

January 21, 1941
3:00 P.M.

RE BANK HOLDING COMPANIES

Present: ✓ Mr. Delano
✓ Mr. Schenker
✓ Mr. Bell
✓ Mr. Crowley
✓ Mr. Foley
✓ Mr. O'Connell
✓ Mr. Eccles

H.M.Jr: Who is missing?

Delano: Eccles.

H.M.Jr: Jesse Jones couldn't come.

(Mr. Eccles entered the conference.)

H.M.Jr: Jones just phoned he couldn't come. Do you want somebody?

Eccles: Well, it is too late to get them now.

H.M.Jr: Well, this will be only one of maybe several, but if you want anybody, I will lend you O'Connell or Ed Foley or Schenker. They are all lawyers.

Eccles: Well, we have got some lawyers.

Bell: You don't want a lawyer?

Eccles: Well, I can usually get along a damn sight

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better without them. (Laughter)

H.V. Jr:

Well, the purpose of this meeting is, we sent the President a letter on January 3, suggesting he mention again in his message the way he did in 1938 something about the Bank Holding Bill, and I got a memorandum the way the rest of you did, that we should get together, and we put in this little portfolio the various things that happened on the bill going back to '38. I don't know whether you have had time to look at it or anything else, but in this report which Mr. Jones made on March 17, '38, it was a unanimous report at that time in regard to the bill and we sent over to the President what he put in his message on the bill, and he put it in, and the message is there and the present bill, so I think everything covering the thing is in this little thing here which the Comptroller got up for me.

Wooler:

Yes. Well, I had better make a report on what our situation is. When I got this message from the President, I called the Board and discussed it and we feel we have been very badly treated in this whole matter. In the first place, three years ago this thing was under discussion, and I haven't had a chance to go through this file. I wasn't here at the time. I checked up on - the Board has taken no action. There is no record in the minutes of the Board at all on this; and as a matter of fact, I haven't had a chance to check it thoroughly with Ranson, who was acting at that time. I came back here and went over it with the Board, and I was not in favor at all of the particular bill. I mean, I have been in favor for a long while of holding company legislation dealing with the holding company

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picture in a proper and adequate way, but I wasn't in favor of this particular bill and nothing was done about it until Leo, he will recall, I think it was in '39, apparently got busy with the bill and you called him pretty hard on that action.

I remember very well sitting in here and you called Leo at that particular time for undertaking a bill without consultation and discussion with the rest of us.

H.M. Jr: In '39?

Crowley: No. No, that --

Eccles: It wasn't '40.

Crowley: The Holding Company Bill was drafted for Glass by us in 1938. We had a conference, and I think we all pretty well agreed that the legislation - that is when the message - the President sent his message up, do you recall?

H.M. Jr: Yes.

Crowley: I think you are confused on that, Marriner. I don't recall that he (Secretary) and I ever had any disagreement; but the thing that brought about a disagreement between us was on the Glass Bill that dealt with bank examinations. Wasn't that right? But it had nothing to do with holding companies. That was a year later.

Eccles: It was the Holding Company Bill after this bill that was introduced. It was not this bill, it was another bill.

Foley: I remember vaguely the incident, but I think that Leo is right. I think we were talking about --

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Crowley: We were talking here. The Holding Company Bill was up, Marriner, in December of 1938; and the President put it in his message in March, 1938.

Now, in 1939 Carter talked about an examination bill - or not Carter but some one from the Hill. That was what that discussion was about.

Eccles: The Brown Bill?

Crowley: Brown Bill, but that had nothing to do with holding companies.

Eccles: That is what it was. Well, it was a Rank Bill then.

Well now then, I remember the Secretary was - we had a meeting in connection with it, and you (Secretary) were pretty well upset because Leo had gone ahead and done this. Well, anyway, this is the situation.

Here is a bill now that we haven't been consulted about; and after all, we have had seven years of the only administration that the law provides for holding companies. In 1933, before I came to Washington at all, Congress saw fit to give to the Federal Reserve Board, rightfully or wrongfully, the administration of this particular job with inadequate powers, to be sure, and we have felt for a long while that the powers were not adequate to deal with the problem; and suggested as a substitute for '38, the type of program that would have been a practical program that would have gotten at dealing with this problem. Since that time, because every one thought - I know we did - that there would be a piece-meal legislation, that the Wagner hearings were going to take up a lot of matters

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that had been in - that needed some correction, and possibly matters of controversy, and this bill, this particular bill, without any consultation with the only agency that has had the administration of this function - it is drawn up over here in consultation with, apparently, Mr. Crowley; because in a letter to the President he is not only familiar with the bill but recommended that the President say something about it in his message, which the President didn't say.

Crowley: Now wait a minute, let me --

Eccles: And --

Crowley: Wait just a minute, Marriner.

Eccles: Let me get finished now. The bill is then introduced and, of course, all we know about the bill is what we have read in the newspapers, and we naturally got a copy of the bill itself.

Now, I am - the President says, "Please make out a program." We have been always ready to make out a program in connection with this sort of a bill. I feel pretty sure that the President in the first place possibly doesn't know that the Federal Reserve Board has the responsibility and the administration of this question, and has had for quite a long while and possibly should be as familiar, if not more familiar, with the whole problem than anyone else, and ought to have some idea as to ways and means for working it out. I am sure, too, that he doesn't know that this proposal has been drafted and made and we were never even consulted about it, and I would doubt very much if he knows that the whole thing is picked up bodily from the Reserve System and transferred over to the FDIC.

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Now, unless we can clear away some of that brush, there just isn't, it seems to me, an awful lot to talk about. I am perfectly - have always been willing to recognize this problem and to work out a program to deal with the problem; and I think there isn't anybody who knows more about what the problem is than we do and - but we can't come here - even if I was willing to, I am perfectly sure the Board wouldn't do it - and rubber stamp a bill that has already been introduced without our consultation, without consultation with us, and that takes away the complete administration from us.

Crowley: Now, may I talk to you a minute?

Eccles: All right, you go ahead now.

Crowley: In the first place, you talk about this bill being drafted without Federal Reserve being consulted. I didn't see the bill until after Senator Glass had introduced it. As a matter of fact, I haven't read the bill to this day, but the Federal Reserve --

H.M.Jr: What is that, Leo? I am sorry.

Crowley: I didn't see the bill until after Senator Glass introduced it. My being in this thing was purely incidental. I came over to kind of raise a little hell about your (FRB's) interference on Federal Deposit Insurance, and this talk about this holding company bill was only incidental to another business. Now, the Federal Reserve seemed to assume that they are the only ones that have any right to interfere in the other fellow's business.

Eccles: We haven't introduced any bills.

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- Crawley: No, but you have made a hell of a lot of public proclamations.
- Woolles: All right, but it is public.
- Crawley: and I just want to tell you now for my sake, as Chairman of the Federal Deposit Insurance, I would appreciate you keeping out of our business.
- Now then, as far as legislation is concerned, I am willing to go along on legislation --
- H.M.Jr: Leo, let's keep it clean. Do it with a smile, as long as you do it with a smile. (Laughter)
- Crawley: I am willing to go along on legislation. I don't want to be like Henrik Shinsted, when he voted against the President's bill because he didn't think it went far enough.
- Two years ago we all agreed that something should be done on holding companies. I don't care who drafts the bill, but I am not going to surrender the things I believe in nor do I feel at any time that when someone else comes around here and does something that Federal Reserve comes around and raise this question about piece-meal legislation. With that reservation, I am willing to sit around and talk about anything, but this bill is now before the Senate and there is no other bill pending.
- H.M.Jr: I will make my position perfectly clear. This bill as introduced is a hundred per cent within the President's message, the way he set it up two years ago, and which, as far as I know, at that time in '38, the Federal Reserve --
- Woolles: It was three years ago.
- H.M.Jr: It was '38.

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Eccles: Three years ago.

H.M.Jr: And as far as we know, Ronald Ransom, who was Acting Chairman, advised through Jesse Jones that there was complete agreement.

Eccles: With the President's message. The bill hadn't been worked out at that time.

H.M.Jr: And if on your return you weren't in agreement with the President's message, you certainly never let me know.

Eccles: Well, there was no bill. The point is, there was in --

H.M.Jr: And if I could just finish - and three times now before the Appropriations Committee I have said that I thought that the bank holding situation was an unhealthy and unwholesome one, and Congress should do something about it.

Perfectly frankly, I have gotten tired of waiting for the Federal Reserve to do anything about it, so I took the initiative. I mean, the Federal Reserve Board has had plenty of opportunity, as you say, for seven years to do something.

Eccles: We haven't prepared or introduced any bill whatever since the Banking Act of 1935.

H.M.Jr: And - well, here is the situation, and it demands attention; and as I say, nobody else seemed to worry about it except the Comptroller and Mr. Crowley and the SEC.

Schenker: I don't want to inject myself, Mr. Secretary, but in connection with the preparations of investment companies, we deliberately omitted the bank holding companies who would come

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within the purview of the definition of the investment companies, all predicated on the assumption that it was going to be dealt with very quickly and therefore there shouldn't be any overlap of jurisdiction, and I think I made that statement on the hearings and that is why they took it out.

H.M. Jr:

But that is the situation. There wasn't any personal offense meant to you as Chairman of the Federal Reserve, but frankly I was very restless that after all the difficulties I have had with the bank holding situation, that nothing is going to be done to correct it and no one else took the initiative, so I did and I am wholly to blame for it. I take full responsibility for the whole thing. It is my initiative and I take the entire responsibility.

Now, if personally you or any of your Board over there are offended, I am very sorry; but the entire responsibility is mine. The bill is there. I am under the impression that it is wholly within the thing of three years ago; and if the Board wants to introduce their own bill or doesn't want to go along on this --

Eccles:

Well, we would like to do either one of two things, either sit down and see if we could work out a substitute bill that in our opinion would meet the situation, and a program that we would believe in; or introduce an alternative bill, which I suppose, of course, a committee of Congress would have hearings on, possibly, and it would result in a merger of possibly the two bills, or they could take the bill that is up there and we could support a holding company bill with such modifications as, in our judgment, the bill should have. There are three ways of doing it.

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- Crowley: Well, Marriner, wait just a minute. I don't think that - Mr. Secretary, that the Federal Reserve - if you are going up there on hearings on this bill, this bill that is before us, then we should have the right of all of us expressing ourselves on the bill.
- Now, we didn't draft this bill. We are willing to go along on it. If the Federal Reserve are going to introduce a bill, Federal Deposit is going to reserve the right to introduce a bill; you are just never going to get anything at all. All you will have is chaos.
- Eccles: Then we should sit down and start from scratch and get a bill.
- Crowley: I don't agree with that, Marriner, because every time a piece of legislation comes along here, one fellow wants to tear it apart and start from scratch and embarrass the piece of legislation. Now, if there --
- Eccles: You don't expect we are going to support a bill that we have had nothing to do with and simply say, "Why, this thing has been so handled that it ought to be transferred over to the FDIC"?
- Crowley: We all have supported bills in the past that we didn't have anything to do with the drafting of.
- Eccles: And we have opposed bills, too.
- H.M.Jr: Well, could I ask for this? Would the Board care to give me a memorandum where they take objection to this bill?
- Eccles: Well, I will take it up with them and see if they would be willing to do that.
- H.M.Jr: I think --

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- Eccles: Certainly we would file - we would no doubt be asked, naturally, by Congress, to state --
- Foley: You have already been asked, haven't you, Marriner?
- Eccles: No.
- Foley: I thought each one of us had been asked to report on this measure.
- Crowley: We have.
- Foley: You have and the Comptroller has, and I assumed that the same thing went to you.
- Eccles: Maybe it has come in in the last day or two. We are asked to report on a lot of bills just as a matter of routine. Then there are other cases where it isn't altogether a matter of routine. Now, a lot of the routine requests are not always responded to; and where it is other than a routine request, they are always responded to.
- Foley: I should think this would fall in the category of being other than routine.
- Eccles: What I mean is, it depends how the request comes. It may be just the girl in the committee sends it to you as a matter of routine, and on the other hand, it is sometimes the chairman of the committee or the subcommittee that is handling it wants a report, which is the difference.
- Foley: I think they want a report on this, because I think they intend to hold hearings.
- Eccles: I would think they would, but up to the present time - what I meant, Ed, was that possibly what we had gotten was a letter that a girl in the

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office would send out as a routine matter.
I am not referring to this as a routine bill.

H.M.Jr: Well, supposing you think it over and talk with your Board; and if you care to make any suggestions, let me know so I can let the President know and we can see where we go from here. I am interested to know where the Federal Reserve thinks this is not a good bill.

Eccles: Yes.

H.M.Jr: To know where do they disagree, what provisions in this bill they don't like.

Eccles: We would like, I think - what I would like would be to propose what we would consider an alternative proposal, we feel, that would meet the situation and one that we would feel that we could defend before committees of Congress.

Now, anything that is done on this bill, I realize that we have got to go before committees of Congress, and we have got to answer questions. We have got to support whatever position we take. You have got to give it public support, and I would like for us to consider the type of support, or the objection, the alternatives, that we would give before a committee of Congress.

That is going to take a little time. You can't take a thing like this and prepare a case for Congress and do it in a few minutes; and I say that we wouldn't want to take some position with you (Secretary) and give you a report on the thing and suggested alternatives unless we felt that we were going to stand by it in case we went up before Congress, so it is one preparation, really, in effect, isn't it?

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H.M.Jr: Surely. Whenever you are ready, let me know. I doubt if they will start hearings on this thing until we get this lend-lease bill out of the way. As soon as your Board knows, let us know.

Is FDIC satisfied with this bill?

Crowley: Well, let me say this to you, that the FDIC, I presume, like every other agency in Washington, have their own views they would like to inject in this legislation, but as I assume, we can't do that without destroying the legislation; and we feel that there should be a curb put on these holding companies and for that reason we are willing to go along and give the bill whatever help we can in our testimony. It is the only bill that is there.

Now, if everyone is going to have the right to inject their own theories in this thing here, of course, we would want the right to inject ours.

H.M.Jr: I was under the impression that this bill was satisfactory to you.

Crowley: I say we are willing to go along and give testimony in favor of this bill; but if there are going to be any changes in this bill, then we want the right to go into the thing ourselves, too. In other words, if the Federal Reserve are going to inject changes in this bill, we want to be sure to reserve our rights in the matter. Do you get my idea?

H.M.Jr: No. I thought the bill was entirely satisfactory to you the way it was written. I didn't know there were any changes you wanted in it.

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- Crowley: You understand that we are perfectly willing to go along on this bill and go up there and testify for it; but if the Federal Reserve come along and make changes in this bill, we want to reserve our rights to talk about it.
- H.M.Jr: To modify their changes?
- Crowley: Yes.
- H.M.Jr: That is all right.
- Eccles: Sure. You will be testifying on something else, not this bill, though.
- Crowley: You mean that you would draft a new bill?
- H.M.Jr: No, what Marriner means is that you are reserving the right to testify on any changes that the Federal Reserve may suggest.
- Eccles: That is right.
- Foley: He has a right to object.
- Eccles: You don't know what they are, you haven't approved them, but here is a bill that you have apparently approved. Therefore, you wouldn't want to testify against any part of this bill; all you would want to testify for or against is changes that we may propose.
- Crowley: Marriner, let me tell you this as far as we are concerned in this bill. We didn't see the bill until after Senator Glass had introduced it. Now, I don't know particularly about the fine points of the bill, but everything in the bill in principle, we are in sympathy with.
- Eccles: Well, we are not, so you are in a little bit different situation than we are.

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H.M.Jr: Well, I don't think - Marriner, unless you have got something else.

Eccles: No, I haven't a thing, because all I - I haven't had a chance to think about it. We have had a couple or three days vacation here and I haven't - you called this, I think, Saturday morning or Friday.

H.M.Jr: I don't know, somewhere around there.

Eccles: Yes, Friday afternoon, so I took a bunch of this stuff home with me; and all I know about it is what I have been able to read over the weekend here.

H.M.Jr: Is that all the questions?

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OFFICE OF
THE COMPTROLLER OF THE CURRENCY

January 21, 1941

MEMORANDUM TO MISS CHAUNCEY:

The attached letter from the Secretary of the Treasury to the President, together with a letter to the Secretary from Chairman Jones of the RFC, and the text of the proposed message to Congress are returned herewith for the Secretary's file. These documents were borrowed by me personally from the Secretary this morning in order that there might be made certain photostatic copies, and I assured the Secretary at that time that I would personally see that the documents were returned to him.


Preston Delano



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,


Secretary of the Treasury.

Enclosures.

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 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 Ransom 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 discussions.

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 time for study than we have had and should properly be developed in the Congressional Committee hearings.

Honorable Henry Morgenthau

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As to the supervising authority, Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, has stated that the present Glass-McAdoo-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,



Chairman

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

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

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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.

EXCERPT FROM THE PRESIDENT'S MESSAGE DATEDAPRIL 29, 1938(1) 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 inconveniences to communities served by holding company banks.

THE SECRETARY OF THE TREASURY
Washington

January 3, 1941

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My dear Mr. President:

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

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

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

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

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

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

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

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

Faithfully yours,

(Signed) E. ROSENTHAL, JR.
Secretary of the Treasury

The President

The White House.

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.

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.

77th CONGRESS
1st Session

S. 310

A BILL

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

By Mr. Glass

JANUARY 14, 1941

Read twice and referred to the Committee on Banking and Currency

January 21, 1941
3:40 p.m.

RE DEBT LIMIT

Present: Mr. Bell
Mr. Sullivan
Mr. Foley

H.M.Jr: The man who wrote the bill, the man who came to dinner, Mr. Edward Foley. (Laughter)

I am still chuckling about this last meeting.

Bell: It was a good meeting.

H.M.Jr: You should have been here to see Marriner and Crowley. I said, "Keep it clean, Leo, keep it clean." (Laughter). It kind of took Marriner's breath away when I said I take full responsibility for having introduced the bill without showing it to you.

Bell: He didn't back up Mr. Ransom very well.

H.M.Jr: No, he didn't back up anybody except Marriner Eccles.

Foley: That is why he wants a copy of the record, I think.

H.M.Jr: I see. Now, Professor Bell.

Bell: Well, you wanted two things. One was the current situation for tomorrow. (Handing memorandum to Secretary)

H. V. Jrs: Has Mr. Foley written this, too? (Laughter)

Wall: Just the financing announcement for Thursday, you wanted?

H. V. Jrs: "The Treasury's working balance is at the present time down to \$742,000,000 and by the end of January it will be down to approximately \$400,000,000. It is, therefore, necessary for us to raise an additional amount of new cash at this time to meet heavy expenditures for the next thirty days. I propose, therefore, offering on Thursday of this week, \$500,000,000 of National Defense Notes, the income from which will be subject to all Federal taxes.

"If our legislation to raise the debt limit and to tax the income from all Federal securities is passed before the middle of February, I contemplate an issue of Reconstruction Finance Corporation securities during that month in the amount of about \$600,000,000. This will enable that Corporation to meet its commitments as well as return to the Treasury some \$350,000,000 of its capital funds as recommended in your 1941 Budget. If this legislation is not enacted by that time, I shall have to offer another issue of Defense notes in that amount.

"After this legislation is passed, I also contemplate issuing before March 15th, \$1,000,000,000 of Treasury securities for new cash and refunding \$1,222,000,000 of securities maturing on March 15th. It is hoped that the Treasury can at this time issue a long-term Treasury bond, the income from which will be subject to all Federal taxes."

There is just one thing that isn't clear. "After this legislation is passed, I also contemplate issuing before March 15th a billion

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of Treasury securities for new cash and refunding a billion -" do you mean to say that the thing together is two billion?

Bell: Yes, sir.

H.M.Jr: You don't mind rewriting this thing, do you?

Bell: No, that is a draft.

H.M.Jr: Make it, "When this legislation" instead of after.

Bell: Or you could make it "In addition."

H.M.Jr: "And in addition"?

Bell: If that is clear, yes. Now, you wanted something that is a little longer and going into the whole situation. (Handing memo to Secretary)

H.M.Jr: "In your Budget message you made the following statement: 'I am assuming that the Congress will accept the recommendation of the Secretary of the Treasury that the earmarking of taxes for retirement of defense obligations be repealed.'

"The Budget document shows, based on the program set out therein, that the gross -" sit down, Dan, please - "that the gross public debt will be \$49,157,000,000 on June 30, 1941, and \$58,367,000,000 on June 30, 1942. These two figures do not take into consideration the future accruals on Savings Bonds nor any contemplated aid to Great Britain. According to Treasury estimates, the balance of the borrowing authority under the combined debt limitations of \$49,000,000,000 will be exhausted in May of this year. It will,

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therefore, be necessary for the Treasury to ask Congress for an immediate increase in our debt limitation, and we should like to ask at the same time the elimination of the partition between the general limitation and the National Defense limitation, and the repeal of the provisions setting up the special fund into which earmarked taxes are to be deposited for the purpose of retiring any outstanding National Defense securities.

"The attached statement shows in detail the Treasury's financing problem for the next six months, and in a general way for the fiscal year 1942 under the Budget for that year. In view of the Budget program and the additional financing which may be expected of the Treasury under the Lend-Lease Bill for Great Britain, I recommend that the public debt limitation be fixed at \$60,000,000,000."

Bell:

That 60 billion is tentative. I don't know whether you want that or not. Now, this memorandum doesn't have to go if you want an explanation of the bill which Mr. Foley has the memorandum for, but you wanted this table which gives you the six months period, and then the full fiscal year, 1942, broken down into receipts and expenditures showing you the cash deficit by months and for the year, and then the way to find it. You would have to have a billion dollar Treasury financing now, which will come on February 1, see, that is your 23rd of January financing.

Now, there is 500 million in there for RFC if we get the legislation, and if we don't get the legislation, we may have to issue 500 million National Defense notes because if you take that out of your balance, it will be way down at the end of February. In

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the first ten days of March, you would lose a lot of money.

Now, I was just thinking over the week-end that you would be away from the first on - how far?

H.M.Jr: How far away?

Bell: No, how far from the first on.

H.M.Jr: Oh, just one week.

Bell: Well, that is all right, because along in the middle of the month this balance may begin to get low, you see, and we may have to do some financing.

H.M.Jr: No long distance consultation. It is a funny thing about that Arizona air.

Bell: Yes, I know.

H.M.Jr: Believe me, if anybody wants to make money, they can get up a hat pool on whether I go or not.

Bell: Well, I think if we say the 15th or the 20th, we might have to make a decision on whether we want some more money.

H.M.Jr: Well, "Pa" Watson put us down for half an hour tomorrow, and I hope we get there, but I think this, Dan, I think if you would put this as Sheet No. 1. Then comes this Sheet No. 2, right? And this would be Sheet No. 3.

Bell: O.K. Well now, Ed has the memorandum on the bill which is about the same thing, and this just boils it down.

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Foley: There is one question I think we ought to settle and that is whether you want to recommend to him in the light of his message to Congress the other day that the debt limit be increased to 80 billion dollars, or do you want to take it off entirely, and we have written the legislation both ways.

H.M.Jr: I want to do it in the orthodox manner, with my hat on. (Laughter). Do you know what that means?

Foley: No.

H.M.Jr: Have you ever been to an orthodox Jewish wedding? They will tell you not to take your hat off.

Foley: I was thinking of a dirty story.

H.M.Jr: I wasn't. Keep it clean, boys. No, I want to do it with my hat on.

Well now - no, I am not in agreement with the President on that at all. That is all right. He has gotten that off his chest and it is very nice, but if he thinks I am going to go up and play around with that on the Hill, he is mistaken.

Bell: You won't get your bill, I don't think, very soon.

H.M.Jr: He got that off his chest, and I think we will find he is calmed down now.

Sullivan: I think he was just trying to break the ice very suddenly when he made that suggestion.

H.M.Jr: I hope so. What comes next?

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Sullivan: Ed has the different versions of the memorandum.

Foley: Well, that question is settled, and that eliminates one version.

H.V.Jr: One what?

Foley: Version. (Mr. Foley hands memorandum to secretary.)

H.V.Jr: This is?

Foley: Dan's revision of the memorandum we got up.

H.V.Jr: "Memorandum for the President.

"There are enclosed drafts of two bills relating to the public debt and the status of Federal and State obligations from the standpoint of exemption from taxation, which I propose to recommend to Congress if they meet with your approval.

"The first bill, entitled "A Bill To Amend the Second Liberty Bond act, as amended, and for other purposes," would accomplish the following objectives:

"(a) It would fix the ceiling on the public debt at \$60,000,000,000, an increase of \$11,000,000,000 over the present statutory combined debt limit of \$49,000,000,000. The new limit, of course, would not include guaranteed obligations issued by the Reconstruction Finance Corporation and similar agencies.

"(b) It would give the Secretary of the Treasury greater and more flexible authority over Savings Bonds as a financing medium by giving him discretion (1) to fix their denominations, (2) to determine the aggregate face amount of them which may be held by one person at one time,

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and (3) to issue them on an interest-bearing as well as a discount basis."

Does that take in every possible maneuver you can think of?

Bell: I think it would. It is very broad.

H.M.Jr: "(c) It would authorize the Secretary of the Treasury to issue, in the same manner as Savings Bonds are issued, a new obligation similar to the old War Savings Certificate called a "Treasury Savings Certificate."

"(d) It would eliminate the partition -" What do you think of the Treasury's Savings Certificate? What do you think, \$5.00, \$10.00, a hundred?

