

January 3, 1941
10:20 a.m.

RE LEGISLATION

Present: Mr. Bell
Mr. Kuhn
Mr. White
Mr. Sullivan
Mr. Foley
Mr. Gaston
Mr. Gaston
Mr. Bernard
Mr. Young
Mrs. Klotz

- Mr. Jr: In order not to overlook Mr. Sullivan, let's do you first. When I get into this English thing, I don't know how long it is going to last. Incidentally, that water picture was marvelous.
- Sullivan: I am sorry I couldn't get the original.
- Mr. Jr: Marvelous plus what was in it. It was most attractive the way it was fixed up. It made a big hit.
- Sullivan: I hope you got a laugh out of it.
You wanted a copy of the draft of the second bill.
- Mr. Jr: Which is this?
- Sullivan: This is the one that allows states to tax our

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securities and allows us to tax future issues of state and municipal securities.

Foley: I would like to take a look at that, John.

Sullivan: Yes, I want you to.

Foley: I gave him a look at mine, I don't know why I can't look at his. (Laughter)

H.M.Jr: Well, it is wonderful. This isn't the State Department you know. We talk to each other here.

Sullivan: I didn't think it was.

H.M.Jr: Well, I am not sure. This is wonderful. Well, Sullivan, what does this say?

Sullivan: Well, I will get you an outline. You asked for a copy of the bill to take with you today.

H.M.Jr: Yes, but I will never read this.

Sullivan: All right, I will get you an outline.

H.M.Jr: What does it say?

Sullivan: This is the bill, as I understand it, the procedure is that the first bill will be Mr. Foley's, the one he is going to present here today, which makes it mandatory to federally tax future federal issues.

H.M.Jr: Yes.

Sullivan: Then after that is passed, we then go in and say, "Now, we are taxing our own issues, we want the states to be able to tax our future issues, and we want to tax future state and municipal issues.

H.M.Jr: How are you going to do that?

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- Sullivan: And that will be done through this measure there.
- H.M.Jr: Have you (Bell) seen this?
- Bell: No, but I think that is the right procedure, to separate them.
- Sullivan: We will have to allow them the right of refinancing outstanding issues that are callable. In other words, if they have an issue outstanding that matures in 1950 that they are paying four percent on and they can float a new one for two and a quarter, they should be allowed to call in that one and be allowed an exemption on the new ones to the amount of the outstanding to the date of maturity.
- H.M.Jr: Now, Mr. Sullivan, in the first place I want my own crowd to see this first and chew it over and then after we have chewed it over and have a one-page memorandum I want to ask the President is this the way he wants it done, but first I want an agreement among our own people.
- Sullivan: Right.
- H.M.Jr: Now, let everybody have a copy that wants a copy, you see.
- (Mr. Kuhn entered the conference.)
- Foley: I have got three things, Mr. Secretary.
- H.M.Jr: Kuhn, we have just talked about a reciprocal bill for the Federal Government to be able to tax future issues of State and municipals and they would have the right to tax us, you see, and I have referred it back to some of the people who haven't seen it yet. You have got a what?
- Foley: Well, I have got the counterpart to that bill

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which we have all been over several times. That is the one that raises the debt limit and removes the exemptions in so far as all of the future federal and federally guaranteed obligations are concerned.

(Mr. White entered the conference.)

- Foley: It provides for the issuance of saving certificates, it provides for the issuance of savings bonds, either on a coupon basis or a discount basis or partially coupon and partially discount and--
- Bell: Savings stamps?
- Foley: Savings stamps. It will permit us to do the small borrowing and bring the little fellow into the picture that you discussed. If you want us to hold that one until we are in agreement on John's and then put it all into one memorandum for you to take to the President and say, "Is this the way you want to proceed?"--
- H.M.Jr: Yes, that is the way.
- Foley: We will do it that way.
- H.M.Jr: Well, he won't receive this Monday, but he might be willing to take this up Tuesday.
- Foley: We can be ready to take this up Tuesday, can't we, John?
- Sullivan: I think so.
- Bell: I was hoping you might have a hearing before the Ways and Means Committee Thursday or Friday of next week.
- H.M.Jr: That is all right.

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- Foley: I hope to have a statement ready for you over the weekend too, because nobody knows how quickly we will get it rolling.
- H.M.Jr: Any statement I am going to give in the future, before it comes to me I want Kuhn to go over it. You can give it to him in technical form, but I would like him to go over it for me. You will always have to put the beefsteak in it, but they can give you the technical one.
- Sullivan: Well, now, in that statement, are you going to let them know that you are coming along with this other one next?
- Bell: I shouldn't think so.
- H.M.Jr: Personally, I think we ought to dump them all in their lap at the same time.
- Bell: Have a hearing on them all at the same time?
- H.M.Jr: Sure.
- Bell: Why don't we rush this debt limit thing and get it out of the way?
- Sullivan: That wasn't the understanding you had with the group in the Senate, Mr. Secretary.
- Foley: The only understanding we had was that they would be separate bills, John, and they can take them up separately if they want to or they can put one ahead of the other.
- H.M.Jr: I have refused to tell the Press for weeks now how we are going to handle this thing. When I go up on a hearing or a debt limit or anything else, they are going to say, "Mr. Morgenthau, what do you propose to do?" I can say, "Well, if you are ready, here it is." I have got to have it. I can't say my crowd hasn't told me

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yet or I haven't made up my mind yet, but I have got to have an answer.

Bell: I see no objection to having the bill introduced, but I should think the hearings ought to be kept separate and let's not confuse the two because it is important that the two get through.

H.M.Jr: I am with you a hundred percent, but supposing I sent you up there alone. Would you want to go up there and not know where Mr. Roosevelt and I stood on the question?

Bell: I think you have got to tell them, but not have a hearing on it.

H.M.Jr: I want to be in a position to give them a complete program and say I am not going to push the thing. There is no difference, but I can't go up there and play dumb on it.

Bell: That is right.

H.M.Jr: O.K.?

Bell: Yes.

H.M.Jr: We are together. It is just a question - "here is a complete program, gentlemen, how do you want to proceed?" And not push it. Is that all right.

Bell: It is all right with me.

Foley: Now, you wanted a memorandum of all the legislation in this session that the Treasury wants and I have that. It is quite a long memorandum. *1/31/41*

H.M.Jr: You are putting words in my mouth, but it is all right.

Sullivan: Oh, I beg your pardon, my ears got it the same way.

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- Foley: I understood you to say this morning at ten-fifteen you wanted to know from us all the legislation the Treasury wanted at this session. That was my understanding.
- H.M.Jr: Just check the notes, will you (Reporter)?
- Foley: Isn't that right, Dan?
- Bell: Yes.
- H.M.Jr: I am not going to argue. If you are right, you are right.
- White: But check the record. (Laughter)
- Foley: Like that time he told the Secret Service fellow he didn't care where he went, he could go anywhere, and he wasn't going to ask him until he got back. (Laughter)
- Sullivan: He did it. We will have to correct him on that.
- Foley: I won't ask him until he gets back where he took you.
- H.M.Jr: I will say this, Bell was an hour late to dinner. I don't know where he was.
- Bell: Riding them around town. (Laughter)
- H.M.Jr: I never did have a chance to ask him.
- Sullivan: I think he had the Secret Service fellows following the wrong track.
- Foley: Yes.
- White: Well, what are these bills concerned with? Is there anything the rest of us ought to know. (Laughter)

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- Foley: Well, you would like to know what is going to happen to the Stabilization Fund and the power to devalue the dollar and things like that.
- H.M.Jr: Now listen, just a second. Let's do - if you fellows haven't got it ready yet because you haven't talked to each other, let's get the debt limit and the tax question, you see, in such shape that we can - I can have something on Tuesday, you see, and I will put the date down now.
- Bell: That includes Sullivan's bill, too?
- H.M.Jr: They will all be one. It is debt, taxing of future federal, taxing of--
- Foley: Reciprocal, non-discriminatory--
- Bell: There will only be one?
- H.M.Jr: It will be a joint memorandum.
- White: When you speak of a debt limit, do you have in mind a ceiling as well as removing the partition?
- Foley: Yes.
- H.M.Jr: A specific ceiling?
- Foley: Yes. Don't ask me. One might ask him.
- Bell: I am not in a position to tell you yet.
- H.M.Jr: Dan is getting good. You know, that Chinese story was wonderful. (Laughter)
- What did you say, Harry?
- White: I am not in a position to comment.
- H.M.Jr: You know, that Chinese story was marvelous.

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Have you heard it?

Bernard:

No.

H.M.Jr:

You had better learn it.

Have you (Cox) heard it?

Cox:

Yes.

H.M.Jr:

Well, tell it to him when you get out.

Bell:

I really don't know, Harry, it sounded a little sarcastic.

Gaston:

The matter is under study.

H.M.Jr:

You have heard the Chinese story, haven't you?

Sullivan:

Yes. I didn't know of what it was applicable, but I later discovered. I am glad I was in New Hampshire last week.

H.M.Jr:

I am going to put down ten-thirty Tuesday for legislation, you see.

Foley:

Ten-thirty?

H.M.Jr:

Yes.

Sullivan:

Tuesday?

H.M.Jr:

Yes, Tuesday at ten-thirty, and that means at that time we will take up other things that anybody is interested in, but not to get my docket too crowded, is there anything that is more pressing than - for the Treasury this comes first, doesn't it, Dan?

Bell:

Yes, that is the first thing on the docket.

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- H.M.Jr: I can't assimilate more than that because I have got to do this English stuff, you see.
- Foley: Right.
- H.M.Jr: So, Herbert, have you got anything that is pressing?
- Gaston: I have nothing that is pressing.
- H.M.Jr: Then at ten-thirty we will take up the rest of this stuff.
- Bell: We are going to have a lot of chairs, Mr. Secretary, on the balcony and front which are excellent seats.
- H.M.Jr: Well, it made a big hit last year.
- Gaston: Don't they take care of the Secretaries up on the Hill at the Inauguration Ceremonies?
- Bernard: They may at the Inauguration Ceremonies.
- H.M.Jr: But not for the parade.
- Bernard: I don't know whether they could physically get down here in time for that.
- H.M.Jr: They did last time.
- Gaston: That was for the King and Queen.
- H.M.Jr: The point is, it doesn't do a bit of harm to offer it to them.
- Foley: I was both up there and down here last time. There was plenty of time to get down.
- H.M.Jr: Well, if you will talk to Mr. Thompson.
- Bell: There is one thing I would like to raise on this

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debt limit thing. We are taxing whole obligations issued by corporations or any agencies of the Federal Government, and that means Federal Land Banks and some of the other agencies like Farm Credit.

H.M.Jr: I took that up with the Secretary of Agriculture.

Bell: Well, we will send it down also to Governor Black and I think they are willing but they call attention to the fact that the Federal Land Banks are, in part, privately owned, and as to whether or not we should apply the guarantee to those obligations. I think we should.

H.M.Jr: The guarantee?

Bell: We should guarantee the Federal Land Bank obligations that are issued and outstanding rather than having the tax exempt features.

H.M.Jr: You haven't reached me, Dan.

Bell: You see the obligations now standing in the Federal Land Banks do not have the guarantee.

H.M.Jr: That has always been a question, but it is always considered that they do.

Bell: And we have always given the money to add to their surplus.

H.M.Jr: But we have always said if they ever went broke the Federal Government would have to do that.

Bell: There is a moral guarantee.

H.M.Jr: I used to be over there.

Bell: And I think when we take out this tax exemption feature, we ought to add the express guarantee.

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- Foley: You mean they are trading on that. They say if you ask us to give up the tax exemption, you give use the guarantee.
- Bell: No, they are not trading, they just asked the question, and in John's bill last year we admitted that they ought to add the guarantee. It is virtually there any how, and you might as well add it.
- White: The idea being, it might depress the prices if you had removed the tax exemption, and you will compensate by giving a guarantee which you are already obligated to any how.
- Bell: That is right.
- White: What interest do they borrow at.
- Bell: Well, they get down around three percent.
- White: Three percent for a Government guarantee?
- Bell: No, lower than that if they had the guarantee. They get around two and three-quarters now.
- H.M.Jr: Well, I wouldn't want to give a snap answer, but it sounds all right.
- Bell: All I want to do is tell them that we will go along with this letter on that.
- H.M.Jr: Have you got anything, Herbert, on this, before we go to the English?
- Gaston: No.
- H.M.Jr: Well, now who is here helping me on the English?
- Foley: Oscar and I.
- H.M.Jr: You (Sullivan) have got a bill of goods to sell

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these boys, John.

Sullivan: I don't think so.

H.M.Jr: I had more fun over that picture. I had almost as much fun, I think, as you had making it.

Sullivan: I doubt it.

H.M.Jr: It was very clever.

Sullivan: Well, I will have copies made and sent to the boys.

H.M.Jr: O.K. Now--

(The dates herein used are based on the assumption that the Bill will be enacted in April, 1941, so that an interval of about 90 days will exist between its enactment and the date expiring the taxable issues from the tax-exempt issues.)

A BILL

To provide for the reciprocal income taxation of public obligations, and for other purposes.

Enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Public Bond Tax Act of 1941."

Sec. 2. Section 20(b)(4) of the Internal Revenue Code is amended to read as follows:

"(4) **TAX-FREE INTEREST.**— To the extent provided in section 116(b), interest upon obligations issued by (A) a State, Territory, or any political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing; or (B) a corporation organized under Act of Congress, if such corporation is an instrumentality of the United States (as defined in section 116(b)); or (C) the United States or any of its possessions. Every person owning any of the obligations enumerated in clauses (A), (B), or (C) shall, in the return required by this chapter, submit a statement showing the number and amount of such obligations owned by him and the income received therefrom, in such form and with such information as the Commissioner may require."

Sec. 3. Sections 20(a)(1) and (2) of the Internal Revenue Code are amended to read as follows:

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"(1) INTEREST ON UNITED STATES OBLIGATIONS.-- The amount received as interest upon obligations of the United States if such interest is included in gross income under section 21, and if under the Act authorizing the issue of such obligations, as amended and supplemented (including the amending and supplementary provisions of section 4 of the Public Debt Act of 1941), such interest is exempt from normal tax.

"(2) INTEREST ON OBLIGATIONS OF INSTRUMENTALITIES OF THE UNITED STATES.--The amount received as interest upon obligations of a corporation organized under Act of Congress, if (A) such corporation is an instrumentality of the United States (as defined in section 116(b)); and (B) such interest is included in gross income under section 21; and (C) under the Act authorizing the issue of such obligations, as amended and supplemented (including the amending and supplementary provisions of section 4 of the Public Debt Act of 1941), such interest is exempt from normal tax."

SEC. 4. Section 116 of the Internal Revenue Code is amended by inserting after subsection (a) a new subsection to read as follows:

- "(b) TAX-FREE INTEREST.--Interest upon obligations issued (1) before July 1, 1941, by a State, Territory, or any political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing; or (2) by a corporation organized under Act of Congress, if such

corporation is an instrumentality of the United States; or (3) by the United States or any of its possessions. In the case of obligations of the United States issued after September 1, 1917 (other than postal savings certificates of deposit), and in the case of obligations of a corporation organized under Act of Congress the interest shall be exempt only if and to the extent provided in the respective Acts authorizing the issue thereof, as amended and supplemented (including the amendatory and supplementary provisions of section 4 of the Public Debt Act of 1941), and shall be excluded from gross income only if and to the extent it is wholly exempt from the taxes imposed by this chapter. The term 'instrumentality of the United States' means instrumentality, corporation or agency of the United States, or any other corporation or entity created by, organized under, or established pursuant to authority contained in, any Act of Congress. For the purposes of this subsection

"(1) In determining whether an obligation is issued after June 30, 1941, and whether an obligation is issued after the date of enactment of the Public Bond Tax Act of 1941 (hereinafter called 'enactment date'), it shall in either case be considered to be issued after such date, if any part of the payment therefor is received by the obligor after such date, or delivery thereof is made by the obligor after such date.

"(2) Obligations which merely replace lost, mutilated, defaced, or destroyed obligations, or obligations of larger or smaller denominations, and obligations in registered form or with coupons which merely replace obligations with coupons or in registered form, shall be treated as if they were the obligations replaced.

"(3) (A) If the terms of an obligation issued before July 1, 1941, the maturity of which on enactment date is later than June 30, 1941, are, after enactment date, changed so as to increase the principal amount or interest rate or to extend the maturity, then such obligation shall (as to interest accruing for any period after the date of the change or June 30, 1941, whichever is later) be considered as issued after such later date.

"(B) In the case of an obligation issued after the enactment date and before July 1, 1941, such obligation shall (as to interest accruing for any period after June 30, 1941) be considered as issued after June 30, 1941, if any part of the proceeds of the issue of which the obligation is a part, or if any obligation of the issue, is devoted to the retirement or refunding of an obligation the maturity of which on enactment date was later than December 31, 1941. For the purposes of this subparagraph, December 31, 1941, shall be considered the maturity, on enactment date, of an obligation the interest on which ceases to run before

January 1, 1942, by reason of such obligation being called for redemption in accordance with the terms thereof as they existed on enactment date.

"(4) If an obligation is issued after June 30, 1941 (hereinafter called 'refunding obligation'), and if --

"(A) the issue of which it is a part (hereinafter called 'new issue') is issued for the purpose of refunding one or more obligations (hereinafter called 'refunded obligations'); and

"(B) all refunded obligations have the same exemption expiration date, as defined in subparagraph (F); and

"(C) no obligations, other than those of the new issue, have been issued for the purpose of refunding any of the refunded obligations; and

"(D) the aggregate principal amount of the new issue is not in excess of the aggregate principal amount of the refunded obligations; and

"(E) interest on each of the refunded obligations ceases (by reason of such obligation, being called for redemption, in accordance with the terms thereof as they existed on enactment date, or the date of issue, whichever is later) to run upon a date not more than seven months after the date upon

which interest on the refunding obligation begins to run; and

"(7) interest on each of the refunded obligations, for the period at the end of which it ceases to run by reason of such call for redemption, is considered as interest on an obligation issued before July 1, 1941; and

"(8) the refunding obligation, in its terms, states the coupon expiration date of, and identifies, the refunded obligations; and

"(9) the interest rate on the refunding obligations for any period ending on or before the coupon expiration date of the refunded obligations is not higher than the interest rate which any of the refunded obligations had, or would (if such obligation had not been called for redemption) have had, for the corresponding period;

then the refunding obligation shall be considered as issued before July 1, 1941, as to so much of the interest as accrues for any period ending before or on the coupon expiration date of the refunded obligations, and shall be considered as issued after June 30, 1941, as to the remainder of such interest. For the purposes of this paragraph--

"(1) several obligations shall be considered as one issue, only if each is identical with all

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the others in maturity, interest rate, terms and conditions, and recitals, but the fact that the denominations differ, or that some are registered and some in coupon form shall be disregarded.

"(j) 'Redemption expiration date' means--

"(i) with respect to a refunded obligation issued before July 1, 1941, the date of maturity which the obligation had on June 30, 1941;

"(ii) with respect to a refunded obligation issued after June 30, 1941, the date as of which interest thereon would (if the obligation had not been called for redemption) have ceased to be considered as interest on an obligation issued before July 1, 1941."

Sec. 5. (a) The United States hereby consents to the taxation, under an income tax, of interest upon, and gain from the sale or other disposition of, obligations issued after June 30, 1941, by the United States, any Territory or possession or political subdivision thereof, the District of Columbia, or any agency or instrumentality of any one or more of the foregoing, by any duly constituted taxing authority having jurisdiction to tax such interest and gain, if such taxation does not discriminate against such interest or gain because of its source. The consent given in this section shall not affect those obligations issued after

June 30, 1941 which the United States or any agency or instrumentality thereof has prior to June 30, 1941 contracted to issue at a future date with such tax exemption privileges with respect to taxation by any State, county, municipality, or local taxing authority as are provided in the law authorizing their issuance, as amended and supplemented. As used in this subsection, agency or instrumentality of the United States includes any corporation of the United States and any corporation or entity created by, organized under, or established pursuant to authority contained in, any Act of Congress.

(b) For the purposes of this section--

(1) In determining whether an obligation is issued after June 30, 1941, it shall be considered to be issued after such date if any part of the payment therefor is received by the obligor after such date, or delivery thereof is made by the obligor after such date.

(2) Obligations which merely replace lost, mutilated, defaced, or destroyed obligations, or obligations of larger or smaller denominations, and obligations in registered form or with coupons which merely replace obligations with coupons or in registered form, shall be treated as if they were the obligations replaced.

(c) The provisions of this section shall, with respect to any obligation, be considered as mandatory of and supplementary to the respective Acts or parts of Acts authorizing the issue of such obligation as amended and supplemented.

A BILL

To amend the Second Liberty Bond Act, as amended, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 21(a) of the Second Liberty Bond Act, as amended, is hereby further amended to read as follows:

*Sec. 21. The face amount of obligations issued under the authority of this Act shall not exceed in the aggregate \$ _____ outstanding at any one time."

Sec. 2. Section 22 of the Second Liberty Bond Act, as amended (U.S.C., title 31, sec. 757c) is hereby amended to read as follows:

*Sec. 22. (a) The Secretary of the Treasury is authorized to issue, from time to time, through the Postal Service or otherwise, United States savings bonds and United States Treasury savings certificates, the proceeds of which shall be available to meet any expenditures authorized by law, and to retire any outstanding obligations of the United States bearing interest or issued on a discount basis. The various issues and series of the savings bonds and the savings certificates shall be in such forms, shall be offered in such amounts, subject to the limitation imposed by section 21 of this Act, as amended, and shall be issued in such manner and subject to such terms and conditions consistent with subsections (b), (c), and (d) hereof, and including any restrictions on their transfer, as the Secretary of the Treasury may from time to time prescribe.

*(b) Savings bonds and savings certificates may be issued on an interest-bearing basis, on a discount basis, or on a combination interest-bearing and discount basis and shall mature, in the case of bonds, not more than twenty years, and in the case of certificates, not more than ten years from the date as of which issued. Such bonds and certificates may be sold at such price or prices, and redeemed before maturity upon such terms and conditions as the Secretary of the Treasury may prescribe:

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Provided, That the interest rate on, and the issue price of savings bonds and savings certificates and the terms upon which they may be redeemed shall be such as to afford an investment yield not in excess of three per centum per annum, compounded semiannually. The denominations of savings bonds and of savings certificates shall be such as the Secretary of the Treasury may from time to time determine and shall be expressed in terms of their maturity values. The Secretary of the Treasury is authorized, in his discretion, at any time or from time to time, by regulation to fix the amount of savings bonds and savings certificates that may be held by any one person at any one time.

"(c) The Secretary of the Treasury may, under such regulations and upon such terms and conditions as he may prescribe, issue, or cause to be issued, stamps, or may provide any other means to evidence payments for or on account of the savings bonds and savings certificates authorized by this section, and he may, in his discretion, make provision for the exchange of savings certificates for savings bonds.

"(d) For purposes of taxation any increment in value represented by the difference between the price paid and the redemption value received (whether at or before maturity) for savings bonds and savings certificates shall be considered as interest. The savings bonds and the savings certificates shall not bear the circulation privilege.

"(e) The appropriation for expenses provided by section 10 of this Act and extended by the Act of June 16, 1921 (U.S.C., title 31, secs. 760 and 761), shall be available for all necessary expenses under this section, and the Secretary of the Treasury is authorized to advance, from time to time, to the Postmaster General from such appropriation such sums as are shown to be required for the expenses of the Post Office Department, in connection with the handling of bonds, certificates, and stamps or other means provided to evidence payments.

"(f) The board of trustees of the Postal Savings System is authorized to permit, subject to such regulations as it may from time to time prescribe, the withdrawal of deposits on less than sixty days' notice for

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the purpose of acquiring savings bonds and savings certificates which may be offered by the Secretary of the Treasury; and in such cases to make payment of interest to the date of withdrawal whether or not a regular interest payment date. No further original issue of bonds authorized by section 10 of the Act approved June 25, 1910 (U.S.C., title 39, sec. 760), shall be made after July 1, 1935.

"(g) At the request of the Secretary of the Treasury the Postmaster General, under such regulations as he may prescribe, shall require the employees of the Post Office Department and of the Postal Service to perform, without extra compensation, such fiscal agency services as may be desirable and practicable in connection with the issue, delivery, safekeeping, redemption, or payment of the savings bonds and savings certificates, or in connection with any stamps or other means provided to evidence payments."

Sec. 3. Notwithstanding any other provision of law all obligations issued under authority of the Second Liberty Bond Act, as amended, and all obligations which by their terms bear interest or which are sold on a discount basis issued by any corporation, instrumentality or other agency of the United States under authority contained in any other law, shall, as to both principal and interest or other increment, be subject to all taxes now or hereafter imposed by the United States: Provided, That any such obligations which the United States, or any corporation, instrumentality or other agency thereof, has, prior to the effective date of this Act, contracted to issue at a future date shall when issued bear such tax exemption privileges as are provided in the law authorizing their issuance.

Sec. 4. Section 32 of the Act approved June 13, 1898, as amended (U.S.C., title 31, sec. 756); section 6 of the First Liberty Bond Act, as amended (U.S.C., title 31, sec. 755); section 6 of the Second Liberty Bond

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Act, as amended (U.S.C., title 31, sec. 757); section 5(d) of the Second Liberty Bond Act, as amended (U.S.C., title 31, sec. 754(d)); and sections 301 and 302 of title III of the Revenue Act of 1940 (54 Stat. 526); are hereby repealed.

Sec. 5. Nothing contained in this Act shall be deemed to alter or amend in any way the terms of any of the obligations described in section 3 hereof, issued prior to the effective date of this Act, or to impair or otherwise affect any rights, privileges, or remedies accruing to the holders of such obligations under the terms thereof or under the laws authorizing their issuance.

Sec. 6. This Act shall become effective on the first day of the month following the date of its approval by the President.

JJO'C:LJB:mfw
1/3/41
Copies 2/11/41 to

January 3, 1941
10:50 a.m.

RE AID TO BRITAIN

Present: Mr. Bell
Mr. Phillips
Mr. Ballantyne
Mr. Purvis
Mr. Kuhn
Mr. White
Mr. Foley
Mrs. Klotz

H.M.Jr: Let me say it once for the record, if I overlook you (Bell) it is innocence.

Bell: Don't you worry about it.

H.M.Jr: Well, I mean, it is never deliberate, and I look up and half the time I don't know who is here. Yesterday Kuhn wasn't here, and I told him I would have him here, and then after the thing was over I suddenly remembered.

Kuhn: This was the English meeting that you spoke to me about yesterday?

H.M.Jr: Yes, and which I thought you were at, and I never realized you weren't.

Kuhn: I was waiting for a call.

Bell: Well, there is no hard feelings. You don't have to worry about it at all.

(Mr. Young entered the conference.)

E.M.Jr:

I will read this out loud. I want to give you the background to show you the seriousness of the situation. He said, "I have probably strained once more the narrow path of diplomatic rectitude. I am sending you enclosed a copy of the message to my Prime Minister which I am forwarding to the President this evening."

In other words, he gave it to me as soon as he gave it to the President. Now, I want you (Foley) to read this out loud in order to let you know how serious this thing is. This is not child's play. This is a cable from the Prime Minister to the President. *(see page)*

Foley:

* * * * *

"Meanwhile I learned with pleasure from Mr. Purvis of his talk with you and Mr. Morgenthau on Monday. Instructions have been given to furnish you with any further figures about our requirements which you may seek.

"We are deeply grateful for all your understanding of the problems which will be thrown up in the interval before Congress approves your proposals. It is not only a question of total amounts but of how we are to live through a period which may perhaps extend to February 15th. What would be the effect upon the world situation if we had to default on payments to your contractors who have their workmen to pay? The idea that in the interval we shall either have to default or be stripped bare of our last resources is full of danger and causes us profound anxiety. I feel sure this will be ever in your thoughts.

"Furthermore apart from the general totals and interim period there arises a group of problems about the scope of your plan after being approved by Congress. What is to be done about the immensely heavy payments still due to be made under

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existing orders before delivery is completed? Substantial advance payments on those same orders have already denuded our resources. We have unceasing need for various American commodities not definitely weapons; for instance raw materials and oil. Canada and other Dominions, Greece and also Poland and Czechoslovakia, have clamant dollar needs to keep their war effort alive. I do not seek to know immediately how you will solve these later questions. We shall be entirely ready for our part to lay bare to you all our resources and liabilities around the world, and we shall seek no more help than the common cause demands. We naturally wish to feel sure that the powers with which you propose to arm yourself will be sufficiently wide to deal with these larger matters, subject to all proper consideration. Without prompt and effective solution of these problems Hitlerism cannot be extirpated from Europe, Africa and Asia."

