

DIARY

Book 349

January 18 - 21, 1941

Albania

- See War Conditions
- Allison Engineering Company
- See War Conditions: Airplanes (Engines)

Bank Holding Company Legislation

HMJr and Foley confer with Glass alone - 1/18/41..	349	16
a) Glass states that FDR said to him he was "neither for nor against a bank holding company bill containing a death sentence"		
b) Glass favors bill as it stands at the moment but introduced it "with reservations" allowing leeway in case of stiff opposition		
Conference; present: HMJr, Bell, Delano, O'Connell, and Foley - 1/21/41.....		133
a) History of bank holding company problem given by Delano		
Glass bill.....		155
Conference; present: HMJr, Delano, Bell, Foley, O'Connell, Eccles, Crowley, and Schenker (Jones unable to be present) - 1/21/41.....		198
a) 1938 correspondence with FDR attached.....		213
b) 1/3/41 memorandum to FDR attached.....		219
Business Conditions		
Haas memorandum on situation for week ending January 18, 1941.....		325

Canada

- See War Conditions: Export Control
- Cooper, D'Arcy
- See War Conditions: Purchasing Mission

Ernet, Morris

- See Revenue Revision

Fats; Oils

- See War Conditions: Price Control
 - Federal Bureau of Investigation
 - Klaus memorandum - 1/18/41, etc.....
- 67,263,320

- F - (Continued)

	Book	Page
Financing, Government		
Debt limit discussed by HMJr, Bell, Sullivan, and Foley - 1/21/41.....	349	228
a) Memorandum to FDR and drafts of two bills relating to public debt and status of Federal and State obligations from standpoint of exemption from taxation.....		246
b) Memorandum to FDR giving Treasury's working balance, etc.....		248
c) FDR asked for appointment to discuss - 1/21/41..		259
National Defense Notes - Proposed new issue of (Haas memorandum) - 1/21/41.....		304

- I -

Inaugural Address		
FDR's speech - 1/20/41.....		82

- L -

Latin America		
Weekly report by National Defense Council - 1/20/41..		90
Mexico:		
Hochschild transmits report - 1/21/41.....		262
a) Cardenas fomenting agitation between labor and farm elements		
Law Enforcement Agencies, Treasury		
Report for 1940 - 1/18/41.....		24
Liquor		
"4/5 of pint" and McReynolds' interest discussed at 9:30 meeting - 1/21/41.....		112

- M -

Marshall, F. R. (Secretary, National Wool Growers' Assn.)		
See War Conditions: Price Control (Wool)		
Marshall, Verne		
See Revenue Revision		
Mexico		
See Latin America		

- N -

National Wool Growers' Association		
See War Conditions: Price Control (Wool)		

- O -

Oils; Fats		
See War Conditions: Price Control		

- P -

	Book	Page
Personnel, Division of		
HMJr has read Thompson-Graves memorandum; wonders why Office of Director of Personnel is needed at all - 1/21/41.....	349	122
a) Graves points out Executive Order necessitates it		
Price Control		
See War Conditions		

- R -

Revenue Revision		
For debt limit, see Financing, Government		
Tax-exempt Status: Memorandum on bona fide religious, etc., organizations prepared for FDR - 1/21/41....		272
a) Ernst (Morris) correspondence as a result of Town Hall debate with Verne Marshall of "No Foreign War Committee"		
Reciprocal income taxation of incomes of Federal and State employees: Resume' of action taken prepared for FDR - 1/21/41.....		348
Roosevelt, Franklin D.		
Inaugural address - 1/20/41.....		82

- T -

Taxation		
See Revenue Revision		

- U -

Unemployment Relief		
Work Projects Administration report for week ending January 8, 1941.....		321
United Kingdom		
See War Conditions: Military Planning		

- W -

War Conditions		
Airplanes:		
Engines:		
Allison Engineering Company: Deliveries and shipments - 1/21/41.....		297, 298
Albania:		
Important decision indicated when Mussolini meets Hitler - 1/18/41.....		72
Exchange market resume' - 1/18/41, etc.....		68, 94, 353
Export Control:		
Canada:		
Present Status of Export Control on Goods Going to Canada: Young memorandum - 1/21/41.....		295

	Book	Page
War Conditions (Continued)		
Lend-Lease Legislation:		
Instructions given by HMJr that Federal Reserve, State Department, and Commerce are to agree on British assets and liabilities before information is presented on the Hill - 1/21/41..349		252
a) Letter to Bloom (Chairman, Committee on Foreign Relations).....		253
Military Planning:		
Reports from London transmitted by Butler - 1/20-21/41.....		99,372,375
War Department bulletin:		
"The German Pioneers in Total War" - 1/21/41....		363
Price Control:		
Fats; Oils: Rise in price as result of Russian and Japanese buying called to Henderson's attention - 1/21/41.....		267
Wool: HMJr's letter to Marshall (Secretary, National Wool Growers' Association) - 1/21/41.....		285
Purchasing Mission:		
See also War Conditions: Lend-Lease Legislation		
Stimson, Knox, Forrestal, Lovett, and Palmer confer with Jones: Stimson-HMJr conversation - 1/18/41..		1,14
a) HMJr confirms fact that no new orders can be placed until Lend-Lease legislation is passed; Knudsen insists that there be sufficient British assets to pay for every order placed up to that time		
b) Stimson inquires about present backlog of \$6 million orders, as, for example, the Buick and Studebaker engine orders		
1) HMJr calls attention to differentiation between standard American contracts and what Knudsen calls "bastard specifications"		
c) HMJr explains situation to Jones.....		7
1) Jones differs with HMJr's stand - he will place the orders and find the money afterward		
Monnet tells HMJr of Bullitt dinner at which Frankfurter, MacLeish, Patterson, Forrestal, Knox, Lovett, and Purvis were present - 1/20/41..		80
a) Airplane engine situation should be entirely reviewed and everything under 2000 horse-power eliminated; cancellation of 5000 Rolls Royce engine orders suggested by HMJr		
b) Knudsen's position: Orders for United States standard types for United States and Great Britain after passage of Lend-Lease bill not realized by Monnet		
c) Patterson's unreasonableness commented on by Monnet; Lovett considered clearest thinker by Monnet		
d) Bullitt and Frankfurter "didn't seem to know what it was all about"		

- W - (Continued)

	Book	Page
War Conditions (Continued)		
Purchasing Mission (Continued)		
Conference; present: HMJr, Phillips, Purvis, Young, and McCloy - 1/21/41.....	349	163
a) \$60 million in War Department and orders that may be placed against that discussed		
b) Memorandum covering contracts British Purchasing Commission desires to place prior to February 28 and estimated initial down payments.....		184,307
c) Detailed list of contracts.....		185
D'Arcy Cooper's report on "matters on which he was unable to make any substantial progress": Manufacture in Great Britain of equipment and clothing for United States Army; British export of cocos, lead, jute burlaps, shellac, tea, copra, and sisal - 1/21/41.....		317
a) HMJr says his main business was "to sell Lever Brothers" - 1/24/41: See Book <u>350</u> , page 338		
Federal Reserve Bank of New York statement showing dollar disbursements for week ending 1/8/41.... (See also Book <u>351</u> , page 24 - 1/15/41)		86
Wool		
See War Conditions: Price Control		
Work Projects Administration		
See Unemployment Relief		

1-18-41 Copy to Philip Young
1-21-41 " " Ed Foley

January 18, 1941
11:10 a.m.

H.M.Jr: Hello.

Operator: Mr. Stimson.

Henry L. Stimson: Hello, Henry.

H.M.Jr: You certainly did a swell job on the Hill.

S: Well, never mind that job. I'm on another one now.

H.M.Jr: What's that?

S: I'm here in R.F.C. with Mr. Jones and we're trying to unravel this situation and get it going. Frank Knox, Forrestal, Lovett, Palmer and I have come down here.

H.M.Jr: You're in Jones' office.

S: Yes, he's right beside me here and I find what I hadn't realized before that the British have been stopped by your direction on the word of the President from making any orders about a month.

H.M.Jr: That's right.

S: Well now is there any way of releasing that?

H.M.Jr: Well, how can I tell them to place new orders when they are fully committed after they've sold every share of stock they own in the United States and every physical property and after they've done that they then will have about enough money to pay the American manufacturers for orders already placed. Well, I simply can't break faith with the American manufacturers. There isn't a week that passes that Bill Knudsen doesn't say to me, Henry, is there enough money on hand.

S: Well, how about there being released enough for this six million orders that they've got in?

H.M.Jr: Six million orders they've got in for what?

- 2 -

- S: Well, things we're trying to iron out.
- H.M.Jr: I don't know anything about it.
- S: Well, now for instance the Buick and the Studebaker contracts.
- H.M.Jr: Well, that's standard American products and the Army and Navy should work it out so that they can place the order and leave any new money that comes in so that these people can buy
- S: Possibly I can work that out. But here, are you going to let all others stand until this bill passes?
- H.M.Jr: Unless I discover some new money. Now Knudsen says he won't place an order for what he calls bastard specifications for the English - not one.
- S: What do you mean by that?
- H.M.Jr: That unless it comes to the standards of the American Army or Navy, he will not pass one single order. So if there is any money that comes up which is new money, it is my feeling that they should conserve that for the stuff that you fellows won't buy for them.
- S: That we should do what?
- H.M.Jr: If they can get any new money, the English are going to need hundreds of millions of dollars for non-standard U.S. stuff, and they're going to need a great deal of money for that and unless Knudsen
- S: Oh you mean the purpose of this stop order was to stop the purchasing of non-standardized stuff.
- H.M.Jr: No, of standard. Standard.
- S: Well, now, we can work out the two principal contracts for engines probably but that doesn't help the rest of the stuff at all.

- 3 -

H.W.Jr: And I only

B: The only thing is this block.

H.W.Jr: Well, may I explain something else?

B: Will you see us? I mean, I did not understand - I don't remember that I ought to have understood it, I don't think I was there at the time that the first announcement was made about that - but that's neither here nor there.

H.W.Jr: October 29th was the date.

B: Well, I don't know whether I was

H.W.Jr: Well, Harry, let me get this thing straight. My understanding with the British is this: there are no hard and fixed rules and that each contract that they want to place will be passed on individually. Now that's my understanding with them. And I told them that if they would bring in any particular order in the forenoon, we would give them a yes or no by 5:00 o'clock of the same day.

B: And what would be your criterion of passing it - whether it was stuff that could be used by the American Army?

H.W.Jr: My criterion is as to the emergency - that's the thing, but we've got to get Bill Knudsen in on this picture as well. I mean, there's no use sitting down with me unless Knudsen is present.

B: (Talks aside. Mr. Jones would you like to speak with him a minute? He's giving me his reasons and I don't know how they would affect you - for the general proposition)

Jesse Jones: Hello, Henry.

H.W.Jr: Hello. Who is this?

J: This is Jones.

- 4 -

H.M.Jr: Hello, Jesse. How are you?

J: Fine.

H.M.Jr: Do you want to know where I stand?

J: Pardon.

H.M.Jr: Do you want to know where I sit or stand on this thing?

J: No, I was wondering why you couldn't allow them to go ahead and place these orders.

H.M.Jr: Jesse, coming from you I don't understand it. Let me explain my position. As far back as October 29th in a meeting which was in this room at which you were present, I told these people that the money situation of the British was such that unless the Chief of Staff felt that these were materials which he could use, I couldn't certify that they had the money to go beyond the orders they already had on hand. You see?

J: Yeah.

H.M.Jr: Now, I said - that was on October 29th, I think you were there, I'm not sure of it, but I said from now on unless the Chief of Staff says that this is something that he can use that the English haven't got the money to pay for, I can't tell the Army and the Navy and the Defense Commission that they've got money enough to go beyond what they already have. Now that goes back to October 29th. Now, the situation as it is now is: they have to sell every factory that they own, every share of stock that they own in order to raise enough dollars to pay for what they already have on hand, and you and I know that they can't do that certainly under twelve months. Hello?

J: Yes.

H.M.Jr: But if they sold everything, there would be a couple of hundred million dollars of margin as between what they've already got on hand. Now that margin is as close as anybody can figure it.

- 5 -

- H.M.Jr: Now, they come along and my understanding with Phillips and with Purvis is, if you gentlemen have got something, you say you've got to have it and if you will let us know in the morning, I'll give you a yes or no by 5:00 o'clock in the afternoon and we'll pass on each thing separately.
- J: Yeah.
- H.M.Jr: But here's where I want you to get the thing: Bill Knudsen says that he will not place a single order for the British unless it is U.S. standard. By that he means something that the Army and Navy can use.
- J: Yeah.
- H.M.Jr: So they are going to need several hundreds of millions - I don't know how many hundreds of millions of dollars of what Bill Knudsen calls bastard specifications. In other words, things drawn to English specifications, and therefore it is my feeling, subject to somebody arguing me out of it, that if they do get any new money that they ought to husband those dollars for the so-called English specifications.
- J: Yeah.
- H.M.Jr: Now, doesn't that make sense?
- J: I suppose it does, Henry, what I was trying to get at now is: the two things that with the Secretary of War is the most pressing of these two engine contracts - Studebaker and Buick. Now, if you will remove your order
- H.M.Jr: But it's \$40 millions, Jesse.
- J: That's all right. Suppose it is. We know we're going to use the engines.
- H.M.Jr: The English haven't got it.
- J: But the United States has got it.
- H.M.Jr: Oh, I've got nothing to say what the Army and Navy orders. I've got no control over them and wouldn't want it - wouldn't accept it.

- 6 -

Only last night - now let's go back to Thursday at lunch. You see the trouble is, Jesse - am I on the loudspeaker?

J: No, no. Nobody on the phone but you and me and the White House operator.

H.M.Jr: Well, here's the trouble: there are so many cooks in this thing that they don't know what two fingers on the same hand are doing.

J: O. K. for that.

H.M.Jr: Now on Thursday at lunch with Knudsen and with Stettinius, he asked me just what you're asking me, and he says, Henry, I am going to go ahead and place the order and I think he said I have placed the order and I'm not going to wait for the English. Now that was Thursday on these two engines. He said I am not waiting for the English, he says, you are entirely right and I am going to go ahead and I think he said, I have placed the orders with Studebaker and Buick, I'm not waiting. Now that was on Thursday. Now what I suggest is that somebody call up Knudsen and find out what is the fact, and if that is the fact, that's one less problem.

J: No, but that's just for the - I suppose that's probably just for the American engines.

H.M.Jr: Just for the American engines.

J: The point is now if Studebaker is allowed to go ahead and place the order - take the order for the British and the British are allowed to place it, I think as far as I understand it that would solve that particular problem.

H.M.Jr: Jesse, in the first place even if I said yes, I don't think Phillips representing the Treasury would let them do it, but I think it's wrong. I think it's wrong to let these people - I don't think they would do it - place orders with American manufacturers when the money isn't in sight. Now, somebody has to

J: Why wouldn't they, Henry?

H.M.Jr: Why wouldn't who?

J: Why wouldn't the British place the order?

H.M.Jr: Because they say they haven't got the money and they're not going to hypothecate in this situation - if that's the correct word.

J: Afraid you've got a higher opinion of them than I've got.

H.M.Jr: Well, I've had this out with Phillips and Purvis and they say they're not going to and I think where the President looks to me in view of what I've said, I just couldn't do it, Jesse.

J: Well, I'm not asking you to do it at all. I'm not going to do that.

H.M.Jr: I thought you were pleading with me.

J: I certainly am not! To hell with it. I want to help if I can and I thought I'd found some way that you could help and if you don't want to do it, that's up to you.

H.M.Jr: Well, it's

J: I'm expected to violate the law and I'm not going to do it.

H.M.Jr: Well, let me put it the other way around. If this was your responsibility, would you do it?

J: I would in a minute. Certainly would.

H.M.Jr: You would?

J: Absolutely!

H.M.Jr: Well

J: And if I were Phillips and he didn't do it, I'd fire him and get another secretary - if I were the British. They're fighting for their lives.

- 8 -

J: They can pay someway, somehow, sometime if they want to and we can take chips and white stones if we want to. We've got to get a little love for it. I asked these fellows in August - Purvis suggested - I think I told you - to put up as collateral instead of money - they didn't want to put up collateral. I said go ahead and establish the principle, putting up collateral. We take good collateral to begin with and by and by we'll be taking ~~scrap~~ for collateral. They didn't want to do that. So I haven't got as high an opinion of them as you've got but then I want to help them just as badly as you want to help them.

H.M.Jr: I know you do. Now let me ask you a question: this thing that Frank Knox brought up in Cabinet about your buying their \$550,000,000 worth of contracts. Now where does that stand?

J: Well, we can't buy their contracts. They've only \$148 million of it in plants and that's very few plants that are independant plants. That'd be some tools in one plant and some addition to another plant and on other people's property. I'm trying to get at the facts about it but they're none too cooperative in giving us the facts. The British. I spent yesterday afternoon with the four of them. I called Purvis again this morning and asked him for some more information, I called him at 8:30 and it isn't down here yet. All he'd have to do would be to send back the paper that he had yesterday afternoon.

H.M.Jr: Now let me ask you another one: the one that Bell called up on my behalf about buying the Australian wool. How does that look?

J: I'm trying to find some way. I'd a lot rather if we could have taken that up with Chester Davis who handled that end of it with the wool growers. That would be a much better basis for credit than it would for buying because I think that the

H.M.Jr: You mean you'd do it through a private corporation?

- 9 -

J: Not if it belonged to the British.

H.M.Jr: I see.

J: It might be - I think there's some value there, I think there's a basis for finding some money some way, somehow. I haven't found the machinery for it yet; I've been working on it.

H.M.Jr: Well, there is \$140 or \$150 millions. If they got it we could do something with that.

J: Yes, I think that a basis for a very good amount. There's some other things I've been working on too along this general line.

H.M.Jr: Well, if they can show some new money and - why that's another story.

J: I think this, Henry. I think that we could get - well, I don't know. I get the impression they're giving us the run-around.

H.M.Jr: Well, I haven't got that yet. They've treated me - on giving me this information as to their assets, they've been slow, I've had to press them and have to keep after them and remind them and so forth and so on.

J: Yeah. But I think this, Henry. If you can turn loose, or did turn loose these two contracts that I don't think you're going to do anybody an injustice. I don't think you're going to stand Studebaker up or anybody else because we're going to buy the engines. There's no doubt in the world about that.

H.M.Jr: Well, I don't see why the Army and Navy are so "het" up about it if Knudsen has placed the contract already, and he said he

J: Just a minute. (Aside - has Knudsen placed the contract for the British or just for the American? With Studebaker? Does anybody know whether Knudsen has given - placed the order with Studebaker for the British - and the Buick? Will you find out please?)

- 10 -

Bob Lovett is going into the other room to find out.

H.M.Jr: Well, he didn't tell me he was going to place it for the British but he said he'd place it for the Army and Navy.

J: Well, that's probably what he's done.

H.M.Jr: Well, he didn't say he'd place it for the British but he said he'd get it started and get the factory going and so forth, then later on if they came along and the bill passed, then he'd place the rest of the order. I don't see what's the matter with them.

J: Well, except as I understand it, the British don't want to give the order because they have been told not to by you. Something to that effect.

H.M.Jr: Well, it's the general proposal, but Knudsen told me he was going ahead and start Buick and Studebaker building their plant, give them the order and then later on he could increase it.

J: And we've agreed to make the loans to build the plants - \$50 millions to Studebaker.

H.M.Jr: Now the Army - I don't think they're so worried about the British as they are to get these two factories started. You see?

J: Yeah.

H.M.Jr: And I think that if they find out that Knudsen has given Studebaker and Buick the green light, they're not going to be so excited about it.

J: Well, I don't know enough about that because I haven't been in on the contracts. As I understand it, the Studebaker can't make their - and Buick can't make their commitments for materials for the British orders until they have got the British orders.

H.M.Jr: Now, here's another thing. Last night Forrestal called me up and he said if the British won't

- 11 -

lay down the money, he said, we think the Navy has got it and we'll do it for them.

J: Well, how can he?

H.M.Jr: Well, let's just use figures. Let's say that for argument's sake they want to give an order to Studebaker for 6000 engines. I don't know whether that's right or wrong. Say 3000 for the British and 3000 for the Navy. Well, what he was talking about is to give them an order for 6000 engines hoping later on to sell or give half to the British, and he said he thought he could find the money.

J: Yes. Well, he isn't in here this morning, he had to go

H.M.Jr: Yes. There are so many people in it, Jesse, it just drives me nuts, but at least you know where I stand.

J: Well, now, we want to do anything over here that we can do that we've got the legal right to do and we can't do more than that. Another thing - I think if we did a foolish thing now it would hurt the bill on the Hill.

H.M.Jr: We can't afford to.

J: We can't jump the gun on this thing.

H.M.Jr: Well, Jesse, that's just the way I feel. I mean, you've got certain requirements and I've got to be able to say that there is enough money there to pay for the orders which they've already placed.

J: Well, now, who do you say that to, Henry?

H.M.Jr: Who do I say that to?

J: Yeah.

H.M.Jr: I said it on the Hill? I told them on the Hill two things, Jesse. One, that they had enough money to place, and the other thing that they were not placing any more orders and I gave Studebaker and Buick as an example in my testimony.

- 12 -

- J: Uh-huh.
- H.M.Jr: Now how in the hell after testifying and mentioning those two particular contracts in my testimony can I turn around on Saturday and do something else? I mentioned those two as an example.
- J: Well, I suppose you only could if the British come along with more stuff.
- H.M.Jr: With some new money. But I said to show you how desperate the situation is, I said, the Army and Navy want to place these contracts and they want the British to take half. The British can't do it, they're out of money, and I went through the whole thing using Buick and Studebaker as an example because everybody has been calling me up two and three times a day about it. I'm just through testifying on the Hill - it's public property, but I love to have you put pressure on me for it. I get a great kick out of it.
- J: Well, I'm not trying to put any pressure on, I'm trying to find a way to get around something.
- H.M.Jr: Well, I think if they get hold of
- J: I've understood it from the British that they couldn't place the orders because you wouldn't let them and now then
- H.M.Jr: That's right and they haven't told me that they would if I would let them, but nevermind, I'm willing to take it. But if your people in that group would call up Bill Knudsen, they may find he's already done it.
- J: Yeah. Well, Lovett is in the other room trying to
- H.M.Jr: Well, I'll be here for another ten minutes, then I've got to go out, but I'm coming back again.
- J: (Anything else you want to say - aside) All right. We'll probably call you back as soon as Lovett gets through on the phone.
- H.M.Jr: Thank you.

January 18, 1941
12:45 p.m.

H.M.Jr: Hello, Jesse.

Jesse
Jones: Yes, Henry. When I called back it was too late and I had to go out.

H.M.Jr: Oh.

J: Well, now, we're pursuing these things as fast as we can and as far as we can to see what we can do and in the meantime I don't know that there is much else to talk about, is there?

H.M.Jr: Well, I haven't heard anything since I've talked to you.

J: Well, I haven't either. I had to go out to another meeting in about ten minutes and I just got through with that.

H.M.Jr: Well, let's get together

J: Early next week, huh?

H.M.Jr: Right.

J: O. K.

H.M.Jr: Thank you.

*Copy to Young -
Foley*

January 18, 1941
11:50 a.m.

H.M.Jr: Hello.

Operator: Secretary Stimson.

Henry L. Stimson: Hello.

H.M.Jr: I was sorry to miss you but I was up on the Hill.

S: I see. Well, I was trying to get a little further along in regard to this matter. I can't understand it. I confess I'm all up a tree about it. I don't quite understand and I thought I would just go in and see you myself. I was passing by on my way back from Jesse Jones' and that was all there was to it. Just on the spur of the moment I thought I'd stop and see you.

H.M.Jr: Well, that was very nice of you.

S: The thing is that I understood that you felt compelled to leave your prohibition on even if Studebaker himself didn't want the protection.

H.M.Jr: Well, that isn't the question. The question is this: we're trying to get a bill through on the Hill with the help of you and many other people. Now, I don't know whether you know it, but I testified on the very, particular proposal that they put up to me and before this Committee I said, (1) the English have enough money to pay for the orders they've already placed. (2) They are not placing

S: You didn't include in that this

H.M.Jr: Well, if I could finish. (2) I said, they are not placing any more orders and then (3) when they asked me - because Hull kept saying that this bill would speed up production, you see - I tried to give an example, and the example I gave was the Studebaker and Buick order which I said the English were unable to participate with the Army in placing

- 2 -

because they didn't have the money, and I used that as a specific example and that's all on the record.

S: Well, that's unfortunate.

H.M.Jr: I don't agree with you because I was following Hull, who said four times that the bill was drafted in the Treasury and when he got to any difficult question, he'd always say, well, you'll have to ask the Treasury because the Treasury wrote the bill.

S: (Laughs).

H.M.Jr: He did that either four or five times, and then he made the statement that by passing the bill we would speed up production. And I said well now here's an example: the Army can't go ahead with placing these orders because the English haven't got the money to match it and I think it made an impression as to the necessity of getting this bill through. I thought it was a good point.

S: Well, I don't know. I'm a little afraid of that. I think we'll get the bill through but we'll lose at best. We won't get the bill through for another six weeks and in that time we're going to suffer a set-back which is going to make a lag at a more vital time further on.

H.M.Jr: Well, now, will you do this?

S: And now what would you say about this? I'm thinking - I was talking it over this morning - of taking, of letting - of writing letters to R.F.C. that we can take those planes - we want them.

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

S: And on that Jones said he would take - that R.F.C. would take the planes.

H.M.Jr: That's quite different. You mean engines, don't you?

- 3 -

- S: Yes, I mean engines.
- H.M.Jr: Well, I'd feel entirely differently.
- S: You have no objection to that?
- H.M.Jr: Oh, I'd be heartily in favor of it. I'd be enthusiastic. There would be a solution to what I call the interim plan. I'd be heartily in favor and enthusiastic and be more than pleased to give my support.
- S: Yes.
- H.M.Jr: But, Harry, after thinking it over, aside from everything else, Knudsen says he looks to me to see that the American manufacturer gets paid. Now, in order for the American manufacturer to get paid for the orders they have on the books, the English have to sell every fifth share of American securities, plus all of their direct investments. Now whether they're willing to do that and whether they can do that, I don't know, but that's what they have to do to raise over a billion, three hundred million of American dollars.
- S: Yes. They've laid all those investments open before you, have they?
- H.M.Jr: Yes, they have and they are laying more and more every day and I just don't see as a matter of straight ethics how I can let them - even if they were willing to - hypothecate their checks, and I think it would just sink us on the Hill if they thought that we were going behind their back and I think it would just ruin the effectiveness of what I said that the English were broke.
- S: Yes. Well, you think the Hill would understand if we did it that it was an entirely different thing.
- H.M.Jr: If you did it the way you said, yes, but I would explain it to them. I certainly would explain it to some of the leaders first to make sure that they thought it was all right.

