



## TREASURY DEPARTMENT

WASHINGTON

4-9-41-

To: The Secretary

From: Mr. Sullivan

There is attached a schedule showing the salaries and representation allowances received and expenses claimed, as disclosed by an examination of certain available income tax returns of the United States diplomats. The examination discloses that, with one exception, representation expenses claimed as deductions for income tax purposes have been itemized on the returns.

The Bureau in the audit of cases obtains a certificate from the Secretary of State which discloses whether or not the representative is required to make expenditures falling within the scope of Executive Order dated June 8, 1931, in his representative capacity and for the benefit of the United States. Representation expenses incurred and deducted on returns filed are analyzed in the audit of the cases before the conclusion has been reached that they constitute ordinary and necessary business expenses deductible as such.

Except as noted in the attached schedule the amounts of the representation expenses claimed on the income tax returns examined have been allowed as deductions.

JHS

SCHEDULE OF SALARY AND REPRESENTATION  
ALLOWANCE AND EXPENSES OF UNITED STATES  
DIPLOMATS

<u>Year</u>	<u>Name</u>	<u>Salary</u>	<u>Representation Allowance Reported</u>	<u>Representation Expenses Claimed</u>	<u>Representation Expenses Disallowed</u>
1938	Harriman, Hon. Florence J. (Norway)	\$10,000.00	\$ 1,500.00	\$ 1,975.00	\$ None
1939	Harriman, Hon. Florence J. (Norway)	10,000.00	1,500.00	2,100.00(a)	None
1938	Grew, Joseph C. (Japan)	17,500.00	None	8,585.94	600.00(b)
1939	Grew, Joseph C. (Japan)	17,500.00	None	6,740.17	None
1938	Daniels, Mr. and Mrs. Josephus (Mexico)	17,500.00	None	None	None
1939	Daniels, Mr. and Mrs. Josephus (Mexico)	17,842.08		None	None
1937	Davies, Joseph E. (Russia)	23,549.92	- Included in salary item	23,763.00	None
1938	Davies, Joseph E. (Belgium)	17,500.00	1,608.33	29,945.16	6,975.19(c)
1938	Locatelli, Ercole H. (San Marino)	None	None	2,422.58	1,886.58(d)
1938	Phillips, William (Italy)	17,500.00	3,220.19	4,740.49	None
1937	Atherton, Ray (Bulgaria)	10,000.00	1,085.08	1,309.65	None
1938	Atherton, Ray (Bulgaria)	10,000.00	1,539.79	1,539.79	None
1939	Atherton, Ray (Denmark)	10,000.00	1,987.01	1,789.26	None
1938	Johnson, Nelson T. (China)	17,500.00	2,360.46	2,360.46	None
1939	Johnson, Nelson T. (China)	17,500.00	793.60	793.60	None
1936	Bowers, Claude G. (Spain)	17,500.00	1,535.28	1,535.28	303.65(e)
1937	Bowers, Claude G. (Spain)	17,500.00	None	1,200.00	None
1938	Bowers, Claude G. (Chile)	17,500.00	None	None	None
1939	Bowers, Claude G. (Chile)	15,414.20	931.09	931.09	None

- (a) No analysis was submitted with respect to the representation expenses claimed as a deduction.
- (b) This item represents salary paid to Mrs. Grew's personal maid, which was erroneously classified as representation expense.
- (c) The cost in the amount of \$6,975.19 of the removal of furniture and personal effects from Moscow to Brussels has been held to be personal expenses.
- (d) As a basis of settling the tax liability, the amount of \$1,886.58 was disallowed as a deduction.
- (e) Since the evidence indicates that the taxpayer's representation expenses amounted to \$1,231.63, the amount claimed in excess of this amount was disallowed as a deduction.

3/14/41

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On 3/10/41 Mr. Sullivan at the 9:30 meeting told the Secy he had prepared a one-page statement on the subject matter of this memo. The Secy told him to ask for an appointment and bring it in and explain it. I checked with Sullivan's office today, and Mr. Sullivan said he still had the memo and was waiting for a chance to see the Secy.

*HP*  
Mrs. McHugh

March 6, 1941

John Sullivan  
Secretary Morgenthau

Is there some special ruling on a law or something which permits American diplomats to deduct in a lump sum their expenses abroad from their income? Please be sure to speak to me about it.

*Discussed at 9:30 meeting  
3/6/41 - will report further*

*Discussed at 9:30 meeting  
3/14/41, and Secy. told  
Sullivan to ask for appointment  
and come in to talk  
about it -*

CONFIDENTIAL

April 9, 1941.

MEMORANDUM

TO: Admiral Wessche,  
Commandant, U. S. Coast Guard

FROM: Mr. Gaston

Reference is made to your memorandum of April 8, transmitting with comment the request of the British Admiralty, through the United States Naval Attaché in London and the Chief of Operations, United States Navy, that Coast Guard officers or enlisted personnel be available in the status of ship observers for approximately six months aboard the cutters to be turned over to the British under the Lend-Lease Act.

I have discussed this matter with Secretary Morgenthau and he says that it is clearly out of the question to have any Coast Guard personnel aboard these ships in any capacity after they have been turned over to the British and are on active service.

There will be no objection to permitting personnel of the Coast Guard to remain aboard the ships for advice and instruction of the British officers and crews for a reasonable period after the transfer but only so long as the ships remain in American waters.

REG/mah



THE COMMANDANT OF THE UNITED STATES COAST GUARD

SECRET

WASHINGTON

8 April 1941.

MEMORANDUM FOR - The Secretary of the Treasury

The following is quoted from a secret communication dated April 5th, 1941, from the Chief of Naval Operations to the Commandant of the Coast Guard:

"The British Admiralty is also desirous of having Coast Guard officers or enlisted personnel available in the status of ship observers for approximately six months. Observers should be thoroughly experienced with electrical installations of the ships."

The policy as to whether or not Coast Guard personnel shall remain on these vessels after they go into active service with the British Navy is, of course, a matter for determination by higher authority, and therefore, the Commandant of the Coast Guard is expressing no opinion on this point. However, it is believed desirable for the Commandant to advise the Secretary as to the need of technical Coast Guard personnel on board these vessels to insure a normal satisfactory operation of the machinery after title is transferred to Great Britain.

The Commandant held a conference with officers at Coast Guard Headquarters five of whom had been engineer officers on vessels of this type, and four of whom had been commanding officers. Two of these engineer officers were the first chief engineers of two of the electric-drive cutters when they were first commissioned.

The substance of the conclusions of this conference is as follows:

- (1) That the machinery of these cutters is to a large extent fool-proof and no more trouble should be expected to develop in the operation of this machinery than in the operation of any other modern marine propulsion equipment.
- (2) That any trouble that might develop in the operation of the machinery of these cutters would most likely be mechanical troubles - the same as might develop on any other type of propulsion equipment.
- (3) That an intensive training period of approximately two weeks in the interior waters of the United States should be sufficient to train the British crews in the operation of these ships.

(4) That after this two weeks training period the assignment of three or four key men to these vessels to serve with the British while in active service for a period of three or four months would probably be a desirable precaution but not necessary. Three of the engineer officers above referred to stated that they would be satisfied to take these ships out without such key men. Two of these officers stated that these key men would be very desirable.

(5) No member of the conference felt that any benefit would result to the British in the operation of this machinery by keeping observers on board for a period of six months.

As a result of this conference the Commandant is of the opinion that:

(1) Some benefit would result by keeping on board each vessel for a period not exceeding three months a small group of observers, but that an intensive training period of two-weeks should be sufficient for training the new crews for the normal operation of the machinery of these vessels without observers for an additional period.

(2) If an observers' party is left on board it should consist in each case of the present engineer officer of the vessel and four chief petty officers (artificer ratings) who should remain on board for a period not exceeding three months.



R. R. WAESCHE.

NAVY DEPARTMENT  
OFFICE OF THE CHIEF OF NAVAL OPERATIONS  
WASHINGTON

Op-23E-RSM  
(SC)QS13/EF13

April 5, 1941

Serial 037523

SECRET

From: Chief of Naval Operations.  
To : Commandant, U. S. Coast Guard.

SUBJECT: Transfer of ten Coast Guard vessels of the TAHOE Class to the British.

1. The Naval Attache' London has advised the Navy Department that the Admiralty is desirous of obtaining the following concerning the subject vessels:

(a) By cable:

- (1) Complements broken down into ratings with particular emphasis on engineering branch.
- (2) General description of machinery installation with greatest detail concerning electrical installation.

(b) By airmail:

(1) Booklet plans or equivalent of tank capacities and machinery arrangement.

2. The British Admiralty is also desirous of having Coast Guard officers or enlisted personnel available in the status of ship observers for approximately six months. Observers should be thoroughly experienced with electrical installations of the ships.

3. The Naval Attache' London has been informed that the above information will be transmitted to the British Naval Attache' for further transmittal to the Admiralty.

4. It is requested that the Commandant of the Coast Guard confer with the British Naval Attache' in Washington concerning the foregoing.

/s/ R. H. ENGLISH,  
By direction

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5. The urgency of delivery of this document is such that it will not reach the addressee in time by the next available officer courier. The originator therefore authorizes the transmission of this document by registered mail within the continental limits of the United States.

Copy to:  
Op-16.



April 9, 1941

10:05 a.m.

Present:

Mr. Young  
Mr. Cox  
Mrs. Klotz

HM, Jr: If by Monday night the boys don't clear it up for me, I want to write a letter to the President along the lines that the President said he would give us \$25,000,000 out of the \$7,000,000,000 for the ships. And Harry Hopkins said, "I will do it at ten o'clock Thursday morning." He told me that Wednesday night.

Mr. Cox: I think, to avoid the kind of snarl we got in before, what I would suggest is that Phil, in his capacity as Chief Executive Officer of the Lease-Lend, get up a request to the Budget and state in the request that the President is agreeable to it, or do it informally, and that Mr. Hopkins was, so that puts the Budget where they have to do their talking before.

HM, Jr: Anyway, I don't expect to get the run-around from you two fellows. I am too smart!

Mr. Young: And we know it!

HM, Jr: Well, anyway, I want the \$25,000,000 and I want it red, white and blue.

Mr. Cox: We can step in, in our capacity as Treasury employees, and make it the first order of business.

HM, Jr: And also, Mrs. Klotz, for Monday noon, see if these fellows can't write this letter relieving

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me as of the 15th of March of all responsibility in handling purchasing. Then I will take it and put it on the President's desk Monday at lunch.

Mrs. Klotz: Again?

HM, Jr: I haven't done it yet. I have been relying on Hopkins. If I can't get these two men to do something on it between now and Monday, I will do it myself. But I have to have a letter to sign, which these men will write. We have gone through McReynolds on it, too.

Mr. Young: Hopkins has the letter.

HM, Jr: If he won't do it by Monday noon, I will just walk over there and the President will sign it.

Wasn't it good about the Danish ships?

Mr. Cox: Yes.

HM, Jr: Wonderful!

Mr. Cox: It would have been another week if you had not got on the ball.

HM, Jr: I sicked Donovan on the Maritime Commission on the 60 ships.

You have your machinery set up for Budget?

Mr. Cox: Yes.

HM, Jr: Good. What did you do for yourself yesterday?

Cox: Nothing much. I am still working on the shipping. We are getting up a new map, also some proposals as to how the President can change the bombat and other belligerent areas by proclamation.

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HM, Jr: That was all on the assumption you would get some ships.

Mr. Cox: That's right. Another possibility on the ships is what the British will do with the Norwegian ships which have not been on the North Atlantic route. Apparently the Far East and South America.

HM, Jr: You saw what Jerry Land said in his speech last night. He didn't see any sense giving them any more ships. They would only be sunk.

Mr. Cox: I think the next problem, which is much more difficult, is integration of the flight delivery of aircraft into the convoy system.

HM, Jr: What's that mean?

Mr. Cox: It means instead of just flying a plane over with no armament, no bombs, as part of the delivery you use it in convoy and get more of them delivered. That's the advantage of the Greenland-Iceland thing and the advantage of getting greater distribution of long range and medium range bombers.

HM, Jr: You mean fly over the convoy?

Mr. Cox: Do part of the reconnaissance in spotting submarines and also use them to put submarines out of commission. One of the people up at the British Embassy told me this. On one of these four-engine bombers which was unarmed, it spotted two submarines and the submarines ran, and this plane had nothing on it, no arms or bombs; nothing.

HM, Jr: And if it was armed it could have dropped a depth bomb.

Mr. Cox: Yes. It's a possibility which I think is worth exploring.

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HM, Jr: Oh, sure! You know, I am waiting on you (Mr. Young) for delivery on those things. Did you ask for them?

Mr. Young: I have asked the British. Guess I had better ask the Army. Maybe I can get the answer quicker.

On Treasury Procurement, Cliff Mack is doing a swell job in getting into shape requirements for Yugoslavia and Greece. I am getting Cliff Mack's survey O. K'd, passed by the British today, before we send it over to Budget and get an allotment of money, because we have adopted the general policy on these smaller British allies, the Norwegians, the Greeks, the Turks, the Yugoslavians, that we will not accept a requisition direct from the country unless it is passed on by the British.

HM, Jr: How about the \$2,200,000 we sent over to Mack. What's happened to that? He was told to go ahead and buy. The first order.

I will ask him. (Placed phone call for Mr. Mack.)

Mr. Young: The original idea was to do all this stuff directly through the British and then it was decided to salve diplomatic feelings to let the companies put in requisitions and have them countersigned by the British.

(At this point the Secretary spoke to Mr. Mack and record of their conversation follows this page.)

April 9, 1941  
10:09 a.m.

H.M.Jr: Hello.

Operator: Mr. Mack.

Clifton Mack: Yes, sir.

H.M.Jr: Good morning. Mack, on that original order which you got to buy \$2,290 odd thousand for the British - the Army asked you to buy that for them - the first order I saw.

M: Yes.

H.M.Jr: Have you gone ahead with that?

M: Yes, sir, we have.

H.M.Jr: How much of that have you placed?

M: We have placed about \$700,000 and the others are in the process of final negotiation and will be completed very readily, that is, within the next - we hope that practically all of that will be completed by the end of the week.

H.M.Jr: I hope so. Did you get a clearance on the balance of around \$90,000 that they hadn't cleared?

M: We have that now.

H.M.Jr: Now, have you got anything else to work on when you're through with this this week?

M: Yes, sir, we have. We have the Greek and Yugoslav list and those are quite substantial.

H.M.Jr: How much do they amount to?

M: Well, now, the quantities that they want for immediate delivery would be on the Greek list - just a moment please - on

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the Greek list it will be approximately \$5 million. That's within the next couple of weeks, and on the Yugoslav list, that would run about \$750,000.

H.M.Jr: Now, does this come the way the other does? Are you doing this at the request of the Army or are you getting it directly from .....

M: I'm getting this directly from Budget. That is, on the Yugoslav and Greek list Phil Young is going to Budget today, I understand. He evidently had some talk with them yesterday.

H.M.Jr: He's sitting here with me and he's listening. His face is so I can't tell anything by his face.

M: (Laughs). Well, now, evidently or rather presumably we'll get a clearance from Budget today to go ahead and make commitments for these Greek and Yugoslav requirements.

H.M.Jr: Well, let me ask Phil. (Talks aside). He hopes to do something this morning.

M: Splendid, and as soon as we get word that the funds are available, we'll go ahead immediately on the Greek and Yugoslav list.

H.M.Jr: Cliff, I'm going to try five days a week until further notice to call you up around - between 10:00 and 10:15, so you might have your stuff on your desk ready for me.

M: I'll do that and that's fine.

H.M.Jr: I mean I'll try to call you every morning until this thing gets going around this time.

M: All right, sir.

H.M.Jr: O.K. If you get in any trouble don't wait until I hear about it from somebody else.

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M: No, I sure won't.

H.M.Jr: Come and see papa first.

M: (Laughs). Thank you.

H.M.Jr: All right.

M: Good-bye.

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HM, Jr: All right, gents. Class is dismissed.

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April 9, 1941  
10:15 a.m.

RE BANK HOLDING LEGISLATION

Present: Mr. Delano  
Mr. Upham  
Mr. Williams  
Mr. Foley  
Mr. Bell  
Mr. Sherbondy  
Mr. O'Connell  
Mr. Kuhn

Delano: Mr. Secretary, I don't think you have met Mr. Williams. He is our expert from the Pacific Coast.

H.M.Jr: Hello, Cy.

Upham: Good morning.

H.M.Jr: I haven't seen you (Sherbondy) for some time. You have been out on the West Coast have you? Has everybody read this?

Bell: I haven't. I have just started.

Foley: How do you want to do it, Mr. Secretary? Do you want to read it aloud?

H.M.Jr: I don't want to read it. If somebody could read it.

Foley: All right, I will read it. The memorandum on top is merely a discussion of plans for the hearing and the parts different people

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would play. That we can leave until afterward.

H.M.Jr:

Yes.

Foley:

Before we start, I want to say that so far as the examples of situations where the small bank has been driven out of the community by the holding company, the examples that the Comptroller's office gave us were in connection with the bank of America, and in those instances the answer, the complete answer, is that we didn't have to grant a license to open the branch and you don't need the holding company bill to prevent expansions of that character. So we have summarized, rather than reciting, individual cases of that character.

H.M.Jr:

Well, are you perfectly sure on the law that he has the right to reject?

Foley:

There is no question about that.

Delano:

Since we have been there, Cy and myself, there haven't been any granted and they haven't slowed up this expansion program.

H.M.Jr:

No branches?

Upham:

None to the Bank of America.

Foley:

And Downey, of course, is on this committee and Downey will represent the interests of the State of California.

I think you have to face squarely when you appear before the committee the responsibility for the Comptroller's office under the previous Comptroller, and I think we will

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just have to say that we are making no excuses for that, that we found out what was going on and changed Comptrollers and we have got a Comptroller there now who hasn't granted a single branch for this kind of thing.

H.M.Jr: For the benefit of the California citizen, we can say, "Two Whites don't make a wrong."  
(Laughter)

Don't they ever talk like that back in your office?

Upham: Worse than that.

Delano: You understand what Mr. Foley means, Mr. Secretary, when he says that there is complete discretion in the Comptroller's office about these things.

H.M.Jr: I know it. We have always been explained with this thing. How in the hell are we going to explain that they ever opened the damn bank in '33?

Foley: That is right. You can't excuse or defend what was done from '33 forward until you took some action in respect of the Comptroller's office, and I don't think you can go down there and defend it. I think you will have to write that off at the beginning.

H.M.Jr: I know. We have been through that. That is the thing that they have always held up to me every time I have started on this thing. I have always said, "Well, I won't defend it," but we will go forward anyway. Every time I get kind of weak-kneed about it, Cy Upham comes along and urges me to go along.  
(Laughter)

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You (Upham) can't shake the responsibility for this.

Upham: Well, you are not weak-kneed at the moment, so I don't need to urge you.

H.M.Jr: Are you? (Laughter) No, my knees are all right.

Bell: Do you want to stop as you go through?

H.M.Jr: Sure.

Foley: Sure, because this is obviously only a first attempt, and you will want to make a lot of changes.

Bell: I thought he might want to read it through and then go back.

Foley: "The bill under consideration is designed to curb the extent to which banks insured by the Federal Deposit Insurance Corporation may be controlled by holding companies. At present the activities of such holding companies are almost wholly unrestricted."

There is power in the Federal Reserve, but it has never been exercised.

Bell: It isn't effective. It is ineffective.

Foley: Ineffective or hasn't been used.

"In brief the bill, which would be administered by the Federal Deposit Insurance Corporation, would make it unlawful, after June 30, 1944, for any company to own or control more than 10 per cent of the voting stock of any bank insured by the Federal Deposit Insurance Corporation, or to control in any manner the

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management or policies of an insured bank. The bill also would confer upon the Comptroller of the Currency, with respect to national banks, and the Federal Deposit Insurance Corporation, with respect to other insured banks, the authority to veto the payment of excessive dividends by insured banks.

"I favor the enactment of the measure. Its purpose is to protect and safeguard the banking structure which has been strengthened during the past eight years by the patient efforts of bankers and government alike. Today bankers are cooperating wholeheartedly in the national defense program. It is because I want to help bankers and protect bank depositors, especially in the small local banks, that I favor legislation to deal with the bank holding company problem. To my mind, holding company domination is a serious menace to our banking structure."

H.M.Jr: Just in line with that, I want to protect the bank depositors first and the bankers second.

Foley: Right.

"I do not intend to burden you with an involved discussion of the evils inherent in holding company control of banks. In my opinion there is no necessity for a mass of testimony or for extended hearings on that subject by this committee. A substantial part of the very excellent report of your committee at the close of its stock exchange investigation was devoted to the bank holding problem."

Bell: Right there I wonder if you want to tell the committee there is no necessity for a

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mass of testimony? That is really a matter for them to decide. You can say that they are thoroughly familiar with it as they have rendered a very complete report on it. Don't you think so?

H.M.Jr: Another point, a lot of people on that committee want their say, too.

Foley: That is true.

H.M.Jr: I would - I think Dan has got a good point. I would put a question mark after that. I think that is a good point.

Foley: All right.

"This morning, I want to discuss briefly, some of the abuses in the operations of bank holding companies as disclosed by that report and, perhaps, bring to your attention further abuses not taken up at that time.

"One of the greatest dangers involved in the expansion of bank holding companies is the resulting monopolistic trend in the banking field. Monopoly in banking is just as vicious and just as antagonistic to our free democratic order as it is in fields of steel, oil, or aluminum. The small unit banker needs protection against monopoly just as much as the small manufacturer."

Bell: And other fields. Does the Secretary of the Treasury want to point out the industries in which there are monopolies, or just say, "in other fields"?

H.M.Jr: I don't know. I would question it.

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- Foley: "Our records disclose several instances in which a holding company has threatened to establish a branch of one of its captive banks to compete with a small, independent institution, unless the independent bank sold out to the holding company."
- H.M.Jr: Is that word "captive" bank, is that a recognized term?
- Upham: It is new to me. Does that come from the utility field?
- Sherbondy: Utility field.
- O'Connell: I don't know where it comes from. It seems to me to pretty well describe what a bank is in a holding company set-up. You use the word "captive" mines in the coal field.
- H.M.Jr: I like it, but I just never heard it.
- Upham: I never did either.
- H.M.Jr: Do you like it?
- Upham: It is all right, yes.
- Foley: I think it is journalistic jargon, but I think it is a descriptive word.
- O'Connell: I thought so, too. (Laughter)
- H.M.Jr: It is all right. It is just new.
- Foley: "In this connection the statement of the president of a small independent bank, taken from our files, is pertinent. He said, '\*\*\* it now appears that a move is being made to attempt to scare us into selling out against our own wishes, or the alternative, to be

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obliged to compete with this bank in a branch to be established here if a charter can be procured.'"

Bell: You usually put a footnote, don't you, of where your quote is taken from?

O'Connell: Well, it is taken from the files.

Upham: Give the name of the banker?

Bell: Yes, in the footnote. (Laughter)

Foley: "A manufacturer in the same community wrote, 'There is a feeling in all classes that the petition of the large branch banking institution for a branch in this city is a 'squeeze' play calculated to force the sale of our own independent bank.'"

"After a bank has been absorbed into a holding company system, it is exposed to the danger of intragroup deals at fictitious values. This is self-dealing. It is the typical holding company practice with which the public became familiar in the Ivar Kreuger and McKesson & Robbins cases."

Bell: I raised the question that McKesson & Robbins is not a holding company.

H.M.Jr: How about Associated Gas and the one in Chicago? What is that?

O'Connell: Insull, Samuel Insull.

H.M.Jr: Why not instead of using that, use Insull and Associated Gas?

Foley: O.K. All right.

H.M.Jr: All right?



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Foley: Yes.

"It is particularly important that banks and their depositors --"

H.M.Jr: The State Department would object to using a Swede right now. (Laughter)

Foley: It might have retaliatory effect.

"It is particularly important that banks and their depositors be protected against it. When a bank is in a holding company system, it is frequently used to keep afloat the weak affiliated enterprises of the holding company. This is done by dumping into the captive bank, depreciated real estate or other assets of affiliates. The bank is forced by the holding company to pay fictitious prices for these assets in order to bail out the affiliates.

"The bank holding company tends to drain the resources of the banks in the system in order to maintain the dividend policy of the holding company. The maintenance of the market value of its stock is fundamental to the continued prestige and growth of a bank holding company. The value of that stock depends primarily upon the dividends paid by the holding company, which in turn are made up from dividends paid to the holding company by its subsidiary banks. The result is that the bank holding company is frequently so much concerned with maintaining an undiminished flow of dividends from its controlled banks, that it is unwilling to recognize the dangerous effect of an excessive dividend policy upon the soundness of the banks. The investigation of your Committee disclosed documentary evidence of the strong pressure by holding companies in Detroit to compel controlled banks to pay dividends in

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excess of the amounts deemed advisable by the bank directors. Ever since 1933 the office of the Comptroller of the Currency has endeavored to persuade one large national bank controlled by a holding company group to reduce its dividend rate. Instead the dividend rate has steadily increased from 6% to approximately 20% at the present time.

"The complicated structure of a bank holding company system is a constant temptation to evasion and circumvention of the banking laws. Several years ago the national bank examiners directed a large national bank controlled by a holding company to charge off some \$35,000,000 of bad assets. Such a charge off by the bank probably would have necessitated suspension of dividends by the bank to the holding company. To avoid this possibility, the bank entered into a series of unjustifiable inter company deals. Instead of charging off the \$35,000,000 of assets, the bank turned them over to an affiliated company, which promised to pay the bank \$35,000,000. This deal left the affiliated company holding the bag. To rescue the company, the bank deliberately wrote up the value of its bonds by \$14,000,000 -- a purely paper transaction. The bank then credited this pumped up \$14,000,000 against the \$35,000,000 owed by the affiliate, in effect excusing that much of the debt. Thus the holding company forced the bank into a series of devious, unsound deals in order to keep the dividends flowing to the holding company."

- H.M.Jr: That so far is good. The "bank then credited this pumped up." Something else.
- Foley: Inflated?
- H.M.Jr: All right. Better use some other word.

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Foley: This fourteen million dollar write-up.

Kuhn: Yes. Inflated, swollen --

H.M.Jr: Something.

Foley: Watered.

Sherbondy: How about the words, "fictitious amount"?

H.M.Jr: It is easy. Go ahead.

Foley: "Your Committee reported that certain of the bank holding companies investigated deliberately prepared their statements and reports in such a form as to misrepresent the real condition of their controlled banks. The experience of the office of the Comptroller of the Currency has shown that the structure of some bank holding companies is so confusing that adequate examination and supervision of the national banks controlled by such companies is at times all but impossible.

"One of the prevalent methods of misusing the funds of a bank controlled by a holding company is to force the bank to lend money to the holding company or to make loans on stock of the holding company. One of the easiest ways for the holding company to maintain the market price of its stock is to have the bank lend money to friendly persons so that they can buy the holding company's stock.

H.M.Jr: You don't want to give that example of the Half Moon --

Foley: Paganucci?

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H.M.Jr: And he had to buy this stuff.

Foley: We thought about using it, Mr. Secretary, but that came from the SEC and didn't come from us, and the only thing that we have in our files on that is a memorandum of a conference at your house back in '38 attended by Chester Lane and Clarence Opper and other people from the SEC, so we don't have that deal in our files, you see. It is only a second-hand reproduction of the deal that we have.

H.M.Jr: Well, we made our files available to them. Is there any reason they shouldn't make theirs available to us? But you don't think it is necessary?

Foley: We can reconsider it, but we didn't put it in here because of that fact.

H.M.Jr: Supposing they say, "Give us an example."

Foley: We have got an example.

H.M.Jr: All right.

Foley: "For example, the former National Bank of Kentucky loaned approximately \$5,800,000 of its funds on stock of the holding company which controlled the bank. When the holding company collapsed the bank suffered a loss of almost \$2,000,000 on those loans."

And that gets it away from the Trans-America thing and gets it on to another holding company.

H.M.Jr: That is right.

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Foley: "Although existing law restricts loans by member banks of the Federal Reserve System to executive officers of such banks, the spirit of the law is frequently circumvented by loans made to officers and directors of bank holding companies or affiliated interests. I have in mind an officer of a corporation affiliated with a bank holding company who had inadequately secured loans of over \$7,000,000 outstanding at one time from a bank controlled by the holding company."

That is the A. O. Stewart situation.

H.M.Jr: You don't want to say, "At the time he was Chairman of the Federal Reserve at San Francisco"?

Foley: That is bringing in another fight.

H.M.Jr: I have got to brush up a little bit on this stuff, but I remember most of it.

Foley: "The fact that bank holding companies list their stocks on national exchanges is an ever-present menace to the banks controlled by the holding companies. Declines in the market price of the holding company stock affect the public confidence, not only in the holding company, 'as a distinct entity but in each and every banking unit of the whole, regardless of its own inherent soundness.' (page 284)

"Strong banks in a holding company group are often endangered by weak banks. As your Committee succinctly expressed this criticism:

"The most patent deficiency in group banking is that the group is only as strong as its

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weakest unit. \* \* \* When the shock of adversity \* \* \* dislodges confidence in any one of the units, the entire structure is destined to collapse. Unit banks which might otherwise have survived are doomed because of their affiliation in the public mind with the weaker units.'

"After its careful investigation this Committee concluded that:

"' \* \* \* Little justification, economic or social, exists for the holding company as presently constituted and conducted. Holding companies, whether employed in the banking, public utility, or railroad field, have been catastrophic to the American public.' (page 382)

"The intensive investigation made by this Committee in 1934 and the very positive condemnation of holding companies by your Committee in its monumental report, show that legislation is needed to end the domination of insured banks by holding companies. And nothing has happened to diminish the need. In fact our experience in more recent years will, I believe, lend additional support to that proposition.

"The impelling necessity for bank holding company legislation was made increasingly clear as a result of recent difficulties which the office of the Comptroller of the Currency, in cooperation with the other Federal bank supervising agencies, encountered in the examination and supervision of one of the largest national banks, which is a unit in a complicated holding company system. I refer to Transamerica Corporation and its relationship with the Bank of

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America. In that case, the value of the holding company stock depended to a marked degree upon the dividends paid by the bank to the holding company and many of the financial transactions of the holding company group involved the questionable use of funds obtained from the bank."

H.M.Jr: I will come back. We want to think carefully whether we want to say that and name names. That is the first time you have done it.

Foley: That is the first time we have named them.

H.M.Jr: I just wonder whether you want to do that.

Foley: "The bank, under the domination of the holding company group, refused to follow recommendations and directions of the Comptroller of the Currency to reduce its excessive dividend rate, improve its capital position, charge off certain losses set up by the national bank examiners, drastically reduce excessive loans to the holding company--"

H.M.Jr: Just a second. Rewrite that page so I can have it without naming the names and see how it looks. I would much rather say, "Well, I don't know whether I ought to tell you." "Well, we want to know." "Well, I don't know." All right. Then reluctantly I tell them.

Foley: O.K. We can do that.

Bell: Reluctantly?

H.M.Jr: Reluctantly.

Kuhn: They would ask you anyway, wouldn't they?

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- Upham: Oh, they will know anyway.
- Foley: Most of the men there will know.
- H.M.Jr: I think we should put up a little fight about it.
- Kuhn: You can make sure that they will ask.
- Bell: Well, I don't think you ought to mention it at this time. I don't know, you may have repercussions in the attempt of the Securities and Exchange Commission to settle their differences with them.
- H.M.Jr: Are they settling them?
- Bell: I understood they were trying to.
- Foley: I think that they will approve this. We will clear it with them first before you do it.
- H.M.Jr: My own first reaction is to tell the story and don't mention the names. I think it is just as effective, and if they want to know the names, we can tell them. It puts it on a higher plane.
- Foley: " .... holding company and affiliated and allied interests, eliminate excessive real estate holdings, and take other steps considered by the Comptroller of the Currency as necessary to protect the soundness and stability of the bank.
- "Some of the sanctions given the Comptroller of the Currency under existing legislation are so weak that their use would have been ineffective, while others are so drastic that their use might have done excessive injury to the bank. Consequently, for approximately three years a tug of war went on



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between the bank on the one hand and the office of the Comptroller of the Currency and the other regulatory agencies on the other. Finally, as a result of constant pressure over those three years, the bank agreed to make a number of the changes insisted upon by the Comptroller of the Currency, although it did not agree to any reduction in its dividend rate of 19.2 percent. Although it is believed that the changes agreed to by the bank, if faithfully carried out, will greatly benefit the bank, it is probable that the continued domination of the bank by the holding company group will lead to further difficulties.

