

PSF TREASURY DEPT.

1939-~~1940~~



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

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JAN 6 11 17 AM '39
THE WHITE HOUSE

January 6, 1939

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confidential &
private*

MEMORANDUM FOR THE PRESIDENT:

The attached memorandum of a telephone conversation from the British Treasury Department will probably be of interest to you. Secretary Morgenthau feels they are taking a strong constructive step.

John Hanes
G m 2

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: January 6, 1939

TO Under Secretary Hanes

FROM A. Lochhead

Yesterday evening Butterworth called from London and advised that he had been requested by the British Treasury to convey the following information to Secretary Morgenthau:

(1) At 4 o'clock this afternoon they will announce a transfer of gold from the Bank of England to the Equalization Fund. They had originally intended to transfer 60 million pounds, but have now decided to transfer all the gold acquired by the Bank of England since they went off the Gold Standard in 1931. They are taking all the gold in the issue department of the Bank of England, with the exception of 126 million pounds which was in British possession after they went off the Gold Standard in September 1931. This transfer will amount to 200 million pounds at the old rate, or roughly 350,000,000 pounds at current gold levels (\$1,700,000,000). The object of the transfer of such a large amount is to make it clear beyond any doubt that the Exchange Fund will be in possession of sufficient resources to meet any call on it.

(2) On Saturday it will be announced that the Treasury intends increasing the fiduciary issue from the present level of 260 million pounds to 400 million pounds and it will be added that the Government intends to introduce legislation to amend the Currency and Bank Note Act of 1928 when Parliament reconvenes. They will probably revalue the gold in the Bank of England at that time from the old statutory gold rate to something near the present market level, but this will not mean that they have established a fixed price for gold.

As they believe there will be a great deal of comment and speculation they have requested particularly that we make no comment on it on this side, as it might embarrass them to have various interpretations placed on their actions before Parliament meets.



file personal

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THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

*PST
Treasury*

April 4, 1939

My dear Mr. President:

The Secretary has asked me to send you by pouch the enclosures. He also has asked me to say that he would like to communicate with you by telephone on Wednesday concerning these enclosures.

Faithfully yours,

John W. Hawes

The President,

Warm Springs, Ga.



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

April 4, 1939

Dear Henry:

I am enclosing herewith a file on the Bank of America matter containing a letter of transmittal to me dated April 4th signed by Jesse Jones, together with the following enclosures:

(1) Letter from Jesse Jones to Mr. Giannini agreeing to underwrite the increase in capital of the Bank, dated February 25, 1939.

(2) Letter from William O. Douglas to Jesse Jones.

(3) Letter from L. M. Giannini, President, to Jesse Jones.

(4) Letter of recommendation by Jesse Jones to you.

(5) Letter of recommendation by Preston Delano.

(6) Letter of recommendation by Leo Crowley. *(not rec'd in time for Pouch)*

(7) Letter of recommendation by Under Secretary Hanes.

I am also sending a complete file as outlined above to the President at Warm Springs by pouch this afternoon.

I trust this is the information you desire.

Sincerely,

John W. Hanes

The Honorable Henry Morgenthau, Jr.
The Cloisters
Sea Island, Georgia

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H. JONES
CHAIRMAN OF THE BOARD

April 4, 1939

Dear Johnnie:

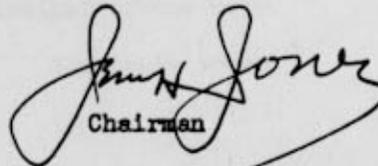
Enclosed is (1) copy of a letter I wrote to Mr. L. M. Giannini, February 25th, indicating the terms and conditions upon which we would finance an increase of the capital stock of the Bank of America N. T. & S. A.

(2) A letter from William O. Douglas, Chairman of the Securities and Exchange Commission, dated March 31st, stating that the Securities and Exchange Commission saw no reason why the RFC should not assist the stockholders of the Bank of America N. T. & S. A. through loans that will enable them, including Transamerica Corporation, to finance the increase.

(3) A letter of April 3 from Mr. L. M. Giannini, President of the Bank, applying for a loan or loans on behalf of the stockholders up to \$25,000,000, to be used in the purchase of preferred stock in the Bank.

You will note that they wish to repay the money at the rate of 10% each year for 5 years, and 50% the 6th year, which is a much shorter time than we require in the liquidation of preferred stock.

Sincerely yours,


Chairman

Honorable John W. Hanes
Under Secretary of the Treasury
Washington, D. C.

P
Y

(1)

February 25, 1959

Dear Mr. Giannini:

Reference is made to the meeting this morning between the Comptroller of the Currency, you and myself.

I am authorized by our Directors to advise you that, upon the request of the Secretary of the Treasury and approval of the President, the RFC will lend to the stockholders of the Bank of America N. T. & S. A., individually or in group, the money necessary to enable each stockholder to subscribe for his pro rata share of any increase in the capital stock of your Bank that you may determine to make and that is approved by the Comptroller of the Currency. The stock to be preferred stock bearing 4% per annum, preferred both in dividends and distribution. The loans will be at 3-1/2% per annum, payable quarterly, and will mature one-tenth each year for five years and the balance in six years.

The voting rights accorded the stock will be exercised by the RFC only if there is default in the payment of interest or principal of the note.

Sincerely yours,

Chairman

Mr. L. M. Giannini
President
Bank of America N. T. & S. A.
San Francisco, California

CC - The Comptroller of the Currency

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON

2

March 31, 1939

The Honorable Jesse H. Jones,
Chairman,
Reconstruction Finance Corporation
Washington, D. C.

Dear Mr. Jones:

In the conference yesterday with you, the Comptroller of the Currency, Preston Delano, and the Under Secretary of the Treasury, John W. Hanes, you asked me if, from the viewpoint of this Commission, there would be any objection if the Reconstruction Finance Corporation undertook to furnish the Bank of America with additional capital, this capital to be supplied directly by the purchase of preferred stock of the Bank, or a loan to the stockholders of the Bank (which would include Transamerica), secured by the preferred stock.

I have taken the matter up with the Commission and am authorized to advise you that such a step is in no way germane to our proceeding against and investigation of Transamerica Corporation and that therefore from our point of view there is no reason of policy which we would advance against it.

Our proceeding and our investigations are based wholly and entirely on the statutes which we administer. Any such step as you propose, therefore, has no bearing whatsoever on the matters under our jurisdiction.

Yours faithfully,

(Signed) Wm. O. Douglas

William O. Douglas,
Chairman.

COPY

3

April 3, 1939

Honorable Jesse H. Jones
Reconstruction Finance Corporation
Washington, D. C.

Dear Chairman Jones:

At the March 14 meeting of the directors of our bank a committee was appointed to consider increasing our capital, and upon my return to San Francisco the committee will make its recommendation to the Board.

It is my purpose to suggest that we increase our capital funds \$25,000,000. This will bring our ratio of capital funds to deposits to approximately 1 to 10 by June 30, and will be done through offering subscription rights to stockholders.

You have advised me that upon request of the Secretary of the Treasury and approval of the President you would lend our stockholders, individually or in group, the money necessary to finance the increase, and the terms upon which the loan or loans would be made.

In all probability the stockholders will authorize the issuance of preferred stock to bear a dividend rate equal to 4% per annum on the subscription price of the stock.

In view of our several conversations I will recommend to the directors of Transamerica Corporation that any dividend received on the new stock subscription by, or on behalf of, Transamerica Corporation in excess of interest to the RFC be remitted to the bank.

Our earnings are such that it will be easy for us to retire the preferred stock within a much shorter time than your usual terms and we will want the privilege of retiring it as rapidly as earnings are available for this purpose.

You may treat this as an application on behalf of our stockholders for a loan or loans up to \$25,000,000, the loan or loans to be on substantially the terms and conditions outlined in your letter to me of February 25, 1939. Upon receipt of advice that this application is approved, our directors will, I am sure, take definite action to put the plan in operation.

Sincerely yours,

L. M. Giannini (Signed)
L. M. Giannini, President
Bank of America, N. T. & S. A.

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H. JONES
CHAIRMAN OF THE BOARD

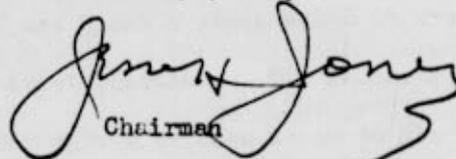
April 4, 1939

Dear Mr. Secretary:

I am authorized by our Board to recommend that we lend all or any part of \$25,000,000 on the preferred stock of the Bank of America National Trust and Savings Association, California, to enable the Bank to increase its capital funds by this amount.

Our usual formal recommendation, with details, will be sent to you in due course.

Sincerely yours,


Chairman

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



TREASURY DEPARTMENT
COMPTROLLER OF THE CURRENCY
WASHINGTON

ADDRESS REPLY TO
"COMPTROLLER OF THE CURRENCY"

April 4, 1939

My dear Mr. Secretary:

Reference is made to the attached copy of a letter dated February 25, 1939 from Chairman Jones of the Reconstruction Finance Corporation to Mr. L. M. Giannini, President of the Bank of America National Trust and Savings Association, and further to a letter dated April 3, 1939 from Mr. Giannini to Mr. Jones. This correspondence outlines a procedure to be followed in increasing the capital stock and surplus account of the Bank of America.

The Reconstruction Finance Corporation is expected to underwrite an issue of new Class A stock which is preferred both as to dividends and asset position. The Reconstruction Finance Corporation further agrees to make loans to the bank stockholders on the security of the new stock provided such stockholders prefer to so finance their subscriptions. The new stock will carry a dividend rate of 4%, and the Reconstruction Finance Corporation will make its advances to stockholders at 3 1/2%. Should the Transamerica Corporation, which owns a large percentage of the stock of the Bank

of America elect to borrow from the Reconstruction Finance Corporation to finance its subscription, it is proposed that the amount represented by the differential in rate between the dividend paid by the new bank stock and the charge made by the Reconstruction Finance Corporation for such financing, will be remitted by the Transamerica Corporation to the issuing bank.

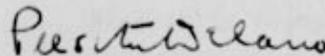
Precedent exists for the handling of this matter as proposed by Mr. Giannini, and it has the approval of the Reconstruction Finance Corporation, subject to the formal request of the Secretary of the Treasury. I recommend that the Secretary of the Treasury request the Reconstruction Finance Corporation to finance this new issue upon the terms proposed.

It will be recalled that in December of 1938 there were held a series of conferences in the Comptroller's office, participated in by Under Secretary of the Treasury Hanes, the Comptroller of the Currency and his staff, Chairman Jones of the Reconstruction Finance Corporation, Chairman Crowley of the Federal Deposit Insurance Corporation and representatives of the Bank of America National Trust and Savings Association.

As a result of these conferences Mr. L. M. Giannini despatched a memorandum to the Comptroller of the Currency outlining in considerable detail certain steps which the bank management proposed to take to meet some of the criticisms

which had been directed in previous examinations by the Office of the Comptroller against the conduct of the bank. The Comptroller's office, through its examination procedure, is in constant touch with the management of the Bank of America looking toward the carrying out of the corrective program outlined in Mr. Giannini's memorandum. One of the important provisions of the memorandum in question was an undertaking by the bank's management to maintain a ratio of 1 to 10 between the sound capital structure of the bank and its total deposits. The present request of Mr. Giannini to the Reconstruction Finance Corporation for financing additional capital is a necessary step toward the effecting and maintenance of such a ratio. It is my opinion that because of the asset condition of the Bank of America the securing of these additional funds is a very important and necessary part of our program for the improvement of the capital position of the bank.

Very sincerely yours,



Preston Delano
Comptroller

The Honorable,

The Secretary of the Treasury.



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

April 4, 1939

Dear Mr. Secretary:

As you know, I have been following very closely the negotiations between the Comptroller's Office and the officials of the Bank of America which have been going on now for several months. It has been our desire that the Bank of America increase its capital to a point where the institution would have a net sound capital ratio of \$1 of capital to each \$10 of deposits. Mr. L. M. Giannini agreed that he would recommend to his directors that the Bank increase its capital by June 30, 1939, by an amount sufficient to bring the ratio to the 1 - 10 basis provided he could be assured of a method of obtaining such capital funds. In order to get him to agree to raise the additional amount of capital required, Jesse Jones had to agree to underwrite such offering to his stockholders. This was done by Jesse Jones in his letter to Mr. Giannini dated February 25th, 1939, copy of which is enclosed. Mr. Giannini is now ready to make offering to his stockholders of subscription to additional capital funds under the terms and conditions laid down in his letter to Jesse Jones dated April 3d, copy of which is also enclosed.