H.M.Jr: I just wanted to give you this as a background. Now, I think we might just as well do the thing.

(Mr. Phillips, Mr. Ballantyne, and Mr. Purvis entered conference)

H.M.Jr: Now, one thing we call the interim plan and the other we call a joint resolution.

Purvis: Oh, yes.

(Cochran entered conference)

H.M.Jr: I will read this out loud.

"Pending the enactment of the proposed joint resolution authorizing the placement by the United States of orders on behalf of foreign governments and leasing to foreign governments the articles so ordered, the following interim

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plan can be used for (1) The expansion of productive facilities for defense material; and (2) The procurement of such material.

(1)

"The R.F.C. and the War and Navy Departments presently have funds available for the expansion of defense production. The R.F.C. has a revolving fund of \$1,500,000,000 for such purposes. Of this amount, approximately \$400,000,000 is probably still available.

"By a recent decision of the R.F.C. to reduce the take out obligations of the War and Navy Departments about \$40,000,000 more has been made available to these departments for defense plant expansion. In addition to other plant expansion funds which these departments still have available, further funds for this purpose could be made available by releasing all R.F.C. take out funds which have been set aside by Army and Navy."

Foley:

That, Mr. Secretary, is this. If Jones put up 10 million dollars to build a plant, which he would own, he asks the Army or the Navy, whichever is the procuring department, to set aside out of their plant expansion funds three-fifths of that 10 million dollars to reimburse him if he should have any loss. In other words, if the emergency should be over quickly and he had to get salvage value for his plant, he wanted money to be set aside by the Army or the Navy up to three-fifths of the capital outlay to take care of any possible loss that he might undergo.

H.M.Jr:

What is the expression, "take-out funds?"

Foley:

Well, that is to take him out of any loss that he might incur.

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H.M. Jr: Isn't there something that could be used there to describe that better?

Foley: Well, it is reimbursement for loss, contingency amount, or something like that.

Young: That term is recognized as applying to this situation.

H.M. Jr: Is it?

"There would appear to be ample funds for the additional plant expansion program. If any more funds become necessary, the note issuing power of the R.F.C. could be increased by the amount necessary to accomplish this objective.

"For the actual placement of additional orders the War Department has available: (a) \$60,000,000 for the procurement of aircraft, aircraft engines and aircraft parts; and (b) \$430,000,000 for the procurement of ordnance items."

H.M. Jr: You mean that they haven't spent?

Foley: That they could make available. It hasn't been spent, and it is only there for bookkeeping purposes.

H.M. Jr: Are you familiar with that two or three hundred million that they were going to spend on the so-called 10 Divisions? Are you sure that they haven't used that? Talk with Philip Young about that afterward and make sure that they haven't.

Foley: All right.

H.M. Jr: You (Young) know what I am talking about?

Young: Yes.

Foley: We had Phil in last night when we were putting these figures together.

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Young: I don't believe that is part of the 230 million. It might be.

H.M.Jr: Well, make sure.

"The War Department is prepared to make these funds available for the foregoing purposes, instead of using them, for example for April - June 1941 maintenance of aircraft, with the idea in mind that the War Department can get further appropriations later for such maintenance and similar purposes.

"In all probability, the Navy Department can make similar funds available.

"By spreading the procurement orders with these funds and dovetailing them with plant expansion, the program can be carried forward so that the necessary deliveries can be made as soon as the proposed joint resolution is enacted."

Do you want to ask any questions before I read the so-called Joint Resolution?

Purvis: Defense material includes any material, for instance, iron and steel, I suppose, or things of that kind?

Foley: Anything that is necessary.

H.M.Jr: Do you want to ask anything, Sir Frederick?

Phillips: Oil?

Foley: Yes.

Phillips: That is all I want to ask.

H.M.Jr: All right?

Bell: Could these orders be put in on behalf of the

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War and Navy Departments and when they come out of the shop they would be leased under the Joint Resolution? In other words, what you want to do is advance the date of production?

Foley: Advance the date of production, Dan, and anticipate their needs by making them our needs until such time as legislation is enacted which will permit you to dispose of them under a lease or some other kind of arrangement.

Bell: My question goes to the use of funds, because I don't think they can use the funds for the British.

Foley: That is right, they would have to be for themselves.

Bell: And then you hope your Joint Resolution will be through and they can give them to the British?

Purvis: Mr. Bell, that is a terribly vital point, too. If we lose that two months, it might be very, very bad.

Foley: And obviously with the few hours we had last night, we couldn't any more than outline the possibilities. We would have to get the Army and the Navy in just to see what could be done and the way they figure to carry this out.

Bell: Yes, I realize that.

H.M. Jr: Now, this is a public resolution entitled "Joint Resolution to authorize the Secretaries of War and of the Navy to assist the governments of the American republics to increase their military and naval establishments, and for other purposes."

Foley: We are amending an existing statute which lays down the principle that can be carried forward

to meet this expanding situation.

H.M.Jr:

I see.

"Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That Public Resolution Numbered 83, approved June 15, 1940, entitled "Joint resolution to authorize the Secretaries of War and of the Navy to assist the governments of American republics to increase their military and naval establishments, and for other purposes" be, and is hereby, amended to read as follows:

"Section 1. The President may, from time to time, when he deems it in the interests of the national defense, authorize the Secretary of War, the Secretary of the Navy and the head of any other department or agency of the Government concerned, any other law to the contrary notwithstanding, to: manufacture in arsenals, factories or shipyards under their jurisdiction, or otherwise procure, any weapon, ship, boat, aircraft, munitions or equipment or component parts thereof, or machinery, tools, or material or supplies necessary for the manufacture, servicing or operation thereof, or any other article or commodity needed for defense, on behalf of the government--"

"Any other commodity" would take care of oil.

Foley:

We through that in there to take care of oil and ships and anything that isn't specifically mentioned there.

H.M.Jr:

"....of any American republic, of Great Britain, Greece, China or any other country whose defense against the forces of foreign aggression the President deems to be related to the defense or welfare of the United States; to sell, transfer, exchange, lease, lend, or otherwise dispose of, to any such

government any such article, or like article which the United States now has or hereafter acquires, upon such terms as the President may deem satisfactory, including, but not limited to, a sale, transfer, exchange, lease or loan providing for payment or repayment in kind, or property, or for any other direct or indirect consideration or benefit to the United States which the President may deem satisfactory--"

I don't get that. "To any such government."

Foley:

That means he could dispose of any of this material to any government whose defense against the forces of aggression he believes to be related to the defense or welfare of the United States on such terms, either for direct or indirect consideration of any kind or character, as he might feel to be satisfactory under the circumstances.

Purvis:

For instance, if a country had nothing to give but its fighting ability, it is conceivable that that would come under that.

White:

That is why I think that is a little broad. It will raise trouble, Mr. Secretary. What he virtually can do under those circumstances is give it away because the ultimate indirect benefits are in the nature of general stability of democracy, and I am merely wondering whether that is as far as you want to go?

H.M.Jr:

You don't mean that, you mean do I want to go as far.

White:

I mean whether you want to go that far.

H.M.Jr:

Which is something different.

White:

Yes.

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- H.M.Jr: Do I want to go that far or do I want to go as far?
- White: I meant do you want to go as far as that.
- H.M.Jr: I would much rather make it as broad as the world, and then let somebody else tighten it up.
- Foley: Well, that is what we had in mind when we drafted this.
- H.M.Jr: It is easy to tighten the thing up. Congress can tighten it up.
- White: Well, it was their reaction I had in mind. But that is what it is saying.
- H.M.Jr: No, I am willing to go as far as this. I am willing to let it go wide open.
- White: Is it necessary to mention Great Britain? Then you would have to mention Greece--
- Foley: Harry, the reason I wanted to mention Great Britain, Greece, and China is to make darn sure that I was repealing the Neutrality Act for this purpose and that the question of extending help to a belligerent wouldn't come back to plague us afterward. If we just said any other government, then they would say, "You mean any other government like the South American Republics that are at peace? You couldn't possibly mean that you were trying to override the Neutrality Act."
- H.M.Jr: He also wants to make good on my press conference. (Laughter)
- Kuhn: Greece and China?
- H.M.Jr: That is what I said.
- Phillips: Might I put two quite short questions on that?

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- H.M.Jr: Please.
- Phillips: In the first place, I am not very familiar with how these matters work, but does that give the President power to make terms?
- Foley: Yes. The broadest power we could possible do that. That is practically a blank check.
- White: Practically?
- Phillips: The other question, does Great Britain cover the Dominions and so on?
- White: Not unless you define it that way.
- Foley: We say any other country, Sir Frederick.
- Phillips: All right.
- Foley: We say "on behalf of the government of any American republic, Great Britain, Greece, China, or any other country--" the government of any other countries - "whose defense against the forces of foreign aggression the President deems to be related to the defense or welfare of the United States."
- Bell: Ed, is that a continuing authority? Supposing he makes a lease of this material to be returned in kind and later he wants to modify that. Has he exhausted his authority with respect to that particular property?
- Foley: I don't think so, Dan.
- Bell: You think it is a continuing authority right straight through?
- Foley: And he can modify it. I think that is his, Sir Frederick's question.

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- White: When you say foreign aggression, Ed, there is no question that that means aggression from a foreign power, is there?
- Foley: That is what we intended it to mean.
- White: I mean there is no doubt in your mind?
- H.M.Jr: Don't look at me. I don't know. I don't know. Mind you, these boys have had one night. They have got until nine-thirty Monday morning to examine each word over again.
- White: Yes.
- H.M.Jr: I think when you see what they have done in the short time, it is amazing.
- Bell: What harm would be done if you took out the word foreign.
- White: Well, it may not be any harm, but it makes a tremendous difference.
- Bell: Yes, sure it does.
- White: A tremendous difference. We certainly would want to discuss it.
- Foley: Well, I wanted a little come-on in there, Dan, a little appeal to this, and that was why we threw in foreign aggression.
- H.M.Jr: "....to repair any such article, and otherwise to treat any such article as if it were for the use of the United States, on behalf of any such government; and to communicate to any such government plans, specifications, or other information relating to any such article:...."
- White: In other words, a Greek battleship could be repaired in an American harbor indefinitely.

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- Foley: Yes, that is what we had in mind. That was Stimson's suggestion before he became Secretary of War, and we thought he would like it. They could use our bases and our yards for repairs.
- H.M.Jr: Over the weekend I would show this to Stimson. I would get it to him over the weekend.
- Foley: All right.
- White: You mean international law would have no bearing on this?
- H.M.Jr: I would show it to him Saturday or Sunday.
- Cochran: Not if it is for your own defense.
- Foley: We have got that in here too, Harry.
- H.M.Jr: "....Provided, however, that no such transaction shall be entered into in violation of international law as interpreted by the Department of State: And provided further, that no action shall be taken hereunder which shall be inimical to the defense or welfare of the United States.
- "Section 2. In carrying out the transactions authorized by section 1, the Secretary of War, the Secretary of the Navy and the head of any department or agency concerned are authorized, in their discretion, and provided that it be not inconsistent with any defense requirements of the United States or its possessions, to communicate or transmit to the government of any country to which section 1 is applicable, and to any duly authorized person for the use of any such government any information pertaining to any article, therein referred to, for the use of such government in using any such article, or manufacturing such article and information for the use of any such government."

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- White: Just one question. Further back, who makes the decision as to whether or not the granting of certain assistance is inimical or may be inimical?
- Foley: The President.
- Bell: I wanted to raise that question too.
- White: Is that clear? Is it stated somewhere?
- Foley: Yes, we say that the President may, when he deems it in the interest of national defense and so on down, and finds that their defense and ours are related and it is for the welfare of the United States, all of those are determinations the President makes.
- White: And then you go and you put certain limitations upon it.
- Foley: That is right.
- White: And I thought that was a limitation upon the President's power.
- Foley: Well, "....shall be entered into in violation of international law as interpreted by the Department of State.that no action shall be taken hereunder which shall be inimical to the defense or welfare of the United States."
- White: That is a limiting factor on the President's power, as I first hear it.
- Purvis: It might be a Congressional limitation.
- White: Do you want that limitation? In other words, is it clear that--
- Foley: Well, Harry, I think that that - those are just words, and I don't think that they really curtail the President at all, because I think if he

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can determine in the beginning that any other country - the defense of any other country is related to our defenses, he can then make this determination that that action is compatible with our defense and our welfare.

White: Well, then it is either limiting or it is redundant.

Foley: Well, it is window dressing.

White: Oh! (Laughter)

H.M.Jr: He uses a two dollar word and you answer him and say it is window dressing.

All right? That is settled.

"Section 3. All contracts or agreements made for the disposition of any article or information pursuant to section 1 shall contain a clause by which the foreign government undertakes not to transfer title or possession of such article or information by gift, sale or otherwise without the consent of the Secretary of War, the Secretary of the Navy or the head of the department or agency concerned."

Foley: That is in the statute now, Mr. Secretary, and we are merely carrying it forward, and I think they want it there so that if we lease something you couldn't sell it without getting our permission.

Furvis: It seems reasonable.

H.M.Jr: "Section 4. The Secretary of War, the Secretary of the Navy or the head of the department or agency concerned, as the case may be, shall when any such article or information is exported immediately inform the department or agency designated by the

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President to administer section 6 of the Act of July 2, 1940 (54 Stat. 1090), of the quantities, character, value, terms of disposition and destination of the articles and information so exported."

Now, if he signs that order, would that come under that?

Foley: Yes, that would be in the Treasury.

H.M.Jr: That would be in the Treasury?

Foley: That is right. That is Maxwell, Export Control.

H.M.Jr: "Section 5(a). There is hereby authorized to be appropriated from time to time, out of any moneys in the Treasury not otherwise appropriated, such amounts as may be necessary to carry out the provisions and accomplish the purposes of this joint resolution."

Foley: That is merely an authorization for an appropriation.

H.M.Jr: "(b) All moneys, and all property received from any government to which section 1 applies and which is converted into money, shall, with the approval of the Director of the Budget, revert to the respective appropriation or appropriations out of which funds were expended in acquiring the article for which such consideration is received, and such moneys shall be available for expenditure for the purpose for which such expended funds were appropriated by law, during the fiscal year in which such funds are received and the ensuing fiscal year."

How about that, Mr. Ex-Director of the Budget?

Bell: I should think the Budget might object to that.

- H.M. Jr: Too blank?
- Bell: Yes. You may get this back three or four years later and the War and Navy may not need it to carry on their program and again you may double up on their funds for that particular fiscal year. I don't think they will agree to that. It might be available for the year in which it was appropriated and do no harm.
- H.M. Jr: Well, do you want to take a look at that section in a way that you think it would be acceptable to the Budget?
- Bell: Yes.
- H.M. Jr: Would you do that?
- Bell: Yes.
- Foley: You see, this makes it a two-year revolving fund, Mr. Secretary. The Budget is always against revolving funds. Isn't that right, Dan? You told me that once.
- Bell: That is right, always.
- Foley: When he was Director of the Budget.
- Bell: It is a good objection.
- H.M. Jr: Well, anyway, let Dan take a look at it.
- Bell: All right.
- H.M. Jr: "Section 6. The secretary of War, the Secretary of the Navy and head of the department or agency concerned shall in all contracts or agreements for the disposition of any such article fully protect the rights of all citizens of the United States who have patent rights in and to any such article which is hereby authorized to be disposed

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of and the payments collected for royalties on such patents shall be paid to the owners and holders of such patents.

"Section 7. The Secretaries of War and of the Navy are hereby authorized to purchase arms, ammunition and implements of war produced within the jurisdiction of any country to which section 1 is applicable if such arms, ammunition and implements of war cannot be produced in the United States."

Foley: That is in the existing law and that was put in there as a little good neighbor stuff for the South American republics. In other words, we turn over machinery to them and we permit them to manufacture stuff in their own country and this would make it reciprocal. If that stuff couldn't be manufactured here, we might buy it and use it ourselves, buy it from them and use it.

E.M.Jr: But under this thing, for instance, we could manufacture some - if our shops were full we could go to Canada.

Foley: That is right.

E.M.Jr: Which would be good.

Foley: That is right.

E.M.Jr: "Section 8. The President may, from time to time, promulgate such rules and regulations, not inconsistent with law, as may be necessary and proper to carry out any of the provisions of this joint resolution; and he may exercise any power or authority conferred on him by this joint resolution through such department, agency or officer as he shall direct."

I would say you fellows certainly caught the

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spirit of what I said yesterday.

White: They certainly left nothing out. (Laughter)

H.M.Jr: Well, I gave them a little stump speech yesterday.

Bell: It is a good bill.

H.M.Jr: Well, now, what I would like to suggest is, if you would like to go back to Mr. Foley's office and go over this sentence by sentence, he would be glad to have you do that.

Purvis: It would be excellent.

Phillips: Yes.

H.M.Jr: If any of you people would want to go over there, because you can't get it from my poor reading. I read badly. I think the thing to do is - nothing is more important than this, if you get it right. I want to have it right by Monday, and you people might have some ideas. You might see some loop-holes.

Purvis: And we do appreciate the opportunity.

H.M.Jr: If you would do that. Just one thing before you go back with Mr. Foley, have you got the answer, what you would like to give in exchange for nine planes?

Purvis: Yes, I just got it from Morris Wilson. They would like to give a hundred - the equivalent of which they consider to be a hundred Allison "C" engines for May, June, and July.

H.M.Jr: Now, really--

Purvis: It just came through from them just as I came over here, so I didn't have any time to do any checking.

They took it that the planes had engines in them and guns the same as the previous 26.

- H.M.Jr: They are offering a hundred Allison engines? Well, they might use them for spares.
- Purvis: How does that sound? I am afraid I am not as familiar with it - does it sound all right.
- Young: Yes.
- Purvis: Can you leave - should Young and I have a little talk about this before we confer further with you?
- H.M.Jr: No, you go even further than that. If you two decide that you can say it and look General Marshall in the face and not laugh-- (Laughter)
- Purvis: I thought we had better have a little private meeting on that.
- H.M.Jr: But I would give it to General Marshall before sunset, but I will leave it with you two gentlemen.
- Purvis: As I say, I just got this five minutes before I came. May we just get together?
- H.M.Jr: Well, it is there, but I think, as I say, that I would like to leave it with you, but I think you ought to get some word to him before sunset.
- Purvis: Yes. Well, we could get Fairey down here, Young, and just sort of finish it, make sure that we are on the right track.
- Young: All right.
- H.M.Jr: Now, Bell, you have a copy of this, haven't you? Who else has a copy?
- Foley: Well, I gave a copy to Dan and a copy to Ferd

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(Kuhn) and a copy to Harry and a copy to Oscar and I have a copy and you have a copy. Those are all the copies there were.

Bell: Shall we turn them back?

H.M.Jr: No, it is not necessary, but before it breaks up in my room - do you see anything the matter with it?

Bell: No, I think it is a good bill.

H.M.Jr: Well, I think that if you gentlemen could go over this thing word by word--

White: Do you feel you want that done, Mr. Secretary.

H.M.Jr: What is that?

White: Do you feel that you want that done.

H.M.Jr: Oh, yes.

Foley: Harry is worried a little bit about the reaction there might be if it got out that we were working on this jointly, but I don't see, as it is, any more than what we have done right here.

H.M.Jr: Who is going to know what goes on in Mr. Foley's office?

Foley: We are all very careful.

White: Well, I am wondering whether we might not get the same results by just avoiding that possibility?

H.M.Jr: Well, they are meeting here.

White: That is a different story.

H.M.Jr: You are my attorney, Ed. What do you think?

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- Foley: Well, I don't feel that it is any more than what we have done here. If they asked us if we have worked this out in conjunction with the British, we didn't, we drafted it ourselves. We discussed the matter, talked it over, found out your need and requirements.
- Purvis: There would be actually nothing we have said that would induce any change in any way whatsoever.
- H.M.Jr: What you can do, if you don't want to be seen, they can use the conference room immediately below me.
- Foley: That would be all right and then I could go down there.
- White: I think it is better.
- H.M.Jr: Well, they came in this way. Why not let them use the conference room immediately below?
- Purvis: We might go out the same way.
- H.M.Jr: Yes. Would that make it any better?
- White: Well, those things have a way of getting nasty when they get out.
- H.M.Jr: All right. Well, they can meet in the room immediately below.
- Purvis: We can undertake on our behalf that it won't get out, Sir Frederick.
- Phillips: That is understood.
- Purvis: I would almost be willing to go bail for you.
- H.M.Jr: My crowd are a little bit - how should I say - thin-skinned about a story I told them. Did I tell you my Chinese story?

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Purvis: No.

H.M.Jr: I told you my Chinese story?

Purvis: No.

H.M.Jr: Well, I told this story, and I look up at the ceiling when I told it. I wasn't looking at anybody. (Laughter)

White: Everybody's face got red.

H.M.Jr: I just looked up at the ceiling like this. I didn't look at anybody. It only happened yesterday, and since then they are all thin-skinned about it.

White: And you are not going to look at anybody now, either.

H.M.Jr: No. (Laughter)

White: All right, now you can tell the story.

H.M.Jr: I want you to know why Harry White brings this up, you see, because he is afraid of a leak and then he is afraid of this story, the moral of the story I told. It seems that - in the paper you may or may not have seen it, about a week ago there was a very accurate account of what the Chinese wanted in the way of planes and it was a little embarrassing for me because I had to explain that the Chinese hadn't got any, and what I could and couldn't do and all the rest of it. They asked me a lot of questions, but the story was pretty accurate, and I figured it either came from T. V. Soong or General Mow, I didn't know which, but I knew one or the other, so the other day when they were at the house to find out what was the minimum which they needed, when they got through I happened to say something about, "we have never met here and so forth, and

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if it got out, why I never saw you." I wasn't thinking of anything, but evidently Soong thought I was. So he turned to Mow, and he says, "You know, you can thank the Secretary of the Treasury for inviting you here because that shows that he has no feelings because you know I ordered you as a soldier back to China for a court martial in view of that story which appeared in the paper the other day, and you know what happens to a soldier. But the Secretary of the Treasury being so gracious and inviting you to his house shows he has no ill feelings." And he said it three times, looking at Mow, and Mow got the silly giggle the way all Chinese do, so they have an American advisor, and he stayed behind. He said, "Do you really want to know what happened?" I said, "I would love to." He said, "Well, what Soong really told him was, he said, 'Mow, you are a soldier. Here is a pistol. Go to your hotel room and shoot yourself.'" (Laughter) So this American advisor told them - I am now stretching a little bit on my imagination. He said, "You mustn't do that, Soong. Think of the bad press that you will get."

- White: Well, correlary of that story is that the Secretary has ordered a stock of pistols.
- H.M.Jr: I don't know what is the matter with this crowd.
- Foley: When he told the story, Sir Frederick, I asked him if he wouldn't mind looking at Harry instead of me.
- H.M.Jr: I just, you know, believe in keeping up the Treasury reputation for being a grave for all secrets. I know that you share that with me. (Laughter)
- Purvis: You are keeping up your reputation for having a good atmosphere.
- H.M.Jr: Everything is true expect that he would get a bad press. What he did say was that it would be a

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very bad reaction if he shot himself. Well, we have got to keep a little light tone. Otherwise, we would all be weeping on each others shoulders. But if you people want to go below.

Purvis: Thank you very much indeed.

H.M.Jr: In order to keep up the grave.

SECRET

British Embassy
Washington, D. C.

January 2, 1941.

Dear Mr. Secretary,

I am probably straying once more from the narrow path of diplomatic rectitude in sending you the enclosed copy of a message from my Prime Minister, which I am forwarding to the President this evening.

I would add my respectful good wishes for a year that must mean much to both our countries.

Very sincerely yours,

(Signed) Nevile Butler

The Honourable
Henry Morgenthau, Jr.
2211 30th Street, N. W.
Washington, D. C.

* * * * *

"Meanwhile I learned with pleasure from Mr. Purvis of his talk with you and Mr. Morgenthau on Monday. Instructions have been given to furnish you with any further figures about our requirements with you may seek.

"We are deeply grateful for all your understanding of the problems which will be thrown up in the interval before Congress approves your proposals. It is not only a question of total amounts but of how we are to live through a period which may perhaps extend to February 15th. What would be the effect upon the world situation if we had to default on payments to your contractors who have their workmen to pay? The idea that in the interval we shall either have to default or be stripped bare of our last resources is full of danger and causes us profound anxiety. I feel sure this will be ever in your thoughts.

"Furthermore apart from the general totals and interim period there arises a group of problems about the scope of your plan after being approved by Congress. What is to be done about the immensely heavy payments still due to be made under existing orders before delivery is completed? Substantial advance payments on those same orders have already denuded our resources. We have unceasing need for various American commodities not definitely weapons; for instance raw materials and oil. Canada and other Dominions, Greece and also Poland and Czechoslovakia, have clamant dollar needs to keep their war effort alive. I do not seek to know immediately how you will solve these later questions. We shall be entirely ready for our part to lay bare to you all our resources and liabilities around the world, and we shall seek no more help than the common cause demands. We naturally wish to feel sure that the powers with which you propose to arm yourself will be sufficiently wide to deal with these larger matters, subject to all proper consideration. Without prompt and effective solution of these problems Hitlerism cannot be extirpated from Europe, Africa and Asia."

(Excerpt from meeting on January 8, 1941, at 10:20 a.m., entitled "Aid To Britain.")

* * * * *

H.M.Jr: Now, I want you (Foley) to read this out loud in order to let you know how serious this thing is. This is not child's play. This is a cable from the Prime Minister to the President.

Foley: "I agree with your proposal to stave off our difficulties by sending a warship to Cape Town to collect the gold at our disposal there amounting, I believe, to about 30 million sterling. I ought to let you know that this transaction will almost certainly become known to the world with varying reactions."

H.M.Jr: I didn't even know that was in there. My God. All right. I had forgotten it. You will all have to forget that, too. That is a dear Navy secret. My God. All right. For God's sake, don't anybody tell that in here, will you, or I will get shot at dawn.

Fell: You will be given a Chinese pistol. (Laughter)

H.M.Jr: Don't ever breathe that to anybody.

Foley: I knew that. You told me.

H.M.Jr: That is right.

* * * * *

262-B



BRITISH EMBASSY,
WASHINGTON, D.C.

SECRET

January 2nd, 1941

Dear Mr. Secretary,

I am probably straying once more from the narrow path of diplomatic rectitude in sending you the enclosed copy of a message from my Prime Minister which I am forwarding to the President this evening.

I would add my respectful good wishes for a year that must mean much to both our countries.

Very sincerely yours,
Herb Butter

The Honourable

Henry Morgenthau, Jr.,
2211, 30th Street, N.W.
Washington, D.C.

I agree with your proposal to stave off our difficulties by sending a warship to Cape Town to collect the gold at our disposal there amounting, I believe, to about 30 million sterling. I ought to let you know that this transaction will almost certainly become known to the world with varying reactions.

Meanwhile I learned with pleasure from Mr. Purvis of his talk with you and Mr. Morgenthau on Monday. Instructions have been given to furnish you with any further figures about our requirements which you may seek.

We are deeply grateful for all your understanding of the problems which will be thrown up in the interval before Congress approves your proposals. It is not only a question of total amounts but of how we are to live through a period which may perhaps extend to February 15th. What would be the effect upon the world situation if we had to default on payments to your contractors who have their workmen to pay? The idea that in the interval we shall either have to default or be stripped bare of our last resources is full of danger and causes us profound anxiety. I feel sure this will be ever in your thoughts.

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already denied our resources. We have pressing need for various American commodities not definitely weapons; for instance raw materials and oil. Canada and other Dominions, Greece and also Poland and Czechoslovakia, have element dollar needs to keep their war effort alive. I do not seek to know immediately how you will solve these later questions. We shall be entirely ready for our part to lay bare to you all our resources and liabilities around the world, and we shall seek no more help than the common cause demands. We naturally wish to feel sure that the powers with which you propose to arm yourself will be sufficiently wide to deal with these larger matters, subject to all proper consideration. Without prompt and effective solution of these problems Hitlerism cannot be extirpated from Europe, Africa and Asia.

MEMORANDUM FOR THE SECRETARYInterim Plan

Pending the enactment of the proposed joint resolution authorizing the placement by the United States of orders on behalf of foreign governments and leasing to foreign governments the articles so ordered, the following interim plan can be used for (1) The expansion of productive facilities for defense materiel; and (2) The procurement of such materiel.

(1)

The R.F.C. and the War and Navy Departments presently have funds available for the expansion of defense production. The R.F.C. has a revolving fund of \$1,500,000,000 for such purposes. Of this amount, approximately \$400,000,000 is probably still available.

By a recent decision of the R.F.C. to reduce the take out obligations of the War and Navy Departments about \$40,000,000 more has been made available to these departments for defense plant expansion. In addition to other plant expansion funds which these departments still have available, further funds for this purpose could be made available by releasing all R.F.C. take out funds which have been set aside by Army and Navy.

