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CONFIDENTIAL

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G-2
J M

G-2/2657-234

August 7, 1940.

MEMORANDUM FOR THE CHIEF OF STAFF (No. 67):

Subject: Messages from Military Attaches.

Following is a paraphrased message from the Military Attache as shown:

Moscow. Filed 17:28. August 6. It has been reported by the Military Attache of the Embassy of Japan that additional specialists have been mobilized and that there have been new concentrations of Red Army units in Leningrad. Yeaton.

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

td

Copies to: General Watson
State Dept.
ONI
WPD
Mr. Morgenthau

CONFIDENTIAL

No. 164

SITUATION REPORTM.I.D., W.D.
August 7, 1940.
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.

1. No ground operations.
2. Air Force Operations.

The German Air Force made attacks on airdromes and armament factories in Scotland and southwest England and Wales. At least some of these raids were made in daylight. Their intensity appears to have been relatively low.

The Royal Air Force conducted night operations over Holland and western Germany. According to German accounts only a few planes were employed.

II. Mediterranean Theater of War.

1. Ground Operations.

The Italian forces in East Africa advanced into British Somaliland in three widely separated columns, the directions of advance generally converging on Berbera. No important progress has been reported of the Italian advance into Egypt. The British defense is said to be supported by the British Mediterranean Fleet.

2. Air Force Operations.

The Italian Air Force in operations claimed to be the largest yet executed by it against land objectives bombed Haifa, the Alexandria-Marsa Matruh railway and troop concentrations in Egypt.

III. Miscellaneous.

Spain: It is reliably stated that two additional Spanish divisions totalling 26,000 men are en route to Spanish Morocco.

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Tm.

PARAPHRASE

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A telegram of August 7, 1940, from the American Consul at Rangoon, reads substantially as follows:

An unlimited number of bonded Burmese and 200 South-west trucks are now allowed to carry on traffic over the highway between Burma and Yunnan. These trucks must, however, return within 30 days to Burma. If the trucks have a full load of articles which are not on the prohibited list, they may each carry a fixed allotment of 160 gallons of gasoline as fuel for the round trip from Lashio across the border without regard to where their destination is in China. It is expected that under this arrangement through transportation will be resumed soon.

PARAPHRASE

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A telegram of August 7, 1940, from Consul Reed at Hanoi, reads substantially as follows:

The French authorities have agreed to a resumption, as from August 7, of transportation of cargo to Indochina from China, according to information received by Consul Reed. This includes the transportation of cargo destined for foreign countries. Within the near future 23 tons of Red Cross supplies are to be sent to China. The Consul has also received information to the effect that authorization has been given for the transportation to China of certain classes of goods. However, these goods are of no importance commercially as yet. Indications point on the whole to a stiffening of attitude toward the Japanese on the part of the French.

Paraphrase of telegram No. 3415 from Berlin, August 7, 1940.

5

Secretary of State,
Washington.

The signature of a trade agreement between Yugoslavia and Germany has been reported by the German press, though no details are given. It is said in Berlin in Yugoslav circles that for the assurance that no less than a million metric tons of German coal and coke will be delivered annually to Yugoslavia, as well as undisclosed amounts of machines, automobiles, paints, chemicals and war materials, Yugoslavia will ship almost its complete output of copper to Germany and also large amounts of zinc and its concentrates, lead and lead concentrates, crude aluminum and bauxite. Shipments of dyes, oil seeds, hemp, oil cakes, hardwoods, chestnut and oak will become less important. Postponement of an agreement as to the amounts of wheat and corn which Yugoslavia will ship to Germany until the end of September has been agreed upon it is said. At that time full reports of the harvest will be available and if there is a good crop of either Yugoslavia will send wheat to Germany.

The greatest difficulty, according to local Yugoslav circles, in carrying out the agreement is transportation, since grain, aluminum and coal shipments formerly shipped by way of Gibraltar must now be shipped by rail. It is understood

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understood that no commitments have been made by Germany concerning the number of freight cars it will make available, though Yugoslavia has agreed to provide daily from forty to fifty cars each having a capacity of from fifteen to eighteen metric tons. When possible, it is said, water transportation will be used instead of railroad, particularly with respect to shipments of coal and grain.

Blocked funds in Germany to the credit of Yugoslavia will accumulate, it is believed, as a result of the agreement, since it is expected that Yugoslavia will be required to increase considerably its exports to Germany without receiving any corresponding increase in deliveries of German goods.

Yugoslav sources report that no pressure was openly applied by Germany in order to get the metals and other Yugoslav products which had been in the past shipped to England and France. It is reported that the German negotiators remarked that Yugoslavia could freely export to these two countries, if it could but since that did not appear possible it would be better for Yugoslavia to sell to Germany, a point to which the Yugoslav delegation after a month's negotiation agreed. It reserved, however, small quotas of copper to be exported to other countries, among which was Russia, from which cotton is expected. It is reported that there is a provision in the new agreement

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agreement that Yugoslav trade with Belgium and the Netherlands will be conducted through the clearing arrangement between Germany and Yugoslavia. This may be considered a step further toward the German aim for a multilateral clearing agreement for Europe.

KIRK

DGA:GHK:MEK
8/9/40

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE
DIRECTOR

END VITE 8 LW 2 41

THE VICE PRESIDENT
RECEIVED

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE AUG - 7 1940

TO Secretary Morgenthau

FROM Mr. Foley

In accordance with the request contained in Mr. Thompson's memorandum of December 26, 1939, there is attached a summary report of studies or projects carried on in the Office of the General Counsel for the month of July, 1940.

S.H.76

Attachment

SUMMARY REPORT ON STUDIES OR PROJECTS IN
THE OFFICE OF THE GENERAL COUNSEL -
JULY 1940

The following matters received attention in the Office of the Chief Counsel for the Bureau of Internal Revenue:

1. Certification of Costs under Vinson-Trammell Act. Section 4 of Public No. 671 (H.R. 9822) provides for certifications, pursuant to regulations of the President, by the War and Navy Departments to the Commissioner of Internal Revenue of the necessity and cost of special additional equipment and facilities installed in private plants to facilitate the completion of naval vessels and army and navy aircraft during the emergency period and of the percentage of such cost to be charged against Vinson-Trammell Act contracts and subcontracts in computing allowable profit. Executive Order No. 8465, prescribing the required regulations, has been signed by the President. There has also been prepared, in cooperation with the War and Navy Departments, joint rules for the administration of section 4 and the Executive Order. Such joint rules, filed with the Federal Register July 15, are authorized by paragraph (9) of the Executive Order.
2. Conferences regarding tax systems of United States, Peru, and Argentina. For several weeks Mr. P. J. Mitchell has been attending daily conferences with Special Deputy Commissioner King, Senor Carlos

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Jiminez, Director General of taxes of Peru, and A. C. Lerena of Argentina's revenue department in connection with the consideration of the tax systems of the United States, Peru, and Argentina. These conferences were concluded on July 20.

3. Legislation to Allow Amortization of Emergency Facilities.

Assistance was rendered in the drafting of legislation proposed to allow corporations to amortize the cost of facilities acquired or constructed during the emergency period declared to exist by the President on September 8, 1939, and found by the Advisory Commission and either the Secretary of War or the Secretary of the Navy to be necessary in the interest of national defense. The proposal is in effect to allow corporations the election of charging such costs off over the life of such facilities; a period of five years; or the period of the emergency, if less than five years.

4. Treasury Decisions. The following-listed Treasury decisions, substantially all of them being required by legislation passed in June 1940, were approved during the month:

- (a) Amending Income Tax Regulations 103 as to withholding of taxes at the source. (8 pages - 1940 Act)
- (b) Amending Income Tax Regulations 103 to provide for the discontinuance of regulations requiring persons to file copies of income tax returns.
- (c) Amending Income Tax Regulations 103 requiring the inventorying of containers.

- (d) Amending Income Tax Regulations 103 as to the reporting of income realized by a lessor resulting from the erection of improvements on his land by a lessee.
- (e) Amending Capital Stock Regulations 64. (1940 Act)
- (f) Amending Tobacco Regulations 8. (Defense tax - 1940 Act)
- (g) Amending Playing Cards Regulations 66. (1940 Act)
- (h) Amending Stamp Tax Regulations 71. (1940 Act)
- (i) Amending Miscellaneous Excise Tax Regulations 42 as to telephone, telegraph, radio, and cable facilities, etc. (1940 Act)
- (j) Amending Excise Tax Regulations 44 as to gasoline, lubricating oil, and matches. (1940 Act)
- (k) Amending Admission and Dues Regulations 43. (1940 Act)
- (l) Amending Capital Stock Tax Regulations to grant extensions for the filing of returns by corporations having no principal place of business within the United States.
- (m) Joint regulations with the War and Navy Departments as to excess profits on certain Government contracts. (These regulations have been approved in the Treasury and are before the War and Navy Departments for their approval.)

5. Reports on Bills. The following reports on bills were prepared and forwarded:

- (a) S. 4053 -- to provide for the designation of an individual's domicile and residence when making income tax returns.
- (b) S. 4098 -- extending the time for filing claims for refund of processing and related taxes.

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while the following reports were submitted to the Bureau of the Budget for clearance:

- (c) H.R. 10203 — to amend the law so that cigarettes may be sold in packages of 18 or 19.
- (d) S. 4184 — extending for the taxable year 1939 the time within which employer contributions to State unemployment funds may be paid for the purpose of the credit provided by section 1601 of the Federal Unemployment Tax Act.

All of the above matters were handled under the supervision of G. C. Adams, Head, Legislation and Regulations Division.

The following matters received attention under the general supervision of Assistant General Counsel Cairns:

6. Pledge of Assets by National Banks to Secure Certain General Deposits. An opinion on this question prepared by Mr. Zarky was signed on July 10, 1940. The opinion concludes that national banks acting as general depositaries cannot be considered as acting as financial agents of the Government within the meaning of section 5153, Revised Statutes, and that the deposits involved may not be secured by a pledge of assets to secure the performance of the duties of such financial agents.
7. Application of Certain Laws to Lands Covered by Mortgages Securing Loans by the Farm Security Administration. The opinion concludes (1) that section 3470, Revised Statutes, is inapplicable;

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(2) that sections 3750 and 3749, Revised Statutes, are inapplicable so far as lands securing loans made under the Emergency Relief Appropriation Act of 1935 are concerned. The opinion further concludes that none of the statutes apply to lands securing loans under Bankhead-Jones Farm-Tenant Act. This opinion was prepared by Miss Goode and Mr. Feidler and was signed on July 20, 1940.

8. R.F.C. Loans for Plant Expansion to Manufacture Airplane Motors for the United States and Great Britain. This opinion was prepared by Miss Goode and Messrs. Zarky and Gilmore. It was signed on July 23, 1940. The opinion concludes that the R.F.C. has such authority under sections 5d and 5d(1) of the R.F.C. Act.

9. Authority for Maintenance of Philippine Trust Funds. This opinion, prepared by Mr. Plumb and signed on July 29, 1940, considered the question whether section 4 of the Act of March 8, 1902, proposed to be repealed by H.R. 9947, is obsolete and, if so, whether there is sufficient authority in other provisions of law for the maintenance of Philippine Trust Funds. The opinion concludes that provisions of that section have been reenacted in section 3343(b) of the Internal Revenue Code and that the earlier section is duplicative and obsolete.

10. Mailing of Postdated Checks by a Disbursing Officer. Mr. Plumb prepared this opinion which was signed on July 29, 1940. The opinion concludes that the proposed procedure is contrary to present Treasury

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regulations and may be subject to criticism of the General Accounting Office; it suggests that the purposes may lawfully be accomplished by sending checks to postmasters, as agents of disbursing officers, for release on the proper date.

11. Countervailing Duties. Everett Smith, of the Customs legal staff, studied the question whether the assistance given to exporters by the Uruguayan Government constitutes a grant or bounty within the meaning of section 303 of the tariff act. The information in the files of the Department respecting this matter is not sufficient to warrant such a conclusion and the Department of State has been requested to furnish further information on the subject.

12. Philippine Cordage Act. In response to a request of the United States High Commissioner, Fred Ivey, of the Customs legal staff, studied the question whether the quota provisions of the 1935 Cordage Act apply to the Canal Zone, American Samoa, and Wake, Midway, Baker, Howland, Canton, and Palmyra Islands. The conclusion was reached that the term "United States" in section 6 of the Act of March 24, 1934 (Tydings-McDuffie Act), 48 Stat. 459 (U.S.C. title 48, sec. 1236), is applicable to the Act of June 14, 1935 (Philippine Cordage Act), 49 Stat. 340 (U.S.C., Sup. V, title 48, sec. 1236a), and that the Cordage Act applies to Wake, Midway, Baker, Howland, Canton and Palmyra Islands, but does not apply to American Samoa (which is excluded by the definition) or to the Canal Zone (which is not a possession of the United States).

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13. Antidumping. A study has been made regarding the applicability of the provisions of the Antidumping Act, 1921, to the importation of Mexican crude petroleum and the processing thereof in the United States where title is retained by the Mexican exporter until the sale of the petroleum in its processed state. This assignment was handled by Messrs. Flynn and Chambers, of Dwan's office.

14. Infractions of Military Discipline in Coast Guard. Due to the increased number of desertions and other infractions of military discipline in the Coast Guard, caused largely by new recruits in the emergency expansion program, the Coast Guard Legal Section, in cooperation with administrative officers of Headquarters, conducted a study and devised a plan with a view to enlarging the probation system whereby these young men would be permitted to remain in the Service until they can adjust themselves to military life and standards. This matter received the attention of Messrs. Harrison and Howell, of the Coast Guard legal staff, and of Captain Jones, Chief Personnel Officer, Coast Guard.

15. Coast Guard Reserve. During the past several weeks, the Coast Guard Legal Section has given consideration to the preparation of a bill authorizing the establishment, within the Coast Guard Reserve, of a voluntary force with military status, the members of which could be called to active duty with their consent, with or

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without the use of their boats, to assist in neutrality enforcement and the carrying out of other functions of the Coast Guard. This study which is being conducted by Harrison, Chief Counsel, Coast Guard, and by Commander O'Neil, is still in progress.

16. New Provisions in Coast Guard Contracts Concerning Secret Equipment. Passage of the Act of June 28, 1940 (Public No. 671, 67th Congress) "To expedite National Defense and for other purposes", calls for revision of the standard form of construction contract to incorporate new provisions in connection with the arming and installing of secret equipment on Coast Guard vessels. The Coast Guard Legal Section, with the cooperation of the Judge Advocate General's office of the Navy, has been engaged in preparing a new form of contract patterned, as nearly as practicable, after that used by the Navy. Mr. Morton, of the Coast Guard legal staff, and Mr. Jennison, of the Engineering Division, have been engaged upon this task.

The following matters received attention in the Legislative Section under the direction of Assistant General Counsel Bernard:

CONTINUATION OF PROJECTS

17. Bills relative to the Harrison Narcotic Act:

(a) Bill to Relieve the Hospitals from Double Taxation (for description see original report, Item 9). This bill, prepared by Miss McDuff, has been returned from Budget with a request for a

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further expression of our views in the light of the comments of the Federal Security Administrator. In response to this request, a letter and statement of arguments in support of the provision establishing an occupational tax classification for hospitals has been prepared by the Bureau of Narcotics and is being reviewed by this office.

(b) Bill to Withdraw Registration under the Harrison Act from Persons Violating State or Federal Narcotic Laws (for description see report for January, Item 41). A draft of this bill and a memorandum summarizing its background and legal aspects have been completed. However, the matter is being held in abeyance pending the determination of whether the Department should sponsor the bill. In any event, the bill will not be presented to Congress until the next session, and this project can, therefore, be considered as completed for the time being.

18. Fidelity Bond Bill (formerly identified as "Bond Survey") (for description see original report, Item 10). A draft of the proposed fidelity bond bill and letter of transmittal to Congress were sent to Budget on March 30, 1940. Because of the interest in this bill of about ten other agencies, the Bureau of the Budget has not yet been able to give it the usual clearance.

In addition to a considerable amount of research work, which has been completed, to support this bill, we have prepared a memorandum in anticipation of possible attacks on the bill so that we may be armed against them.

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19. Compilation of Money Statutes (for description see original report, Item 11). Miss McDuff is continuing the work on this material.
20. Compilation in Annotated Form of Laws and Regulations Affecting Government Personnel (for description see original report, Item 13). The Legislative Section is continuing this project under Mr. Bernard's general supervision.
21. Codification of Federal Regulations (for description see original report, Item 16). The Treasury phases of this work are being handled by Mr. Spingarn.
22. Codification of Anti-Counterfeiting and Related Laws (for description see original report, Item 7). Mr. Koken is continuing his work on this matter.
23. Federal Depository System (for description see original report, Item 6). Mr. Reeves is continuing his work on this bill. Although it would probably be difficult to secure legislative consideration of this bill during this session because of the complicated nature of the subject matter and the controversial character of certain of the bill's provisions, we are taking all possible steps to secure its early enactment.
24. Federal Tort Claims Bill (for description see March report, Item 35). Mr. Koken is preparing a memorandum, and covering letter to Mr. Holtzoff of the Department of Justice, suggesting a number

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of amendments to the proposed Federal Tort Claims Act. This bill is sponsored by the Department of Justice.

25. Acting Administrators Bill (for description see June report, Item 33). Miss McDuff is continuing her study of the necessity and feasibility of general legislation to provide for acting bureau or division chiefs in the absence of a chief.

The following matter received attention in the office of Assistant General Counsel Tietjens:

26. Proposed Legislation in Regard to Checks Payable to Payees in Foreign Countries. Following a conference in the Under Secretary's Office, attended by representatives of the State Department, the Bureau of Accounts, the Chief Disbursing Officer, and the Treasurer of the United States, we were requested by Mr. Bell to prepare a draft of legislation to authorize the Secretary, in his discretion, to withhold the delivery of any Government check payable to a payee having an address in a foreign country where the Secretary is of the opinion that conditions are such that there is not a reasonable assurance that the payee will actually receive the check and be able to negotiate it. (This legislation, of course, will cover all countries, and not be limited to those now or hereafter covered by Executive Order.) The bill will further provide for the disposition of the proceeds of such checks, either by way of a special deposit account or a trust fund, until such time as, in the opinion of the

Secretary, conditions have so changed as to provide a reasonable assurance that the payee, or his successor in interest, will actually receive the check and be able to negotiate it. The bill will further provide the procedure for making and handling claims based upon checks the amounts of which have either been deposited in the special deposit account or covered into the trust fund. Mr. Reeves, of the Legislative Section, and Mr. Easby, in Tietjens shop, have been working on the legislation in cooperation with the administrative people, and the bill is now in its second draft.

The following personnel project was worked upon by Mrs. Campise under Mr. Cox's supervision:

27. Installation of a Punch Card System for Recording Applicant's Records. The form for recording the information to be punched has been set up and necessary codes prepared. The data gathering and coding is now nearly completed, and it is expected that the cards will be punched and ready for use by the end of August.

The following matters were worked on under the direction of Mr. Bernstein:

28. Foreign Exchange Control. This office drafted an amendment to the Executive Order and Regulations extending the provisions thereof to property of Latvia, Estonia and Lithuania and nationals thereof, and prepared instructions to government officers accompanying such Executive Order. There was also prepared an amendment to the Executive Order which requires licenses for certain transactions involving

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securities which bear a stamp or seal which presumably was affixed in one of the invaded countries and which requires licenses for certain dealings in securities which are not physically situated in the United States. In connection with this latest Executive Order, a considerable amount of work has been done in preparing instructions, forms, general licenses, general rulings, etc. An extensive amount of work has been done in connection with other aspects of the administration of the freezing control, including the issuance of general licenses, the answering of voluminous correspondence relating to the Order, the preparation of licenses covering diplomatic staffs and the examination of legal questions which are continually arising. The entire staff of the Monetary and Exchange Section has worked on the foregoing matters. Messrs. Pehle and Ruppert worked on applications for licenses.

29. Examination of Consular Mail. A further study of the problem of examination of consular mail under General Ruling No. 5 was made in cooperation with the Department of State and Post Office Department. It was determined that certain classes of consular mail should be exempted from examination and instructions with respect to this matter were prepared and sent to Exchange Post Offices and Collectors of Customs. Also, in this connection, work was done in drafting a reply to a note from the German Embassy protesting the examination of mail addressed to German consular officers. Messrs. Mann and Luxford conducted this study.

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30. Dutch Decree. This office worked with the State Department and the Dutch Legation on the note that the Dutch Minister wrote to the State Department and the letter which the State Department wrote to the Treasury concerning the Dutch decree of May 24, 1940, and the power of attorney given to the Dutch Minister. Treasury transmitted such documents to all the Federal Reserve Banks with instructions to make them public. The work was handled by Messrs. Friedman and Aarons.

31. British Accounts with the Federal Reserve Bank of New York. In cooperation with the Federal Reserve Bank of New York, the State Department and the British Embassy arrangements were completed whereby the Federal Reserve Bank of New York transferred certain gold and dollars held by the Bank in the name of the Bank of England into accounts in the name of the British Government. Mr. Friedman was engaged upon this task.

23

KWANG PU CHEN

Shanghai Commercial & Savings Bank,
Kunming, China,
August 7, 1940.

The Honorable Henry Morgenthau, Jr.,
Secretary of The Treasury,
Washington, D. C.,
U. S. A.

Dear Mr. Morgenthau:

I flew from Chungking to Kunming on July 30. During the month that I stayed in Chungking, China was passing through one of the most critical periods in the developments of the Chinese-Japanese war. The closing of both the Indo-China and Burma outlets leaves China in a rather critical situation. Public opinion in China has become very critical of British and French policy and some leaders in the Central Government are pushing for a policy of closer relations with Germany or the Soviet Union.