Bell: Well, we were thinking of a six and a quarter stamp, three of which would make an \$18.75 payment on a \$25.00 bond, something like that.

H.M.Jr: I see. But it could be anything?

Bell: Yes. You could issue stamps or use Postal Savings Stamps now in existence.

H.M.Jr: "Eliminate the partition between the general debt limitation of \$45,000,000,000 and the National Defense limitation of \$4,000,000,000, and would repeal that section of the Revenue Act of 1940 which earmarks certain taxes levied under that Act for the purpose of retiring, over a five-year period, any National Defense obligations issued under the National Defense debt limitation.

"(e) It would remove from all Federal obligations (including those of corporations and other agencies of the Government) issued in

- 9 -

the future the privileges of exemption from Federal taxation, which they now enjoy. The purpose of the second bill is to provide the balance of the legislation necessary to enable us to complete our program of elimination of tax-exempt securities."

Wouldn't you rather say, "The purpose of the second bill," rather than, "The purpose of this bill"?

Foley: All right.

H.M.Jr: "This purpose would be accomplished by:

"(a) Making obligations issued in the future by any State, Territory, municipality, or other public body subject to income taxation by the Federal Government. To permit public bodies to take advantage of favorable market conditions, provision has been made for the refunding of outstanding callable bonds with tax exemption for the same period as the original issue."

In other words, they can call them?

Sullivan: No, if a town has outstanding some bonds at six per cent that mature in 1950, five million dollars worth, they can refund that and they can call those in and reissue the same amount with the same maturity date.

Foley: I don't agree with that, but John says --

Sullivan: We have to have it.

Foley: He has got to do it to get the bill through.

Fell: That has been in every bill, hasn't it?

- 10 -

- Sullivan: That is right.
- H.M.Jr: Why don't you agree with it, Ed?
- Foley: Well, because I don't see any reason at all why we should project into the future if municipalities do refundings the tax exempt feature. I think that if they call their obligations and issue new ones, that the new ones ought to be exempt from taxes - fully taxable.
- H.M.Jr: I do too.
- Bell: Of course, it will discourage refunding.
- Foley: But you have got a bad situation out in Detroit, and everybody - I mean Senator Brown is in favor of this legislation, who was chairman of the subcommittee, and as I understand it, from John, he is the fellow that held out for this reservation.
- H.M.Jr: Why isn't it better to do it the way we would like to see it, in an ideal state, and then it gives you something to trade for.
- Sullivan: No, I think the way that we are doing it is better than the other.
- H.M.Jr: Well, I can't --
- Sullivan: I mean why insist that a state pay six per cent when they are afraid to call them for fear they would lose the advantage in the tax? We are not going to lose anything.
- Foley: I know, but that is admitting, it seems to me, that there is a burden here and I don't think there really is.

- 11 -

- H.M. Jr: And I agree with Ed, but I am too tired to argue. I mean, I agree you have got to let these fellows refund.
- Sullivan: No, it is only on those that are callable, sir.
- Foley: I mean, it is to the extent that they are not paid off. Let's say the City of New York has 50 million coming due next year. If they decide not to pay them off but they decide to refund them, they can issue, if this bill goes through, completely tax-exempt securities to the extent of the amount that they refund, which would be 50 million dollars, and they could stick that off in the future 60 years.
- Sullivan: No, you are wrong there.
- Foley: Oh, not beyond the time.
- Sullivan: And we don't lose a thing, because if your bill passes, then they don't refund anyway.
- Foley: Why wouldn't they refund?
- Sullivan: Why would they?
- Foley: Simply because they couldn't put that amount in the Budget that year, John. They do the refunding whether you put this in or you don't put it in. I know, because I have worked for these municipalities, John. I know they do the refunding, all right. Your (Secretary's) little town of Poughkeepsie is still refunding obligations they issued back in the Civil War. They never pay them off, they just go right on refunding.

- 12 -

Sullivan: This bill won't permit them to do that, Ed.

Foley: Yes it will.

Sullivan: No, I beg your pardon. They cannot refund beyond the date of the present maturity in the bond that they are refunding.

Bell: In other words, Mr. Secretary, if they have a bond out for 30 years, that can be called in the twentieth year, they can call that bond in the twentieth year and refund it, but they can't issue beyond a ten year bond.

H.M.Jr: Well, I won't even give them that privilege.

Bell: It discourages the refunding at the earlier date. They will wait until the last date to refund. You have got the same situation in the Treasury, but, you, of course, will always take advantage of the call date if you can --

H.M.Jr: Like all these things, we could argue about it all day. From what I have heard, I would side with this fellow (Foley) but you (Sullivan) have got to handle it and you have got to present it on the Hill, see.

Sullivan: Well, I have never heard you express this opinion before, Ed.

Foley: I have always had this.

Sullivan: Well, I didn't know it.

H.M.Jr: You never saw him at the right time of day.

Sullivan: I have seen him at all hours of the day.

- 13 -

Foley: I raised it with my boys and my boys told me that you had committed yourself to Brown on this and you couldn't do anything about it.

Sullivan: I have never discussed it with Brown.

Foley: Well, that is what the boys told me.

Sullivan: No, sir, I have never discussed it with Brown.

Bell: Of course, that is a slick way to do it, to get them out.

H.M.Jr: Well, let me say, I have been around this town long enough; you sit over a bill and then somebody sticks in an amendment and - you know. But from what I have heard so far, I still say I side with him, but you will have to do it, John.

Sullivan: All right.

H.M.Jr: It is funny I should put my finger on that, though, and I wasn't coached.

What does that mean, "non-discriminatory rights to states"?

Foley: They can tax ours to the extent that we can tax theirs.

Sullivan: It means they can tax ours to the extent they can tax their own.

Foley: That is right.

H.M.Jr: Now, just a question - I drew a line through here. I would like to have these things on separate sheets.

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Bell: You mean the bills?

R.M.Jr: Yes, these are separate bills.

Bell: O.K.

R.M.Jr: They are two separate bills.

Bell: John has got another program which he gave you that involves, I take it, eight or nine billions.

Sullivan: I think these two ought to go together.

R.M.Jr: I think if we can get this through with the President and say, "Now look, Boss, we want to come back and talk to you about new taxes."

Sullivan: Yes. The rest of the program isn't too much related to this.

R.M.Jr: If we could get through this thing and - after all, get him to agree on this financing, make him realize how much money we are going to have to raise, the necessity for this bill, try to get it introduced right away and so forth and so on, and then say, "Now, can I come back next week and have another half hour? We would like to talk taxes to you."

Now, you can have your stuff with you, John, so if he says, "Now, what about raising some new taxes, you can say, "Well, here are some ways you can raise a billion and a quarter." Isn't that about what you had on there?

Sullivan: Yes.

Bell: How about your amendment to the Excess Profits Tax Bill?

- 15 -

- Sullivan: Well, there is a technical - it is more than a technical amendment to the general relief provision in the Excess Profits Tax Bill that we ought to go in there with. We ought to start with the committee this week. On the floor of the Senate, Senator George introduced an amendment in the form of a general relief provision that was badly written and did just the opposite of what he intended to do; and in conference on the final day, on Sunday, they rephrased that so it didn't mean very much, and there was an understanding that at the opening of the session we were to introduce an amendment to that, that would be workable; and I have talked with Senator George about it --
- H.M.Jr: What will it do? Let's get the background. What will it do?
- Sullivan: Well, it is an attempt to iron out in the base period credits certain abnormal amounts. A fellow's credit on excess profits depends on his earnings in '36, '37, '38, and '39. Now, for instance, if there was a strike in an industry during that time or if a fellow couldn't get materials that he had to import and his earnings dropped way down without the general relief provision, that would mean his credit dropped way down.
- H.M.Jr: Have you (Foley) been in on this?
- Foley: No.
- H.M.Jr: Have you been into this, Bell?
- Bell: No.
- H.M.Jr: I wish you would try it on a couple of fellows around here.

- 16 -

Sullivan: We have been working on it for over two months, sir.

H.M.Jr: Yes, but --

Bell: Was it promised last session?

H.M.Jr: Just try it on some of your friends around in Treasury. They are all in the dark. They don't know anything about it.

Well, my impression is that people around the Treasury - I will say this, when we get through you raise this thing with the President and see if you can get it, but if you can't and you have tried it on people like Bell and Ed and Herbert Gaston and if they think you are all right, go ahead.

Sullivan: You see, all of Tarleau's shop and a good share of Blough's and the Joint Tax Committee have been working on this thing now for about two months.

H.M.Jr: I still say, John, try it on Bell and Ed and Herb Gaston.

Sullivan: I will be very glad to.

H.M.Jr: And if they all think it sounds all right - you know, loosen up a little bit.

Sullivan: Sure. I didn't want to bother them. I thought they had plenty to do.

Bell: I thought it was something that was agreed upon pretty well as to general relief last year in the conference.

- 17 -

Sullivan: It was, in the conference.

Bell: It was too late to get it.

H.M.Jr: I know. They might agree on a lot of things which - as I say, I haven't had time to assimilate it, but if Bell and Foley and Gaston say they will go along with you, O.K.

Sullivan: All right.

H.M.Jr: And I will tell you now that if we get over the stuff - in the first place, if the President sees us, which I think he will, but you never know, but if he sees us and we get over it - be sure to bring this up.

Sullivan: Yes, sir.

H.M.Jr: And if you don't get a chance and the people around the Treasury think it is all right and you have got a commitment on the Hill, you had better go ahead with it anyway.

Sullivan: Well, it is something that was all agreed to in the conference at that time, and we have to do something.

H.M.Jr: Well, Bob Doughton hasn't called you up, or Jere Cooper, have they?

Sullivan: Oh, we discussed it many times last fall.

H.M.Jr: Since the first of January?

Sullivan: No.

Bell: Stam has been working on it?

Sullivan: Oh yes, he calls us twice a day.

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H.M.Jr: Well, you have my blessing if we have any time tomorrow to bring it up. If we haven't, try it on the fellows here, your own associates, and if they say it is O.K., go ahead with it. That is fair enough, isn't it? That is that.

Sullivan: Well, you don't want to present this whole program tomorrow?

H.M.Jr: Not tomorrow.

Sullivan: Right.

MEMORANDUM FOR THE PRESIDENT

There are enclosed drafts of two bills relating to the public debt and the status of Federal and State obligations from the standpoint of exemption from taxation, which I propose to recommend to Congress if they meet with your approval.

The first bill, entitled "A Bill To Amend the Second Liberty Bond Act, as amended, and for other purposes," would accomplish the following objectives:

- (a) It would fix the ceiling on the public debt at \$60,000,000,000, an increase of \$11,000,000,000 over the present statutory combined debt limit of \$49,000,000,000. The new limit, of course, would not include guaranteed obligations issued by the Reconstruction Finance Corporation and similar agencies.
- (b) It would give the Secretary of the Treasury greater and more flexible authority over Savings Bonds as a financing medium by giving him discretion (1) to fix their denominations, (2) to determine the aggregate face amount of them which may be held by one person at one time, and (3) to issue them on an interest-bearing as well as a discount basis.
- (c) It would authorize the Secretary of the Treasury to issue, in the same manner as Savings Bonds are issued, a new obligation similar to the old War Savings Certificate called a "Treasury Savings Certificate."
- (d) It would eliminate the partition between the general debt limitation of \$45,000,000,000 and the National Defense limitation of \$4,000,000,000, and would repeal that section of the Revenue Act of 1940 which earmarks certain taxes levied under that Act for the purpose of retiring, over a five-year period, any National Defense obligations issued under the National Defense debt limitation.

- 2 -

(e) It would remove from all Federal obligations (including those of corporations and other agencies of the Government) issued in the future the privileges of exemption from Federal taxation, which they now enjoy. The purpose of the second bill is to provide the balance of the legislation necessary to enable us to complete our program of elimination of tax-exempt securities. This purpose would be accomplished by:

(a) Making obligations issued in the future by any State, Territory, municipality, or other public body subject to income taxation by the Federal Government. To permit public bodies to take advantage of favorable market conditions, provision has been made for the refunding of outstanding callable bonds with tax exemption for the same period as the original issue.

(b) Consenting to non-discriminatory taxation by States of the interest on all Federal obligations issued in the future.

I think it would be good strategy to have the bills acted upon by Congress in the order in which I have discussed them in this memorandum; however, since I want to be in the position of being prepared to move forward on both fronts at the same time if circumstances require, I am presenting both to you at this time.

January 21, 1941

TO THE PRESIDENT:

The Treasury's working balance is at the present time down to \$742,000,000 and by the end of January it will be down to approximately \$400,000,000. It is, therefore, necessary for us to raise an additional amount of new cash at this time to meet heavy expenditures for the next thirty days. I propose, therefore, offering on Thursday of this week \$500,000,000 of National Defense notes, the income from which will be subject to all Federal taxes.

If our legislation to raise the debt limit and to tax the income from all Federal securities is passed before the middle of February, I contemplate an issue of Reconstruction Finance Corporation securities during that month in the amount of about \$500,000,000. This will enable that Corporation to meet its commitments as well as return to the Treasury some \$350,000,000 of its capital funds as recommended in your 1941 Budget. If this legislation is not enacted by that time, I shall have to offer another issue of Defense notes in that amount.

After this legislation is passed, I also contemplate issuing before March fifteenth, \$1,000,000,000 of Treasury securities for new cash and refunding \$1,222,000,000 of securities maturing on March fifteenth. It is hoped that the Treasury can at this time issue a long-term Treasury bond, the income from which will be subject to all Federal taxes.

Draft - 2

MEMORANDUM FOR THE PRESIDENT:

In your Budget Message, you made the following statement:

" * * * I am assuming that the Congress will accept the recommendation of the Secretary of the Treasury that the earmarking of taxes for retirement of defense obligations be repealed; * * * "

The Budget document shows, based on the program set out therein, that the gross public debt will be \$49,157,000,000 on June 30, 1941, and \$58,367,000,000 on June 30, 1942. These two figures do not take into consideration the future accruals on Savings Bonds nor any contemplated aid to Great Britain. According to Treasury estimates, the balance of the borrowing authority under the combined debt limitations of \$49,000,000,000 will be exhausted in May of this year. It will, therefore, be necessary for the Treasury to ask Congress for an immediate increase in our debt limitation, and we should like to ask at the same time the elimination of the partition between the general limitation and the National Defense limitation, and the repeal of the provisions setting up the special fund into which earmarked taxes are to be deposited for the purpose of retiring any outstanding National Defense securities.

The attached statement shows in detail the Treasury's financing problem for the next six months, and in a general way for the fiscal year 1942 under the Budget for that year. In view of the Budget program and the additional financing which may be expected of the Treasury under the Lend-Lease Bill for Great Britain, I recommend that the public debt limitation be fixed at \$80,000,000,000.

January 21, 1941
4:20 p.m.

H.M.Jr: Hello.

Allen
Sproul: This is Allen Sproul, Mr. Secretary. I want to report back to you on this publicity on foreign funds.

H.M.Jr: Yes.

S: I've had a thorough check made of our people here. First, there were nine men in the bank who actually were informed.

H.M.Jr: Yes.

S: Questioned all of them and they all state without equivocation that they had no conversation with anyone outside that group about it.

H.M.Jr: Yeah.

S: I've further questioned any other men who although not actually informed are engaged in that department and who may have in some way or another heard rumors or talk, and I've had denials from them for what they are worth. I think they are sound. I've checked with the two places which published the story. The first story was in the Times. They say they have had the story, made it up over a period of weeks from various bits of information they've picked up in New York, in Washington and even in dispatches from abroad.

H.M.Jr: I see.

S: But they finally referred the story to their Washington office for verification and it was there that they got the one thing that was really new to them and that was that an order had already been prepared which might be used.

H.M.Jr: I see.

- 2 -

S: The Tribune people said they had picked up the story from the Times in the first instance and then had referred it to their Washington office or their Washington Bureau for verification and had gotten back from their Washington Bureau enough verification to warrant them in going ahead they thought.

H.M.Jr: I see.

S: I think it is safe to say that our people have been very discreet about it.

H.M.Jr: Good.

S: And I think it'll do no harm to make this check, but we emphasized the confidential character of what information we had, we numbered all the copies of the documents which we did give out to nine people directly concerned and enjoined on them complete secrecy.

H.M.Jr: Good. Well, thank you very much.

S: All right, Mr. Secretary.

H.M.Jr: Thank you.

S: Good-bye.

January 21, 1941

Mr. White

Secretary Morgenthau

When you get the Federal Reserve and the Department of Commerce to agree on the English assets and liabilities, I think it would be very useful if you would show it to Herbert Feis and get him to agree also. Tell him that I would like to have him initial the memorandum for the State Department after Mr. Hull has seen it so that we can be sure the State Department is with us as well as the Federal Reserve and the Department of Commerce. Make sure that both Mr. Hull and Mr. Feis see it before it goes up on the Hill.

January 21, 1941.

My dear Mr. Bloom:

When I appeared before your Committee on January 15, I presented figures of the British dollar position as submitted to me by the British Treasury. Since then the British Treasury has communicated to me a more recent figure of their gold holdings. I submit this revised figure to you without delay, as I want the Committee to have the latest information in the possession of the Treasury.

The figure the British had previously submitted to me of their total gold holdings (on December 31, 1940) was \$238 million; the revised figure is \$292 million, or \$54 million greater. The earlier British table included \$53 million of gold scattered in various parts of the world, and not available for payments here; the new table makes this figure only \$30 million, which means that \$23 million more are available for use. On the other hand, the British Treasury has submitted to me an additional debit item of \$21 million, representing commitments already made on account of forward exchange contracts. This figure was not in our possession on January 15th and did not appear in my original table of British liabilities.

The difference between the present total and my earlier total is, therefore, a net increase of \$36 million in British dollar and gold assets which are available to pay for war supplies in this country.

The following table of the United Kingdom's gold and dollar assets contains the revised figure of gold holdings on December 31, 1940, and to that extent supersedes the table I presented to you on January 15th. The present table includes also a set of figures which the British Treasury has just given us as to their gold and dollar exchange position on August 31, 1939, just before the outbreak of war. All the figures in the present table are supplied by the British except the estimate of private dollar balances, marked with an asterisk, which is taken from United States Treasury data.

- 2 -

Gold and Dollar Exchange Assets of U.K.

	Aug. 31, 1939	Dec. 31, 1940
	(In Millions)	
Gold.....	\$2,038	232
Official dollar balances	50	54
*Private dollar balances.	545	375
Marketable U. S. securities.....	950	616
Direct and miscellaneous investments in U.S....	<u>900</u>	<u>900</u>
Total gold and dollar exchange assets.....	\$4,483	\$ 2,167

From the total British gold and dollar exchange assets of \$2,167 million on December 31, 1940, the British exclude as unavailable \$305 million of private dollar balances regarded as necessary for the conduct of business, \$30 million of gold scattered in different parts of the world, and \$21 million (the figure I mentioned earlier in this statement) on account of forward exchange contracts. This leaves a total of \$1,811 million in gold and dollar exchange assets which the British regard as available, as compared with a figure of \$1,775 million in the original table I presented to the Committee.

It may be of interest to you to compare the British figures of their position on August 31, 1939, with the figures published in the Federal Reserve Bulletin of January, 1941. The Federal Reserve Bulletin estimated British gold and dollar resources as of August 31, 1939, as follows:

(In millions of dollars)

Gold.....	\$2,000
Dollar balances.....	395
Market securities.....	1,080
Direct and miscellaneous investments in the U.S.....	<u>1,185</u>
Total.....	\$4,660

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- 3 -

The only significant difference between this estimate of the Federal Reserve Board and the British Treasury statement is in the figures of marketable securities and direct and miscellaneous investments in the United States.

The Federal Reserve Board's estimates of the United Kingdom's holdings of U. S. securities and direct and other investments in the United States as of August 31, 1939, were based on U. S. Department of Commerce data. The difference of \$130,000,000 in market securities is as might be expected between estimates built up from entirely independent sources of information -- particularly as nominee accounts are involved and the dates as of which the British have valued their investments differ somewhat from those of the Department of Commerce. Both estimates are based on market values. The Department of Commerce estimates of the value of so-called direct and miscellaneous investments do not purport to represent liquidating value since these figures are based on book value and on the capitalization of earnings, respectively. The figure of the British Treasury for direct and miscellaneous investments, stated to be "not in excess of \$900 million", is a tentative estimate that will be revised as more exact information as to the sum of such investments is obtained by the British Treasury and as evidence of their liquidation value accumulates.

How was it possible for British assets to shrink so rapidly between the start of the war and the end of 1940? The shrinkage as you will have seen from the first table submitted today, amounted to \$2,316 million. The explanation will be found in the following table of the balance of payments of the British Empire, excluding Canada and Newfoundland, with respect to all transactions requiring settlement in dollars or in gold. This table, which I now submit to the Committee, was compiled by economists of the Treasury Department, the Department of Commerce and the Federal Reserve Board, on the basis of data supplied by the British Treasury.

TUL:

- 4 -

Estimated Gold and Dollar Expenditures and Receipts of British Empire, Excluding Canada and Newfoundland, from September 1, 1939 to December 31, 1940*

(In Millions of U. S. Dollars)

Gold and Dollar Expenditures

A. Payments to the United States by United Kingdom.			
1.	On British Government orders in the United States.....		\$1,300
	Goods delivered.....	\$660	
	Advance payments.....	570	
	Capital assistance.....	150	
2.	For other merchandise imports from the United States.....		705
3.	For shipping, interest, etc.....		<u>197</u> \$2,282
	Shipping disbursements.....	125	
	Interest and dividends.....	48	
	Miscellaneous (chiefly film royalties).....	24	
B. Payments to the United States by Empire countries, excluding U. K. and Canada			
1.	For commodity imports.....		475
2.	For shipping, interest, etc.....		48
	Interest and dividends.....	40	
	Shipping (net).....	8	
C. Payments by Empire countries, excluding Canada, to areas outside the U. S. requiring gold or dollars			
1.	Payments by Empire countries (chiefly U.K.) to areas outside the U. S. and Canada requiring gold or dollars.....		590
2.	Gold payments by Empire countries to Canada and Newfoundland (net)**.....		<u>125</u> 775
D. Withdrawal of Capital			
1.	By Americans and others, through sale of free sterling to American importers.....		300
2.	By repayment of outstanding export credits as required by our Neutrality Act.....		200
3.	By liquidation of forward exchange position in dollars.....		<u>275</u> 775

* Compiled from data furnished by British Treasury

** For details see supplementary table appended.

- 5 -

Gold and Dollar Expenditures
(Cont.)

K. Residual - Miscellaneous items and errors of estimation.....			<u>71</u>
Total gold and dollar requirements for all transactions.....			<u>4,346</u>

Gold and Dollar Receipts

A. Receipts from United States by United Kingdom			
1. From merchandise exports.....	\$ 205		
2. From interest, shipping, etc.....	<u>140</u>	345	
Interest and dividends.....	\$ 85		
Shipping earnings.....	35		
Remittances from insurance companies.....	20		
B. Receipts from United States by Empire countries, excluding U.K. and Canada			
1. From merchandise exports.....	640		
2. From tourist travel, remittances, etc. (net).....	<u>30</u>	670	
C. Dollar receipts by Empire countries, excluding Canada, from areas outside the U. S.....			50
D. Receipts from sale of Empire gold (new production and disbanding).....			<u>965</u>
Total gold and dollar receipts by Empire countries, excluding Canada.....			\$2,030
Total drain on gold and dollar resources of British Empire, excluding Canada and Newfoundland, Sept. 1, 1939 to Dec. 31, 1940...			<u>2,316</u>
Total gold and dollar requirements for all transactions.....			<u>4,346</u>

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- 6 -

Supplementary Table

Estimated Expenditures and Receipts of Canada and Newfoundland
with the Rest of the British Empire from September 1, 1939 to
December 31, 1940

(in Millions of U.S. Dollars)

A. Payments to Canada and Newfoundland by Empire countries			
1.	For purchases from Canada and Newfoundland by the United Kingdom...	\$795	
2.	For purchases from Canada by other Empire countries.....	125	
3.	Other payments to Canada by Empire countries.....	10	\$930
B. Receipts from Canada and Newfoundland by Empire countries			
1.	From merchandise exports to Canada and Newfoundland by U. K.....	170	
2.	From merchandise exports to Canada by other Empire countries.....	100	
3.	From interest and dividends paid by Canada to United Kingdom.....	65	
4.	Other U.K. Receipts from Canada, principally Canadian Expeditionary Forces.....	<u>20</u>	<u>375</u>
British Empire deficit with Canada and Newfoundland on merchandise, interest and dividends, etc.....			555
Canadian assistance to U.K. -- repatriation of British-held Canadian securities and increase in sterling balances held by Canada.....			<u>130</u>
Gold payments by British Empire countries with Canada and Newfoundland Sept. 1, 1939 to Dec. 31, 1940.....			<u>224</u>

I hope the foregoing figures will be helpful to the Committee.

Sincerely,

(Signed) H. Morganthau, Jr.
Secretary of the Treasury.

Secretary of the Treasury.

Honorable Sol Bloom, Chairman
Committee on Foreign Relations,
House of Representatives,
Washington, D. C.

January 21, 1941

My dear General:

I would appreciate it if you would arrange for an appointment for Mr. Bell, Mr. Sullivan and me to see the President Wednesday forenoon.

As it is necessary for me to make a decision on how we will raise \$500,000,000 before one o'clock tomorrow, I would appreciate being given the first appointment of the day.