There would appear to be ample funds for the additional plant expansion program. If any more funds become necessary, the note issuing power of the R.F.C. could be increased by the amount necessary to accomplish this objective.

(2)

Procurement

For the actual placement of additional orders the War Department has available: (a) \$60,000,000 for the procurement of aircraft, aircraft engines and aircraft parts; and (b) \$430,000,000 for the procurement of ordnance items. The War

(2)

Department is prepared to make these funds available for the foregoing purposes, instead of using them, for example for April - June 1941 maintenance of aircraft, with the idea in mind that the War Department can get further appropriations later for such maintenance and similar purposes.

In all probability, the Navy Department can make similar funds available.

By spreading the procurement orders with these funds and dovetailing them with plant expansion, the program can be carried forward so that the necessary deliveries can be made as soon as the proposed joint resolution is enacted.

January 3, 1941.

JOINT RESOLUTION

To amend Public Resolution Numbered 83, approved June 15, 1940, entitled "Joint Resolution to authorize the Secretaries of War and of the Navy to assist the governments of American republics to increase their military and naval establishments, and for other purposes."

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That Public Resolution Numbered 83, approved June 15, 1940, entitled "Joint resolution to authorize the Secretaries of War and of the Navy to assist the governments of American republics to increase their military and naval establishments, and for other purposes" be, and is hereby, amended to read as follows:

Section 1. The President may, from time to time, when he deems it in the interests of the national defense, authorize the Secretary of War, the Secretary of the Navy and the head of any other department or agency of the Government concerned, any other law to the contrary notwithstanding, to: manufacture in arsenals, factories or shipyards under their jurisdiction, or otherwise procure, any weapon, ship, boat, aircraft, munitions or equipment or component parts thereof, or machinery, tools, or materials or supplies necessary for the manufacture, servicing or operation

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thereof, or any other article or commodity needed for defense, on behalf of the government of any American republic, of Great Britain, Greece, China or any other country whose defense against the forces of foreign aggression the President deems to be related to the defense or welfare of the United States; to sell, transfer, exchange, lease, lend, or otherwise dispose of, to any such government any such article, or like article which the United States now has or hereafter acquires, upon such terms as the President may deem satisfactory, including, but not limited to, a sale, transfer, exchange, lease or loan providing for payment or repayment in kind, or property, or for any other direct or indirect consideration or benefit to the United States which the President may deem satisfactory; to test or prove any such article prior to disposition or delivery to any such government; to repair any such article, and otherwise to treat any such article as if it were for the use of the United States, on behalf of any such government; and to communicate to any such government plans, specifications, or other information relating to any such article: Provided, however, that no such transaction shall be entered into in violation of international law as interpreted by the Department of State: And provided further, that no action shall be taken hereunder which shall be inimical to the defense or welfare of the United States.

Section 2. In carrying out the transactions authorized by section 1, the Secretary of War, the Secretary of the Navy and the head of any department or agency concerned are authorized, in their discretion, and provided that it be not inconsistent with any defense requirements of the United States or its possessions, to communicate or transmit to the government of any country to which section 1 is applicable, and to any duly authorized person for the use of any such government any information pertaining to any article, therein referred to, for the use of such government in using any such article, or manufacturing such article within its own jurisdiction, and to export any such article and information for the use of any such government.

Section 3. All contracts or agreements made for the disposition of any article or information pursuant to section 1 shall contain a clause by which the foreign government undertakes not to transfer title or possession of such article or information by gift, sale or otherwise without the consent of the Secretary of War, the Secretary of the Navy or the head of the department or agency concerned.

Section 4. The Secretary of War, the Secretary of the Navy or the head of the department or agency concerned, as the case may be, shall when any such article or information is exported immediately inform the department or agency designated by the

- 4 -

President to administer section 6 of the Act of July 2, 1940 (54 Stat. 1090), of the quantities, character, value, terms of disposition and destination of the articles and information so exported.

Section 5(a). There is hereby authorized to be appropriated from time to time, out of any moneys in the Treasury not otherwise appropriated, such amounts as may be necessary to carry out the provisions and accomplish the purposes of this joint resolution.

(b) All moneys, and all property received from any government to which section 1 applies and which is converted into money, shall, with the approval of the Director of the Budget, revert to the respective appropriation or appropriations out of which funds were expended in acquiring the article for which such consideration is received, and such moneys shall be available for expenditure for the purpose for which such expended funds were appropriated by law, during the fiscal year in which such funds are received and the ensuing fiscal year.

Section 6. The Secretary of War, the Secretary of the Navy and the head of the department or agency concerned shall in all contracts or agreements for the disposition of any such article fully protect the rights of all citizens of the United States who have patent rights in and to any such article which is

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hereby authorized to be disposed of and the payments collected for royalties on such patents shall be paid to the owners and holders of such patents.

Section 7. The Secretaries of War and of the Navy are hereby authorized to purchase arms, ammunition and implements of war produced within the jurisdiction of any country to which section 1 is applicable if such arms, ammunition and implements of war cannot be produced in the United States.

Section 8. The President may, from time to time, promulgate such rules and regulations, not inconsistent with law, as may be necessary and proper to carry out any of the provisions of this joint resolution; and he may exercise any power or authority conferred on him by this joint resolution through such department, agency or officer as he shall direct.

1/3/41.

January 3, 1941
12:31 p.m.

H.M.Jr: Hello.

Operator: Secretary Stimson.

H.M.Jr: Hello, Henry talking.

Henry L. Stimson: Hello. Yes.

H.M.Jr: This is Henry.

S: Yes, I get you.

H.M.Jr: The reason I'm calling, Harry, is this: we have

S: Can you speak a little bit louder? This telephone doesn't seem to be good.

H.M.Jr: Hello!

S: Yes, all right.

H.M.Jr: We have a preliminary draft of the legislation which we've done at the request of the President to give the English what he said he would in his speech. Hello?

S: Yes.

H.M.Jr: I'd like very much to have Mr. Foley, my General Counsel, bring it to you tomorrow morning and then maybe leave it with you, or at least get your criticisms and your suggestions.

S: Yes, I'd be very glad to see it. I'd like to see it.

H.M.Jr: What time tomorrow morning would be convenient for you?

S: I don't know what time - I'm just trying to see what time. I have one interview early in the morning. I've got to stop on my way down.

H.M.Jr: Would you want him to call you? Could you give him an appointment now?

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S: I think I could probably give him one now if you'll hold the wire just a minute.

H.M.Jr: I'll hold the wire. (Pause).

S: (Talks aside). I have one at 10:30 - that's the only one I have now, and then I have this morning one. I think perhaps he'd better come in at 11:00. Would that be all right?

H.M.Jr: It'll be all right. His name is Edward Foley.

S: Oh, yes, I know him.

H.M.Jr: Edward Foley. He'll be there at 11:00.

S: Now, this is legislation to cover the arrangement the President proposed about the lease and

H.M.Jr: That's right.

S: The whole business?

H.M.Jr: The whole business.

S: The whole business.

H.M.Jr: Yeah.

S: All right. I'll try to be ready for him.

H.M.Jr: And as I say, I'd like very much to have you go over it and give us the benefit of your experience.

S: All right. I'm very much obliged to you for giving me a chance to see it.

H.M.Jr: Thank you.

S: Thank you.

Treasury Department
Division of Monetary Research

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Date January 22, 1941. 19

To: Miss Chauncey

cc: Mr. White

You might want to keep this for the record. I have raised the subject with the Secretary, as requested, but other things have been more important.

(We may have occasion to utilize this report in the future if the question of Soviet oil comes up again. If so, we will ask for it.)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 3, 1941

TO Mr. White
FROM Mr. Ullmann

Subject: Confidential Report on Soviet Oil

1. The report indicates that Soviet crude oil production in the first six months of 1940 was 6.5 percent above production in the corresponding period of 1939.
2. The report indicates that production in 1939 amounted to 30 million tons - or approximately 210 million barrels. This corresponds with information we already had. (My memorandum to you, dated July 26, 1940, indicated 1939 Soviet production of 212 million barrels.)
3. The report, it is felt, is based on information in the publications of the various Soviet oil trusts. However, analyses of Soviet oil publications (made by our Embassy in Moscow and by the Bureau of Mines) indicates that oil production in the first six months of 1940 did not rise above the first six months of 1939. (As far as can be determined, however, these other analyses were not as thorough as the confidential report, and could easily include a 6 percent error).
4. The report forecasts total 1940 output at 32.7 million tons (229 million barrels). This appears to be a reasonable estimate. It contemplates an 8 percent rise over 1939 - in contrast to the 14 percent increase that was planned for Soviet industry in general. (The "plan" for the oil industry's increase is not available).
5. The report indicates improvement and modernization of refineries in the U. S. S. R. It fails to mention specifically, however, some new cracking plants that were installed early in 1940. Refinery output, according to the report, increased only 4.6 percent in 1940, in comparison to the 6.5 percent rise in crude output.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

There is attached a single copy of a highly confidential report which was prepared in Paris by a Russian for the information of Mr. J. E. Crane. When the matter of an application was up a few days ago for a license to permit the Standard Oil Co. to pay for this document, Mr. Pehle obtained this confidential copy. It is my understanding that this report is not otherwise made available to this Government.

B.M.P.

*Harry White
Read and digest
for me please
AA*

RECEIVED
NOV 28 1940
TREASURY DEPARTMENT

BRIEF REPORT ON THE SITUATION OF THE SOVIET OIL INDUSTRY
URING THE FIRST SIX MONTHS OF 1940.

I. PRODUCTION AND EXPLORATION OPERATIONS.

The total production of crude oil in Soviet Union (including the Russian share in the Northern Sakhalin) during the first six months of 1940, as compared with the same period of 1939, was as follows:

<u>In Metric Tons.</u>	<u>1940.</u>	<u>1939.</u>
January	2,685,100	2,515,400
February	2,559,700	2,288,800
March	2,726,900	2,528,500
April	2,647,500	2,502,200
May	2,738,500	2,648,900
June	2,694,800	2,598,600
	<hr/>	<hr/>
	16,052,500	15,075,400

The total production during the first half of 1940 showed an increase of 976,900 tons, or 6.48%, in comparison with the corresponding period of 1939. The average daily production increased from 83,621 tons during the first six months of 1939 to 88,188 tons during the first half of 1940. If compared with the second half of 1939, the crude production during the first six months of 1940 increased by 68,200 tons, or 0.43%. In spite of this substantial increase of crude oil production, the rate of the official program has not been reached by more than 1,500,000 tons, what shows that the real possibilities of the Soviet oil fields are still far below the plan figures. Although, the production situation was, generally, satisfactory during the analyzed period, and the gradual rise of production could be maintained in the most part of the Soviet Oil Trusts, with the exception of the Middle Asia, where a further decline of production has taken place, due to the exhaustion of old fields situated in this region.

The following table supplies detailed information on the crude oil production of the various Soviet State Oil Trusts, during the first six months of 1940, as compared with the first and second halves of 1939.

<u>In Metric Tons.</u>	<u>1st half 1940</u>	<u>1st half 1939</u>	<u>2nd half 1939</u>
Azneft */	11,392,500	10,955,800	11,295,900
Grozneft **/	1,174,200	1,231,800	1,224,700
Maineft	1,408,100	1,130,800	1,444,000
Embaneft	389,700	343,200	388,000
Bashneft	935,400	737,500	924,600
Prikazneft	57,000	45,100	40,600
Volga Region (Syran- neft, Tuimazyneft, and Buguruslanneft)†	124,800	88,300	95,700
Turkmenneft	252,300	244,200	249,300
Middle Asia (Kalinin- neft and Voroshilovneft)	98,600	102,600	106,700
Grand Total Russia	15,832,600	14,877,500	15,769,500
Russian share in Northern Sakhalin	219,700	197,900	214,600
	<u>16,052,300</u>	<u>15,075,400</u>	<u>15,984,100</u>

*/. Together with the Gruzneft (Georgia).

**/. Including The Dagneft (Daghestan).

A. AZNEFT.

The total production of the Azneft Trust during the first half of 1940 reached 11,392,500 tons, as against 10,955,800 tons obtained during the same period of 1939 (an increase of 436,700 tons, or about 4.0%). In spite of this increase, the rate of the official production's program has not been fulfilled, owing to the slow development of production in various oil fields exploited by this trust. The average daily production of the Azneft during the analyzed period equalled 62,576 tons, as against 59,748 tons during the same period of last year.

The main reasons which were responsible for the non-fulfillment of the official production program by the Azneft can be summarized as follows: The delays in bringing into production of new wells, the slow progress of exploitation drilling operations,

The insignificant number of temporarily suspended wells which have been put again on regular production, and the anticipated abandon of non-completely exhausted wells. To these main reasons should also be added - in 1940 - the difficulties to secure an adequate trained labour, due to the mobilization and other military measures, which have been taken by the Soviet authorities.

As regards the discovery of new oilbearing areas in the old exploited fields of the Asneft, the situation has much improved during the last 2 or 3 years; favourable results which were recently obtained in various old fields of the Asneft have made the Soviet geologists to change to a great extent their point of view regarding the conditions of oil accumulation in the lower horizons of the Baku fields. As a matter of fact, commercial accumulations of oil were discovered in areas, which had been heretofore considered as bearing no oil whatsoever. At present, however, a great number of non-working and partly waterlogged wells are being gradually brought back into production, and these wells, generally, give small yields from the horizons which have been formerly considered as being absolutely non-productive. More than 1000 wells of the Asneft are being exploited now by means of secondary methods (air-lift, gas lift, "plunger-lift", etc.). It is expected that about 500 previously abandoned wells can be put again on production in 1940.

1. Lenin Fields.

The production operations developed satisfactorily in these fields, and this in spite of usual fluctuations of the rate of daily yield. The further development of production was somewhat hindered in Lenin Fields owing the delays in bringing into production of new oilproducing areas well saturated with oil; this is particularly the case in the Southern flank of the anticlinal structure, where a number of test wells have been completed during the last few years, but, so far, the exact contour line of the Lower Kirmakinsky series could not be established. Five test wells were under drilling in this part of the field in summer 1940. These wells should explore a large area extending from Hamanour, located in the South-East, - to Romany (in the Eastern section of the Lenin Fields). The fact that, the Upper Kirmakinsky series proved to be oilbearing in the flank of the Balakhany anticline (the well No. 1648) seems to authorize to expect the discovery of oil in the Lower Kirmakinsky series. As to the Northern flank of the Lenin structure, the obtainment of oil flows from the well No. 1561 (with an average daily yield of 80 tons), and - the well No. 1590 (about 175 tons per day), which were considered earlier as having been drilled outside the limits of the oilproducing area, - makes possible not only a considerable extension of the exploited surface of the Lower-Kirmakinsky series over a territory of about 30 hectares large, but also would facilitate the contour drilling operations all along the Northern limits of these oil fields.

2. Surakhany field.

Although several successful completions have been lately achieved at Surakhany, the average daily yield of this field did not much increase since 1939. Contour drilling operations were chiefly concentrated in the Southern part of Surakhany, where the Lower Kirmakinsky series proved to be exceptionally well saturated with oil. As to the test of the Eastern flank of the structure, favourable results were recently obtained in the vicinity of the well No. 1092, which yielded the initial daily production of 100 tons. Efforts are being made now in this area in order to determine the possibility of a supplementary oil production from the so-called "Surakhany series", which have been considered heretofore as being entirely exhausted. The obtainment of commercial production from this series would be particularly interesting, in view of the fact that the average depth of wells does not exceed here some 300 to 400 meters, as against 2,000 to 3,000 meters which have to be drilled to the Lower Kirmakinsky series. Several wells which have been drilled to the "Surakhany horizon" yielded fair initial production of an order of 20 to 30 tons (the well No. 554 and others).

3. Kara-Chukhur & Zykha fields.

In these fields the crude oil production continued to increase, and it has even exceeded during the examined period the rate of the official program. Large new oilbearing areas have been prepared for exploitation at Kara-Chukhur in result of successful achievement of test and contour drilling operations. Especially promising discoveries were made in the Eastern flank of the Kara-Chukhur folding. In addition, the oil producing area of Zykha has been also enlarged, following the successful completions of the test wells Nos. 39, 29, 73, etc. Although, the further increase of Kara-Chukhur's production is somewhat hindered by the fact that new exploitation wells are being put on regular production with considerable delays, whereas numerous temporarily suspended wells are being brought back into production with an extreme slowness.

4. Kala field.

The production situation remained unsatisfactory at Kala during the first six months of 1940. The preparation for exploitation of new oilbearing areas located in the North-Western extension of the field and the test of the Lower-Kirmakinsky horizon in the so-called "Old Kala" area, situated to the South-East from the exploited oilfield, - were not, so far, completed. The problem of exploration of recently discovered "Kala series", which - according to the Soviet geologists - is underlying the Lower Kirmakinsky series and is thus striking above the Pontic formations, seems to be of a particular interest.

The "Kala series" are also being encountered in other oil areas located as well in Eastern as in Western direction of the Kala field. Thus, for example, this series was discovered at Surakhany by the wells Nos. 1102 and 1107. The thickness of this series at Kala reaches about 120 meters. In spite of the fact that, for the time being the commercial importance of the "Kala series" was not yet established, there are reasons to expect that - in analogy with the Lower Kirsakinsky series - considerable oil accumulations would be discovered there. The wells which have drilled, so far, the "Kala series", are all situated in a rather unfavourable part of the structure, as they were not spudded in with the purpose of testing this series. At present, test drilling operations are being carried out with the special purpose of exploration of the "Kala series".

5. Artema Island.

The production operations developed normally in this field and showed a new increase in comparison with the first six months of 1939. In addition to a large oilproducing area situated in the part of the structure striking under the sea bottom (the Northern folding), a new oilbearing area has been discovered in the Southern flank of the structure, - located mostly within the territory of the Island. Technical difficulties which have been met during the drilling in the sea area handicapped, however, a more rapid development of crude production in the Artema Island.

6. Binagady.

Production developed quite satisfactorily in new oilbearing areas situated in the Western and the South-Western directions of the Binagady field, (Griaznaya Gora, Zigil Piri, etc.). Parallely to an intensive exploitation drilling, contour drilling operations are also being carried out to these structures. A number among new wells which have been completed in recently discovered oilproducing areas, proved to be particularly prolific. Thus, for instance, the well No.349 and others, drilled at Griaznaya Gora, gave the initial daily production of 1,000 tons of oil. Proportionally speaking, the increase of the Kirovneft trust's (Binagady etc.) production during the first six months of 1940 was the most important of all fields of the Azneft.

7. Bibi-Eibat fields (Old and Bay).

The exploitation of these fields continued successfully during the analyzed period. The exploration of the Kirsakinsky and of the Lower Kirsakinsky series - on which the further production of Bibi-Eibat will mostly depend, was not yet achieved. Contour drilling operations in the Northern, North-Western parts of this field ("Gora" and Volchyi Vorota" areas), in the North-Eastern flank of the anticline (Bay) and in the sea area are being carried out. In the Bay field several new successful completions were achieved in 1940. Among these can be especially mentioned the obtainment of a flow-yielding 200 tons of oil per day - from the well

No. 1241, drilled to a depth of 1824 meters. These prolific flows contributed to a considerable extension of the oil-producing area of the Bay part of Sibit-Khat, and they confirmed that the lower section of the productive thickness of this field is well saturated with oil. A large number of formerly shut in wells have been recently put again on production at Sibit-Khat.

8. Lok-Batan & Puta Fields.

The production of Lok-Batan showed a decline during the first six months of 1940, as compared with the corresponding period of the last year, due to a very slow preparation for production of new oil-bearing areas, and - to the delayed development of the Tassalskaya Valley's exploitation. As to the immediate prospects of this field, the Tassalskaya Valley, precisely, is the most promising oil area; several flows were obtained there early in 1940, and the new wells, generally, gave good initial yields (wells Nos. 315, 333 etc.)⁶ the average daily yield of these wells is varying from 100 to 250 tons. The exploration drilling operations are also being continued in the old exploited areas of Lok-Batan and Puta, in order to test the sands of Kirmakinsky and Lower-Kirmakinsky series. A new small oil-bearing area has been recently discovered at Puta in the vicinity of Kushkova. Numerous temporarily suspended wells are being brought back into production.

9. Ker-Ges and Kisil-Tepe Fields (The Kerzemert).

The production situation in the fields of the Kerzemert which improved during the first half of 1940, following the bringing into production of the new oil area of Kara-Dag. (Cf. our Annual report for 1939), where interesting results were also obtained in 1940. Several new wells have been drilled at Kara-Dag early in 1940, and 5 more wells have been put on regular production during last summer. The development of crude production is being hindered here, due to the inexistence of storage reservoirs and pipelines. So far, large quantities of crude are being stored in earthen pits. The wells Nos. 10 and 11 yield oil and large quantities of gas. Furthermore, the exploration of the Shongar area, adjacent to Kisil-Tepe has started also, but for the time being, these operations are carried out on a small scale (the test wells Nos. 164, 170, etc.). At Shongar oil is being produced from the horizon V; while test drilling is being continued there to Kirmakinsky series.

10. The Exploration Areas of the Amefit.

The exploration of the Lower-Kirmakinsky series was continued in the old areas of the Amefit; the tectonics of this series, however, could not be quite determined yet in all areas. Moreover, in some fields (Lenin Fields, Surakbay, for instance)

the test of the upper productive series was also continued, and the exploration drilling operations to the recently discovered "Kala series" have been started. Among the new exploration areas of the Arneft can be particularly mentioned the following:

a/. Fatsy-Mahomedly.

After the obtainment of favourable results in 1939 the test drilling was continued at Fatsy-Mahomedly during the first half of 1940, but, for the time being, no new discoveries were made there.

b/. Baladjary.

At baladjary, the commercial accumulations of oil have been encountered already last year (the wells Nos.1204,1321, etc.). Although, the bringing into production of this new oil area is much delayed, due to the lack of: good roads, pipe-line, crude reservoirs, and power-station. The contour drilling operations are being carried out with an extreme slowness.

c/. Gurgany.

The test of the sand horizons belonging to the lower productive series was continued at Gurgany during the examined period, but no positive results were yet obtained in this area.

d/. Siasan.

This exploration area has been put on regular production early in 1940. Commercial accumulations of oil were discovered at Siasan (Maikopian formations) late in 1939. The construction of a power-station and of a system of roads is being carried out now in this area. A new Soviet oil trust, "The Siasan-neft" has been organized with the purpose of exploitation of this field. Contour drilling operations are continued at Siasan. The average daily yield of producing wells reaches about 100 tons.

e/. Shin-Kai.

The test wells Nos.13 and 16 permitted to establish the direction of the oilbearing structure. Two new wells, which have been drilled at Shin-Kai in 1940, have not been tested yet, but they showed good oil indications.

f/. In this area (Cape Biandovan is located outside the Apsheron Peninsula) commercial quantities of oil were obtained from the wells Nos 8 and 9, but the further yield of these wells proved to be insignificant. The exploration work is being continued at Biandovan.

B. Grusneft (Georgia).

The production of this small Soviet oil trust continued to grow during the first six months of 1940, mainly in the new producing fields of Norio-Martkobi and Subsa-Ompareti, which have been put on regular production late in 1939. Although, the further development of crude production in this region is being much hindered due to the delayed construction of drilling installations and the lack of an adequate equipment. Geological exploration work and test drilling operations were carried out in various areas of Georgia, which have been described in details in our special report "Russia 17", but, so far, no definite results were obtained there.

C. GROZNEFT.

The total crude production of the Grozneft (including the district of Daghestan) during the first half of 1940 reached 1,174,200 tons, as against 1,251,800 tons produced during the corresponding period of 1939 (a decrease of 57,600 tons, or 4.7%). This unsatisfactory situation in the fields of the Grozneft was chiefly due to a very slow development of crude production in the new oil-producing areas controlled by this trust, and - to the gradual exhaustion of the old field ("New" Grozny and Molgabek). According to the official program, the production of the Grozneft should have been considerably increased during the period 1938 to 1942, but, for the time being, the continual decline of the trust's yields could not be stopped. The production situation in separate fields of the Grozneft can be summarized as follows:

1. Old Grozny.

Following a number of successful completions, which have been achieved late in 1939 and early in 1940, the oil production of the Old Grozny field much improved during the examined period, thus that it exceeded the total production which has been obtained during the first six months of 1939, as well as that of the second half of 1939. The new wells are being drilled now almost exclusively in the so-called "Grozny-overthrust zone", which proved to contain several horizons well saturated with oil. Among the wells which have been drilled in 1940 to the "Grozny overthrust" can be mentioned the well No. 4/35, which gave an initial yield of 80 tons of oil per day; the well No. 7/129, with a daily yield of over 100 tons, the well No. 4/37, etc. In spite of a, generally, satisfactory situation, many difficulties were met at Old Grozny, as far and the technical equipment of new wells is concerned, and a considerable number of producing wells were temporarily suspended in this field.

2. New Grozny.

Notwithstanding the recent discoveries made in the horizon XXII, which yielded fair oil production, and in a few other horizons,- the yield of this field continued to decrease during

the first six months of 1940, and the average daily crude oil production of New Grozny did not exceed in summer 1940 some 2,000 tons, as against 2,200 tons during the same months of 1939.

3. Gora-Gorskaya field.

As to Gora-Gorskaya, the production of this field - after a temporarily decline, which have taken place early in 1939, resumed its growth late in 1939. This progress continued during the first six months of 1940, but the rate of the official program was far from having been reached at Gora-Gorskaya. The test and the contour drilling operations are being delayed in this area, though these operations are organized there on a large scale.

4. Malgobek field.

The production's rate somewhat decreased at Malgobek during the analyzed period, as compared with the first half of 1939. New oil areas well saturated with oil, located in the vicinity of Voznessensky and of Bori-Su mountain, are being brought into production with an extreme slowness. The drilling of test and exploitation wells is much hindered by usual difficulties, such as lack of technical equipment and the inefficiency of local management, etc. Favourable results have been obtained by the test drilling to the Southern flank of the Voznessensky anticline, where several horizons well saturated with oil have been discovered already in 1939. A number of new wells have been spudded in Bori-Su area during the examined period.

5. The Exploration areas of the Gromneft.

Geological exploration work and test drilling operations were continued by the Gromneft Trust during the first six months of 1940 in the following areas: At Gunushki, Naiberdy, Gudermes, Taimaz-Kala, Adu-Yurt, Benoy, Gora Orinnaya, etc. Among these the exploration areas of: Gudermes, Gunushki, and Taimaz-Kala are of a particular interest, in view of favourable results which have been obtained there late in 1939 and early in 1940. Test drilling operations were carried out at Gudermes during the first half of 1940, and a vast area has been prepared there for the exploitation drilling. A number of new oil flows were obtained at Gudermes. This field, however, could not be put, so far, on regular production, owing to the slow progress of contour drilling and of construction work.

D. MAINEFT.

The production situation of the Maineft trust was quite satisfactory during the analyzed period. The total production of this oil trust during the first six months of 1940 reached 1,408,100 tons, as against only 1,150,800 tons produced during the same period of last year, and thus showed an increase of

227,300 tons, or 24.5%. New fields of the Maineft (Asphaltovaya Gora, Kutaiskaya, Saifokaya Balka and Abagy) were mainly responsible for this substantial increase of the crude production. At present, the relative importance of this trust is second only to the Amneft, while the Grosneft occupies the third place among the Soviet oilproducing organizations. In view of the fact that, the largest part of production is still being yielded in the field of the Maineft by flows, the daily average yield of same is subject to considerable fluctuations (from 7,500 to 7,900 tons). Test and contour drilling operations were continued in various fields and exploration areas exploited by the Maineft, but no particularly interesting results were obtained there during the first six months of 1940.

E. EMBANEFIT.

The total production of the Embaneft (including the two small fields located in the Northern part of the Emba region - the Aktubneft - during the first half of 1940 equalled 389,700 tons as compared with 345,200 tons produced during the first six months of 1939, an increase of 46,500, or 13.5%.

In spite of this increase of crude production, the exploitation operations in various new fields of the Embaneft developed with an extreme slowness; thus, for instance, the new fields of Kul-Sary and Sagis, which seem to be very promising, have been brought into production only in March 1940, whereas the operations in the fields of Iskina and Koschaghyl were far from being satisfactory. Exploitation drilling was also much delayed in new producing areas of the Embaneft. No special discoveries were made during the examined period.

In addition to various exploration areas, which have been mentioned in our annual report for 1939 (Kara-Chungul, Kizil-Kudak, Kurgus, Djussa, Uil, Dongulak-Sor, Kiz-Kul, and Sor-Kuduk), test drilling was also organized, early in 1940, at Skachek and at Gas-Kuduk. Although, no definite results were yet obtained in these areas. At Baichunas and at Koschaghyl large quantities of crude are being stored in earthen pits, where light fractions are being wasted in the air, while considerable amount of oil is being absorbed by the earth. The construction of storage reservoirs is still being delayed in these fields.