The Soviet Union was reported to have decreased its assistance to China because of her involvement in European affairs as well as the conflict between the Kuomintang and the Communist forces. But as a result of a new rapprochement recently reached between the Kuomintang and the Communists, Soviet assistance to China is likely to increase. The extent of the help they can give us, however, is limited. The most we can expect from the Soviet Union include light armaments, aviation gasoline and a small number of planes some of which have already been used to strengthen the air defense of Chungking. Such assistance will enable us to continue resistance but is not sufficient to launch a counter-attack. The Generalissimo naturally accept Soviet assistance, but the sentiment of the Chinese people is still sympathetic to Great Britain as against Germany and Italy and the Generalissimo prefers to develop closer relations with the United States and the democracies.

As you know, my private business establishments have been moved from the coastal centers to the interior, especially in the Southwest. I have, therefore, made Kunming my headquarters and my time is fully occupied with the business of the Foo Shing Corporation as well as that of my bank and the industrial enterprises it is attempting to develop in the interior.

Kunming differs noticeably from Chungking not only in the absence of repeated air-bombings, at least for the time being, but also in the beauty of its climate. This is the rainy season in Yunnan, but, except sudden downpours, the weather here is wonderfully moderate and pleasant. In temperature, Kunming resembles San Francisco at its best. About 6,000 feet above sea level, Kunming, with its clear and stimulating

Secretary Morgenthau

- 2 -

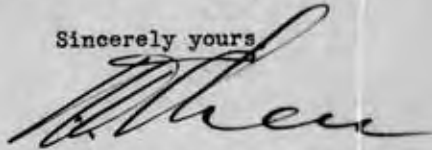
August 7, 1940.

air, also reminds me of Colorado Springs. I have rented a house on the shore of beautiful Kunming Lake, about twenty miles from the city, and live here with a few friends. I have been travelling so much in recent years that the prospect of settling down gives me special pleasure. The place here is so quiet and restful that I am tempted to build a house so that when the war is over and I can retire I will have a place to live and entertain my friends from far and near in a life of peaceful contemplation.

Dr. J. Lossing Buck returned to Chungking when I was there and we had several good talks together. His contract with the Chinese Government, as an adviser of the Ministry of Finance, having expired in April, Dr. H. H. Kung had requested him to extend his term of service until the end of September. Dr. Buck expressed a desire to go back to teaching at the University of Nanking and, I understand, the University Administration also expects him to be back by the end of September.

With the kindest personal regards to you and
Mrs. Morgenthau,

Sincerely yours



AUG 7 1940

My dear Mr. Chairman:

Reference is made to your letter of May 16, 1940, in which you request a report on S. 3977, a bill relating to the purchase of certain foreign gold.

The bill would make it unlawful for any person acting for or on behalf of the United States or any agency thereof, or for any person within the United States or any territory or possession thereof, to acquire by purchase or otherwise, any gold coin or bullion unless the person so acquiring such gold shows to the satisfaction of the Secretary of the Treasury that such gold was not acquired by any foreign state or any political subdivision or national thereof as a result of the invasion by the armed forces of such foreign state of the territory of another foreign state. Any person willfully violating the act, or regulations prescribed by the Secretary of the Treasury thereunder would be fined not more than \$10,000 or imprisoned not more than five years or both.

Your Committee has been authorized by S. Res. 125 to study and recommend a national monetary and banking policy, and to consider and recommend the character of governmental machinery best calculated

- 2 -

to carry out such a policy. S. 3977 seeks to deal with problems which, I believe, should first be considered as a part of the study which your Committee is making. Accordingly, I recommend that for the time being, action with respect to S. 3977 be deferred.

The Department has been advised by the Bureau of the Budget that there is no objection to the submission of this report to your Committee.

Very truly yours,
Secretary of the Treasury.

(signed) H. Morgenthau, Jr.

Honorable Robert F. Wagner,
Chairman, Committee on Banking
and Currency,
United States Senate.

FH:epg 5/27/40

File to Mr. Thompson

Not mailed in Secy's office

August 7, 1940

After the 3:30 meeting today with Colonel Knox of the Navy, Secretary Ickes and Messrs. Holland and Fry of Interior, Messrs. Sadler, Waldon, Howard and White of Standard Oil, and Mr. White of the Treasury, Colonel Knox stayed behind and said that I started a chain of events on this embargo to Japan of gasoline which is terribly important and, while he is not backing down any, he has got to think about our Fleet and where we will be willing to send it.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 7, 1940

Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. McKeon of the Federal Reserve Bank of New York advised us of the following payments made on German account by the Chase National Bank:

<u>Date</u>	<u>Amount</u>	<u>Remarks</u>
August 1	\$ 186,000	Payment made by order of the German Gold Discount Bank to the Bank of Manhattan for account of A. G. Becker and Company, New York.
August 3	85,000	Payment made by order of the German Gold Discount Bank to the Bank of Manhattan for account of A. G. Becker and Company, New York.
August 5	160,000	Payment, in bank notes of large denomination, by order of the German-Asiatic Bank, Shanghai, to Hideo Itoh, Manager of Tausho Kaisha, 1775 Broadway, New York. It will be recalled, as mentioned in my memoranda to you of June 10 and 11, that a similar payment was made by Chase to Mr. Itoh, and it was understood that this individual is the purchasing agent for the Japanese army.
	<hr/> \$ 431,000	Total



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. McKeon of the Federal Reserve Bank of New York advised us of the following debits to Italian accounts with the Chase National Bank:

<u>Date</u>	<u>Amount</u>	<u>Remarks</u>
August 2	\$ 60,000	Debit to the account of the Banco Commerciale Italiano on a check drawn in favor of the Indemnity Insurance Company of North America, New York.
August 5	\$ 75,000	Debit to the account of the Banco Commerciale Italiano on a check drawn in favor of the Swiss Bank Corporation, New York.
	<hr/>	
	\$135,000	Total

70

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Ren of the Universal Trading Corporation in New York called on me this morning, while in Washington on certain errands. He gave me the following brief summary of the situation in the Far East insofar as his company is concerned. The large stock of goods in Hanoi, French Indo-China, shipped by the Universal Trading Corporation has been transferred into the name of the United States Far Eastern Trading Corporation of Delaware with the hope that this may assist in the goods having such protection as may be extended other American goods. The officials in French Indo-China will neither permit these goods to be transported into China nor will they permit their removal from Indo-China for transfer to Rangoon or some other port. Traffic of the Universal Trading Corporation through and into Indo-China is thus at a standstill.

In this connection, Mr. Ren stated that the French authorities in Indo-China have requested certain oil products from two American oil companies which products had already been ordered by the Universal Trading Corporation and have been paid for. The Universal has assented to the two companies delivering this oil, which I understand is already in Indo-China, to the Government officials there, with the understanding that the companies will replace this oil with similar quantities for the Universal.

Mr. Ren stated that the five steamers which are now on the water with cargoes destined for Rangoon are proceeding to that port. Under the latest rulings, all but four categories of goods will be permitted to be transported by the Burma road into China. The banned articles include importantly aviation and motor gasoline. The Chinese are obliged, therefore, to depend upon their rather meager store of gasoline within China to transport any goods by motor road which crosses the frontier from Burma. All of the Universal Trading Corporation goods on the ships now in transit will be unloaded at Rangoon except those articles falling within the four prohibited categories, which will be shipped on to Calcutta for storage.

Mr. Ren stated that so-called Japanese "inspectors" were in French Indo-China in increasing numbers, after beginning with 50 and then growing to 100. These officials were sent under the guise of studying certain technical questions, such as delimiting borders, but are said to be actually Japanese army officers preparing for complete infiltration of Japan into Indo-China. Mr. Ren was pessimistic lest Japan take over Indo-China completely, and also occupy Hong Kong if and when the British may be attacked heavily by Germany.

H. M. S.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE August 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

One of my best friends in the Department of State told me yesterday that he would send a personal letter written to one of his fellow officers in that Department by an official representative of the French Government in New York which criticized our freezing policy. I told my friend that I would appreciate seeing a copy of, or excerpts from this personal letter. My friend has now provided the following excerpt:

"It is something like the 'protection' given to all French accounts frozen in the Banks here. Whilst Germans and Italians can dispose freely of all their money, French firms are paralyzed, cannot pay the salaries of their employees, cannot replace their stocks with new purchases and French citizens cannot put their money in safe investments or out of reach. One day the French Government will claim the remittance of all French funds and 'for reasons of international harmony' the people who came to the land of liberty will be deprived of their savings which will be handed over to Mr. Hitler. I know such is not the intention of the Treasury but I was also told that some New York Banks have already given to the German Embassy a detailed list of their French frozen accounts and I know that many of my friends here suffer from this 'protection'."

In obtaining this excerpt, I promised my friend that this would not be used against the French official. This official is Mr. Garreau-Dombasle, the French Commercial Attaché.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19:

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
July 29	1,075	6,796	36,500	30,182
30	3,900	189,299	40,000	21,798
31	3,100	83,434	26,000	14,256
Aug. 1	2,100	36,204	3,000	1,633
2	2,123	44,532	27,000	18,417
3	<u>300</u>	<u>18,654</u>	<u>Nil</u>	<u>Nil</u>
	12,598	378,919	132,500	86,286
Sales from February 22 to July 27	<u>1,393,213</u>	<u>48,326,920</u>	<u>2,978,500</u>	<u>2,608,106</u>
TOTAL FEBRUARY 22 TO AUG. 3	1,405,811	48,705,839	3,111,000	2,694,392

Mr. Pinsent reported that sales of non-vested securities for the week ending July 27 totaled \$1,500,000.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Activity of the six reporting banks in registered sterling was as follows:

1. Purchases of £31,000, mainly for customer account, of which £10,000 were acquired from the Federal Reserve Bank of New York.
2. Sales of £1,000.

The open market for sterling was lifeless today. From an initial quotation of 3.94-1/2, the pound moved off to 3.93 at the close. Turnover was at a record low. The reporting banks executed orders to sell £5,000 and to purchase £6,000, all of which were for account of their commercial customers.

During the past week or so, the yuan in Shanghai has declined, in terms of dollars, from 6-1/4¢ in the latter part of July to today's rate of 5-5/8¢, while the value of the yuan in terms of sterling has remained in the vicinity of 3-3/4d. Thus the dollar value of sterling in Shanghai (that is, the "cross rate" in that center) has shown a marked depreciation, in contrast to sterling's improvement in the New York open market during the same period. The current Shanghai cross rate is 3.60 per pound, as against 3.93 in New York. A similar situation has developed in Hong Kong. The Hong Kong dollar (as well as the pound sterling, to which the Hong Kong dollar has been pegged for several months at 15d) has depreciated in terms of the United States dollar, declining from 24-1/8¢ at the end of July to the present quotation of 22-9/16¢. The current sterling-dollar cross rate in Hong Kong is thus in the neighborhood of 3.60. The apparent reason for the existence of a Far Eastern open market in sterling independent from that in New York is Great Britain's July 18 restriction on the movement of such sterling between the United States and certain foreign countries; United States banks, while permitted to sell open market sterling to banks in the Far East, are not allowed to purchase sterling from them.

The Canadian dollar was slightly weaker today. It closed at 13-1/4¢ discount, as compared with yesterday's final rate of 13¢.

The other currencies closed as follows:

Swiss franc	.2274
Lira	.0505
Reichsmark	.4005
Cuban peso	10-7/8¢ discount
Mexican peso	.2015 bid, .2035 offered

The Federal Reserve Bank of New York purchased 22,000 Swiss francs by order and for account of the National Bank of Hungary.

There were no gold transactions consummated by us today.

- 2 -

The Federal Reserve Bank of New York reported that the following gold shipments were being consigned to it, both of which are for sale to the U. S. Assay Office at New York:

\$20,022,000	from Canada, shipped by the Bank of Canada for its own account.
3,415,000	from South Africa, shipped by the South African Reserve Bank for account of the Bank of Sweden.
<u>\$23,437,000</u>	Total

The Bombay gold price was equivalent to \$33.75, up 3¢.

Spot silver in Bombay rose the equivalent of 3/16¢ to 44.96¢.

In London, the price fixed for spot silver again rose 1/2d to 23-1/2d. The forward quotation moved up 1/4d to 22-15/16d. According to a report received from London, the improvement in silver prices there was attributed to bear covering and buying for coinage purposes. The U. S. equivalents were 42.67¢ and 41.65¢ respectively.

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

There were no purchases of silver made by us today.

CONFIDENTIAL



Aug 7. 1940
from A. Purvis.

Following from the Prime Minister.

The need of American destroyers is more urgent than ever in view of losses and the need of coping with the invasion threat as well as keeping the Atlantic approaches open and dealing with Italy. There is nothing that America can do at this moment that would be of greater help than to send 50 destroyers, except sending 100.

The flying boats also are of the greatest importance now and in the next two months.

As I have repeatedly explained, the difficulty is to bridge the gap until our new war time production arrives in a flood.

I append a note prepared in the Admiralty and I propose also to send a personal message to the President.

Admiralty Note

The alleged Admiralty statement to which you refer is presumably based on a British press article of July 23rd which merely took the number of destroyers built and building in the last published returns and wrongly suggested that all were already completed. In fact only half have been delivered; others will be spread over the next 18 months and very few will be completed this year, whilst heavy loss of destroyers in narrow waters continues.

We started this war with less than the number of destroyers really required. Nevertheless we had the assistance of powerful French flotillas but this has now been lost and we are now left alone to fight the German and Italian fleets, to protect our seaborne trade, to blockade Europe and to provide protection against counter blockade and the threat of invasion which the enemy is able to develop with both air and sea forces from a coast line vastly more extensive than had ever been expected.

The Naval staff therefore regard it as vital to our cause to obtain immediately a strong reinforcement in destroyers. Similar arguments, coupled with grave deficiencies in our own flying boat strength, make it imperative to obtain early reinforcement of our air forces designed for sea patrols.

Answers to your specific questions are as follows:

1. We should very much like to have 50 or 100 American destroyers. We have already asked for 48 and have arranged to man this number, but if we can get 100 destroyers so much the better. What we should like most is that these destroyers should be sent over with American crews who would continue to operate them. The next best thing would be for American crews to steam the ships to this country. The third alternative is for us to send crews to fetch them.
2. This number of American destroyers added quickly to our forces might make a decisive difference to the future of the war. Clearly destroyers would be available far earlier if they came over with their own crews.
3. It is flying boats rather than seaplanes that we require. The American navy have a particular type of flying boat (100 BF) which is suitable for our needs and we believe that they have a considerable number. We have a number of these flying boats on order but they will not be available for a considerable while. If American navy would let us have say 100 of their flying boats at once, it would make a tremendous difference to the future of the war. Here again, if American crews be made available, the problem of getting the flying boats into service quickly would be solved much more quickly.
4. From Admiralty point of view there is one other requirement, early fulfillment of which might make a vital difference this autumn. We need urgently any anti-aircraft guns, large or small, together with their ammunition, which can be made available.

BRITISH EMBASSY,
WASHINGTON, D. C.

Personal and Secret

August 7th, 1940.

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,

L. M. C.

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
on the evening of August 6th

Naval. Submarine "Thames" overdue from patrol is presumed lost. Submarine "Spearfish" reported German wireless August 5th to have been sunk off Norwegian coast. On receipt of this news she was ordered to withdraw from patrol and report, but no signal has been received.

One M/S trawler sunk yesterday off East Coast.

"S" boats were active last night, possibly mine-laying, off Northwest Kent and Isle of Wight.

2. Royal Air Force. 12 tons high explosives and over 1,000 incendiary bombs dropped on synthetic oil plant at Sterkrade night of August 4th/5th. All fell in target area, fires and heavy explosions resulted. One aircraft successfully attacked enemy aerodrome hitting hanger and causing three fires.

Last night total of 79 bombers despatched as follows:-

39 to attack oil and "Onzeisau", Kiel; 15 to aircraft factory and Kiel docks; 17 to attack "Bismarck" at Hamburg, electric power station at Bremen "Tirpitz" at

-2-

Wilhelmshaven; 12 mine-laying Elbe Estuary.
All aircraft returned; reports awaited.

This morning 14 aircraft were despatched to attack aerodromes in Northern France, Germany and Denmark.

5. German Air Force. During night of August 4th/5th leaflets were dropped near Harwich. Yesterday morning threatened attack on Channel convoy off Dover by over 50 aircraft was beaten off by our fighters. 4 squadrons were despatched; 2 managed to intercept and shot down 4 ME 109s confirmed and 4 more unconfirmed. One of our fighters missing.

During afternoon there were several inconclusive engagements between fighters over Channel.

Last night enemy activity on very reduced scale principally devoted to mine-laying. Some bombs were dropped in Northern Kent and Dover areas, also in Southern Wales. No damage or casualties reported. Leaflets dropped in Kent and Yorkshire.

Early this morning one bomber shot down off Norfolk coast.

4. Summary of air casualties.

Day of the 5th. Enemy 4 confirmed & fighters, unconfirmed 5 fighters.

British: 1 Spitfire.

Night of 5th-6th August.

Enemy: 1 bomber.

Total: Enemy 5, British 1.

Confirmed air casualties all theatres noon July 25th to noon August 1st: German 78; Italian 12; British 53.

Total confirmed losses to noon August 1st: German 2,990; Italian 133 all fronts since September 3rd, 1939.

5. Shipping casualties.

By U-boat. 1 British ship 8,500 tons torpedoed August 5th in outbound convoy north of Ireland. All crew rescued; tug sent to assist.

6. Middle East.

Egypt. On August 4th two attacks by about 10 aircraft each rendered aerodrome Sidi Barrani temporarily unserviceable; two of our reconnaissance aircraft damaged. Third attack by 5 aircraft intercepted by 3 of our fighters and enemy jettisoned bombs into the sea.

Libya. On August 4th one of our reconnaissance aircraft, escorted by 4 fighters attacked by 50 enemy fighters. 3 enemy aircraft destroyed, one of our fighters missing.

Some day our medium bombers while attacking enemy motor transport were set upon by about 50 enemy fighters. 2 were shot down. All our machines returned safely.

Eritrea/

-4-

Eritrea. Three medium bombers attacked submarine base Massawa on August 4th: two bombs fell between two submarines moored close together and direct hit obtained on naval vessel. Heavy bombers successfully attacked fuel storage depot same day.

BRITISH EMBASSY,
WASHINGTON, D. C.

August 8th, 1940

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,

L. Austin

The Honourable

Henry Morgenthau, Jr.,
United States Treasury,
Washington, D. C.

Telegram despatched from London
early on the evening of August 7th.

1. Naval. Two attacks against submarines were carried out yesterday without definite result. One by aeroplane off Land's End, the other by an anti-submarine trawler off Liverpool. Extensive enemy mine-laying by air reported round the coast last night and also by E-boats off Portsmouth and north Kent.

2. Royal Air Force. During night operations August 5th - 6th all targets mentioned in yesterday's summary were attacked; in addition four large fires were started at Borkum Island. Results were hampered by bad observation, but fires and explosions were caused. Three aircraft successfully laid mines. During yesterday formations of medium bombers despatched three times during the day; in all cases tasks had to be abandoned through unfavourable weather. One Blenheim, however, dropped bombs at Le Bourget. Last night 27 Wellingtons despatched to attack oil targets and 12 Hampdens to lay mines off South Norway and North Denmark. One Hampden not returned. Photographs taken on August 5th show Amsterdam seaplane base occupied for first time by 32 enemy aircraft.

3. German Air Force. Although Llandow aerodrome was bombed during the night of August 5th - 6th, there were no casualties to personnel and only slight damage caused to one hangar and 2 aircraft. During yesterday only small isolated raids reported. Interception difficult on account of cloud and mist. One enemy attack off Northumberland chased out to sea for 60 miles without conclusive results. Last night some incendiary bombs dropped on Firth of Forth area without damage and leaflets in South Wales.

4. Summary of air casualties:

Enemy: nil.

British: one medium bomber.

5. Shipping casualties.

On evening of August 5th Yugoslavian ship 4,000 tons sunk by U-boat southeast of Cape Verde Island; British ship 5,000 tons collided with wreck and sank later. On evening of August 4th unknown Greek ship torpedoed and sunk off North Ireland.

6. Boulton and Paul works previously reported damaged has now resumed full production in some departments and partial production in others.

7. Middle East.

Egypt. Air reconnaissance August 5th located concentration of 250 M/T vehicles, 54 fighter and 21 bomber aircraft near East

Libya/

Libyan frontier. Eighth Hussars withdrew August 5th from high ground 15 miles west of Sollus in the face of attack by enemy tanks and infantry.

Italian East Africa. The Italians are dispersing their fuel into small dumps. Shortage of M/T petrol reported at Dessie, which thought may soon immobilise mechanised forces.

Somaliland. Italian attack in three columns has ground Oaweeila, Hargeisa and about 40 miles inside border towards Zeilah. Strength estimated at two brigade groups with tanks.

August 7, 1940
3:30 p.m.

RE CONSERVATION OF OIL

Present: Mr. Saddler
Mr. Walden
Mr. Howard
Mr. White
Secretary Iokes
Secretary Knox
Mr. Holland
Mr. Frey
Captain White

H.M.Jr: Mr. Saddler, if you could, certainly for my education, tell us what is the picture of the Dutch East Indies. Shall we start there?

Saddler: All right, sir. Then I will pass that buck to Mr. Waldon, because Mr. Waldon is president of the company.

Walden: Well, I think I can best tell you about this by bringing out a map showing all the refineries and where they are located in the Netherlands East Indies.

H.M.Jr: Wonderful.

Saddler: Does that picture the supply?

Walden: Yes, sir.

H.M.Jr: Does it show Shell, also?

Walden: It shows all the refineries and all the bulk terminals in the Netherlands East Indies. That shows Archipelago and this is Singapore here. This is Sumatra. These

- 2 -

are the daily crude capacities of their refineries. Then the big main producing center in the Netherlands East Indies is in South Ceylon. There is another Shell refinery. Then across the river about a mile is our refinery with a capacity of about 42,000 barrels. Then there is a very small refinery we have with about a hundred barrels and Shell has a 3,000 barrel refinery there.