- 4 -

But after thinking this over today or tomorrow anytime that you want to get together with me, I'm available.

S: Well, I certainly want to get together with you. I think we've got to find some way of spading through this six weeks that I see is inevitable. I think that's minimum.

H.M.Jr: Well, Harry, that's what I've been crying about. You remember we met at the President's Thursday week about that. You remember I sent advance notices for him to take some interest in this interim plan. You remember.

S: Yes.

H.M.Jr: I'm keenly interested in finding a solution. I think now maybe you have something but I don't think the solution is to have me approve their placing orders with American manufacturers when they haven't got the money to pay for them. But if the American manufacturer was told that if this order is placed the Army and Navy have use for it, and here's a letter saying so, that's something quite different.

S: Yes. All right. I'll be glad to talk with you. I feel as if I were in a whirligig. I've hardly had time to sit in my chair here, but I'll see you any time. This time I was out on the road, so to speak, and I thought I'd stop at another customers. (Laughs).

H.M.Jr: Well, as a salesman you've been doing a magnificent job.

S: All right, sir.

H.M.Jr: Thank you.

January 18, 1941

MEMORANDUM FOR THE SECRETARY'S DIARY

Secretary Morgenthau and Mr. Foley called on Senator Glass at his office in the Senate Office Building today at twelve o'clock. Secretary Morgenthau asked for the appointment and there were no other persons present.

Secretary Morgenthau said that the President had asked him to call together the banking group in the Administration interested in bank holding company legislation; that he had arranged for a meeting on Tuesday at 3:00 P.M., but before he saw the other people in the Government, he wanted to find out from the Senator how he stood.

The particular thing that Secretary Morgenthau said he had in mind was a conversation he had had with the President recently. The President had told Secretary Morgenthau about a conversation with Senator Glass in regard to "chain banking." Senator Glass said he had not said anything about "chain banking", or "branch banking." He said he called the President and asked the President where he stood on his bank holding company legislation? The President replied that he wanted to consider the matter further but at the present time he neither was for nor against a bank holding company bill containing a death sentence. Senator Glass said the President made a similar remark in regard to his other inquiry, i.e., Eccles' proposal on excess reserves, monetary powers and other related matters.

Senator Glass said after his conversation with the President he had spoken to Senators Barkley, Wagner, Byrnes and other associates, and then decided to introduce the bill "with reservations." By that statement, which he said was not an unusual one, he meant that he was reserving the right to offer amendments to his own bill in the light of developments at the Committee hearings. Senator Glass said that he was presently in favor of his bill, but thought that it might incur such opposition that he might want to offer modifications.

- 2 -

Senator Glass said he was against holding companies because they were an instrument to violate the law through bank control across state lines; that, in his opinion, the Comptroller of the Currency was responsible for the growth of the Giannini System, and that not only should additional banks not be granted Bank of America, but there were too many already. Secretary Morgenthau pointed out that "Jefty" O'Connor was really the one responsible, and he had been appointed before Secretary Morgenthau was made Secretary of the Treasury. Secretary Morgenthau said he thought the real trouble was in reopening the bank after the Banking Holiday without first having simplified the complex structure.

Senator Glass said he was a little disturbed by Secretary Morgenthau's reference to his having "laid a wreath on the bill when he introduced it." Secretary Morgenthau said he was merely trying to be facetious, and didn't really understand what introducing a bill "with reservations" meant.

Senator Glass said he was prepared to start hearings on the bill whenever the Executive Departments were ready. The Senator thought FDIC and the Comptroller of the Currency should be fully prepared to present testimony.

The Secretary said he was very much taken back by what the Senator had told him with regard to the President's position; however, he said he had made his position perfectly clear and was prepared to go ahead in any event. Senator Glass said this was all right with him, and he wanted to proceed also.

Mr. Foley suggested that SEC also be called as a witness before the Committee. The Senator said he thought that this was a good idea.

Secretary Morgenthau told Senator Glass he appreciated very much his being able to come up and talk to the Senator so frankly about this matter; that he was going to tell the Comptroller to be ready as soon as possible for the hearings.

CONFIDENTIAL

PARAPHRASE

A telegram (no. 28) of January 18, 1941, from the American Ambassador at Chungking reads substantially as follows:

Although for the past month prices have continued to be comparatively stable, costs of all commodities will have a quickened rise at the Chinese New Year and in February, according to persons who are thought to be reliable. Rice will lead in this upswing in prices.

All of the officials in the Ministry of Economic Affairs who were investigated in connection with the control of prices have been acquitted. The officials in the Ministry of Economic affairs have been more cooperative in attempting to find a solution of the price problem since the investigation.

(Message received by teletype on January 18, 1941, from San Francisco.)

HFF

WASH CUST AGCY MISS DERIEUX SPKG GA

GARDNER IN SF CALLING. IS MR GORMAN THERE GA

I BELIEVE SO WILL CALL HIS OFFICE GA WITH MESSAGE

THE FOLLOWING MESSAGE FROM NICHOLSON WHO IS NOW IN SAN FRANCISCO FOR IMMEDIATE ATTENTION OF ALDER (SECRETARY)

QUOTE. SINO BRITISH STABILIZATION FUND WHICH HAS BEEN SELLING IN PAST FEW DAYS AT THREE ONE HALF PENCE DIS CONTINUED SUPPORT AFTERNOON OF 16 TH. AS A RESULT MARKET BECAME PANICKY WITH RATES NOMINAL AND GOLD BARS QUOTED ABOVE \$6800. MARKET COMMENTS ON CONTROL BANKS OPERATIONS UNFAVORABLE SEMICOLON.

FIRST. SELLING CONFINED ONLY TO STEELING WHICH OTHERWISE WOULD HAVE CREATED BETTER FEELING IF THEY COULD SELL SIMULTANEOUSLY U. S. DOLLARS. ALSO SINCE DEMAND MOSTLY IN U. S. DOLLARS IT MAKES CROSS RATE ARTIFICIALLY LOW.

SECOND. SUCCESSIVE LOWERING OF HONGKONG BANKS MERCHANT RATES FROM FIVE ONE HALF TO FIVE ONE FOURTH HAD BAD PSYCHOLOGICAL EFFECT.

THIRD. OVERBOUGHT POSITION ESTIMATED AROUND U. S. DOLLARS TEN MILLION WHICH WOULD BE FORCED TO LIQUIDATE IF RATES COULD BE MAINTAINED FOR ANOTHER WEEK BUT WITHDRAWAL FROM SUPPORT ONLY PLAYS INTO HANDS OF SPECULATORS. UNQUOTE.

ANOTHER MESSAGE, UNRELATED TO ABOVE, FOR ALDER (SECRETARY) FROM NICHOLSON.

QUOTE. NEW PUPPET CENTRAL RESERVE BANK NOW OPENED NANKING. EXPECTED IT WILL OPEN SHANGHAI TWENTIETH. NEW NOTES NOT YET IN CIRCULATION. OUTSIDE OF USUAL EVERYDAY POLITICAL MURDERS, KIDNAPPINGS AND ARMY ROBBERIES, EVERYTHING VERY QUIET IN SHANGHAI. SAMPLES NEW NOTES FORWARDED FROM SHANGHAI 16 TH. UNQUOTE.

ALSO A THIRD MESSAGE FOR ATTENTION ALDER (SECRETARY), FROM NICHOLSON.

QUOTE. RUMORED IN BRITISH DIPLOMATIC CIRCLES HONGKONG THAT PRESENT JAP CABINET WILL RESIGN WITHIN THREE WEEKS AND THAT A NEW CABINET WILL BE FORMED. THAT ADMIRAL NOMURA WILL NOT GO TO STATES AS AMBASSADOR BUT WILL BECOME MINISTER OF FOREIGN AFFAIRS AND THAT THE EMPEROR IS ALL FOR APPEASING THE DEMOCRACIES. THERE ARE ALSO RUMORS FLOATING ABOUT THAT THE EMPEROR IS ABOUT TO BE DETHRONED BY MILITARISTS ON ACCOUNT OF HIS PRO- WESTERN STAND AND THAT A REGENCY WILL BE SET UP. UNQUOTE.

(Message received by teletype on January 18, 1941, from San Francisco.)

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ER

PLAIN

Bombay

Dated January 18, 1941

Rec'd 3 a.m., 19th.

Secretary of State,

Washington.

Eighteenth.

Silver displayed gradual rising tendency during week due favorable war news from Middle East which encouraged optimistic feeling regarding outcome of war. Speculative inquiries for silver for near positions were also noticeable due rumors regarding possible increase in import duty on silver in forthcoming budget. Local stocks small and held mostly in strong hands so that import buying orders affect local quotations appreciably. Stocks 2,500 bars daily offtake 30 bars spot high sixty three rupees seven annas six pies low sixty two close sixty three two gold firm with stocks increasing. Market was maintained at level considerably above export parity due activity speculators who are reported in a moderately heavy overbought position. Stocks 200,000 tolas and due absence export demand ready deliveries are quoted at small discount. By arrivals tolas 8,000 offtake 2,500 spot low forty one fourteen three close and high forty two rupees six annas.

INFORM TREASURY.

DONOVAN

LMB

To:

The Secretary 23

59.9 per cent of all
Federal convictions
in 1940, and
60.3 per cent of all
commitments to
prison were
Treasury cases.
(See R 17 of report.)



From: MR. GASTON



TREASURY DEPARTMENT
Washington.

ASSISTANT SECRETARY

JAN 1 1941

The Honorable

The Secretary of the Treasury.

Dear Mr. Secretary:

I submit herewith a report of the Chief Coordinator of Treasury Law Enforcement Agencies containing a review of the work of these agencies during the calendar year 1940.

It contains instances of notable accomplishments and reflects, I believe, further advances in integrated law-enforcement work which demonstrate the soundness of the principle and the method of coordination as applied under your direction to Treasury law-enforcement problems.

Sincerely,

A handwritten signature in cursive script, appearing to read "Herbert E. Gaston".

Herbert E. Gaston
Assistant Secretary of the Treasury.

TREASURY DEPARTMENT

OFFICE OF COORDINATOR
TREASURY ENFORCEMENT AGENCIES

WASHINGTON

January 18, 1941.

MEMORANDUM FOR MR. GASTON.

There is returned herewith the report of the coordinated Treasury law enforcement agencies which you sent to me with suggestions for changes. In addition to the changes which you suggested, I have added a table containing aggregate statistics for all of the Treasury enforcement agencies and showing that 60.3 percent of all commitments of Federal prisoners during the past fiscal year were in Treasury cases. This table came to me from Jim Bennett after the previous submission of the report.

As you suggest, copies are being made and will be forwarded to the Public Relations Division and to all coordinators. In addition, copies are being furnished to the heads of the agencies in Washington and to the field supervisory officers.



Enc.

TREASURY DEPARTMENT

OFFICE OF COORDINATOR
TREASURY ENFORCEMENT AGENCIES

WASHINGTON

January 3, 1941.



Honorable Herbert E. Gaston,
Assistant Secretary of the Treasury,
Washington, D. C.

My dear Mr. Gaston:

There is transmitted herewith a report of the work of the coordinated Treasury enforcement agencies. While this report covers principally the work during the past year, yet it is carried further to show, in a brief way, what was done before that period and what is contemplated during the year 1941.

Very truly yours,



Ernest J. Deery
Chief Coordinator.

Enc.

OUTLINE

	Page No.
Introduction	1
New Methods	2
Winning Police Cooperation	4
Better Results from Coordinated Enforcement . .	6
Coordination Begun to Suppress Liquor Smugglers	7
Bootlegging Decreases - Federal Revenues Rise .	8
Narcotics and Customs Violations	11
Coast Guard and Customs Cooperate in Neutrality Law Enforcement	12
Tax Law Violators	13
Counterfeiting Drops to New Low	15
Aggregate Statistics	16
Personnel of Agencies	17
Specialized Training	19
Marksmanship Training	20
Enforcement Legislation	22
Conclusion	25

REPORT OF THE WORK OF THE
COORDINATED TREASURY ENFORCEMENT AGENCIES.

Our 1940 objective, pursuant to the decision to extend coordination beyond merely the limits of border and coast line areas to embrace all enforcement districts throughout the United States, has been accomplished, and this plan is in full operation.

The new system has been organized for highest possible efficiency, as a result of meetings at headquarters cities, sub-district offices and numerous other activities in which we participated. After a full year under the enlarged setup, I find it to be both practical and smooth in its functioning. In developing the plan, we were able to go even beyond our first expectations and establish in many of the districts closer cooperation with other Federal agencies.

Our objective for the year 1941 is to strengthen the gains made in our expanded efforts, and to make progress in a new field that means so much to our own greater success - by winning country-wide cooperation of State, city and county police organizations. Before the close of 1940, many supervisory officers had already formed excellent contacts in those local channels. The cultivation of more friends in the ranks of peace officers has already

brought splendid enforcement results. It augurs well for the future.

More friendly relations with the fellow officer on the local police beat will be of incalculable help to Treasury enforcement personnel, when we have been able to develop a clearly understood method by which the local officer may freely and fully communicate information to the Treasury agencies.

Police officers, covering every section of the country, have more diversified problems than our own enforcement services. They gather information of vital interest in their own communities, but they may not always recognize its value to the Federal Government. They may not know the best way to proceed in communicating information which would be highly important to Treasury enforcement officers.

Experience gained during the past year will be helpful, I am confident, in making a constructive approach toward solution of this problem. It is our duty to build up a readier means of contact and communication between local police and Treasury personnel, and our supervisory officers understand it to be one of our principal aims in 1941.

NEW METHODS

When it was decided to broaden the scope of the coordination system, new district coordinators and assistant

district coordinators were chosen from among the supervisory enforcement officers in each of the fifteen districts in continental United States, and from the Coast Guard in Honolulu and Puerto Rico. The system was extended to all branch offices. Conferences were held frequently. Closer contact between agencies was facilitated, wherever possible, by placing enforcement officers in conveniently accessible locations in the same buildings where headquarters and branch offices are maintained.

On October 1, 1940, after district coordination officers first appointed under the new system had completed a full year of service, it was deemed advisable to rotate other supervisory field officers in the responsibilities of the jobs. Accordingly, new district coordinators and assistant coordinators were appointed in each district for 1941. Whenever it was found to be practicable, those officers who had served as assistant coordinators were promoted to the higher posts.

Close observation of results during the past year affords convincing evidence that the regularly scheduled meetings which bring enforcement officers together for free discussion and interchange of ideas relative to mutual problems are becoming more important as a factor in higher efficiency standards. In all districts throughout

the United States, regular monthly meetings, sub-district meetings and "open" meetings have served to give enforcement personnel a clearer picture of the other fellow's problems. Great benefit has come from discussion of current activities. Some cases have illustrated an unusually skillful routine of investigation - a unique pattern of crime detection which provides a valuable guide to other enforcement personnel; some have revealed a newly developed technique successfully followed by other enforcement agencies.

In building up closer and friendlier contact with officers of other Federal agencies, the sub-district meetings have proved to be important. These meetings bring together Federal officers in outlying cities sometimes far removed from headquarters. Many meetings of this character are scheduled to be held in 1941, especially in cities and other areas wherein it is of the highest importance for other Federal officers to have a more intimate understanding of the plan and objective of Treasury coordination.

WINNING POLICE COOPERATION

The "open meeting" provides one of the Treasury's best opportunities to win local police cooperation. In making up our calendar for 1941, arrangements will be made to hold these meetings more frequently. Both Federal

and State enforcement officers are invited to attend them. Addresses are made by Treasury agency representatives and by spokesmen for other organizations. United States attorneys as well as State, city and county prosecuting attorneys are invited to be present and to make talks. These key men join in the discussions. Such meetings won for us last year a great deal of local enforcement cooperation that previously had been entirely lacking.

Important cases came to the attention of the Treasury officers for the first time in these friendly close-range contacts with State and local authorities. Invitations extended to State and local police to visit Treasury services - to see how they function and meet other personnel - brought about more sympathetic understanding of Treasury problems of enforcement. Better understanding awakened a new spirit of cooperation. This friendly approach to more active cooperative contact and reciprocal aid between enforcement personnel, all with diverse problems and points of view, certainly will effect stronger and more helpful official relationships. There is every confidence that from this objective will come much in tangible results that will strengthen the hand of the law against the criminal.

BETTER RESULTS FROM COORDINATED ENFORCEMENT

Figures alone tell a vivid story of the Treasury's success in smashing crooked combines that sought to perpetuate illegal schemes. Dropping curves on the crime charts reflect particularly the value of Treasury enforcement coordination, in the every-day work of crime detection.

When the Secretary, with farsighted vision, early in his administration, took steps to unify enforcement agencies and eliminate discordant rivalries, there was still a large hangover of gangster lawlessness from the dry era. The Secretary found the liquor smuggler and the big bootlegger predominating in the crime picture with bold defiance of law. He took prompt measures to meet that problem. And, the corrective he applied was closely coordinated action among Treasury enforcement officers.

Contrasting totals in this review of enforcement work reveal how Treasury officers operating efficiently in the channels entrusted to them by law, have sharply narrowed and restricted criminal activity. As the records show, in every succeeding year since the Secretary about six years ago took the initiative for coordinated attacks on crime, the Treasury enforcement personnel have become steadily more effective, with correspondingly larger gains for the Federal revenue as well as for the cause of law and order.

COORDINATION BEGUN TO
SUPPRESS LIQUOR SMUGGLERS

In the summer of 1934, the Secretary directed that a concerted drive be made against liquor smuggling, which, quieted down a few months after repeal, had soon revived in a menacing volume. Experience demonstrated that full success could be won only by the coordinated action of all Treasury agencies. As a means of utilizing their combined facilities to the best advantage, it was decided to establish a system of intelligent cooperation between them.

By the Secretary's direction, a coordination program was formulated during August 1934 by Mr. Harold N. Graves, who directed a Committee composed of the heads and assistant heads of the enforcement agencies at Washington. The activities of this group meeting at frequent periods resulted in the establishment of a definite cooperative relationship between the agencies that prior to that time had, to a considerable extent, functioned independently and in ignorance of each other's problems.

In order to make effective the strategy developed by the Coordination Committee in Washington for more intensive operations against liquor smuggling, Mr. Graves selected district coordinators from the Coast Guard District Commanders in the Treasury Districts along the seacoasts.

These district coordinators followed the method of operation designed by the organization in Washington and formed sub-coordinating committees composed of the district supervisory officers of the enforcement agencies.

Alcohol smuggling reached its peak during May 1935. At that time, twenty-one known vessels laden with contraband hovered off shore. Most of them were of British registry. However, by March 1936, the combined efforts of the Treasury agencies functioning in the manner described had stopped smuggling and the smuggling fleet had been dispersed.

BOOTLEGGING DECREASES FEDERAL REVENUES RISE

While these operations against smuggling were in progress at sea, the Alcohol Tax Unit was waging a vigorous campaign against bootlegging ashore. They were assisted in this, as far as practicable, and under the direction of the Secretary's Coordinator, by the other enforcement agencies, particularly the Coast Guard and the Customs Agency Service. The production of illicit spirits had become a major industry and illicit distilleries had been set up in thousands of localities, both rural and urban.

A new method of combating the rural activity was introduced when Coast Guard airplanes began reconnoitering

for distilleries. The airplanes kept in contact by radio with Alcohol Tax Unit automobiles and were highly effective operating units. The Customs Agency assigned squads of patrolmen to assist the investigators of the Alcohol Tax Unit in consummating the arrests and seizures.

During the fiscal years 1935 to 1938, the Alcohol Tax Unit and cooperating agencies established a most creditable record by reducing the volume of illicit distilleries 64.3 percent. Exclusive of the fourteen southern States, illicit distilling was reduced by 78.5 percent for the same period. It is significant that the withdrawals of tax-paid whiskey have increased in proportion to the decrease in illicit distilling. Successful enforcement probably has been primarily responsible for much of the increased collections of liquor taxes.

During the fiscal year 1940, a total of 22,037 individuals were indicted in alcohol tax cases. Of these defendants 18,056 were convicted and approximately 14,000 were awaiting grand jury action or trial in Federal liquor cases on June 30, 1940. A total of 3,552 of the defendants indicted were implicated in conspiracy cases involving major frauds on the revenue.

In line with the recent trend a still further decrease in illicit distilling was shown for 1940. The number of

illicit stills seized was 10,661, a decrease of 1,398 as compared with 1939. Distilled spirits seized dropped from 336,268 gallons in 1939 to 264,590 gallons last year. Seizures of mash amounted to 6,480,150 gallons, a decrease of 1,596,311 gallons.

Despite the fact that the Treasury's coordinated offensive against both the moonshiner and bootlegger has proceeded upon an ever widening scale, liquor law offenders arrested during the past year numbered 25,621 as compared with 28,844 arrests the preceding year, which indicates an effective preventive job.

Thus, there was a 12 percent decrease in the number of stills seized as compared with the previous twelve months, a 20 percent decrease in the gallons of mash seized, and an 11 percent decrease in the number of arrests. As a result of concentrated enforcement activity, substantial progress has been made in the drive against "moonshine" violators in the southern States. Despite the general improvement in the United States as a whole, the metropolitan areas of the North and East showed some increase in the syndicate-controlled operations of illegal alcohol distilleries. Progress is being made in the effort to suppress illicit distilling, but preventive measures have become increasingly important in the general enforcement objective.

NARCOTICS AND CUSTOMS VIOLATIONS

Another major drive was directed against smuggling and trafficking in narcotics. The Bureau of Narcotics, and the Customs Agency Service, now known as the Division of Investigations and Patrol, Bureau of Customs, with the assistance of the other enforcement agencies, notably the Coast Guard, coordinated and concentrated their forces at the vulnerable points of entry in New York City, the West Coast, and the Southwest, in an effort to break up extensive criminal syndicates. The results have been encouraging. Many of the major illicit combines were suppressed and the conspirators prosecuted. By 1938, the increase in narcotic prosecutions in New York City required the appointment of three additional prosecuting attorneys. The operations continue but on a reduced scale. The war blockades have suspended the European source of supply and the greatest activities are now on the West Coast. Enforcement tactics in trailing vessels suspected of carrying narcotics, detecting narcotic smuggling across the docks, and combating the traffic ashore have proved highly effective and afford an excellent example of what can be accomplished through intelligent coordination.

An outstanding accomplishment of the Customs Agency Service and coordinated agencies following repeal was the

case against the Canadian distillers for liquor smuggling which resulted in settlements aggregating \$3,500,000 and bail bond forfeitures of \$200,000.

During the fiscal year 1940, the Customs agents made an extended investigation into the fraudulent registry of approximately 200 American vessels. They were documented under the American flag as the property of United States citizens but were found to be owned by aliens, principally Japanese. Many of the vessels have been forfeited and libel proceedings are pending against the others.

COAST GUARD AND CUSTOMS COOPERATE
IN NEUTRALITY LAW ENFORCEMENT

The Coast Guard had one of the busiest years in its history, its work being greatly multiplied by developments arising out of the war crisis. The Coast Guard, actively engaged in the prevention of violations of the neutrality laws, is closely coordinated with the Bureau of Customs. The value of Treasury agency coordination is amply demonstrated in the smoothness of cooperation established between Coast Guard and Customs, and by the present expeditious and efficient handling of the many difficult and delicate problems growing out of the emergency confronting the country.

Coast Guard vessels cruised 2,182,706 miles last year. Coast Guard aircraft flew 1,219,082 miles. A total of 4,510 vessels were trailed by Coast Guard vessels

In the work of preventing the smuggling of narcotics. Pursuant to their inspection and other duties Coast Guard officers boarded 37,617 vessels. There were 1,208 vessels reported for violations and subject to fines amounting to \$217,619. There were 18 vessels seized for violations, the value of such vessels and cargoes amounting to \$80,750. A total of 4,397 radios were sealed on merchant vessels. In neutrality law enforcement 163,119 vessels were identified. Armaments on 603 merchant vessels were inspected. In cooperation with Alcohol Tax Unit, 718 illicit distilleries were located, 75 stills seized and 1,350 gallons of contraband liquor seized.

TAX LAW VIOLATORS

While coordinated attacks against smuggling, bootlegging, and narcotics were progressing, an intensive campaign was conducted by the Intelligence Unit in its continuous efforts against tax law violators. Many difficult investigations were undertaken and carried to a successful conclusion with the complete cooperation and support of the other agencies of the Bureau of Internal Revenue, particularly the corps of internal revenue agents. Some of these cases involved large-scale income tax evasions and ranked in importance with the largest cases that have been won in the Federal courts. Among the more important cases won were against Johnny Torrio in New York,

Thomas J. Pendergast of Kansas City, Ringling Brothers' Circus of Florida and New York, William R. (Bill) Johnson of Chicago, and, more recently, M. L. Annenberg of Chicago and Philadelphia. Other important investigations are proceeding at the present time. The efficiency of the tax statutory weapon in bringing to justice elusive and notorious violators of other laws has been demonstrated repeatedly.

Successful prosecutions of nationally known racketeers, grafting public officials, and others from all walks of life have resulted in substantial collections of taxes. Also important have been the indirect results through the fact that public exposure of tax evaders of prominence stimulated proper tax payments by many who realized that criminal prosecutions in their cases might result if they attempted to make fraudulent returns. Special drives resulting in the "hot oil" cases in the southwest and investigations of racketeer ring violations in Kansas City, Boston, Chicago, Atlantic City and other cities have produced numerous successful prosecutions. Violations of the National Firearms Act and attempts to defeat the payments of taxes on tobacco, social security, and other miscellaneous violations have culminated in successful prosecutions.

In the fiscal year 1940, special agents of the Intelligence Unit obtained the indictment of 360 persons for

evasion of income or other taxes. During the year 147 persons were convicted and given prison sentences and fines against 224 persons are still pending. Those convicted were fined \$266,640. Additional taxes and penalties totaling \$33,319,063 were recommended for assessment in cases investigated during the year.

Among those indicted were 52 individuals for attempts to evade the social security tax. There were 37 convictions for violations of the National Firearms Act.

Perhaps the outstanding achievement of the year was the conviction of Moses L. Lannenberg, who pleaded guilty to charges of income tax evasion and agreed to pay \$8,000,000 in settlement of his income tax liability. He is now serving a three-year prison sentence.

COUNTERFEITING DROPS TO NEW LOW

The Secret Service inaugurated a program of public education in detecting counterfeit money. In the "Know Your Money" campaign hundreds of thousands of business houses were visited by Secret Service agents to show merchants and their employees how to detect counterfeit money. The conferences with businessmen were supplemented by moving pictures, radio broadcasts, lectures, publicity through newspapers, magazines and through other available channels. The effectiveness of the program is evidenced by the reduction of counterfeiting to the lowest in history.