I will need half an hour, because I want to clear with the President a number of urgent Treasury legislative problems which I have refrained from bothering the President with up to now.

Yours sincerely,

H.M.Jr.

General Edwin C. Watson,
Secretary to the President.

Delivered by Lt. McKay 9²⁰

January 21, 1941

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H. H. H.

General Edwin C. Watson,
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Delivered by Lt. McKay

January 21, 1941

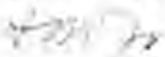
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Yours sincerely,



General Edwin G. Watson,
Secretary to the President.

Delivered by Lt. McKay

Copy of Letter from A, Mexico City, January 21, 1941.

My silence last month is to be understood as due to the fact that nothing of any importance turned up worth while mentioning. However, things are taking a decided trend now.

The new President seems to be very well intentioned. Some of his laws are very well received, but the agitation between the labour and the farm element is getting worse every day and it is quite common talk that behind all this is the former President Cardenas.

Nobody has ever been forgotten so quickly as this man, but he is now, while ostensibly keeping entirely out of everything, presumably behind the labour agitation. Strikes are multiplying very fast and while some of them were left over from Cardenas' administration, others are purely invented, just to show the new President the power of the labour element, or better said, of the syndicates, as the workmen themselves are greatly opposed to these continued agitations and strikes. The new President therefore has to go very slowly and many a thing which needed to be done will have to wait, if it is ever done. Everything points to a show-down very soon. It is also reported from very good authority that Cardenas is supposed to have said that if the new Government should go one step more to the right he would take a hand in the matter. No doubt the actual President will triumph in the end, but in the meantime all kinds of things which should have been done are left undone to the detriment of the public economy.

The most valuable time to make an agreement economically and financially with the States, like settlement of the oil question, land question, foreign debt, etc., etc., is being lost. Once the United States get more mixed up with European affairs or even as a belligerent into the War, they will have no time or mood to listen to Mexico's demands.

There were persistent rumours the beginning of December to the effect that the present Cabinet is only temporary, and that there will be big changes within a few months. Lately there have been much rumours again, but it remains to be seen if such really is the case. Such a change would be undoubtedly a declaration of war for a show-down between the actual President and the past one.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 21, 1941

EXACTLY CONFIDENTIAL

TO Secretary Morgenthau

FROM Mr. Klaus

RE reports:

December 19. Special Agent's report, German funds, New York City. It is indicated that the German Consulate has been exchanging \$500 and \$1,000 bills for currency of smaller denominations (which cannot be traced by serial numbers); the Estate of Hamilton Fish received \$333 on October 31, 1940, from the German Consulate; it is believed that this may be for rent of certain property in Germany.

An analysis of the withdrawals of the German Consulate General's account disclosed that \$66,363.90 was withdrawn by checks payable to bearer (usually endorsed by an employee of the Consulate) during November, while employees in the Consulates of New York, Buffalo, and Philadelphia received altogether \$1,071.48, employees of the German Library of Information received \$1,130.38, and all other payments amounted to \$9,487.45, making a grand total of \$90,983.21 for the month. Deposits to the account included \$650,000 transferred from the account of Banco de la Nacion of Argentina on November 30, the other main item being transferred from the Reichsbank. It was ascertained that the \$650,000 did not emanate from any single large deposit made in the Banco de la Nacion but resulted from an accumulation of credits received mostly from the Banco Italiano, Lima, Peru, from Swiss banks, and from J. Henry Schroeder and Company.

December 20. Special Agent's report concerning foreign funds in the Springfield, Illinois, area is to the effect that there are no bank accounts suspected of being used for subversive purposes and therefore no accounts in this area will be monitored.

December 21. Special Agent's report on Heineken, manager of the Chicago branch of Robert Hantz and Company specializing in Ruckwanderer marks, shows that the largest part of the business in Chicago in Ruckwanderer marks is handled not by Heineken but by Berthold Mueller, who works through Fritz Heberling, who in turn is attached to the German Consulate without portfolio but is in reality said to be the highest ranking Nazi in Chicago, above the Chicago Consul General; it is possible that Heberling gets a cut in Mueller's business.

It appears that Ruckwanderer marks were originally issued in 1938 or earlier for persons who were actually returning to Germany and had steamship accommodations (mostly in connection with the German drive for the return to Germany of American mechanics of German origin) and the business was handled mainly through Hapag Lloyd; later all foreign exchange agents were permitted to handle the business and it was not limited to Germans in the process of actually returning. It also appears that the Super Tool Company of Chicago, which is said to have Navy contracts, is run by one Roy Matzen, a close friend of the Nazi leaders in this country.

January 21, 1941

My dear Mr. President:

I thought you would be interested in reading the inclosed clipping.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

Enclosure ✓

By Messenger 2⁰⁰

January 21, 1941

My dear Mr. President:

I thought you would be interested in reading the inclosed clipping.

Yours sincerely,

(Signed) H. Morganthau, Jr.

The President,
The White House.

Enclosure

By Messenger

Washington Daily Merry-Go-Round

(Trade Mark Registered)

By DREW PEARSON and ROBERT S. ALLEN

This is the interesting story of a little man on the Defense Commission who, like the one on the stair in the verse, on second look wasn't there—and how that cool the Government a lot of money in buying Army shoes.

The little man is Frank M. Folsom, executive vice president of one of Chicago's largest department stores, formerly vice president of Montgomery Ward, and one of the greatest merchandisers in the country. That he wasn't there when the "bite" was put on the Government was not his fault, but that's ahead of the story.

It really began 22 years ago, when Folsom returned from France as a first sergeant in the Air Corps. As he was mustered out of the service, he made a solemn resolve.

That if ever there was another national emergency, and he could do anything about it, he would see that the men who did the fighting had shoes that fitted, uniforms that didn't look like burlap sacks, and blankets that were long enough to cover the feet.

Last fall, Folsom got the chance to gratify this ambition when his old Sears-Roebuck business rival and close personal friend, Procurement Director Donald Nelson, summoned him to Washington as a dollars-a-year expert to help clothe the new selective service army.

In five months Folsom supervised the placing of more than \$100,000,000 worth of orders

and made a number of money-saving innovations in the Army's buying practices. One of these was in the purchase of shoes—2,397,000 pairs, of every possible length and width, at a saving of around \$1.50 a pair under what the Army paid in 1917-18.

How It Was Done

Folsom accomplished this feat by the device of asking a large number of shoe manufacturers all over the country for informal bids covering the number of shoes they could make.

Under the old system, the Army announced it was in the market for so many pairs of shoes and asked for bids, which gave the edge to a few big firms who could deliver contracts of such size in the time specified. Small companies couldn't cope with such giant orders, but Folsom's plan made it possible for them to get contracts of a moderate size on an equal price footing with the big fellows.

Under his method of informal negotiated bids, seventeen shoe plants in New England, the Midwest and the South got nice slices of the 2,397,000 pairs at prices ranging from a low of \$2.65 to a high of \$3.97, averaging \$2.88 a pair or about \$1.50 less than the World War price.

Big Boys Squawk

Everybody was happy—except the big manufacturers who, under the old system, had for years enjoyed a virtual monopoly of the Government's shoe business. They didn't like Folsom's method, and they let out a series of loud squawks.

The shoe manufacturers' association, however, complained indignantly to its Senators. Controlled trade papers printed scorching editorials inferring that he was a lone amateur and demanded that a "shoe expert" be appointed to the Defense Commission.

This bombardment, plus some potent wire-pulling, was successful. Folsom was quietly eased out of the picture and with him his money-saving ideas.

In his place the commission appointed a dollar-a-year shoe expert—Francis P. Murphy, former governor of New Hampshire and director of the J. P. McElwain Shoe Company, one of the big New England concerns.

Then the Army again went out to buy shoes—this time as the industry wanted, in the old way. This was the result:

1,840,000 pairs of shoes cost \$6,102,870 as compared to 2,397,000 pairs Folsom bought for \$6,500,000 (approx.) two months earlier.

Under Folsom the average price was \$2.83. Under the new "expert" regime this average had skyrocketed to \$3.31.

Another interesting item was that the McElwain company increased its business threefold. Under Folsom it received an order for 60,000 pairs. Two months later, with him back in Chicago, the McElwain share was 150,000 pairs. In both instances it was a low bidder, but under Folsom it was \$2.65 a pair, later \$3.10 a pair.

Russia Buys Leather
The abrupt and precipitous price boost in increased leather costs, which they claim are up 30 per cent over August quotations. The massive charges this in due largely to enormous and unusual exports to Russia.

They assert that enough sole leather was shipped from U. S. ports to Russia in November to make more than 2,000,000 pairs of army shoes. Also that this 3,386,000-pound shipment was only part of an order placed here quietly in September and October by Amtorg for transport to Russia via Vladivostok.

How much, if any, of this leather winds up in the hands of the Soviets' Nazi ally is anyone's guess. The new trade treaty, just signed between them, might provide an answer if the terms were known.

Merry-Go-Round

The heavy broad of Wall Street insiders in key defense posts has given rise to this pun in the financial district. "Ed rather be Wright, Gordon than President," Wright, Gordon, Zachry & Parlin is a leading Wall Street law firm which has three members, Blackwell Smith, Frederick Eaton and John P. Ohl, as dollar-a-year men in strategic defense jobs.

A confidential Democratic National Committee analysis of the November vote in the Midwest disclosed these significant items: (1) That the New Deal picked up 1/3 of 1 per cent in the strictly rural districts, but this small gain was heavily offset by large losses in the small towns; (2) German centers that were traditionally Democratic voted strongly against Roosevelt. - Interesting sight at Theodore Granick's Sunday night radio forum, when foreign policy is debated, in Alice Longworth, Mrs. Burton K. Wheeler, and Mrs. Bennett Clark sitting together in the front row and loudly applauding attacks on the Administration.

January 21, 1941

Dear Leon:

I am sending you herewith a memorandum from George Haas. I want to draw your particular attention to the fact that it seems to be Russian and Japanese buying which is driving up the prices of fats. I think it would be worth while if you would have this investigated.

Yours sincerely,

(Signed) H. Margoshau, Jr.

Mr. Leon Henderson,
Commissioner,
Price Stabilization Division,
Advisory Commission to the
Council of National Defense,
Federal Reserve Building,
Washington, D.C.

Enclosure

By Messenger 2nd

January 21, 1941

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Price Stabilization Division,
Advisory Commission to the
Council of National Defense,
Federal Reserve Building,
Washington, D.C.

Enclosure

By Messenger

January 16, 1941

Secretary Morgenthau

Mr. Haas

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

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

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

Current price relatively low

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

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

Recent bullish price factors

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

(1) A seasonal decline in cattle marketings at the end of the year reduced the current production of tallow.

(2) A rise in lard prices, resulting from the prospect of a greater than seasonal decline in hog marketings in the late winter and from a Government report forecasting

- 2 -

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

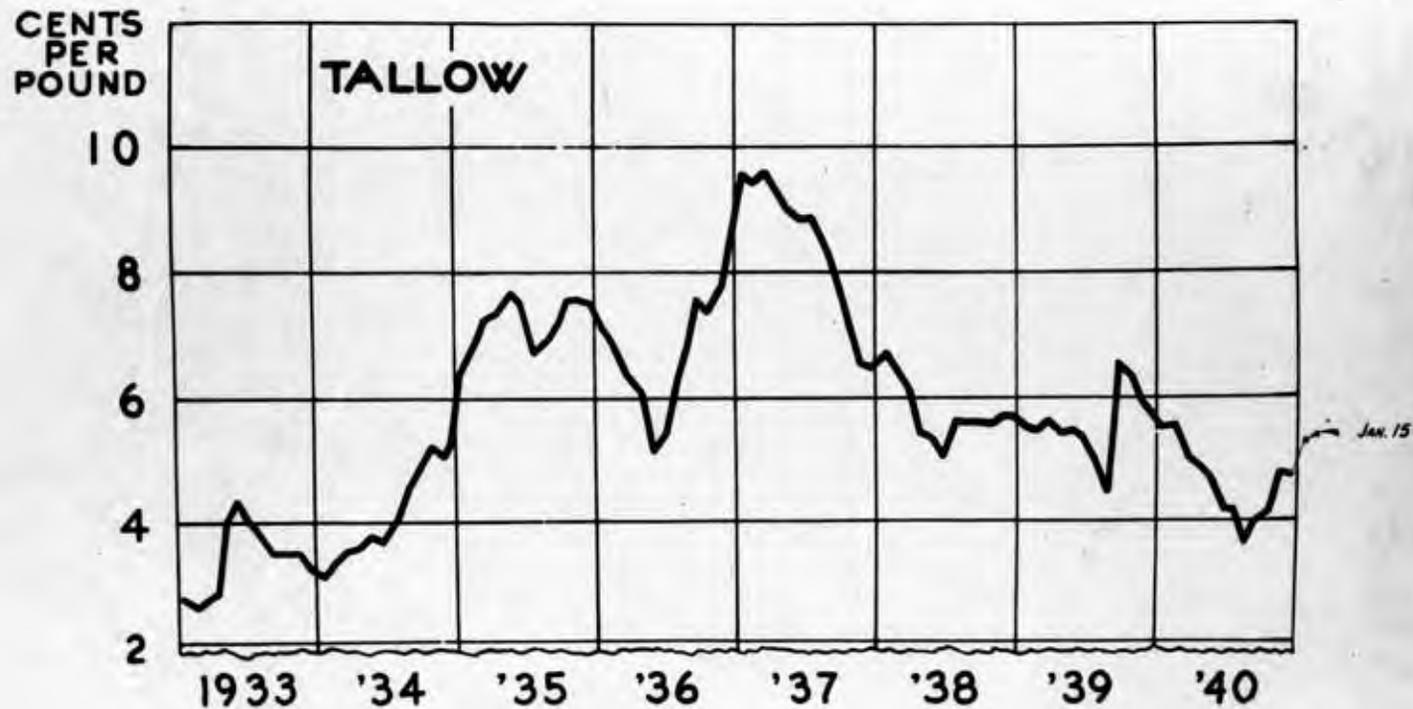
(3) The difficulty of obtaining supplies of certain oils from abroad for soap making increased the demand for tallow. This has been due partly to shipping difficulties and partly, according to trade reports, to very heavy buying of oil materials by Japan and Russia. These two countries are reported for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

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

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

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

lsw 1/16/41



Packer's Prime Inedible Tallow at Chicago

P-108-E1

274

104-311941

272

Regraded Unclassified

by Asst. Mr. President:

The following comments relate to the suggestion that corporate organizations claiming a tax exempt status under the Income Tax Law should be required by Treasury Regulations to file annual information returns stating the names of officers and directors, the number and times of meetings, and all disbursements and receipts in excess of, say, \$100. It is further suggested that this requirement might be waived in the case of bona fide religious and other organizations.

(1) The revenue that would result from the suggested requirement would be negligible. The labor and cost involved, as respects both the organizations required to file the returns and the Bureau of Internal Revenue, would be very great. In round numbers there are over 80,000 corporate organizations having a tax exempt status; about 10,000 of these corporations are in the class of tax exempt corporations contributions to which are deductible. A recent sheet of about 40,000 tax exempt organizations disclosed that the status of only a handful was questionable. From a revenue standpoint, it is not feasible therefore to require annual detailed information returns for the purpose either of, one, checking the right of the organization to possess a tax exempt status or, two, ascertaining whether contributions claimed to have been made by individuals or corporations to a tax exempt organization were in fact made.

(2) It would not be feasible to require annual information returns from all tax exempt organizations and then to exempt by regulation those known to be "bona fide." The difficulties of classification and the policy problems inherent in such a classification make this procedure inadvisable.

(3) It is feasible to check those specific organizations whose status is questionable. The present practice of the Bureau of Internal Revenue is to investigate those organizations whose claim to tax exemption is doubtful in the light of information furnished to the Bureau. Consequently, if information from the Department of Justice or other Government agencies were furnished to the Bureau of Internal Revenue with respect to the validity of the tax exempt status of any organization, that organization would be required to file a return. This would largely bring about the same result as the method discussed under (2) above, but without the difficulties inherent in that method.

- 2 -

(4) The Bureau of Internal Revenue has under consideration a procedure under which corporate organizations of appreciable size claiming a tax exempt status would be required to file information returns every five years. The primary purpose of such returns would be to provide information regarding the scope and effect, and thus the desirability, of existing tax exemptions.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Enclosures

CC to Mr. Thompson

SSS:mrn
1/21/41

By Messenger 2nd

274

Enclosures received with
President's memo of 1/16/41 returned
with letter to President dated
1/21/41 and photostat copies kept.

MR. MORGENTHAU'S OFFICE TO-

Mr. Bell	Mr. Thompson
Mr. Gaston	Mr. Foley
Mr. Sullivan	Mr. Graves

Mr. Alexander	Mr. Haas
Mr. Allen	Mr. Hall
Mr. Bartelt	Mr. Hanna
Mr. C. S. Bell	Mr. Harper
Mr. Berkshire	Mr. Harris
Mr. Bernard	Mr. Helvering
Mrs. Betts	Mr. Irey
Mr. Birgfeld	Mr. Julian
Mr. Blough	Mr. Kilby
Mr. Broughton	Mr. Mulvihill
Mr. Bryan	Mr. Rose
Mr. Cochran	Mrs. Ross
Mr. Collie	Mr. Schwarz
Capt. Collins	Mr. Sloan
Mr. Delano	Mr. Spangler
Miss Diamond	Mr. Tarleau ✓
Mr. Dietrich	Mr. Upham
Miss Flanagan	Mr. White
	Mr. Wilson

Mr. Sullivan:

The Secretary would like to have an answer on this by Tuesday.

THE WHITE HOUSE
WASHINGTON

*J. B. ...
10 - Dec*
276

January 16, 1941

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Please speak to Foley and Sullivan about this suggestion by Morris Ernst. It might actually result in throwing out a great many contributions thus increasing the revenues very substantially.

Please return when you are through with it.

F. D. R.

Enclosure

Jan. 10, 1941.

To Miss Lehman

From Morris W. Ernst

I thought you might think it
worth while to show this to the
President.

GREENBAUM, WOLFF & ERNST
285 MADISON AVENUE
NEW YORK

TELEPHONE CALEDONIA 5-1881

January 10, 1941.

SPENCE S. GREENBAUM
HAROLD S. GREENBAUM
HERBERT A. WOLFF
ERIS C. ERNST
HAROLD J. SHUMBO
WALLACE D. JENNINGS
WYLLIE J. SCHULZ
LEANDER LINDEY

Hon. Franklin D. Roosevelt
The White House
Washington, D.C.

My dear Governor:

At the Town Hall debate last night as indicated in the New York Times, Verne Marshall referred, though inaccurately, to "a set of letters". I thought you ought to know this fact because Verne is a bad boy. After the debate he said he would not let me see his list of contributors and said: "You are the fellow that handled the Wallace letters after the conference at the White House with Hopkins and Biddle". I said: I have never been at the White House with Hopkins and Biddle, although I know them, but I do know something about the Wallace forgeries which you guys were thinking of printing".

I taunted him to let me see the list of his contributors. Enclosed is a stenographic copy of the report. Subsequently Marshall has refused to go through with his promise. At last I think I got the techniques for smoking out the anonymous forces back of movements. Several years ago I tried to get Oliphant excited about it. Under the Revenue Statutes, without amendments and by mere regulation, the Treasury can find out who is in back of who and possibly collect substantial additional income, and in any event, be informed in regard to exemption from taxes to what are presently called tax exempt organizations.

I am sending a separate memorandum on this subject.

Yours sincerely,



Encs (3)

Stenographic Copy of Report

MODERATOR DENNY: I see Mr. Morris Ernst about to ask a question.

MR. MORRIS ERNST: Mr. Chairman, the reason why I think it is essential for the forces of Hitler to be defeated is that this kind of a debate could not happen under the philosophy of a Hitler or a Stalin. (Applause)

May I say, however, that for many years that I have been connected with this institution, I have never seen it used for advertising before, so I make the suggestion if anybody in the radio audience falls for the suggestion of writing to Mr. Marshall, that they ask him in good American fashion, "Who's back of you with money?" (Applause)

MR. MARSHALL: Boy, I am glad that one was put in because anybody, any time, even Mr. Morris Ernst -- on a day immediately following his discussions with Francis Biddle and others in the White about a set of letters, can come to our headquarters and read the list of contributions and the names, and addresses, of every real American who is willing to help keep his country out of war. (Applause) He can always have them, Mr. Morris Ernst.

MARSHALL DEBATE ON BRITAIN HECTIC

Sharp Questioning Follows His Debate With Dean Acheson on Aid to Allies

CHALLENGES TO HECKLERS

No-War Leader Asks Them to Come to Stage and Fight —Hedges on Backers

In a hectic radio debate on the question, "Is a Hitler Defeat Essential to the United States?" Verne Marshall, chairman of the No Foreign War Committee, supporting the negative, declared last night in Town Hall that the Roosevelt Administration had it within its power to promote a just and lasting peace. He said he believed Adolf Hitler, if victorious, would give the same opportunities to the nations Germany has conquered that he asked for Germany.

Twice during the hour of the Town Hall of the Air radio program Mr. Marshall invited hecklers in the audience to come upon the platform and meet him in person to debate.

John Acheson, Secretary of the Treasury and member of the Committee to Keep America by Nations, was asked to attack Mr. Marshall's position. "You'd better not say that," he said, "or you'll have to fight me on the spot. I don't think the affirmative question."

Question Period Expires

The question period expired at 10:30 p. m. and the program ended with a broadcast of the following program: "The United States and the World," by Verne Marshall, chairman of the No Foreign War Committee, and John Acheson, Secretary of the Treasury, and member of the Committee to Keep America by Nations, on the question, "Is a Hitler Defeat Essential to the United States?"

Mr. Ernst then asked George Denny Jr., head of Town Hall of the Air and Moderator of the evening's program, to furnish him a transcript of the broadcast so that he might have Mr. Marshall's exact words.

As transcribed by the National Broadcasting Company, Mr. Marshall's reply was:

"Boy, I am glad that one was put in because anybody, any time, even Mr. Morris Ernst on a day immediately following his discussions with Francis Biddle and others in the White House about a set of letters—can come to my headquarters and read the list of contributions and the names, and addresses, of every real American who is willing to help keep his country out of war. He can always have them, Mr. Morris Ernst."

Previously, Mr. Marshall had accused Mr. Denny of "planting" Norman Thomas, the Socialist leader, Dr. Frank Kingdon, president of Newark University and also a member of the Committee to Defend America by Aiding the Allies, and Frederick Libby of the Keep America Out of War Committee, in the audience to make statements contrary to his position, while not asking any other member of the No Foreign War Committee to speak.

Although the heterogeneity of the meeting was unusual for a Town Hall broadcast, it was purely a vocal matter and those who opposed Mr. Marshall's views made no effort to continue the argument after the program.

Challenge to Critics

The first antagonist of the evening came when Mr. Marshall made his somewhat sarcastic reference to Mr. Acheson soon after the start of his talk. "You then went on to say that I am not a plain American."

"These were bald lies of No-Foreign-War when he made that statement," Mr. Marshall said.

"I don't say 'No' when I say 'Yes' in America. Let him come in here and say that, here on this program. I'm twenty miles from home but I don't care how much I'm away."

Mr. Marshall said he would not say "No" when he said "Yes" in America. Let him come in here and say that, here on this program. I'm twenty miles from home but I don't care how much I'm away."

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tradition from giving away our national defense, at the very moment when the President assures us we are in our greatest danger since Jamestown."

He said that objective would be reached rapidly if his committee was widely enough supported.

Asked in the question period to define what he would consider a just and honorable peace, his answer was that it would be one in which "the peoples of all nations have the same opportunities as the peoples of the rest of the nations."

"Do you believe Hitler would grant that kind of an opportunity to the countries he already has conquered?" a questioner demanded.

"In my opinion," he definitely said, "no."

Mr. Acheson's affirmative answer to the question, "Is a Hitler Defeat Essential to the United States?" was that the only other alternative was a Hitler victory, which he said would inevitably lead to a destruction of free government and free life in this country.

He pictured what might happen if Britain should be defeated, seeing Germany absorbing Italy, and with Japan marshalling all the resources of Europe, Asia and Africa to attack this hemisphere economically, militarily and by penetration.

"It is essential to the United States that the possibility of such a future be prevented by the only sure prevention—a Hitler defeat. It can and will be done and to achieve it should be the cornerstone of American policy."

He stated that "it can and will be done" was not with epithets and when he attempted to finish his sentence, the speaker of the phrase his words again were drowned out by handclapping and shouts from the audience of "Amen."

Mr. Thomas, who he was identified by Mr. Ernst, said he called on the speaker and he himself had been present in the program of the United States and a small group of people was present in the program.

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PLAN FOR ENFORCEMENT OF THE PROVISIONS
OF ALLIED STATES ACTS CONCERNING

The secrecy upon which underground anti-American movements thrive depends to a great extent today on the inadequate enforcement of present revenue statutes. Aside from individual spies, such work is carried on in the United States through organizations which claim to be non-profit making and hence entitled to an exemption as tax exempt entities. In addition, the contributors of money to such organizations claim deductibility on their tax returns for such contributions. The number of such organizations runs into the thousands and the number of such contributions runs into the millions. In order to procure tax exemption for the organization under present requirements, little more need be done than the submission of an affidavit disclosing the general objectives of the organization, the work it undertakes, copies of the certificate of incorporation and by-laws, and a copy of the financial statement of the organization. In order to procure deductibility for contribution the taxpayer shows nothing except the amount he claims to have paid and the Government is put to the burden of checking back to see whether the particular organization receiving the contribution is in the exempt class.

