BOOK #2

PRESIDENT ROOSEVELT

August 1, 1939

thru

May 15, 1940
August 29, 1939

After Cabinet, there were four or five of us standing around and they brought in and handed the President Chamberlain's speech. The President said, "That is fine - that is fine - things are happening. I like it when something is happening every minute".

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Sumner Welles told H. M. Jr., that if anybody wants to get anything in SEC they go to see J. S. Rosenbaum. H. M. Jr., called Earle Baille and asked him to find out about it.
August 31, 1939

To: The Files

From: Mr. Hanes

Luncheon at 1 o'clock today with the President. He seemed very much concerned about conditions in Europe which was quite natural in view of the fact that Germany at this minute was already preparing to attack Poland. I had never seen the President in such a grim mood.

Having directed all of his instructions in reference to the BREMEN being held in New York harbor through me it was quite natural that he should begin our conversation by talking about this ship. He asked me to find out for him how much oil the BREMEN had taken aboard in New York, and whether or not this amount was unusual, as he seemed to be afraid that this ship was preparing to be converted into a sea raider to prey upon commerce in the event of war. I got this information together and sent him the following memorandum:

"The BREMEN took aboard in New York 5,531 tons, or 35,953 barrels of fuel oil. She had asked and had been granted permission to take 50,000 barrels. I am informed that the amount she took is a comfortably adequate supply for a high speed run to Bremerhaven. On her former trip to Hamburg she used 880 tons per day to develop 28.5 knots. A normal fuel supply for an eastward crossing is 4,700 to 4,900 tons. She has bunker capacity for 6,616 tons or between 42,000 and 43,000 barrels. So far as can be judged from the bunker data, therefore, the Master of the Bremen planned merely a high speed run to a home port."

When the President had finished talking about the BREMEN he said he wanted to discuss the financial outlook in general, and then specifically the September financing in which we had planned to issue $500 million new cash long term bonds, and the refunding of the 1 3/8 percent notes maturing December 15th in the amount of $526 million.

He then told me that he wanted me to go to work on reframing and restating the Budget making the balance sheet of the Nation a business man's balance sheet in contrast to the present method of charging all Government construction as current outgo. The President said that he did not want to have to ask Congress at the next session to increase the debt limit beyond the present 45 billion. He said he wanted to finance everything possible outside of the debt in guaranteed obligations issued against the independent agencies wherever possible.
The President seemed to be very worried about going over the debt limit, and said he believed it possible to finance the Government to the end of 1940 within the present debt limit of $45 billion. He suggested that we take out of the Budget all assets such as Boulder Dam, etc., that could be financed, and set up a plan to do so in order that the Treasury might be reimbursed, and the necessity for raising further cash thus averted.

Specifically, he made the following suggestions which would relieve us of the necessity of issuing more Government bonds before the end of 1940:

(1) Income from trust funds and Social Security would give us a surplus over and above benefit payments.

(2) RFC, U. S. Housing, and other agencies now borrowing from the Treasury approximately $350 million should finance themselves through sale of their own obligations and the money be returned to the Treasury.

(3) We should issue silver certificates against seigniorage profit, plus all other silver in the Treasury, which would give us the right to issue approximately $1,300 million in silver certificates.

(4) We could use all the free gold now in the Treasury, which would amount to $154 million.

(5) Use the present Treasury cash balance, which he thought more than adequate, down to about $1 billion, thus releasing approximately $650 million more.

Marriner Eccles had spent 45 minutes with the President the day preceding my luncheon with him and the only one of Marriner's pet theories that the President failed to mention to me was that we should use $1,800 million of the gold now in the Stabilization Fund, which he claims to be excessive.

It is going to be difficult, in my opinion, to convince the President that these steps are in large part unsafe and unsound from the standpoint of good fiscal policy.
To:       The Files
From:    Mr. Hanes

Present at the Cabinet meeting were Messrs. Hull, Woodring, Murphy, Edison, Howes, Wallace, Ikees, Noble, Hanes and Madame Perkins.

The President was in a very serious mood. When he came into the room he did not speak to anyone but started out by saying, "there is no use in talking facts with you because you are as familiar with them as I am." He said that we have no definite information concerning the attitude of the British and the French, and that there was nothing to be done except to watch the situation very carefully, and stand by for a Cabinet meeting some time over the week-end. If there was sufficient news of importance the meeting might be held on Sunday. In any event, he would call one for Monday morning.

The President said that he had been over the papers in State, Treasury, War and Navy Departments and he felt confident that as nearly as could be everything was in readiness. He discussed with each department head purely routine matters, none of which had any particular significance in connection with the war crisis. He talked at some length about the price structure and its regulation in the event of war. He asked the Secretary of Agriculture to contact the Assistant Secretaries of War and Navy, who are in constant communication with the War Resources Board, with the idea of working out some formula for the control of commodity prices along with industrial price control. In this connection he spoke at length about his idea of coordinating the work, in the event of our going to war, through a body which he anticipates setting up under an old statute, which has never been repealed, called the "Council of National Defense". A description of the act under which this "Council of National Defense" was set up follows:
TO Mr. Hanes
FROM Mr. Foley

The Council of National Defense, created by the Act of August 29, 1916 (Ch. 418, sec. 2, 39 Stat. 649), was created "for the coordination of industries and resources for the national security and welfare" and consists of the Secretaries of War, Navy, Interior, Agriculture, Commerce and Labor.

It is the function of the Council to supervise and direct investigations and make recommendations to the President and the heads of executive departments relative to a great variety of problems, including:

- the location of railroads with reference to the frontier of the United States so as to render possible expeditious concentration of troops and supplies to points of defense; the coordination of military, industrial, and commercial purposes in the location of extensive highways and branch lines of railroad; the utilization of waterways; the mobilization of military and naval resources for defense; the increase of domestic production of articles and materials essential to the support of armies and of the people during the interruption of foreign commerce; the development of seagoing transportation; data as to amounts, location, method and means of production, and availability of military supplies;
the giving of information to producers and manufacturers as to the class of supplies needed by the military and other services of the Government, the requirements relating thereto, and the creation of relations which will render possible in time of need the immediate concentration and utilization of the resources of the Nation."

The legislation requires the Council to nominate to the President, and the President to appoint, an advisory commission, consisting of not more than seven persons, each with some special knowledge of some industry, public utility or the development of some natural resource, or "be otherwise specially qualified * * * for the performance of the duties * * *"). The Council is authorized to adopt rules and regulations for the conduct of its work, subject to the approval of the President, and is directed to provide work for the advisory commission to the end that the special knowledge of the commission may be developed by suitable investigation, of research and inquiry, and made available in conference and report for the use of the Council. The Council is also authorized to organize subordinate bodies for its assistance in special investigations.

All subordinate bodies and the advisory commission are required to submit reports to the Council, and the Council is required to report to the President or to the heads of executive departments upon inquiries or subjects undertaken by it, and an
annual report is required to be submitted to the Congress through the President.

Pursuant to the authority contained in the aforementioned legislation, an advisory body, the Committee on Public Information, and the War Industry Board were organized to assist in the work of the Council. No meetings of the Council have been held since the fiscal year 1921. During the period of its active life appropriations were made in varying amounts to finance the operations both of the Council and of the Committee on Public Information and the War Industry Board. A survey of the various appropriation acts from 1916 to 1921 indicates that the Council expended approximately $1,470,000, the Committee on Public Information expended approximately $250,000, and the War Industry Board expended approximately $1,225,000. In addition to these amounts $375,000 was appropriated to the Bureau of Standards to do certain research work for the Council.

Although it may appear to over-simplify the problems that are bound to arise during a period of war abroad, it would seem reasonable to stress as fundamental the mobilization (at least on paper) of the productive resources of the country against the time when it may become necessary to operate on a war time basis, and, more immediately, the desirability of setting up controls that will insure against run-away price policies in our economic structure
which might have the effect of greatly increased price levels without corresponding increases in consumers' income. You may recall that most of the tremendous increase in the price level during the 1914-1918 war period took place before this country entered the war, and it might be advisable to consider setting up immediately machinery comparable to that deemed necessary during the World War but which was not then set up until this country was actually embroiled and the price changes an accomplished fact.

The War Resources Committee recently announced, headed by Mr. Stettinius, may deem one of its functions to be a consideration of the problem here posed. Indeed, consideration might be given to the designation of the Stettinius committee as the advisory commission to the Council. This would have the advantage of centralizing and coordinating defense planning.

A further thought would be the utilization of the Temporary National Economic (Monopoly) Committee for purposes of national defense. This Committee is organized and functioning, and probably possesses more current information relative to the patterns and price policies of industry than any other Government agency. You might want to consider suggesting the use of this Committee, in connection with the work of the Council of National Defense and other groups, to assist in meeting this problem (or in preparing to meet it should the need arise).
In addition to the 6 Cabinet members who are mentioned above, the
President anticipated augmenting the Council of National Defense by
outside representatives: (1) a representative of industry, (2) a food
administrator, (3) a price fixer, (4) a representative from labor, (5)
a statistical coordinator - here the President mentioned the name of
Lubin, and (6) Administrative Assistants to the President. These
last named four would be: (a) a coordinator, (b) a public relations or
publicity man, (c) a man like Lauchlin Currie, (d) a general factotum, or
leg-man to act as liaison between all the members of this council and the
President. It is the President's idea that this Council of National
Defense would be the top structure of the machinery for prosecuting a war.
The War Resources Board would report directly to this council, and the
War Resources Board would confine its attention largely to industrial
production. Madame Perkins had suggested to the President that a
representative from labor be put on the War Resources Board, but he
decided to do this.

The President then asked me to report to the Cabinet on the subject
of markets in government bonds, stock exchange securities, commodity
markets, foreign exchanges, which I did. He then asked me what the
recommendation of the Open Market Committee had been at the meeting
held in the office of the Secretary of the Treasury regarding September
financing. I told the President that it was the unanimous opinion of
the Open Market Committee, in which the Treasury concurred, that we
undertake no new financing at this time, and that we delay any decision
concerning refunding of the 1 3/8 percent notes, maturing December 15th,
until next Tuesday or Wednesday at which time the Secretary of the
Treasury will be back and it would leave his hands untied to go ahead
with the refunding issue if conditions should warrant and he should so
decide. I reported that I had communicated this recommendation to
the Secretary on board the Coast Guard Cutter "Campbell", and that I would
not make public announcement of this decision until I could get answer
from the Secretary. The President thought it proper to handle the matter
in this way. I further told the President that when I had received the
Secretary's answer that I would pass it on to him.
September 6, 1939

The President told me it was all right to go ahead and ask for Moyle's resignation. I told him I had another place for him. Told me to tell Moyle in these times a man 81 years old is too old for the job.

Told the President that Jerry Frank had been here and cleaned that up.

Asked the President whether I could see the French and British Ambassadors and ask them what they are doing about purchasing and he said yes. He told me he had suggested to the English that they form a corporation like Amtrac rather than use Morgans or Chase Bank.

Asked the President's Naval Aide whether I could have Fuleston to evaluate Navy or War news. He said he would let me know.

He told me that the English and French were hurt at our offer on the Normandie and Queen Mary and they thought in these times we were pushing them a little hard and told me to call it off. Said I would.
September 11, 1939

Lunch with the President.

I spoke to the President about George Harrison and Jerome Frank and his memorandum to me of September 7th. He still seemed to have it on his mind and he had it on his desk before him another memorandum from Jerome Frank about it. I told him I was going to try and have Harrison and Frank for lunch tomorrow. Evidently Jerome Frank keeps needling the President on this thing.

I told the President that I was going, every Wednesday, to have Frank and Eccles and Jesse Jones for lunch and the President sat up straight and said, "Why Jesse Jones?" I said, "Why not?" He said, "Don't you know Jesse Jones is in the dog house, very much in the dog house?" I said, "No." He said, "He's responsible for killing the Lending Bill." He said, "His leaving, his testimony, all went to killing the Bill and," he said, "I would not talk to him while he was away; would not talk to him for ten days after he came back. Finally he asked Pa Watson 'Am I in the dog house?' and Watson told him 'You are half in and half out.'" So I looked at the President and said, "Well, in the first place, Jesse is the head of a very important Department and, in the second place, he will wheedle himself back into your good graces and, third, I think it's up to me to hold his hand."

I then gave the President a copy of Collings' memorandum of the 6th and 8th in regard to strategic materials. He read the thing very, very carefully, was tremendously interested and evidently it was all quite new to him. The President said, "I thought that you could get quinine in Peru. Find out."