F. BASHNEFT.

The total crude oil production of the Bashneft trust during the first six months of 1940 reached 955,400, as compared with 757,500 tons obtained during the corresponding period of 1939 and thus showed an increase of 197,800 tons, or 26.8%. Nevertheless the work of this trust was not quite satisfactory during the analyzed period: frequent drilling accidents, a considerable num-

NOTE: This page was missing (original) but was included in the copy, and copy made here in N.Y.O. Oct. 22, 1940. This report came in diplomatic pouch. (sab)

number of temporarily suspended wells, and a slow progress of construction work handicapped to a great extent the further development of the Bashneft's production. The drilling operations in the new oil fields of Termen-Yelga, Burachino, and Kusminivka, and their technical equipment were also much delayed.

At Ishimbevo, the Southern anticline is now the main producing area of the field; its exceptional prolificity was confirmed by a number of new completions, which were achieved there in 1940; the average initial yield of recently completed wells is varying from 500 to 600 tons per day and well. Several new flows, which have been discovered at Termen-Yelga during the first half of 1940 also yielded good initial daily production (from 400 to 500 tons). Contour drilling was continued in producing fields of the Bashneft, whereas test drilling operations are being carried out on a large scale in various exploration areas controlled by this trust (Saokaevo, Shikhan, Pokrovka, Kossiakovka, Yuldashevo, Allaguvatovo, etc, all located in the Ishimbevo district. So far, no definite results were obtained in these areas. Test drilling operations are being continued also at Ishimbevo proper with the purpose of exploring the deeper lying series.

G. PRIKAMNEFT.

The Prikamneft's crude oil production showed a new increase during the first six months of 1940 (57,000 tons, as against 43,100 tons in 1939.). Commercial quantities of oil are being yielded at Krasnokamsk by the Carboniferous deposits. In addition to the Krasnokamsk field, a few other oilbearing structures strike along a tectonic line extending for a general length of some 80 kilometers (Severokamsk, Polzana, Shilovo, Overlata). The exploration work was carried out in these areas, and several oilbearing structures have been discovered there, thus that a large number of wells can be drilled to this tectonic line. Although, the average initial yield of new wells, generally, does not exceed from 10 to 25 tons per day and per well. Therefore, the fields of the Prikamneft should be considered as being of a definite interest, but the development of these oilbearing areas would, naturally, require many years. This year the total production of the Prikamneft Trust will reach about 150,000 tons, and, consequently, this district - with its continually growing and to a great extent mechanized production - will cease to be an oil area of a minor importance.

The main object of exploration is represented by the exploited fields of the Prikamneft (Krasnokamsk, Severokamsk, and Polzana, where very large crude oil reserves have been discovered during the last few years, and where contour drilling operations are being actively carried out. As regards the test drilling to Devonian formations, striking at Krasnokamsk at a depth of over 2,500 meters, the drilling is being continued to these strata, but, for the time being, no positive results were obtained there.

II. Volga Region.

The total production in the Volga region (the Soviet State trusts of The Syzranneft, The Tuimazynneft, The Buguruslanneft) during the first six months of 1940 reached 124,800 tons, as compared with 88,500 tons produced during the same period of the preceding year, and thus showed an increase of 36,300 tons, or 4.1%. The crude oil production continued to increase in the fields of these three trusts, and particularly in those of the Syzranneft.

1. Syzranneft.

The Syzranneft Trust is second only to the Bashneft among the oil producing organizations of the Ural-Volga region. The further development of this trust's production, however, is handicapped by delays in the construction of an electrical central, of workshops, crude reservoirs, and of a cracking plant (in the town of Syzran). After the achievement of this construction work, the total crude oil production of the Syzranneft would rapidly reach 300,000 to 400,000 tons per annum.

Exploration operations were continued in various structures (Zaborovskaya, Troekurovskaya, Usolve, Zolny and Yablonovoy Ovrak, etc.), situated within the Samar'skaya Luka (the curve of the Volga river). The results so far obtained by the test drilling seem to confirm good prospects of these exploration areas. Commercial accumulations of oil have been discovered at Yablonovoy Ovrak, Zaborovskaya, and, apparently, the Shiryaevskaya structure is also oilbearing.

2. Tuimazynneft.

In spite of the increase of production at Tuimazy, the rate of the official program has not been fulfilled there during the examined period. In addition to technical reasons, which are mainly responsible for this situation, geological difficulties, i.e. an insufficient study of the local tectonics, - contributed to the extreme slowness of the Tuimazy's development. Furthermore, test drilling operations were continued at Tuimazy, as well as in the adjacent structures (Ardatovskaya, Seraphimovskaya, Boltayevskaya, etc.) but no positive results were yet obtained in these exploration areas.

3. Buguruslanneft.

The general situation was unsatisfactorily at Buguruslan, though the production of this field somewhat increased during the analyzed period. The further exploitation drilling operations were temporarily discontinued in this area. On the contrary, exploitation wells are being drilled now to the Novo-Stepanovskaya structure, situated in the immediate vicinity of the Buguruslan field, but in this area also the exploitation could not be developed, for the time being, on a large scale, as the test drilling was not achieved there.

I. UKRAINA.

Geological and geophysical researches were continued during the analyzed period in various exploration areas of the Ukraine (Romy, Loubny, Cheraigov district, etc.). A number of new wells have been drilled in the vicinity of the town of Romy, where small oil production is being obtained now from the wells, which have been put there on regular production early in 1940. First commercial quantities of oil were also discovered in the Loubny area in summer 1940. As regards the exploration operations in other districts, they were limited there to the preliminary geophysical and geological investigations. The production of the Romy area is still insignificant.

J. TURKMENNEFT.

The total production of the Turkmenneft (Neftedag field & Cheleken Island) during the first six months of 1940 reached 252,300 tons, as compared with 244,200 tons produced during the corresponding period of 1939, an increase of 8,100 tons, or 3.3%. Parallely to the exploitation of the Western Neftedag, the exploration of the Southern flank of this structure was carried out. In spite of the fact that, the wells (Nos. 85, 25, etc.) which have been drilled there earlier proved to be dry, it is expected to discover in this part of the structure good oil accumulations.

K. MIDDLE ASIA.

The total production of the Middle Asian trusts during the first half of 1940 equalled 98,600 tons, as against 102,600 tons obtained during the same period of 1939. This small decrease of production was mainly due to the gradual exhaustion of Haudag and Uch-Kisil fields.

L. Sakhalinneft.

The production of the Sakhalinneft (Russian share of the Northern Sakhalin) developed satisfactorily during the first six months of 1940, and reached 219,700 tons, in comparison with 197,900 tons produced last year, and thus showed an increase of 21,800 tons, or 11.0%. It should be emphasized that the exploitation of the Sakhalin fields much improved during the examined period: the speed of drilling has much increased, and the number of drilling accidents has been less important than during the same period of 1939.

SUMMARY ON THE EXPLORATION WORK IN RUSSIA DURING THE FIRST SIX MONTHS OF 1940

Favourable results have been obtained by the exploration operations during the analyzed period in the old areas of the Azneft (Surakhany, Kara-Chukhur, Binagady, and Bibi-Eibat fields), in the fields of Kaineft, and those of Bashneft. Successful development of contour drilling operations

in various fields controlled by these Soviet Oil Trusts has permitted, in many cases, to enlarge to considerable extent their respective exploited areas. As regards the exploration work in new areas, no sensational discoveries were made there; although, the obtainment of a number of satisfactory results in certain areas during the last several months authorize to expect new interesting discoveries in the immediate future. As to the general production situation, in many fields the number of temporarily suspended wells was much reduced during the first six months of 1940, in comparison with the corresponding period of 1939. According to the Soviet Oil experts an additional amount of crude oil varying from 10,000 to 12,000 tons per day could have been obtained in the fields of the Azneft from the temporarily suspended wells and by means of a more rapid bringing into production of new wells. At present, measures are being taken in order to remedy to this unsatisfactory situation.

Revised Forecast of Russian Crude Oil Production During 1940.

This forecast can now be established as follows:

<u>Trusts.</u>	<u>Metric Tons.</u>
Azneft	22,900,000
Grozneft	2,500,000
Maineft	2,950,000
Ebaneft	850,000
Bashneft	2,150,000
Prikasneft	135,000
Volga Region (Syzranneft, Tuimazyneft & Buguruslanneft)	300,000
Turkmenneft	500,000
Middle Asia (Kalininneft & Voroshilovneft)	190,000
Total Russia:	32,275,000
Russian share of the Northern Sakhalin	450,000
Grand Total:	32,725,000

As it can be seen from the above table, the Grand Total has been reduced only by 35,000 tons, in comparison with the previous total which was given on page 38 of our Annual Report for 1939. Whereas the total of the Azneft was increased by 70,000 tons, that of the Grozneft was reduced by 100,000 tons, that of the Maineft was reduced by 50,000 tons, and, finally, a few other minor alternations were made.

II. REFINERY RUNS AND PRODUCTS OBTAINED

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A. The total refinery runs in Soviet Russia during the first six months of 1940, as compared with the corresponding period of 1939, were as follows:

<u>In Metric Tons.</u>	<u>1940</u>	<u>1939</u>
January	2,496,500	2,410,000
February	2,545,800	2,164,800
March	2,504,100	2,392,300
April	2,455,700	2,559,700
May	2,550,400	2,432,200
June	<u>2,462,500</u>	<u>2,409,600</u>
	<u>14,812,800</u>	<u>14,148,600</u>

The above table shows that, the refinery runs increased by 664,200 tons, or 4.6%, in comparison with the same period of last year. The crude left unrefined amounted to 976,900 tons, as compared with 868,600 tons during the corresponding period of 1939.

The refinery runs by trusts were as follows:

	<u>In Metric Tons</u>	
	<u>1st half</u> <u>1940</u>	<u>1st half</u> <u>1939</u>
Azneft	8,604,800	8,332,400
Grozneft & Maineft	4,546,500	4,475,300
Inland Refineries	1,432,700	1,167,800
Middle Asia	<u>228,400</u>	<u>175,100</u>
Total:	14,812,400	14,148,600

B. Output of Finished Products.

Below are given the figures of the Output of finished products during the first six months of 1940, in comparison with the corresponding period of 1939.

<u>In Metric Tons.</u>	<u>1st half 1940.</u>	<u>1st half 1939.</u>
Straight run benzine	1,602,500	1,565,600
Cracked gasoline	1,317,500	1,185,500
Total benzine	2,919,800	2,748,900
Kerosene	5,142,100	5,077,500
Lubricating Oils	1,056,200	1,056,700
Gas Oil & Dist.F.O.	1,201,500	1,167,500
Residual F. O.	5,016,700	4,865,200
Other Products	352,400	329,400

C. General Summary of the Refining Industry during the First Six Months of 1940.

As it can be seen from the above tables, the refinery runs developed satisfactorily in various groups of the Soviet refineries during the first six months of 1940. The proportion of crude treated in refineries, in comparison with the crude produced decreased from 94.2% in 1939 (for the whole year), to 92.3%. This relative decrease can be explained as follows: whereas in 1939 the crude production was not sufficient to load to their full capacity the Soviet refineries, and, consequently, considerable amounts of crude had to be drawn on stocks, which have been previously accumulated, - during the first half of 1940 the balance has been somewhat re-established between the crude production and the refinery runs, and the stocks of crude oil have been renewed (increased).

The increase of refinery runs in the Azneft refineries was mainly due to the operation - at their full capacity - of new refining installations which have been completed in Baky late in 1939, and, partly also due to the further modernization of the old refining units. As regards the increase of runs in the Grozneft - Maimneft group of refineries, it could be obtained thanks to the development of the intake capacity of the Grozny plants.

The Inland Refineries have also intensified their operations during the analysed period, when new installations were loaded almost to their full capacity, while the old ones - and the cracking plants particularly - considerably improved their working methods. In this group, the Habarovsk refinery, which is being re-constructed, merits a special mention, as the intake capacity of this plant is being raised to such an extent, that it would be able to cover the entire demand for gasoline and kerosene in the Far East.

And, finally, the Middle Asian refineries have been modernized too, and they are operating at present at their respective full capacities. Moreover, the Neftedag plant has been equipped with extra-heaters and its heating system has been generally improved.

The output of benzine showed during the first six months of 1940 a new increase of 171,000 tons, in comparison with the same period of 1939, whereas that of kerosene increased by 64,600 tons, and that of Lubricating Oils - only by 19,500 tons. As to the black products, the output of Residual Fuel Oil during the first half of 1940 reached about 55.6% to the crude treated, as against 54.7% - during the same period of 1939. This decline of percentage of the Residual F.O.'s yield was due to the further intensification of crude's treatment and particularly - to a continual development of the Cracking Process, of the output of Lubricating Oils, and of Asphalt. The output of All Other Products (mainly asphalt and paraffin) increased during the examined period by 22,700 tons.

Respectfully submitted by:

Signed: N. K. WASSILIEFF.

August, 1940.

January 8, 1941.

Dear Mr. Bennett:

Your letter of December 31st has given me the greatest pleasure. I am grateful to you for your kind thought of writing to me at this time, and also for what you have said about my work.

My own hope, as you know, is that the New Year will bring your country and our world into happier days. Please accept my personal greetings and good wishes, and my thanks for all that you have done.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Jean Bennett,
British Purchasing Commission,
Willard Hotel,
Washington, D. C.

HK Jr/hkb

January 8, 1941.

Dear Mr. Bennett:

Your letter of December 31st has given me the greatest pleasure. I am grateful to you for your kind thought of writing to me at this time, and also for what you have said about my work.

My one hope, as you know, is that the New Year will bring your country and our world into happier days. Please accept my personal greetings and good wishes, and my thanks for all that you have done.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Jean Bennett,
British Purchasing Commission,
Willard Hotel,
Washington, D. C.

FK Jr/hkb

January 3, 1941.

Dear Mr. Bennett:

Your letter of December 21st has given me the greatest pleasure. I am grateful to you for your kind thought of writing to me at this time, and also for what you have said about my work.

My own hope, as you know, is that the New Year will bring your country and our world into happier days. Please accept my personal greetings and good wishes, and my thanks for all that you have done.

Sincerely yours,

(Signed) E. Marganhan, Jr.

Mr. Jean Bennett,
British Purchasing Commission,
Willard Hotel,
Washington, D. C.

HK Jx/hkb



BRITISH PURCHASING COMMISSION

31st December, 1940.

Dear Mr. Secretary.

I do not want to let this fatiguing year finish without expressing to you my feeling of gratitude for what you have done for France and for Britain.

More than almost any one I know how much has at times depended on the success of your efforts; the American armament of which you obtained the release in the middle of this year represented at that time a vital material and psychological contribution; the planes that in 1941 will be such a crucial contribution to Great Britain's resistance would not be there without you.

Now that the British resistance has stemmed Germany's onslaught and that the President's announcement has solidified

the hope of final victory, I feel that
we can enter this new year with
full confidence.

With my faithful thanks
please accept for you and yours
family my best wishes for the New Year

Dear Margaret,

JUN 3 1941

My dear Mr. President:

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

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

Original signed by Secretary and sent to White House by Secret Service Agent Raum at 10:45 a.m. - 1/3/41.

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

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

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

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

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

- 3 -

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

Faithfully yours,

(Signed) H. Morganthau, Jr.

Secretary of the Treasury.

The President

The White House.

170-6-1111-1111 - 1/2/41

STRENGTHENING AND ENFORCEMENT OF ANTITRUST LAWS

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

RECOMMENDATIONS RELATIVE TO THE STRENGTHENING AND ENFORCEMENT OF ANTITRUST LAWS

sent 29 calendar day, April 29, 1938.—Read; referred to the Committee on the Judiciary and ordered to be printed

To the Congress of the United States:

Unhappy events abroad have retaught us two simple truths about the nature of a democratic people.

The first truth is that the liberty of a democracy is not safe if the growth of private power to a point where it exceeds the growth of their democratic state itself. That, in its essence, is the ownership of government by an individual, by a group, or by other controlling private power.

The second truth is that the liberty of a democracy is not safe if the economic system does not provide employment and produce and distribute wealth in such a way as to sustain an acceptable standard of living.

Both of these are our basic principles.

At present we have a concentration of private power without equal

This concentration is seriously impairing the economic effectiveness

of our economic system as a way of providing employment for labor and

as a way of assuring a more equitable distribution of income

among the people of the Nation as a whole.

I. THE GROWING CONCENTRATION OF ECONOMIC POWER

Statistics of the Bureau of Internal Revenue reveal the following amazing figures for 1935:

Ownership of corporate assets: Of all corporations reporting from every part of the Nation, one-tenth of 1 percent of them owned 52 percent of the assets of all of them.

And to clinch the point: Of all corporations reporting, less than 5 percent of them owned 57 percent of all the assets of all of them.

Income and profits of corporations: Of all the corporations reporting from every part of the country, one-tenth of 1 percent of them earned 50 percent of the net income of all of them.

And to clinch the point: Of all the manufacturing corporations reporting, less than 4 percent of them earned 54 percent of all the net profits of all of them.

The statistical history of modern times proves that in times of depression concentration of business speeds up. Bigger business then has larger opportunity to grow still bigger at the expense of smaller competitors who are weakened by financial adversity.

The danger of this centralization in a handful of huge corporations is not reduced or eliminated, as is sometimes urged, by the wide public distribution of their securities. The mere number of security holders gives little clue to the size of their individual holdings or to their actual ability to have a voice in the management. In fact, the concentration of stock ownership of corporations in the hands of a tiny minority of the population matches the concentration of corporate assets.

The year 1929 was a banner year for distribution of stock ownership.

But in that year three-tenths of 1 percent of our population received 78 percent of the dividends reported by individuals. This has roughly the same effect as if, out of every 300 persons in our population, one person received 78 cents out of every dollar of corporate dividends while the other 299 persons divided up the other 22 cents between them.

The effect of this concentration is reflected in the distribution of national income.

A recent study by the National Resources Committee shows that in 1935-36—

Forty-seven percent of all American families and single individuals living alone had incomes of less than \$1,000 for the year; and at the other end of the ladder a little less than 1½ percent of the Nation's families received incomes which in dollars and cents reached the same total as the incomes of the 47 percent at the bottom.

Furthermore, to drive the point home, the Bureau of Internal Revenue reports that estate tax returns in 1936, show that—

Forty-three percent of the property which was passed by inheritance was found in only 4 percent of all the reporting estates. (And the figures of concentration would be far more impressive, if we included all the smaller estates which, under the law, do not have to report.)

We believe in a way of living in which political democracy and free private enterprise for profit should serve and protect each other—to insure a maximum of human liberty not for a few but for all.

It has been well said that, "The freest government, if it could exist, would not be long acceptable, if the tendency of the laws were to create a rapid accumulation of property in few hands, and to render the great mass of the population dependent and penniless."

Today many Americans ask the uneasy question: Is the vociferation of our liberties are in danger justified by the facts? The answer on the part of average men and women in every part of the country is far more accurate than it would have been in 1929 for the very simple reason that during the past 9 years we have been doing a lot of common-sense thinking. Their answer is that if there is that danger it comes from that concentrated private economic power which is struggling so hard to master our democratic government. It will not come, as some (by no means all) of the possessors of that private power would make the people believe—from our democratic government itself.

II. FINANCIAL CONTROL OVER INDUSTRY

Even these statistics I have cited do not measure the actual degree of concentration of control over American industry.

Close financial control, through interlocking spheres of influence and channels of investment, and through the use of financial devices like holding companies and strategic minority interests, creates close control of the business policies of enterprises which masquerade as independent units.

That heavy hand of integrated financial and management control lies upon large and strategic areas of American industry. The small-business man is unfortunately being driven into a less and less independent position in American life. You and I must admit that.

Private enterprise is ceasing to be free enterprise and is becoming a master of private collectivisms; masking itself as a system of free enterprise after the American model, it is in fact becoming a concealed cartel system after the European model.

We all want efficient industrial growth and the advantages of mass production. No one suggests that we return to the hand loom or hand forge. A series of processes involved in turning out a given manufactured product may well require one or more huge mass-production plants. Modern efficiency may call for this. But modern efficient mass production is not furthered by a central control which destroys competition between industrial plants each capable of efficient mass production while operating as separate units. Industrial efficiency does not have to mean industrial empire building.

And industrial empire building, unfortunately, has evolved into a central control of industry. We oppose that.

Such control does not offer safety for the investing public. Investment judgment requires the disinterested appraisal of other people's management. It becomes blurred and distorted if it is combined with the conflicting duty of controlling the management it is supposed to judge.

Increasing financial controls have taken from American business much of its traditional virility, independence, adaptability, and initiative—without compensating advantages. They have not given us stability as they promised.

Free enterprise needs new vitality and the flexibility that comes from uncoordinated efforts, independent judgments and vibrant energy of thousands upon thousands of independent businessmen.

The individual must be encouraged to exercise his own judgment and to invest his own small savings, not in stock gambling but in

4 STRENGTHENING AND ENFORCEMENT OF ANTI-TRUST LAWS

new enterprise investment. Men will dare to compete against men but not against giants.

III. THE DECLINE OF COMPETITION AND ITS EFFECTS ON EMPLOYMENT

In output per man or machine we are the most efficient industrial nation on earth.

In the matter of complete mutual employment of capital and labor we are among the least efficient.

Our difficulties of employing labor and capital are not new. We have had them since good, free land gave out in the West at the turn of the century. They were old before we undertook changes in our tax policy or in our labor and social legislation. They were caused not by this legislation but by the same forces which caused the legislation. The problem of bringing idle men and idle money together will not be solved by abandoning the forward steps we have taken to adjust the burdens of taxation more fairly and to attain social justice and security.

If you believe with me in private initiative, you must acknowledge the right of well-managed small business to expect to make reasonable profits. You must admit that the destruction of this opportunity follows concentration of control of any given industry into a small number of dominating corporations.

One of the primary causes of our present difficulties lies in the disappearance of price competition in many industrial fields, particularly in basic manufacture where concentrated economic power is most evident—and where rigid prices and fluctuating pay rolls are general.

Managed industrial prices mean fewer jobs. It is no accident that in industries like cement and steel where prices have remained firm in the face of a falling demand pay rolls have shrunk as much as 40 and 50 percent in recent months. Nor is it mere chance that in most competitive industries where prices adjust themselves quickly to falling demand, pay rolls and employment have been far better maintained. By prices we mean, of course, the prices of the finished articles and not the wages paid to workers.

When prices are privately managed at levels above those which would be determined by free competition, everybody pays.

The contractor pays more for materials; the homebuilder pays more for his house; the tenant pays more rent; and the worker pays in lost work.

Even the Government itself is unable, in a large range of materials, to obtain competitive bids. It is repeatedly confronted with bids identical to the last cent.

Our housing shortage is a perfect example of how ability to control prices interferes with the ability of private enterprise to fill the needs of the community and provide employment for capital and labor.

On the other hand, we have some lines of business, large and small, which are genuinely competitive. Often these competitive industries must buy their basic products from monopolistic industry, thus losing and causing the public to lose, a large part of the benefit of their own competitive policy. Furthermore, in times of recession, the practices of monopolistic industries make it difficult for business or agriculture, which is competitive and which does not curtail production below normal needs, to find a market for its goods even at

reduced prices. For at such times a large number of customers of agriculture and competitive industry are being thrown out of work those noncompetitive industries which choose to hold their prices rather than to move their goods and to employ their workers.

If private enterprise left to its own devices becomes half-regimented and half-competitive, half-slave and half-free, as it is today, it obviously cannot adjust itself to meet the needs and the demands of the country.

Most complaints for violations of the antitrust laws are made by businessmen against other businessmen. Even the most monopolistic businessman disapproves of all monopolies but his own. We may smile at this as being just an example of human nature, but we cannot laugh away the fact that the combined effect of the monopolistic controls which each business group imposes for its own benefit inevitably destroys the buying power of the Nation as a whole.

IV. COMPETITION DOES NOT MEAN EXPLOITATION

Competition, of course, like all other good things, can be carried to excess. Competition should not extend to fields where it has demonstrably bad social and economic consequences. The exploitation of child labor, the chiseling of workers' wages, the stretching of workers' hours, are not necessary, fair, or proper methods of competition. I have consistently urged a Federal wages-and-hours bill to take the minimum decencies of life for the working man and woman out of the field of competition.

It is of course necessary to operate the competitive system of free enterprise intelligently. In gauging the market for their wares businessmen, like the farmers, should be given all possible information by government and by their own associations so that they may act with knowledge and not on impulse. Serious problems of temporary overproduction can and should be avoided by disseminating information that will discourage the production of more goods than the current markets can possibly absorb or the accumulation of dangerously large inventories for which there is no obvious need.

It is, of course, necessary to encourage rises in the level of those competitive prices, such as agricultural prices, which must rise to put our price structure into more workable balance and make the debt burden more tolerable. Many such competitive prices are now too low.

It may at times be necessary to give special treatment to chronically sick industries which have deteriorated too far for natural revival, especially those which have a public or quasi-public character.

But generally over the field of industry and finance we must revive and strengthen competition if we wish to preserve and make workable our traditional system of free private enterprise.

The justification of private profit is private risk. We cannot safely make America safe for the businessman who does not want to take the burdens and risks of being a businessman.

V. THE CHOICE BEFORE US

Examination of methods of conducting and controlling private enterprise which keep it from furnishing jobs or income or opportunity for one-third of the population is long overdue on the part of those

who sincerely want to preserve the system of private enterprise for profit.

No people, least of all a democratic people, will be content to go without work or to accept some standard of living which obviously and woefully falls short of their capacity to produce. No people, least of all a people with our traditions of personal liberty, will endure the slow erosion of opportunity for the common man, the oppressive sense of helplessness under the domination of a few, which are overshadowing our whole economic life.

A discerning magazine of business has editorially pointed out that big-business collectivism in industry compels an ultimate collectivism in government.

The power of a few to manage the economic life of the Nation must be diffused among the many or be transferred to the public and its democratically responsible government. If prices are to be managed and administered, if the Nation's business is to be allotted by plan and not by competition, that power should not be vested in any private group or cartel, however benevolent its professions profess to be.

Those people, in and out of the halls of government, who encourage the growing restriction of competition either by active efforts or by passive resistance to sincere attempts to change the trend, are shouldering a terrific responsibility. Consciously or unconsciously they are working for centralized business and financial control. Consciously or unconsciously they are therefore either working for control of the Government itself by business and finance or the other alternative—a growing concentration of public power in the Government to cope with such concentration of private power.

The enforcement of free competition is the least regulation business can expect.

VI. A PROGRAM

The traditional approach to the problems I have discussed has been through the antitrust laws. That approach we do not propose to abandon. On the contrary, although we must recognize the inadequacies of the existing laws, we seek to enforce them so that the public shall not be deprived of such protection as they afford. To enforce them properly requires thorough investigation not only to discover such violations as may exist but to avoid hit-and-miss prosecutions harmful to business and government alike. To provide for the proper and fair enforcement of the existing antitrust laws I shall submit, through the Budget, recommendations for a deficiency appropriation of \$200,000 for the Department of Justice.

But the existing antitrust laws are inadequate—most importantly because of new financial economic conditions with which they are powerless to cope.

The Sherman Act was passed nearly 40 years ago. The Clayton and Federal Trade Commission Acts were passed over 20 years ago. We have had considerable experience under those acts. In the meantime we have had a chance to observe the practical operation of large-scale industry and to learn many things about the competitive system which we did not know in those days.

We have witnessed the merging-out of effective competition in many fields of enterprise. We have learned that the so-called competitive system works differently in an industry where there are

ent units, from the way it works in an industry where
monopolies dominate the market.

It is learned that a realistic system of business regulation
more than consciously immoral acts. The community
economic results. It must be protected from economic
ill as well as from wrongs. We must find practical controls over blind
as well as over blindly selfish men.

can deal and should deal with blindly selfish men.

comparatively small part—the easier part—of our prob-
The larger, more important and more difficult part of our prob-
lem is to deal with men who are not selfish and who are good citizens,
who cannot see the social and economic consequences of their
actions in a modern economically interdependent community. They
do not grasp the significance of some of our most vital social and
economic problems because they see them only in the light of their
own personal experience and not in perspective with the experience
of other men and other industries. They therefore fail to see these
problems for the Nation as a whole.

In the situation I have described, there should be a thorough
study of the concentration of economic power in American industry
and the effect of that concentration upon the decline of competition.
There should be an examination of the existing price system and the
effect of it upon employment, upon long-term profits and upon
the general welfare of the Nation.