It would appear to me that the basis for exemption of organizations is entirely inadequate and that by regulation without amendment to statute the Treasury Department should require not only the present information necessary to procure exemption but the filing of annual reports giving names of officers and directors, number and

times of meetings and breakdown of disbursements and of income, giving the names of each contributor in an amount, say, of over \$100 and of each disbursement of over \$100 and the name of the person to whom disbursed. A waiver of the detailed tax returns might be allowed to bona fide religious, etc. organizations. The purpose of requiring this information would be:

(1) By the filing of such reports the Treasury Department would be in a position to claim the abandonment of exempt category in the event of a shift in activities. Today the exemption continues without any new information if once granted, until some fortuitous circumstance brings additional information to the Government.

(2) Individuals claiming the deductibility of contributions should not be entitled to tax relief unless the organization's records show the item. By having this information the Government can check the deduction. This is especially true of anonymous gifts where there is no evidence of payment. If the organization has no record of the contribution, the Government would be in a better position to disallow the deduction.

(3) In many instances the organizations are formed for a temporary purpose and are out of business by the time the particular tax return of the contributor has been examined.

(4) Many tax exempt organizations contribute in turn to non-tax exempt organizations, and in this way the revenue of the Government is considerably depleted.

(5) Similar returns should be required of organizations which are non-profit making and exempt even though contributions to such organizations are not deductible. Thus, as for example, an organization engaging in legislative work even though it is itself an exempt organization, should file full information as to names of contributors, etc. so that the Government can readily check back to the records of contributors who unwittingly often claim deductibility for contributions to such organizations.

(6) The filing of such returns will serve as a check that no individual is deriving pecuniary profit from an organization. There are many one-man organizations with high sounding names which are merely devices for deriving profit to one or more individuals.

(7) Under the present regulations exempt organizations are required to file information returns of payments of compensation of \$1,000 or more. These returns are rarely filed because exempt organizations are under the impression they are not required to file any returns.

(8) The filing of such returns will serve as a check that donations made for charitable, educational or religious purposes are being actually used for such activities and not merely accumulated.

(9) Many exempt organizations are in fact used as family welfare organizations by the contributors. Others have been formed to absorb profits which would otherwise be taxable to the individuals forming such organizations. These returns would act as a restraint from using the organizations for personal purposes.

(10) By the annual filing of returns of information even for all organisations, whether claiming tax exemption or not, the Government would be in a position to accumulate data upon which further revisions of the statute might be indicated and in any event, be in a position to prevent present avoidance of taxes.

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January 21, 1941.

Mr. F. N. Marshall,
Secretary, National Wool Growers' Association,
C/o Davenport Hotel,
Spokane, Washington.

Dear Mr. Marshall:

For Secretary Morgenthau I am replying to your wire of January 15, which had reference to an Associated Press report of a statement with respect to wool prices made by the Secretary at a press conference on January 13. I have before me a press clipping of an Associated Press report of that date which reads as follows: "Secretary Henry Morgenthau, Jr., said today that he had been alarmed by what he called 'unwarranted rises' in the prices of lumber, scrap iron and wool, but that Leon Henderson, member of the National Defense Commission had been doing a 'grand job' in handling the price situation."

This statement is essentially correct. The Secretary's concern over the price situation for woolen goods is shared by the Defense Commission as indicated in a newspaper article of January 6, which reads as follows: "Tomorrow, Mr. Henderson has invited representative members of the wool manufacturing industry to Washington to discuss prices on woolen piece goods. Buyers of woolen goods have complained to the Defense Commission of sharply advanced prices on fall lines and of high pressure sales methods by some sellers which tend to create an unnecessary rush to cover requirements at higher prices. It is reported that less than half of the increase in prices now being quoted can be explained on the basis of higher raw wool prices, Mr. Henderson said, adding that such unjustified increases in the cost of piece goods would inevitably be reflected in an increase in the price of retail clothing. It is hoped that this conference will draw the attention of the industry to the importance of preventing the start of an upward spiral in prices and will result in a reconsideration of any contemplated price advances at this time when buyers are covering their fall requirements, the defense commissioner said."

Secretary Morgenthau has indicated full agreement with the position taken by Commissioner Henderson and at his press conference on January 13 he referred to the experience of the Procurement

- 2 -

Division of the Treasury Department in purchasing woolen goods for use by the Red Cross and non-military agencies of the Government.

Section 303 of the Tariff Act, to which you refer in the last sentence of your telegram of January 15, authorizes the Secretary of the Treasury to impose countervailing duties on imports of dutiable goods with respect to which it has been determined that export subsidies are being paid.

Information before this Department is that there exists in Uruguay a currency control, which, as administered, may favor certain exports over others. With the exception of manufactured woolen articles wool is not at this time among the favored commodities. The Department is giving intensive study to the Uruguayan control system with the provisions of Section 303 of the Tariff Act in mind.

Very truly yours,

(Signed) Herbert E. Gaston

Herbert E. Gaston
Assistant Secretary of the Treasury.

Morgenthau Is Alarmed In Increase of Prices

WASHINGTON, Jan. 13 (AP)—Secretary Henry Morgenthau said today that he had been alarmed by what he called "unwarranted rises" in the prices of lumber, scrap iron and steel, but that Leon Henderson, member of the National Defense Commission had been doing a "grand job" in handling the price situation.

The Treasury head added that the danger of price inflation necessitated "every agency of the government watching the situation every minute of the time."

In the Treasury, Mr. Morgenthau added, scarcely a day passes without some discussion of the price situation. He said that no use of tax powers to control prices appeared to be necessary at present, but that this possibility was being studied.

Mr. Morgenthau said one of the price rises which he had noticed and which he thought "unreasonable" was a 13 per cent rise in the price of a six-room house in St. Louis since last July.

STANDARD FORM NO. 14A
APPROVED BY THE PRESIDENT
MARCH 10, 1926

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

**Mr F R Marshall
Davenport Hotel
Spokane Washington**

Your wires January 15 and 19 re wool prices Letter to you will
go forward today

FOR:ds

JMP

Mr Ross Br-2144

288

**TREASURY DEPARTMENT
WASHINGTON**

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Customs
(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE: 1936 2-14117

January 21 1941

(Signed) **Herbert E. Gaston**

**Herbert E Gaston
Assistant Secretary Treasury**

STANDARD FORM NO. 14A
APPROVED BY THE PRESIDENT
MARCH 10, 1925

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

Mr Ross Br-2144

289

TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

~~Customs~~

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE: 1940 2-14117

Mr F R Marshall
Davenport Hotel
Spokane Washington

January 21 1941

Your wires January 15 and 19 re wool prices Letter to you will
go forward today

(Signed) Herbert E. Gaston

Herbert E Gaston
Assistant Secretary Treasury

FGR:ds

WESTERN UNION

123

CLASS OF SERVICE

This is a full-rate Telegram or Cablegram unless its de- scribed character is in- a suitable ve or pre- the address.

N. B. WHITE
PRESIDENT

NEWCOMB CARLTON
CHAIRMAN OF THE BOARD

J. C. WILLEVER
FIRST VICE-PRESIDENT

SYMBOLS

- DL - Day Letter
- NT - Overnight Telegram
- LC - Deferred Cable
- NLT - Cable Night Letter
- Ship Radiogram

Time shown in the date line on telegrams and day letters is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination

290

CA298 24 NT=SPOKANE WASH 19

JAN 19 7-46

HON HENRY L MORGENTHAU=

DLR TREASURY DEPARTMENT WASHDC=f

REFERENCE MY WIRE 15TH SENT AS SECRETARY NATIONAL WOOL
GROWERS ASSOCIATION REQUEST YOU WIRE REPLY CARE DAVENPORT
HOTEL SPOKANE ON TWO QUESTIONS ASKED YOU=

F R MARSHALL.

Handwritten initials

15.

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

indicated in a newspaper article January 6, which reads as follows:

The Secretary's

The Associated Press statement of January 13 to which you refer in your telegram of the 16th makes the following mention of wool prices. quote Secretary Henry Morgenthau Jr. said today that he had been alarmed by what he called quote unwarranted rises unquote in the prices of lumber, scrap iron and wool, but that Leon Henderson, member of the National Defense Commission had been doing a quote grand job unquote in handling the price situation. / unquote This statement is essentially correct. My concern over the price situation for woolen goods is shared by the Defense Commission as expressed in an earlier press statement dated January 6. quote " Tomorrow, Mr. Henderson has invited representative members of the wool manufacturing industry to Washington to discuss prices on woolen piece goods. Buyers of woolen goods have complained to the Defense Commission of sharply advanced prices on fall lines and of high pressure sales methods by some sellers which tend to create an unnecessary rush to cover requirements at higher prices. It is reported that less than half of the increase in prices now being quoted can be explained on the basis of higher raw wool prices, Mr. Henderson said, adding that such unjustified increases in the cost of piece goods would inevitably be reflected in an increase in the price of retail clothing. It is hoped that this conference will draw the attention of the industry to the importance of preventing the start of an upward spiral in prices and will result in a reconsideration of any contemplated price advances at this time when buyers are covering their fall requirements, the defense commissioner said. unquote I agree with the Defense Commissioner in these views.

ditto

2

2

January 18, 1941.

Mr. Gaston:

~~Commissioner Johnson phoned the following as a suggested paragraph for a reply to make to Mr. F. R. Marshall, of the National Wool Growers Association:~~

~~The~~ information before this Department is that there exists in Uruguay a currency control, which, as administered, may favor certain exports over others. With the exception of manufactured woolen articles wool is not at this time among the favored commodities. The Department is giving intensive study to the Uruguayan control system with the provisions of Section 303 of the Tariff Act in mind.

yes ds

Treasury Department

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TELEGRAPH OFFICE

12W

wy12 M 140 NT

GREAT FALLS MONT JAN 15 1941

HON HENRY MORGENTHAU JR
SECRETARY OF THE TREASURY

WIRING AS SECRETARY NATIONAL WOOL GROWERS' ASSOCIATION REPRESENTING
FIFTEEN THOUSAND WESTERN WOOL GROWERS WISH EXPRESS REGRET PUBLICATION
ASSOCIATED PRESS STATEMENT JANUARY THIRTEEN QUOTING YOU SAYING HAVE
BEEN UNWARRANTED ADVANCE IN WOOL PRICES. WE FEEL THAT CAREFUL CHECKING
WILL CONVINCED YOU THAT STATEMENT IS UNWARRANTED AND UNFAIR TO WOOL
PRODUCING INDUSTRY AND MISLEADING TO CONSUMERS. URGE YOU CONSULT
DEPARTMENT AGRICULTURE "FARM PRICE FIGURES" WHICH SHOW WOOL PRICES

Treasury Department

294

TELEGRAPH OFFICE

12w/2

NOW LOWER THAN FALL 1939 OR 1937 AND LOWER THAN AVERAGE TEN YEARS FOLLOWING 1914. WILL APPRECIATE YOUR WIRING ME DAVENPORT HOTEL SPOKANE SAYING IF YOU WERE QUOTED CORRECTLY AND IF SO IF YOU WILL INVESTIGATE AND ISSUE FAIR CORRECTION. ALSO PLEASE ADVISE IF YOU HAVE COMPLIED WITH SECTION 303 TARIFF ACT WHICH REQUIRES YOU INCREASE DUTY ON WOOL IMPORTED FROM URUGUAY ACCOUNT EXPORT SUBSIDY BEING PAID BY THAT GOVERNMENT. WILL APPRECIATE EARLY REPLY.

F R MARSHALL.

840A

MEMORANDUM

January 21, 1941

TO: The Secretary

FROM: Mr. Young

RE: Present Status of Export Control on Goods Going to Canada

Colonel Maxwell's Working Subcommittee on Proclamations, of which Mr. Buckley is a member, recommended on January 8 that instead of lifting all bans on exports to Canada by proclamation, that the Administrator of Export Control be given the power by proclamation to issue general licenses. The thought behind this was that then special treatment of any particular country such as Canada could be given in a more intelligent fashion on critical and quasi-critical items.

This recommendation was adopted by Colonel Maxwell's Advisory Committee on January 10. Although there was no particular discussion in that meeting as to the type of general license which should be issued, Mr. Buckley tells me that in the Sub-committee there was a more or less general understanding that provision would be made for such information and regular reports as the Defense Commission and Army and Navy Munitions Board felt necessary, as well as for periodic reconsideration of general licenses for specific commodities and for particular destinations.

We were rather taken back, therefore, to discover that the State Department had issued general licenses on January 17, 1940 eliminating export restrictions on all items going to Canada with the exception of tin plate scrap, graphite, plans and specifications for aircraft and related items, and some types of machine tools. This leaves in the neighborhood of one hundred categories of critical and quasi-critical items which are now to go to Canada without any type of prior advice to this Government.

- 2 -

In a meeting of Colonel Maxwell's Working Subcommittee on Proclamations held on January 15, Mr. Buckley explored the basis for this action. It was found that this very broad general licensing scheme had been discussed with Mr. Henderson of the Defense Commission, who said that they would be willing to go along with it for iron and steel products and petroleum products, but no further. Also, it had been discussed with representatives of the Army and Navy Munitions Board, who apparently were opposed to the entire scheme. It had not been discussed with Mr. Chalmers, Chief of the Foreign Tariffs Division of the Bureau of Foreign and Domestic Commerce, who is something of an expert in the techniques being followed by other governments in export licensing, nor had it been discussed with either the Bureau of Customs or my office here in the Treasury.

Apparently this action has been taken by the State Department working in conjunction with and under the authority of the Administrator of Export Control without consultation with some agencies and in spite of the objections of others.

P4.

ALLISON ENGINEERING COMPANY
Deliveries of Airplane Engines

: Actual : Estimated deliveries
: deliveries : on existing orders

	Actual deliveries	Estimated deliveries on existing orders
40		
January.....	10	
May 1 - June 1.....	15	
June 2 - 29.....	31	
June 30 - July 27.....	50	
July 28 - August 31.....	91	
September 1 - 28.....	221	
September 29 - October 5.....	49	
October 6 - 12.....	73	
October 13 - 19.....	61	
October 20 - 26.....	48	
October 27 - November 2.....	80	
November 3 - 9.....	44	
November 10 - 16.....	49	
November 17 - 23.....	19	
November 24 - 30.....	56	
December 1 - 7.....	30	
December 8 - 14.....	86	
December 15 - 21.....	78	
December 22 - 28.....	52	
December 29 - January 4.....	12	
41		
January 5 - 11.....	85	
January 12 - 18.....	43✓	
January 19 - 31.....		212
February.....		356
March.....		400
April.....		450
May.....		460
June.....		460
July.....		475
August.....		550
September.....		625
October.....		750
November.....		800
December.....		800
42		
January.....		455
February.....		277
March.....		225
April.....		225
May.....		207
June.....		66

January 21, 1941.

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

STRICTLY CONFIDENTIAL

ALLISON SHIPMENTS

	: Nov.: :17-23:	Nov.: 24-30:	Dec: 1-7:	Dec.: 8-14:	Dec.: 15-21:	Dec.: 22-28:	Dec.29: Jan. 4:	Jan.: 5-11:	Jan.: 12-18:	Total
British	16	53	29	82	60	46	8	83	41	418
Army	3	3	1	4	18	6	4	2	2	43
Total	19	56	30	86	78	52	12	85	43	461

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

January 21, 1941.

STRICTLY CONFIDENTIAL

EXPORTS OF PETROLEUM PRODUCTS, SCRAP IRON AND SCRAP STEEL
FROM THE UNITED STATES TO JAPAN, RUSSIA, SPAIN, AND GREAT BRITAIN
AS SHOWN BY DEPARTURE PERMITS GRANTED

Week ended January 18, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Gasoline and Gas Oil (including Diesel Oil)	8,807 Bbls.	—	—	53,900 Bbls.
Crude -				
Blended or California High Octane Crude*	—	—	—	—
All Other Crude	—	—	—	—
Gasoline				
Gasoline A**	—	—	—	—
Gasoline B*	157,788 Bbls.	82,000 Bbls.	—	118,500 Bbls.
All Other Gasoline	—	—	—	—
Lubricating Oil -				
Aviation Lubricating Oil***	1,218 Bbls.	—	—	5,019 Bbls.
All Other Lubricating Oil	19,612 Bbls.	—	—	28,551 Bbls.
Triethyl Lead ***	—	—	—	—
Isomers*, such as Iso-Octane, Iso-Hexane, or Iso-Pentane	—	—	—	—
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	—	—	—	580 Tons
All Other Scrap	—	—	—	1,850 Tons

Source: Office of the Secretary of the Treasury, Division of Research and Statistics.

January 21, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

* Any material from which by commercial distillation there can be separated more than 3 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.

** Aviation Gasoline.

*** As defined in the President's regulations of July 26, 1940.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
January 21, 1941.

to Secretary Morgenthau
FROM Mr. Kuhn

Joe Alsop was very appreciative of your message this morning and wanted you to know that "there is nobody in the government whom we would rather please".

J. K.

January 21, 1941

Mr. Kuhn

Secretary Morgenthau

Please call up Joe Alsop this morning and tell him I appreciate very much the way in which he wrote his column.

Capital Parade

By Joseph Aloop and Robert Kintner

Economic Defense: The Next Step

THE BEST PROOF the President meant what he said in his inaugural address is the strong probability that an economic defense effort will soon be tied into the massive economic strength of the American defense program. The United States has not yet been seriously exploited to embarrass the dictators and aid the democracies. But when our economic weapons have been taken down from the wall, we shall finally have embarked on an all-out policy of aid to the democracies by every method short of war.

Although the use of economic weapons has been suggested often, and by many leading members of the Administration, until recently the State Department always opposed the project. The Department feared the grave potential repercussions in international politics. Now, however, it is authoritatively understood that Secretary of State Cordell Hull has given his approval, on the strict condition that no economic axes will be swung without the Department's advice and consent.

SECRETARY HULL'S condition is only sensible, since careful management will be needed to avoid trouble. For example, the worst leak into Germany today is along the trans-Siberian Railroad, which is carrying some 20,000 tons a week of copper, fat, cotton and special war metals, like tungsten and molybdenum. Yet it is desirable not to disturb our present relations with Russia. Stopping the other main leak, the airplane transportation of special war metals from South America to Africa, is also a delicate problem. And freeing all foreign assets in this country, which will be part of the economic defense system, must be done in a way to avoid driving the Japanese into an immediate attack on the Netherlands Indies or Singapore.

If the pitfalls in the way are shrewdly skirted, an economic defense system can be immensely effective. Fortunately, the skeleton of such a system already exists and needs only to be animated and clothed with muscle by a Presidential order coordinating the use of several unrelated governmental powers. There are present powers for each of the five methods of economic attack.

(1) Freezing controls: The Treasury long ago began freezing the American assets of nations occupied by Germany. A general freezing order is now in prospect, after which no nation will be able to use its funds in this country except under Treasury license. Licenses will be freely granted

to Britain and her allies, and for the present, where export embargoes do not stand in the way, to Japan. But the screws can be applied any moment to any nation, as it seems advisable, and will naturally be applied at once to Italy and Germany. The Italians and Germans fearing a freezing order, are even now taking such cash as they can out of this country in hatchelful for deposit in South America.

(2) Monetary controls: Monetary controls may be exercised through the stabilization fund, or by simple intergovernmental lending. The Chinese loan, by which this country will get Chinese tungsten in return for support of the Chinese currency, is an example of the kind of deal that can be made. The even more recent Argentine loan of \$50,000,000 is also understood to have had a number of unpublished clauses putting it in the same category. Monetary controls have the same purpose as freezing controls—to make it more difficult for enemies, and easier for friends, to meet their war needs.

(3) Preclusive buying: This is the most familiar method of economic warfare, by which supplies available to the enemy are previously bought up.

Actually, the raw material needs of this country are now so great that it is difficult to class any purchases as purely aggressive in purpose. At this moment American manufacturers are trying to raid every one of the wartime stock piles built up by Edward R. Stettinius' raw materials division of the Defense Commission. The fact that it would not please the Axis was not entirely forgotten last week, however, at an inter-departmental meeting at which Secretary of Commerce Jesse H. Jones was persuaded to agree to large purchases of Mexican mercury and other vital South American metals. The only steps remaining to be taken are to obtain additional appropriations to finance a large buying program, and to make the buying contracts exclusive, using up all supplies in sight.

(4) Shipping controls: Under an emergency power granted in 1917 and revived by the President's emergency proclamation, ships leaving our ports must obtain clearance from the Treasury office of ship movements. Clearance has been quietly withheld before this, in certain flagrant cases, such as that of an American oil company using its tankers out of Southern ports to fuel German commerce raiders. Shipping controls need only be extended and coordinated with the British bunkering control system.

(5) Economic pressure: American banks and commercial institutions all over the world can exert tremendous influence on behalf of the democracies and against the Axis. They need only be mobilized, and can be very easily.

AS THE AXIS has long used all these methods, whenever possible, to undermine the economic and strategic situation of the United States, there is little reason why this country should not retaliate. Just which governmental agency will be given the job is not yet clear, since the Defense Commission, the Commerce Department, the office of the Administrator of Export Control and the Treasury are all candidates for manager of economic defense.

But even at this stage of the economic defense plan's development, three things are obvious. Some governmental agency will be charged with the coordinated and intensified use of all or most of the above-listed powers and controls. This agency will work under the supervision of the State Department, where the economic adviser's office has long given advice on such matters to other governmental organizations. And it will work in close cooperation with the British Ministry of Economic Warfare, with which a liaison will be established through British officials here. If the plan goes through, in fact, it will be a well-conceived step in the direction so timely pointed to by the President.

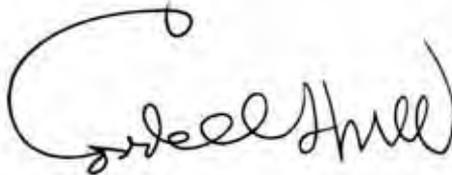
THE SECRETARY OF STATE
WASHINGTON

January 21, 1941.

My dear Henry:

I want to thank you for your recent letter enclosing a memorandum prepared by Mr. Philip Young regarding the work of the Interdepartmental Committee for Coordination of Foreign and Domestic Military Purchases. Your courtesy in making the memorandum available to me is greatly appreciated.

Sincerely yours,

A handwritten signature in cursive script, reading "Cordell Hull". The signature is written in dark ink and is positioned above the typed name of the sender.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE January 21, 1941

TO Secretary Morgenthau
 FROM Mr. Haas
 Subject: Proposed New Issue of National Defense Notes

The attached chart shows the yields of outstanding Treasury notes based on Monday's closing bid prices. On this basis it would appear that the proposed new issue of National Defense notes could be offered successfully as 3/4's due on December 15, 1944, as 7/8's due on September 15, 1945, or as 1's due February 1, 1946. The estimated yield bases and probable premiums for these issues are as follows:

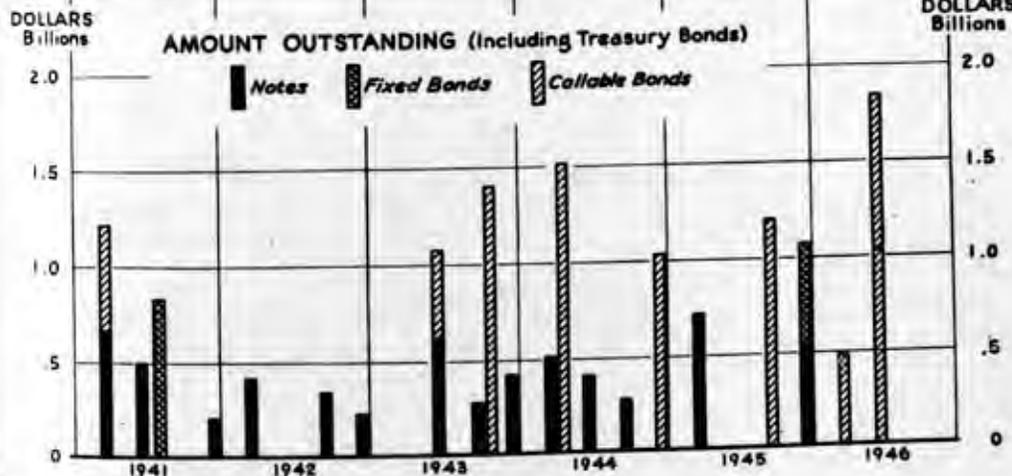
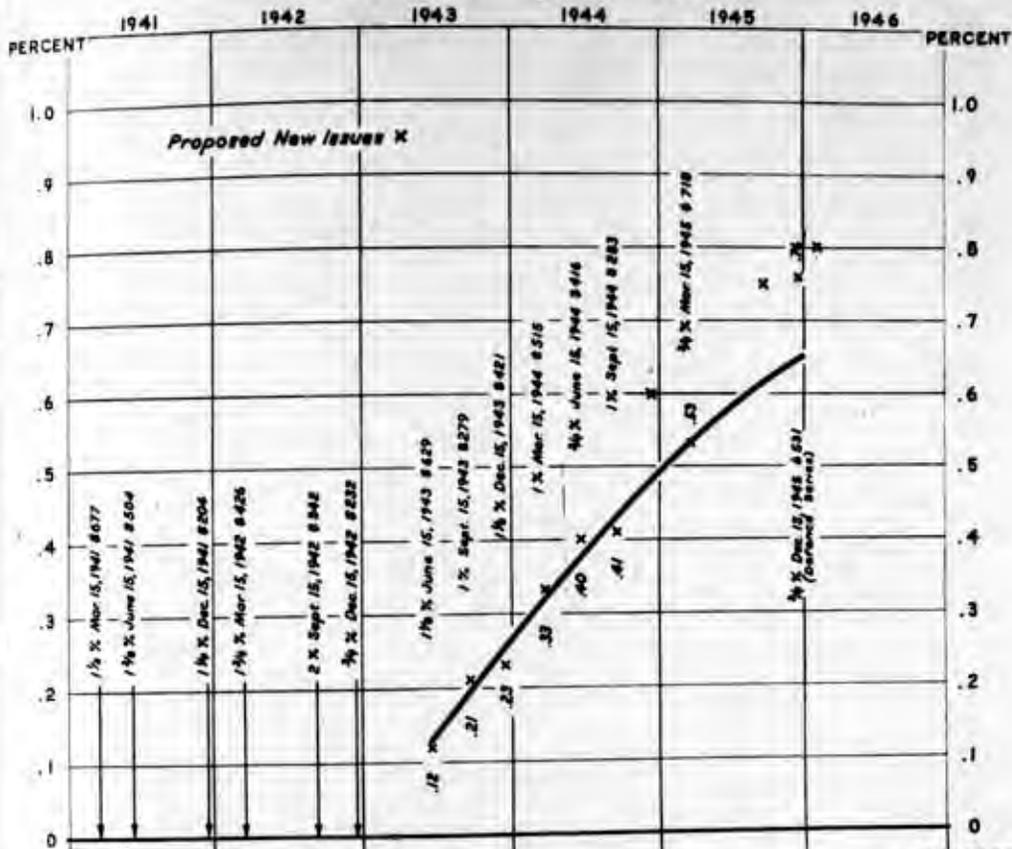
Maturity	Coupon	Estimated yield basis	Probable premium
December 15, 1944 (3 years, 10-1/2 months)	3/4	.60	18/32
September 15, 1945 (4 years, 7-1/2 months)	7/8	.75	18/32
February 1, 1946 (5 years)	7/8 1	.80 .80	12/32 31/32

There are no note or bond maturities on any of the dates suggested, although each of the first two of them is the first call date for a large issue of bonds. This should cause no concern, however, as such calls will not have to be exercised unless convenient.