I said, "Now what I want is another $100,000,000 for this work." So he said, "Ask Harold Smith if the President through a proclam-
ation can anticipate the buying and create a deficiency of an additional $10,000,000."

I told the President that we had "missed the boat" on these things because the Army and Navy had not gotten their requirements into us early enough.

I again told the President what we had done to help out the Navy on the armor plant and that we were now working with the Army on the Allison Motors. He said he thought that was all done. I said, "Yes, the Army reported it was all done at Cabinet before I left, but I found on my return it had not been done and I am now going to try to hurry it up and that I expected to announce publicly what we have done for the Navy so that will let all manufacturers know that they can get similar treatment."

Last night on the train I spoke to the President about getting Nelson Rockefeller as Assistant Secretary in charge of Procurement. He did not like the idea. He said, "You don't want to get too many of these kind of people in. If you could get him and some Liberal to offset it, possibly it would be all right." He said, "You know, there has even been some criticism of the people you have brought in."

He brought up the subject again at lunch and he said, "About that suggestion you made last night." He said, "If you bring in any more new people I want you to get somebody who has come out publicly and said 'I am for this Administration.'" I said, "Well, that's all right." And again he gently criticized the people I brought in. He said, "It's all right." I reminded him I showed him the list last spring and I reminded him I showed it to him again last Monday. He said, "I know. I know, but we have to be careful that J. P. Morgan does not get control, not that I have anything against J. P. Morgan because I am talking to him all the time myself." He said, "I have spoken to Leffingwell on the telephone," and I understood him to say "Tommy Lamont was in Washington, so I am in
touch with Morgan, but the public need not know that." He said, "Did you do anything about Forestal?" I said, "Yes, I had him next day for lunch, but he said he would not come unless there was war." "Oh," he said, "Well, all right. He can get Clarence Dillon, who is an old friend of mine, to come back and take his job again and he could come down here, but," he said, "then there might be some criticism of Clarence Dillon because his name is Dillonbinisky." (I was glad I had seen Forestal.)

So he said, "What about Bigger?" I said, "Well, that's funny. I had Dan Bell ask him and he thought about it and said his Board would not let him come." I said, "I would love to have Bigger. Nobody I would rather have." So he said, "Couldn't you have him on part time provided eventually he would come on full time?" He said, "Well, let me take care of that." So I said, "Well, nobody can get him but you, but I would love to have him."

The President told me that the policy of the HOLC from now on is to make the borrowers pay back a little extra, if possible, in order to accumulate money. So I said, "Have you told that to Jones?" He said no. He said as far as R.F.C. is concerned, they are on a 24-hour basis; they should only make absolutely necessary loans. He said, "We should conserve all of our money for more important things if the occasion arises." I said, "I agree with that."
September 12, 1939

The President called me at 3:30. He said, "Did I talk to you last Friday about doing something for South America at this Panama conference?" He did not give me a chance to answer and he went on and he said, "You know, Welles is leaving," and enumerated a number of things. Among other things he said, "I want to do something on stabilization." Then he got more and more positive in his statements. He said, "I want to go the whole hog and no quibbling and I want to do it by noon tomorrow." So I said, "Fine!" But he was more positive than I have heard him on anything in a long time.

I then called up Welles' office to speak to him and they said he was at the White House and I knew from the President's tone that he had an audience.
September 14, 1939

I spoke to Welles at 5:05 to-day and he told me that he has talked to the President about a loan to Finland. The President does not want to raise the question of getting Congressional approval at a Special Session. He suggests that I advise the Finnish Minister how he can get it in New York; that he should stay away from J. P. Morgan and suggests that he try Dillon Reed. Welles said that the President suggested some other house which he could not remember; that if the interest rates which they ask in New York were too high we might make a proposal in their behalf to Congress after January 1st.
September 18, 1939

MEMORANDUM FOR THE PRESIDENT

Continuing my policy of keeping you informed as to developments in connection with our investigation of Bank of America National Trust and Savings Association, I am attaching a copy of a letter together with enclosures which the Comptroller of the Currency has delivered today to the Attorney General.

[Signature]

Enclosures
Sir:

There is enclosed herewith a copy of a letter received by this office from National Bank Examiner L. H. Sedlacek, setting forth very briefly the facts concerning three transactions whereby funds or credits of the Bank of America National Trust & Savings Association, San Francisco, California, were used in an attempt to eliminate obligations owing to the Bank by its parent corporation, Transamerica Corporation, or subsidiaries of Transamerica Corporation. Some time ago a copy of this letter was transmitted personally by representatives of the Treasury Department to Mr. Thurman Arnold, as Acting Attorney General in your absence from Washington, and a copy with photostatic copies of pages from reports of examination of the Bank relative to these transactions was more recently transmitted personally by representatives of the Treasury Department to officials of the Criminal Division of the Department of Justice.

The report of examination of the Bank, commenced on March 31, 1959 and closed on July 21, 1959, (subsequent to the receipt of the above-mentioned letter from National Bank Examiner Sedlacek), contains the following statement with reference to an additional transaction or practice which this office feels it should bring
to the attention of the Department of Justice:

"Bank carries its own Fidelity Insurance for the first $100,000.00 and premiums which would otherwise be paid out to an Insurance Company are deposited with Transamerica General Corporation. Amounts deposited prior to 1934 were consolidated at that time in one account under the heading 'Fidelity Bond Losses' and the balance of $402,336.19 has remained unchanged. Interest was paid on this account until 1934 when the regulation prohibiting payment of interest on bank deposits became effective. Premiums paid since the early part of 1934 have been deposited in another account under the heading 'Insurance Reserve' and balance as of March 31, 1939 was $1,870,323.36 making the combined total of the two accounts $2,272,659.55. Claims for all Fidelity losses are presented to Transamerica General Corporation and when paid are charged against this latter account.

"The above deposit is not shown in the assets of the bank, nor is it shown in the liabilities under 'Reserves'.

"Circumstances surrounding the transaction indicate quite clearly that the funds belong to the bank and should be properly shown in its Capital structure and that the deposit maintained with Transamerica General Corporation is nothing more than an unsecured borrowing on which no interest is paid. Predicated upon these conclusions the deposit is shown as a direct liability of Transamerica General Corporation and is included with the other borrowings of Transamerica Corporation and its Subsidiaries under Excess Loans, exceeding the limits prescribed under Section 5200 U.S.R.S.

"This method of handling self-insurance funds constitutes an unsafe and unsound practice and the question arises as to the correctness of the published reports of condition. It is requested that these funds be returned immediately to the bank in cash and that proper accounts be set up on the books."

Since receipt by this office of the report of examination containing the above excerpt, efforts have been made to obtain additional
information concerning the nature of the so-called self-insurance plan of the Bank. Accordingly, there are transmitted herewith copies of a letter, dated August 7, 1939, from Mr. John W. Grant, President of Transamerica Corporation to Mr. Russell G. Smith, Executive Vice President of the Bank of America N. T. & S. A. (which was transmitted to this office with a letter, dated August 8, 1939, from the Secretary of the Board of Directors of the Bank), and a letter, dated August 30, 1939, from National Bank Examiner C. H. McLean to Chief National Bank Examiner, Mr. Irwin D. Wright (which letter was transmitted to this office by letter, dated August 31, 1939, from Chief National Bank Examiner Wright). In so far as they may be ascertained from these documents, the facts relative to the Bank's so-called self-insurance plan appear to be as follows:

1. At least until a recent date, Transamerica Corporation had a plan whereby all subsidiaries of Transamerica Corporation obtained fidelity insurance for the first $100,000 by making payments, analogous to premiums, into a common pool. Under that plan the Bank paid so-called premiums to Transamerica General Corporation, a wholly owned subsidiary of Transamerica Corporation which, prior to July 1937, owned more than 99 per cent of the stock of the Bank.

2. There was no written agreement between the Bank and Transamerica General Corporation with reference to the so-called self-insurance plan.
3. Transamerica General Corporation is not authorized by its charter to do a surety or fidelity business.

4. Payments by the Bank to Transamerica General Corporation are not shown on the books of the Bank either as an asset due from the Corporation or as reserve funds of the Bank, but were charged to expenses as paid.

5. Transamerica General Corporation does not handle the funds received from the Bank as trust funds, but carries them on its ledger as "Deposit of Self Insurance Funds of the Bank of America N.T. & S.A." President Grant of Transamerica General Corporation claims that the funds are considered as actual reserves and this contention is supported by the consolidated statement of Transamerica Corporation (which owns all the stock of Transamerica General Corporation) which shows these funds as Reserves for Taxes and Contingencies.

6. Transamerica General Corporation added interest to the balance of the payments from the Bank on its books for each year until 1934.

7. Until the termination of the plan Transamerica General Corporation pays all approved loss claims up to $100,000 to the Bank. From July 1, 1938 to June 30, 1939 it paid the following:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
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<tr>
<td>Holdups</td>
<td>$18,195.73</td>
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<tr>
<td>Shortages</td>
<td>$85,875.86</td>
</tr>
<tr>
<td>Forgery losses</td>
<td>$22,985.10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$127,056.69</strong></td>
</tr>
</tbody>
</table>
8. At least in so far as the Bank is concerned, the plan of making payments for self-insurance to Transamerica General Corporation appears to have been discontinued. The last payment, in the amount of $527,812.89, was made on July 20, 1958 and covered the premium due to June 30, 1959. The current premium on the $100,000 self-insurance, in the amount of $324,725.31, has been set up on the Bank's books, as of August 8, 1959, under the heading "Reserve for Contingencies Self Insurance".

9. Transamerica General Corporation considers itself liable for all losses for one year from the date of cancellation of the arrangement, or until June 30, 1940. It is not contemplated that Transamerica General Corporation will pay to the Bank the balance remaining in the so-called reserve fund after that date. From the above quoted excerpt from the report of examination, it appears that the balance, as of March 31, 1939, was $2,272,659.55.

The information contained in this letter is being submitted to the Department of Justice for such attention and action as may be deemed appropriate. Should the Department of Justice desire any additional information, it will be furnished upon request.

Very truly yours,

Preston Delano
Comptroller of the Currency.

The Honorable
The Attorney General of the United States.

Enclosure.
Comptroller of the Currency

Washington, D.C.

Dear Sir:

I have been requested by the General Counsel for the Bureau of the Comptroller of the Currency to set forth in a condensed form the more pertinent facts contained in the last reports of examination covering the Bank of America National Trust and Savings Association, San Francisco, California, concerning the following three transactions which have been the subject of controversy.

In 1931 and 1932 assets of the aforementioned bank totaling almost $50,000,000 were classified as "non-bankable and loss" in reports of examination. These assets to the extent of more than $35,000,000 were made the subject of three contracts of sale (referred to hereafter as Inter-America Corporation contracts) entered into between the bank and the Corporation of America, which was a wholly-owned subsidiary of Transamerica Corporation. Each contract provided for payment of the purchase price by the Corporation of America at the end of one year from date of execution. Maturity dates of the original contracts were extended from time to time. At that time Transamerica Corporation owned 99.65% of the stock of the bank and was, therefore, responsible directly or indirectly for the threatened impairment of the bank's capital structure. Subsequently, Transamerica Corporation took over the assets of Inter-America Corporation (successor to the Corporation of America) and assumed its liabilities, one of which was the balance remaining due on the $35,000,000 obligation represented by the aforementioned three contracts. The following two transactions relate to the means used in attempting to eliminate obligations of Transamerica Corporation or its subsidiaries under the aforementioned contracts:

(1) In 1935 and 1936 the appreciation in value of certain unrelated government and municipal bonds owned by the bank was written up to the extent of more than $14,000,000 on the bank's books. Simultaneously, the bank repurchased like amounts of the "non-bankable and loss" assets previously sold under the inter-America Corporation contracts, applying the proceeds of these repurchases toward the reduction of the liability to the bank under the said contracts. On or about the dates the "non-bankable and loss" assets were repurchased they were charged off as losses on the books of the bank. In justification for these transactions it is stated by officers of the bank that if the
unrealized profits on securities which were written up had been utilized in the payment of a dividend, more than 99% of that dividend would have inured to the benefit of Transamerica Corporation or its subsidiaries and the return of that dividend by Transamerica Corporation or its subsidiaries to the bank for application on the Inter-America Corporation contracts would have brought about substantially the same result as was accomplished in the manner indicated above, except that by the means adopted the payment of taxes in an approximate amount of $3,000,000 was avoided. It should be noted that the obligations under the Inter-America Corporation contracts were collateralized and that the Transamerica Corporation and its subsidiaries were solvent corporations and, therefore, financially able to pay their obligations.

