 12, requesting information on action being taken with respect to the situation responsible for certain price increases. - Mr. Haas, Mr. Daggit
11. At the request of the Secretary on December 23, a letter to Mr. Leon Henderson was prepared for signature of the Secretary on December 23, in response to a letter from Mr. Henderson, in regard to control of lumber prices. - Mr. Haas, Mr. Daggit
12. At the request of the Secretary on December 17, a letter to the President was prepared for signature of the Secretary on December 18, on the inadequacy of the projected expansion in the steel industry in view of the probable defense requirements. Accompanying the letter were a table showing new capacity completed, authorized, or under construction since January 1, 1940, and a chart showing steel output in tons, in relation to capacity of each district. Copies of the communication were furnished Mr. Stettinius and Mr. Henderson. - Mr. Haas, Mr. Daggit, Mr. R. R. Smith
13. At the request of the Secretary on December 27, a memorandum was prepared on the age and tractive power of locomotives in service on Class I railways, with tables showing the number and tractive power of steam locomotives 1926-1939, and the construction dates of all locomotives by districts, and was transmitted to the Secretary on December 31. - Mr. Haas, Mr. Daggit
14. At the request of the Secretary on December 27, a memorandum was prepared, and was transmitted to him on December 31, on the world cocoa situation, with reference to prospective supply, existing stocks, shipping problems, demand factors, and the outlook for prices. - Mr. Haas, Mr. Daggit, Mr. Chevraux
15. At the request of the Secretary on December 27, a series of comparisons was prepared, and was transmitted to him on December 31, in a memorandum, three tables, and four charts, showing the percentage increase from the 1940 low for each commodity in the all-commodity index. - Mr. Haas, Mr. Daggit, Mr. Tilton

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16. At the request of the Secretary a memorandum was prepared on December 23, reporting a conversation with Mr. Fred H. Sexauer, President, Dairymen's League Cooperative Association, New York City, on December 20, and transmitting a written statement from Mr. Sexauer with respect to the New York milk marketing order situation. - Mr. Haas

## II. Projects or studies under way

### 1. Index of unfilled orders.

An attempt is being made to improve our information on the volume of unfilled orders by working out a composite index based on data from individual industries. - Mr. Daggit

### 2. Forces determining trends of basic commodity prices.

This project involves a study of (1) the forces determining general commodity prices and (2) the forces determining the prices of individual commodities.

With respect to (1), general commodity prices, an analysis is in process of disparities between demand and production as a basic price factor which, under excessive war demand, might lead to inflation. For use in this analysis two indexes of demand are being constructed: An index of export demand which expresses the exports of manufactured goods in physical volume, and the index of consumer buying in terms of physical volume, which is part of the project on measures of consumer buying listed as item 3 below.

With respect to (2), prices of individual commodities, shipments of a given commodity, or deliveries to consumers, are taken as a measure of demand, to be compared with production. Ten basic commodities have been selected tentatively for study, and this work is in process. - Mr. Daggit, Mrs. May, Mr. Smith, Miss Hagedorn

### 3. Measures of consumer buying.

A project is under way with the object of developing (1) an index to measure the buying power of consumers in terms of physical volume of purchases, after correcting for the effect of changes in price on the apparent demand; and (2) an index to measure changes in total consumer expenditures, in dollar volume. These two indices will supplement our present "index of sales", which is designed to measure the "offtake" of manufactured goods into various consumption channels.

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Studies on a monthly basis have been nearly completed on individual components of two physical volume indexes of consumer buying, one corrected for the effect of price changes, and the other corrected both for the effect of price changes and for the effect of changes in national income. The weighting of the individual components remains to be done. In addition, with respect to the index of consumer expenditures in dollar volume, substantial progress has been made in developing individual series, in determining their suitability for inclusion and the necessary adjustments. The purpose is to cover as large as possible a proportion of the purchases of ultimate consumers. - Mr. Daggit, Mrs. May, Mr. Smith

4. Trends of individual commodity prices and price factors during the World War period.

This project is patterned after the general study of prices and price factors, 1913 to 1922, made in October 1939, but deals with six individual basic commodities - wheat, cotton, hogs, steel, copper, and zinc. The project is designed to determine the principal price factors associated with the wartime rise and subsequent collapse of prices of these commodities. - Mr. Daggit, Mrs. May

5. Index of commodity stocks.

This project is designed to develop a composite index of basic commodity stocks as a measure of one important factor in the general price level. Stocks of sixteen important industrial materials, expressed in terms of their net effect on prices, are being compiled for this index. - Mrs. May

6. Index of goods inventories.

A better index of inventories of finished goods is needed as an indication of business maladjustments, with a breakdown as between inventories of finished goods held by manufacturers and those held by others. An attempt to develop such an index is under way. - Mr. Daggit

7. Index of buying on deferred payments.

A study of the volume of installment buying and consumer credit has nearly been completed. This study is designed eventually to provide a monthly index of the volume of

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buying on deferred payments, which at times is an important business factor. It is in abeyance at present, pending publication of a new study by the Department of Commerce. - Mrs. May

2. Weekly approximations of the FRB index of industrial production.

This project is designed to develop an index of industrial production that will indicate week by week the approximate level of the FRB index. It will include a larger number of weekly series than are included in any current business indices, with weightings and seasonal adjustments approximating those in the FRB index. - Mr. Daggit, Mr. Smith

Actuarial Problems

I. Projects or studies completed

1. Board of Actuaries of the Civil Service Retirement and Disability Fund.

The Board of Actuaries has completed the preparation of regulations with respect to the optional benefits payable under the Civil Service Retirement Act. - Mr. Reagh

2. Bureau of Internal Revenue.

At the oral request on December 7 of Mr. F. S. Peabody, Investigator in the Bureau of Internal Revenue, a memorandum was prepared, and was transmitted on December 11 setting forth certain probabilities involved in the "policy game". A subsequent memorandum was transmitted, explaining in considerable detail the method of computing such probabilities. - Mr. Reagh, Mr. Brown, Mr. Kroll

3. Bureau of Internal Revenue.

At the request on December 19 of Mr. John P. Kiley of the Chicago Division Technical Staff of the Bureau of Internal Revenue, assistance was given in preparation of material for use in an income tax case involving the payment of the proceeds of life insurance policies in instalments. - Mr. Reagh, Mr. Brown

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4. Federal Communications Commission.

The Federal Communications Commission on November 27 requested additional assistance in connection with the pension plan of the American Telephone and Telegraph Company. A memorandum on certain accounting aspects was prepared and was transmitted to the Commission on December 14, for possible inclusion in the appendix to a report on the plan. - Mr. Reagh, Mr. Brown

5. Rural Electrification Administration.

In response to a request on December 9, by Mr. Gilleland of the REA, figures were calculated with respect to the amortization of two loans drawing interest at 2.73 percent and 2.46 percent, respectively, compounded semiannually. The request involved the devising of a method of repayment which would in effect combine the two loans in such a way as to level the total payments required to pay off the loans, although the payment period was not the same in the two loans. The computations were transmitted in a letter to Mr. Gilleland dated December 12, and supplemental information was supplied in a letter mailed on December 14. - Mr. Brown, Mr. Kroll

6. Soldiers' and Sailors' Civil Relief Act.

A review was made on December 11, of a memorandum concerning a letter from the Veterans Administration, with respect to the proposed interest rate on certificates to be issued by the Administrator of Veterans' Affairs covering premiums due on life insurance policies of members of the military and naval forces who may apply for benefits under Article IV of the Act. - Mr. Reagh

II. Projects or studies under way1. Board of Actuaries of the Civil Service Retirement and Disability Fund.

The Board of Actuaries is laying out detailed plans for tabulating and processing data for use in preparing the regular five-year valuation of the Civil Service Retirement Fund for the purpose of determining the liabilities of the Government under the Civil Service Retirement law. Under the law, such a valuation must be prepared as of July 1, 1940. - Mr. Reagh, Mr. Brown, Mr. Kroll

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2. Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund.

In cooperation with the members of the staff of the Social Security Board, there is being prepared a draft for the first annual report of the Board of Trustees. - Mr. Reagh, Mr. Murphy, Mr. Brown

3. Actuarial valuation of the Foreign Service Retirement and Disability Fund.

The Foreign Service Retirement law, as approved April 24, 1939, Section 26(m), provides that the "Treasury Department shall prepare the estimates of the annual appropriations required to be made to the Foreign Service Retirement and Disability Fund and shall make actuarial valuations at intervals of five years, or oftener if deemed necessary by the Secretary of the Treasury". An outline of the data required for making an actuarial valuation has been submitted to the State Department. A preliminary estimate of the appropriation required for the fiscal year 1942 has been prepared, and has been submitted to the State Department. - Mr. Reagh, Mr. Brown

4. Retirement System for Field Employees of the Farm Credit Administration.

In response to a request from the Farm Credit Administration on October 10, assistance is being given in devising a retirement system covering field employees in that organization. Several conferences have been attended by a member of the staff, and it is expected that additional assistance will be requested. - Mr. Reagh

5. Department of Justice.

In accordance with a request contained in a letter of December 19 from Mr. Warren Wattles, Special Assistant to the Attorney General, assistance will be given in connection with several tax cases involving life insurance paid in the form of annuities certain and life annuities. - Mr. Reagh, Mr. Brown

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Other Projects or Studies1. Treasury Bulletin.

Data were prepared for the December issue of the Bulletin on average yields of long-term Treasury bonds and high-grade corporate bonds. - Miss Eyre

All the material submitted for the December issue was reviewed and edited. Substantial revision was made in the table showing the estimated amount of tax-exempt securities outstanding as of June 30, 1940.

Additional revisions are being considered for the January issue. - Mr. Lindow, Miss Eyre

2. Annual Report of the Secretary of the Treasury.

Articles for the text of the Annual Report for the fiscal year 1940, including the special review, were completed on the following subjects: Estimated and actual receipts; Public debt; Obligations guaranteed by the United States; Absorption of the direct and guaranteed public debt by classes of holders; Bond market developments; Banking developments; Treasury activities under the provisions of the Social Security Act; Treasury neutrality and defense activities; and the Administrative report for the Division. - Mr. Haas, Mr. Tickton, Miss Michener, Miss Westerman, Mrs. Wolkind, Mr. Turner, Mr. Purvis, Mr. Murphy, Mr. Reagh, Miss Ziegler, Mr. O'Donnell, Mr. Leahey, Mr. Wilson, Mr. Bronfenbrenner, Mr. T. L. Smith

The editing of the Annual Report was practically completed, and page proof of the text was submitted for final approval to Under Secretary Bell, Assistant Secretary Gaston, Assistant Secretary Sullivan, Mr. Graves, Mr. Thompson, Mr. Foley, and Mr. Heffelfinger. - Mr. Tickton, Miss Westerman, Mrs. Wolkind

3. Other material for publication.

- (1) A review was made of part of the copy for the next issue of Reports to Be Made to Congress and was transmitted to the Chief Clerk on December 10. - Miss Westerman

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- (2) A review was made of page proof of the Annual Report of the Director of the Mint for the fiscal year ended June 30, 1940, and was transmitted to the Administrative Assistant to the Secretary on December 12. - Miss Ziegler
- (3) At the request of Assistant Secretary Gaston on October 18, an article is being prepared on the operations of the Treasury Department during 1940 to be incorporated in the 1941 Americana Annual. - Mr. Tickton
- (4) At the request of Under Secretary Bell, received on December 20, a memorandum is being prepared on the background and results of the statement on prices read by the President at his press conference on February 18, 1938, in connection with its inclusion in one of the next four volumes of the Public Papers of the President. - Mr. Daggit

#### 4. Cumulative index of Treasury Publications.

Work has been begun on the preparation of a cumulative subject index of Treasury publications since the establishment of the Department, covering (1) Annual Reports of the Secretary, (2) other publications issued by the Department, including annual reports of the bureaus and offices in the Department, and (3) material prepared in the Treasury Department which was published in Congressional documents, hearings before Committees of Congress, or the Congressional Record. - Miss Westerman

#### 5. Correspondence.

Replies were prepared to letters received on subjects relating to the work of the Division, and letters drafted elsewhere and submitted to the Division for that purpose were reviewed. - Miss Mohener, Miss Ziegler, and other members of the staff in appropriate fields of work.

During December, 350 letters were received in the Division and 353 were handled as required.

#### 6. Charts.

Charts are prepared and continually brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Sanyas. A statistical report on the work of the Graphic Section for the month of December is attached.

Work completed in the Graphic Section, Division of  
Research and Statistics, during December 1940

Type of work	For Division of R & S	For Others	Total
<u>Chiefs:</u>			
<u>New charts:</u>			
Total charts completed	36	13	49
Bond book charts completed	-	-	-
<u>Charts brought up to date:</u>			
3 bond chart books brought up to date	25 (times)	-	25 (t)
All other charts brought up to date	682	20	702
<u>Miscellaneous:</u>			
Total jobs	17	10	27
<u>Photographic:</u>			
<u>Photographs:</u>			
Total jobs	77	25	102
Number of-			
Negatives	126	17	143
Contact prints	164	72	236
Enlargements	120	142	262
<u>Photostats:</u>			
Total jobs	148	17	165
Number of-			
Lettersize copies	838	143	981
All other copies	9,478	48	9,526
<u>Multilith:</u>			
Total jobs	7	-	7
Number of-			
Zinc plates	86	-	86
<u>Miscellaneous:</u>			
Total jobs	18	9	27

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Type of work	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
<b>A. Graphic</b>							
New charts completed	45	18	39	43	57	49	251
Charts brought up to date	748	687	716	711	695	702	4,259
Bond book charts completed	-	2	-	63	-	-	65
Bond books brought up to date	28 (times)	27 (t)	26 (t)	27 (t)	25 (t)	25 (t)	158
Miscellaneous jobs completed	23	17	36	32	30	27	165
<b>B. Photographic</b>							
<u>Photographs:</u>							
Total jobs	53	48	66	62	83	102	414
Number of-							
Negatives	151	170	158	220	253	143	1,095
Contact prints	164	158	250	181	427	236	1,416
Enlargements	177	96	196	681	179	262	1,591
<u>Photostats:</u>							
Total jobs	123	116	149	140	134	165	827
Number of-							
Lettersize copies	3,657	342	420	745	936	981	7,081
All other copies	8,165	12,467	8,967	9,210	9,401	9,526	57,736
<u>Multilith:</u>							
Total jobs	7	5	5	4	9	7	37
Number of-							
Zinc plates	91	131	80	83	159	86	640
<u>Miscellaneous:</u>							
Total jobs	14	12	27	26	25	27	131

LB:wlt  
7-31-40

9-3-40

10-1-40

11-1-40

12-1-40

12-31-40

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THE WHITE HOUSE  
WASHINGTON

January 16, 1941

MEMORANDUM FOR

✓ THE SECRETARY OF THE TREASURY  
CHAIRMAN CROWLEY  
COMPTROLLER OF THE CURRENCY  
CHAIRMAN ECCLES

I think that all four agencies  
should work together in relation to  
this legislation. Please make out a  
program.

F. D. R.

Enclosures

*Call meeting —  
3 — Tues.*

*File  
into Wilson  
files*



THE SECRETARY OF THE TREASURY  
WASHINGTON

January 3, 1941

My dear Mr. President:

You will recall our recent discussion relative to the need for legislation dealing with the bank holding company problem. Since talking with you a bill has been drafted to meet this situation. The Comptroller of the Currency and I have discussed the measure with Senator Glass who has indicated sympathy with the general purposes of the proposed legislation but has withheld final approval until he has had an opportunity to compare our draft with his less drastic measure of 1938 and obtain the views of some of his associates.

The bill which we have prepared prohibits any company, after June 30, 1944, from owning or controlling more than ten per cent of the voting securities of any bank insured by the Federal Deposit Insurance Corporation. It also confers upon the Comptroller of the Currency with respect to national banks, and the Federal Deposit Insurance Corporation with respect to state insured banks, authority to forbid the payment of any dividends which would impair the stability and soundness of such banks. It is believed that such dividend control is needed not only in connection with bank holding company legislation but also as general

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authority to implement the supervisory powers of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

Yesterday while talking with Chairman Crowley of the Federal Deposit Insurance Corporation, he suggested that your message to the new Congress contain a recommendation that legislation be enacted to control effectively the operation of bank holding companies. I agree with Mr. Crowley's suggestion. You will recall that your message of April 29, 1938 contained a similar recommendation. For your convenience, I am attaching a copy of that message.