"It is potentially dangerous, when the future of some of the largest banks in the country, as well as thousands of small banks, is tied to the career of a few holding companies. Banks are established, not to--"

- H.M.Jr: Excuse me again. On the bottom of page 11. I would rather leave it saying that we have done this and up to now they have been a good boy, that idea, and not say, "The holding company group will lead to further difficulties." I don't want to say that.
- Foley: All right.
- H.M.Jr: I mean, everybody has agreed that for the last three months or so they have--
- Delano: Yes, they have improved the bank.
- H.M.Jr: They have improved the bank, and I don't think this will weaken it. I will have some other suggestions to make. But that thing of leading to further difficulties, I don't want to leave that tone. I would much rather

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say, "We have done all this, and we find recently they have been cooperating."

Delano: You do understand there is one point that is still left out there, and that is in the process of being settled, but it is not settled yet.

H.M.Jr: If you want to say, "Not all of our difficulties are settled." But I don't want to say, "Well, now, we have done all this - " I don't want him to say that we have done all this and Morgenthau is forecasting, and he will say, "We have tried. No matter what we do, it will lead to difficulties." I think it puts me in a weak position. I would rather lean on the side of saying something a little bit too nice about him, than to give him a chance to say - grab that sentence, "No matter what I do for that so-and-so, we can't settle it." And I have got an interesting thing to suggest there. Why is he coming up if he thinks he is such a swell guy - if you read his history, it doesn't leave any doubt, but I don't want to say, "No matter what he does, the fellow isn't going to be good." That is what I think, but I don't want to say it in writing.

Upham: I think that whole last sentence ought to come out of there.

H.M.Jr: Yes.

Bell: You can say, "The changes made have greatly improved the banks."

H.M.Jr: Yes.

Foley: But the dividend rate hasn't been reduced.

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- H.M.Jr: Don't you think it has, Cy?
- Upham: Well, greatly. They have more capital, yes. They have better protection.
- H.M.Jr: Well, I think we ought to leave it on this tone, that the situation has improved, has steadily improved, say for the last three months or last six months.
- Foley: That the dividend rate hasn't been reduced, and that still ties in with what you have already said.
- H.M.Jr: That is all right, isn't it, but the dividend rate hasn't been reduced and certain other difficulties have not been eliminated?
- Delano: I just wanted to mention that one so you would be clear.
- H.M.Jr: That is right, and certain other difficulties have not been cleared up, but there has been an improvement.
- Delano: Very definitely.
- Kuhn: You could say, "In any case, it is potentially dangerous when these banks are tied up this way."
- H.M.Jr: Not there. I have got an idea on that which I want to give later.
- Foley: "Banks are established, not to nurture holding companies, but to serve the depositors and the general public. The Federal Government, as charterer, examiner, and supervisor of banks, has the responsibility of taking every possible step to assure the soundness of such banks."

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Bell: Assure?

Sherbondy: I wondered whether the Secretary ought to say that the Government was an assurer.

Upham: I am responsible for that. It is theoretically assured. The banks are assessed.

Foley: I think that is all right.

H.M.Jr: You fellows settle that.

Foley: "The various agencies intrusted by Congress with that responsibility cannot function effectively unless Congress enacts legislation conferring adequate powers upon such agencies.

"In 1938 an interdepartmental committee composed of representatives of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Reconstruction Finance Corporation, and the Treasury Department gave considerable attention to the bank holding company problem and reached the unanimous conclusion that the operations of bank holding companies should not be allowed to expand, that the principle of bank holding companies is not in the best interests of the country and that something should be done about them. The opinion of that committee was communicated to the President. Shortly, thereafter, in his message to Congress, on April 29, 1938, the President recommended the enactment of bank holding company legislation in the following language:"

H.M.Jr: You can skip that language.

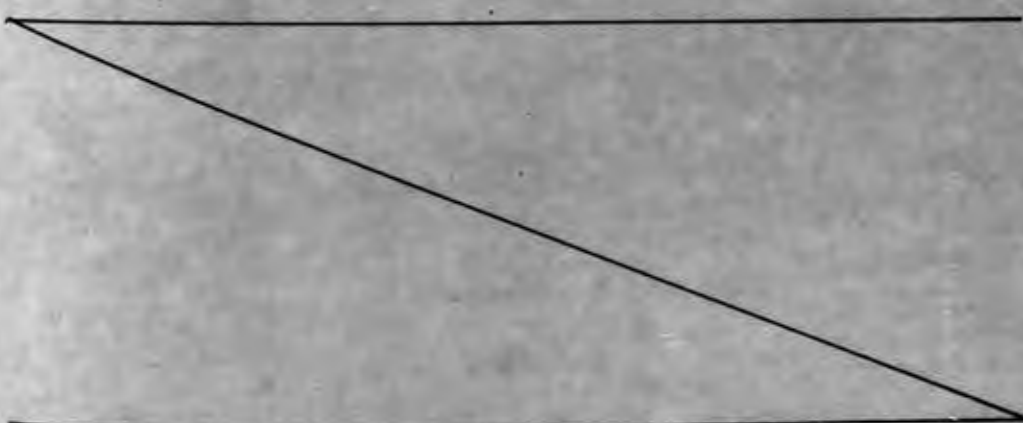
Foley: All right.

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Foley:

"That was almost three years ago. Congress has not yet taken any action to deal with the problem. The bill under discussion carries out the President's recommendations.

"Some may assert that during the present crisis, when our energies are centered primarily on matters of national defense, we have no time to deal with problems essentially domestic or to worry about internal reforms. But unhappy events abroad have made it abundantly clear that a nation is likely to collapse from weaknesses in its internal social and economic structure as it is from external forces. Whether the democratic form of government will survive depends to a large degree upon its ability, during national and international crises, to continue to protect the lives, the rights and the interests of its citizens, not only against oppression from abroad, but against oppression from within. Domination by economic or financial oligarchies such as bank holding companies, is in some respects just as undemocratic and oppressive as domination by a totalitarian government."



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H.M.Jr:

That is our lead. I want to start off with that. I want to start, you see, with this, and then I want to say this, so that the entire thing isn't on Congress. I want to say this, and then I next want to start with this thing here. "Some may assert." But certainly this last page comes first. Then I want to say, pick up some sentence from this report and say, "Eight years have passed since this Committee made a very magnificent and comprehensive and intelligent and so forth and so on report, and I, as Secretary of the Treasury, assume part of the blame, if there is to be any blame, that I haven't pressed for this legislation harder than I have," you see, "and from the day that this report was written, down to 1938 when the President set up this thing in April, '38, no action was taken by either end of the Avenue, but on April 29, '38, the President did send the following message, and from that day to this nothing has happened, and therefore I am here today to remind the Congress that three years have passed since the President sent this message, and while I realize that no time is a good time for a thing like this" - I mean, that is what people say - this is the thought that you haven't got. "The reason why I think it is a good time is because our banking structure is stronger today than it has ever been in the last ten years, and that is the time to make --"

Foley:

"The improvements."

H.M.Jr:

...."the improvements and not to wait until we are faced with economic reconstruction, and then all of these things, these defects in our banking system, become of major importance, and I grant that they are not of major importance now, but this is the time, in good times, to do it and

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not to wait until we have an economic collapse."

Do you see? I want to stress that.

"And it is time now to prepare toward the day when there may be peace and when we won't be spending these billions for the national defense, and the strain will again be on our banking system for the readjustment period, and therefore I come to you today," - I want to stress this - "when the banking system is the best it has ever been, and I don't want to wait until this terrific strain is again thrown on it and the Comptroller's office is faced with a rule to regulate these things, and he hasn't got the power to tell a fellow not to pay the dividends."

That is the thing which is missing which I want to get in, and I would like to get that in at the beginning and then sum up again on that same tone at the end. What do you think?

Delano: All right.

H.M.Jr: You see. Why do it now? Well, the reason we are doing it now is "because the banking structure is in the best shape it has ever been, but we can see the day where you will again be forced, as you were in '32 and '33, and you haven't got the instruments of control to work with. The time to do it is in good times and not in bad times."

That is the thing which is missing. Ferdie, do you like it?

Kuhn: Sure.

H.M.Jr: What do you think?

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Upham: There is one way in which you will have to modify that. After that 1934 report, of course, the Congress did pass bank-holding company legislation, in the Banking Act of 1935, which I think was considered by the Inter-departmental Banking Committee and approved. Of course, that hasn't been effective, but we can't say that they didn't do - that neither end of the Avenue did anything.

H.M.Jr: Well, make my statement technically correct, but it is the tone which I want to get, you see. "Why does Morgenthau come up here when we are all worrying about national defense and talk about - and annoy us with a thing like this," you see, "why does he annoy us with a thing like this?"

Well, the thing is that I am a hundred percent sincere that the time to correct evils is in good times, not to wait until the thing has crashed and have an investigation as to why we had the crash. I want to drive home the point. The time to do it is when things are good.

Dan?

Bell: I agree.

H.M.Jr: And not sit around, and the one other thing which I want to see, I would like a reference. You have got certain controls with the Federal Reserve Board which they haven't used. Are you going to leave those there? Aren't you going to point out something about that? I am not conscious that you point out the fact that they have got this licensing control.

Delano: They have got voting permits.

H.M.Jr: I don't see why we don't point it out.



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- Bell: That is on new organizations.
- Foley: Any holding company, in order to vote the stock of its affiliate.
- Bell: I am not familiar with the law, but I thought that they took action under that. Have they got any power to undo it?
- Foley: Sure, they can undo it now. They were granted this kind of license a long time ago, and they are operating under that license.
- Delano: That is one of the contingents that he made about this situation.
- H.M.Jr: Haven't I put my finger on something that is not included in here?
- Foley: Yes, if you want to make an attack on the Federal Reserve Board.
- H.M.Jr: You put those things so crudely. (Laughter.) I just want to enlighten Congress.
- Upham: This legislation will nullify that whole voting permit system.
- H.M.Jr: I think that should be pointed out. Here is the thing that is running through my mind. The Federal Reserve come up. Let's say they are stupid enough to oppose this. Well, why do they oppose it? Well, we pointed out why. They have had this thing, they could have done this thing, they didn't do anything about it. They have had eight years to do it. They had A.O. Stewart as Chairman of the Federal Reserve Board, and these fellows have had this thing, and they could have controlled it at any time, and they didn't do it. Therefore, we think after eight years - when were they given it?

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- Upham: 'thirty-five.
- H.M.Jr: They have had six years to do this thing. They haven't done anything. Now we want that power given to the FDIC and the Comptroller's Office, but I think mention should be made so that when the Fed comes up they will say, "Oh, well, they are just - that is sour grapes," you see. "Morgenthau said they could have done it for six years, and they didn't."
- I think it ought to be worked in in a very nice, genteel manner. What?
- Delano: Yes.
- H.M.Jr: Why do you want this? "If the Federal Reserve did a good job." You have just got to point out that they have had this authority for six years and didn't do anything with it. See what you can do with it, will you?
- Delano: Yes. I was thinking about the question of what sort of power they really had and how they applied it. If you want to look into that a little bit. The thing was pretty much - the power - was it a strong power that they had?
- Upham: Oh, I think so, yes.
- Delano: You mean the power to deny voting permits?
- Upham: I think so.
- H.M.Jr: Remember when we sat up nights on that, Cy?
- Upham: Yes. Plenty authority in the law, don't you think?
- Sherbondy: Yes. It is poor administration.

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- H.M.Jr: Let's look into that. Outside of that, I can't think of anything. It is a perfectly swell statement.
- Upham: Of course, they are about to spring a suprise on us. They are just about to hold officially that Trans-America is a holding company affiliate of the Bank of America.
- H.M.Jr: Who is "they?"
- Upham: Federal Reserve Board. You see, that has been in dispute for several years and --
- Foley: Maybe this will bring it about.
- Upham: I think they are right on the point of holding that officially, and then Trans-America will have to get one of these holding company permits, and if we do this, they will immediately get very firm.
- H.M.Jr: Well, what is my object? My object is good administration of the banking system.
- Upham: That is right.
- H.M.Jr: That is what I want. And if, somehow or other, they have heard of this and this forces their hand, what the hell?
- Foley: When do you want to see us again?
- H.M.Jr: We will just find out.
- Foley: Barkley is away. He is down in Miami, Palm Beach, or somewhere.
- H.M.Jr: We will let Glass handle this. Now, have you thought over how we will do this?

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- Foley: That is that memorandum on the top, Mr. Secretary.
- H.M.Jr: Is it the Comptroller, Crowley and I?
- Delano: Yes. The question is whether we would employ some other testimony.
- H.M.Jr: I don't know. I think by the time that Crowley and Delano and I talk, I think that is enough.
- Foley: That is what we think.
- H.M.Jr: It will lose its effect.
- Foley: Yes. Somebody will have to tell the story of the Bank of America, because that will come out whether you say it directly or wait for them to bring it out in their questions. Whoever is the best fellow in the Comptroller's Office to do it, it ought to be somebody who actually made the examination and who has personal knowledge of the transactions and can talk with ease and with --
- Delano: We have a man.
- H.M.Jr: Who would that be?
- Delano: It would be either Mr. Sedlacek or Mr. Williams. They will be at my elbow when we are testifying, and we will be able to take care of the technical aspects of it.
- H.M.Jr: I would like to see a copy of that report of the bank holding company thing, the '33 report.
- Have you heard how the notes are going?
- Bell: No, the bank was very good.
- H.M.Jr: I think it is a swell statement. I think it could

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be condensed a little bit more. Blue pencil it, Ferdie. It is a little repetitious.

(Mr. Hadley entered the conference.)

H.M.Jr: How is the opening?

Hadley: The seven-eighths is opening at par twelve to sixteen, and the one and one eighth issue at par twenty to twenty-four. These are both unofficial quotes, but they look like they will stay for the day and that is pretty close to what we had estimated.

H.M.Jr: Very close. Thank you.

Hadley: The reception is very favorable. They think it is good.

(Mr. Hadley left the conference.)

H.M.Jr: I don't want to tie everybody up. I will ask him. I will tell him that we are ready any time beginning with Monday.

Delano: The --

H.M.Jr: We are ready any time Monday to testify.

Foley: To start the hearings?

H.M.Jr: Yes.

Delano: Now, Mr. Secretary --

H.M.Jr: We will start any time beginning Monday.

Delano: We are preparing a statement in collaboration with these gentlemen here --

(Telephone conversation with Mr. Smith, secretary to Senator Glass, follows.)

April 9, 1941  
11:07 a.m.

H.M.Jr: Hello.

Operator: Senator Glass is in Lynchburg. I have Mr. Smith.

Rixey Smith: Yes, Mr. Secretary.

H.M.Jr: How are you?

S: I'm fine, sir. How are you, sir?

H.M.Jr: Fine. Mr. Smith, I wish you could get in touch with Senator Glass and tell him that anytime beginning with this coming Monday we'd be ready to start to testify on this bank holding bill. See?

S: Yes, sir.

H.M.Jr: And what would his pleasure be?

S: All right, sir. That's the subcommittee isn't it?

H.M.Jr: I suppose so.

S: I don't know whether Wagner is back or not.

H.M.Jr: Well, they tell me Wagner is quite sick.

S: Yes, I'm afraid he is. But if it's the subcommittee, which I'm sure it is, the Senator can go ahead with these hearings whenever you are ready.

H.M.Jr: Well, we'll be ready any time beginning Monday and when I say we, I mean Mr. Delano, Mr. Crowley and I.

S: All right, sir. I'll let your office know.

H.M.Jr: Will you do that?

S: Yes, sir.

H.M.Jr: Thank you.

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Upham: Does Crowley know, too?

Foley: Somebody ought to tell Crowley. Maybe we ought to call him.

Delano: Somebody has got to tell Crowley.

H.M.Jr: I will call him up myself. Well, I want to do this again tomorrow. I would like to meet with you gentlemen again tomorrow at eleven. Is that crowding you too much? Would you rather have it in the afternoon tomorrow?

Kuhn: Afternoon.

Foley: Yes, afternoon will give us a little more time.

H.M.Jr: Three-thirty tomorrow afternoon?

Delano: That is all right.

H.M.Jr: Three-thirty tomorrow afternoon. I think this is good, Dan. Have you got a copy so that you can look this over?

Bell: Yes, I have got a copy. I just hadn't read it, that is all.

H.M.Jr: Will you?

Bell: Yes.

H.M.Jr: I value your opinion on this.

Bell: It isn't worth much.

H.M.Jr: Yes it is.

Bell: I will read it over.

H.M.Jr: But if you can change that for me and then summarize again on the same tone, even if you repeat a little bit at the end.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

April 9, 1941.

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

Attached is a draft of statement, prepared in anticipation of your appearance before the Banking and Currency Committee of the Senate in support of the bank holding company bill. As you suggested, both Mr. Kuhn and Mr. Duffield worked on it with us.

No definite decision has as yet been made as to the witnesses to be called in support of the bill. Of course, you and Mr. Delano and Leo Crowley will carry a major part of the burden. Since a great deal of attention must be given to a development of the Transamerica-Bank of America story, it would seem that whoever in the Comptroller's office is most familiar with the set-up should be prepared to go into it in detail. I understand that the men in the Comptroller's office most familiar with the subject are Mr. Sedlacek and Mr. Williams. Some thought was given to using Dean Bates for this, but I doubt its practicability, since his knowledge is second-hand at best.

We considered the advisability of getting a banker to testify for the bill, but have abandoned the idea, largely because no one could think of a banker who is in favor of it. It was also suggested that Commissioner Healy of the Securities and Exchange Commission might testify on the evils of holding companies generally and that Judge Pecora might be asked to re-state some of the material developed in the banking investigation he carried on a few years ago. We have since come tentatively to the conclusion that neither Judge Pecora nor Commissioner Healy could contribute enough to a discussion of the bill under consideration to justify asking them to testify.

It seems to me that we ought to plan on not more than four or five witnesses, with you leading off, followed by Mr. Delano and the bank examiner or examiners who is to discuss Transamerica, and ending up with Mr. Crowley.

E. H. F.



April 8, 1941.

The bill under consideration is designed to curb the extent to which banks insured by the Federal Deposit Insurance Corporation may be controlled by holding companies. At present the activities of such holding companies are almost wholly unrestricted.

In brief the bill, which would be administered by the Federal Deposit Insurance Corporation, would make it unlawful, after June 30, 1944, for any company to own or control more than 10 percent of the voting stock of any bank insured by the Federal Deposit Insurance Corporation, or to control in any manner the management or policies of an insured bank. The bill also would confer upon the Comptroller of the Currency, with respect to national banks, and the Federal Deposit Insurance Corporation, with respect to other insured banks, the authority to veto the payment of excessive dividends by insured banks.

I favor the enactment of the measure. Its purpose is to protect and safeguard the banking structure which has been strengthened during the past eight years by the patient efforts of bankers and government alike. Today

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bankers are cooperating wholeheartedly in the national defense program. It is because I want to help bankers and protect bank depositors, especially in the small local banks, that I favor legislation to deal with the bank holding company problem. To my mind, holding company domination is a serious menace to our banking structure.

I do not intend to burden you with an involved discussion of the evils inherent in holding company control of banks. In my opinion there is no necessity for a mass of testimony or for extended hearings on that subject by this committee. A substantial part of the very excellent report of your committee at the close of its stock exchange investigation was devoted to the bank holding problem.

This morning, I want to discuss briefly some of the abuses in the operations of bank holding companies as disclosed by that report and, perhaps, bring to your attention further abuses not taken up at ~~this~~<sup>at</sup> time.

One of the greatest dangers involved in the expansion of bank holding companies is the resulting monopolistic

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trend in the banking field. Monopoly in banking is just as vicious and just as antagonistic to our free democratic order as it is in fields of steel, oil, or aluminum. The small unit banker needs protection against monopoly just as much as the small manufacturer.

Our records disclose several instances in which a holding company has threatened to establish a branch of one of its captive banks to compete with a small, independent institution, unless the independent bank sold out to the holding company.

In this connection the statement of the president of a small independent bank, taken from our files, is pertinent. He said, "\*\*\* it now appears that a move is being made to attempt to scare us into selling out against our own wishes, or the alternative, to be obliged to compete with this bank in a branch to be established here if a charter can be procured."

A manufacturer in the same community wrote, "There is a feeling in all classes that the petition of the large

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branch banking institution for a branch in this city is a 'squeeze' play calculated to force the sale of our own independent bank."

After a bank has been absorbed into a holding company system, it is exposed to the danger of intragroup deals at fictitious values. This is self-dealing. It is the typical holding company practice with which the public became familiar in the Ivar Kreuger and McKesson & Robbins cases.

It is particularly important that banks and their depositors be protected against it. When a bank is in a holding company system it is frequently used to keep afloat the weak affiliated enterprises of the holding company. This is done by dumping into the captive bank depreciated real estate or other assets of affiliates. The bank is forced by the holding company to pay fictitious prices for these assets in order to bail out the affiliates.

The bank holding company tends to drain the resources of the banks in the system in order to maintain the dividend policy of the holding company. The maintenance of the market value of its stock is fundamental to the continued prestige and growth of a bank holding company. The value of that stock depends primarily upon the dividends

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paid by the holding company, which in turn are made up from dividends paid to the holding company by its subsidiary banks. The result is that the bank holding company is frequently so much concerned with maintaining an undiminished flow of dividends from its controlled banks that it is unwilling to recognize the dangerous effect of an excessive dividend policy upon the soundness of the banks. The investigation of your Committee disclosed documentary evidence of the strong pressure by holding companies in Detroit to compel controlled banks to pay dividends in excess of the amounts deemed advisable by the bank directors. Ever since 1933 the office of the Comptroller of the Currency has endeavored to persuade one large national bank controlled by a holding company group to reduce its dividend rate. Instead the dividend rate has steadily increased from 6% to approximately 20% at the present time.

The complicated structure of a bank holding company system is an constant temptation to evasion and circumvention of the banking laws. Several years ago the national bank examiners directed a large national bank con-

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trolled by a holding company to charge off some \$35,000,000 of bad assets. Such a charge off by the bank probably would have necessitated suspension of dividends by the bank to the holding company. To avoid this possibility the bank entered into a series of unjustifiable inter company deals. Instead of charging off the \$35,000,000 of assets the bank turned them over to an affiliated company which promised to pay the bank \$35,000,000. This deal left the affiliated company holding the bag. To rescue the company, the bank deliberately wrote up the value of its bonds by \$14,000,000 -- a purely paper transaction. The bank then credited this pumped up \$14,000,000 against the \$35,000,000 owed by the affiliate, in effect excusing that much of the debt. Thus the holding company forced the bank into a series of devious, unsound deals in order to keep the dividends flowing to the holding company.

Your Committee reported that certain of the bank holding companies investigated deliberately prepared their statements and reports in such a form as to misrepresent the real condition of their controlled banks.

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The experience of the office of the Comptroller of the Currency has shown that the structure of some bank holding companies is so confusing that adequate examination and supervision of the national banks controlled by such companies is at times all but impossible.

One of the prevalent methods of misusing the funds of a bank controlled by a holding company is to force the bank to lend money to the holding company or to make loans on stock of the holding company. One of the easiest ways for the holding company to maintain the market price of its stock is to have the bank lend money to friendly persons so that they can buy the holding company's stock.

For example, the former National Bank of Kentucky loaned approximately \$5,800,000 of its funds on stock of the holding company which controlled the bank. When the holding company collapsed the bank suffered a loss of almost \$2,000,000 on those loans.

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Although existing law restricts loans by member banks of the Federal Reserve System to executive officers of such banks, the spirit of the law is frequently circumvented by loans made to officers and directors of bank holding companies or affiliated interests. I have in mind an officer of a corporation affiliated with a bank holding company who had inadequately secured loans of over \$7,000,000 outstanding at one time from a bank controlled by the holding company.

The fact that bank holding companies list their stocks on national exchanges is an ever-present menace to the banks controlled by the holding companies. Declines in the market price of the holding company stock affect the public confidence, not only in the holding company, "as a distinct entity but in each and every banking unit of the whole, regardless of its own inherent soundness." (page 284)

Strong banks in a holding company group are often



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endangered by weak banks. As your Committee succinctly expressed this criticism:

"The most patent deficiency in group banking is that the group is only as strong as its weakest unit. \* \* \* When the shock of adversity \* \* \* dislodges confidence in any one of the units, the entire structure is destined to collapse. Unit banks which might otherwise have survived are doomed because of their affiliation in the public mind with the weaker units." (page 294)

After its careful investigation this Committee concluded that:

"\* \* \* Little justification, economic or social, exists for the holding company as presently constituted and conducted. Holding companies, whether employed in the banking, public utility, or railroad field, have been catastrophic to the American public." (page 382)

The intensive investigation made by this Committee in 1934 and the very positive condemnation of holding companies by your Committee in its monumental report, show that legislation is needed to end the domination of insured banks by holding companies. And nothing has happened to diminish the need. In fact our experience in more recent years will, I believe, lend additional support to

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that proposition.

The impelling necessity for bank holding company legislation was made increasingly clear as a result of recent difficulties which the office of the Comptroller of the Currency, in cooperation with the other Federal bank supervising agencies, encountered in the examination and supervision of one of the largest national banks, which is a unit in a complicated holding company system. I refer to Transamerica Corporation and its relationship with the Bank of America. In that case, the value of the holding company stock depended to a marked degree upon the dividends paid by the bank to the holding company and many of the financial transactions of the holding company group involved the questionable use of funds obtained from the bank.

The bank, under the domination of the holding company group, refused to follow recommendations and directions of the Comptroller of the Currency to reduce its excessive dividend rate, improve its capital position, charge off certain losses set up by the national bank examiners, drastically reduce excessive loans to the

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holding company and affiliated and allied interests, eliminate excessive real estate holdings, and take other steps considered by the Comptroller of the Currency as necessary to protect the soundness and stability of the bank.

Some of the sanctions given the Comptroller of the Currency under existing legislation are so weak that their use would have been ineffective, while others are so drastic that their use might have done excessive injury to the bank. Consequently, for approximately three years a tug of war went on between the bank on the one hand and the office of the Comptroller of the Currency and the other regulatory agencies on the other. Finally, as a result of constant pressure over those three years, the bank agreed to make a number of the changes insisted upon by the Comptroller of the Currency, although it did not agree to any reduction in its dividend rate of 19.2 percent. Although it is believed that the changes agreed to by the bank, if faithfully carried out, will greatly benefit the bank, it is probable that the continued domination of the bank by the holding company group will lead to further difficulties.

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It is potentially dangerous, when the future of some of the largest banks in the country, as well as thousands of small banks, is tied to the career of a few holding companies. Banks are established, not to nurture holding companies, but to serve the depositors and the general public. The Federal Government, as charterer, examiner, and supervisor of banks, has the responsibility of taking every possible step to assure the soundness of such banks. The various agencies intrusted by Congress with that responsibility cannot function effectively unless Congress enacts legislation conferring adequate powers upon such agencies.

In 1938 an interdepartmental committee composed of representatives of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Reconstruction Finance Corporation, and the Treasury Department gave considerable attention to the bank holding company problem and reached the unanimous conclusion that the operations of bank holding companies should not be allowed to expand, that the principle of bank holding companies is not in the best interests of

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the country and that something should be done about them. The opinion of that committee was communicated to the President. Shortly, thereafter, in his message to Congress, on April 29, 1938, the President recommended the enactment of bank holding company legislation in the following language:

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

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

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

"I recommend that the Congress enact at this session legislation that will effectively control the operation of bank holding companies; prevent holding companies from acquiring control of any more banks, directly or indirectly; prevent banks controlled by holding companies from establishing any more branches; and make it illegal for a holding company, or any corporation or enterprise in which it is financially interested, to borrow from or sell securities to a bank in which it holds stock.

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

That was almost three years ago. Congress has not yet taken any action to deal with the problem. The bill under discussion carries out the President's recommendations.

Some may assert that during the present crisis, when our energies are centered primarily on matters of national defense, we have no time to deal with problems essentially domestic or to worry about internal reforms. But unhappy events abroad have made it abundantly clear that a nation is as likely to collapse from weaknesses in its internal social and economic structure as it is from external forces. Whether the democratic form of government will survive depends to a large degree upon its ability, during national and international crises, to continue to protect the lives, the rights and the interests of its citizens, not only against oppression from abroad, but against oppression from within. Domination by economic or financial oligarchies such as bank holding companies, is in some respects just as undemocratic and oppressive as domination by a totalitarian government.

April 9, 1941  
11:10 a.m.

H.M.Jr: Hello. Rouse?

Robert Rouse: Yes. Good morning, sir.

H.M.Jr: How is it going?

R: Very well. Everybody is delighted with it. The question is how much can they subscribe for.

H.M.Jr: I got the - the 1-1/8 is a little bit high, isn't it?

R: Yes.

H.M.Jr: The 7/8's doesn't seem to be.

R: It's a full rate. Well, I think that was regarded as being very liberal, reflecting perhaps concern about the news and to what extent the market might be fully insulated against it.

H.M.Jr: Yeah. Well, the war news is as bad as you can make it.

R: Yes, it is.

H.M.Jr: And I'm tickled to death that we've got the extra cushion.

R: Well, everybody is delighted with it and as I say it's a question of how much they can subscribe. There'll be no markets made in it today. One chap called me - Rich of Hanseatic and he made the remark that it looked to him like the year and a half was worth close to 1/2 in yield and 1/2 in price and that the 1-1/8 looked like about 3/4's yield and 3/4's in price, but they're not getting down to brass tacks on that until tomorrow morning.

H.M.Jr: All right.

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R: The other section of the market - the tax exempt market - prices are lower this morning; there has been a little selling. One corporation came in to sell a block of the old and new 2 $\frac{1}{2}$ 's of the tax exempt ones. They've been pretty well taken on a scale down. The market is small but there is a good firm undertone. People won't reach up to buy them under these conditions but they will buy.

H.M.Jr: All right.

R: I hope your cold is better.

H.M.Jr: A little better, thank you.

R: Fine.

H.M.Jr: Thank you.



April 9, 1941

11:25 a. m.

Present:

Mr. Sullivan  
Mr. Blough  
Mr. Tarleau  
Dr. Haas

Mr. Sullivan: That is the list of men who are here with the Defense Commission or the War Department who are connected with one of the 100 companies getting defense contracts.

HM, Jr: Does it show how many?

Mr. Blough: Forty-seven men and 16 companies involved.

HM, Jr: Who did this job? That was a quick job.

Mr. Sullivan: Mr. Blough.

Mr. Blough: The combined staffs of ours and George's worked together.

HM, Jr: From 13 to 18 is steel. Is that right?

Mr. Blough: Yes.

HM, Jr: I would like to study this a little bit.

Mr. Sullivan: Now, the last communication we had from Mr. McReynolds, who did not purport to be right up to the minute on personnel, and this may have to be supplemented by another memorandum when we get the current information from OPM ....

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Mr. Blough: We got a second memorandum from Mr. McReynolds, but even it is not fully up to date.

HM, Jr: O. K.

(Mr. Sullivan handed the Secretary the attached statement "Tax Changes Aggregating Approximately an Additional \$3,000 Million of Revenue".)

HM, Jr: Now. Individual income taxes. That is as of yesterday?

Mr. Sullivan: That's right.

HM, Jr: And estate?

Mr. Sullivan: Right.

HM, Jr: And gift?

Mr. Sullivan: Right.

HM, Jr: And Corporation. Is that the same?

Mr. Blough: That's new.

HM, Jr: What's that surtax?

Mr. Sullivan: This: instead of increasing the normal tax from 24% to 30%, if that becomes a surtax rather than a normal tax, it reduces the value of the exemption on tax-exempt securities.

HM, Jr: I see.

Mr. Blough: Partially exempt.

HM, Jr: Eccles, you know, asked if we could not freeze it at 24%.

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Mr. Sullivan: There was a rumor around in New York, while you were away, that we would reduce the corporation tax to 6 and then put on a 24% surtax, which wouldn't of course be honest.

HM, Jr: But this is a surtax on what?