(2) On February 1, 1933, and January 2, 1934, the bank entered into contracts with wholly-owned subsidiaries of Transamerica Corporation whereby the bank sold all of its charged-off assets, including those to be charged off up to July 1, 1937, for a total consideration of $300,000. Subsequent to these sales some of the charged-off assets were liquidated and the proceeds thereof, in the amount of $1,488,185, were credited upon the unrelated Inter-America Corporation contracts. On July 14, 1937, a transaction was entered into whereby the remaining portion of the charged-off assets was resold to the bank by subsidiaries of Transamerica Corporation for a price of $6,500,000 under a so-called guaranty by Transamerica Corporation that the bank would obtain through liquidation of these assets the amount of the purchase price. Of the aforementioned $6,500,000, paid by the bank in repurchasing its formerly charged-off assets which had been previously sold for only $300,000, a major portion thereof in the amount of $5,844,386 was made available to Transamerica Corporation by its subsidiaries through inter-company book entries, and that amount was eventually credited upon the obligations of Transamerica Corporation to the bank. The remaining portion of the purchase price was used by a wholly-owned subsidiary of Transamerica Corporation to eliminate a portion of its indebtedness to the bank on certain real estate contract obligations.

The following transaction relates to a means used by Transamerica Corporation and the Bank of America National Trust and Savings Association in an attempt to eliminate a separate obligation of Transamerica Corporation which arose out of a purchase by the corporation from the bank on October 1, 1931, of certain real estate carried on the books of the bank as "banking premises," but which were not being used for banking purposes, for a consideration of $9,155,786, which obligation had been reduced to less than $6,000,000 at the time of the transaction here referred to. After Transamerica
Corporation had purchased the aforementioned real estate, it sold same to one of its wholly-owned subsidiaries, the Capital Company. On July 14, 1937, (note that this date is the same as that referred to in connection with the transaction immediately hereinbefore discussed), more than nine months after the debt due to the bank was to have been paid to it, an arrangement was entered into whereby the bank contributed $5,875,000 to the surplus of Merchants National Realty Corporation (all of the stock of which was owned by the bank and carried in its bond account), thus increasing the book value of its investment in the stock of that corporation by the same amount; on the same date the Merchants National Realty Corporation purchased from Capital Company aforementioned, for the sum of $5,874,457, the aforementioned unused banking premises. That purchase price represented the balance remaining due the bank from Transamerica Corporation on the contract of October 1, 1931. That sum was immediately paid by Capital Company to Transamerica Corporation to eliminate Capital Company's liability on its contracts with Transamerica Corporation in connection with its purchase of the properties, and Transamerica Corporation in turn used the same funds to eliminate its liability to the bank under the October 1, 1931, contract. In connection with this transaction it should be noted that in effect the bank used its funds to the extent of $5,875,000 to purchase real estate (through the medium of a wholly-owned affiliate), but in its reports of condition and other public statements the assets so obtained were carried as "other stocks, bonds and securities," rather than "other real estate owned."

It should be noted that in each of the aforementioned transaction funds or credits of the bank were allegedly used to eliminate secured obligations of Transamerica Corporation or its subsidiaries by methods which some persons might deem deceptive, and that none of the transactions in question were formally approved by the Board of Directors of the Bank.

Very truly yours,

S. L. H. Sedlacek,
National Bank Examiner.
Mr. Russell G. Smith,
Executive Vice President,
Bank of America N.T. & S.A.,
San Francisco, California.

Dear Mr. Smith:

Mr. Andrews has referred to me your letter of August 2, quoting excerpts from the report of the National Bank Examiner's examination of the bank commencing under date of March 31, 1939.

"Self-Insurance Funds.

"The bank carries its own fidelity insurance for the first $100,000, and premiums which would ordinarily be paid to an insurance company are deposited with Transamerica General Corporation."

Answer.

These are not the facts. It is true that the bank now carries its own fidelity insurance for the first $100,000, but the bank does not deposit the premium with Transamerica General Corporation.

The Examiner doubtless has reference to the plan formerly in operation under which Transamerica Corporation carried its own fidelity insurance for the first $100,000 on employees of its subsidiaries, including Bank of America N.T. & S.A. This plan was and still is in operation in respect to all subsidiaries of Transamerica Corporation under the plan and each such subsidiary was required to pay and still pays the regular annual insurance premium to Transamerica General Corporation, a wholly-owned subsidiary of Transamerica Corporation, just as it would have been required to pay the premium to an outside insurance company. Thus Transamerica Corporation became and still is the "insurance company" for its own sub-
Mr. Russell G. Smith. August 7, 1939.

Subsidiaries, on fidelity risks up to the first $100,000. Those premiums did not constitute and were not in any respect a "deposit." They were an actual operating expense of the subsidiary, and in consideration of the premiums Transamerica Corporation assumed the risk that ordinarily would have been assumed by an outside insurance company. Premiums on all fidelity risks in excess of the first $100,000 were paid by Transamerica's subsidiaries, including Bank of America N. T. & S. A., into the Fidelity & Deposit Company of Maryland and were treated on the books of the subsidiary as an operating expense, just as the premiums paid to Transamerica Corporation by the subsidiaries were treated on the books of the subsidiary as an operating expense.

"This deposit amounts to $2,272,659.55 and actually represents reserve funds of the bank that are not shown on the books either as capital funds or as assets."

That is not true. Does the National Bank Examiner maintain that had the premiums on the first $100,000 risk been deposited with the Fidelity & Deposit Company of Maryland that such deposits would actually represent reserve funds of the bank? Vis-a-vis Bank of America N. T. & S. A. or any other Transamerica subsidiary, Transamerica Corporation is in exactly the same position as any insurance company. The premiums were paid to Transamerica Corporation in good faith in the ordinary course of business and Transamerica Corporation assumed exactly the same and all the risks that any other fidelity insurance company would have assumed in consideration of the premiums paid.

Furthermore, it should be remembered that just as in the case of any insurance company, Transamerica Corporation was liable to each subsidiary for each and every loss, even if they amounted in the aggregate to many times the aggregate of the premiums paid by the subsidiary.

Although it may not have any bearing on the request of the National Bank Examiner that the excess of premiums paid by the Bank of America to Transamerica Corporation, over and above losses so far determined, should be refunded to the bank, it should be pointed out that the self-insurance plan adopted by Transamerica Corporation in 1932 covering itself and its subsidiaries was dictated entirely by a desire to take advantage of the preferential rates on group insurance and to retain for ourselves whatever profit there might accrue from the excess of reserves over and above losses. The plan which was in operation for the bank and
which is still in operation with substantially all of Transamerica Corporation's subsidiaries, has saved those subsidiaries many thousands of dollars in premiums during the years since 1932; this by reason of the fact that group insurance premiums are much less than the premiums charged on unit policies.

Page 8 - Insert 16

"Transamerica General Corporation - Deposit of self-insurance funds - $2,272,689.55

"Bank carries its own fidelity insurance for the first $100,000 and premiums which would otherwise be paid out to an insurance company are deposited with Transamerica General Corporation."

Answer.

The answer to this statement of the National Bank Examiner is fully covered under the heading "Page 2 - Insert 7" above.

"Amounts deposited prior to 1934 (should be 1932) were consolidated at that time in one account under the heading 'Fidelity Bond Losses,' and the balance of $402,336.19 has remained unchanged. Interest was paid on this account until 1934 when the regulation prohibiting payment of interest on bank deposits became effective."

Answer.

Interest was not paid on this account. Interest was never paid on this account. The balance of $402,336.19 reserve on our books was in effect invested, and interest was debited to "Expense" and added to the reserve for each year until 1934. It was simply a coincidence if we ceased crediting interest to the reserve when the regulation prohibiting payment of interest on bank deposits became effective. The regulation referred to did not apply to us. We ceased crediting the
reserve with interest when it became self-evident (based on favorable loss experience) that the entire reserve on our books was more than sufficient to pay probable losses. The fact that there is carried on our books a separate account for the $402,339.16 balance referred to by the National Bank Examiner has no significance. As a matter of fact, we carry four separate accounts on our books covering the fidelity insurance reserves, primarily as a matter of convenience in preparing statistical data on the operation and results of the self-insurance plan.

"Circumstances surrounding the transaction indicate quite clearly that the funds belong to the bank and should be properly shown in its capital structure, and that the deposit maintained with Transamerica General Corporation is nothing more than an unsecured borrowing on which no interest is paid."

Answer.

As is clearly indicated in the answers under captions "Page 2 - Insert 7" and "Page 8 - Insert 16," the reserves do not, by any stretch of the imagination, belong to the bank, any more than the reserves, which are carried on Transamerica's books for depreciation of assets of its subsidiaries, belong to those subsidiaries. Transamerica Corporation assumed the risk in good faith and the annual premiums at manual rates were paid to Transamerica Corporation also in good faith, the subsidiaries meanwhile relying upon Transamerica Corporation to pay all losses, even if in the aggregate they greatly exceeded the amount of fidelity reserves carried on the books of Transamerica Corporation for each subsidiary involved.

While we are not aware of "the circumstances surrounding the transaction" to which the Examiner refers, the circumstances disclosed by our records and files prove conclusively that the reserves do not belong to the bank and are in no sense of the word a "deposit" by the bank.

The circumstances to which we refer are as follows:

1. The management of Transamerica Corporation never regarded and never treated the payment by the bank of insurance premiums as "deposits" by the bank.
Mr. Russell G. Smith.

2. The management was aware of the prohibition in the Certificate of Incorporation of Transamerica General Corporation to the effect that "Nothing in this Certificate of Incorporation contained should be construed as authorizing the corporation to ..... carry on the business of receiving deposits of money."

3. Bank of America N.T. & S.A. could not have regarded the payment of premiums as a deposit because it must have been aware of the prohibition against national banks depositing funds with a non-banking corporation.

4. That the bank did not regard the funds as a deposit is borne out by the fact that at no time was Transamerica General Corporation requested by Bank of America or by any National Bank Examiner to confirm the amount of money that was on deposit with it in respect of insurance premiums.

5. The premiums charged to Bank of America N.T. & S.A. by Transamerica Corporation, in consideration of Transamerica Corporation's assuming the risks attaching to such insurance, were calculated on an actuarial basis, and were in amount exactly the same as would have been charged by any insurance company.

6. In its annual letter to Bank of America N.T. & S.A., Coast Service Company (the insurance counselor for Transamerica Corporation) advised the bank that the premiums were carried in "a reserve on the books of Transamerica General Corporation." At no time did the bank deny that the amount so invoiced was for "premiums": neither did it advise Transamerica General Corporation that the amount was to be carried on deposit in the name of the bank.

7. All losses arising through hold-up, defalcation, forgery, etc. were paid by Transamerica General Corporation to the Bank of America N.T. & S.A. without question and in exactly the same manner as any insurance company would honor claims for losses.

8. Regardless of the amount of losses paid, Transamerica Corporation charged Bank of America N.T. & S.A. with a restoration premium to reinstate the self-insurance fidelity bond to its full amount.

9. When members of the self-insurance group ceased to be subsidiaries they were excluded from the benefits of the plan but were not entitled to nor did they receive the excess of premiums paid in over losses paid.
Mr. Russell G. Smith

August 7, 1939.

10. Since the self-insurance plan was inaugurated in 1932, it is surprising to say the least that the allegation that the reserves belonged to the bank was not made long before now. If the reserve is to be regarded as a deposit of Bank of America N.T. & S.A. at this date, it must, ipso facto, have been a deposit of the bank in 1933 and 1934 or any other year. And yet at no time during the examination of Bank of America N.T. & S.A. was that reserve regarded, assumed, alleged, or stated to be a deposit or as part of the net sound capital structure of Bank of America N.T. & S.A.

Although we have fortunately not had the opportunity of proving the fact conclusively, it should nevertheless be accepted as a fact that Transamerica Corporation will pay, until such time as its obligations under the plan expire by time limit, any and all losses occurring in the bank even though the aggregate of such losses exceeds the amount carried by Transamerica Corporation in its reserve. This conclusion is borne out by the fact that in the case of self-insurance reserves carried for two other banking subsidiaries, the aggregate of losses paid did exceed the amount of premiums paid by such banks.