The average yearly total of counterfeit money detected by this agency from 1934 to 1937, inclusive, was \$759,105.32, as compared with \$378,682.10 during 1938, or less than one half of the average for the preceding years. Secret Service arrests during the 1940 fiscal year, totaled 3,281 persons, 2,222 of which were in connection with check forgeries. In the cases tried, 97 percent of 2,897 persons were convicted, while 893 cases were awaiting trial at the close of the year. During the last year, the public lost \$51,737.42 through acceptance of counterfeit coins. There was an impressive reduction of 50.5 percent in the losses to the public through acceptance of counterfeit notes, a drop from \$294,057 in the 1939 fiscal year to \$145,644 in 1940. Spurious currency seized before it could enter into circulation amounted to \$94,589.

AGGREGATE STATISTICS

The results of the work of the coordinated enforcement agencies are reflected in the following table, which was furnished to me by the Director of the Bureau of Prisons of the Department of Justice. This table shows the number of persons convicted and sent to prison in Treasury law cases and in other Federal cases for the fiscal year ended June 30, 1940.

	<u>Convicted</u>	<u>Committed</u>
Customs	185	51
Counterfeit and Forgery	2312	1487
Gold Act cases	24	6
Internal Revenue	120	42
Firearms	42	23
Narcotics and Marihuana	3047	2250
Liquor	<u>18221</u>	<u>10003</u>
Total Treasury	23951	13862
Other Laws	<u>16027</u>	<u>9141</u>
Total	39978	23003

An analysis of the above table reveals that 59.9 percent of all convictions and 60.3 percent of all commitments were in Treasury cases.

PERSONNEL OF AGENCIES

With the aim of developing the Treasury investigative forces to the highest possible degree of efficiency, surveys of personnel have been made in all agencies. When inefficiency became apparent, necessary changes were made. Undesirable agents have been dropped. Other agents with records of accomplishment and exceptional ability have received promotions, some of them to supervisory positions. In addition, the policy of carefully investigating the character and ability of applicants for appointment to

these services has been continued with the result that appointments have been made only of those found to be best qualified. Consequently, I firmly believe that the character and efficiency of personnel of each of these organizations is at this time at the highest peak in history.

In 1936, the Customs Border Patrol, with 525 inspectors, was transferred from the Collectors of Customs to the Customs Agency Service for better coordination and the development of a united front against smuggling. During the last year, smuggling has been sufficiently subdued to warrant the return of a large number of these Customs patrolmen to the offices of collectors where their assistance is needed in current law-enforcement work. In 1936, employees of the Bureau of Narcotics stationed abroad were transferred to the Customs Agency Service to centralize in that service the supervision of foreign narcotic investigations. The war has made it necessary to recall most of the agents from Europe and they are now distributed among the various district offices of the Customs Agency Service.

The general personnel situation in the Treasury Department has been improved by the work of the enforcement agencies. The Intelligence Unit has conducted many investigations of serious charges against personnel in

the Bureau of Internal Revenue and other services. For instance, after investigations in one organization, five supervisory officials were demoted for incompetency and there were thirty-one separations of agents for cause and eight transfers.

The wisdom of the policy requiring Intelligence Unit investigation of applicants for positions in the Bureau of Internal Revenue and other branches of the Treasury Department prior to appointment has been fully demonstrated by the rejection of 2,443 applicants from a total of 13,031.

SPECIALIZED TRAINING

The Enforcement Training Division for the coordinated agencies has performed a very useful work in giving special training to Treasury investigative personnel. A regular system of schools throughout the country was inaugurated in 1937 and has continued with excellent results.

Practically all of the law-enforcement officers of the Treasury have completed the prescribed course of instruction. In addition to the general coverage of criminal investigation and law, the course embraced various special subjects, such as tax fraud and personnel investigations. Selected investigators were instructed in the technique of lifting and comparing latent fingerprints and in moulage. They, in turn, taught other employees of the agencies how to take fingerprints of arrested persons. They also

described legally approved methods of preserving evidence found at the scene of crime for scientific study by experts, preliminary to its introduction in court. Technical instruction was given to Secret Service agents concerning the printing of currency in the Bureau of Engraving and Printing and the manufacture of coins at the Philadelphia Mint. This study served as background preparation for the "Know Your Money" educational campaign.

MARKSMANSHIP TRAINING

All armed officers of the enforcement services are trained in the use of firearms and competitive matches have been held to stimulate interest. Participation in registered matches sponsored by the National Rifle Association is encouraged. Trophies and medals for winners have been donated, or otherwise provided, and an excellent spirit of competition has developed.

The principal competitive event of the year is an annual match held in Washington, D. C. during August. Selected teams representing each agency compete for Treasury medals and custody of the Secretary's Cup. Following this match, the five men with highest aggregate scores are sent to Camp Perry, Ohio, where they take the police training course and participate in the National Matches. This training course qualifies them as instructors in small arms defensive combat which includes the Thompson

sub-machine gun and rough-and-tumble fighting. A system of qualification and semi-annual requalification has been established.

Under this program we have developed shooters who are known nationally as Treasury Team No. 1. This team has participated in the principal registered matches held during the past three years at Cincinnati, Tampa, Miami, Detroit, Los Angeles, Fort Francis E. Warren, and Buffalo, and in the national matches at Camp Perry, Ohio. They have won many trophies each year and have defeated all military and police teams at one time or another. This team holds national records in the 22 caliber, 38 caliber and 45 caliber classes, and several of the individual members also hold national records. In the "American Rifleman" listing of the thirty ranking shooters in the United States there appear the names of eight Treasury enforcement officers, including two Coast Guardsmen. The nearest to this record is the Detroit Police with four men in the first thirty. No other organization has more than two among the first thirty.

It is gratifying to report that practically all of the enforcement officers of the Treasury Department are now qualified pistol marksmen. The system of pistol training, formerly administered by the Coast Guard coaches, now functions under the Enforcement Training Division. The

field direction has been placed under the district coordinators and agency personnel coaches are used, thus eliminating considerable expense.

ENFORCEMENT LEGISLATION

Soon after the organization of the Alcohol Tax Unit, it became apparent that in order to obtain more effective enforcement of the liquor laws, it was essential to establish adequate control of the raw materials used in the production of spirits. Accordingly, Joint Resolution 373 was enacted by Congress on June 18, 1934, which provided for the supervision of raw materials used in distilling - primarily molasses, sugar, and similar products. Many violators shifted to denatured alcohol and solvents. Additional legislation - the Liquor Tax Administration Act of 1936 - was enacted and thus the system of control was strengthened.

The Liquor Law Repeal and Enforcement Act of 1935 provided for the seizure and forfeiture of automobiles used in illicit traffic and under this legislation the Alcohol Tax Unit has supplied both its Enforcement and Permissive Divisions with a sufficient number of cars to provide adequate official transportation. Many additional vehicles have been transferred to other activities through the Procurement Division of the Treasury Department.

Through the cooperation of the State Department, certain foreign countries which were major sources of contraband, promulgated regulations either embargoing exportation of alcoholic liquors intended for illicit traffic in the United States or requiring vessels leaving their ports to execute bonds to insure cargo delivery at the declared destination.

The Marihuana Act of 1937 placed a new responsibility on the Narcotic Bureau. Since its passage, more than 1,000 persons have been arrested for the illegal sale or possession of marihuana or its products. A system of export authorization for cannabis products was also authorized under this Act.

Legislation has been enacted increasing penalties up to not more than ten years for second offenders, and not more than twenty years for persons having a record of three or more convictions for certain violations of the Federal Narcotic Laws.

Section 806 of the Revenue Act of 1936 amended the Harrison Narcotic Act to require that each applicant for registration be lawfully entitled to engage in the business for which registration is sought, as a condition precedent to registration. The Secretary's appeals to the Governors of States urging the revocation of licenses of physicians convicted of narcotic violations have proven most effective.

Regulations issued under the Import and Export Act have revived the export procedure for narcotic drugs and provide for formal export permits.

The Act of August 9, 1939, which authorizes the forfeiture of vessels, vehicles, and aircraft used to conceal or transport contraband of whatever nature, and specifically designating narcotics, counterfeit money, and illicit firearms, has proven valuable. Under this Act, the Bureau of Narcotics and the Secret Service Division have seized and caused to be forfeited, automobiles which were not subject to forfeiture under any other existing law. The Intelligence Unit has seized several automobiles used in transporting illegal firearms. However, the Act is not sufficiently specific to provide for the seizure of conveyances used to transport marihuana.

The Intelligence Unit has offered suggestions and recommendations for amending the Internal Revenue laws, the recent "loophole legislation" having resulted from a thorough survey in which special agents participated. As you may recall, a tax fraud investigation by this Unit first revealed the statutory defects which were corrected by the new legislation.

Following repeal, many United States attorneys engaged too frequently in the practice of compromising serious violations of the liquor laws, thus threatening to undermine

the enforcement program. Such compromises have been reduced to a minimum as a result of action taken by the Treasury Department.

CONCLUSION

In summing up the accomplishments of coordination during the past year, I first wish to express appreciation of the ground work laid by the officers of the Coast Guard when they were directing the activities of the various enforcement agencies in a coordinated effort to combat smuggling and in training the armed personnel of the Treasury Department in the use of small arms. Because of emergencies which have arisen they were unable to continue these activities and District Coordinators in each of the Treasury Districts have been chosen from the different enforcement agencies to carry on coordination and marksmanship training. The Coast Guard, however, still occupies a prominent place in the enforcement picture and is a valuable and necessary arm of the Treasury enforcement group.

The past year has been one of progress and accomplishment in respect to the laws enforced by the Treasury Department as outlined in this report. I feel that this is in a large measure due to the coordinated efforts put forth by the several services which have worked

together as a team on many important cases and brought them to successful conclusions. The motto of Treasury personnel has become, "We will help you" and this applies not only to Treasury functions, but to other Federal Departments. I know that we shall extend and consolidate the gains thus far made. In addition to doing this, we have mapped out a forward looking program. The personnel are enthusiastic because of their accomplishments during the past year and are eager to extend coordination into non-Federal fields. I want to take this opportunity to say that the personal interest of Secretary Morgenthau and Assistant Secretary Gaston in enforcement matters and in coordination is a stimulating inspiration to the entire enforcement personnel.


Chief Coordinator.

January 2, 1941.

EXECUTIVE ORDER

ESTABLISHING A CIVILIAN ECONOMIC DEFENSE COMMITTEE,
REGULATING TRANSACTIONS IN FOREIGN EXCHANGE, FOREIGN
PROPERTY AND FOREIGN BUYING, CONTROLLING THE EXPORT
AND OTHER DEALINGS IN DEFENSE MATERIALS, THE REQUI-
SITIONING THEREOF, SHIP MATTERS, AND THE PROTEC-
TION OF DEFENSE PRODUCTION FROM EXTORTION AND
FOREIGN CONTROL, AND RELATED MATTERS.

By virtue of and pursuant to the authority vested in me by the
Constitution, by section 1 of Title II of the Act of June 15, 1917
(40 Stat. 320), by section 3(b) of the Act of October 6, 1917 (40
Stat. 411), as amended, by section 2(a) of the Act of June 18, 1940
(54 Stat. 676), by section 6 of the Act of July 2, 1940 (54 Stat. 714),
by the Act of October 10, 1940 (54 Stat. 1090), and by virtue of all
other authority vested in me, and by virtue of the continued existence
of a period of national emergency, it is hereby ordered as follows:

TITLE I

Section 1. There is hereby established a Civilian Economic
Defense Committee (hereinafter referred to as the "Committee").
The Committee shall consist of the Secretary of State, the
Secretary of the Treasury, the Attorney General, the Federal Loan
Administrator, and a member of the Office of Production Management
to be appointed by it. The Committee, with the consent of the
Secretary of State, and acting either directly or through such
subcommittees, agencies or personnel as the Committee may designate,
shall formulate policies relating to the carrying out of the purposes
of this Order.

Section 2. Subject to policies formulated by the Committee
(a) Titles II and III of this Order shall be administered by the
Secretary of the Treasury, and (b) Title IV of this Order shall be
administered by the Attorney General.

- 1 -

TITLE II

Executive Order No. 6389 of April 10, 1940, as amended, amending Executive Order No. 6560 of January 15, 1934, is amended to read as follows:

Section 9. Notwithstanding any of the provisions of sections 1 to 8, inclusive, of this Order, all of the following transactions are prohibited, except as specifically authorized by the Secretary of the Treasury by means of regulations, rulings, instructions, licenses, or otherwise, if involving property in which any foreign country designated in this Order, or any national thereof, has at any time on or since the effective date of this Order had any interest of any nature whatsoever, direct or indirect:

A. All transfers of credit between any banking institutions within the United States; and all transfers of credit between any banking institution within the United States and any banking institution outside the United States (including any principal, agent, home office, branch, or correspondent outside of the United States, of a banking institution within the United States);

B. All payments by or to any banking institution within the United States;

C. All transactions in foreign exchange by any person within the United States;

- 3 -

D. The export or withdrawal from the United States, or the earmarking of gold or silver coin or bullion or currency by any person within the United States;

E. All transfers, withdrawals or exportations of, or dealings in, any evidences of indebtedness or evidences of ownership of property by any person within the United States; and

F. Any transaction for the purpose or which has the effect of evading or avoiding the foregoing prohibitions.

Section 10.

A. All of the following transactions are prohibited, except as specifically authorized by the Secretary of the Treasury by means of regulations, rulings, instructions, licenses, or otherwise:

(1) The acquisition, disposition or transfer of, or other dealing in, or with respect to, any security or evidence thereof on which there is stamped or imprinted, or to which there is affixed or otherwise attached, a tax stamp or other stamp of a foreign country designated in this Order or a notarial or similar seal which by its contents indicates that it was stamped, imprinted, affixed or attached within such foreign country, or where the attendant circumstances disclose or indicate that such

stamp or seal may, at any time, have been stamped, imprinted, affixed or attached thereto; and

(2) The acquisition by, or transfer to, any person within the United States of any interest in any security or evidence thereof if the attendant circumstances disclose or indicate that the security or evidence thereof is not physically situated within the United States.

B. The Secretary of the Treasury may investigate, regulate, or prohibit under such regulations, rulings, or instructions as he may prescribe, by means of licenses or otherwise, the sending, mailing, importing or otherwise bringing, directly or indirectly, into the United States, from any foreign country, of any securities or evidences thereof or the receiving or holding in the United States of any securities or evidences thereof so brought into the United States.

Section 11. The term "foreign country designated in this Order" means a foreign country included in the following schedule, and the term "effective date of this Order" means with respect to any such foreign country, or any national thereof, the date specified in the following schedule: (a) April 8, 1949 - Norway and Denmark;

- 5 -

(b) May 10, 1940 - the Netherlands, Belgium and Luxembourg;
 (c) June 17, 1940 - France; (d) July 10, 1940 - Latvia, Estonia
 and Lithuania; (e) October 9, 1940 - Rumania; (f) _____, 1941 -
 Albania, Andorra, Austria, Bulgaria, Czechoslovakia, Denmark, Finland,
 Germany, Hungary, Italy, Liechtenstein, Poland, Portugal, San
 Marino, Spain, Sweden, Switzerland, Yugoslavia. The "effective
 date of this Order" with respect to any foreign country not
 designated in this Order shall be deemed to be _____, 1941.

Section 12.

A. The Secretary of the Treasury may require, by means of regulations, rulings, instructions, or otherwise, any person to furnish under oath, in the form of reports or otherwise, from time to time and at such time or times as he may designate, complete information relative to any transaction referred to in subdivision (b) of section 5 of the Act of October 6, 1917 (40 Stat. 411), as amended, or with respect to the interest of any foreign country or any national thereof in any property, including the production of any books of account, contracts, letters, or other papers, in connection therewith, in the custody or control of such person, either before or after such transaction is completed; and the Secretary of the Treasury may, through any agency he may designate, investigate any such transaction or act, or any violation of the provisions of this Order.

B. Every person engaging in any of the transactions referred to in sections 9 and 10 of this Order shall keep a full record of each such transaction engaged in by him, regardless of whether such transaction is effected pursuant to license or otherwise, and such record shall be

- 6 -

available for examination by a representative of the Treasury Department for at least one year after the date of such transaction.

Section 13.

A. The term "transactions" * * * involving property in which any foreign country designated in this Order, or any national thereof, has * * * any interest" shall include, but not by way of limitation, (i) any payment or transfer to such foreign country or any national thereof, (ii) any export or withdrawal from the United States to such foreign country and (iii) any transfer of credit expressed in terms of the currency of such foreign country.

B. The term "foreign country" shall include, but not by way of limitation, the state and the government thereof on the effective date of this Order as well as any political subdivision, agency or instrumentality thereof or any territory, dependency, colony, protectorate, mandate, dominion, possession or place subject to the jurisdiction thereof; and shall also include any other government (including any political subdivision, agency, or instrumentality thereof) to the extent and only to the extent that such government exercises or claims to exercise de jure or de facto sovereignty over the area which on such effective date constituted such foreign country;

- 7 -

and shall further include any person who is, or has been, or who there is reasonable cause to believe is, or has been, acting or purporting to act directly or indirectly for the benefit or on behalf of any of the foregoing.

C. The term "national" shall include any person who has been domiciled in, or a subject, citizen or resident of a foreign country at any time on or since the effective date of this Order, but shall not include any individual domiciled and residing in the United States at all times on and since such effective date, and shall also include any partnership, association, corporation or other organization organized under the laws of, or which on or since such effective date had or has had its principal place of business in such foreign country, or which on or since such effective date was or has been controlled by, or a substantial part of the stock, shares, bonds, debentures, notes, drafts, or other securities or obligations of which was or has been owned or controlled by, directly or indirectly, such foreign country and/or one or more nationals thereof as herein defined; and shall further include any person to the extent that such person is, or has been, since such effective date, acting or purporting to act directly or indirectly for the benefit or on behalf of such foreign country or national thereof; and shall further include any other person who there

- 8 -

is reasonable cause to believe is a "national" as herein defined. In any case in which by virtue of the foregoing definition a person is a national of more than one foreign country, such person shall be deemed to be a national of each such foreign country. The Secretary of the Treasury shall have full power to determine who is or shall be deemed to be a "national" within the meaning of this definition.

D. The term "banking institution" as used in section 9 shall include any person engaged primarily or incidentally in the business of banking, of granting or transferring credits, or of purchasing or selling foreign exchange or procuring purchasers and sellers thereof, as principal or agent, or any person holding credits for others as a direct or incidental part of his business, or brokers; and, each principal, agent, home office, branch or correspondent of any person so engaged shall be regarded as a separate "banking institution."

E. The term "this Order", as used in this Title, shall mean Executive Order No. 6560 of January 15, 1934, as amended.

Section 14. The Regulations of November 12, 1934, are hereby modified in so far as they are inconsistent with the provisions of sections 9 to 14, inclusive, of this Order, and except as so modified are hereby continued in full force and effect.

TITLE III

Section 1. Coordination of Foreign Buying. Subject to the policies formulated by the Committee, the Secretary of the Treasury shall coordinate the buying, or other acquisition, including negotiations therefor, by or on behalf of any foreign country or national thereof, of all defense articles, including all military equipment and munitions, component parts thereof, and machinery, tools, and material and supplies necessary for the manufacture, servicing or operation of defense articles, in such a manner as will most effectively further the interests of national defense. For such purpose the Secretary of the Treasury shall serve as the liaison officer between this Government and foreign countries and nationals thereof. The Secretary of the Treasury shall keep the Committee currently and fully informed of his activities in connection herewith.

Section 2. Export Subrogation. The Proclamations, Orders and Regulations heretofore issued under section 6 of the Act of July 2, 1940 (54 Stat. 714) shall, except as herein or otherwise amended, remain in full force and effect and the functions of the Administrator of Export Control and his staff shall be subject to the supervision and control of the Secretary of the Treasury acting subject to the policies formulated by the Committee and the licensing procedure in effect as of the date of this Order shall remain in effect until modified, amended or revoked by regulations hereafter issued by the Secretary of the Treasury.

Section 3. Re-assignment of Materials Denied Export. The Executive Order and regulations heretofore issued under the Act of October 10, 1940 (54 Stat. 1090) shall, except as herein or otherwise amended, remain in full force and effect, except that the powers therein vested in the Secretary of War and the Secretary of the Navy, acting jointly through the Army and Navy Munitions Board, are hereby transferred to the Committee, acting with the approval of the Army and Navy Munitions Board, and the functions of the administrator of Export Control and his staff shall be subject to the supervision and control of the Secretary of the Treasury subject to the policies formulated by the Committee.

Section 4. Control of Ship Movements. The Proclamation and the regulations issued under section 1 of Title II of the Act of June 15, 1917 (40 Stat. 220) shall remain in full force and effect, and the administration thereof by the Secretary of the Treasury shall be subject to the policies formulated by the Committee.

TITLE IV

Section 1. Protection of Defense Production from Restraints and Foreign Control. With such advice and assistance as he may require from the several departments and agencies of the Federal Government, the Attorney General shall, acting in accordance with the policies formulated by the Committee and pursuant to the authority heretofore referred to, or pursuant to any other authority:

(a) Conduct investigations, bring grand jury proceedings, determine the need for legislative or other programs, and take such other action as may be appropriate for the purpose of dealing with restrictions, hindrances or conduct otherwise detrimental to national defense or security, including all production and other operations incidental thereto, by reason of or imposed by:

(i) any foreign control or influence over or interest in, directly or indirectly, any American business or industrial establishment,

(ii) agreements, licenses, patent arrangements, conspiracies or other practices or devices,

(iii) industrial espionage or sabotage or the obtaining of any information by any foreign interest.

(b) In aid of national defense and security, furnish information and render such assistance with regard to the foregoing matters as may be of use to and is requested by other interested agencies of the Government.

(c) Perform such other related functions as the Committee may from time to time assign or delegate to him.

Section 2. Regulations. The Attorney General is authorized and empowered to prescribe from time to time regulations, rulings and instructions to carry out the purposes of this Title.

- 11 -

TITLE V

Section 1. Recommendations by the Committee. The Committee shall engage in such studies and shall make such recommendations to the President, to the Congress and to the appropriate departments and agencies of the Government as the Committee deems in the interests of the economic defense of the United States.

Section 2. Continued Validity of Prior Actions and Savings Clause. Except as otherwise provided, this Order shall not be deemed to revoke any regulation, license, ruling, instruction or other action issued or taken pursuant to any law, proclamation, order or regulation heretofore referred to which is in effect as of the date of this Order; provided, however, that all such regulations, licenses, rulings, instructions, or other actions shall be subject to the provisions of this Order and the regulations, licenses, rulings, instructions or actions issued or taken thereunder. Any amendment, modification or revocation by or pursuant to the provisions of this Order of any orders, proclamations, regulations, rulings, instructions or licenses shall not affect any act done, or any right accruing or accrued, or any suit or proceeding had or commenced in any civil or criminal case prior to such amendment, modification or revocation, and all penalties, forfeitures and liabilities under any such orders, proclamations, regulations, rulings, instructions or licenses shall continue and may be enforced as if such amendment, modification or revocation had not been made.

Section 3. Regulations. Except with respect to Title IV the Secretary of the Treasury is authorized and empowered to prescribe from time to time regulations, rulings, and instructions to carry out the purposes of this Order, and the proclamations and orders herein referred to, and

- 12 -

provide therein or otherwise the conditions under which licenses may be granted by or through such officers or agencies as the Secretary of the Treasury may designate. In so far as possible in administering this Order, the Secretary of the Treasury shall limit the number of applications and licenses required for the performance of acts covered by this Order. The decision of the Secretary of the Treasury with respect to any application for a license shall be final.

Section 4. ~~Rescission~~. This Executive Order and any regulations, rulings, licenses or instructions issued hereunder may be amended, modified or revoked at any time.

THE WHITE HOUSE,

, 194 .

THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE
FEDERAL RESERVE BUILDING
WASHINGTON, D. C.

Saturday
January 18, 1941

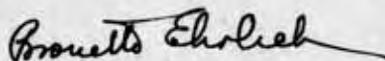
The Honorable
The Secretary of the Treasury
Washington, D. C.

Dear Mr. Secretary:

This will acknowledge receipt of your confidential
letter addressed to Mr. Gano Dunn.

Mr. Dunn is in New York today, and I have advised him
by telephone of its receipt. He is returning to Washington
on Sunday, the 19th, and will be here all of that week.

Sincerely yours,



Bronette Ehrlich
Secretary to Mr. Dunn

RECEIVED
JAN 18 1941
SECRETARIA OF THE COMMISSION

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE January 18, 1941

TO Secretary Morgenthau

FROM Mr. Klaus

The Dies report on Totalitarian propoganda states among other things that "A high official in the United States Customs Service has made the following observation within the past ten days," namely that propoganda material via Russia and Japan has been coming in in increased quantities and that it is addressed to thousands of individuals, schools, colleges, business houses, etc., in the United States. The point of the report is that legislation should be enacted to exclude from the benefits of the Universal Postal Union agreement (under which this country carries foreign mail free within the United States) propoganda that is directed against the United States.

811.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 18, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£10,000
Purchased from commercial concerns	£65,000

Open market sterling was first quoted at 4.03-1/2. Around mid-morning it moved to 4.03-1/4, and closed at that level. Transactions of the reporting banks were as follows:

Sold to commercial concerns	-0-
Purchased from commercial concerns	£ 4,000

Closing quotations for the other currencies were as follows:

Canadian dollar	14-1/8% discount
Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	8-3/16% discount
Chinese yuan	.05-3/8

There were no gold transactions consummated by us today.

No new gold engagements were reported.

The Bombay gold price was 2¢ higher at the equivalent of \$34.00. Silver was equivalent to 44.76¢, up 1/8¢.

The Federal Reserve Bank's report of January 15, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$103,420,000, a decrease of \$1,253,000 since January 8. Most of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on January 15:

- 2 -

	<u>January 15</u>	<u>Change from Jan. 8</u>
Liabilities: Deposits for Japan & Manchuria....	\$54,830,000	- \$1,416,000
Deposits for China.....	36,979,000	+ 220,000
" : U.S. Treas. bills, comm. paper, etc.	31,483,000	+ 703,000
Claims : Loans.....	\$37,730,000	- \$2,156,000
" : Other - mainly Jap. import bills..	15,266,000	+ 2,412,000

The last three categories refer mainly to Japanese banks in Japan and Manchuria.

CONFIDENTIAL



PARAPHRASE OF TELEGRAM SENT**TO :** American Embassy, Vichy**DATE:** January 18, 1941**NO. :** 53

The Embassy is requested to continue to follow the matter of the reports concerning the reshipment from French Africa to Vichy, and thence to Berlin and Paris, of Belgian gold and to attempt to obtain further information with regard to the amounts of gold which have been or now are actually falling into the hands of the authorities of Germany.