The study should not be confined to the traditional
fields of antitrust law. The effects of tax, patent, and other Government
regulations should be ignored.

The study should be comprehensive and adequately financed. I
recommend an appropriation of not less than \$500,000 for the com-
prehensive study by the Federal Trade Commission,
Department of Justice, the Securities and Exchange Commission,
and other agencies of government as have special experience in
some phases of the inquiry.

Some of the items that should be embraced in the pro-
gram are:—The items are not intended to be all inclusive. One or
two items, such as bank holding companies and investment
companies, have already been the subject of special study, and legislation
in these areas need not be delayed.

Revision of antitrust procedure.—A revision of the existing
antitrust laws should make them susceptible of practical enforcement
by those charged with violations the burden of proving
guilt within their knowledge. Proof by the Government
of uniform price increases, price leadership, higher
transport prices, or other specified price rigidities might
constitute *prima facie* evidence of unlawful actions.

The Department of Justice and the Federal Trade Commission
should have more adequate and effective power to investigate
and it is reason to believe that conditions exist or practices
which violate the provisions or defeat the objectives of the
antitrust laws.

If investigation reveals border-line cases where
regulatory efforts to eliminate socially and economically
injurious conditions of competition in particular industries are thwarted
by technical violations of the antitrust laws, remedial
action should be considered.

As a really effective deterrent to personal wrong-doing, I would suggest that where a corporation is enjoined from violating the law, the court might be empowered to enjoin the corporation for a specified period of time from giving any remunerative employment or any official position to any person who has been found to bear a responsibility for the wrongful corporate action.

As a further deterrent to corporate wrong-doing the Government might well be authorized to withhold Government purchases from companies guilty of unfair or monopolistic practice.

(2) *Mergers and interlocking relationship.*—More rigid scrutiny through the Federal Trade Commission and the Securities and Exchange Commission of corporate mergers, consolidations, and acquisitions than that now provided by the Clayton Act to prevent their consummation when not clearly in the public interest; more effective methods for breaking up interlocking relationships and like devices for bestowing business by favor.

(3) *Financial controls.*—The operations of financial institutions should be directed to serve the interests of independent business and restricted against abuses which promote concentrations of power over American industry.

(4) *Investment trusts.*—Investment trusts should be brought under strict control to insure their operations in the interests of their investors rather than of their managers. The Securities and Exchange Commission is to make a report to Congress on the results of a comprehensive study of investment trusts and their operations which it has carried on for nearly 2 years. The investment trust, like the holding company, puts huge aggregations of the capital of the public at the direction of a few managers. Unless properly restricted, it has potentialities of abuse second only to the holding company as a device for the further centralization of control over American industry and American finance.

The tremendous investment funds controlled by our great insurance companies have a certain kinship to investment trusts, in that these companies invest as trustees the savings of millions of our people. The Securities and Exchange Commission should be authorized to make an investigation of the facts relating to these investments with particular relation to their use as an instrument of economic power.

(5) *Bank holding companies.*—It is hardly necessary to point out the great economic power that might be wielded by a group which may succeed in acquiring domination over banking resources in any considerable area of the country. That power becomes particularly dangerous when it is exercised from a distance and notably so when effective control is maintained without the responsibilities of complete ownership.

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

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

It is not a sufficient assurance against the future to say that no great evils 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; pre-

holding companies from acquiring control of any more banks, directly or indirectly; prevent banks controlled by holding companies from establishing any more branches; and make it illegal for a holding company, or any corporation or enterprise in which it is financially interested, to borrow from or sell securities to a bank in which it holds stock.

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

(4) *Trade associations.*—Supervision and effective publicity of the activities of trade associations, and a clarification and delineation of their legitimate spheres of activity which will enable them to combat unfair methods of competition, but which will guard against their interference with legitimate competitive practices.

(5) *Patent laws.*—Amendment of the patent laws to prevent their use to suppress inventions, and to create industrial monopolies. Of course, such amendment should not deprive the inventor of his royalty rights, but, generally speaking, future patents might be made available for use by anyone upon payment of appropriate royalties. Open patent pools have voluntarily been put into effect in a number of important industries with wholesome results.

(6) *Tax correctives.*—Tax policies should be devised to give affirmative encouragement to competitive enterprise.

Attention might be directed to increasing the intercorporate dividend tax to discourage holding companies and to further graduating the corporation income tax according to size. The graduated tax need not be so high as to make bigness impracticable, but might be high enough to make bigness demonstrate its alleged superior efficiency.

We have heard much about the undistributed profits tax. When it was enacted 2 years ago, its objective was known to be closely related to the problem of concentrated economic power and a free capital market.

Its purpose was not only to prevent individuals whose incomes were taxable in the higher surtax brackets from escaping personal income taxes by letting their profits be accumulated as corporate surplus. Its purpose was also to encourage the distribution of corporate profits so that the individual recipients could freely determine where they would reinvest in a free capital market.

It is true that the form of the 1936 tax worked a hardship on many of the smaller corporations. Many months ago I recommended that these inequities be removed.

But in the process of the removal of inequities, we must not lose sight of original objectives. Obviously the nation must have some deterrent against special privileges enjoyed by an exceedingly small group of individuals under the form of the laws prior to 1936, whether such deterrent take the form of an undistributed-profits tax or some other equally or more efficient method. And obviously an undistributed profits tax has a real value in working against a further concentration of economic power and in favor of a freer capital market.

(7) *Bureau of Industrial Economics.*—Creation of a Bureau of Industrial Economics which should be endowed with adequate powers to supplement and supervise the collection of industrial statistics by

trade associations. Such a bureau should perform for businessmen functions similar to those performed for the farmers by the Bureau of Agricultural Economics.

It should disseminate current statistical and other information regarding market conditions and be in a position to warn against the dangers of temporary overproduction and excessive inventories as well as against the dangers of shortages and bottleneck conditions and to encourage the maintenance of orderly markets. It should study trade fluctuations, credit facilities, and other conditions which affect the welfare of the average businessman. It should be able to help small-business men to keep themselves as well informed about trade conditions as their big competitors.

No man of good faith will misinterpret these proposals. They derive from the oldest American traditions. Concentration of economic power in the few and the resulting unemployment of labor and capital are inescapable problems for a modern "private enterprise" democracy. I do not believe that we are so lacking in stability that we will lose faith in our own way of living just because we seek to find out how to make that way of living work more effectively.

This program should appeal to the honest common sense of every independent businessman interested primarily in running his own business at a profit rather than in controlling the business of other men.

It is not intended as the beginning of any ill-considered "trust-busting" activity which lacks proper consideration for economic results.

It is a program to preserve private enterprise for profit by keeping it free enough to be able to utilize all our resources of capital and labor at a profit.

It is a program whose basic purpose is to stop the progress of collectivism in business and turn business back to the democratic competitive order.

It is a program whose basic thesis is not that the system of free private enterprise for profit has failed in this generation, but that it has not yet been tried.

When it is realized that business monopoly in America paralyzes the system of free enterprise on which it is grafted, and is as fatal to those who manipulate it as to the people who suffer beneath its impositions, action by the Government to eliminate these artificial restraints will be welcomed by industry throughout the Nation.

For idle factories and idle workers profit no man.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE, April 29, 1933.

○

TO:

MISS CHAUNCEY

1/24/41

309



The Secretary was told about this and
Mr. Foley has the original. This copy
for your files.

MR. FOLEY

Secretary Hargreaves

JAN 3 1941

Mr. Foley

**Re: Legislative program for
coming session.**

There follows, in tabular form, a list of proposed legislation which the various bureaus and divisions of the Department contemplate submitting to Congress during its next session.

**Legislation to be re-
submitted to Congress.**

1. **Customs Leases.**—To authorize Customs to enter into ten year leases on buildings and grounds. At present they must be renewed annually. (Customs)
2. **Settlement on Lost or Stolen Checks.**—To authorize the Treasurer to make settlements in advance of reclamation with payees of lost or stolen checks which have been paid on forged endorsements. (Treasurer)
3. **Counterfeiting Conspiracies.**—To make the penalty for conspiracy to violate the laws relating to counterfeiting the same as for violating the substantive offense. (Secret Service)
4. **Elimination of Certain Oaths.**—To eliminate certain oaths required of vessels and shippers of cargo in certain cases because they are unnecessary, burdensome, and administratively impossible of enforcement. (Customs)

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5. Systems Facilities at International Toll Bridges.—To require international toll bridges to furnish free inspection facilities for customs and immigration officers. (Customs)
6. Adjustment in Treasurer's Accounts.—To authorize crediting the accounts of the Treasurer of the United States to cover certain types of payments made by him in good faith and without negligence. (Treasurer)
7. Exchange of Coast Guard Sites.—To authorize the exchange of two Coast Guard sites in Florida for other property in the State more advantageous to the Government. (Coast Guard)
8. Coast Guard Auxiliary and Reserve.—To amend the Coast Guard Reserve Act by substituting a Coast Guard Auxiliary for the existing Reserve and creating a new Coast Guard Reserve patterned after the Naval Reserve. (Coast Guard)
9. Death and Disability Benefits for Law Enforcement Officers.—To authorize an increase in the disability and death compensation payable to Federal police officers and their dependents where such officers are disabled or killed in hazardous work. (Coordinator of Treasury Enforcement)

- 3 -

New Legislation
Proposed.

1. Regulation of Payment of Claims Against the United States.—To prescribe the conditions under which payment to claimants against the Government will be withheld because of adverse claims of third parties. (Bureau of Accounts)
2. Legated Envelopes to Safeguard the Mailing of Checks.—To safeguard checks sent through the mails by permitting the Division of Disbursement to dispatch them in envelopes bearing the legated now printed on envelopes used for mailing checks for the Veterans Administration. (Bureau of Accounts)
3. Prohibition of Withholding Retirement Benefits.—To prohibit the withholding of amounts in the civil service retirement fund to the credit of disbursing officers of the Treasury Department on account of suspensions or disallowances raised by the General Accounting Office. (Bureau of Accounts)
4. Government Fidelity Bonding System.—To establish a self-supporting fidelity bonding system for employees of the United States in lieu of the present system of requiring surety company bonds. (Bureau of Accounts)
5. Regulating Hours of Work and Time of Payment of Government Employees in the District of Columbia.—To authorize the President to establish a five-day week, grant overtime leave, and stagger payday for the various departments and agencies of the Government in the District of Columbia. (Mr. Bell)

- 4 -

6. Harrison Narcotic Act Amendments.--To provide a separate tax classification for hospitals and similar institutions and thus relieve certain hospitals from double occupational tax classifications; classify newly discovered narcotic derivatives; and prevent the abusive use of narcotic commodity tax stamps. (Narcotics)

7. Restriction of Registration under Narcotic Provisions of the Internal Revenue Code.--To authorize denial or revocation of registration under the narcotic provisions of the Internal Revenue Code to persons convicted of violating Federal or State narcotic laws. (Narcotics)

8. Second Liberty Bond Act Amendment.--To increase the debt limit, consolidate the borrowing authority of the Government, make Federal obligations subject to Federal taxes, and give the Secretary of the Treasury more flexible authority in connection with the issuance and sale of savings bonds. (Secretary)

9. Carrying into Surplus Fund of Certain Trust Funds Derived from Compensating Taxes.--To eliminate certain trust funds by authorizing the carrying into the surplus fund of certain compensating taxes collected under the Agricultural Adjustment Act on commodities imported from the possessions of the United States. (Bureau of Accounts)

10. Bank Holding Company Legislation.--To regulate bank holding companies. (Comptroller of the Currency)

- 5 -

11. Amendment of Laws Relating to the Deposit of Federal Funds.--To generally revise and bring up to date the laws governing the deposit of Federal funds in banks throughout the country. (Bureau of Accounts)
12. Annual Report of the Comptroller of the Currency.--To authorize the Comptroller to submit his annual report on a calendar year basis (as the F.B.I.C. and the F.R.B. do) rather than at the beginning of each session of Congress. (Comptroller of the Currency)
13. Procurement Purchasing.--To authorize the Director of Procurement, with the approval of the Secretary, to make purchases on the open market in certain cases where competitive bidding proves unsatisfactory. (Procurement)
14. Stabilization Fund.--To extend the stabilization fund and dollar devaluation powers. (Secretary)
15. New Mint.--To authorize the establishment of a new mint in the Middle West. (Mint)
16. Customs Administrative Amendments.--To facilitate administration of the Customs Laws by clarifying and bringing up to date a number of the laws regulating procedure. (Customs)
17. Mileage Payments to Customs Officers.--To ~~authorize~~ payment to Customs officers of mileage for use of their own cars or motorcycles for official travel within the limits of their posts of duty. (Customs)
18. Coast Guard Rights of Way.--To give the Coast Guard the same authority to exchange Coast Guard rights of way as it has with respect to the exchange of Lighthouse rights of way. (Coast Guard)

19. Power to Coast Guard Prescribe its Private Persons.—To give the Coast Guard the same authority in connection with the handling and disposition of money collected from private persons in payment for damage done to Coast Guard property as it has when lighthouse service property is involved. (Coast Guard)

20. Extension of Coast Guard Jurisdiction.—To clarify the law governing extension of Coast Guard enlistments. (Coast Guard)

21. Coast Guard Contracts.—To extend to the Coast Guard the law authorizing the Navy to enter into negotiated contracts. (Coast Guard)

22. Coast Guard Enforcement Jurisdiction.—To remove existing limitations on the authority of the Coast Guard to enforce the law of the United States on "inland waters". (Coast Guard)

23. Status of Coast Guard.—To amend existing law so as to make it clear that the Coast Guard is a part of the military forces of the United States. (Coast Guard)

24. Foreign Trade Control.—There is a possibility that we may submit legislation expanding our foreign exchange control powers, working in the Treasury in a "modernized" form powers exercised by the Alien Property Custodian during the first World War, setting up a machinery for determining American claims against foreign countries, giving the President and the Treasury authority to enter into unilateral and bilateral clearing arrangements with foreign countries, and authority to set off foreign property here against American claims abroad. Complete powers of economic defense should also include the power

of censorship. Such powers will also assist in the solution of the problem of subversive activities and propaganda. He submitted to Justice a draft of provisions to be included in an anti-propaganda bill.

25. Economic Defense Program.--Legislation may also be needed for another phase of the program of economic defense, namely, undesirable inflation, credit expansion, and price rises.

(Initialed) E. H. F., Jr.

WHL/Bmf
1/2/41

TREASURY DEPARTMENT

317

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE January 5, 1941

TO Secretary Morgenthau
FROM Mr. Kleus

FBI reports:

December 31. Several German firms in Bogota handling American goods are said to be assigning their business to native Colombians to obviate a possible pre-war black list, on the understanding that the property will be returned after the crisis passes.

It is possible that a strike will be called at the Ryan Aeronautical Company works in San Diego as result of inability of the CIO union and the President of the Company to agree on wage scales; the union asks for a minimum of 75¢ per hour, the plant is now paying a minimum of 50¢ per hour.

The CIO is endeavoring to organize workers at the Douglas plant in Santa Monica, but there is considerable feeling against the CIO there although the employees desire a wage equivalent to that received by the Vultee employees. It is said that the CIO has given up an attempt to organize the North American Aviation Company at Inglewood, California, as result of a recent crash of a North American plane, the union feeling that the CIO would be blamed for any airplane accidents at this plant occurring during a strike.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

318
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EXACTLY CONFIDENTIAL

DATE January 3, 1941

TO Secretary Morgenthau
FROM Mr. Klaus

Re reports:

December 8-19. Special agents' reports show FBI is looking into Soviet accounts in San Francisco; accounts of the German Consulate and the German Consul General in Boston, of the Italian Consulate and Consul General in Seattle; of the German Consulate and Consular employees in New Orleans (where it would seem the employees from the Consul General down have been decreasing their bank balances); of the German Consulate General and its employees in Chicago (where there were withdrawals of almost \$19,000 in currency in November); of the Japanese Embassy and its chief employees in Washington (among items of interest are the cashing of a \$30,000 check on November 19, a \$15,000 check on November 29 in \$100 bills, the serial numbers of some of which are known to FBI, and the payment November 26 of \$10,000 to the First Secretary by check which has not yet been cashed); and German and Italian accounts in Washington, including the accounts of employees (it may be noted that the Italian Ambassador's personal account shows deposits from July 1933 through November 1940 of \$111,488 and withdrawals of \$44,847).

December 26. More on Ruckwenderer marks. Agents advertise in German-language newspapers, forward circulars to prospective customers, and thereafter make personal calls, presenting applications for signature; it is not always clear whether the customer gets 4.1 marks to the dollar clear or whether he bears expenses. The same form is used to forward the application to Germany for the necessary approval of the German government while the customer applies to the German Consul for what amounts to a re-immigration permit, which is in effect an approval of his making the purchase. FBI says the persons involved in these transactions might be proscribed for internment should an emergency arise requiring internment; that the German government apparently pays 7% commission to the bank and the agent in the United States. There have been a few instances of disapproval of the customer by the German Consul. FBI suggests that where applicants have not received citizenship there be made for denial of citizenship and where possible for revocation of citizenship on the ground of intended expatriation within five years of naturalization. Hans W. Ritter, an active solicitor for this business, intends to leave the United States for Germany via San Francisco January 8, 1941.

December 29. Somebody connected with the German Embassy is reported to have said that should the United States take steps to use the Navy for convoy purposes to the British Germany would take action involving bringing Japan into the controversy; that Hitler was not likely to invade Greece through Bulgaria since this would create a war on two fronts which Hitler wishes to avoid and might bring Turkey into the war; Russia will not be ready to fight any major power for at least a year; Germany will continue the present type of warfare until she is completely sure that invasion of Britain would be successful.

RK.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 3, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns.....\$120,000
 Purchased from commercial concerns.....\$ 14,000

In the open market, sterling was first quoted at 4.03-3/4. It moved to 4.03-1/2 around noon-time, and closed at that level. There were no reported transactions. There was no appreciable movement in the other currencies, and closing quotations were:

Canadian dollar	14% discount
Swiss franc	.2320-1/2
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreals (free)	.0505
Mexican peso	.2066
Cuban peso	8-9/16% discount
Chinese yuan	.05-9/16

We sold \$5,000,000 in gold to the Bank of Java, to be added to its earmarked account.

There were no new gold engagements reported to us today.

No gold or silver prices were received from Bombay.

The prices fixed in London for spot and forward silver both advanced 1/8d, to 3-3/8d and 23-5/16d respectively. The dollar equivalents were 42.44¢ and 42.33¢.

Bundy 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 six purchases of silver totaling 750,000 ounces under the Silver Purchase Act. Of this amount, 350,000 ounces represented a sale from inventory, and the remaining 400,000 ounces consisted of new production from foreign countries, for forward delivery.

January 3, 1941

CONTINUOUS

Dear Mr. Eakin:

Permit me to acknowledge, on behalf of the Secretary, the receipt of your letter of January 2, 1941, enclosing your compilation for the week ended December 24, 1940, showing dollar disbursements out of the British Empire and French accounts at this Federal Reserve Bank and the means by which these expenditures were financed.

Faithfully yours,

E. Marie Cochran
Technical Assistant to the Secretary

L. W. Eakin, Esquire,
Vice President,
Federal Reserve Bank of New York,
New York, New York.

EMC:lag-1/3/41

copy for Secy's Files

FEDERAL RESERVE BANK
OF NEW YORK

January 2, 1941.

CONFIDENTIAL

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

I am enclosing herewith our compilation for the week ended December 24, 1940, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,



L. W. Enke,
Vice President.

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

Enclosures

RECEIVED DEPARTMENT

JAN 11 1941

RECEIVED BY THE CHIEF
DEPT. OF THE TREASURY

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended Dec. 24, 1940.

Strictly
Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE						
	DEBITS				CREDITS				DEBITS			CREDITS			
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Proceeds of Securities (incl. Est.) (b)	Other Credits (incl. adj'ts)	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Gov't Expenditures (-)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
1939															
Aug. 31 - Sept. 27	94.3	3.6	90.7	207.8	185.4	33.6	-11.2(d)	+113.5	19.4	6.0	13.4	11.3	-	11.3	- 8.1
Sept. 28 - Nov. 1	106.7	5.8	100.9	142.0	5.2	52.5	85.8(e)	+ 35.3	88.6	51.8	105.4	76.8	35.0	41.8	- 12.4
Nov. 2 - 25	191.7	8.9	182.8	105.8	57.8	25.0	23.0	- 85.9	78.6			82.9	59.1	27.8	+ 9.3
Nov. 26 - Jan. 3	97.7	9.7	88.0	75.2	50.6	14.2	10.4	- 22.5	86.8	25.1	56.7	109.2	93.9	15.3	+ 27.4
1940															
Jan. 4 - 31	54.8	16.8	38.0	43.4	20.6	17.8	5.0(f)	- 11.4	61.5	31.5	30.0	55.9	50.1	5.8	- 2.5
Feb. 1 - 28	104.2	15.4	108.8	103.3	56.7	17.9	33.7	- 15.9	75.7	32.8	39.9	71.5	54.6	16.7	- 1.7
Feb. 29 - Apr. 3	115.5	14.5	101.0	94.0	60.9	21.5	11.6(g)	- 21.5	99.6	35.9	63.7	105.0	75.4	29.6	+ 2.4
Apr. 4 - May 1	113.4	26.1	87.3	86.4	46.8	13.4	26.2(h)	- 27.0	84.9	29.4	55.4	78.7	60.7	18.0	- 4.1
May 2 - 25	100.9	23.6	77.3	126.2	93.2	7.1	25.9	+ 25.3	101.4	57.0	44.4	145.4	126.2	19.2	+ 19.0
May 26 - July 3	283.2	145.3	137.9	319.3	301.2	5.1	12.9	+ 36.1	356.7(i)	192.3(j)	29.4	345.1(k)	335.6	9.5(l)	- 105.4
July 4 - 31	249.7	156.7	93.0	225.0	212.2	2.0	10.9	- 24.7	7.3	6.3	1.0	3.2	3.0	0.2	- 4.1
Aug. 1 - 15	261.1	180.2	80.9	294.8	267.4	1.0	26.4(m)	+ 32.7	6.9	0.5	6.4	10.9	10.4	0.5	+ 1.0
First year of war	1793.2	605.6	1187.6	1,828.2	1,356.1	211.2	260.9	+ 35.0	866.3	416.6	449.7	1085.3	900.2	185.1	- 295.0
Aug. 16 - Oct. 2	315.8	244.3	72.5	308.9	271.5	6.0	31.5(k)	- 7.9	8.6	2.4	6.2	1.3	-	1.3	- 7.3
Oct. 3 - 30	196.7	167.8	28.9	196.5	160.5	6.0	32.0(l)	+ 1.8	0.5	0.3	0.2	0.5	-	0.2	-
Oct. 31 - Nov. 17	241.0	201.1	39.9	259.5	210.0	18.0	31.5(m)	+ 18.5	0.8	0.1	0.7	0.7	-	0.7	- 0.1
Nov. 18 - Dec. 31															
1940															
Dec. 4	42.3	31.7	10.6	10.4	1.4	2.0	7.0	-31.9	0.6	-	0.6	0.3	-	0.3	- 0.3
11	47.8	42.4	5.4	14.4	1.3	4.0	9.1	-33.4	1.3	-	1.3	0.1	-	0.1	- 1.2
18	39.6	36.1	3.5	71.2	60.2	4.0	7.0	+31.6	0.2	-	0.2	0.1	-	0.1	- 0.1
24	54.8	50.1	4.7	27.5(n)	0.2	8.0	19.3(o)	-27.3	-	-	-	0.1	-	0.1	+ 0.1

Transfers from British Purchasing Commission to
Bank of Canada for French AccountWeek ended Dec. 24 \$ 8.9 million
Cumulation from July 6 \$ 116.3 million

(See footnotes on reverse side)

Average daily Expenditures Since Outbreak of War
France (through June 19) \$19.8 millionEngland (through June 19) 27.6 million
Ireland (since June 19) 58.2 million

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Through June 19, these figures represent total sales of American securities in Seacoast District reported for account of the United Kingdom. (Proceeds of these sales, however, may not have been credited to the Bank of England's account in all cases.) Beginning with the week ended June 26, the figures represent transfers from the Bank of Montreal, New York Agency, which is custodian for requisitioned American securities held in this country. The transfers apparently reflect proceeds of official security sales, including those handled through private deals. From June 17 to July 19, transactions in securities payable in specified foreign currencies, including dollars, by United Kingdom residents were prohibited.
- (c) Includes payments for account of French Air Commission and French Purchasing Commission.
- (d) Includes adjustment for (b) above.
- (e) About \$85 million transferred from accounts of British authorized banks with New York banks.
- (f) About \$11 million transferred from accounts of British authorized banks with New York banks.
- (g) About \$8 million transferred from accounts of British authorized banks with New York banks.
- (h) About \$10 million transferred from accounts of British authorized banks with New York banks.
- (i) Adjusted to eliminate the effect of \$20 million paid out on June 26 and returned the following day:
- (j) About \$2 million transferred from accounts of British authorized banks with New York banks.
- (k) About \$2 million transferred from accounts of British authorized banks with New York banks.
- (l) About \$4 million transferred from accounts of British authorized banks with New York banks.
- (m) About \$1 million transferred from accounts of British authorized banks with New York banks.
- (n) Adjusted to include \$6 million received on December 24, but not-actually credited until December 26.
- (o) About \$12 million transferred from accounts of British authorized banks with New York banks.

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

Week Ended Dec. 24, 1940.