The table indicates that a 5-year Defense note with a 7/8 percent coupon would probably be too thin. If the estimated yield basis on an issue of this maturity should turn out to be too optimistic by 5 basis points, the premium on a 7/8 percent note would be only 4/32. On the other hand, all of the other issues in the table could successfully withstand a drop in the market equivalent to a 5-basis point increase in yields. An additional margin of safety of about 5/32 could be obtained in the cases of the first two issues suggested in the table by shortening their maturities by three months.

YIELDS OF TREASURY NOTES JAN. 20, 1941

Based on Closing Bid Prices



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 21, 1941

TO Secretary Morgenthau

FROM W. H. Hadley

DEFENSE NOTES

<u>Approx. Term</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Yield</u>	<u>Price</u>	<u>Premium</u>
3 yrs. 8 mos.	3/4%	9/15/44	0.58 0.62	100.20 100.15	20/32nds 15/32nds
* 3 yrs. 11 mos.	3/4%	12/15/44	0.63 0.66	100.15 100.12	15/32nds 12/32nds
* 4 yrs. 5 mos.	3/4%	6/15/45	0.71 0.73	100.7 100.4	7/32nds 4/32nds
	7/8%	6/15/45	0.71 0.73	100.25 100.22	25/32nds 22/32nds
* 4 yrs. 8 mos.	7/8%	9/15/45	0.74 0.75	100.20 100.18	20/32nds 18/32nds
* 5 years	7/8%	2/1/46	0.79 0.80	100.14 100.12	14/32nds 12/32nds

* Open dates for notes.

WILLARD HOTEL, WASHINGTON, D. C.



TELEPHONE REPUBLIC 7860

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>
(See Note 1)				
Product	\$383,850,000	\$179,000,000	\$ 562,850,000	\$140,000,000
Capital	-	-	-	-
<u>W E A P O N S & O R D N A N C E</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>A I R O R D E R S & M A R I N E</u>				
<u>E Q U I P M E N T</u>				
Product	112,500,000	-	112,500,000	28,000,000
Capital	8,500,000	-	8,500,000	8,500,000
<u>M I S C E L L A N E O U S</u>				
Product	50,000,000	-	50,000,000	20,000,000
Capital	-	-	-	-
<u>A I R C R A F T</u>				
Product	835,570,000	344,715,000	1,180,285,000	302,000,000
Capital	<u>48,070,000</u>	<u>30,890,000</u>	<u>78,960,000</u>	<u>78,960,000</u>
TOTAL	<u>\$883,640,000</u>	<u>\$375,605,000</u>	<u>\$1,259,245,000</u>	<u>\$380,960,000</u>

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

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	* <u>Units</u>	<u>Product</u>	<u>Capital</u>
) <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	-
		<hr/> \$293,850,000	-

* 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 PBV-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 PBV-5 Flying Boats	40,000,000	-
Glenn L. Martin Co.	* 60 PBM-3 Flying Boats	20,000,000	-
Consolidated Aircraft Corp.	* 60 PB2Y Flying Boats	20,000,000	-
		<hr/> \$90,000,000	<hr/> -
	TOTAL U.S. TYPES	<hr/> \$383,850,000 <hr/>	<hr/> - <hr/>

* 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.

	<u>Units</u>		<u>Product</u>	<u>Capital</u>
<u>S & ORDNANCE</u>				
<u>U.S. types - Military</u>				
Various Suppliers	205,000	.30 Rifles	\$10,000,000	\$3,500,000
General Motors Corp.	24,000	20 mm. Hispano Cannon	40,000,000	15,000,000
Chrysler Corp. or other	2,000	Bofers guns	23,000,000	2,000,000
Houde & 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 Dorn 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
Blaw 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
Blaw Knox Co. (Union Steel Castings Division)	1,000	Turret and other small castings for M3 Tanks	4,600,000	400,000
Midvale Co.	1,000	75 mm. Tank Gun Forgings	445,000	-
Hannifen 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>\$228,520,000</u>	<u>\$33,570,000</u>

	<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/>
		\$289,220,000	\$39,570,000
		<hr/> <hr/>	<hr/> <hr/>
	TOTAL U. S. TYPES		

	<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	-
Vimalert Co.	1,000	Liberty Engines for British tanks 8,000,000	-
Winchester	300,000,000	.303 SAA 14,000,000	-
Various suppliers	Various	Fuzes (#119,231, 254, etc.) 16,000,000	-
Buckeye 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
Koehring 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>

British Embassy,

Washington, D. C.

January 21, 1941

Dear Merle,

I think you know about most of the things which M r. D'Arcy Cooper did succeed in doing while he was here.

There were a few things also on which he was unable to make any substantial progress, and the enclosed note gives a short description of these points.

I do not know whether the Secretary will have time to look at this, but he may care to note that these points were at least tried out.

Yours ever,

(Signed) Jerry Pinsent.

Mr. H. Merle Cochran,
Treasury,
Washington, D. C.

COPY:lap

U O P T

1. Among other matters which the President of the Board of Trade asked Mr. D'Arcy Cooper to investigate during his recent visit to the United States was the question whether any orders for the equipment and clothing of the armed forces of the United States could be placed in the United Kingdom. Mr. Cooper was also asked to follow up any and every possibility for the expansion of the United Kingdom's trade with the United States.
2. In pursuance of these instructions and on the advice of Mr. Philip Young of the Treasury, Mr. Cooper sought interviews with Mr. Patterson, Under-Secretary of the War Department and Mr. Forestal, Under-Secretary of the Navy Department.
3. Mr. Patterson undertook to find out from the Quartermaster General which of the more important requirements of the United States Army were likely to be in short supply from domestic sources and which might not be available at reasonable prices.
4. It was not possible to arrange an interview with Mr. Forrestal.
5. Mr. Cooper did, however, see Mr. Jesse Jones and sent him a list of the more important commodities, normally imported into the United States from various parts of the Empire, of which the United States Government might require supplies. This list included cocoa, lead, jute burlaps, shellac, tea, copra and sisal. It did not, as Mr. Cooper explained, include tin or rubber (which had recently been discussed by Sir John Hay and Mr. Lowinger) or wool (because discussions about the accumulation of a strategic reserve were actually going on). At the request of Mr. Jones, Mr. Cooper saw Mr. W.L. Batt of the National Defense Advisory Council, who in turn referred him to Mr. Donald Nelson, Coordinator of National Defense Purchases.
6. The upshot of these discussions was a memorandum from the Quartermaster General setting out a list of raw materials and of semi-manufactured and manufactured articles, classified according to the degree of scarcity and liability to increases of price but offering "competitive possibilities". The memorandum stated the "requirements for all major items of textiles", which Mr. Cooper had particularly emphasized the ability of United Kingdom industry to supply, "have been contracted for". The memorandum also stated that the domestic industry could "carry the load" of the additional large reserve of cloth for overcoats, coats, shirts and trousers which the Quartermaster General was anxious to secure, but for which no funds were available. The domestic industry was also said to be able to meet requirements of shoes and leather goods. It proved that arrangements for the supply of most of the materials of which the greatest scarcity was indicated

- 2 -

were already in hand. The Quartermaster General's office has been asked to provide further particulars as to methods and conditions of purchase, quantities and specifications, etc., etc.

7. Another commodity which seemed to Mr. Cooper to offer special possibilities was cocoa. He accordingly suggested to Mr. Nelson that chocolate should be included in the rations of the Army and the Navy. The reply was that they were already using substantial quantities and were expecting to use more. The Co-ordinator of National Defense Purchases promised to keep the matter before him and to do what he could to see that cocoa and chocolate were "given their proper place in Army diet".

8. It will be seen that the various departments of the U.S. Government are aware of the commodities of which the U.S. Government may be in need and which the British Empire is in a position to supply. It is difficult for H.M. Government to do more unless and until the U.S. Government is ready to place orders.

dm

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE January 21, 1941

TO Secretary Morgenthau

FROM Mr. Klaus

FBI reports:

January 16. More on Vera Montgomery and Leopold Hugo Paul Klotz. Vera is reported to be "two-timing" with one William C. Brady of Corpus Christi, Texas, who is in communication with Portes Gil, former president of Mexico, whom he is to meet at San Antonio January 21 with a brother, Lawrence Brady, and several other unidentified persons. FBI is "conducting a thorough investigation" of this case.

January 16. More concerning German propaganda on phonograph records consigned to the German Consulate General, New York City, from the German Embassy in Tokyo. The records are in English and consist of speeches on "The Importance of the Surrender of British Possessions to the U.S.A.," "The Convoy System," "Germany's Total Blockade Declared Over Britain," "The Organization Todt and its Reconstruction Work," "German Film Production in War Time," "Emil von Behring, The Man and His Work," "Construction of Workers' Homesteads in Germany," "The German Labor Front's Cultural Program," "Labor Policy in Germany," "German Agricultural Engineering in War Times," and "Modern Industrial Chemistry in the United States and in Germany."

January 17. Malcolm Read Lovell, Executive Secretary of the Quaker Service Council, 26 East 38th Street, New York City (whose accounts are being monitored by FBI) is, according to a source in the German Embassy, working for a peace movement for the purposes of which he has introduced Henry Luce to an Embassy official on the representation that Luce wants information concerning conditions in Nazi Germany and Luce is making arrangements to send ex-Ambassador Cudahy to Germany for Fortune Magazine. This German Embassy official is said to have remarked that America does not have sufficient raw material to overcome the bottleneck in the defense program and that help to England will be too late.

January 18. "A source close to the German Embassy" reports that the German Embassy official says that General Weygand has been supplying General Graziani with fuel and that Weygand is loyal to his superiors' agreement with Germany; he had received word that Wilhelmshaven sustained a terrific bombardment by the R.A.F. and pointed out that the Germans did not need to land in Ireland in order to keep control over the British Isles which they accomplish by long-range bombers from French coastal points.

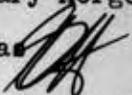
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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE January 21, 1941

TO Secretary Morgenthau

FROM Mr. Haas 

Work Projects Administration employment, during the week ended January 8, 1941, increased to 1,887,000 persons, over the 1,880,000 reported for the preceding week.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending	Number of Workers (In thousands)
1940-41	
June 5	1,858
June 12	1,785
June 19	1,714
June 26	1,665
July 3	
July 10	1,608
July 17	1,620
July 24	1,659
July 31	1,690
August 7	1,701
August 14	1,709
August 21	1,708
August 28	1,698
September 4	1,691
September 11	1,690
September 18	1,687
September 25	1,689
October 2	1,704
October 9	1,747
October 16	1,762
October 23	1,768
October 30	1,776
November 6	1,779
November 13	1,783
November 20	1,785
November 27	1,806
December 4	1,820
December 11	1,832
December 18	1,855
December 25	1,872
January 1	1,878
January 8	1,880
	1,887

Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
 Number of Workers Employed - Monthly
 United States

	Number of Workers (In thousands)
1938	
July	
August	3,053
September	3,171
October	3,228
November	3,346
December	3,287
1939	3,094
January	
February	2,986
March	3,043
April	2,980
May	2,751
June	2,600
July	2,551
August	2,200
September	1,842
October	1,790
November	1,902
December	2,024
1940	2,152
January	
February	2,266
March	2,324
April	2,288
May	2,092
June	1,926
July	1,668
August	1,701
September	1,691
October	1,704
November	1,779
December	1,820
	1,878

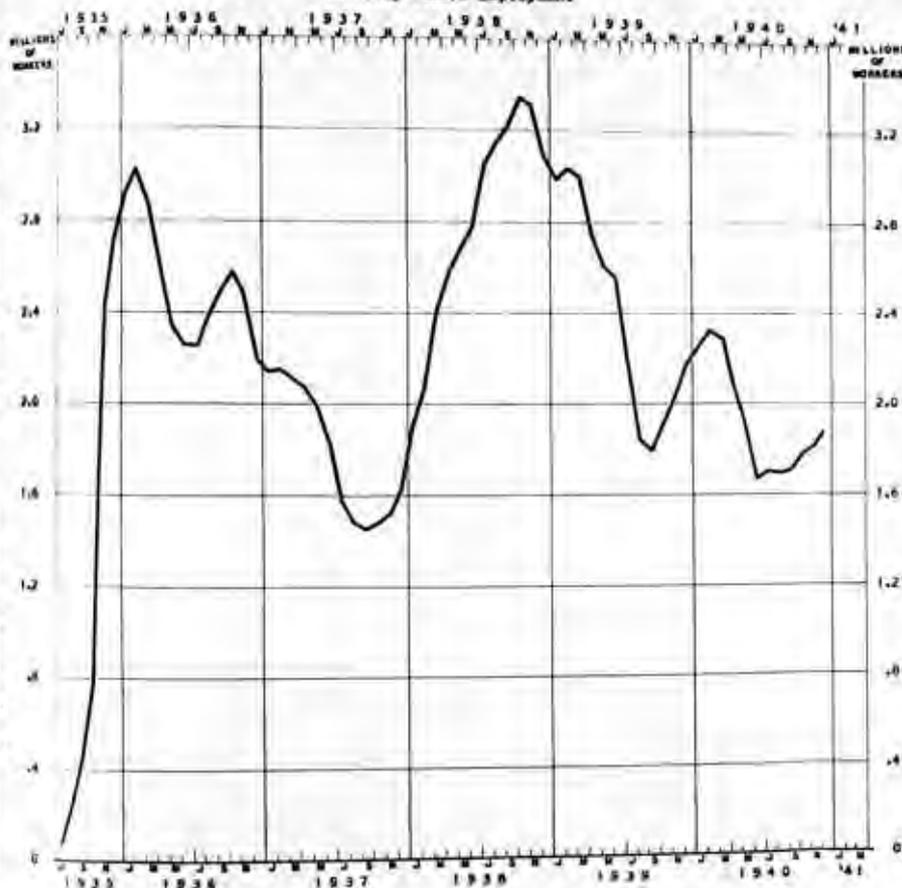
Source: Work Projects Administration

Monthly figures are weekly figures for the latest week of the month.

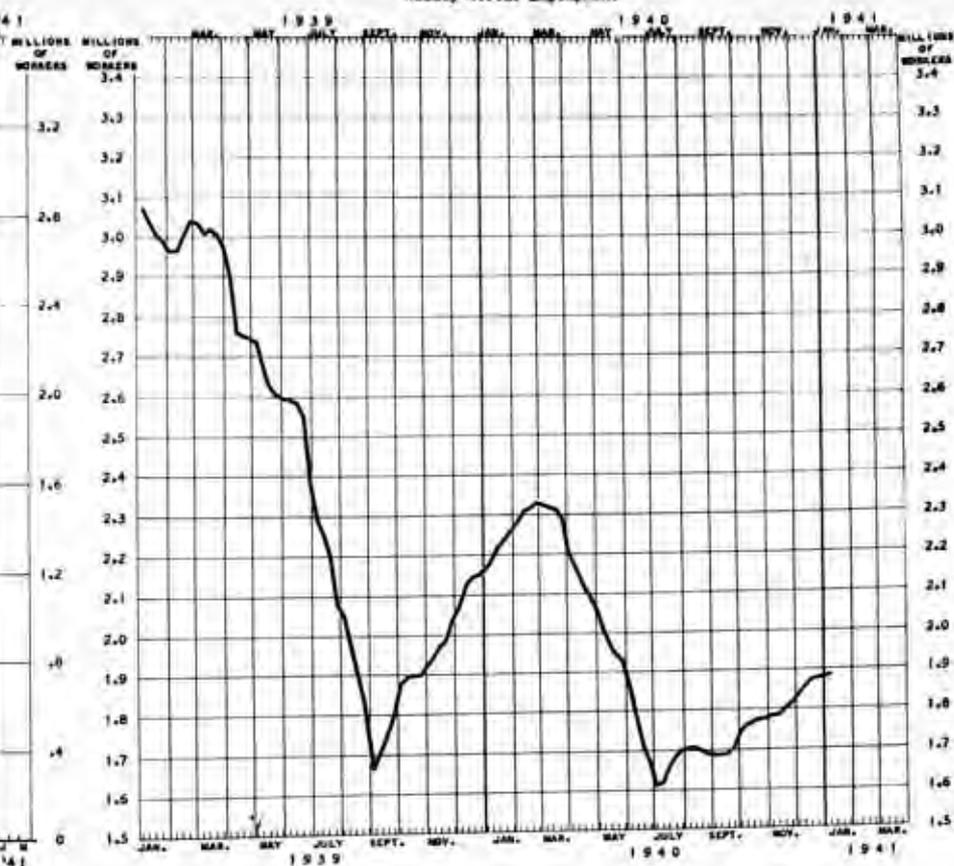
They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE January 21, 1941

TO Secretary Morgenthau
FROM Mr. Nease
Subject: The Business Situation,
Week ending January 18, 1941.

Summary

(1) Business activity, after allowance for seasonal factors, is fully maintaining the gains scored in December. The New York Times and Barron's indexes of business activity reached new high levels in the week ended January 11. Steel operations for the current week are scheduled at a new high rate of 99.1 per cent of capacity, up 0.6 from last week.

(2) Retail trade showed a slightly greater than seasonal expansion in December and reached new high levels for the year. Department store sales and retail sales of new automobiles thus far in January are showing substantial gains over year-earlier levels.

(3) Primarily because of higher prices for hogs, the BLS index of 12 food prices increased noticeably last week. The index of industrial material prices was lower, with a decline in steel scrap prices the predominant influence.

(4) The cost of living index rose 0.3 point to 82.3 in December (1926 = 100) largely because of an increase in food prices. This represents an increase of 1.5 per cent since December 1939. The further rise in food prices in January, if continued, may cause another advance in the cost of living.

(5) Steel buying continues in heavy volume. New orders received by the U. S. Steel Corporation in the week ended January 9 rose sharply to 170 per cent of capacity. Steel scrap prices are lower, but market quotations are regarded as largely nominal and the situation is still unsettled.

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- 2 -

Business activity maintains fast pace

After experiencing the usual interruptions to production during the holidays, data now available for the post holiday period indicate that business activity on a seasonally-adjusted basis is fully maintaining the fast pace set in December. As a matter of fact, during the first full working week of the new year, both the New York Times and Barron's indexes of business activity pushed ahead of their December highs. Steel ingot production has advanced to record levels, automobile production for the past two weeks has been running in excess of all previous January production rates, while typical war material industries such as aircraft, machinery, etc., are reported by the Federal Reserve Board to have stepped up operations further.

At the same time, due largely to a sharp rise in new orders for steel to the highest levels since September 1939, our new orders index has again turned upward with a strong gain. (See Chart 1.) The combined index, as well as the steel and textile components, have shown marked recoveries from the decline which occurred during the Christmas holiday week.

Retail trade rising

As might be expected in view of the rising trend of employment and payrolls, retail trade has been showing noticeable gains. Thus seasonally adjusted department store sales in December rose slightly above the previous month, and reached the highest point since October 1930. (See Chart 2.) On a volume basis, the comparison with this earlier year is considerably more favorable, in view of the lower price level now prevailing.

Reference to Chart 2 will show that variety store sales in December on a seasonally-adjusted basis maintained the high level reached in November. Complete figures on rural retail sales in December are not yet available.

Although department store sales in the week ended January 4 showed only a 4 per cent gain over the corresponding week of 1940, the gain in the week ended January 11 over year-earlier levels amounted to 16 per cent, with the Philadelphia, St. Louis, and Richmond districts showing substantially greater increases.

- 3 -

Another evidence of rising public purchasing power may be seen in current reports of record retail sales of new automobiles for this time of the year. Preliminary reports for the first 10 days of January indicate a gain over year-earlier levels of around 20 per cent. General Motors, in fact, reports a gain of 31 per cent in new car sales above the first period of January 1940.

One factor which may detract somewhat from the significance of current automobile sales and production figures, is that the industry, and to some extent consumers, may be anticipating requirements for fear of eventual curtailments in production arising out of the defense program. In this connection it is interesting to note that the Automobile Manufacturers Association have just announced that the annual national automobile show, which has been held for the past 41 years, would not be held this year. However, no indication has been given that new 1942 models will not be brought out.

Food prices increased strongly

The BLS price index of 12 foodstuffs increased 1.9 per cent last week (see Chart 3), the most important influence being an increase in the price of hogs.

Hog prices increased 11.1 per cent in the week ended January 17, by far the greatest increase shown by any of the 12 foodstuffs included in the index. Trade comments attribute the increase primarily to unfavorable highway conditions brought on by unseasonably warm weather, which caused reduced country marketings. While the underlying situation continues bullish, in view of the prospect for a substantial reduction in the spring pig crop while consumer incomes are rising, the present cold wave will doubtless bring increased marketings and somewhat lower prices.

Lard prices advanced last week under the influence of hog prices, although stocks of lard are increasing. Lard stocks in Chicago increased over 1,000,000 pounds during the first two weeks of 1941, reaching 187,000,000 pounds on January 14. Export trade in lard continued disappointing, although Japanese interests are reported in the press to have purchased 800 tons within the past month. Delivery of lard recently purchased by Russia on the Chicago Board of Trade, according to press reports, may be delayed because of lack of facilities for transportation, as the Maritime Commission is reported to have refused permission to accept this business on the part of United States vessels originally chartered

- 4 -

from the North Atlantic seaboard to Vladivostock. Permission is reported later to have been granted for the use of one of the ships.

Tallow prices have resumed their advance, showing a substantial increase last week on reports of increased purchases by soap manufacturers, but are still at relatively low levels.

Raw industrial materials prices lower

The declines in the two steel scrap items were a major influence in the 0.8 point decline in the price index of raw industrial materials. (Shown in Chart 3.) Rosin prices also declined noticeably, and rubber was moderately lower. These were offset in part by moderately higher prices for wool, hides, and flaxseed.

The drop in the price of rosin reflects heavier offerings. Rubber prices declined moderately on publication of somewhat bearish year-end figures of the rubber position. Stocks of crude rubber in the United States at the end of December were 318,000 tons, in addition to 146,000 tons afloat and finished goods inventories approximating an additional three months' supply. Reserve supplies in the hands of the Government totaled 113,000 tons. The combined total is considerably more than twice the supply six months ago. Rubber consumption in the United States set a new record in 1940 at 618,000 tons compared with 592,000 tons in 1939.

Wool prices resumed their advance as mill buying increased. A tight situation has developed in the top combing and dyeing sections of the industry, according to trade comments, and present indications are that there will be no alleviation until well into the second quarter of the year, when the domestic clip will become available.

Hide futures showed noticeable weakness at the end of last week, contrasting with a moderate increase in spot prices, on news of an accumulation of supply in packers' hands and reports that tanners are amply supplied. This may foreshadow a reduction in spot quotations.

Copper and zinc futures showed increases last week although no change was reported in the spot prices, both of which are nominal. The increase in zinc futures was sharp, with the heaviest volume of trading in many weeks. Trade reports explain the buying of copper futures as representing trade rather

than speculative buying. Japanese interests are said to have been unsuccessful in securing copper and zinc to be delivered before the export licensing system becomes effective on February 3, although they have offered substantial premiums in price.