Up here in Borneo is a Shell refinery. There is no refinery here. It happens that the crude produced at Tarakan is a natural fuel oil. It meets the specifications for ships and is taken out of the ground and some of it is cracked. Altogether in the Netherlands East Indies today the production is roughly 160,000 barrels a day. All of the output of the Netherlands East Indies is sent to places such as Singapore at these bulk terminals here. There are three of them. The one furthest away is ours and that is only 26 miles from Singapore proper. There are two bulk terminals there on the Dutch Islands and one on a British Island, but the one that we have which is furthest away from Singapore is really the one that is the Singapore terminal. All of the oil, for instance, from this particular place which, as I say, is the most important business center, is taken down the river, which is a long winding river of about 60 miles, where they have to take it over a bar at about 19 feet, so that the ships are either just carriers over to the bulk terminal for trans-shipment or deep seagoing ships go in there and load a part cargo and then top it off at these terminals in Singapore. Now, the oil is distributed all through there. Very little, if any of it, ever goes to Europe.

H.M.Jr: Are these for us?

Walden: Yes, sir.

- 3 -

H.M.Jr: You couldn't give us a third one when you get back?

Walden: I can, sir, and I will send it down to you.

H.M.Jr: I will leave these with these two gentlemen (Knox and Iokes) and if you will furnish me with a third one.

Walden: I will mail you one tomorrow, sir.

H.M.Jr: That gives us a third one.

Walden: Those refineries in the Netherlands Indies are complete in every detail. They are modern, they are capable of producing motor gasoline. There are two places there in that particular region near Singapore that I pointed out where they have to carry it over to Singapore in top ships. There are two aviation plants there.

Knox: You mean making aviation gasoline?

Walden: Yes, sir. They make at least - I can't tell you with great authority for the Shell, but I can for ours. I think they are both comparable. They manufacture in different ways. One is a hydrogenation plant that the Shell has and the plant we have is known as the oxidation process, and they both can produce high octane gasoline. The plant that we have will produce daily something like a thousand barrels of 100 octane gasoline. That gasoline today is going direct to England.

Knox: Going direct to England?

Walden: Yes, sir. The plant was only completed about three months ago and the first shipment went out about two weeks ago.

Knox: How was it shipped, in tanks?

Walden: It is shipped in tanks, yes, sir.

H.M.Jr: What flag?

Walden: Either Norwegian or British flag. The output of both of those plants today is contracted for, as I understand it, with the British. In fact, the plant that we built was built on the basis about two years ago - I saw the Vice Air Marshall in London and they contracted through the Anglo-American Oil Company, which is a subsidiary of the Standard Oil Company in England, to take a three year supply from that refinery to justify our building it, because there was not enough aviation gasoline in the East - aviation gasoline business in the East to justify the three million dollar expenditure that was made there. I understand that the Shell are building still another plant there. The capacity of those plants are roughly about two thousand barrels a day.

Knox: Sell any of it to Japan?

Walden: Not one barrel of it, sir, and I don't believe there is any that is sold by the Royal Dutch Shell to the Japanese.

H.M.Jr: Do you make any lubricating oil there?

Walden: No, sir, the crude in the Netherlands Indies is not of a type that we can make lubricating oils from. No lubricating oils are manufactured there. There are some very cheap lubricating oils that are unimportant, but the oil in the Indies is not of a paraffine base that will produce lubricating oils.

H.M.Jr: How much oil of any kind does Japan get from there?

Walden: I can give you those figures, sir, I think.

H.M.Jr: If I understand your setup, your export company is owned by Standard of New Jersey and --

- 5 -

Walden: Socony Vacuum.

H.M.Jr: They each have what?

Walden: They each one have a 50% interest of this Standard vacuum oil.

H.M.Jr: Is that also the same company that did do business in China?

Walden: Yes, sir. Originally it was the Socony Vacuum.

H.M.Jr: Who was the fellow who was president that I knew?

Walden: W. B. Walker?

H.M.Jr: Yes.

Walden: He died about five or six years ago. I succeeded him. He was in Hong Kong.

H.M.Jr: No, somebody since then.

Saddler: Mr. Secretary, maybe the history of that would make it a little clearer.

H.M.Jr: Somebody a year or two ago came down to see me two or three times.

Walden: Mr. Parker?

H.M.Jr: Yes.

Walden: I am the Chief Executive Officer and he is the President.

H.M.Jr: Who is the boss?

Walden: I am the boss.

Saddler: Originally, Mr. Secretary, the Standard of New Jersey owned a producing and a refining company in the Dutch East Indies, and the Socony Vacuum owned a market from Japan clear on down all through the Orient and those two

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were merged on a fifty-fifty basis. They are complementary to each other.

H.M.Jr: Does Texas come in there?

Walden: No, sir, they have no relation whatsoever.

H.M.Jr: They are not in that territory at all?

Walden: They are endeavoring to find crude in the Dutch East Indies today, but they have no production there.

H.M.Jr: And you people aren't in the Persian Gulf? That is all Texas?

Walden: Yes, sir.

Saddler: Just one impression there. There are four interests in the Persian Gulf, Mr. Secretary. There is the Anglo-Iranian, which is 51% government-owned. That is the largest producing company. There is the Col-Tex, which has the Island of Bahrein, producing maybe 40,000 barrels a day. That is the Standard of California and the Texas Company. There is another interest, fifty-fifty, between the Gulf and the Anglo-Iranian, the Anglo-Persian. That is Goodwaite Island. There is the fourth interest, which is the Iraq Petroleum Company in Basra, which has developed production but it is not yet actually exporting, so there are four interests in the Persian Gulf of at least 12 billion barrels with those four interests.

Walden: I have had prepared, sir, a statement showing all of the importations into Japan from whatever source.

H.M.Jr: Good for you.

Walden: I thought perhaps it might be the thing that you wanted.

H.M.Jr: You are a good man.

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- Frey: Would that include the government imports?
- Walden: The figures, sir, up to 1939, really represented statistics that they were able to obtain in Japan and since that time we have had to supplement it as much as we could, because everybody clamped down there.
- H.M.Jr: This is wonderful. I will have it photostated.
- Frey: As a rule, the Japanese have concealed their imports for military operations, have they not?
- Walden: Yes, sir. We have no knowledge whatsoever of what the storage would be in Japan, for instance, but these figures have been checked because I have given the names of the companies where they have come from. For instance in the Netherland Indies, I assured both the Shell and our own shipments to Japan, as well as the detailed shipments from the Pacific Coast, naming the countries.
- Frey: The reason I asked in working over their import figures, I have never been able to get a world balance except by working backwards and I find that by working backwards there is about 8 billion barrels unaccounted for that - that is in their pre-active military period, that evidently was imported for military purposes and concealed.
- Walden: Yes. Well, I think you will find, probably, that they may be short that same amount or whatever the military have wanted to conceal we haven't been able to get ourselves in Japan.
- White: There are very interesting figures that we tried to deduce by examining the export figures that are published in various countries and other data. It checks pretty closely and they are completely independent.

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H.M.Jr: Your figures?

White: Yes. They have, for example, in 1939, 34 million and we have 31. We say probably a little bit less than what there actually was imported, because there was one source we couldn't get and they are quite independent data.

H.M.Jr: Let me ask you just - we have been told - the State Department says that Japan has a reserve of 69 million barrels of oil. Is that possible?

Walden: I couldn't say, sir.

Saddler: That sounds fantastic, Mr. Secretary. Last year Japan's imports from the Pacific Coast, and that was certainly the bulk of their supply, was 27 million barrels, of which, as I remember, the figure was 17 millions which was crude. That probably was most of the crude that would make 15 or 20% out of that, but any such figure as 69 million barrels is fantastic.

White: Well, if you take the imports and the estimated consumption, and that is where the difficulty lies, but this Garfield estimate, how good they are we don't know, but such as they are they would indicate --

Walden: That is why I think it is so difficult to determine what the stock may be, because they have been refining almost up to 50,000 barrels a day of crude in Japan and how much of that went into military or naval storage and how much went into consumption, I don't believe we can tell.

Saddler: It is fantastic to think that any country is carrying three years' supply in storage. I never knew of such a country. By the way, Mr. Walden, who was the Manager in Japan, is out in the other room if you want to ask him any questions. But 69 million barrels just sound fantastic.

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I don't think any country could store three million barrels of products and not have anybody know it, particularly in the oil business.

Walden: It is very difficult, Mr. Saddler, to tell.

H.M.Jr: Possibly when we get through, Mr. Ickes' people and Dr. White could sit down and go over some of their statistics afterward. How would that be?

Walden: We would be very pleased to do so. I also have a very interesting statement here of all the refineries and their locations as they stand now.

Knox: In Japan?

Walden: In Japan.

Knox: How much can they refine?

Walden: Their total refining capacity, sir, is 5,000 barrels a day.

Knox: A day?

Walden: Yes, sir.

White: What do they get from the Sakhalin fields?

Walden: It is very little. The total production in Japan proper and including the importations from North Sakhalin amounts to about 8,500 barrels a day, and I don't think it amounts to more than 8 or 9% of their total requirements. I have the details of those figures also.

H.M.Jr: We are going to take everything you give us in the way of figures.

Walden: I see.

White: Is the storage of a quantity of that magnitude -

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does it present a serious problem?

- Walden: Yes, indeed it does. That is an awful lot of oil.
- White: They would have had to construct a great many tanks?
- Walden: Yes, but they have been building tanks for years, and if anybody knew the situation in 1922 and '23 when they had that earthquake, there was an awful lot of underground storage that was destroyed and stuff came up and figures came up that hardly anyone imagined.
- Knox: You mean they were greater than anyone imagined?
- Walden: Yes, sir. They had a great deal of underground storage.
- Knox: That might explain the theory about 69 million barrels.
- Walden: But there was a great deal that nobody at that time conceived that they had in storage.
- H.M.Jr: Well, given this problem - naturally, this is all confidential what we are asking and what you tell us. The Government here has stopped the export of so-called aviation gasoline. If we wanted to put on a few more screws to make it more difficult for Japan to become aggressive, in what direction would be the next move?
- Walden: I think, Mr. Secretary, that if pressure is so great as to impoverish them of oil in Japan, they will move south to the Dutch East Indies. As a matter of fact, right now I have a telegram from the Indies that the Netherlands Indies and government wanted us to consider shipping crude to Japan. When I first found that out I wired to the Netherlands Minister in London and he said it was true that they were negotiating to sell Japan a matter of

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40,000 tons a month, which would be the equivalent of about ten thousand barrels a day, for a period up to March, 1942, and at the same time he was negotiating for the sale of some 2,000,000 tons to Japan. Well, that is --

H.M.Jr: That is your man?

Walden: No, the Dutch Minister. If you cared to have me, I will read those telegrams, if you are interested.

H.M.Jr: As far as I am concerned, it is pitiful how ignorant I am. I admit it.

Knox: I match you.

Saddler: I don't think that is any disadvantage, because anything you knew about what was going on yesterday is all turned over today.

Walden: Of course, the man who was negotiating, Ealy, was put in jail and about 11 or 12 of his band were also incarcerated.

Frey: The Rising Sun gets its supply entirely from the Royal Dutch Shell, doesn't it?

Walden: Yes, sir, that is a subsidiary of Shell.

Knox: Is there any oil in Indo-China?

Walden: No, sir, none at all.

Knox: The Japs are in there already.

Walden: Yes. This developed back on the 19th of July and I came down and reported it to Mr. Grady of the State Department. The original telegram was this:

"Netherlands Indian Government -" this is from our manager in the Netherlands Indies -
"Netherlands Indian Government gave us following telegram today. Referring to my 192, please

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inform our subaidiary government would appreciate unnecessary delay be avoided in negotiations about import of crude oil in Japan. I understand Rising Sun is in charge of the current negotiations for which the Shell has already given required instructions. Suggest you ask Koloniale whether they are prepared to supply normal share based on the production proportions during 1939, namely, 73 against 27%."

This telegram was sent by the Minister of Colonies to the Governor General under date of July 16th.

"Assume you are familiar with the negotiations and we are not giving any views from an operative standpoint until we hear further from you."

When we received that telegram, I sent this one to London.

"Received telegram my home late tonight from L. W. Elliott about crude for Japan. Authorities have just informed me about Minister Welter's telegram to Governor General under date of July 16th. Neither Elliott nor we know anything of negotiations referred to which apparently originated in London and may have been handled by Shell."

We received the following telegram the next day.

"Welter advises Japan at their end have been negotiating with Shell for prompt delivery of approximately 400,000 tons of crude oil which Welter is anxious to be executed and he cabled the Governor General suggesting two companies share delivery based on the pro rata production the year 1939, namely, 73% Shell, 27% Koloniale. Dubois informed him they are prepared and able to supply the entire quantity involved. The Minister also informed me in addition to the above same customer in Japan

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is negotiating with him to import from the Indies 2 million tons of crude annually and he anticipates meeting that request. Shell has informed them that they are unable to deliver their full share as it would upset economic efficiency of their operations, but they would make up any shortage by shipments from the Persian Gulf. Minister expects suggestion same division in annual export as for the 400,000 tons mentioned above."

H.M.Jr: What is the approximate date?

Walden: July 22nd.

White: That is about half their imports. What do you deduce that they intended to do? Did they intend to supplant that from their sources in the United States and elsewhere or was this in addition to their normal purchases?

Walden: No, sir, I think this association was in anticipation something would be done in this country with the prohibition of exports and they were endeavoring to find another source of supply in the event they were shut off from this country. That is my belief.

H.M.Jr: Mr. Saddler, if Japan had 69 million barrels in storage, they wouldn't be so terribly anxious to get more, would they?

Saddler: I can't believe, Mr. Secretary, that they have 69 million barrels in storage in the first place. I think that is fantastic. In the second place, it is only recently that the 100 octane gained and even 87 octane has been as important so that whatever they have accumulated, they have accumulated in the last two or three or four years. It doesn't go back to the earthquake time, as far as aviation gasoline is concerned.

White: This figure the Secretary has mentioned is for all petroleum, not only aviation gas.

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It is crude oil. Could they easily manufacture a lead?

Walden: No, sir, I don't believe they could.

H.M.Jr: Harry, we will come to that later. You (Howard) have got the tetraethyl lead. Do you mind waiting, Harry?

White: No.

Walden: Nothing has been done, Mr. Secretary, on that crude there. There has been no deal made by the people in London or the people in Japan.

H.M.Jr: Again, I mean this is all here - I mean, approximately what do you consider your investment in the Indies? About what would you say it was?

Walden: I would say, sir, it is roughly construction above ground of something like 50 million dollars and as far as the value of the oil in the ground, it would be a very large figure.

H.M.Jr: But the machinery, 50 million dollars?

Walden: I would say so, yes.

H.M.Jr: And what would you guess the Shell's investment is?

Walden: I would say there is at least three times more.

H.M.Jr: Three times more?

Walden: Yes, sir.

H.M.Jr: Do you want to ask something?

Knox: I am kind of curious to know whether any measures have been taken to destroy these oil producing properties in case the Indies were seized by Japan.

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Walden: Yes, sir, there has. That question was taken up with us by the Dutch authorities as far back as last summer, and they had three specific stages which they were to go through. One was the period of caution and another was preparation and the third one was the critical stage. There was some thought at the time that on the critical stage in case of an invasion they would only plug the lines with blanks and that they would fill the stills with cement and destroy the pumps and the like of that, so as to really decommission the plants rather than destroy them, but our latest advice is that they have the intention of really destroying them. By that, if there were an invasion, for instance, in the north part of Borneo territory, which is the closest place to Japan, that wouldn't necessarily mean that if they invaded the northern part of Borneo that the plants in south Sumatra would be destroyed. It would be in successive stages, but as far as our knowledge is concerned today, they have every intention of destroying if the Japanese invade the Indies.

Iokes: You mean by "they", the Colonial Government?

Walden: Yes, sir.

White: Have any preliminary steps been taken in the first two stages?

Walden: The first two stages have actually been in effect. Our plants today are patrolled by soldiers. We have been obliged to build bomb proof shelters and the like of that. We have camouflaged our plants at Singapore and in fact there are several batteries of artillery at the - in the Banka Straits today. They keep destroyers at either end of the Banka Straits. The Island of Banka is where the tin comes from, and it really shuts off all of south Sumatra where this oil is so that you can really close both ends of it. Those destroyers have been out there now for

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eight months now, I guess.

Ickes: Dutch destroyers?

Walden: Yes, sir.

Ickes: Could Hitler bring pressure to prevent their destruction?

Walden: He probably could, sir. I don't know. They have been very much alarmed out in the Indies on account of the taking of these citizens in Holland and transporting them back into Germany, and I was talking with a Hollander only a couple of days ago and he thought one of the most prominent men they had there, that was Minister Colin, one of the former Premiers, they thought he was one of the individuals that had probably been taken back into Germany, together with all of the ex-officials, Indian officials, who had connections out there, as well as those Indian officials who were home on leave and were caught in Holland.

H.M.Jr: You mean they have taken them into the German government?

Walden: Yes, sir, they have taken them out of Holland and interned them in Germany.

Ickes: Could Japan make a surprise attack?

Walden: In the Netherlands Indies?

Ickes: Yes.

Walden: Well, sir, if they were able to get air bases in Indo-China or Siam it would seem they might be able to.

Knox: The latest information is that the French in Europe have agreed to cooperate with the Japanese in Indo-China in permitting Japs to take bases there and establish military forces there incident to an attack upon the Chinese through Indo-China. That is already now in effect.

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- Saddler: I think, Mr. Secretary, the situation in the Dutch West Indies is probably quite like that in the Dutch East Indies, and that is very clear, because we have good communications. All the military and the Governor General are Holland born. They all have families or relatives in Holland and they are constantly told that they can look out for reprisals in Holland if they are over-enthusiastic in following the Queen's government directly from London. That makes a pretty shaky situation even in the Dutch West Indies, and it would naturally be more so in the Dutch East Indies.
- Walden: We expect to get more information concerning the conditions in Holland on Friday. Our manager came out with Minister Gordon and is on the Excalibur, but I do know that the - in fact, our company hasn't yet been molested but in the case of the Shell, they have put in a German trustee in the Hague and they are actually running whatever they can of the Shell's in Holland today.
- Knox: Has any damage been done by the British bombers?
- Walden: Yes, sir, I believe they have. They didn't do a very thorough job when they got out, but I believe that the Royal Air Force has gone back and finished it, as far as my knowledge is concerned. They had a refinery in Rotterdam that wasn't destroyed the way it should have been destroyed, and I believe the British went back and did a better job.
- Ickes: Is Dutch Shell under the same order as your company in the East Indies?
- Walden: Yes, sir.
- Saddler: It is a little bit different. They look on this as a British company and an enemy piece of property. With us, they don't.
- Walden: They say that siege was put into effect in the

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Netherlands Indies on the 14th of May. That was when Holland surrendered. They take no orders from anybody today. The Governor General and the head of the Army and Navy out there are absolutely running it with an iron hand, although they do cooperate with --

Knox: Aren't they subject to the same pressure that Holland officials are in the West Indies?

Walden: Exactly.

Knox: Aren't their relatives and families and all that sort of thing.

Walden: The Governor General of the Netherlands East Indies was the former Governor of Groningen, which is the northern province of Holland, and all his family were back in Holland, not his immediate wife and children but relatives.

Knox: And you expect that they will submit to that pressure when it is applied, don't you?

Walden: I don't know, sir. I couldn't tell you absolutely.

Knox: Is Indo-China holding up right next door?

Walden: Of course, the Dutch East Indies don't live except by the grace of the British at Singapore, because I don't believe the Netherlands Indies is able to defend itself against a power like Japan, but, of course, with the British I don't believe the British have many ships out there today, but, of course, Singapore is a great help to the Dutch and it has always been the gossip out there that the Dutch would supply whatever they could in the way of planes and submarines, whereas the British would supply the heavier ships.

H.M.Jr: Would you (White) be kind enough to give us the figures of the imports? In Japan up to the last six months. Do you also have similar figures of the oil which is left in the Dutch East Indies?

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Walden: Yes, sir. I brought those along as well.

H.M.Jr: If you will give them to Dr. White, he will have them photostated and distribute them, I mean how the traffic flows out of --

Walden: I will explain them to him in detail. A lot of this oil, as I say, goes from South Sumatra to Singapore and then is redistributed. Now, we have all of our own distribution, but we have to guess at the Shell's.

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

Knox: No.

H.M.Jr: Harold?

Ickes: No.

H.M.Jr: You gentlemen?

Frey: Do you expect me to stay and --

H.M.Jr: Oh yes. And the tetraethyl lead.

Frey: Yes.

H.M.Jr: Yes, you stay. Do you want to do that next or can I go to Mexico, Venezuela and Colombia?

Saddler: Just as you prefer. We are here at your disposal, Mr. Secretary.

H.M.Jr: Does it make any difference to you people?

Knox: No.

H.M.Jr: Let's do Mexico, Venezuela, and Colombia next. What is the picture on that?

Saddler: After you called me yesterday afternoon, Mr. Secretary, - I think you have all the old 1939 figures.

H.M.Jr: Have we?

White: No.

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Saddler: I will furnish them to you, to be sure. I have given - I have got together here a memorandum and I had to do it largely in pencil of the production in all these countries and Japan and Asia and Africa and Europe and South America refineries' capacities. I have got imports and exports, as far as we know them. Some of these figures are only for a month or two of this year and some are more up to date. Some are three months' figures, some are four months' figures, some are two months' figures, and I will leave all those data with you. I think that I can give you the highlights, then, of the --

H.M.Jr: Could you, for us?