Mr. Crowley and I believe that a recommendation indicating that legislation of this character has your approval would be invaluable in securing consideration of such a measure in the new Congress. Language somewhat along the following lines would seem to be appropriate:

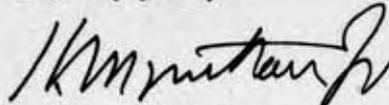
"In my message to the Congress on April 29, 1938 I had occasion to call to the attention of the Congress the dangers inherent in the existence and growth of holding companies operating in the banking field. I then recommended that legislation be enacted to meet the problem.

"The seriousness of the problem involved in the control of banks by holding companies has, if anything, increased since 1938. Accordingly, I strongly recommend that the Congress enact at this session legislation that will effectively control the operation of bank holding companies; protect the soundness of banks controlled by holding companies; and make provision for the gradual

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separation of banks from holding company control or ownership, allowing a sufficient time for this to be done in an orderly manner and without causing undue inconvenience to communities served by banks owned or controlled by holding companies."

Faithfully yours,



Secretary of the Treasury.

The President

The White House.

STRENGTHENING AND ENFORCEMENT OF ANTITRUST  
LAWS

## MESSAGE

FROM

## THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

RECOMMENDATIONS RELATIVE TO THE STRENGTHENING AND  
ENFORCEMENT OF ANTITRUST LAWS

APRIL 20 (calendar day, APRIL 29), 1938.—Read; referred to the Committee on the Judiciary and ordered to be printed

*To the Congress of the United States:*

Unhappy events abroad have retaught us two simple truths about the liberty of a democratic people.

The first truth is that the liberty of a democracy is not safe if the people tolerate the growth of private power to a point where it becomes stronger than their democratic state itself. That, in its essence, is fascism—ownership of government by an individual, by a group, or by any other controlling private power.

The second truth is that the liberty of a democracy is not safe if its business system does not provide employment and produce and distribute goods in such a way as to sustain an acceptable standard of living.

Both lessons hit home. Among us today a concentration of private power without equal in history is growing.

This concentration is seriously impairing the economic effectiveness of private enterprise as a way of providing employment for labor and capital and as a way of assuring a more equitable distribution of income and earnings among the people of the Nation as a whole.

## 2 STRENGTHENING AND ENFORCEMENT OF ANTITRUST LAWS

### I. THE GROWING CONCENTRATION OF ECONOMIC POWER

Statistics of the Bureau of Internal Revenue reveal the following amazing figures for 1935:

**Ownership of corporate assets:** Of all corporations reporting from every part of the Nation, one-tenth of 1 percent of them owned 52 percent of the assets of all of them.

**And to clinch the point:** Of all corporations reporting, less than 3 percent of them owned 87 percent of all the assets of all of them.

**Income and profits of corporations:** Of all the corporations reporting from every part of the country, one-tenth of 1 percent of them earned 50 percent of the net income of all of them.

**And to clinch the point:** Of all the manufacturing corporations reporting, less than 4 percent of them earned 84 percent of all the net profits of all of them.

The statistical history of modern times proves that in times of depression concentration of business speeds up. Bigger business then has larger opportunity to grow still bigger at the expense of smaller competitors who are weakened by financial adversity.

The danger of this centralization in a handful of huge corporations is not reduced or eliminated, as is sometimes urged, by the wide public distribution of their securities. The mere number of security holders gives little clue to the size of their individual holdings or to their actual ability to have a voice in the management. In fact, the concentration of stock ownership of corporations in the hands of a tiny minority of the population matches the concentration of corporate assets.

The year 1929 was a banner year for distribution of stock ownership.

But in that year three-tenths of 1 percent of our population received 78 percent of the dividends reported by individuals. This has roughly the same effect as if, out of every 300 persons in our population, one person received 78 cents out of every dollar of corporate dividends while the other 299 persons divided up the other 22 cents between them.

The effect of this concentration is reflected in the distribution of national income.

A recent study by the National Resources Committee shows that in 1935-36—

Forty-seven percent of all American families and single individuals living alone had incomes of less than \$1,000 for the year; and at the other end of the ladder a little less than 1½ percent of the Nation's families received incomes which in dollars and cents reached the same total as the incomes of the 47 percent at the bottom.

Furthermore, to drive the point home, the Bureau of Internal Revenue reports that estate tax returns in 1936, show that—

Thirty-three percent of the property which was passed by inheritance was found in only 4 percent of all the reporting estates. (And the figures of concentration would be far more impressive, if we included all the smaller estates which, under the law, do not have to report.)

We believe in a way of living in which political democracy and free private enterprise for profit should serve and protect each other—to insure a maximum of human liberty not for a few but for all.

It has been well said that, "The freest government, if it could exist, would not be long acceptable, if the tendency of the laws were to create a rapid accumulation of property in few hands, and to render the great mass of the population dependent and penniless."

## STRENGTHENING AND ENFORCEMENT OF ANTITRUST LAWS 3

Today many Americans ask the uneasy question: Is the vociferation that our liberties are in danger justified by the facts?

Today's answer on the part of average men and women in every part of the country is far more accurate than it would have been in 1929 for the very simple reason that during the past 9 years we have been doing a lot of common-sense thinking. Their answer is that if there is that danger it comes from that concentrated private economic power which is struggling so hard to master our democratic government. It will not come, as some (by no means all) of the possessors of that private power would make the people believe—from our democratic government itself.

### II. FINANCIAL CONTROL OVER INDUSTRY

Even these statistics I have cited do not measure the actual degree of concentration of control over American industry.

Close financial control, through interlocking spheres of influence over channels of investment, and through the use of financial devices like holding companies and strategic minority interests, creates close control of the business policies of enterprises which masquerade as independent units.

That heavy hand of integrated financial and management control lies upon large and strategic areas of American industry. The small-business man is unfortunately being driven into a less and less independent position in American life. You and I must admit that.

Private enterprise is ceasing to be free enterprise and is becoming a cluster of private collectivism; masking itself as a system of free enterprise after the American model, it is in fact becoming a concealed cartel system after the European model.

We all want efficient industrial growth and the advantages of mass production. No one suggests that we return to the hand loom or hand forge. A series of processes involved in turning out a given manufactured product may well require one or more huge mass-production plants. Modern efficiency may call for this. But modern efficient mass production is not furthered by a central control which destroys competition between industrial plants each capable of efficient mass production while operating as separate units. Industrial efficiency does not have to mean industrial empire building.

And industrial empire building, unfortunately, has evolved into banker control of industry. We oppose that.

Such control does not offer safety for the investing public. Investment judgment requires the disinterested appraisal of other people's management. It becomes blurred and distorted if it is combined with the conflicting duty of controlling the management it is supposed to judge.

Interlocking financial controls have taken from American business much of its traditional virility, independence, adaptability, and daring—without compensating advantages. They have not given the stability they promised.

Business enterprise needs new vitality and the flexibility that comes from the diversified efforts, independent judgments and vibrant energies of thousands upon thousands of independent businessmen.

The individual must be encouraged to exercise his own judgment and to venture his own small savings, not in stock gambling but in

4 STRENGTHENING AND ENFORCEMENT OF ANTITRUST LAWS  
 new enterprise investment. Men will dare to compete against men but not against giants.

III. THE DECLINE OF COMPETITION AND ITS EFFECTS ON EMPLOYMENT  
 In output per man or machine we are the most efficient industrial nation on earth.

In the matter of complete mutual employment of capital and labor we are among the least efficient.

Our difficulties of employing labor and capital are not new. We have had them since good, free land gave out in the West at the turn of the century. They were old before we undertook changes in our tax policy or in our labor and social legislation. They were caused not by this legislation but by the same forces which caused the legislation. The problem of bringing idle men and idle money together will not be solved by abandoning the forward steps we have taken to adjust the burdens of taxation more fairly and to attain social justice and security.

If you believe with me in private initiative, you must acknowledge the right of well-managed small business to expect to make reasonable profits. You must admit that the destruction of this opportunity follows concentration of control of any given industry into a small number of dominating corporations.

One of the primary causes of our present difficulties lies in the disappearance of price competition in many industrial fields, particularly in basic manufacture where concentrated economic power is most evident—and where rigid prices and fluctuating pay rolls are general. Managed industrial prices mean fewer jobs. It is no accident that in industries like cement and steel where prices have remained firm and 50 percent in recent months. Nor is it mere chance that in most competitive industries where prices adjust themselves quickly to falling demand, pay rolls and employment have been far better maintained. By prices we mean, of course, the prices of the finished articles and not the wages paid to workers.

When prices are privately managed at levels above those which would be determined by free competition, everybody pays.

The contractor pays more for materials; the homebuilder pays more for his house; the tenant pays more rent; and the worker pays in lost work.

Even the Government itself is unable, in a large range of materials, to obtain competitive bids. It is repeatedly confronted with bids identical to the last cent.

Our housing shortage is a perfect example of how ability to control prices interferes with the ability of private enterprise to fill the needs of the community and provide employment for capital and labor.

On the other hand, we have some lines of business, large and small, which are genuinely competitive. Often these competitive industries must buy their basic products from monopolistic industry, thus losing, and causing the public to lose, a large part of the benefit of their own competitive policy. Furthermore, in times of recession, the practices of monopolistic industries make it difficult for business or agriculture, which is competitive and which does not curtail production below normal needs, to find a market for its goods even at

STRENGTHENING AND ENFORCEMENT OF ANTITRUST LAWS 5

reduced prices. For at such times a large number of customers of agriculture and competitive industry are being thrown out of work by those noncompetitive industries which choose to hold their prices rather than to move their goods and to employ their workers.

If private enterprise left to its own devices becomes half-regimented and half-competitive, half-slave and half-free, as it is today, it obviously cannot adjust itself to meet the needs and the demands of the country.

Most complaints for violations of the antitrust laws are made by businessmen against other businessmen. Even the most monopolistic businessman disapproves of all monopolies but his own. We may smile at this as being just an example of human nature, but we cannot laugh away the fact that the combined effect of the monopolistic controls which each business group imposes for its own benefit inevitably destroys the buying power of the Nation as a whole.

IV. COMPETITION DOES NOT MEAN EXPLOITATION

Competition, of course, like all other good things, can be carried to excess. Competition should not extend to fields where it has demonstrably bad social and economic consequences. The exploitation of child labor, the chiseling of workers' wages, the stretching of workers' hours, are not necessary, fair, or proper methods of competition. I have consistently urged a Federal wages-and-hours bill to take the minimum decencies of life for the working man and woman out of the field of competition.

It is of course necessary to operate the competitive system of free enterprise intelligently. In gaging the market for their wares businessmen, like the farmers, should be given all possible information by government and by their own associations so that they may act with knowledge and not on impulse. Serious problems of temporary overproduction can and should be avoided by disseminating information that will discourage the production of more goods than the current markets can possibly absorb or the accumulation of dangerously large inventories for which there is no obvious need.

It is, of course, necessary to encourage rises in the level of those competitive prices, such as agricultural prices, which must rise to put our price structure into more workable balance and make the debt burden more tolerable. Many such competitive prices are now too low.

It may at times be necessary to give special treatment to chronically sick industries which have deteriorated too far for natural revival, especially those which have a public or quasi-public character.

But generally over the field of industry and finance we must revive and strengthen competition if we wish to preserve and make workable our traditional system of free private enterprise.

The justification of private profit is private risk. We cannot safely make America safe for the businessman who does not want to take the burdens and risks of being a businessman.

V. THE CHOICE BEFORE US

Examination of methods of conducting and controlling private enterprise which keep it from furnishing jobs or income or opportunity for one-third of the population is long overdue on the part of those

## 6 STRENGTHENING AND ENFORCEMENT OF ANTITRUST LAWS

who sincerely want to preserve the system of private enterprise for profit.

No people, least of all a democratic people, will be content to go without work or to accept some standard of living which obviously and woefully falls short of their capacity to produce. No people, least of all a people with our traditions of personal liberty, will endure the slow erosion of opportunity for the common man, the oppressive sense of helplessness under the domination of a few, which are overshadowing our whole economic life.

A discerning magazine of business has editorially pointed out that big-business collectivism in industry compels an ultimate collectivism in government.

The power of a few to manage the economic life of the Nation must be diffused among the many or be transferred to the public and its democratically responsible government. If prices are to be managed and administered, if the Nation's business is to be allotted by plan and not by competition, that power should not be vested in any private group or cartel, however benevolent its professions profess to be.

Those people, in and out of the halls of government, who encourage the growing restriction of competition either by active efforts or by passive resistance to sincere attempts to change the trend, are shouldering a terrific responsibility. Consciously or unconsciously they are working for centralized business and financial control. Consciously or unconsciously they are therefore either working for control of the Government itself by business and finance or the other alternative—a growing concentration of public power in the Government to cope with such concentration of private power.

The enforcement of free competition is the least regulation business can expect.

## VI. A PROGRAM

The traditional approach to the problems I have discussed has been through the antitrust laws. That approach we do not propose to abandon. On the contrary, although we must recognize the inadequacies of the existing laws, we seek to enforce them so that the public shall not be deprived of such protection as they afford. To enforce them properly requires thorough investigation not only to discover such violations as may exist but to avoid hit-and-miss prosecutions harmful to business and government alike. To provide for the proper and fair enforcement of the existing antitrust laws I shall submit, through the Budget, recommendations for a deficiency appropriation of \$200,000 for the Department of Justice.

But the existing antitrust laws are inadequate—most importantly because of new financial economic conditions with which they are powerless to cope.

The Sherman Act was passed nearly 40 years ago. The Clayton and Federal Trade Commission Acts were passed over 20 years ago. We have had considerable experience under those acts. In the meantime we have had a chance to observe the practical operation of large-scale industry and to learn many things about the competitive system which we did not know in those days.

We have witnessed the merging-out of effective competition in many fields of enterprise. We have learned that the so-called competitive system works differently in an industry where there are

## STRENGTHENING AND ENFORCEMENT OF ANTITRUST LAWS 7

many independent units, from the way it works in an industry where a few large producers dominate the market.

We have also learned that a realistic system of business regulation has to reach more than consciously immoral acts. The community is interested in economic results. It must be protected from economic as well as moral wrongs. We must find practical controls over blind economic forces as well as over blindly selfish men.

Government can deal and should deal with blindly selfish men. But that is a comparatively small part—the easier part—of our problem. The larger, more important and more difficult part of our problem is to deal with men who are not selfish and who are good citizens, but who cannot see the social and economic consequences of their actions in a modern economically interdependent community. They fail to grasp the significance of some of our most vital social and economic problems because they see them only in the light of their own personal experience and not in perspective with the experience of other men and other industries. They therefore fail to see these problems for the Nation as a whole.

To meet the situation I have described, there should be a thorough study of the concentration of economic power in American industry and the effect of that concentration upon the decline of competition. There should be an examination of the existing price system and the price policies of industry to determine their effect upon the general level of trade, upon employment, upon long-term profits and upon consumption. The study should not be confined to the traditional antitrust field. The effects of tax, patent, and other Government policies cannot be ignored.

The study should be comprehensive and adequately financed. I recommend an appropriation of not less than \$500,000 for the conduct of such comprehensive study by the Federal Trade Commission, the Department of Justice, the Securities and Exchange Commission, and such other agencies of government as have special experience in various phases of the inquiry.

I enumerate some of the items that should be embraced in the proposed study. The items are not intended to be all inclusive. One or two of the items, such as bank holding companies and investment trusts, have already been the subject of special study, and legislation concerning these need not be delayed.

(1) *Improvement of antitrust procedure.*—A revision of the existing antitrust laws should make them susceptible of practical enforcement by casting upon those charged with violations the burden of proving facts peculiarly within their knowledge. Proof by the Government of identical bids, uniform price increases, price leadership, higher domestic than export prices, or other specified price regulations might be accepted as prima facie evidence of unlawful actions.

The Department of Justice and the Federal Trade Commission should be given more adequate and effective power to investigate whenever there is reason to believe that conditions exist or practices prevail which violate the provisions or defeat the objectives of the antitrust laws. If investigation reveals border-line cases where legitimate cooperative efforts to eliminate socially and economically harmful methods of competition in particular industries are thwarted by fear of possible technical violations of the antitrust laws, remedial legislation should be considered.