Strictly
Confidential

PERIOD	BANK OF CANADA									COMMONWEALTH BANK OF AUSTRALIA						
	DEBITS			CREDITS						DEBITS			CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
					Per Can A/C	Per French A/C										
1939																
Sept. 31 - Sept. 27	17.5	0.6	16.9	21.8	15.1	0.6	-	5.9	+ 4.3	-	-	-	-	-	-	-
Oct. 28 - Nov. 1	9.6	0.3	9.3	16.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	-	-	-	-
Nov. 2 - 29	9.9	0.7	9.2	14.4	13.3	-	-	1.1	+ 4.5	-	-	-	1.9	1.9	-	+ 1.9
Dec. 30 - Jan. 3	30.0	-	30.0	22.8	15.3	3.0	-	6.5	- 7.2	2.5	-	2.5	5.8	5.8	-	+ 3.3
1940																
Jan. 4 - 31	23.5	-	23.5	25.7	21.1	-	-	4.6	+ 2.2	5.2	0.3	4.9	3.3	3.0	0.3	- 1.5
Feb. 1 - 28	23.1	-	23.1	17.0	16.1	-	-	0.9	- 6.1	3.3	0.1	3.2	2.4	2.2	0.2	- 0.9
Mar. 29 - Apr. 3	42.3	-	42.3	29.5	29.3	-	-	0.2	- 12.8	3.0	0.3	2.7	2.2	1.6	0.6	- 0.8
Apr. 4 - May 1	38.2	-	38.2	42.9	24.8	15.0	-	3.1	+ 4.7	2.5	-	2.5	2.0	1.8	0.2	- 0.3
May 2 - 29	37.9	15.0	37.9	50.2	50.0	-	-	0.2	+ 12.3	1.2	0.2	1.0	2.6	1.7	0.9	+ 1.4
June 30 - July 3	44.1	-	44.1	73.5	72.2	-	-	0.3	+ 28.4	2.3	-	2.3	5.9	4.4	1.5	+ 3.6
July 4 - 31	28.2	-	28.2	117.6	96.3	-	19.2	2.1	+ 89.4	4.6	-	4.6	5.0	4.2	0.8	+ 0.4
Aug. 1 - 26	18.7	-	18.7	73.6	53.9	-	19.5	0.2	+ 54.9	6.8	3.0	3.8	5.0	3.4	1.6	- 1.8
First year of war	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
Sept. 29 - Oct. 2	44.3	-	44.3	43.9	15.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	3.0	6.7	1.3	- 0.7
Oct. 3 - 30	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2
Nov. 31 - Nov. 27	35.2	-	35.2	69.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	1.5	+ 0.5
Dec. 28 - Dec. 31																
WEEK ENDED																
Dec. 4	10.8	-	10.8	21.4	21.4	-	-	-	+10.6	0.8	-	0.8	0.1	-	0.1	- 0.7
11	5.4	-	5.4	14.4	5.8	-	4.5	4.1	+ 9.0	0.8	-	0.8	0.3	-	0.3	- 0.5
18	11.0	-	11.0	10.4	10.3	-	0.1	-	- 0.6	1.7	-	1.7	6.0	4.7	1.3	+ 4.3
24	7.1	-	7.1	12.4	3.4	-	8.9	0.1	+ 5.3	0.1	-	0.1	0.3	0.1	0.2	+ 0.2

Weekly Average of Total Debits Since Outbreak of War
Through Dec. 24 \$ 6.7 million

FEDERAL RESERVE BANK OF NEW YORK

January 2, 1941

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

I am enclosing herewith our compilation for the week ended December 24, 1940, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

(Signed) L. W. Knote

L. W. Knote,
Vice President.

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

Enclosures

COPY:lap

PERIOD	BRITISH GOVERNMENT								BANK OF ENGLAND			FRANCE			Net Incr. (+) or Decr. (-) in Balance
	DEBITS			CREDITS					DEBITS		CREDITS		Proceeds of Gold Sales	Other Credits	
	Total Debits	Gov't Expenditures	Other Debits	Total Credits	Proceeds of Sales of Securities	Other Credits (incl. adj'ts)	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Gov't Expenditures	Other Debits	Total Credits				
1939															
Aug. 31 - Sept. 19	94.3	3.6	202.7	202.0	103.4	33.6	-11.2(4)	+13.5	19.4	6.0	13.4	113.3	-	11.3	- 0.1
Sept. 20 - Nov. 1	106.9	3.0	166.5	147.0	3.7	52.6	66.3(6)	+ 39.3	60.6	51.0	105.4	96.7	32.0	51.7	- 13.4
Nov. 2 - 22	131.7	15.2	105.0	103.0	39.0	15.0	23.0	- 40.9	70.6			82.9	21.1	22.0	+ 4.3
Nov. 30 - Jan. 3	99.9	11.7	95.0	78.7	34.0	14.7	10.0	- 25.3	66.0	20.1	102.9	102.7	22.9	16.3	+ 11.3
1940															
Jan. 4 - 31	54.0	16.0	201.7	43.4	19.0	17.0	1.0(7)	- 11.4	61.5	31.5	20.0	111.9	101.7	10.0	- 2.0
Feb. 1 - 20	124.2	15.4	100.0	104.3	36.9	17.7	33.7	- 10.2	71.7	31.0	30.9	91.6	101.0	10.7	- 1.0
Feb. 21 - Apr. 3	115.9	14.5	101.0	24.0	69.9	7.7	11.6(7)	- 21.7	99.5	32.4	66.7	102.0	75.4	19.6	+ 2.4
Apr. 4 - May 1	113.4	19.1	97.3	61.6	36.0	15.4	25.1(1)	- 27.0	104.0	39.4	16.3	90.7	60.2	10.0	- 0.1
May 2 - 29	100.0	23.0	97.3	121.2	23.1	7.1	20.2	+ 36.3	101.4	17.0	41.4	149.4	176.2	10.2	+ 23.0
May 30 - July 3	283.2	145.3	187.9	319.3	201.2	6.1	18.9	+ 30.1	120.7(1)	119.3(1)	19.4	340.1(1)	330.6	9.5(1)	+ 109.3
July 4 - 31	249.7	156.9	93.0	335.0	410.2	3.0	10.0	+ 24.7	7.3	0.3	1.0	3.7	3.0	0.2	- 4.1
Aug. 1 - 30	261.1	100.2	90.9	294.0	207.4	1.0	22.1(1)	+ 33.7	0.9	0.0	0.4	10.9	10.3	0.5	+ 7.0
First year of war	1293.3	605.6	1,007.6	1,000.2	1,066.1	111.2	160.9	+ 25.0	66.3	116.6	129.7	1,000.3	900.7	105.1	+ 27.0
Aug. 21 - Oct. 2	516.0	244.3	75.5	376.5	271.5	6.0	31.4(1)	- 7.0	0.6	0.4	4.7	1.3	-	1.3	- 7.3
Oct. 3 - 30	196.7	167.0	80.9	190.0	160.0	6.0	32.0(1)	+ 1.0	0.0	0.3	0.2	0.0	-	0.6	-
Oct. 31 - Nov. 27	241.0	201.1	39.9	259.5	210.0	18.0	31.5(m)	+ 18.3	0.8	0.1	0.7	0.7	-	0.7	- 0.1
Nov. 28 - Dec. 31															
WEEK ENDING															
Dec. 4	42.3	31.7	10.6	10.4	1.4	2.0	7.0	-31.9	0.6	-	0.6	0.3	-	0.3	- 0.3
11	47.8	42.4	5.4	14.4	1.3	4.0	9.1	-33.4	1.3	-	1.3	0.1	-	0.1	- 1.2
18	39.6	36.1	3.5	71.2	60.2	4.0	7.0	+31.6	0.2	-	0.2	0.1	-	0.1	- 0.1
24	54.8	50.1	4.7	27.5(m)	0.2	8.0	19.3(n)	-27.3	-	-	-	0.1	-	0.1	+ 0.1

Transfers from British Purchasing Commission to Bank of Canada for French Account

Week ended Dec. 24 118.3 million
Cumulation from July 6

(See footnotes on reverse side)

Average Weekly Expenditures Since Outbreak of War
France (through June 19) \$19.6 million

England (through June 19) 27.5 million
England (since June 19) 58.2 million

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
- (b) Through June 19, these figures represent total sales of American securities in Second District reported for account of the United Kingdom. (Proceeds of these sales, however, may not have been credited to the Bank of England's account in all cases.) Beginning with the week ended June 26, the figures represent transfers from the Bank of Montreal, New York Agency, which is custodian for requisitioned American securities held in this country. The transfers apparently reflect proceeds of official security sales, including those handled through private deals. From June 17 to July 19, transactions in securities payable in specified foreign currencies, including dollars, by United Kingdom residents were prohibited.
- (c) Includes payments for account of French Air Commission and French Purchasing Commission.
- (d) Includes adjustment for (b) above.
- (e) About \$0.5 million transferred from accounts of British authorized banks with New York banks.
- (f) About \$1.1 million transferred from accounts of British authorized banks with New York banks.
- (g) About \$0.9 million transferred from accounts of British authorized banks with New York banks.
- (h) About \$1.0 million transferred from accounts of British authorized banks with New York banks.
- (i) Adjusted to eliminate the effect of \$2.0 million paid out on June 26 and returned the following day.
- (j) About \$2 million transferred from accounts of British authorized banks with New York banks.
- (k) About \$2 million transferred from accounts of British authorized banks with New York banks.
- (l) About \$4 million transferred from accounts of British authorized banks with New York banks.
- (m) About \$6 million transferred from accounts of British authorized banks with New York banks.
- (n) Adjusted to include \$6 million received on December 24, but not actually credited until December 26.
- (o) About \$12 million transferred from accounts of British authorized banks with New York banks.

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

Week Ended Dec. 24, 1940.

Strictly Confidential

PERIOD	DEBITS								CREDITS								Net Inor. (+) or Deor. (-) in Balance
	Total Debits	Transfers to		Total Credits	Proceeds of Gold Sales	Transfers from Official		Other Credits	Total Debits	Transfers to		Total Credits	Proceeds of Gold Sales	Other Credits	Net Inor. (+) or Deor. (-) in Balance		
		Official British A/C	Other Debits			For Own A/C	For French A/C			Official British A/C	Other Debits						
1939																	
Aug. 31 - Sept. 27	17.5	0.6	16.9	21.8	15.1	0.8	-	5.9	+ 4.3	-	-	-	-	-	-		
Sept. 28 - Nov. 1	9.6	0.3	9.3	10.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	-	-	-		
Nov. 2 - 29	9.9	0.7	9.2	14.4	13.3	-	-	1.1	+ 4.5	-	-	1.9	1.9	-	+ 1.9		
Nov. 30 - Jan. 3	30.0	-	30.0	22.8	13.3	3.0	-	6.6	- 7.2	2.6	-	5.0	5.0	-	+ 3.3		
1940																	
Jan. 4 - 31	23.5	-	23.5	20.7	21.4	-	-	4.6	+ 2.5	0.2	0.3	4.9	3.3	0.3	- 1.2		
Feb. 1 - 28	23.1	-	23.1	17.0	16.1	-	-	0.9	- 6.1	3.3	0.1	3.2	2.4	2.2	- 0.2		
Feb. 29 - Apr. 3	42.3	-	42.3	29.5	29.3	-	-	0.2	- 12.6	3.0	0.3	2.7	2.2	1.6	- 0.8		
Apr. 4 - May 1	32.2	-	32.2	42.2	24.8	15.0	-	3.1	+ 4.7	2.3	-	2.3	2.0	1.0	- 0.3		
May 2 - 29	37.9	15.0	37.9	50.2	50.0	-	-	0.2	+ 12.3	1.2	0.2	1.0	2.6	1.7	+ 1.4		
May 30 - July 3	44.1	-	44.1	72.5	72.2	-	-	0.3	+ 22.4	2.3	-	2.3	5.9	4.4	+ 3.6		
July 4 - 31	22.2	-	22.2	117.6	94.3	-	10.2	2.1	+ 29.4	4.6	-	4.6	4.2	0.8	+ 0.4		
Aug. 1 - 26	18.7	-	18.7	73.6	53.9	-	19.5	0.2	+ 24.2	6.8	3.0	3.8	3.4	1.6	- 1.8		
First year of war	323.0	16.6	306.4	504.7	412.7	20.9	32.7	32.4	+121.7	31.2	3.2	27.3	36.1	30.0	+ 4.9		
Aug. 27 - Oct. 2	44.3	-	44.3	43.2	16.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	5.0	6.7	- 0.7		
Oct. 3 - 30	26.7	-	26.7	22.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.0	3.6	7.9	6.5	- 2.2		
Oct. 31 - Nov. 27	35.2	-	35.2	69.6	49.2	-	14.7	3.7	+ 34.4	3.4	0.6	2.5	3.6	2.1	+ 0.5		
Nov. 28 - Dec. 31	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
WEEK ENDED																	
Dec. 4	10.8	-	10.8	21.4	21.4	-	-	-	+10.6	0.2	-	0.2	0.2	-	- 0.7		
11	3.4	-	3.4	14.4	3.8	-	4.3	4.1	+ 2.0	0.2	-	0.2	0.1	-	- 0.5		
12	11.0	-	11.0	10.4	10.1	-	0.1	0.1	- 0.4	1.7	-	1.7	4.0	4.7	+ 4.1		
24	7.3	-	7.3	12.4	3.6	-	0.9	0.1	+ 3.1	0.1	-	0.1	0.1	0.1	+ 0.1		

Weekly Average of Total Debits Since Outbreak of War
Through Dec. 24 \$ 6.7 million

January 3, 1941

MEMORANDUM FOR THE SECRETARY:

Attached is a summary report of the projects which have been worked on in the Division of Tax Research during December, 1940.

RB

Attachment

I. New projects

1. Tax-exempt securities

Tables were prepared showing the amount of tax-exempt securities of the U. S. Government and Federal agencies outstanding at the close of selected fiscal years 1913-1940, together with the net changes in such amounts. A list of the principal State and local officials appearing before congressional committees in opposition to the proposal to discontinue the issuance of tax-exempt securities was also prepared. Under direction of the Committee appointed by Mr. Sullivan, sample cases were outlined for Mr. Walker Stone of the Scripps-Howard newspapers to show the tax advantage resulting from the exemption of interest on governmental securities.

(Mr. Ecker-Racz and staff members)*

* Persons listed as working on the different projects do not include those who acted largely or exclusively in a consulting or reviewing capacity. In general, the person, if any, actively in charge of the project is listed first.

- 2 -

2. Survey of published corporation tax items and articles

For the week beginning December 1, 1940, the leading New York newspapers were inspected each day, and brief comment on items for the attention of the Secretary was prepared. Thos. P. Swift's article "Tax Rise Wipes out Gains by Utilities" and Kenneth L. Austin's article "Chemical Trade Feels Tax Burden", both appearing in the Financial Section of the New York Times of December 1, 1940, were critically reviewed, as was also the National Industrial Conference Board's study on corporation profits and taxes.

(Messrs. Atlas and Copeland)

3. Tax data for 1920 and 1940

Tables requested by Mr. Frank King of the Office of Press Relations, covering certain data on taxes during 1920 and 1940, were prepared. (Messrs. Gordon and Zorach)

4. The averaging device

The suggestion outlined in Mr. Surrey's memorandum of November 30, 1940, entitled "Suggested Averaging Device under the Income Tax" were examined. (Mr. Atlas)

- 3 -

II. Continuing projects

1. Tax-exempt securities

Drafts of four radio addresses on the subject of tax-exempt securities were revised to give effect to Mr. Sullivan's comment.

(Mr. Ecker-Racz)

2. Relief provisions of the excess profits tax

The study of how certain abnormalities in income and invested capital which may cause inequities should be treated under the relief provisions of the excess profits tax was continued. (Messrs. Blough, Shere and Campbell)

3. Article for Treasury Bulletin

A first draft of an article on individual income tax returns for 1936 classified by state of filing and by state of residence was prepared for possible publication in the Treasury Bulletin (Miss Coyle and Mr. Zorach)

4. The war and excess profits taxation

(a) Materials to serve as basis for a memorandum analyzing the problems involved in imposing an excess profits tax on individual proprietorships and partnerships

- 4 -

and on non-business incomes of individuals were prepared.

(Mr. Farioletti and Mr. Mills)

- (b) An analysis of special treatment afforded financial, personal service and public utility companies, the professions and agriculture under the World War and present excess profits taxes of the United States, Great Britain, and Canada, is in process.

(Mr. Mills)

- (c) Other phases of the issues involved in war and excess profits taxation, including studies of amortization and inventory problems, analysis of statistical information relating to business profits and failures, and consideration of methods of possible tax avoidance under the Excess Profits Tax Act of 1940, are continuing.

(Staff members)

- 5 -

5. Tax-exempt securities outstanding

An estimate of outstanding tax-exempt securities as of June 30, 1940, was completed and put in form for publication in the Secretary's Annual Report.

(Mr. Mannen)

6. Income Tax Study--W.P.A.

The work of the Philadelphia project has been divided in the last six months between continuance of the study of income tax returns in process since October 1938 and a special analysis of statistics relevant to excess profits taxes. These studies are now in final stages of completion. A study of investment practices as reflected in estate tax returns is also in process.

(Mr. Blough, Mr. Shere, and Miss Coyle)

7. Fluctuations of large incomes

An analysis of statistical data relating to the fluctuations of large incomes over a period of years is in process. In this connection, the publication "Million Dollar Incomes" by L. H. Parker will be reviewed.

(Miss Coyle)

8. Federal sales taxes

A memorandum on a "value added" and other possible forms of Federal sales taxes is in preparation. (Mr. Farioletti)

9. Foreign taxes

(a) A memorandum on the latest changes in British income, excess profits and other taxes was completed. Similar memoranda on Canadian and Australian taxes are in preparation. (Mr. Atlas and Miss Hughes)

(b) In collaboration with the Division of Monetary Research, a study of the Haitian fiscal system is in process. (Miss Wells)

10. Articles

(a) An article entitled "Problems of Federal Tax Administration" for the March 1940 issue of the Annals of the American Academy of Political and Social Science was completed. (Mr. Blough, Mr. Ecker-Racz, and Mr. Campbell)

(b) Articles treating on trends and developments in the field of taxation during 1940 for the Britannica Book of the Year and the National Year Book were completed. (Mr. Atlas and Miss Wells)

- 7 -

11. Treatment of shared taxes in Bureau of the Census Reports

In compliance with the request from the Bureau of the Census, a memorandum containing suggestions as to the treatment of shared taxes in Bureau of the Census reports is in preparation.

(Mr. Mannen and Miss Wells)

12. Inventory of tax proposals

Compilations of proposals for raising additional revenue and for improving the tax system have been prepared and are pending review. (Mr. Zorach and Mr. Copeland)

13. Undistributed profits, income, estate taxation

Reports on the following subjects have not been actively prosecuted during the month:

(1) Analysis in the light of issues raised by the undistributed profits tax of the statistics made available from income tax returns and other sources.

(Mr. Atlas and Mr. Copeland)

(2) Analysis of the proposal to allow corporations with five or less shareholders to be treated for tax purposes as partnerships.

(Mr. Mills)

III. Routine assignments

1. Review of publications

(a) The following publications were reviewed during the month:

(1) Galley and page proof for various sections of the Secretary's Annual Report. (Messrs. Mannen and Zorach, and Miss Hughes)

(b) The following publications are in process of being reviewed:

(1) The estate and gift tax sections of Statistics of Income for 1938, Part I. (Miss Coyle and Mr. Mills)

(2) The report "Concentration and Composition of Individual Incomes 1918-1937" prepared by the T.N.E.C. (Miss Coyle)

(3) The report "Study of the Delaware State Income Tax Yields" by Walter C. Wilson. (Miss Coyle.)

2. Statistics

(a) In connection with the supervision of the statistical work of the Bureau of Internal Revenue, various proposals for

- 9 -

statistical compilations were examined including suggested early tabulations from the corporation income and excess profits tax returns. (Messrs. Blough and Shere)

- (b) Suggested tabulations showing the relationship between size of gross estate and size of decedent's income, and comparing holdings of tax-exempt securities as reported in income tax and in estate tax returns, were submitted to the Clearing Division of the Bureau of Internal Revenue for comment.
- (c) Administrative reports and statistics of the Bureau of Internal Revenue are graphed and commented upon for Mr. Sullivan's information. (Mr. Campbell)
- (d) Data relating to different taxes, digests of tax items, and congressional activity of tax items of interest to the Division are currently prepared. (Staff members)

3. Correspondence

The Division handled correspondence pertaining to tax matters. (Staff members)

January 3, 1941

My dear Mr. President:

I am sending you herewith three clippings which bear out my "hunch" that the so-called Eccles' plan is really a fight over interest rates.

Clipping No. 1, from today's Tribune, prints the following:

"National City Bank of New York says, in its current monthly letter, that such a move would be beneficial in three principal ways as follows: It would relieve the pressure upon interest rates,"

Clipping No. 2 from the financial page of today's New York Times says:

"The market for United States Government bonds appeared yesterday to exaggerate the possibilities of sharply firmer interest rates as a result of the proposals for further control over bank-reserve requirements submitted by the Federal Reserve Board,"

Clipping No. 3 from today's Washington Post says:

"Obviously if such appeals are to bring results, a higher rate of interest will have to be paid by the Government for borrowed funds."

Yours sincerely,

(Signed) H. Morganthau, Jr.

The President,

The White House.

Enclosures.

Taken by Secret Service Mr. Egan
to Head Usher at 10:45

January 3, 1941

My dear Mr. President:

I am sending you herewith three clippings which bear out my "hunch" that the so-called Eccles' plan is really a fight over interest rates.

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"Obviously if such appeals are to bring results, a higher rate of interest will have to be paid by the Government for borrowed funds."

Yours sincerely,

(Signed) H. Morganthau, Jr.

The President,
The White House.
Enclosures. ✓

Taken by Secret Service Mr. Baum
to Head Usher at 10:45

Eccles's Plan To Cut Excess Funds Praised

National City Bank Letter
Cites 3 Beneficial Results
of the Reserve Proposal

In an article praising the proposal of Marriner S. Eccles, chairman of the Federal Reserve Board, for reducing excess reserves, National City Bank of New York says in its current monthly letter that such a move would be beneficial in three principal ways, as follows: It would relieve the pressure upon interest rates, it would enable the Treasury to place a larger proportion of its securities with the public and it would tend to moderate the expansion of bank credit.

With much of the Eccles program, as revealed in his speech before the National Industrial Conference Board here (and embodied in considerable part in the special report of the Federal Reserve System to Congress on Wednesday) there would seem to be, says National City Bank, "little reasonable basis for difference of opinion."

"Certainly the silver program has been a failure," says the article, "which has proved costly to the Treasury and added to the problems created by surplus funds. While the authority to issue \$3,000,000,000 greenbacks has never been utilized, its existence on the statute books is a disturbing element in the background."

"The proposals as to member bank reserve requirements are sound as to the major objective—the recapture of control of the money market. The precise character and timing of steps to reach this objective call, of course, for careful study of all possible consequences. Presumably, any legislation that might be adopted would place upon the supervisory authorities the responsibility for basing their action on just this sort of study, and it may be fairly assumed that any action would be gradual over a period, without drastic moves that might give a shock to the bond market or impede Treasury financing."

In any action upon reserve requirements, the bank says, it is particularly important to take account of the location of excess reserves. "On the surface," says the bank, "it would appear that about half the excess reserves belong to New York City banks. While this is true as to the location of these reserves, it is not true as to their ultimate ownership and control."

"A reference to the figures of domestic interbank deposits reported by the large New York City banks will show that the amounts due other banks—chiefly out-of-town institutions—foot up to approximately \$3,800,000,000, or more than the total excess reserves accredited to New York. In other words, New York City banks have little or no excess funds over and above the sums deposited here by out-of-town correspondents, some of which, of course, is a normal working balance. Much the same conditions exist in Chicago. Actually, therefore, a major part of the excess reserves is owned by the banks in the smaller cities and towns."

As to the business situation, the bank says: "The record of 1940 will show that industrial output has exceeded 1939 by 13 per cent and 1938 the previous peak year, by 10 per cent. New all-time peaks have been made in production of iron and steel, machine tools, electrical equipment, aircraft, aluminum, cotton and rayon goods, rubber products, chemicals and electric power, and in other cases, where the year as a whole has not fully equaled past records, the current rate is at a new high. Shipbuilding has revived to about 1920 levels. New building is the highest in eleven years, and industrial and engineering contracts are two to three times as large as a year ago."

TOPICS IN WALL STREET

They're Off!

The first trade on the New York Stock Exchange this year was 300 shares of Radio Corporation of America common stock at 4%, unchanged from the last price of 1940. A year ago Coly International started the ball rolling. From a volume standpoint, Radio appears to have come right to the ball position; it was the eleventh most active stock last year, trading 1,244,800 shares; Coly International traded 141,000 shares in 1940. Yesterday Radio hit 4% and closed at 4%; in 1940 its range was 7% to 6%.

Excess Reserves

Temporary checks on the expansion of excess reserves of member banks of the Federal Reserve System, such as the increased Treasury deposits incident to the recent new Treasury financing and the holiday expansion in money in circulation, are now at an end and the upward climb of those reserves has been resumed. On the basis of figures revealed yesterday, excess reserves for the entire Federal Reserve System jumped \$180,000,000 in the final week of 1940 to a total of \$6,620,000,000, highest since the week ended on Dec. 11. The rise mainly reflected the contraction of \$84,000,000 in money in circulation after the Christmas holiday, a drop of \$113,000,000 in Treasury deposits with the Reserve banks, and an increase of \$48,000,000 in the monetary gold stock to a total within \$3,000,000 of the record \$22,000,000,000 level. The chief effects were a reduction in the Federal Reserve "float" of \$83,000,000 and an increase of \$16,000,000 in nonmember deposits, presumably mostly foreign deposits. Excess reserves of the thirty-six Reserve city banks in the New York Federal Reserve District rose \$115,000,000 in the week to \$5,465,000,000.

Treasury Bonds

The market for United States Government bonds appeared yesterday to exaggerate the possibilities of sharply firmer interest rates as a result of the proposals for further control over bank-reserve requirements submitted by the Federal Reserve Board, in the opinion of some government bond experts. Despite the exceptionally light turnover in Treasury issues yesterday on the New York Stock Exchange, little support was in evidence at times in the day as several of the longer-term loans showed declines of more than a full point. Moderate recoveries lifted prices of most of these issues before the close of the Exchange, while the recovery movement was continued in the over-the-counter market, where the net losses in the long-term loans were reduced to between $\frac{1}{2}$ and $\frac{3}{4}$ point. Although there was comparatively little selling, most of what did develop is understood to have come from the smaller cut-of-town banks, which view the potential heavy bor-

Stock Exchange Leaders

	Volume	Close	Net Chg.
Gen Motors.....	37,700	48%	+ 3/4
Param Pict.....	33,000	10%	+ 1/4
U S Steel.....	30,400	4%	- 1/4
Stand Oil N J....	8,700	3 1/2%	+ 1/4
Goodyear.....	7,300	3%	..
Quintus Wright..	7,300	9%	..
Bald Leo of.....	7,300	15 1/4%	..
Coca Cola.....	7,300	27%	- 1/4
Gen Elec.....	6,300	33 1/4%	+ 1/4
Chrysler.....	6,300	69%	- 3/4
Loft.....	6,000	18%	+ 1/4
N Y Central....	5,400	13%	+ 1/4
Stand Oil Cal....	5,400	18%	+ 1/4
Amacoda.....	4,100	36%	- 1/4
Beth Steel.....	4,300	80%	- 1/4
Average price, \$22.25.			

	As- tended	De- clined	New Highs	New Lows
Yest'd'y..	740	513	262	14
Dec. 31...	808	596	288	11
Dec. 30...	828	487	307	30
*1940-1941.				

rowing by the government in connection with the defense program as an influence toward stiffer money rates.

Federal Oil Legislation

With the publication yesterday of a letter from President Roosevelt to Chairman Cole of the House Oil Committee urging Federal oil legislation in the interest of national defense, there is little doubt that a determined effort will be made by the Administration to obtain a greater control over the oil industry at the session of Congress that will open today. Oil executives generally are of the opinion that as further control of the industry is necessary, since at no time has the industry failed to meet the demands made upon it. In this connection, they state that crude oil production can be increased immediately and that refining capacity can be increased 25 per cent without new capital expenditures. In addition, stocks of oil products in storage are at or near record levels for this period of the year. Also they hold that the industry is in position to meet all requirements of the defense program which may materialize. In anticipation of increased demand for aviation fuel, the oil industry last year increased these stocks by 2,000,000 barrels to around 5,000,000. At the same time, it installed additional facilities for the manufacture of 100-octane gasoline and by March, this year, it will be in position to turn out 25,000 barrels daily of this product.

Railway Wage Hike

Rise in pay for 70,000 track workers, porters, dining-car waiters, office and other employes to take effect on March 1 will cost the railroads \$7,000,000. The increases were ordered under the Fair Labor Standards Law. Most of the larger disbursements will be paid by the Southern and South-eastern lines because in the past they have paid lower wages than are received by railroad employes in other parts of the country. Moreover, because of lower wages paid, these companies have employed more labor and used fewer machines.

For Control Of Credit

Washington Post, 1/5/41 (341)

The board of governors of the Federal Reserve System, the presidents of the Federal Reserve Banks, and the Federal Advisory Council have sent to Congress a joint report containing various important recommendations designed to strengthen the present inadequate machinery of credit control and remove the inflationary menace of excess bank reserves. Congress is urged to increase existing reserve requirements at once and to empower the Federal Reserve authorities to make further increases up to double the suggested statutory percentages. This proposal would immediately effect a limited reduction in the huge volume of excess reserves, now in the neighborhood of \$7,000,000,000, and permit further reductions as occasion demands. The report also suggests that the new reserve requirements be made applicable to all banks outside the Federal Reserve System which accept demand deposits. Such an extension of Federal control over State banks would be a desirable move in the direction of a more unified banking system.

Besides asking for new powers that would make it possible to reduce the existing volume of excess reserves to manageable proportions, the Federal Reserve authorities seek abandonment of certain Administration policies that are sources of potential increases in excess reserves, such as the power further to devalue the dollar, to issue greenbacks and to monetize foreign silver acquired by purchase. The Post enthusiastically indorses the proposed repeal of these measures which it has for years opposed as a threat to the stability of the country's monetary and credit structure. These recommendations are all the more gratifying because their far-reaching character indicates that the Administration must have been consulted and should be prepared to support them wholeheartedly.

The report emphatically calls for financing the defense program insofar as possible by drawing upon existing deposits instead of by creating additional deposits through bank purchases of Government securities. In other words, our fiscal policy must "tie in" with our monetary policy if inflation is to be avoided. To the extent that individuals and nonbanking institutions respond to an appeal to invest in Government securities, a check to the creation of a new inflationary kind of purchasing power will be avoided.

Obviously if such appeals are to bring results, a higher rate of interest will have to be paid by the Government for borrowed funds. That, however, is a change greatly to be desired as the present absurdly low rates can no longer be justified as a stimulus to employment of capital. On the contrary, they have become a distinct menace, as the Federal Reserve authorities are now ready to admit. Interest rates in some cases, they confess, are "well below the reasonable requirements of an easy money policy and are raising serious long-term problems for the future well-being of our charitable and educational institutions, for the holders of insurance policies and savings banks accounts, and for the national economy as a whole." This is indeed a sweeping indictment which is especially impressive coming from officials who wholeheartedly indorsed low-interest policies during the depression years.

Now that depression has been succeeded by a business upswing that will undoubtedly call for restraints rather than stimulation, an about-face is imperative to avert the danger of disastrous inflation. The country should regard it as most encouraging to have such a forthright acknowledgement of that danger, and a program for averting it, ready for presentation to Congress as it reassembles today.

Paraphrase of Code Radiogram
Received at the War Department
January 3, 1941.

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London, filed January 3, 1941.