Saddler: Yes, sir. The Mexican situation is that they produce about 110,000 barrels a day. They were selling to Germany and Italy as against barter business when they were not in good standing in other places, and didn't have any friends here in the United States to take the stuff. Then those markets went down with the war, Germany first and Italy later. I think they sent a few cargoes to Japan and Japan has shopped around a good deal over in South America and have asked to get a cargo, sample cargo, from Peru and a sample cargo from Venezuela and Mexico and so forth, to know what they could get if they were shut off from the United States, but Mexico, I think there is a Japanese company working in there and producing oil. I don't know if they have any serious production and Mexico has shipped a little oil to Japan. Most places Mexico can't get a market for this oil. More recently she has been shipping something like - a substantial amount of oil to a refinery down on the Gulf Coast and that has been refining largely for re-export to Japan. That has been going on for a year or so. The Commissioner of Affairs patched up his business with the

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Mexican Government with 5 million barrels a year for them and brings it to the United States for a period of four years, as I remember the information on that. Mexico, of course, hasn't gotten the market price for oil. She hasn't accomplished as much as was expected, because she didn't have the technical or reliable people to run the business. Their production now is about where it was when they confiscated those wells. Now, they are trying to sell a little oil to Uruguay. I don't think that has been closed, but that is about the picture of the Mexican situation there. They dressed up with some oil that they had stolen. They have relatively small outlets. Also, I think our information has been that anything except a skimming operation, they aren't competent to handle and I think the people who left properties there and saw that they were threatened, didn't do much to maintain them. I know our property, when they took it over, our refinery was in a shape that we wouldn't operate a refinery anywhere else in the world, but we saw this thing coming and consequently we didn't keep it up in a state of repair that we would have, but I think we abandoned all cracking operations, for instance, down there, when they had to operate with native people, just skimmed the oil. That is about their situation.

White: Have you any information on that projected pipe line across the West Coast?

Saddler: No, I haven't heard anything definite on that. It is feasible and the natural place would be at Tehuantepec. I think they have had a good deal of trouble getting any serious responsible American contractor to go down there and do anything for them, and that thing, as far back as almost - well, it was 30 years ago, to my knowledge, they talked about a pipe line across the Isthmus of Tehuantepec. There is a pipe line to Mexico City, but I have not known of anything seriously being done on the actual construction of that

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Isthmus pipe line. Does that cover Mexico in general?

Knox: What is the total amount of gas, actual gasoline made in Mexico? The refineries must be in wretched condition. Is there any significant amount of gas coming out of Mexico now? Gasoline, not oil, not crude oil.

Saddler: No, I don't think any is shipped to the United States. There is this operation of the East Coast refinery that is reexported. I don't think there is any gasoline as such - as a matter of fact, there is no gasoline anywhere coming into the United States these days.

H.M.Jr: I wasn't thinking about the United States, but whether they had it available. I was thinking particularly of it as a source of supply to Germany through Spain.

Saddler: Well, the latest information on shipments to Spain is that nobody, as far as I know, is willing to send a tanker to Europe without a British navicert. Maybe 60 days ago or some little time the British said, "Well, we want - well, we will have to allocate or something for Spain, and until we work that out, we won't issue any navicerts." A matter of two weeks ago they said, "Well, we have decided that we will only give navicerts to Spanish flag vessels," and then they said, "We might tell you that that is the present decision and that is likely to hold for quite awhile," and there aren't any Spanish vessels, so I think definitely that shipments are not going to Spain and I know that they - in the Canary Islands, where a Spanish Company operates, they have royalties due to our operations in Venezuela and they buy crude from us. None of that has been shipped for some time due to this navicert thing. They also got in the Canary Islands crude from Iraq. Of course, some of the

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Medeterranean is closed. My best guess is that the supply to Portugal and Spain for the last 60 days has been almost nil.

- H.M.Jr: We have finally gotten a log of that tanker that went over there and all of that oil - none of it was delivered to Spain. It was all pumped right into Italian ships.
- Knox: Italian ships?
- H.M.Jr: Italian ships. And the question is whether under American laws he, having cleared for Spain, is liable or not, but the log of the captain shows he pumped that all into Italian ships and not a drop of it went to Spain. We only got that yesterday.
- Knox: Well, that is the only question I had, Mr. Secretary.
- Saddler: Do you want to touch these other countries?
- H.M.Jr: Very much.
- Saddler: Peru produces now about 28,000 barrels a day. That largely goes down the West Coast down to Chile, a little bit comes around to the East Coast of South America through the Canal. Two or three months ago our Canadian subsidiary - maybe it was before this British appeasement plan - at any event, it was at the time that Japan was shopping around to see what different kinds of crude there was. They sold them one cargo, I think, with an option of three more. One cargo was delivered. I don't know whether they --
- Walden: It hasn't been delivered yet. It will be delivered in September.
- Saddler: I don't know whether the option was ever exercised for the other three cargoes or not, but I think that is the only shipment out of Peru that went West and that for a long, long time no shipments had gone from Peru except a British Oil Company ships to the UK and possibly

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some of the production or products from our own country went to the U.K., but most of it went through the Panama Canal and down to Brazil and that area.

Colombia produces 56 - I guess this year 59 barrels a day from our property. That all goes to Canada and to Aruba, our refinery at Aruba. So the bottoms for lubricating oils come to the United States, a substantial part, maybe from 28 to 30,000 barrels of crude for special lubes.

There is in addition 14 thousand barrels a day that belongs to Socony and Texas together from the Barco concession. That is light crude. It has only come down for maybe a period of six or eight months. I don't know just what the Texas Company did over there, but I think those figures I have given you will be our best guess as to the disposition of that 14,000 barrels.

White: What happens to the refined stuff from the Aruba that you send?

Saddler: I will give you that in connection with Venezuela, because practically all of the Dutch West Indies refining is from Venezuelan crude.

Now, Peru and Colombia, the Argentine produces only crude for let's say 50%. I don't follow it any more, but it has no export whatever. It is an importer of products. That is all the production in - Trinidad has about 40,000 barrels. The British undoubtedly take all of that.

Venezuela is producing, according to the last figure I saw, about 515,000 barrels a day. All subsidiaries have about - and that goes up and down a little bit from time to time, but about half of it. Over a period, I would say in the past, we might have been producing 52 or 53% of this - sometimes 6 and sometimes 450 or 8,000 barrels a day. None of that - we don't do any business with Spain or Portugal except a little asphalt and a small amount of lube oils, so that

none of that has gone except to European markets, like France, and that was later cut off, and Great Britain, South American markets and to the United States. Part of that has gone as crude and part of it has gone as products of the Aruba Refinery.

The Royal Dutch are running - of course, I expect about 140,000 barrels a day. They have been under a British control and they, like us - I think we are not selling to Spain. That goes back to the time when Spain declared a monopoly and they expropriated our properties and they paid us for them but we never wanted to do business with them after they made that monopoly and that fell almost a hundred percent to the Texas Company and, I think, Cities Service may have sold them some, but just as a matter of policy we didn't and the Royal Dutch didn't sell the Spanish Monopoly anything. That may have been eight or ten years ago.

The Gulf has a production, the total production might be of the order of 100,000 barrels a day, of which the Gulf proper benefits by about fifty percent and our Canadian subsidiary by about twenty-five percent and the Shell by about twenty-five percent, so that that follows the trend of movement that I have given you.

Frey: That comes out through Venezuela?

Saddler: Yes. The Gulf and the Shell and we are the only real producers in Venezuela. In Colombia, 14,000 barrels of the Socony-Texas partnership and our 59,000 barrels from our Canadian subsidiary --

Frey: Roughly, there is about 350,000 barrels a day exportable surplus from the region, isn't there?

Saddler: From the region?

Frey: From the Caribbean region?

Saddler: Oh no, it is more than that. Take Venezuela, it produces of the order - for a year's average, I will say 525,000 barrels. I wouldn't think that Venezuelan consumption plus the Dutch

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West Indies consumption would - it would hardly take care of 25,000 barrels. There are probably 500,000 barrels come out of Venezuela.

- Frey: About ninety percent of what they produce?
- Saddler: Probably even more. Those figures will give it to you accurately, but the consumption in Venezuela and in the Dutch West Indies is negligible.
- H.M.Jr: Well now, let me just get this question. From this north part of Venezuela and Colombia and Mexico, that area, as I gather, Japan is getting practically nothing now?
- Saddler: I think so. It may get a little from Mexico now, an occasional cargo, but your statement is substantially correct.
- H.M.Jr: And Spain?
- Saddler: I think Spain equally nothing.
- H.M.Jr: So then the rest of it must be between the U.K. and ourselves?
- Saddler: And South America.
- H.M.Jr: And South America. Is that right?
- Saddler: Yes, sir. That is the present situation. That isn't necessarily the future situation.
- H.M.Jr: But as of today.
- Saddler: That is right.
- H.M.Jr: Before we go to Rumania and Russia, do you want to ask anything on this?
- Knox: Well, I would like to add an impression I have gathered from this conversation. You take it, then, that Japan is bound to go, when she is pinched down from supplies in this part of the world, to the Dutch East Indies for oil, is that right?

Saddler: That is the reason I make the distinction between the present and the future. Let me put this to you. Venezuela depends on oil for its livelihood. It has seen its production shut in when the European market was curtailed. If the Venezuelan Government would wish to sell to Japan to strengthen its own economics, any company operating in Venezuela would have no choice except to follow the instructions of the Government under which it was operating, you see.

Knox: How would you ship that oil?

Saddler: The normal way would be through the Canal, but around Cape Horn is entirely feasible.

Knox: How much longer does it take, thirty days?

Saddler: No, I wouldn't think that much, perhaps, but I can't give any movement that goes from the east side around Cape Horn and then up as far as Panama, because we ship to Chile but not up as far as Panama and then on north, so if I made a guess, it would be the wildest one in the world.

Knox: But I still think it is feasible.

Saddler: It is possible, Mr. Secretary, that for a tanker it might involve another thirty days, but I am guessing at mathematics. A tanker will make nine knots or ten.

H.M.Jr: But again, what - Secretary Knox, as of today, the situation is that the easiest way for Japan to get what she has been getting from the United States would be to go down to the Dutch East Indies.

Saddler: Oh, by all means.

H.M.Jr: I mean, that is the closest.

Saddler: With pressure on, that can be 1500 miles or some 2500 miles as against all the way to California, which is much more, and you have

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two appeasement programs. The British appeasement program and the Dutch East Indies appeasement program, where they are both trying to work out their salvation by doing things which probably they wouldn't otherwise want to do.

Knox: That concurs with my own ideas.

H.M.Jr: Now, let's get to Rumania and Hungary.

Saddler: All right now, I will give you the figures, roughly, and you have the best information we have in those penciled memoranda.

Germany normally produces five or six thousand barrels and is today probably producing ten in old Austria. It is probably producing eight to ten.

Knox: How about those Poland fields?

Saddler: Poland normally produces nine or ten thousand barrels. It is a very paraffinous oil and that falls in the Koscian domain. I don't know what Germany is getting from them, both from a political standpoint and from a transportation standpoint, but in any event, the Polish amount is small. It is 9,000 barrels of not very desirable oil.

Knox: Did I understand you to say that Germany produces only 5,000?

Saddler: I expect Germany today is producing ten and Austria is also producing around ten.

Knox: The Polish is about the same size as the German, then, isn't it?

Saddler: Yes, sir, although I wouldn't think the oil would be as attractive to them.

Ickes: You aren't taking into account synthetic oil?

Saddler: I am talking only crude oil and no synthetic

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production whatever. We will just follow the European crude situation to the end, which is long.

Hungary probably today is producing some 8,000 barrels.

Knox: Hungary?

Saddler: Yes. It has been recently discovered.

H.M.Jr: They own most of that?

Saddler: Whether it is seven or eight, I can't tell you. It is a little more than the field should produce, but it is under the military urge and 7,000 is about the Hungarian requirement.

H.M.Jr: You people have got a stake in that, too.

Saddler: We discovered it and it is ours.

Rumania today is producing about - approximately 127,000 barrels a day. I guess none of that goes out to the Dardanelles, now. A little bit may go into Bulgaria, but the bulk of it would be for Rumanian consumption and for export up the Danube. I think the Germans hope to get about 10,000,000 barrels a year. I hope I don't confuse the figures, but you will have them there. My information is that she should be getting it at the rate of about 5,000,000 barrels. That transport is principally on barges on the Danube and in the wintertime, by railroad.

Ickes: How early does that freeze up?

Saddler: My recollection is November to April. I lived there for ten years and I ought to remember, but I think it was about November to April.

Russia produces about 600,000 barrels a day and consumes it all. It has become highly

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mechanized now. Seventy-three percent is around Baku. Their refining capacity is about the same proportion as production.

White: Do they manufacture aviation gas?

Saddler: Oh, I think so.

White: The figures show no imports.

Saddler: You mean in Russia?

White: Yes.

Saddler: Oh, Russia satisfies its own demand. I might add one point about the German situation. We will come back now. They have these synthetic plants. When they don't have petroleum for them, they are using the coal tar from lignite, as you gentlemen know, from brown coal. That naturally would make them good aviation gasoline. They have hydrogenation. They know as much about it as we do and we certainly can make good gasoline from it, although my information is that all the - and our European aviation head is here in the outer office, if you want to ask him any questions, but no planes shot down so far that we have a record of are burning higher than 87-octane gas.

Knox: Most of them 65, that is the British information.

Saddler: Well, certainly none has been higher than 87. We are surprised at that.

H.M.Jr: Who have you got outside.

Saddler: Our foreign aviation gasoline man. He happened to be in New York. He is an ex-Army officer. As a matter of fact, he is going out now for three weeks active duty out at Dayton, I believe, and I just told him to stand by out here if you wanted to ask questions.

White: You say that none of the planes which have been shot down give evidence of using gas

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with a higher octane than 87?

Saddler: Yes.

White: In the prohibition on the Japanese imports of gasoline, 87 was the limit which was permitted. In other words, if that limit is effective, it still leaves them high enough octane gas to use planes with the same effectiveness that Germany is using them?

Saddler: I have never known of any serious quantity of 100-octane gasoline going to Japan, and generally they have bought crude with the specification that it would make fifteen or twenty percent of either 87 or 92-octane leaded gasoline when it was refined and I don't know - Frank, do you know of their having used - or George - of their having used higher octane than 87 or 92?

Howard: But they have now a higher octane plant just completed.

White: Therefore, the fact that they can't get aviation gas higher than 87 doesn't handicap them significantly in the operation of their planes?

Walden: I think that is correct. I think they take 74 clear and run it up.

Knox: Doesn't that cut down the speed of an airplane?

Saddler: I think Mr. Howard knows more about it. Say from 87-octane to 100-octane, if the motor is designed to take advantage of it, there is about twenty percent increase in efficiency.

Knox: Twenty percent increase from 87 to 100?

Saddler: That is right.

Knox: And these figures for planes are based on 100-octane gas, so the officers tell me they

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are not getting anything like the claimed speed out of the German planes.

Saddler: You think, Mr. Secretary, that their planes are designed for 100-octane and they are using 87?

Knox: I don't know about that, but the English aviators who have been over there and come back say that their speed is much less than they claim it is because of the quality of the gasoline, and they mentioned 65, not 87. Every machine that has been shot down, they have tested the tank where they could and found they were using 65-octane gas, the Germans, and I have that other word of a man who has been flying over England and in Norway.

H.M.Jr: Do you want to bring your man in?

Saddler: Yes, because he has gone to lots of these planes that have been shot down.

Knox: I would like to check the information right here.

H.M.Jr: Can I just go in the next room and take an inoculation? I will be right back.

Knox: What are you getting inoculated for?

H.M.Jr: Vitamin B₁.

Knox: What does that do to you?

White: Steps up the octane to 100.

(Captain White enters the conference)

Saddler: Chick, I made a statement to these gentlemen that all the information we have here, that the best octane we have known of - Captain White has been located in London - has been 87 octane in German planes. Is that correct?

Capt.
White: Yes, sir, that is correct.

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Saddler: All the information we have, Mr. Secretary, would lead us to believe that either the information was wrong or that your recollection was wrong.

Knox: It might be the latter. I talked with a British aviator who is over here now on a procurement mission who has been flying in Norway and England. His statement to me, as I recall it, was that they had tested the gasoline in captured machines and found the Germans were using no higher octane than 65.

Saddler: We have tested it in our own laboratory.

Capt.

White: Yes, sir, we have tested probably 50 samples up to the time I left.

Howard: In your own laboratory there in London?

Capt.

White: And none of them varied more than two octane numbers in base gasoline and they were all leaded to 87. They have in most of the planes small tanks for take-off and they use various mixtures for take-off.

White: Do you mind repeating that for Secretary Morgenthau? He will be interested in that last statement.

Capt.

White: We have tested about 50 samples in our own laboratories of gasoline from captured and shot-down German planes up to the time that I left London and all of the gasoline that we tested was base octane numbered between 71 and 74 and leaded to 87 octane. It seems to be the standardized practice.

Knox: I accept that. That is much better information that I have.

Let me ask you a further question. We hear this Messerschmitt 101 rated as making better

than 300 miles an hour. Does it do that on 87?

Capt. White: Yes, sir.

Saddler: Do you feel, Mr. Secretary, that to take advantage of this greater efficiency between this 87-octane and 100-octane, this engine itself has got to be built to get the higher compression and that is where they get the greater efficiency? An 87-octane engine, for instance, built for 87-octane, doesn't get this benefit of the higher octane to anything like this extent.

Knox: Well, I am so enormously ignorant. Are we building our airplane engines suitable to take 100-octane gas and get the maximum benefit?

Saddler: I am positive that is so.

Howard: All combat planes are 100-octane planes.

Knox: That was my impression and that gives us a greater efficiency for the same weight, is that right?

Saddler: Yes, sir.

Frey: What is your experience with Russian octane?

Capt. White: We haven't a great deal of information on what they are doing in Russia. The only things that I know are more or less second-hand. There during the Finnish campaign we understand that the Russians were using probably from 65-octane with maybe as much as much as six or seven cc's of lead instead of the usual three to four cc's, which would give them in the engine probably an effective 87-octane but so far as we know, they have nothing higher than 87 and they even reached that by the use of excessive lead.

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- White: Then if Germany uses 87, would Japan be able to attain substantial efficiency with 86 or 85 in her planes?
- Capt.
White: She is using a lot of 100-octane or has been in the past. Japan has been using probably seventy-five percent of her purchases from us in 100-octane.
- White: Does that indicate that she needs 100 to get efficiency?
- Capt.
White: Yes.
- Saddler: A 100-octane plane won't fly on 75?
- Howard: Mr. Secretary, you may be interested in the answer to this. The Anglo-Iranian Oil Company told me that the test on a shot-down new engine indicated the same efficiency on 87-octane that the British Rolls was getting on 100-octane. Do you think that is correct?
- Capt.
White: I had never heard the statement before, but it is possible because they are using, for instance, solid injection instead of carburation.
- Howard: That is correct.
- Capt.
White: And the engine's over-all displacement is just about the same as the Rolls. That is quite true. It is quite possible that it is true.
- Howard: I think that is the reason for their non-use of 100-octane fuel in Germany, that the best German engine is delivering on 87-octane fuel about the same performance as our engines and British engines on 100-octane fuel, due to the use of direct injection.
- H.M.Jr: What does that mean?

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Howard: The normal aviation engine, like our automobile engine, has a carburetor. They can substitute for the carburetor an individual pump on each cylinder to squirt the gasoline in. That seems to permit the use of lower octane fuel with equal results.

H.M.Jr: There is a German engine on the way over. Do you gentlemen know whether or not - how much damage the English have done to any of the German gasoline plants, synthetic or otherwise?

Saddler: What was gotten from the British aviators, Chick?

Capt.
White: You talked to Gordon Bell just after he got back and he said they had done considerable damage to the Loehna Works and also that he had seen pictures of the Loehna Works after a bombing raid, which indicated that most of the reaction chambers had been put out of commission. That is the most authentic information I have.

Saddler: I heard that four of those plants had been badly damaged by bombings. Have you heard anything, Frank?

Howard: No, I have no news on that.

Frey: That is the hydrogenation plant?

Capt.
White: Yes, sir.

White: Are those plants easily replaced?

Capt.
White: In about 18 months.

H.M.Jr: Are you able to estimate what proportion of the oil supply has been put out?

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Capt.
White:

I have no idea.

Knox:

How much serious damage have they done to the plants in England?

Capt.
White:

That we know of, there has been nothing.

Knox:

We wondered whether we were being told the whole truth about it.

Capt.
White:

There was a report just day before yesterday that the Germans had bombed a town in which the Shell Company has a hydrogenation plant and other plants. What harm it had done, we don't know. The German reports said they had started several large fires and they also claimed to have started fires at one of our plants, but our own people say they were confined to one tank and they seemed under control.

Saddler:

Our refinery in Southampton harbor, Mr. Secretary, has been shut down by the British authorities. I think they are not running anything there. They may be running up as much as they have, but we are not shipping any.

H.M.Jr:

Mr. Saddler, from what I have heard, would this be a fairly correct statement, that Russia is using all of its own oil and not exporting any to Germany?

Saddler:

My best guess is that her help to Germany along those lines, due to transportation difficulties and due to her own requirements, is likely to be very, very small.

H.M.Jr:

Then Germany relies on itself, Hungary and Rumania?

Saddler:

That is right.

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- Knox: And its stored up war supply.
- Saddler: And the synthetic products. Now, they captured some, of course, in Belgium and Holland.
- H.M.Jr: Is this --
- Ickes: In France, didn't they?
- Saddler: I don't believe they captured much in France. I have seen reports from our people who have visited our refinery, for instance, on the Seine, two of them, and some other refineries. Those were absolutely destroyed. All the tanks, the oil was opened into the fire banks and touched off and that was very complete, although the refining equipment itself had been degassed, pumped out and degassed, and a great part of the refinery equipment is intact but no stocks.
- H.M.Jr: The French did that?
- Saddler: Yes, sir. Our own force did it under French military instructions. You see, our force were in the military, but that was true of, I think, five or six refineries on the Seine, five refineries, and they ruined all installations for refining.
- H.M.Jr: What does Italy do for its oil?
- Saddler: Italy used to get some oil from Iraq, some from Haifa and Tripoli. They used to get some oil from Rumania. It is possible it now gets some oil over-land from Rumania. That is all Italy gets. I think there is negligible production in the Po Valley. We have, I think, 100 barrels a day.
- Frey: A little bit from Albania?
- Howard: There is a little Albanian production right across the Strait.