Mr. Sullivan: Additional tax of 6% on corporate net incomes.

Mr. Blough: Simply called a surtax.

HM, Jr: What was the normal tax?

Mr. Sullivan: 24.

Dr. Haas: I suggest they do that because yesterday, you remember, when you were trying to price that thing there were several different assumptions.

HM, Jr: Would it get as much?

Mr. Sullivan: Exactly.

HM, Jr: But you just call it a different thing.

Mr. Sullivan: Yes.

HM, Jr: Clever!

Mr. Sullivan: I think we should resist all attempts to increase the individual normal tax. There will be a good deal of pressure to increase the normal tax.

HM, Jr: What effect would it have?

Mr. Sullivan: It affects our collections. Many of those bonds are exempt from normal tax.

HM, Jr: I see. I see. Now we come to soft

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drinks. Gasoline.

Mr. Sullivan: I have a question on gasoline. That's raising it  $\frac{1}{2}$  cent and I think it could stand 1¢.

HM, Jr: I would certainly put it 1¢ and let them cut it.

HM, Jr: Check tax, telephone, jewelry, candy, toilet preparations, club dues, sporting goods, bowling alleys, playing cards, safety deposit boxes.

Mr. Tarleau: We have one on them now.

HM, Jr: That only comes to \$3,000,000,000.

Mr. Sullivan: That's right.

HM, Jr: You needed \$3,500,000,000, don't we?

Mr. Sullivan: That's right.

HM, Jr:  $\frac{1}{2}$ ¢ gives us \$127,000,000 more?

Mr. Sullivan: That's right.

HM, Jr: Does it? No. Yes.

Where are you going to get the other 3 or 400 million?

Mr. Sullivan: I thought we were going to discuss the liquor question.

HM, Jr: Not today.

Mr. Sullivan: We have another \$190 million, another \$220 million -- \$192 million, increase of a dollar a barrel on beer and a dollar a barrel on liquor.

HM, Jr: No. Haven't you got some other place to go?

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HM, Jr: How much extra do corporations pay?  
\$900,000,000?

Mr. Sullivan: That's right.

Mr. Blough: It went up \$900,000,000 because these are separate estimates and when they are combined one tax affects the base of the other. It won't be that high. Of course, there are ways of making that considerably more.

HM, Jr: Have you got any suggestions?

Mr. Sullivan: Yes. Yes, we have a number of them. In the first place, there are two things I think I should bring to your attention. If these taxes that appear on this page were passed tomorrow, we would not get \$3,000,000,000 in Fiscal '42.

HM, Jr: I know.

Mr. Sullivan: That may be ample justification for our asking for a great deal more than \$3 billions and letting them whittle it down.

HM, Jr: That's right.

Mr. Blough: We have income tax schedules that will give us \$1,736,000,000,000.

HM, Jr: That fellow back there (Mr. Tarleau) is getting nervous.

Mr. Sullivan: There will be a lot of people get nervous.

Mr. Tarleau: That's worth studying, that \$1 billion 7.

Dr. Haas: I told John to take it out at the source.

Mr. Sullivan: I can show you how that operation is performed.

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HM, Jr: I want my two-thirds. Haven't you got some other excise taxes you can stick in there?

Mr. Blough: Yes, Mr. Secretary. Give us a little more time to hunt. It isn't as easy as it may appear.

HM, Jr: I don't see why you might not put 2¢ more on gasoline.

Mr. Blough: And of course any of these can be increased higher.

HM, Jr: I want to go before the President with 3½ billions. That's the figure you gave me, isn't it?

Mr. Sullivan: That's right.

HM, Jr: I want to go before him with 3½.

Mr. Sullivan: (To Dr. Haas) Has Al done any more work on the excess profits?

Dr. Haas: They are working on it now.

HM, Jr: When I go before the President I want to be able to say, "We said two-thirds. Here it is. This is the way to get it." How much more would this give?

Mr. Sullivan: Very nearly \$600,000,000.

HM, Jr: This would do it, wouldn't it?

Mr. Sullivan: You bet it would. That would do a lot of things, that one.

HM, Jr: What's the matter with this one? This does not look so bad. Why won't this one do it? You need that much?

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Mr. Sullivan: No, not quite.

HM, Jr: I will tell you what I would do. I would suggest 2¢ on gasoline. See. And then can you jack up corporations any?

Mr. Sullivan: 2¢ on gasoline will give us an additional \$350,000,000.

HM, Jr: Then you need another \$140,000,000.

HM, Jr: Would you take it out of the incomes or out of the corporations?

Mr. Blough: Can do it either way. There are a variety of things that could be done to income taxes to increase its yield.

HM, Jr: Well, think it over.

Mr. Sullivan: All right.

HM, Jr: I don't see why gasoline isn't a perfectly good thing to tax. It goes with the automobiles. It's a luxury thing.

Mr. Blough: In part. A great deal of gasoline goes into business use and will enter into the cost of business.

HM, Jr: How much is the gasoline tax now?

Mr. Sullivan: Taxed 4¢ average by States and the Federal Government imposes 1½¢. It was 1¢ until last year and we raised it ½¢. We recommended 1¢ increase.

HM, Jr: Let's say 2¢. And then come back. Maybe you have a schedule in between this one. Got another?

Mr. Sullivan: We don't.

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HM, Jr: You have got to pick up some money somewhere. I want my  $3\frac{1}{2}$ !

Mr. Sullivan: You will get it.

HM, Jr: How about 11 o'clock tomorrow?

Mr. Sullivan: Fine!

HM, Jr: I will try not to be so late.

And, John, you have to have my statement on how we arrive at  $3\frac{1}{2}$ .

Mr. Sullivan: Statement for whom?

HM, Jr: For the President. How we arrive at the  $3\frac{1}{2}$  billions. He will say, "How do you arrive at  $3\frac{1}{2}$ ." So much expenditure, so much, so much. On the expenditure picture.

Mr. Sullivan: Oh, yes.

You asked to have a letter prepared to be sent to the Governors of States asking them to follow our lead and issue taxable securities. That does not help us very much because our securities are now taxed by our own Government and they can come back and say, "All we have to do is tax our own securities and that will not help you any." But the letter has been prepared along the line of interesting them to help in our program.

HM, Jr: You see, the War Department is in on the taxing of gasoline in Florida and I asked them to put Greenbaum on that and the War Department has done that and Patterson says he will accept anything that Greenbaum says. I am sending out a telegram to the Governors asking them to appoint committees on National Defense bonds. We had better get together. This telegram asking for the committee has to go. Let me get that out



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and then bring it to me again.

Mr. Sullivan: Yes, sir. I will.

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Tax changes aggregating approximately an additional \$3,000 million of revenue 1/

Source	Estimated increase (in millions)
<b>Individual income taxes</b>	
Increase surtax rates by adopting attached rate schedule	\$1,150.7
<b>Estate and gift taxes</b>	
Estate tax changes: (1) reduce exemption to \$25,000;	321.0
(2) adopt the attached estate tax rate schedule;	
(3) reduce insurance exclusion to \$25,000	
Gift tax changes: (1) reduce exemption to \$25,000;	
(2) increase the gift tax rates to three-fourths the rates in the estate tax schedule	
<b>Corporation taxes</b>	
(1) Surtax on normal tax net income, 6%	533.5
(2) Excess profits tax: Reduce the average earnings credit from 95 to 75 percent and the invested capital credit from 8 to 6 percent	370.0
<b>Tobacco</b>	
Cigarettes: Additional 75 cents per 1,000	125.2
Cigars, tobacco and snuff: Double rates	75.6
<b>Other excise taxes</b>	
Soft drinks	132.5
Gasoline	127.7
Admissions (reduce exemptions to 9 cents)	55.0
Automobiles, parts and accessories	78.3
Check tax	56.0
Fires and tubes	43.5*
Telephones, telegraph, cable, radios, etc.	37.0*
Telephone bill	30.0*
Passenger transportation	30.0*
Jewelry	25.0*
Candy, chewing gum	19.0*
Toilet preparations	19.0*
Photographic apparatus, etc.	13.0*
Clocks, watches, etc.	11.0*
Club dues, initiation fees	9.5*
Matches	8.0*
Cabarets	7.5*
Dentifrices, toilet soap, etc.	7.2*
Sporting goods	6.5*
Furs	6.0*
Radio receiving sets	5.0*
Musical instruments	5.0*
Bowling alleys	5.0*
Trunks, suitcases and other luggage	4.0*
Playing cards	2.0*
Safe deposit boxes	2.0*
Summation of items	\$3,320.7 1/2
Less: Allowance for interrelated tax bases (approximate)	320.7
<b>Total</b>	<b>\$3,000.0</b>

Treasury Department, Division of Tax Research April 9, 1941.  
 Only the separate effects of interrelated changes have been taken into account. The extent to which the simultaneous enactment of these changes would reduce the yield of the separate proposals has not been estimated. Estimates for individual income taxes are on basis of calendar year 1941 levels of income; all other estimates are at business levels estimated for the fiscal year 1942.  
 Tentative figure supplied by Bureau of Internal Revenue.

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## Individual surtax rate schedule

\$1,150.7 million without defense tax  
 \$1,261.3 million with defense tax

Surtax net income : (in thousands : of dollars) :	Bracket rate : (percent) :	Total surtax : cumulative :
\$ 0 - 2	10	\$ 200
2 - 4	12	440
4 - 6	14	720
6 - 8	16	1,040
8 - 10	18	1,400
10 - 12	20	1,800
12 - 14	22	2,240
14 - 16	24	2,720
16 - 18	26	3,240
18 - 20	28	3,800
20 - 22	30	4,400
22 - 26	33	5,720
26 - 32	36	7,880
32 - 38	39	10,220
38 - 44	42	12,740
44 - 50	45	15,440
50 - 60	49	20,340
60 - 70	52	25,540
70 - 80	55	31,040
80 - 90	58	36,840
90 - 100	61	42,940
100 - 150	62	73,940
150 - 200	63	105,440
200 - 250	64	137,440
250 - 300	66	170,440
300 - 400	68	238,440
400 - 500	70	308,440
500 - 1,000	72	668,440
1,000 - 2,000	73	1,398,440
2,000 - 5,000	74	3,618,440
Over 5,000	75	-

Treasury Department, Division of Tax Research April 9, 1941

Comparison of surtax schedules  
under present law and proposed Schedule

Surtax net income (\$000)	Bracket rates (percent)		Total surtax cumulative	
	Present law	Proposal	Present law	Proposal
\$ 0 - 2	-	10%	\$ -	\$ 200
2 - 4	-	12	-	440
4 - 6	4%	14	80	720
6 - 8	6	16	200	1,040
8 - 10	8	18	360	1,400
10 - 12	10	20	560	1,800
12 - 14	12	22	800	2,240
14 - 16	15	24	1,100	2,720
16 - 18	18	26	1,460	3,240
18 - 20	21	28	1,880	3,800
20 - 22	24	30	2,360	4,400
22 - 25	27	33	3,170	5,390
25 - 26	27	33	3,440	5,720
26 - 30	30	36	4,640	7,160
30 - 32	30	36	5,240	7,880
32 - 38	33	39	7,220	10,220
38 - 44	36	42	9,380	12,740
44 - 50	40	45	11,780	15,440
50 - 60	44	49	16,180	20,340
60 - 70	47	52	20,880	25,540
70 - 80	50	55	25,880	31,040
80 - 90	53	58	31,180	36,840
90 - 100	56	61	36,780	42,940
100 - 150	58	62	65,780	73,940
150 - 200	60	63	95,780	105,440
200 - 250	62	64	126,780	137,440
250 - 300	64	66	158,780	170,440
300 - 400	66	68	224,780	238,440
400 - 500	68	70	292,780	308,440
500 - 750	70	72	467,780	488,440
750 - 1,000	72	72	647,780	668,440
1,000 - 2,000	73	73	1,377,780	1,398,440
2,000 - 5,000	74	74	3,597,780	3,618,440
Over - 5,000	75	75	-	-

Treasury Department, Division of Tax Research

March 31, 1941

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Comparison of present and proposed individual income taxes  
on net incomes of selected sizes <sup>1/</sup>

Married person - no dependents

Net income: before :	Amount of tax			Effective rates			Increase in tax			
	Personal exemption 2/	Law	Proposed	Present	Without defense tax	With defense tax	Proposed	Amount	Percent	
\$ 2,500	\$ 11	\$ 60	\$ 66	.4%	2.4%	2.6%	49	\$ 55	445.5%	500.0%
3,000	31	128	141	1.0	4.3	4.7	97	110	312.9	354.9
4,000	70	264	290	1.9	6.6	7.3	194	220	277.1	314.5
5,000	110	420	462	2.2	8.4	9.2	310	352	231.9	320.0
6,000	150	576	634	2.5	9.6	10.6	426	484	234.0	322.7
8,000	317	928	1,021	4.0	11.6	12.9	611	704	192.7	222.1
10,000	528	1,320	1,452	5.3	13.2	14.5	792	924	150.0	175.0
12,500	858	1,870	2,057	6.9	15.0	16.5	1,012	1,199	117.9	139.7
15,000	1,258	2,484	2,732	8.4	16.6	18.2	1,226	1,474	97.5	117.2
20,000	2,336	3,904	4,294	11.7	19.5	21.5	1,568	1,958	67.1	85.8
25,000	3,843	5,594	6,153	15.4	22.4	24.6	1,751	2,310	45.6	60.1
50,000	14,128	16,404	18,044	28.3	32.8	36.1	2,276	3,916	16.1	27.7
75,000	27,768	30,054	33,059	37.0	40.1	44.1	2,286	5,291	8.2	19.1
100,000	43,476	45,584	50,142	43.5	45.6	50.1	2,108	6,666	4.9	15.3
500,000	330,156	326,904	344,214	66.0	65.4	68.3	- 3,252	14,058	- 1.0	4.5
1,000,000	717,584	706,864	756,178	71.8	70.7	75.6	- 10,720	13,594	- 1.5	2.6
5,000,000	3,816,548	3,816,324	3,935,142	78.3	76.3	78.7	- 99,724	18,549	- 2.5	.5

Treasury Department, Division of Tax Research

<sup>1/</sup> Under the proposal, the attached surtax rate Schedule is substituted for the present schedule.  
<sup>2/</sup> Maximum earned income assumed.

## Estate and gift tax rate schedule

\$321 million combined effect without defense tax:  
 \$268 million from estate tax and \$33 million from  
 gift tax assuming gift tax rates are equal to  
 three quarters of estate tax rates, the specific  
 exemption under both taxes is reduced from \$40,000  
 to \$25,000 and that the insurance exclusion under  
 the estate tax is reduced from \$40,000 to \$25,000

(Estimated fiscal 1942 business levels)

Net estate after specific exemption (in thousands of dollars)	Bracket rate (Percent)	Cumulative tax on higher amount
\$ 0 - \$ 5	4	\$ 200
5 - 10	8	500
10 - 20	12	1,800
20 - 30	16	3,400
30 - 40	20	5,400
40 - 60	23	10,000
60 - 80	26	15,200
80 - 100	29	21,000
100 - 150	32	37,000
150 - 200	35	54,500
200 - 250	38	73,500
250 - 300	41	94,000
300 - 500	44	182,000
500 - 1,000	47	417,000
1,000 - 2,000	49	907,000
2,000 - 3,000	51	1,417,000
3,000 - 4,000	53	1,947,000
4,000 - 5,000	55	2,497,000
5,000 - 6,000	57	3,067,000
6,000 - 7,000	59	3,657,000
7,000 - 8,000	61	4,267,000
8,000 - 9,000	63	4,897,000
9,000 - 10,000	65	5,547,000
10,000 - 20,000	67	12,247,000
20,000 - 50,000	69	32,947,000
Over - 50,000	70	-

Proposed estate tax rates compared with  
present estate tax rates

Net estate after specific exemption: (in thousands of dollars)		Proposed rates 1/ Bracket rate (percent)		Cumulative tax on higher amount	Present rates 1/ Bracket rate (percent)		Cumulative tax on higher amount	
\$	0 - \$	5	4	\$	200	2	\$	100
	5 -	10	8		600	2		200
	10 -	20	12		1,800	4		600
	20 -	30	16		3,400	6		1,200
	30 -	40	20		5,400	8		2,000
	40 -	60	23		10,000	10 - 12		4,200
	60 -	80	26		15,200	12 - 14		6,800
	80 -	100	29		21,000	14		9,600
	100 -	150	32		37,000	17		18,100
	150 -	200	35		54,500	17		26,600
	200 -	250	38		73,500	20		36,600
	250 -	300	41		94,000	20		46,600
	300 -	500	44		182,000	20 - 23		89,600
	500 -	1,000	47		417,000	23 - 29		222,600
	1,000 -	2,000	49		907,000	32 - 35		557,600
	2,000 -	3,000	51		1,417,000	38 - 41		952,600
	3,000 -	4,000	53		1,947,000	44 - 47		1,407,600
	4,000 -	5,000	55		2,497,000	50 - 53		1,922,600
	5,000 -	6,000	57		3,067,000	56		2,482,600
	6,000 -	7,000	59		3,657,000	59		3,072,600
	7,000 -	8,000	61		4,267,000	61		3,682,600
	8,000 -	9,000	63		4,897,000	63		4,312,600
	9,000 -	10,000	65		5,547,000	65		4,962,600
	10,000 -	20,000	67		12,247,000	67		11,662,600
	20,000 -	50,000	69		32,947,000	69		32,362,600
	Over	50,000	70		-	70		-

Treasury Department, Division of Tax Research

April 9, 1941

1/ Exclusive of temporary defense tax.

Comparison of proposed estate tax with present estate  
tax on net estates (before exemption) of selected  
sizes <sup>1/</sup>

Net estate before exemption (000)	Amount of tax			Effective rate			Increase in tax			
	Present law <sup>2/</sup>	Proposal		Present law	Proposal		Amount		Percent	
		Without defense tax	With defense tax		Without defense tax	With defense tax	Without defense tax	With defense tax	Without defense tax	With defense tax
\$ 50	\$ 220	\$ 2,600	\$ 2,860	0.4%	5.2%	5.7%	\$ 2,380	\$ 2,640	1081.8%	1200.0%
60	660	4,400	4,840	1.1	7.3	8.1	3,740	4,180	566.7	633.3
80	2,200	8,850	9,735	2.8	11.1	12.2	6,650	7,535	302.3	342.5
100	4,620	13,900	15,290	4.6	13.9	15.3	9,280	10,670	200.9	231.0
200	21,780	45,750	50,325	10.9	22.9	25.2	23,970	28,545	110.1	131.1
400	64,460	127,000	139,700	16.1	31.8	34.9	62,540	75,240	97.0	116.7
600	113,740	217,250	238,975	19.0	36.2	39.8	103,510	125,235	91.0	110.1
1,000	232,100	405,250	445,775	23.2	40.5	44.6	173,150	213,675	74.6	92.1
2,000	597,960	894,750	984,225	29.9	44.7	49.2	296,790	386,265	49.6	64.6
4,000	1,527,680	1,933,750	2,127,125	38.2	48.3	53.2	406,070	599,445	26.6	39.2
6,000	2,706,220	3,052,750	3,358,025	45.1	50.9	56.0	346,530	651,805	12.8	24.1
10,000	5,430,260	5,530,750	6,083,825	54.3	55.3	60.8	100,490	653,565	1.9	12.0
20,000	12,799,380	12,230,250	13,453,275	64.0	61.2	67.3	- 569,130	653,895	- 4.4	5.1
40,000	27,978,500	26,029,750	28,632,725	69.9	65.1	71.6	-1,948,750	654,225	- 7.0	2.3
60,000	43,268,060	39,929,500	43,922,450	72.1	66.5	73.2	-3,338,560	654,390	- 7.7	1.5
100,000	74,068,060	67,929,500	74,722,450	74.1	67.9	74.7	-6,138,560	654,390	- 8.3	.9

Treasury Department, Division of Tax Research

April 9, 1941

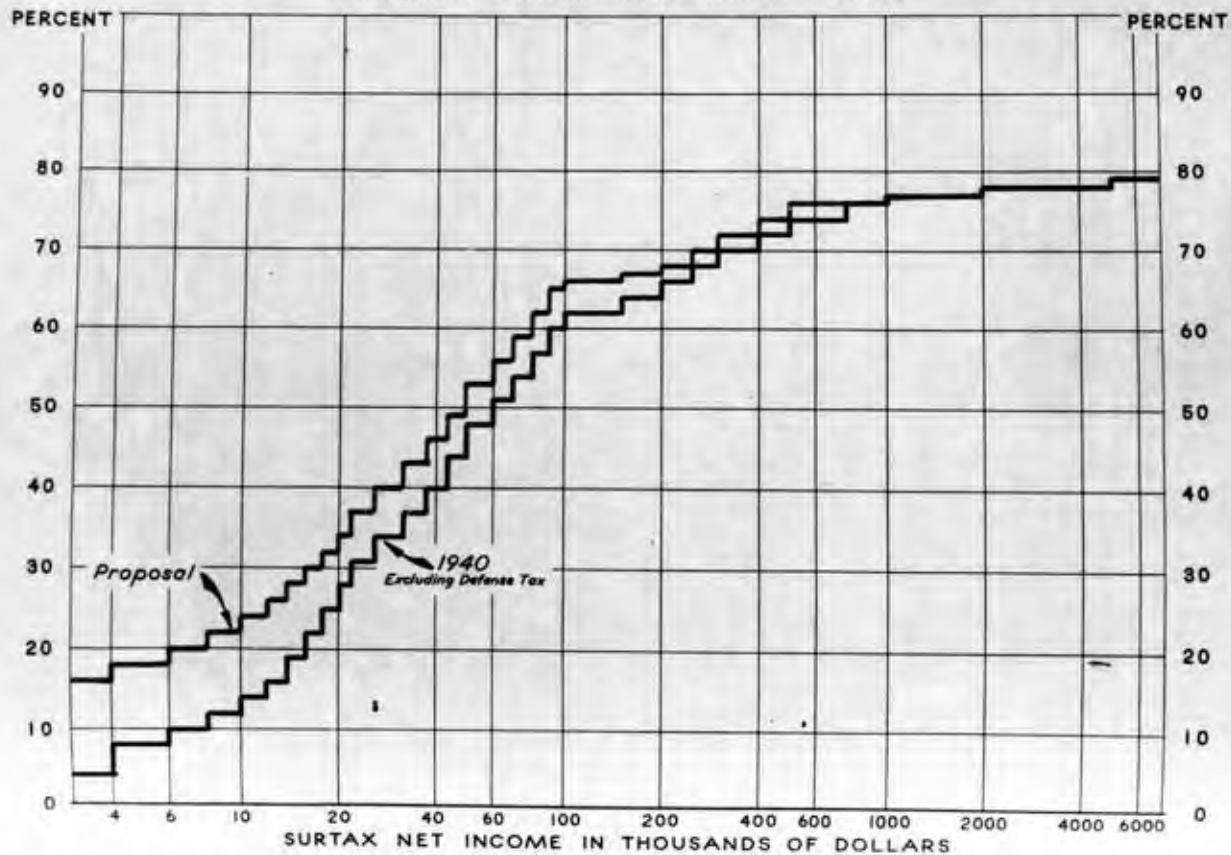
<sup>1/</sup> Under the proposal the attached rate schedule is substituted for the present schedule and the specific exemption is reduced from \$40,000 to \$25,000.

<sup>2/</sup> Includes 10 percent defense tax.



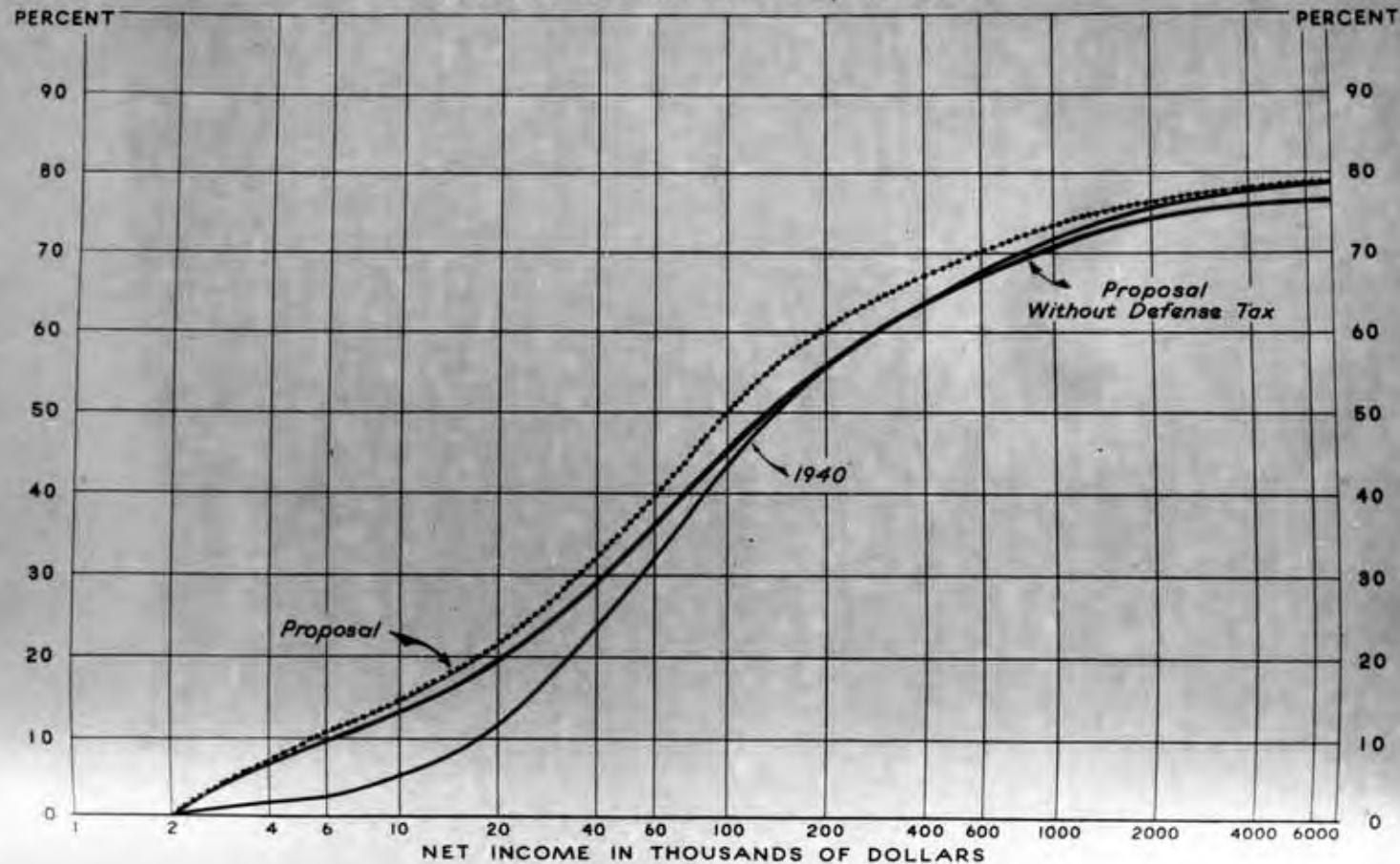
# INDIVIDUAL INCOME TAX RATES 1940 AND PROPOSAL

Combined Normal and Surtax Rates



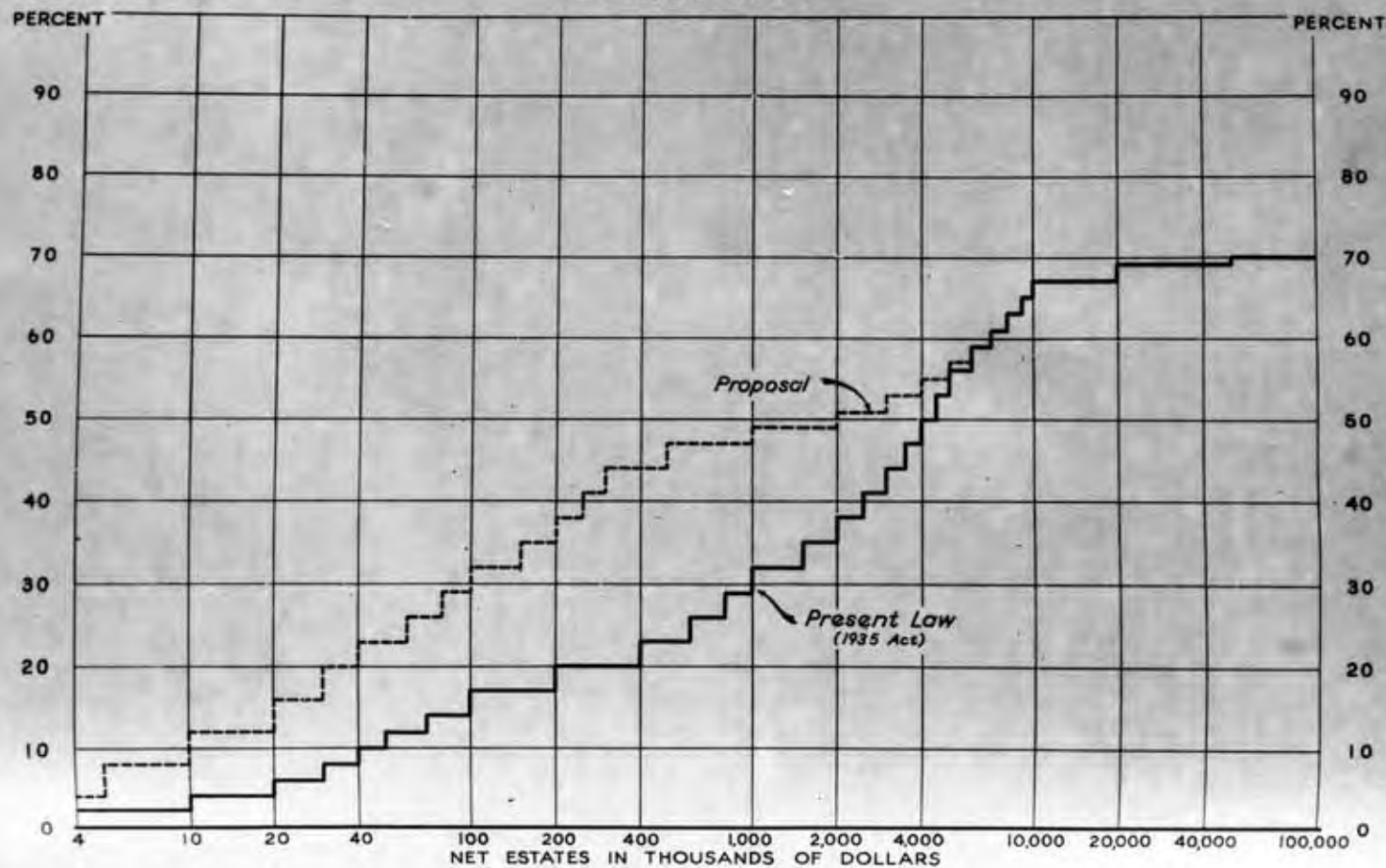
# EFFECTIVE INDIVIDUAL INCOME TAX RATES WITH DEFENSE TAX

Married Person, No Dependents



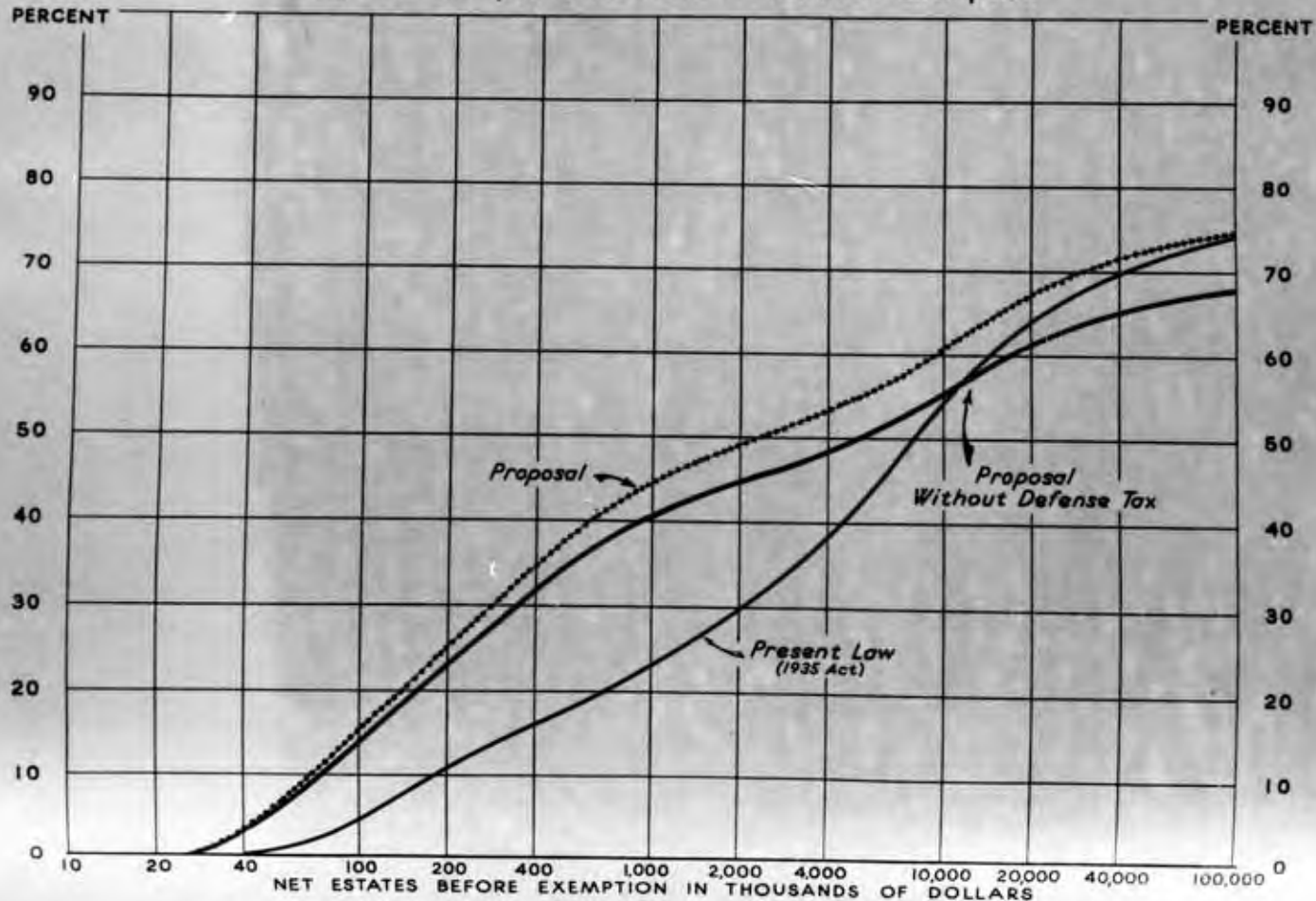
# ESTATE TAX RATES, WITHOUT DEFENSE TAX

## Bracket Rates



# EFFECTIVE ESTATE TAX RATES, WITH DEFENSE TAX

Proposal Computed on Basis of \$25,000 Exemption



List of individuals formerly connected with one of the 100 corporations receiving the greatest volume of defense contracts <sup>1/</sup> and now serving in some capacity with one of the national defense organizations