"Predicated upon these conclusions, the deposit is shown as a direct liability of Transamerica General Corporation and is included with the other borrowings of Transamerica Corporation and its subsidiaries under 'Excess Loans,' exceeding the limits prescribed under Section 5200 U.S.R.S."

Answer.

The Examiner is apparently not very sure of his ground. In one breath he says the premiums were "deposits" and in the next "an unsecured borrowing." Since the premises are wrong in both cases, the conclusions of the Examiner are necessarily also wrong. The balance of the reserves still carried on the books of Transamerica Corporation in respect of Bank of America N.T. & S.A.'s risks for fidelity insurance covering the first $100,000, as well as the balance of the reserves carried on its books in respect of its controlled subsidiaries, is a reserve liability of Transamerica Corporation, and is included in its annual report under the caption "Reserve for Taxes and Contingencies."

Yours very truly,

(Signed) John M. Grant

John M. Grant,
President.
TREASURY DEPARTMENT
OFFICE OF
COMPTROLLER OF THE CURRENCY

August 31st, 1939

Mr. C. B. Upham,
Deputy Comptroller of the Currency,
Treasury Department,
Washington, D. C.

Dear Cy:

In compliance with your letter of August 24th, in which you request certain information about the so-called "self-insurance" of Bank of America National Trust and Savings Association, Examiner McLean has endeavored to supply answers to the seven statements set out in the memorandum of August 12th, copy of which was enclosed with your letter.

Mr. McLean's letter is enclosed herewith and if the information contained therein is not adequate, please advise me at once, and I will endeavor to have the reply prepared in accordance with your desires.

Sincerely,

(Signed) Irwin D. Wright

IRWIN D. WRIGHT
Chief National Bank Examiner
Twelfth Federal Reserve District

IDW: A
TREASURY DEPARTMENT

OFFICE OF

COMPTROLLER OF THE CURRENCY

August 30th, 1939

Mr. Irwin D. Wright,
Chief National Bank Examiner,
1 Montgomery Street, Room 921,
San Francisco, California.

Dear Mr. Wright:

I am enumerating below additional information developed in connection with the self-insurance fund of the Bank of America National Trust and Savings Association, which is carried on the books of Transamerica General Corporation and was criticized in my last report of examination.

This information was requested in Mr. Tietjen's memorandum to Mr. Upham dated August 12th, 1939.

1. I was unable to obtain a copy of the charter of Transamerica General Corporation, but was advised that it contained general corporate powers and did not authorize the transacting of a surety or fidelity business.

2. The funds deposited with Transamerica General Corporation by the Bank are claimed by the Corporation as general funds and are said to be shown as earnings in income tax returns. The funds are not handled as trust deposits but I was unable to verify the statement that the funds were considered as earnings on which income tax is paid.

3. Transamerica General Corporation pays all approved loss claims to the bank. In the period July 1, 1938 to June 30, 1939 it paid the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Holdups</td>
<td>$18,195.75</td>
</tr>
<tr>
<td>Shortages</td>
<td>$85,975.66</td>
</tr>
<tr>
<td>Forgery losses</td>
<td>$22,985.10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$127,156.69</strong></td>
</tr>
</tbody>
</table>
4. The amount on deposit with Transamerica General Corporation is not shown on the books of the bank in any manner, either as an asset due from the corporation or as reserve funds of the bank. The funds when paid over to Transamerica General Corporation are charged to expense and claimed as a deduction in income tax returns.

Transamerica General Corporation carries the funds on its ledger as "Deposit of Self Insurance Funds of the Bank of America N.T. & S.A. However, President Grant claims the funds are considered as actual reserves and the heading on the ledger is incorrect. The contention is supported by the consolidated statement of Transamerica Corporation which shows these funds as Reserve for Taxes and Contingencies.

5. The only authority by which the bank entered into the arrangement, and it is not believed to cover recent transactions, is as follows:

Jan. 20, 1923. Resolution of the Executive Committee of the Bank of Italy, State Bank, to deposit with the Stockholders Auxiliary Corporation premiums covering forged securities.

Dec. 1, 1927. Paid $50,000.00 to National Bankitaly Company, Reserve for Fidelity Bond. To open account.

Sept. 8, 1928. Letter shows National Bankitaly Company carried in self-insurance account for the bank the following:

<table>
<thead>
<tr>
<th>Reserve Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forgery Reserve</td>
<td>$154,031.18</td>
</tr>
<tr>
<td>Fidelity Reserve</td>
<td>51,497.67</td>
</tr>
</tbody>
</table>

Sept. 11, 1928. Resolution of the Executive Committee to pay $50,000.00 forgery reserve and $31,000.00 fidelity reserve to National Bankitaly Company.

Dec. 13, 1932. Authorization to transfer account from National Bankitaly Company to Transamerica General Holding Company, which would indicate that the bank considered the funds as part of its reserves.

6. There is no agreement in existence. It is stated by officials that it was a mutual agreement whereby all subsidiaries of Transamerica Corporation paid self-insurance funds into a common pool, instead of paying them out to authorized insurance companies, so that any savings would revert to the parent company. It is further stated that Transamerica General Corporation would have considered itself liable for all losses, even if in excess of the premiums paid in by other subsidiaries of Transamerica Corporation. This would appear to be a deliberate underwriting of insurance and not authorized in the charter.

7. Payments to Transamerica General Corporation were made by the Administration Office under instructions from the Cashier.

The last payment was made July 20, 1938 covering the premium due to June 30, 1939 and was remitted to Transamerica General Corporation by entry letter through the Clay and Montgomery Branch of the bank in the amount of $327,812.89.

The arrangement apparently has been discontinued and current premium on the $100,000.00 self-insurance in the amount of $324,725.31 was set up on the bank's books August 8, 1939 under the heading "Reserve for Contingencies Self Insurance."

I am advised that Transamerica General Corporation considers itself liable for all losses occurring under the fidelity bond for one year from the date of cancellation of the arrangement, or until June 30, 1940, the same as any other insurance concern and for the period July 1, 1939 to August 28, 1939 it has paid claims or has claims pending totalling $31,048.29.
Mr. Grant's letter in which he refutes the statement in my report that interest was paid on this account is in error. A re-check of the account shows that interest was paid on the balance until the end of 1934.

I believe the above information to be correct in all respects, even though a considerable portion of it was obtained verbally from President Grant of Transamerica General Corporation and from Vice President Russell G. Smith of the Bank of America National Trust and Savings Association.

Yours very truly,

(Signed) C.H. McLean

C. H. McLean
National Bank Examiner
September 18, 1939

Lunch with the President.

Spoke to him about the Islands of San Pierre and Miquelon. He was very much interested and said he would look into the matter. He told me, in strictest confidence, that he is leasing hangars and bases for sea planes in Bermuda and two other places in the West Indies; that nobody knew this.

I told him that I was thinking of refunding our $500,000,000 worth of notes coming due in December just as soon as possible. He said, "Well, can't you get along without increasing the total outstanding debt now?" I said, "No, that's impossible." I said, "I know what you told Eccles and Eccles told Hanes and Hanes told me." I said, "I don't want to use up things like silver certificates, et cetera, except as a last resort. I want to go ahead and sell 5-year notes or 8-year bonds, whatever the market will take now. Then, if things get worse, we have some of these emergency powers in reserve."

He argued some with me, but I was very insistent. I said, "You have been kind enough to say that you don't worry about the Treasury and I don't want you to worry about it and I want to keep our finances in such shape that we always can see ahead for three months without financing."

He said, "Well, can't you sell certain securities for Jones and HOLC?" I said, "Yes, I intend to." "And," he said, "if you keep your balances to 1 billion or 1½ billion, won't that be enough?" I said, "That's what I have in my mind, but I don't want to have anybody hold a pistol at my head." He argued a little bit more, but I was very, very insistent and I had my way entirely.

This is a very important victory for the Treasury because Eccles had him sold on doing something quite different. I said, "I consider my number one job is to finance the Government and I want to be able to continue to do so and not find ourselves in the same shape that you were in the Fall of 1933."
I told him that I had been misinformed by Edison and, therefore, had misinformed the President, namely: that the Navy had come to an understanding with the armament people. I said, "Why don't you take Admiral Peoples and have him check up on the Navy and see if they are up to date on their various contracts." And I said, "If the Army is in no better shape than when I contacted them some time ago, I think you will find that they are not up to date." I said, "You remember, last year, when we suggested we bring all the Army and Navy planes here and what a shocking exposition it was." He said, "Yes." I said, "Why don't you let Peoples check up for you?" "In other words," he said, "you would rather have Peoples drunk on the White House staff than the Treasury." I said, "Yes, and that's not so funny because it's true." He laughed. He said, "Well, I am just teasing you." I said, "I know, but it's a fact." (This refers to his suggesting my using Peoples at the last meeting I had with him. Evidently I made an impression on him why I did not want Peoples.)

He said, "How are you getting along with Harrison and that investigation?" So I said, "Well, I am seeing him this afternoon." He said, "Why haven't I read anything about it in the paper?" Well, I skipped that one and I told him I was going to tell Harrison and Ransom this afternoon it was up to them to get those banks to volunteer what they did during that particular hour. He said, "If they won't give it to you voluntarily, we can make them do it." I said, "How?" He said, "Through SEC." He said, "After all, the price of Sterling influences the price of stocks and, therefore, SEC has the right to go in." Well, I think the President had his tongue in his cheek, that his suggestion will not hold water.

The President said he may go up Friday night to Poughkeepsie. "Would I like to go with him?" I said, Yes. He said, "You can stay home on the Day of Atonement." He said, "I have nothing to atone for."

In talking about the Islands he said that we
might want to lease them because, being one-third Scotch, one-third Dutch and one-third Jewish, with that combination "I don't want to have to give a nickle more than I have to."

000-000
September 22, 1939

Present: Mrs. Klotz  
Tom K. Smith

H.M.Jr: I've got an idea and it is strictly confidential and I want you to think about it because you are the one fellow that can help me. If we should decide to move through FDIC on the Bank of America then, as I understand it, we have to appoint a Conservator for the Bank of America.

You are going out to the West Coast to attend the Bankers Convention. Knowing the Californians, I believe the Conservator has to be a Californian. Now there must be in California a man of Italian extraction who is on the level and in whom the people have confidence.

Smith: You are talking about Rosetti. Rosetti operates a very conservative bank and is just the opposite of Giannini. I can find out all about Rosetti.

H.M.Jr: You get hold of Rosetti and, in strictest confidence, sound him out without letting him know why. If he is not at the convention, go to Los Angeles and see him.

Smith: I think you have a wonderful idea.

H.M.Jr: I want someone as a Conservator in whom the worker, who has his few hundred dollars deposited in the Bank of America, has confidence so that this propaganda that the Jews are persecuting the Italians will go out the window.

* * * * * * * * * * * *

V. H. Rosetti is head of the Farmers and Merchants National Bank of Los Angeles.

* * * * * * * * * * * *

H. M. Jr. asked me to have Irey investigate Rosetti and also to send Sam Klaus out to California to see what he can find out about him.
September 25, 1939

Lunch with the President.

I said, "Mr. President, I don't know why Hanes is so much interested in this question of short term credits to foreigners. Possibly you can enlighten me." I said, "After Cabinet, when you told me that you did not want anything done, I came back and told this to Hanes and Foley and Duffield. And then today, on my return, I get the enclosed proposed press release from Hanes." The President read it and shook his head two or three times going through it. He said, "I thought I made this thing very clear to Hanes at Cabinet, but evidently he does not understand it." I said, "Well, Mr. President, and I don't understand it, but maybe you will be able to tell me how two and two make four." And I said, "Winthrop Aldrich seems to be awfully close to Mr. Hull and calls him up all the time." Then the President went on and told me how he had laid out Winthrop Aldrich when he suggested that he should do the buying for the English and the President again repeated his formula that he wanted something like the English to do their own buying and the French to do their own buying through some corporation like the Amtorg. I said, "Mr. President, it's lucky that you put someone in the Treasury who isn't of Wall Street, by Wall Street, or expects to go back to Wall Street and," I said, "I lie awake nights trying to forestall some of these things."