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- Saddler: That is very small.
- Ickes: Have you any idea how much storage there is in Italy?
- Saddler: I could get you that information, sir, but I don't believe I have it with me and I don't know that we could get the actual stocks. We could get you a description of all the storage installations, but I don't believe we could give you the actual stocks in the last year or so.
- H.M., Jr: Well, Mr. Saddler, what is the most recent estimate? I know last year you made one for us as to the supplies, how long supplies Germany has on hand and she has access to, and Italy, how many months do you think she could go? What is the most recent estimate you have made?
- Saddler: Well, you see, Mr. Secretary, we never could make a figure, after including the synthetic capacity in Germany, and I think we finally had seven hydro plants, didn't we, Frank?
- Howard: I don't recall.
- Saddler: But we never could make a figure that indicated there would be any shortage of supplies for the military in Germany and now they have - they are dominating the entire Rumanian situation. That is 125,000 barrels a day. They have it there if they can transport it.
- Howard: I did know also that their largest hydrogenation plant, which was the Stettin on the Baltic sea, has just received 100,000 tons, by sea from Latvia, of Russian crude. I noticed that in the press.
- Saddler: There was another cargo went in to be moved back to Germany next fall.
- Howard: There will be a certain movement of Russian crude to that hydrogenation plant. That is Stettin.

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H.M.Jr: Have you got the location of the various plants?

Howard: Yes, sir.

H.M.Jr: Could you give me a map of those?

Howard: I have a map.

H.M.Jr: Could you make a map?

Howard: Yes, we could, Mr. Secretary.

H.M.Jr: Like the one we had on this Dutch thing.

Howard: Yes, sir, we could make a fairly reliable map.

H.M.Jr: Would you do one like that?

Howard: Yes, sir.

H.M.Jr: For Germany and Italy?

Howard: Yes, sir.

H.M.Jr: And showing storage as you know it?

Howard: Yes.

H.M.Jr: For the two countries?

Howard: Our knowledge of German war storage is very scanty.

H.M.Jr: Well, by at least --

Howard: Normal storage, we have.

H.M.Jr: Can you give us what you have got?

Howard: Yes, sir.

H.M.Jr: Before we go to tetraethyl lead, is there anything else?

Knox: No.

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Ickes: No.

Saddler: Do you want the Asiatic supply, Persia, Egypt, Iraq? That is a short story.

H.M.Jr: Please.

Saddler: Iraq produces about 84,000 a day, which comes down in two lines that branch and go to Tripoli and Haifa. The Tripoli line is absolutely down. The Haifa line is running only - the Haifa refinery - what the Haifa refinery needs, and that is just for supplying the eastern Mediterranean.

Egypt has some small refineries on the Suez side of the Red Sea and I am guessing that the Egyptian production is about 15,000 barrels. In any event, anything they want they can get from the Persian Gulf. The Persian Gulf, I gave you. There are very large reserves there. The Anglo-Persian probably produces 25,000 barrels a day. The Col-Tex probably produces 40,000 barrels a day. I don't know if Anglo-Iranian is producing that, and Basra is not producing that, so that was in the Persian Gulf, but they have very large reserves.

H.M.Jr: Could we have a map of that, because in case the Italians begin to get in anywhere there, we could see where that production is, if Italy is moving in anywhere there.

Saddler: Yes, sir. Except for what they get from Rumania over-land. They might get some, although they would have to control the source, also, back of Iraq, which is 700 miles to Haifa and Tripoli and there is 15,000 barrels of production, roughly, on the west side of the Red Sea, if they get that far.

H.M.Jr: It wouldn't be very difficult to have somebody make a map of that, would it?

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Saddler: Oh, not at all. We will give you the picture of the European production and refineries.

H.M.Jr: And their location.

Saddler: Yes, on a map.

H.M.Jr: And the same information with respect to the Persian Gulf area.

Saddler: Yes, sir.

White: Didn't you have a table of the refineries?

Walden: I have one on Japan.

Saddler: I have given you in those penciled memoranda the refineries in all these countries we are talking about.

H.M.Jr: Shall we go on to tetraethyl? Now, what is the story on tetraethyl lead?

Howard: Tetraethyl lead is produced in the United States to the extent of about 150,000,000 pounds a year by a corporation that is controlled fifty percent by Standard of New Jersey and fifty percent by General Motors. Most of the world - I should say, all of the world's commercial business has been supplied from that plant, with the exception of Germany. Germany has erected some years ago, a few years ago, a plant to produce for its commercial requirements in addition to military requirements. That lead of Germany was followed by France and by England, those three countries now having their own plants to produce tetraethyl lead for military purposes.

In Italy, there has been a small production of lead for military purposes also and in Mexico we believe that there is a plant now running. That was due to our refusal to sell Mexico that.

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Russia also has some small production of tetraethyl lead, amount unknown, but certainly none to export.

H.M.Jr: Is it a secret process?

Howard: The manufacture of lead can be carried out by probably any major country, including Japan, specifically, and they could produce tetraethyl lead in limited quantities and at high cost without obtaining any information from us. The operation would be perilous and costly, but feasible if necessary for military purposes.

The other plants that I spoke of, save the Italian plant, have been licensed by the Ethyl Corporation.

H.M.Jr: Well, could you give us a statement of whom you have licensed and what their production is?

Howard: Yes.

Ickes: Are those licenses irrevocable?

Howard: No, sir, they are not.

Ickes: For a term of years?

Howard: It would do little good to attempt to revoke, because the patents are about on the point of expiration and have expired in some of the countries in question and having taught them how, designed the plants for them, and taught them how to produce, there is nothing left for us to revoke, in effect.

H.M.Jr: But again, if I could have a map of the world showing where tetraethyl lead is made and how much production is, as far as you know it.

Howard: Yes, sir.

H.M.Jr: Is there anything else which is a substitute for tetraethyl lead?

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Howard: There is no practical substitute, no.

Knox: Does aviation gas need tetraethyl lead?

Howard: Yes, sir. The highest level available for natural gasoline is some place between 74 and 78. There is no military aviation at all at a level below 87 at the present time, so therefore, that gap must be taken up by tetraethyl lead.

H.M.Jr: Is that what is known as doping gas?

Howard: Yes, sir, that is known as doping the gas. The amount used is only about one-tenth of one percent and that raises the quality to the higher levels.

Knox: Let me see if I understood your answer. I was told by an oil man that they were engaged in building a plant to manufacture nothing but aviation gas. As I recall, he said that did not require, that aviation gas that they produced in the special plant, any treatment with tetraethyl lead.

Saddler: I think, Mr. Secretary, that you - I was afraid that you were going to be misled. While it is true that base stocks, as Mr. Howard has told you, run up to 78 and they can lift them up to 87 or 90, but they have these blending agents. The production of the United States is something like 20,000 barrels. They run from 92 to 100-octane and somebody making those blending agents, with the use of a blending agent, practically without base stock, then they have 92 to 100-octane number without lead.

Howard: Synthetic fuels can be made up to 100-octane without any additional lead.

Knox: This happened to be pure oil and they told me they were building a refinery, I think in Texas or Louisiana, I am not sure which, where they were going to make aviation gas

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which would be high enough in octane content so they wouldn't have to give it any treatment with the tetraethyl lead.

Saddler: There will be an alkalet.

Howard: It may be just an ordinary synthetic fuel plant. Synthetic fuels are made in the United States to the extent of about 20,000 a day now by causing gases produced by cracking to be combined in liquid synthetic fuel. Those fuels are capable, as I say, of being raised to a level of 100-octane without the addition of anything else.

Knox: When you say synthetic, you mean it isn't manufactured from crude oil?

Howard: I mean it is not naturally a liquid. Gases are put together and synthesized into a new compound.

H.M.Jr: What are the ingredients in tetraethyl lead?

Howard: It is a compound consisting of four ethylene groups derived from ethyl alcohol and lead. In order to cause that union to take place, you convert the ethyl alcohol to ethyl chloride and then you convert the lead into a lead sodium alloy, so your real practical materials for starting are lead, sodium, ethyl alcohol and chlorine. With those raw materials, you produce a tetraethyl lead.

H.M.Jr: Where does cobalt come into the picture?

Howard: It does not.

H.M.Jr: That is what the English told me.

Howard: I think you are thinking of bromine. That must be it. Tetraethyl lead, when added to gasoline, has a desired anti-knock effect but it also has disastrous results on the engine unless something is done to correct

those results and the best corrective of the disastrous effect of lead itself on the engine is bromine, which carries off the lead compounds as lead bromide compounds that go out of the exhaust. Bromine is an element which is recovered either from brines or from sea water.

H.M.Jr: Cobalt doesn't come into that?

Howard: No, sir, not at all. A commercial necessity of a tetraethyl lead manufacturer is also a bromine manufacturer, and that has been the difficult thing. Small bromine supplies are available in commerce. Bromine is used as a drug in commerce and small supplies are available in the general routes of trade from almost any country you may get, but you cannot get sufficient supplies for this purpose.

H.M.Jr: Well, when you put tetraethyl lead on this strategic list, ought we also put bromine or anything else on it?

Howard: Your regulation was properly founded. It included the other constituents of tetraethyl gasoline.

H.M.Jr: It was drawn all right?

Howard: I think that is correct.

H.M.Jr: There are no loopholes?

Howard: I will check it from that standpoint.

Frey: Is ethyl fluid a combination of tetraethyl lead and ethylene dibromide?

Howard: That is right.

White: But all those ingredients are available anywhere and what you are suggesting is that the process is the obstacle rather than the raw materials?

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- Howard: Yes, I think the process would be the obstacle.
- White: Would not Japan have all those items available?
- Howard: Japan would certainly have all those items, although how adequate her bromine supply would be, I do not know.
- White: Again, that is a matter of processing.
- Howard: Yes, that is again a matter of processing.
- H.M.Jr: Do we have any United States engineers, chemists or technicians in Japan who are helping them make aviation gas or anything else?
- Howard: No, sir, those were all called back at the time of this moral embargo. All the companies concerned withdrew their men from Japan.
- H.M.Jr: What about Tidewater?
- Walden: Well, the Tidewater, as you probably know, Mr. Secretary, have a fifty percent company - they own fifty percent of a company and that company today - I don't know exactly what the capacity is, but I imagine around five or six thousand barrels a day. That refinery is run under the supervision of the technical force of the Tidewater. I couldn't speak with any authority as to who they have over there.
- Howard: That was a standard refinery, though, and not aviation gasoline.
- H.M.Jr: Do you know whether Tidewater has pulled their men back?
- Walden: I couldn't say so.
- Howard: That would not have been called for, because the only thing covered by the moral embargo

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was aviation gasoline and not ordinary gas.

H.M.Jr: So they could still have them there?

Howard: Yes, in connection with the normal refining operations.

Saddler: Frank, my knowledge of the Japanese would make me think it were possible, if American technical people were out there for any length of time, the Japs would have the technique down pretty quickly. I don't know --

Howard: They claim to have finished that Iso octane tank which was left half finished. Those men have withdrawn and the Japs have now published the statement in the papers that they have successfully completed the plant.

Saddler: One other point. If I remember rightly, the Japs got a Fischer process up there, didn't they? Didn't they and the Italians put in a Fischer unit?

Howard: Several Fischer units were projected for Japan and one of them is actually in construction. That is the process for making synthetic gasoline from coal gas rather than from oil gas.

Frey: Isn't that in Manchukuo? That is my impression.

Howard: I have supplied a list of all these synthetic plants.

H.M.Jr: To whom? To whom did you supply those?

Howard: Mr. Saddler, didn't that go through your office?

Saddler: It went through my office --

Howard: Oh no, this was to the State Department in connection with the moral embargo. We

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supplied a statement on all the synthetic gasoline plants in Asia and Japan. I have a copy of it here.

H.M.Jr: It would be easier for us if you would give it to me.

Howard: All right, sir.

White: We will photostat all that stuff and make it available.

H.M.Jr: Oh, sure, everything. Is that a copy?

Howard: Yes, this is a copy of the Japanese and Russian synthetic plants. It is all their gasoline capacity, synthetic and otherwise, so far as we have it.

H.M.Jr: If we could have that --

White: Do you know whether or not Japan is producing any tetraethyl lead in large quantities?

Howard: We don't believe so, but there is one point that I don't know whether it has come to the attention of your group or not. In connection with tetraethyl lead, there is one thing I would like to bring to the attention of this group. Some three weeks ago, we brought to the attention of the State Department the fact that the Japanese had increased enormously their orders for tetraethyl lead. We had been supplying them 150 drums a week, but they gave us an immediate order for 3,000 drums. That order was placed through our London subsidiary corporation which takes care of the export business. We weren't anxious to do anything about it and we received an appeal from our London organization to make immediate shipment of that order.

We must believe that that order and the request for immediate fulfillment of it was approved by the British foreign office, because it is a custom of our organization

- 50 -

to clear all those questions. We advised the State Department at the time.

Saddler: That was during the appeasement time.

Howard: Well, that was just three or four weeks ago.

H.M.Jr: For Japan?

Howard: For Japan. We did not make shipment of that order, on advice of the State Department. We held that up and we have not made shipment.

H.M.Jr: If you gentlemen haven't anything else --

Knox: I have nothing.

H.M.Jr: I want to thank you. It has been most helpful and maybe we would like to ask you to come down again, but it has been very helpful.

Knox: I will confess I know more about gasoline now than I ever did before.

White: There is just one further question on aviation oil.

H.M.Jr: Well, Harry, these gentlemen - I think some of them can stay behind from the Department of Interior and get more of this thing than both Secretary Ickes and Knox - they say they have to leave. Could some of these people stay a few minutes, Mr. Saddler?

Saddler: Surely.

H.M.Jr: Are you (Frey) going to stay with Mr. White and go into this?

Frey: Yes, I will be glad to.

H.M.Jr: I am ever so much obliged.

August 7, 1940

Professor Chamberlain

Mr. Cochran

Mr. Koltowski, Polish Financial Attache, telephoned me from New York this noon in regard to application No. 30547 filed by the Guaranty Trust Company a few days ago with the Federal Reserve Bank of New York, and forwarded to Washington, in behalf of a Polish citizen named Kosztocki. Mr. Koltowski stated that this individual had been connected with the Polish Government, but is no longer, since the staff in London has been drastically reduced. Kosztocki was with the Polish Government in France, and thence proceeded to London on June 20. Koltowski can assure us that Kosztocki will not leave England. He said the Polish Minister of Finance would vouch unreservedly for this individual. It is hoped, therefore, by Koltowski that the application may be acted upon favorably. I promised to telephone him our decision.



August 7, 1940

PERSONAL

STRICTLY CONFIDENTIAL

My dear Mr. Hoover:

*Given to Mr. Easton
9/19/40*

Please accept my sincere thanks for your letter of August 5 in regard to the telegraphic transmittal of \$100,000 from Berlin to the German Consulate General at San Francisco. Could your people in San Francisco ascertain for us the name of the Swedish bank which acted as intermediary in this operation, and also learn whether the Anglo California National Bank of San Francisco may be in a position to give any details of this and possibly other financial transactions involving the German Consulate General in San Francisco?

In this connection, may I let you know my keen interest in obtaining as much data as possible on the subject of payments made to the diplomatic and consular officers in the United States by the respective Governments of Germany, Italy, Russia and Japan. Any cooperation that you may be able to extend in this direction would be genuinely appreciated. A monthly summary of transactions regarding each country would meet my requirements. I should add that such data as the Federal Reserve Bank of New York has on these payments are already available to me, but concern Germany almost exclusively.

With best thanks in anticipation, I am,

Sincerely yours,

(Signed) H. Morgenthau, Jr.

J. Edgar Hoover, Esquire,
Director, Federal Bureau of
Investigation,
U. S. Department of Justice,
Washington, D. C.

BMS
HMC:lap-8/7/40 *MJ*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

By telephone this afternoon I asked Mr. Knoke if the Federal Reserve Bank in New York had any knowledge of the transaction mentioned in the attached confidential letter from Mr. Hoover. Mr. Knoke replied in the negative, but promised to let me know if any details of this transaction should come to his knowledge.

The transaction under question probably resulted from a bank in Germany giving a telegraphic instruction to a bank in Sweden to cable the funds for payment through the bank in San Francisco to the German Consul General in that city. The name of the Stockholm bank is missing. The Federal Reserve Bank of New York does not find in its records that the Sveriges Riksbank has any account with the Anglo California National Bank of San Francisco.

If desired, we can ask the F. B. I. or a Treasury representative in San Francisco to inquiry of the Anglo California National Bank for more information on this transaction. An alternative suggestion is that the Federal Reserve Board ask the Federal Reserve Bank in San Francisco to make some inquiry. If the Secretary prefers that the F. B. I. make the inquiry, I can address the necessary request to Mr. Hoover.

With the feeling that the Secretary may desire that Mr. Hoover's further assistance be solicited, I have drafted the attached letter. In this communication I have taken up the general question of payments to the diplomatic and consular officers of the four totalitarian countries since, as reported in my memorandum dated July 29, 1940, the Federal Reserve Bank of New York can give us little assistance except with respect to the German payments and such Russian payments as pass through the Chase Bank.



August 7, 1940

Professor Chamberlain

Mr. Cochran

I telephoned Mr. Livesey of the State Department this noon in regard to the application of the Chase Bank involving remittances for account of the Commission for Polish Refugees, covering foodstuffs for Lithuanian refugees in Poland. Mr. Henderson, in charge of the Russian Section of the State Department, was with Mr. Livesey during part of the conversation. Neither of them was familiar with the case under reference.

It was the opinion of Mr. Livesey that the State Department would not desire to interfere with an effort of American subscribers to relief to get their supplies to the desired destination, unless there was some very strong reason for the Department's intervention. He was not aware of any such reason in the present case. Furthermore, he understood that there was some sort of a working arrangement in and around Poland which gave a fair guarantee that relief supplies would reach the people for whom they are intended.



EMC:dm:8.7.40

August 7, 1940

My dear Mr. Hoover:

This will acknowledge receipt of the following communications which you were good enough to send me recently:

- July 31 - Attempt by Dr. Gerhart Alois Westrick, Commercial Attache to German Embassy, to persuade Mr. Henry Ford to use his influence in preventing the United States from furnishing war materials to Great Britain;
- Aug. 1 - Memorandum on the current European situation;
- Aug. 2 - Further information on the War Department memorandum on the Fifth Column.

I greatly appreciate your making this information available to me.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.

**Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.**

July 31, 1940

PERSONAL AND CONFIDENTIAL
SPECIAL MESSENGER

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

My dear Mr. Secretary:

As of possible interest to you, I am transmitting herewith a copy of a memorandum dated July 30, 1940, containing information relative to an attempt by Dr. Gerhart Alois Westrick, Commercial Attache to the German Embassy, Washington, D. C. to persuade Mr. Henry Ford to use his influence in preventing the United States from furnishing war materials to Great Britain.

Sincerely yours,

J. E. Hoover

Inclosure

July 30, 1940

MEMORANDUM

From a reliable confidential source, information has been received that on or about July 11, 1940 Dr. Gerhart Alois Westrick, Commercial Attache of the German Embassy, Washington, D. C., conferred with Mr. Henry Ford at Detroit, Michigan, in an endeavor to persuade Mr. Ford to use his influence in keeping the United States and the Government thereof from furnishing any materials of war to Great Britain. Westrick stated that if the source of Britain's war supply were cut off, particularly from the United States, the war would be over in ninety days or by September; adding if the United States furnished Great Britain supplies, it would only prolong the inevitable, the defeat of England. Mr. Westrick is said to have been skilled in his attempted persuasion and to have put forth a great many arguments to achieve his point. He concluded his interview by saying that if America would refrain from helping England, America would thus help Germany. This remark ended the conversation, inasmuch as Mr. Ford thereupon told Westrick that he, Ford, believed Westrick was just another crook, or words to that effect.

Westrick made no attempt to conceal his mission and expressed no indication that he desired his visit to Mr. Ford to be kept confidential. Westrick indicated a desire to see Senator Vandenberg and the suggestion was made to him that he could probably get in touch with the Senator through Mr. Frank McKay, a Republican leader in Michigan. The source of information from which the above was obtained did not know whether Westrick had later called upon Senator Vandenberg.

JOHN EDGAR HOOVER
DIRECTOR

Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.
August 1, 1940

PERSONAL AND
CONFIDENTIAL

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

My dear Mr. Secretary:

As of possible interest to you, there is being transmitted herewith a memorandum incorporating information relative to the current European situation which was obtained and submitted to me through a confidential source believed to be reliable.

Sincerely yours,

J. E. Hoover

Enclosure

BY SPECIAL MESSENGER

August 1, 1940

MEMORANDUM

The continued sinking of merchant convoys and other vessels in the vicinity of the British Isles may make England realize the futility of continuing the war. It is reliably reported there is at the present time agitation for a revolution in South Africa as a result of South African opposition to the continuance of the conflict.

In the event of a German invasion and defeat of England, the leaders of the British Government will transfer their activities to, and function from, Canada. The British fleet will also operate from Canada and other far-flung British possessions and in case of necessity, will enter American ports for supplies with probable acquiescence of the United States.

Germany is setting her house in order with regard to the European economic bloc and the political aspects of her future control of the Continent. Russia is not believed to have caused Germany any inconvenience lately and the Russian-German program is thought to be operating on schedule.

While Germany looks upon the existing Petain regime in France as very favorable, she is not completely satisfied inasmuch as the Petain Government has chosen the close cooperation of such leaders as Laval who are not meeting Hitler's expectations.

Edgar Hoover

Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

August 2, 1940

Strictly Personal and Confidential

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

Dear Mr. Secretary:

With reference to my letter of July 30, 1940, concerning the War Department memorandum on the Fifth Column, I wanted to advise you that I believe this matter has now been clarified so that the original Directive of the President shall still prevail. I wanted you to know of this so that you would not give the matter any further consideration at this time.

With expressions of my very best regards,
I am

Sincerely yours,

J. Edgar Hoover

RDS

GRAY

BERLIN

Dated August 7, 1940

Rec'd 9:10 p.m.

Secretary of State,
Washington.

3414, August 7, 1 p.m.

My 2644, July 9, 5 p.m. and 3134, July 24, 2 p.m.

FOR TREASURY FROM HEATH AND FOR THE DEPARTMENT'S
INFORMATION.

The official statement of the increase in the Reich's long and medium term debt during April has now appeared which together with the statement of short term debt (see my first telegram under reference) permits a complete report of the Reich's borrowing during the month.