As a really effective deterrent to personal wrong-doing, I would suggest that where a corporation is enjoined from violating the law, the court might be empowered to enjoin the corporation for a specified period of time from giving any remunerative employment or any official position to any person who has been found to bear a responsibility for the wrongful corporate action.

As a further deterrent to corporate wrong-doing the Government might well be authorized to withhold Government purchases from companies guilty of unfair or monopolistic practices.

(2) *Mergers and interlocking relationships.*—More rigid scrutiny through the Federal Trade Commission and the Securities and Exchange Commission of corporate mergers, consolidations, and acquisitions than that now provided by the Clayton Act to prevent their consummation when not clearly in the public interest; more effective methods for breaking up interlocking relationships and like devices for bestowing business by favor.

(3) *Financial controls.*—The operations of financial institutions should be directed to serve the interests of independent business and restricted against abuses which promote concentrations of power over American industry.

(a) *Investment trusts.*—Investment trusts should be brought under strict control to insure their operations in the interests of their investors rather than of their managers. The Securities and Exchange Commission is to make a report to Congress on the results of a comprehensive study of investment trusts and their operations which it has carried on for nearly 2 years. The investment trust, like the holding company, puts huge aggregations of the capital of the public at the direction of a few managers. Unless properly restricted, it has potentialities of abuse second only to the holding company as a device for the further centralization of control over American industry and American finance.

The tremendous investment funds controlled by our great insurance companies have a certain kinship to investment trusts, in that these companies invest as trustees the savings of millions of our people. The Securities and Exchange Commission should be authorized to make an investigation of the facts relating to these investments with particular relation to their use as an instrument of economic power.

(b) *Bank holding companies.*—It is hardly necessary to point out the great economic power that might be wielded by a group which may succeed in acquiring domination over banking resources in any considerable area of the country. That power becomes particularly dangerous when it is exercised from a distance and notably so when effective control is maintained without the responsibilities of complete ownership.

We have seen the multiplied evils which have arisen from the holding company system in the case of public utilities, where a small minority ownership has been able to dominate a far-flung system.

We do not want those evils repeated in the banking field, and we should take steps now to see that they are not.

It is not a sufficient assurance against the future to say that no great evil has yet resulted from holding company operations in this field. The possibilities of great harm are inherent in the situation.

I recommend that the Congress enact at this session legislation that will effectively control the operation of bank holding companies; pre-

vent holding companies from acquiring control of any more banks, directly or indirectly; prevent banks controlled by holding companies from establishing any more branches; and make it illegal for a holding company, or any corporation or enterprise in which it is financially interested, to borrow from or sell securities to a bank in which it holds stock.

I recommend that this bank legislation make provision for the gradual separation of banks from holding company control or ownership, allowing a reasonable time for this accomplishment—time enough for it to be done in an orderly manner and without causing inconvenience to communities served by holding company banks.

(4) *Trade associations.*—Supervision and effective publicity of the activities of trade associations, and a clarification and delineation of their legitimate spheres of activity which will enable them to combat unfair methods of competition, but which will guard against their interference with legitimate competitive practices.

(5) *Patent laws.*—Amendment of the patent laws to prevent their use to suppress inventions, and to create industrial monopolies. Of course, such amendment should not deprive the inventor of his royalty rights, but, generally speaking, future patents might be made available for use by anyone upon payment of appropriate royalties. Open patent pools have voluntarily been put into effect in a number of important industries with wholesome results.

(6) *Tax correctives.*—Tax policies should be devised to give affirmative encouragement to competitive enterprise.

Attention might be directed to increasing the intercorporate dividend tax to discourage holding companies and to further graduating the corporation income tax according to size. The graduated tax need not be so high as to make bigness impracticable, but might be high enough to make bigness demonstrate its alleged superior efficiency.

We have heard much about the undistributed profits tax. When it was enacted 2 years ago, its objective was known to be closely related to the problem of concentrated economic power and a free capital market.

Its purpose was not only to prevent individuals whose incomes were taxable in the higher surtax brackets from escaping personal income taxes by letting their profits be accumulated as corporate surplus. Its purpose was also to encourage the distribution of corporate profits so that the individual recipients could freely determine where they would reinvest in a free capital market.

It is true that the form of the 1936 tax worked a hardship on many of the smaller corporations. Many months ago I recommended that these inequities be removed.

But in the process of the removal of inequities, we must not lose sight of original objectives. Obviously the nation must have some deterrent against special privileges enjoyed by an exceedingly small group of individuals under the form of the laws prior to 1936, whether such deterrent take the form of an undistributed-profits tax or some other equally or more efficient method. And obviously an undistributed profits tax has a real value in working against a further concentration of economic power and in favor of a freer capital market.

(7) *Bureau of Industrial Economics.*—Creation of a Bureau of Industrial Economics which should be endowed with adequate powers to supplement and supervise the collection of industrial statistics by

## 10 STRENGTHENING AND ENFORCEMENT OF ANTITRUST LAWS

trade associations. Such a bureau should perform for businessmen functions similar to those performed for the farmers by the Bureau of Agricultural Economics.

It should disseminate current statistical and other information regarding market conditions and be in a position to warn against the dangers of temporary overproduction and excessive inventories as well as against the dangers of shortages and bottleneck conditions and to encourage the maintenance of orderly markets. It should study trade fluctuations, credit facilities, and other conditions which affect the welfare of the average businessman. It should be able to help small-business men to keep themselves as well informed about trade conditions as their big competitors.

No man of good faith will misinterpret these proposals. They derive from the oldest American traditions. Concentration of economic power in the few and the resulting unemployment of labor and capital are inescapable problems for a modern "private enterprise" democracy. I do not believe that we are so lacking in stability that we will lose faith in our own way of living just because we seek to find out how to make that way of living work more effectively.

This program should appeal to the honest common sense of every independent businessman interested primarily in running his own business at a profit rather than in controlling the business of other men.

It is not intended as the beginning of any ill-considered "trust-busting" activity which lacks proper consideration for economic results.

It is a program to preserve private enterprise for profit by keeping it free enough to be able to utilize all our resources of capital and labor at a profit.

It is a program whose basic purpose is to stop the progress of collectivism in business and turn business back to the democratic competitive order.

It is a program whose basic thesis is not that the system of free private enterprise for profit has failed in this generation, but that it has not yet been tried.

Once it is realized that business monopoly in America paralyzes the system of free enterprise on which it is grafted, and is as fatal to those who manipulate it as to the people who suffer beneath its impositions, action by the Government to eliminate these artificial restraints will be welcomed by industry throughout the Nation.

For idle factories and idle workers profit no man.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE, April 29, 1938.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE January 18, 1941

Mr. D. W. Bell

FROM W. H. Hadley

DEFENSE NOTES

<u>Approx. Term</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Yield</u>	<u>Price</u>	<u>Premium</u>
11 months	1/4%	12/15/41	0.15	100.3	3/32nds
1 yr. 11 mos.	3/8%	12/15/42	0.32	100.3	3/32nds
	1/2%	12/15/42	0.32	100.11	11/32nds
2 yrs. 5 mos.	1/2%	6/15/43	0.40	100.8	8/32nds
	5/8%	6/15/43	0.40	100.17	17/32nds
2 yrs. 11 mos.	5/8%	12/15/43	0.48	100.14	14/32nds
3 yrs. 5 mos.	3/4%	6/15/44	0.57	100.20	20/32nds
* 3 yrs. 11 mos.	3/4%	12/15/44	0.65 0.66	100.15 100.12	15/32nds 12/32nds
* 4 yrs. 5 mos.	3/4%	6/15/45	0.71 0.73	100.7 100.4	7/32nds 4/32nds
	7/8%	6/15/45	0.71 0.73	100.25 100.22	25/32nds 22/32nds
* 4 yrs. 8 mos.	7/8%	9/15/45	0.74 0.75	100.20 100.19	20/32nds 18/32nds
* 5 years	7/8%	2/1/46	0.79 0.80	100.14 100.12	14/32nds 12/32nds

\* Open dates for notes.

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE January 16, 1941

TO Secretary Morgenthau  
FROM Mr. Haas *HA*

The following is of interest in connection with the fat and oil situation. Mr. John Wiley called me and said that he had learned from a very confidential source in the State Department that one of the large Chicago packers received a colossal lard order from Soviet Russia. The company made inquiry at the State Department to ascertain whether or not there was any objection to the execution of the order. No objection was made by the State Department.

In accordance with your suggestion, I discussed the attached memorandum with Mr. Gaston. He and I both feel that serious consideration should be given to placing fats and oils under export control, as it obvious that United States exports are entering Germany and that fats and oils are one of the important deficiencies of the German economy. Farm groups probably will protest but all sections of the community must make sacrifices for the benefit of the country as a whole.

January 16, 1941

Secretary Morgenthau

Mr. Haas

Subject: Explanation of why tallow prices have risen 50 per cent, in response to your request of today.

The spot price of tallow, of the grade used in the BLS price index of 28 basic commodities, rose from an August low of 3.50 cents a pound to a price on January 15 of 5.25 cents. This represents a gain of 50 per cent, of which 43 per cent occurred prior to January 1.

About 90 to 95 per cent of the domestic production of tallow is inedible and goes into industrial uses, particularly for soap making (where glycerin, used widely for industrial purposes and for explosives, is an important by-product), for lubricants, for treating leather, and many other purposes.

#### Current price relatively low

Tallow prices are still relatively low in comparison with previous years, despite their recent sharp rise. Prices had declined in August 1940 to the lowest level since 1934, owing to a large domestic production of tallow, lard and other fats and oils, and to the constriction of world export outlets for these products.

The price of 5.25 cents quoted on January 15 for packer's prime inedible tallow at Chicago (as used in the BLS price index), while above the average price of 1940, is lower than in all but a few months of the previous 5 years. (See attached chart.)

#### Recent bullish price factors

The sharp recovery in tallow prices during the last quarter of 1940 resulted from a combination of bullish developments:

- (1) A seasonal decline in cattle marketings at the end of the year reduced the current production of tallow.
- (2) A rise in lard prices, resulting from the prospect of a greater than seasonal decline in hog marketings in the late winter and from a Government report forecasting

a 14 per cent reduction in the spring pig crop in 1941, removed the competition of cheap lard as a soap material.

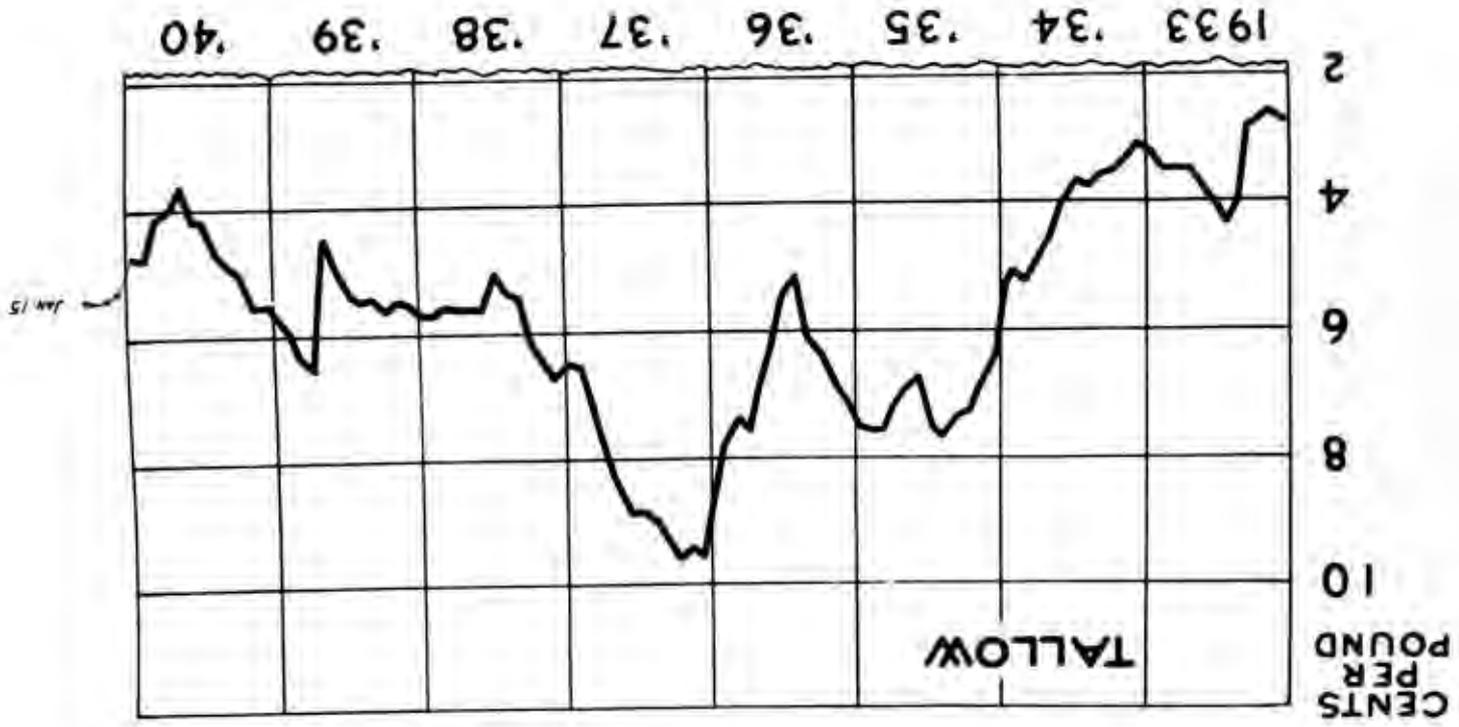
(3) The difficulty of obtaining supplies of certain oils from abroad for soap making increased the demand for tallow. This has been due partly to shipping difficulties and partly, according to trade reports, to very heavy buying of oil materials by Japan and Russia. These two countries are reported, for example, to have been very heavy buyers of copra (from which coconut oil is extracted) in the Philippine Islands, thus raising the price sharply and limiting the supplies available for other buyers. Coconut oil prices have recently been raised, owing to the inability of manufacturers to buy copra in any volume.

(4) Tallow prices have shared in the recent general strength in prices of fats and oils, which trade sources have attributed in an important degree to heavy buying of lard and coconut oil by Russia and Japan, impliedly for trans-shipment to Germany. Russia is reported to have bought coconut oil heavily on the Pacific Coast around the first of the month, one trade report placing such purchases at 3,000 tons. Japan is reported to have obtained about 500 tons of lard in this country within the past month, and Russia is said to have been buying lard contracts heavily on the Chicago Board of Trade. Press reports of January 14 indicate that a delay in the movement of this lard to Russia is expected, due to inability of that country's agent here to obtain shipping space.

(5) The high rate of industrial activity, together with defense buying, has doubtless increased the demand for tallow and for glycerin (a by-product of all fats used in soap making).

(6) Some advance buying of tallow by industrial users may have been a factor in the recent market, since the price outlook for this group is considered in the trade to be bullish, owing to the prospective decline in lard production, increased shipping difficulties, and expanding demand. The Department of Agriculture says that "Lard, tallow, and grease prices are likely to advance relatively more than prices of other fats, because of prospective changes in the domestic supply situation".

led 1/16/41



TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE January 16, 1941.

to Secretary Morgenthau  
from Mr. Cochran

# CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£54,000
Purchased from commercial concerns	£ 4,000

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

Sold to commercial concerns	£17,000
Purchased from commercial concerns	£ 6,000

A yuan rate of .05-9/32 was received from Shanghai this morning, representing a decline of 1/4¢ from yesterday's level. The New York market for that currency was very inactive, and a nominal rate of .05-5/16 was recorded at the close.

Aside from a moderate decline in the Argentine free peso rate, possibly reflecting the reported resignation of Finance Minister Pinedo, the other currencies experienced little change. Closing quotations were:

Canadian dollar	14-3/16% discount
Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2350
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	8-1/4% discount

There were no gold transactions consummated by us today.

The State Department forwarded to us a cable stating that the following amounts of gold had been shipped from Australia, to be sold to the San Francisco Mint upon arrival in this country:

\$577,000	shipped by the Commonwealth Bank of Australia, Sydney, to the Federal Reserve Bank of San Francisco.
\$220,000	shipped by the Bank of New South Wales, Sydney, to the American Trust Company, San Francisco.
\$797,000	Total

- 2 -

A gold price equivalent to \$33.98 was received from Bombay this morning, representing a gain of 4¢ over Tuesday's quotation. Silver was priced at the equivalent of 44.76¢, up 9/16¢.