In order for the Reconstruction Finance Corporation to go through with its contract it will be necessary for you, as Secretary of the Treasury, to sign a letter requesting the Reconstruction Finance Corporation to supply funds for this purpose. I am glad to join with Preston Delano, Leo Crowley, and Jesse Jones in recommending to you that you sign such a request to the Reconstruction Finance Corporation, based upon the information contained in the enclosures herewith.

Faithfully yours,

John W. Hawes

The Honorable

The Secretary of the Treasury.

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BUREAU OF THE BUDGET

WASHINGTON

April 14, 1939.

My dear Mr. President:

In accordance with our understanding that I be relieved on April 14th of my duties as Acting Director of the Bureau of the Budget, I hereby tender my resignation as of the close of business on that date. I have enjoyed my many conferences with you and needless to say I am going to miss them in the future. I am grateful for the opportunity you have given me to gain this additional experience in my Government career. It should be of material value in my future work.

As I leave the Budget Bureau, I should like to report to you on the activities of the past four and a half years and on some of the tasks which remain to be done. During the past four and one-half years in the Bureau, I have had full cooperation of administrative officials of all the departments and agencies, including your Cabinet, and also of the members of the Committees in Congress with which the Bureau has come in contact, particularly the members of the Appropriation Committees. I consider it extremely important that this cooperation continue. An even closer relationship with the Appropriation Committees would be, I think, mutually beneficial. To this end it may be possible to coordinate our efforts more closely by permitting the staff representatives of the Appropriation Committees to attend the hearings held before the Budget Bureau on the annual estimates of appropriations, and by allowing the members of the Budget staff to attend the hearings on the appropriation estimates held before the Appropriation Committees, but without, however, permitting in either case any participation in such hearings. This would provide the Committees, through their staff representatives, with a background of information for their use in determining the amounts to be included in the appropriation bills, and would likewise furnish the Bureau with information as to the attitude of the Committees and Committee members on various phases of the estimates of appropriation which could be used by the Bureau as a guide in its consideration of subsequent estimates.

One who is familiar with the development of our Budget system cannot fail to realize the necessity for an adequately staffed organization to deal with the problems presented in controlling governmental expenditures. In the past the Budget Bureau has confined its activities largely to the consideration of appropriation estimates. This was in part due to the fact that the investigation of procedures and management

was conducted by the Bureau of Efficiency. Obviously there was no justification for duplicating the functions of that agency.

The expansion of governmental functions into new fields and the increase in the work of the long established departments and agencies imposed additional duties upon the already overburdened staff of the Bureau of the Budget. It had been evident for some time that the only answer to the problem was a reorganization and expansion both of staff and functions. Thus, about a year ago I submitted to you a tentative plan of reorganization of the Bureau which would provide for an increase in the staff in order to give more detailed consideration to the estimates of appropriation, to advise the departments with respect to proposed and pending legislation, to undertake studies of procedure and management, to make investigations looking to the elimination of overlapping and duplicating functions within the Government, and to improve Federal fiscal reporting. Estimates giving effect to this plan were submitted to Congress, and the Committees on Appropriations indicated their interest in the development of such a staff by providing the funds requested.

The form of organization adopted recognizes the positions of Director and Assistant Director as policy determining positions which will change with the Administration, and establishes at the top of the civil service structure of the Bureau four high grade positions, the occupants of which would be permanent career employees. It has been perfectly apparent to me, as it must be to any one who stops to consider the duties in this Bureau, that it takes years of governmental experience to develop a staff thoroughly equipped to perform the Budget functions. For this reason the selection of the additional personnel has proceeded rather slowly. A high standard has been set and I believe has been met in the men who have thus far been added to the staff.

The organization which is being developed divides the work of the Budget Bureau into four major groups dealing: first, with the departmental estimates of appropriations; second, with consideration of and advice to the departments regarding proposed and pending legislation and with the review of Executive orders; third, with the compilation of the Budget document and the various financial and statistical tables incident thereto and with programs for the improvement of fiscal procedures; and fourth, with studies and investigations of operating methods and management standards.

The expansion of the force dealing with the consideration of appropriation estimates will give a greater opportunity for investigation of departmental needs both in Washington and in the field. In order that you may have an indication of the value of the work which has been done and of the scope of the opportunity for future service in connection with the estimates of appropriations, there is set forth below a table showing the departmental estimates, the Budget allowances,

and the resulting Budget decreases, for the fiscal years 1936 to 1940, inclusive:

Year	Departmental Estimate	Budget Estimate	Decrease by Budget Bureau
1936	\$12,474,095,352.31	\$12,031,351,955.94	\$ 442,743,396.37
1937	9,796,661,980.65	8,698,910,975.35	1,097,751,005.30
1938	9,737,373,052.25	8,962,433,173.99	774,939,878.26
1939	10,972,251,466.00	10,067,654,756.29	904,596,709.71
1940	10,974,771,166.00	10,276,311,483.23	698,459,682.77

If consideration is given to the fact that the estimates include items of fixed character with respect to which no discretion is involved, such as interest on the public debt, statutory debt retirement, and contributions to retirement funds and to the old-age reserve account, the reductions which have been made are much higher in percentage than is apparent from the table. In effecting these reductions the Budget is guided solely by the principle that a sufficient amount, but no more than a sufficient amount, should be provided to enable each agency to carry out in an efficient manner the functions imposed upon it by law. To reduce estimates under this standard requires careful and painstaking analysis by trained personnel of long experience.

One important phase of budgetary work which has not been emphasized sufficiently, is the control of appropriation expenditures through the medium of the apportionment system, namely, the apportioning, after setting up reserves, of the amount that may be obligated during each month or other portion of the fiscal year. One of the purposes served by the establishment of reserves is to provide for emergencies and thus avoid to the greatest extent possible the necessity for the submission of supplemental and deficiency estimates. I think that the reserve system has operated successfully not only in materially reducing the number of requests for inclusion of appropriations in deficiency bills, but also in producing substantial savings. The following table shows the reserves established during the fiscal years 1936 to 1939 inclusive, the amounts released from such reserves during those fiscal years, and the amount of those reserves which was retained and saved:

Year	Amount Reserved	Amount released during fiscal year	Amount retained at end of fiscal year
1936	\$223,965,150	\$138,137,398	\$ 85,827,752
1937	234,165,361	68,114,767	166,050,594
1938	472,200,268	227,666,506	244,533,762
1939 as of Mar. 31, 1939	303,218,236	113,827,253	189,390,983

One problem, the solution of which seems to me to be of primary importance, and in which the cooperation of the Appropriations Committees of Congress will be necessary, is that of improving the textual character of the appropriations. At present there is a regrettable lack of uniformity in the texts of the different appropriations. A forward step in the direction of consolidating small appropriations and simplifying appropriation texts could be taken, I believe, by having members of the staff of the Appropriations Committees, of the Treasury Department, of the General Accounting Office, and of the Bureau of the Budget, undertake joint studies during the time when Congress is not in session, for the purpose of preparing for its consideration an appropriation structure that would represent a much greater degree of uniformity and equality as between the different departments, establishments, and agencies.

The staff engaged in the coordination of legislation has been expanded with a twofold purpose: first, to centralize and thus secure greater uniformity in the handling of departmental reports on proposed or pending legislation, and second, to relieve that portion of the staff engaged in consideration of departmental estimates from much of the detail work they have heretofore performed with respect to legislation. This should enable these members of the staff to devote more time and effort to an analysis and evaluation of the departmental need for the funds requested. It should also develop a more highly trained coordination group, and one that would be better equipped to assist the departments, and in particular the smaller agencies, in preparing legislative proposals and Executive orders.

The duties of the Fiscal Division have been expanded to provide for a study of possible improvements in fiscal procedures. Previous efforts have been confined to improvement of the fiscal tables and statements relating to receipts and expenditures presented in the Budget. In the past few years there has been material improvement along this line, particularly in making the Budget statements more readily understandable to the public. One of the principal changes was the setting up of annexed budgets for those agencies which were operated in part from general revenues and in part from proceeds of borrowings.

There also has been inaugurated the policy of preparing a summation of the Budget for publication after Congress has acted on all financial needs for the fiscal year. This summation presents revisions of revenue estimates to reflect changes in economic conditions or in tax laws since the presentation of the Budget as well as revised estimates of expenditures based on the action taken by Congress on the estimates proposed in the Budget. Thus it supplies the latest official estimate of Government receipts and expenditures.

There remain many possible ways of improving the Government's fiscal administration. The question of a more adequate classification of governmental expenditures has increased in importance because of the

many new fields into which the Government has entered. The present objective classification should be studied and revised. The possibilities of a functional classification should also be studied. Recently, there has been much discussion of the question of dividing governmental expenditures into two classes; those which reflect the everyday operations of government and those which represent capital expenditures or investments. In this connection I should like to suggest that there be the closest cooperation between the three fiscal branches of the Government service, namely, the Treasury, the General Accounting Office, and the Bureau of the Budget. In order to obtain the full benefits of such cooperation a liaison officer should be appointed by each agency to work on problems common to the three agencies.

I feel that the present is an opportune time for the Bureau to inaugurate, through its newly created Division of Investigation studies and investigations of operating methods and standards for the Government departments and agencies. The reorganization powers recently vested in the President will permit the putting into effect of practicable recommendations for the elimination of overlapping and duplicating activities, for a more logical and intelligent realignment of governmental functions, and for the installation of procedures designed to develop economy and efficiency in governmental operations. In this field there will be a constant opportunity for improvement of our governmental machinery. The personnel of this division will be continually confronted with new problems, since the Federal functions are never static. There will be a constant need for the review of functions in order to maintain efficiency in Government.

I am happy to have served with you in the capacity of head of the Budget Bureau during the past four and one-half years. I shall always remember it with pride. I am also happy to advise you that my successor will take charge of an organization composed of efficient, industrious, and cooperative employees.

If at any time in the future I can be of assistance to you, please do not hesitate to command my services.

Faithfully yours,



Acting Director of the
Bureau of the Budget.

The President,

The White House.

THE WHITE HOUSE
WASHINGTON

May 1, 1939.

MEMORANDUM FOR

H. M., JR.

I received your letter of April 27, 1939, advising me that you are reversing your position in regard to the consolidation of investigative or police agencies in the Treasury Department into a single organization.

The difficulty with this is two-fold.

First of all, the reversal of your recommendation comes at a moment when our Reorganization Plan No. 2 is about to go to Congress.

Second, this whole administrative recommendation has been given to the newspapers, thus placing me in a position of great embarrassment.

F. D. R.



THE SECRETARY OF THE TREASURY
WASHINGTON

PSF
Treasury

The President,
The White House.

Dear Mr. President:

A year ago I recommended to you that all investigative or police agencies in the Treasury Department be consolidated into a single organization of Treasury Agents.

I have now come to a different opinion and desire to withdraw my recommendation. This reversal of my position is due entirely to my observation of events in Europe, where nationwide police and spy organizations are the chief instruments through which the most hateful tyranny and oppression are maintained. I think we ought to avoid by all possible means the danger of duplicating anything like those conditions in this country. Therefore, I am opposed to Federal police consolidation even within one department.

To this I should add that the degree of consultation and coordination which we have been able to establish under present law between the investigative agencies of the Treasury Department is, in my opinion, proving adequate to eliminate overlapping of effort and to produce coordinated action when that is necessary. I don't think further consolidation would produce any such gains in efficiency as would warrant the risk of future tyranny.

Sincerely yours,

Henry M. Nathan Jr.
Secretary of the Treasury.

April 27th 1939



TREASURY DEPARTMENT
WASHINGTON

*File
personal*

June 3, 1939.

My dear Mr. President:

I thank you most sincerely for nominating me to be Assistant Secretary of the Treasury. More than the nomination itself I value the confidence in me which it evidences.

It has been a great privilege and a great honor to work under your leadership for more than eight years. I did not covet a new honor but I am happy that you thought me fit for it.

Faithfully yours,

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

The President,

The White House.

PSF: Treas.

*Summary
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June 23, 1939

Memorandum for the President
From Leon Henderson

Henderson's slant on
Subject--Hanes report to Morgenthau-June 13, 1939 on Tax Bill.
Attached is the memo to the President from Morgenthau
and the report from Hanes.

See:Leon Henderson's folder-Drawer 2-1939

PSF Treasury

*Job
Barnard*

THE SECRETARY OF THE TREASURY
WASHINGTON

*Wagner
Drafter 1-39*

July 14, 1939

My dear Mr. President:

I am sending you herewith
a memorandum I have received
concerning testimony on the Hill
today on the self-liquidating pro-
gram.

Sincerely yours,

JM Guthrie

The President,
The White House.