(Amounts in millions of dollars)

Individual	Defense organization <sup>2/</sup>	Capacity with defense organization		Company with which previously connected	Rank of non-pay-(volume of defense contracts)	Amount of defense contracts
		Division	Position			
1. Hooker, George F.	O.P.M.	Production	Specialist, forgings & castings	Jethlehem Steel Co.	1	1901
2. Kaulosa, Wm. E.	O.P.M.	Director General		General Motors Corp.	2	601
3. Clancy, A. R.	O.P.M.	Production	Chief, Ordnance section	General Motors Corp.		
4. Pratt, John L.	O.P.M.	Production	Member, prod. planning board	General Motors Corp.		
5. Johnson, E. F.	O.P.M.	Production	Chief, aircraft ordnance & tools branch	General Motors Corp.		
6. Collins, Wm. M.	N.D.A.C.	Industrial prod.	Secretary to the Commissioner	General Motors Corp.		
7. Brooks, Geo. A.	N.D.A.C.	Industrial prod.	Legal staff			
8. Warner, Fred C.	N.D.A.C.	Transportation	Consultant on private trucking	General Motors Corp.		
9. Brown, E. D.	N.D.A.C.	Industrial prod.	Asst. chief, aircraft engines section	Ebby Gasoline Corp. <sup>3/</sup>		
10. White, E. J.	N.D.A.C.	Raw materials	Specialist, synthetic textiles	Du Pont	3	509
11. Wright, T. P.	O.P.M.	Production	Asst., aircraft section	Curtiss-Wright	4	425
12. Lombard, A. E.	O.P.M.	Production	Chief, prod. planning unit aircraft section	Curtiss-Wright		
13. Stettinius, Ed. R. Jr.	O.P.M.	Priorities	Director	U. S. Steel	5	382
14. Conover, Wm.	O.P.M.	Labor	Labor consultant	U. S. Steel		
15. East, J. D.	N.D.A.C.	Raw materials	Chief economic statistician	U. S. Steel		
16. Jackson, Roy	N.D.A.C.	Raw materials	Office manager	U. S. Steel		
17. Lynch, E. J.	N.D.A.C.	Raw materials	Asst. to the Commissioner	U. S. Steel		
18. Raynor, Hayden	N.D.A.C.	Raw materials	Asst. to the Commissioner	U. S. Steel		
19. Mead, George J.	O.P.M.	Production	Consultant, aeronautical section	United Aircraft	9	215
20. Kunt, Wesley A.	N.D.A.C.	Industrial prod.	Asst. to chief aircraft structures	United Aircraft		
21. Chapman, E. S.	O.P.M.	Production	Chief, small arms & ammunition	Chrysler Corp.	23	89
22. Cliffe, Frank B.	O.P.M.	Production	Consultant, aluminum & magnesium	General Electric Co.	32	50
23. Reed, F. D.	O.P.M.	Priorities	Consultant	General Electric Co.		
24. Lynga, Carl M.	O.P.M.	Production	Procurement materials, shipbuilding section	General Electric Co.		
25. Vance, E. S.	N.D.A.C.	Industrial prod.	Director, machine tools and heavy ordnance section	Studebaker Corp.	45	34
26. Britton, Mason	N.D.A.C.	Industrial prod.	Asst. director, machine tools and heavy ordnance section	Studebaker Corp.		
27. Deupree, R. R.	O.P.M.	Production	Consultant, agriculture & forest products section	Froster & Gamble	52	28
28. Halcomb, Charles	O.P.M.	Priorities	Asst. group executive, commercial aircraft group	Froster & Gamble		
29. Folsom, Marion B.	N.D.A.C.	Raw materials	Asst. section executive, mining and mineral products	Eastman Kodak Co.	56	26
30. Holden, G. R.	N.D.A.C.	Raw materials	Economic adviser	Eastman Kodak Co.		
31. Stevens, Robert T.	N.D.A.C.	Raw materials	Group executive, textile prod.	J. P. Stevens & Co.	62	23
32. McKernan, J. F.	O.P.M.	Production	Chief, equipment section	Western Electric Co.	63	22
33. Harrison, W. H.	N.D.A.C.	Raw materials	Chief, shipbuilding construction supplies branch	Am. Tel. & Tel.	4/	
34. Laird, E. C. Jr.	O.P.M.	Priorities	Asst. to executive, minerals and metals branch	Am. Tel. & Tel.	4/	
35. Dunn, Joseph V.	O.P.M.	Production	Special adviser, shipbuilding construction & supplies	Am. Tel. & Tel.	4/	
36. Hitchcock, H. W.	O.P.M.	Production	Technical asst., shipbuilding, etc.	Southern Calif. Tel. Co.	5/	
37. Hull, Elmer D.	O.P.M.	Production	Special adviser	Southwestern Bell Tel. Co.	5/	
38. Kahler, Wm. V.	O.P.M.	Production	Special adviser	Illinois Bell Tel. Co.	5/	
39. White, E. S.	O.P.M.	Production	Staff sec. supervisor	New England Tel. & Tel.	5/	
40. Kane, Michael	O.P.M.	Labor	Consultant, training in industry	Am. Tel. & Tel.	4/	
41. Keith, Wayne E.	O.P.M.	Labor	Asst. district representative	New England Tel. & Tel.	5/	
42. McDevitt, C. C.	O.P.M.	Labor	District representative	New England Tel. & Tel.	5/	
43. Hints, J. W.	N.D.A.C.	Labor	Asst. to the director	Western Electric Co.	69	22
44. Thompson, L. S. Jr.	O.P.M.	Labor	Special consultant	Standard Oil Co. of N. J.	71	18
45. Coler, Carl S.	O.P.M.	Labor	District representative	Westinghouse Electric	81	14
46. Osburn, L. E.	O.P.M.	Production	Chief, artillery fire control and optical unit	Westinghouse Electric		
47. Spenser, Frank E.	O.P.M.	Production	Specialist on alloy steel	Crocodile Steel	88	12

<sup>1/</sup> Contracts awarded to Feb. 28, 1941, exclusive of contracts to government arsenals and shipyards. Does not include contracts of less than \$10,000.

<sup>2/</sup> O.P.M.—Office of Production Management. N.D.A.C.—National Defense Advisory Commission. In cases where individual held position with both groups only O.P.M. position was shown.

<sup>3/</sup> Fifty percent of common stock owned by General Motors Corp. and fifty percent by Dow Chemical Company.

<sup>4/</sup> Company is not included among the 100 corporations with largest volume of defense contracts but is parent company of Western Electric Co.

<sup>5/</sup> Company is not included among the 100 corporations with largest volume of defense contracts but is subsidiary of Am. Tel. & Tel.

Comparison of present and proposed individual income taxes on net incomes of selected sizes <sup>1/</sup>

Married persons - no dependents

Net income before personal exemption <sup>2/</sup>	Amount of tax		Effective rates		Increase or decrease in tax under proposal	
	Present law	Proposal <sup>3/</sup>	Present law	Proposal	Amount	Percent
\$ 1,500	\$ -	\$ 64	-	4.3%	\$ 64	
2,000	-	132	-	6.6	132	
2,500	11	200	.4%	8.0	189	1,718.2%
3,000	31	268	1.0	8.9	237	764.5
4,000	70	424	1.8	10.6	354	505.7
5,000	110	580	2.2	11.6	470	427.3
6,000	150	756	2.5	12.6	606	404.0
8,000	317	1,128	4.0	14.1	811	253.8
10,000	528	1,540	5.3	15.4	1,012	191.7
12,500	858	2,110	6.9	16.9	1,252	145.9
15,000	1,258	2,744	8.4	18.3	1,486	118.1
20,000	2,336	4,224	11.7	21.1	1,888	80.8
25,000	3,843	5,964	15.4	23.9	2,121	55.2
50,000	14,128	16,894	28.3	33.8	2,766	19.6
75,000	27,768	30,644	37.0	40.9	2,876	10.4
100,000	43,476	46,234	43.5	46.2	2,758	6.3
500,000	330,156	327,644	66.0	65.5	- 2,512	- .8
1,000,000	717,584	707,624	71.8	70.8	- 9,660	- 1.4
5,000,000	3,916,548	3,817,604	78.3	76.4	-98,944	- 2.5

Treasury Department, Division of Tax Research

March 31, 1941

<sup>1/</sup> Under the proposal personal exemptions are reduced from \$800 to \$500 for a single person and from \$2,000 to \$1,000 for a married person, and the attached surtax rate schedule "A" is substituted for present schedule.

<sup>2/</sup> Maximum earned income assumed.

<sup>3/</sup> Without 10 percent defense tax.

April 9, 1941  
11:41 a.m.

Leo  
Crowley: ..... up at the White House right now  
just trying to do a little work for Wisconsin.

H.M.Jr: Can you talk a minute?

C: Sure.

H.M.Jr: Or as Eccles would say, "Can you listen a  
minute?"

C: That's right. (Laughs).

H.M.Jr: I wanted to let you know that I called up  
Carter Glass' office - he isn't there -  
and told Rixey Smith that I was ready to  
go ahead now any time on this bank holding  
thing.

C: Fine.

H.M.Jr: Now, I've got a statement which I prepared  
and I'd like you to go over it and get your  
suggestions.

C: I'd be very happy to do that. Who has it?

H.M.Jr: Foley.

C: May I get in touch with Ed and get it?

H.M.Jr: I wish you would and then we're counting on  
you and Delano also to go up along at the  
same time.

C: That's perfectly all right.

H.M.Jr: Now Delano's preparing a statement which  
he's going to show me and I'm sure he'd be  
glad to show it to you.

C: Fine. Well, we'll go right along, we know  
the picture and you know what we'll do with  
it.

H.M.Jr: Well, would you be ready next week?

- 2 -

C: Any time that they're ready. See, we've got our old charts and everything from years ago, don't you know.

H.M.Jr: Now, Leo, I think it would be just - hello?

C: Hello.

H.M.Jr: ..... just as wise .....

Operator: Hello.

C: Wait a minute, operator.

H.M.Jr: I think it'd be just as wise if this didn't get out any too soon.

C: That's right. That's right. I'll be glad to get in touch with Ed and go over it so that I get a cue from your testimony too.

H.M.Jr: And I'd like your advice on it.

C: Fine and dandy.

H.M.Jr: Thank you.



April 9, 1941  
2:14 p.m.

H.M.Jr: Hello.

Operator: Mr. Foley.

H.M.Jr: Ed.

Ed Foley: Yes, Mr. Secretary.

H.M.Jr: Can somebody listen to my conversation with you? I want to give you some ideas.

F: Right now?

H.M.Jr: Is it possible? Oh, I can give it to you. You'll get it.

F: All right. In

H.M.Jr: In this thing that we talked about on the bank holding, there is this point which was not included, that the way of American life - a bank which is controlled in its community is just that much more wholesome an institution along the same lines that we encourage people to own their own homes.

F: Yeah.

H.M.Jr: And I don't think that that was stressed, that the importance of having a community controlled bank as against the bank which has remote control.

F: Right. Absentee management.

H.M.Jr: That was not stressed.

F: No, and we discussed that when we came out and we're going to put something in on that.

H.M.Jr: Now, that's No. 1. No. 2, where there are more banks in a community to give competition, there is more chance to get a loan. That's going to interest the man on the street. If you've got four banks in a community, you can go around and shop and the chances of getting a loan are just about four times as good as when there is only one bank.

-2-

F: Yeah.

H.M.Jr: And that this whole tendency towards less banks - I mean, it's all right up to a certain point but I think we should stress that. A fellow says why sure, in my community when we had three banks I used to be able to get a loan; they took an interest in me.

F: Yeah.

H.M.Jr: Local management, I knew the fellow, I saw him at night, I played pool with him and bowled with him and .....

F: And if you've got a pretty good account, you can take it out of the bank that won't give you a loan and go around and give it to the fellow that will.

H.M.Jr: And that wasn't stressed. Those two things.

F: All right.

H.M.Jr: Don't you think they sound good?

F: Yeah, they're both good and they ought to be in there. O.K, thanks.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 9, 1942

TO Secretary Morgenstern

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Sir Frederick Phillips, Sir Edward Peacock and Mr. F. J. Darlyle Gifford were luncheon guests of the Secretary at 1 p.m. today in the Treasury. Messrs. Walter Stewart, Harry White and Merle Cochran also were present. The Secretary's invitation to the British visitors had resulted from his desire to let them bring him to date with respect to their problems, and particularly as a result of an expressed wish on the part of Sir Edward Peacock to acquaint the Secretary with particular questions which have arisen in connection with the liquidation of British direct investments in the United States.

Secretary Morgenstern opened the business part of the conversation by inquiring of Mr. Gifford how the sale of securities was progressing. Mr. Gifford replied that everything was moving satisfactorily. The Secretary observed that the liquidation had been proceeding at a good pace. In answer to his further query as to whether Gifford thought the market was being pressed too heavily at the current rate of sale, the latter replied in the negative. He thought the market had been able to absorb with facility and without injury to its sales which the British had made. He said that his sales had even caused a fillip to the market along in February. At that time a Kress distribution had gone poorly and one or two proposed distributions, including that of Republic Steel, had been called off because of the unpropitious market atmosphere. When Gifford then successfully launched the distribution of \$11,500,000 of common stock of United States Steel, this gave renewed confidence to the market. He remarked, however, that there were some weeks, such as the present one, in which little progress could be made. The principal cause of his hesitancy to offer many securities this week resulted from the fact that there was one very large private financing operation scheduled. The Secretary added that the war developments of the past two days might also have added to the undesirability of being active just at present. He reminded Mr. Gifford that in a similar situation some weeks ago he had counseled that Gifford go lightly with the market. Gifford confirmed this and added that there had been no pressure whatever on the Secretary's part in connection with the liquidation program which is now being followed. Mills Gifford was pleased with the way the market has been receiving his offerings, he admitted that had news from the British front might easily worsen the market. He also remarked that the decline in the Dow Jones average, which the Luncheon group thought reflected market hopes rather accurately, might also indicate a forced let up in liquidation.

The Secretary then turned to Sir Edward Peacock and asked if he could have the inside story of the Viscose transaction, since he had received various accounts thereof, but nothing directly from Sir Edward. Peacock explained that this had been a very special transaction. Since this appeared to be the best choice of an investment to commence the liquidation, he had already been examining the prospects when word came from the Secretary that there should be some concrete result reported within a certain

- 2 -

period. Sir Edward had then gotten in touch with two concerns which could most appropriately take the lead. These two concerns, in turn, had been obliged to call in some twenty other firms to help with the transaction. The plan which was followed, and for the origin of which idea Sir Edward gave the Secretary credit, was that of requiring a certain down payment, with the balance to be paid after a more thorough investigation and the distribution had been consummated. In the present instance the down payment, which is to be made tomorrow, amounts to \$40,000,000, less a deduction for certain expenses and a 5 percent commission. To the extent that the final proceeds go beyond \$40,000,000, 90 percent thereof will go to the British Treasury and 10 percent to the American banking group.

In answer to the Secretary's inquiry as to whether the bankers' charges were high, Messrs. Peacock and Gifford replied that they did not feel that they were excessive in the circumstances. They pointed out that when it came to the point of clearing the transaction in a specified period of from fourteen to eighteen hours, terms had to be offered which would be accepted without argument or without necessity of reference to absent partners, etc. The transaction was of a most exceptional nature, and there is no scale of charges established for such an operation. The two British agents were positive that in any circumstances a charge of 9 percent would have been absolutely necessary, and that the possible range would have been from 9 to 10 percent.

Sir Edward confirmed that this transaction definitely passes control to United States interests, except for the 5 percent retained by the British parent concern. The latter had hoped to retain 10 percent, but Peacock had pushed this down to 5 percent in fear that there should be no question whatever as to the actual transfer to American control. In this connection he complimented highly the attitude of the Viscose officials concerned. In answer to the Secretary's inquiry as to how much he expects eventually to receive from Viscose, Sir Edward replied that this was difficult to establish but that he is at present bringing all the pressure he can to obtain the highest possible return, and expects the total price to range between \$70,000,000 and \$85,000,000. He believes that this will be a satisfactory return. On the other hand, he felt that if a complete cash sale had been necessitated such a thing would either have been absolutely impossible, or would not have resulted in a price much beyond the \$40,000,000 now received as the down payment under the other scheme. The firms which have taken a part of the Viscose distribution have in some cases remarked that they are happy to go into this, but might have to think a while before entering a second operation, and definitely would not be in a position to participate in a third. That is, banks in this country apparently have plenty of liquid capital, but the investment concerns such as those handling the Viscose transaction do not carry enough cash on hand for such important transactions, and are obliged themselves to borrow.

The Secretary then referred to the message which he had given Sir Frederick Phillips to the effect that he had approved the idea when Mr. Jesse Jones had told the Secretary that the Brown and Williamson people had been seeing him some days ago and that the American management desired an R. F. C. loan sufficient to permit them to buy out the British interest in their concern. Peacock thanked the Secretary for this message. He said that he had received a letter from the Brown and Williamson people which indicated that Mr. Jones was willing to go ahead with the loan. The Secretary felt that this could not be considered definitely a commitment since Mr. Jones was still to see him tomorrow

At this point and that Mr. Jones would undoubtedly not make a final commitment without having consulted the Secretary thereon. At the Secretary's request, Sir Edward described the proposed transaction in some detail, reading a few excerpts from the letter from Brown and Williamson which he had in his pocket. He and Gifford, as well as Phillips, agreed that the proposition was not at all clear and needed considerable investigation. It was explained that the proposal was for the American management to borrow \$35,000,000 from the E. F. O., of which \$15,000,000 would be utilized to pay off bank loans and notes, and the balance of \$20,000,000 to go to the British Treasury. The information was developed, however, that this transaction would not involve a transfer of control from the British group to the American management. The proposal seemed to be somewhat of the character of that originally discussed with respect to Viscose, the difference being that Morgan and Company would have given a loan of \$50,000,000 against Viscose, whereas the present loan of \$35,000,000 would be given by the E. F. O. against Brown and Williamson.

Discussing Brown and Williamson, Sir Edward made the point that this company had done exceedingly well through having a splendid management which enabled it to prosper in spite of the close competition which exists in the tobacco industry. He had the feeling that at least the two top men in this organization would drop out if control changed. It present this concern is curbing some 200,000,000 pounds of tobacco. In this connection, Mr. Edward raised the basic question as to whether the Secretary definitely insisted that British direct investments should actually be liquidated. That is, would the Secretary be satisfied if practically the same amount of dollar exchange could be made available to the British Treasury through a loan against the assets of the concern in question as from a liquidation thereof. Mr. Horganthen replied that this was a very important point (policy which he would necessarily have to think over, and upon which he could give no final judgment. At this point the Secretary was obliged to leave the group, with the understanding that they would continue to discuss any further points which the British desired to raise.

Before leaving, he thanked the visitors warmly for coming in, and emphasized to Messrs. Peacock and Gifford that they should feel free to call on him whenever they have any questions, and that such a long period of time should not be permitted to lapse between visits hereafter.

The following notes cover the points dealt with after the Secretary retired from the meeting. For his convenience these points are arranged under topical headings.

In approaching the various categories of investments which he has to handle, Sir Edward Peacock pointed out that the Viscose had been the natural one to take first since it is comparatively simple in make-up, and there had been the pressure to dispose of something substantial within a given time. The Secretary had confirmed the circumstances, pointing out that he had not been able to go before Congress and give testimony on the appropriation phase of the Lease Lend arrangement in the absence of concrete results in the British liquidation program. The sale of Viscose had come at a very opportune moment and the publicity which had been given thereto had been exceptionally good and well handled. On this point, Sir Edward explained that he and Harold Stanley had actually seen the press people but that a Morgan man had been chiefly responsible for working out the publicity. Sir Edward added that the other concerns which he had chosen to work on in sequence were the larger industrial ones. He had, however, learned since his arrival that two of those from which most important returns could have been expected are side of his control due to their status of Dutch ownership. These are Mayer Brothers and Dutch-Shell. There remain a few comparatively large industrial concerns on his list.

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SIZE LIMIT FOR TRANSACTIONS

Considering the large amount of work involved in having expert accountants and engineers investigate concerns and properties which are to be liquidated, Sir Edward raised the question as to whether it might not be advisable to consider dealing with properties of a certain minimum market value. He thought that some minimum could be determined below which the work and difficulties involved would be so great as to negate the advantages of endeavoring to liquidate. He had no definite minimum limit in mind, but took the level of \$500,000 as an example. He thought it would be a great relief to the concerns involved if it could be let known that there is no plan contemplated for the disposal by the British of concerns having a value below the fixed minimum. At present, he said there was much nervousness on the part of all British-controlled concerns in this country, with some of them losing business, and others losing employees, particularly skilled labor, to war industries and other establishments offering more permanent or attractive employment.

CONCERNS DEPENDING ON FUNDS RAISED IN ENGLAND

Sir Edward set forth the problem involved in trying to dispose of a branch or agency in this country, such as one handling the sale of rubber, which depended entirely upon the parent concern in London raising the credit therefor. He felt that if the American concern was detached from the English parent which raised the credit, there would be little liquidating value.

COMPANIES WITH VALUABLE TRADE MARKS AND GOOD WILL

As another category of difficult concerns to deal with, Peacock reported that there were certain concerns which if detached from the British parents might retain their present names and compete disastrously on the world market with the British parent concerns, especially where a world organization is involved.

PERSONAL REPRESENTATIVE

As another category, Peacock mentioned an individual in New York with a splendid business reputation and standing who together with British Metals constitutes the American part of the parent British concern. Much of the value of this establishment consists of the American's personal standing. How could such a business be easily liquidated?

SCIENTIFIC RESEARCH

Sir Edward mentioned Burroughs and Wellcome as an old established British concern making high-class pharmaceuticals which devotes an important part of its profits to scientific research in the matter of developing drugs of a benefit to humanity. Would the American Government insist upon the liquidation in the United States of the American part of this organization which shares in the research work of the parent concern?

FAMILY CONNECTIONS

Sir Edward Peacock cited one instance in which a business has been carried on by two generations of two families, one British and the other American. The relationship between these two families has been so close over successive generations that the

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children in the American family are given the names of the British family and vice-versa. Is it to the advantage of anyone that such connections be interrupted?

#### PUBLISHERS

Difficulty would also be experienced in liquidating such publishing concerns as Macmillan and Company and the Oxford Press. The risk would be taken of German or other undesirable interests buying out Macmillan's and perhaps utilizing their newly-acquired interest for disseminating propaganda or policies inimical to Great Britain. Should such an educational setup as the Oxford Press be required to pass from British control?

#### INSURANCE COMPANIES

Peacock admitted that he had put insurance companies at the bottom of his list since exceptional difficulties would be involved in disposing of them. There are some forty British concerns operating in the United States. It would be absolutely impossible to dispose of all of these in a comparatively short period of time, even if this were found desirable. The British have depended upon three sources of invisible income items: (1) Shipping; (2) Finance and (3) Insurance. The first two are now practically nonexistent with war conditions and the British exchange control. The third would suffer heavily if liquidation of the American affiliates of British insurance companies is carried out. Not only would Great Britain lose the income from the insurance business, but would also lose certain foreign trade and other advantages which their insurance agents are able to bring them. Peacock emphasized the degree to which insurance is a matter of agents, rather than of parent concerns. That is, the agent attracts the business largely because of his own standing and connections and the individual is not particular as to the choice of the insuring firm. Peacock feels that if liquidation were forced agents of some of the British concerns might leave in a group and procure new backing with the result that a skeleton would be left which had little value. If the policy of permitting loans against the assets of British concerns, rather than requiring definite liquidation, is found acceptable by the Secretary, something could be more easily done with the insurance companies, either through their borrowing on their individual credit, or under an omnibus scheme. Peacock thought that the first alternative of individual borrowing would be preferable.

#### COMPLICATED SETUPS

As another instance of difficult cases, Peacock chose the example of the important British borax concern, which owns half interest in a potash company, which in turn holds various properties in the United States. He has sent for the head man in the British company to come to the United States to help do something with this concern. There are other instances similarly complicated. At this point Mr. White made the suggestion that it might be practicable not to make any definite statement as to what are the difficult cases, but for the British to proceed with the easier cases and solve the difficult ones as their turn for liquidation arrives.

#### AMERICAN LEGISLATION

Without questioning the fairness of our American laws, Peacock pointed out that they prevented him in many instances from endeavoring to dispose of British concerns to the most likely purchasers, namely, the competing American concerns. If it were not

for our anti-trust laws some of these transactions would be comparatively simple. The mere possibility of new ownership of some of these British controlled concerns, is, however, causing some communities to become worried. For instance, the Mayor of a city has a million-dollar British controlled firm is operating has written in complaining that acquisition of this plant by a competing American concern might result in the closing down of the plant and the loss of this industry to the community. Skilled workmen are joining organizations of this type in view of the risk of their being discharged under conditions that would follow liquidation.

#### AMERICAN TRUST ARRANGEMENTS

Mr. Edward was happy to report that a very generous gesture had been made by the Lutz family with respect to real estate held in trust for them under American trust arrangements. That is, the four members of the Lutz family who are the principal beneficiaries under such arrangements have written to their trustees in the United States offering to have their property liquidated with the understanding that the dollar proceeds go to the British Treasury and they accept sterling. Mr. Edward made the point that the British have no control over such trust funds, but would be naturally delighted if the American trustees may see fit to approve. In this connection Mr. Stewart raised the question and Phillips replied that the arrangement with respect to direct investments is different somewhat from that through which the British Government vents title in marketable securities. Further legislation required with respect to the direct investments is now under consideration.

#### PHILIPPINE RAILWAYS

Mr. Edward raised the question of Philippine railways. Mr. Cochran explained that representatives of White, Weld and Company had called on him again yesterday and he had referred them a second time to the Export Import Bank, since there was no chance of the Rehabilitation Fund helping in the proposed transaction of the Philippine Government raising \$10,000,000 on the American market to purchase from British holders a block of their securities held on the English market. Fenwick said that he would be most representative of anything which the American Government could do to facilitate this transaction. Cochran remarked that he had taken this matter up with the Export Import Bank, following a conversation with Mr. Gifford, and upon the latinal visit of Mr. Kimber of White, Weld and Company to his office. It had been ascertained that there was little likelihood of the Export Import Bank helping in this case unless it could be developed that some sort of import transaction was involved. Mr. Cochran reminded the British guests that White was the Treasury representative on the Export Import Bank Board and was kept advised of conversations with Mr. Gifford and the White Weld representatives. Mr. White doubted whether this transaction could be handled by the Export Import Bank without a proper interpretation of its authority but raised the question as to whether the E.I.O. might not do something.

#### REPORTING SECURITY SALES

In answer to Mr. Cochran's question, Mr. Gifford stated that following his conversation with Mr. Cochran last Saturday he had taken up the matter with J. P. Morgan and Company and it had been arranged that the latter get in touch with the Federal Reserve Bank of New York and give the latter such information with respect to sales of British and American securities as the Federal might require. Mr. Gifford assured



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Mr. Cochran that this did not embarrass him in any way. At 4 o'clock this afternoon Mr. Cochran gave this message to Mr. Knoke with the observation that both Mr. Gifford and Morgan and Company apparently were anxious to meet our requirements, now that any misunderstandings have been cleared up.

CONCLUSION

It was agreed that Mr. Cochran should prepare this memorandum for the Secretary's immediate information and for possible use in connection with his conversation tomorrow with Mr. Jesse Jones, since the British look to the latter to explain to the Secretary the present status of negotiations with Brown and Williamson. The British, in turn, agreed to prepare a detailed memorandum upon the problems which they expounded to the Treasury group today, submitting concrete examples of the problems involved. It was felt that the meeting had been quite helpful in covering considerable ground. The British officials were appreciative of the opportunity for an exchange of views.

A handwritten signature in dark ink, appearing to be 'B. W. S.', is centered on the page below the main text.

April 9, 1941  
3:23 p.m.

H.M.Jr: .....Gifford and Phillips and they don't know an awful lot and I told them that I was going to hear from you tomorrow, and they said as soon as I heard from you, they'd like very much to hear from me.

Secretary Jones: I see.

H.M.Jr: The main thing though was that they told me - I asked them point-blank had they put any pressure on Brown and Williamson and they said absolutely not, and this story that they told them that they had to close last Friday just wasn't so and that they had not put any particular pressure on them. They had a letter from their lawyer, Colonel Hartfield intimating that - saying that they could borrow \$35 million from you.

J: Yeah. I haven't agreed with them on any figures but I've discussed it. They were talking about a substantially higher figure.

H.M.Jr: I see. Now what they were going to do was to see what - they may start to make inquiries what they think the company is worth if they sold it outright.

J: Yeah.

H.M.Jr: But I'll wait until I hear from you.

J: All right. Now, are you going to be in Friday?

H.M.Jr: I'll be here Friday forenoon.

J: Well, now tomorrow being Cabinet day I might not be ready.

H.M.Jr: Well, do you want to set a time for Friday forenoon now?

J: Yes, I'd like to.

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H.M.Jr: Because I get booked up fairly solid. I don't know, I haven't talked to my wife, but I thought maybe Good Friday as a good Jew I ought to go away.

J: O.K. I think it's all right.

H.M.Jr: I mean Friday afternoon.

J: That's all right.

H.M.Jr: How about 10:45?

J: That'll be all right for me.