The long and medium term debt increased during April by 959,000,000 marks to a total of 30,797,000,000 marks. Additional li--loans in the amount of 545,000,000 marks were used and a second issue of the 4% Treasury certificates first introduced in March amounting to 500,000,000 marks was sold. The relatively small amount of 4% Treasury certificates issued during April is surprising in view of statements in the German financial press that approximately two and one half billion marks of these certificates had been sold by the middle of May (see my 1345, May 16, noon).

If

-2- #3414, August 7, 1 p.m., from Berlin.

If these statements were correct then approximately 1 1/4 billion marks of these were issued during the first half of May which added to 2.67 billion marks. Short term borrowing reported in my second telegram under reference would bring the total increase in debt during May up to 3.9 billion marks without a possible increase in li--loans outstanding. The increase in li--loans and Treasury certificates during April was partly offset by the redemption in older bond issues.

Adding the 513 million mark increase in short term debt (including tax certificates) during April reported in my first telegram under reference to the above figures the total debt of the Reich increased during April by 1472 million marks which is less than in any month since the beginning of the war. In the eight month period from the beginning of the war to the end of April the (?) debt of the Reich increased by 16,107 million marks to 53,471 million marks an average of about two billion marks a month almost two thirds of which was on short term. However, whereas during the first six months of the war over 80% of the total represented short term borrowing in March and April less than 20% of the total borrowed was on short term.

EMB

KIRK

GROUP MEETING

August 7, 1940
9:45 a.m.

Present: Mr. Gaston
Mr. Young
Mr. Graves
Mr. Sullivan
Mr. White
Mr. Bell
Mr. Haas
Mr. Chamberlain
Mr. Schwarz
Mr. Foley
Mrs Klotz
Mr. Thompson
Mr. Cochran

H.M.Jr: Chick?

Schwarz: Yes, sir.

H.M.Jr: Did you get an invitation for the press club next week, that off-the-record talk?

Schwarz: The War Department wouldn't let Kelsey talk because he is a free agent.

H.M.Jr: He has got a swell story, a great story.

Schwarz: He ought to have.

H.M.Jr: He saw everybody, the King and Queen, the Commanding Generals, the enlisted men.

Bell: Is he optimistic?

H.M.Jr: He is optimistic. He says this week the movement of the tide is right and he thinks that if the Germans don't attack this week, they won't attack until spring. He thinks this is their last chance for this summer.

Schwarz: We will know by next week, then.

H.M.Jr: He says the thing that worries them is that

- 2 -

if they don't attack that the morale is at such a high pitch, how to keep these men busy. He says this new General has worked out a sort of school for these men to keep them occupied, but he says the morale is at such a high pitch that what will happen with these fellows this winter he doesn't know, but he said for them to establish a bridgehead and hold it is next to impossible across the Channel. But he is very optimistic.

White: I met a man who has just returned who has very much the same point of view.

H.M.Jr: He was here yesterday and is coming back today.

White: Oh, well, Morrow --

H.M.Jr: He was here last night and is coming back tomorrow.

Gaston: You know our man, May, he is here and had lunch with us yesterday and he has quite an interesting story.

H.M.Jr: You think I ought to see him?

Gaston: Well, both May and Richards, the two of them.

H.M.Jr: You fix it up.

Gaston: All right.

H.M.Jr: If you are not otherwise occupied, will you have lunch with me today?

Gaston: I will be very glad to.

Thompson: I have nothing.

H.M.Jr: Dan?

- 3 -

- Bell: I have nothing. Are you going to have the 10:15 meeting?
- H.M.Jr: Yes, to follow this.
Harold?
- Graves: This Executive Order establishing the functions of our Department in connection with the Red Cross purchases limits our --
- H.M.Jr: Talk a little louder, will you?
- Graves: I say, our responsibility for the Red Cross material ends when we have made delivery at points of embarkation.
- H.M.Jr: Well, what was there in the Order that made me think that?
- Graves: I can't see anything in the Order. I didn't see it, but I was told there was some story in the paper which was confused about the thing and possibly you got your impression from that story in the paper.
- H.M.Jr: Harry?
- White: Does anybody know anybody very high up in the American Express Company? We are trying to get some information from them they won't give to the Department of Commerce.
- H.M.Jr: I know the President.
- Chamber'n: The Treasurer is coming down to see me today.
- Schwarz: The Secret Service has very close relations with their agents.
- White: We will take them over.

- 4 -

H.M.Jr: I know the wife of the President.

White: Maybe she will be the final resort.

Bell: The Treasurer has been very cooperative. I should think he might know.

H.M.Jr: Anything else, Harry?

White: You may have noticed a cable in which it was reported that Germany had, by bringing some pressure to bear on --

H.M.Jr: That is glass behind you, Harry.

White: No, that was the wood I struck.

H.M.Jr: Did you hit your head?

White: Okay. The arrangement which has resulted has been an extension of considerable credit to Germany. I raise the point only because I think it needs some consideration with regard to the general problem. Here is an instance in which Germany is using its powers to extract credit from Switzerland which it will be able to use very advantageously and the extent to which Switzerland has been able to extend that credit by virtue of her finances, and its relationship to the balances we have here is a problem. I am merely suggesting that.

H.M.Jr: What are you suggesting?

White: Well, I think that any consideration as to whether or not to block Swiss balances, we ought to bear in mind that possibly the availability of those balances which are very large here may be a factor in enabling Switzerland to extend these credits to Germany.

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I am not making that as a statement, I am merely raising that question.

- H.M.Jr: Well, I sent Merle Cochran a letter from J. Edgar Hoover where he somehow or other ran down a transfer of \$100,000 from Sweden to the German Consul General in San Francisco and somebody is supposed to inform me how much these various Embassies and Consulates spend. That is a new avenue of getting money into these Embassies and Consulates that I don't know about.
- Cochran: I have written you a memorandum on that. I talked to the Federal on that yesterday.
- H.M.Jr: Did they know about it?
- Cochran: No, sir, that wouldn't go through New York and I suggested some further inquiries they might make.
- H.M.Jr: I think we ought to tighten up on that, Merle. I am counting on you to do that.
- Cochran: All right.
- H.M.Jr: You are giving me an answer to Mr. Hoover, aren't you?
- Cochran: Yes, sir.
- H.M.Jr: What else, Harry?
- White: There is a deal about to be consummated that, although it doesn't affect the Treasury directly, I think the Treasury might want to take some position in it, possibly maybe later, and that is that the Council of Defense has arranged a deal with Australia to take 200 million pounds of wool which will be brought here,

- 6 -

kept on storage, not bought, but the United States will pay the storage charges and shipping charges, which are about seven million dollars. Australia is eager to make that arrangement because they fear if they keep the wool, they may not be able to get it here or it may be lost. They would like to sell us the wool but the Council of Defense doesn't wish to buy it and Merle wishes to hold it here. That is one part of the transaction.

The difficulty, complications, lies in the fact that we have been very desirous of doing something for Argentina and Uruguay. They have a large wool crop to sell us and if we take this wool and buy from that, we will not be able to make a deal with Argentina and Uruguay. Let me ask the first question.

Are you interested at this point? There is a meeting in another fifteen minutes in the State Department --

H.M.Jr: Yes. Harry, you are on that interdepartmental committee, aren't you?

White: Yes, this is a subcommittee.

H.M.Jr: Well, if you can do anything about it, yes. I mean, if you can do something to help Argentina and Uruguay, by all means. Is that what you wanted me to say?

White: Yes.

H.M.Jr: Now, for instance, this interdepartmental committee of the State Department, is the Council of National Defense represented or do they know what they are doing?

- 7 -

White: It is the Council of Defense which apparently has arranged this thing. The State Department, I gather, would like to do something more for South America and I think we would be supporting the State Department in this position. Who makes the final decision on that, I don't know.

H.M.Jr: It would be interesting to find out. The only suggestion I have is, I wouldn't kill the Australian deal, but we could make it fifty-fifty or something like that.

White: Yes.

H.M.Jr: Something like that. That is all right. Do what you can.

White: Okay. You may have noticed that the Bank of France has been placed under virtual control --

H.M.Jr: Yes.

White: That is all.

H.M.Jr: Professor Chamberlain?

Chamber'n: I haven't anything special. I am looking up the matters you asked me to look up yesterday.

H.M.Jr: I think what we will do, Mrs. Klotz, I will invite Sumner Welles to come here at 3:00 o'clock tomorrow and we will have that memorandum for him then.

Chamber'n: I will have it ready.

H.M.Jr: In regard to that thing we were talking about yesterday.

Chamber'n: At 3:00 o'clock?

H.M.Jr: 3:00 o'clock tomorrow, if he can make it then,

- 8 -

because I want to get it through State.

Chamber'n: Yes.

(Unrecorded telephone conversation with Pa Watson)

H.M.Jr: That Maloney thing, the President didn't get to sign it yesterday. It will be coming down maybe tomorrow.

White: There is something else I forgot to mention. You may have noticed in a cable that came over recently that Montague Norman reported that the actual expenditures of the British Government were so much less than their announced expenditures, their budget expenditures, that I am wondering whether we can check up on that because if what he says is true, there are some rather serious implications involved in it. It will be all right to --

H.M.Jr: Sure.

Chamber'n: Nothing more, Mr. Secretary.

H.M.Jr: George?

Haas: Did you know that General Motors put in a new manager in Allison?

H.M.Jr: I heard that yesterday when I rode down with Knudsen. They took a fellow from another company.

Haas: Yes, it was in the Wall Street Journal.

H.M.Jr: I didn't see it, but he told me. As I understand it, they have a call on anybody that

- 9 -

they want, but they put this fellow Remy in. I didn't see it.

George, if you will come here a minute, I will write this thing out.

On the airplane thing, I think I would add it is okay to give Philip Young one copy. He is a nice fellow. And then I would add second, War, and third, Navy.

Haas: All right. Did you notice this week's figures on the total engines?

H.M.Jr: Is it up?

Haas: Way up.

H.M.Jr: All engines?

Haas: All engines, yes.

H.M.Jr: McKay and I had a little argument. I claimed I got these on Tuesday. I don't?

Haas: You did once, the first time. Then you gave me a day of grace.

H.M.Jr: All right. That is up, isn't it?

Haas: Yes.

H.M.Jr: But it is all in the Continental Motors.

Haas: Yes, those are the smaller ones. But if Allison continues to come through, it will be a pretty good picture.

H.M.Jr: But the big boys didn't do very well. Wright only turned out 24 engines. What is the matter with Wright? Pratt & Whitney, 71.

- 10 -

Haas: Well, they get into situations like this: One week they may be way down because they are holding up a good many engines for a particular part. Then the part comes in and they make deliveries on a large number. It will run very irregular, weekly.

H.M.Jr: That is terrible.

Haas: This man Davison of the Pearce Foundation, I haven't been able to locate him, but yesterday afternoon I sent by messenger a copy of the article over to Colonel Knox with a note saying it was sent by your request.

H.M.Jr: That is right.
Philip?

Young: Colonel Knox has invited Admiral Evans for lunch today, the British Admiral.

H.M.Jr: Did you arrange that?

Young: Yes.

H.M.Jr: Very nice. He is coming in this morning, isn't he?

Young: At 11:00 o'clock, with General Pratt.

H.M.Jr: So are you.

Young: Yes.

H.M.Jr: How are the tanks?

Young: I think that meeting went very well indeed yesterday. Mr. Biggers did a good job on it.

H.M.Jr: Take a minute or two and tell the crowd about it and tell me.

- 11 -

Young:

Well, the British want to go ahead on a large scale tank program and they brought General Pratt over here, Commander of their tank brigade in Flanders. He came out to Dunkerque and left all his tanks behind. He had 100 tanks, 77 with thin armor plate and machine guns, no cannon, and 23 with heavy armor plate and cannon. The heavier 23 were superior to the medium weight German tanks that they met there and they knocked holes right through them and the Germans could not stop the 23 which he had.

However, what his program is now is to move it up one step and he wanted our War Department here to adopt a tank with still heavier armor plate, which goes up to pretty nearly a 3-inch thickness in front, and one machine gun and a 75 - would correspond to a 75 field gun in the top, which is really nothing more or less than a 75 gun on an armored car. He thinks that is the only thing that is going to be effective. He sold the War Department pretty much a bill of goods on a heavy turret and a heavy gun in the top, enough so that they are adopting certain of his suggestions for our own program, and they are arriving very rapidly at certain standard specifications whereby pretty much of a joint program can be entered into for both the British and the United States.

This meeting yesterday was called by the Advisory Commission. The War Department was also represented. I was there. Cox was there. We had about 30 representatives of domestic manufacturers, such as the American Bridge and Baldwin Locomotive and American Locomotive, Car and Foundry, who would be equipped to go into tank production if they wanted to do it and at least half

- 12 -

of those manufacturers are very much interested in doing a complete assembly job, with the exception of minor complement parts.

The problem still, beyond doubt, will deal with the engines because you are using aircraft engines in those tanks, which is somewhat of a complication at the moment, and also on the developing heavy ordnance for the guns and the turret.

H.M.Jr: Can't they get away from the aircraft engine?

Young: They are working with the Diesel. The Army has ordered six or seven hundred Diesel engines as an experiment.

H.M.Jr: In connection --

Young: From Guiberson.

H.M.Jr: Make a note, when Guiberson comes into production, George, he isn't on here - Houston, Texas - he makes a rotary air-cooled Diesel engine.

Young: He was in here not very long ago. I talked with him when he was in.

H.M.Jr: Anybody bring up taxes or amortization?

Young: That got along very nicely because it didn't come up until Mr. Knudsen came back from the Hill, from his little hearing up there on the subject, so he spoke for a few moments about it to the assembled manufacturers.

Sullivan: Well, did the British agree to take our type of tank?

Young: They are arriving at - the British and the War Department - pretty much of a standard

- 13 -

specification. The British reaction is from the waist down our tank is superior to any tank in Europe, including the German. The chasis, the transmission, the gears, tracks, the frame of the thing is better. From the waist up, it needs heavy armor plate and more fire power, which is the only point which they make.

Sullivan: I had understood Mr. Biggers to tell the Committee in the afternoon about this conference that he reported that the British had accepted the American tank.

Young: Yes, and the Americans have accepted certain suggestions made by the British, whichever way around you want to put it. Anyway, they are pretty close together and it is possible that even though the British might have a slightly different turret on the top of their model, it still fits the same hole in the American tank, so all you have to do is put on a different turret, which is a pretty good position.

H.M.Jr: Incidentally, this man who just came back from Europe said that the surplus material which they bought from the United States is their entire defense today that they have. That is their defense, the surplus material.

Young: We just got 800 more guns from the Navy, you know, are getting them now.

H.M.Jr: I wish you would give me a list up to date, up to August first, just what we did get and the - I would like to make --

Young: The surplus material.

- 14 -

H.M.Jr: I would like to make a report to the President as of August first.

Young: I already have that, except that last 800 guns.

White: Speaking of taxes, did you notice a remark in the Times to the effect that the new change of eliminating the Vinson-Trammell Act, of permitting the charges to be - would engender several billion dollars of additional activity? The Treasury got rather favorable press.

(Mr. Foley handed clipping to Secretary)

Sullivan: Read it quick before that ruling goes out of effect. It won't mean anything after this bill passes.

Foley: John is being facetious because we had to rush it through before the law was repealed. Those are good headlines.

H.M.Jr: The thing that I liked was --

Foley: Those certain items make me mad, that that fellow writes.

H.M.Jr: The thing that interest me, the story that I read this morning was that the Defense Council and Treasury were putting the pressure on Congress to do this thing. It was very nice. This was a nice idea of yours, even if it is only good for two weeks.

Foley: We are on a 24-hour basis, aren't we?

H.M.Jr: Less than that.

All right, Phil, anything else?

- 15 -

Young: No.

H.M.Jr: I want to talk to you personally when I get through here.

Schwarz: I have nothing.

Cochran: Nothing, sir.

H.M.Jr: Sullivan?

Sullivan: Governor Jones is in town with Fontenot and wants to see me. I suppose it is on the Maloney matter. Did Mr. Irey give you his report?

H.M.Jr: Yes.

Sullivan: Because I have never seen it.

H.M.Jr: I gave it to Thompson and I suppose probably it went over to the White House the way it always does.

Thompson: Yes.

Foley: I talked to Tommy Corcoran and also Monroe and Maloney is entirely all right.

H.M.Jr: Here it says special agent Maloney. I said no.

Foley: That is something else.

Gaston: That note thing is all straightened out.

H.M.Jr: Yes. Those notes are being renewed. Does that belong in here?

Gaston: Well, we might add a memorandum of that new development.

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H.M.Jr: I got that, didn't I?

Gaston: Yes.

H.M.Jr: Now, who was talking about Fontenot?

Sullivan: I was.

H.M.Jr: Well, I don't see how they can object to Maloney.

Sullivan: I don't.

H.M.Jr: Even if he does come from New Hampshire.

Sullivan: Even if who does?

H.M.Jr: Maloney.

Sullivan: You're getting us Maloney's mixed up.

Now, do you think I should call Colonel Knox? I don't think the Committee has gotten around to telling him about being up there and he might just plan to go to Chicago. Perhaps I had better call him up and suggest that he be here.

H.M.Jr: It would be a nice thing.

What else?

Sullivan: That is all.

Foley: Nothing.

Gaston: Nothing.

H.M.Jr: Well, what will we do, go right into this next meeting now?

CABLE

FROM: Commercial Attache Nicholson,
Shanghai, China.

DATE: August 7, 1940

For the Secretary of the Treasury.

Shanghai market August 6th closed quiet at $3\text{-}3/4$ for cash
and August $3\text{-}23/32$ for September for sterling $5\text{-}11/16$ for
cash and August $5\text{-}5/8$ for September for U.S. dollars. Gold
bars closed at 5,580 and wei wah at discount of 4.90%.

NICHOLSON

(Copy of memorandum handed by Mr. Stopford of the British Embassy to Mr. Cochran in the Treasury at 5:45 p.m., Aug. 7, 1940.)

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Swiss Financial Relations with Germany

and Italy

A report has been received from a reliable source in Switzerland that - Germany is demanding a revaluation of the value of the franc against the mark for transactions through the German-Swiss clearing account and that Germany has asked for the present rate of 176.50 francs to 100 marks to be changed to 200 francs. It is rumored that this will not affect the Swiss rate of exchange with the dollar as the rate against the mark is purely arbitrary for clearing transactions. There is no further information regarding previous reports that there would be a general devaluation of the franc at an early date.

Germany has not as yet made any claim for credit facilities. There is a large balance in Germany's favour in the clearing account and the Swiss National Bank is stated to have recently made a shipment of gold to Germany to the value of 20 million francs.

A further confidential report says that an Italian authority has just arrived in Zurich to negotiate a credit. He had always previously expressed the opinion that Italy had arranged sufficient finances to cover needs and created sufficient credits in the U. S. A. on the supposition that hostilities would cease this autumn. The Italian was however now approaching Swiss banks for a credit of 300 million francs of which 100 million in Swiss francs and 200 million in U. S. dollars against gold as security deposited either in Italy or Germany. The Swiss have requested the deposit in Switzerland to which apparently Italy may agree. The informant states, however, that Swiss banks consider the amount of 300 million too large. The credit is required to help Italy to carry over till next Spring.

(Initialed) R. J. S.
7th Aug. 1940.

(Copy of memorandum handed by Mr. Stopford of the British Embassy to Mr. Cochran in the Treasury at 5:45 p.m., August 7, 1940.)

SECRET

1. The following information has been received with regard to the American I. G. Chemical Corporation and the Swiss I. G. Chemie, Basle:-

(a) On 10th June the American Corporation advised the Swiss Corporation that they anticipated authorization at their Board Meeting on 13th June to carry through their transaction with the Swiss Corporation, but that the authorization would be dependent on their receiving affidavits showing the beneficial ownership of the Swiss Corporation's shares expressed in terms of the voting power and equity of all shares, name and address of the stockholders being given wherever possible. The American Corporation said that they had reported to S.E.C. that the voting majority in the Swiss Corporation was beneficially owned by Swiss nationals and that the American Corporation's payment would furthermore be contingent on the receipt of confirmation on the other points to be covered at the stockholders' meeting of the Swiss Corp. They also said that they had that day filed, as required by the Presidential order, a statement of the number of their own shares recorded in the names of Dutch nationals as of May 10th and a Government licence was necessary before any such shares could be transferred. It was not known how long it would take to get such a licence, but the affidavits would be of the greatest assistance and their despatch should be advised by cable.

(b) On 24th June, the American Corporation further advised the Swiss Corporation that the statement sent by the Swiss Corporation that the majority of their stock was beneficially owned by Swiss nationals was not sufficient and that the names and addresses of stockholders must be given. Until this was received the American Corporation was helpless and it was on the assumption that the American Corporation would be put in a position to meet the problems that the transaction was carried through. If the preferred shares could not be entirely eliminated, the affidavits must include a statement of the amount of preferred shares held by each and the names, addresses and nationality of the beneficial owners of their stock. They added that the situation was becoming daily more acute and asked for cable advice as to when the affidavits might be expected. They also asked for an answer to their proposal that the Swiss Corporation should give the American Corporation a right of first refusal on the remainder of the B. shares.

2. On the 20th June the Credit Suisse, New York, asked their Basle office to tell the Internationale Gesellschaft fuer Chemische Unternehmungen A.G. that they had received \$500,000 for their account from the General Aniline & Film Corp., and asked for instructions, adding that they would be glad to open an account for them.

(Initialed) R. J. S.

August 3rd, 1940.

Statement by Secretary Morgenthau

Introduction. Rough Draft August 7, 1940. D. Coyle.

The national defense program places upon us the duty of reconsidering certain features of the tax structure, in order to obtain a rapid expansion of production and a fair distribution of the tax burden. With your permission, I shall be glad to present information available in the Treasury in regard to possible modifications of the tax laws for these purposes. But first, if I may, I should like to use this opportunity to give an outline of the fiscal situation as it has developed since I appeared before the Senate Committee on June 12th last, during the consideration of the Revenue Bill of 1940.