Selected industrial materials show diverse movements

In Chart 4, recent price movements are shown for 18 selected industrial materials which, in December, had risen 25 per cent or more above their 1940 lows. It will be noted that, among this selected group, fairly substantial declines are shown for pine timbers, sheep skins, shellac, and paraffin wax. On the other hand, sharp price increases are shown by tartaric acid (now 64.5 per cent above its 1940 low), by turpentine, and calf skins. Fine wool (Ohio delaine) has also advanced further. Tartaric acid is used in industry for setting dyes on both woolen and cotton cloth, in addition to its well-known use in baking powder.

In Chart 5, the most recent quotation for each of these 18 commodities is shown in its relation to prices for that commodity over the past 6 years.

It will be noted that for a number of commodities, in which extensive price increases have recently occurred, the percentage increase from the 1940 low has not yet been as great as in certain previous years, nor have prices risen as high in many cases as they did in 1937 or in 1939.

It is important to keep in mind, however, that prices in the two earlier years were raised to artificially high levels, by speculative buying in 1937 and by the war scare in 1939. In each case the over-buying responsible for the increase in prices eventually brought its own correction. With the exception of the temporary periods in 1937 and 1939, present prices for 10 of the 18 selected commodities are higher than in any of the past 6 years.

In connection with the decline in the price of pine timbers (selected as the ELS lumber item showing the largest previous rise), it may be mentioned that the ELS index of lumber prices as a whole (44 items) declined only to 118.5 in the first week of January, and has since held unchanged at that figure, as compared with a peak of 119.3 in the last week of December. A shortage of ocean shipping space for lumber from the Pacific Coast, according to some trade comments, may result in higher lumber prices.

- 6 -

Consumer food costs higher in December

The cost of living increased to 82.3 in December from 82.0 in November, according to the NICB index (1926 = 100). (See Chart 6.) This represents an increase of 1.5 per cent from December 1939. The increase of 1.3 per cent in the food component almost entirely explains the advance over the November figure. The steep rise in wholesale prices of basic foodstuffs in early January, if continued, may cause a further increase in the cost of living for January.

Steel scrap market unsettled

Since the request for a cut in steel scrap prices was made by the Defense Commission on January 7, a decline in prices has occurred, but quotations are still reported as largely nominal pending clarification of the whole market situation. At the end of the week, No. 1 heavy melting scrap at Pittsburgh was quoted nominally at \$21.50 to \$22.00 per ton as compared with \$23.50 to \$24.00 per ton prior to the request for the price cut.

Steel buying heavy

Since the holiday period, another wave of heavy steel buying has set in, with the U. S. Steel Corporation reporting incoming orders for the first full week of the new year at no less than 170 per cent of capacity. This is the highest level reached since the heavy buying movement of September 1939. The Iron Age reports that nearly all steel companies are sold out for the first quarter, with exceptions being made, however, for defense requirements. It is further stated that the bulk of current orders is for the second quarter of the year. Fear of the imminence of mandatory priorities and generous estimating of future requirements by consumers have doubtless been factors in this heavy steel buying.

In view of the heavy pressure for increased production, the steel industry has managed to increase operations to a scheduled rate of 99.1 per cent of capacity during the current week, thus setting a new all-time record for weekly tonnage output. This rate compares with 98.5 per cent last week.

In connection with recent discussions of possible bottlenecks in steel production, it is interesting to note that coke supplies, which have been the cause of some concern, are now reported to be adequate. The Office of Production Management

- 7 -

recently conducted a survey of the steel industry and found that all companies are more than adequately supplied with full requirements and that some companies are even increasing their coke inventories.

Defense program boosts residential construction figures

Due to a further increase in contracts awarded for defense construction, the December figure for residential construction contract awards as reported by the F. W. Dodge Corporation reached a new high for any month since July 1929. Reference to Chart 7 will disclose that while total contracts awarded were rising to a new monthly high, mortgages selected for appraisal by the FHA (representing purely civilian construction) were showing the customary year-end decline. It will also be noted that the usual correlation between contract awards and mortgages selected for appraisal has been replaced, in the closing months of the year, with a pronounced divergence.

This disparity is due to the growing proportion of total contract awards which are accounted for by the defense program. Thus, 60 per cent of the \$71,000,000 gain from December 1939 to December 1940 was due to a rise of \$42,000,000 in the classification listed as "other shelter" which includes much military construction. At the same time, contracts awarded for one-family dwellings to be occupied by the owner rose by only a little over \$1,000,000 or 4 per cent. One-family dwellings for sale or rent, however, rose by \$14,000,000 or 34 per cent.

Reference to the lower section of Chart 7 will show that mortgages selected for appraisal by the FHA in the opening weeks of the current year were about the same as in 1939.

Weekly business indexes

The New York Times weekly index of business activity during the week ended January 11 advanced 0.9 and thus reached a new record high at 123.5.

The adjusted indexes of automobile and paperboard production, cotton mill activity and "all other" carloadings all showed substantial gains, while the only decline of consequence occurred in the adjusted index of electric power production. Fractional declines occurred in the adjusted indexes of steel ingot production and miscellaneous freight carloadings, and a moderate rise was shown by the adjusted index of lumber production.

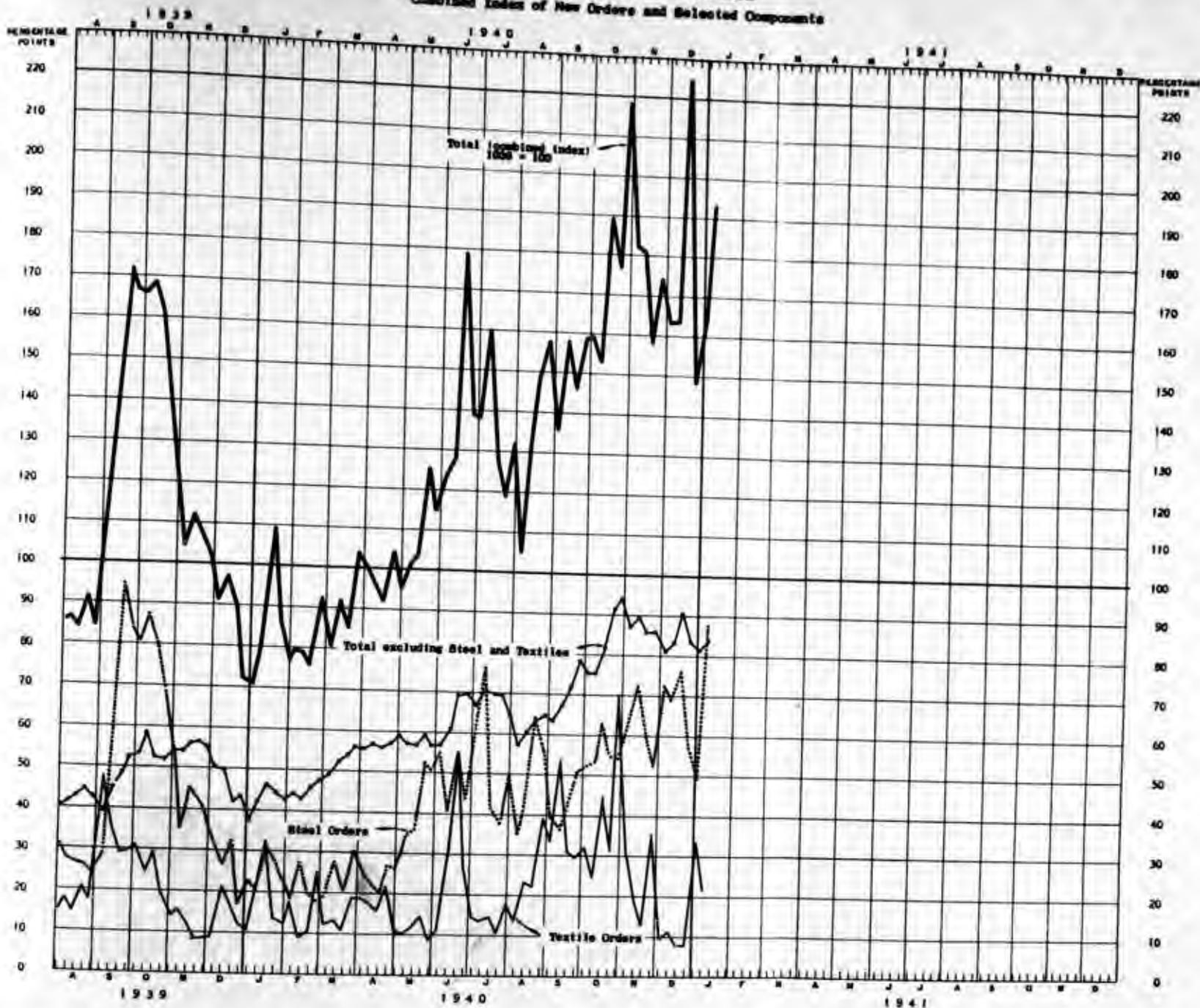
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Barron's index of business activity during the week ended January 11 rose at a faster pace than the Times' index, reaching a new high at 128.0 as compared with 125.6 in the previous week.

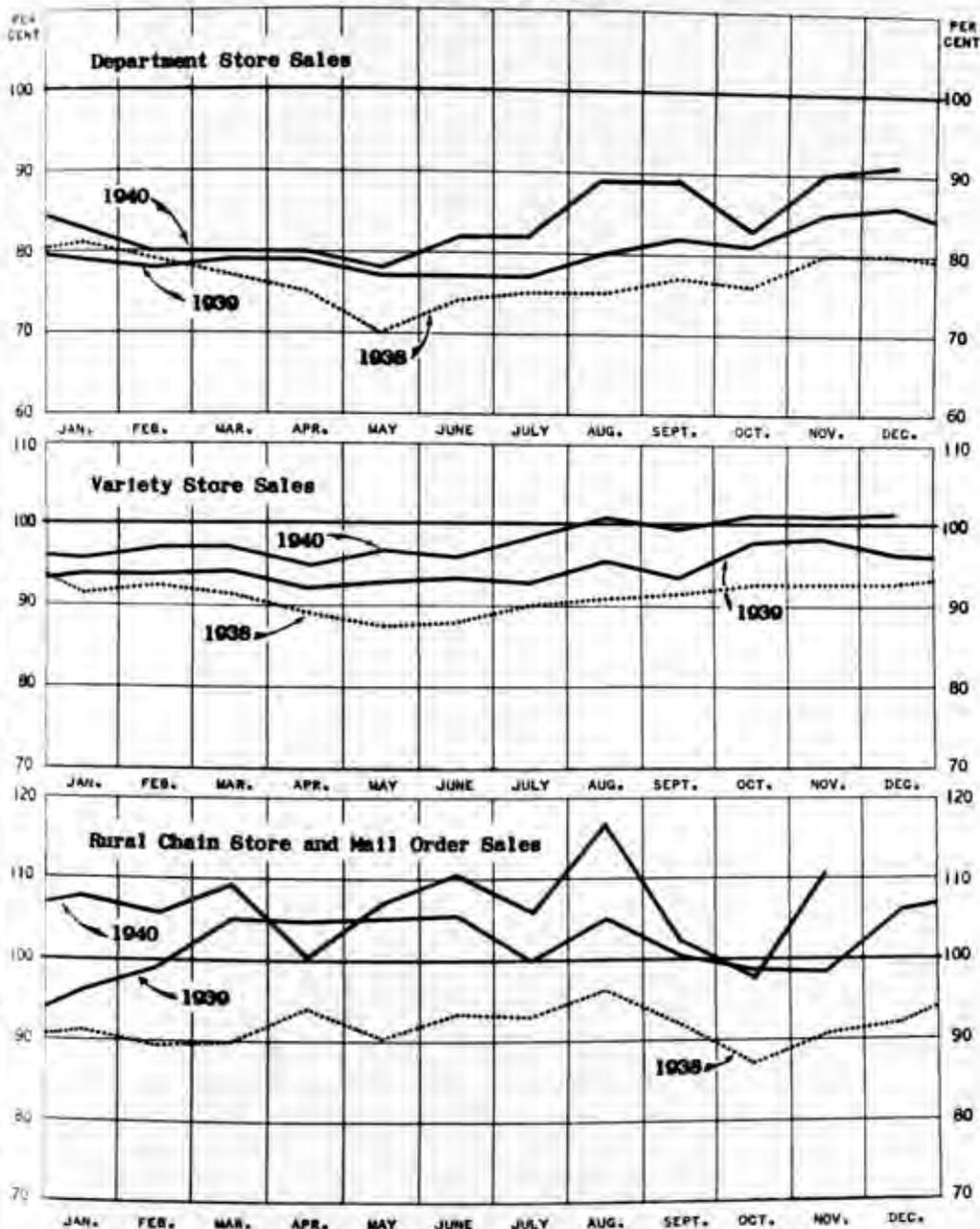
Preliminary data for the week ended January 18 reveal a less than seasonal rise in steel ingot production, and a greater than seasonal rise in automobile production, which carried weekly output up to 124,000 units from 116,000 in the previous week.

INDEXES OF NEW ORDERS

Combined Index of New Orders and Selected Components

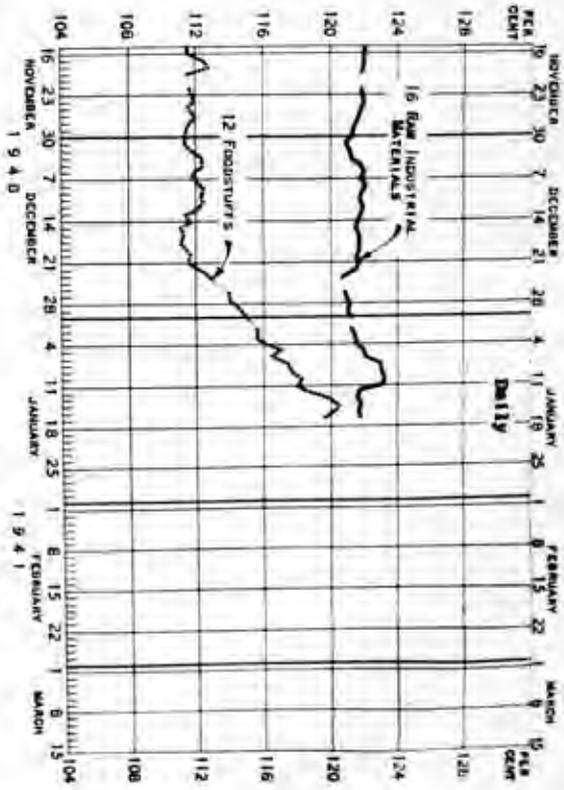
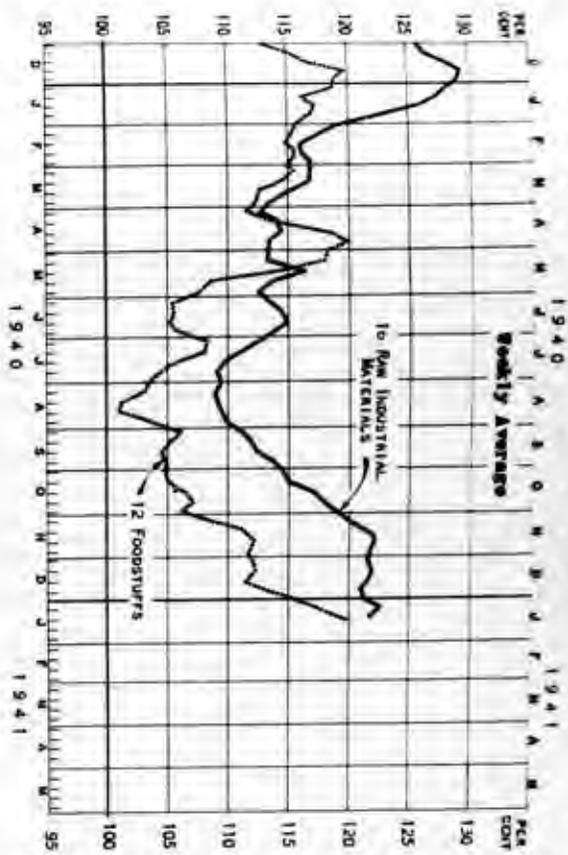


RETAIL TRADE
Urban and Rural Sales of General Merchandise
 1929 = 100, Adjusted

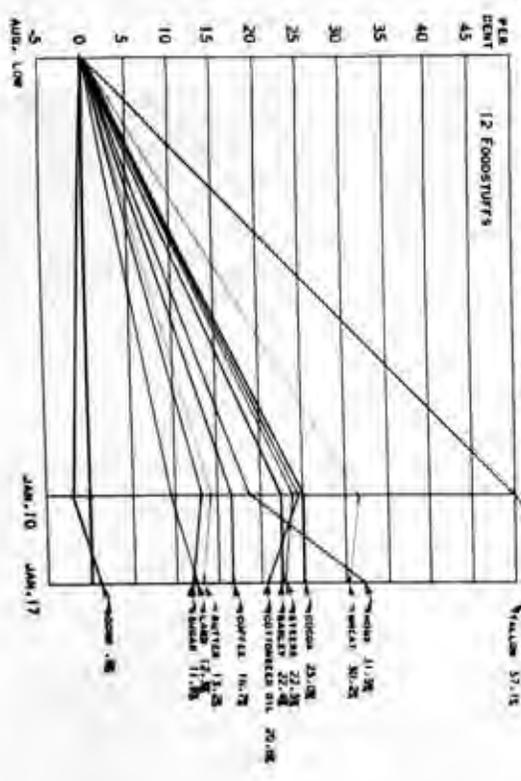
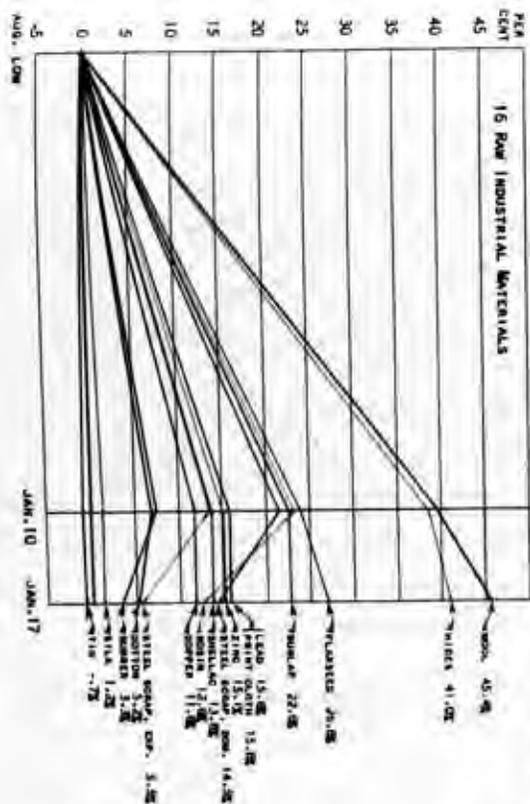


MOVEMENT OF BASIC COMMODITY PRICES

August 1939 = 100



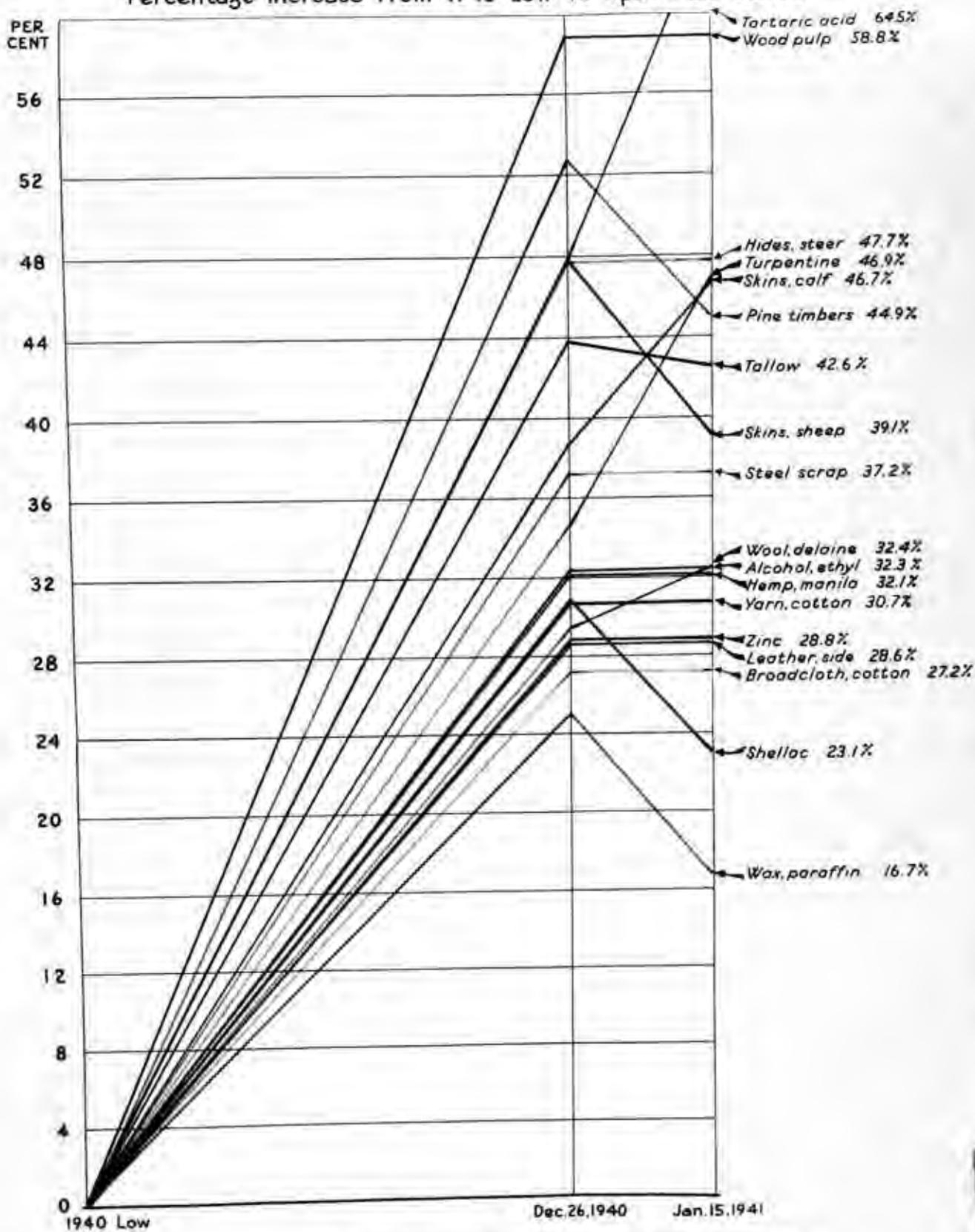
Percentage Change for Individual Commodities, August 1940 Low to January 10, 1941, and to January 17, 1941



Office of the Secretary of the Treasury
Bureau of Economic Warfare

PRICE INCREASES FOR SELECTED INDUSTRIAL MATERIALS

Percentage Increase From 1940 Low To Specified Dates*

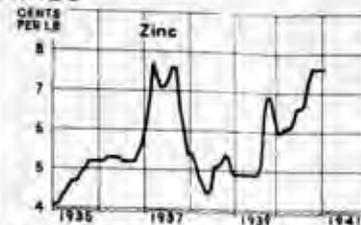


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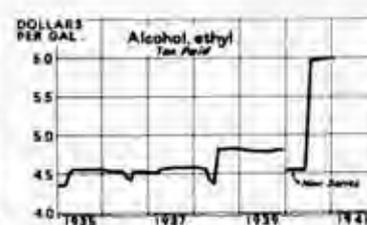
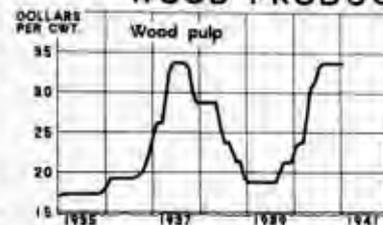
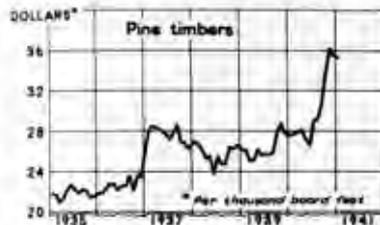
* Latest quotations available on Dec. 26, 1940 and Jan. 15, 1941
 Source: B.L.S.