In London, the prices fixed for spot and forward silver were both unchanged, at 23-1/4d and 23-3/16d respectively. The dollar equivalents were 42.21¢ and 42.10¢.

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

We made eight purchases of silver totaling 675,000 ounces under the Silver Purchase Act. Of this amount, 100,000 ounces represented a sale from inventory, and the remaining 575,000 ounces consisted of new production from foreign countries, for forward delivery.

*mmf*

**CONFIDENTIAL**

Federal Reserve Bank  
of New YorkCONFIDENTIALDate January 16, 1941Mr. KnakeSubject French Interests in theF. M. TamagnaHungarian General Credit Bank

Copies to Messrs. Roelke (Sanford) and McKeon (Cameron)

You may be interested in the following comments on the information contained in recent State Department cables, to the effect that the Dresdner Bank tried to acquire a relatively small percentage of stock which the leading French armament manufacturer, Schneider et Cie. (Le Creusot), holds in the Hungarian General Creditbank. Authorization for the deal, according to the American Embassy at Vichy, was refused by the French Finance Minister, to whom the matter had been referred in accordance with foreign exchange regulations presently existing in France. It may be significant to note that these regulations were recently amended so as to prohibit, without the Finance Minister's special authorization, the sale abroad of foreign securities which are owned by French citizens, the sale of such securities in France to a foreigner who resides in France, and all purchases and sales of French securities which are effected otherwise than on a French bourse.

The Hungarian General Credit Bank is by far the most important banking institution of Hungary. At the end of 1939 its capital and reserves amounted to 63.5 million Magos, its deposits to 390.5 million, its total resources to 525.4 million, and its portfolio of stocks, shares and sundry investments to 93.6 million. The importance of the institution may be better indicated by the "undertakings belonging to our sphere of interests" described in the Bank's report for 1939 and briefly summarized below:

16 financial institutions, among which are Hungary's leading foreign exchange institution and national savings bank, 10 local banks, a trust company, an insurance company, a Yugoslavian commercial bank and a Dutch industrial bank.

- 2 -

11 trading organizations, which are 4 barter companies (General, Yugoslavian, Rumanian, Greek), 5 import-export firms (for charcoal, coke, metal, corn, wood), goods department (dealing in sugar, cotton, coal, etc.) and a warehousing company.

26 industrial enterprises, extending over mining (including participation in the Swiss Trust Co. of Zurich, representing international aluminium interests); steel, engineering and electrical works; textile, chemical and sundry industries.

14 agricultural undertakings, including sugar and food industries, mills, forestries, fisheries, etc.

Moreover, the bank plays an important role in the Hungarian Investment Company, Ltd., established by the Budapest banks, and in cooperation with its direct undertakings it financed about 17 per cent of the Hungarian Government's one-billion pengoe investment plan of 1939.

At the close of 1939, the Board of the bank was composed of 23 Directors, of whom 16 were Hungarian, 4 French—representatives of the Banque des Pays du Nord (2), Banque de l'Union Parisienne (1), and Union Europeene (1)— and 1 Dutch. Until 1938 Baron Louis Rothschild of Vienna had a seat on the board. According to "Moody's 1939—Industrials," the Banque de l'Union Parisienne appears to be connected with Schneider et Cie. It is possible that the relatively small percentage of stock actually held as a bloc by Schneider et Cie. would give Germany working control of the institution, in the face of scattered majority shares.

It may be significant to point out, in this connection, that German interests recently succeeded in buying the majority of the shares of the largest Yugoslavian bank, the Opste Jugoslavensko Bankarsko Društvo A. D. (General Yugoslavian Banking Corporation).

DND:MPS

Copy:alm

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

SUBJECT: CONFIDENTIAL

DATE: January 16, 1941

TO: Secretary Morgenthau

FROM: Mr. Klaus

FBI reports:

December 9 and December 18. Agents reports on the transportation of United States currency by the Italian diplomatic officials from New Orleans to Rio de Janeiro and from Mexican border to Mexico City. Information that is new is that while customs officials were originally requested by FBI to conduct the search of the suitcases in New Orleans the actual search was conducted by FBI Agents who found \$2,450,000 in currency; and there is an indication, not made clear, that the Italians visited the German Consulate General at New Orleans before boarding the ship for Rio.

January 14. New York Herald Tribune has several men at Brownsville, Texas to secure photographs of Leopold Klotz and Vera Montgomery who are supposed to be carrying currency for the Nazis between Mexico and New York City; the dollar value of the securities disposed of by Vera Montgomery is reduced from a billion dollars as previously reported to \$500,000,000. The Herald Tribune will say when the story breaks that Vera Montgomery runs a flying school at her home at Acapulco, Mexico to train Nazis and that at least two persons saw her leave for Mexico some time ago with two large suitcases full of money.

January 14. The Communist Party is said to be initiating a program for a general strike in New York, San Francisco, and Chicago to be conducted in sympathy with a Communist general strike movement in England as part of the demands there that British "labor" take control of the Government and begin moves for a negotiated peace through the services of the Soviet Union; purpose of the strikes would be to immobilize shipping and transportation in the United States and hamper industries producing commodities vital to the national defense. The present policy of the Communist Party is to encourage its members to obtain positions in national defense industries and the transportation systems of the country.

January 14. In accordance with Mr. Wiley's suggestion FBI is conducting an investigation in New York of the use of hotel safe deposit vaults by foreigners for hoarding United States currency.

January 14. Investigation is being conducted as to the circumstances under which the Belgian Embassy transferred on January 6, \$19,000 to the credit of the Master of the Belgian tanker Laurent Meeus at San Pedro.

January 15. Among other transactions reported; the National City Bank, New York, transferred from the account of the Sveriges Riksbank, Stockholm, \$542,526 January 4 and \$320,000 January 6 to the same account with National City's Buenos Aires branch.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE January 16, 1941

TO Secretary Morgenthau

FROM Mr. Klaus

## FBI reports:

January 10. There are prospects that the Peruvian dollar exchange rate will be changed in the near future from  $6\frac{1}{2}$  soles to the dollar to  $5\frac{1}{2}$  as a result of the recent \$10,000,000 loan granted by the Import-Export Bank and the increase in the Peruvian gold reserve.

January 14. On the recommendation of Mr. Wiley FBI has begun an investigation of the financial activities of two Peruvian pro-Nazis now in New York City, Messrs. Gildemeister and Antonio Chopitea.

January 14. Between December 6 and December 31 the following withdrawals and deposits were made by the countries named: (in New York City accounts)

<u>Country</u>	<u>Withdrawals</u>	<u>Deposits</u>
Germany	\$ 1,651,253.05	\$ 2,927,319.62
Italy	7,832,055.29	1,216,115.44
Japan	2,831,526.90	6,357,350.70
Russia	309,532.08	2,004,086.33
Sweden	5,835,170.64	5,214,578.68
Switzerland	9,830,732.84	12,434,643.34

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BRITISH EMBASSY,  
WASHINGTON, D. C.  
January 16th, 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,

*Henri Batten*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated January 14th.

1. Bay. "Asturias" intercepted French "Mendoza" 8,199 tons, who sailed from Montevideo January 12th p.m. near Lobos Island. "Mendoza" evaded boarding by anchoring in territorial waters "Asturias" lay off outside but in sight.

2. On January 10th dive-bombing attacks on "Illustrious" and other units were carried out with great determination and skill suggesting German crews. During the first attack 2 enemy aircraft shot down by gunfire while one Fulmar one Swordfish were shot down, crews saved. During the second attack Fulmars claimed destroyed 6 or 7 enemy aircraft.

"Warspite" slightly damaged by near miss. A shadowing aircraft was also shot down by Fulmars.

3. The convoy which was passed through the Mediterranean arrived at destination on January 12th.

4. Submarine "Pandora" sank 2 Italian supply ships off Sardinia on January 9th a.m.

5. Royal Air Force. Night of January 13th/14th. 31 bombers were sent out, 14 against shipping in the channel ports, and 12 mine-laying. Preliminary reports record a very successful attack at Lorient.

6. Sicily. On January 12th 10 Wellingtons attacked Catania aerodrome. Several fires were started amongst buildings and aircraft and some 9 of which were seen to have been destroyed. One aircraft is missing and one landed in the sea but the crew saved.

7. German Air Force. Night of January 13th/14th. Estimated that 50 enemy aircraft operating of which 30 were mine-laying. Remainder attacked Plymouth.

-2-

8.           Aircraft casualties in operations over and from the British Isles.   Enemy Nil.   British one aircraft missing.
9.           Home Security.   Night of January 10th/11th. Portsmouth.   Electric supply was partially restored early January 13th.
10.          Night of January 13th/14th.   Plymouth.   Attack was short; although some serious fires were started all were quickly under control.   Gas supplies are temporarily interrupted in Plymouth but not at Devonport.   Power station was hit and the supply cut off but it will be possible to switch across to grid very shortly.
11.          Albania.   Identification of the eleventh division brings the total of Italian divisions in Albania to twenty.
12.          U.S.S.R.   Since November 1st there has been continued increase of the forces in Kiev and Odessa military districts and 4 cavalry divisions 35 infantry divisions and 7 tank brigades are now located in this part of the country.   It is thought that such concentration at this season is not solely for defensive reasons and that an agreed occupation of Eastern Moldavia is a possibility.   The absence of defensive measures by Germany tends to suggest this theory.

BRITISH EMBASSY,  
WASHINGTON, D. C.

Personal and Secret

January 16th, 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Herle Butler*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Naval. As announced in the press

"Southampton" was hit by bombs from dive-bombers on January 11th. This was 180 miles East South East of Malta. Fire caused near after turret's spread to engine room and magazines. Owing to flooding of the latter she was later abandoned and sunk by our forces.

2. "Sumner" British 7478 tons with 100 service personnel on board torpedoed by U-boat 120 miles west Preetown a.m. January 14th. Reported ship abandoned 506 survivors picked up. No damage was done to dockyard or naval establishments during air raid at Plymouth night of January 13th/14th.

3. Royal Air Force. Night of January 14th/15th. Six Hudsons were dispatched to attack air bases at Stavanger. All aircraft have returned but detailed reports not yet received. All operations of bomber command were cancelled owing to weather conditions.

4. Night of January 13th/14th. Three Blenheims attacked Hamburg and registered hits on military buildings.

5. Greece. Albania. January 13th. Six Blenheims attacked Berat. Road bridges believed to have been hit.

6. German Air Force. Night of January 14th/15th. No enemy activity reported.

7. Rumania. Total German aircraft in Rumania are now estimated at about 250 of all types. Types include Messerschmidt 109 Heinkel's 180 Junkers 52.

8. Italy Strength of German aircraft in Italy is estimated approximately 150 established types. Types include long range bombers and bomber reconnaissance (Junker 88 Dornier 17 Heinkel 111) dive bombers (Junker 87) and transport (Junker 52).

**CONFIDENTIAL**

Paraphrase of Code Radiogram  
Received at the War Department  
at 9:40, January 16, 1941

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London, filed 15:01, January 16, 1941.

1. The 9,100-ton British cruiser **SOUTHAMPTON** which was hit by Axis dive bombers on January 11, 100 miles off the southeast coast of Malta, was sunk by the British after having been abandoned.

2. On January 14 a 7,500-ton British ship, having 100 service personnel on board in addition to its crew, sank after having been torpedoed 120 miles west of Freetown, Sierra Leone.

**SCANLON**

**Distribution:**

Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
War Plans Division  
Office of Naval Intelligence  
AG - 2

**CONFIDENTIAL**

**CONFIDENTIAL**

Paraphrase of Code Radiogram  
Received at the War Department  
at 9:34 A.M., January 16, 1941

London, filed January 16, 1941.

1. On Wednesday, January 15, British planes bombed a vessel off the coast of Holland. During the preceding night planes of the Coastal Command attacked a cargo boat off the Norwegian coast and bombed the airfield at Stavanger successfully. No other British planes were active that night.

2. On January 15 only a few single German airplanes were over Britain on reconnaissance missions and only a small number of bombs were dropped. It is believed that the principal factory of the British Aluminum Company at Fort William, Scotland, may be attacked in the near future since one of the German reconnaissance flights was between this place and the city of Inverness in Scotland. After midnight on January 15-16 the Germans attacked London, the Thames Estuary and the East Midlands. Earlier in the evening there was a concentrated raid on Derby and scattered attacks all over the East Midlands. British night fighter planes attempted to intercept the raiders but there is no report on the success of the attempt. In spite of the fact that a large number of incendiaries were used, only a small number of serious fires were started due to the activities of the fire watchers.

3. No less than 25 German Junkers dive bombers were iden-

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tified at the airfield of Catania, Sicily, as a result of photo-reconnaissance flights by planes based on Malta. This reconnaissance revealed also that a number of hangars and approximately 30 airplanes on the ground had been destroyed or damaged in earlier attacks on this airfield by the British.

4. British aircraft based in Egypt bombed about 40 Italian planes at the airfield near Bengasi and also attacked the city itself. The Royal Air Force also operated in the Harge, Aden and Suva areas.

5. The Fighter Command experienced great difficulty in estimating the number of German planes entering Britain during the night of January 15-16 because of the fact that the air lanes used by the German raiders were the same as those used at about the same time by returning British bomber planes. This may become a new development in the tactics of night bombing.

6. It is believed that 120 German airplanes of all types are in Italy at the present time and that 250 German planes of various types are in Rumania.

7. The most far-reaching British Government order affecting civilians yet announced was made public on the morning of January 16. This order provides that all persons, except those in the military or Government service, between the ages of 16 and 60 must register and serve without compensation as fire watchers. The scope of this compulsory order indicates the way in which modern total war affects

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every individual.

8. In the German attack on Plymouth during the night of January 13-14, the naval establishment and the dockyards were not damaged.

**SECRET**

**Distribution:**

Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
War Plans Division  
Office of Naval Intelligence  
Air Corps  
C-3

**CONFIDENTIAL**

RESTRICTED

O-2/2657-220  
No. 294

M.I.D., W.D.  
January 16, 1941.  
12:00 M.

SITUATION REPORTI. Western Theater of War.1. Air.

Day: No important operations.

Night: German. The Luftwaffe attacked in moderate strength, principal concentration being in the Derby area. London was also bombed.

Night: British. The R.A.F. operated normally, concentrating on Wilhelmshaven and also raiding Emden, Bremerhaven, Rotterdam, Flushing, Brest and airdromes in Germany and Holland.

II. Greek Theater of War.

1. Ground. The Greeks are advancing slowly in central Albania, in spite of local Italian counterattacks.

2. Air. Limited Italian activity.

III. African and Mediterranean Theaters of War.

1. Ground. British artillery continued to shell Tobruk. Their reconnaissance patrols west of the town reported that Derna was being fortified. In East Africa and at the Oasis of Jarabub there was patrol activity.

2. Air. Normal activity in Libya. The R.A.F. bombed Catania, Sicily.

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

RESTRICTED

January 17, 1941  
9:30 a.m.

GROUP MEETING

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

H.M.Jr: Chick, I didn't read that story about York, Pennsylvania, in the New York Times yesterday. Will you pick it out and send it up to the house? They are running a series. It is very, very good. If anybody wants to read how a town is affected by the national defense, I recommend it. It is in yesterday's New York Times. It is good. I only read it quickly and forgot about it.

Gaston: United States Safe and Lock makes guns. They make guns there.

H.M.Jr: It is the effect of national defense.  
Norman?

- 2 -

Thompson: I have nothing at this time.

H.M.Jr: Bell?

(Mrs. Klotz entered the conference.)

Bell: Ted Goldsmith, who writes this weekly letter, met Professor Odegarde in the corridor and will probably mention him in this week's letter. I just wondered if you wanted to make some announcement that he is here and what he is doing before it comes out in that letter.

H.M.Jr: Well, supposing you (Schwarz) talk with Kuhn and Odegarde.

Schwarz: If we are going to mention it, I think we ought to do it before then.

Bell: He said he was trying to see if what was done in past campaigns would fit into the present situation. I think you might want to give it to all the press rather than just to Goldsmith.

H.M.Jr: What else?

Bell: That is all I have.

H.M.Jr: Harold?

Harry, how is the battle with the Federal?

White: Well, It went as far as it could last night. We reached an impasse, and they are cabling to London for more information, and they said they would bring it in this morning as soon as possible, and I thought it would be much better to delay it a day and have that information because it involves a pretty large sum.