H.M.Jr: Jesse Jones, 10:45. Thank you.

J: O.K.

April 9, 1941  
4:00 p.m.

H.M.Jr: Hello.

Operator: Major Smith.

Major  
Smith: Yes, Mr. Secretary. How are you?

H.M.Jr: Fine. Major, I wonder if the War Department couldn't give me a little quicker service in that these cables for instance that leave London the 4th, dated the 5th in Washington, I receive them this morning the 9th.

S: Why, yes, Mr. Secretary. I didn't know there was that much delay on them. I haven't been opening them lately.

H.M.Jr: I have this one before me in regard to gasoline. It says London, filed the 4th, received at the War Department 11:40 the 5th, and I got it at 10:44 on the 9th.

S: Yes, indeed, Mr. Secretary.

H.M.Jr: That's about the way all of them have been running; that's a little worse though than some. I tell you, I've got cables here received at the War Department on the 7th, I got those today, and if you don't mind my saying it, that's one day longer than necessary.

S: No, we can hurry them over. I think part of that may be if the messenger goes over there and doesn't find - happens to get there when the Aide is not in, why he doesn't leave them; he brings them back. It may be that sometimes our messengers hold them up a day longer too.

H.M.Jr: Would you check up because in these times when things are moving so fast, the cables that you got in in the morning, if I could have them the same day I'd appreciate it.

S: Yes, Mr. Secretary. We can fix that.

H.M.Jr: Thank you very much.

S: You're quite welcome, sir.

TO:

— The Secretary —

4/19/41

President has called  
a conference tomorrow  
for 11<sup>00</sup> to 11<sup>45</sup> am.

Present are to be:

Secy. of State

" of Treasury

" " War

" " Navy

Harry Hopkins.

From: LIEUT. STEPHENS

PS

TREASURY DEPARTMENT  
Washington

FOR IMMEDIATE RELEASE,  
Wednesday, April 9, 1941.

Press Service  
No. 24-51

William F. Green, president of the American Federation of Labor, this afternoon promised Secretary Morgenthau that his organization would put its whole-hearted support behind the sale of Defense Savings Bonds and Stamps. The new bonds and stamps will be ready for distribution and sale on May 1.

Mr. Green said that he intended to issue an endorsement of the Defense Savings program to all the A. F. of L. unions, and through them to their 4,000,000 members. In addition, he offered to distribute pamphlets, posters and other information to all A. F. of L. members, and to include news of the Defense Savings program in A. F. of L. publications. Mr. Green told the Secretary that he considered the financing of the defense program a "noble cause" which would appeal to the workingmen of America.

"Nothing could be finer for national psychology at this time," Mr. Green said to the Secretary. He added that he was sure the A. F. of L. unions would wish to buy Savings Bonds with their union funds and would also encourage their members to buy as individuals.

Secretary Morgenthau assured Mr. Green that none of the pressures exerted by employers on employees during the 1917-1918 Liberty Loan sales would be used in the present Defense Savings effort. The buying of Defense Bonds and Stamps, he said, must be entirely voluntary.

At the end of their fifteen-minute talk, Mr. Morgenthau said that he thought Mr. Green's offer was highly encouraging for the success of the Defense Savings program.

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Today's meeting was the first time that Mr. Green had ever visited any Secretary of the Treasury.

-oOo-

APR 9 1941

My dear Mr. Secretary:

In the sale of Defense Bonds and Stamps to finance the National Defense Program, the support of the farm population is urgently needed.

Our campaign begins May 1, and it would help greatly if on that day you would personally broadcast a message to the farmers.

We would like to have you speak from Washington on the National Farm and Home Hour (Thursday, May 1) for eight or ten minutes. Our staff will gladly suggest the material to be used in the talk.

Will you please let me know whether you could conveniently make this talk for us?

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,

The Secretary of Agriculture.

HNG/mff

CC to Mr. Thompson



Handwritten signature and initials, possibly 'J.K.' or similar, located at the bottom left of the page.

Dispatched from Mr. Gravelle's office



TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE April 9, 1942

Secretary Morgenthau  
Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns      £81,000  
Purchased from commercial concerns    £ 6,000

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

Sold to commercial concerns      £ 3,000  
Purchased from commercial concerns    -0-

There was an improvement in the Cuban peso to 4-7/8% discount, as compared with 5-1/8% yesterday.

In New York, the closing rates for the foreign currencies listed below were as follows:

Canadian dollar	12-7/8% discount
Swiss franc (commercial)	.2322
Swedish krona	.2384
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2325
Brazilian milreis (free)	.0505
Mexican peso	.2066

In Shanghai, the yuan in terms of our currency was quoted at 5-5/16¢, off 1/32¢. Sterling advanced 1-1/2¢ to 3.94-1/2.

There were no gold transactions consummated by us today.

The State Department forwarded a cable to us stating that the Chase Bank, Hongkong, shipped \$1,518,000 in gold from Hongkong to the Chase National Bank, San Francisco. We have been informed that the gold was shipped for account of the Central Bank of China. A similar shipment, valued at \$628,000, was reported by us on March 24, and we have since learned that the consignment is to be changed to the Federal Reserve Bank of New York. Instead of being sold to the San Francisco Mint, as originally reported, the latter gold will be melted and refined by the Mint, and in accordance with arrangements made, the New York Assay Office will deliver an equivalent amount of gold to the Federal Reserve Bank of New York, to be earmarked for account of the Central Bank of China. It is likely that the shipment of \$1,518,000 will be handled in similar fashion on its arrival in San Francisco.

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We were informed that the Bombay gold price for April 5 was equivalent to \$34.68, representing a decline of 63¢ from the quotation of March 29. Silver was equivalent to 44.41¢ on April 5, off 7/16¢. According to a cable received from Bombay, the decline in the silver quotation was due primarily to sales against imports from America. In this connection, it is interesting to note that the Bureau of Foreign and Domestic Commerce reported on April 8 that four shipments of refined silver bullion, containing a total of 1,572,000 ounces, had been made from New York to Bombay.

In London, a price of 23-1/2d was again fixed for spot silver. The forward quotation was 23-7/16d, off 1/16d. The U.S. equivalents were 42.67¢ and 42.56¢ respectively.

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

We made one purchase of silver amounting to 150,000 ounces under the Silver Purchase Act. This consisted of new production from foreign countries, for forward delivery.



CONFIDENTIAL

Treasury Department  
Division of Monetary Research

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Date April 10, 19<sup>41</sup>

To: Secretary Morgenthau

The appended memorandum was prepared mainly to straighten out our own records of Belgian gold holdings. Perhaps its most puzzling conclusion is this:

The \$260 million of gold which the Belgians are claiming from French earmarkings in this country is more than they are known to have transferred to the French and, added to the amounts they have in the United States and in the custody of the British, would bring their total gold holdings to about \$775 million. This is about \$25 million more than they are known to have had all together.

*HDW*

MR. WHITE  
Branch 2058 - 210

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE April 9, 1941.

TO Mr. White  
 FROM Mr. Felsenthal  
 Subject: Belgian Gold Holdings

## I.

Belgian gold holdings as reported by various sources total between \$700 million and \$751 million. An unknown portion of Belgian gold deposited with the French Government at Dakar, French West Africa, has been turned over to the Germans. The total of \$700 million to \$751 million does not take transfers from Dakar to the Germans into account.

The distribution of the gold holdings as reported by three different sources is given in the following table. Allowance must be made for discrepancies in this table because of slight differences in the points of time for which the data have been taken.

	Federal Reserve Bank	British Embassy	National Bank of <u>1/</u> Belgium
	(In millions of dollars)		
Gold held in U.S. (earmark)	167	168	
Gold held in England		348	
Gold held in Dakar		<u>184</u>	
Total	734	700	734
Special Fund of the Belgian Treasury	<u>17</u>		
Total	751		734

Belgian gold claims against France according to our information amount to roughly \$223 million at present. This would be \$37 million less than reported Belgian gold claims against France. It was reported in the New York Times article of February 6 that the exiled Belgian Government has put its gold claims against France at \$260 million. According to the New York Times story from London under a March 22, 1941, date line, the Belgian claims against France were about \$233 million. This figure would come closer to our estimates.

1/ The "gold-exchange rate" of 1 belga = \$0.1695 is used for all figures given in belgas. This exchange rate was the official conversion rate between April 1936 and December 1939. Cable transfer quotations in New York were somewhat lower (1 belga = \$0.1674) on the latest available date, May 1940. Source: Federal Reserve Bulletin, September 1940 and March 1941.

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## II.

Information on Belgian Gold Holdings

1. Summary of weekly statement of National Bank of Belgium of June 25, 1940 (reprinted in Monatsbericht, Schweizerische Nationalbank No. 12, Dec. 15, 1940, p.44). Gold, foreign exchange and gold-values (Or, devises etrangeres at valeurs-or).

In million belgas	4,423
In million dollars	<u>750</u>

The same statement is reprinted in the Monthly Bulletin of Statistics of the League of Nations, Vol. XXI, No. 9, Sept. 1940, p. 330.

2. Federal Reserve Bulletin, Jan. 1941.

Since June 1940 (In millions of dollars)

Gold and foreign exchange	734
Treasury gold fund	<u>17</u>
(total)	<u>751</u>

3. Weekly report of the Federal Reserve Bank of New York, Jan. 29, 1941.

Belgian gold under earmark \$166.8 million

4. Memorandum of Mr. Pinsent of the British Embassy to Mr. Cochran, Nov. 25, 1940 (U. K. Gold files).

Million £      Millions of dollars      1/

Gold in custody of		
Bank of England	87	348
Earmarked in the U.S.A.	42	168
At Dakar	46	184
(total)	<u>175</u>	<u>700</u>

5. Various other sources, particularly cables and consular reports, contained the following information on Belgian gold:

- (a) Nov. 2, 1940. Financial Counselor of the British Embassy reports that the Belgian Minister of Finance has told British officials that the Belgian gold holdings at Dakar amount to \$184 million.

1/ Exchange rate: £ 1 = \$4

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- (b) Nov. 6, 1940. The American Consul at Dakar cabled that 1,500 kilos of gold were shipped by air from Dakar to Marseilles (approximately \$1.848 million).

Whether this gold was a part of the Belgian or other gold holdings is not stated.

- (c) Nov. 24, 1940. The American Consul at Dakar reports that 4,994 cases of gold belonging to the Belgian Central Bank were removed from Dakar.
- (d) Nov. 25, 1940. The American Embassy at Vichy, France, cabled the content of an interview with Rueff in which he mentioned that the Germans have demanded surrender of the Belgian gold now at Dakar.
- (e) Dec. 28, 1940. The American Embassy at Vichy, France, cabled that the French authorities gave consent to turn over to the Germans the Belgian gold holdings at Dakar provided the transaction was approved by the National Bank of Belgium, which has however refused consent. The French then agreed to deliver the Belgian gold at Dakar to the Germans without the approval of the Bank of Belgium.

In the same cable the former counselor of the Belgian Embassy at Paris is reported to have stated that the Belgian gold at Dakar representing the total gold stock at Brussels at the time of invasion amounted to about 7 billion Belgian francs (\$237 million).

- (f) Jan. 2, 1941. American Embassy at Vichy, France, cable. Couve de Murville, head of the foreign financial services of the French Treasury stated that the Belgian gold formerly at Dakar and now being turned over to Germany had a total value of about 8 billion French francs (\$189 million).
- (g) Jan. 28, 1941. American Embassy at Vichy, France, cable. Belgian gold worth 8 billion French francs (\$189 million) was shipped to Dakar in the Spring of 1940. Most of it is still in North Africa. The French have deliberately slowed down deliveries to Germany.

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- (h) Jan. 31, 1941. American Embassy at Vichy, France, cable. A French commercial pilot stated that he had flown part of the Belgian gold to France, from Oran to Marseilles. The Germans have received 150 million French francs (approximately \$3½ million).

## III.

The Federal Reserve Board's figures on the Belgian gold holdings are based on the report of Governor Janssen of the National Bank of Belgium in the half-yearly balance sheet of the Bank, issued June 25, 1940, summarized in the B. I. S. Press Review of September 9, 1940. The B. I. S. review is based on a Frankfurter Zeitung article of September 6, 1940.

In the report, Governor Janssen gives the following figures:

	Million Belgian francs	Million Dollars
Belgian gold held abroad	24,350	734

If the gold held in the Special Treasury Fund of \$17 million which Governor Janssen does not mention, is added to the \$734 million, the total would be in accord with the previously given figures. Whether or not the Treasury fund can be added, cannot be determined at this time because of lack of information.

Between May 8th (the date of the prior statement of the Bank) and June 25, gold worth 1,487 million Belgian francs had been given to the Bank of France for the exchange of Belgian against French bank-notes, presumably brought in by Belgian refugees in France. B F 452 million worth of gold may return to Belgium since the Belgian bank-notes not yet handed over to the Belgian National Bank on June 25th were being used by the Bank of France for re-exchange against French bank-notes. A further item entitled "gold reserves at the Bank of France", amounting to B F 558 million still belonged to the Belgian National Bank. It was intended for the purpose of covering the exchange of Belgian against French bank-notes and any advances which the French Treasury may want to extend to the Belgian Treasury.

In summary, the Bank of France still holds B F 558 million unutilized Belgian gold. The Belgian coins and notes redeemed by the Bank of France but not yet returned to the National Bank of Belgium amount to B F 452 million. They too may at least partly be claimed by the National Bank.

By adding the Dakar holdings to these claims against the Bank of France, the total Belgian claims against France amount to \$223 million, according to our computations.

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## IV.

The latest statistical reports of the Institute International du Commerce of Brussels (January 20, 1941, p. 437) brings the figures on Belgian gold up to date. The gold holdings (encaisse or) of the Banque Nationale de Belgique of January 30, 1941, were belga 4,674 million (= \$792 million). No information has been received which would explain the increment. It is suspected that the Banque Nationale has taken account of the actual devaluation of the belga since the German invasion of Belgium in terms of gold. Such a procedure would increase the belga-value of the gold-holdings. An actual addition to the gold-holdings of the Banque Nationale is very unlikely.



Treasury Department  
Division of Monetary ResearchDate April 10, 1941 19

To: Secretary Morgenthau

From: Mr. White

The British Budget

The new British budget has several interesting features:

1. Two million new income taxpayers are reached by the reduction in the personal allowance from \$680 to \$560 for married persons and from \$400 to \$320 for single, and by the reduction in the earned income allowance from a sixth to a tenth.
2. "Forced saving" is introduced by allowing a post-war credit of up to \$260 on the above increases in the income tax and of 20 percent in excess profit tax net payments.
3. The rate on the first \$660 of taxable income is increased from 25 to 32-1/2 percent, and the so-called "standard" income tax rate is increased from 42-1/2 to 50 percent.
4. Total expenditures are estimated at \$16.8 billion, or about 50 percent of the national income, but do not include payment to us or Lend-Lease advances. Over 80 percent of expenditures will be for war purposes. About 58 percent of expenditures will be borrowed.
5. Government subsidies for stabilizing prices are to be extended from food to fuel, shipping and railroad charges.
6. The monetary front is still quite sound and the gross or average cost of borrowing is 2-1/2 percent and the Chancellor said "we have no intention of borrowing on worse terms".

HBN

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE April 9, 1941

TO Mr. White

FROM Mr. Adler

Subject: The British Budget 1941-2

1. British Budgets 1940-42  
(In millions of dollars at \$4 = £1)

	1940-41 (Actual)	1941-42 (Estimated)	Percentage Increase 1941-2 on 1940-41
Revenue	5,636	7,144	+ 26.8
Expenditure	15,468	16,828	+ 8.8
Deficit	9,832	9,684	- 1.5

2. The expenditures for 1941-2 are not strictly comparable with those of 1940-41, as they do not include either the value of products becoming available under Lend-Lease or payments to the United States under existing orders. With these two items the Chancellor indicated that total expenditures would far exceed \$20 billion. (From April 1940 to March 31, 1941, the B.P.C. will have spent here over \$1.8 billion.) Even without these items they will absorb about 50 percent of the national income.

3. Of the budgeted expenditures of \$16,828 million, \$14 billion, or 83.2 percent, were for strictly war purposes, \$1,740 million, or 10.3 percent for civil purposes, and \$1,088 million, or 6.5 percent, for interest and management of debt. The actual domestic expenditure is estimated at \$14.8 billion, which would leave about \$12 billion of the total \$14 billion of war expenditures to be spent in the United Kingdom itself. The Chancellor rightly indicated that it is the figure of \$14.8 billion of domestic expenditures which is relevant in considering the "inflationary gap". In the first year total domestic expenditures were \$8.22 billion, and in the first half of the second year of war at the annual rate of \$12.76 million.

4. The only major tax changes are in the income tax.

(a) The standard rate is increased from 42-1/2 percent to 50 percent, and the rate on the first \$660 of taxable income from 25 percent to 32-1/2 percent.

(b) Relief for earned income is reduced from one-sixth, with a maximum allowance of \$1000, to one-tenth, with a maximum allowance of \$600.

(c) The personal allowance is reduced from \$680 to \$560 for married persons and from \$400 to \$320 for single, and the exemption limit is reduced from \$480 to \$440.

The changes in (b) and (c) bring in 2 million new taxpayers, and all three changes will produce about \$400 million this year and \$500 million in a full year. Income tax will yield about \$3 billion.

5. The increases in taxation under 4(b) and (c) up to a maximum of \$260 are to be treated as a credit to be available to the taxpayers after the War. In this way the Keynesian proposal for "forced saving" is being introduced, though on a lower scale than Keynes recommended and by a different method. A 20 percent post-war credit on excess profits tax net payments is also allowed (without a maximum limit).

Thus a substantial amount of current income tax receipts represents in fact additional borrowing.

6. As in previous war budgets the estimated expenditures and deficit will probably turn out to be too low, if the war continues.

7. Gross savings yielded \$5.34 billion in 1940-41 and net savings about \$4-1/2 billion. The weekly average of gross savings has increased about 50 percent since the beginning of the savings campaign in November 1939. The rate of saving is now running at about \$6.4 billion per annum and is expected to run at about \$7-1/2 billion for the whole fiscal year. The Chancellor optimistically hopes that the forced saving devices he is using may actually increase voluntary saving.

8. The Chancellor claimed that the monetary front is still quite sound and there is no immediate threat of inflation.

Division of Monetary  
Research

- 3 -

(a) Rates of interest are low and much smaller than in the last war. (In 1916 Treasury Bill rates reached 6 percent -- now they are 1-1/8 percent, lower.) The gross or average cost of borrowing is now 2-1/2 percent, "and we have no intention of borrowing on worse terms."

(b) The Government is controlling prices and raw materials concentrating production, and also using taxation and "forced saving" to curtail civilian consumption.

(c) The Government is spending \$400 million a year to stabilize food prices and will spend more this year to stabilize fuel and shipping prices and probably railroad charges. The aim is to keep the cost of living index down to the present level of 25 to 30 percent above pre-war.

(d) If estimated revenue yields are realized and expenditures not exceeded and savings amount to the optimistic estimate of \$7-1/2 billion, the inflationary gap between revenue and domestic expenditure will have been eliminated.

(Source: Cable No. 1374, London, April 7.)

COMPILED FROM TELEGRAMS RECEIVED FROM A.I.D. INSPECTORS' REPORT ON PRODUCTION PROGRESS AT 4 P.M. EVERY TUESDAY

75

TYPE OF AIRCRAFT	CONTRACT NUMBER	NUMBER ORDERED	CUMULATIVE CONTRACTUAL TOTAL		DELIVERIES FOR WEEK	APPROXIMATE STATUS	REMARKS
			DELV	DELIV			
Ball "Aircobra"	A-218	170	58	-	-	2 1/2 months behind	3 Allison B-4 engines on hand. Deliveries of aircraft directly governed by further engine deliveries. Firm could deliver at 3/day, were engines available, but anticipated engine deliveries unencouraging.
Brewster "Buffalo"	A-71	170	170	127	8	3 months behind	Anticipate 18 deliveries during April. Balance of a/e deliveries dependent upon receipt of engines.
Brewster "Bermuda" 3/0	A-642	450	147	-	-	3 months behind	Subcontract tool program 90% let, but whole program delayed considerably due to late engineering release, and lack of adequate personnel. Anticipate no deliveries before June.
Curtiss-Wright "Tomahawk"	A-84	960	631	680	-	2 weeks ahead	First 680 now complete, with U.S. Army requirements taking April production. Adequate provisioning of embedment loan equipment will permit resumption of deliveries with 5/day rate in May.
Curtiss-Wright "X-12 Hawk"	A-1835	560	12	-	-	1 month behind	
Gruman "Warlock II"	A-1548	100	13	9	-	- - -	9 of 10 fixed wing a/e accepted to date, one fixed wing craft undergoing performance tests. Proctor U.S. Navy folding wing design to fly shortly, now production to follow. Possible 5 in April.
Martin (Glenn) "Hellcat 187"	A-224	400	24	-	-	1 1/2 months behind	Lack of extrusions, castings, and forgings likely to cause serious delay of production A/O. Production aircraft deliveries anticipated 12 in July. One each prototype expected April and May.
Martin (Glenn) "Warland 167"	P-272	150	150	148	3	1 1/2 months behind	Anticipate 2 deliveries next week to complete.
United Aircraft "Cheesecake V 156"	F-229	50	24	3	3	2 months behind	Anticipate 2 to 3 deliveries weekly.
Boeing "B-17-C"	A-5077	20	20	20	-	- - -	3 complete with self-sealing tanks delivered, and 17 balance should be ready for delivery in April.
Boeing "B-14 Flying Boat"	A-967	3	2	1	1	2 weeks behind	Second Flying Boat should be delivered in May, third in June.
Consolidated "Catalina"	F-210	40	12	24	4	2 months ahead	Firm production position on this craft should permit delivery in advance of contractual delivery schedule.
Consolidated "Catalina"	A-37	59	8	12	3	1 month ahead	Same as above
Consolidated "Catalina"	AUS-58	18	4	3	-	3 weeks behind	Anticipated 1/month deliveries for next several months should be maintained.
Consolidated "Liberator I"	F-677	20	20	4	3	1 month behind	Balance of 16 should be delivered in April and May.
Consolidated "Liberator II"	F-877	139	-	-	-	- - -	9 in final assembly and will follow first 20 B-24B diverted from U.S.
Douglas "Bavoc II"	F-294	100	100	77	-	See remarks	Contract complete except for serial numbers AB 431 and AB 463 which are held for test; should be released in April.
Douglas "Boston III"	A-87	300	14	8	8	1 month behind	Rapid acceleration anticipated toward 3/day production.
Lockheed "Hudson V"	A-1749	409	213	160	23	2 months behind	Rapid acceleration toward 4/day output foreseen. Long Range deliveries should begin about 1st of this month.
Lockheed "Hudson III"	A-68	348	157	71*	6**	1 1/2 months behind	First 71 not long range should complete this month. Hudson V current and long range Hudson III will follow resuming in July.
Lockheed "Lightning"	A-242	667	133	-	-	4 1/2 months behind	Anticipate prototype to fly shortly with production deliveries to begin May dependent on receipt of materials, embedment loan equipment, and purchased parts. U.S. Army program for P-38 A/C may seriously affect Lightning deliveries.
Lockheed "Modestor"	A-1451	9	9	8	1	2 weeks behind	One delivery next week should complete contract.
North American "Harvard II"	A-457	125	-	8	8	1 month ahead	Harvard II deliveries will continue against this contract with approximately 16-20 a week, and should complete in May against P-70A will follow along in June after CAE 15 following A-47 complete.
North American "Mustang"	A-250	320	34	-	-	2 1/2 months behind	Production demand now raised to permit delivery as airframes due to non-delivery of Allison F 38 engines. Airframes to be stored pending receipt of engines.

CUMULATIVE CONTRACTUAL TOTAL		DELIVERIES FOR WEEK
DELV	DELIV	
1955	1367	71

- \* 16 Airframes without engines.
- \*\* Engines installed in 6 previously reported airframes.
- Complete Airplanes.
- † One reported in New York. Date of official acceptance uncertain.

*G.W. Miller*  
G.W. Miller  
Director of  
Aircraft Production

CONFIDENTIAL(To Keep You Posted)

April 9, 1941

To: The Secretary

From: Mr. Young

Re: British Aircraft Shipments

Attached herewith is the latest statement of aircraft shipped to the United Kingdom and other points. This statement shows the number of planes which have been received at the assembly points during the past week

P.Y.

## STATEMENT NO. 9

## AIRCRAFT SHIPPED TO U. K. &amp; OVERSEAS COMMANDS

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	By Sea during week ending March 15/41	By Air during week ending April 5/41
CURTISS Tomahawk	Middle East	Alexandria Takoradi	10 63	
CONSOLIDATED Catalina	U. K.	U. K.		7
GLENN MARTIN Maryland I	Middle East	Alexandria Takoradi	6 9	
Lockheed Hudson III	U.K.	U.K. (via Gander)		4
Hudson V	U.K.	U.K.	2	
TOTAL			90	11

British Air Commission  
April 8, 1941

CONFIDENTIAL(To Keep You Posted)

April 9, 1941

To: The Secretary

From: Mr. Young

Re: British Aircraft Shipments

Attached herewith is the latest statement of aircraft shipped to the United Kingdom and other points. This statement shows the number of planes which have been received at the assembly points during the past week.

*DY.*



STATEMENT NO. 9  
AIRCRAFT SHIPPED TO U. K. & OVERSEAS COMMANDS

TYPE	DESTINATION	ASSEMBLY POINT	By Sea during week ending March 15/41	By Air during week ending April 5/41
<u>Artiss</u>				
Tomahawk	Middle East	Alexandria Takoradi	10 63	
<u>Consolidated</u>				
Catalina	U.K.	U.K.		7
<u>Glenn Martin</u>				
Maryland I	Middle East	Alexandria Takoradi	6 9	
<u>Lockheed</u>				
Hudson III	U.K.	U.K. (via Gander)		4
Hudson V	U.K.	U.K.	2	
T O T A L			90	11

British Air Commission  
April 8, 1941

RECEIVED

APR 9 1941

Treasury Department  
Office of Philip Young

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE April 9, 1941

to Secretary Morgenthau  
FROM Mr. White

Subject: German Exploitation of Denmark

There is transmitted herewith a memorandum on German Exploitation of Denmark, prepared by Mr. E.H. Clark of this Division.

Germany's record in Denmark is of peculiar interest because of the Nazi claim that, if the nations of Europe will only submit to German "leadership" without armed resistance, they will all enjoy the blessings of the "new order". Denmark submitted, with the following results:

1. Germany has paid for her net imports of Danish goods and for the expenses of her army of occupation by giving the Danes Reichsmark credits which the Danes are unable to use. These credits amounted, on March 1, 1941-- after approximately eleven months of German occupation-- to roughly 1,100,000,000 kroner (\$210,000,000). These credits are, in effect, forced long-term loans which amount to nearly twice the kroner total of the ordinary national budget and to approximately one quarter of the whole national income of the country.

2. In 1940, Germany bought, over and above her 1939 imports, approximately 175 million pounds of butter, 600,000 live pigs, 1½ million head of cattle, 200 million pounds of bacon and ham, and 10 million chickens. In addition, she requisitioned 700 locomotives, 9,000 freight and cattle cars, 33,000 trucks, the patrol and torpedo boats of the Danish navy and the important Danish shipyards. Further, Germany obtained control of the 375,000 tons of Danish merchant shipping still in Danish hands.

3. Since the invasion, taxes have been increased, but the budget surplus of the fiscal year 1940 is being converted into a large deficit for 1941. Industrial production is down 15 to 20 percent. Agriculture has been permanently

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Division of Monetary  
Research

injured by the destruction of the livestock and poultry capital of the country. Unemployment is high and may reach a record in 1941. Bank notes and deposits have expanded rapidly. Many goods, and especially fuels, are scarce. The cost of living index has risen 22 per cent.

4. German interference with the daily life of the people has been less harsh and obvious in Denmark than in Norway or the Netherlands. Formally, Danish civil administration goes on as before. However, the reality of the Nazi control of the whole life of the country is apparent to the Danish population, and they are not reconciled to the indefinite continuance of Nazi rule.

C  
O  
P  
YDEPARTMENT OF STATE  
WASHINGTONIn reply refer to  
EA 840.51 Frozen  
Credits/1556

April 9, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses two copies of a paraphrase of telegram no. 131 dated April 7, 1941 from the American Embassy at Chungking, regarding French funds which are frozen in the United States.

## Enclosure:

No. 131, April 7,  
from Chungking. (2)

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking.

DATE: April 7, 1941, noon.

NO. : 131.

During a visit on April 5th the Counselor of the French Embassy stressed the delicate situation facing the French administration in the French Settlements at Shanghai and Tientsin and the French diplomatic and consular service because the French are unable to secure funds which up to this time had come through Indochina and which are now held up or stopped by the freezing of French funds by the United States. In my opinion the situation is one which is deserving of special consideration on our part, and I hope that we will do whatever we can to facilitate French peaceful control by promptly remitting the required funds.

This telegram has been sent to the Department and repeated to Shanghai and Peiping.

JOHNSON

EA:MSG

Cory:bj

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy

DATE: April 9, 1941, 1 p.m.

NO.: 417

Reference is made to telegram of March 29, 6 p.m., no. 277 from the Department.

On the fifteenth of March instructions were issued to banks by the Foreign Exchange Office directing the banks to submit to it lists giving the balances maintained with them by physical and moral persons "French" of their holdings in "a" foreign currencies and sterling, as of April 30, 1940 and February 28, 1941. Physical and moral persons "French" are described as French and foreign residents of France, French companies, and foreign companies in so far as concerns the branches or offices maintained in France by the foreign companies.

An arrete of April 30, 1940 gave the definition for "a" foreign currencies (see May telegram and despatch to the Department). These currencies included the currencies of the British Empire - except Canada, Hong Kong and Newfoundland - Egypt, Iraq, and Anglo-Egyptian Sudan; belgas, Luxemburg francs, Dutch florins, Dutch East Indies florins, Canadian dollars, Swiss francs, American dollars, Argentine pesos, Portuguese escudos. It is stated in the instruction of the Foreign Exchange Office that these data are necessary for administering the recent law concerning settling debts which are payable in foreign currencies. This statement is corroborated by a high official in the Finance Ministry, who asserts emphatically that the Germans were not responsible for the issuance of the instruction.

Usually the Foreign Exchange Office gives banks in the unoccupied territory permission to transfer to the United States the dollar balances belonging to American citizens who have given up their residence in this country. END MESSAGE.

LEAHY.

EA:LWV

BRITISH EMBASSY,  
WASHINGTON, D.C.

April 9th, 1941.

PERSONAL  
AND SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Halifax*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

TELEGRAM FROM LONDON DATED APRIL 7TH, 1941.

NAVAL. Greek 7,000 ton ship in convoy attacked by aircraft 170 miles northwest of Bloody Foreland A.M. April 6th. Believed hit by torpedoes still afloat and considered salvageable.

2. On April 6th air attacks on shipping east coast continued. One big ship damaged, one small sunk by bomb. Piraeus air raided night of April 6th/ April 7th. Three ships hit, several burnt out, one ship blowing up along side caused many fires ashore and on ships. Perth had sailed earlier. Calcutta and Ajax reported safe sailed magnificently through thick smoke and over mines.

3. Three escorted French merchant vessels all with troops and one other ship passed Gibraltar west-bound P.M. April 6th.

4. At 7.30 A.M. April 6th, three German destroyers attacked by coastal aircraft off Cherbourg. One hit forward with bomb not seen to explode. At 12.30 Beaufort torpedoed one destroyer accompanying ships; heavy anti-aircraft fire prevented waiting to see results.

5. Brest at 2.00 p.m. April 6th. One battle cruiser Gneisenau was undocked and lying Rade d'Abri. At 6.30 P.M. ship believed to be tanker close alongside her.

6. MILITARY. At 6.00 P.M. April 6th enemy positions reliably reported as follows: XI Army Corps advancing on Skoplje; second armoured division from PABRIC advancing westward in the direction of STIP. Opposition in this sector reported slight. Sixth mountain division east of Lake Doiran and believed moving southward. This division being met by

determined/



-3-

determined counter attacks. Fifth mountain division with one infantry effectively blocked in Rupel Pass in spite of heavy German dive bombing attacks. Enemy thought to have suffered considerable casualties here. No reference to any enemy movements in N. Yugoslavia.