~~Confidential~~
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 14, 1939

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

~~Confidential~~
For your information -

Re: Testimony of Jesse Jones

Kades reports that Jesse Jones' testimony before the Senate Banking Committee this morning hurt the bill materially and it is now definitely in trouble. While Jones stated he was in sympathy with the general objectives of the bill, it was obvious from his manner and intonation that he was critical of many of its features. While the record will not disclose hostile statements on Mr. Jones' part, nevertheless his attitude toward the bill was deprecatory.

For instance, Jones said that he did not understand the interest formula. When Senator Barkley explained it with great clarity he still persisted in his inability to understand it. He also said that RFC had an additional borrowing margin of more than a billion dollars and it could not use all the money that would be made available to it by the bill. In addition, Jones pointed out two or three times that he had power under the Glass-Steagall bill to make loans to municipalities, implying that the PWA and toll road and bridge provisions of the legislation are unnecessary.

Reclamation Commissioner Page asked for \$85,000,000.00 for his projects. Senators O'Mahoney and Worth Clark appeared as supporting witnesses. Page created a favorable impression, and undoubtedly the Committee will amend the bill to make the amount requested available for Reclamation.

Senator Wagner scheduled the next hearing of his committee for 10:30 A. M. on Tuesday. He announced that you would appear at that time. Senator Barkley told Senator Wagner he was willing to proceed with the hearings tomorrow, but Senator Wagner replied that he was tired and wanted to put the hearings over until next Tuesday. Pelley and Eastman will also testify on Tuesday.

In the House, although Mr. Carmody put in appearance, Representative Steagall did not hear him. Instead, the House Committee held an executive session on the USHA amendments. Incidentally, I noticed that Congressman Steagall took Congressman Williams of Missouri, one of his committee members who has been opposed to Straus' legislation, to the White House yesterday. This looks as though the housing bill may be reported favorably ahead of the lending bill.

E. J. F. H.

PSF
Treas

Bell -
Treasury Dept

Memo to President
From Morgenthau
July 19, 1939

Encloses memo from Dan Belkin regard to letter
from Mr. S.H.White of London who wrote to Ickes
making a suggestion on British War debt.

See Henry Morgenthau folder-Drawer 1--1939



*File
Confidential*

*PSF: Treasury
Treasury-1*

THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

August 4, 1939

MEMORANDUM TO THE PRESIDENT:

Title 50, sec. 191 of the U. S. Code provides in part that, whenever the President by proclamation or executive order declares a National emergency to exist by reason of actual or threatened war, or disturbance or threatened disturbance of the international relations of the United States, the Secretary of the Treasury may take, by and with the consent of the President, full possession and control of any vessel, foreign or domestic, in the territorial waters of the United States to secure the observance of the rights and obligations of the United States.

A proclamation to accomplish this objective has been prepared and is in the Treasury safe.

A draft of telegram to Treasury enforcement agents has been prepared and is in the Treasury safe, directing them to detain, intercept if under way, and turn over to local collectors of customs possession of the vessels of the belligerent powers in territorial waters pending further instructions.

John W. Hayes.

THE WHITE HOUSE
WASHINGTON

~~CONFIDENTIAL~~

August 6, 1939.

MEMORANDUM FOR

THE ACTING SECRETARY OF THE TREASURY

A friend writes that the structure of the totalitarian states has been strengthened, if not upheld, by the United States through its purchases of gold, and that on this gold price is based the price of everything in the world. He asks "Why should not the United States take the position that it will buy gold only from those nations with whom we have fair, cooperative relations?" He goes on to say that if the United States should refuse to buy Japanese gold, the Japanese economy would be seriously affected, and the same in regard to Germany and Italy. He suggests that in case such a course were followed with Japan, the United States would not purchase gold from any country that buys gold from the Japanese; also, that it would tend to stop a Nazi-Russian economic deal.

What is your slant on this?

F. D. R.

1015: Treasury
John A. ...

PSF: Torarung

August 5, 1939.

Dear Bernie:-

The session is nearly over and I then go to Hyde Park, but for only three or four days, during which time I will have to work hard on about three hundred last minute bills. Then I go for a ten day cruise to get some cool air and will be back in Hyde Park about August twenty-third or twenty-fourth. Perhaps it will be best if you wait and come up there then, and I hope by that time that you will be completely rid of the Doctors and feeling like your old self.

You certainly have had a long siege of it and I have kept in touch with your progress.

The defeat of the lending bill and the housing bill is bad because it creates a sudden and severe break from government spending to practically no government spending. The lending method, as you know, was intended to be a transition step by which out of pocket expenses, like PWA, would be converted into recoverable loans in the expectation that these, after a year or two, would themselves become unnecessary. That is why I think it was very foolish for a quarter of the Democratic membership to go over to the sold Republican minority -- and, incidentally, I fear that there will be a check to the present definite up-turn by next Spring.

Thank you for your memorandum about gold purchases, etc. I am having the survey

of our naval and military position made, and when
I see you will have further information.

As ever yours,

Honorable Bernard M. Baruch,
597 Madison Avenue,
New York City,
New York.

P.S. Incidentally, your memorandum sounds like
a 100% endorsement of my Chicago "quarantine
speech" of two years ago!

I may be
of some use

BERNARD M. BARUCH
597 MADISON AVENUE
NEW YORK

100-88

July 31, 1939.

The President,
The White House,
Washington, D.C.

Dear Mr. President:

Enclosed is a memorandum on a subject about which we have talked before. You are familiar with most of it, but I thought I would refresh your memory on some of the things we discussed, as the time seems to be ripening for exact knowledge and perhaps swift action.

Unless you want me sooner, I shall descend upon you some time when you go to Hyde Park.

With all good wishes,

Sincerely yours,

Bernard M. Baruch

With the exception of the United States every important country has been marshaling its forces for war or conquest. The effect of this upon us has become more apparent every day by forcing us to take measures to hold our position or to protect our interests. The structure of the totalitarian states, if not upheld, has certainly been strengthened by the United States through its purchases of gold. Upon this gold price is based the price of everything in the world. Why should not the United States take the position that it will buy gold only from those nations with whom we have fair, cooperative relations?

Japan, Italy, and Germany are actively engaged in unfair economic activities affecting our trade and commerce. Upon some of these we have already had to take some action. If the United States should refuse to buy Japanese gold, the Japanese economy would be seriously affected. If this position were taken with Germany and Italy, the same would be true of those countries. In case such a course should be followed with Japan, the United States should not purchase gold from any country that buys gold from the Japanese. Such action would have a tendency to hurt the economy of those countries which are doing all they can to break down our position. It is also true that it would

have a serious effect upon the economy of Russia if she were not cared for. It would stop a Nazi-Russian economic deal.

This may be looked upon as a step towards war, but what have we now but war with every nation, even our own, feverishly preparing for defense or offense and raising all kinds of economic barriers? Wars are fought on three fronts-- on the battle front, on the home front, and on the neutral front.

Another thing that ought to be done immediately is to find out our exact naval and military position. We should have a conspectus of our activities, showing what has been ordered and when deliveries will take place. Also a careful survey should be made as to whether we have a well-rounded program.

We should have more information than I believe exists today about conditions in other countries. What is the position of England and France regarding their armaments and their stored reserves? Also the position of Germany and Italy and Japan? Our Chief of Staff was once asked whether Germany could be surrounded economically and destroyed, and he said, "No." A question like that to the Chief of Staff would be like asking me how many divisions it would take to conquer some nation. I would

not know the answer to the military problem, and I do not feel that he would know the answer to the economic problem.

Studies should be made now so that active steps can be taken when necessary. Economic action now, although it might involve some losses, would probably result in saving much more treasure in the end, and infinitely more in blood and in injury and suffering to our soldiers, sailors, and civilians.

BSF
Treasury

THE WHITE HOUSE
WASHINGTON

Hyde Park, N. Y.,
August 11, 1939.

MEMORANDUM FOR

ACTING SECRETARY OF THE TREASURY HANES

What do you think of making Mr.
Heath Collector of Customs at Norfolk?
He is recommended by Governor Price.

What do you think of making Mr.
Allyn Jones of Newport News Collector
of Internal Revenue at Richmond?
Governor Price and Mr. R. Walton Moore
recommend him.

F. D. R.



file personal

PSF: Treasury
Treasury

THE SECRETARY OF THE TREASURY
WASHINGTON

August 11, 1939

MEMORANDUM TO THE PRESIDENT

This is in response to your memorandum of August 5, requesting an evaluation of a proposal to cease purchases of gold from Japan.

1. The Japanese industrial organization and military establishment can be maintained only with the continued importation of necessary raw materials. Japan imports the bulk of its petroleum, metals, machine tools, lumber, cotton, fertilizers and a large number of vehicles and airplanes.

To purchase these commodities in foreign countries, a continuous flow of foreign exchange is needed.

2. Sales of gold to the United States are a current source of foreign exchange to Japan. However, Japan acquires a larger amount of foreign exchange from other sources, particularly from her commodity exports.

In 1938 Japan sold abroad \$430 million of commodities, of which \$120 million was sold in the United States. She acquired \$185 million from the proceeds of the sale of gold, all of which was sold to the United States; \$40 million from the liquidation of dollar deposits in the United States; and \$46 million from credit extended to the Yokohama Specie Bank by New York banks on an overdraft. (It was reported that this overdraft had full collateral in United States Government bonds.) In addition the Japanese may have been liquidating foreign securities which were owned by the Japanese Government or by Japanese individuals and institutions.

Japan has already sold two-thirds of the gold stock which she had accumulated prior to the outbreak of hostilities in China. From March 1937 through July 1939, Japan sold \$513 million of gold to the United States and \$4 million to England. It has been estimated that Japan has about \$150 million in gold stocks left. She produces about \$60 million per year.

3. The refusal by the United States to buy Japanese gold could not prevent Japan from selling her gold in other markets. (Our refusal to purchase gold from Russia during the period 1920 to 1934 did not prevent Russia from obtaining the world price for its gold.)

The proposal that the United States make effective its refusal to buy Japanese gold by refusing to purchase gold from any country which does buy Japanese gold is not administratively feasible for the following reasons: (a) It is difficult to trace gold, the identity of which can readily be changed; (b) gold is purchased and sold throughout the world by individuals as well as by governments; (c) foreign governments, particularly England, would probably not cooperate in a program involving the sterilization of Japanese gold because it would upset their traditional free gold market. When England imposed sanctions and clearing arrangements against Italy in the Ethiopian crisis the London gold market remained free for the sale of Italian gold. The expenses of shipping would be greater to Japan but the additional expenses involved would be relatively trivial.

4. Unless this country were prepared to reduce the price of gold in terms of the dollar, this country, acting alone, could not appreciably reduce the amount of dollar exchange Japan would receive for its gold. It is assumed that we would not take any action at this time that would appreciate the value of the dollar in terms of the world's currencies.

5. The value of gold as a medium for the settlement of international balances would be affected adversely. Since the United States now holds almost 60 percent of the world's gold this matter is of great importance to us.

6. The amounts of gold sold by Germany and Italy are not substantial in comparison with the amount of foreign exchange these countries acquire through exports and the liquidation of foreign assets. Germany reported sales of \$35 million in gold in 1938, in comparison with sales of commodities of more than \$2 billion. Italy reports to have sold less than \$1 million in gold in 1938.

Russia sold \$114 million of gold in 1938 but all of this gold was sold on the London market and if it came to the United States, came indirectly as British gold.

7. I cannot foresee any direct effect this proposal might have upon German-Russian economic relations.

8. The objective sought in the proposal, i.e., that of weakening Japan, can be achieved more effectively and with fewer disadvantages to the United States by imposing restrictions on the commodity trade

of Japan, either by the United States acting alone or acting in cooperation with other major countries. Some suggested proposals of this nature are as follows:

Remove Japan from the list of countries obtaining the benefit of the Trade Agreement tariff concessions as provided in Section 350 of the Tariff Act.

Imposition of new and additional duties on Japanese imports to the United States under Section 338 of the Tariff Act of 1930.

Administrative embargo on the export of arms and ammunition to Japan.

Administrative embargo on the export to Japan of materials used in the conduct of war.

Congressional action to embargo the shipment of war materials and supplies to Japan.

John W. Hanes

Acting Secretary



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

PSF
2/2/39

August 24, 1939

MEMORANDUM FOR THE PRESIDENT

Attached hereto is a message from London received by us this afternoon at four o'clock. As you will note, the drain upon the gold resources of England has been proceeding at an alarming rate and the British have decided to let sterling depreciate beginning tomorrow. Therefore, the British equalization fund will not be in the market and sterling will in all likelihood be very weak.

John W. Hawes.



for personal.