EXTRACT

These are the official statistics on conveyed shipping into Britain:

A total of 48, 810 vessels of all registries have been brought in. Gross tonnage of these vessels amounts to 185,000,000 tons and cargo capacity to 250,000,000 tons. A total of 987,000 tons has been lost.

LEE

Distribution:

Secretary of War
State Department
Secretary of Treasury ✓
Asst. Secretary of War
Chief of Staff - 2
War Plans Division
Office of Naval Intelligence

CONFIDENTIAL

JAN 8 1941

Dear Mr. Smith:

Further reference is made to your letter of December 21, 1940, to Mr. George C. Hase, in which you point out that anticipated shipments are short of earlier estimates because of the failure to obtain adequate deliveries of magnesium castings for crankcase sections.

I should appreciate it very much if you would advise me the reasons for the delay in the delivery of these castings, and the supplier of such material. Will you please also include in your letter detailed information concerning the extent to which these delays are interfering with your production program.

Sincerely,

(Signed) H. Morganhan, Jr.

Mr. J. Story Smith, President,
Jenbacher Aircraft Engine Company,
Pottstown, Pennsylvania.

Airmail

565 *GH* *amly*
FILE COPY

JAN 3 1941

Dear Mr. Smith:

Further reference is made to your letter of December 21, 1940, to Mr. George C. Egan, in which you point out that anticipated shipments are short of earlier estimates because of the failure to obtain adequate deliveries of magnesium castings for crankcase sections.

I should appreciate it very much if you would advise me the reasons for the delay in the delivery of these castings, and the supplier of such material. Will you please also include in your letter detailed information concerning the extent to which these delays are interfering with your production program.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. Stuy Smith, President,
Jaco Aircraft Engine Company,
Pottstown, Pennsylvania.

Airmail

JAN 3 1941

Dear Mr. Mahan:

Further reference is made to your letter of December 20, 1940, to Mr. George G. Huse, in which you point out that the delay in the receipt of floats has curtailed airplane deliveries in recent weeks.

I should appreciate it very much if you would advise me the number of floats on which deliveries are behind schedule, the supplier of these items, and if possible the reasons for the delay in delivery. Will you please also include in your letter information concerning the extent to which these delays are interfering with your production program, indicating the number of airplanes that are on hand (floats except for floats).

Sincerely,

(Signed) H. Montgomery, Jr.

Mr. E. V. Mahan,
Flight-Military,
Division United Aircraft Corp.,
Sturford, Connecticut.

Airmail

565 77A allu FILE COPY

JAN 8th 1941

Dear Mr. Nichols:

Further reference is made to your letter of December 22, 1940, to Mr. George G. Ross, in which you point out that the delay in the receipt of floats has curtailed airplane deliveries in recent weeks.

I should appreciate it very much if you would advise me the number of floats on which deliveries are behind schedule, the supplier of these items, and if possible the reasons for the delay in delivery. Will you please also include in your letter information concerning the extent to which these delays are interfering with your production program, indicating the number of airplanes that are on hand complete except for floats.

Sincerely,

(Signed) H. Morganthau, Jr.

Mr. H. V. Nichols,
Wright-McCord,
Division United Aircraft Corp.,
Stamford, Connecticut.

Airmail

JAN 3rd 1941

Dear Mr. Johnson:

Further reference is made to your letter of December 21, 1940, to Mr. George C. Hans, in which it is pointed out that critical delays in the receipt of raw materials will necessitate a revised estimate of deliveries on your model B-17E unless the situation is improved immediately.

I should appreciate it very much if you would advise me just which raw materials are being delayed, the amount of the materials involved, the supplier of such materials, and if possible the reasons for the delay in delivery. Will you please also include in your letter information concerning the extent to which these delays are interfering with your production program.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. F. C. Johnson, President,
Boeing Aircraft Company,
Georgetown Station,
Seattle, Washington.

Airmail

565 ~~DA~~ *Amly* FILE COPY

JAN 8TH 1941

Dear Mr. Johnson:

Further reference is made to your letter of December 21, 1940, to Mr. George C. Nunn, in which it is pointed out that critical delays in the receipt of raw materials will necessitate a revised estimate of deliveries on your model B-17E unless the situation is improved immediately.

I should appreciate it very much if you would advise me just which raw materials are being delayed, the amount of the materials involved, the supplier of such materials, and if possible the reasons for the delay in delivery. Will you please also include in your letter information concerning the extent to which these delays are interfering with your production program.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. F. S. Johnson, President,
Boeing Aircraft Company,
Georgetown Station,
Seattle, Washington.

Airmail

THE WHITE HOUSE
WASHINGTON

349

Gaston:

If any German
or Italian ship
sails let the
Navy know in
plenty of time.

W.M.P.

Got sent

My dear Mr. President:

The only way the Federal Government can be assured that German and Italian merchant vessels immobilized in our ports will be incapable of causing serious damage to channels, terminals, merchant shipping, or waterfront property generally, is to seize these vessels immediately and remove their officers and crews, and I therefore recommend that I be empowered to take this step, for which I now have legal authority.

There are two German merchant ships and twenty-eight Italian merchant ships at present immobilized in our harbors. One German ship is in Boston harbor, and the other at Port Everglades, Florida. The Italian ships are scattered along the Atlantic and Gulf coasts, with the exception of one Italian ship at Portland, Oregon, one in the Panama Canal Zone, and one in Puerto Rico. I am attaching hereto a list of these vessels by name, their locations, and other pertinent data.

All these vessels are under as close surveillance by the Coast Guard as can be given without actually placing guards on board or seizing the vessels. Placing guards on board without taking possession of the vessel would only result, I feel sure, in sabotage, which could not be prevented as long as officers and crews remained on board.

As an example, the Italian tanker RENNED, loaded with lubricating oil, is immobilized at Port Newark, New Jersey. There is nothing, short of seizure or maintaining armed guards on board, to prevent this vessel from getting underway and charging along the waterfront at Bayonne, New Jersey, where there is the greatest concentration of oil terminals in the world and, where a serious fire would be a national disaster. While this vessel might be moved to a point where the possibility of damage would be less, only actual seizure would be complete assurance against destructive acts.

A very careful study has been made of the situation presented by these immobilized vessels, and I therefore recommend that you give me instructions to proceed immediately to seize these ships.

Faithfully yours,

Secretary of the Treasury.

The President,
The White House.

Copy to - The Honorable,
The Secretary of State.

WAR DEPARTMENT
WASHINGTON

ordnance
Mr. Young has
copy 351

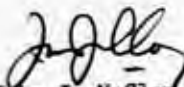
January 3, 1941

Mr. Philip Young
Treasury Department
Washington, D. C.

Dear Mr. Young:

Yesterday we had a conference relating to the utilization of the \$230,000,000 fund which we found that we had available in the Ordnance Department, and the conclusions that we reached are set forth in the attached memorandum which I am sending to you for your information. Similar arrangements have been made, in consultation with the British, for the expenditure of the \$60,000,000 fund for air ordnance. I think we made real progress.

Sincerely yours,


John J. McCloy,
Special Assistant to
The Secretary of War

1 Encl.
Memo. of conference

January 3, 1941

Memorandum of Conference in Mr. McCloy's Office on January 2, 1941, at which Mr. Weir, of the British Purchasing Commission, General Wesson, General Burns, and Mr. McCloy were present.

As a result of the discussion it was determined that:

1. Out of the \$230,000,000 (approximately) available for ordnance items, in view of the great need of both the United States and Great Britain for such items, expenditures should first be made to increase capacity for airplane ordnance and at the same time place orders for this type of equipment, including suitable ammunition - i.e., 50- and 30-calibre.

2. In this connection, and as the best means of accomplishing the objectives promptly, the \$230,000,000 should first be devoted to taking over (by cancellation and replacement through new orders) existing British contracts for this material and increasing those contracts both as regards facilities and the number of guns and amounts of ammunition, to jibe with the British aircraft program.

3. As regards the 20 mm. aircraft gun, increased facilities should be created and orders should be placed by the Ordnance Department without delay. The gun and ammunition to be produced will be American type, 20 mm. gun, subject to any changes suggested by the British to which the American Government agrees. The British are to supply the Ordnance Department with their requirements for 20 mm. guns and ammunition.

4. Mr. Weir will undertake to formulate immediately the British requirements for bombs, flares, signals, etc., for the aircraft program.

5. The funds available from the cancellation of the British machine gun and ammunition orders referred to in paragraph 2 above will be made available for expenditure by the British on such other orders of the British program as should be cleared up immediately, and for which those funds are sufficient, with particular emphasis

- 2 -

on the completion of the tank program.

6. It is recognized that the British "A" program, which is for American non-standard items, will have to be carried out by the British without any aid from the Ordnance Department. Mr. Weir stated that it seemed that the only funds which would be available for this purpose would be the proceeds arising from cancellations of contracts by the British.

7. To the extent that the \$230,000,000 was not exhausted by the above program, the next items upon which expenditure should be made were heavy ordnance items, particularly the heavy anti-aircraft guns and field howitzers. Mr. Weir agreed that with part of the cash that becomes available to him as a result of the Ordnance Department taking over some of his existing contracts, he will place an order in this country for 1000 Bofors 40 mm. anti-aircraft guns, with ammunition at the rate of 1000 rounds per gun, out of the proceeds of these cancellations. This order will take priority over other items, after the tank program is completed.

8. All possible expedition in the completion of the above outlined program would be undertaken.

RECEIVED

JAN 1 1941

Tamm
Office of the
Director

See Hrypa note of 354

1-3 where he

gave Pres copy of draft
(with inserts)

January 3, 1941.

+ German
+ Italian ships

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Wish

The President's Proclamation of June 27, 1940, based on Section 1 of Title II of the Espionage Act of 1917, gives you authority: (1) to place guards on any vessel, foreign or domestic; (2) to take possession of any vessel and remove the crew. The latter authority, to take full possession and control and to remove the crew, can be exercised only "by and with the consent of the President."

Placing guards on the German and Italian vessels would assure us that the vessels would not be taken out of port without our permission and would assure us against the vessel being put in motion in the harbor in such a way as to cause damage. It would not give us full insurance against determined efforts at sabotage to the vessel and might not prevent a determined attempt to sink the vessel by some means. We have to consider too that the presence of guards aboard might possibly incite the very acts of sabotage which we wish to prevent.

Seizure of the vessels and removal of the crews would, after it had been accomplished, give us complete protection against any damage to the ships themselves, to other vessels, or to the harbors in which the ships are located. It is possible that acts of sabotage might be committed while we were in the process of seizing the vessels. The only protection against this would be the element of surprise and determined and effective action by the men sent aboard. The seizure of the vessels would probably raise serious questions of international law and international relations and might conceivably stimulate acts of sabotage to other property than ships. Seizure and removal of the crews would, of course, raise the two problems of the cost of maintaining the ships under seizure and of caring for the crews.

In so far as the Coast Guard personnel required is concerned, the seizure of the ships and removal of the crews would be the less expensive of the two devices. To guard the vessels adequately without removing the crews we should need not less than six men, including a petty officer, on each ship at all times and three shifts, making a total of eighteen men for each ship. This would be the least number advisable and for the thirty ships would require a force of 540 men. Under complete seizure we would anchor the ships in groups, with shipkeepers aboard for a group of ships, and we would need probably not more than a fourth as many men.

January 3, 1941.

Memorandum for the Files

The attached two drafts of a letter prepared at the Secretary's instruction but not sent.

Following a conference with Admiral Wessche, Commander Derby, Captain Keester from Norfolk, and Coast Guard officers from New York and Philadelphia, yesterday, I explained to the Secretary that while we were taking all possible precautions within our power against the escape of German and Italian ships, as well as French, we could not absolutely guarantee, particularly as to the five Italian ships at Norfolk, that they would not slip out some dark night and that of course sabotage could be committed aboard any of the ships. The Secretary was greatly concerned about our responsibility and asked me to prepare a letter from him to the President recommending that we be permitted to place men aboard and (as I understood it) formally take possession of all these ships. He asked also for a list of all the German and Italian vessels and their locations.

I told him that I was opposed to seizing the ships at this time, but said I would have the letter and memorandum prepared. I at once called Admiral Wessche and he agreed to get up the memorandum and draft of letter, which he would get to me the first thing in the morning. I made some minor changes and presented the draft to the Secretary at the 9:30 meeting, saying that I still thought it was unwise to do this. There was some discussion, after which the Secretary asked that Wessche come over at 11:30 so that the Secretary could get his views. Wessche's views were identical with mine, as expressed in the attached memorandum to the Secretary. The Secretary said he would not take either of the alternate drafts of the letters attached, but would take only the memorandum as to the names and positions of the ships and would lay the problem before the Cabinet. On his return from the Cabinet, he had to rush to make a train and sent me only the attached memorandum telling me to notify the Navy as soon as possible if any German or Italian ships should sail.

My dear Mr. President:

The only way the Federal Government can be assured that German and Italian merchant vessels immobilized in our ports will be incapable of causing serious damage to channels, terminals, merchant shipping, or waterfront property generally, is to seize these vessels immediately and remove their officers and crews, and I therefore recommend that I be empowered to take this step, for which I now have legal authority.

There are two German merchant ships and twenty-eight Italian merchant ships at present immobilized in our harbors. One German ship is in Boston harbor, and the other at Port Everglades, Florida. The Italian ships are scattered along the Atlantic and Gulf coasts, with the exception of one Italian ship at Portland, Oregon, one in the Panama Canal Zone, and one in Puerto Rico. I am attaching hereto a list of these vessels by name, their locations, and other pertinent data.

All these vessels are under as close surveillance by the Coast Guard as can be given without actually placing guards on board or seizing the vessels. Placing guards on board without taking possession of the vessel would only result, I feel sure, in sabotage, which could not be prevented as long as officers and crews remained on board.

As an example, the Italian tanker ~~XXXXXXXX~~, loaded with lubricating oil, is immobilized at Port Newark, New Jersey. There is nothing, short of seizure or maintaining armed guards on board, to prevent this vessel from getting underway and charging along the waterfront at Bayonne, New Jersey, where there is the greatest concentration of oil terminals in the world and, where a serious fire would be a national disaster. While this vessel might be moved to a point where the possibility of damage would be less, only actual seizure would be complete assurance against destructive acts.

A very careful study has been made of the situation presented by these immobilized vessels, and I therefore recommend that you give me instructions to proceed immediately to seize these ships.

Faithfully yours,

Secretary of the Treasury.

The President,
The White House.

Copy to - The Honorable,
The Secretary of State.

My dear Mr. President:

Recent published reports that this Government is contemplating the seizure and acquisition of foreign ships immobilized in our ports give reason for the fear that serious acts of damage may be committed by the Masters and crews of German and Italian vessels, either to the vessels themselves or to our channels, terminals, merchant shipping, or waterfront property generally.

Under your Proclamation of June 27, 1940, putting into effect the provisions of Section 1 of Title II of the Espionage Act, we have authority to place armed guards aboard these vessels, or even to take full possession of the vessels putting our own crews aboard and removing the present Masters and crews. I recommend that you authorize me immediately to take the first step, that is, to put armed guards aboard all the German and Italian vessels in our ports.

There are two German merchant ships and twenty-eight Italian merchant ships at present immobilized in our harbors. One German ship is in Boston harbor, and the other at Port Everglades, Florida. The Italian ships are scattered along the Atlantic and Gulf coasts, with the exception of one Italian ship at Portland, Oregon, one in the Panama Canal Zone, and one in Puerto Rico. I am attaching hereto a list of these vessels by name, their locations, and other pertinent data.

All these vessels are under as close surveillance by the Coast Guard as can be given without actually placing guards on board or seizing the vessels.

As an example, the Italian tanker BRENNERO, loaded with lubricating oil, is immobilized at Port Newark, New Jersey. There is nothing, short of seizure or maintaining armed guards on board, to prevent this vessel from getting underway and charging along the waterfront at Bayonne, New Jersey, where there is the greatest concentration of oil terminals in the world and, where a serious fire would be a national disaster.

A very careful study has been made of the situation presented by these immobilized vessels, and I therefore recommend that you give me instructions to proceed immediately to place guards aboard these ships.

Faithfully yours,

The President,
The White House.

Secretary of the Treasury.

Copy to - The Honorable
The Secretary of State.

<u>TYPE</u>	<u>NAME</u>	<u>LENGTH</u>	<u>GROSS TONNAGE</u>	<u>HOME PORT</u>	<u>PRESENT LOCATION</u>	<u>DATE OF ARRIVAL</u>	<u>REG. No. IN CREW</u>	<u>No. NOW ON BOARD</u>
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BOSTON, MASSACHUSETTS

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SS	PAULINE FRIEDRICH (F)	376.7	4,654	Hamburg	GERMAN Commonwealth Pier No. 1	9/3/39	40	20
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PORT EVERGLADES, FLORIDA

SS	ARAUGA (F)	398.3	4,354	Hamburg	GERMAN	12/19/39	35	35
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BOSTON, MASSACHUSETTS

ITALIAN

SS	DINO (F)	415.5	5,592	Genoa	Hodge Boiler Works East Boston.	6/5/40	45	45
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NEW YORK, N.Y.

ITALIAN

SS	ALBERTA (F)	417.7	6,131	Trieste	Pier 2, Hoboken N.J.	6/5/40	31	30
SS	ARSA (F)	404.1	5,441	Genoa	Pier 2, Hoboken N.J.	6/5/40	33	36
SS	AUSA (F)	404.1	5,441	Trieste	Pier 2, Hoboken N.J.	6/6/40	33	32
SS	ERENBERG (F)	343.5	4,946	Genoa	Newark Terminal N.J.	5/30/40	40	38
SS	SAN LEONARDO (F)	400.0	4,657	Genoa	Pier 2, Hoboken N.J.	6/2/40	36	36

PHILADELPHIA, PA.

ITALIAN

SS	ANTONINETA (F)	398.9	4,423	Genoa	Sherwin Williams Dock, Gloucester N.J.	7/24/40	29	
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(F) - Freight Vessel
(V) - Tank Vessel

<u>TYPE</u>	<u>NAME</u>	<u>LENGTH</u>	<u>GROSS TONNAGE</u>	<u>HOME PORT</u>	<u>PRESENT LOCATION</u>	<u>DATE OF ARRIVAL</u>	<u>REG. NO. IN COUNTRY</u>	<u>NO. OF CREW</u>	<u>HOW ON BOARD</u>
<u>PHILADELPHIA, PA. (Cont.)</u>									
<u>ITALIAN (Cont.)</u>									
SS	NELVEDINE (F)	437.8	6,889	Genoa	Nat. Metals Co., Tacoma, Pa.	6/7/40		37	37
SS	MAR GLAUCO (F)	403.9	4,690	Genoa	Sherwin Williams Dock, Gloucester N.J.	8/10/40		30	30
SS	SANTA ROSA (F)	344.0	3,027	Genoa	Sherwin Williams Dock, Gloucester N.J.	8/6/40		28	29
<u>BALTIMORE, MD.</u>									
<u>ITALIAN</u>									
SS	EURO (F)	406.4	4,687	Genoa	Anchorage No. 3	8/19/40		45	45
SS	PINRO CAMPANELLA (F)	430.2	6,140	Genoa	Dead Anchorage	8/9/40		50	50
<u>NORFOLK VIRGINIA</u>									
<u>ITALIAN</u>									
SS	GIUAN (F)	382.9	5,473	Genoa	Anchorage "0" off Newport News.	6/11/40		50	50
SS	GUIDONIA (F)	434.2	5,060	Naples	Anchorage "0" off Newport News.	6/9/40		58	58
SS	SAN GIUSEPPE (F)	413.2	5,074	Genoa	Anchorage "0" off Newport News.	6/8/40		45	45

(F) - Freight Vessel

SHIP	NAME	LENGTH	GROSS TONNAGE	HOME PORT	PRESENT LOCATION	DATE OF ARRIVAL	ERS. NO. IN CREW	NO. BOW ON BOARD
<u>NEWPORT NEWS, VIRGINIA</u>								
<u>ITALIAN</u>								
SS	LACONIA (F)	430.8	5,932	Trieste	Anchorage "G" off Newport News.	6/9/40	50	50
SS	VITTORIO (F)	350.7	3,349	Genoa	Anchorage "G" off Newport News.	6/11/40	35	35
<u>WILMINGTON, N.C.</u>								
<u>ITALIAN</u>								
MS	VILLARPEROSA (F)	396.7	6,255	Genoa	West Bank, Cape Fear River.	6/4/40	50	35
<u>SAVANNAH, GEORGIA</u>								
<u>ITALIAN</u>								
SS	CLARA (F)	401.0	6,131	Trieste	Seaboard Airline R.R. Dock	6/9/40	50	50
<u>JACKSONVILLE, FLA.</u>								
<u>ITALIAN</u>								
SS	CONFIDENZA (F)	412.4	6,458	Genoa	Anchored St. Johns River.	6/7/40	31	31
SS	IRGANIA (F)	413.1	4,815	Genoa	Anchored St. Johns River.	6/6/40	40	40
<u>MOBILE, ALABAMA</u>								
<u>ITALIAN</u>								
SS	IDA E O (F)	403.4	4,935	Genoa	Mobile & Ohio R.R. Pier No. 5.	6/6/40	45	45

(F) = Freight Vessel.

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<u>TYPE</u>	<u>NAME</u>	<u>LENGTH</u>	<u>GROSS TONNAGE</u>	<u>HOME PORT</u>	<u>PRESENT LOCATION</u>	<u>DATE OF ARRIVAL</u>	<u>REG. NO. IN GERM</u>	<u>NO. ROW ON BOARD</u>
<u>NEW ORLEANS, LA.</u>								
<u>ITALIAN</u>								
SS	ADA O (F)	373.0	5,234	Genoa	Anchored Miss. River Algiers Point.	5/30/40	45	45
SS	MONFIORE (F)	423.7	5,498	Genoa	Anchored Miss. River Algiers Point.	5/31/40	48	48
<u>HOUSTON, TEXAS</u>								
<u>ITALIAN</u>								
SS	MONDIOIA (F)	392.4	6,113	Genoa	City Dock, No. 7	7/21/40	50	50
<u>SAN JUAN, P.R.</u>								
<u>ITALIAN</u>								
SS	COLORADO (F)	386.2	5,039	Genoa	Anchored off Isla Grande.	6/17/40	50	50
<u>COLON, PANAMA.</u>								
<u>ITALIAN</u>								
SS	CONTE BIANCAMANO (F)	650.9	23,255	Genoa	Anchored off Cristobal.	6/27/40	500	500
<u>PORTLAND, OREGON.</u>								
<u>ITALIAN</u>								
NS	LENE (F)	467.6	8,059	Trieste	_____	6/19/40	55	55

(F) - Freight Vessel
(P) - Passenger Vessel

See page 2 of att 362
underscored

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Friday, June 23, 1940

Press Service
No. 21-43

Secretary Morgenthau today issued rules and regulations for control of foreign and domestic vessels in United States harbors and waters, carrying out the provisions of the proclamation signed yesterday by the President.

The Secretary also set up an Office of Merchant Ship Movements to enforce the regulations under the supervision of Assistant Secretary of the Treasury Herbert E. Gaston. Three Coast Guard officers assigned to duty in the new office are Commander W. N. Derby, assistant chief personnel officer of the Coast Guard; Lieut.-Commander A. C. Richmond, who has been on general duty at Coast Guard headquarters, and Lieut. F. E. Pollio, acting chief intelligence officer of the Service.

The regulations will provide increased control through Captains of the Port over the anchorage and movement of vessels in United States harbors and over handling and loading of explosives and other dangerous cargo.

The President's proclamation and the Treasury regulations read as follows:

CONTROL OF VESSELS IN TERRITORIAL WATERS
OF THE UNITED STATES

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

WHEREAS, A proclamation issued by me on September 8, 1939, proclaimed that a national emergency existed in connection with and to the extent necessary for the proper observance, safeguarding and enforcing of the neutrality of the United States and the strengthening of our national defense within the limits of peace-time authorizations, and that specific directions and authorizations would be given from time to time for carrying out these two purposes,

WHEREAS, The continuation of the conditions set forth in said proclamation of September 8, 1939, now calls for additional measures within the limits of peace-time authorizations,

WHEREAS, Under and by virtue of section 1 of title II of the Act of Congress approved June 15, 1917, 40 Stat. 220 (U.S.C. title 50, sec. 191), it is provided as follows:

"Section 1. Whenever the President by proclamation or Executive order declares a national emergency to exist by reason of actual or threatened war, insurrection, or invasion, or disturbance or threatened disturbance of the international relations of the United States, the Secretary of the Treasury may make, subject to the approval of the President, rules and regulations governing the anchorage and movement of any vessel, foreign or domestic, in the territorial

waters of the United States, may inspect such vessel at any time, place guards thereon, and, if necessary in his opinion in order to secure such vessels from damage or injury, or to prevent damage or injury to any harbor or waters of the United States, or to secure the observance of the rights and obligations of the United States, may take, by and with the consent of the President, for such purposes, full possession and control of such vessel and remove therefrom the officers and crew thereof and all other persons not specially authorized by him to go or remain on board thereof.

"Within the territory and waters of the Canal Zone the Governor of the Panama Canal, with the approval of the President, shall exercise all the powers conferred by this section on the Secretary of the Treasury."

AND, WHEREAS, It is essential, in order to carry into effect the provisions of said Act, which are quoted herein, that the powers conferred therein upon the President, the Secretary of the Treasury and the Governor of the Panama Canal be at this time exercised, or available for exercise, with respect to foreign and domestic vessels.

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT, President of the United States of America, by virtue of the powers conferred upon me by the provisions of the said Act of Congress quoted herein, do hereby declare the continuation of the conditions set forth in my proclamation of September 8, 1939, and the existence of a national emergency by reason of threatened disturbance of the international relations of the United States.

AND, I therefore consent to the exercise, with respect to foreign and domestic vessels, by the Secretary of the Treasury and the Governor of the Panama Canal, of all the powers conferred by the provisions of said Act.

- 3 -

IN WITNESS WHEREOF, I have hereunto set my hand and caused the seal of the United States to be affixed.

DONE at the City of Washington this 27th day of June
in the year of our Lord
nineteen hundred and forty
and of the Independence of
the United States of America,
the one hundred and sixty-
fourth.

FRANKLIN D. ROOSEVELT

By the President:

CORDELL HULL
Secretary of State.

Anchorage Regulations

Regulations for the control of vessels in the territorial waters of the United States.

TREASURY DEPARTMENT,
Washington, D. C.

To Collectors of Customs, and Captains of Ports and Others Concerned:

Section 1, title II, of the so-called espionage act, approved June 15, 1917, 40 Stat. 220 (U.S.C. title 50, sec. 191), provides in part as follows:

"Whenever the President by proclamation or Executive order declares a national emergency to exist by reason of actual or threatened war, insurrection, or invasion, or disturbance or threatened disturbance of the international relations of the United States, the Secretary of the Treasury may make, subject to the approval of the President, rules and regulations governing the anchorage and movement of any vessel, foreign or domestic, in the territorial waters of the United States, may inspect such vessel at any time, place guards thereon, and, if necessary in his opinion in order to secure such vessels from damage or injury, or to prevent damage or injury to any harbor or waters of the United States, or to secure the observance of the rights and obligations of the United States, may take, by and with the consent of the President, for such purposes, full possession and control of such vessel and remove therefrom the officers and crew thereof and all other persons not specially authorized by him to go or remain on board thereof."

By virtue of a proclamation issued on the 27th day of June, 1940 the above quoted provisions of law are now in full force and effect.

Pursuant to the authority contained in the above quoted act, the following rules and regulations are hereby promulgated:

- (1) All existing rules and regulations of any department, agency or instrumentality of the United States governing anchorage and movements of vessels in the territorial waters of the United

States are hereby reaffirmed and continued in force during the period of the present emergency, except as modified by these rules and regulations.

(2) The rules and regulations governing the anchorage of vessels herein reaffirmed or promulgated shall be enforced by the captain of the port, or where the port has no such officer, by an officer of the Coast Guard or the Customs Service designated by the Secretary of the Treasury. In any case where there are no applicable rules or regulations governing the anchorage of vessels, all anchorage shall be in accordance with the directions of the captain of the port or other officer designated by the Secretary of the Treasury pursuant to this section.

(3) The movement of any vessel between points within the area of a port, and the movement, lading, and discharging of explosive or inflammable material or other dangerous cargo shall be under the supervision and control of the captain of the port, or other officer designated by the Secretary of the Treasury pursuant to section (2) hereof.

(4) The captain of the port or other officer designated by the Secretary of the Treasury pursuant to section (2) hereof is hereby authorized to cause to be inspected and searched at any time any vessel, foreign or domestic, or any person or package thereon, within the territorial waters of the United States, to place guards upon such vessels, and to remove therefrom any or all persons not specially authorized by him to go or to remain on board thereof.