HULL**EA:GL:VGL****EA:VGL**

PARAPHRASE OF TELEGRAM SENT**TO : American Embassy, Vichy.****DATE: January 18, 1941.****NO. : 54**

With reference to the reports concerning the enforced opening, in France, of safety deposit vaults, it is requested that a report be submitted as to whether the German authorities are taking possession, either directly or indirectly, of the securities and gold which may be found in these vaults.

The Department would also be greatly interested in whatever information may be obtained by the Embassy concerning the acquiring of the contents of safety deposit vaults in Holland, Belgium, Norway and Denmark by the German authorities.

HULL**EA:GL:VGL****EA:VGL**

CONFIDENTIAL

72

**Paraphrase of Code Radiogram
Received at the War Department
at 12:12, January 18, 1941.**

Reus, filed January 18, 1941.

Cavaliere and Mussolini had a prolonged conversation at Yeghia before Il Duce set out to meet Herr Hitler. It is thought that an important decision as regards Albania is impending. The Italians will probably have to withdraw to the line of the Shkumbin River unless the Germans take a hand in some way. The Italians now have seven depleted divisions and 17 full divisions in Albania. Their total is believed to be 260,000 troops.

FISCH

Distribution:

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

CONFIDENTIAL

January 18, 1941.

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Gaston

You asked me yesterday to find out whether Coast Guard or Immigration had custody of the escaped French convicts now at San Juan, Puerto Rico, and which service was bearing the expense of maintaining them while we are awaiting further instructions. We sent a priority message yesterday to San Juan and received a reply that the prisoners are housed in the district jail at San Juan and that the Immigration Service is caring for the expense of their maintenance.

A handwritten signature in dark ink, consisting of the letters 'WSB' in a stylized, cursive script. The signature is enclosed within a large, sweeping oval flourish that extends to the right.

January 18, 1941.

MEMORANDUM

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HBO:ds

RESTRICTED

G-2/2657-220
No. 296

M.I.D., W.D.
January 18, 1941.
12:00 M.

SITUATION REPORTI. Western Theater of War.

1. Air Force Operations. Bad weather continued.

Day: Limited offensive operations by the R.A.F. Coastal Command.

Night: German. Moderate attacks around the Bristol Channel and over London. Swansea was attacked fairly heavily.

Night: British. Small raids on Brest, Cherbourg and two airdromes in occupied France.

II. Greek Theater of War.

1. Ground. The Greek Command reports the capture of 1,000 Italians of the 7th (Lupi di Toscana) Division, not previously reported in Albania. Otherwise no special activity is reported.

2. Air. No operations reported.

III. Mediterranean and African Theaters of War.

1. Ground. Minor activity around Giarabub, Libya, and on the Ethiopia-Kenya frontier.

2. Air. Limited activity. The Suez Canal zone was bombed, as was Port Sudan.

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

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Paraphrase of Code Message
Received at the War Department
at 8:58, January 18, 1941.

London, filed January 18, 1941.

1. On Friday, January 17, German merchant convoys were attacked by planes of the Coastal Command off the Dutch coast. Direct hits were scored on a German mine layer and three cargo boats while considerable damage was inflicted on a number of German ships. During the preceding night 81 planes of the Bomber Command again raided Wilhelmshaven. German shipping and oil refineries near Wilhelmshaven were bombed by five other planes of the Bomber Command.

2. On January 17 a single German plane attacked Canterbury. Coastal reconnaissance with large patrols over the Boulogne-Calais area and the Straits of Dover was carried out by the Germans during the day. The British destroyed one German plane and damaged one other. During the preceding night 150 German planes attacked Bristol and started a number of fires which were quickly brought under control. A total of 53 other German planes were plotted over England during that night and a number of serious fires including one at an oil storage plant were started at Avonmouth. During the night of January 17-18 Swansea was the main target of the German attacks which were centered in South Wales.

3. During daylight hours of January 18 an intensive dive bombing attack was made on the British aircraft carrier *ILLUSTrious* in a harbor at Malta. Italian fighter planes escorted the 70 German

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Junkers in the two waves of bombing that made up the attack. There was only slight damage to the ILLUMINOUS as a result of the one hit made. Some damage was inflicted on other naval vessels. Ten of the attacking Junkers bombers were destroyed, two others were probably destroyed and it is possible that two others may have been.

4. In order to insure more rapid training and greater mobility of labor it is thought that the Ministry of Labor may make broader use of its compulsory powers. The government may assume control over all docks and dock employees will then become state workers. In addition the Ministry of Labor is expected to use its power to transfer workers from plants in which production is below standard to factories that are producing.

5. Prisoners taken by the British in the Anglo-Egyptian Sudan area indicate that supplies are being sent to Mogdishu, Italian Somaliland, by the Japanese.

6. As of January 18 a total of 80,000 Italians had been taken prisoner by the British in the Libyan theater. The morale of these prisoners is extremely low.

SCARLETON

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-5

CONFIDENTIAL

Paraphrase of Code Cablegram Received at the
War Department at 1518, January 19, 1941.

London, Filed January 19, 1941.

1. During the night of January 17-18 planes of the British Coastal Command attacked a port, a seaplane base and an airfield in France. Unfavorable weather that night caused the cancellation of all flights of the Bomber Command.

2. During daylight hours of January 18 an unusually large number of German planes were over Britain. One raid was made on London and a number of attacks were directed against targets in Lincolnshire, Norfolk and Suffolk. There were a number of German attacks over the east coast of England and along the Thames Estuary. There were no German planes over England that night. During the preceding night, however, 140 German planes were plotted. During daylight hours of January 17, one hundred German planes were over England.

3. During the night of January 16-17 the airfield at Maritsa, Rhodes, was attacked by British planes based in Egypt. A fire was started and an explosion caused. On the same night at Tobruk, ammunition stored underground and stores of gasoline were hit by British planes. Very heavy explosions resulted.

4. During the night of January 17-18 Axis planes attacked Tel Aviv and the Aqir (?) airfield in Palestine. There was no damage.

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5. It is believed here that the Germans now feel that there can be no decisive Axis victory without a successful invasion of the British Isles. Suberstruction training is still going on and many kinds of invasion crafts are still being constructed. All reports reaching London indicate that the Germans will attempt the invasion sometime in the spring. February is the earliest date referred to in any of these reports as the possible date for the beginning of the operation.

SCANLON.

Distribution:

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

CONFIDENTIAL

January 20, 1941

Jean Monnet called on me at 8:45 Monday morning at my request. I asked him whether he wouldn't please look into the whole airplane engine situation as I felt that everything under 2,000 h.p. in our planes would just be out of date by the time they got into the air. It seems to me that the place to get 2,000 h.p. engines built quickly would be to have them built at the Curtiss plant in Paterson and at the Pratt-Whitney plant at Hartford. I think it was a mistake to order 6,000 Rolls Royce engines, and that it would be better to cancel the order and lose the money rather than to get engines 12 and 18 months from now which would not be as good as what the Germans would have at that time.

I then asked him what happened Friday night at Bullitts, which he did. Jean Monnet had an accurate picture of the whole situation. The only part that he didn't seem to realize is that Knudsen is taking the position that from now on, or rather after the bill passes, he only expects to place orders for U.S. standard types, both for ourselves and for what the British need. This leaves the British in the position that they are going to have to find the money with which to place orders for British standard material.

Monnet said that Friday night Judge Patterson just couldn't or wouldn't understand the situation, and was very unreasonable about it. He said that the coolest, clearest head there was Lovett, which interested me very much.

I pointed out to Monnet that I had been waiting now at least a week to get from them a priority list as to what they need the most, and I told him to be sure to have the list show what they wanted to have of U.S. standards and what they wanted of British standards. He also wanted to know whether if they got \$160,000,000 could they place an order for four times that amount and not make any down payment. He quite agreed with me that all the securities

- 2 -

which the English now have are earmarked against outstanding orders, and that these securities could not be used twice.

I told Monnet that I was glad that at last the Army and Navy were getting excited about the situation, but I hoped the British Purchasing Commission would keep their heads as this was no time to get excited. He agreed with me on that and said that both Purvis and Sir Frederick Phillips were keeping their heads, but personally I'm not so sure of that.

Monnet said that at Bullitt's dinner was Felix Frankfurter, MacLeish, Patterson, Forrestal, Frank Knox, himself, and that Purvis joined him afterwards. Bullitt took practically no part in the conversation and didn't seem to know what it was all about. He made the same remark about Felix Frankfurter. Monnet was here with me about 45 minutes altogether.

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HOLD FOR RELEASE

HOLD FOR RELEASE

HOLD FOR RELEASE

FOR THE PRESS

JANUARY 20, 1941

The following, the Third Inaugural Address to be delivered by Franklin D. Roosevelt, MUST BE HELD IN STRICT CONFIDENCE and no portion, synopsis or intimation shall be released until its delivery actually has begun. The same release of the text of the address also applies to radio announcers and news commentators.

CARE MUST BE EXERCISED TO PREVENT PREMATURE PUBLICATION.

STEPHEN EARLY
Secretary to the President

On each national day of Inauguration since 1789, the people have renewed their sense of dedication to the United States.

In Washington's day the task of the people was to create and weld together a nation.

In Lincoln's day the task of the people was to preserve that nation from disruption from within.

In this day the task of the people is to save that nation and its institutions from disruption from without.

To us there has come a time, in the midst of swift happenings, to pause for a moment and take stock — to recall what our place in history has been, and to rediscover what we are and what we may be. If we do not, we risk the real peril of inaction.

Lives of nations are determined not by the count of years, but by the lifetime of the human spirit. The life of a man is three-score years and ten; a little more, a little less. The life of a nation is the fullness of the measure of its will to live.

There are men who doubt this. There are men who believe that democracy, as a form of government and a frame of life, is limited or measured by a kind of mystical and artificial fate — that, for some unexplained reason, tyranny and slavery have become the surging wave of the future — and that freedom is an ebbing tide.

But we Americans know that this is not true.

Eight years ago, when the life of this Republic seemed frozen by a fatalistic terror, we proved that this is not true. We were in the midst of shock — but we acted. We acted quickly, boldly, decisively.

These later years have been living years — fruitful years for the people of this democracy. For they have brought to us greater security and, I hope, a better understanding that life's ideals are to be measured in other than material things.

Most vital to our present and our future is this experience of a democracy which successfully survived crisis at home; put away many evil things; built new structures on enduring lines; and, through it all, maintained the fact of its democracy.

- 2 -

For action has been taken within the three-way framework of the Constitution of the United States. The coordinate branches of the government continue freely to function. The Bill of Rights remains inviolate. The freedom of elections is wholly maintained. Prophets of the downfall of American democracy have seen their dire predictions come to naught.

Democracy is not dying.

We know it because we have seen it revive — and grow.

We know it cannot die — because it is built on the unsharper initiative of individual men and women joined together in a common enterprise — an enterprise undertaken and carried through by the free expression of a free majority.

We know it because democracy alone, of all forms of government, enlists the full force of men's enlightened will.

We know it because democracy alone has constructed an unlimited civilization capable of infinite progress in the improvement of human life.

We know it because, if we look below the surface, we sense it still spreading on every continent — for it is the most humane, the most advanced, and in the end the most unconquerable of all forms of human society.

A nation, like a person, has a body — a body that must be fed and clothed and housed, invigorated and rested, in a manner that measures up to the objectives of our time.

A nation, like a person, has a mind — a mind that must be kept informed and alert, that must know itself, that understands the hopes and the needs of its neighbors — all the other nations that live within the narrowing circle of the world.

And a nation, like a person, has something deeper, something more permanent, something larger than the sum of all its parts. It is that something which matters most to its future — which calls forth the most sacred guarding of its present.

It is a thing for which we find it difficult — even impossible — to hit upon a single, simple word.

And yet we all understand what it is — the spirit — the faith of America. It is the product of centuries. It was born in the multitudes of those who came from many lands — some of high degree, but mostly plain people — who sought here, early and late, to find freedom more freely.

The democratic aspiration is no mere recent phase in human history. It is human history. It permeated the ancient life of early peoples. It blazed anew in the middle ages. It was written in Magna Carta.

- 3 -

In the Americas its impact has been irresistible. America has been the New World in all tongues, to all peoples, not because this continent was a new-found land, but because all those who came here believed they could create upon this continent a new life -- a life that should be new in freedom.

Its vitality was written into our own Mayflower Compact, into the Declaration of Independence, into the Constitution of the United States, into the Gettysburg Address.

Those who first came here to carry out the longings of their spirit, and the millions who followed, and the stock that sprang from them -- all have moved forward constantly and consistently toward an ideal which in itself has gained stature and clarity with each generation.

The hopes of the Republic cannot forever tolerate either undeserved poverty or self-serving wealth.

We know that we still have far to go; that we must more greatly build the security and the opportunity and the knowledge of every citizen, in the measure justified by the resources and the capacity of the land.

But it is not enough to achieve these purposes alone. It is not enough to clothe and feed the body of this nation, and instruct and inform its mind. For there is also the spirit. And of the three, the greatest is the spirit.

Without the body and the mind, as all men know, the nation could not live.

But if the spirit of America were killed, even though the nation's body and mind, constricted in an alien world, lived on, the America we know would have perished.

That spirit -- that faith -- speaks to us in our daily lives in ways often unnoticed, because they seem so obvious. It speaks to us here in the Capital of the nation. It speaks to us through the processes of governing in the sovereignties of forty-eight States. It speaks to us in our counties, in our cities, in our towns, and in our villages. It speaks to us from the other nations of the Hemisphere, and from those across the seas -- the enslaved, as well as the free. Sometimes we fail to hear or heed these voices of freedom because to us the privilege of our freedom is such an old, old story.

The destiny of America was proclaimed in words of prophecy spoken by our first President in his first Inaugural in 1789 -- words almost directed, it would seem, to this year of 1941: "The preservation of the sacred fire of liberty and the destiny of the republican model of government are justly considered deeply, finally, staked on the experiment intrusted to the hands of the American people".

- 4 -

If we lose that sacred fire -- if we let it be smothered with doubt and fear -- then we shall reject the destiny which Washington strove so valiantly and so triumphantly to establish. The preservation of the spirit and faith of the nation does, and will, furnish the highest justification for every sacrifice that we may make in the cause of national defense.

In the face of great perils never before encountered, our strong purpose is to protect and to perpetuate the integrity of democracy.

For this we muster the spirit of America, and the Faith of America.

We do not retreat. We are not content to stand still. As Americans, we go forward, in the service of our country, by the will of God.

as Chauncey

January 20, 1941

CONFIDENTIAL

Dear Mr. Easke:

Permit me to acknowledge, on behalf of Secretary Harganham, the receipt of your letter dated January 16, 1941, enclosing your compilation for the week ended January 8, 1941, showing dollar disbursements out of British Empire and French accounts at the Federal and the means by which these expenditures were financed.

Faithfully yours,

H. Marie Cochran
Technical Assistant to the Secretary

L. V. Easke, Esquire,
Vice President,
Federal Reserve Bank of New York,
New York, New York.

HMC:lap-1/20/41

67.07

FEDERAL RESERVE BANK
OF NEW YORK

January 16, 1941.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. Merle Cochran

I am enclosing herewith our compilation for the week ended January 8, 1941, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,



L. W. Knoke,
Vice President.

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

Enclosure

67-111-1000

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)Week Ended **Jan. 8, 1941.**Strictly
Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE							
	DEBITS				CREDITS				DEBITS			CREDITS				Net Incr. (+) or Decr. (-) in Balance
	Total Debits	Gov't Expendi- tures(a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (incl. Est.) (b)	Other Credits adj'ts	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Gov't Expendi- tures(c)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits		
1939																
Apr. 31 - Sept. 27	94.3	3.6	90.7	207.8	185.4	33.6	-11.2(d)	+113.5	19.4	6.0	13.4	11.3	-	11.3	- 8.1	
Sept. 28 - Nov. 1	106.7	5.8	100.9	142.0	3.2	52.5	86.2(e)	+ 35.3	88.6	51.8	105.4	76.2	35.0	41.2	- 12.4	
Nov. 2 - 29	191.7	8.9	182.8	105.8	57.8	25.0	23.0	- 85.9	78.6			82.9	55.1	27.8	+ 4.3	
Nov. 30 - Jan. 3	97.7	8.7	89.0	75.2	50.6	14.2	10.4	- 22.5	86.8	28.1	58.7	109.2	93.9	15.3	+ 23.4	
1940																
Jan. 4 - 31	54.8	16.8	38.0	43.4	20.6	17.8	5.0(f)	- 11.4	61.5	31.5	30.0	55.9	50.1	5.8	- 5.6	
Feb. 1 - 28	124.2	15.4	108.8	108.3	56.7	17.9	33.7	- 15.9	72.7	32.8	39.9	71.5	54.8	16.7	- 1.2	
Feb. 29 - Apr. 3	115.5	14.5	101.0	94.0	60.9	21.5	11.8(g)	- 21.5	99.6	35.9	63.7	105.0	75.4	29.6	+ 5.4	
Apr. 4 - May 1	113.4	26.1	87.3	86.4	45.8	13.4	26.2(h)	- 27.0	84.8	29.4	55.4	78.7	60.7	18.0	+ 6.1	
May 2 - 29	100.9	23.6	77.3	125.2	93.2	7.1	25.9	+ 25.3	101.4	57.0	44.4	145.4	126.2	19.2	+ 14.0	
May 30 - July 3	283.2	145.3	137.9	319.3	301.3	5.1	12.9	+ 36.1	156.7(i)	127.3(j)	29.4	345.1(k)	335.6	9.5(l)	+188.4	
July 4 - 31	249.7	156.7	93.0	225.0	212.2	2.0	10.8	- 24.7	7.3	6.3	1.0	3.2	3.0	0.8	+ 4.1	
Aug. 1 - 28	251.1	180.3	80.9	294.8	267.4	1.0	26.4(j)	+ 33.7	8.9	0.5	8.4	10.9	10.4	0.5	+ 2.0	
First year of war	1793.2	605.6	1187.6	1,828.8	1,356.1	211.2	250.9	+ 35.0	866.3	416.6	449.7	1085.3	900.2	195.1	+229.0	
Aug. 29 - Oct. 2	316.8	244.3	72.5	308.9	271.5	6.0	31.4(k)	- 7.9	8.6	4.4	4.2	1.3	-	1.3	- 7.3	
Oct. 3 - 30	196.7	167.8	28.9	198.5	160.5	6.0	32.0(l)	+ 1.8	0.5	0.5	0.2	0.5	-	0.5	-	
Oct. 31 - Nov. 27	241.0	201.1	39.9	259.5	210.0	18.0	31.5(m)	+ 18.5	0.8	0.1	0.7	0.7	-	0.7	- 0.1	
Nov. 28 - Dec. 31	234.6	206.8	27.8	198.0	111.4	26.0	60.6(n)	- 36.6	2.1	-	2.1	0.6	-	0.6	- 1.5	
WEEK ENDING																
Dec. 18	39.6	36.1	3.5	71.2	60.2	4.0	7.0	+31.6	0.2	-	0.2	0.1	-	0.1	- 0.1	
24	54.8	50.1	4.7	27.5	0.2	8.0	19.3	+27.3	-	-	-	0.1	-	0.1	+ 0.1	
31	50.1	46.5	3.6	74.5	48.3	8.0	18.2	+24.4	-	-	-	-	-	-	-	
Jan. 8	60.9	43.9	17.0(o)	47.9	25.8	14.0	8.1(p)	-13.0	-	-	-	0.2	-	0.2	+ 0.2	

Average Weekly Expenditures Since Outbreak of War
France (through June 19) \$19.6 millionEngland (through June 19) 27.6 million
England (since June 19) 58.0 millionTransfers from British Purchasing Commission to
Bank of Canada for French Account
Week ended Jan. 8
Cumulation from July 6 \$110.7 million

(See footnotes on reverse side)

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Through June 19, these figures represent total sales of American securities in Second District reported for account of the United Kingdom. (Proceeds of these sales, however, may not have been credited to the Bank of England's account in all cases.) Beginning with the week ended June 26, the figures represent transfers from the Bank of Montreal, New York Agency, which is custodian for requisitioned American securities held in this country. The transfers apparently reflect proceeds of official security sales, including those handled through private deals. From June 17 to July 19, transactions in securities payable in specified foreign currencies, including dollars, by United Kingdom residents were prohibited.
- (c) Includes payments for account of French Air Commission and French Purchasing Commission.
- (d) Includes adjustment for (b) above.
- (e) About \$85 million transferred from accounts of British authorized banks with New York banks.
- (f) About \$11 million transferred from accounts of British authorized banks with New York banks.
- (g) About \$9 million transferred from accounts of British authorized banks with New York banks.
- (h) About \$10 million transferred from accounts of British authorized banks with New York banks.
- (i) Adjusted to eliminate the effect of \$20 million paid out on June 26 and returned the following day.
- (j) About \$3 million transferred from accounts of British authorized banks with New York banks.
- (k) About \$2 million transferred from accounts of British authorized banks with New York banks.
- (l) About \$4 million transferred from accounts of British authorized banks with New York banks.
- (m) About \$6 million transferred from accounts of British authorized banks with New York banks.
- (n) About \$32 million transferred from accounts of British authorized banks with New York banks.
- (o) Includes \$5 million transferred to a New York bank for account of Bank of Greece.
- (p) Includes \$2.4 million received from Federal Reserve Bank of Boston (Australian wool).

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended Jan. 8, 1941.

Strictly
Confidential

PERIOD	BANK OF CANADA								COMMONWEALTH BANK OF AUSTRALIA							
	DEBITES				CREDITS				DEBITES			CREDITS				
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C For Own A/C	For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
1939																
Sept. 27	17.5	0.6	15.9	21.9	15.1	0.8	-	5.9	+ 4.3	-	-	-	-	-	-	-
Nov. 1	9.6	0.3	9.3	16.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	-	-	-	+ 1.9
Dec. 31	9.9	0.7	9.2	14.4	13.3	-	-	1.1	+ 4.5	-	-	1.9	1.9	-	-	+ 3.3
1940																
Jan. 3	30.0	-	30.0	22.8	15.3	3.0	-	6.5	- 7.2	2.5	-	2.5	5.8	5.8	-	- 1.9
Apr. 30	23.5	-	23.5	25.7	21.1	-	-	4.6	+ 2.2	5.2	0.3	4.9	3.3	3.0	0.3	- 0.9
May 31	23.1	-	23.1	17.0	16.1	-	-	0.9	- 6.1	3.3	0.1	3.2	2.4	2.2	0.2	- 0.8
June 30	42.3	-	42.3	29.5	29.3	-	-	0.2	- 12.8	3.0	0.3	2.7	2.2	1.6	0.6	- 0.3
July 31	38.2	-	38.2	42.9	24.8	15.0	-	3.1	+ 4.7	2.3	-	2.3	2.0	1.8	0.2	+ 1.4
Aug. 31	37.9	15.0	37.9	50.2	50.0	-	-	0.2	+ 12.3	1.2	0.2	1.0	2.6	1.7	0.9	+ 3.6
Sept. 30	44.1	-	44.1	72.5	72.2	-	-	0.3	+ 28.4	2.3	-	2.3	5.9	4.4	1.5	+ 0.4
Oct. 31	28.2	-	28.2	117.6	96.3	-	-	2.1	+ 89.4	4.6	-	4.6	5.0	4.2	0.8	- 1.8
Nov. 30	18.7	-	18.7	73.6	53.9	-	-	19.2	+ 54.9	6.8	3.0	3.8	5.0	3.4	1.6	+ 4.9
Dec. 31	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	27.3	36.1	30.0	6.1	- 0.7
1941																
Jan. 8	44.3	-	44.3	43.9	16.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	8.0	6.7	1.3	- 2.2
Feb. 28	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	+ 0.5
Mar. 31	35.2	-	35.2	69.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	1.5	+ 2.0
Apr. 30	48.0	-	48.0	60.6	42.5	-	13.7	4.4	+ 12.6	4.8	-	4.8	6.8	4.8	2.0	-
May 31																
June 30																
July 31																
Aug. 31																
Sept. 30																
Oct. 31																
Nov. 30																
Dec. 31																
1941																
Jan. 8	11.0	-	11.0	10.4	10.3	-	0.1	-	- 0.6	1.7	-	1.7	6.0	4.7	1.3	+ 4.3
Feb. 28	7.1	-	7.1	12.4	3.4	-	8.9	0.1	+ 5.3	0.1	-	0.1	0.3	0.1	0.2	+ 0.2
Mar. 31	13.7	-	13.7	2.0	1.6	-	0.2	0.2	- 11.7	1.4	-	1.4	0.1	-	0.1	- 1.3
Apr. 30	1.8	-	1.8	7.0	5.4	-	-	-	1.6(a)	0.9	-	0.9	0.1	-	0.1	- 0.8

Daily Average of Total Debits Since Outbreak of War

Through January 8, 1941 \$ 6.7 million

(a) Includes \$1.5 million transferred from a New York bank by order of a Canadian bank.

2563

COUNCIL OF NATIONAL DEFENSE
COORDINATOR OF COMMERCIAL AND CULTURAL RELATIONS
BETWEEN THE AMERICAN REPUBLICS

(-2) 21-00 V

STATE DEPARTMENT BUILDING
WASHINGTON, D. C.

You will find, herewith, for your confidential information a copy of our weekly digest of the current activities of the various departments and agencies handling matters on inter-American concern.

Attachment.

COUNCIL OF NATIONAL DEFENSE
COORDINATOR OF COMMERCIAL AND CULTURAL RELATIONS
BETWEEN THE AMERICAN REPUBLICS

CONFIDENTIAL

STATE DEPARTMENT BUILDING
WASHINGTON, D. C.

January 20, 1941

WEEKLY PROGRESS REPORT

ON ACTIVITIES IN RELATION TO THE OTHER AMERICAN REPUBLICS

COMMERCIAL

Developments in Commodities

Central American Lumber: Information is being assembled concerning the production capacity of various timber operations in Mexico and Central America which might supply lumber for the defense needs of the U.S. A survey of the requirements of the defense program has been prepared at the request of this office, and this information has been passed on to the Department of Agriculture, which is directly handling the question at the request of the President.

At present it appears that Nicaragua is in the best position to supply pine quickly, with Mexico second. Honduras apparently is the best organized country for hardwood production, which might be utilized as a substitute for teak.

Copper: A number of large copper companies have indicated that they are unable at present to obtain the copper they need. The first purchases of copper are expected to arrive from South America early in February.

Linters: Since the Defense Commission feels an increasing need for cotton linters, steps will be taken to assist in increasing Brazilian production.

Tungsten: A proposal has been made by the Bolivian Government that this Government enter a contract over a five-year period to purchase the entire tungsten production of Bolivia. While there will probably be sufficient tungsten production elsewhere to take care of the defense needs of this country, the Japanese have been buying heavily in Bolivia for the account of Germany at prices which preclude any purchases by U.S. buyers.

Zinc: The zinc situation continues unchanged, with the Mexican Government having undertaken negotiations to settle the labor dispute at the Rosita smelter of the American Smelting and Refining Company.