Treasury
1

TREASURY DEPARTMENT

WASHINGTON

August 25, 1939

MEMORANDUM FOR THE PRESIDENT:

From A. Lochhead.

The Italian Lira and the German mark are controlled currencies and are not dealt in freely in either this or the European markets. For sometime past the Italian Lire has been maintained nominally at $.0526 \frac{1}{4}$ and the German mark at about $.4015$. We cannot find that there were any dealings in either Italian Lira or German marks in this market today.

J. W. Hawes

MA

GRAY

London

Dated August 24, 1939

Rec'd

Secretary of State

Washington

RUSH

1237, August 24, 7 p.m.

FOR THE ACTING SECRETARY OF THE TREASURY FROM BUTTERWORTH
~~STRICTLY CONFIDENTIAL~~ FOR IMMEDIATE DELIVERY.

Sir Frederick Phillips sent for me this afternoon.

He said that the mounting European crisis was producing an increasing drain on their gold resources and the rate of increase was very alarming. Last week they had lost thirty million pounds (sterling) and in the first three days of this week thirty five (#) pounds (sterling). They had been hanging on "from day to day" and after raising the bank rate this morning they had reluctantly come to the conclusion that they must adopt one of two courses to conserve their gold resources; either put on exchange control or let sterling depreciate. They had decided not to adopt the former course principally because if the crisis should pass many months would ensue or perhaps as long as a year before they could remove the controls but if they let sterling depreciate, if the political crisis should pass they were convinced sterling would

MA -2- tel 1237, August 24, 7 p.m. from London

would rapidly rebound to near the current level. Philipps went on to say that their best information was that foreign balances were not far off the 1931 level and that they would use every suitable means to hinder speculation by making sterling difficult to get. He added that the usual order had been given to New York to carry on to the close of the American market but that when London opened tomorrow the British fund would stay out of the market and let sterling find its own level. I asked him whether he and his associates were fully convinced that a depreciation of sterling at the present time would hinder rather than foster the exodus and he said that given the fact that the crisis might be prolonged and the pace at which the gold losses was increasing they felt it was the only thing that they could do. I pressed him about the Prime Minister's statement in the House of Commons this afternoon which I am sending separately and after some questioning he stated that Chamberlain's statement was the first step towards inducing British firms with abnormally large balances to repatriate them. I asked him to what level he expected sterling to depreciate and how long the British fund proposed to stay out of the market. He said that they would stay out until sterling found a new level which would certainly take a day or two and that it was difficult to prejudge what rate it would be since political events were moving so fast, but he implied that he did not expect the depreciation to be drastic.

MA -3- tel 1237, August 24, 7 p.m. from London

be drastic. I asked Phillips what was his estimate of the amount of British capital that was seeking refuge abroad and he said that the British monetary authorities were convinced that even in recent days 9/10 of the exodus represented foreign funds.

Phillips also added that in the event of war the British Treasury proposed to adhere to the plans which I sent to Mr Morgenthau some months ago.

Phillips emphasized the confidential character of this message and the fact that he was sorry that such short notice was being given but they had been hanging on from day to day and the decision had only just been made. He asked that this be kept strictly confidential and added that the French were not being told until 8 o'clock tonight to minimize chances of leaks.

KENNEDY

KLP

RECEIVED

AUG 24 1944

UNITED STATES DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.
OFFICE OF THE ASSISTANT SECRETARY FOR
INTERNATIONAL AFFAIRS

PSF: Treasury
Treasury folder

August 25, 1939.

Dear Mr. Secretary:-

I have reason to believe that there is a possibility that merchant ships belonging to European governments, which may become involved in war, or belonging to their citizens, are carrying armaments capable of being mounted on the high seas, thus converting them into armed ships. This raises immediately the question of American responsibility for giving clearance papers to such ships unless this government is wholly certain that such armaments are not being carried.

You will, therefore, withhold clearance papers from all ships suspected of carrying armaments until a complete search has been made and you are satisfied that no armaments are on board.

Very sincerely yours,

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

PSF: Treasury

draft -

THE WHITE HOUSE
WASHINGTON

August 25, 1939.

Dear ~~John~~ *Mr. Secretary*

I have reason to believe that there is a possibility that ~~the~~ merchant ships belonging to ~~the~~ European governments which may be ^{some} involved in war are carrying armaments capable of being mounted on the high seas, ^{in belonging to their citizens} ^{These (merchant) ships into armed ships} This raises immediately the question of American responsibility for giving clearance papers to such ships unless this government is wholly certain that such armaments are not being carried.

You will, therefore, withhold clearance papers from all ships suspected of carrying armaments until a complete search has been made and you are satisfied that no armaments are on board.

Very sincerely yours,

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



PSF: Treasury
1

TREASURY DEPARTMENT

WASHINGTON

August 24, 1939

MEMORANDUM FOR THE PRESIDENT:

Navigation

1. The Acting Secretary after a conference with Commerce on August 19, 1939, notified New York to take special care to prevent any irregularities in the clearance and departure of foreign vessels. New York was instructed that, if any such vessel gave indication of hurried departure in advance of normal or scheduled sailing date, this should be regarded as suspicious circumstances requiring delay of clearance, or departure in case vessel had already cleared. New York was further instructed to notify the Treasury at once and careful re-examination be conducted to determine whether there is any unmanifested merchandise aboard or any violation of laws or regulations.
2. On Monday, August 21, the Acting Secretary after further conference with State and Commerce communicated the above instructions to all seaports. A copy of the Treasury telegram to collectors is attached.
3. On August 21 Commerce instructed the collector of customs at all seaports that, in order that the practices with respect to clearance of vessels engaged in foreign trade may become uniform, they should see that all and every requirement with respect to foreign clearance be met before clearance be granted. No clearance on incomplete manifests should issue until the collector is satisfied that the major portion of the proposed cargo has been taken on board. A copy of the Commerce telegram to collectors is attached.
4. The Treasury has prepared Executive orders and telegraphic instructions directing the immediate detention, interception if under way, and retention of custody of vessels of the belligerent states in territorial waters, except vessels of the naval establishments of belligerent powers and other vessels operating for hostile or military purposes.

John W. Hanes -

Acting Secretary



TREASURY

Strictly confidential for collector customs STOP Take special care to prevent any irregularities in clearance and departure of foreign vessels STOP If any such vessel gives indication of hurried departure in advance of normal or scheduled sailing date this should be regarded as suspicious circumstance requiring delay of clearance or of departure in case vessel has already cleared STOP Bureau should be notified at once and careful reexamination conducted to determine whether there is any unmanifested merchandise aboard or any violation of laws or regulations STOP Bureau Navigation representatives will cooperate where available and Coast Guard will give assistance to enforce these instructions STOP Take all precautions to prevent disclosure these instructions

Washington, D.C., Aug. 21, 1939

Marine Inspection & Navigation

Salaries & Expenses
Bureau of Marine Inspection & Navigation
1940

CUSTOMS

NEW YORK NEW YORK

IN ORDER THAT THE PRACTICES WITH RESPECT TO CLEARANCE OF VESSELS ENGAGED IN FOREIGN TRADE MAY BECOME UNIFORM YOU WILL SEE THAT ALL AND EVERY REQUIREMENT IN SECTION 1 SUBSECTION f PART V REGULATIONS FOR FOREIGN CLEARANCE APPEARING ON PAGE 2410 FEDERAL REGISTER VOLUME 3 BE MET BEFORE CLEARANCE BE GRANTED. NO CLEARANCE ON INCOMPLETE MANIFEST SHOULD ISSUE UNTIL YOU ARE SATISFIED THAT THE MAJOR PORTION OF THE PROPOSED CARGO HAS BEEN TAKEN ON BOARD.

(sgd) South Trimble, Jr.

Acting Secretary of Commerce

5:30 P.M.

H. E. Sweet:FCA



THE SECRETARY OF THE TREASURY
WASHINGTON

J. E. Pallio
Navy

RF - Treasury

August 28, 1939

MEMORANDUM FOR THE PRESIDENT:

The attached memorandum bears so directly upon the subject in which I know you are vitally interested, I have had it photostated and am sending it to you for your information.

John W. Hayes

Acting Secretary

The President

The White House.



HEADQUARTERS

~~CONFIDENTIAL~~

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO No. IOF 601

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 28 August, 1939.

SPECIAL MEMORANDUM FOR ASSISTANT SECRETARY GASTON:

At 12:24 p.m., 28 August, 1939, a message was transmitted from the German Norddeich station to an unlisted station HPTA. All call signals between HO-- and HP-- are in the call range assigned to Panamanian stations. The message was signed DEHEG, which is the registered cable address of a commercial wireless company in Berlin. The message instructs the station HPTA to remove from on board telegraph equipment and service appliances when this vessel is changed into a man-of-war, and states that traffic will no longer be transmitted by the commercial wireless company.

In this connection, you are referred to the report from this office to Mr. Lochhead under date of 12 May, 1939, in which it was reported from a most reliable source that approximately thirty-five German vessels are under Panamanian registry and are commanded by German officers and manned by German crews. Through the intervening months it has been observed that these vessels constantly received orders from the German Norddeich station in the German language and in German government code.

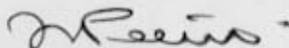
Other transmissions of peculiar significance which have been noted have been to a series of unlisted calls in the range assigned to Iranian stations and another series to unlisted calls in the range assigned to Luxembourg stations. In the list of stations issued by the Berne Bureau there are no Luxembourg stations whatever and only about twenty-five Iranian stations. The messages transmitted, although as yet unread, bear every indication of being identical in meaning. They are believed to be enciphered code, the basic code being the same, but each station being enciphered in a different manner. Each message begins with a series of numerals in plain language German followed by the enciphered code text, and in every case, is followed by the signature "TRANSLAIT ELN" which, it will be recalled, was mentioned in an earlier report today as the signature attached to several dozen messages to German ships directing them to act according to their special instructions. All evidence points to the conclusion that the foregoing call signals are spurious and the stations intended are really German stations.

Messages identical in nature to the foregoing have also been transmitted to the CHARLOTTE SCHLIEHMANN, EMMY FRIEDRICH, and two other unlisted German stations.

~~CONFIDENTIAL~~

IOF 601
28 August, 1939.

Latest information on ship movements received by this office reports that the German SS CONSUL HORN arrived Port-au-Prince, Haiti, on August 28th and will remain there for orders. The German SS ST. LOUIS cancelled her cruise to Bermuda and headed back to Hamburg, Germany on August 27th. The German SS HENRY HORN, which was due at San Juan, Puerto Rico, on August 26th has not arrived. The German SS WIEGAND, which cleared Philadelphia, Pa. for Norfolk, Va. on August 26th, has not arrived. The German SS BREMEN, off Sandy Hook, will dock at 6:00 p.m. to unload passengers and will sail tomorrow morning for Germany with no passengers.



F. E. POLLIO,
Lieutenant, U. S. Coast Guard,
Acting Chief Intelligence Officer.



*file
personal*

TREASURY DEPARTMENT
WASHINGTON

*PSF
Treasury*

August 28, 1939

The attached was noted by Acting Secretary Hanes.

10-11-1939
REVENUE DEPT



THE WHITE HOUSE
WASHINGTON

August 28, 1939.

MEMORANDUM FOR
THE ACTING SECRETARY OF THE TREASURY

FOR YOUR INFORMATION AND
RETURN.

F. D. R.

My dear Mr. President:

Reference is made to your informal request for my opinion whether the Secretary of the Treasury under your direction may issue instructions to all collectors of customs substantially as follows:

Immediately upon your being satisfied that Germany is in armed conflict with another nation with or without formal declaration of war seize all German and Italian vessels in American territorial waters remove officers and crew therefrom and take all precautions against sabotage in engine rooms or otherwise.

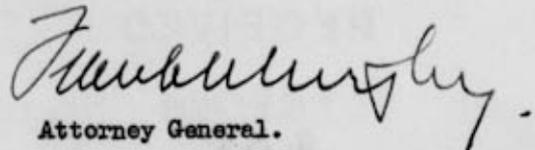
It is my opinion that, in the event of armed conflict between foreign nations, action on our part in seizing in our ports vessels of one or more of the belligerents and not of the others would be in conflict with international law and could, under such law, be construed by the nations affected as an act of war.

It is also my opinion that any such action as contemplated by the proposed instructions, even if applied to the vessels of all belligerents impartially, would, unless based upon the procedure outlined in U.S.C. title 50, sec. 191, be in violation of the due process clause of the Constitution and would, in all probability, be immediately nullified by court action.

It is my advice, therefore, that any such instructions should be based upon a proper proclamation issued under said section 191, and that it should be made applicable impartially to at least the vessels of all belligerents.