H.M.Jr: Well, I read the editorials today in the New

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York Times, the Tribune, and the Post, and I really got quite a thrill because they are so much better than I could hope for. What has happened is, in this one paper, I gave them the cold facts. I didn't try to editorialize, but they all say the figures that I gave are an impelling reason to do this for England. To me, I don't see how you could get a better reaction, and they all are the same, and I am just tickled. I mean, they don't say anything about me personally, but they say the order to pass the bill is what we want, and I am just delighted at the reactions. You ought to read them, Harry. They explained the difference between the Federal and ourselves, and they all explained it away, too.

- Schwarz: They are all satisfied with it?
- ... Jr: Yes. So I just wonder - when we get it, I just wonder if it is going to go that way, whether we want to muddy the water.
- Foley: It is a good thing to have.
- White: Did you read Linz this morning? Is it all right?
- Schwarz: He still raises a few points, but I think it is all right.
- White: He told me, "You will be very pleased with what I said." I didn't know what he said. I am a little suspicious of that fellow. (laughter)
- ... Jr: The Times had Clarence Linz saying something snooty in my press conference. I know he is going to write something nice. But go through that.
- White: We will have to because it is a pretty large sum involved.

- 4 -

- H.M.Jr: While I am on the press, you (Kuhn) know that editorial they wrote in the Tribune.
- Kuhn: Yes, "Morgenthau and Jones."
- H.M.Jr: Yes. I thought you might write a letter for me and tell them that I got quite a laugh out of what they said. I enjoyed it, you see. And then say to them that I also am glad that they are beginning to enter the financial facts of life, and I suggest they read their own financial column, and if they would go further they could learn a great deal more about it or something like that.
- Kuhn: Is it worth doing?
- H.M.Jr: Well, think about it. I only want them to get a laugh, that is all. I got a laugh. But evidently they are learning something too about excess reserves.
- Kuhn: I am not sure that it is worth kidding these people.
- H.M.Jr: Skip it then, if you have any doubts.
- Anything else?
- Bell: Did you see where Pinedo has resigned, the Argentinian?
- H.M.Jr: No. What is the trouble?
- Bell: Apparently he had a little difficulty on these reconstruction plans in the Congress, and he resigned.
- Gaston: Wasn't there a story yesterday, Dan, that the President had persuaded him to remain?

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- Bell: I didn't see it. They said that the Acting President didn't have control of the situation, and the President, who had been sick and away from the city, was coming back next week, and they hoped he could straighten it out.
- Cochran: That means then, doesn't it, that the enabling legislation has not been passed which would permit them to consummate their arrangement with us.
- Bell: That is right.
- H.M.Jr: Harry - excuse me, are you (Bell) through?
- Bell: Yes.
- H.M.Jr: Here is a perfectly amazing document from the Chief of Staff on the British shipping situation. It takes in that memorandum of Lothian's. It has taken O. N. I. and M. I. D's figures and compared them and analyzed the whole thing, and I thought you could take this, you see. They have done an amazing job on this whole shipping situation. Let Kamarch take it and fit it in, and I think that everybody ought to see this. I don't mean this but - this is taking O. N. I., M. I. D., plus Lothian's statement, which you saw, and working the whole thing out. 1-16-41
- White: You saw that note that according to the information which we had that their statements which they published and which the Naval Military Intelligence gets of the sinkings understated by--
- H.M.Jr: That is right. Now, another thing, I get these (referring to memorandum from General Miles, dated January 16, 1941) every week and, if they are late, they are no use. The less memos I get of that type the better. If Kamarch has that--

- 6 -

- White: That is ready on my desk now.
- W.S.Jr: If Kamarch doesn't need these, I would rather tell General Miles I don't need them.
- White: I will ask him.
- W.S.Jr: Let him know whether we need those. There are other things - I mean, it is the first time I have ever really gotten a document out of the Army that - somebody is doing a really first class piece of work.
- White: There are some statements in the testimony that Ed has already gone over, but with reference to some of the figures that will have to be changed, but one I want to call your attention to. In the light of information which was developed last night, they said that they had used all the gold South Africa has produced. They have not. There is at least a hundred million which they have increased, and we may develop a little bit more, but I am telling you that in case it comes up.
- W.S.Jr: Well, I want Kuhn to sit in on my testimony, too, in the correction of it.
- White: Well, I think it would be a good idea for him to--
- W.S.Jr: In other words, I am not going to read it, but if Foley and Kuhn and White agree on it, let her ride. Do you see what I mean? I mean, you are a committee of three to handle it.
- Foley: We ought to get it back quickly, because they will print up the other thing, if we don't. They won't wait for the corrected copies.
- W.S.Jr: That is why I am eliminating myself.

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- Bell: Are you going to print it before the hearing is closed?
- Foley: Yes. He has ordered it done that way.
- H.A.Jr: You are not waiting on me.
- Foley: No. I am just saying that I would like to get it back this noon if I could.
- White: Yes, we can fix that. I just got it a few minutes ago.
- Foley: Well, I don't think we can doctor the figures much. If they have given us the incorrect information, we will have to stick, and when we go over on the other side we can say that additional information has been furnished and that explains the discrepancy on that basis.
- White: Well, we can fix it up, almost, nearly, about, and so forth. (Laughter)
- H.A.Jr: Well, anyway, you have got a committee of three.
- Foley: You have distributed those things. Everybody has got them, Harry. You can't go back and say, "Almost, about, and nearly."
- Bell: They are estimates.
- White: We won't do any different than we have done in the past. (Laughter)
- Bell: They are estimates, and you said there was a wide margin of error.
- Foley: Sure.
- White: I will show you any significant changes contemplated.

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H.M.Jr: All right, Harry?

White: All right, sir.

H.M.Jr: All right. George?

Haas: We have taken the latest British requirements for '41 and '42 and expressed them in terms of steel capacity. If they don't get the steel - if we don't get an increase in steel capacity, I think it will be very unfortunate.

H.M.Jr: Don't you think I ought to write a little letter and give this to the head of J. G. White who came to see us?

Haas: I think it would be very good.

H.M.Jr: Why don't you send them to him?

Haas: I think it would impress him more if it went over your signature to him.

H.M.Jr: You flatterer.

Haas: Well, he probably--

H.M.Jr: O.K.

Haas: There are so many people who have different opinions on it.

H.M.Jr: All right.

White: I take it, it was a compliment to the office and not the man, George. (Laughter)

H.M.Jr: I began to worry, Harry. You had no comeback at Foley there.

All right?

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Haas: That is all I have.

Young: Hazard, who writes for Paul Mellon, was in to see me yesterday with respect to the activities of the Liaison Committee and I gave him a brief thumbnail sketch of what we have been doing, of the procedures involved, all of which is public information anyway, which any supplier or purchaser who comes in - we tell them about the same thing. On that - I am seeing Stettinius at 11 o'clock on priorities again and may give him a copy of the letter which you had from the President on the South American business which outlines the priorities for South America.

H.M.Jr: By all means.

Young: Mr. Gross of Lockheed is in town all day today.

H.M.Jr: Before you get on that, tell Mack I will see him sometime this morning. I don't know just how my appointments are. We had this lunch yesterday with Stettinius and Knudsen, and Knudsen had been promising us to clear some of these priority things, none of which had been cleared. He promised to do it Tuesday a week ago and Phil said to Knudsen, "I thought you said you would give this priorities the bum's rush." He said, "I did, but I gave it to another bum." (Laughter) That is the funny side of it. The sad side of it is, these fellows - I mean, if anybody ever wrote, it is the most sickening thing that there is no organization on clearance of priorities, and when they tried to explain what they were doing, the only thing that Stettinius could suggest was that he could make Mr. Walter Stewart his assistant in charge of this thing. Of course, Walter Stewart, in the first place, wouldn't take it, and in the second place, he isn't fit for that kind of work. A man who won't

- 10 -

write a memorandum certainly can't do that kind of work. He said he would clear it all by three, and when he got into the thing he found there just isn't any organization on priorities. It is just sickening.

Young: We have about 20 cases pending now over there.

H.M. Jr: It is just sickening.

Young: The majority are British and a large batch of Dutch ones.

H.M. Jr: Well, keep pressing them.

Young: We are going over at 11 o'clock this morning and he is going to explain to us why he can't clear today certain--

H.M. Jr: You remember he said they would all be cleared up at three yesterday, and I offered him a bottle of Argentine champagne. I first said champagne, and he said he might do it.

Young: I also have the top Dutch purchasing people here today going over their relationship with the British primarily in an attempt to get out future requirement programs on the Dutch. Didn't you say you would like to meet Mr. Zimmerman who is the head of it?

H.M. Jr: Not today.

Young: That is all I have.

H.M. Jr: Of course, if the Dutch had any--

White: Cheese.

H.M. Jr: Or something like that, we might take another look

- 11 -

at the situation.

Pehle: Ann Morgan was in yesterday.

H.M.Jr: I saw that you and the President saw her. I was too busy.

Pehle: Yes. She was in about 50 minutes. Part of the time she was in Alphanth was waiting outside. He was purple by the time he got in, but when I told him who was in there, he quieted down a little more.

H.M.Jr: What did Annie have to say?

Pehle: Mostly she thought the British and the United States were making a terrible mistake with regard to sending food into France and that she was delighted that the President had decided to lift that a little bit, but she thought it hadn't gone far enough, and she was undoubtedly going to let him have both ears full if she got over there. She was well warmed up. The only point she had as far as we are concerned of significance was that she wants five thousand dollars quarterly to send into the area for her work over there.

H.M.Jr: I thought we told them - we gave them 10 thousand dollars to bring her gang home.

Pehle: Well, I am not sure we put it quite like that.

H.M.Jr: I did. That is what Professor Chamberlain said. We gave them 10 thousand dollars, and she and her whole gang should come home and stop messing around over there.

Pehle: Well, she has come home, but the gang is still over there, at least part of it.

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H.M.Jr: Well, let her bring the gang home, too. I don't see why you want people messing around there. You don't expect to practice law in Wall Street, do you?

Pehle: No, it isn't a question - I think Ann Morgan can make a lot of trouble. I don't see she does an awful lot of harm. Five thousand dollars-- (Laughter)

White: I wouldn't say she wasted her 50 minutes. (Laughter)

H.M.Jr: You don't mind my kidding you about your future practice?

Pehle: No, not at all.

H.M.Jr: If I had any doubt about you, I wouldn't have you where you are. Anyway, I will leave Annie to you.

Pehle: All right.

H.M.Jr: And the President.

Pehle: That is all I have.

H.M.Jr: Merle is getting a little--

Cochran: I did the presentation yesterday. I took her down to meet Mr. Pehle.

H.M.Jr: I see.

Well then, Alphanth was purple after waiting 50 minutes, what was he when you told him he couldn't take the gold out of Martinique?

Cochran: I gave him that message.

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Bell: That is what made him purple.

Pehle: We divide these things up.

H.M.Jr: Please do me a little favor, Merle. Mr. Hull said he would let us know in 24 hours, see, and just as a matter of interest, do nothing, say nothing, and just let's wait, see.

Cochran: I am sorry, I have already anticipated a little. I phoned Atherton this morning and told him of this promise and asked him if he would keep on it.

H.M.Jr: All right, you have done that. Will you just rest on your oars from now on?

Cochran: All right.

H.M.Jr: Just let's see what happens, just as a matter of interest. You told Atherton?

Cochran: I told him this morning.

H.M.Jr: Well, just let it rest there.

Young: Shall I keep resting on Sumner Welles. (Laughter)

White: It would be much better if Merle did it. (Laughter)

H.M.Jr: On which of your many problems?

Young: On these Russian machine tools.

H.M.Jr: No, follow through on that.

Young: All right.

H.M.Jr: As the State Department spreads around that I

- 14 -

am a friend of the Bolsheviks, so I might as well live up to it. What I want to see is peace in the Pacific, so I have given them their machine tools.

Merle?

- Cochran: Pinsent has two or three more of these daily lists of sales he is bringing in this morning.
- H.M. Jr: Did you get my note already?
- Cochran: Yes. That is marvelous.
- H.M. Jr: That is the first thing - these kind of records, you fellows get them before 9:30. That is wonderful. Even you (Klotz) get one once in a while.
- Klotz: Yes.
- Cochran: Then there was one item you may have noticed on the financial page of the Herald-Tribune which refers to your statement and explains that the British gold reserves are so low that there wouldn't be danger from that source of increasing the reserves.
- H.M. Jr: That is the thing I thought if the editor of the New York Tribune might read that he might learn something but Ferdie so recently off the editorial staff on another paper says it isn't funny, so I will leave it alone. That is what I wanted to rub his nose in, but Ferdie doesn't think it is funny, so we won't do it.
- Schwarz: Speaking of excess reserves, I call your attention, down at the bottom of the Wall Street Journal, to the gossip column of Friday. They predict there will be no bank legislation.

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H.M.Jr: Well, Mr. Foley is going to write a letter like this for me. Federal Reserve Board - I am serious. "Gentlemen, would you care to let me know the position that the Board has or will take on the Glass bank holding bill? I have expressed myself publicly as being a hundred percent in favor if it, and it would be very useful to me to know how the Board feels."

(Mr. Sullivan entered the conference.)

H.M.Jr: How is the Mrs.?

Sullivan: Very well, thank you, sir. I was over at my secretary's husband's funeral this morning. That is why I was late.

H.M.Jr: Oh. How is your Mrs?

Sullivan: She is very much better, thank you, sir.

H.M.Jr: Yours is sick too, isn't she?

Bell: She is much better.

H.M.Jr: And how is yours?

Gaston: She is much better this morning.

H.M.Jr: Do you know how I know this? Do you know the story? Mrs. Bell said she wanted to leave cards with Mrs. Stimson and she wasn't feeling well, and she called up Mrs. Gaston, wouldn't she leave the card, and Mrs. Gaston said she wasn't feeling well, and she called up Mrs. Sullivan, and Mrs. Sullivan wasn't feeling well.

Bell: John says they went slumming on Monday so they all got sick.

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- Sullivan: The three of them were calling on the wives of the Justices of the Supreme Court and they can't stand that stuff. (Laughter)
- H.M.Jr: And each one in turn wanted the other to leave their cards. The only one who was well was Mrs. Morgenthau, fortunately.
- Schwarz: Bob Horton called me to say that he had checked on that story of Wednesday on standardization for British purchases and he claims that it doesn't come out of the Commission but apparently from Army and Navy sources. The UP just said National Defense officials. Because he talked to the boys who wrote it.
- H.M.Jr: Tell him if he doesn't behave himself, I will sic PM on him.
- Schwarz: That will scare him.
- White: Mr. Secretary, before Ed Foley sends that letter, in the light of the other communication, had you talked with - had you said anything to Eccles about the bank bill since getting the letter?
- H.M.Jr: "Well, I will tell you, Senator, the way it is. I didn't write the bill, you see, so I don't know what is in the bill."
- White: I know, but I think-(laughter)-first information about the letter oughtn't - about the bank bill, in the light of the communication, if I remember correctly, you remarked that you felt a little vulnerable on that point; and, that being the case, I don't think that that kind of a letter would supply adequate covering.
- H.M.Jr: Well, you let Foley read the Eccles' letter.

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White: Then he can shape his letter accordingly.

H.M.Jr: Right. It is a point well taken.  
Anything else?

Schwarz: That is all.

Foley: Nothing.

H.M.Jr: Will you (Schwarz), as fast as the editorial comment comes in, let me have it?

Schwarz: On the testimony?

H.M.Jr: Yes.

Gaston: I talked to Conway Coe in the Patent Office last night at Jesse Jones' dinner, and he told me that some of the American firms told him that they were restrained by our fund control from keeping their contractual obligation of supplying certain concerns in the occupied country with patents and specifications in exchange for information, and that they were sending that information through Germany, and they would like very much to have some restraining order preventing them from sending it through Germany whereby they could escape their contractual obligations, but there wasn't any. I think it might be a thing that we could take up with - possibly with--

H.M.Jr: Justice?

Gaston: Yes, Justice or Maxwell.

H.M.Jr: Justice, because Bob Jackson is tremendously interested in that subject.

Gaston: Coe said it was a real situation.