Armaments for South America

The Coordinator has met with the joint advisory board of the War and Navy Departments to discuss requests for armaments that have been received from Central and South American countries.

Page 2
January 20, 1941

Inter-American Bank

After a meeting last Monday, the officers and directors of the Bankers Association for Foreign Trade issued a statement endorsing the Inter-American Bank and recommending that its activities "should properly be confined to providing banking facilities where sufficient banking facilities do not exist and that this institution should only supplement, and in no way encroach upon, existing adequate private banking facilities."

Shipping Shortage

Because of the possibility of a severe shortage of world shipping within the coming year, the Coordinator is taking immediate steps to bring about a close working arrangement with the Maritime Commission (and other Government departments that may be involved) through which maximum utility of shipping available to the Central and South American trade can be effected.

Montavon and Watt Become Consultants

William F. Montavon, of the Council of Catholic Charities, and Robert Watt, of the American Federation of Labor, have agreed to serve as members of the Advisory Committee of this Office. A member who will represent the C.I.O. will be named shortly.

A committee has been formed by the Office to handle the problem of anti-American activities by the agents of many U.S. businesses in Central and South America. Its members include Mr. Wayne Taylor, the Under-Secretary of Commerce; Mr. A. A. Berle, Jr., Assistant Secretary of State; and the Coordinator. Mr. John S. Dickey (Coordinator's Office) will serve as Secretary.

WEEKLY PROGRESS REPORT, Part II

Page 3

January 20, 1941

CULTURALDr. Morley Leaving to Arrange Exhibition

Dr. Grace Morley, director of the San Francisco Museum of Art, will leave for South America on January 22, to make arrangements for the exhibition of contemporary American painting which will be shown in eleven or twelve key cities of Central and South America between April and October. She will investigate the types of U.S. art that appeal to Central and South Americans, make arrangements for securing exchange material, and consider bases for cooperation between South and North American scholars, artists, critics, historians, and museum officials.

South American Art Leaders Coming to This Country

The Coordinator's office will help bring Central and South American directors for the opening of the National Gallery of Art in April and for a subsequent visit to New York museums. Dr. Grace Morley will make recommendations concerning these visitors.

John Dos Passos to Make Translation

John Dos Passos has agreed to translate a book into Spanish from the list selected by the literary committee. The recommendations of the committee are nearly completed. Houghton, Mifflin and Company is also initiating a program of translations.

COMMUNICATIONSNewsreel Camera Men to Go to South America

The Coordinator's Office will aid the trip of two newsreel camera men, one from "News of the Day" who will go down the east coast of South America, and one from "Movietone News" who will go down the west coast. The shots taken on this expedition will appear under a special caption, "Pan American News." The trip is in connection with the efforts of the four principal newsreel companies to develop more adequate coverage of Central and South America.

Advertising Short-wave Broadcasts on News

To help build an audience for the thirty short-wave news broadcasts from this country to Central and South America in Spanish and Portuguese, the Executive committee of this Office has approved in principle the extension of assistance for newspaper advertising of their broadcasts in the Americas.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 20, 1941.

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£112,000
Purchased from commercial concerns	-0-

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

In the open market, sterling held steady at 4.03½. Transactions of the reporting banks were as follows:

Sold to commercial concerns	-0-
Purchased from commercial concerns	£ 1,000

Except for a widening of the Canadian dollar discount and a small gain in the Swiss franc rate, the other currencies experienced little change. Closing quotations were:

Canadian dollar	14-3/4% discount
Swiss franc	.2321½
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	8-3/16% discount
Chinese yuan	.05½

There were no gold transactions consummated by us today.

No new gold engagements were reported.

Further improvement took place in the Bombay metal prices. Gold was 4¢ higher at the equivalent of \$34.04, and silver was priced at the equivalent of 44.90¢, up 1/8¢.

The prices fixed in London for spot and forward silver were both unchanged, at 23½d 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¢.

- 2 -

We made one purchase of silver amounting to 75,000 ounces under the Silver Purchase Act, consisting of new production from foreign countries, for forward delivery.

We also purchased 200,000 ounces of silver from the Bank of Canada. This is the first purchase that we have made from that source in January.

A handwritten signature in cursive script, appearing to be "J.M.P.", is centered on the page.

CONFIDENTIAL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy

DATE: January 20, 1941, 6 p.m.

NO.: 82

FOR THE TREASURY FROM MATTHEWS.

I had lunch today with Rueff at Chatel Guyon. He said that on the French financial front there is not much that is new. There has been a slight increase, to approximately 215,000,000,000 francs, in the Bank of France's note circulation, with a moderate rise monthly of some two billion francs. He said that the Treasury has a working balance of roughly ten billions, and is "comfortably off", and Treasury bills are being subscribed to at the monthly rate of some seven or eight billions.

Rueff said that the old "closed capital circuit" seems to be functioning fairly smoothly, assisted by substantial expenditures by the Germans for their Army of Occupation. In the occupied zone control of prices seems to be working fairly well, though the growing scarcity of foodstuffs, fuel and other articles complicates any general estimate.

He did not have any precise information as to how the 400,000,000 francs paid each day for the German Army of Occupation is being used. However, it is indicated from the fact that their Bank of France balances have remained at around forty million francs for the past two months that
the

- 2 -

the Germans are using these funds to some extent for the purpose of buying into French industries' properties, and so on, "such as the mines de Bor", in addition to what they are paying out for maintaining their Army of Occupation.

A new convention between the Finance Minister and the Bank of France is published in today's issue of JOURNAL OFFICIEL. Under the convention the provisional advances to be made to the Government for the purpose of defraying the "maintenance cost of the German occupation" are increased to 85 billions (they formerly were 73 billions). Reference: telegram of December 17, 7 p.m., No. 1151 from the Embassy.

Reference: telegram of January 17, 7 p.m., No. 68 from the Embassy. Rueff said he was not inclined to believe, as did officials of the Ministry of Finance, that Germany is dumping in Switzerland and Portugal any substantial quantity of franc bank notes for the purpose of acquiring dollar and other free foreign exchange. Rueff was more inclined to believe that French prohibition against the importation of currency was the cause of the recent fall in the franc quotation on the markets of these countries.

Rueff said that as yet the Germans had not requested that the French turn over to them their gold.

Note: It is my belief that the personal position of

Rueff

- 3 -

Rueff with Finance Minister Bouthillier is a difficult one, and that Rueff may soon leave the Bank of France if Bouthillier remains as Minister; I should personally regret his leaving, particularly as his attitude has been since last June quite helpful. Rueff at least is thoroughly in sympathy with the blocking of French funds by the United States, and he is convinced that the objectives of the United States are to France's long-term benefit.

END OF MESSAGE.

LEAHY.

TO THE SECRETARY OF THE
TREASURY DEPARTMENT
WASHINGTON, D. C.

SEP 22 11 55 AM '45

RECEIVED
TREASURY DEPARTMENT

EA:LWW

BRITISH EMBASSY,
WASHINGTON, D. C.

Personal and Secret

January 20th, 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Harold Butler

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

100

Telegram received from London
dated January 17th, 1941.

1. Naval. His Majesty's destroyer Woolston, escorting a convoy sighted 3 enemy E boats off Harwich at 2045 hours yesterday and drove them off before they could attack the convoy.

2. Mediterranean. Heavy air attack made on Malta port, January 16th, "Illustrious" apparently the main objective, hit aft but not seriously damaged, "Terth" near miss and received bad shaking, "T. ship Essex" badly damaged. Total of 70 aircraft made 2 attacks first by JU 84's, second by JU 87's, escorted by Italian fighters. Dive bombing attacks driven well home. Our fighters shot down or damaged several machines. A/A guns ditto, and some by indirect guns not known but total claim is nine certain, three probable and two possible.

3. Convoys. Two convoys totalling 58 ships have arrived in home waters from Canada without loss. There were 17 tankers and 15 cargoes of steel.

4. Royal Air Force. Night of January 16th/17th. 86 aircraft were sent out, of which 81 went to Wilhelmshaven docks. The remainder carried out light attacks on oil plants and on shipping. Five heavy bombers are missing.

5. German Air Force. Night of January 16th/17th. 183 enemy aircraft operated over the country, of which 130 were over Bristol area.

6. Home Security. Night of January 16th/17th. Bristol, Avonmouth were attacked early and a number

-2-

of fires were started which were quickly under control. A later attack on Avonmouth at 2 a.m. started several small fires including one at an oil cistern which has already been put out. At Bristol a direct hit on a generating station has cut off electricity in a large area, but it is hoped to restore supply by tonight. Continued bombing elsewhere caused little damage.

7. Italian East Africa. Morale of the Italian prisoners of war in the Sudan is high compared with the morale in Libya which could hardly be lower. Sudan prisoners often refer to importance of Mogadiscio, where supplies from Japan have been arriving.

Telegram received from London
dated January 18th, 1941.

Naval. Corvette Rhododendron mined and one mine sweeper damaged by mines off Liverpool on January 17th both reached harbour. 13 mines were exploded off Liverpool on January 17th. In addition damage to ships by air raids on Malta 16 dockyard had many hits, damage caused to buildings electric power and telephone service. Enemy losses now reported ten certain one probable five damaged.

2. Almeda Star with 187 P.A.A. personnel on board torpedoed 270 miles northwest of Bloody Foreland on January 17th further report awaited.

3. Royal Air Force. Night of 16th/17th January. Wilhelmshaven Docks were located by 46 aircraft and attack is described as excellent. Large fires persisted especially at the railway station and oil tanks. Some explosions and fires were started in the docks at Emden and Rotterdam and "pitiless results" reported from three channel ports. Three heavy bombers successfully laid down mines.

4. January 17th Hudson sighted an escorted convoy of 6 merchant vessels off the Dutch coast. Subsequently our aircraft obtained direct hits on 3 merchant vessels and also on a mine layer which was left in a sinking condition; these ships formed part of a total of 40 merchant vessels and seven escort vessels moving along the Dutch Coast.

5. Night of January 17th/18th. 15 bombers sent to Brest but bad weather hampered localisation of targets. All returned safely. One heavy bomber

-2-

dropped leaflets over Northern France. Owing to bad weather over our aerodromes all other operations cancelled.

6. German Air Force. January 17th over the Straits and Thames Estuary. About 60 enemy aircraft patrolling off and behind Cap Gris Nez when our fighters destroyed one aircraft and damaged another. In addition Hurricanes destroyed one bomber and damaged another off the British coast.

7. Aircraft casualties in operations over and from British Isles; Enemy two destroyed by our fighters, two damaged. British. One fighter destroyed.

8. Home Security. Night of January 16th/17th. Avonmouth. Large part of the town may be without gas for four or five days. Many fires were prevented by house and street distribution of sand.

9. Bristol. Some key points will be without electric power until January 20th.

10. Night of January 17th/January 18th. Main attack Swansea and lasted for 6 hours. All fires extinguished by 2:30 a.m. Most damage was done to non-military property but some which may prove serious occurred in the Docks.

CONFIDENTIAL

Paraphrase of Code Radiogram
Received at the War Department
at 10:25, January 20, 1941

104

London, filed January 20, 1941

1. On Sunday, January 19, German cargo boats were attacked by planes of the British Coastal Command. On the same day and during the preceding night there were no operations by the Bomber Command because of unfavorable weather.

2. The Germans operated patrols and reconnaissance flights during daylight hours of January 19 over Norfolk, Suffolk and the Thames Estuary. One German Junker bomber was shot down. That night London and the Thames Estuary area were attacked and there were scattered raids on the Midlands, Hampshire and Sussex. Another attack that night was directed against the Portsmouth-Southampton region. Four German planes taking part in these attacks were shot down.

3. During the night of January 17-18 British fighter planes from Egypt machine gunned an Italian position near Tobruk. Thirteen tons of bombs were dropped on Tobruk that night and a gasoline storage plant was set on fire.

4. During daylight hours of January 19 Grand Harbor on Malta was dive bombed by 40 Junker planes escorted by large forces of Italian fighter planes in each of two raids. The dockyards and private property suffered considerable damage. Antiaircraft fire was responsible for the destruction of six German Junker bombers. Royal Navy and Royal Air Force fighter planes destroyed two Italian fighters and nine Junker dive bombers, probably destroyed three other Junkers and damaged one fighter plane and three other Junkers. On January 18, 20½ tons of bombs were dropped on each of two airfields at Halfar (?) and Luqa (?), Malta, by 20 German Junkers escorted by Italian fighter planes. While the damage inflicted by these attacks was heavy it was not great when considered in the light

CONFIDENTIAL

of the number of German dive bombers used. Antiaircraft fire and British fighter planes were responsible for the destruction of ten Axis planes, the probable destruction of one more, and for the damaging of two others.

8. Italian air operations against Egyptian targets were considerably increased on January 18 and during the night of January 18-19. Italian planes bombed a motor convey 100 miles east of Port Said en route from El Qantara to Qal'at El Arish. Axis planes also bombed the Suez canal at points near Ismailiya and El Qantara.

9. On January 17 a British ship off Bloody Foreland was torpedoed. One hundred and seventy-seven men of the Fleet Air Arm were on board and as yet no survivors have been found. On January 18 the British boarded the French vessel *Mandosa* and she is now on her way to Freetown, Sierra Leone. On the same day a German surf raider shelled and sunk a British tanker 680 miles west of the Canary Islands. Two British ships reached port after having been damaged by mines off Liverpool.

SCANLON

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
AS - 2
G-3, 1

-3-

CONFIDENTIAL

January 21, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Young
Mr. White
Mr. Wiley
Mr. Kuhn
Mr. Haas
Mr. Pehle
Mr. Foley
Mr. Graves
Mr. Thompson
Mr. Gaston
Mr. Sullivan
Mr. Bell
Mr. Schwarz
Mr. Cochran

H.M.Jr: You (Gaston) read this. This is very, very refreshing.

Schwarz: They used that as a newspaper story, also.

H.M.Jr: And in today's Tribune they ran it. Henry sent me this from Cleveland, (showing Cleveland Plain Dealer) which was the way they handled the thing out there. After all, that is what we tried to get across.

Schwarz: Especially west of the Alleghanies.

H.M.Jr: Well, you are watching the clippings, aren't you?

- 2 -

Schwarz: Yes, sir.

H.M.Jr: Harry, the President sent me his New Republic and The Nation, which you see on this, what I call for a better name, "The Eccles Memorandum." I read them. You read them. Tomorrow we are going to have the answer, aren't we?

White: I thought you might designate a meeting today so we could go over it.

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

White: So we could have it ready, but you don't have to attend that meeting.

H.M.Jr: Well, I want it tomorrow, and I will set a time now.

White: Well, Mr. Bell can set aside a time and we can go over it before you see it.

H.M.Jr: Well, I will set three o'clock tomorrow for the so-called "Eccles Memorandum." That doesn't hurry anybody too much, does it?

Bell: No, not me.

H.M.Jr: Bell and White and you (Haas) on Eccles' memo.

Bell: Is that the first memo, first letter, you mean?

White: Well, it is some suggested modifications which the Secretary had.

H.M.Jr: Signed Saturday a week ago.

Bell: Saturday a week ago?

H.M.Jr: Yes.

- 3 -

White: Herbert took an active interest in it.

H.M.Jr: Herbert Gaston?

White: Yes.

H.M.Jr: Did you?

Gaston: I was in on it.

H.M.Jr: All right, Herbert Gaston, Bell and White and Kuhn tomorrow at three o'clock.

White: And George.

H.M.Jr: George also, yes. Is that leaving anybody out? Philip, would you ask Mr. Purvis, does he expect me to notify Stimson, Knox, Knudsen and all the rest of them of his new status or has he done it through Mr. Hull, you see?

Young: I don't know.

H.M.Jr: Ferdie, would you get a full statement of what Mr. Beale said this morning?

Kuhn: Yes, I would like to.

H.M.Jr: I called up the head of the Federal Reserve. I don't know what they call him, president or governor.

Behle: President.

H.M.Jr: From New York.

Bell: Yes, president.

H.M.Jr: And asked him please to investigate my suspicion that that freezing story which kept Chick Schwarz from going to sleep and also woke

- 4 -

up Mrs. Morgenthau at a quarter past twelve - he said it was a great emergency from the New York Daily News - and me - woke us both up - I told Sproul I suspected it came out of New York. I haven't heard from my call.

Gaston: It had all the earmarks. It came here under a New York date line.

Schwarz: The local office of the New York Times said it came from New York, that they had cautioned them against doing the story this late. They said it may have been through at one time. The story was a New York story.

H.M.Jr: I got very good cooperation out of Joe Alsop. If you read the story today - he had a long talk with me and I said, "Now listen, Joe, here are the facts. If you write them the way I say, you put everybody on notice that there is a 75 per cent chance that freezing and everything else is coming in the Treasury and if you do, we won't get it. If you think it should come to the Treasury, you decide which is more important, to write a story or have the thing done." You see, he left it out completely.

Foley: I didn't see it.

Schwarz: It is in this morning's paper.

Kuhn: It is a beautiful job. Most of it was his own digging, too.

H.M.Jr: Yes. And he made it very, very plain three times that he was unable to get anything out of the Treasury, so - I didn't tell him, though, because he didn't have it, that the thing was really being done over in Justice. I didn't tell him that, and he hasn't caught

- 5 -

up with that. But he did do a good job this morning and it doesn't put Jones and the rest of them on notice.

Foley: We have agreed on the language, the committee has, of this order; but State talked it over among themselves a little more, and they still have some reservations. Berle said some of the people have reservations about taking Export Control out of the State Department, and they want to talk to the President about freezing Germany and Italy; but the language is all agreed to by the committee and the order is all ready, but they want to talk to the President.

H.M.Jr: Well, I thought they had agreed to everything.

Foley: Well, Berle hadn't, and he called up, but apparently --

H.M.Jr: When was this?

Foley: He said this last night. He called on Saturday morning just before I talked with you.

H.M.Jr: Bob Jackson is sick. But they are going to take it up with the President?

Foley: Well, State wants to talk to the President about freezing Germany and Italy.

H.M.Jr: Well, that isn't what really bothers them, is it? It is having the machinery over here.

Foley: I think so.

H.M.Jr: Somebody - did you see this article by Mr. Cornelius Callahan, who says there are 31,000 applications in the State Department and they have only cleared - how many? Mr. Callahan of the Maritime Association. Did you see that?

- 6 -

Foley: No.

Gaston: Harry Durning asked the State Department, Division of Controls, if they couldn't give them some blank applications because it delays the manufacturers and shippers very much. They have to write in for each individual application and get the application back and fill it out and send it to the State Department; and they asked him, and he asked State if they couldn't have some blank applications to distribute. They asked for a thousand of them. They said no, that would only mean that they would have a thousand more applications to handle.

H.M.Jr: If Kuhn and Foley will stay afterward, I want to talk to them a minute. Herbert?

Gaston: Waesche is holding a meeting this morning of the International Ice Patrol Board. He is Chairman and a number of Government departments are represented. The State Department is not represented, so we invited Berle to send over a representative on the question of whether the Ice Patrol will be continued this year or some special arrangements set up. The normal operation of it gives out a lot of valuable military information and we will probably need to change the character of it. That is all.

H.M.Jr: Edward?

Foley: Here is a memorandum for the diary on that conversation we had with Glass on Saturday.

H.M.Jr: No answer for the President. What else?

Foley: I have nothing else.

- 7 -

H.M. Jr: John, I didn't get to you yesterday until - but after this meeting at three o'clock on bank holding, maybe Bell has told you, he, you, and I will have a meeting, and I have asked for an appointment with the President tomorrow on my financing; and then I will try to ring in your - I have asked for an appointment for him to see Bell, Sullivan, and me; and if he gives me the half hour, we will go to town on it - get a clearance on the legislative program, taxes and so forth, so whenever this meeting breaks up on the bank holding thing, I will let you know; and Bell has written out in pencil roughly what I would like, so if you see him between now and four --

Sullivan: I will, sir.

H.M. Jr: And at eleven thirty, I expect Bell and Delano and Foley to have a dress rehearsal on that bank holding thing. What else, John?

Sullivan: Miss Lehand wrote you for some background on a certain letter of the President's. We sent it to her Saturday morning. Here is a reply on the Morris Ernst memorandum. He can do what he wants to do in a different way. We can't help him. At least, we shouldn't.

H.M. Jr: I see.

Well, while I am doing that, your (Graves') friend, the Schenley man, has called up Mac three times in the last 48 hours, and he has been told that I am signing something. Mac said he couldn't remember whether it was on four fifths or a quart, and I mustn't do it.

Graves: It is four fifths pint.

- 8 -

H.M.Jr: And I mustn't do it until he gets a chance to see me. Now, how does he know I am going to sign something when I don't know it.

Graves: You are not going to sign anything. I mean, there is nothing for you to sign.

Sullivan: That is what he is trying to find out.

H.M.Jr: What is it he thinks I am going to sign?

Graves: Well, he apparently thinks you are going to sign an order disapproving the pending appropriation to permit the use of the four fifths pint.

H.M.Jr: Now it is a pint?

Graves: It is a pint now.

H.M.Jr: And if somebody wanted to go to four fifths --

Graves: That is right. He wanted to go to four fifths.

H.M.Jr: He is the fellow?

Graves: He is the fellow. But in this case, the proposition is for you not to act at all, in which event the four fifths pint will not be permitted.

H.M.Jr: But he wants the four fifths?

Graves: Yes.

H.M.Jr: Well, supposing I change my mind and want to go to four fifths?

Graves: Then it would be necessary for an amendment to the present regulations to be signed by you.

- 9 -

H.M.Jr: Have I had a hearing on it?

Graves: What happened was this. Mr. Sullivan presented this matter to you, I should say, six weeks or so ago, and you at that time indicated that you didn't want this four fifths pint, and asked Mr. Sullivan and me to take hold of it and restudy it, which we have done, and we concluded that the four fifths pint would tend to be deceptive and turned the papers back to Revenue. We are not going to act at all in the matter.

H.M.Jr: Supposing they reopen the whole thing and take another look at it?

Graves: I think it would be very bad after the matter has been on the fire this long and a conclusion arrived at. To now have it upset again I think would be very bad.

H.M.Jr: You think so?

Graves: Yes, sir.

H.M.Jr: Well, supposing - take another look at it, will you, Harold?

Graves: Yes, sir.

H.M.Jr: Just tell them you are going to take another look at it.

Sullivan: Then I think you had better call right off and make sure there isn't any other announcement going out.

Graves: There is an announcement and it has gotten into the papers, Mr. Schwarz just showed me.

Schwarz: The paper indicates that we are opposed to it.

- 10 -

- Graves: That Revenue is opposed to it.
- Schwarz: That is right.
- H.M.Jr: I would like Harold to make another study.
- Graves: Very good.
- Schwarz: The Washington Post this morning in an editorial opposing the general freezing order at the opening has some very complimentary remarks about the freezing that we have done to date. They say, for example, "In a very effective way, the United States lived up to its reputation as a safe harbor for frightened capital."
- On Sunday night, Nathaniel Hall and Verne Marshall are reported to have said that the statement that Britain has exhausted her dollar credit in the United States is baby talk.
- H.M.Jr: Coming from Verne Marshall I would say it is a compliment.
- Schwarz: You may have that mentioned.
- H.M.Jr: I am glad I know that. The chauffeur listened to it Sunday night, and he gave me a garbled account. The only thing he seemed to think was important was that they mentioned my name; and when I tried to pin him down as to what they said -- (Laughter)
- Schwarz: That is all.
- Cochran: I am going down to the Navy at 2:45 today. I would like to see you some time this morning.

- 11 -

H.M.Jr: You are going where?

Cochran: To the Navy Yard.

H.M.Jr: Sure.

Cochran: Shall I ask the new commander?

H.M.Jr: You stay right after this, and I will see each person in turn. I want to see Wiley, too.

Ferdinand Kuhn?

Kuhn: Nothing today.

H.M.Jr: Pehle, how are your new quarters?

Pehle: Very fine. I would like to have you come down and see them.

H.M.Jr: Are they air conditioned?

Pehle: No, they are not air conditioned, although I understand the air conditioning goes up to the floor below us; so it is possible if it gets too bad we can induce them to air condition it. The quarters are very satisfactory.

On the matter of milk being purchased in Switzerland by the Friends, Pickett wrote back and quoted a cable which he received from his director in France saying that the - saying, "The export of milk from the Swiss Government requires the import of food of the same value," and they are going to import peanuts from Dakar, which I assume they will use as fodder; and as soon as it gets to Marsailles, the Swiss will agree to release the milk, which will be two to four weeks, he said.

- 12 -

H.M.Jr: Who is going to bring the peanuts in?

Sehle: The French government, so the Swiss will allow the milk to come in from Switzerland.

H.M.Jr: And the peanuts go to Switzerland?

Sehle: The peanuts go to Switzerland and I assume it will be used for fodder. They can't get the milk out.

H.M.Jr: George, I sent your memorandum on fats to Leon Henderson today.

Haas: All right.

H.M.Jr: Anything else? You might be watching it, will you?

Haas: All right. Here are the figures on Allison. It is fluctuating.

H.M.Jr: I'll say it fluctuates, the wrong way, though.

Haas: I noticed steel orders, Mr. Secretary, are way up now again.

H.M.Jr: I will take a look at it.

Haas: That is all.

Young: Gross of Lockheed is still in town.

H.M.Jr: What does he want?

Young: He wants to say hello to you.

H.M.Jr: Do you think I ought to see him.

Young: Oh, I think it would be nice of you shook him by the hand and threw him out. (Laughter)

- 13 -

H.M.Jr: Well, if he is available at 11:15.

Young: All right.

H.M.Jr: Tell Mac. Will you bring him in?

Young: Yes, sir.

H.M.Jr: What else?

Young: That is all I have. We cleared the British contract for three hundred P-40's on Saturday.

H.M.Jr: How much did that make in money?

Young: Three hundred P-40's at about \$33,000 apiece.

H.M.Jr: Including engines and everything?

Young: No, that was without the engines. This is the Curtiss contract. They buy their engines direct from Allison.

H.M.Jr: I wondered how it would show up on the monthly orders.

Young: Well, it would be the largest contract in there.

H.M.Jr: Well now, I have the orders up to January 1, haven't I, that I saw, what they have placed up to January 1, when I went on the Hill?

Young: You mean the contracts?

H.M.Jr: Contracts, yes. I haven't had anything since then.

Young: No.

H.M.Jr: Supposing you let me have, or whoever does it,

- 14 -

George, what orders they have placed from the first of January through until Saturday, you see.

Haas: Tomorrow you get your report.

H.M.Jr: Tomorrow?

Haas: Yes.

H.M.Jr: For how long?

Haas: You get it for the two weeks ending the 18th of January.

H.M.Jr: O.K. Well George, would you personally put it in my hands?

Haas: Yes, sir.

Young: Do you want it on a company basis? You saw that long table I made up showing the --

H.M.Jr: I am interested just now in dollars.