Should the contemplated action be taken concurrently with, or subsequent to, the issuance of the general neutrality proclamation, the legal basis therefor would be considerably strengthened and broadened.

Faithfully,


Attorney General.

The President

The White House

PSF
Treas.

Hanes
Treasury -

THE WHITE HOUSE
WASHINGTON

8-29-39

MEMORANDUM FOR THE PRESIDENT:

Under Secretary of the Treasury, Hanes, 'phoned that the Bremen applied for clearance last night and was refused on account of the necessity of making an inspection. The Bremen then declared they would sail without clearance. This was forestalled by not furnishing any tugs and the officials of the Bremen then subsided and the inspection is going on, probably being completed tonight or tomorrow morning. The Normandy applied at the same time and was refused clearance. They are in the process of being inspected. This, according to Hanes, made our case against the Bremen much stronger.

~~Emm-~~
E. M. W.

file private

PSF:Treasury

Treasury
1

THE WHITE HOUSE
WASHINGTON

Aug 30 - 1939

8-30-39

MEMORANDUM FOR THE PRESIDENT:

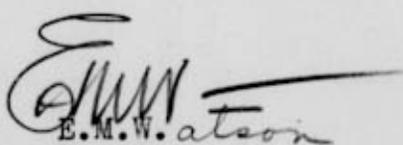
~~Johnny Hanes~~ of the Treasury just gave me the following information over the telephone:

// The BREMEN was held 48 hours as per instructions. She was given clearance at 6:00 p.m. this afternoon.

Also gave clearance to the ACQUITANIA, QUEEN OF BERMUDA, and the NORMANDIE, also the TRANSYLVANIA.

Johnny Hanes' understanding is that the NORMANDIE will not sail tonight -- may sail early tomorrow morning. The BREMEN is going out tonight.

Clearance was given this afternoon to the QUEEN OF BERMUDA, which has been ordered to England as a hospital ship. //


E.M.W. Watson



*file
confidential*

THE SECRETARY OF THE TREASURY
WASHINGTON

*PSF
Delaney*

August 30, 1939

MEMORANDUM FOR THE PRESIDENT:

I attach hereto report from Coast Guard on
shipping matters.

John W. Haues

Acting Secretary



HEADQUARTERS

~~CONFIDENTIAL~~

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO. IOF 601

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 30 August, 1939.

MEMORANDUM FOR ASSISTANT SECRETARY GASTON:

Latest information indicates that the German SS BREMEN is still in New York.

The German SS COLUMBUS, with some eight hundred passengers aboard, said to be mostly Americans, sailed from Curacao, Netherland West Indies at 6:00 a.m. today, August 30th for New York. She is expected to arrive at New York on Saturday, September 2nd.

A radio message from the Coast Guard San Francisco District indicates receipt from an unofficial source of information that the New York customs be informed as quickly as possible to search for a false bottom in the swimming pool of the BREMEN beneath which war supplies will be found. The same source of information also states that the BREMEN is to be met at sea by an undersea craft which will place special equipment aboard her. Possibility that the foregoing originated from a crank is indicated.

The German SS WIEGAND which cleared Philadelphia on Saturday, August 26th for Norfolk was reported yesterday as never arriving there. At 6:00 p.m. yesterday a message to the SS WIEGAND was intercepted which directed her to proceed to Tampico, Mexico. The message was signed "German Vice-Consul."

Messages still continue to be transmitted to innumerable German vessels in the special type enciphered code referred to in our special report of Monday afternoon, August 28th. All evidence points to the fact that these messages are ordering the vessels to act upon sealed orders which the vessels have in their possession, and which are referred to in the enciphered code messages by number.

An unidentified German vessel has been calling the German Nord-deich station from the vicinity of the Philippine Islands but contact has not been made. (Note: Yesterday's report indicated that the German SS MUENSTERLAND was in the vicinity of the Philippines.)

Italian vessels continue to receive changes in orders concerning their destinations. Traffic from the Italian station at Coltano contains innumerable personal messages stating that all is well and bidding the individual persons addressed to remain calm.

IOF 601
30 August, 1939.

~~CONFIDENTIAL~~

One message from the Italian station at Coltano to the Italian merchant vessel EURO is believed to be of special significance. The EURO is a vessel which regularly calls at ports of the United States. She arrived in Genoa, Italy on a return voyage from the United States on July 27th. Maritime records do not report her movements since that date. However, it may be presumed that she started on a return trip to United States ports. The message originates from the Italian Ministry of Marine to the EURO and is in mixed plain language and code. Although the latter is unread, it is believed from the plain language portion of the message to contain instructions to the EURO to conceal her armaments.

Italian vessels receiving orders from the Italian station at Coltano during the last twenty-four hours are as follows:

C. ARRIVABENE - Proceed with all possible speed to
Laspazia
GENOANO - Cancel earlier instructions; proceed all
possible speed to Laspazia
ARCOLOA - Follow our instructions; proceed top
(tanker) speed to Teneriffe
TUSCANIA - Disregard earlier orders; continue to
original destination
ARDOR - Proceed immediately
OLELIA CAMPANELLA Reach Massana quickly
ARABIA - Confirm our cipher code requesting past
landing port
MARIA ROSA - Depart immediately; go to Catania, (Italy)
for orders; confirm
FULGOR - Set course direction of destination; con-
firm (destination unknown)
FLORIDA II - Go to Catania; agent is Penrome; confirm

The following vessels cleared from United States ports yesterday, August 29th:

Italian	TESO	from	Galveston	for	Italy
Japanese	AKAGI MARU		Boston		Philadelphia
Japanese	YAMAGARI MARU		Baltimore		South America
Japanese	KIMIKAWA MARU		Corpus Christi		Yokohama
Japanese	TAIYO MARU		San Francisco		Los Angeles

IOF 601
30 August, 1939.

The following vessels were listed as being in United States ports
on August 29th:

		<u>Arrival</u>
<u>In New York:</u>		
German	BREMEN	Aug. 28
Italian	ROMA	Aug. 24
Italian	LIVENZA	Aug. 26
Italian	BIRMANIA	Aug. 26
<u>In Philadelphia:</u>		
Japanese	TUYAMA MARU	Aug. 29
<u>In Boston:</u>		
Japanese	KINKA MARU	Aug. 28
Italian	MONGIOIA	Aug. 27
<u>In Galveston:</u>		
Italian	LAURA C	Aug. 27
<u>In Houston:</u>		
German	RHEIN	Aug. 29
German	HANDELN	Aug. 25
<u>In Baltimore:</u>		
Italian	AMSTERDAM	Aug. 22
Italian	ADA O	Aug. 29
Italian	MARINA O	Aug. 29
Japanese	KYUSYU MARU	Aug. 29
<u>In Los Angeles:</u>		
Japanese	AKATUKI MARU	Aug. 29
Japanese	HOKORUKO MARU	Aug. 28
<u>In Everett:</u>		
German	PORTLAND	Aug. 28
<u>In San Francisco:</u>		
Italian	LEME	Aug. 25

~~CONFIDENTIAL~~

IOF 601
30 August, 1939.

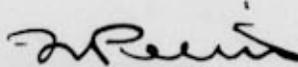
In New Orleans:

Italian	IDA	Aug. 22
Italian	MONFIORE	Aug. 25

The following vessels are due to arrive in United States ports in the near future from foreign ports:

German	HAVELLAND	Los Angeles
German	FRIESLAND	New York
German	PHYGIA	Houston
German	ODENWALD	Baltimore
Japanese	HOLLAND MARU	Seattle
Japanese	NIPPON MARU	San Francisco
Japanese	SAN DIEGO MARU	San Francisco

In addition to the foregoing, there are approximately ten Japanese vessels on which we have current positions.



F. E. POLLIO,
Lieutenant, U. S. Coast Guard,
Acting Chief Intelligence Officer.



*file
personal.*

THE SECRETARY OF THE TREASURY
WASHINGTON

*PSF
2/2/39
1*

September 1, 1939

MEMORANDUM TO THE PRESIDENT:

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 4700 to 4900 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.

John W. Hawes.

PSF
Treas.

Hanes
1

REPORT FROM--Secretary Hull, Acting Secretary Hanes
and the Attorney General

IN RE--Action that may be taken upon outbreak of
hostilities in Europe (1) WITHOUT declaration
of a national emergency and (2) WITH dec-
laration of a national emergency.

EXHIBITS Mentioned in attached report in folder

See--Raw folder --Drawer 4-1939

(The above corres was given to Atty Gen on Sept 4, 1939 at
the President's direction) Copies of corres were returned
but the folder of Exhibits from the State Dept were mislaid and
not returned,

BF
Neutrality

October 14, 1939.

Memorandum for the President from John W. Hanes, Treasury.

Subject----Neutrality Act

See:Neutrality folder-Drawer 2-1939

Note on Industrial Insurance

PSF
Treas

November 15, 1939

Industrial insurance is essentially the counterpart of ordinary life insurance for persons of small means. The policies are always under \$1,000 in amount and the amount of the average policy, which in 1938 was \$232, is just about sufficient to pay the cost of burial. The policies have substantially all of the customary provisions found in ordinary life insurance policies. The terms are usually less liberal in industrial policies, particularly in connection with non-forfeiture benefits. Cash values are not available in most cases until premiums have been paid for five years, and loans are practically never granted. Medical examinations are not required of applicants except in a few cases of high premiums or older ages at issue. The premiums are commonly collected weekly and sometimes monthly by agents who call at the homes of the insureds.

Industrial insurance has been written on the legal reserve basis in the United States since about 1875. It has grown until today more persons hold industrial policies than all other forms of life insurance policies combined. There are now about ninety million policies in force, representing approximately twenty-and-a-half billion dollars of insurance. The best estimate of the number of policyholders is fifty million different people, many of them women and infants. In seven states and the District of Columbia the number of policies in force at the end of 1937 exceeded the total population. The cash premiums collected during 1937 amounted to about \$735,000,000, or an average of slightly under \$6 for every man,

woman and child in the United States, although less than half of these people hold industrial policies.

The Metropolitan Life Insurance Company, the Prudential Insurance Company of America, and the John Hancock Mutual Life Insurance Company together have always had over 80 per cent of the industrial insurance in force. These three companies operate entirely on the mutual or participating plan, and the Metropolitan and Prudential, each with slightly over 36 per cent of the total industrial insurance, are the two largest life insurance companies in the United States. Approximately 138 companies are issuing industrial insurance throughout the country and only about ten of them are mutual. The companies, other than the three largest, wrote over eight million new policies during 1938, representing about 55 per cent of the total issued that year.

The stock companies issuing industrial insurance have proved very profitable to their stockholders. In a summary of the operations of 44 companies, the Commission found that on a total investment of under \$7,000,000 there had been realized cash dividends of \$66,000,000. In addition, stock dividends amounting to \$32,000,000 had been declared and a surplus of \$44,000,000 accumulated. The Western and Southern Life Insurance Company has proved to be the most profitable life insurance company in the country principally through the issuance of industrial insurance. Many companies have realized enormous profits on insignificant investments.

Although industrial insurance is sold to those for whom all necessities should be available at the lowest possible cost, it costs more than ordinary insurance. An actuary of the Prudential testified that the differential

amounts to 13 to 20 per cent in that company. An actuary associated with the Commission testified that the cost of industrial insurance policies exceeded the cost of ordinary policies by a still greater margin.

Although the mortality rate is greater among industrial policyholders than among holders of policies for which a medical examination is required, the principal cause of the higher relative cost is the agency system. A greater proportion of premiums goes to agents' commissions in industrial insurance than in ordinary. The method of compensation is based, to a large degree, on the issuance of new policies, and by measuring "increase" according to the size of the premium, agents have been wont to urge the policyholders to apply for an enormous volume of uneconomic endowment insurance. As further inducement to the writing of more and more insurance, there are frequent contests among the agents. The whole atmosphere of the business has been characterized by pressure for increase, and as a result, there has always been an unduly high lapse rate. During the ten-year period from 1928 to 1937, over 168,000,000 new policies were issued, and 132,708,931 policies were reported as lapsed. Out of a total of 193,000,000 policies issued and revived in this time, the companies were only able to effect a net gain of about 6,000,000 policies. Every lapse represents a loss to the lapsing policyholder and, in addition, usually raises the cost of insurance to the persisting policyholders. During this same ten-year period only 4.45 per cent of all the terminations of industrial policies represented the payment of death claims, which represent the only satisfactory fulfillment of the purpose of the system--namely, to

provide burial funds.

The cost of industrial insurance is further increased by the enormous turnover in the agency forces of all the companies. During eleven recent years the Metropolitan alone hired 74,607 new agents, and in many smaller companies the situation is proportionately worse. The turnover in the field force is not only expensive because of the cost of training new men, but it also increases the lapse rate, which in turn means loss to policyholders and higher costs of insurance.