On June 12th, I stated that according to the estimates of the Bureau of the Budget and the Treasury, with the revenue laws then in force and the appropriations which had passed or were pending, the deficit for the fiscal year 1941 would be \$4,350,000,000. The balance of the borrowing authority at that time under the limitation of \$45,000,000,000 was ~~only~~ \$1,950,000,000. With the anticipated rate of expenditure this balance would be exhausted and the working balance of the Treasury would be seriously depleted by the end of January 1941.

In view of these circumstances, a provision was placed in the Revenue Act of 1940 authorizing the issuance of not more than \$4,000,000,000 of short term obligations for financing national defense expenditures. At the same time additional taxes were provided, most of which are to be used to retire within five years any defense obligations issued under this authority. As I reported to you, these provisions of the bill then pending before your Committee were sufficient to meet the situation as it existed at that time.

With the rapid deterioration of world conditions, however, the President found it prudent to plan for an enlargement of the national program of defense, and requested the Congress to provide additional funds for this purpose. The accompanying table shows the appropriations and contract authorizations for defense now made or pending before this Congress. The total as of August 5th is \$14,709,000,000, to be expended as rapidly as circumstances will permit during the next few years.

The Bureau of the Budget and the Treasury now estimate that the receipts for the current fiscal year will amount to \$6,367,000,000, and that the total expenditures will probably exceed \$12,000,000,000, leaving a net deficit of about \$5,700,000,000. The attached statement shows the revised Budget estimates as of August 1st, compared with those made on June 3rd and those included in the President's Budget Message of January 3rd, 1940.

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To meet the expected deficit of \$5,700,000,000, we have as of July 31st, a balance under the \$45,000,000,000 limitation of \$965,000,000, and the whole of the \$4,000,000,000 authorization of the 1940 Revenue Act. In addition the Treasury has a working balance of \$1,504,000,000.

By the end of the year 1940, the borrowing power under the general limitation will be down to about \$800,000,000, and that under the \$4,000,000,000 authorization will have been reduced to about \$2,450,000,000. On June 30, 1941, according to present estimates, the balance under the general debt limitation will have shrunk to \$300,000,000, and the \$4,000,000,000 credit will have been exhausted. In addition, it will have been necessary to draw upon the working balance of the Treasury, reducing that balance to about \$1,275,000,000.

On the basis of these estimates it is obvious that in view of the requirements of the defense program, the present combined debt limitation of \$49,000,000,000 will sooner or later need to be increased. Whether an increase will be required before the end of the present fiscal year must depend in the first instance upon the speed at which the defense program can be brought into action. Naturally we all hope that present estimates of the rate of defense expenditure can be greatly exceeded, and it is for the very purpose of accelerating this program that we are now discussing a change in the tax laws.

At the same time, I may point out that in addition to readjusting the tax burden in a way to hasten the production of defense material, the proposed tax legislation may properly be aimed also at a definite increase in revenues which will help to underpin the fiscal position of the Treasury. Accordingly, it is proposed not only to provide for changes in the period of amortization on war facilities, and for the ~~repeal~~ ^{extension} of the present profit limitation on contracts, but also to enact an excess profits tax that will provide a maximum of return with a minimum of restriction on the productive activity necessary for defense.

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During the course of the deliberations on the Revenue Act of 1940, it became apparent that the rapid development of the defense program might necessitate further legislation. The necessity of passing the Revenue Act promptly in order that the tax increases might begin without delay prevented the Congress from taking the time to make the necessary study which this further legislation would require. Your Committee instructed the Treasury to study the problems and report back as soon as possible and the Committee on conference gave us similar instructions.

In ^{the} short time which has elapsed since those instructions were received, the Treasury Department has concluded studies of the problem which it had begun some time ago. The results of these efforts have already been referred to your Subcommittee on Taxation. The Treasury Department has endeavored to discharge its duties and follow your instructions to the best of its ability during the time available.

The first of the tax changes which I wish to discuss with you today is that of taxing excess profits. In order that the defense program may proceed quickly and effectively the great volume of defense funds which have been appropriated must be poured through the channels of industrial production at tremendous speed. In the process, however hard we may try to prevent it, some persons and some business concerns will make greater profits than can be permitted.

equitable

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The President in his message to Congress of May 21, 1940, presenting the national defense program, stated that we must guard against the creation of "war millionaires." On July 1, 1940, in another message, he called for the passage of an excess profits tax to prevent this from happening.

The Treasury Department presented to the Subcommittee a plan for an excess profits tax. The Subcommittee adopted certain aspects of this plan but added other provisions which alter the character of the tax in important respects. In view of the need for immediate action, the Treasury does not wish to delay the passage of a bill dealing with the problems before you and accordingly interposes no objection to the plan recommended by the Subcommittee.

In addition to excess profits, the proposed legislation deals with two other problems: amortization and suspension of the profit limitations of the Vinson-Trammell Act.

The agencies of the government charged with the duty of letting contracts for national defense orders have brought to our attention an aspect of the present income tax law on which they have requested revision. I refer to the provisions for depreciation -- which, incidentally, are more generous to taxpayers in America than in any other country in the world. Under existing law the taxpayer is permitted to spread the cost of his depreciable assets over their expected useful life. This arrangement is fair to the taxpayer and fair to the government since this cost is allowed in the form of deductions from income during the years when the asset is contributing to the taxpayer's income. In the case of the expansion of plant and construction of equipment for the defense

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program, however, the length of time during which orders for weapons and other materials of war will continue is uncertain. In those cases in which the plant and equipment will have little or no other use after the completion of the defense program, the rate of depreciation must be increased if the manufacturer is to have the opportunity of charging the cost against income during the period of the emergency. Such accelerated depreciation, or amortization, cannot be allowed under existing law. The Advisory Commission to the Counsel on National Defense, and the War and Navy Departments have informed the Treasury Department that the inability of manufacturers to secure special amortization allowances is impeding the letting of defense contracts. Because of this situation, we recommended to the Subcommittee that provision be made by law for special amortization of the cost of new plant and equipment necessary to the defense program over a period of five years, with a provision for shortening this period if the emergency should last for a shorter period.

The Vinson-Trammell Act limits profits on contracts with the United States Government for the construction of naval vessels and contracts for airplanes or parts thereof for the Army and the Navy. The Treasury Department has been informed by the Advisory Commission to the Counsel of National Defense and by the War and Navy Departments that the restrictions of the Vinson-Trammell Act have discouraged many manufacturers from making

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contracts or subcontracts. It has been stated to us that the extensive special bookkeeping requirements necessary to determine the actual profit on the contracts has served to discourage manufacturers from proceeding with national defense work. In the light of the information that had been given to us, the Treasury Department recommended to the Subcommittee the suspension of the Vinson-Trammell Act for the period in which an excess profits tax is in effect. The Vinson-Trammell Act, as I have pointed out, deals with only a limited kind of contract, namely, contracts for the construction of naval vessels and for airplanes. With the extension of the defense program to include large scheduled purchases of all types of equipment useful and necessary for the national defense, it is evident that broader profit-limiting provisions are necessary. The excess profits tax, which is of general application, should accomplish that purpose. It does not seem necessary or desirable to have what are in effect two profit-limiting provisions outstanding at the same time. For this further reason the Subcommittee seems to be well justified in providing for suspension of the Vinson-Trammell Act during the period that an excess profits tax is in effect.

I would like to stress the importance of passing without delay this three-point program of an excess profits tax, amortization of national defense investment, and suspension of the Vinson-Trammell

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profit limitations. We must have businessmen moving forward making commitments, building plants, installing machinery and turning out orders at the time and in the quantities necessary. It will help them do these things at the lowest cost to the government and with the least hesitation if they know at the earliest possible moment what the provisions of the tax laws are going to be.

I trust that by emphasizing agreement on essentials and minimizing difference of opinion on details, we can move forward unanimously and promptly toward this threefold contribution to the one goal all Americans so earnestly desire — the adequate defense of the United States of America.

RE EXCESS PROFITS TAX

August 7, 1940
10:15 a.m.

Present: Mr. Bell
Mr. Foley
Mr. Gaston
Mr. Coyle
Mr. Sullivan

H.M.Jr: Well, I hope you are able to keep up with the various things that Sullivan does on the Hill with the tax bill, because I am unable to.

Sullivan: Mr. Coyle has tried to see me several times and we have always been interrupted or I haven't been able to get there.

H.M.Jr: Well, what they have done, Mr. Coyle, I am supposed to go up there Friday and make a statement and in strictest confidence, I will give you a little of the background. You may be surprised at such a statement as this. This is in strictest confidence. The President wants a bill and he has told different people he doesn't give a damn what the bill is. He wants a bill. So I came back and I put the heat on to get a bill and we are going to get one by the 17th. I doubt very much whether it will be one that I like or anybody in the Treasury likes and I have got to be terribly careful, though, when I go up not to say something so that I stop the thing from going through because that would be contrary to what the President wants.

On the other hand, the President said I could say anything I wanted to say and when he signs it, he expects to say what he wants to say. It is a very delicate situation.

I had all these people in here Monday and said, "Now, we have got to get a bill and

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the Council of National Defense says they can't get their contracts signed," and if I go up there and say it is a lousy bill - "You don't like the bill. All right, we won't pass it." Then we start all over again. So it is a very delicate situation. I just wanted to give you that background.

Coyle: I don't see what --

H.M. Jr: I mean, here we are all very much disappointed that we weren't permitted to go through with the program. Evidently the President got a little bit stampeded on this thing.

Now, what have you got for me? Has anybody got a rough draft?

Sullivan: No, I haven't.

Bell: I have a rough draft of the fiscal end of it, but Johnny can't write his until he finds out a little bit more about the bill.

H.M. Jr: Let's start with what you have got. I think I will read it to myself and Mr. Coyle can do likewise. Why don't you read it out loud, Dan? Will you?

Bell: All right.

"When I appeared before the Senate Finance Committee on June 12 last, during the consideration of the Revenue Bill of 1940, I stated that the Treasury and the Bureau of the Budget had estimated the deficit for the fiscal year 1941, on the basis of the revenue laws then in force and of the appropriation bills which had passed and those which were then pending in Congress, at \$4,350,000,000; that the balance of the borrowing authority then remaining under the limitation of \$45,000,000,000

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was \$1,950,000,000; and that unless the Congress acted to relieve the situation, the balance of the borrowing authority would be completely exhausted and the working balance of the Treasury would be dangerously depleted before the end of January 1941.

"Congress did relieve the situation as it existed at that time. As you know, the Revenue Act of 1940 contains a provision authorizing the issuance of not to exceed \$4,000,000,000 of short-term obligations for the purpose of financing national defense expenditures, and provides additional taxes, most of which are to be used to retire over a five-year period any defense obligations issued under that authority. I told you at the time I appeared here on May 31, 1940, that the provisions embodied in the bill then pending before your committee were acceptable to the Treasury. However, because of rapid changes in world conditions, the President has been compelled to further enlarge our national defense program and has asked the Congress to provide additional funds for this purpose. The following table shows the appropriations and contract authorizations for national defense purposes made by, and pending before, this Congress:"

I don't know whether you would like to have that attached or included in the statement. That shows the \$14,700,000,000 program enacted up to date or pending and that doesn't include the conscription bill or the calling out of the National Guard.

"The additional borrowing authority and additional taxes provided by the Revenue Act of 1940 were quite sufficient to carry us into the fiscal year 1942 for the program that was before us on June 12th. Now, however, with this much enlarged program, I feel that it is

quite essential that we again review with you the fiscal situation confronting the Treasury.

"The Bureau of the Budget and the Treasury now estimate, on the basis of revenue laws now in force and of appropriations made and those pending in Congress, that receipts for the current fiscal year will amount to \$6,367,000,000 and that total expenditures will be \$12,058,000,000, leaving a net deficit of \$5,691,000,000. We have included in our total estimated expenditures for this fiscal year the sum of \$5,000,000,000 for national defense, although the War and Navy Departments might make a materially higher estimate. There is attached hereto a statement showing the revised Budget estimates as of August 1st, compared with those made on June 3rd and those included in the President's Budget Message of January 3, 1940.

"The balance of the borrowing authority at the end of July 1940, under the general limitation of \$45,000,000,000, was \$1,965,000,000; and the balance under the national defense limitation included in the last Revenue Act was still \$4,000,000,000. The working balance in the general fund of the Treasury was on that date \$1,504,000,000. On the basis of the present Budget estimates, the balance of the borrowing power under the general limitation will be about \$805,000,000 on December 31, 1940, and under the national defense limitation about \$2,465,000,000. On March 31, 1941, the balance under the general limitation will be \$655,000,000 and under the national defense limitation, \$1,160,000,000; and on June 30, 1941, the balance under the general limitation will be approximately \$300,000,000 and the balance under the national defense limitation will have been exhausted. It is estimated that

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the working balance in the general fund will, on June 30th next, be down to about \$1,275,000,000. On the basis of these estimates it is obvious that in view of the magnitude of the defense program, the combined debt limitations of \$49,000,000,000 will have to be increased, or other means of financing the national defense expenditures will have to be found before June 30, 1941.

"In view of the fact that our national defense program, now in contemplation, will cost us more than \$15,000,000,000 within the next three years, it would seem advisable to reconsider the policy adopted in the Revenue Act of 1940 of placing a limitation on our national debt for specific purposes and earmarking specific revenue for the retirement of that debt. The large and necessary national defense program to be financed over the next two or three years makes it quite essential that the Treasury have a great deal of flexibility in its financing operations. While the Treasury has sufficient borrowing authority until the next session of Congress, I believe this Congress may wish to consider in connection with the bill now pending before it, the question as to whether the provisions in the Revenue Act of 1940, authorizing the issuance of not to exceed \$4,000,000,000 of national defense short-term obligations and creating a special fund in which certain taxes are to be deposited for the purpose of retiring any such obligations so issued, should not be repealed, and in their place a provision enacted which would increase the general debt limitation of \$45,000,000,000 to an amount sufficient to care for the estimated deficit for the fiscal year 1941."

H.M.Jr: You are a politician. You don't say how much.

Bell: I am going to.

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"It always has been the policy of Congress to place a limitation on the amount of public debt obligations which the Treasury can issue and have outstanding at any one time, and I am of the opinion that the Congress should continue to keep this control over the public debt. If the Congress decides to repeal the provisions of the Revenue Act of 1940 mentioned above, and to enact a general increase in the debt limitation, it is my recommendation that this limitation be fixed at \$50,000,000,000, which, from all indications at the present time, will slightly more than take care of the public debt financing required during the fiscal year 1941 and give the Treasury the flexibility it needs in its financing programs.

"It will no doubt be necessary to increase further this public debt limitation for the fiscal year 1942, but that can best be determined during the next session of Congress after the program for that year has been acted upon by the legislative branch of the Government."

H.M.Jr:

Well now, let me explain the background. We went over this with the President, you see, and talked about it and Dan has done it just the way he agreed. The thought that I had in mind is that this method of earmarking special revenues is not a healthy one or a desirable one. It is the package that we have developed in order to overcome the hurdle that we wouldn't raise the debt limit, but I am fearful that some people during the campaign may say, "Well look, this is the way the Treasury does," and we are going to have to do some juggling around back and forth as between these defense notes and our regular obligations. This is just - we can say, "Well, I asked Congress for all

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this. We asked them for it but they wouldn't do anything about it. The method we have isn't one that I like or anybody likes in the Treasury. It is the best we could get and we asked for it."

I am sorry we couldn't get it, and if anybody attacks us between now and November on this thing, I can refer to my statement before the Committee where I asked for the more orthodox method of increasing the debt limit and so forth and so on. That is the background. The President is entirely agreeable to that.

- Sullivan: I didn't understand that he was agreeable to asking for an increase in the debt limit, no, sir.
- H.M.Jr: You were there.
- Bell: Yes.
- Foley: Well --
- Bell: He was agreeable to the suggestion that this be changed to give the Treasury the flexibility it needs.
- Foley: That is right, and therefore I think we ought to say that it will be necessary to increase the general debt limit of 49 billion dollars at the next session, but we have got enough to get along until the next session and we are not recommending any increase.
- Bell: I didn't say that.
- Foley: But, Dan, you are asking for a billion dollars.
- Bell: No, I said if Congress decides to repeal and give a general limitation, then I recommended

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it be made 50 billion.

Foley: I don't think we ought to make that recommendation.

Sullivan: You don't either?

Foley: I think we ought to say the 45 billion and the four billion should be consolidated and there should be a general over-all debt limit of 49 billion dollars and then say it will be necessary, of course, to have additional funds, but we have got enough now to get by until the next session. I would rather do it that way.

H.M.Jr: I want to sail between you. Where I said Dan was a smart politician in the middle of page 4, "....increase the general debt limitation of \$45,000,000,000 to an amount sufficient to care for the estimated deficit for the fiscal year 1941," now I would just stop there for a minute. I think I would leave out the next paragraph.

Sullivan: If you stop there, they are going to say, "What amount, Mr. Secretary?"

H.M.Jr: "Well, I have given you all the figures, you fix it."

Sullivan: I don't think they would be satisfied with that, sir.

Bell: The Secretary has recommended at one time \$50,000,000,000.

H.M.Jr: Everybody can think about it, but my thought is to lift that one paragraph.

Foley: I would not only leave off the last paragraph, Mr. Secretary, --

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- H.M.Jr: Next to the last paragraph.
- Foley: Yes, next to the last paragraph.
- H.M.Jr: It will no doubt be necessary --
- Foley: I would leave out that paragraph.
- H.M.Jr: That is why I said I was going to sail between you fellows. If you just lift that next to the last paragraph --
- Sullivan: Have the last paragraph modified, the last clause in the one you are leaving in.
- H.M.Jr: "It will no doubt be necessary to increase further this public debt, but that can best be determined during the next session of Congress."
- Foley: Well, I would like it a little better if you closed that next to the last paragraph that you are leaving in so that you are not making a general recommendation now for any increase in the debt limit, but you are merely saying that this unorthodox method of earmarking taxes for national defense which was instituted in June ought to be clarified and taken out of the law and we ought to have a general over-all debt limit of 49 billion dollars and then go on and put in the last paragraph that next year you will have to give us some more and that is why I am saying that we ought to eliminate that earmarking.
- H.M.Jr: Now, wait a minute, he has got this all right, I think.
- "I believe this Congress may wish to consider in connection with the bill now pending before it, the question as to whether the provisions... and so forth and so on. The Congress may have to recommend it."

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- Bell: I say if it decides. We have cut out the recommendation. This limitation might as well be fixed at 50 billion dollars so as to take care of it.
- H.M.Jr: I wouldn't say that.
"I believe this Congress may wish to consider in connection with the bill --"
- Bell: No recommendation there.
- H.M.Jr: What is the matter with that?
- Sullivan: Because you are recommending part of that sentence, that the four billion be made part of the general debt and the earmarking be removed.
- H.M.Jr: That is what I want to do.
- Sullivan: The implication is that you are recommending an increase in the debt limit.
- H.M.Jr: I would like to get that implication across. How does it leave you, Herbert?
- Gaston: I would like to leave it the way it is if we can get the President's approval.
- H.M.Jr: I am not going to bother him.
- Sullivan: I don't see the advantage of asking for another billion dollars in August --
- Foley:which we don't need.
- Sullivan:which we don't need.
- H.M.Jr: We are not.
- Bell: How do you know we don't need it?

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- Sullivan: Let me finish my sentence, Dan, excuse me. I don't see the sense of asking for a billion dollars in August which you are not going to need until April and you know that at that time you are going to have to ask for more than a billion dollars. You are taking a little nibble at the apple when you know you have got to take a big bite next spring.
- H.M.Jr: Why do you ask for a billion extra?
- Foley: If you leave in the paragraph that you suggest we take out - I thought that was Herbert's suggestion.
- H.M.Jr: That is out now.
- Foley: Herbert said he would like to leave it the way it was if you could get the President's permission to leave it in.
- H.M.Jr: I know how he feels.
- Foley: That is why we started up again.
- H.M.Jr: Now wait a minute. "It always has been the policy of Congress --" Through that whole paragraph - now, do you still want to argue, John?
- Sullivan: I don't know. Let me look at it again.
- H.M.Jr: Take your time. While you are looking, I would like Mr. Coyle's opinion, if he feels like giving one.
- Coyle: I wouldn't feel like recommending that you ask for an increase in the debt limit if it gave you only a billion dollars, because you are going to get newspaper headlines on asking for an increase. It is an old proverb in my family, it is much better to be shot for a sheep than a lamb.

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- H.M.Jr: Right. But leaving out that last paragraph, that will accomplish what we want. We just want to lay the ground for it.
- Coyle: I would like to study over the previous paragraph and see whether it could be made clear that you want to consolidate that thing that you have been discussing here.
- H.M.Jr: All right, that is the purpose of having you. John?
- Sullivan: I still want to fight about that, because I feel so certain that you are going to be interrupted right at that point or after you have completed your statement and they will go back and you are going to be asked what amount you consider sufficient to care for the estimated deficit for the fiscal year 1941.
- Foley: Then it seems to me you are going to have to say, "I am not making a recommendation that the debt limit be increased at this time. We would certainly have to come up here next winter and ask for an increase."
- H.M.Jr: If I am going to do that - I mean, if they are going to pound me, "Well, Mr. Morgenthau, you certainly must have an opinion --"
- Bell: I would change that to say that - where we say we have got enough to last through the next session of Congress, say that the 49 million consolidated will be sufficient.
- Foley: That is what I would like to have you say.
- Sullivan: That is fine.

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- H.M.Jr: Let me just go back to a couple of little suggestions I would like to make and I would like Mr. Coyle to look this over. It says on line 9 on the first page, "Unless the Congress acted to relieve the situation." I wonder if you couldn't get a better word than "relieve". Something like "correct the situation," or something like that. I don't like the word "relieve".
- Bell: All right.
- H.M.Jr: Here is "relieved" again.
- Bell: Yes.
- H.M.Jr: I don't like the words, "I told you."
- Bell: "I said."
- Sullivan: "Reported."
- H.M.Jr: Something.
- Sullivan: "I reported to you then."
- H.M.Jr: And I don't like this whole thing, "...acceptable to the Treasury." Can't I simply say, "When I appeared before you, I appeared before you in favor of the bill as an advocator of the bill," or something.
- Bell: What I am trying to do is lead up to the excuse for again giving them the situation.
- H.M.Jr: There are two words I don't like. I don't like, "I told you," and "was acceptable to the Treasury." Mr. Coyle, it is a little bit too much - sounds like royalty. I told them it was acceptable to the throne or something like that, is the way it sounds.