Young: Just in dollars?

H.M.Jr: And then if Purvis comes for lunch, we will talk about this agenda for tomorrow morning at 9:15 with these people, and I will explain to you then what I want.

Young: Right

H.M.Jr: I will tell you now, so you can be thinking of it. There are three things I am going to take up at this meeting tomorrow morning. You know Stimson and Knox and Knudsen and Jones are coming, and you might be getting it.

Now, there is the stuff that - I don't know how

- 15 -

to describe it any better than that McCloy is working on it, you see. Then there is the stuff - the so-called 550 million dollars worth of contracts that Frank Knox thinks Jesse Jones ought to take over, and then the thing that Bell took up, the buying of the wool, you see.

Young: Right.

H.W.Jr: And I want to get a report on all three tomorrow morning at 9:15 and what I would like to do is to get word to each of these people that that is what I want to take up, you see, particularly to Jones. Maybe I had better call Jones myself. I will call Jones - I will tell you, Phil. I have got time here, if you will just wait until I get through with all of these others I will get on the phone right then.

Cochran: In that connection, Phillips told me on Saturday, I think it was, that he had been in touch with Jones on the suggestion you had made and hadn't gotten very far. He has to see him again today.

H.W.Jr: Well, that is the 9:15 meeting tomorrow morning, you see.

Foley: Ben Cohen called up last night and said Forrestal had called him to see whether or not RFC had the power to take over those contracts.

H.W.Jr: Well, I got the story - I sent for Monnet yesterday morning, and he said he repeated this thing five times to these people, that the collateral and the stocks which they have is up against orders already placed, and he said people like Forrestal were there and

- 16 -

people like Patterson, particularly Patterson, see no reason why the British can't pledge the same collateral twice. It is perfectly ridiculous. I am most unreasonable in my position. So are the British. And Forrestal keeps saying all the time that they are not trying to sell this stuff and he thought he was most unreasonable in his position. Altogether, it was one of the craziest meetings he ever attended. He said everybody was talking at the same time and he said he kept going over and over the same thing, but nobody listened to him or paid any attention to what he was saying.

- Foley: I told Ben I would send him over a copy of that interim plan again. He read it once, but he apparently lost it.
- Cochran: Phillips said that Jones was interested in what he called "bricks and mortar", that is, actual property.
- H.W.Jr: Well, at 9:15 tomorrow I am going over the whole thing with these people and each person is interested in his own particular part of it and the Army is really tied up because they can't get those two engine contracts through; which is fine, but Monnet said he was sure they didn't listen to him, although he repeated the thing five times. He certainly knows what it is all about. He has got it at his fingertips.
- Young: The Army and Navy part of it doesn't mean a thing in that picture. It is just a drop in the bucket.
- H.W.Jr: We will go over it at lunch and we will have it ready as sort of an agenda for tomorrow. Harry?

- 17 -

- White: Milo Perkins sent me a memo which may have been in the press, I didn't know. It has a new wrinkle on how to - their triple program that I thought you might be interested in. They are going to pay in stamps to cotton farmers, the stamps to be used for the purchase of manufactured cotton goods, in part. It is something new. I thought you might be interested.
- H.M.Jr: It doesn't register today. I mean, tell me some other time.
- White: All right.
- H.M.Jr: If it is important.
- White: Merely as a matter of interest, not that it affects us. Professor Southard, who has been, I think, about eight months in South America, has just returned and joined us, if you want to see him some time this week.
- H.M.Jr: I don't know how long my resolutions are going to last, but I am certainly going to do less outside things if possible. It may not last very long, but I am trying to school myself to do less things.
- White: That is all.
- H.M.Jr: Harold?
- Graves: In December Mr. Foley's office drafted a bill for the establishment of a new mint. Also his office prepared letters for you to sign transmitting that bill to the Speaker of the House and the President of the Senate. The bill and those letters went to the Bureau of the Budget as required under our routine, and came back here with Budget approval on Friday. I have the letters here. They are routine.

- 18 -

- H. V. Jr: Oh, one thing I wish you and Thompson would think about. I have read that memorandum on the office of personnel very carefully. I read some of it twice, and I am going to make a suggestion for you people to consider, which may be absolutely worthless. The question I raise is, "Why do we need an office of Director of Personnel at all?" I mean, why isn't Norman Thompson's office sufficient? And instead of centralizing it, holding each Bureau chief - his personnel man to this thing, and when something unusual comes up, then they come to Norman Thompson and if necessary, they come to me.
- Thompson: That is virtually the way it operates now. We decentralized the whole thing.
- H. V. Jr: But I just questioned why - I haven't signed the thing. Why do we have any office of that at all? I have got you as an Administrative Assistant in your office, and I don't see why I need a director of personnel.
- Thompson: It is really just a branch of my office.
- H. V. Jr: That Executive Order - I don't like it.
- Graves: I think that is the answer to your question. It is required by the Executive Order. Had it not been for the Executive order, I doubt very much whether this department would ever have established any such function.
- H. V. Jr: Now, will you two gentlemen do me a little favor? Find out how many other departments have a Director of Personnel besides the Administrative Assistant.
- Thompson: Virtually all of them.
- Graves: They all do.

- 19 -

- H.M.Jr: Does Burlew have one?
- Thompson: He has a Director of Personnel although he is still Administrative Assistant.
- H.M.Jr: Get the other nine Cabinet heads and find out what kind of orders the heads of these departments signed, whether it goes as far as this.
- Thompson: Ours is much more restricted. Agriculture have a tremendous personnel organization.
- Bell: They always have had.
- Thompson: In Interior, Mr. Burlew is somewhat restricted.
- H.M.Jr: Well, I am just telling you my reaction to what I read, and I just wondered why we have got to have a Director of Personnel.
- Thompson: We have really reduced our Director of Personnel to the activities of the Division of Appointments.
- H.M.Jr: Well, I am going to talk to you more about it. I want to give you my reaction. Have you studied it at all, Dan?
- Bell: No. I am familiar with the Executive Order that set it up.
- H.M.Jr: Yes, but I mean the order these fellows drew for me of about five pages.
- Bell: No, I haven't seen it.
- H.M.Jr: Oh yes, at least five pages, isn't it?
- Graves: That is right.
- Bell: The original Executive Order contemplated

- 20 -

a training program in personnel management.

W.M.Jr: That is something else again.

Bell: Is the new order going to affect that?

W.M.Jr: No, this doesn't include that.

Thompson: We have had it up to --

W.M.Jr: I have changed. When I first started I thought everything ought to be here and now - I have changed in the last seven years.

Thompson: Because it is necessary to have a central recording office for dealings with the Civil Service Commission. We have to have uniformity.

W.M.Jr: But that doesn't take five pages like this.

Graves: I think our purpose in writing the five pages was to make it clear to the Bureau Offices precisely what this division was supposed to do, because there have been a lot of misunderstandings about it.

W.M.Jr: Well, personally I would rather - if I was going to sign an order, I would rather draw up an order explaining what the Administrative Assistant should do and then if he wants to hire somebody to do this additional work, that is his business. I mean, if there is any question about your (Thompson's) authority --

Thompson: I think that is well covered by previous orders.

W.M.Jr: Well, I just questioned it, but if you need somebody to look after the records, et cetera,

- 21 -

all right, but I don't see why I have got to sign a five page order tying my hands --

Graves: It doesn't tie your hands. It ties the hands of the Director of Personnel.

H.M.Jr: You never see the man. I never see - I see Norman Thompson.

Thompson: It is a service unit.

H.M.Jr: Well, I am still leaning, I believe, away from it. I still don't like it. I am satisfied with what Norman Thompson is doing. Just think about it some more. You are going to have a tough time with me.

I want to see Harold and Ed and you (Sullivan) first.

January 21, 1941
10:21 a.m.

H.M.Jr: Hello.

Operator: Secretary Jones.

Jesse Jones: Hello.

H.M.Jr: Jesse, Henry. Have you got a couple of minutes?

J: Yeah.

H.M.Jr: Jesse, on this meeting that I asked for tomorrow at 9:15, I wanted to tell you what I had in mind and what I hoped you'd be able to do because I'm looking mainly to you. There are three different things that are up: there is this job which the Army is doing under a lawyer by the name of McCloy, who is working on buying \$160 million roughly of English contracts. I don't know whether you are familiar with that or not.

J: I'm not.

H.M.Jr: Well, that's why I'm calling. McCloy sent me word a couple of days ago that they were all up to the point - but in their contacts with the R.F.C. when it came to taking over the real estate, they had not come to an agreement with the R.F.C. Now, that's all I know.

J: Yeah.

H.M.Jr: Now, McCloy works directly under Stimson.

J: Yeah.

H.M.Jr: Then there's this thing that we put up to you on wool and then there's the other thing that Frank Knox put up to you.

J: Yeah.

- 2 -

H.M.Jr: Now, if you could tell us what you think you can or cannot do tomorrow morning, I think it would be very helpful.

J: I think we can tell you part, but I don't think we can tell you a great deal about the Knox matter for the reason that the British haven't given us the information.

H.M.Jr: I see.

J: They've got probably a great many different kinds of contracts, different kinds of advance payments to the manufacturers. Now, we've asked them to give us those beginning with the big ones so that we can start where the time will be the best step - on the big ones first.

H.M.Jr: I see.

J: Now as soon as they give us the information we'll work as fast as possible on it. On the wool, I'll talk about that again today. The other matter, I'll call McCloy

H.M.Jr: McCloy is the fellow who is handling it for Stimson.

J: I'll call him.

H.M.Jr: Thank you so much.

J: All right.

H.M.Jr: Thank you.

January 21, 1941
10:26 a.m.

H.M.Jr: Hello.

Operator: Mr. Knudsen.

Wm. S. Knudsen: Yes, Henry.

H.M.Jr: Bill, good morning.

K: Good morning, sir.

H.M.Jr: At this meeting that I've asked for at 9:15 tomorrow morning we're to take up three things. I thought I'd tell you about it.

K: All right.

H.M.Jr: The Army has got a plan where they think they can buy \$160 millions worth of English contracts, you see, and that's bogged down.

K: That's the plane contracts?

H.M.Jr: Well, the one that I'm most familiar with is the one that I think has to do with 50-caliber machine guns - the whole series of contracts that they are talking about buying and McCloy is handling.

K: Yeah.

H.M.Jr: And that's bogged down. Then there's this thing - this talk that the R.F.C. should take over all of the contracts of the English - I mean, the down payments.

K: Oh, yeah.

H.M.Jr: And the third thing is we've put up to Jones that he might buy some Australian wool which would give them additional money. You see?

K: Yeah. That is, more wool than he took before, huh?

- 2 -

- H.M.Jr: Yeah. Well, wool which would come here but wouldn't be paid for until it was used.
- K: Yeah. How much wool are you talking about now?
- H.M.Jr: I think it is 250 million pounds and it's supposed to be worth 60¢, and that would give them money right away that they could use because as far as I know it has not been included in the list which I had earmarked to get the outstanding contracts.
- K: Yeah. I see.
- H.M.Jr: But this thing is all over town, everybody gets excited, everybody has his own ideas and I'm saying
- K: I haven't heard about it before.
- H.M.Jr: Well, I'm saying to your face what I've said behind your back that the only man who seems to understand what I tried to explain on December 2nd is Knudsen.
- K: (Laughs).
- H.M.Jr: It's true. I mean, the thing is so simple that they won't listen, and that is that if they sold every piece of property they have in this country and every share of stock, it would just barely pay for the orders they have outstanding. Now what some of these fellows say is, well, why can't they use the stuff - in other words, put up the same collateral twice?
- K: (Laughs).
- H.M.Jr: And I say well, it's just crooked.
- K: (Laughs).
- H.M.Jr: But Bill, really, I mean Judge Patterson cannot understand why they can't do that twice.
- K: Well, he probably thinks they're going to renig on paying for what they've got.

- 3 -

H.M.Jr: Well

K: As long as you have a definite commitment for them that they are going to pay what they've got on order and that you'll buy certain things, I think that settles it, doesn't it?

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

K: How many people are you going to have in the meeting?

H.M.Jr: Well, I asked Stimson, Knox, you and Jones.

K: All right. Let's not get a big meeting, you see.

H.M.Jr: No, that's all I've invited.

K: All right.

H.M.Jr: But I suppose everybody will bring his lawyer.

K: Well, I'm not going to bring any lawyer!

H.M.Jr: No, you never do. O.K.

K: All right, fine.

H.M.Jr: Thank you.

January 21, 1941
11:22 a.m.

H.M.Jr: Have you got my father up there?
Oscar Cox: Yes. He's enjoying himself.
H.M.Jr: He is.
C: Yes.
H.M.Jr: Is he where he can hear?
C: Yes.
H.M.Jr: Good. Now, how's Kennedy doing?
C: Very well.
H.M.Jr: He is.
C: Yes.
H.M.Jr: Are you where you can talk?
C: Yes.
H.M.Jr: Well, what's the line he's taking?
C: He's taking the line that the heart of the bill is all right, that he believes in Congress exercising its coordinate functions at all times including an emergency, but he has also said that limitations on amount are not necessary because the Appropriations Committee handles that. He said he would favor a limitation in time, that he would be in favor of an amendment prohibiting convoys if the bill had anything to do with it, but he understands that it hasn't. He would be in favor of limiting any step which would lead the American people to feel that to protect their prestige they ought to go to war, but he says he understands that there is nothing in the bill which covers that. He's been very careful in what he said about the bill and what his attitudes are.
H.M.Jr: Is Fish through questioning him?

- 2 -

C: Yes, Fish is through and Tinkham is questioning him now and Tinkham seems to be handling him very easily.

H.M.Jr: What's that?

C: I say Tinkham seems to be handling him very easily; he seems to be afraid of him.

H.M.Jr: I see. Seems to be afraid of him, huh?

C: Yeah.

H.M.Jr: I see. Well, call me up again at sharp 12:00 will you?

C: I certainly will.

H.M.Jr: Sharp 12:00.

C: Right. Thank you very much.

January 21, 1941
11:30 a.m.

RE BANK HOLDING COMPANIES

Present: Mr. Bell
Mr. Delano
Mr. O'Connell
Mr. Foley

H.M.Jr: How are you?

Delano: Very good, thank you, sir.

H.M.Jr: Now, Mr. Bell and Mr. Foley, do you want to give me the history when we first started talking bank holding with this group? Who can do that?

Bell: I guess Mr. Delano.

H.M.Jr: Go ahead.

Delano: I have dug this out of the files, you see. It antedates my time, Mr. Secretary, but I thought you ought to have this correspondence before Mr. Eccles came over because it has to do, apparently, with a commitment which was made by Jesse Jones and Ronald Ransom, and Leo Crowley, and these gentlemen back in 1938, in the spring of 1938, and I just thought I would - I wanted you to see that before you talked to them.

H.M.Jr: Fine. "RFC." This is addressed to me?

- 2 -

Delano: Yes.

H.M.Jr: "March 17, 1938. At the last meeting of the interdepartmental committee held in your office March 14 to consider recommendation to the President regarding bank legislation -" I will read it myself.

Let me ask you a question. "Governor Ransom and the Comptroller see no reason for transferring this authority which now rests with the Federal Reserve Board and the Comptroller, although they feel that if a change is made, it should be the responsibility of one agency."

What authority?

Delano: That is the authority for voting permits. In '35, possibly '33, Federal Reserve Board was granted certain authority over holding companies by voting permits.

H.M.Jr: Now, this is a bill which is now before Senator Glass, and how does that handle that?

Delano: That simply removes all need for any such permit.

H.M.Jr: I see. So that controversy wouldn't come up.

Delano: No that wouldn't come up.

H.M.Jr: In the next paragraph, too. "The directors and executive force of the Reconstruction Finance Corporation are of the opinion that this control is so involved with the question of bank supervision that the two should be considered together and ultimately rest with the Federal Deposit Insurance Corporation."

- 3 -

That isn't up now, is it?

Delano:

No, I don't think that has any effect on it. The thing I had in mind was this statement that this was a unanimous agreement, and if you will just turn the page you will see what was recommended to the President and that he did say it, so that has become Administration policy.

H.M. Jr:

"The establishment and maintenance of a sound banking system which would serve the public interest has been a constant objective of this Administration.

"In furtherance of this objective, Congress should again give consideration to the bank holding company problem, and determine in what manner existing laws, including legislation dealing with these companies enacted during this Administration, should be strengthened.

"I recommend that the Congress enact at this session legislation that will effectively control the operation of bank holding companies and prevent holding companies from acquiring control of any more banks, directly or indirectly, or banks controlled by holding companies from establishing any more branches, and that will 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.

"Believing it to be a sound principle of government, 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

- 4 -

accomplishment, time enough for it to be done in an orderly manner and without causing inconvenience to communities served by holding company banks."

- Delano: You notice the last paragraph in there is exactly what we have in our bill and also he says that he would prevent expansion and this is that committee, this interdepartmental committee, would prevent expansion or the acquisition of more banks by holding companies or the granting of any branches of holding company banks, and that is exactly what we are doing here through the Administration.
- H.M.Jr: Well now, what do I need besides this?
- Delano: Well --
- Foley: You want the letter you sent to the President. I guess that was sent to each one of these people, though, wasn't it?
- H.M.Jr: Well, they won't have this stuff. What have you there, Dan?
- Fell: Your letter to the President and Jesse Jones' letter, and the memorandum, which I take it was included in the message.
- Foley: I didn't refer to that. I referred to your letter of January 3, 1941. That is the same stuff that you just saw.
- H.M.Jr: Well, I think what we ought to have is this information for them, set like this in a nice little book, Jesse's letter to me - the only thing that isn't here is my letter to the President of the 17th.
- Delano: Your letter to the President of 1938 is there.

- 5 -

H.M.Jr: Is it°

Delano: Yes.

Foley: Yes.

H.M.Jr: That is right, what is this?

Delano: This is an excerpt from the Presidential message. It shows that he used this.

H.M.Jr: Isn't this the actual message?

Delano: This isn't the actual message, this is what you recommended and this is what he said, and they are practically the same thing.

Foley: And there is the death sentence recommendation in the last paragraph.

H.M.Jr: Well, could I - could your office have enough sets of this so that everybody who is coming could get a set of that?

Delano: I don't know whether we can get the photostats, but we can make copies.

Bell: Sure, we have got plenty of time.

Delano: Would you like it just in this form?

H.M.Jr: I think it is very nice.

Delano: And would you like to have anything else?

H.M.Jr: No, I don't think so.

Foley: Well, how about this letter?

H.M.Jr: I would put that letter in, too.

- 6 -

Foley: Yes, because that is what led up to the meeting.

Bell: What is that letter?

Foley: That is the one on the third of January, '41, asking that a similar recommendation for the bank holding companies be included in the current message to Congress. What the President did is send a memorandum (January 16, 1941) to each of these agencies and attach that letter.

H.M.Jr: Where is that letter?

Foley: I haven't got it. It said "Get together and work out a program."

H.M.Jr: You never saw it?

Foley: I had to get mine outside.

H.M.Jr: Where did you get it?

Foley: Leo showed it to me.

H.M.Jr: You have been snooping, have you?

Foley: Yes, by request. (Laughter)

H.M.Jr: I guess that is what you call a successful snoop. This went to Treasury, Crowley, Comptroller, and Eccles. You see, I have added to that Jerome Frank and Jones.

Delano: They are coming this afternoon?

H.M.Jr: Yes. Now, we can show them this. I don't think I would show them that because it would only make Jones and Frank mad.

Delano: That is right. Well then, we had better keep

- 7 -

this part out and put this part in.

H.M. Jr: That is right.

Delano: And I have got to have six of these made.

H.M. Jr: Yes. And don't you think it might be a nice thing to get it over to these fellows before lunch, simply say, "This is what I am going to take up with you gentlemen this afternoon"?

(Miss Chauncey entered the conference.)

Delano: I think we can do it. It is just a question of the photostats.

H.M. Jr: Well, we have photostat people downstairs.

Miss Chauncey, there is here a memorandum on January 16 from the President to me and Secretary Jones and Crowley, returning my correspondence of January 3. Take it over on that table and see if you can fish it out. It is not here.

Now, I think we could, don't you?

Delano: Oh yes. Now that would be what is here plus that letter of yours to the President, plus his memorandum back.

H.M. Jr: Do you think you would put that on?

Foley: No, I wouldn't.

Bell: No, I wouldn't.

Foley: You can explain that he asked you to get the group together and work out a program, and that is the purpose of the meeting.

- 8 -

- H.M.Jr: Yes, and we are all members of that --
- Foley: Banking Committee, Interdepartmental Banking Committee.
- Chauncey: That memo is in Mrs. Klotz' basket asking you to confer with those four gentlemen.
- H.M.Jr: Is it in there?
- Chauncey: Yes. I will get it.
- H.M.Jr: Well now, just a second. I am simply going to say, "Well, gentlemen, I have done this and we will follow up what we did two years ago. The President asked us to confer."
- Now, when you send that over, I would put a copy of the bill in there.
- Delano: Yes, a copy of the last bill.
- H.M.Jr: A copy of the last bill. Now, I am just thinking out loud.
- (Miss Chauncey returned with memorandum)
- H.M.Jr: Does anybody need this? I can have this on my desk for three o'clock. I think we can say, "Now, Jesse, you did a beautiful job on this thing two years ago. Would you be willing to - if there is any disagreement amongst this group, if you want to change the thing any from what Mr. Jones wrote me, then I am going to ask Mr. Jones to act in the same capacity as he did two years ago."
- What do you think?
- Bell: You mean in writing this --

- 9 -

- H.M.Jr: No, he was Chairman of the Subcommittee.
- Foley: To work out a program?
- H.M.Jr: No. I am thinking out loud. I am simply saying, "The President asked us to get together. Does anybody feel differently than he did two years ago about this thing? If he does, let's talk it over."
- Now, would you hand it back to Jesse? I guess not. No, I have tried it. Well, I will simply say, "Does anybody feel differently, or can I say to the President that we stand just where we did two years ago?"
- Delano: And this last bill is a practical statement of our position.
- Bell: I wonder how Eccles stood at that time? This memorandum was from Ransom, I take it.
- Foley: Well, the letter to the President said that the group was unanimous in recommending the suggestion attached to be included in the President's message to Congress.
- Delano: But the group, Ed -- it included Ransom and not Eccles.
- Foley: But he was acting as Chairman of the Board at the time. Eccles was away.
- Bell: Well, he has got an out. He can say, "Well, I wasn't in on that."
- Foley: Well, it was his representative that committed the Board.
- H.M.Jr: Well, the purpose of the meeting is to see if anybody disagrees and if they do, "Well, where do you disagree?"

- 10 -

Delano: That is right.

Bell: What date was that letter, May '38?

Foley: Which letter, Dan?

Bell: The one that Jesse Jones wrote.

O'Connell: It was March 17, 1938. The President's message was April 29, 1938, the message that included the recommendation.

Bell: Marriner apparently was just away for a few days.

Foley: Well, Ransom took the matter up with the Board, I remember, at the time and he also had conversations on the telephone with Eccles.

H.M.Jr: Well, I just think--"Here it is, we have done this thing. We asked Senator Glass to introduce this bill." Do you (Foley) want this?

Foley: Well, Preston will probably need that for his photostats.

H.M.Jr: Yes, but how do I know that I am ever going to get these back?

Delano: Just a commitment from me, I guess.

H.M.Jr: It is good enough. (Laughter)

Delano: It puts me on the spot.

Bell: You mean before three or for your personal files? Are they your files?

H.M.Jr: Yes, they are out of my diary. I don't know how he (Foley) ever got them.

- 11 -

- Bell: It looked like permanent Treasury files. He (Secretary) calls them a part of his diary.
- H.M.Jr: All right, we will do it in a straight-from-the-shoulder method, you see, the innocent way.
- Bell: So what?
- H.M.Jr: Yes, so what.
- Foley: This is what they are going to say. "What program are we to work out here?"
- H.M.Jr: Simply this. If everybody is in favor of this bill, I will simply write the President and say that we are all behind it and I am going to ask him to send a message up. I am going to ask him to send another message, a follow up, two years after he sent the other one, to send the identical same message. I think it will be all right.
- Foley: O.K.
- H.M.Jr: "Well, why didn't you consult us before?"
- "Well, everybody was agreed. This is just a follow up."
- Foley: Well, you can say this, that Senator Glass was going to introduce his old bill the first day of the session and he so told you.
- H.M.Jr: But which came first, the chicken or the egg? Did I talk to him or did he talk to me? Would he have introduced the bill if we hadn't gone to see him? O.K. I am afraid it would have been a Glass egg. I am right, am I not? We prodded him.

- 12 -

Foley: That is right, we went to see him on the branches.

H.M.Jr: Who went with me?
How did you (Bell) and Mario get along this morning?

Bell: Fine, very pleasant.

H.M.Jr: What happened?

Bell: Oh, he wanted me to call the committee together to thrash out the meaning of the paragraph that set up the committee. Do you remember, Ed? It set up the committee to determine the value of the real estate.

Foley: Yes.

Bell: And I told him that we didn't want to call a committee together, that we wanted the matter settled out there and we would put it in the hands of this Subcommittee and we wanted them to settle it and to go back and talk to him. I told him I would talk to Preston again, but that is what we would rather have him do. He was very nice, he wasn't belligerent at all.

H.M.Jr: Did he come alone?

Bell: Yes.

H.M.Jr: Nobody with him?

Bell: No.

H.M.Jr: Did you see him alone?

Bell: Yes.

H.M.Jr: And that is the only thing he had in mind?

- 13 -

Hell: He didn't mention branches or anything else. He said, "We have been getting along fine out there." He said, "I don't want to have any scraps with Wright because we have to live with him; and if there are to be any scraps, I want them back in Washington, because I have to live with Wright." He was really very nice. He never mentioned once about his branches.

H.M.Jr: Wonderful. Incidentally, Foley and I saw Glass on Saturday and he says, "You gave them too many branches. It is your fault, Morgenthau, you never should have let them grow that way. Don't you give them a branch. Take some of them away from them. It is your fault, you never should have let them grow that way."

I said, "You know, Senator, Mr. O'Connor was appointed before I came in." I said, "I run the Comptroller's office." He said, "You don't run it enough."

Delano: That is perfect.

H.M.Jr: "You don't run it enough, run it more."

Delano: That is certainly --

H.M.Jr: He says, "Not only too many branches, no more branches, take some of them away from them. You don't run the Comptroller's office enough."

I said, "Well, I am not trying to run it. I can get along with Preston Delano and I couldn't with O'Connor." I said, "You fellows up here say I run it too much."

"You don't run it enough. Take them away, take the branches away."

- 14 -

Delano: I am just thinking about that one.

H.M.Jr: Well, I am telling you.

Delano: Yes.