The realization of great profits in stock companies, the accumulation of ever-increasing surplus in mutual companies, and various incidental expenses, such as the health and welfare services in the Metropolitan and John Hancock, all contribute to the higher costs of industrial insurance. To the extent that the weekly collection of premiums at the homes of policyholders is necessary to maintain insurance in force and that mortality among these people is unavoidably higher, the greater cost cannot be blamed on the companies. They alone are responsible, however, for unnecessary expenses due to inefficiency and failure to take steps to correct conditions long condemned.

The holders of industrial policies are confronted not only with an expensive form of protection, but one with ramifications confusing even to persons better able to understand life insurance. The policies are issued on innumerable different plans, and there is no uniformity in the terminology used in stating the rights of the insured. The premium rates are computed on various different bases, so that only a well-trained expert

is qualified to compare the net costs of policies issued by different companies. An industrial policyholder would find it substantially impossible to determine which company would provide him with the safest, cheapest and most liberal protection. Consequently, the competition among companies is one of salesmanship rather than the quality of the product. Policyholders, confused by the claims of rival agents all interested in writing more policies, have sought the advice of numerous insurance counselors to whom they have paid large sums as fees for advice which is sometimes good but frequently unreliable.

In order to provide a standard of comparison of the cost of industrial insurance, the Commission presented the testimony of an actuary associated with the Social Security Board showing the cost of a universal death benefit plan, providing for a payment of \$250 to every person dying in the United States. This study showed that such a death benefit could be provided for the whole population at an aggregate amount considerably lower than is collected for industrial insurance each year to provide for only half the population. The per capita cost would also be lower than the amount paid by the majority of holders of industrial policies.

The system of distributing industrial insurance and the practices of the industrial companies were severely condemned by the Armstrong Committee in 1909. There have been some improvements in the methods of the three largest companies since then, but throughout the country innumerable smaller companies are still operating in the manner described in the Armstrong Report. In addition, the principal evils of the business--a high lapse rate, pressure for increase, and high cost--are still prevalent and appear to be inherent in industrial insurance.

PSF
Treas

Says Wagner Insurance Plan Doomed to Failure

BOSTON (P)—Charles J. Zimmerman, president of the National Association of Life Underwriters, told a meeting of members of that organization yesterday that the plan of Senator Robert A. Wagner (Dem., N. Y.) for the Government to sell life annuities would "fail, crumbling with its own weight."

"Of course," he said, "the Government can sell at lower rates than a private company, but the man who will make up the difference is the same man who makes it possible for the government to sell anything at a lower cost than private interests can, the taxpayer."

Mr. Zimmerman accused the government of "trying to burrow deeper and deeper into the field of life insurance," at the same time asserting "this business is least in need of government solicitude."

THE WHITE HOUSE
WASHINGTON

PSF
Treas.

November 20, 1939.

MEMORANDUM FOR THE PRESIDENT:

Re: Government Annuities.

In accordance with your request that I look into the possibilities of a Government annuity scheme, I am submitting herewith a report prepared by Mr. Gesell and associates of the S.E.C. My own conclusions, based on a study of this report and on other considerations, are as follows:

1. A feasible scheme can be worked out whereby, through free administration and the compounding of interest payments at from 3 percent to $3\frac{1}{2}$ percent, government annuities can be provided with benefits slightly larger than private companies can provide at the same premiums.

Payments of \$10 a month from age forty-five, for twenty years, on the 1937 Standard Annuity Table, would provide annuity payments of \$22.79 a month on a $3\frac{1}{2}$ percent basis and with the return of premiums with interest guaranteed in the event of death. Under a similar plan the American National undertakes to pay \$20.28 a month. Under a plan of straight life annuity with no death benefit and again at $3\frac{1}{2}$ percent, twenty years of monthly premiums of \$10 from age forty-five would provide monthly benefits of \$32.94. The Kansas City Life on a similar policy undertakes to pay \$31.52; the Aetna, \$24.27. This is not a popular type of policy.

2. At the same time, certain possible objections to the proposal might be listed:

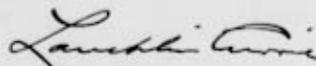
a. An actuarially self-supporting scheme, with no subsidy elements save free administration and a higher interest rate (3 - $3\frac{1}{2}$ percent) than the Government need pay on its borrowings, would not permit the sale of annuities at a sufficiently lower rate than private companies now offer to be attractive to many people. In Canada, with rates 25 - 40 percent lower than private companies, only some 18,000 contracts were issued from 1908 to 1936. The rates have recently been raised. In England, Government annuities, started in 1864, were a complete failure and finally died in 1928. In 1938 a new voluntary program was inaugurated, providing for a very

large subsidy for people under fifty-five for a one-year period (thereafter only people under forty could come in). Due to the limited period of the offer and the very favorable terms, some 400,000 people out of about 2,000,000 eligible, entered the voluntary system.

b. The Study of Consumer Expenditures indicated that the 60 percent of the nation's family units earning less than \$1,250 a year have negative rather than positive savings. When it is considered that monthly payments of \$10 for a thirty-year period would be necessary to qualify for annuities of from \$40 to \$50 a month (on a relatively self-sustaining basis), it will be seen that not many people are in a position to provide for their own old age. The private companies already tap this restricted group with their million and a half annuity contracts. Should a Government annuity proposal be represented by its opponents as the Administration's answer to the needs of the existing aged and the very poor in uncovered occupations, a great deal of resentment would be generated.

c. Any scheme which contemplates a large element of subsidy and is designed to supplement for uncovered occupations the Old Age Insurance Program should not be considered apart from the whole problem of old age security. A single federal old age security program, partly contributory and partly subsidized, may have advantages over a further development of the existing systems.

d. If a large element of subsidy is not contemplated, the advantages of providing government annuities for the comparatively few must be offset against the disadvantages of incurring a political battle at this time with the insurance companies and their quarter of a million agents. (See attached press clippings). People associated with the T.N.E.C. inquiry into insurance would rather join issue with the companies on the questions of federal regulation and the abolition of industrial insurance, which they believe constitutes the worst abuse of insurance today. (See attached memorandum on industrial insurance where-in it is brought out that out of some 140,000,000 terminations of industrial policies from 1928 to 1937, only 4½ percent represented payment of death claims. The provision of burial insurance of, say, \$250 through the sale of stamps by the Government would be a highly desirable reform.)



Lauchlin Currie

NEW YORK TIMES
11-16-39

Annuities Sold By U. S. Seen as Adding to Tax

Would Be Costly Venture,
Johnson Comments on
Proposal of Sen. Wagner

Holgar J. Johnson, president of the Institute of Life Insurance, declared yesterday, in commenting on the reported plan of Senator Robert F. Wagner to introduce a bill in Congress for the government to sell annuities, that while it might be possible for the government to sell such paper or any other form of service or commodity through the post office cheaper than can be done through private enterprise, this could only be accomplished at the expense of the taxpayers and the United States Treasury.

"Annuities are part of the complete service provided the American public by the life insurance companies and the companies are prepared to continue offering this service," Mr. Johnson said.

With reference to Senator Wagner's reported statement that the life insurance companies are interested only in annuities of \$100 a month or more, Mr. Johnson pointed out that the average annuity payment of the life companies last year was considerably less than \$100 a month.

"The figures of 137 companies, representing 92 per cent of the life insurance in force in this country averaged approximately \$349 annually a contract, or about \$29 a month," Mr. Johnson added. "A substantial part of all individual annuity policies in force in this country is below \$100 a month."

Mr. Johnson disclosed that more than 1,500,000 annuity contracts are now in force with insurance companies representing ultimate annual income of more than \$550,000,000 to men and women who have taken advantage of this method of buying future income.

He recalled that the Canadian government some years ago undertook to sell annuities at prices lower than those of the regular life insurance companies and has had to readjust its rates because it was found that it was losing too much on the operation.

PSF
Treas

Collins
re: memo

November 20, 1939.

MEMORANDUM FOR THE PRESIDENT

This has to do with a conference called in compliance with your suggestion to consider Bullitt's cable re: aluminum.

Edwin M. Watson

Attaches memo to him from H. E. Collins-Procurement Div-Treasury
Re: conference about aluminum.

See: Bill Bullitt folder-Drawer 1-1939

PSF
Dias

Hanes
Secretary -
1

Re-President's memo to General Watson of Nov 21, 1939
about thoughts on Johnny Hanes' speech and outlining
these.

See:Watson folder-Drawer 2-1939

This memorandum came to file--Dec 3-1939

PTL



THE SECRETARY OF THE TREASURY
WASHINGTON

*PSF
Treasury*

*File
Personal*

MEMORANDUM FOR THE PRESIDENT:

I have been considering possible action in the Bank of America matter. As you know, I have had a group of bankers (Tom K. Smith, John Ottley and Charles Spencer) advising me. I have also called in Dean Landis, Dean Garrison and Eddie Greenbaum.

The sanctions to which the most serious consideration is being given are (1) a proceeding under Section 30 of the Banking Act before the Board of Governors of the Federal Reserve System for the removal of the directors and officers of the Bank for violations of law and continuing unsafe and unsound banking practices, and (2) publication of the last report of examination of the Bank because of the Bank's failure to comply with the recommendations and suggestions made by the Comptroller based on the report of examination. The bankers believe that the threat of the use of the second sanction would be, by far, the more drastic in its impact on the Bank.

At a meeting yesterday with my staff and the lawyers' group, the consensus was that the better course to follow in the first instance would be to institute proceedings for the publication of the report. In this connection it was suggested that a formal hearing be accorded the Bank by the Comptroller's Office before actual publication of the report was resorted to. The procedure for such a hearing would be started by ordering

M. J. [Signature]

the Bank to appear before the Comptroller, or an examiner appointed by him, to show cause why the Comptroller should not act in accordance with the provisions of the statutes authorizing him to publish the report of examination of any national bank which shall not, within 120 days after notification of his recommendations or suggestions, based on the examination, have complied with the recommendations or suggestions to the satisfaction of the Comptroller. The letter of criticism based upon the last report of examination was sent to the Bank on July 31, 1939. Accordingly, the 120 days will expire on November 30, 1939. This procedure would have the advantages (1) of giving the Bank a fair opportunity to be heard before any action is taken, thus obviating the possibility that charges of arbitrary action might be made against the Comptroller; (2) of keeping proceedings against the Bank under the control of the Comptroller's Office, thus making it unnecessary to call on any other agency for action in the matter; and (3) of affording an opportunity for the Bank to advance a program during the proceedings which would meet the Comptroller's suggestions in full. In this event, of course, the publication of the report would not be made.

In the event nothing in the way of a satisfactory program is developed at the hearing, the Comptroller will notify the Bank that the report will be published after the expiration of 90 days. A certification for the removal of the officers and directors could then be made to the Federal Reserve Board. In this way the force of the two most feasible sanctions will become available to the Comptroller.

This proposal is only in tentative form. A further meeting is to be held this week-end which will be attended by both the lawyers' and bankers' groups. I hope to give you a definite plan early next week.

W. M. Puthan Jr.

PSF
TREAS

THE WHITE HOUSE
WASHINGTON

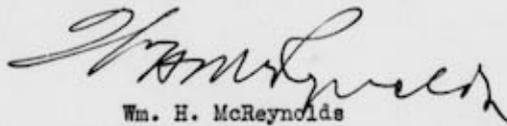
December 18, 1939.

*File personal
& confidential
Callers
Treasury*

MEMORANDUM FOR THE PRESIDENT:

I attach hereto reports from Captain Collins of the first and second meetings of the Committee, which you created for the purpose of representing the Federal Government in its contacts with interested foreign governments in matters relating to the purchase of supplies, equipment and materials in this country.

Informal.


Wm. H. McReynolds



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

December 9, 1939

MEMORANDUM FOR MR. McREYNOLDS

The informal committee created by the President under date of December 6, 1939, to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of supplies, equipment and materials met at 2 PM today.

Present were the Director of Procurement; Major General Henry Gibbins, the Quartermaster General; and Captain E. H. Van Patten, SC, USN, Acting Paymaster General of the Navy.

General Gibbins presented for the consideration of the Board a list of materials which had been left with the Secretary of War this morning by the Minister from Finland. Copy of this list was furnished to Captain Van Patten for his discussion with the bureaus concerned in the Navy Department and further report to the Committee as soon as information pertaining to the availability of the material listed could be had.

The Committee adjourned to meet again as soon as the information that Captain Van Patten is seeking becomes available.