7. LIBYA. On April 6th enemy force of one lorry borne battalion with light artillery attacked NECHILI but was repulsed. Later six enemy tanks reported shelling NECHILI and enemy column of more than 150 lorries with its head ten miles east of ET. MSUS reported. 5 p.m. Position obscure.

8. ERITREA. Same day British officer met Italian Admiral in Massawa who refused terms for surrender. Operations against town continued at 1 P.M. on April 6th.

9. ROYAL AIR FORCE. April 6th. Shipping off the Dutch Coast and Steel Works in Holland successfully attacked. During offensive patrols by fighters over northern France aerodrome and military objectives machine gunned; one ME 110 probably destroyed and one ME 109 damaged.

10. Night of April 6th/April 7th. 114 aircraft sent out of which 71 were for Brest, weather unfavourable. Other targets included aerodromes and Calais harbour. One aircraft missing.

11. LIBYA. On April 4th/April 5th six heavy bombers attacked Tripoli harbour and hit power station.

12. GERMAN AIR FORCE. Night of April 6th/April 7th 51 enemy aircraft (40 mine laying) plotted.

13. Two enemy aircraft damaged by fighters during the day and one at night.

RESTRICTED

G-2/2657-220  
No. 361

M. I. D., W. D.,  
April 9, 1941  
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: German. Strong attacks were made over England last night, with the main concentration directed against Coventry.

British. Last night the R.A.F. repeated its heavy attack on Kiel. Emden, Bremerhaven and Rotterdam were also raided.

II. Balkan Theater of War.

Ground: German forces entered Salonika at 4:00 A.M., April 9th. The German High Command announces that all Greek forces east of the Vardar have capitulated. German troops have captured Skopule and thus severed communications between Greece and Yugoslavia. Another German column has captured Nish and is now threatening Belgrade from the south. A junction between the German Army and the Italian forces in Albania should shortly be attained.

German troops are invading Yugoslavia from southern Austria. The city of Maribor (Marburg), in Slovenia, has been captured.

Albania. Apparently only local activity involving Italian, Greek and Yugoslav forces.

Air: German close support and strategic bombing continued in Yugoslavia. Apparently only close support in Macedonia.

III. Mediterranean and African Theaters of War.

Ground: Libya. Axis forces are pushing on toward Tobruk, former Italian naval base 77 miles southeast of Derna.

Eritrea. Massaua, important Italian Red Sea port, has been captured by British forces.

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

RESTRICTED

# CONFIDENTIAL

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Paraphrase of Code Calligram  
Received at the War Department  
at 7:48, April 9, 1941

London, filed April 9, 1941.

1. British air activity over the Continent.

a. Daylight April 8. British air activity was limited to bombing attacks on seaborne traffic off the Netherlands and military objectives in Dutch Netherlands and occupied French ports. Destruction included a hangar at a Norwegian airfield.

b. Night of April 7-8. Bombing attacks were made on airfields in occupied France and on the Channel Coast. Heavy scale bombing of the dockyards at Kiel, Emden and Brunschaven resulted in very serious destruction. Two hundred twenty-nine bombers took part in the raid on Kiel and 36 aircraft over German ports.

2. German air activity over Britain.

a. Night of April 8-9. Information is lacking as to the destruction accomplished in small raids in the vicinity of Bristol. Heavy German bombing attacks were made over the Midlands especially over Coventry.

b. Daylight April 8. German air activity was limited to attacks on seaborne traffic on the east coast and scouting patrols over the east and southeast coast of England. Information is lacking as to resultant damage.

c. Night of April 7-8. Glasgow and Clydeside were the targets for heavy German bombing. A large fire was reported in one shipyard. Short's Airplane Factory at Rochester suffered light damage in raids

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# CONFIDENTIAL

which also included Belfast and Thurston. Oil storage facilities were set fire in the latter vicinity. In all 395 German bombers were employed over Britain.

3. Air losses British theater.

a. British. Night of April 7-8. Five planes failed to return after raids over Germany.

b. Germany. Night of April 8-9. Night pursuit formations accounted for five German planes destroyed and one damaged.

c. Daylight April 8. One German plane destroyed.

4. British air activity in Middle East theater.

a. Daylight April 7.

1) (Greece) Large German motor convoys and parks were bombed in the vicinity of Strumitsa.

2) (Italian East Africa) Structures and facilities at Dessie were set fire in British bombing attacks.

b. Night of April 6-7.

1) (Greece) Railroad communications and facilities at Sofia, the railway bridge over the River Strum north of Petrich, railway facilities at Gorna-Djuznya and German vehicle convoys in these areas were bombed in large scale raids by British aircraft.

5. Air activity in Middle East theater.

a. Daylight April 7.

1) (Yugoslavia) German low-flying attack bombers supported ground troops and bombed Yugoslav communications and airbases east of Srepsko as well as attacking artillery positions east of Lake Balcan.

2) (Italian East Africa) No enemy activity reported.

6. Air losses in Middle East theater.

a. Daylight April 7.

1) (Italian East Africa) Five Italian planes were destroyed and seven damaged by British attacks in Ethiopia.

7. British naval losses.

a. Night of April 7-8. A submarine attack off Massawa damaged the small British cruiser Cape Town (4,200 tons). The Cape Town remained afloat.

b. Daylight April 7. A British tanker (9,000 tons) and a freighter (2,000 tons) were sunk - the former off the east coast of England and the latter in action with a German ship 125 miles off Freetown, west coast of Africa. The auxiliary cruiser Gambia (15,241 tons) was also sunk.

c. Night of April 6-7. One British ship was sunk and three others damaged in German air attacks on the port of Freetown, Sierra Leone. The harbor facilities of the port were so severely damaged as to be useless for a period of several days.

SCANTAN

**Distributions:**

Secretary of War  
State Department  
Secretary of Treasury  
Under Secretary of War  
Chief of Staff  
Assistant Chief of Staff, G-3  
War Plans Division  
Office of Naval Intelligence  
Air Corps  
G-3

→

CONFIDENTIAL

Paraphrase of Code Radiogram  
Received at the War Department  
at 20:08, April 9, 1941.

Ankara, filed April 9, 1941.

German troops are in the area between Gumulcine (Gumuljina) and the Turkish frontier, according to statements of Turkish general staff officers. They have already occupied Dedeagatach (Alexandropolis).

The Turks intend to fight if the Germans attack them. They will begin with a delaying action and will make their main line of resistance along a defense line at Chatalja and on the Gallipoli peninsula. They believe that in these areas the attacks of mechanized troops can be held up for a considerable period.

Please see telegrams Nos. 92 and 93 from the American Minister.

KLUS

(G-2 Note: Telegrams 92 and 93 have not yet been received from the State Department.)

Distribution

Secretary of War  
State Department  
Secretary of Treasury  
Under Secretary of War  
Chief of Staff  
Assistant Chief of Staff, G-2  
War Plans Division  
Office of Naval Intelligence  
Air Corps

**CONFIDENTIAL**

321

**Paraphrase of Code Radiogram  
Received at the War Department  
at 8:59, April 9, 1941.**

**Sofia, filed April 7.**

The city of Sofia was bombed on the evening of April 6 at eight o'clock by British planes. Casualties were: 30 wounded; 20 killed; two factories burned; also, several houses and the German motor park in the vicinity of the railroad station. My cable number 15 should be changed to read 120 casualties caused at Kustendil. The Bulgar population is indignant but calm enough otherwise. They are quite ready for some more bombardment. I am myself erecting a bombproof at the Legation.

**JADWIN**

**Distribution:  
Secretary of War  
State Department  
Secretary of Treasury  
War Plans Division  
Office of Naval Intelligence.**

**CONFIDENTIAL**

April 10, 1941  
10:00 a.m.

RE STABILIZATION OPERATIONS - CHINA

Present: Mr. Bell  
Mr. Currie  
Mr. Cochran  
Mr. White

H.M.Jr: The question of a representative on this Board. Lauchlin Currie does not want to go.

Bell: Does not?

H.M.Jr: No.

Bell: Not even for three months?

Currie: No.

H.M.Jr: And he suggested one White, and I turned that down because I can't spare him, and he suggested Coe, and I can't spare him. So then he suggested Commissioner Fox of the Tariff Commission. He says it will be entirely acceptable to the President.

Bell: I don't know him at all. Harry knows him. He suggested him the other day.

H.M.Jr: He is a very --

White: He is a good general economist. If he goes, I should very much like to have one of my boys go along with him.



- 2 -

- H.M.Jr: Who?
- White: Well, either - if you ruled Coe out - I didn't know you ruled him out for that. Then Taylor, Professor Taylor, University of Iowa, who knows the Far East, knows the foreign exchange, and is a very good man.
- H.M.Jr: All right?
- Currie: Yes.
- H.M.Jr: I don't know him. It will be all right with me.
- Bell: You see, the member of this Board has to have an alternate. Somebody ought to be over there.
- H.M.Jr: I know his reputation. I passed on him when he came in. He is the man who talked in Vancouver, isn't he? Don't bet me on it, but I think he did.
- Cochran: Do you think he would be preferable to Towson?
- White: Oh, yes, I do.
- Cochran: I know he is a better theoretical man. I didn't know whether he had had any practical experience in banking.
- White: He has had the kind of experience that would be necessary there. He would pick up the other very quickly. He doesn't have any practical exchange experience, but Towson's experience is very limited. He is just a foreign exchange man in a bank.
- Currie: I was hoping, Harry, that the American member there might organize a little group that might take the place, substitute in part, for an American economic mission, which Chiang Kai-shek

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wanted, which I don't think we are really prepared to send. They could do it under very favorable circumstances, a group there. They would be independent of this fund. It is within the terms of reference, it seems to me, as far as the whole budgetary problem is concerned, which ties in directly with the problem of stabilization. The stabilization of currency comes right back to the budget. That and transportation are the two main economic problems in China today.

- H.M.Jr: Who pays the salary of these people?
- Currie: From the fund.
- H.M.Jr: We haven't got a regular Treasury fellow to send besides? It would be wonderful training for somebody.
- Bell: You mean have we got one over there?
- H.M.Jr: No, Eddie Bartelt or some young fellow that you would like to give the training to.
- Bell: I don't know. I haven't given it any thought.
- H.M.Jr: I mean, the books have to be set up. Would it be under Bartelt?
- Bell: Well, the accounting could come under him. We have nothing to do with the Chinese accounting thing unless we wanted to participate in that like we are doing for South America, like we contemplate doing it.
- H.M.Jr: I was just thinking, here is a chance to give some Treasury man a little foreign service experience.
- White: What kind of experience, Mr. Secretary, do you

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have in mind?

H.M.Jr: Well, the thing of seeing how another government functions and --

Bell: Fiscal. It might be good experience.

H.M.Jr: I am thinking, for instance, that the one thing which the French did which I always admired, was the French Treasury people, the way they would send their men out to their colonies and one thing and bring them back and send them out again. It is one service that I always thought was good.

Cochran: It was the best service in France.

H.M.Jr: A fellow would go out, and he would come back and build up this thing in the French - it was the one thing - I mean these men - what was the man, the red-head? You take a man like him. He was a very able citizen, but he got his training by going around one place and another, and I wouldn't overlook it.

White: I think that is a very excellent thing to do, but I think that the man you send has to go over and get the kind of experience in the field in which he is in. For example, a man in the fiscal field would go over and get fiscal experience. If it is in the field of stabilization fund, it ought to be a monetary man. If it is the field of taxation, it ought to be a tax man.

H.M.Jr: But somebody has got to set up the books.

Bell: Well, he could sort of be tied in with this group and get the experience on both sides. You remember we had the discussion the other day and the agreement about getting a report every three months, and Rogers threw up his hands and said to make a balance sheet of this fund would take

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weeks. We made one upstairs of our fund in about thirty minutes.

H.M.Jr: That is what I was thinking about. Who keeps the books on our stabilization?

Bell: Mr. O'Daniel. He does a swell job.

H.M.Jr: And that is under who?

Bell: Bartelt.

H.M.Jr: That is what I say.

Cochran: They will have to start a new system out there, because the books so far have been kept by one of the British banks. They will have to cut that out.

H.M.Jr: I think it is a good idea, don't you, Lauch?

Bell: It would be excellent training.

H.M.Jr: A man who keeps our books when we go out there and sees that we get the reports.

Currie: Yes. I am quite anxious, Mr. Secretary, that for the first three or six months anyway this would act in part as an economic machine, you see.

H.M.Jr: Well, Fox is on that end.

Currie: That is right, but he needs some good young man there to work with.

H.M.Jr: Well, there would be two. This man would be on the bookkeeping end, and Taylor would --

White: Taylor would have to act as the alternate.

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- H.M.Jr: Well, look, gents, I can't give it any more time now, but I am willing to say that if you - have you got ten minutes, Bell? Do you want to continue this conversation now?
- Bell: We can, but I would like to think about the other end of it.
- Currie: I don't know, Mr. Secretary, whether Fox is available or not.
- White: I don't either.
- H.M.Jr: Anyway, in order to keep the thing moving, Fox, Taylor, and somebody from Eddie Bartelt's office is O.K. with me. If you want to readjust the thing it is all right.
- White: You have ruled out Coe.
- H.M.Jr: Definitely, for personal reasons.
- Cochran: Is Taylor likely to stay on the department with us here?
- White: He has got a year's leave of absence from the University, which expires, I think, this summer, and there is some correspondence with the president. I think he will give him another leave, but --
- Cochran: My point was, if we get the experience even on that end for someone, it would be coming back to us.
- White: That would be the understanding I would have with him if he were to go.
- H.M.Jr: Of course, this boy in your (Cochran's) shop is a good man.

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- Cochran: Hawkey?
- Currie: There are two good men in the Reserve, Despres, who already knows the situation there, and Kindleberger, who is with the BIS and who is back there now.
- H.M.Jr: Don't forget about Hawkey.
- White: I know Hawkey well. He would be a good young man to send along with, but he wouldn't take the place of Taylor.
- H.M.Jr: I am just thinking, here is a chance to get some Treasury men some field experience which I have been talking about, and there are few opportunities come up.
- White: That is something the British Treasury does that we don't do.
- H.M.Jr: I am saying it.
- White: The British do it more than the French.
- H.M.Jr: Did you accomplish what you came for?
- Currie: I did.

April 10, 1941  
10:10 a.m.

RE AID TO BRITAIN

Present: Mr. Cox  
Mr. Young  
Mrs. Klotz

H.M.Jr: I want the McReynolds letter to the President.

Young: Norman has it all ready.

H.M.Jr: Who?

Klotz: Thompson.

H.M.Jr: God, to get something here in my hands.

Young: You said to have it ready for a 9:30 meeting,  
and we didn't have one.

H.M.Jr: Anything new on my getting any money for ten  
Coast Guard ships?

Cox: No.

H.M.Jr: There isn't? All right.

Cox: We haven't had a chance to get up the memo-  
randum to Budget on the thing.

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H.M.Jr: All right.

Anything that I should know before the 11 o'clock meeting?

Cox: One side issue, on your Consolidated B-24's, we checked with Colonel Myers in the Air Corps, and he said as far as he knew, there were no bugs in the thing. There was one plane that had some minor defect. It had stopped--

H.M.Jr: I got that from the British.

Young: I got it from the British. They had trouble with the front landing wheel on it.

H.M.Jr: Well, I have asked Philip - somebody told me that all of these Boeings had already gone to England, which isn't true.

Young: No. None of them have gone over.

H.M.Jr: Well, have any of the Consolidateds gone over? Didn't England announce the arrival of one?

Young: That was the first B-24, I am pretty sure. I just checked before I came in, and I will have that information in the next 10 minutes.

H.M.Jr: Good.

Cox: On the shipping thing, they are still interested. We have been reconstructing colored maps for them in terms of what you can do under the Neutrality Act, and we have got one finished in the Middle East, and we are doing one of the world now on an eight by four size showing the places private American vessels can go with arms and without arms and so forth.



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H.M.Jr: Nothing else?

Cox: No.

H.M.Jr: That thing yesterday, did you get Mack the additional list yesterday? He said he would have it cleared by noon.

Young: The two million dollar list?

H.M.Jr: On top of the two million, more. He was waiting for it.

Young: Oh, on this Greek and Yugoslav stuff.

H.M.Jr: Yes.

Young: No, we took it up with the Budget people yesterday afternoon, and we will be sending it over to them this morning in the form in which they want it. Instead of the actual detail, the number of pair of shoes and the number of cotton underdrawers and so on, they will go along this way. They want a summary classification and will get along on that basis instead of item by item basis. So we will break it down into clothes and concrete mixers and so on. That is where we are at the moment. Cliff understands that. He was here yesterday afternoon. We are trying to get away from this itemized business if it is possible to do it and get into something on this commercial business. There are a very large number of individual items of all kinds. It is a hard job. My feeling on this whole thing is, I think it is beginning to jell a little now. I think from an organizational point of view, we have made a lot of progress in the last few days in trying to get it into shape so you

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know what is going on and can keep your hands on it. However, this statistical business is getting very serious. We will have to get that straightened out very shortly indeed.

H.M.Jr: No one has talked to Haas or me about it.

Young: No, I am talking about it.

H.M.Jr: What?

Young: I am talking about it.

H.M.Jr: Well, you are not Hopkins yet.

Young: Shall I get Hopkins to call you or do you want to call Hopkins?

(Telephone conversation with Clifford Mack follows.)

April 10, 1941  
10:11 a.m.

H.M.Jr: Hello.  
Operator: Do you want to talk to Mr. Mack this morning?  
H.M.Jr: In a couple of minutes. Tell him to stand by.  
Operator: All right.

10:17 a.m.

H.M.Jr: Hello.  
Operator: Mr. Mack.  
Clifton Mack: Good morning, sir.  
H.M.Jr: How are you?  
M: Fine, thank you, Mr. Secretary.  
H.M.Jr: Do you want to raise anything about the lend-lease purchasing this morning?  
M: Not anything of special consequence, sir.  
H.M.Jr: Everything going along?  
M: Yes, sir. We've completed about \$1 million of that War Department list and by the end of the week we'll have the rest of them out. They have withdrawn certain orders - about \$300,000.  
H.M.Jr: Of that \$2 million 2?  
M: Yes, sir, and we have some new orders totaling about \$500,000 that are apart from that War Department list.  
H.M.Jr: I see.

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- M: Now the Greek and Yugoslav supplies - we're waiting for the allocation of funds.
- H.M.Jr: So nothing else has happened other than they've withdrawn \$300,000 and added \$500,000.
- M: Yes, sir.
- H.M.Jr: And the \$500,000 comes direct from Hopkins?
- M: That comes direct through Young on the basis of requisitions. Chemicals, equipment and supplies of various kinds.
- H.M.Jr: I see.
- M: On the Greek and Yugoslav list we're going to have considerable activity there when that starts. The total of the requirements they've indicated that ought to be bought through us will run around, oh, about \$35 millions, but of course only a part of that right away and the rest is extended over a period right up until the end of the year.
- H.M.Jr: Now, are you getting any allocation of money to carry this extra work?
- M: Not administrative expense. I think we can carry it for the time being with our organization.
- H.M.Jr: Well, there is \$10 million there in the bill.
- M: Yes, sir, and we're now taking steps to set up an expediting unit looking ahead a little bit so that when these orders start to move, we'll be able then to have a group that will follow through the shipment.
- H.M.Jr: Well, if you need any money you'd better speak to Norman Thompson about it.
- M: Very good. I'll do that.

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H.M.Jr: Don't wait too long.  
M: All right, sir. I'll sure do that.  
H.M.Jr: All right, Mack. Good-bye.  
M: Good-bye.

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H.M.Jr: To answer your question about the statistical thing, if Harry wants something let him call me up.

Young: Right.

H.M.Jr: See?

Young: Yes, sir.

Cox: You know that Currie is interested in shipments to Rangoon on the Chinese thing?

H.M.Jr: Lauch Currie just left here, and he said for one week since the President told him that he was to look after the Chinese thing, he has been trying to see Harry Hopkins, and he says it is much easier to see the President than it is to see Harry. For one week he has tried to see Harry, and Harry won't see him.

Young: I have talked to him several times on the telephone. He has called to find what we are doing and how the thing is shaping up, and so on.

H.M.Jr: He has been unable to see Harry.

Cox: He has apparently talked to him about this Rangoon thing. On the shipping problem, there are two other things of some interest.

One is that, in this room, Land and Vickery had a terrific fight yesterday about five fast boats that the British want. Apparently Vickery thinks they can and should be made available and Land thinks they ought to be stalled, and ought not to be made available; and the thing was left so that apparently Land won't transfer the boats unless the President orders it.

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H.M.Jr: Who instigated that?

Cox: Instigated what, the fight?

H.M.Jr: The five, not the fight.

Cox: I don't know, I think Salter probably asked for them.

H.M.Jr: To make the run to where?

Cox: I think on the North Atlantic.

Young: Are you sure Donovan didn't do it?

Cox: I don't know who instigated it.

H.M.Jr: Of course in Churchill's speech which I have read in today's papers, the only thing that he can announce is the ten Coast Guard cutters.

Cox: That is right. The other thing that hasn't gotten any serious consideration but I think ought to be kept in the back of your mind is the Western Hemisphere line in terms of either transportation or convoy movement in that line.

H.M.Jr: You mean Newfoundland and that sort of thing?

Cox: That sort of thing and even beyond Newfoundland, in terms of the traditional American view that we have got an interest in and have got a right to proceed in the Western Hemisphere.

(The Secretary placed call for Mr. Hopkins)

H.M.Jr: Do you want to know where he was last night? He was out at Oxon Hill, Sumner Welles'

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country place. (Laughter)

Isn't that marvelous?

Cox: Is this the new Munich?

H.M.Jr: Something.

Young: Sumner is still holding up the thirty Greek planes.

H.M.Jr: No?

Cox: He is not holding them up --

Young: He isn't doing anything about it.

Cox: They are going to get themselves into trouble because Reeves has gone ahead and disposed of them.

Young: He has already shipped them.

H.M.Jr: Has he shipped them?

Cox: Yes.

H.M.Jr: All thirty?

Cox: He said he had actually shipped fifteen and then he gave orders to ship some others. He says, "After all, my job is to get some new stuff. That is water over the dam."

H.M.Jr: I want to meet that fellow.

Klotz: Who is it?

H.M.Jr: Admiral Reeves, retired. They brought him in to handle this stuff.



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Cox: If you looked at him, you would think he was the ancient version of Caspar Milquetoast.

Young: He has a keen sense of humor.

H.M.Jr: Look, it is very embarrassing for me to try to get - this is much the way they say something nice in these letters, would one of you go over now to see Hopkins, and when he goes, ask him to get the President to sign this letter? Which one of you wants to go over there for me?

Cox: Well, it doesn't make any difference. Phil and I always see him anyway.

H.M.Jr: Before eleven?

Cox: We can do that.

Young: Is Hopkins back?

H.M.Jr: Yes, he is on the telephone. Do you have any hesitancy about it?

Cox: No.

H.M.Jr: Do you?

Young: No, except that my only hesitancy is that the thing came from here and that it is or has been my business.

H.M.Jr: To do what?

Young: I feel a little bit about the same way you do.

H.M.Jr: Then you (Cox) go.

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Cox: That relieves me. I haven't any hesitancy.

H.M.Jr: And here is an extra copy in case they have lost it.

You can go over now and stick this into Harry's hands. Go over there immediately. If I get him on the wire, I will say that I asked you to come over.

You can simply say, can't you, "Take this in at eleven and get the President to sign it at eleven o'clock. This is the so-called 'McReynold's letter.'"

Cox: All right.

H.M.Jr: And I will take care of the Coast Guard business.

The meeting is adjourned.

Cox: Thank you.

H.M.Jr: Carry on.

April 10, 1941  
10:50 a.m.

H.M.Jr: Bell please. (Pause).

Operator: Mr. Bell.

D. W. Bell: Hello.

H.M.Jr: Would you and Gaston put your heads together and I'd like you to put in a formal request to the Bureau of the Budget for \$25 million for 10 Coast Guard Cutters - for a deficiency appropriation.

B: Not as an allotment

H.M.Jr: What do you mean allotment.

B: Out of the lease-lend.

H.M.Jr: Oh, I just got through talking with Hopkins. We'll never get it out of that.

B: Really.

H.M.Jr: They'll kid us from now to doomsday on it. He said he was going to put it up to the President to sign it and he promised me he'd do that a week ago today.

B: Yeah.

H.M.Jr: He'll never do it so let's go the other route.

B: O.K. I'll talk to him about it. I'll talk to Gaston.

H.M.Jr: Yeah, but it just goes from you and Gaston directly to the Bureau of the Budget and from there to the President. See?

B: Yeah.

H.M.Jr: Otherwise we'll never get it.

B: All right. We'll work out some procedure to get it direct. Say, I didn't tell you this morning about the four o'clock report last night.

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H.M.Jr: No.

B: On the short note, \$1, 688,000,000 and on the longer note \$2,038,000,000. We've still got the mail reports to hear from.

H.M.Jr: I see.

B: So they're really going away up.

H.M.Jr: Good.

B: O.K.

H.M.Jr: Thank you.

April 10, 1941

TELEPHONE CONVERSATION FOLLOW-UP:

In phone conversation with Mr. Bell today, the Secretary asked him and Gaston to put their heads together and put in a formal request to the Bureau of the Budget for \$25 million for 10 Coast Guard Cutters.

Later this day I talked with Secy. about this matter on the phone. He had just come from White House. He said that situation had so changed this request could be held in abeyance.

DWB  
4/10

April 10, 1941  
4:15 p.m.

RE COAST GUARD TRANSFER

Present: Mr. Gaston  
Admiral Waesche  
Mr. Foley

H.M.Jr: Now, I didn't read that memorandum.  
(referring to memorandum from Admiral  
Stark to Secretary Knox, dated March 17.) *see entry of 4/14 when they should be (President)*

Gaston: We have a better copy than this.

H.M.Jr: This is all right. Just let me read this  
thing. Is this the same thing as I have  
had?

Gaston: Yes. I can go get my copy.

H.M.Jr: No, no, this is all right. Why does Stark  
lie to me? He must think I am an awful  
fool.

Gaston: He told you this was the same thing?

H.M.Jr: Yes. Why does he lie?

Gaston: That plan there (see <sup>draft</sup> memorandum from Secretary  
to President, Dated April 10, 1941) provides *no - draft*  
for what the statute provides, which is on *4/14*  
order of the President to transfer the Coast  
Guard to the Navy Department, and includes  
some statements of how he would propose to  
operate it after it has been transferred.

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- H.M.Jr: Maybe I should say he is under misaprehension. But he argued and I said, "Don't argue with me until I read this thing." I mean, I got quite stern. Don't repeat what I have said.
- Waesche: No, sir, certainly not.
- H.M.Jr: Let me just ask you this.
- Gaston: We have got a memorandum from you to the President embodying your idea with your understanding of the conversation today, the instructions today, with a space for the President's approval, and we made it quite precise.
- H.M.Jr: That is right.
- Gaston: We transferred to the Navy everything, including one hundred twenty-five footers, except ice breakers and except ten hundred twenty-five footers which are in process of conversion for use as service - as lighthouse service boats.
- Waesche: And two hundred and twenty-five footers which we are using in maritime service training. So there is a total of twelve one hundred twenty-five footers we are retaining.
- H.M.Jr: Don't you think we ought to say what we are retaining?
- Gaston: We could easily say that. We are retaining twelve one hundred twenty-five foot patrol boats, ten which are under process of conversion for lighthouse service boats, two which are in the maritime service, and all floating craft smaller than a hundred and twenty-five footers.

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Waesche: But there are some other craft like the Kickapoo which we are using for ice breakers. If we are going to specify that, I suggest we state all other floating craft not included in that tabulation shall remain and then we simply take the register and see what remains.

Gaston: We say all floating equipment, and then we define the seagoing fleet as follows.

Waesche: Yes.

H.M.Jr: I want to ask you (Waesche) this. Are you satisfied with this?

Waesche: Perfectly.

H.M.Jr: Is this what you would like?

Waesche: I would rather the whole thing would stay under the Treasury Department. Naturally, I don't like the idea of dividing up the Coast Guard, but this is second best.

H.M.Jr: Well, let me ask you this, would you rather have the whole organization go under the Navy?

Waesche: No, sir, I would rather these functions - that is, with one exception. I feel that the Coast Guard's chief duties are those duties which by law are tied up with the Treasury Department.

Now, I feel that the Coast Guard belongs with the department that has that authority. As long as the authority is to remain in the Secretary of the Treasury to control



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shipping, all the duties under the authority of the espionage act remains under the authority of the Treasury Department, there is no question in my mind that that is where the bulk of the Coast Guard belongs, and naturally if that function of the control of the merchant shipping should go to the Navy, I think it should all go; but I am just putting that if there --

H.M.Jr:

This is what I told the President. "Mr. President, as I understand, you want me to do the life saving." I said, "You want me to protect the revenue of the Government and do the harbor patrol work and the Great Lakes work and the Ice Patrol work." I couldn't think of it all.

He says, "That is just what I want you to do."

I said, "Then I take it you want Waesche and his organization to stay in the Treasury as a part of the Treasury organization."

"Well," he says, "Waesche can make up his mind what he wants to do. He may want to go to sea, but if he wants to stay, that is all right."

Waesche:

I don't know of any seagoing job the Navy would have for me.

H.M.Jr:

I am just repeating. I don't know - but I wanted to get over the idea to him.

He said, "Well, the Navy doesn't want any of that thing." And then Stark kept sputtering and I said, "Now listen, Frank," to Knox, and Frank Knox said, "Well, I don't want any of those." The President had it very definitely

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in mind. He said, "I don't want the Navy to be bothered with all that harbor stuff."

Waesche: I think this is the proper thing.

H.M.Jr: I think it is a swell break, personally, because I feel this way. This means that there is enough there that when this show is over, it will continue again and the Coast Guard will be an independent entity under the Treasury.

Now, that was the thing that you always were afraid of.

Waesche: Absolutely, Mr. Secretary, and that is the thing - I am one of the few officers that has fought the transfer to the Navy all my life.

H.M.Jr: I think it has been a swell fight, and --

Waesche: I am thoroughly pleased and thoroughly satisfied.

H.M.Jr: Thoroughly?

Waesche: With the exception that as long as we have got to give them something. I would be more pleased if we could have everything, but this is - I mean to say - yes, sir, I am pleased.

H.M.Jr: Now wait a second. It is this way. It is a question of doing it this way - all going over to the Navy entirely - -

Waesche: Well, there is no question in my mind about that at all.

H.M.Jr: I didn't know but in your heart you wanted

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to go over to the Navy.

Waesche: No, sir, I don't think I have given you any indication of that; and if you go back, even since I have been Commandant and a little bit before, you will know that I have probably been the spear-head in the Coast Guard of the fight to keep out of the Navy for some thirty-five years, or at least fifteen years.

H.M.Jr: I knew there was some good reason I made you Commandant. I didn't know what it was, but I knew there was some reason.

I tell you what you do, Herbert. Knox is going to be here at nine tomorrow morning. I would like to have you here. I would like to have Foley here and read up tonight, Foley, on the statutory duties of the Coast Guard under the Treasury, if necessary. (facetiously)

Gaston: We haven't yet found any law which makes it possible --

H.M.Jr: Well, how is he going to do it? How is he going to transfer part of it.

Gaston: We detailed two cutters to the Navy, and they are operating under the Navy under the Chief of Operations and on a mere letter of the President directing us to do it. I think it is valid.

H.M.Jr: Well, you see, Ed, between now and nine tomorrow morning, we can't operate without a lawyer. Where is an economist? We need an economist.

What is that? (Referring to memorandum from the President to Director of the Budget and Secretary, dated April 10.)

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Gaston: I decided to split the two things. There is the Bureau of Marine Inspection and Navigation. It would gum the other up pretty badly if we stuck it in.

H.M.Jr: I would like Ed to be able to say tomorrow there is no question legally that the President can do it.

Now, you have got from now until nine tomorrow morning, and you can get the Coast Guard sea-going lawyer. Who is your lawyer?

Waesche: Harrison.

H.M.Jr: Do you want a good lawyer?

Foley: Sure.