H.M.Jr: So you have everything that I have, on the 18th - I don't think I am going to show this around today - because I am a little bit nervous after my talk with Glass. He had been talking with the President. I wrote the President and handed it over to the House on the 18th.

"My dear Mr. President:

"On receiving your memorandum in reference to the bank holding company legislation, I have asked the various agencies involved to meet with me next Tuesday afternoon at 3:00 o'clock.

"At this meeting, I propose to inform the group that you favor the so-called death-sentence provision in the bill introduced by Senator Glass, which separates the holding companies from the banks by June 30, 1944, which, as I understand it, is your position.

"For your information, I am attaching a copy of Senator Glass' bill."

And I have had no answer. I didn't expect an answer. But that certainly is very plain English, isn't it?"

Delano: Certainly if he had any objection he would get in touch with you before three o'clock, I should think.

- 15 -

H.M.Jr: Yes. I was telling Dan about it. I sent that to him, and he had it at one o'clock Saturday; and knowing the speed with which he reads these things, I am sure that from one o'clock Saturday - there is Sunday, Monday, Tuesday, that is three days elapsed time. I should think that --

Delano: And this morning he had a good chance to get at it, even after Inauguration.

H.M.Jr: Oh yes, so that puts him on notice about my position. I don't expect to use it, but if anybody pushes me.....

All right, gents, I will see you at three, and if you can do that physically.

Delano: Righto.

January 18, 1941.

My dear Mr. President:

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At this meeting, I propose to inform the group that you favor the so-called death-sentence provision in the bill introduced by Senator Glass which separates the holding companies from the banks by June 30, 1944, which, as I understand it, is your position.

For your information I am attaching a copy of Senator Glass' bill.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President

The White House

Attachment

KHF:mp

1/18/41

By Messenger

January 18, 1941.

My dear Mr. President:

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President
The White House

Attachment

EHF:mp

1/18/41

By ~~Morganthau~~ R 45

THE SECRETARY OF THE TREASURY
WASHINGTON

March 17, 1938.

The President,

The White House,

Dear Mr. President:

I have the pleasure to report to you that after a number of meetings of your Committee on Banking agreement has been reached on recommendations as to the bank holding company situation.

You will find enclosed herewith a letter to me from Chairman Jones of the Reconstruction Finance Corporation, who has acted as Chairman of a sub-committee which has been meeting on the situation daily for the last week, and also the text of a proposed message to the Congress.

I am pleased to be able to tell you that the proposed message has the unanimous approval of the members of the committee which has considered the problem.

We await your further pleasure.

Sincerely,

(Signed) H. HOBERTSON, Jr.

Secretary of the Treasury.

Enclosure.

RECONSTRUCTION FINANCE CORPORATION

WASHINGTON

Jesse H. Jones
Chairman of the Board

March 17, 1938

Dear Mr. Secretary:

At the last meeting of the interdepartmental committee held in your office March 14th to consider recommendations to the President regarding bank legislation, and particularly to suggest a brief statement dealing with bank holding companies to be included in his message to Congress, you asked that the committee have further meetings and endeavor to arrive at, first, a suggested statement for the President's message, second, a definition of what constitutes a bank holding company and, third, what governmental agency should be charged with the enforcement of any Bank Act affecting bank holding companies.

We have had two meetings and a free discussion of the problems to be considered.

I attach the suggested statement for the President to include in his message to Congress. This represents the views of Governor Hanson of the Federal Reserve Board, Acting Comptroller of the Currency Marshall Diggs, Leo Crowley, Chairman of the Federal Deposit Insurance Corporation, and the Reconstruction Finance Corporation.

It is the unanimous opinion that the operations of bank holding companies should not be allowed to expand. This being true is an admission that the principle of bank holding companies is not in the best interests of the country and that something should be done about them. It is with this thought that the last paragraph of the statement is included.

Should the President determine to use it and the Congress act upon his recommendation, the question of branch banking will naturally enter into the discussion.

The committee feels that other factors than a specific percentage of share ownership will enter into a proper definition of control. At all events it requires more than for study than we have had and should properly be developed in the Congressional Committee hearings.

-3-

As to the supervising authority, Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, has stated that the present Glass-Steagall-Steagall Bill represents approximately his views, but thinks that the President or Congress should decide.

Governor Ransom and the Comptroller see no reason for transferring this authority which now rests with the Federal Reserve Board and the Comptroller, although they feel that if a change is made it should be the responsibility of one agency.

The directors and executive force of the Reconstruction Finance Corporation are of the opinion that this control is so involved with the question of bank supervision that the two should be considered together and ultimately rest with the Federal Deposit Insurance Corporation.

Sincerely yours,

/s/ JESSE H. JONES

Chairman

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

(Suggested form of message)

The establishment and maintenance of a sound banking system which would serve the public interest has been a constant objective of this Administration.

In furtherance of this objective Congress should again give consideration to the bank holding company problem, and determine in what manner existing laws, including legislation dealing with these companies enacted during this Administration, should be strengthened.

I recommend that the Congress enact at this session legislation that will effectively control the operation of bank holding companies and prevent holding companies from acquiring control of any more banks, directly or indirectly, or banks controlled by holding companies from establishing any more branches, and that will 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.

Believing it to be a sound principle of government, 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.

REPORT FROM THE PRESIDENT'S BUSINESS MATRONSAPRIL 29, 1934(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; prevent 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.

77TH CONGRESS
1ST SESSION

S. 310

IN THE SENATE OF THE UNITED STATES

JANUARY 14, 1941

Mr. GLASS (by request) introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A BILL

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

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3

TITLE

4 SECTION 1. This Act may be cited as the "Bank Holding
5 Company Act of 1941".

6

DEFINITIONS

7 SEC. 2. When used in this Act unless the context other-
8 wise requires—

9 (1) The term "company" means any bank, corporation,
10 partnership, association, joint stock company, business trust,
11 or organized group of persons, whether incorporated or not,

1 or any receiver, trustee, or other liquidating agent of any of
2 the foregoing in his capacity as such, but shall not be deemed
3 to include the United States, a State, any political subdivision
4 of a State, or any agency of the United States, of a State, or
5 of any political subdivision of a State.

6 (2) The term "insured bank" means any bank the de-
7 posits of which are insured under the provisions of section
8 12B of the Federal Reserve Act, as amended.

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

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

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

8

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

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

7 PROHIBITIONS

8 SEC. 3. After June 30, 1944, it shall be unlawful (a)
9 for any company to own, control, hold, or acquire more
10 than 10 per centum of the voting securities of an insured
11 bank, or (b) for more than 10 per centum of the voting
12 securities of an insured bank to be held by a trustee or
13 trustees for the benefit of the shareholders, members or par-
14 ticipants of any one company, or (c) for any company
15 to control in any manner, either directly, or indirectly
16 through any other company or individual, or otherwise, the
17 management or policies of an insured bank, or the election
18 of a majority of the directors of an insured bank.

19 EXEMPTIONS

20 SEC. 4. Notwithstanding the foregoing, the prohibitions
21 contained in section 3 of this Act shall not apply to any com-
22 pany which is determined by the Board (a) not to control
23 the management or policies of any insured bank, or (b) to
24 control only incidentally the management or policies of one

1 or more insured banks, the company being primarily engaged
2 in business not closely related to banking, when such control
3 will not, in the opinion of the Board, adversely affect the
4 banking business or the public or be inconsistent with the
5 general purpose of this statute. In addition, section 3 of
6 this Act shall not be construed as prohibiting any company
7 from acquiring in good faith any voting securities of an
8 insured bank in satisfaction of debts previously contracted in
9 the course of its business, but no voting securities so acquired
10 in excess of the amounts prescribed in section 3 of this Act
11 shall be owned, controlled, or held by such company for a
12 longer period than six months.

13

DIVIDEND RESTRICTIONS

14 SEC. 5. After the date of the approval of this Act, it
15 shall be unlawful for any insured bank, over the objection
16 of the Comptroller of the Currency if such bank is a national
17 banking association, or a bank or trust company doing busi-
18 ness in the District of Columbia, or over the objection of the
19 Board if such bank is not a national banking association, or
20 a bank or trust company doing business in the District of
21 Columbia, to declare or to pay any dividend or any of its
22 capital stock when, in the opinion of the Comptroller of the
23 Currency or the Board, as the case may be, the declaration
24 or payment of any such dividend would not be compatible
25 with the best interests of such bank, its depositors or other
26 creditors, or with the public interest.

SANCTIONS

1

2 SEC. 6. (1) Any company which knowingly violates
3 any provision of this Act or of any rule or regulation there-
4 under, upon conviction thereof, shall be subject, for each
5 violation, to a fine of not exceeding \$100,000, and any indi-
6 vidual who knowingly violates any provision of this Act or of
7 any rule or regulation thereunder, upon conviction thereof,
8 shall be subject, for each violation, to a fine of not exceeding
9 \$10,000, or to imprisonment for not exceeding five years, or
10 to both, in the discretion of the court.

11 (2) Whenever, in the opinion of the Board, any officer
12 or director of an insured bank is responsible for any violation
13 of any of the provisions of this Act, or of any of the rules
14 or regulations thereunder or, having knowledge of a violation,
15 fails to disclose such violation to the proper authorities, the
16 Board may cause notice to be served upon such director or
17 officer to appear before the Board to show cause why he
18 should not be removed from office. A copy of such order
19 shall be sent to each director of the bank affected by regis-
20 tered mail. If after granting the accused director or officer
21 a reasonable opportunity to be heard the Board finds that
22 he is responsible for or, having knowledge thereof, has failed
23 to disclose to the proper authorities any such violation, the
24 Board in its discretion may order that such director or officer
25 be removed from office. A copy of such order shall be

1 served upon such director or officer. A copy of such order
2 shall also be served upon the bank of which he is a director
3 or officer, whereupon such director or officer shall cease to
4 be a director or officer of such bank. Any such director
5 or officer removed from office as herein provided, who there-
6 after participates in any manner in the management of such
7 bank, shall be deemed to have violated this Act and shall be
8 subject to the penalties prescribed in subsection (1) of this
9 section.

10 (3) Whenever it shall appear to the Board that any
11 person is engaged in or about to engage in any acts or prac-
12 tices which constitute or will constitute a violation of any of
13 the provisions of this Act, or of any rule or regulation there-
14 under, the Board may in its discretion bring an action, in any
15 court granted jurisdiction in such cases by this Act, to enjoin
16 such acts or practices and to enforce compliance with the pro-
17 visions of this Act or of any rule or regulation thereunder,
18 and upon a proper showing a permanent or temporary in-
19 junction or decree or restraining or mandatory order shall
20 be granted without bond.

21

JURISDICTION

22 SEC. 7. The District Courts of the United States, and the
23 United States Courts of any Territory or other place subject
24 to the jurisdiction of the United States, shall have original
25 jurisdiction over any proceedings instituted under any of the

1 provisions of this Act or of any rule or regulation thereunder,
2 and, concurrently with State and Territorial courts, of all
3 suits in equity and actions at law brought to enforce any
4 liability or duty created by, or to enjoin any violation of,
5 any provisions of this Act, or of any rule or regulation there-
6 under. No costs shall be assessed for or against the Board
7 in any proceeding under this Act brought by or against the
8 Board in any court.

9 ADMINISTRATION

10 SEC. 8. (1) The administration of this Act is hereby
11 vested in the Board which shall have authority to make,
12 issue, amend, and rescind such rules and regulations (in-
13 cluding definitions of banking, technical, and trade terms
14 used in this Act) as may be necessary or appropriate to carry
15 out the provisions of this Act.

16 (2) The Board, in its discretion, may investigate any
17 facts, conditions, practices, or matters which it may deem
18 necessary or appropriate for the purpose of determining
19 whether any company or individual has violated or is about
20 to violate any provision of this Act or of any rule or regula-
21 tion thereunder, or for the purpose of aiding in the enforce-
22 ment of the provisions of this Act, or aiding in the prescribing
23 of rules and regulations thereunder, or in the obtaining of
24 information to serve as a basis for recommending further legis-
25 lation concerning the matters to which this Act relates. For

1 the purpose of any investigation or any other proceeding
2 under this Act, any member of the Board, or any officer
3 thereof designated by it, is empowered to administer oaths
4 and affirmations, subpoena witnesses, compel their attendance,
5 take evidence, and require the production of any books,
6 papers, correspondence, memoranda, contracts, agreements,
7 or other records which the Board, or any such member, or
8 any such officer, deems relevant or material to the inquiry.
9 Such attendance of witnesses and the production of any such
10 records may be required from any place in any State or in
11 any Territory or other place subject to the jurisdiction of
12 the United States at any designated place of hearing. In
13 case of contumacy by or refusal to obey a subpoena issued to,
14 any person, the Board may invoke the aid of any district
15 court of the United States or of any United States court of
16 any Territory or other place subject to the jurisdiction of
17 the United States, in requiring the attendance and testimony
18 of witnesses and the production of books, papers, correspond-
19 ence, memoranda, contracts, agreements, or other records.
20 Any such court may issue an order requiring such person
21 to appear before the Board, any member of the Board, or
22 any officer thereof designated by the Board, there to produce
23 records, if so ordered, or to give testimony touching the
24 matter under investigation or in question; and any failure to

1 obey such order of the court may be punished by such court
2 as a contempt thereof.

3 **SEPARABILITY OF PROVISIONS**

4 **SEC. 9.** If any provision of this Act, or the application
5 of such provision to any person or circumstances, shall be
6 held invalid, the remainder of this Act and the application of
7 such provision to persons or circumstances other than those
8 as to which it is held invalid, shall not be affected thereby.

January 21, 1941
2:13 p.m.

H.M.Jr: Hello.

Operator: Secretary Knox.

Frank Knox: Hello, Henry.

H.M.Jr: How are you?

K: Fine.

H.M.Jr: Frank, I wanted to tell you what this meeting is going to be tomorrow morning.

K: All right.

H.M.Jr: Now, at that time there are three things we're taking up. Stimson is working on a plan to take over \$160 million worth of contracts and I think he is using McCloy. Hello?

K: Yeah.

H.M.Jr: And they say they are stuck with Jones, and I brought that to Jones' attention. Then there is the \$550 million, which I call the Knox plan, which I've asked Jones to be ready to talk about.

K: Yeah.

H.M.Jr: Now we're going into this thing and we think there is a conflict between those two. In other words, overlapping, you see.

K: I don't know enough about it. No, I don't think the British however have paid any cash down on the Buick or the Studebaker contracts, have they?

H.M.Jr: Well, I'll have all of that. Now, my purpose is this: Phil Young said you've got a man by the name of Wise in your office who works on this.

K: Wise. Wait a minute.

- 2 -

H.M.Jr: Have you got somebody by the name of Wise?

K: Wait a minute, Henry. (Talks aside). Yes, he's an attorney in Jim Forrestal's office.

H.M.Jr: Well, who is there that you'd like to - we're working over here to get ready for tomorrow. Is there anybody that you'd like to sit in on it, to represent you?

K: You mean in the way of a lawyer?

H.M.Jr: No, somebody who knows money, finances.

K: Well, Jim would be the best man of course.

H.M.Jr: Or would you rather just wait until tomorrow morning and then I'll try to explain it as best I can in the morning.

K: I think that would be better, Henry.

H.M.Jr: All right. Well, that's the thing and I'll have it all in black and white tomorrow morning.

K: All right. Now, while I've got you on the phone - I was going to call you up a little later, I'll do it now. The last time I was with the President and I had Stark with me and Stimson and Marshall were there, he talked about a possible break and nobody knew when it might come, and he told me some things he wanted me to do.

H.M.Jr: Yeah.

K: One of our fellows/^{down here}thinks that in the light of the possible imminence of that break that one of the first steps that would have to be taken would be to take over the Coast Guard, and they have just laid down on my desk - which I haven't done anything about and didn't propose to until I talked to you - a proposal to take over the Coast Guard right away and get these ships in shape for use in case we had to handle the conveying proposition across the ocean, and I didn't want to do anything about that until I had talked to you about it. How does it appeal to you?

- 3 -

H.M.Jr: Well, if you wouldn't mind staying behind a couple of minutes tomorrow morning and telling me a little more, I'll do anything that's reasonable.

K: Well, I'll do that. I'll bring the correspondence from my own Bureau Chief with me and show you what they say.

H.M.Jr: And anything that's reasonable I'll be for.

K: What?

H.M.Jr: If it's reasonable I'll be for it.

K: Yeah, I knew you would be but I didn't want to do anything like that without first talking to you.

H.M.Jr: Well, I appreciate the courtesy.

K: All right, Henry.

H.M.Jr: Thank you.

January 21, 1941
2:15 p.m.

AT BRITISH PURCHASING PROGRAM

Present: Sir Frederick Phillips
Mr. Purvis
Mr. Young
Mr. McCloy

Purvis: We felt people would be coming and saying, "Well, there is 80 million dollars in the War Department. What orders would you like to place against that?" That is the present position.

Now, the story on that is, use of these funds was once cleared, and such use was subsequently denied that the purchases were such as to be only British type. It was Secretary Morgenthau's suggestion that the War Department be consulted. That has been agreed.

Now, whether that is now through and disposed of, I don't know; but for the very reason those two had been considered out of the way for some time, we did not include them with these because these were things we would still like to do.

H.M. Jr: Now, wait a minute. We are going over this thing too fast. Now, what were those figures that you (Phillips) gave me? The various hundred and fifties, what were they?

- 2 -

Phillips: The figures I had, sir, were the amount of advance payments we have made - down payments we have made on contracts in excess of the deliveries we have taken and 55 was my total.

Purvis: Six hundred five.

Phillips: But my five fifty was divided 400 to United States contracts --

H.M.Jr: Is this on a sheet of paper?

Purvis: This is the one that isn't in because we were told that the money wouldn't be available on Friday.

H.M.Jr: This is what you called down payments?

Purvis: Yes.

H.M.Jr: This, I would say, Phil, would be Sheet No. 1, down payments, 400 million for what?

Phillips: United States type and 150 British type airplanes.

H.M.Jr: A hundred and 50 British type.

Phillips: Then a little line under that. Then capital, another 150, 150 being our investments --

H.M.Jr: Is this 150 in United States type or British type?

Phillips: I don't know. Seventy and 30 would probably be close enough.

Purvis: Here it is. Wait a minute, now, it is in here somewhere. There it is, 149 million.

- 3 -

H.M.Jr: May I just put it this way? What we ought to have is this. Phil, make a note. Sheet No. 1 ought to be this: "Amount of Money That Could Be Recaptured."

Purvis: Yes.

H.M.Jr: For the British on United States type material, you see, and under that, you see, would come 400 million dollars of United States type and "X" amount for capital, because the capital would have to be what is laid down for United States type.

Purvis: Yes, you have got to follow the same pattern, you see. Then, so that they have some conception of what it amounts to, I would say down payments for British type - I would have this on - I would draw a line across the page, you see, and then have "Down Payments For British Type" and "Down Payments For Capital," you see.

Now, under the recapture of United States type, it will amount to - well, 500 and some odd million dollars. Then for the meeting tomorrow, how can we propose - what is the best method to get the recapture of this money, you see. I mean, that is what I want, to recapture this - between five and 600 million dollars which they have laid down and that is why - when they get back, McCloy and these other fellows, they won't all be treading over their toes; and if they find out we have gone so far - but Jesse Jones won't go any further, we will say, "Well, we could do this if Jones -" never mind if he wants to do it one contract at a time or 10 contracts at a time, but let's do one, see?

- 4 -

Now, if the figure is 550 million dollars that they have got in down payments for cash on order and for capital, I can't get it through my head why McCloy should have one plan and Jesse Jones have another.

Now, let's just say for the moment - you don't mind if I think out loud - let's just say for a moment, "All right, we have done that," and then you say, "All right, when they have that and this money they get back, the 550 million dollars, what are they going to do with it," you see.

Purvis: That is all there.

H.M.Jr: Now, that comes, what are they going to do with it, what do they want to buy most, of United States type, because I take it, Sir Frederick, that if you recapture this 500 million dollars from American type, your Government would be willing to reinvest that in additional American types, because this 500, you see, wouldn't - this is like making a revolving fund out of it.

Purvis: This is not the capital facilities, otherwise, Sir Frederick, which we had devoted to British type. It is the - well now, is that - I am not sure that we haven't had to allow for the sale of United States type.

H.M.Jr: Well now, I am putting it up to you. You have got time. The way my mind is running, if I am correct - we will use 500 million. You recapture 500 million. That is part of the one billion three that you owe us for orders already placed, so instead of owing one billion three, you will get back 500 million, which is - you would be owing 800 million.

- 5 -

Phillips: No, I don't quite follow you, sir. Might I have those figures on paper?

H.M.Jr: Please.

Young: This 500 million represents one third down payments on the billion three.

Purvis: On the what?

Young: On the billion three.

Purvis: That is right.

H.M.Jr: What I am saying is, we want to get this thing amongst ourselves straight.

Phillips: The billion three would be the commitments still outstanding after the end of February.

Purvis: So it is on the billion eight.

Young: Yes.

Phillips: And of that my recollection was some 4800 figure - no, after the end of February - during January and February we pay off about 300 and what is left after that is a little more than a billion, of which a - a billion 50, we will call it, of which something like 750 is United States type and something like 300 British type.

Now, Mr. Secretary, you say if we get back 550 cash --

H.M.Jr: Let's say 500.

Phillips: Five hundred. I don't know. I should have to see how that left us at the end of the year, shouldn't I?

- 6 -

- H.M.Jr: Well, am I not correct that the 500 is part of the billion three?
- Phillips: Oh no.
- Young: Sure. No, this is already paid out, this 500.
- Purvis: A billion three is still owed and the 500 million - otherwise, the total value of the orders was a billion eight, of which we paid out about 500.
- H.M.Jr: That is right. Now you are getting back 500 million. What would you do with it?
- Young: What you mean is to recapture this 500 million we have got to put up a billion.
- H.M.Jr: How is that?
- Young: Because this represents down payments on the orders, and we can only take over the orders through the governmental appropriations by earmarking the total value of the orders.
- H.M.Jr: Well, I am not going to worry about that. I mean - but I see what you mean, but that - well, they don't have to put up the - the American Government doesn't have to put up any money on orders.
- Young: Well, that is the trouble with McCloy's plan. He has got 230 millions, but he can only give back to the British about a third of that.
- H.M.Jr: Why?
- Young: Because the 230 has to go for the whole value of the contract.

- 7 -

H.M. Jr: Has to be earmarked.

Young: Yes, so it doesn't mean that they get back 330.

H.V. Jr: Don't ruin my enthusiasm. It is perfectly possible to go up to Congress and get a little bill through just the way the President rushed through the bill for the 300 ships.

Purvis: That is what I was hoping.

H.V. Jr: Now - but everybody has got a different notion on this thing, you see, but I come back and I am not pressing Phillips now, but I want to know between now and tomorrow morning if we could lay our hands on 500 million of money which you have already paid down for one thing or another, what would you, the British Treasury, feel you should use that for, before I look at the Priorities. I mean, would you use that for United States type or would you use it for British type?

Phillips: I should have thought, sir, the answer was British types, if their total amount of British types was as big as that. On this basis the interim period is absolutely clear. I am worrying about the end of the year.

H.V. Jr: I see. May I see this a minute?

Purvis: Yes.

H.V. Jr: Let me just see that a minute. They are going to ask me, "All right, let's say we get back 500 million, what are the British going to use this for?" Stimson would say, "United States types." No,

- 8 -

that is something for the British to have a chance to think about.

Purvis: We would have to have the right to use it as free money or we wouldn't be able to get through our difficulties. That is really what it comes to, isn't it, Sir Frederick?

Phillips: I think so.

Purvis: I mean money that we can use for British types.--

Young: No strings on it.

Purvis: For instance, perhaps to get by the cash balances for a particular month or something of that kind. Those are without any capital at all.

H.M.Jr: You don't need any capital?

Purvis: It is all in these notes.

H.M.Jr: Capital funds may be made immediately available for creation of this new capacity of - shall we say 300 million?

Purvis: That is what we feel Mr. Knudsen should be doing now with the bottleneck.

H.M.Jr: Oh, with his own money?

Purvis: Yes. Otherwise we are holding up --

(Lieutenant McKay entered the conference to inform the Secretary that Mr. Lovett had another appointment, and could not arrive until after three o'clock.)

- 9 -

H.M.Jr: Tell Lovett I can't see him at three, and if he could come here at three I won't be available, but could he go to Philip Young's room.

McKay: All right, sir.

H.M.Jr: When McCloy comes in, would you show him in?

McKay: Yes, sir.

(Mr. McCloy entered the conference.)

H.M.Jr: This is what I am trying to do with this meeting at 9:15 tomorrow, and they tell me that Lovett will be over here at three and I thought if we could understand ourselves, maybe you could give it to Mr. Stimson before 9:15.

McCloy: Good.

H.M.Jr: Because there has been more misunderstanding about this whole thing, and I haven't got it straight yet. Here are the points that I raise. You are working on a plan to take over certain British contracts. Then along comes Frank Knox who brings up in Cabinet that the RFC should take over 550 million dollars worth of commitments. I have felt that there must be overlapping between the two.

McCloy: There is no question about it.

H.M.Jr: But no one would admit it up until - we have just had this meeting, you see.

Now, we get into a meeting like this. None of these people have the time to put to it except ourselves, and I am sure that you and Jones are working on the same contracts. Then there is the other thing. I got the message

- 10 -

from you the other morning, that you get up to a certain point and when it comes to real estate, Jones won't take it.

McCloy: That is right. That is changed now.

H.M.Jr: I spoke to Jones this morning.

McCloy: I was there when you spoke to him, and he came in and said, "I can do it."

H.M.Jr: He told you that after I called?

McCloy: Yes. That was just after you --

H.M.Jr: I called him and I said, "McCloy tells me that he is stuck because you won't buy the real estate." Jones said, "I never heard of it." He said, "I will get in touch with him right away." And you were over there?

McCloy: I was over there.

H.M.Jr: Marvelous.

McCloy: And then we carried right on from that and he said he would take over the real estate provided it was in some tangible form that he could buy it. He couldn't do the over-all plan, that was too loose for him, he said, but he could buy any specific plant or any specific facility anywhere and would.

Purvis: If it was demarcated.

H.M.Jr: What I would like you to do, as I say, both for me and for Mr. Stimson and Knox and Knudsen, these gentlemen are available now - if we could get it down - you see,

- 11 -

we have got - this is the way I am setting it up with the help of Sir Frederick Phillips. I put it this way. How much can we recapture of the down payments and capital outlay that the British have made for United States types, and then they say - rather the down payment for United States types, their figure is 400 million dollars. The British type down payments are 150 and then they have lumped the capital out. They haven't split the two into British type and United States type, another 150.

Now, I take it that the plan for the moment - and we had better not fool around - we are trying to buy up British type contracts, is that right?

McCloy: I think so.

H.M.Jr: For the moment. Because you will certainly have trouble with Jones and Knudsen.