Director of Procurement



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

December 14, 1939

MEMORANDUM FOR THE PRESIDENT

Via Mr. McReynolds

In compliance with instructions contained in letter of the President, of December 7, 1939, creating an informal committee for contacts with foreign governments in all matters relating to their materiel requirements, the following weekly report is submitted:

At a meeting of the Committee today, at which were present all members, the following transactions were considered and acted upon:

- A. Clearance was given the Government of Finland for supplying 60,000 gas masks and the Minister of Finland was so advised.

The Committee informed the Goodyear Tire and Rubber Company, Akron, Ohio, and the Knowlton Company, Watertown, New York, manufacturers of gas masks that a clearance had been given to the Minister of Finland, authorizing direct purchase of 60,000 gas masks, less filter, for which a satisfactory substitute was indicated.

- B. There was also informally presented to the Committee for its consideration, a list of materiel, including airplanes and ordnance.

Inasmuch as the Committee was informed that steps had already been taken whereby the Government of Finland was to obtain deliveries of airplanes by direct contact with certain airplane manufacturers, it was not necessary for the Committee to further consider the matter at this time. This matter had been presented to both the War and Navy Departments prior to the time that the informal committee was organized.

The Committee was informed by the War Department representative that the ordnance materiel listed by the Minister of Finland was not available either from War Department sources or War Department contracts.

H. E. Collins

H. E. Collins
Director of Procurement



TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

OFFICE OF THE DIRECTOR

*PSF
Treasury
(*

December 20, 1939.

*File
The General
has seen
per
12-21-39*

My dear General:

It would be appreciated if the attached file, which was sent to me by the President for my perusal, might be returned to him with my thanks for the opportunity of having read it.

With kindest personal regards.

Sincerely yours,

Harry C. Collins

General E. M. Watson
The White House
Washington, D. C.

THE WHITE HOUSE
WASHINGTON

December 13, 1939

~~CONFIDENTIAL~~

MEMORANDUM FOR

CAPTAIN COLLINS

TO READ AND RETURN FOR
MY FILES.

F. D. R.

Perry
HP

C
O
P
Y

THE WHITE HOUSE

WASHINGTON

December 13, 1939

MEMORANDUM FOR

THE SECRETARY OF WAR

I have your joint memorandum with the Secretary of the Navy in regard to an informal committee to deal with the subject of purchase of war materials by foreign governments.

I think you fail to realize that the greater part of such purchases is not, in a strict sense of the word, munitions -- probably well over fifty per cent of the purchases will consist of articles and raw or semi-raw materials which are primarily of civil use rather than military use.

With all due deference to the Army and Navy Munitions Board, it is not as experienced in making purchases as is the Procurement Division of the Government. In any event, the coordinating committee which has been set up will have representatives of the Army and Navy on it, and I am perfectly willing to have the Quartermaster General and the Paymaster General represented by officers who are also members of the Army and Navy Munitions Board -- especially when it comes to purely military or naval materials.

Finally it must be remembered that we are not at war, that we are trying to keep prices in this country down, that the work of the committee deals with civilians, and that the general fiscal and purchasing policies of the Treasury are very definitely involved.

That is why I think I should let the present arrangement stand.

F. D. R.

COPY

THE WHITE HOUSE
WASHINGTON

December 13, 1939

MEMORANDUM FOR

THE SECRETARY OF THE NAVY

I have your joint memorandum with the Secretary of War in regard to an informal committee to deal with the subject of purchase of war materials by foreign governments.

I think you fail to realize that the greater part of such purchases is not, in a strict sense of the word, munitions -- probably well over fifty per cent of the purchases will consist of articles and raw or semi-raw materials which are primarily of civil use rather than military use.

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That is why I think I should let the present arrangement stand.

F. D. R.

December 11, 1939

Dear Pa:

Here is the memorandum about which Secretary Edison and myself desired to talk with the President, which this morning you asked us to send up so that he might look at it tonight. It is most important.

Sincerely yours,

Louis Johnson

General E. M. Watson
Secretary to the President
The White House

Enclosure

~~CONFIDENTIAL~~

ARMY AND NAVY MUNITIONS BOARD
MUNITIONS BUILDING
WASHINGTON, D. C.

December 9, 1939.

MEMORANDUM FOR THE PRESIDENT.

SUBJECT: White House letter of December 6, 1939, creating an informal committee to represent the American Government in its contacts with interested foreign governments in all matters relating to the purchase of war materials.

Action Recommended:

That the letter in question be reconsidered and the present Army and Navy Munitions Board Clearance Committee continue to function in accordance with the approved action of July 6, 1939 (copy herewith), and your Military Order of July 5, 1939 (copy herewith).

Reasons:

1. The War and Navy Departments have primary interest in the munition program pertaining to national defense.
2. Coordination of the Army and Navy procurement programs is being obtained through the joint Army and Navy Munitions Board, which has been functioning in close cooperation with other interested United States Government agencies since 1922.
3. All joint Army and Navy Boards were placed under your direction and supervision by Military Order, dated at the White House July 5, 1939. Since that date cooperation between those joint boards has been close, and action expedited on questions arising during the present emergency.
4. The mission given the new Committee by your letter of December 6, 1939 appears to duplicate the mission previously assigned by you to the Army and Navy Munitions Board, and a Clearance Committee of that Board has been satisfactorily carrying out the same mission since July 6, 1939. The present Committee setup, with its Rules and Policies, is attached. These rules and policies have already been approved by the Secretaries of War and the Navy, and conform to the action desired by the National Munitions Control Board of the State Department.

Franklin D. Roosevelt Library

DECLASSIFIED

DOD DIR. 5200.9 (9/27/56)

~~CONFIDENTIAL~~

Date- 2/13/59

Signature- Paul S. Spicer

~~CONFIDENTIAL~~

5. Close cooperation has been established between the Army and Navy Munitions Board and the State, Treasury, Commerce, and the Interior Departments, in all matters affecting munitions of war and basic raw materials.

6. Close liaison has been established with representatives of all foreign governments and the Committee has been assisting many of these governments during the past six months.

7. The State Department has already requested all foreign governments to furnish the Army and Navy Munitions Board all pertinent data pertaining to their contemplated purchases in the United States. Copy of the instructions already sent by the State Department to foreign governments attached hereto.

8. Congress has also placed the execution of Public No. 117, relative to stock piles of strategic and critical materials, under the Army and Navy Munitions Board and the Department of the Interior. This action is effectuated by this Board with close cooperation and advice from the Departments of State, Commerce and Treasury.

9. The War and Navy Procurement Plans are already being coordinated, and the records pertaining to such plans are a part of the Army and Navy Munitions Board's confidential files. To assign this duty to any other agency or committee will cause confusion, delay, and inefficiency, since munitions requests from foreign powers will be mainly for items not normally produced commercially and distinctly of a highly technical character. The production of such items is of vital interest to our national defense and must be closely coordinated with our own rearmament program. The setup for such coordination already exists and the responsibility is definitely fixed. The proposed setup has not the technical data available to administer the anticipated foreign requests, nor the knowledge of what military information may be released without detriment to the national defense. The present Board augmented by liaison officers of all Supply Services and Bureaus, and its close cooperation with the Joint Aeronautical Board, has immediate access to procurement plans, current technical data, production schedules, and current orders. It also has the confidence and cooperation of industry and numerous trade associations, which have already been contacted and are furnishing confidential information concerning foreign purchases and the ability of this country to meet their demands.

10. The State Department, which is responsible for the execution of the decisions of the National Munitions Control Board, is

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

entirely ignored. The closest liaison must be maintained between the State Department and the Intelligence Sections of the War and Navy Departments in regard to military secrecy and the disclosure of such in the sales of munitions to foreign powers. The Rules and Policies attached have been drawn up in accordance with the present practice and procedure within the War, Navy, and State Departments.

Louis Johnson

LOUIS JOHNSON,
The Assistant Secretary of War.

Charles Edison

CHARLES EDISON,
The Assistant Secretary of the Navy.

5 Incls.

Mil. Order 7-5-39

Approved action 7-6-39

Le (Rules and Policies) 12-1-39

Cy instructions to foreign
governments.

Cy le 12-6-39.

~~CONFIDENTIAL~~

ARMY AND NAVY MUNITIONS BOARD
MUNITIONS BUILDING
Washington, D. C.

December 1, 1939.

~~CONFIDENTIAL~~

FROM: The Army and Navy Munitions Board.

TO: Colonel Charles Hines, U.S.A., Secretary of the Army and
Navy Munitions Board, (Chairman).
Lieut. Colonel George S. Warren, A.C., Office, Chief of Air Corps.
Lieut. Colonel E. E. MacMorland, O.D., O.A.S.W., Plans Division,
(Secretary of the Committee).
Major L. A. Miller, O.D., Office, Chief of Ordnance.
Captain J. C. Byrnes, Jr., U.S.N. (Ret.) (Bu. Ord.).
Commander A. B. Anderson, U.S.N., Office of Chief of Naval
Operations.
Commander F. C. Dunham, (SC), Bureau of Supplies and Accounts.
Lieut. Commander D. K. Logan, U.S.N., Bureau of Aeronautics.

SUBJECT: Army and Navy Munitions Board Committee for Clearance of Munitions.

1. The above-named officers are hereby designated as representatives of the Army and Navy Munitions Board on a committee for clearance of munitions.

2. The duties of this Board will be to carry out the intent of the memorandum for the President, dated June 30, 1939, copy of which appears below, as follows:

"MEMORANDUM FOR THE PRESIDENT.

June 30, 1939.

"In the past few months, the number of requests from foreign sources for assistance in procuring military supplies in this country has multiplied. It is probable that these requests will increase materially in the near future and it now appears desirable to establish a definite procedure on the subject, to assure organized cooperation in meeting these requests and to centralize the securing for our own use of such military information as may be obtainable from these sources.

"The cooperation required from us will be chiefly in obtaining authority to use non-secret drawings of ordnance and aircraft material and in suggesting where orders for the desired items can best be filled from domestic sources. The judicious distribution of such orders to domestic industry can be made to serve a very useful purpose in advancing our own plans for national defense.

"The matter in question clearly pertains to the work of the Army and Navy Munitions Board, It is therefore recommended that you authorize the Board to pass upon and to administer these requests for assistance in such a manner as best to serve approved policies. It is understood that

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these requests will be referred to the Board through the usual channels and that the Board will confer freely with other Government departments in carrying out its functions in this respect, and particularly with the Division of Controls of the Department of State.

"This memorandum has been seen and approved by the Under Secretary of State.

(Sgd) CHARLES EDISON (Sgd) LOUIS JOHNSON
The Assistant Secretary of the Navy. The Assistant Secretary of War.

Approved

July 6, 1939.

FRANKLIN D. ROOSEVELT."

3. Copy of the initial "Rules and Policies for the Army and Navy Munitions Board Clearance Committee" is attached. These rules and policies have been approved by the War and Navy Departments.

4. Lieutenant Colonel E. E. MacMorland, O.D., will be on full-time duty as Secretary of this Committee, and will act as the steering member in order to insure uniform and expeditious action.

5. Copies of this memorandum will be furnished all Supply Arms and Services of the War Department and Bureaus of the Navy Department in order that they may be acquainted with the mission of this Committee and be prepared to give the members such information and advice as come within the scope of their department.

6. This memorandum replaces a similar one dated November 10, 1939, same subject, establishing a joint committee for the clearance of munitions.

7. The records and files of this Committee will be maintained as a part of the Office of the Secretary of the Army and Navy Munitions Board,

For the Army and Navy Munitions Board:

Charles Hines
CHARLES HINES, Franklin D. Roosevelt Library
Colonel, U. S. Army,
Secretary.

1 Incl.

DECLASSIFIED
DOD DIR. 5200.9 (9/27/58)

Date- 2/13/59

Signature-
Carl E. Spicer

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DOD DIR. 5200.9 (9/27/58)

ARMY AND NAVY MUNITIONS BOARD
 MUNITIONS BUILDING
 Washington, D. C.

Date-

4/13/59

December 1, 1939.