H.M.Jr: Well, he is good. Nine o'clock tomorrow morning then, if I don't hear to the contrary this thing is all right, and you will have a legal way of doing it.

Foley: Yes. Suppose we come to the conclusion we have to have legislation?

Gaston: No, don't do that. (Laughter)

Foley: Well, we won't unless we have to.

H.M.Jr: We will get a new lawyer. (Laughter)

Foley: Well, that is what I wanted to know.

H.M.Jr: All right. Thank you all. I am tired. I don't want to do any crowing until it is over with, but I think it is the best battle we have ever taken on with any other department.

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I am tickled pink, but I don't want to crow yet, because old Stark isn't licked yet.

Waesche: I am, too.

Foley: Does he want it all?

H.M.Jr: Oh yes. Read his memorandum.

Gaston: What he means by saying this is the same thing, he means that with the transfer to the Navy, he could administrate it in such a way, if he wished, as to accomplish substantially the same objects in practical effect. That is the only thing that is true. Otherwise his statement isn't true at all.

CONFIDENTIAL

April 10, 1941.

TO: The President  
FROM: The Secretary of the Treasury

The following embodies my understanding of your verbal instructions of this day with respect to the assignment of certain equipment and functions of the Coast Guard to the Navy:

With the exception of those vessels which are especially adapted to use as ice-breakers, and with the exception of cutters needed for operations on the Great Lakes, the entire seagoing fleet of the Coast Guard together with the necessary personnel to man it will hereafter operate as a part of the Navy under the Chief of Naval Operations.

The normal operation and maintenance costs of the vessels of the Coast Guard which are to operate as a part of the Navy will be defrayed from Coast Guard appropriations. All major alterations and other unusual costs to fit the above ships for Navy service will be defrayed from Navy appropriations. If necessary, legislation is to be obtained to authorize this.

Together with the operation of the present seagoing fleet of the Coast Guard the Navy will take over responsibility for (1) off-shore rescue and assistance work; (2) weather observation patrol; (3) Bering sea and Alaskan patrol; (4) international ice patrol; (5) Greenland patrol; (6) transport and supply service to Pacific equatorial islands; (7) off-shore neutrality patrol.

With the above exceptions the Coast Guard will retain its present organization, functions and equipment.

- 2 -

The functions which the Coast Guard will continue to perform include the following:

- (1) All in-shore assistance work.
- (2) All merchant ship control and other duties performed by Captains of the Ports.
- (3) Operation, maintenance, repair, construction and development of lighthouses and other aids to navigation.
- (4) All duties on the Great Lakes normally falling within the scope of operation of the Coast Guard.
- (5) Ice-breaking in interior and coastal waters of the United States, including the Great Lakes.
- (6) Training of merchant marine and Coast Guard personnel.

Equipment to be retained by the Coast Guard will include:

- (1) All present Coast Guard shore establishments.
- (2) All Coast Guard aircraft.
- (3) All other floating and shore equipment necessary to the performance of the functions listed above.

"Seagoing fleet" as used above, is understood to include the following: Seven 327-foot cutters; four 240-foot cutters; seventeen 165-foot patrol boats; twenty 125-foot patrol boats, and the following unclassified seagoing cutters: UNALGA, TALLAPOOSA, NORTHLAND, REDWING, SHAWNEE.

APPROVED:

April , 1941.

April 10, 1941  
4:31 p.m.

Jesse  
Jones: Hello, Henry.

H.M.Jr: My name.

J: Yes, sir. You've got a terrible cold.

H.M.Jr: I'm going home in a few minutes.

J: I'd like to beg off until Monday, instead of Friday. I thought you'd rather do it that way.

H.M.Jr: Sure. Just a second. That gives me a break.

J: Well, Monday or Tuesday either one. I just want to .....

H.M.Jr: Well, don't get too deep in this, Jesse, without giving - you know you said you'd consult me.

J: I won't. I'll make no commitment until I talk to you.

H.M.Jr: Now, let's leave it this way. Have your office call up Monday and we'll work in an appointment. How's that?

J: That's all right.

H.M.Jr: Or do you want a definite appointment?

J: No, I'd rather do it that way.

H.M.Jr: Right.

J: You see, the two Franks want me to work on this Pan American thing tomorrow and I noticed you had a miserable cold and I thought you'd rather put it off.

H.M.Jr: Well, it's entirely agreeable.

J: Yeah. O.K.

H.M.Jr: Thank you for calling.



CONFIDENTIAL

April 10, 1941

To: The Secretary

From: Mr. Young

Re: Deliveries of B-24 Planes

With respect to your request concerning delivery of B-24 planes, the British Supply Council has furnished the following information:

Two B-24's and one LB-30 (British equivalent of the B-24) have already gone to England.

There are two B-24's at Montreal. (Also two Flying Fortresses, B-17).

There are two B-24's and two LB-30's at New York.

It is estimated that from two to three B-24's or LB-30's will be completed by Consolidated within the next two weeks.

With respect to the last two groups, the British will have to furnish information later as to when they will be ready to leave Canada or New York.

T.Y.

CONFIDENTIAL

April 10, 1941

To: The Secretary

From: Mr. Young

Re: Boeing and Consolidated Bombers

Mr. Fairey has advised me that of the twenty Boeing B-17C's fourteen are now in various stages of having leakproof tanks and other small items installed. These installations are being made rapidly and should soon be finished. Of the remaining six, three are being held in Seattle because of bad weather, one is at Wright Field, and two are in Canada ready to be flown to England.

With respect to the rumor which you heard concerning bugs in the Consolidated B-24, Mr. Fairey advises me that there are no more bugs in that ship than are to be expected in any new type ship which has never been built before. Whatever bugs have been found are being rapidly eliminated and every thing is proceeding smoothly.

Dy.

Please let me  
have a similar report  
to the one attached on April 20<sup>th</sup>  
WmJ

CONFIDENTIAL

April 10, 1941

To: The Secretary

From: Mr. Young

Re: Boeing and Consolidated Bombers

In connection with the information I gave you this morning concerning Boeing and Consolidated bombers, I am attaching herewith for your information a copy of a revised memorandum which I have just received from the British Supply Council.

WmJ

CONSOLIDATED B24 BOMBERS

Arrvied in U.K.	3
At Montreal	2
At New York, enrout to Montreal	4
April deliveries by Consolidated (forecast)	6
May " " " "	11
	—
	26
	—

Note: 5 of first 6 will be used for transport purposes, probably trans-Atlantic ferrying for pilots.

-----

BOEING B17

At Montreal	2
At Dayton (for final checkup before delivery to Montreal)	1
At Seattle (almost ready for flight to Dayton)	3
At Sacramento and/or Portland for addition self-sealing tanks & other equipment	14
	—
	20
	—

**RECEIVED**

APR 10 1941

Washington, D.C.

April 10, 1941.

Treasury Department  
Office of Philip Young

358

6/5'41

Miss Chauncey:

Mr. Foley said that there was  
nothing here which the Secretary should  
have called to his attention.

McGuire

CONFIDENTIAL

CONFIDENTIAL

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COPY FOR:

✓ Secretary of Treasury.

WAR DEPARTMENT  
The Adjutant General's Office  
Washington

AG 020.1 (3-29-41)M-M

April 10, 1941.

SUBJECT: Procedure Under the Lend-Lease Act.

TO: The Chiefs of Arms and Services  
and the Divisions of the  
War Department General  
Staff.

The following letter from the Secretary of War is quoted for your information and guidance:

"1. The Act of March 11, 1941 (Lend-Lease Act) imposes heavy responsibilities on the War Department which must be met with promptness and dispatch if the purposes of the Congress and the orders of the President are to be consummated. Strategic results affecting the defense of this country may depend upon the speed with which this Act is administered in the Department. I therefore desire to impress upon all concerned the necessity for prompt action in all matters relating to the Act.

2. Every effort has been made to set up the administration of this Act in the Department so as to apply to the lend-lease program the normal procedure of our procurement agencies. I am confident that our present organization, increased by the augmentation of such personnel as may be necessary, can fully meet the additional responsibilities to be imposed upon it. It appears necessary, however, to set up in the Office of the Under Secretary of War a division to be called the Defense Aid Division with duties as shown in Exhibit 1 herewith and I have, accordingly, directed that such an organization be created. This division will be concerned mainly with the coordination and acceleration of all phases of the lend-lease program within the Department. It is my desire that all papers pertaining to the program be handled in the "immediate action" category.

3. Attached hereto as Exhibit 2 is an outline of the routine which will, in general, be followed within the War Department. The desired budgetary procedure is shown in Exhibit 3.

4. To deal with questions of substance which we can foresee will arise under the Act, Defense Aid Committees, whose

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CONFIDENTIAL

functions are set forth in Exhibit 4, will be organized. No new committee has been set up for aircraft inasmuch as the Joint Aircraft Committee, which has heretofore been in operation, is in a position to perform the functions prescribed for the Defense Aid Committees in Exhibits 3 and 4 and, subject to the principles and procedure outlined in such Exhibits, the War Department members of the Joint Aircraft Committee are hereby empowered, in addition to the powers heretofore exercised by them on the Joint Aircraft Committee, to perform with the British, or other representatives concerned, the functions of the Defense Aid Committees.

5. War Department agencies are authorized to issue necessary regulations, not inconsistent with the policies outlined herein, to administer their activities under the Act.

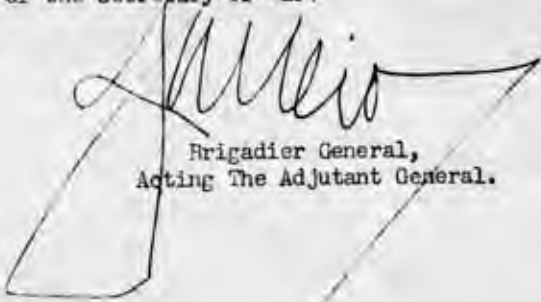
6. Close contacts between the personnel of the War Department and the accredited foreign representatives concerned with transactions under the Act shall be sought and encouraged at all times.

7. The organization herein provided for is solely designed to expedite, not to complicate, the work of the existing procurement agencies. It is always subject to change if in the light of experience it does not fulfill its function.

/s/ HENRY L. STIMSON

Secretary of War."

By order of the Secretary of War:



Brigadier General,  
Acting The Adjutant General.

4 Incls:  
Exhibits 1 - 4.

COPIES FURNISHED:

Mr. Harry Hopkins;  
The Secretary of the Treasury;  
The Secretary of the Navy;  
The Secretary of State;  
Chairman, British Supply Council  
in North America;  
Mr. Wm. S. Knudsen, Office of  
Production Management; and  
Clearance Committee, Army and Navy  
Munitions Board.

CONFIDENTIAL

April 8, 1941.

## Office Order:

1. In order to coordinate the functioning of the War Department in its relation to the Act of March 11, 1941 (Public 11, 77th Congress), there is hereby created a division in the office of the Under Secretary of War to be known as the Defense Aid Division.

2. The duties of the Defense Aid Division will be as follows:

- a. To maintain liaison on matters relating to the Act of March 11, 1941, with the following:
  - (1) Such agency or agencies as may be designated by the President to administer the Act.
  - (2) Other government agencies.
  - (3) Foreign governments.
  - (4) Arms and Services of the War Department and the War Department General Staff.
- b. To coordinate requests for aid from foreign governments with interested agencies of the War Department.
- c. To coordinate the procurement under appropriations provided to implement the Act, in collaboration with the Production Branch and the Purchase and Contracts Branch, Office of the Under Secretary of War; G-4 Division War Department General Staff; and the Office of Production Management.
- d. To coordinate the distribution of the items to foreign governments, in collaboration with the G-4 Division, War Department General Staff.
- e. To coordinate the activities authorized in Section 3 (a) (3) of the Act, in collaboration with the interested agencies of the War Department.
- f. To supply foreign governments with defense information pertaining to defense articles, in collaboration with the G-2 Division of the War Department General Staff.
- g. To report to the Administrator of Export Control the defense articles and defense information released to foreign governments.

(Exhibit 1)

CONFIDENTIAL



- h. To furnish information concerning the transactions of the War Department to the agency designated by the President for the preparation of the quarterly report required by the Act of March 11, 1941.
- i. To coordinate importation of arms, ammunition, and implements of war,
- j. To initiate requests for priorities for materials, equipment, and machine tools for foreign orders for military equipment and supplies through the Priorities Committee, Army and Navy Munitions Board, and the Priorities Administrator, Office of Production Management.
- k. To clear preliminary negotiation reports for procurement of military equipment and supplies for foreign governments other than beneficiaries of the Act of March 11, 1941.
- l. To prepare staff action for the approval of the Secretary of War, on all matters pertaining to the Act.
- m. To clear items for export on the basis of military secrecy, in collaboration with the G-2 Division of the War Department General Staff.
- n. To maintain the office of record for all transactions of the War Department under the Act of March 11, 1941.
- o. To furnish such statistical information as may be required, in collaboration with the Statistics Branch, Office Under Secretary of War.
- p. To participate in the functions of the Joint Advisory Board on American Republics.
- q. To discharge such additional duties pertaining to the Act of March 11, 1941, as may be prescribed by the Under Secretary of War.

3. To provide personnel for the Defense Aid Division, I hereby transfer the commissioned and civilian personnel of the Army Section, Clearance Committee, Army and Navy Munitions Board, to the Defense Aid Division.

/s/ HENRY L. STILSON

Secretary of War.

(Exhibit 1)

-2-

CONFIDENTIAL

OUTLINE OF WAR DEPARTMENT PROCEDURE - LEND-LEASE ACT

WAR DEPARTMENT ACTION

1. Requests for assistance received from foreign governments whose defense is deemed vital to the defense of the United States under the terms of the Act, to be referred to the Secretary of War.

2. Referred to the Defense Aid Division, O. U. S. W., for recommendation.

3. Defense Aid Division informally to consult G-4 and, if advisable, other interested War Department agencies and prepare recommendation for signature of Chief of Staff. To obtain the basis for recommendation, Defense Aid Division to route requests through the appropriate Defense Aid Requirements Committee, calling for definite recommendations as to disposition of materiel or placement of orders.

4. Reply of Chief of Staff forwarded to Secretary of War for approval.

5. After approval, forwarded to White House.

WHITE HOUSE ACTION

6. President issues directive to Secretary of War.

WAR DEPARTMENT ACTION

7. Directive turned over to Defense Aid Division for preparation of appropriate instructions to War Department agencies, and

(Exhibit 2)

CONFIDENTIAL

CONFIDENTIAL

submittal to the Secretary of War, through Executive, O.U.S.W. and G-4, for signature, with copy of original action by Chief of Staff (paragraphs 4 and 5 above). Copies of directives will also be furnished to B.O.W.D.

8. War Department agencies concerned in executing approved action, including B.O.W.D., to maintain informal contacts with the Defense Aid Division during process of execution and render report to Defense Aid Division on completion.

9. Defense Aid Division to be office of record for Lend-Lease Act transactions and to prepare such reports as the President and/or the Secretary of War may prescribe.

(Exhibit 2)

-2-

CONFIDENTIAL

CONFIDENTIALOUTLINE OF BUDGETARY PROCEDURE UNDER LEND-LEASE ACTWAR DEPARTMENT

Upon receipt of approved expenditure programs or requests for services in the Defense Aid Division of the Office of the Under Secretary of War, they will be transmitted to the Budget Officer of the War Department who will make application for allocations to the War Department of the necessary funds for the approved purposes.

Upon receipt of such allocations, the Budget Officer of the War Department will make apportionments to agencies within the War Department in accordance with the approved expenditure programs or requests for services, informing the Defense Aid Division of this action.

The existing accounting methods within the War Department will be utilized in accounting for Lend-Lease funds.

The preparation of expenditure programs and requests for services, as well as the administration of any funds set up for administrative expenses, will follow present procedure.

In case future appropriations are required for Lend-Lease purposes, the normal estimating cycle will be completed.

(Exhibit 3)

CONFIDENTIAL

CONFIDENTIALDEFENSE AID COMMITTEESREQUIREMENTS COMMITTEES

There will be created within the War Department committees to be known as the Defense Aid Requirements Committees.

The function of these Committees within the War Department will be the determination under the Defense Aid program of materiel requirements as to type, quantity and destination. In carrying out this function, the Committees will follow such policies as may be prescribed, from time to time, by the Chief of Staff, subject to such redetermination, if any, as may later be made by the President.

In performing their function, the Committees may be compelled to plan for the diversion of materiel to uses not contemplated at the time of the placing of the orders.

In dealing with this problem, the Committees may propose plans for somewhat distant objectives. However, recommendations for actual diversion should normally be made only sufficiently far in advance to permit arrangements to be made for the effective use of the diverted materiel at the completion of production.

The Committees will be organized for each of the following supply arms and services, i.e.,

Ordnance  
Chemical  
Signal  
Engineer  
Quartermaster

In order to provide continuity and unity of direction to these Committees, they will include a nucleus of personnel which will have membership on all the Committees. This nucleus will be composed of the following:

G-4 War Department, Chairman  
Representative of the Under Secretary of War  
Representative of the Clearance Committee  
of the Army and Navy Munitions Board, and  
Representative of the Foreign Supply Service  
(in case of the British, the Chairman of  
the British Supply Council).

(Exhibit 4)

CONFIDENTIAL

United States and foreign representatives of the arm or service concerned and of the user of the items under consideration shall be members of the respective Committees. In appropriate situations the Training Division or War Plans Division of the War Department General Staff will be represented. The Committee decisions will be signed by the senior representative of each concurring group. Minority views, if any, will be submitted by the senior member of any non-concurring group. These will be submitted to the Chief of Staff to assist him to consult with the President under the provisions of the Lend-Lease Act.

FACILITIES COMMITTEE

Under the Lend-Lease Act and pending War Department appropriations, there is approximately \$1,300,000,000 provided for new facilities and a committee consisting of six general officers has been selected under the authority of the Under Secretary of War to control the facilities program. To consult with this Committee appropriate representatives of the British Supply Council will be appointed with opportunity to present their dissenting views, if any, on matters relating to the necessity for and priority of additional facilities being created, to the Under Secretary of War.

(Exhibit 4)

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CONFIDENTIAL

4-10/41

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77TH CONGRESS }  
1st Session }

SENATE

{ DOCUMENT  
{ No. 42

PURCHASE OF FOREIGN MERCHANT VESSELS FOR  
NATIONAL DEFENSE

COMMUNICATION

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

A DRAFT OF A PROPOSED JOINT RESOLUTION AUTHORIZING THE PURCHASE OR REQUISITION OF ANY FOREIGN MERCHANT VESSEL LYING IDLE IN WATERS WITHIN THE JURISDICTION OF THE UNITED STATES WHICH IS NECESSARY TO THE NATIONAL DEFENSE

APRIL 10 (legislative day, APRIL 7), 1941.—Read; referred to the Committee on Commerce and ordered to be printed

*To the Congress of the United States:*

There are now in our ports a large number of foreign merchant vessels which have been here for considerable periods of time and which because of war conditions have not seen fit to depart.

Section 902 of the Merchant Marine Act of 1936, as amended by the act of August 7, 1939, authorizes the Maritime Commission, whenever the President shall proclaim that the security of the national defense makes it advisable or during any national emergency declared by proclamation, to requisition or purchase any vessel or other watercraft owned by citizens of the United States, or under construction within the United States, or to requisition or charter the use of any such property, and provides that the owner thereof shall be paid just compensation for the property taken or for its use. The same section provides a method by which compensation shall be determined. There does not appear to be any comparable provision with respect to foreign-owned vessels lying idle in our ports.

In view of the growing shortage of available tonnage suited to our national needs, I am satisfied, after consultation with the heads of the interested departments and agencies of the Government, that we

4-10/41

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2

PURCHASE OF FOREIGN MERCHANT VESSELS

should have statutory authority to take over any such vessels as our needs may require, subject, of course, to the payment of just compensation.

It is obvious that our own ultimate defense will be rendered futile if the growing shortage of shipping facilities is not arrested. It is also obvious that inability to remove accumulating materials from our ports can only result in stoppage of production with attendant unemployment and suspension of production contracts. It is therefore essential, both to our defense plans and to our domestic economy, that we shall not permit the continuance of the immobilization in our harbors of shipping facilities.

I attach as of possible assistance to the Congress a draft resolution designed to accomplish the purposes above outlined. It will be noted that the draft contemplates the use of funds appropriated by the Defense Aid Supplemental Appropriation Act, 1941, approved March 27, 1941.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE, April 10, 1941.

*Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That during the existence of the present emergency the President is authorized and empowered, through such agency or officer as he shall designate, to purchase, requisition, or take over the title to, or the possession of, for such use or disposition as he shall direct, any foreign merchant vessel which is lying idle in waters within the jurisdiction of the United States and which is necessary to the national defense: *Provided*, That just compensation shall be determined and made to the owner or owners of any such vessel in accordance with the applicable provisions of section 902 of the Merchant Marine Act of 1936, as amended.*

Sec. 2. Funds appropriated by the Act of March 27, 1941 (Public Law 23, 77th Cong.) are hereby made available to carry out the provisions of this joint resolution.



TO:

369

Secretary Morgenthau

For your information.

11 April 1941

OSC

MR. COX

AP 10 1941

MEMORANDUM

To: Mr. Harry Hopkins  
From: O. S. Cox  
Subject: World Neutrality Map

*discussed  
at meeting  
4/11/41*

I am sending you herewith a map of the world marked up to show the ports to which private American vessels can carry arms and non-arms under the Neutrality Act of 1939.

If you agree, I think this map should also show the Western Hemisphere line and the so-called German combat zone.

If it is decided to put the Western Hemisphere line on this map, I would suggest that a careful recheck be made of what is the Western Hemisphere in the light of present circumstances. As you know, precisely what is the Western Hemisphere has been defined in different ways. For present purposes, it may be that it will be desirable to use a legal rather than a merely geographical definition.

In connection with whatever definition of the Western Hemisphere is worked out, consideration should be

- 2 -

given to the possibilities of (a) patrolling the Western Hemisphere so that practically German raiders and submarines are kept out of it, and thus lessening the amount of conveying required to be done by the British; (b) direct conveying by American naval vessels of British or American ships to the end of the Western Hemisphere; and (c) delivery of goods in the Western Hemisphere for transshipment to Britain.

*Sgt (cont)*

OSC:aja  
4/10/41

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE April 10, 1941

TO Secretary Morgenthau  
FROM H. D. White *HDW*  
Subject: The Economic Situation in Belgium

The following points may be of interest to you in view of your discussion with Belgian Finance Minister Gutt:

1. The food shortage in Belgium is more acute than in any other European country, excepting Spain and Poland. The present Belgian bread ration is about 56 ounces a week, compared with 80 ounces for Germany, 71 for the Netherlands and 35 for Poland; other foods are comparably short. The basic reasons for the food shortage are: (a) the high industrialization of the country and its consequent normal dependence on imported foods, (b) the destructiveness of the German invasion, and (c) the necessity of feeding several hundred thousand German troops now stationed in Belgium.
2. The Germans are taking about one-fifth of the Belgian national income in "occupation costs" alone. The Belgian national income before the invasion was less than \$2 1/2 billion per year. The Germans are taking \$40 million a month in occupation costs. These occupation costs are five times as heavy as those the Germans exacted in their occupation of Belgium during the years 1914-18.
3. German control over Belgian industries has taken the form principally of the appointment of German commissioners to control the operations of leading Belgian firms. In most cases ownership has remained in the hands of the former Belgian proprietors. However, there have been some major "fusions" of Belgian with German firms. For instance, the great Belgian iron and steel company Ougree-Mauhaye has been fused with Otto Wolff, the German steel producer; the new merged company will operate from Cologne with a branch office in Brussels. Such Belgian concerns as have the necessary raw materials are employed on German sub-contracts.

Division of Monetary  
Research

4. The Germans placed all banking institutions under the general control of a Bank Supervision Office for Belgium. This office has control over the books and transactions of all Belgian banks. It also controls the new National Bank of Belgium organized under German supervision. Payments between Belgium and other countries are effected through the multilateral clearing system via Berlin. This bank is also nominally credited by the Germans with the Belgian gold which they are taking from France -- variously estimated at between \$183 million and \$260 million.

5. The economic disorganization and exhaustion of Belgium are very great -- greater than that of any other occupied country except Poland. The situation in Belgium is so desperate that perhaps 100,000 Belgian workers have found it necessary to accept German offers of jobs in Germany. Stocks of imported raw materials have been exhausted where they were not (as in the case of cotton) shipped to Germany. Even the high-grade Belgian coal mines are not working at capacity. The attempt in October of 1940 to float a 10-year 3 billion franc (\$100,000,000) 4 percent loan met with dismal failure; voluntary subscriptions by the public did not cover more than one-third of the amount of the flotation, and it was necessary to compel the banks to take up the rest. Currency in circulation must have increased greatly and prices have certainly risen very rapidly, but we have no precise figures on money in circulation and no precise price indices.

6. Belgian assets frozen in the United States have decreased about \$55 million during the past year. When the Belgian funds were frozen May 10, 1940, they had a total of assets here of \$623 million as follows:

(In millions)

Gold held on earmark	\$173
Official dollar deposits	1
Private deposits	181
Securities	178
Other assets	90

Since that date they have sold about \$7 million of the gold held on earmark, reduced their balances here by approximately \$48 million almost entirely from private deposits and there has been no substantial change in their security holdings.

FOR THE PRESS

IMMEDIATE RELEASE

APRIL 10, 1941

STATEMENT BY THE PRESIDENT

1763

Yesterday we signed an agreement with the Danish Minister in Washington, who acts on behalf of the King of Denmark, as Sovereign of Greenland, including Greenland in our system of cooperative hemispheric defense.

This agreement was signed on the anniversary of the day on which German troops invaded Denmark.

Last May the Greenland Councils requested the United States to keep in mind the exposed position of the Danish flag in Greenland. I at once offered to make available relief, if necessary; and to assure a continued flow of necessary supplies for the island. The present step is a new proof of our continuing friendliness to Denmark. Under the present circumstances the Government in Denmark cannot, of course, act in respect of its territory in the Western Hemisphere, but we propose to make sure that when the German invasion of Denmark has ended, Greenland will remain a Danish colony. Meanwhile, we earnestly hope for the quick liberation of Denmark from her present invaders.

-----

TREASURY DEPARTMENT  
INTER-OFFICE COMMUNICATION

DATE April 10, 1941

TO Secretary Morgenthau  
FROM Mr. Cochran

The Finnish Minister asked me by telephone whether the Secretary would be good enough to receive him for five minutes some day next week, preferably next Tuesday, April 15. I told the Minister that I had mentioned to the Secretary some weeks ago the Minister's interest in having the Secretary support his request for an Export-Import Bank credit, if the matter should come up at the Cabinet. I presumed that this was no longer in question since a credit had been extended. The Minister confirmed this understanding, saying that he did not desire to take up any loan question with the Secretary, but simply a personal one.

Does the Secretary desire to give an appointment?

*J.M.F.*  
I will see him at  
3 o'clock  
April 15<sup>th</sup>

FEDERAL RESERVE BANK  
OF NEW YORK

Noted  
R. Hawkey

OFFICE CORRESPONDENCE

F. Dietrich

DATE April 10, 1941

TO CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.

FROM L. W. Knoke

Mr. Bolton called me at 11:45 a.m. today. He prefaced his comments with the statement that hereafter he expected to call me more frequently as a result of certain internal changes which aimed at making him a little bit freer.

He then referred to our telephone conversations late in January and early in February with regard to the return by us of donations, etc., sent to us for British account. The Treasury Department and they themselves, Mr. Bolton said, were, presumably as a result of our inability to accept those funds in New York, receiving a number of checks drawn in dollars. Was it in order for them with their proper endorsement, to send the checks to us for collection? If so they would simply include them in the usual list of checks. I replied that our lawyers had considered this matter at the time and were of opinion that there was nothing to prevent us from handling such collections. Should I find out that I was wrong I would advise him immediately.

Another matter he was anxious to be informed about was that of the various freezing orders issued by Washington: did they cover old balances only or old balances plus accruals? I replied that they covered everything and explained that in the case of a French account, for instance, anything that had been in the account on June 17, 1940 was frozen and anything that had gone into the account subsequent to June 17, 1940 was likewise frozen. Talking about the job of administering foreign property or exchange control, he mentioned that they in London had started with about 200 men but were not up to 1,350. This,



FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

CONFIDENTIAL FILES

DATE April 10, 1941.

TO \_\_\_\_\_

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke \_\_\_\_\_

BANK OF ENGLAND.

2

however, he thought was the peak and he was hopeful that from now on they could start cleaning up a little bit.

I made reference to Bank of England's cable No. 375 of yesterday containing 100 code words, 15 words of which, however, were missing. Mr. Bolton promised that he would see to it that the whole message was repeated in a hurry. I expressed my appreciation of their desire to give us preliminary advice of steps contemplated by them of the nature mentioned in that message.

I next made reference to our telephone conversation of January 31 in which I had spoken of inter-bank dealings in registered sterling at rates lying between the official rates, which it seemed were indulged in by some out-of-town banks. I stated that since speaking to him on January 31 I had heard of no further such dealings. Was that due to any steps he had taken? He replied that he had checked up on one or two of the banks there and that that might be the reason for the discontinuance of these operations. In this connection Mr. Bolton commented that New York banks seem to have the idea that London banks were "sort of pinching business". This prompted me to confirm that in my opinion there was some such feeling on the part of some of our banks, not only in regard to English business but also to Canadian business. This, I continued, had prompted me last week to mention this to Mr. Gordon when he was here because it seemed to me altogether advisable that any such feeling on the part of our banks here, if at all possible, should be eliminated because if it spread further it might create a most

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 10, 1941.

CONFIDENTIAL FILES

TO \_\_\_\_\_

SUBJECT TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF ENGLAND.

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undesirable atmosphere of irritation. I had had no formal communication from our Foreign Exchange Committee but had gathered from talks with one or two of our banks that they were a little resentful of losing to British and Canadian banks business which by right should be theirs. I had recently discussed the matter informally with Mr. Loree, Chairman of the Committee. I had told him that if at any time his committee wished me to discuss this matter with Mr. Bolton I would of course be ready to do so. Mr. Bolton replied that ~~it was~~ ~~his business to interfere with anything that was done in~~ ~~the New York market~~ one of the rules issued to the market in London at the very outset had been that there must be no competition internally. All customers should continue to do their business with their own banks and English banks were under pledge to the Bank of England to ascertain from a new customer with what bank he had previously dealt. As far as they at the Bank were concerned they had done their best to get rid of market friction. He could not believe that there were many British banks, if any at all, which had gone out of their way to take business away from American banks. He remembered one complaint, he said, but when going to the bottom of it he had found that the New York bank had had all its facts wrong. They were only too anxious in London to do anything they could to smooth down the business. If there were any banks in New York that felt resentful because their British business had suffered, those banks must realize that they were suffering no more than anybody else. The fact of the matter was that there had been a

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

To CONFIDENTIAL FILES  
FROM L. W. Knobe

DATE April 10, 1941  
SUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.

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tremendous loss of business which had been felt by every bank in London. Exchange business and foreign business today was practically negligible. Would I send him details by letter of any instances of complaint that might come to my attention in the future? If there was anything he could do to put it right he would. The next time I spoke to Mr. Loree would I tell him very frankly that he (Mr. Bolton) was willing to do his best to right and smooth over any trouble at all. This I promised to do.

Was there anything further, I continued, that he might want to tell me in connection with Mr. Tong's letter of December 27 and our telephone conversation of February 4 in regard to the difficulties we were experiencing with the brokers in our market? When I spoke to him on February 4, I said, he had indicated that he might revert to this matter in a little while. Mr. Bolton replied that he was afraid there was nothing that he could do. The situation actually was this: that there was too little business left for anybody and as regards the future, the possibilities for the brokers looked very black. It seemed to him the proper thing to do was to tell the brokers the truth. In the circumstances, I replied, I would consider the chapter closed.

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## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE April 10, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

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Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£71,000
Purchased from commercial concerns	£68,000

The Federal Reserve Bank of New York purchased £10,250 in registered sterling from the French-American Banking Corporation.