McCloy: My partial solution on that would be to make some British types American types. There are some British types which I think with a little persuasion our staff could make American types.

H.M.Jr: Fine. Now, they have given me, which I have only just gotten, two lists giving me a summary of the material that they want broken down to United States types and British types, which total, United States types, 883 million; British types, 375.

Furvis: That includes airplanes?

McCloy: That is what you want to place?

H.M.Jr: This is their emergency stuff.

- 12 -

McCloy: This is your interim orders?

Purvis: This is the emergency difficulty and this is only above your 230 million and your 60 million that you have had in your plans.

H.M.Jr: This is emergency. And then they have another list of things --

Purvis: Taken by appropriations that might be available and saying which orders we would like to place against each particular one if that sum of money were available after further examination.

H.M.Jr: Now, I put a question to Sir Frederick Phillips which he says he has not yet been able to answer, that if 500 million dollars was made available, what would he do with it. The only answer they have made so far - they would like to have the free money, like to be able to use it any way that they saw fit, you see.

Jones is also, at my suggestion, working on a wool deal. I don't know if you know about that.

McCloy: I heard something about it.

H.W.Jr: I am telling it all, you see, and Phillips says that if he got a hundred or more million dollars, he would consider that new money.

Now, when I say new money, let me go back. I take it that you understand my position, but Judge Patterson doesn't; so let me state my position. My position before Congress was very simple. I didn't take 50 words to say it. The British Government have on order here a little over a billion 300 million dollars worth of goods, for which, in order to pay for them, get the dollars, they would have to sell every American factory that they

- 13 -

own, plus every share of American stock; and if they did that, they could raise about a billion 300 million dollars. Therefore, all of their direct investments and physical property, plus all their American securities, are earmarked against outstanding orders.

McCloy: That includes all fixed assets as well as liquid?

H.M.Jr: Everything.

McCloy: I see. That is Lever Brothers and the insurance companies and everything else?

H.M.Jr: Everything, and on the assumption that our estimate is right, that there is 900 million dollars worth of Lever Brothers and that there is 600 million dollars worth of American securities, six and nine is a billion five, and if they could get 90¢ on the dollar, it would just about represent what they owe the American manufacturers already. Did you know that?

McCloy: I didn't know that, no. I understood that their marketable securities were sufficient to cover --

Phillips: No.

Purvis: No. There is only 600 million of those.

H.M.Jr: Shall I go over it once more?

McCloy: I have it. You said it very clearly the first time. Everything in the barrel is necessary to meet existing British commitments.

H.M.Jr: That is right, and you can't put up the same collateral twice in United States or England.

- 14 -

McCloy: That is quite a trick.

H.M.Jr: Well, I mean neither the British Treasury would be party to it, or would I, but I mean that is the situation and if you didn't understand it - if you didn't come over for any other reason - if you could paw that into --

Purvis: I couldn't get that over to Judge Patterson the other night, and I tried very hard. I was invited to a dinner and I found him there, and he just could not accept that.

McCloy: I have heard around some places, I don't know where it emanated from, that you had enough money to take care of existing British commitments and your - a substantial part of your aid program. That isn't so?

Purvis: It is just not so.

H.M.Jr: Now, and furthermore --

McCloy: And that includes the insurance companies?

H.M.Jr: Everything.

McCloy: There seems to be a lot of talk that insurance companies weren't dumped in there.

Phillips: It also seems you can sell the whole lot in ten or eleven months, which isn't true at all.

H.M.Jr: Also in my testimony when I was put on the spot, because Mr. Hull said, "If the Bill passes it will speed up production," and I have to think of something to say because I knew you wouldn't get any more than the next 90 days, so I said - I fenced this way.

- 15 -

I said, "If the English had the money, it would accelerate United States Governments," and I said, "Let me give you an example." I said, "The Army and Navy want to place orders with Buick and Studebaker for engines, part of which are going to go to the British and are held up now because the British haven't got the money," and I have testified.

Now, they want me to turn - it is all in the record and after my testimony, I come down here Thursday and have lunch with Bill Knudsen Thursday and tell this to Knudsen and he says, "You can't do it." And I said, "I can't do it," because I said, "I also told them that the English aren't placing any more orders." So he said, "All right, I will go ahead and place the order for what we can afford to pay." This was Thursday.

Friday night they pound Purvis because he won't place the orders for the engines and I believe, I haven't been able to ask, that they were already placed.

McCloy: No, I can bring you up to date on that.

H.M.Jr: Good. But are you getting what I am saying? I was on a spot on the Hill because Cordell Hull said, "Pass this Bill and it speeds up production," which wasn't true. But where American defense is being retarded is because they are unable to place these engines and if the English could go along, they could place the engines that we need for our own defense. That was the only thing that I could think of to get out of that very difficult position; and so number one, I am going to go over it again if you don't mind, I am sure you have got it; but I am going to bore you once more.

- 16 -

No. 1, in my testimony, 900 million dollars worth of Lever Brothers, insurance companies and what not, plus 600 million dollars worth of American securities, makes a billion five. The British have on order as of January 1, a little over a billion three.

Young: Unpaid balances.

McCloy: So they have only got 200 millions free.

H.M.Jr: Yes, on the assumption that in 12 months you could get a hundred cents on the dollar for everything that they own in this country.

McCloy: It is very clear. Those are words of one syllable. I understand it.

H.M.Jr: But I didn't think you had it.

Now, if you could get that over to Stimson, but particularly Patterson, particularly Patterson, you would be doing all of us a great service, including Judge Patterson.

McCloy: You have got to get it over to more than Patterson. You have got to get it over to quite a group that don't believe in it.

Purvis: I ran into it even in New York.

McCloy: You have got to get it over to Jim Forrestal, to a number of the other people who feel --

H.M.Jr: Well, I have no sympathy with the people who don't believe it, but there are a lot of people that don't want to believe it.

McCloy: Well, who don't understand it, who say no, that isn't so, they haven't taken in the insurance companies, they haven't done

- 17 -

this and that. Well, there is no question about that. Patterson --

H.M.Jr: Now, we go from this other thing - we go from this other thing to these 500 to 600 million dollars - something, nearer five, that has been laid down on which you have been working day and night. Now they put up to Jones, and what I would like to have on a piece of paper, what can I tell these people? You can't recapture the same contract more than once and what is the best plan that I can lay before these people at 9:15 tomorrow morning to recapture the 500 odd million of American specifications that these people have plunked down.

McCloy: I am afraid I haven't got much of a solution for that, because the only money that I have been able to deal with thus far is this 230 millions.

H.M.Jr: May I interrupt you? I am going to let you, if you will take a little time, go back with these two gentlemen. If we can only do this and I can join you later, make sure that you and Jones aren't covering the same ground twice so that if you could state --

McCloy: I don't think we are.

H.M.Jr: I think you are. He is sending for contracts and looking over them.

McCloy: Maybe there is a difference, then.

Purvis: Recently. He wants the contracts covering the 160 million dollars we spoke of and among them are machine guns.

H.M.Jr: What I would like to get, McCloy, with your

- 18 -

help for tomorrow morning, is this.

"Gentlemen, if the English have paid down 400 million dollars down payment for American standard equipment, plus a hundred million for capital," have that here as a formula, everybody working together, how we can give them back so much money. I want a formula to give them tomorrow morning, with your help. Does that state it?

Purvis: That states it. We can fill in any gaps of Mr. McCloy's.

H.M.Jr: Then, I don't say unless you say so - I think if we tell them too much at a time - if we show them this, it will only confuse them.

McCloy: Why don't you just give the figures you are talking about now, how much you have spent here and how much of it is American equipment, how much of it is English equipment, how much is capital, how much is product, stop there.

H.M.Jr: Have you got the time to help us?

McCloy: Sure, I am willing to put the afternoon on it.

H.M.Jr: Then if you would go down - Lovett is on his way over. He will get here at three. And I will join you a little later.

McCloy: Let me tell you about Studebaker and Buick before you go. Lovett apparently got involved in Studebaker and - the other day - and he worked out with RFC some sort of a plan that he thought would free the jam, and this morning - I used to be counsel for Studebaker and my former partner called me up this morning

- 19 -

and said he was in town with Vance and that he had an idea that we might break this jam if he could get a letter of intent. I said, "Well, what sort of a letter of intent will you give us?" He said, "I will dictate it."

H.W.Jr: This is Vance?

McCloy: This is Vance, yes. And he sent the letter over, the letter of intent, and I thought it was a very easy commitment for us to make, and I took it around to Bob Patterson and he signed it this morning. After we had had a talk with Jesse Jones, Jesse Jones said that he would look into it and see if he couldn't work it out, but if the - if the War Department was ready to give the letter of intent, he didn't see that he had anything more to do with it, and I don't think he does, so the letter of intent has now been signed, Studebaker has gone back, and on the basis of that letter of intent have gone to work; and tomorrow Buick is coming down and we are going to give them the - precisely the same letter.

H.W.Jr: Now, for the full amount of engines?

McCloy: Full amount of engines.

H.W.Jr: That both we need and the English?

McCloy: And the British, yes.

Purvis: That is very, very substantial. That principle might lie elsewhere.

McCloy: Studebaker and Buick are out of the way. Buick haven't signed up yet, but I think we have got a tremendous lever against Buick now.

- 20 -

- H.M.Jr: Studebaker builds what horsepower engine?
- McCloy: He builds a Wright engine. It isn't the 33, but what we did was to agree that we would order the difference between 2,000 and 6,000, which is 4,000 Wright engines. We didn't mention whether it was 33/100ths or 26, and he said on the basis of that, "I will go ahead with the 26 engine order and do all the work with the subcontractors," and I asked for no more. All that you have to do is to --
- H.M.Jr: You spoke about a letter of intent several weeks ago.
- Young: Weeks ago.
- McCloy: It isn't the regular formal letter of intent, it is a much looser different sort of a thing.
- Young: No, you couldn't possibly make it formal.
- Purvis: But it is enough pending your appropriation to set the wheels going?
- McCloy: Yes. And I think Buick is going to do the same thing.
- H.M.Jr: Did your own law firm work it out with Vance entirely on their own, or with Bob Lovett.
- McCloy: No, entirely on their own.
- H.M.Jr: This isn't Lovett's scheme?
- McCloy: Oh no. Don't give me any more plans.
- H.M.Jr: Don't you think maybe in an hour or so or two you can get something?

- 21 -

McCloy: We will have a try at it.

H.M.Jr: And I have one thing which I was thinking about which might be possible on this 500 million, because they need it - if everything else fails, a little bill to give you the authority to buy these things.

McCloy: You mean up on the Hill?

H.M.Jr: Yes.

Purvis: Emergency bill?

H.M.Jr: A bill to precede the other one.

McCloy: That has a lot of political --

H.M.Jr: I am just raising it.

McCloy: Yes. I am going to talk to you about this bill some time when you get a chance.

H.M.Jr: Just for my own education, do you work out of Mr. Stimson's office or Mr. Patterson's office?

McCloy: Mr. Stimson's office entirely.

H.M.Jr: O.K. I am ever so much obliged.


BRITISH PURCHASING COMMISSION

January 21, 1941.

Dear Mr. Secretary:

I enclose a statement covering -

(a) contracts which we desire to place prior to February 28th.

(b) estimated initial down payments required to be made against them prior to February 28th

- all on the assumption that by end February the period of the Congressional debates would be over.

None but the most vital contracts requiring the promptest action are covered in the statement, and we have ignored for the time being the further items covered by the list forwarded to you with my letter of January 5th.

The statement does not include the sum of \$290,000,000 (\$60,000,000 plus \$230,000,000) covering contracts which the U. S. Army is about to place for agreed types of aircraft and ordnance.

Yours sincerely,



The Secretary of the Treasury,
Washington, D. C.

DETAILED
LIST
OF
CONTRACTS

British Supply Council in North America,
Washington, D.C.
January 20, 1941.

S U M M A R Y

	<u>U. S. type</u>	<u>British type</u>	<u>Total Value of Orders</u>	<u>Estimated Initial Payment</u>
<u>IX (See Note 1)</u>				
Product	\$383,850,000	\$179,000,000	\$ 562,850,000	\$140,000,000
Capital	-	-	-	-
<u>BANKS & ORDNANCE</u>				
Product	289,220,000	165,715,000	454,935,000	114,000,000
Capital	39,570,000	30,890,000	70,460,000	70,460,000
<u>SHIPS & MARINE EQUIPMENT</u>				
Product	112,500,000	-	112,500,000	28,000,000
Capital	8,500,000	-	8,500,000	8,500,000
<u>MISCELLANEOUS</u>				
Product	50,000,000	-	50,000,000	20,000,000
Capital	-	-	-	-
<u>GRAND TOTALS</u>				
Product	835,570,000	344,715,000	1,180,285,000	302,000,000
Capital	48,070,000	30,890,000	78,960,000	78,960,000
TOTAL	\$883,640,000	\$375,605,000	\$1,259,245,000	\$380,960,000

Note 1 - Air Orders.

The above orders relate to continued use of existing capacity and therefore involve no question of capital expenditure. The programme of orders for production by new capacity has been deferred for placing until after February 1941.

It is hoped that capital funds may be made immediately available for the creation of this new capacity to the extent of say \$300,000,000, but the corresponding production orders could follow slightly later if action is immediately taken towards the creation of the capacity.

DETAILED LIST OF CONTRACTS

<u>AIR</u>		<u>* Units</u>	<u>Product</u>	<u>Capital</u>
(a)	<u>U.S. types - Military</u>			
	Boeing Aircraft Co.	20 B-17 Heavy Bombers	\$7,000,000	-
	York Safe & Lock Co.	Bombs, ammunition, etc. for above	1,800,000	-
	Curtiss-Wright) United Aircraft)	Various propellers to balance existing program	15,000,000	-
	Douglas Aircraft Co.	Cowlings for Wright engines	2,650,000	-
	General Motors Corp. (Allison Division)	Spare parts to service engines on existing program	9,500,000	-
	Curtiss-Wright Corp.	ditto	18,000,000	-
	United Aircraft	ditto	9,000,000	-
	Various contractors	Spare parts to service airframes on existing program	6,000,000	-
	Curtiss-Wright Corp.	Spare parts to service propellers on existing program	5,000,000	-
	United Aircraft	ditto	3,000,000	-
	Curtiss-Wright Corp.	384 P40-D Pursuits	15,200,000	-
	Boeing Aircraft Co.	168 A-20 Medium Bombers	18,000,000	-
	North American Aviation Inc.	720 Harvard Trainers	21,500,000	-
	Glenn L. Martin Co.	540 B-26 Medium Bombers	60,000,000	-
	Curtiss-Wright Corp.	720 P40-D Pursuits	28,800,000	-
	Douglas Aircraft Co.	450 A-20 Medium Bombers	45,000,000	-
	Consolidated Aircraft Corp.	96 B-24 Heavy Bombers	26,000,000	-
	Packard Motor Car Co.	Coolant pumps, etc.	400,000	-
	Various suppliers	Various miscellaneous accessories	2,000,000	-
			<u>\$293,850,000</u>	-

* Airplanes & 20% spare parts.

	<u>** Units</u>	<u>Product</u>	<u>Capital</u>
(b) <u>U.S. types - Naval</u>			
Consolidated Aircraft Corp.	Spare parts for PBX-5 Flying Boats at present on order by British, but under-provisioned in that respect.	\$1,000,000	-
Grumman Aircraft Co.	180 36B Navy Fighter (includes engines (Pratt & Whitney R1830-S3C4-G), propellers and 20% spares for the complete airplanes)	9,000,000	-
Consolidated Aircraft Corp.	* 180 PBX-5 Flying Boats	40,000,000	-
Glenn L. Martin Co.	* 60 PBM-3 Flying Boats	20,000,000	-
Consolidated Aircraft	* 60 PB2Y Flying Boats	20,000,000	-
		<hr/>	
		\$90,000,000	-
		<hr/>	
	TOTAL U.S. TYPES	\$333,850,000	-
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* Includes propellers and other Government furnished equipment but not engines.

** Airplanes & 20% spare parts.

	<u>* Units</u>	<u>Product</u>	<u>Capital</u>
(c) <u>British types</u>			
Lockheed Aircraft Corp.	600	Hudson Medium Bombers	\$42,000,000 -
Lockheed Aircraft Corp.		Special equipment for long range Hudsons	4,000,000 -
Glenn L. Martin	276	Baltimore Medium Bombers	32,000,000 -
Lockheed Aircraft Corp.	720	Model 37 Medium Bombers	64,800,000 -
Vultee Aircraft Inc.	360	Dive Bombers	25,400,000 -
Packard Motor Car Co.		Rolls Royce Engine parts	5,000,000 -
General Motors Corp.		Aircraft General Stores parts	5,000,000 -
Bendix Aviation Co.		Rotax starters	800,000 -
		<u>TOTAL BRITISH TYPES</u>	<u>\$179,000,000</u> -
		<u>TOTAL AIR</u>	<u>\$562,850,000</u> -

* Airplanes & 20% spare parts.

UnitsProductCapitalU.S. OrdnanceU.S. Types - Military

Various Suppliers	205,000	.30 Rifles	\$10,000,000	\$5,500,000
General Motors Corp.	24,000	20 mm. Hispano Cannon	40,000,000	15,000,000
Chrysler Corp. or other	2,000	Bofors guns	23,000,000	2,000,000
House & Colt's	20,000	.30 Machine guns	7,500,000	3,275,000
American Car & Foundry	400	Light Tanks	12,000,000	-
Chrysler Corp.	1,200	M3 Tanks	69,000,000	3,000,000
Pullman Standard Car Co.	365	M3 Tanks	9,000,000	1,000,000
Van Horn Iron works Co.		Armour Plate for M3 Tanks	1,500,000	120,000
Oliver Farm Equipment Co. Borg Warner Corp. Lufkin Foundry Parkersburg Rig & Reel Fairfield Co.	3,200	Transmissions & Final Drives for M3 Tanks	15,000,000	1,000,000
Blair Knox Co. (Union Steel Castings Division)	3,200	Transmission Castings for M3 Tanks	6,750,000	250,000
Vickers Inc. Loganport Pump Co.	4,500	Turret Power Traverse Mechanisms for M3 Tanks	1,900,000	100,000
Blair Knox Co. (Union Steel Castings Division)	1,000	Turret and other small castings for M3 Tanks	4,600,000	400,000
Meyers Co.	1,000	75 mm. Tank Gun Forgings	445,000	-
Hannifan Mfg. Co.	1,000	Recuperators for 75 mm. Tank Guns	1,375,000	125,000
Otis Elevator Co.	2,150	37 mm. Gun Mounts for M3 Tanks	1,900,000	100,000
Auto Ordnance & others	50,000	.45 Thompson Sub-Machine guns with drum & box magazines	10,000,000	-
Remington Arms	225,000,000	.30 SAA	11,000,000	3,700,000
Winchester	126,000,000	9 mm. SAA	3,250,000	-
Winchester	13,000,000	.45 SAA	300,000	-

	<u>Units</u>	<u>Product</u>	<u>Capital</u>
<u>U.S. Types - Naval</u>			
American Oerlikon Gazda Corp. & General Motors Corp.	4,000	20 mm. Oerlikon Guns	\$30,000,000 3,000,000
Various Suppliers	20,000,000	20 mm. Oerlikon AA ammunition (com- plete rounds)	30,000,000 3,000,000
Various Suppliers	18,000	3" L.A. ammunition	300,000 -
Various Suppliers	16,000	4" L.A. ammunition	400,000 -
		<hr/>	<hr/>
		\$60,700,000	\$6,000,000
		<hr/>	<hr/>
	TOTAL U. S. TYPES	\$289,220,000	\$9,570,000
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	<u>Units</u>	<u>Product</u>	<u>Capital</u>
<u>British Types</u>			
York Safe & Lock Co.	1,850	2-pdr. Buffers & Recuperators for British tanks \$ 600,000	-
Vimbert Co.	1,000	Liberty Engines for British tanks 8,000,000	-
Kinchester	300,000,000	.303 SAA 14,000,000	-
Various suppliers	Various	Fuzes (#119, 231, 254, etc.) 16,000,000	-
Huckeye Traction Ditcher Co.		Transmissions for British Tanks 6,750,000	\$ 250,000
Bethlehem Steel Corp.	2-3,000	Barrels for Medium Artillery 13,000,000	9,000,000
Pullman Standard	350,000	5.5" Shell 4,750,000	775,000
Crucible Steel	{ 50,000 10,000 10,000	{ 4.7" AP shot (Naval) 6" CPBC shot 9.2" AP shot } 7,000,000	3,000,000
Clifford Jacobs) Champion Forge }	1,000	25-pdr. recuperator forgings 315,000	65,000
St. Louis Car Co.	1,000	6-pdr. Carriages for Anti-Tank guns (British) 4,000,000	1,000,000
Julius Heil and Associates	360	4.5" Gun carriages 5,500,000	1,000,000
Kochring Filer Stole and Associates	460	Gun Jackets for 4.5" & 5.5" Guns 1,500,000	500,000
Reed Roller Bit and Associates and others	1,000	2-pdr. Anti-Tank Guns & Carriages 9,500,000	1,500,000
Borg Warner and Associates	2,950	2-pdr. Naval Pompoms 15,000,000	3,000,000
Julius Heil and Associates		2-pdr. Naval Pompom Mountings 22,000,000	3,000,000
	100	Octuple	
	450	Quadruple	
	350	Simple	
E. W. Bliss & Co.	500	18" Torpedoes and Pistols 6,300,000	300,000
Savage Arms or a Massachusetts group	500,000	.303 Rifles 23,000,000	7,000,000
American Car & Foundry Co.	225,000	7.2" Shell 8,500,000	500,000
		<u>TOTAL BRITISH TYPE</u> \$165,715,000	<u>\$30,890,000</u>
		<u>TOTAL TANKS & ORDNANCE</u> \$454,935,000	<u>\$70,460,000</u>

	<u>Units</u>	<u>Product</u>	<u>Capital</u>
<u>Ships & Marine Equipment</u>			
Todd Shipyards	60 New Merchant Ships	\$ 87,500,000	\$ 8,500,000
Various Suppliers	Motor marine engines	25,000,000	-
		<hr/>	<hr/>
	TOTAL SHIPS & MARINE EQUIP- MENT	\$112,500,000	8,500,000
<u>Miscellaneous</u>			
	Machine Tools	\$ 40,000,000	-
	Other	10,000,000	-
		<hr/>	<hr/>
	TOTAL MISCELLANEOUS	\$ 50,000,000	-
		<hr/>	<hr/>
	<u>GRAND TOTAL</u>	<u>\$1,180,315,000</u>	<u>\$78,960,000</u>

January 21, 1941
2:51 p.m.

H.M.Jr: Hello.

Operator: Secretary Stimson.

Henry L. Stimson: Yes.

H.M.Jr: Harry, this is Henry.

S: Yes.

H.M.Jr: In getting ready for that meeting tomorrow morning I find, and I may be wrong, that the so-called 550 that Harry - that Knox keeps talking about - you know

S: Yes.

H.M.Jr: and the 200 some odd McCloy is working on, that they are duplications. Hello?

S: Yes.

H.M.Jr: Therefore, I tried to get you and I asked your office whether you could send McCloy and Lovett over because I had Purvis and Phillips here, and one of them is on the way over - they are both on the way over, one has got here.

S: Who are on the way where?

H.M.Jr: McCloy and Lovett to my office.

S: (Laughs). Well, I was just hoping to get one of them myself, I'm working pretty

H.M.Jr: Well, McCloy is here.

S: Well, can't I have one if you have the other?

H.M.Jr: (Laughs). Well, I've got McCloy

S: I haven't had either today.

H.M.Jr: I've got McCloy so I'll let you keep Lovett. (Laughs). Well, the point is there seems to be duplication and I was trying to make

- 2 -

- S: Well, I think McCloy is the one who knows more about that than Lovett.
- H.M.Jr: Well, he seems to have it all at his fingertips. I called up Jesse this morning and I said you know McCloy can't go any further because you won't buy the real estate. So he said I'll send for McCloy and talk to him. Well, McCloy was in the next room - Mrs. McCloy told me - and Jesse walked in there and he says, I can do that, I can fix that up. So that's a little progress.
- S: Fix up the real estate.
- H.M.Jr: Yeah, that McCloy has been waiting on so long. But, as I say, I hope you don't mind but I did it through your office.
- S: Yes.
- H.M.Jr: So could I keep McCloy a little while?
- S: (Laughs). Yes, if you'll as a quid pro quo let me have Lovett.
- H.M.Jr: Fair enough. Fifty-fifty.
- S: (Laughs).
- H.M.Jr: But on this thing there is so much misunderstanding and McCloy has been working so hard on one thing and then this thing that Frank Knox talked about, they definitely overlap.
- S: Well, I've never understood exactly how Frank Knox got his figures and I haven't tried either.
- H.M.Jr: Well, I didn't either. So when I got into it today at lunch I found that they overlapped and then I called your office and asked if I could have McCloy.
- S: Yes. That's all right. Well, now, let me say to you the reason I couldn't get you this morning was that we had a meeting of the O.P.M. that took two and a half hours getting started.

- 3 -

But what I want - I'm also working on what I'm afraid may be sprung on us pretty quickly. That's the hearing for the next Committee of the Senate, and I've talked with Hull about it over the telephone a little and I think we ought to have some preliminary consultation on that the way we did before of all the men who are going before it.

H.M.Jr:

I think so.

S:

Hull hadn't heard of the proposed compromise of \$2 billion outright.

H.M.Jr:

Yeah, well that's no good.

S:

Well, I don't know. I don't know how far they go by that, but it might be very embarrassing, Henry. It might be very embarrassing.

H.M.Jr:

Well, couldn't we meet at Hull's office on that?

S:

Well, I'd like to very much except you make me meet so many times at your office and I have to meet so many times at Knudsen's office and I have to meet so many times at the White House that I don't know my own office.

H.M.Jr:

Well, I'll come to your office.

S:

(Laughs). Well, I didn't mean that but I

H.M.Jr:

Well, let's leave it this way. Anytime you think we ought to meet on it, I'm available.

S:

Well, what I've been doing

H.M.Jr:

I'll meet you on the street corner.

S:

You see, this is what happens: that plan looks - could be dressed up to look very tempting but it would knock out - in the first place it wouldn't have half the chance of prevention of the fall of the British fleet as the other plan - the President's plan; and in the next place it would serve as a stop gap against what I think is the only real assistance when the big blow comes, namely, convoys.

- 4 -

H.M.Jr: Well, I'm at a disadvantage, I have people here now. Could I call you back later.

S: Yes.

H.M.Jr: And anyway if Lovett comes, should I send him back to you?

S: Send him back. I think I'd like to see him.

H.M.Jr: And anytime that you want to get together on this thing that you're talking about, I'll meet you any place you say.

S: All right.

H.M.Jr: How's that?

S: All right.