I said, "I wrote you last week that I am having my troubles with Ecoles." I said, "The time hasn't come yet to ask for help, but I don't want to lose the advantageous position that I am in now, namely: that I can choose the time to finance and refund and if I wait until December then the New York crowd can dictate to me." I said, "Ecoles' crowd say that they want to keep money rates low and we say we want to clear the track to finance, because if you keep buying bonds, the normal investor will stay out of the market." The President said, "That's right." He said, "I am not going to get interested or worried in the bond market until the interest rate for ten-year money goes above 3%." So I said, "Well, that's a long way off. I think you can borrow ten-year money now for 2%; five-
year money for 12%." I said, "With these huge excess reserves, there isn't a chance that money will go to 5% for sometime to come." He said, "Well, that's my only worry." He said, "You know, I do these things by rule of thumb." I said, "Well, if by the first of October the Fed does not get out of the market, I may ask your help."

He said, "Have you talked to Eecles?" I said, "Personally, not since Wednesday when I had him for lunch, but I sent two of my men over to see him and his whole Board and they had a pretty good meeting and told them that they must let us know when they go in and out of the market." He said, "Are they doing that now?" and I said, "Yes." He said, "What about seeing him yourself?" I said, "I will if necessary, but I don't want to have any rows with him." I said, "The less rows between Departments now, the better." He said, "I agree."

Then I showed him and let him read the memorandum from Hanes in regard to Hanes' conversation with Doughton and Cooper. The President said, "He's quite right. We don't want anything until November 1." But he said, "He is like a woman who puts the most important thing last." "I make this recommendation for the further reason that our business and economic conditions are changing so rapidly for the better that we should judge all of these matters in the light of the then existing conditions rather than this far in advance." He said, "Doesn't Hanes mean that if business gets better, our income will be so much greater we won't have to increase taxes?" I said, "Absolutely." He said, "Well, I am very fond of Johnnie Hanes, but Johnnie just does not understand." He said, "If you take a plebescite today as to whether the people would rather have price fixing by flat or excess profits tax," he said, "it would be an overwhelming vote for excess profits taxes. The people don't want to see individuals and groups profiteer."

I said, "Well, strictly between us, Mr. President, I have not told this to John Hanes, I have asked Magill and Shoup to prepare a memorandum for me on excess profits tax, to be ready on the first of October." I said, "The way I see it, we need excess profits tax,
taxes on the middle group increased and lower the exemptions in the lower brackets." He said, "Absolutely! Simple program. Suits me perfectly. But," he said, "not until after the first of November."

I said, "You will be pleased to know that Jerome Frank told me that he was delighted with Ross Magill's report on the New York Stock Exchange and that if the New York Stock Exchange would carry out Magill's recommendation he, Jerome Frank, would be willing to lay off on the New York Stock Exchange." The President said, "That's very interesting and I did not know it."

I then told the President that we were going ahead in extending our purchases for the civil departments outside of Washington, and that Harold Smith was very much pleased. When I mentioned Harold Smith he seemed surprised. And I said, "One of the first things we were going to do was to see whether the various departments in a particular city were buying electricity at the same price." I told him this because I knew it would tickle him and it did. I said, "You remember what we did in New York City," and he said, "I remember very well."

I again took pains to tell him that when I came back to the Treasury I found the Treasury in a subordinate position and that I had to stay awake nights to fight these very insidious attacks on the Treasury.

He said, "I outlined to you what my War Industries Board is going to be." I said, "Yes." He said, "You know, there are going to be seven positions; one on prices, another on labor," and he listed them. "But," he said, "the seventh one I am having the greatest difficulty in filling and that is to be Fiscal Advisor." He said, "Not but what you and I would continue to run things the way we are now, but I have to have a leg man." So he said, "Now don't get excited, but I think I am going to take another one of your men away from you." I said, "Mr. President, who is it?" "Herlie Cochran. When he gets those things straightened
out, what would you think of Merle Cochran?" So I said, "Well, Merle Cochran is excellent where he is, but I don't think he is suited for you at all. He's too much of a central banker." I said, "Through the BIS he got too close and friendly with people like Montague Norman and Dr. Schacht and last week, when I wrapped these New York foreign exchange dealers over the knuckles, he was quite shocked." I said, "I don't think he's the man for you." He said, "Won't he be good between the State Department and the rest of them and still stak your payroll?" I said, "I don't think so."

He said, "Well, Frankfurter's hot dogs are suggesting someone, they want me to take. What would you think of Dean Acheson?" I said, "Not at all." I said, "He got out that statement which was unfriendly to you and, I said, "you just can't change him." I said, "He goes with this social crowd in Washington, Arthur Krock and the rest of them, and I just would not think of him. But give me a little time so that I can find somebody, because, after all, that would be the key position."
September 28, 1939

Saw the President this morning.

As I came in, Basil O'Connor walked out. He said, "This seems like old times having you drive me out of the President's room."

The President said, "Basil O'Connor has just made a very interesting suggestion." He said, "In the first place, O'Connor's office is filled with sleek, well dressed people who want O'Connor to help them make contacts with the French and English purchasing agencies. O'Connor said a couple of bankers have suggested to him why not appoint four or five dollar-a-year men to help Procurement do the buying for the French and the English and that all the commissions involved be turned over to the Red Cross." So the President said, "This is a pretty good idea, but I don't see why there should be any commissions."

So I said, "Well, that's one of the things I came over to talk to you about. I can offer to the French or the English and any other Government the right to open an account with the Federal Reserve as our fiscal agent, provided that you approve." The President said, "Fine! Go right ahead with it."

The President then said, "You know, I had in six members of the Cabinet the other day to sit around the table and give me sort of a pep talk," and as he went along I gathered what he was doing was explaining to Wallace why on this new board of seven he had to have an agricultural supply man. He said, "I told them how during the war the Secretary of the Interior's time was taken up by sitting on various boards when he should have been Secretary of the Interior." The President said, "I satisfied them all that they had nothing to worry about on this new War Industries Board."

So I said, "Well, that leads me to the next question. You suggested to me that you wanted either Merele Cochran or Dean Acheson to be on this Board to look after fiscal matters and we both agreed that neither
of these two gentlemen would do and before suggesting somebody to you, I really will have to find out more what his duties are going to be." The President thought a minute and he said, "Well, what's the matter with Lauchlin Currie?" I said, "That's what I want to know. Why do you need two of them?" He said, "I don't." He said, "What I had in mind is this." He said, "For example, I am bringing Admiral Leahy back as my senior Naval Aide." I said, "I know. You told me that."

"But he does not know anything about supplies, and therefore," he said, "he will need somebody like Peoples." He said, "Not necessarily the Peoples, but a Peoples, and the same way some of these other people don't know anything about finance."

So I said, "But you have got Lauch Currie." He said, "You are right. I don't need anybody else." And then he said, "I don't want to fill up those three vacancies on my Administrative Staff, but" he said, "I can get rid of Rowe any time because," he said, "McReynolds is doing such a fine job with personnel I don't need Rowe. I can get rid of him."

So I said, "If you are bringing up Leahy, why not make Peoples an assistant to Leahy and hold Leahy responsible for keeping Peoples sober." He said, "That's a good idea."

Whatever the President had in mind, and he evidently had in mind that one of the seven must be a fiscal man, I now feel that the fact that he did not have me present on Tuesday when he was trying to sell a bill of goods to six Cabinet members, he felt that there was nothing to explain to me because he wasn't going to interfere with the Treasury and that since Monday he has decided he does not need a fiscal man and, therefore, he will use Lauch Currie. So I would say that that idea has been permanently set aside, at least I hope so.

He said, "How is the bond market coming along?" I said, "Fine!" I said, "I called up Ecoles yesterday, after that nasty article appeared, to talk to him and I
got a beautiful letter from him today." And I said, "I don't think we are going to have any troubles."
October 1, 1939
7:10 p.m.

The President called me awhile ago, and I told him that we had been asked by the State Department to prepare something for Key Pittman on the Neutrality Bill.

We felt that the consideration fell into two matters:

One, whether the credit clause in the cash-and-carry plan now under consideration was contrary with the Johnson Act, and that we in the Treasury felt that, and were of the view that, the opposite was the fact. Particularly in view of a memorandum in the Treasury's files of a conference in my office in 1934 at which Senator Johnson was present. When we had asked the Senator the specific question relative to short-term credits, the Senator had answered that the elimination of short-term credits had not been considered part of the purpose of his Bill.

The President said, "That's wonderful! That's fine!"

And the second part, with reference to the question of the extension of 90-day credits, I felt that the President shouldn't do anything to urge it. That the whole history was that it had been introduced in the House for the direct purpose to restrict the powers of the President as to the extension of any such credits, and that we in the Treasury felt that the President should let the pressure come from the outside on this.

The President said, "I am in complete agreement with you, and
that is exactly the way I feel, and Cordell agrees absolutely."

I told him that Cordell didn't talk that way to me this morning. He gave me the impression that he would like to see this included.

"So would I", said the President, "but I am not going to do anything about it. The pressure will have to come from elsewhere."

He asked me to send over to him the memorandum, and the memorandum on the conference in my office, and while he didn't tell me so in so many words, I got the impression that he will see that it is sent and gets to Key Pittman.
October 3, 1939

Lunch with the President.

The President said, "Some of these people give me an awful pain in the neck. For example, Joe Kennedy." He said, "Joe always has been an appeaser and always will be an appeaser." He said, "If Germany or Italy made a good peace offer tomorrow," he said, "Joe would start working on the King and his friend, the Queen, and from there down, to get everybody to accept it and," he said, "he's just a pain in the neck to me."

And he said, "The trouble with Bullitt is in the morning he will send me a telegram 'Everything is lovely' and then he will go out to have lunch with some French official and I get a telegram that everything is going to hell."

He said, "The only thing that saves the information is I know my men."

I gave the President the reasons for my postponing the financing and told him that one of the reasons was that I felt that the peace or war question would most likely be settled this week. He said, "The trouble nowadays is that the thing you expect to happen does not happen and it does not follow necessarily that it will this week." I told him they had run the interest rates up on me and I did not want to pay the price.

I told him what I had done in regard to the proposed silver embargo into India and he thought I had handled it just right. He said, "If you tell the British today that they can't put an embargo on the importation of silver into India they would say 'For Heaven's sake! Run along! And don't bother me at this time with trivial matters. We are trying to fight a war.'"

He signed the memorandum authorizing Public Health to spend $20,000 for malaria. He read it very hastily and said "Is this legal?" and I said yes and he signed it. I told him the reason I brought it over was because I had initiated it.

He handed me back the memorandum from Captain Puleston.
on his conversation with Mr. Wachtler, of General Motors. The President said, "That's an excellent memorandum and I hope to receive more like it."

He showed me a letter from Cyrus Eaton, who was complaining about the advisory board set up in the Treasury composed of Burgess and Bailie, "two J. P. Morgan men." "What right did they have being in the Treasury?"

So I said, "Well, Cyrus Eaton is getting religion pretty late in life." And I said, "I wish you would read this memorandum of Cochran's conversation with Leroy-Beaulieu in which Beaulieu says that they would have opened an account with Morgan long ago if it had not been for me." I said, "After all, Mr. President, unless I confine myself to college professors, if I want to get people who have had training in finance to assist me, I have got to get people of the type of Burgess and Bailie and Hanes." And I said, "I watch myself very closely to see that I do the right thing."

The President then asked me how George Harrison was behaving and I told him about my conversation with Harrison this morning.

The President said how could I find out what the English and French are buying in this country. I said, "If you want all of their accounts to be open, you can introduce some legislation into the Neutrality Bill which would make it mandatory for them to have their account with the Federal Reserve," and he thought a minute and he said, "No. If I want them to do it, I will just tell them to. I don't need any law." So that's out.

He said, "I had these six Congressmen, led by Voorhis in today, who wanted to put on taxes on munitions and he said, "I was good. And I persuaded them for the time being to do nothing." He said, "Why just take munitions? Why not tax the brass fellow or the brass pipe fellow who makes the shell in its early stages? Why not put a tax on the copper fellow?" He said, "The best tax is the excess profits tax and," he said, "I told them that if they want to talk to anybody they should talk to Thurman Arnold in Justice who has an idea to handle it after the German anti-trust pattern which," the President said, "is crazy and won't work." Talk to Jerome Frank and Leon Henderson
or to the Treasury. The President said that he thought the best system was excess profits.

I told him Magill's memorandum had come in.

I then let him read Hanes' letter to me which, when he was through reading, he said, "All that Hanes says is don't let's put on any extra taxes until we have a war." He said, "I agree with Hanes. I don't want any war, but I do want to tax the people who are making excess profits"--for the various reasons which I have said in my letter. He read my letter and he liked it enormously. He said, "That's fine! That's grand." Before reading it I told him that I was fearful that if I gave it to Hanes that some of his conservative friends would learn about it and we had better hold our fire. He said, "How is Hanes getting along?" I said, "Fine." I said, "He was the only one of the whole group who advised me not to get out a bond issue this week."