(5) The collector of customs, through the captain of the port or other agency acting for the collector, is hereby directed, subject

with the approval of the Secretary of the Treasury, to take full possession and control of any vessel, foreign or domestic, in the territorial waters of the United States, whenever it appears that such action is necessary in order to secure such vessels from damage or injury, or to prevent damage or injury to any harbor or waters of the United States, or to secure the observance of the rights and obligations of the United States. Pending action by the Secretary of the Treasury, the collector of customs is authorized to detail any such vessel and is directed to communicate the facts by the most expeditious means available to the Secretary of the Treasury.

(6) The Secretary of the Treasury may require all lighters, barges, ferries, tugs, motor boats, sailboats, and similar craft operating in the harbor or waters of any port of entry, to be especially licensed by the collector of customs for such purpose and may revoke any license so granted for any failure to comply with the anchorage or harbor regulations for such port, or to obey the orders issued thereunder by any duly authorized officer, or for any act inimical to the interests of the United States in the present emergency.

(7) No vessel shall depart from any port or place in the United States, or from any port or place subject to the jurisdiction of the United States, on a voyage on which clearance by a customs officer of the United States is required, unless the

- 4 -

principal customs officer in charge of the port of departure shall have been authorized by the Secretary of the Treasury to permit the departure.

H. MORGENTHAU, JR.
Secretary of the Treasury.

Approved June 27, 1940.

FRANKLIN D. ROOSEVELT,
President.

January 3, 1940.

Mr. Gaston

Secretary Morgenthau

If any German or Italian ship sails let the
Navy know in plenty of time.

H.M.Jr

1/3/41

X

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Budget

Left with ~~copy~~ of State
by Mr Cox this am
after signature by
HMC but letter was
not dated.

(This is revision of
12/28/40 memo.

(pages 1-2-10 changed)

also revised draft filed
under date of 1/30/40

1/3/41

372

Through the Bureau of the Budget
Attorney General
Division of the Federal
Register

My dear Mr. President:

There is respectfully submitted to you herewith for your signature, if it meets with your approval, a proposed Executive Order establishing an Economic Defense Board, regulating transactions in foreign exchange, foreign property and foreign buying, controlling the export and other dealings in defense materials, the requisitioning thereof, ship movements, and related matters.

Briefly summarized the proposed Order provides the following:

- (1) Creation of an Economic Defense Board. This board is to consist of the Secretary of State, the Secretary of the Treasury, the Secretary of War, the Secretary of the Navy, the Secretary of Commerce, and the Director of the Office of Production Management. The board will formulate all the policies relating to the administration of the order by the Secretary of the Treasury.
- (2) Extension of Freeze Controls. The order proposes to extend freezing control to all foreign countries and nationals. As you know, the Treasury organization is now controlling the property in this country belonging to invaded countries and their nationals. Such organization can be readily expanded to handle the increased work of an extended control.

- 2 -

- (3) Coordination of Foreign Buying and Ship Control Movements. These functions are, as you know, already carried on by the Treasury Department through the medium of the President's Liaison Committee and through the Coast Guard. The order continues such administration in the Treasury, but subject to the policy determinations made by the Economic Defense Board. The proposal does not cut across the contemplated functions of the Office of Production Management.
- (4) Export Embargo and Requisitioning. These functions are now being administered by Colonel Maxwell as Administrator of Export Control. The order transfers such functions to the Treasury and Colonel Maxwell will administer the powers under the supervision and control of the Secretary of the Treasury. Here again the administration will be subject to the policy formulations of the Economic Defense Board. At the present time the policy on requisitioning of defense materials is determined by the Secretary of War and Secretary of the Navy acting through the Army and Navy Munitions Board. Under the proposed order such policies would be determined by the Economic Defense Board of which both the Secretary of War and the Secretary of the Navy as well as the Director of Production Management would be members.

I believe that the proposed Order offers two primary and over-all advantages. It meets the need of a coordinated formulation of this Administration's policy on problems of economic defense. The proposed six-member board would be the cabinet officers most directly concerned with this problem and the Director of Production Management. They would meet periodically and consider jointly current problems against a background of our whole picture of economic defense.

- 3 -

The coordination of the administration of these problems as envisaged by the order would eliminate a vast amount of the red tape and "running around" now required of Americans as well as foreign governments and foreign nationals who desire to purchase or sell materials, etc., in this country. For example, today an American manufacturer selling defense materials to a country covered by the foreign exchange control would have to go through the following cumbersome procedure: (1) file an application for a license with the foreign exchange authorities to make it possible for him to be paid out of blocked funds and to be able to transfer bills of lading and other shipping documents to the purchasers; (2) obtain a clearance from the President's Liaison Committee to negotiate the contract with the foreign country; (3) secure a license from the Administrator of Export Control; (4) obtain a license under the Neutrality Act from the Division of Controls of the State Department; and, finally, (5) assuming that the manufacturer has obtained these four licenses from four different sources and has put his goods on a boat destined for the purchaser, the Treasury would have to determine whether the ship would be permitted to sail.

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Inevitably, public criticism will be directed at such uncoordinated activities by the Government in such closely related fields. In these days, when our export trade has dwindled appreciably, we should endeavor to make it as simple, not as difficult, as possible for a manufacturer to sell his goods abroad.

The proposed Order would make it possible for an American manufacturer to go to one place, such as the Customs House in his district, for an appropriate application and thereby ascertain at one time whether he will be permitted to take all of the necessary steps to consummate a sale of the goods abroad. The advantages both to the Government as well as the public from such a more simplified and speedy procedure are obvious.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

EXECUTIVE ORDER

ESTABLISHING AN ECONOMIC DEFENSE BOARD,
REGULATING TRANSACTIONS IN FOREIGN EXCHANGE,
FOREIGN PROPERTY AND FOREIGN BUYING, CONTROL-
LING THE EXPORT AND OTHER DEALINGS IN DEFENSE
MATERIALS, THE REQUISITIONING THEREOF, SHIP
MOVEMENTS, AND RELATED MATTERS.

By virtue of and pursuant to the authority vested in me by the Constitution, by section 1 of Title II of the Act of June 15, 1917 (40 Stat. 220), by section 5(b) of the Act of October 6, 1917 (40 Stat. 411), as amended, by section 2(a) of the Act of June 28, 1940 (54 Stat. 676), by section 6 of the Act of July 2, 1940 (54 Stat. 714), by the Act of October 10, 1940 (54 Stat. 1090), and by virtue of all other authority vested in me, and by virtue of the continued existence of a period of national emergency, it is hereby ordered as follows:

TITLE I

Section 1. There is hereby established an Economic Defense Board (hereinafter referred to as the "Board"). The Board shall consist of the Secretary of State, the Secretary of the Treasury, the Secretary of War, the Secretary of the Navy, the Secretary of Commerce and the Director of the Office of Production Management. The Board shall formulate and determine all questions of policy relating to the carrying out of the purposes of this Order.

- 2 -

Section 2. The administration of the Order shall be vested in the Secretary of the Treasury acting in accordance with the policies formulated by the Board.

TITLE II

Executive Order No. 6560 of January 15, 1934, as amended, is amended to read as follows:

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

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

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

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

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

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

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

Section 2.

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

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

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imprinted, affixed or attached within such foreign country, or where the attendant circumstances disclose or indicate that such stamp or seal may, at any time, have been stamped, imprinted, affixed or attached thereto; and

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

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

Section 3.

A. The Secretary of the Treasury may require any person to furnish under oath, in the form of reports or otherwise, from time to time and at such time or times as he may designate, complete information relative to any transaction referred to in

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subdivision (b) of section 5 of the Act of October 6, 1917 (40 Stat. 411), as amended, or with respect to any property in which any foreign country designated in this Order or any national thereof has any interest, including the production of any books of account, contracts, letters, or other papers, in connection therewith, in the custody or control of such person, either before or after such transaction is completed.

B. Every person engaging in any of the transactions referred to in sections 1 and 2 of this Order shall keep a full record of each such transaction engaged in by him, regardless of whether such transaction is effected pursuant to license or otherwise, and such record shall be available for examination by a representative of the Treasury Department for at least one year after the date of such transaction.

Section 4.

A. The term "effective date" means with respect to any foreign country or any national thereof, the date specified in the following schedule: (a) Norway and Denmark - April 8, 1940; (b) the Netherlands, Belgium and Luxembourg - May 10, 1940; (c) France - June 17, 1940; (d) Latvia, Estonia and Lithuania - July 10, 1940; (e) Rumania - October 9, 1940; (f) any other foreign country - , 194 .

B. The term "transactions" * * * involving property in which any foreign country or any national thereof has * * * any interest" shall include, but not by way of limitation, (1) any payment or transfer to such foreign country or any national thereof, (11) any export or withdrawal from the United States to such foreign country and (111) any transfer of credit expressed in terms of the currency of such foreign country.

C. The term "United States" means the United States and any place subject to the jurisdiction thereof; the term "continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska, and the term "person" means an individual, partnership, association, corporation, or other organization.

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

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sovereignty over the area which on such effective date constituted such foreign country; and shall further include any person who is, or has been, or who there is reasonable cause to believe is, or has been, acting or purporting to act directly or indirectly for the benefit or on behalf of any of the foregoing.

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

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further include any person who is, or has been, acting or purporting to act directly or indirectly for the benefit or on behalf of such foreign country or national thereof; and shall further include, any other person who there is reasonable cause to believe is a "national" as herein defined. In any case in which by virtue of the foregoing definition a person is a national of more than one of the foreign countries designated in this Order, such person shall be deemed to be a national of each of such foreign countries. The Secretary of the Treasury shall have full power to determine who is or shall be deemed to be a "national" within the meaning of this definition.

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

Section 5. The Regulations of November 12, 1934, and the general license therein granted, are hereby revoked. All licenses, rulings, and instructions issued pursuant to

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Executive Order No. 8389, as amended, which were in effect as of the date of this Order, are hereby continued in full force and effect, subject to amendment, modification or revocation pursuant to the provisions of this Order.

TITLE III

Section 1. Coordination of Foreign Buying. Pursuant to the policies formulated by the Board, and in accordance with the provisions of Title II hereof, the Secretary of the Treasury shall coordinate the buying, or other acquisition, by or on behalf of any foreign country or national thereof, of all defense materials, including all military equipment and munitions, component parts thereof, and machinery, tools, and material and supplies necessary for the manufacture, servicing or operation thereof, and shall prescribe the procedure for the negotiation and execution of contracts for the foregoing, in such a manner as will most effectively further the interests of national defense. For such purpose the Secretary of the Treasury shall serve as the exclusive liaison officer between this Government and foreign countries and nationals thereof, and, in accordance with policies formulated by the Board, the Secretary shall give consideration to the requirements of such foreign countries and nationals thereof for the aforementioned materials in relation to (a) availability of the desired articles; (b) priorities, and (c) prices. The Secretary of the Treasury shall keep the Board currently and fully informed of his activities in connection herewith.

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Section 2. Export Embargoes. The Proclamations, Orders and Regulations heretofore issued under section 6 of the Act of July 2, 1940 (54 Stat. 714) shall, except as herein or otherwise amended, remain in full force and effect and the administration thereof shall be subject to the supervision and control of the Secretary of the Treasury acting in accordance with the policies determined by the Board.

Section 3. Requisitioning of Materials Denied Export. The Executive Order and Regulations heretofore issued under the Act of October 10, 1940 (54 Stat. 1090) shall, except as herein or otherwise amended, remain in full force and effect, except that the power therein vested in the Secretary of War and the Secretary of the Navy, acting jointly through the Army and Navy Munitions Board, are hereby transferred to the Economic Defense Board and the administration thereof shall hereafter be exercised by the Administrator of Export Control under the supervision and control of the Secretary of the Treasury acting in accordance with the policies determined by the Board.

Section 4. Control of Ship Movements. The Proclamation and the regulations issued under section 1 of Title II of the Act of June 15, 1917 (40 Stat. 220) shall remain in full force and effect, except that the powers conferred upon the Secretary of the Treasury shall hereafter be exercised by him in accordance with the policies determined by the Board.

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Section 5. Recommendations by the Board. The Board shall engage in such studies and shall make such recommendations to the President, to the Congress and to the appropriate departments and agencies of the Government as the Board deems in the interests of the economic defense of the United States.

Section 6. Continued Validity of Prior Actions. Except as otherwise provided herein, all regulations, licenses, rulings, instructions and other actions issued or taken pursuant to any Proclamation, Order or Regulations hereinbefore referred to which were in effect as of the date of this Order, are hereby continued in full force and effect subject to amendment, modification or revocation pursuant to the provisions of this Order.

Section 7. Regulations. The Secretary of the Treasury is authorized and empowered to prescribe from time to time regulations, rulings, and instructions to carry out the purposes of this Order, and to provide therein or otherwise the conditions under which licenses may be granted by or through such officers or agencies as the Secretary of the Treasury may designate. In so far as possible in administering this Order, the Secretary of the Treasury shall limit the number of applications and licenses required for the performance of acts covered by this Order. The decision of the Secretary of the Treasury with respect to the approval or disapproval of any application for a license shall be final.

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Section 8. Revocation. This Executive Order and any regulations, rulings, licenses or instructions issued hereunder may be amended, modified or revoked at any time.

THE WHITE HOUSE,

194 .

Jan 3, 1941

THE WHITE HOUSE
WASHINGTON

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Gave Pres. copy of two
plans to help British.
also copy of list of
British & Italian Ships.
(yours)

(See att. to Gaston's
memo to Perry 1-3
the list is attached
to that)

STRICTLY CONFIDENTIAL**MEMORANDUM FOR THE SECRETARY****Interim Plan**

Pending the enactment of the proposed joint resolution authorizing the placement by the United States of orders on behalf of foreign governments and leasing to foreign governments the articles so ordered, the following interim plan can be used for (1) The expansion of productive facilities for defense material; and (2) The procurement of such material.

(1)

Expansion of Production Facilities

The R.F.C. and the War and Navy Departments presently have funds available for the expansion of defense production. The R.F.C. has a revolving fund of \$1,500,000,000 for such purposes. Of this amount approximately \$400,000,000 is probably still available.

By a recent decision of the R.F.C. to reduce the take out obligations of the War and Navy Departments about \$40,000,000 more has been made available to these departments for defense plant expansion. In addition to other plant expansion funds which these departments still have available, further funds for this purpose could be made available by releasing all R.F.C. take out funds which have been set aside by Army and Navy.

There would appear to be ample funds for the additional plant expansion program. If any more funds become necessary, the note issuing power of the R.F.C. could be increased by the amount necessary to accomplish this objective.

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(2)

Procurement

For the actual placement of additional orders the War Department has available: (a) \$60,000,000 for the procurement of aircraft, aircraft engines and aircraft parts; and (b) \$430,000,000 for the procurement of ordnance items. The War Department is prepared to make these funds available for the foregoing purposes, instead of using them, for example, for April - June 1941 maintenance of aircraft, with the idea in mind that the War Department can get further appropriations later for such maintenance and similar purposes.

In all probability, the Navy Department can make similar funds available.

By spreading the procurement orders with these funds and dovetailing them with plant expansion, the program can be carried forward so that the necessary deliveries can be made as soon as the proposed joint resolution is enacted.

1/3/41

THE WHITE HOUSE
WASHINGTON

Fobey:


President
says get in touch
of with Beerman
of Bill drafting
Comm. Pres. wants
"aid to Britain"
bill have the 'look'
of originating in
House. Do this
Saturday. W.M.J.

January 3, 1940.

Mr. Foley**Secretary Morgenthau**

President says get in touch with Beaman of
Bill drafting Comm. Pres. wants "aid to Britain"
bill have the 'look' of originating in House.
Do this Saturday.

H.M.Jr.



THE SECRETARY OF THE TREASURY
WASHINGTON

January 3, 1941.

Memorandum to The President:

Ganson Purcell phoned to the Treasury several days ago the same report regarding French ships as the attached, which comes through Lauchlin Currie. We have had somewhat similar reports over the last several months and have taken all precautions short of placing armed guards aboard or actual seizure to prevent unauthorized departure of any of these vessels. We sent out a special warning to all District Commanders of the Coast Guard on November 16, stating that concern had been expressed about departure without proper clearance of German, French and Italian merchant vessels and ordering special precautions to prevent such departures. Coast Guard Port Officers have been making frequent visits to all immobilized vessels to see that the seals on the radio remain intact and that there are no other suspicious circumstances. A more intensive check-up of this kind has been in progress in the last ten days. It has not revealed any evidence of plans for abrupt departure, nor anything suspicious about the French ships. Herve Alphan, the French Financial Attache, did ask Collector Durning in New York some two weeks ago whether we would permit the shipment to Martinique, for transshipment to Casablanca, of some materials stored in New York, which are the leftovers of the purchases of the French Purchasing Mission. Collector Durning was instructed to inform Alphan that we would not permit the shipments.

The Purcell-Currie memo refers to a ship, "the Belian d'Estambuc," said to be "in an unnamed American port loading fuel oil." The reference is undoubtedly to a small French Line motor vessel, Belain d'Esambuc, (321 feet, 2900 gross tons, 715 net tons) which has made several voyages between New York and Martinique. We were informed in advance by the French Naval Attache that this vessel was to be put on the Martinique-Casablanca run and on December 26 she cleared St. Thomas for Casablanca with a cargo of bananas laden at Martinique. She took on from the Standard Oil depot at St. Thomas 310 tons of diesel oil, which was about the normal amount for her anticipated voyage. On December 18 the French Line motor vessel Querrey (315 feet long, 3100 gross tons, 1800 net tons) took on 191 tons of diesel oil at St. Thomas, making a total in bunkers of 551 tons, and cleared for Casablanca with a cargo of coffee and sugar from Martinique. A transfer of funds was permitted for the fueling of the Querrey and a similar application has been made to pay for the fueling of the Belain d'Esambuc. The State Department was consulted and saw no objection either to the funds transfer or to the fueling of the vessels at St. Thomas.

- 2 -

Every request for departure by a French vessel is referred to the Department and in all cases the State Department is consulted. A number of departures of French vessels, from one port to another within the United States, have been permitted for purposes of more convenient anchorage and in each case the vessel has arrived at the declared destination. By special request of the French and British Ambassadors, and on approval of the State Department, three good-sized passenger-cargo ships were permitted to depart, two from New Orleans and one from New York, to go to Liverpool to repatriate French military and naval refugees in England. Regular voyages of the steamer Fort de France between New York and Martinique have been permitted, but we have lately refused permission for that ship to take any goods at all for transshipment at Martinique for Casablanca.

In short, we have found no evidence which would support the rumor Mr. Purcell heard. It is unlikely that any of the French vessels in the United States could depart without proper authorization. Certainly, it would be impossible for any of them to take cargo or supplies without our knowing it.

J. Magrath Jr.

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THE WHITE HOUSE
WASHINGTON

December 31, 1940

MEMORANDUM FOR THE
SECRETARY OF THE TREASURY:

What do you think about this?

F.D.R.

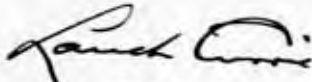
THE WHITE HOUSE
WASHINGTON

December 30, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Report of projected movement of
French ships in American harbors.

Mr. Ganson Purcell of the SEC has a friend very close to French interests in this country. His friend has just informed him that orders have come through that all French ships in American ports are to load up with war materials and attempt to run the blockade to the nearest German port. In case of interception the instructions are that they should be scuttled. One ship, the Belian d'Estambuc, in an unnamed American port, is loading fuel oil. This part of the story received some collaboration from the fact that an application is pending at the Treasury for a license to release French exchange for the purpose of buying fuel oil.



Lauchlin Currie

G-2/2267-115

WAR DEPARTMENT
 WAR DEPARTMENT GENERAL STAFF
 MILITARY INTELLIGENCE DIVISION G-2
 WASHINGTON
 I.B. 11

January 3, 1941

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

Subject: British, Allied and Neutral
 War Shipping Losses.

The following is a tabulation of British, Allied and neutral shipping losses for the weeks ending on the dates indicated:

	December 22, 1940		December 29, 1940*	
	Number	Gross Tons	Number	Gross Tons
British	15	32,849	?	22,484
Allied	0	—		(
Neutral	3	10,451	?	(15,938
TOTAL	18	43,300		38,422

* Unofficial tabulation subject to correction.

Sherman Miles
 SHERMAN MILES,
 Brigadier General, U. S. Army,
 Acting Assistant Chief of Staff, G-2.

THEASURY DEPARTMENT

WRITEN OFFICE CORRESPONDENCE

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DATE January 3, 1940

TO Secretary Morgenthau

FROM E. D. White

Subject: British Shipping Situation -- Conclusions Drawn From
Appended Memorandum Prepared by Mr. Kasaroff, *Att. 12/30/40.*

Summary Conclusions:

- (a) The total amount of merchant shipping available to the British for the carrying of commodities decreased by about 10 percent in the first fourteen months of the war (from 21 million tons to slightly less than 19 million tons). Although a large increase took place through capture, purchase, charter, and construction, this increase was more than offset by the decrease through sinking, damaging and diversion to the Army and Navy.
- (b) Merchant shipping tonnage available for imports into the United Kingdom was reduced by about 12 percent during the first fourteen months of the war. Formerly, 9.5 million tons of ships larger than 1600 gross tons were used in the direct carriage of imports (other than oil) into the United Kingdom, and 3 million tons of foreign ships were used in this carriage. At the present time, about 11 million tons of British ships are so employed.
- (c) The British estimate their import requirements for a full war effort at 30 percent less than the tonnage which they imported in peacetime (43 and 60 million tons respectively).
- (d) The British estimate that their shipping is about one-third less efficient than before the war. However, reorganization can eliminate some of this loss.
- (e) Approximately 2 million tons of Allied shipping could be diverted from foreign routes to the supplying of the United Kingdom. If this were now done, there would be 12.5 million tons of ships available for the direct imports into the United Kingdom -- the same total as was used in the pre-war period.
- (f) Tonnage now being used for direct imports into United Kingdom plus that which can be diverted from foreign routes is just about sufficient to handle what the British state to be their full requirements.

- 2 -

- (g) The rate of loss through sinking was at the rate of 4.5 million tons annually in November and in the four months preceding November. New British construction is only one-fourth of this, or 1.2 million tons. New construction in the United States at the present time is only 0.5 million tons. Therefore the net reduction of tonnage -- mostly of tonnage used for direct imports into the United Kingdom -- is now running at 3 million tons yearly. Despite the fact that the British shipping situation is not immediately critical, the present rate of net loss of tonnage is severe enough to cause a 12 percent deficit within the next six months.

In view of the fact that the rate of net loss through sinking may increase, and the rate of new construction in the United Kingdom may decrease, the request by the British that the United States should increase its rate of construction by 3 million tons annually seems to be conservative.

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BRITISH EMBASSY,
WASHINGTON, D.C.

3rd January, 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,

Harold Butler

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram received from London
dated January 1st, 1941

Naval.

West Africa. British Naval Control Officer Lisbon reports that a French submarine was torpedoed and sunk off Rio de Oro while on the surface escorting a French tanker which was also sunk. No British submarine was in the vicinity.

2. Attacks on shipping. A Norwegian ship (5500 tons) and a British tanker (8500 tons) were both torpedoed and sunk by a German submarine west of Dakar on December 21st and December 31st, respectively. A Swedish ship (5600 tons) was damaged by a mine in Liverpool Bay yesterday afternoon.

3. The west-bound channel convoy was unsuccessfully attacked by enemy aircraft in the Thames Estuary.

4. Military. No operations of importance reported from any front officially.

5. Royal Air Force. During daylight on December 31st, 22 Blenheims were sent out. Fourteen were forced to abandon their tasks owing to weather. Six acting independently claim the following hits. An anti-aircraft ship at Flushing, a building at a Dutch aerodrome, a factory at Cologne and a bridge near Emmerich. Two failed to return.

6. Night of 31st /1st. All operations were cancelled.

7. Libya. On the night of December 29th/30th Tobruk and an Italian landing ground were bombed and a number of fires started.

8. Italian Somaliland. Four Hurricanes of the South African Air Force attacked Barder an aerodrome on

December/

December 29th where they destroyed one bomber and possibly damaged two others. They were intercepted by Italian fighters and two failed to return.

Night of 31st/1st. No enemy activity reported.

9. Italy. Italian air activity was very strong on December 29th and efforts were made to hamper the Greek offensive along the whole front. An Italian naval bombardment of Himara was covered by continuous strong patrols over Corfu.

10. London. Night of 29th/30th. Having regard to the severity of the attack it is considered that the amount of damage to food in warehouses is surprisingly small.

Transcript of Code Messages
Received at the War Department
January 3, 1941

CONFIDENTIAL

London, filed January 3, 1941.

1. On Thursday, January 2, the British operated 61 patrols. The preceding night 126 heavy and medium bombers retaliated for the German raid on London of December 29-30 by launching an intense attack on Bremen. High explosive bombs and a total of 20,000 incendiaries, twice the number used by the Germans against London, were used in the attack. One of the principal targets was the Focke-Wulf plant which has been engaged in the manufacture of two types of German planes; a new two-engine fighter plane and the Condor air raider. Other important targets were: railway concentration points, shipyards, oil refining plants, rice mills, and warehouses. The British claim that severe damage was inflicted on Bremen. Three British heavy bombers crashed on the return journey but no other planes were missing. On the same night nine planes of the Coastal Command attacked the occupied Channel ports and 14 attacked the Flushing train ferries.

2. During daylight hours of January 2, 105 German planes were plotted over Britain. That night German planes made several attacks, principally in the vicinity of Cardiff.

3. As of December 3, the British have captured the following Italian guns in the Libyan theater: 46 antitank guns, 20 heavy

CONFIDENTIAL

ammunition's guns and 241 machine and field guns. Many of these guns are not in a serviceable condition.

4. On Thursday, January 2, a large unidentified vessel carrying badly-needed supplies of ammunition for British small arms sank as the result of a collision at an unannounced point. Additional recent naval losses include one fleet auxiliary and two trawlers.

5. On December 2 an associate of General de Gaulle, Admiral Lussier, was placed under arrest for treachery. It is probably the attitude of the War Office that negotiations with General Weygand and with the government at Vichy have been hindered by the activities of General de Gaulle. It is probable that he soon may be deftly shoved into the background.

(Signal Office cannot decipher last four lines. Correction requested from London)

LEE

Distribution:

General Miles
 Secretary of War
 State Department
 Secretary of Treasury
 Asst. Secretary of War
 Chief of Staff
 War Plans Division
 Office of Naval Intelligence
 Air Corps
 G-3

CONFIDENTIAL

RESTRICTED

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**Summary of Code Intelligence
Received at the War Department
at 11:00 A.M., January 3, 1941**

London, filed January 3, 1941.

In accordance with your cabled report of December 16, 1940, copies of current British propaganda pamphlets were dispatched to you today by diplomatic pouch. By disseminating news favorable to the English cause to opposing troops and to both enemy and conquered civilian populations, an effort is made to destroy the confidence placed in the Fascist and Nazi Governments.

END

Distribution:

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

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Paraphrase of Code Schlegel
Received at the War Department
at 12:40 p.m., January 3, 1941

Mem, filed 17:55, January 3, 1941.

With reference to telegram 441. See dispatch 311110 from the naval attack. The only information available is a trustworthy report that trainloads of German troops, thought to be air corps, are moving towards Sicily in increasing numbers. There is a similar steady movement of antiaircraft and munitions in the same direction. On the Panzer divisions, no information can be had, but it is reported that two such divisions are expected and that at Venice tank debarkations have been observed. Chemicals (gases) in large quantities are now being sent from Italian gas dumps to South Italian aviation units, I am reliably informed.

A further reliable report has it that Italian troops and equipment are being concentrated near the French border in western Liguria. They are supposed to be meant for an occupation of Nice.

BENTLEY

Distribution:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury ✓
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
C.N.S.

CONFIDENTIAL

RESTRICTEDSITUATION REPORTM.I.D., W.D.
January 3, 1941.
12:00 M.

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.

I. Western Theater of War.

On the night of January 2-3 the R.A.F. again successfully attacked Bremen starting new fires and adding to those caused by the bombing on the night of January 1-2. Further attacks were made on naval and military objectives at Emden, especial attention being paid to docks and oil storage.

During the night January 2-3 Dublin was again bombed by unidentified aircraft.

The German High Command announced that Cardiff was blasted by bombs of all calibers dropped by successive waves of German bombers. Other objectives on the East Coast of England were also attacked.

German sources indicate that since June 24, a total of 279 British planes have been brought down in German territory.

II. Greek Theater of War.

Local ground operations were reported.

British planes severely bombed the center of Elbesan.

III. Mediterranean and African Theaters of War.

Advance elements of the German Air Force are now in Italy. No other change in the situation.

RESTRICTED