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- H.M.Jr: Well, Bob Jackson is tremendously interested in that because he has talked about it at Cabinet.
- Gaston: He has?
- H.M.Jr: Yes. What he is interested in is the American manufacturers who, for one reason or another, under their contracts have to keep Germany informed, so I think if between you, you could get that to Bob Jackson--
- Gaston: Right. I didn't tell you that last week a representative of the Associated Telephone and Telegraph Company, which is the so-called independent in this country, owns mostly independents and has very close relations with Bell, came to talk about a question of whether they could sell their manufacturing plant in Amsterdam to the Siemens Halske interests, the German interests, and from what he admitted to me, it is quite plain that this plant in Germany - Amsterdam is very busy bringing out equipment for the German Army and Navy, and they have had very close relations with Siemens Halske in the past. I turned him over to Pehle. It is rather interesting.
- H.M.Jr: I think that kind of stuff again ought to go to Robert Jackson, because he is tremendously interested in it.
- Gaston: This is that Hunter Gary outfit, Automatic Telephone Company.
- H.M.Jr: Now, have you got something else?
- Gaston: No.
- H.M.Jr: For about a half an hour, Jackson brought up

- 19 -

the question about these Devil's Island prisoners. He was very much upset about it. The upshot of the thing was that the President left it that Hull should have our embassy in London get in touch with DeGaulle and ask them whether he would let them land in Equatorial South Africa, and then it is up to Jackson to work out some way or other to get them on a boat which will take them to Equatorial South Africa.

Gaston: His own people hadn't told him about it, then, the immigration people?

H.M. Jr: Well, I don't know. He had an awful lot of papers there about the thing, but he was very much exercised about it, and very much opposed to their coming here.

Gaston: All the negotiations were carried on in October.

H.M. Jr: The President was kidding that Jackson and I were conniving on this thing, but he, the President, evidently doesn't want to send these prisoners back to Devil's Island, but it seems what happened - you may know this - these fellows get to this English island--

Cochran: Trinidad.

H.M. Jr: ....and then the English don't say anything, but they just see that these fellows get a little sail boat and some food in it, and they put them in it and let them go, and they get them off their island. Now, there are about a hundred and 30 of them on the way. It isn't just this one lot.

Gaston: I supposed there would be others. I hadn't heard of their actually arriving.

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- H.M.Jr: So, as I say, the President takes the position these fellows will make fine soldiers, but Jackson says they are old and diseased, they are murderers, and he doesn't see that there is much emotional value connected with it.
- Gaston: He is probably right.
- H.M.Jr: They have at least murdered once. But Jackson is working on it. I asked Jackson - I don't know. Are these fellows in the prisons in Puerto Rico, or are they on one of your cutters?
- Gaston: I don't know. We took eight men from the Army who are presumably aboard the cutters still. They had 20 men in charge of immigration authorities at San Juan and ready to put aboard the cutter. Whether they had actually put them aboard or not, I don't know, but I presume that after they got those instructions to wait that they turned them back to the Immigration Service at San Juan.
- H.M.Jr: Will you find out and let me know; and, if possible, I would get them off the cutter and put them in the Immigration Officers' charge because otherwise the Comptroller General is going to ask why do we pay to feed these fellows.
- Cochran: Why couldn't they get them to Martinique or Guadeloupe instead of Equatorial Africa.
- H.M.Jr: There was somebody connected with the American Prisoners Association got to the President Sunday night, that is what happened. Mrs. Thompson.
- Gaston: We showed you very pretty revised plans for a Coast Guard station at Detroit, very handsome, but they found they couldn't build the station within the appropriations on those

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designs, and they have now drawn some new ones. I don't know whether you care to see them or not.

H.M.Jr:

No.

O.K., gentlemen.

Copy sent to Harry White - as per  
Secretary's instructions.

R. McH

Jan. 17/41

January 17, 1941.  
1 P.M.

H.M.Jr: Hello

Operator: Senator Wagner

H.M.Jr: Hello

Senator  
Robt.  
Wagner: Hello Henry

H.M.Jr: Bob?

W: How are you,

H.M.Jr: Oh, I'm alive.

W: Well, of course, you're always alive. Say I'll  
tell you - I'm not going to trouble you because I  
know you're busy. I'm getting up a Committee of  
experts on this money study.....

H.M.Jr: Wonderful.

W: .....and I want to get Harry White.

H.M.Jr: Yes.

W: Allright with you,

H.M.Jr: Oh, perfect.

W: Allright, will you tell him that he may be available?

H.M.Jr: Sure I'll tell him.

W: Allright, because I know he wouldn't want to act  
without your authority and I wouldn't ask for him  
without first taking it up with you.

H.M.Jr: Sure, I'd love to.....

W: He's very helpful to me you know on this questionnaire  
and all that.

- 2 -

H.M.Jr: Well he's a good man.

W: Yes - oh yes, he's a swell man, I think.

H.M.Jr: Fine.

W: Well thank you, Henry. I'm not going to trouble you with anything else now - that will come later on.

H.M.Jr: Plenty.

W: Alright, Henry.

H.M.Jr: Thank you.

W: Good luck.

January 17, 1941  
2:33 p.m.

H.M.Jr: Hello.

Cong. Andrew May: Yes, Mr. Secretary.

H.M.Jr: How is the Congressman?

M: Fine, thank you. I wanted to see you about five minutes with a friend with me if I could sometime today or Tuesday or whatever day would suit your convenience.

H.M.Jr: Well, I tell you, I sort of feel it's the end of the year, though I don't know why. I'm trying to clean up. How would 11 o'clock Tuesday do?

M: That would be fine, sir.

H.M.Jr: I'd be glad to see you.

M: Well, thank you, sir.

H.M.Jr: I'm trying to clean up what's left of about two weeks' correspondence that I've got here.

M: Well, now, if you can tell me how to get that job done, I wish you would because I'm right at the same job myself.

H.M.Jr: Well, I don't know what the answer is.

M: (Laughs). Well, the answer is this, I can tell you. Just don't leave it, keep at it until you get it out.

H.M.Jr: Oh, I've got a much better way.

M: What's that?

H.M.Jr: Don't answer it and then after a while they answer themselves.

M: (Laughs). Well, that's a good idea or to pitch them in the wastebasket.

H.M.Jr: Yeah. I'll see you Tuesday at 11:00.

M: Thank you very much.

January 17, 1941  
3:00 p.m.

RE CLIPPING ANALYSES

Present: Mr. Foley  
Mr. Schwarz  
Mr. Odegarde  
Mr. Kuhn

H.M.Jr: If you gentlemen would listen a minute, I have got an idea. I don't think anybody is doing it now.

Ferdie, I want you to line it up for me, you see. I heard - I can't - a man by the name of MacKenzie or something like that, has got a paper in Kansas City. Look it up. He ran a page on this Aid To England Bill with a coupon in the corner asking people to write in, and they got over 20,000 answers.

Kuhn: For or against it?

H.M.Jr: For, and I wish that you would get in touch with this woman that runs the clipping bureau, whatever her name is, and then hire somebody, an able man or woman, until this thing is over, who can just watch these - I want somebody hired. There must be some young man or woman, and I want you to hire them, who will just watch this clipping, you see.

If there is some magazine - newspaper like this Kansas City paper that has a good idea, maybe we can get it out through Lowell Mellett or somebody some way, some how, get it through these chairmen that Lowell Mellett has supposedly

- 2 -

in each state, and try to get other newspapers to do the same thing and the same way, this man or woman that you engage, would also watch the ones which are unfriendly; but there certainly ought to be some place that is going to watch the daily press to see how they handle it.

If there is any campaign put on against it that we could watch it and see what they do, and if there is any campaign that is good, then we could try to duplicate it; but there is a Kansas City paper that has run a full page ad on their own. MacKenzie or something like that.

Kuhn: I will look it up. Nobody does that at the White House now?

Schwarz: They do that in Miss Blackburn's shop.

Kuhn: But on the Aid to Britain thing, nobody is watching --

H.M. Jr: Well, I will bet you a hundred to one, and I thought you, Professor Odegard, if you had any ideas - I just know it isn't being done, and it is so unbelievably stupid that it isn't, and the way to find out is to call up Miss Blackburn and find out and then she may be able to put a special person on, but if she isn't, I think - whether she does or she doesn't, I want some able young man or woman that has graduated and is out a couple of years and has gone to a school of journalism or something like that, and would be glad to come down or is here. It may be only a couple of months. But somebody that could watch this thing for you and report to me, you see.

Kuhn: Good.

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- Schwarz: There is no question Miss Blackburn's office gets the clippings. The important thing, I gather, is the analyzing.
- H.M.Jr: The important thing is to interpret it. You are not doing it?
- Schwarz: We don't get them until considerably later from them.
- H.M.Jr: But it isn't just clippings, it is to go through the thing and - here, maybe somebody has got a good editorial and the question may come up, I want somebody just to be thinking about this thing. Maybe we can get - find out what Lowell Mellett does through all of these chairmen and all the rest of the things. If there was some way of disseminating this thing out if somebody has a good idea or fighting the thing if somebody has one that is harmful.
- Kuhn: You also want to watch the people who are engaging in the anti-campaigns and who they are, people like Verne Marshall.
- H.M.Jr: If one boy or girl doesn't do, get two or three. Get enough who can watch this thing in our own shop. You don't know of anybody, do you?
- Foley: No, I don't know of anybody who is doing it. They used to do that over at a branch of Lowell Mellett's office. I don't know whether they have appropriations to carry that work on or not.
- Schwarz: They are still getting the stuff. The question is whether they follow it up.

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Foley: They don't classify it.

H.M.Jr: A thousand to one they don't. Will you get enough help? Find out from Norman how to get the help and how to pay for it, but get enough help to watch this thing; and then you might also watch the Bank Holding legislation, too.

Foley: I agree whether anybody else is doing it or not, all of that ought to be gathered together. If we don't know it here, we won't know.

Kuhn: We won't know, that is right.

H.M.Jr: But find out those two things, the Bank Holding and this other thing.

Kuhn: We could use the Treasury people to go on doing the clipping as they have up to now, but --

H.M.Jr: I am giving you a germ of an idea which I would like you to take and see that there is no duplication in the Treasury and see that it is done well. Will you please? Foley is watching it on the Hill, and I am watching it here; and if we get the cross currents. There are three things I am interested in. Aid to Britain, Bank Holding legislation, and then this tax thing.

Kuhn: Yes.

H.M.Jr: If you could get those three things, and I say, it isn't just the mechanics of clipping a thing, but it is to get it into one's head.

Odegarde: Mr. Secretary, did you want to watch the magazines?

H.M.Jr: Sure.

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Odegarde: You might get the magazines from the magazine digest.

H.M.Jr: She does those, too, but it is to have a bright enough boy or girl who, when they see something, will say, "Here is something good, here is something bad, let's grab it." This is what I have been crying for in the Treasury for years, and we have never had it. Just ask Norman Thompson to help you. O.K?

I would like to talk to you (Odegarde) a minute.

Ed, if this is O.K. (Handing letter to Foley) do it for him. I will leave it to you to be ethical.

Kuhn: Mr. Secretary, I think it is a mistake to take too much notice of John T. Flynn. I think it might be a good idea to write an appreciative letter about those editorials you were praising this morning.

H.M.Jr: Do you think so?

Kuhn: Yes.

H.M.Jr: All right.

Kuhn: Do you like to send those to the publishers or editors?

H.M.Jr: Editors.

Kuhn: Much, much better.

H.M.Jr: Will you do that for me?

Kuhn: Yes, sir.

January 17, 1941

Mr. Cochran

Secretary Morgenthau

I haven't seen a list of what the English have been selling for some time. I wish you would bring in to me what they have been doing for the last week or ten days. I would like to see that from now on each day as it comes in until further notice.

~~present~~ Pres. 1/14/41

✓

THE WHITE HOUSE  
WASHINGTON

January 17, 1941.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

I see no special reason to have the income taxes of Governor Francis P. Murphy of New Hampshire checked, but in view of the fact that his name is on a very long list of people who might in the future be considered for a Republican place, it is just as well to do this.

I call your confidential attention to the fact that he and John Sullivan dislike each other extremely -- Murphy having beaten Sullivan.

F. D. R.

## TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE January 17, 1941.

TO Secretary Morgenthau  
FROM Mr. Hase  
Subject: British Requirements for Steel in the United States.

The attached table shows the estimates which we have made on the amount of steel required by the British Government in the United States during 1941 and 1942. These estimates were made on the basis of the most recent information available concerning British requirements but they are known to represent an understatement in view of the fact that requirement figures were not available except for major items.

The total estimate for the two years is 25,000,000 tons of ingots, of which about two-thirds is for commercial steel items and one-third for steel in manufactured goods, including steel required for plant expansion purposes. The total requirements thus amount to slightly more than 1,000,000 tons of ingots per month. This compares with a present capacity of about 7,000,000 tons of ingots per month. The British requirements would thus take up approximately 15 percent of the capacity -- assuming the demands were spread over the two years. It is likely, however, that the need is even larger, in view of the fact that the requirements themselves must have been framed with a view to the effect of priorities and the availability of bottoms.

It should be noted that our estimates do not include the requirements of Canada or the other Dominions, and exclude British requirements in connection with certain manufactured items for which no data are available. It should also be noted that the estimates are for steel ingots alone and therefore exclude pig iron and scrap iron.

Attachment

Estimated British Government  
Requirements for Steel Ingots

(In thousands of tons)

	: Total :	1941 :	1942
Commercial steel	16,502	8,251	8,251
Manufactured goods			
Ships	2,857	1,504	1,353
Aircraft	347	122	225
Tanks	371	234	137
Ordnance	220	182	38
Ammunition	3,197	918	2,279
Machine tools	66	33	33
Total manufactured goods	7,058	2,993	4,065
Plant expansion	960	480	480
Total requirements	<u>24,520</u>	<u>11,724</u>	<u>12,796</u>

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

January 17, 1941

WILLARD HOTEL WASHINGTON, D. C.



TELEPHONE REPUBLIC 7860

## BRITISH PURCHASING COMMISSION

17th January, 1941

Dear Mr. Secretary,

As you know a Ministerial Committee has been set up in London for the purpose of dealing with questions of supply from North America. It is under the chairmanship of Sir Andrew Duncan, Minister of Supply, and has as members Mr. A.V. Alexander, First Lord of the Admiralty, and Lord Beaverbrook, Minister of Aircraft Production.

Similarly on this side of the Atlantic there has been constituted the British Supply Council in North America which, while exercising general control over British supply missions in the United States, will deal with all issues of policy concerning supplies, including representations made to the United States Administration. I attach for your information a list of the membership of the Council.

The Council has appointed as its Secretary Mr. Leslie G. Chance. The offices of the Council are at the Willard Hotel, Washington.

Sir Clive Baillieu has been appointed Director General of the British Purchasing Commission and his arrival from England is expected shortly.

Yours sincerely,

Secretary of the Treasury,  
Washington, D.C.

*des. to Pl. by H.M.F.  
9.30 AM - 1/21/41*

BRITISH SUPPLY COUNCIL IN NORTH AMERICA

Chairman: The Rt. Hon. Arthur B. Purvis, P.C.

Deputy  
Chairman: Mr. Morris Wilson

Members: Sir Henry Self, K.B.E., C.B.,  
Director General, British Air Commission

Sir Clive Baillieu, K.B.E., C.M.G.,  
Director General, British Purchasing  
Commission

Vice-Admiral A.E. Evans, C.B., O.B.E., R.N.,  
Head of British Admiralty Mission in Canada

Hon. C.D. Howe, P.C., M.P.,  
Canadian Minister of Munitions and Supply

Mr. Jean Monnet, K.B.E.

January 17, 1941

MEMORANDUM

TO: The Secretary

FROM: Mr. Young

Re: Additional Gossip About the Martinique Planes

On January 2 I summarized information which had been given to us by Mr. Hodgkin of the Bellanca Aircraft Company concerning a proposed deal by which Cuba would acquire the French planes at Martinique. On that memorandum I appended a note indicating that a later edition of the story was on the way.

Mr. Hodgkin came in to see us again on January 11 with another version of the story which is as follows:

1. The principal figure in the Cuban negotiations was a Mr. Charles McAdow, who is said to have been in touch with a Mr. Deputy, supposedly associated with the British Purchasing Commission, and through him with Sir Henry Self.
2. The Cuban deal is now dead, presumably because Mr. McAdow could not work out any approach to the Vichy Government.
3. As ~~it~~ stands now, Mr. McAdow is withdrawing from the picture, and Mr. Hodgkin has been more or less invited to take up the job of trying to work out a deal between the Vichy Government and Mexico.
4. On this deal he is to contact a Mr. Raefelson in Washington who is supposed to be a purchasing agent for the Mexican Government for instructions and is also to contact Sir Henry Self. Mr. Hodgkin has never met Mr. McAdow, Mr. Raefelson, or Sir Henry Self, but the British and Mr. Raefelson are supposed to be in touch with each other.