PRICES OF SELECTED INDUSTRIAL MATERIALS, MONTHLY

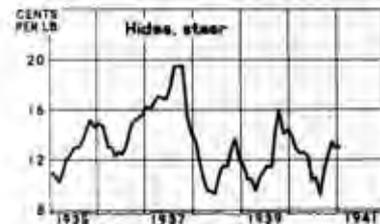
METALS



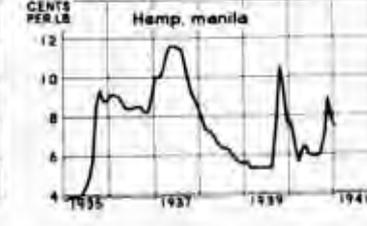
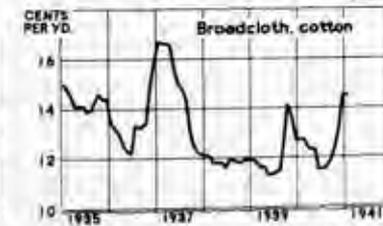
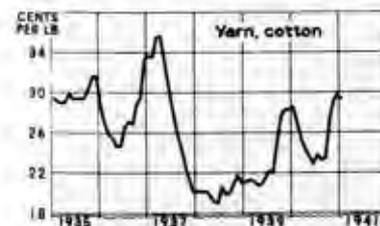
WOOD PRODUCTS AND ALCOHOL



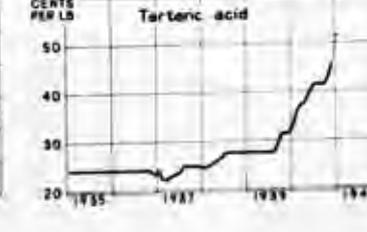
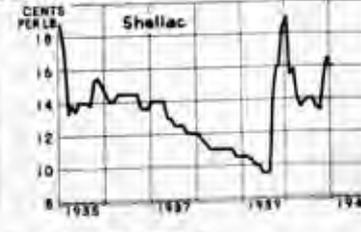
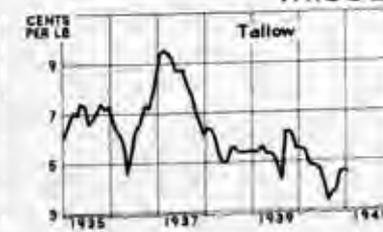
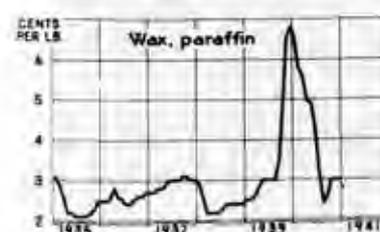
HIDES AND LEATHER



TEXTILES

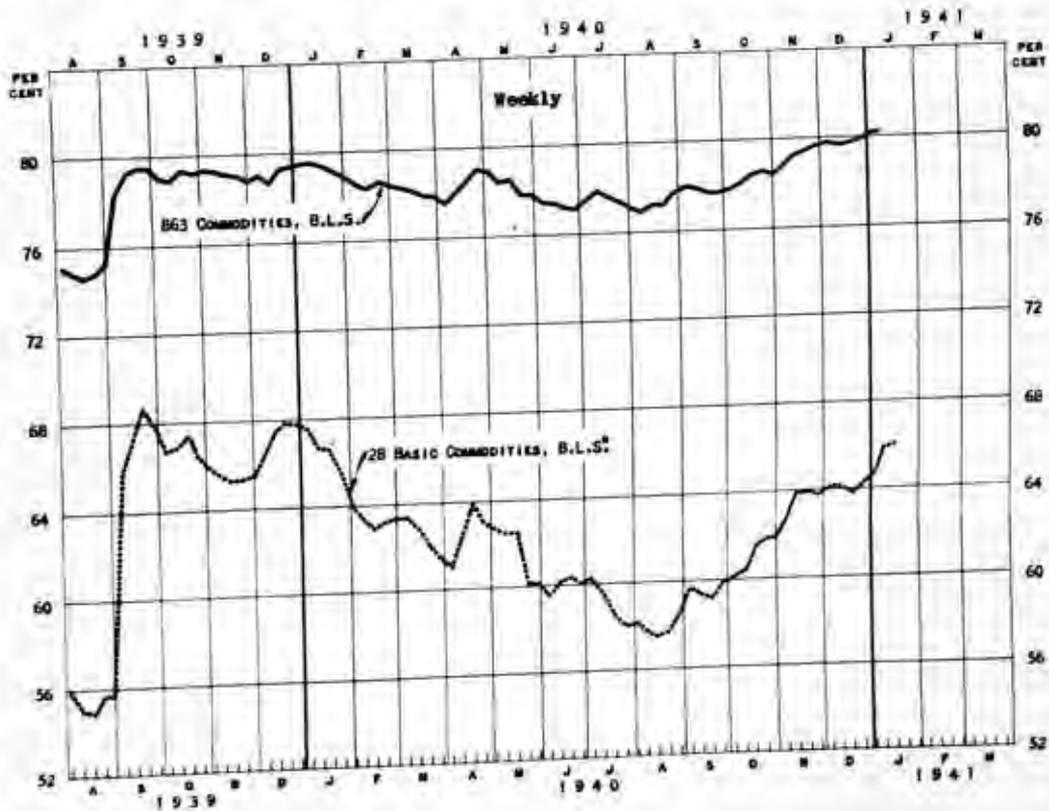
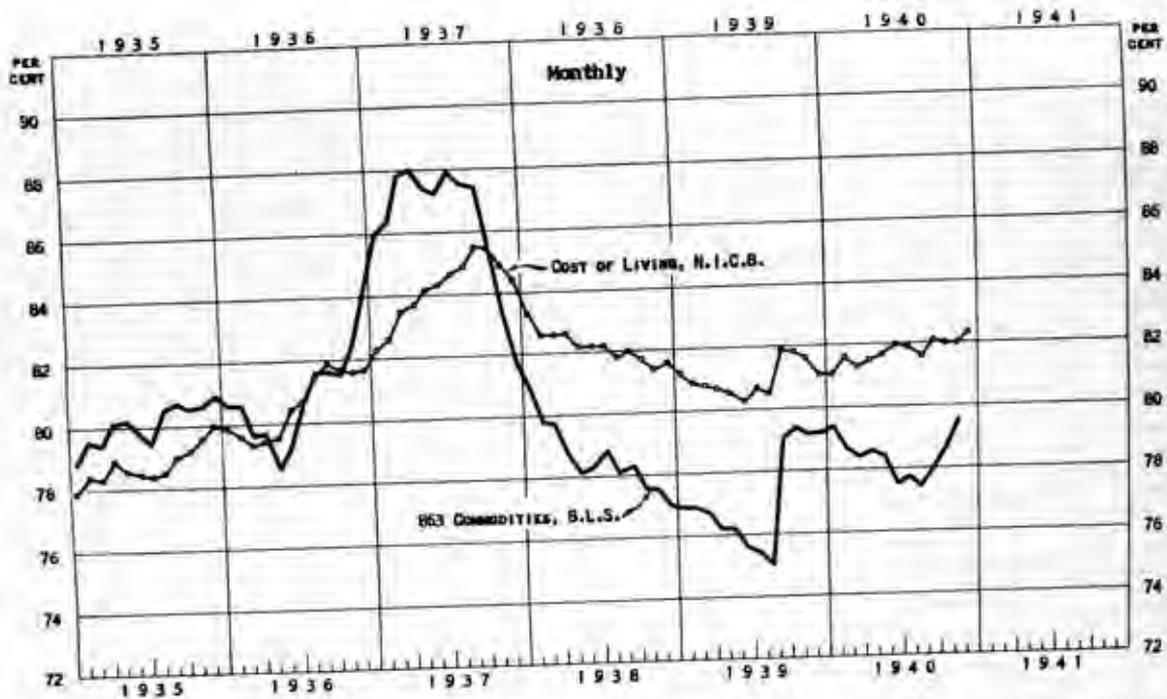


MISCELLANEOUS



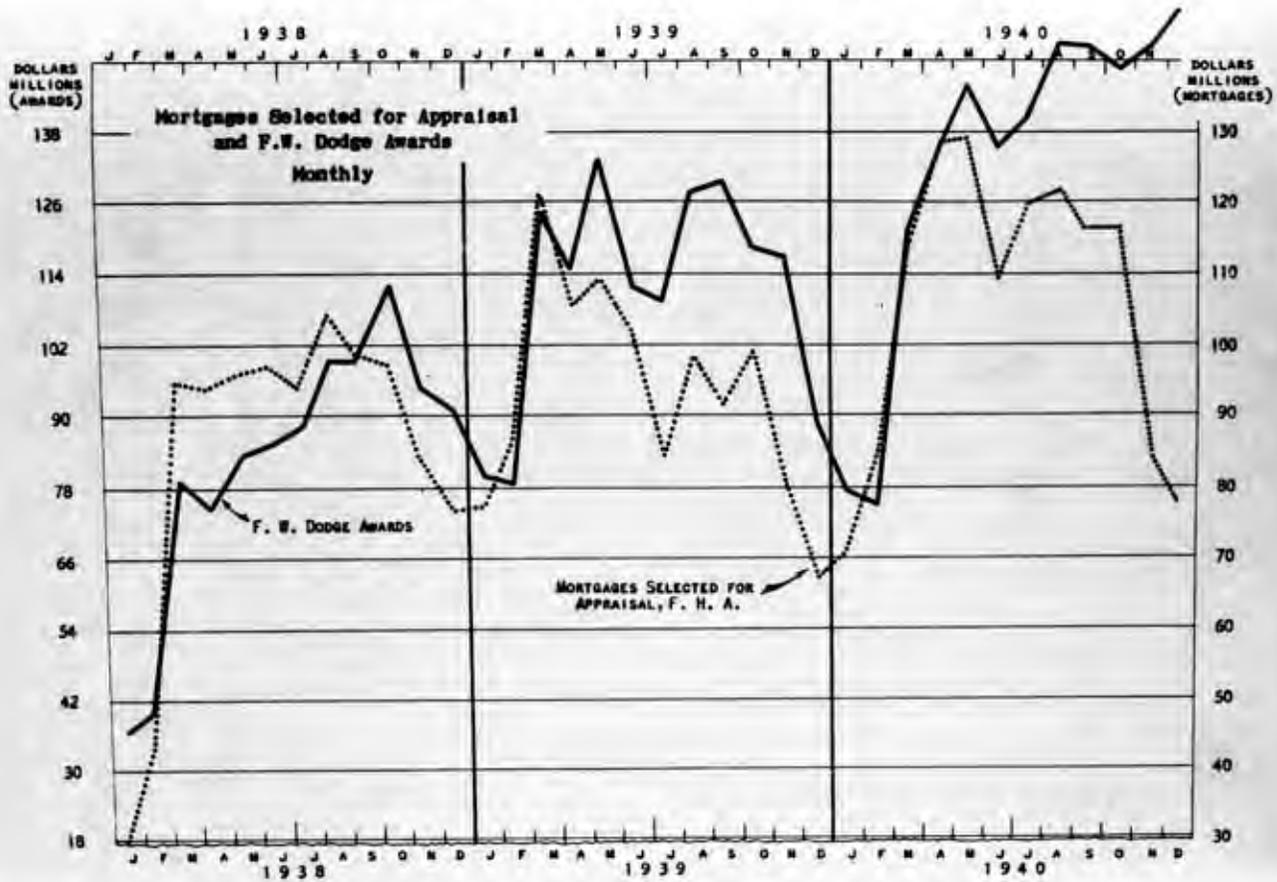
Note: Latest figures are those available Jan 18, 1941.
Source: B. L. S.

COMMODITY PRICES AND COST OF LIVING
1926 = 100

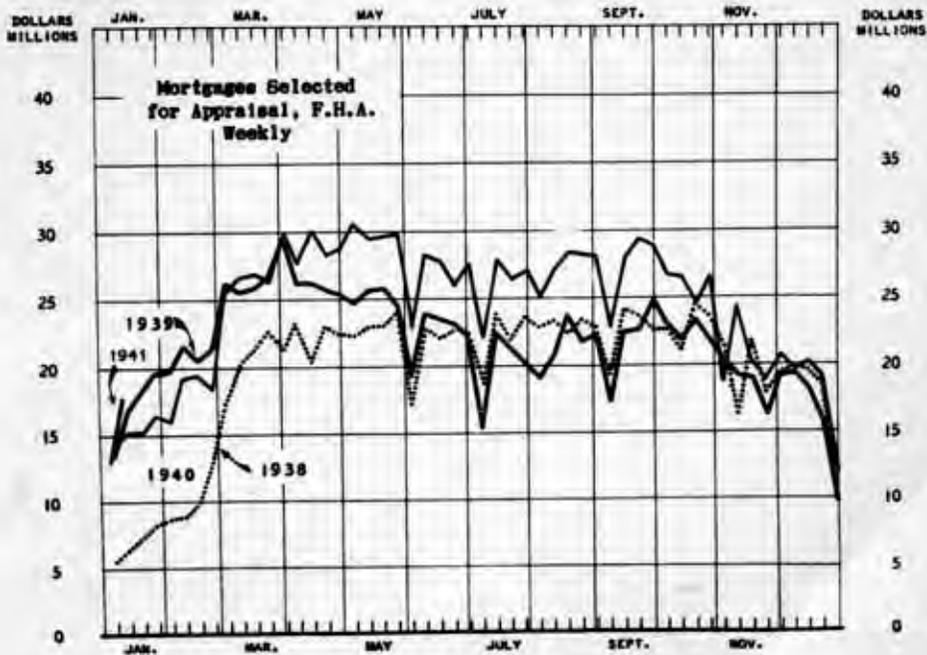


*30 COMMODITIES PRIOR TO JANUARY 1940

RESIDENTIAL CONTRACT AWARDS AND F.H.A. MORTGAGES



339



EH

GRAY

Berlin

Dated January 21, 1941

Rec'd 10:30 p.m.

Secretary of State,
Washington.

216, January 21, 7 p.m. (SECTION ONE).

FOR TREASURY FROM HEATH.

Although only the year end statements of a few of the smaller banks have as yet been published, the figures contained in them as well as articles in the press obviously based on more than published information and other information available to the Embassy indicate an enormous increase in deposits during 1940, two to three times as great as during the previous year. It was already clear from the large increase in Government debt that bank deposits had swollen greatly during 1940. During the first nine months of 1940 approximately 5.8 billion marks of li-loans were taken by savings banks and insurance companies as compared with 3.2 billion marks in the corresponding period of the preceding year, 5.1 billion marks of Treasury bonds were sold during the first nine months of 1940 alone (only part of course to banking institutions) and according to Vice President Puhl of the Reichsbank close to 2 billion marks were sold during

hsm -2- No. 216, January 21, 7 p.m. from Berlin (Section 1)

during the whole year as compared with 431 million marks in 1939 (the last portion of the 1938 loan issue). The total of these two forms of long term Government bonds issued during 1940 was probably between 15 and 16 billion marks. Amount borrowed by the Government through short term bills and certificates to a great extent purchased by the commercial banks was 14.6 billion marks during the first ten months of 1940 as compared with 5.8 billion marks in the corresponding period of 1939.

According to an article in the first January number of the BANK-ARCHIV there has been an average increase in bank deposits during 1940 of 30 per cent as compared with 10 to 15 per cent in the three pre-war years. If inter-bank deposits are excluded demand and time deposits (but not including savings accounts) of the large Berlin banks increased by 40 to 45 per cent and the savings deposits in the large Berlin banks and the regional increased by 35 to 40 per cent. According to computations of the BERLINER BOERSEN ZEITUNG the deposits of ten savings banks which have published their year-end statements increased during 1940 by 34 per cent and on the basis of this and the few statements of commercial banks which have been published the BERLINER BOERSEN ZEITUNG estimates a greater increase in deposits than that indicated by the BANK-ARCHIV probably between to 30

hcm -3- No. 216, January 21, 7 p.m. from Berlin (Section 1)

40 per cent. The entire German savings bank system according to our information increased its deposits (savings and giro) during 1940 by close to 8 billion marks, i. e. by one-third. This compares with absolute and relative increases during the pre-war four years as follows: 1936, 1.1 billion marks, 7 per cent; 1937, 1.7 billion marks, 10 per cent; 1938, 2.3 billion marks, 12 per cent; 1939, 2.6 billion marks, 12 per cent.

Diminution of reserve stocks according to the BANK-ARCHIV was not an important factor in the increase of deposits during 1940 since this was largely confined to the consumption goods sector whereas in the war industries there has probably been even an increase in reserve stocks. The chief factor in their opinion has been the difficulty of making replacements and improvements so that depreciation funds and sometimes even parts of earlier loans were accumulated. Due to the informal limitation on dividends a large portion of earnings for which the corporation can find no employment have also been deposited in the banks.

MORRIS

EMB

PARTIAL PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 216,
DATED JANUARY 21, 1941, 7 p.m., FROM THE AMERICAN
EMBASSY, BERLIN.

The rise in deposits is said to have been fairly steady throughout the year up to December when it was somewhat retarded and the issuance of almost 8,000,000,000 marks of 4% treasury bonds sold to a considerable extent to private individuals and firms had practically no influence on bank deposits. A further important reason for the unusually large expansion of deposits was the extension of the activity of the banks into the newly annexed territories.

An article in the Deutsche Rubricassen Zeitung of January 21, which, however, is concerned only with savings banks maintains that the chief source of the enormous deposits during 1940 was not unemployed capital but the small savings of the masses made possible by higher incomes on the one hand and consumption restrictions and scarcity on the other. There has been a much greater increase in the number of savings accounts than in previous years and deposits are again being made into many formerly inactive accounts but the average size of the payments deposited has also increased somewhat. According to this article these facts indicate that these are genuine savings and not unemployed working capital temporarily deposited in savings accounts. A further development during 1940 was the much smaller proportion
of

-2-

of withdrawals to gross in payments than in previous years. Whereas from 1937 to 1939 80 to 85% of the gross deposits were withdrawn this figure was reduced to 40 to 45% in 1940.

The article in the Bank Archiv states that the large increase in deposits was accompanied by the further shift in the character of the assets in favor of government paper. Commercial loans and advances are said to have decreased by 15 to 20% during the year and the amount of commercial bills held has shown an even greater decrease. The total of bank assets has probably reached the 1929 figure but whereas in 1929 55 to 60% of the banks assets were in the form of loans and advances and 20% in commercial bills, at present barely 20% is in loans and advances and perhaps 5 to 10% in commercial bills. The commercial banks have invested their funds to a large extent in short and medium term treasury bills and certificates in view of the temporary character of a large share of their deposits expected to be withdrawn in case of peace. In addition they bought five-year treasury certificates in considerable amounts in the spring, sold some of them subsequently but toward the end of the year apparently bought larger amounts of the long-term treasury bonds.

An

-3-

An advance indication of the magnitude of the monetary problem which Germany will have to solve after the war is over is given by the above data regarding the expansion of bank deposits in Germany during the first full calendar year of the war. This problem will have to be solved by Germany either by inflation or perhaps by enforcing severe and unpopular restrictions on withdrawals or continued control of investments, working capital and consumption. (END OF MESSAGE)

MORRIS

EA:MSG

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DEPARTMENT OF STATE
Washington

In reply refer to
EA 840.51 Frozen Credits/1181

January 21, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses 3 copies of paraphrase of telegram No. 38 of January 18 from the American Embassy, Rio de Janeiro, regarding certain deposits of gold in the Bank of Brazil.

Enclosure:

No. 38 of January 18
From Rio de Janeiro.

eh:copy

PARAPHRASE OF TELEGRAM RECEIVED**FROM: American Embassy, Rio de Janeiro, Brazil****DATE: January 18, 3 p.m.****NO. 1 38**

Yesterday there was deposited by the French Embassy in the Bank of Brazil in the name of the Bank of International Settlements gold bullion amounting to 800 kilograms. It is not known by the Bank of Brazil where the gold came from but the mark of Rothschild is on it. It is expected that there will be further deposits.

BURDET.**RAI:JM**

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

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JAN 21 1941

My dear Mr. President:

The following is the information requested by Miss LeNand, concerning your letter of March 29, 1939 to Senator Harrison. While Miss LeNand's request referred to a letter of March 14, 1939, it appears that the letter of March 20, 1939 is the one with respect to which she desired the requested information.

H. R. 3790, a bill dealing only with the reciprocal income taxation of incomes of Federal and State employees, passed the House of Representatives on February 13, 1939. On February 24, 1939, the bill was reported to the Senate by the Senate Finance Committee. On February 27, 1939 Senator Bailey, and on March 3, 1939 Senators Connally and Gillette, offered amendments to H. R. 3790 which proposed increases in the import tax on certain fish oils (Sec. 2461(a) of the Internal Revenue Code), in the processing tax on coconut oil, palm oil, and certain other vegetable oils and their derivatives (Sec. 2470(a)(1), I.R.C.), and in the import tax on certain vegetable oils (Sec. 2461(b), I.R.C.). The proposed amendments were not relevant to the subject matter of H. R. 3790 as passed by the House of Representatives and reported to the Senate.

Hearings on the proposed amendments were held by the Senate Finance Committee on March 6, 7, 8, and 9. Because of the controversy resulting from the proposal of these amendments, action in the Senate on H. R. 3790 was deferred. On March 29, 1939 you sent a letter to Senator Harrison, Chairman of the Finance Committee, pointing out that the proposed amendments were in conflict with the trade-agreements program and stating that you would vote H. R. 3790 in case the proposed amendments were adopted by the Congress. Thereafter the amendments in question were not pressed, and on April 4, 1939, H. R. 3790 was passed by the Senate without those amendments. It was subsequently enacted and approved on April 12, 1939, as the Public Salary Tax Act of 1939.

Sincerely yours,

(Signed) H. Morganthau, Jr.

Enclosure:

3 mimeographed copies of President's letter to Sen. Harrison, 2/20/39.

cc to Mr. Thompson

The President,

By Morganthau 2nd

The White House.

SSS:mrm 1/21/41

SEN. WALTER BARKER,
Washington, March 29, 1939.

My Dear Senator Barkers: I feel compelled to write to you in regard to certain amendments now under consideration before your committee which would amend H. R. 3790, a bill which deals with the important and entirely separate subject of reciprocal taxation of income of Federal and State employees. These amendments would raise to new heights the tax—In effect tariff—in many important fields and oils. I am addressing this letter to you because the amendments have been referred to the committee of which you are the chairman.

It of course, knew that the Senators who introduced these amendments acted in good faith. But there should be no illusion about the vital importance of this issue the amendments present. It are not dealing here with some fine points some few revenue purposes, but with what in purpose and effect are tariffs of the embargo variety. The amendments run directly counter to the provisions of reciprocal-trade agreements already in force with such important countries as the United Kingdom, Canada, the Netherlands and Brazil. If enacted, they would destroy or at the very least seriously impair those agreements under which we have obtained concessions benefiting more than a quarter of a billion dollars worth of American exports of agricultural products alone, and they would hamper our efforts to conclude additional trade agreements in the interest of American agriculture and industry. The issue is clear. It is whether to ourselves present policy or to return now, or during the pendency of the Trade Agreements Act to the embargo tariff policy exemplified by the disastrous Lindbergh-Tariff Act.

The private interests who seek to benefit from the amendments apparently ignore the fact that on the basis of 1938 import values the rates as they now stand have an ad valorem equivalent of 89 percent in the case of palm oil, 96 percent on edible palm-kernel oil, and 69 percent on inedible palm-kernel oil. Under the proposed amendments these ad valorem equivalents would be increased to 149 percent, 151 percent, and 108 percent, respectively. In the place of present rates on wool greases, ranging from 45 percent to 55 percent, the proposals would substitute rates of from 60 percent to 146 percent. By and large these proposals call for 50 percent increases over the already high rates. The resulting rates could be described by no other word than "embargoes." If one industry is thus to receive an embargo, all will demand it. Then other nations will inevitably impose embargoes on our exports.

At first the proposals called for these tax increases immediately, which would have meant outright violations of our trade agreements with the United Kingdom, Canada, the Netherlands, and Brazil. Now it is suggested that the effect of the conflicting tax increases shall be postponed until the four agreements mentioned, which are of such great value to American agriculture and industry, can be modified and terminated at the earliest possible moment under the terms of those agreements. Let no one be lulled into thinking that this modification of the amendments would remove the basic conflict between them and the trade-agreements program. The real issue would remain exactly the same. All the modification means is that we would not be convicted of violating outright four of our international agreements; we would still inevitably lose a substantial part of the benefits of these important agreements and would run the grave risk of losing all of them.

I should like every farmer, every producer of surpluses in this country, everyone in all walks of life, to know how great the cost would be if these amendments should be adopted. I should like them to know that the enactment of these amendments would seriously jeopardize trade agreements by means of which concessions have been obtained on more than a quarter of a billion dollars worth of our agricultural exports and on several hundreds of millions of dollars worth of our exports of factory and other products. I should like them to know that these amendments, if passed, would sooner or later expose this huge volume of trade to the danger of retaliatory trade restrictions in the countries adversely affected. I should like them to know that these amendments would hamper our efforts to obtain additional benefits for our agricultural and industrial producers. And I should like them to know that the power for leadership of this country in the great task of rebuilding international trade under the principles of equality and mutual profit, without which full and stable economic recovery in this country and in other countries cannot be realized, would be virtually destroyed.

These amendments would seriously undermine a program which already has proven of great benefit to American agriculture, notwithstanding the depressed state of our foreign market. Our exports of farm products to trade-agreement countries increased by 55 percent in the fiscal year 1937-38 over 1935-36. Our exports of farm products to non-trade-agreement countries increased by only 3 percent over the same period. This comparison, striking as it is, does not take into account the agricultural benefits obtained recently in the agreement with the United Kingdom or in the new agreement with Canada. In 1936, the United Kingdom alone bought one-third of the agricultural products we sold abroad. Concessions covering 32 percent of these purchases were obtained in the agreement, effective January 1 of this year. In other words, we have obtained in one single trade agreement improved or more stable markets for nearly a third of our total agricultural exports, including such key products as wheat, cotton, corn, lard, and tobacco.