Open market sterling held steady at 4.07-1/4. Transactions of the reporting banks were as follows:

Sold to commercial concerns	-0-
Purchased from commercial concerns	£ 2,000

In New York, the closing rates for the foreign currencies listed below were as follows:

Canadian dollar	12-7/8% discount
Swiss franc (commercial)	.2321-1/2
Swedish krona	.2384
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2325
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	4-11/16% discount

In Shanghai, the yuan was again quoted at 5-5/16¢, and sterling was 2¢ lower at 3.92-1/2.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$3,642,000 from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

The State Department forwarded a cable to us stating that the following gold shipments were made from Australia, for sale to the San Francisco Mint:

\$4,687,000 shipped by the Commonwealth Bank of Australia, Sydney, to the Federal Reserve Bank of San Francisco.

94,000 shipped by the Bank of New South Wales, Sydney, to the American Trust Company, San Francisco.

\$4,781,000 Total

In London, the prices fixed for spot and forward silver were unchanged at 23-1/2d and 23-7/16d respectively. The U. S. equivalents were 42.67¢ and 42.56¢.

The Bureau of Foreign and Domestic Commerce reported on April 9 that two lots of refined silver bullion, containing a total of 831,000 ounces, were transported from Monterrey, Mexico, to San Francisco, for trans-shipment to Bombay, India. Together with the 1,572,000 ounces reported by us yesterday as having left New York for Bombay, this makes a total of 2,403,000 ounces consigned to India. The current Hindu marriage season, incidentally, was reported to be one of the factors tending to increase the demand for silver in the Indian bazaars.

Handy and Harman's settlement price for foreign silver was unchanged at 34-3/4¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢. With reference to the four silver exports from New York to India mentioned yesterday, we understand that in one instance, Bombay interests paid 35-1/4¢ per ounce for spot delivery of the silver in New York.

We made no purchases of silver today.



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## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE April 10, 1941


TO Secretary Morgenthau  
 FROM Mr. Cochran

Official sales of British-owned dollar securities under the vesting order effective February 19, 1941:

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
March 31	70,918	1,659,484	20,600	21,205
April 1	226,856	3,545,141	25,000	13,009
2	35,858	1,221,974	Nil	Nil
3	72,065	1,260,693	25,000	13,116
4	66,240	1,685,865	Nil	Nil
5	Nil	Nil	Nil	Nil
	<u>471,937</u>	<u>9,373,157</u>	<u>70,600</u>	<u>47,330</u>
Sales from 2/22/40 to 3/29/41	<u>7,046,208-1/2</u>	<u>222,728,950</u>	<u>26,704,650</u>	<u>25,963,272</u>
TOTAL 2/22/40 to 4/5/41	7,518,145-1/2	232,102,107	26,775,250	26,010,602

Miss Poate reported no sales of non-vested securities for the week ending April 5.

*B. M. R.*



BRITISH EMBASSY,  
WASHINGTON, D.C.

PERSONAL AND  
SECRET

April 10th, 1941

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Halifax*

The Honourable,

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

TELEGRAM FROM LONDON DATED  
April 8th, 1941

NAVAL

Photographic reconnaissance on April 7th showed 2 German battle cruisers still at Brest and 2 pocket battleships and 2 Hipper class cruisers at Kiel.

2. As a result of fire His Majesty's Armed Merchant Cruiser "Comorin" abandoned and sank. Ships company taken off.

3. During air raid Piraeus night of April 6th/7th, 3 ships hit by bombs and mines laid. British ship of 7,500 tons blew up whilst alongside starting many fires. Some ships burnt and severe damage caused to dock area. Port will be closed several days.

4. His Majesty's Cruiser "Cape Town" torpedoed by E.boat off Massawa night of April 7th reported still afloat.

5. Attacks on shipping. British Tanker (8,250 tons) mined off East Coast early the 8th and reported sinking and British ship (1,750 tons) reported 2.15 p.m. 7th rapidly sinking 125 miles off Freetown.

6. MILITARY. GREECE.

To 9:15 p.m. April 6th. German advance from Nevrokop towards Drama held up but enemy gained some ground west of Rupel. Position east of Struma reported intact. 200 German Parachutists landed South of Rupel; all killed or captured. Situation Komotin and X. Sectors obscure.

7. YUGO-SLAVIA.

Yugoslavs reported advancing into Bulgarian



Bulgarian territory east of Carevo Selo towards Gorna Djumaya. German thrust towards Kumanovo and Skopje continues.

8. ROYAL AIR FORCE. April 7th.

Six medium bombers again attacked Ijmuiden steel works scored several direct hits.

9. NIGHT OF APRIL 7th/8th.

265 bombers sent out; 229 to attack dockyards at Kiel and 36 to docks at Bremerhaven and Emden; 2 missing definite and 3 more probably.

10. GERMAN AIR FORCE. April 7th.

Only few enemy aircraft came inland. Two destroyed by fighters.

11. Night of the 7th/8th. 395 enemy aircraft operating; 5 destroyed and 2 others damaged by night fighters.

12. HOME SECURITY. NIGHT OF 7th/8th.

Enemy activity widespread. Main attack on Glasgow and Clydeside where fires started in ship yards but only 1 serious. Other attacks on dock area Belfast where some damage, also Shorts Aircraft Works at Rochester and oil Cisterns at Thameshaven where fires started. Damage though extensive does not seem to correspond with scale of attack and casualties appear slight.

13. STOP PRESS. BALKANS. TO 9:00 A.M. APRIL 7th.

Latest reports following positions of German forces; 1 armoured division and 1 infantry division Kumanovo moving southwest. Elements of German troops Veles and on road 10 miles south west moving toward Prilep. Infantry division 10

miles/

miles northeast of Stip. An armoured division  
5 miles northwest of Lake Doiren going south.  
One mountain division east of Lake Doiren and  
another just over Greek defence lines in the  
Struma Valley. Two divisions 10 miles east of  
X. Six German divisions reported on Hungarian  
frontier.

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MILITARY INTELLIGENCE DIVISION  
WAR DEPARTMENT  
Washington, April 10, 1941.

TENTATIVE LESSONS AVIATION  
No. 15  
G-2/153-345

NOTICE

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

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VISIT TO AN R. A. F. FIGHTER STATIONSOURCE

Information in this bulletin is based upon recent reports of American official observers in England.

CONTENTS

1. THE STATION AND STATION PERSONNEL
2. FORMATIONS
3. TACTICS
4. PILOTS
5. MAINTENANCE, SERVICE, AND EQUIPMENT
6. DEFENSE

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CONFIDENTIALVISIT TO AN R.A.F. FIGHTER STATION1. THE STATION AND ITS PERSONNEL

The group visited by the observers consists of three squadrons of Spitfires, a station headquarters squadron, supporting anti-aircraft and airdrome defense forces, and a small number of auxiliary and service units. Nearby is a dummy field, as well as a satellite field at which a squadron of Defiants operate as night pursuit. Units are all under the command of a group captain.

The establishment is permanent, and the R.A.F. calls it a "station." Beside a complete peacetime base, it comprises improvised defense works and temporary buildings added for the expanded garrison after hostilities commenced. The landing field is an irregular oval, sod surfaced and gently sloping to the east and south. Running around the edge of the field and flush with it is a paved road called the perimeter track. The area enclosed within the road is roughly estimated at 2500 feet by 3500 feet. Spotted irregularly around the road are twelve or more "dispersal pens," each designed to hold two airplanes. In addition, there are three hangars, each of which may house from one to four airplanes undergoing work.

A few additional airplanes were seen scattered about at the edges of the field, unprotected by the dispersal pens. Although the field has been attacked in four separate daylight raids and several hundred bombs have fallen on the field or in the vicinity, the buildings have thus far escaped damage, except that one permanent building was hit while under construction. The holes in the field and the damaged dispersal pens, were quickly repaired after each bombing and the field was never out of use for more than 24 hours. Security forces and anti-aircraft units are constantly ready, but in the main the work of the station moves on without noticeable interruption.

A sod field, if soil and weather permit its establishment, is preferred to ordinary runways, for the latter are hard to camouflage and are not so quickly repaired after bomb hits.

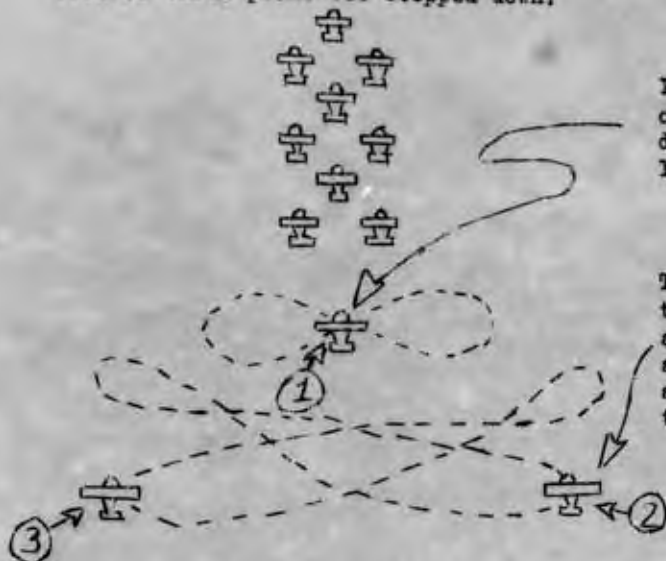
Squadron personnel live less than a quarter of a mile from the field. This is essential in the case of interceptor units. The three operational squadrons have very little to do with administrative matters; base personnel attend to such details. Records of personnel and service are kept by the headquarters squadron; supply and equipment paper work is handled by the station equipment branch and the accounting branch; messes are run by organizations other than the squadrons themselves. In fact, squadrons perform only the operational duties of flying and maintenance.

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b. Take off in clear weather in flights of six planes as in (2) above, and join in twelve-ship squadron formation of three plane Vee stepped down.

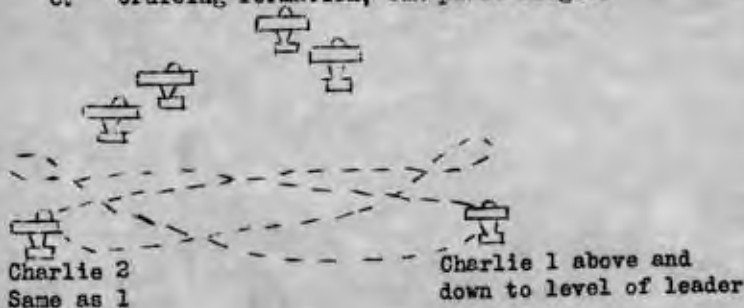


In cruising, the leader of the last element does a figure "8" as lookout below.

The two wing men of the last element alternate back and forth as lookouts from above and down to the level of the leading element.

When an enemy is sighted, announcement is made over the voice radio in reference to the leader as above or below in clock code. Example: "Six bandits three o'clock below". It should be of interest to note that the last element - lookouts - in this formation are known as "Tail End Charlies" and are referred to in squadron orders as Charlie 1, 2, and 3.

c. Cruising formation, six-plane flight.



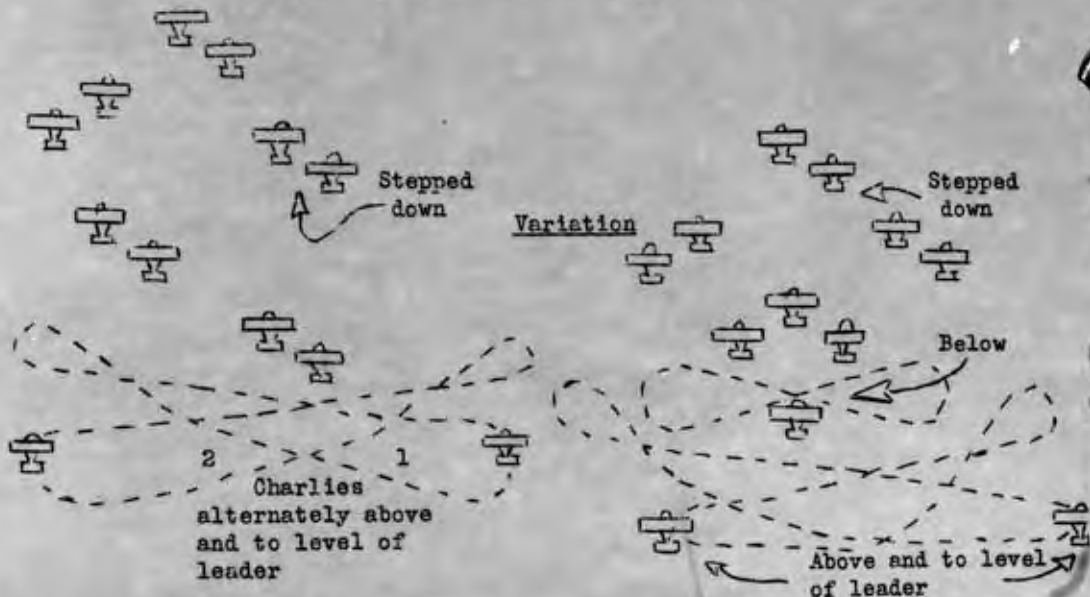
d. Cruising formation of three plane flight sometimes sent out as check on depth of overcast or as small patrol. When in the clear, thus:

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Charlie above and across, never below, leader responsible for rear

e. Some squadrons - 12 planes - prefer to cruise in this manner. When attacked by hostile fighters, they always attempt at least to fight in pairs. This formation is very much like our two-ship formation, but elements are more in line.



f. If attacked by hostile pursuit squadrons go into "line astern" or string stepped down by flights of six.

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Leader and last man check rear in rear vision mirrors

"Line astern" is invariably used for all attacks except when hostile formations are met head-on.

g. If enemy pursuit is sighted with altitude advantage, the squadron goes into a defensive circle - our Lufberry circle - and attempts to climb the entire circle to an advantageous altitude.



h. All cruising formations of any type always have lookouts, or Charlies.

### 3. TACTICS

#### a. Attacking Methods

Spitfire squadrons cruise in columns of sections as shown in 2b. Planes are close together except for the last section, which forms the rear guard. The actual formation adopted varies according to the desire of the squadron leader. When attacking, planes usually divide into two flights of two or three sections each, the flights forming "line astern" stepped down - a close string with each pilot aiming and firing individually. Whenever possible, pilots attempt to strike bombers head-on, in which case the flight attacks the bomber formation in a broad Vee. One squadron leader stated that he aimed first at the engine nacelle, since a disabled motor so slows the target plane that it is easy to finish off the cripple in a second attack.

Against hostile fighters, "line astern" tactics are employed. If the enemy formation has an altitude advantage, the leader circles and closes the line into a defensive circle - a Lufberry circle - and maintains it until a position favorable for attack has been gained or until the enemy pulls away. Once formed, the circle usually gains altitude as it moves around. The R.A.F. does not use massed fire - that is, fire in which only the leader aims, and the remainder of the flight fires on his aim.

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CONFIDENTIALb. Miscellaneous

Long range firing is not used, since British pilots state they cannot afford to throw away rounds at long range with only 15 seconds or less of fire. Bullets are also more likely to miss, to bounce off armor, and to spread more at long range. Guns are sighted to intersect at 250 yards. The pilot aims at the motor first, and when the hostile plane is crippled, he attempts to cut the tail off. Personnel are apt to be too hard to hit because of armor protection.

Pilots of fighters prefer speed first, but climb and maneuverability also are vastly important. Thus some compromise is necessary. One solution is to employ several types and use them as a team in accordance with the situation. A very fast, high flying fighter, such as the Spitfire, is needed to combat the German fighter. The highly maneuverable, rugged, and dependable Hurricane is more effective against hostile bombers and reconnaissance. The controlling factors are the hostile situation and flying conditions.

4. PILOTS

Some information regarding pilots of fighter squadrons is given here. This information was collected in talks with pilots and the group captain at the fighter station.

High altitude flying is indispensable to daytime interceptor pursuit. All pilots insist they must meet enemy fighters on equal terms in respect to altitude, although of course they prefer to have an altitude advantage. The trend is to engage at ceiling, with each side trying to out-top the other. German fighters raiding Great Britain have the advantage of initiative and a long approach for gaining altitude. The usual height given a patrol is 30,000 feet and it works up from there if time is available.

The only physical reaction normally noticed is a degree of exhaustion after each flight. In extreme cases, when a pilot is not entirely fit, stomach distress is felt, and some pilots complain of pain from "the bends" in wrists and fingers.

Fighter pilots fly from two to four high altitude missions a day, with only one or two days a week to rest. If this schedule is adhered to, they should be relieved from an active sector after about six weeks. Such relief is best provided by removing the entire squadron to a quiet sector. The three squadrons visited had been in action for more than two months, but with winter's shorter days and less action, they were not as fatigued as they would have been in July or August. The average mission, called a "sortie," is less than 1½ hours in duration.

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The flying hours of pilots depend upon enemy activity and availability of relief. Some units average 60 hours per month in an active sector, but the average is about 40 hours per month.

Pilots are expected to be able to take off with ground visibility as low as 50 yards, but this is extreme, and it invites accidents. In low ceiling and quarter-mile visibility or higher ceiling, the planes of a flight take off together and climb through the overcast in sections, re-forming on top. The same procedure is followed in descending. When visibility and ceiling are bad at the home field, the squadron is landed at another airport.

5. MAINTENANCE, SERVICE, AND EQUIPMENT

a. Maintenance

(1) Airplanes

Stockage of parts and other supplies is not fixed by percentage of new airplanes, but is based upon consumption records and general availability of materials. Elaborate percentage tables prepared in peacetime are completely disregarded in war, according to the equipment officer. Three spare engines per squadron are allotted to the station; these are assigned directly to the squadrons and are kept by the station engineering section. Very few engine changes occur because of the relatively short life of airplanes in active combat squadrons.

Intermediate storage depots, similar to American air corps depots, are used. All classes of property are supplied, or at least controlled, from one intermediate depot.

(2) Air Fields

Repair of damage to the air field and defense works and emergency repair of roads at the station are functions of a section of Royal Engineers consisting of about 68 men and two or three officers. This unit is stationed at the airdrome for the specific purpose of keeping the air field serviceable.

When bombs fall on the field, rubble is dumped into the holes by trucks. A gasoline-operated bulldozer pushes rim earth on top of the rubble in the crater and then runs over it for the purpose of packing it down. The entire patch is finally leveled with a power roller, and sometimes an asphalt and macadam surface is applied.

Work commences at daybreak after a night attack, and all holes are filled and surfaced within a few hours. Meanwhile, bad places are marked with flags, and flying continues so long as a sufficiently large undamaged area is available for a take-off.

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When they are not engaged in making emergency repairs, the engineers install protective sandbags and repair and reinforce blockhouses, earthworks and barricades.

The construction, maintenance and repair of structures are responsibilities of the Works and Building Branch, similar to the United States Q.M.C. Original construction, including shelter trenches, dispersal pens, and revetments, was done mostly by private contractors under the direction of Works and Buildings.

b. Services

(1) Fuel and Oil

Fuel and oil are delivered by contractors in tank trucks and then drained into underground storage tanks having a capacity of about 78,000 imperial gallons. They are distributed to airplanes by small, light servicing trucks having capacity of 400 gallons each. These trucks are quickly filled from overhead pipes at the main fuel storage tanks. Airplanes are also serviced from overhead hose lines. The equipment section of the station headquarters squadron is responsible for distribution of fuel and oil to airplanes.

(2) Signal

The signal section maintains and operates the Tannoy loudspeaker installation for publishing pertinent instructions and information constantly. The entire command may be instantly alerted, ordered to readiness, or told to "stand down." Telephone, radio, and teletypewriter installations, as well as various signal lights in operations control room, are used.

In the case of fighter aircraft, radio operators in the squadron replace unserviceable radio sets with serviceable sets as they are needed. Except for simple tests and replacement of dead tubes, no radio repair is attempted in operating squadrons. Complete radio sets for airplanes are always at hand for installation in fighter airplanes with minimum loss of time.

(3) Ammunition and Armament.

Machine gun ammunition is issued daily to flights in small lots from the station armament section storehouse. A small stock - enough for one day's operations - is kept on hand in each dispersal pen. Stock consumed is replaced the following day.

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In operating flights, the number of machine guns kept on hand as spares is equal to ten per cent of the total number in use. In the Spitfire, machine guns are located in the wings and are completely covered. They are heated by air ducts leading from the radiator to each gun. The blast tube opening is covered over with a fabric patch coped to the wing as a protection against weather on the ground and against moisture or ice in flight. At the first burst of gun fire, the patch is blown off.

Of eight guns, three usually fire ball ammunition; one gun, incendiary Mark IV, slightly explosive; two guns, armor piercing ammunition; and two guns, outboard, ball ammunition except for the last 50 rounds, which are tracer. There are 350 rounds for each gun, or enough for 15 seconds of fire. Total fire power amounts to 160 seconds at the rate of 1100 rounds per minute per gun.

c. Equipment.(1) Flying Clothes

In general, British flying clothing is similar to that used in the United States; electrically heated clothing was not used at the station visited. Hip length woolen stockings procured from the Royal Navy were issued to pilots to protect their knees from the cold. The pilot usually wears gloves, a sweater, and a scarf; he always wears a helmet, an oxygen mask, goggles, and R.A.F. flying boots. If he wears a flying suit, it is an Irvin suit, with or without wool liner. Some cockpit warmth is gained from the engine, but there is no cockpit heater provided. Pilots frequently open cockpit hoods when they are in action.

Some pilots grease their faces between oxygen mask and helmet, since goggles slide or blow off and cheek bones become exposed to the cold air streams. In combat, goggles with partial face masks are considered essential to protect the pilot against gasoline, prestone, fire in the cockpit, or glass particles sprayed in the face from hits on the windshield. Few pilots remove goggles when entering combat.

A primary consideration in flying clothing for the Fighter Command or interceptor pursuit pilot is the time factor at the take off.

Since R.A.F. boots are suitable for wear about the field, in the mess, or in the air, the pilot's feet are always ready when he is "available" or "in readiness."

The helmet assembly has earphones, microphone, oxygen tube, and goggles attached. It is split up the back, and when the pilot is preparing for a take off, he can quickly pull on

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the assembly and adjust it. It may be kept in the cockpit. If the helmet is donned outside, the oxygen tube and radio cords must be plugged in. This is very easily done.

(2) Oxygen

Oxygen equipment is similar to that used in the United States. It consists of high pressure bottled oxygen with a regulator valve. The tank is charged to about 1800 or 2000 pounds per square inch, and the automatic regulator can be set for normal feed according to altitude. Manual control allows for excessive rate of supply if this is desired. Except when feeding is at the normal rate, supply is likely to run out before fuel is exhausted.

Pilots are not in favor of pressure cabins. They fear the effect of bullet or cannon shell holes and also the impairment of vision, particularly in dives. At the present time Spitfire cabins tend to ice up inside of the windshield in a long dive as a result of body and breath moisture, cold glass - particularly the one-inch bullet-proof glass - and imperfect ventilation with no cockpit heater. Pilots generally believe that this condition would be aggravated in pressure cabins. If pressure is needed they argue for pressure suits as lighter, cheaper, and more dependable, even if they are clumsy to wear.

6. DEFENSEa. General

The defense of the airdrome and its airplanes against attack from the ground by parachute troops, against attack from the air by transport or by flying columns of invading forces, and against sabotage is the responsibility of the airdrome defense officer. Revetments are used for the protection of airplanes. Fighter planes stand in dispersal pens in the open, ready for action, except when undergoing their 30, 60, and 90-hour periodic inspections. These take place in a hangar.

The following passive defense measures against air attack are used:

- (1) Dispersal;
- (2) Camouflage;
- (3) Shelter trenches for personnel;
- (4) Revetments for airplanes;
- (5) Underground and partly bomb-proof shelters for gasoline, oil, and ammunition;
- (6) Sandbag protection at critical points;
- (7) Warning system to alert the entire command.

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The following active defense means are used for close-in defense of the air field:

- (1) Half battery of four 4.5-inch antiaircraft guns;
- (2) Half battery of four 40-mm. Bofors antiaircraft guns;
- (3) Several armored trucks, each mounting two .303-caliber machine guns;
- (4) About six block houses containing two machine guns each;
- (5) A system of trenches and earthworks forming strong points near each block house;
- (6) A barbed wire barricade completely encircling the post;
- (7) A company of infantry to man ground defenses, and prevent sabotage;
- (8) A section of Royal Engineers, all trained riflemen;
- (9) R.A.F. personnel of the airdrome defense section, some of whom trained machine gunners for air or ground defense, and others riflemen;
- (10) A system of spotters, who keep a constant watch from a point on a hangar roof;
- (11) Intelligence received from sector control (operations room) by Tannoy and telephone;
- (12) Fighter Aircraft for interception of the enemy, although such aircraft would not normally operate for close-in protection.

b. Camouflage

Camouflage of the entire station was planned by a technical expert and the work was performed by station personnel. Paint and turf have been used, and there are shelter trenches, revetments, and a small amount of netting around gun emplacements. This station is not easily located from the air because of its irregular outline, its arrangement of hangers and other buildings, the close proximity of the village, and absence of any distinguishing landmarks. Painted stripes on the turf landing area simulate hedge-rows when seen from aloft and seemingly break up the large field into seemingly small fields. These simulated hedge-rows must be renewed frequently, since the paint tends to wash away when it rains. The dummy air field nearby has attracted a great many bombs.

It is fairly obvious that this station could not have escaped severe damage had it been located, like many American airports, in the bend of a river or on a shoreline. The first essential for concealment of an operational air field is a naturally inconspicuous location.

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CONFIDENTIALc. Chemical Defense

The chemical defense system comes under the station gas officer, who, in turn, is under the airdrome defense officer. He is in charge of the gas defense center, decontamination units, gas equipment reserve, and gas defense squads, and he is responsible for gas training. Each unit also has its own gas officer.

For equipment, every individual on the post is issued a No. 5 gas equipment set; civilian employees draw sets on loan. The set consists of a gas mask with container, anti-dim, six pairs of eye shields, a cap, a hood, and in some cases trousers. About a third of the personnel also have gauntlets and overboots.

Each squadron has on hand, in a convenient storeroom, a 200 per cent reserve of No. 5 gas equipment and special equipment for decontamination squads. In the headquarters squadron storeroom are gum boots, short coats, trousers, gauntlets, lanterns, wheelbarrows, picks, shovels, and long-handled brushes - enough to equip 28 men, or four squads, for decontamination work.

In nearby storage sheds there are many tons of bleaching powder. Dumps of loose sand and piles of sandbags are located at intervals of approximately 200 feet all over the post. While the sand is used primarily to quench incendiary bombs, it is also available for gas defense purposes. Shovels are posted at the entrances of all buildings.

Each squadron has trained decontamination squads. All occupied buildings and all shelters are provided with double gas-proof blanket frames at entrances, although blankets are not always in place. The danger of invasion is now held to be remote, and consequently gas attack is not considered imminent. With the exception of the fact that gas blankets are absent from some doorways, all possible precautions against gas attack appear ready for instant use. Gas alarms are strategically located, and the Tannoy speaker would doubtless be used to issue general warning as soon as hostile gas actions were reported.

In addition to normal reserves of anti-gas clothing, large stocks of light weight anti-gas hoods, coats, trousers, overboots, and gauntlets are maintained for issue to those whose duties require them to work out doors when subject to gas exposure.

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Paraphrase of Code Cablegram  
Received at the War Department  
at 13:00, April 10, 1941.

London, filed 18:30, April 10.

The War Office has released the following information to date of news today.

1. The British situation east of Tobruk in Libya is serious.
2. In Greece there is evidence of a German double envelopment of the Eastern Hellenic Greek forces from Salonika. The Germans are apparently taking up positions in the Vardar Valley.
3. Reports have been received that a German force has advanced south into Yugoslavia from Hungary.
4. German mechanized columns took Uroevac and are proceeding to Pristina and Stajice. The columns advancing from Prilep to Monastir have proceeded as far as Mogila. The columns which took Nish and have now proceeded as far as Frenkplje and Bataj consisted of 5 German divisions some mechanized. Other columns crossed the Danube at Fekije and Kladevo. Virovitica and Koprivnica were captured by forces which crossed the Drava River.

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London, filed 15:35, April 10, 1941.

1. British Air Activity over the Continent.

a. Daylight, April 9. Operations were limited to sweeps of pursuit ships over occupied France and Belgium and airplane convoys over seaborne traffic off the coasts of England. One freighter was damaged by Coastal Command fighters in raids off the Holland and Breton coasts.

b. Night, April 8-9. Serious destruction is claimed for British flights totaling 160 planes over Kiel and 39 over Brunschoven and Rotterdam. Pursuit squadrons were active in bombing German airfields in occupied France with some success reported.

2. German Air Activity over Britain.

a. Night, April 9-10. Birmingham and Tynes were heavily bombed in a series of widespread raids. Information as to damage is lacking.

b. Daylight, April 9. German operations were limited to scattered flights of single planes over Portsmouth and Poole and three over Deal.

3. Air Losses British Theater.

a. British, night of April 8-9. Five British planes failed to return from raids over Holland and Germany. None was lost in the raids over occupied France.

b. German, night of April 9-10. Night pursuit ships shot down four German planes with two more probable and two damaged.

Daylight, April 9. Four enemy planes were shot down with two probable and four damaged.

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4. British Air Activity in Middle Eastern Theater.

British air forces were active in operations from Greece and Egypt against German ground troops, mechanized vehicles, and planes in Yugoslavia, Greece, and Benghazi, Libya.

5. Intelligence from British authorities in both Greece and Egypt is much retarded in reaching London.

6. Heavy destruction is reported as result of the German raids of 180 estimated planes night of April 8-9, especially in Coventry. The Daimler factory and other important works bombed in secondary raids on Portsmouth suffered serious damage.

7. British Military Intelligence reports that at the time of the German attack on Yugoslavia six armies out of seven were not fully mobilized and the one which was mobilized (3d Army) was advancing towards Albania. Disposition of armies was as follows:

4 -- Northern Yugoslavia.

2nd Army -- partly to Sarajevo Area, the rest scattered in other armies.

1st Army -- partly in Piroet Area, rest driven west of Skoplje.

SCANLON

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Paraphrase of Code Radiogram  
Received at the War Department  
at 13:55, April 10, 1941.

Sofia, filed 20:30, April 9, 1941.

1. In reply to your Radiogram Number Six. - Bulgarian divisions are definitely known to be located as follows:

Turkish-Bulgarian frontier: Second Rapid Division (Half only), 1st, 2nd (Half only), 5th, 4th, 5th, 8th, 9th, 10th, 15th Infantry divisions.

Great-Bulgarian frontier: 2nd Rapid (Half only), 2nd Infantry Division (Half only), 12th, 39th.

Rumanian-Bulgarian frontier: 6th, 7th (less 39th Inf. Bgt.), 11th, 16th (incomplete) infantry divisions.

Serbia: 14th Infantry divisions.

2. Judging from the German troop dispositions, an attack on Yugoslavia seems likely at any time. Their divisions are placed as follows:

Easternmost area on Rumanian frontier: 4 or 5 divisions.

Area N.W. of Sofia: 5 or 6 divisions including one mechanized division.

British and area south of Florniv (Philippopolis) on Greek frontier: 4 or 5 divisions.

Balkan frontier: 4 or 5 divisions placed in rear of the Bulgars.

JAMES

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Paraphrase of Code Cablegram  
Received at the War Department  
at 10:12, April 10, 1941

London, filed 14:45, April 10, 1941

1. In reference to your request for information dated April 7th in regard to strength and disposition of the British in the Balkans, this office has secured unofficial information confirming our report of strength of the British armies in Greece cabled on April 8th.\* All troops are from General Wavell's command and are now in defensive positions approximately Veris-Elasson-Gastrove and south of the Monastir gap.

2. At the beginning of the Middle East operations Prime Minister Churchill personally prohibited the Ministries from reporting strength, disposition or movements of British troops. High authorities requested that we be given the information you asked for without success. It is not impossible that the desired information may be submitted direct to the President.

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\* Details: Two infantry divisions, an armored group and many antiaircraft batteries, eight bombers, three fighters and one many cooperation squadrons.

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**Paraphrase of Code Radiogram  
Received at the War Department  
at 10:22, April 10, 1941.**

**Same, filed 14:05, April 9, 1941.**

**Large Italian and German forces have been concentrating near Brindisi and Bari. They include armored elements. The concentration has been in progress for the last four days. The intention is a landing operation on the west coast of Greece. This is based on statements of a thoroughly trustworthy source.**

**FINIS**

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