5. Mr. Hodgkin does not know if anyone yet has talked to representatives of the Vichy Government.

Mr. Hodgkin left with the intention of getting in touch with the British to see if there is anything tangible in the picture. He inquired as to what we thought he should do, and we told him that his decision was entirely up to him.

Since this is becoming more and more a deal that looks like a repetition of the one million Enfield Rifle fiasco, I shouldn't think we ought to bother the State Department with it unless we see something tangible developing.

*J.D.Y.*

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Vichy

DATE: January 17, 1941, 7 p.m.

AS 11 AM 10 JAN 1941  
Rec'd: 12:06 p.m.,  
Jan. 18.

NO.: 68

FOR THE TREASURY FROM MATTHEWS:

The steady decline of the quotation on the Swiss and Portuguese markets for the French bank notes is causing some preoccupation on the part of officials of the French Ministry of Finance. In Switzerland today's rate for dollar bills and checks is 130 French francs; two weeks ago it was 100.

It is interesting to note that the French feel the decline is for the most part caused by efforts of the Germans to obtain in Switzerland and Portugal dollar and other free foreign exchange; the Germans are using for this purpose not negligible quantities of the francs received as costs of the German army of occupation. I presume that it will be possible for you to ascertain in Portugal and in Switzerland whether these operations are in fact sufficiently large to be important. Attempts are made by the French to stop these francs from being smuggled back into the country. They are not always successful in this, especially since those exchanged in Portugal are smuggled into Morocco. The French have now reduced to 1,000 francs the amount of French currency they will permit to be brought into France.

LEAHY.

EA:LWW

January 17, 1941

Files

Mr. Cochran

At 3:30 this afternoon I telephoned Mr. Livsey in the Department of State summarizing the question as to our refining and paying for approximately \$750,000 worth of Spanish silver, now that our litigation over Spanish silver has been terminated. Livsey promised to look into the question of State Department negotiations with Spain and to confer with his colleagues there as to whether the Treasury Department should expedite the refining of the silver in question, and payment therefor, or let this wait upon adjustment of outstanding problems.

427

ING:lap-1/17/41

34  
Supreme Court of the United States.  
Justice's Chambers.

Dear Kenny

Thank you for your  
note on my birthday and  
thank you for a very fair,  
and clear statement of the  
present difficulties which  
you gave yesterday. You  
did a trying task, perfectly,  
Good luck.

Faithfully

Stanley Reed

January 17  
1940

BRITISH EMBASSY,  
WASHINGTON, D. C.

January 17, 1941.

Dear Mr. Secretary,

The Chancellor of the Exchequer has asked me to say how greatly he appreciates the spirit and intention of the Bill introduced into Congress, and the unsparing effort made by you in preparing the Bill and in explaining and supporting it in your evidence before the House Foreign Affairs Committee. Although it was of course a serious decision, especially under war conditions, for the British Government to agree that the secret figures about our exchange position should be published, Sir Kingsley Wood has full confidence in your judgment on that matter and wishes you and your colleagues every success and speed in securing the passage of the Bill.

There is little to say at present about press reactions in England. The news arrived too late for early editions and there is a great pressure on their limited space for war news.

Yours sincerely,

*F Phillips*

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

January 17, 1941

Arthur Purvis called me tonight at 8:15 to say that he and Sir Frederick Phillips had called on Jesse Jones, and had received a very cold reception. Jones wanted to look over each contract, and his attitude was, "Well, this is a 15-carat ring and I am willing to take this one, but this other ring is only 10 carats, and I don't think that I want that one."

Purvis said that he was very much discouraged, and he doubts very much if anything will come out of the meeting. He wanted me to know this. I said that I would pass this information along to Stimson and Knox on either Monday or Tuesday. He said he was leaving for the week-end and would be back Tuesday. I want to pass this information on to Stimson and Knox in a formal memorandum.

Purvis also made the remark that he thought Knox was the one who would fight the most to get him help. I suppose that by that he meant Knox would help more than Stimson.

*W. L. ...*

January 17, 1941

MEMORANDUM TO - Secretary Stimson ✓  
Secretary Knox

After leaving Cabinet yesterday, I saw Arthur Purvis and suggested that he get in touch at once with Jesse Jones about the \$550,000,000 commitments that the English have made in this country.

*ASM*

*By hand 3:15 1/17/41*

January 17, 1941

Memorandum

I want to write a memo this morning to Stimson and Knox letting them know that I talked to Purvis after Cabinet yesterday, and asked him to get in touch with Jesse Jones and try to work out a plan whereby Jesse Jones would buy approximately \$550,000,000 of commitments that the English have made in this country.

JAN 17 1941

Dear Cordell:

I recently asked Mr. Phil Young, my representative on the Interdepartmental Committee for Coordination of Foreign and Domestic Military Purchases, to give me some examples of the benefits derived from their work.

I am forwarding for your information the enclosed memorandum, which indicates that we are receiving definite tangible benefits from the work of this Committee.

Sincerely yours,

*Henry*

Hon. Cordell Hall

The Secretary of State

By Messenger 5<sup>00</sup>*JA*  
*DU*  
JCS:mas  
1-14-41

JAN 17 1941

Dear Cordell:

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Sincerely yours,

*Henry*

Hon. Cordell Hall

The Secretary of State

JCB:mec  
1-14-41

By Messenger

JAN 17 1941

My dear Mr. President:

I recently asked Mr. Philip Young, my representative on the Interdepartmental Committee for Coordination of Foreign and Domestic Military Purchases, to give me some examples of the benefits derived from their work.

I am forwarding for your information the enclosed memorandum, which indicates that we are receiving definite tangible benefits from the work of this Committee.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The President

The White House

*PM*  
JUN 17  
1/14/41

*fu.*  
By Messenger 500

JAN 17 1941

My dear Mr. President:

I recently asked Mr. Philip Young, my representative on the Interdepartmental Committee for Coordination of Foreign and Domestic Military Purchases, to give me some examples of the benefits derived from their work.

I am forwarding for your information the enclosed memorandum, which indicates that we are receiving definite tangible benefits from the work of this Committee.

Sincerely yours,

(Signed) R. Roosevelt, Jr.

The President

The White House

By Messenger

JOBter  
1/14/41

## MEMORANDUM

December 28, 1940

TO: The Secretary

FROM: Mr. Young

RE: Examples of Benefits Derived from Coordination by the President's Liaison Committee

I list below a few examples where the activities of the Liaison Committee in coordinating the views of the War Department, Navy Department, State Department, Reconstruction Finance Corporation, Advisory Commission to the Council of National Defense, and operating divisions of the Treasury Department have been of specific benefit in assisting foreign purchasers of arms, ammunition, and material of war:

I. Machine Tools for Brazil.

The Brazilian Naval Purchasing Mission requested clearance on the placing of orders for a number of machine tools intended for use in the Brazilian Navy Yard at Rio de Janeiro to complete a plant being constructed for the production of standard U. S. 5" shells. These were all denied by the Advisory Commission to the Council of National Defense with no indication of Army or Navy action. Instead of forwarding these denials, we suggested to the Army, Navy, and Defense Commission that the denials be reconsidered, since this plant was being established in cooperation with the U. S. Naval Mission which had been working very closely with the Brazilians in the development of their Navy Yard facilities at Rio de Janeiro, and its establishment is definitely in line with the State Department's attitude toward the South American countries. As a result of our action, Colonel Knox discussed the problem with Mr. Knudsen, and we received on December 28 approval from the Army, Navy, and Defense Commission on the placing of these orders.

II. Medium Tanks for the British.

The development of the British program for medium tanks illustrates the work of the Committee in standardization of production, in developing financial arrangements to take care of facilities needed by the British, and the necessity for continued coordination once a program is established.

- 2 -

Meetings were arranged early in August for the discussion by the Army, Navy, Defense Commission, and manufacturers of the problem of producing medium tanks in the United States for this country and the British. Based on these conferences and resulting technical discussions by the Army, the British, and the Defense Commission, a completely standard medium tank is adopted by both governments.

To put this tank in production for the British required extensive addition to facilities for final assembly, for engines, for transmissions, for armor plate, etc. This raised a definite question of the financial plan to be followed. An example of the technique developed is that used in the case of the Continental Motors Corporation, which is making the engines for these tanks. During the month of August our records show more than 25 conferences and over 75 telephone conversations with reference to the financing of Continental. These efforts brought into the picture the Army, the Defense Commission, and the Reconstruction Finance Corporation, and resulted in an agreement that the plant would be financed by the Defense Plant Corporation (Reconstruction Finance Corporation) with reimbursement to come from a rental charge added to the price of each engine. This was the first RFC financing worked out for the British and is familiarly known as the "Continental plan". It has been followed in other cases since, and will be used with modifications in several additional contracts which are now pending.

It has been evident, however, from our experience in the tank program that coordination does not stop when the program is set up, but must be a continuing function. In the case of the order for tank engines placed with Continental Motors, a total of 5,500 engines was ordered, of which 2,000 were for the U. S. Army and 3,500 for the British. Capacity was to be set up for the production of 20 engines per day. These arrangements were completed early in September.

In December it came to our attention that the Advisory Commission to the Council of National Defense and the Ordnance Department of the U. S. Army had recommended without consultation with the British that the U. S. Army Air Corps place an order with Continental for 1,500 engines from this same facility on the assumption that there would be surplus engines above U. S. and

- 3 -

British requirements. We discussed this with the British, and found that if their figures were correct, approximately 1,100 tanks would be produced without engines in 1941 if the Air Corps order were allowed to stand with no addition to Continental's productive capacity.

Accordingly, the Liaison Committee arranged a conference between the Air Corps, the Ordnance Department, the Defense Commission, and the British, after which the Defense Commission made an intensive analysis of the engine and tank production situation. They now agree that Continental's capacity must be expanded to 30 per day, and that even with this expansion it may be necessary to re-allocate or reduce the Air Corps order if we are to avoid having tanks produced without engines. They are also establishing the U. S. and British tank programs on a joint basis, which will be supervised by a Joint Army-British-Defense Commission Committee, under the same plan which has been developed for the aircraft program.

Thus, through the efforts of the Liaison Committee, full consideration has been given to an order which might otherwise have resulted in considerable delay to the British tank program.

### III. Machine Tools Available from Foreign Orders.

During the summer we initiated frequent discussions with representatives of the Foreign Funds Section on items coming to their attention which might be of interest to the national defense program or vital to our economic defense. It soon became apparent that there was a substantial quantity of machine tools completed or under production for foreign account which could no longer be exported, since the countries in question were engaged in the war or were occupied by the Axis Powers. Arrangements were immediately made to bring these items to the attention of the Advisory Commission to the Council of National Defense through a firm called "Foreign Funds Machine Tool Adviser", and through the Advisory Commission to the attention of the Machine Tool Committee of the Army and Navy Munitions Board. In several cases this procedure has made it possible for an American manufacturer to secure a badly needed machine tool for use in the defense program, when otherwise it might have remained in storage or been sold to a domestic manufacturer not engaged in defense production.

333 added by this  
Secy 1/18.  
file later  
letter from  
Mr. Dunn 1/27

JAN 17 1941

Dear Mr. Dunn:

With reference to our conversation last week, I am sending you herewith an estimate of British Government requirements for steel in the United States, which is based upon a British Government report just recently compiled.

Sincerely,

(Signed) W. McNamara, Jr.

Mr. Case Dunn,  
Senior Consultant,  
Advisory Commission on National Defense,  
Room 2807 Munitions Building,  
Washington, D. C.

GCH:ak



FILE COPY

By Messenger 500

**STRICTLY CONFIDENTIAL****ESTIMATED BRITISH GOVERNMENT REQUIREMENTS FOR STEEL  
IN THE UNITED STATES, IN TERMS OF INGOTS**

The attached table shows the estimates which we have made on the amount of steel required by the British Government in the United States during 1941 and 1942. These estimates were made on the basis of the most recent information available concerning British requirements but they are known to represent an understatement in view of the fact that requirement figures were not available except for major items.

The total estimate for the two years is 25,000,000 tons of ingots, of which about two-thirds is for commercial steel items and one-third for steel in manufactured goods, including steel required for plant expansion purposes. The total requirements thus represent an ingot output of slightly more than 1,000,000 tons per month. This compares with a present capacity of about 7,000,000 tons of ingots per month. The British requirements would thus take up approximately 15 percent of the capacity -- assuming the demands were spread over the two years. It is probable that the actual immediate need is even larger, since the British estimate of requirements must have been framed with allowance for United States priorities and for the availability of bottoms.

It should be noted that our estimates do not include the requirements of Canada or the other Dominions, and exclude British requirements in connection with certain manufactured items for which no data are available.

Attachment

---

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

January 17, 1941.

FILE COPY

## STRICTLY CONFIDENTIAL

ESTIMATED BRITISH GOVERNMENT REQUIREMENTS  
FOR STEEL, IN TERMS OF STEEL INGOOTS

(In thousands of tons)

Form of Requirement	Total	1941	1942
Commercial steel	16,502	8,251	8,251
Manufactured goods			
Ships	2,857	1,504	1,353
Aircraft	347	122	225
Tanks	371	234	137
Ordnance	220	182	38
Ammunition	8,197	918	2,279
Machine tools	66	33	33
Total manufactured goods	7,058	2,993	4,065
Plant expansion	960	480	480
Total requirements	24,520	11,724	12,796

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

January 17, 1941.

FILE COPY

January 17, 1941.

Dear General Johnson:

Thank you for offering to acknowledge your error publicly in your column.

Since I have already put the matter right in my public testimony before the House Foreign Relations Committee, there is no need for you to make any further explanation for me.

Very truly yours,

(signed) H. Morgenthau, Jr.

Gen. Hugh S. Johnson,  
1425 K Street, N. W.  
Washington, D. C.

HLJr/hkb

1/17/41.

January 17, 1941.

Dear General Johnson:

Thank you for offering to acknowledge your error publicly in your column.

Since I have already put the matter right in my public testimony before the House Foreign Relations Committee, there is no need for you to make any further explanation for me.

Very truly yours,

(Signature of W. P. Rogers)

Gen. Hugh S. Johnson,  
1626 K Street, N. W.  
Washington, D. C.

FKJr/hkb

1/17/41.

338

Mr. Kuhn agreed with the Secretary  
100%. He thinks General Johnson,  
however, should have an acknowledg-  
ment of his letter.

nmc

HUGH S. JOHNSON  
NORMANDY BUILDING  
WASHINGTON, D. C.

January 15, 1941

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

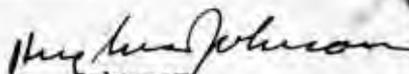
Dear Mr. Secretary:

Since you say you have the signed draft mentioned in your letter of January 14th, that is enough for me on that point. But it doesn't cover the main point and the actual assertion of the paragraph to which you object. I was told by a good friend of yours and his that one of the Secretaries I have mentioned had not been consulted until the form of that bill was frozen,, and that he did not believe the other two had although this latter was secondary evidence.

It is not my intention ever to make mis-statements. The use of the word "published" was **sloppy** and in its colloquial sense obviously wrong since all the Secretaries saw it before it appeared in the press.

If you desire I will make this acknowledgment in my column.

Sincerely,

  
Hugh S. Johnson

January 14, 1941

Dear General Johnson:

In your column which appeared in the Washington Daily News on January 13, you said:

"This astonishing bill was prepared under the direction of Mr. Morgenthau in the Treasury and there is good reason to believe that neither War Secretary Stimson, Navy Secretary Knox nor Secretary of State Hull was consulted on its terms before it was published."

You are one hundred per cent wrong.

If you will come to my office, I shall be happy to show you a photostatic copy of the final draft of the bill which bears, among others, the initials indicating the approval of Secretaries Hull, Stimson, and Knox.

Very truly yours,

(signed) H. Morgenthau, Jr.

Hon. Hugh S. Johnson  
1626 K Street, NW  
Washington, D.C.

EHF:mp  
ly:skx

1/14/41

Sent by messenger out to the Secretary at his house - for signature (6:00 p.m. 1/14/41)

RE: Lease-Lend Bill.

cc: Miss Chauncey by Miss McGuire

1/17/41

This memorandum was returned to General Watson today. It was the same memorandum which Jerome Frank submitted to us on 1/8, and which is filed under date of acknowledgment, 1/10.