Our trade agreements with 19 foreign countries have done more for American agriculture than to improve and stabilize foreign markets for many of our agricultural products. They have increased purchasing power in the domestic market for our farm crops. When, for example, our exports of automobiles to Brazil under a trade-agreement concession increase, as they have done, by \$2,500,000, there is more purchasing power available for our workers to buy meat, butter, milk, eggs, fruits, and vegetables. Our total exports to 17 agreement countries in the 2-year period 1937-38 were greater in value by 51.2 percent than the average for the pre-agreement period 1934-35, while exports to all other countries increased by an average of only 37.9.

Such tariff or tax increases, when proposed, obviously should be treated as amendments of existing tariff legislation and should receive the kind of consideration that would be given to specific tariff legislation. This would include study of the proposals on their own merits by experts of the Tariff Commission and other agencies of the Government and by the appropriate committees of the Congress, as elements in the general tariff structure and in relation to the country's commercial policy as a whole.

The inclusion of tariff revisions as parts of or as riders on other legislation creates a difficult situation for the Congress and a much more difficult situation for the Executive. It throws upon the President the necessity of accepting tariff rate revisions which he may consider contrary to the public interest in order to preserve the main legislation. His only alternative is to veto the whole act and thereby delay and perhaps endanger the desirable and major portions of the act. In this case the adoption of the amendments would make it my clear duty to veto H. R. 3790, however meritorious the bill may be.

Let me repeat, the trade-agreements program is an essential part of our general program for economic recovery in this country. It is also, particularly at this critical stage of world affairs, a vital part of our foreign policy. Attacks on the trade-agreements program such as that represented by this new drive for embargo tariffs on fats and oils are, therefore, attacks on our efforts to attain full prosperity at home and to promote economic disarmament and peaceful relations throughout the world.

Very sincerely yours,

FRANKLIN D. ROOSEVELT.

The Honorable Pat Harrison,
Chairman, Senate Finance Committee,
United States Senate.

(Ref.: Congressional Record, Vol. 64, Part 4, 76th Congress, 1st Session,
March 30, 1939 to April 21, 1939. — Pages 3506 and 3507).

C O P Y

THE WHITE HOUSE

Washington

January 15, 1941

Dear Mr. Secretary:

Would you be good enough to send me memoranda in regard to the following:

2. Memorandum giving the surrounding circumstances and results of the President's letter, March 14, 1939, addressed to Senator Harrison, re amendments to H.R. 3790, a bill dealing with reciprocal taxation of incomes of Federal and State employees -- amendments which dealt with taxes on several imported products.

As this information is to be included in the President's Public Papers and Addresses, it would be very much appreciated if you could let me have those memoranda as soon as possible since we are now in the process of compiling this data.

Very sincerely yours,

/s/ M. A. LeHAND

M. A. LeHand
Private Secretary,

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 21, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£52,000
Purchased from commercial concerns	£10,000

In the open market, sterling remained at 4.03-1/2. Transactions of the reporting banks were:

Sold to commercial concerns	£3,000
Purchased from commercial concerns	£8,000

The Canadian dollar discount widened sharply from 14-7/8% at the opening to 17-1/4% by mid-afternoon. It subsequently recovered to close at 16-1/2%. Today's weakness was reportedly due to the offering of 30,000 Canadian dollars in a very thin market.

The Argentine free peso advanced to close at .2370, as compared with .2360 yesterday.

The Cuban peso, which has held steady at 8-3/16% discount during the past few days, weakened today to 8-3/4%.

Closing quotations for the other currencies were:

Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Brazilian milreis (free)	.0505
Mexican peso	.2066
Chinese yuan	.05-7/16

There were no gold transactions consummated by us today.

No new gold engagements were reported.

The Bombay metal prices continued to improve, with gold rising 7¢ to the equivalent of \$34.11. The silver price was 3/16¢ higher at the equivalent of 45.06¢.

The prices fixed in London for spot and forward silver were both unchanged, at 23-3/16d and 23-1/8d respectively. The dollar equivalents were 42.10¢ and 41.99¢.

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

We made five purchases of silver totaling approximately 400,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

The report of January 15 received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$8,876,000, a decrease of \$374,000 in the short position. Net changes were as follows:

Country	Short Position January 8	Short Position January 15	Change in Short Position*
England**	\$ 130,000 (Long)	\$ 322,000	+ \$452,000
Europe	3,535,000	3,397,000	- 138,000
Canada	277,000 (Long)	409,000 (Long)	- 132,000
Latin America	119,000	234,000	+ 115,000
Japan	4,651,000	4,281,000	- 370,000
Other Asia	1,234,000	1,061,000	- 173,000
All others	118,000	10,000 (Long)	- 128,000
Total	\$9,250,000	\$8,876,000	- \$374,000

*Plus sign (+) indicates increase in short position, or decrease in long position. Minus sign (-) indicates decrease in short position, or increase in long position.

**Combined position in registered and open market sterling.

[Handwritten signature]

CONFIDENTIAL

CONFIDENTIALTO KEEP YOU POSTED

January 21, 1941

To: The Secretary

From: Mr. Young

Re: Sperry Bomb Sight

I had a telephone call from Tom Morgan of Sperry who advised me that the Sperry man named Vose, who had been sent to England with the Sperry sights released, had just returned to the United States. Mr. Morgan said that Sperry had already learned a lot from Vose's experience bearing upon the quality of the sights. Mr. Morgan thought that Sperry could make a real contribution.

I gathered that the result of the first trial they had in England was not satisfactory due to the characteristics of the particular planes which were used for testing purposes, but Mr. Morgan added that the final trials after certain adjustments had been made were far better than anything which Sperry had expected.

D.Y.

CONFIDENTIALTO KEEP YOU POSTED

January 21, 1941

To: The Secretary

From: Mr. Young

Re: Play for Greek War Relief

In line with your discussion with the Greek Minister the other day, Mr. Harold Vanderbilt of the Greek War Relief called me from New York to make sure that he had the story straight on "Panama Hattie".

J.Y.

PARAPHRASE OF TELEGRAM SENT

TO: American Legation, Bern.

DATE: January 21, 1941, 9 p.m.

NO.: 13.

Refer to our telegram no. 8 of Jan. 13, 9 p.m.

THIS TELEGRAM IS PERSONAL FOR THE MINISTER.

The French Embassy at Rio de Janeiro on Jan. 17th deposited in the Bank of Brazil in the name of the Bank for International Settlements 500 kilograms of gold bullion, on which the Rothschild mark was stamped. The source of this gold is not known to the Bank of Brazil. The Bank expects that further deposits will be made.

We would like to have as full a report as possible on this transaction.

HULL
(SW)

EA:FL:LWW

EA:MSG

Copy:ka

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 REGULATION THEREOF, SHIP MOVEMENTS, AND THE PROTECTION OF DEFENSE PRODUCTION FROM RESTRAINTS 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. 220), by section 5(b) of the Act of October 6, 1917 (40 Stat. 411), as amended, by section 2(a) of the Act of June 28, 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, and finding that this Order is in the public interest and is necessary in the interest of national defense and security, 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

- 2 -

Management to be appointed by it. The Committee, with the assent of the Secretary of State in respect of policies under Title II and III hereof, and acting either directly or through such subcommittees, agencies or personnel as the Committee may designate or employ, 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.

Title II

Executive Order No. 8389 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 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;

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

- 4 -

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 schedules:

- 3 -

- (a) April 8, 1940 -
Norway and
Denmark;
- (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; and
- (f) , 1941 -
Albania,
Austria,
Austria,
Bulgaria,
Czechoslovakia,
Denmark,
Finland,
Germany,
Hungary,
Italy,
Liechtenstein,
Poland,
Portugal,
San Marino,
Spain,
Sweden,
Switzerland and
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 that 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 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.

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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; and shall further include any person to the extent that such person is, or has been, or to the extent that there is reasonable cause to believe 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 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, except as hereinafter provided, 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

- 8 -

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 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. Without limitation of the foregoing, the term "national" shall also include any other person who is determined by the Secretary of the Treasury to be, or to have been, since such effective date, acting or purporting to act directly or indirectly under the direction of a designated foreign

- 9 -

country or national thereof, as herein defined. The term "direction", as used herein, shall include any power to guide, shape, determine or ascertain the activities or policies of any person, because of any relationship in fact, because of any contract, patent pool, understanding, agreement, including any licensing, marketing, or royalty agreement, any agreement to exchange information, or any other agreement, whether or not legally enforceable.

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.

- 10 -

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 Embargoes. 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. Requisitioning of Materials Denied Export. The Executive Order and Regulations heretofore issued under the Act of October 10, 1940 (54 Stat. 1090) shall, except as

- 11 -

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 hereinbefore referred to, or pursuant to any other authority:

- (a) Conduct investigations, bring grand jury proceedings, recommend legislative or other programs, and take such other action as may be appropriate for

- 12 -

the purpose of dealing with restrictions, hindrances or conduct detrimental to national defense or security, and affecting production, trade 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 business or industrial establishment, enterprise, activity;

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

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

(b) In aid of national defense and security, furnish information and render such assistance as the Attorney General may deem appropriate, with regard to the foregoing matters upon request of the Office of Production Management or any other interested agency of the Government.

(c) Perform such other related functions as the Committee, with the approval of the Attorney General, may from time to time assign or delegate to him.

TITLE V

Section 1. Recommendations by the Committee. The Committee shall engage in such studies and shall make

- 13 -

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 to

- 2 -

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, and the decision of the Secretary with respect to the granting, denial or other disposition of a license shall be final.

Section 4. It shall be conclusively presumed that any regulation, license, ruling, instruction or other action by the Secretary of the Treasury or the Attorney General under the Order has been issued or taken in accordance with and subject to the policies formulated by the Committee with the assent of the Secretary of State.

Section 5. ~~Repealed~~. This Executive Order and any regulations, rulings, licenses or instructions issued hereunder may be amended, modified or revoked at any time.

THE WHITE HOUSE,

, 1942.

BRITISH EMBASSY,
WASHINGTON, D. C.

Personal and Secret

January 21st, 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Harold Butler

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram received from London
dated January 19th, 1941.

Naval. Parthian reports sinking with torpedo (words undecypherable) 7000 tons supply ship off Cape Spartivento, Southern Italy.

2. On the 18th January enemy air attack on convoy in Thames Estuary caused no damage.

3. The night of the 18th/19th west-bound channel convoy off Dover was shelled, no damage reported.

A convoy of 27 ships has arrived in home ports from Canada.

4. Asturias boarded French Mendoza a.m. 16 miles from the Brazilian coast in latitude 27 degrees south.

5. Tanker British Union reported 2120 hours January 18th being shelled by enemy raider 650 miles West by South of Canary Isles. A.M.C. Arava in the vicinity observed shelling, closed position but shelling ceased before her arrival and she sighted nothing but later picked up some survivors. No further report received of Almeda Star. Search being made.

6. German Air Force. Malta. On January 18th 80 German bombers escorted by fighters made high level attacks on 2 aerodromes dropping 40 1,000 lb. bombs on each. Preliminary reports as follows.

7. Halfer. Direct hits on one hangar, 5 aircraft damaged, many craters but aerodrome remains

serviceable/

-2-

serviceable. Officers' mess seriously damaged telephone communications cut and water mains hit.

8. Lugs. 2 hangars destroyed and 2 damaged. 1 aircraft burnt and another badly damaged and (words undecypherable) slightly damaged by bomb splinters. Electric power telephone and water services out. Aerodrome temporarily unserviceable. Only casualties reported are 2 airmen killed and 5 injured.

9. Five Hurricanes and 3 Fulmars on patrol destroyed 6 enemy aircraft. Anti-aircraft claim 3 direct hits. 2 Fulmars lost, but 1 pilot saved.

10. Home Security. 17th/18th. Swansea. In docks hydraulic and electric power systems were damaged and day work is at present stopped. National Oil Refineries temporarily shut down owing to lack of electricity and water. In one dry dock main shops and stores were gutted and considerable damage caused to plant and machinery.

11. At Weymouth some damage was caused to locomotives and rolling stock.

BRITISH EMBASSY,
WASHINGTON, D. C.

PERSONAL AND
SECRET.

21st January, 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Wanda Butler

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London of the
20th January, 1941.

Naval.

On January 17th and 18th, six escorted French merchant ships totalling 33,000 tons passed through the Straits of Gibraltar.

2. Attacks on shipping. Armed merchant cruiser "Arawa" reported on the 19th having picked up one boat-load of survivors from "British Union." Search continuing.

3. An enemy raider is reported to have sunk two Norwegian "whaling" ships 12,200 tons each in the Antarctic waters south of South Georgia.

4. British ship (5,000 tons) has been bombed and sunk off Harwich. No further news received concerning "Almeda Star", "Zealandic" or the Greek ship mentioned in third sub-paragraph, paragraph one of the summary of the 17th.

5. Royal Air Force.

Libya. On the night of the 17th/18th, our aircraft dropped 13 tons of bombs on "Tobruk" and started a very large fire near petrol dumps.

6. All home operations on the 18th and the night of the 18th/20th were cancelled owing to weather.

7. German Air Force.

January 19th considerable enemy activity over shipping off the south and east coasts. A bomber was shot down into the sea by our fighters. Only three enemy aircraft penetrated a short distance inland over the South-East Coast.

- 2 -

8. The night of the 19th/20th. About 150 enemy aircraft were operating of which 35 were mine-laying. Activity was chiefly over London, home counties and Hampshire. Two enemy bombers were certainly destroyed during the night, and two more probably.

9. Malta.

January 19th. Eighty German bombers escorted by several Italian fighters dive-bombed the Grand harbour and dockyards. Eight of our aircraft intercepted and destroyed eleven enemy including ten bombers, probably destroyed three others and damaged four more. In addition anti-aircraft claim to have shot down six bombers. One Hurricane is missing. Damage was caused to Government property in the dockyard and to civilian property elsewhere, no casualties reported.

10. Aircraft casualties in operations over and from the British Isles:

<u>Enemy</u>	<u>Destroyed</u>	<u>Probable</u>
By A.A. fire night of 16th/17th	1	nil.
By A.A. fire night of 17th/18th	1	"
By A.A. fire night of 19th/20th	2	2

British: Nil.

11. Home Security.

The night of the 19th/20th. Bombing was spasmodic and distributed although London and Southampton areas received chief attention.

Apart from one case of industrial damage in East

- 3 -

London and some damage to railway work shops, and public utility services in Southampton area, only dwelling house property was affected to any appreciable extent. All fires were quickly put out.

12. Road communications are blocked by snow in the North-West of Scotland and to a less extent in North-East and North-West England. All important roads in East Kent are clear.

Paraphrase of Code Radiogram
Received at the War Department
at 10:04, January 21, 1941.

London, filed January 21, 1941.

1. On Monday, January 20, an airfield in southern Norway occupied by the Germans and two small German cargo boats off the coast of Brittany were attacked by planes of the Coastal Command. Flights by Bomber Command planes were cancelled by adverse weather conditions.

2. During daylight hours of January 19 a total of 55 German planes were plotted over England and that night 150 German planes were active. Antiaircraft fire was responsible for the destruction of five of the German bombers used in these attacks. It is now reported that several instances of severe industrial damage in the Southampton region resulted from these attacks and that serious damage was inflicted on one industrial target in London. On January 20 German air operations were slight with little damage resulting from the crossing of the coast line by single German planes. In northern Scotland one German raider was shot down. No German operations were reported during the night of January 20-21.

3. Motor transport and military buildings at Brest were attacked by British planes based in Greece. A motor transport concentration at Focensal (?), a suspected submarine base at Maceima, and the Breston airfield near Maceima were bombed by British planes based in the Sudan.

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4. Sources, usually well informed though not official, are of the opinion that the chances of an attempted invasion are greater than formerly. It is now thought that it may be attempted sooner than was formerly believed.

5. During the last four months of 1940 British deaths as a result of German air activities totalled 21,669. About 3,600 of these were persons less than 16 years old. During the same period 20,888 individuals were seriously injured. These figures are official.

6. It is assumed that the Greek ship and the two British vessels that were reported torpedoed on January 16 and 17 are total losses since there is no additional information concerning their fate. A 5,000-ton British cargo vessel was attacked by German planes off the English coast near Harwich and was sunk. Off the Antarctic island of South Georgia two whaling vessels of Norwegian registry were sunk by a German naval raider.

STANLON

Distribution:

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

Stockholm, filed January 21, 1941.

In reply to your cablegram No. 88, no official information is obtainable. The Norwegian and British military attaches, however, concur with me in the following estimates:

There are at present in service 200,000 men, including 35,000 conscripts in training depots and 20,000 members of the Landstern, but excluding 2,500 Coast Artillerymen who are under the Ministry of the Marine. At present 5 divisions are fully mobilized and the remaining 4 are largely demobilized but can be mobilized in 48 hours. On January 1, the 10th Division will be formed. In addition to the fully mobilized 9 divisions, there are separate forces in Gotland and in the North. It is estimated that the total effective strength is 400,000.

WADDELL

(Note: This cable is somewhat contradictory, as it first states that 5 divisions are mobilized and 4 largely demobilized and later that 9 divisions are fully mobilized. It is probably meant that 4 divisions are mobilized but are skeletonized.)

Distribution:

War Plans Division
Office of Naval Intelligence
Coast Artillery
Army War College

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G-2/2657-220
No. 297

M.I.D., W.D.
January 21, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.1. Air Force Operations.

German. In the whole period January 18-21, unfavorable weather prevailed and German offensive activity was generally light. There was a limited recrudescence of daylight raids.

British. No important offensive operations.

II. Greek Theater of War.

1. Ground. There have been no ground operations, probably because of unfavorable weather conditions.

2. Air. Limited activity in the combat zone. Piraeus, harbor of Athens, was raided on the 19th.

III. Mediterranean and African Theaters of War.1. Ground:

Libya. Artillery and patrol action is reported on the Tobruk and Jarabub fronts.

Sudan. The British have reoccupied Kassala. The Italians have been driven east of Sabderat and Tessenei, and localities about both towns have been occupied by British troops. This may be the beginning of an organized offensive against Eritrea. In the Metemma (Gallabat) area, British patrols are active.

Kenya. Minor British offensive activity.

2. Air. Normal operations in Libya and East Africa, with British air superiority maintained. Aggressive air attacks on Malta continued, with considerable success but attended with heavy Axis plane losses. The R.A.F. raided southern Italy on the 20th.

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.

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TENTATIVE LESSONS BULLETIN
 No. 82
 G-2/2657-235

MILITARY INTELLIGENCE DIVISION,
 WAR DEPARTMENT,
 Washington, January 21, 1941.

NOTICE

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

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction see Letter TAG 350.05 (9-19-40) M-B-M.

THE GERMAN PIONEERS IN TOTAL WARSOURCE

This bulletin contains a translation, somewhat paraphrased and abridged, of The Pioneers in Total War, an article by Major General Dr. von Schaewen which appeared during November in the Militär-Wochenblatt, authoritative German military journal.

According to an American official observer, "the report is believed to be reliable," but its possible propagandistic intent should not be overlooked.

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1. TRANSLATION OF ARTICLE
2. DISCUSSION BY OBSERVER

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NO OBJECTION TO PUBLICATION IN SERVICE JOURNALSTHE GERMAN PIONEERS IN TOTAL WAR¹1. TRANSLATION OF ARTICLE

Total war is a war of peoples. It embodies an attempt not only to destroy the enemy's military force by use of arms, but to damage every phase of his life and thus compel him to submit to the will of the victor.

It employs destruction on a large scale, but it also involves defense on a large scale. Besides actual arms, it has many similarly effective weapons, including the economic and the propagandistic.

The rise of this type of war has caused a break from the ideas employed when war was only a conflict between military forces. Because of an increase in the significance of mechanization, the engineers have been assigned broader fields of duty as technical combat troops.

The following are the important functions, whether defensive or offensive, of the combat engineers:

Combat involving fortifications;

Combat involving lines of communication;

Clearance of non-belligerents from danger areas
and movement or maintenance of essential
industry in those areas.

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1. Attention has frequently been called in TENTATIVE LESSONS BULLETINS to the important role which German Pioneers have assumed in the combat effort. They have won an integral place in the fighting machine. In attack, the duty of the pioneer—that of providing for the uninterrupted advance of elements of other arms—may involve reducing fortifications, effecting river crossings and building bridges, clearing land mines from zones of advance, assisting with the movement of wheeled vehicles, brushing aside weak enemy forces, preparing advance landing fields, and similar activities. In defense, the mission of the pioneer—that of obstructing and neutralizing the movement and combat effort of the enemy—may include establishment of a system of demolitions and obstacles in forward areas and in gaps between units, with particular attention given to favorable avenues of approach for mechanized attacks. The pioneers may also be used as a reserve force. G-2.

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Since the pioneers first appeared in the army of Frederick the Great, new military technical problems have constantly been presented to them for solution. Each major case has resulted in either a broadening of their own field or the creation of a new branch of the service. For example, hand grenades and mine throwers, originally used by pioneers as close support weapons, were later provided for the infantry. Further, all communications troops, railroad troops, and even aviation personnel were pioneers until independent branches of the service were set up for them.

The pioneers themselves have become primarily mechanized combat troops, and they are often entrusted with independent missions on the battlefield when such missions are necessitated by particularly effective enemy defense or attack measures. Pioneer detachments operate from the foremost line to the rear of the army territory, but the technical battlefield missions of today are so numerous that even a large pioneer corps could not accomplish them alone. More than ever before, each soldier in modern warfare must, to a certain extent, be an engineer.

It has been proved in recent campaigns that a great deal of bloodshed can be prevented if troops, even during an attack, dig in during brief pauses, as required by the regulations. It has also been proved that difficult areas can be crossed much more quickly if all troops, following the instructions of pioneers, carry out the smaller technical pioneer tasks.

Since the World War, nations have attempted to protect the entire length of their borders by deeply fortified zones. In their attempt to make these zones invulnerable, they have used all modern technical means. They have tried to make installations invulnerable to artillery fire and bombs by sinking them as deeply as possible into the earth and by reinforcing them with steel and concrete. Where it has been necessary for targets to remain exposed, they have been camouflaged for the purpose of minimizing the effect of enemy fire. It has been made difficult for the attacker to make a front for his infantry.

Pioneers of assaulting infantry might manage to take old fortifications, surrounded by a wall and moat, by bringing up storm ladders and other equipment, but these methods are ineffective against modern fortifications. Even after thorough preparation by artillery and bombing, such fortifications present to the attacker numerous undestroyed fire openings, turrets, and doorways which can be taken only by hand-to-hand fighting and by the use of such modern technical means as flame throwers, smoke, and prepared explosives. These devices are brought up to the objective by troops, usually under cover of a smoke screen, but the result can be

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achieved only by troops who recognize such missions as their own and who, during peace time, have been carefully trained in their execution. Thus, during close range attack on fortifications, pioneers should be employed not only to assist the infantry, but to storm such works independently. Because of their specialized training and equipment, they can perform the task while the infantry advances past them to the battle proper. Success in breaking through the eastern French fortifications has proved this point.

Modern offensive warfare is principally a war for lines of communication, and a war of mobility is waged principally along roads. The greater the degree of motorization, the more the attacker needs the roads. In addition to roads and highways, lines of communication include railroads and canals.

The most effective method of blocking a road or railroad is to blow up its bridges. The defender often resorts to this action without consideration for the great value of a structure or its importance as an approach to a large city. One of the German armies which advanced deep into enemy territory in the West built 183 emergency bridges—each being from 25 to 400 meters in length and having a capacity of 16 or 24 tons—as well as 57 military bridges. Various types of bridge material were used, and the entire task was completed in a period of 8 to 10 weeks. This feat is proof of the tremendous tasks demanded of pioneers, as well as of construction troops and bridge construction troops.²

Military bridge construction equipment must be released as soon as possible, since ordinarily it is kept on hand only in limited quantities. It must be sent forward quickly for exploitation of victory. Emergency construction plays an important part in modern warfare, and bridge construction troops charged with it must be strong in numbers, extremely mobile, and provided with an ample supply of modern technical equipment. The speed of construction is mainly a question of organization. Procurement, preparation, and transportation of construction material—important parts of the construction mission—are the concern of pioneer officers and non-commissioned officers. Ingenuity in procuring material, quick judgment as to its possible use, correct estimation of repair possibilities, and rapid designing must be demanded of each pioneer officer, and, to a certain extent, of each pioneer non-commissioned officer.

It is necessary to have good equipment and efficient

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2. Construction troops are construction engineers and Todt Organization workers.

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machinery, such as power driven circular saws, heavy rams, cranes, and smiths. In general, construction of heavy bridges—at least 16 tons—is most important, since immediate transportation of supplies is dependent upon the existence of such structures.

Destroyed bridges encountered in the West were of the most varied types, including flat-arched stone structures of the Rococo period, ancient suspension bridges, and modern concrete and steel bridge types. Correct and quick estimation of repair possibilities required wide technical knowledge, and, above all, experience.

Next in importance to troop training in river crossing constructions for direct support of attacks comes construction of emergency bridges, principally heavy structures with a capacity up to 24 tons.

The fundamental principle that no obstacle has value except when defended has been proved again and again. Even tree obstruction zones several kilometers long provide delays of only a few hours unless they are defended by sufficiently strong pioneer forces.

The attacker must not only make roads passable along the axis of the advance, but he must remove obstacles of all kinds from intervening sectors. He must repair for immediate use all destroyed bridges and roads for lateral traffic, since they are extremely important for troop transportation behind the front. Thus, there is a need not only for fighting pioneers, but also for bridge building and construction troops whose responsibilities are far greater than they were in former times.

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