He said, "There is one thing that worries me about Hanes. When he comes to Cabinet I see that he takes copious notes and," he said, "I don't like it." He said, "How do I know how they will look like 20 years from now?" I said, "That's partly my fault, because I asked Hanes to write a report for me on what took place at Cabinet so that I could read it when I returned, just the way Magill did but Magill having been editor of a paper was able to do it without making notes." "Well," he said, "Gideon Wells, former editor of the Harvard paper, kept notes on Lincoln's Cabinet and being one of the few friends that Lincoln had in the Cabinet they are very valuable, but" he said, "if some other member of Lincoln's cabinet who was not friendly had kept it, just see what a distorted viewpoint you would get."

So I said, "While you are talking on that, there is a member of your Cabinet who keeps a very full account of Cabinet meetings. That's Frank Murphy." I said, "He keeps pages." He said, "I noticed he did and I am going to talk to him about it.

I then showed him my letter of September 26th on the Chinese tin proposition and he said, "Do everything
you can to help the Chinese." I said, "I will."

I was mighty glad I had my tax letter because it was an offset to the Cyrus Eaton letter and when I got through the President said, "Well, those men don't decide policy. They just advise you," and I said, "That's right." And then I said, "Any gains that George Harrison or his group made in usurping the Treasury's power while I was gone, the Treasury has completely regained its position."

He said, "Illustrating that the English having an account with the Federal Reserve and I wouldn't know how much they would buy -- here's the Electric Boat Company has an order for 80 of these hush-hush subchasers, only 25 of which are being built in this country; some are being built in France; some in England and some. I think he said, "in Holland."

The President said, "On Sunday I went all through the New York Times to see what stocks I could buy which in some way did not come in conflict with the Government and after reading the whole list I only decided there were two." And he was serious. "One was a perfume stock and the other was stock in watch companies." He said, "As the salaries of the girls increase, they will buy more perfume and lip stick and the also by wrist watches for Christmas." So I said, "What about silk stockings?" He said, "Well the Japanese silk might do that." So I said, "What's the matter with mail order stock?" He said, "No. Mail order stock, that might come in conflict." He said, "There are only two, perfumes and watches."
MEMORANDUM

September 29, 1939

Mr. Finney, Financial Counselor of the British Embassy, called at 3 p.m. today. He stated that he had received a message from his Government in regard to Indian silver policy. Since the Government of India desires in present circumstances to conserve its foreign exchange holdings, it has been releasing Government silver to the Indian market. To make this policy more effective, it is proposed that the Government of India impose at an early date an absolute embargo on silver imports. The British prefer that no action be taken without acquainting Secretary Morgenthau with the plan and seeking his reaction. Furthermore, they would appreciate any personal advice the Secretary might care to give as to whether such move at this time might influence the Silver Block to take an adverse attitude on the Neutrality Bill. Mr. Finney desires to hear from us yet today.

I submitted the foregoing information to Secretary Morgenthau at 3:45 p.m. He asked me to put it in memorandum form for the Three Economists and Mr. White to start studying this afternoon. He asked me to tell Mr. Finney by telephone that no immediate reply could be given and that the matter would be taken up on Monday. I have done this.

With respect to the subject of silver, Mr. Knoke told me by telephone at 2:35 this afternoon, and in strict confidence, that the Chase Bank had just given him the following information. The representative in Mexico of the Chase Bank had telephoned today, presumably from the Bank of Mexico, stating that the Mexicans believed the drop in silver was due to manipulations by the United States Treasury, following the Canadian silver purchase which the United States felt obliged to make. The New York office gave its representative no information to disabuse the Mexicans of this silly reasoning, emphasizing that the recent rise in silver had been due to short-covering; that the subsequent decline had come when positions were covered; and that Mexican sales of silver had contributed to this drop.

H. Merle Cochran

CONFIDENTIAL
October 3, 1939

MEMORANDUM

To: Mr. Livesey
From: Mr. Cochran

Will you kindly forward the following cablegram:

"American Embassy, London. "CONFIDENTIAL" for Butterworth from the Secretary of the Treasury. Financial Counselor Pinson of the British Embassy has informed me that the Government of India, desiring in present circumstances to conserve its foreign exchange holdings, has been releasing Government silver to the Indian market. To make this policy more effective, it was proposed that the Government of India impose at an early date an absolute embargo on silver imports. Pinson said his Government had instructed him to ascertain my reaction to this contemplated measure.

I replied that I appreciated the action of his Government in consulting me; that I did not desire to express any opinion as to this policy; but that I did not raise any objection thereto."

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THE WHITE HOUSE
WASHINGTON

September 28, 1939.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Will you speak to me
about this?

F. D. R.
My dear Mr. President:

The Chinese Ambassador called on me today and informed me that he had just learned, this morning, that the Government of French Indo-China had announced that from now on no munitions, motor cars or gasoline belonging to the Chinese Government could pass through their territory.

I have called up Ambassador Bullitt and given him this information and asked him to try to get an explanation from the French Government.

The Chinese Ambassador has also approached me on an additional loan from the Export-Import Bank against the sale of tin in this country. I would appreciate your advising me how far you wish me to go with this negotiation.

Yours sincerely,

[Signature]

The President,
The White House.
Dear Johnnie:

I was much interested in your letter of September 20th and think your schedule of preparatory taxation studies a good idea. I have discussed taxation with the President, and we agreed that the time is inopportune for deliberations which involve conferences outside the Treasury. I believe there is general agreement at both ends of Pennsylvania Avenue that no tax legislation will be offered at this Special Session of Congress.

The President and I are in complete accord with regard to the central problems of tax legislation. We both feel that in this period of world conflict when free enterprise and the profit motive are being attacked on both flanks -- from Fascism on one side and Communism on the other -- it is particularly important that our tax policy should serve to strengthen and not weaken our basic institutions.

As I see it the forces threatening our democratic structure will find support in this country if the government overlooks the interests of the under-privileged groups while at the same time permitting over-privileged groups to attain special gains. In the months to come the discontent of the groups which have been injured by the war situation will be aggravated if they feel that favored persons are permitted to make and keep the extraordinary profits that arise as a consequence of the war. From my own personal experience in the agricultural crisis of 1933 I know how people react to situations in which they justly feel themselves to be the victims of social forces, even in the absence of the contrast of spectacular gains by others.

You yourself told me of the tobacco growers of North Carolina who have just lost their market and you indicated that they look to the government to help them. I agree with you that they, like others who are hard hit by the war, have a right under such circumstances to look to their government for assistance. But I consider it wise social policy as well as wise fiscal policy to obtain funds to help these groups by tapping the special gains that flow from the war situation.

The President and I are agreed that during the coming period of increasing industrial activity it would also be feasible to increase taxes on the middle income groups and
lower exemptions in the lower income groups. Such action is not only warranted by the increased ability to bear higher taxes but it is also wise as a step in the direction of putting our fiscal house in order and attaining a more equitable distribution of our tax burden.

This is not a war tax program. To my mind it is an appropriate tax program for a neutral country in a world at war. I feel that through such an enlightened policy we can check that impetus towards war which springs from excessive war gains on the one hand and excessive misery on the other. Such a fiscal program would not only strengthen our neutrality but would help balance the budget in the face of growing defense needs.

It is impossible to prophesy the nature or duration of the war abroad. But one line of economic policy is clearly desirable. We must avoid, as far as we can, distortions of our economic system which would have disastrous consequences when the period of expansion slackens. We should not permit the mirage of a temporary boom and exorbitant profits to lead us into situations which inevitably result in severe contractions later. We should, of course, do everything possible to promote healthy and balanced recovery, yet we must be constantly alert to avoid the development of that type of boom which is largely a war phenomenon and which of necessity is followed by deep depression and social instability. Taxation intelligently applied is one of the instruments which can effectively reduce such distortions while keeping our democratic institutions intact.

I am glad you gave me this opportunity to state my position to you in writing, although I confess I should not have done so had you not taken the initiative in writing to me. We shall, of course, have ample opportunity to discuss our tax program at length during the coming months.

Sincerely,

Mr. John W. Hanes,
Under Secretary
of the Treasury,
Washington, D. C.
THE UNDER SECRETARY OF THE TREASURY  
WASHINGTON  
September 20, 1939

Dear Henry:

Ever so often I am struck with the inclination to set down on paper, for whatever they may be worth to you, certain views in regard to the national situation which, unfortunately, due to the pressure of the problems now upon us I do not have the opportunity to discuss with you at length. Such views may not be in accord with your own, and in that case "to the wastebasket" without hurt feelings on my part.

You will remember that on December 13, 1938, prior to the convening of the last Congress, I took occasion to place before you certain views in regard to Administration policy to be pursued during that session of Congress. I respectfully refer you to that communication.

Here goes for another one:

(1) I am sure it is not necessary for me to tell you of my hearty approval of the purpose prompting the President to call the special session of Congress, and I am in complete agreement with what I understand will be the limited scope of the recommendations of the President to the Congress.

(2) Feeling that an attempt will be made at this extra session to bring up the question of war taxes, I have endeavored to prepare myself for this emergency by making the following moves: — (a) I am asking Roy N. Young to make a complete survey of all war tax legislation introduced during the World War, (b) I have asked Commissioner Helvering to make a complete survey of the administrative side of the picture resulting from those taxes enacted during the World War, (c) I have called a meeting between the Treasury staff, and the staff of the Joint Committee on Internal Revenue Taxation, for next Monday afternoon at 3 o'clock to discuss these questions in detail.

My apprehensions are that there will develop in the Congress a movement to enact revenue legislation in anticipation of our entering the war. To my mind this would be a grave mistake, and it is my sincere conviction that the full power of the Administration should be mobilized to prevent passage of such legislation if it should be proposed.

I make this statement for the following reasons:

(1) If this country should finally enter the war, it will require a declaration by Congress, and our entire fiscal policy will be immediately revised in the light of the then existing conditions. I assume that the
Treasury will have prepared a tax bill to submit to Congress upon the declaration of war. The Treasury bill will of course be based upon experience and information relevant to our economic and social condition at the time its enactment becomes mandatory.

(2) In my opinion, the country expects the special session, under the leadership of the Administration, to strengthen our national defense, and make provision for the protection of our people against aggressions from without and against aggressions from within. This can and should be done without arousing our people into a frenzy of fear that we are moving faster than is justified by public opinion. The rank and file of the American people are favorable to the removal of the present embargo, but recent events in Russia within the last twenty-four hours, in my judgment, have reenforced the determination of our people to keep American soldiers out of Europe. To be frank with you, I am satisfied that the kaleidoscopic movement in Europe will serve to strengthen the opposition to the proposal of the President. Our people were tremendously impressed by the speech of Lindbergh, and I hear them saying that in the past hundred years, Poland has been partitioned four times by war, and you hear plain men say, "Why in the hell is it necessary for America to shed blood over a boundary dispute in Europe?". I did not mean to lapse into this phase of the situation, but it is important to consider national psychology and its bearing on the immediate action of the Congress.

(3) The above point is pertinent to the immediate issue I am making for the reason that the enactment of a war tax bill with its necessarily drastic provisions will tend to create the impression that the Administration regards war as inevitable. The very proposal of such a measure as was circulated among the Senators last spring, and signed by fifty-four of them, providing for a confiscatory tax bill would have the effect of immediately retarding the forces of recovery on every front, and result in a sudden application of fear that would stifle the present dominant spirit of economic recovery for which you and I have so patiently and persistently striven to accomplish.

(4) You will also find that the opponents of the President will drag out again the old skeleton of war mongers and war profits, and undertake to relight the political antagonisms against munitions makers from the DuPonts down. In spite of the fact that the opponents of the President know that a war tax bill will eliminate profits, they will contend that we are driven into war by the hidden forces and powers of those who seek to fatten upon the miseries of the world. I do not see how they can get by with this plan, but it affords such a masterful theme for demagogues, combined with the confusion of the public mind that it will not be neglected or postponed in this session of Congress. It is from this group that you may expect to originate the movement for the immediate passage of a war-time tax bill, but it will hardly be proposed until after
the passage of the President's neutrality measure, and will be offered then as an embarrassment to the Administration under the guise of contributing enormously to the movement to keep us out of war.