The memorandum dealt principally with the investment bankers' attitude on British securities.

*N*  
THE WHITE HOUSE  
WASHINGTON

*1087* January 15, 1941.

MEMORANDUM FOR  
THE SECRETARY OF THE TREASURY

I am sending you this wholly  
confidential memorandum to read  
and return.

F. D. R.

*[Faint handwritten signature and scribbles]*

EH

GRAY

Berlin

Dated January 17, 1941

Rec'd 11:36 p.m.

Secretary of State,  
Washington.

189, January 17, 5 p.m.

By a decree of the Council of Ministers for National Defense dated December 31, 1940 and published in the REICHSGESTZBLATT of January 15, 1941, the increases in the rates of the corporation tax introduced under the law of July 25, 1938, which were originally limited to the years 1939 and 1940 have been indefinitely extended.

Inform Commerce and Treasury.

MORRIS

NK

January 17, 1941

Under Secretary Bell

Mr. Cochran

Dr. Soong telephoned me this morning and asked for an early appointment. I received him at 11:00. Before keeping this appointment I mentioned to you Dr. Soong's request to be received, and also spoke with Mr. Jones of the Far Eastern Division of the Department of State to see if there was any information that I should have before talking with Dr. Soong. Mr. Bell had shown me earlier in the day a secret communication from Dr. Soong in regard to exchange operations in China.

Dr. Soong came promptly to the point with me. He referred to his letter of January 16 to Mr. Bell. He solicited my assistance in the amending of our proposed stabilization agreement with China to provide for the full \$50,000,000 to be made available at the outset of the agreement in a lump sum, rather than be rationed at the rate of \$5,000,000 or \$8,000,000 per month. When Dr. Soong asked if he could count on my support for this change I told him that I could give him no such pledge. When he asked if my experience in Europe did not confirm his belief that to operate successfully a Stabilization Fund should have a large and impressive sum at its disposal with which to maneuver on the market, I told him that I had followed Stabilization Fund operations in Europe as closely as I could for several years and did agree that pressure frequently became heavier upon a Fund when it became known or suspected that its resources were being depleted. I cited, however, the French situation as being an example of one, a few years ago, wherein operations of a Stabilization Fund alone were not sufficient to preserve the currency. I recalled the operations of French officials themselves in getting their own funds out of the country. I mentioned transactions by bankers and others who had inside information in regard to the Government and its monetary plans; and I spoke finally of the straight speculative attacks against the franc. I added that no matter how carefully a Fund was operated it was difficult to distinguish between bona fide commercial transactions and those of the above character. Thus while I admitted the importance of a Stabilization Fund having large resources at its disposal, I confessed that the operation of a Stabilization Fund to support the Chinese currency, particularly considering the Shanghai situation, seemed to me a most difficult proposition which could not easily be compared with the experience of any existing Stabilization Fund elsewhere.

In conclusion I told Dr. Soong that we must await the British reply before any agreement can be consummated. I promised him that there would be opportunity for considering his new request, but I gave absolutely no assurances. In this connection Soong told me that he thought Rogers was still in Newfoundland, but might leave for London shortly.

In my conversation with Mr. Jones of the Department of State I insisted to him that copies of all cablegrams received by the State Department touching upon financial and monetary matters should be sent to my office for distribution within the Treasury

- 2 -

Department. I pointed out to him that only last night I had received indirectly a copy of the important cablegram #41 of January 10 dealing with the Chinese currency stabilization operations at Shanghai. Neither Mr. Bell nor I had seen this previously although we were both dealing actively with this question.

(Init.) H. W. C.

DMG:lap-1/17/41

KD

PLAIN

London

Dated January 17, 1941

Rec'd. 2:10 p.m.

Secretary of State,  
Washington.

187, Seventeenth  
FOR TREASURY

1. With reference to the last paragraph of the Embassy's telegram No. 58, January 7, the FINANCIAL NEWS of today publishes an editorial on United States monetary policy occasioned by the recent proposals for an increase in the Federal Reserve Board's powers to prevent inflation. The editorial after describing the proposals and sketching the background of excess reserves and gold influx states: "On the wider issue of fiscal policy, the Federal Reserve Board has clearly raised questions of primary importance affecting the precise relationship between Government finance and central banking authority. What matters most now is that the Federal Reserve Board should choose this of all moments to formulate proposals for a reversion to rigid and mechanical controls

-2- 187, Seventeenth, from London.

controls for the credit structure, and should relate its proposals to the possibility of an inflationary movement through defence activities. The Federal Reserve Board, in other words, is proceeding happily along the road of business as usual, oblivious apparently of the fact that the huge expansion of federal credit now contemplated reflects a period of national emergency. The Board of Governors appears to be seeking full powers to discriminate on the vital issue of credits for national defence. It apparently wishes Congress to continue voting huge defence appropriations, while the Federal Reserve authorities simultaneously encroach upon the credit base to a degree which would make it impossible for the banking system to render the necessary financial support for the defence programme."

Continuing the editorial points out that there is little evidence of a stock exchange or real estate boom in view of the longer term implications of the situation and goes on to say: "Moreover if such a movement were to begin the United States Government, either directly or through its various agencies, would have drastic powers of national control. The direct and formidable instrument of taxation remains as an additional barrier to uncontrolled inflation. It is to these powers that the United States must look for salvation from the  
inflationary

-3- 187, Seventeenth, from London.

inflationary spiral."

2. The recent appearance of a report by the select committee on national expenditure dealing with labor supply and production matters has given rise to much comment in the press. Undue amounts of overtime worked on rush orders and also resulting from the search of labor for such inducements has, according to the committee, resulted in lessening of efficiency through fatigue and unnecessary augmentation of costs. This situation coupled with the cost plus a given profit system of government contracts and the 100 percent excess profits tax is being ever more widely recognized as wasteful both of manpower and government money as well as a stimulant to inflation. The report also brings to light what the TIMES characterizes as a serious defect in the price fixing arrangements and costings of the Treasury and supply departments. The TIMES editorial points out that "the check on excessive costs is altogether inadequate and the present system of post-costing must always be too late." Discrepancies in the increase in costs of different firms and the effects of 100 percent excess profits duties are also pointed to. The TIMES also notes the  
committee's

-4- 187, Seventeenth, from London.

committee's criticism of the Government for its "chariness to use its compulsory powers" in the matter of the transfer of labor, the dilution of skilled labor and training and points out that one more matter of importance which the committee has missed is the application of these principles to government establishments, dockyards and arsenals as well as to private undertakings. The FINANCIAL TIMES points out that the committee's findings bear directly on the question of increased spending power and rising prices stating: "It is obvious that insofar as they are applicable our war expenditure at the rate of 4,000 million <sup>pound</sup> per annum is not giving full value. Its growth to that level does not deserve all the congratulation it has evoked." Insistent in all the comments not only on this report but on the wages and price situation is the thought "if only these mistakes could have been avoided from the first!"

JOHNSON.

DEM

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE January 17, 1941

TO Secretary Morgenthau

FROM Mr. Klaus

## FBI reports:

January 13. The Tokyo Fire and Marine Insurance Company instructed all its branches in the United States early in November to close their offices, reinsure their business with American insurance firms, and remit the \$12,000,000 cash reserves to the home office as soon as possible; the Tokyo office has been sending cablegrams demanding expedition and showing extreme haste.

January 14. The Italian Consulate in Cleveland is secretly soliciting funds for the Italian Red Cross through Italian Fascists in Ohio; contributors have been sworn to secrecy.

January 14. FBI asks whether the Treasury Department has facilities in Port-au-Prince, Haiti, to ascertain the use to which a prominent Nazi there, Gustave Rohlsen, is putting monies obtained on Chase cashier's checks.

January 15. Further re Klotz and "Baroness" Vera Montgomery; Klotz told his wife on January 15 that he was sending someone to represent him at a National Defense meeting in Washington within the next few days (probably a meeting to be held January 16 in the office of William S. Knudsen); Klotz said he would designate one "Dick" or "Clampitt" (the telephone book indicates that there are two Clampitts, father and son, called J. W. Clampitt, one of whom may be the person in question).

January 15. One Frank Henius, whom the FBI has under suspicion for other reasons, has informed the FBI that William Rhodes Davis has collaborated with the Nazis in lending his name to a Nazi-controlled oil business in Mexico, in locating oil caches in the Caribbean and South America for use of German ships; that Davis forced John L. Lewis to make the speech against Roosevelt on Davis' threat of exposure of Lewis' activities in Mexico; that Davis is buying mercury for the Germans in Mexico; etc. (The information seems inaccurate in several respects.)

*AK*

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 17, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£68,000
Purchased from commercial concerns	£19,000

In the open market, sterling held steady at 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£4,000
Purchased from commercial concerns	-0-

Following yesterday's decline to a three-month low of .05-9/32, the yuan recovered slightly to close at .05-3/8.

The other currencies remained fairly steady except for the Argentine free peso, which regained part of yesterday's loss. Closing quotations were:

Canadian dollar	14-1/8% discount
Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2355
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	8-3/16% discount

We sold \$7,000,000 in gold to the Bank of Java, which was added to its earmarked account.

Under licenses previously issued, the Federal Reserve Bank of New York transferred from the account of the Central Bank of El Salvador gold valued at approximately \$186,443 to account No. 6 of the B.I.S. This transfer raises the amount of gold in B.I.S. account No. 6 to approximately \$836,440; gold in this account is owned by the Central Bank of El Salvador and is pledged to secure repayment of credits granted that Bank by the B.I.S.

There were no new gold engagements reported to us today.

The Bombay gold price was unchanged at the equivalent of \$33.98. Silver was 1/8¢ lower at the equivalent of 44.61¢.

The prices fixed in London for spot and forward silver were both unchanged, at 23-1/4d and 23-3/16d respectively. The dollar equivalents were 42.21¢ and 42.10¢.

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

We made two purchases of silver totaling 150,000 ounces under the Silver Purchase Act. One of these, amounting to 100,000 ounces, represented part of a shipment of silver recently sent to this country by the Central Bank of China. The other 50,000 ounces consisted of new production from foreign countries, for forward delivery.

Having received the Treasury's authority under both the Gold Reserve Act and Executive Order No. 8389 as amended, the Federal Reserve Bank of New York effected the following transfers of gold in its vaults today:

\$560,000 from the account of the National Bank of Denmark to B.I.S. account No. 2, then from B.I.S. account No. 2 to the account of the National Bank of the Kingdom of Yugoslavia. Gold in B.I.S. account No. 2 is owned by that Bank.

These transfers represent a sale of gold from the Danish bank to the Yugoslavian bank through the medium of the B.I.S., whose New York gold holdings were not changed thereby. The B.I.S. paid the Danish bank in dollars withdrawn from its dollar account in the Federal, and received payment from the Yugoslavian bank by debit to a dollar account maintained by the latter on the books of the B.I.S.

*[Handwritten signature]*

**CONFIDENTIAL**

## TREASURY DEPARTMENT

For Miss Chauncey

## INTER OFFICE COMMUNICATION

DATE January 17, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
January 6	3,057	116,893	Nil	Nil
7	31,468	1,025,707	333,000	273,754
8	40,726	1,293,814	55,000	21,614
9	294,557	5,633,477	15,000	14,160
10	126,389	3,433,202	2,000	1,943
11	<u>17,578</u>	<u>600,606</u>	<u>25,000</u>	<u>18,407</u>
	513,775	12,103,699	430,000	329,878
Sales from February 22, 1940 to January 4, 1941	<u>3,498,540</u>	<u>112,401,672</u>	<u>5,986,000</u>	<u>4,579,191</u>
TOTAL FEBRUARY 22, 1940 TO JANUARY 11, 1941	4,012,315	124,505,371	6,416,000	4,909,069

Miss Poste reported sales of non-vested securities for the week ended January 4 totaled \$300,000.

BRITISH EMBASSY,  
WASHINGTON, D.C.

Personal and  
Secret

17th January, 1941

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Harold Butler*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

TELEGRAM RECEIVED FROM LONDON

DATED JANUARY 16th, 1941

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NAVAL

An aircraft from the Newcastle landed at Punta Del Este (Uruguay) 0200/15 owing to lack of fuel. The crew of 3 detained pending result of representations.

At 0230/15 Hudson aircraft returning from night operation dropped two small bombs on the after part of 5000 ton merchant vessel in Stavanger Roads.

The convoys of 38 ships from Sierra Leone and Gibraltar have arrived safely in the United Kingdom.

During the last 6 months of 1940 aircraft armament of merchant vessels has caused the following casualties to enemy aircraft: 15 destroyed, 9 probable and 51 damaged.

From the beginning of the war to December 1st, 1940, naval aircraft have caused the following casualties to enemy aircraft. 52 destroyed certain 10 probable, 49 damaged.

LOCAL AIR FORCE. Night of January 15/16th. Following targets attacked: Wilhelmshaven Naval base and dockyard at Emden, petroleum sheds at Rotterdam, petrol harbour at Erest, Hipper class cruiser. A total of 110 aircraft despatched on these operations.

SICILY. January 15th. Photographic reconnaissance of Catania aerodrome disclosed 30-40

aircraft burnt out or severely damaged.

There were many bomb craters on the aerodrome, one hangar was totally wrecked, another severely damaged and hits have been obtained on administrative buildings.

GERMAN AIR FORCE. Night of January 15th/16th. Preliminary report gives total of 110 enemy aircraft operating over the United Kingdom. Interceptions by our fighters resulted in the destruction of at least two enemy aircraft and a further two damaged without loss.

Aircraft casualties in operations over and from the British Isles. Enemy destroyed 2, damaged 3.

RESTRICTED

G-2/2657-220  
No. 295

M.I.D., W.D.  
January 17, 1941.  
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: Night operations only.

German. Normal activity against two unidentified English cities, one in the west and one in the south.

British. The R.A.F. renewed the attack on Wilhelmshaven and also raided Emden and some of the Channel ports.

II. Greek Theater of War.

1. Ground. The Greeks are maintaining steady pressure against the Italians in the central and coastal sectors but report no gains.

2. Air. Bad weather and little activity.

III. African and Mediterranean Theaters of War.

1. Ground. There have been minor artillery actions along the Sudan front and at Tobruk, with some skirmishing at the Oasis of Jarabub.

2. Air. Axis forces heavily bombed Malta and claim additional hits on the aircraft carrier "Illustrious". Activity in Libya apparently minor.

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

RESTRICTED

Paraphrase of Code Cablegram  
Received at the War Department  
at 11:08, January 17, 1941.

London, filed 13:45, January 17, 1941.

1. During the night of January 15-16 Brest was attacked by planes of the British Coastal Command. During the same night the Bomber Command, in addition to carrying out small attacks on ports in Holland and Germany and on occupied air fields, launched an attack on Wilhelmshaven with 110 bomber planes. This attack was more severe than any of the 39 other British raids made on this city since the war started. Vital installations were severely damaged. During these operations one British bomber was lost.

2. During the night of January 15-16, 110 German planes were plotted over Britain. British night fighter planes shot down two of the German attackers and damaged two others without losing a single plane. During daylight hours of January 16 the Germans operated strong patrols over the Dover Straits and engaged in reconnaissance on shipping activities and along the coast. That night, in addition to two small raids on London and others in the vicinity of Cardiff and Newport, German planes attacked Bristol and the surrounding towns.

3. At the airfield at Catania, Sicily, Axis planes on the ground and airport structures were set on fire as a result of two night raids by British planes based on Malta. At Benghazi,

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British planes based in Egypt raided shore and harbor installations  
and many large fires were started.

SCANLON

**Distribution:**

Secretary of War  
State Department  
Secretary of Treasury ✓  
Asst. Secretary of War  
Chief of Staff  
War Plans Division  
Office of Naval Intelligence  
Air Corps  
G-3

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Paraphrase of Code Cablegram Received at the  
War Department at 11:08, January 17, 1941.

London, Filed 13:45, January 17, 1941.

EXTRACT

During the 15-month period from the beginning of the war up to December 1, 1940 aircraft of the Royal Navy shot down 52 German planes, probably destroyed ten more and damaged 49 others. During the last six months of 1940 anti-aircraft fire from British merchant ships was responsible for the destruction of 15 German planes, the probable destruction of nine more, and for the damaging of 51 others.

SCANLON.

Distribution:

Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
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