Signature-

Carl J. Spicer

RULES AND POLICIES FOR ARMY AND NAVY
 MUNITIONS BOARD CLEARANCE COMMITTEE

1. Authority - Under date of July 6, 1939, the President approved a joint recommendation of the Assistant Secretaries of War and Navy that the Army and Navy Munitions Board be authorized to pass upon and administer requests from foreign sources for assistance in procuring military supplies in the United States in such manner as best to serve approved policies.
2. Joint Committee - This particular task of the Army and Navy Munitions Board will be exercised through a joint committee consisting of four Army and four Navy officers. The Army members consist of two officers of the Office of The Assistant Secretary of War, one officer, Office, the Chief of the Air Corps, and one officer of the Office of the Chief of Ordnance. The Navy members consist of one officer each from the Office of the Chief of Naval Operations, the Bureau of Ordnance, the Bureau of Aeronautics and the Bureau of Supplies and Accounts. The official designation of this group is "Army and Navy Munitions Board Clearance Committee".
3. Mission of Committee - The mission of the committee is defined as follows:
- a. To cooperate with foreign representatives who have obtained authority to use drawings, specifications, and other technical information concerning American military materiel in connection with orders to be placed with American manufacturers.
 - b. To suggest where foreign orders for munitions of all kinds should be placed in this country to serve the best interests of our own national defense, first ascertaining from interested Bureaus whether they contemplate placing orders before suggesting placing foreign orders that might take up capacity of the plants that interested Bureaus contemplate using.
 - c. To secure such military information as is obtainable from these foreign sources.
 - d. To confer freely with other Government departments in carrying out its functions.
4. Basic Policies - The following basic policies will govern the activities of the committee:
- a. Friendly foreign states are to be advised concerning the

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procurement of munitions in this country and will be furnished such designs and specifications of our materiel as may be authorized under existing law and approved policies, provided firm and substantial orders are placed with American manufacturers.

b. Orders may be placed by foreign sources with concerns already engaged in production of munitions for our account provided our procurement program is not delayed thereby, and provided all information relating to confidential materials then under manufacture in these concerns is safeguarded in accordance with the instructions of the United States Departments or bureaus thereof having materials manufactured therein.

c. The augmentation of industrial capacity for munitions production by means of foreign orders operates to strengthen our own national defense position.

d. Our designs of materiel should not be released to a foreign power unless manufacture is to be undertaken by a reputable American firm in the United States and in such substantial quantities as to make the firm a dependable national defense asset for the early production of these items in time of war.

e. The United States will assume no responsibility for the inspection of materiel produced for a foreign power, but advice may be given if solicited. The inspection of materials by foreign inspectors in plants manufacturing equipment on classified contracts will be done as heretofore in a manner satisfactory to the departments or bureaus having such contracts in those plants.

f. In every case, careful study will be given to insure that release of information does not violate the Espionage Act.

g. All manufacturers, exporters, and importers of items defined by Executive Order as arms, ammunition, and implements of war are subject to registration with the National Munitions Control Board, whose operating agency is the Division of Controls, State Department.

h. Export and import licenses, issued by the Division of Controls, State Department, are furnished to registered munitions manufacturers, except where the issue of such licenses will violate some law of the United States or a treaty to which the United States is a party.

i. The following policies regarding military secrets of interest to the national defense are quoted from the pamphlet "International Traffic in Arms" published by the Department of State:

"SPECIAL PROVISIONS IN REGARD TO MILITARY SECRETS

"Title I of the Espionage Act, approved June 15, 1917, reads in part as follows:

'Whoever, with intent or reason to believe that it is to

be used to the injury of the United States or to the advantage of a foreign nation, communicates, delivers, or transmits, or attempts to, or aids or induces another to, communicate, deliver, or transmit, to any foreign government, or to any faction or party or military or naval force within a foreign country, whether recognized or unrecognized by the United States, or to any representative, officer, agent, employee, subject, or citizen thereof, either directly or indirectly, any document, writing, code book, signal book, sketch, photograph, photographic negative, blue print, plan, map, model, note, instrument, appliance, or information relating to the national defense, shall be punished by imprisonment for not more than twenty years . . .'

"The Secretary of State will not issue a license authorizing the exportation of any arms, ammunition, or implements of war considered by the Secretary of War or by the Secretary of the Navy as instruments or appliances included among the articles covered by those terms as used in this act if, in their opinion, they involve military secrets of interest to the national defense. The articles which may be so considered are articles falling within one of the following categories:

'(a) Articles, the whole or any features of which have been or are being developed or manufactured by or for the War Department or the Navy Department or with the participation of either of those Departments; and

'(b) Articles, the whole or any features of which have been used or are being used by the War Department or the Navy Department or which either Department has contracted to procure.'

"Included among articles developed by or for the War Department or the Navy Department are articles the development of which has been contracted for by either of those departments, or which have been developed in accordance with Army or Navy specifications and submitted to either department for evaluation for procurement.

"Prospective exporters of arms, ammunition, and implements of war should, before applying for a license to authorize the exportation of any article falling within the above categories which may possibly involve military secrets of interest to the national defense, communicate with the Secretary of State in advance of the proposed shipment in order that he may be in a position to ascertain for the prospective exporter whether or not military secrets are, in fact, involved therein."

Release of articles for foreign sale coming within the scope of the above paragraphs is made by the action of the Secretaries of War and Navy. The chief of the supply arm or service concerned, after coordination with using arms and the Army or Navy, as the case may be, recommends to the Assistant Chief of Staff, G-2, or to the Director of Naval Intelligence, the action to be taken. The industrial features of the problem will be

presented by the Army and Navy Munitions Board. The matter is then referred for final decision to the Secretary of War or the Secretary of the Navy.

j. Where an agreement with a foreign power limits some feature of one of our own designs to use by our Government only, foreign buyers will be advised to make their own arrangements with the foreign power with which the United States has an agreement.

k. There is no general authority of law to sell any government-owned stocks of munitions direct to a foreign power nor for production in a government plant for foreign account. Action by Congress in each case is necessary.

l. Foreign buyers will be informed that they must make their own arrangements for use of patents applying to the material being purchased.

m. Any information divulged will be given directly to officials of the foreign governments and not to middlemen. Where it is necessary to turn over drawings and specifications to an American manufacturer to enable him to bid on a foreign order, copies of this information will be furnished only to the manufacturer concerned, and then in a confidential status. After a firm and substantial order is placed, copies may be furnished to the foreign inspectors and to the foreign government concerned so that the material may be subsequently maintained.

5. Procedure of Clearance Committee - The general procedure of the Clearance Committee will be as follows:

a. Each interested Bureau of the Navy and Supply Arm or Service of the Army will designate a contact officer who will obtain decisions from his own chief and transmit same to the Committee.

b. Foreign buyers will first establish contact with the State Department. After approving their credentials, the State Department will refer the foreign buyers to G-2, War Department General Staff, or Office of Naval Intelligence, Navy Department. After proper identification by the intelligence services, foreign buyers will be referred to the chairman of the Committee.

c. The Clearance Committee will refer all items desired by foreign buyers to the chief of the supply arm, service or bureau concerned for consideration of the release status of the items with respect to military information. The chief of the supply arm, service or bureau will notify the Clearance Committee direct concerning all items of American design which have previously been released. Items not previously released will be processed in accordance with present practice, the industrial features of the problem being presented by the Army and Navy Munitions Board in accordance with the recommendation of the chief of the supply arm, service or bureau concerned. The decision of the Secretaries of War and Navy on items which have not already been released will be transmitted to the Clearance

Committee by the Office of Naval Intelligence or the Military Intelligence Division, General Staff. It will then be the duty of this Committee to obtain the final action by the State Department on the specific equipment involved.

d. After clearance of design is settled, the Clearance Committee will then suggest, on the recommendation of the interested supply agencies of the War and Navy Departments, several sources for placement of orders, due regard being given to our procurement program and the best interests of industrial preparedness.

e. Foreign buyers will be informed that munitions orders must be placed with registered manufacturers who will be required to obtain export licenses, both of which functions are administered by the Division of Controls, State Department.

f. Close liaison will be maintained with the Division of Controls to keep informed as to export licenses issued and to secure such other military information on munitions transactions as may come into the hands of the State Department.

g. For commercial items covered by military specifications, clearance for release of specifications only will be required.

The Clearance Committee will also lend every assistance to foreign buyers, if so solicited, by recommending reputable sources for such ordinary commercial items as machine tools, where development of productive capacity has a vital effect on industrial preparedness.

h. The military intelligence services will act on requests to visit Government plants, proving grounds, commercial plants in which Government orders are in process, or to examine military items, in conformity with their usual routine in these matters; the Clearance Committee will arrange for contacts and visits to commercial plants not executing Government orders.

i. The Clearance Committee will gather information concerning foreign orders in this country from the State Department and other sources and furnish same to interested agencies of our Government.

j. The Office of the Secretary of the Army and Navy Munitions Board will be the office of record for the activities of the Clearance Committee. The files of the Army and Navy Munitions Board covering plant allocations will also be posted with such information as is applicable. Such statistics as are necessary will be prepared by the Statistics Division, Army and Navy Munitions Board.

k. A file will be kept by the Clearance Committee containing a full record of all conferences, agreements reached, and other business transacted. It is essential that all verbal conferences, in particular, be accurately reported in the files.

l. In general, Army items will be considered by the Army members, and Navy items by the Navy members in accordance with the policies and procedure outlined above.

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The Secretary of State presents his compliments to their Excellencies and Messieurs the Chiefs of Mission and has the honor to inform them that the Army and Navy Munitions Board, which is charged with the duty of coordinating governmental action in connection with purchases in this country to the extent necessary to safeguard the programs of the War and Navy Departments, to create additional manufacturing capacity in the United States and to protect stocks of strategic or critical materials accumulated in this country, is desirous of learning of orders which have been or may be placed in this country by foreign governments for all supplies for military or naval use. It desires this information in order that it may fulfill its duties as outlined above without causing any unnecessary inconvenience to foreign purchasers.

It would be greatly appreciated, therefore, if the Chiefs of Mission could find it possible informally to communicate to the Division of Controls, Department of State, for transmission to the Army and Navy Munitions Board, information in regard to any unfilled orders for all supplies for military or naval use which may have been placed in the United States by any purchasing agents

of their governments. It would also be appreciated if the Chiefs of Mission could from time to time informally communicate to the same Division of the Department information in regard to orders which may be placed here in the future by any purchasing agents of their governments. All such information submitted to the Department for the use of the Army and Navy Munitions Board will, of course, be considered as strictly confidential.

Department of State,

Washington, November 6, 1939.

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MILITARY ORDER

By virtue of authority vested in me as President of the United States and as Commander-in-Chief of the Army and Navy of the United States, it is hereby ordered that (1) the Joint Army and Navy Board, organized to secure complete cooperation and coordination in all matters and policies involving joint action of the Army and Navy relative to the national defense, (2) the Joint Economy Board organized for the purpose of effecting economies without loss of efficiency, by the elimination of overlap or the simplification of functions in those activities of the War and Navy Departments concerned with joint operations of the two services or which have approximately parallel functions, (3) the Aeronautical Board organized for the purpose of securing a more complete measure of cooperation and coordination in the development of aviation of the Army and of the Navy, and to provide an agency for consideration of aeronautical matters, and (4) the Joint Army and Navy Munitions Board organized for the purpose of harmonizing the plans of the Army and Navy for the procurement of munitions and supplies for war purposes, now functioning by understanding between the Secretary of War and the Secretary of the Navy, shall hereafter exercise their functions for the purposes aforesaid under the direction and supervision of the President as Commander-in-Chief of the Army and Navy of the United States.

This order shall become effective on July 1, 1939.

The White House,
July 5, 1939.

FRANKLIN D. ROOSEVELT
C. in C.

(F. R. Doc. 39-2343; Filed, July 6, 1939; 11:06 a.m.)

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DOD DIR. 5200.9 (9/27/88)

WAR DEPARTMENT

OFFICE OF THE ASSISTANT SECRETARY

WASHINGTON, D. C.

Date- 2/13/59

June 30, 1939

~~Signature~~

Carl T. Spicer

MEMORANDUM FOR THE PRESIDENT.

In the past few months, the number of requests from foreign sources for assistance in procuring military supplies in this country has multiplied. It is probable that these requests will increase materially in the near future and it now appears desirable to establish a definite procedure on the subject, to assure organized cooperation in meeting these requests and to centralize the securing for our own use of such military information as may be obtainable from these sources.

The cooperation required from us will be chiefly in obtaining authority to use non-secret drawings of ordnance and aircraft materiel and in suggesting where orders for the desired items can best be filled from domestic sources. The judicious distribution of such orders to domestic industry can be made to serve a very useful purpose in advancing our own plans for national defense.

The matter in question clearly pertains to the work of the Army and Navy Munitions Board. It is therefore recommended that you authorize the Board to pass upon and to administer these requests for assistance in such a manner as best to serve approved policies. It is understood that these requests will be referred to the Board through the usual channels and that the Board will confer freely with other Government departments in carrying out its functions in this respect, and particularly with the Division of Controls of the Department of State.

This memorandum has been seen and approved by the Under Secretary of State.

Charles Edison

CHARLES EDISON

The Assistant Secretary of the Navy.

Louis Johnson

LOUIS JOHNSON

The Assistant Secretary of War.

July 6, 39

Approved

Matthew Spence

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