(5) Just one other point, and this is most important. I am convinced that if this Congress passes the President's proposal, and keeps its hands off war-time taxes, that the revival of private enterprise in all its implications, which I shall not here detail, will multiply Federal revenue, increase the national income to over eighty billion dollars, and thereby contribute to the solution of our great problem - the balancing of our Federal budget.

Sincerely,

[Signature]

The Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.
October 5, 1939

At Cabinet, Frank Murphy sent me a note which said, "For the first time in my life, at my age, I am hating." And he said, "I hate the Nazis. I never hated anybody before in my life."

I gave the attached memorandum to the President and said, "I would like to talk with you and Hull after Cabinet," whereupon the President proceeded to read it out loud to the Cabinet.

Hull gave an example of someone who came in today and wanted us to bring over works of art from Europe to this country for safekeeping and he said he thought the initiative should come from those countries who own the works of art. He felt that the same thing applied in this case.

I pointed out that if the French wanted to take the initiative, they could sell part of their gold to us earmarked in this country and use those dollars to acquire gold from any neutral country and ship it over here and we would buy it on arrival, as it has been my policy only to pay for gold after it had arrived.

The President then said, "But you did use warships last year," and I said yes. I said, "Do you want to use them again to bring over gold?" and he shrugged his shoulders and left me with the impression that the initiative should come from either Switzerland, Belgium or Sweden. "After all," he said, "it would not be difficult to come into the Tripartite if they wished to," and I said no.

I asked Hull what he wanted me to do and he said please prepare a memorandum for him on which he could base a cable.

The President asked the Cabinet what wolfram was and nobody knew. The President said, facetiously, "Can't you issue some currency backed by diamonds?" and I said, "Before we do that, I would rather issue apple certificates because I own plenty of them." And I got a good laugh.
October 9, 1939
(dictated October 10th)

Lunch with the President.

Told the President that there was a man in America who had five letters to five different individuals from Germany, and that he was here representing Dr. Schacht, who tried to work up sympathy to back Schacht to overthrow Hitler. I heard of this through Merle Cochran, who learned of it from Leon Fraser, who was one of the five. Another one of the five was Felix Frankfurter. The President was very much interested and said he would like to see Frankfurter and me at 9:30 Tuesday morning.

The man in question is Adam von Trott. Frankfurter knew him two and one half years ago. He's a Rhodes scholar; handsome, tall German, with an Oxford accent. He has associated himself with Mr. Carter who is the head of Institute of Pacific Relations, which is financed by the Rockefellers. Mr. Carter called up Frankfurter for an appointment and brought von Trott down. Von Trott talked about everything, the gist of which was were we going to back the English in a policy to exterminate the Germans, because if we did it would only force Germans like themselves to back Hitler, but that if the English would be reasonable, there would be a chance for peace.

Frankfurter said he was never so surprised in his life to know that he knew that this man had seen him and until I told him he had no indication that he had come from Schacht.

The President told me to get hold of J. Edgar Hoover, which I am trying to do through Frank Murphy, and have him investigate him, his room gone through, etc. etc. The President feels quite sure that he must be out of the Foreign Office to do undercover work here and that after we have the report he expects to turn it all over to Ambassador Lothian to turn over to their Scotland Yard. The President said he does not want to know who the head of Scotland Yard is in the United States. It seems, back in 1914, that von Ribbentrop did just this sort of thing in Canada.

At lunch I talked to the President about my financing and told him that with Daladier and Chamberlain talking Tuesday and Wednesday, respectively, I questioned the ad-
visability of doing the financing and that, if it was war, whatever we sold this week would sell off and, if it was peace, why they might go up. The President surprised me by saying, "Well, I don't agree with you on what may happen if there is war or peace because," he said, "with commodities selling off in this country, the English using all their supplies that they have on hand," he said, "how can anybody tell what will happen domestically, in the world, or in the Government bond market. Therefore I think it's advisable to postpone it."

I told him we wanted to increase our bills by $50,000,000 next week. He said, "All right, but how about issuing some more silver certificates?" (He certainly sticks to his ideas.) I said, "Well, let's keep that for a rainy day."

I told him that we could sell another $250,000,000 worth of notes of RFC, but I was sure Jones would kick when he learned he would have to pay above one percent interest for a three-year note when he was now borrowing from the Treasury at one percent. The President seemed to be amused to think that Jones would have to pay more than he is paying the Treasury. I said we could also borrow $100,000,000 for United States Housing, but if I did not increase my bills my cash balance would go down to $650,000,000 by December 15.

I then told him about the lunch which Cochran and Cohen had arranged for Bishop Shiel of Chicago, last summer with Henry I. Itelsson, Al Lasker, Louis Strass and others; that it had been Corcoran and Cohen's idea that the Jews in America should show their appreciation to the memory of Pope Pius XI for the liberal attitude which he had taken towards minority races; that at this luncheon the group left the impression with the Bishop that they were favorably impressed with the idea. While Corcoran and Cohen had $1,000,000 in mind, no sum was mentioned at the luncheon. Subsequently, the Bishop sailed for Rome; saw the Pope, who approved of the idea, and the Bishop returned and let it be known as to how the present Pope felt. That Ben Cohen had asked me to assist him to get the Jews to come through with some kind of a gift. The story seemed to be entirely new to the President.

I told the President that Harold Iokes had called
me in the morning to try to get me to intercede in
going the passports for the 400 Jewish medical students
studying in Scotland and the President said he was op-
posed to giving any visas to Americans, whether they
wanted to go to Germany or France or Scotland. The
President felt he could not make an exception for the
students wishing to go to Scotland.

The President said that in a roundabout way he
had heard that counterfeit money either was or will
come in from both Germany and Russia and to inform Chief
Wilson. I told this to Herbert Gaston last night, to
follow it up.

I told the President that I had a nifty for him
(based on the attached memorandum). I said, "There will
be somewhere between 10,000 and 20,000 able-bodied seamen
let off if and when your embargo is lifted." The Presi-
dent said, "Well, I question that, because after all," he
said, "I am hopeful that Congress will liberate that part
of the bill which permits American passengers to go on
cruises to the West Indies, South America and the Pacific
Coast." I said, "Well, suppose it is only 5,000. I
still say I have a nifty for you." I said, "At Cabinet
you remarked that John Lewis was not coming through in
backing you on your fight to lift the embargo. I know
Gardner Jackson very well and he helped me with the C.I.O.
unions in the Maritime Commission." The President said,
"Well, C.I.O. is only on the West Coast. The Maritime
union is different; it's A. F. of L. on the Atlantic." I
said, "I still have a nifty for you."

I told him something about Gardner Jackson. He
said, "I would like to meet him sometime." He said, "See
if you can find out from him, without letting him know that
the President wants to know, is Lee Pressman a Communist."

I told the President that we had been making a pre-
liminary study on the German oil situation and had come to
a conclusion, based on the Standard Oil of New Jersey's
information, that Germany was self-sufficient as far as
gasoline and lubricating products were concerned for her
army. I said, "We are not satisfied with this and I am
rather shocked to find how little the Army and the Navy
know and how little there is in Washington. I think it
is very important. It's a delicate thing for the Treasury
to go into some of these places to ask and I would like
to have Lauch Lin Currie to help us. As your assistant
he can go places we can't." (Told White to do it last
night and White told me that Lauch Lin Currie was tickled
to death.)

The President said, "I saw in the papers that the
Department of Commerce said that the Germans would be
short of oil." He said, "Everybody makes the mistake in
estimating the consumption of oil in Germany in war time
because," he said, "I suppose it's safe to say in peace
times 75% of the consumption is by private cars and they
have stopped that entirely. Furthermore," he said, "fuel
oil is practically never used in Germany for heating pur-
poses." He said, "I suppose most of the heating in private
homes in Germany, for their little stoves, they use cheap
ground coal."

I said I agreed with him completely and I said that
Germany had perfected processes in getting gasoline out of
coal to such an extent that, as far as we have gone, we be-
lieve that they were self-sufficient. He agreed with me.

I asked him whether he had instructed the Navy to
put out an air control over the route that the IRIGIOIS
was going to take. He said they would do it today.

I then showed him for the first time a list of the
purchases that the French were going to make, supplied to
me by Leroy-Beaulieu. I drew the President's special at-
tention to the fact that the French desperately need search-
lights which they have on order from the General Electric
and the Sperry Company and that, through the Army orders,
the French would not get deliveries until some time in
June. When I talked to Leroy-Beaulieu I said, "I will try
to get you every other one," and I was delighted that the
President said that he would have them every alternate
one.

Much to my surprise, the President said, "How will
we get this over to the Army?" and I smiled. And he said,
"Shall we ask Woodring or Johnson?" I again smiled. I
said, "Well, in view of the trouble that I had on the French
planes with Woodring, I suggest that you tell both of them,
but for Heaven's sake don't let on that I am feeding this
stuff to you." He said, "I will tell General Watson." Well,
unfortunately, Watson was out to lunch, so I went
in to see Miss Le Hand; told her about this; asked her to follow through for me, which she said she would. Then when I learned that she was so terrifically upset about their being submarines on the Atlantic Coast, I said, well, I had every good reason to believe that there is no systematic air reconnaissance being made by the Navy and it seems to me that the Atlantic Coast should be divided up into zones and the Navy can do one of two things: they can say we will take it all, or the practical thing would be to say we will give Coast Guard, let's say, from New York to Cape May, and give the Army another zone and the Marine Corps another zone, and I think it's most important. She agreed. She promised she would talk to the President that afternoon and let me know.

I let the President read the memorandum which had been furnished to me by Bailie and Greenbaum on Bailie's troubles with Robert Allen and Justice Douglas. The President read the thing very carefully and said, "Well, there certainly is nothing to this." He said, "If you and I, Henry, started to sue a columnist every time he said something that wasn't so, we would be suing them once a week."

I asked the President if he had any feeling about Bailie and Burgess being here. He said none, other than that several congressmen and senators had talked to him that I had too many people coming from New York, but otherwise he had nothing. So I said, "Well, I have been having a little trouble with him and what about letting them go home?" He thought a minute and said, "Why don't you handle it the way I handled the Stettinius Board? I announced in view of the fact the United States was not going to get into the war, they had been down here to make a study and report and go home." And he said, "You could say that Bailie and Burgess had made their report. They were going home. And when you needed them you could call for them and have them come back." (This is the best I can remember. How accurate this is, I don't know -- this part of my conversation.)

I subsequently saw Bailie for about an hour and when he asked me what the President said, I told him that the President was entirely satisfied with his story on the Bailie-Bob Allen-Douglas business and that the President
had indicated that he would leave it to Bailie and me
to decide what our relations should be. But I didn't
want to say what the President said, that Bailie should
go. After long conversation Bailie said that he and
Burgess had been talking about this for three weeks and
had felt that in view of their respective businesses
that they might have to devote less and less time to
the Treasury and more and more time to their businesses.
For example, how did I feel about Burgess attending a
Directors' meeting of the National City Bank this week?
I said it was out of the question, just the way I felt
it was out of the question for Bailie to attend the
C & O meeting. He said, "Well, he was just going to
be in the same hotel and would only have breakfast with
the people but not attend the meeting." Well, after a
long talk, Bailie said that he did not want to seem, to
the public, that he was driven out of the Treasury twice.
I said, "Well, that is of course ridiculous." And that,
therefore, he and Burgess felt that the thing to do was
to come here less and less and then not come at all.
He said that after a couple of weeks we could plant the
story that they were not coming here regularly any more.
I said, well he had been thinking this over for three
weeks and it was a new idea to me and I wanted to sleep
on it. Bailie reminded me that Jim Perkins, Chairman
of the National City, was sick and that Mr. Burgess
would have to go back. He said, "For example, I was
riding up town the other day and Tim Fox said to me,
'I hope you are not going to stay in Washington too
long because there are so many things we need you for
here in New York.' "

-6-

...
TO Secretary Morgenthau  
FROM Mr. White  

Subject: A Possible Needy Case

1. If the present neutrality law is enacted with the "cash and carry" provision one of the effects, as you know, will be the disemployment of a large number of ships, those now going to Western and Northern Europe. It has been estimated that more than one-half million gross tons of shipping will be rendered inactive. Although a part of the shipping in the North Atlantic can be diverted to other routes there will remain a large volume of idle ships.

As a consequence, there will result a large increase in the number of unemployed seamen; how many I do not know; it may be as much as 10,000. There are several cogent reasons why seamen should receive special treatment:

(a) Seamen are not eligible for the usual forms of unemployment compensation.

(b) The skilled seamen represent an indispensable asset to every merchant marine and the dissipation of this asset should not be permitted.

(c) Seamen as a group represent one of the most volatile groups among the workers and are strongly organized. Consequently their disemployment might have undesirable political effects.

(d) It is a clear case where one group suffers seriously in order that the interests of the whole community may be protected.

2. It seems to me here is an excellent opportunity to bring home the point you recently raised with respect to taking care of certain groups that are bound to be especially hurt as a direct consequence of national policy. I am wondering whether you might not be interested in getting a detailed report on this from Mr. Harris or the Maritime Commission and canvass the situation to see what plans can be devised to prepare for the situation.
The German Oil Situation

Can Germany obtain under present conditions enough oil to effectively prosecute the war?

An examination of confidential reports submitted by the Standard Oil Company of New Jersey, and the Army Intelligence Department and of published articles and data on various aspects of the German oil situation reveals no adequate basis for a definite answer to the above question.

The evidence does, however, seem to point to the likelihood that Germany within the first twelve months of war will have available - (a) from her accumulated stocks, (b) from her current production of natural and synthetic oils and gasoline, and (c) from imports from only Balkan production, enough oil and gasoline for that period - provided Germany uses no more during the next twelve months of war than she has during the last months of "peace".

Captain Puleston expressed the opinion that the war needs of Germany would not exceed her peace time consumption. This opinion is based on two assumptions, Germany's ability to curtail non-vital uses of oil and our Army's opinion that Germany's war time military needs will not be as great as generally supposed. In the report of the Army Intelligence Department available to us there are no data that can be offered in substantiation of the validity or the invalidity of this view.

Mr. Sadler, Vice-President of the Standard Oil Company, in charge of the European field, was of the opinion that Germany can obtain and produce enough oil and gasoline to meet her war time needs.

Both these views are contrary to the opinions which we have found in several other sources, including articles in German military publications by German authorities.

To obtain additional data and information which would help to answer the above question with some degree of assurance, the following is suggested:

1. A detailed and careful study by military and naval experts of Germany's war time needs.

2. A check with oil experts familiar with the German situation of the data we now have on Germany's
productive capacity of synthetic oils and her stocks.

3. Collection of information with respect to the present condition of the Polish oil fields.

4. Collection of further information with respect to Russia's possible export surplus and her capacity to transport oil to Germany.

5. Collection of further information with respect to the potential increase in Rumanian and Hungarian production of oil within the next twelve months.

I. How much oil has Germany been using in peace time?

Estimates of Germany's domestic oil consumption during the past twelve months are in the neighborhood of 60 million barrels. The estimates on this item do not vary greatly and the figure can be accepted as approximately correct.

II. How much oil does Germany have on hand in stock?

Altogether the information available on this matter is too inadequate to justify any estimate. Estimates from numerous sources vary from one month's to one year's supply. The Army Intelligence Department calculates that Germany has at least 17 million barrels on hand. On the other hand, Standard Oil's estimate based on analyses of Germany's production, imports, consumption, etc., results in a much lower figure than that.

III. How much oil can Germany import under present conditions?

If it can be assumed that the naval blockade will prevent Germany from obtaining any oil by sea transportation and if it be further assumed that Russia will not supply any substantial quantities of oil to Germany, then German imports must come from Rumania, Hungary together with the production of the Polish fields just acquired. Rumania alone produces over 30 million barrels in excess of her own consumption needs. That alone is half Germany's consumption during the past twelve months.

IV. How much oil does Germany produce?

Germany produced about 5 million barrels of natural oil in 1938, which was probably enough to produce all the
lubricating oil she needs. In 1939 the output of natural crude oil will be increased to well over 6 million barrels.

Other forms of oil and gasoline can be made from brown coal, lignite and coke. Germany has supplies of these materials adequate to produce all the gasoline she needs, but she does not at the present time have plant capacity sufficient to produce even one-half her peace time needs. In 1936 Germany is reported to have produced about 13 million barrels of synthetic oil and gasoline. By the end of 1939 she will have stepped it up to possibly 18 million barrels. By the end of 1940, (barring destruction of plants by the enemy) she can probably increase her capacity another 25 percent or so. Altogether by the end of 1940 Germany may be able to produce 30 million barrels of oil and gasoline.

V. What will be Germany's war time needs for oil?

Estimates vary greatly as to Germany's war time needs for oil and gasoline. Captain Puleston believes that her war time needs will not exceed her peace time consumption for last year. Mr. Sadler expressed the view that her war time needs would not exceed her expanding productive capacity plus present stocks and available imports. In other words he believes that Germany will not lack oil and gasoline necessary to prosecute a long war.

Other writers feel that the war time needs will be in excess of her peace time needs; these estimates range from 75 million to 200 million barrels a year. We have no data at our disposal which would help us to know which views are more dependable.

If this government is keenly interested in the oil situation in Germany, the reports and information now available in Washington will have to be extended and improved in order to supply satisfactory answers to the significant questions.
THE WHITE HOUSE  
WASHINGTON

HIGHLY CONFIDENTIAL

October 5, 1939.

MEMORANDUM FOR

H. M., JR.

Is it true that Earle 
Bailie is suing Mr. Justice
William Douglas for slander
or libel?

F. D. R.
On March 26, 1939, there appeared in the "Washington Merry-Go-Round" an article describing a conspiracy by "Old Guard elements" to unseat William McO. Martin, President of the New York Stock Exchange, and to put in his place "a tough guy" to confront Chairman Douglas and his successor. The article named Earle Bailie as one of three leaders of the conspiracy.

The conspirators were charged with specific acts, including the calling of a "secret meeting" at which strategy was decided upon. The impression given was that there was dirty work afoot. To those who knew of Bailie's efforts to cooperate with the Treasury and with the SEC it was susceptible only of the construction that he was a double crosser.

Upon Bailie's return to New York after a six weeks' absence he was shown this article. Through his counsel, Mr. Bruce Bromley, he complained to George Carlin, General Manager of the United Feature Syndicate, which controls the "Washington Merry-Go-Round" and requested a withdrawal of the charges. Bromley gave Carlin a detailed statement in which Bailie categorically denied that he had any connection with any such conspiracy, if one existed, was not in sympathy with it, was in no way a participant in any of the acts charged, and had never met one of the three named conspirators and had not seen the other for months. Subsequently Carlin reported that Robert S. Allen, the author of the article, did not think he should make any retraction because his story had been
verified by "an entirely reliable source," which he named as the
new Supreme Court Justice, William O. Douglas, and indicated that
Justice Douglas would so state if requested.

Bailie, who assumed that Justice Douglas had been misquoted,
tried for several days to reach him on the telephone. Failing in
this, he wrote Justice Douglas on April 27 inquiring whether Allen
was correctly quoting Justice Douglas. No answer was received up
to May 23 and on that date Mr. Bromley wrote to Mr. Carlin asking
for an apology.

In the meantime, Bailie had called upon Mr. Jerome Frank,
new Chairman of the SEC, whom he knew to be Justice Douglas' friend,
to discuss the situation with him. Frank saw Douglas several times.
Bromley also called on Justice Douglas at the indirect invitation
of the latter. Douglas said he had talked to Allen, and had "indicated"
to Allen that he had heard "rumors" and reports to the ef-
fact that Bailie was connected with an effort to unseat Martin as
President of the Exchange. He declined to give the name of any
informant. On June 7 Justice Douglas had Mr. Frank write Mr.
Bromley a letter justifying his action on the ground that he was
only repeating what he had heard.

Bailie never threatened to sue Justice Douglas or intended
to do so. He wrote him on June 22 expressing his disappointment
that Justice Douglas was unwilling to give the name of the person
who had made the false charges and concluded with the statement
that "if this situation now stands as you wish it, it is terminated
as far as I am concerned."
Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

Dear Henry:

Following my conversation with you over the phone this morning I am outlining the situation with reference to the more than 350 American medical students who have been studying in Scotland and are prevented from returning because of new passport regulations in the State Department.

The American Medical Association has been appealed to, as well as the Association of American Medical Colleges. It seems that for more than ten years the number of applicants for admission to medical schools in the United States has been in excess of the number which the schools were able to accept, in recent years the number of applicants being twice the number of students actually admitted to the first year class in medicine. I am advised that the medical schools cannot gear their facilities to meet the demands of qualified applicants because of the necessity for closely supervised laboratory work in the first two years and for intimate personal contact with patients in the last two years. It was this situation which resulted in many American students attending certain Scottish medical schools.

The students involved are matriculated in three Scottish medical schools, viz., The School of Medicine of the Royal Colleges, Edinburgh, Anderson College of Medicine, Glasgow, and St. Mungo's College of Medicine, Glasgow. The distribution of students according to classes is as follows:

Approximately 70 entering the Second Year
"       100 entering the Third Year
"       110 entering the Fourth Year
"       60 entering the Final Year

As I have stated, the American Medical Association and the Association of American Medical Colleges have been appealed to, and both associations will discuss the question at meetings to be held this month. A solution of the problem is difficult for several reasons. The universities in the United States are completely filled, although I understand that five schools, including Stanford University, have signified their
willingness to aid in the solution, provided that other schools in the United States and Canada will agree to cooperate. Another difficulty is on the question of credits. The universities which these students have been attending are so-called extramural schools of medicine which do not provide a degree or qualification registrable in the British Medical Register but admits the student to the examinations of one of the licensing corporations, as, for instance, the Scottish Conjoint Board. If the student passes these examinations he obtains from the corporation a qualification which is registrable. Admission requirements of these extramural schools are below the standards for regular university admission. Therefore, some adjustment would have to be made with regard to credits if these students were to be intergraded into the American medical schools.

It seems to me, however, that the quickest and most satisfactory solution would be to grant passports to these students so that they may return to Scotland and complete their medical work. I understand that they are quite willing to return to Scotland if the passport difficulties can be cleared up.

Mr. Charles R. Roberts is Chairman of the Joint Committee of American Clubs of Scotland. His address is 545 Fifth Avenue, New York.

Sincerely yours,

\[Signature\]

Secretary of the Interior.
to: Mrs. Klotz

from: Mary E. Switzer

The Public Health Service has had a number of letters similar to the attached from Mr. Michael J. Quill and has had a number of personal conferences and interviews with representatives of the foreign medical students. A sample of the kind of written reply is attached.

You will see that the Public Health Service has already discussed the matter with the State Department and been advised that there is nothing further to be done there. The Service does not feel that it can take any action whatever in connection with the admission of students into American medical schools.

Enclosures.
September 18, 1939

Mr. Michael J. Quill,
2150 Crescent Avenue,
Bronx, New York.

My dear Mr. Quill:

The problem of the 400 medical students to which you refer in your letter of September 13 has been discussed with the State Department a number of times and there is nothing that can be done to relieve the situation as far as passports are concerned.

For a number of years applications for admission to American medical colleges have far exceeded the teaching facilities that are available and I assume that this is one, if not the only reason that these students undertook their studies abroad. The Dean of one of our medical schools told me that he had received about 1,000 applications for an entering class which had to be limited to 70. If more were accepted the standard of teaching would have been reduced to a level which would not have enabled the graduates to be licensed to practice medicine.

Under such circumstances, you will see the difficulty in gaining admissions to schools which are already filled to capacity. The matter has received our sympathetic consideration and I am sorry that I have no satisfactory solution to offer.

Very sincerely yours,

Acting Surgeon General.
2150 Crescent Avenue
Bronx, New York
September 13, 1939

Dr. Thomas Parran
Surgeon General of the United States
Washington, D. C.

Dear Dr. Parran:

It has come to my attention that 400 American students who have been studying medicine in Scotland are being denied the rights to continue their studies. The State Department has refused to issue passports and the American Medical schools have refused to accommodate them.

These students are American citizens, graduates of American colleges and universities. They have spent the major part of their lives in preparing for a profession which now, through no fault of their own, they cannot attain. Many of them have but a year or two to complete their training and some just their final exams. It is unthinkable that these American boys should be deprived the right to continue and complete what they have struggled to make their life work.

I feel that these American students deserve the assistance of all who are in a position to help them. If you could aid them in securing passports or if that is not possible help them to gain admission to our American medical schools, you would be doing them a great service.

Very sincerely yours,

(Signed) Michael J. Quill
U. O. P. W. A.
Local 15
October 9, 1939

The President, at lunch today, said to do just what we are doing and forget about it.