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- Coyle: The throne would not be acceptable.
- H.M.Jr: Do you get what I mean?
- Coyle: Yes.
- H.M.Jr: I always try to be perfectly forthright, but not subservient or on the other hand dictatorial.
- The President said to - I would say the President is taking the leadership, something like that, Mr. Coyle.
- Coyle: Yes. It might be, "has found it necessary."
- H.M.Jr: Well, it might be a little campaign speech, "The President has shown the way," or lead the way or something like that.
- Coyle: You want to make it clear that he took the leadership on this thing?
- H.M.Jr: That is the idea. The President lead the way. In other words, I want him to get the credit. I mean, the President has been compelled - well, I am a little sorry the President had to do this. Instead of that, I want to say, "Gentlemen, the President was a great guy; he saw this thing first."
- Sullivan: Do you want another title in this bill, lopping off the earmark on the four billion, Dan?
- Bell: I can have it if everybody is agreeable, but I don't think the Secretary is going to recommend it.
- H.M.Jr: No.
- Sullivan: I didn't think so, but I was wondering if I had slipped up on something.

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- Bell: No.
- H.M.Jr: I may drop it out entirely, but I don't want to get bogged down.
- Bell: Would you rather see that table attached or would you want to read the totals?
- Foley: It had better be attached.
- Sullivan: I would incorporate the four billion figure.
- H.M.Jr: Now, on top of page 3, Dan, I can see another headline stating, "Morgenthau says they are only going to spend five billion." Do we have to use that figure five?
- Bell: Well, it is in the table. I think that is quite a jump from the three billion two fifty you used before.
- H.M.Jr: Where is it in the table?
- Bell: Well, you haven't got the table. There will be a table like this attached showing the trend.
- H.M.Jr: Well, I just don't like the five billion - I mean, although the War Department might make a materially higher estimate - I don't like that sentence.
- Sullivan: I think the point there is that the Army and Navy might estimate that the total they will be able to spend effectively during this period will exceed that amount.
- Bell: They have got an appropriation bill pending in Congress.
- H.M.Jr: Then I come along and say, "But I don't believe

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it." It is just like what Knudsen did to me the other day. I said, "The English want 3,000 planes a month," and he holds a press conference two days later and says, "Nuts!"

Sullivan: I think you have got something there.

H.M.Jr: I am just pointing out --

Sullivan: I don't think so, but I think you are right there.

Bell: Well, this was put there just for that purpose and two things, you have got appropriations pending in Congress in which the Army and Navy say they will spend six billion three and the rest come along and show a table and they are only going to spend five. I think it is going to raise controversy and if you would say, "Although the War Department and the Navy Department --" This has got to be checked with the Budget.

H.M.Jr: Do we have to say that?

Bell: We don't have to, but I thought it was a protection to both parties.

H.M.Jr: Why don't we do this way? The Army and Navy say they are going to spend six, three. We will just use their figure. Why cut it down?

Coyle: What does that do to your 49 billion?

Bell: That is a billion dollars you have got to go up. If you put that in your deficit instead of five, six, it is about seven billion. That would increase it.

H.M.Jr: I see.

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- Gaston: Why not just leave it in the table and not flag it at all by any comment in the text?
- H.M.Jr: That is better.
- Gaston: The newspaper men may notice it and they may not.
- H.M.Jr: The average Washington newspaper man won't.
- Bell: I don't think it will be the newspaper people. It may be an appropriation committee. "General Marshall or the Treasury says they are going to spend five billion dollars. You say you are going to spend six, three. Well, we will take a billion dollars off your estimates." The purpose of this meeting is to just look for holes in this thing, that is what.
- Sullivan: I wonder if you might not save the situation by labelling that five billion as the minimum, and we can say we may exceed this.
- H.M.Jr: Well, something like that.
- Sullivan: Not referring to the Army and Navy, saying it may exceed it, but which we think --
- H.M.Jr: Something like that.
- Bell: I still think it is high.
- H.M.Jr: Now, Dan, but --
- Bell: I don't mind making it a minimum.
- H.M.Jr: I personally would take it out altogether. I am so confused. One day the National Defense says they have authorized a billion eight hundred thousand dollars worth of contracts and the next day Phelps Adams says they have only done eight hundred thousand. I am all

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mixed up. I don't want to add to the mixture in the future.

"The large and necessary national defense program to be financed over the next two or three years --" I just don't like "large and necessary."

Sullivan: "Necessarily extensive national defense program."

H.M.Jr: Mr. Coyle is a past master on words. I am just going to point out the ones I don't like. All right, I have given my opinion. It is a good start. When can we meet again on this thing? How much time do you want, Mr. Coyle?

Coyle: Today.

H.M.Jr: What?

Coyle: Until tomorrow.

Gaston: You are going to add some kind of a tax statement on this, aren't you?

Sullivan: We will have that for you.

H.M.Jr: Tomorrow is a bad day.

Coyle: This is Wednesday. Tomorrow is Thursday. You have got to go up there Friday, haven't you?

H.M.Jr: I will be ready at 9:30 tomorrow for you gentlemen.

Coyle: I am not clear about one thing, if I may ask a question.

H.M.Jr: Please.

Coyle: I think I will have to ask you here in the full meeting. I am not sure whether the

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purpose of this whole document here is to get them to incorporate the four billion dollars into the general debt limit structure, cutting out your earmarking of special taxes, and if it isn't, I am not clear what the purpose of this document is. It started out to be something like that.

H.M.Jr: Well, leaving the question of the earmarking - let's say that isn't in it at all. The purpose of the document is this: You are going up on a revenue bill and I am using this as an opportunity to bring these people up to date and why do we need - "Why, Mr. Morgenthau, do you need a revenue bill?" "Well, we need an additional revenue because - on account of additional appropriations."

Coyle: This document as it stands now tells the Congress that you can get along with what you have got now, the actual four billion dollars increase, until the end of this fiscal year.

H.M.Jr: That is right.

Coyle: If I were a simple-minded Congressman from somewhere out in the backwoods, I would say, "That proves you don't have to have any more revenue, doesn't it?"

H.M.Jr: No. We are talking about borrowing power.

Foley: I think he has got a point, Mr. Secretary.

Gaston: I think Mr. Coyle has a very good point here. I think we need something to tie the thing together.

Bell: You mean this revenue bill?

Foley: I would just like to throw this out on the table, why do you need this at all, Dan?

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Why not just go up there and talk about the tax bill?

Bell: All right, but --

Foley: And then wait until they ask you the questions before you throw this out on the table. If the meeting is going to be well run and the Secretary is going to be the first witness, he is going to talk about an excess profits bill, about special amortization and about the repeal or suspension of the Vinson-Trammell Act. Why do you have to clutter the record by going through what the Budget figures are and what the deficit is and what the estimated income to the Treasury this year is going to be and consolidation of your special and your general debt limit and talking about coming up next winter and asking for a general increase in the over-all limit? Why not keep that back until the questions come?

H.M.Jr: And then let Dan do it.

Foley: And let Dan do it, and you confine yourself to talking about the bill, which is the thing that all of us have discussed so far, but we haven't gone into this part of it at all.

Bell: Well, that is all right with me. I just assumed that the Secretary of the Treasury, appearing before the Ways and Means Committee, appearing on a revenue measure, would have to give the fiscal situation and they would expect him to give it.

Foley: I think if they ask for it in their questions, then we have this material ready and it can be given to the Committee. Maybe we can get by without ever having to make that presentation and if the hearings are well run, the Secretary is the first witness and he talks

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about the tax situation and then if the next fellow is Mr. Knudsen, he talks about the need for clarification of the tax situation in order to get the defense program under way. Then Knox and Stimson go on and maybe we will never get into all this stuff.

Gaston: Well now, Ed, is the Secretary going to support - not the tax bill, but a tax bill, an excess profits tax bill? Is his purpose to support an excess profits tax bill?

Foley: Yes.

Gaston: Then shouldn't he say something about the fiscal situation in support of the need?

Foley: Then how much revenue are you going to need? This doesn't say it.

Gaston: You don't have to say how much, you just have to say more.

Sullivan: The catch is that you are not going to raise any more revenue with this excess profits bill.

Gaston: That will develop later.

Sullivan: I am afraid it will.

Bell: You had the same situation when you went up on the other taxes.

Foley: I don't think so.

Bell: You didn't raise enough revenue to meet the deficit.

Sullivan: We raised enough to retire this additional four billion over five years.

H.M.Jr: I can confine myself to the fiscal situation

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and I will say that Mr. Sullivan will explain the bill and its tax features. Are you swallowing?

Sullivan: I was trying to.

H.M.Jr: What would you think of that, Dan?

Bell: I think that might be easier for you.

H.M.Jr: I tell you what let's do. Let's polish this thing up and make a bang-up job of this. Then tomorrow, by golly, you fellows come in at 9:30 with a tax thing and we can decide after, but in the meantime, let's polish this, see.

Coyle: I still am not clear as to what I am aiming at in polishing this up, whether it aims to show that things are not so bad as they look, that you are not going to ask any further increase in the debt limit before next winter sometime and sort of calm their spirits, after which you ask them for more taxes, or whether the purpose is to do something about the debt limit itself, namely, this consolidation that is mentioned here, and if it isn't, then this next to the last - then the paragraph which was not omitted here probably should be omitted, about repealing this four billion dollars.

H.M.Jr: Well, thinking out loud, I think we are dragging something in by the hair. We had better leave it out.

Bell: That suggestion --

H.M.Jr: I think we are dragging in an entirely new subject here. There has been no discussion of it before the Committee.

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- Foley: I agree with that.
- H.M.Jr: I think we had better leave that out.
- Coyle: Then if we leave that out, this is merely a statement of the fiscal situation and from that - the reason for the new tax bill is simply that although you have the authority to borrow, that is not all you want. You would also like enough taxes so you won't have to borrow so much.
- Sullivan: No, the tax bill is to prevent the creation of war millionaires.
- Gaston: It is social legislation.
- Foley: Then you go back to my point and you don't need this thing.
- Coyle: Then this thing becomes irrelevant to the tax bill. I was trying to find out some way in which this had something to do with the tax bill.
- Foley: And I think you ought to confine yourself to an excess profits special amortization feature and suspension of the Vinson-Trammell and let Dan handle the fiscal end of it.
- Sullivan: Here is what I had --
- Gaston: I don't exactly agree with that. It seems to me that you have got a picture here of a greatly increased expenditure. You have got a 15 billion dollar program, whereas a few months ago we talked about a 5 billion dollar program. Now, you want to start in by saying that is the situation which confronts us whereas a few months ago we talked about a 5 billion dollar program and we had means

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for financing it and now we have a 15 billion dollar program. It is obvious we must do something more to fortify our tax structure.

Now, this is also necessary and justifiable for these other reasons, which are social reasons, but in connection with this thing, I think to be candid and frank, to give you the whole situation, I should tell you just what is the fiscal position of the Treasury now and what it will be a few months hence and then go ahead and give it.

Sullivan: And then throw this into the harbor --

H.M.Jr: That is the way I feel.

Bell: That is the way I feel.

Sullivan: And then throw the suggestion about the removal of the earmarking --

H.M.Jr: No.

Sullivan:and the other thing at some later date.

Bell: They are going to raise that.

H.M.Jr: Leave that out.

Bell: You don't have to say it.

Sullivan: All right.

Coyle: Then you - Herbert, you wanted to take - Herbert's suggestion, you want to take this, Sullivan, that there is a relationship between the tax bill and the desire for more revenue, in spite of the fact that you know you aren't going to get anything out of this one that they have got? You see, I am trying to see what I am going to write as between --

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H.M.Jr: Your question is a very intelligent one.

Coyle: You people over here - now, Foley's attitude to this is a matter of asking for a tax bill primarily and that we are not getting - we are not going up there to try to settle the question of how to pay for the Government's defense program but that we are up there to try to get an excess profits tax. If that is the case, then if I am writing something to start off, if you are going to start the introduction by a discussion of the fiscal program and if your reason for coming up there is that you are trying to get that tax bill through in a hurry so as to keep from getting too many war millionaires and also to release the so-called dam against contracts, then your introduction doesn't have a logical connection with your - with the purpose you came up there for, and if Mr. Gaston's suggestion that the Secretary of the Treasury can't appear before them without first telling them what the situation is, is the case, then this thing has to be hitched as a sort of genuflection as you approach the sovereign in which you say, "Live forever, oh King! This is the situation that you are in and now I come before you to propose a tax bill for the following reasons," which are not connected with the fiscal situation at all. But if you are going to start off with the fact that - "Now, everybody knows we have got a big defense program, everybody knows that an excess profits tax is required, everybody knows that speed is required. Therefore, I come before you to advocate that you pass an excess profits tax."

Foley: No, get it on the books, get uncertainty out of the way.

H.M.Jr: I think what you say is this, but even if you could even go back before that and say,

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"Now look, gentlemen, two months have passed since I appeared before you. I want to take - use this opportunity to bring you up to date."

Coyle: That is the way to do it.

H.M.Jr: "Two months have passed since I last appeared before you and I want to take this opportunity to afford, through you, the people of the United States what changes have taken place in the fiscal picture of our Government."

Coyle: That makes sense. Now, after that you can say, "Now, I come before you because we require this tax and we are in a hurry."

H.M.Jr: And then give the fiscal picture. "Now, having given you the fiscal picture, the additional reason for my appearing before you is for the reason you have just stated."

Coyle: That makes it. That hitches on and then you can go on from there.

H.M.Jr: "But I feel I should report to you and this is my opportunity to report to the people of the United States, through you." Is that --

Coyle: Now, I am getting an idea by which the thing will have an outline.

H.M.Jr: It will flow.

Coyle: It is an approach.

Sullivan: There is another plausible reason for that. You are not reporting to just one Committee, you are reporting to two, because they are going to meet jointly, Senate Finance and House Ways and Means.

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H.M. Jr: But that is sincere. A lot of things have happened; a lot of water has gone over the dam since I appeared there before. Congress has passed a lot of new money and are in the process of passing a lot of new appropriations at the request of the President. "Therefore, I want to bring you gentlemen up to date and make a report of the trusteeship, what the picture is. Now, in view of what has happened, we feel that we need a tax on excess profits in order to keep the war millionaires out," and so forth and so on, "and the suggestion has been worked out by your Committee." Now, would that be all right?

Coyle: That is all right so far. The question of the necessary insincerity of not telling them that their own bill is lousy and that they are going to have to change it --

Gaston: Their own bill won't be a bill when it appears.

Foley: It will only be a report from the Subcommittee, David.

Gaston: The Subcommittee has to assume, I think, that one purpose of tax legislation is to raise additional revenue. The Chairman has to assume that is the purpose before him and of course, a part of that purpose is always correcting inequalities and distributing the load in a more equitable manner. That contributes to getting more revenue.

Coyle: If there is any implication that you at any future time might want to comb this bill over and get better results, then the business men are going to slap right back and say, "Uncertainty, again. They got the bill passed but they gave notice that it was only for the moment."

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H.M.Jr: That is what the President is going to do and nobody is going to be able to stop him. He did it two years ago to Pat Harrison.

Gaston: You don't need to do that, because there isn't any bill before them yet. All you can talk about is the general purpose of a bill and what a bill should do.

H.M.Jr: Have you got enough?

Coyle: I think I have enough.

H.M.Jr: You have been very helpful this morning.

Coyle: Thank you.

Sullivan: Now, in the tax part of this, I intended to have this start out with the amortization and suspension of Vinson-Trammell and then be pretty vague on the excess profits.

H.M.Jr: Okay.

Sullivan: Aye, aye, sir.

First Draft -
August 7, 1940

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When I appeared before the Senate Finance Committee on June 12 last, during the consideration of the Revenue Bill of 1940, I stated that the Treasury and the Bureau of the Budget had estimated the deficit for the fiscal year 1941, on the basis of the revenue laws then in force and of the appropriation bills which had passed and those which were then pending in Congress, at \$4,350,000,000; that the balance of the borrowing authority then remaining under the limitation of \$45,000,000,000 was \$1,950,000,000; and that unless the Congress acted to relieve the situation, the balance of the borrowing authority would be completely exhausted and the working balance of the Treasury would be dangerously depleted before the end of January 1941.

Congress did relieve the situation as it existed at that time. As you know, the Revenue Act of 1940 contains a provision authorizing the issuance of not to exceed \$4,000,000,000 of short-term obligations for the purpose of financing national defense expenditures, and provides additional taxes, most of which are to be used to retire over a five-year period any defense obligations issued under that authority. I told you at the time I appeared here on May 31, 1940, that the provisions embodied in the bill then pending before your committee were acceptable to the Treasury. However, because of rapid changes in world conditions, the President has been compelled to further enlarge our national defense program and has asked the Congress to provide additional funds for this purpose. The following table shows the appropriations and contract authorizations for national defense purposes made by, and pending before, this Congress:

- 2 -

APPROPRIATIONS AND CONTRACT AUTHORIZATIONS FOR
NATIONAL DEFENSE 1/

(Figures in millions of dollars)

	<u>Army</u>	<u>Navy</u>	<u>Total</u>
Appropriations made	\$ 2,320	\$ 1,857	\$ 4,187
Appropriations pending	1,662	604	2,266
Contract authorizations approved	577	312	889
Contract authorizations pending	<u>2,250</u>	<u>502</u>	<u>752</u>
	6,809	3,285	10,094
Two-ocean navy and other construction previously authorized		<u>4,615</u>	<u>4,615</u>
<i>Total</i>	6,809	7,900	14,709

1/ As of August 5, 1940.

The additional borrowing authority and additional taxes provided by the Revenue Act of 1940 were quite sufficient to carry us into the fiscal year 1942 for the program that was before us on June 12th. Now, however, with this much enlarged program, I feel that it is quite essential that we again review with you the fiscal situation confronting the Treasury.

The Bureau of the Budget and the Treasury now estimate, on the basis of revenue laws now in force and of appropriations made and those pending in Congress, that receipts for the current fiscal year will amount to \$6,367,000,000 and that total expenditures will be \$12,058,000,000, leaving a net deficit of \$5,691,000,000. We have included in our total

estimated expenditures for this fiscal year the sum of \$5,000,000,000 for national defense, although the War and Navy Departments might make a materially higher estimate. There is attached hereto a statement showing the revised Budget estimates as of August 1st, compared with those made on June 3rd and those included in the President's Budget Message of January 3, 1940.

The balance of the borrowing authority at the end of July 1940, under the general limitation of \$45,000,000,000, was \$965,000,000; and the balance under the national defense limitation included in the last Revenue Act was still \$4,000,000,000. The working balance in the general fund of the Treasury was on that date \$1,504,000,000. On the basis of the present Budget estimates, the balance of the borrowing power under the general limitation will be about \$805,000,000 on December 31, 1940, and under the national defense limitation about \$2,465,000,000. On March 31, 1941, the balance under the general limitation will be \$655,000,000 and under the national defense limitation, \$1,160,000,000; and on June 30, 1941, the balance under the general limitation will be approximately \$300,000,000 and the balance under the national defense limitation will have been exhausted. It is estimated that the working balance in the general fund will, on June 30th next, be down to about \$1,275,000,000. On the basis of these estimates it is obvious that in view of the magnitude of the defense program, the combined debt limitations of \$49,000,000,000 will have to be increased, or other means of financing the national defense expenditures will have to be found before June 30, 1941.

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In view of the fact that our national defense program, now in contemplation, will cost us more than \$15,000,000,000 within the next three years, it would seem advisable to reconsider the policy adopted in the Revenue Act of 1940 of placing a limitation on our national debt for specific purposes and earmarking specific revenue for the retirement of that debt. The large and necessary national defense program to be financed over the next two or three years makes it quite essential that the Treasury have a great deal of flexibility in its financing operations. While the Treasury has sufficient borrowing authority until the next session of Congress, I believe this Congress may wish to consider in connection with the bill now pending before it, the question as to whether the provisions in the Revenue Act of 1940, authorizing the issuance of not to exceed \$4,000,000,000 of national defense short-term obligations and creating a special fund in which certain taxes are to be deposited for the purpose of retiring any such obligations so issued, should not be repealed, and in their place a provision enacted which would increase the general debt limitation of \$45,000,000,000 to an amount sufficient to care for the estimated deficit for the fiscal year 1941.

It always has been the policy of Congress to place a limitation on the amount of public debt obligations which the Treasury can issue and have outstanding at any one time, and I am of the opinion that the Congress should continue to keep this control over the public debt. If the Congress decides to repeal the provisions of the Revenue Act of 1940 mentioned above, and to enact a general increase in the debt limitation, it is my recommendation that this limitation be fixed at \$50,000,000,000, which, from all

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indications at the present time, will slightly more than take care of the public debt financing required during the fiscal year 1941 and give the Treasury the flexibility it needs in its financing programs.

It will no doubt be necessary to increase further this public debt limitation for the fiscal year 1942, but that can best be determined during the next session of Congress after the program for that year has been acted upon by the legislative branch of the Government.

(Handed by Mr. Pincot of the British Embassy to Mr. Cochran in the Treasury
at 3 P.M. August 7, 1940.)

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Sir Frederick Phillips understands that, after he left Washington, discussions developed with the Advisory Commission under Mr. Knudsen concerning the British air programme during the period of October 1941 to March 1942, and that it was accepted by the United States Administration that further orders totalling 4,200 aircraft should be allocated to the United Kingdom Government for deliveries during those months. These orders will need to be placed in the next month or so, and we are advised that expenditure of roughly \$250,000,000 will accrue under these before the end of June 1941. This will be an addition to figures of the United Kingdom expenditure in the United States in the twelve months to June 30th, 1941, which we gave to Mr. Morgenthau.

The following items will also be additional. Their amount is not yet known but it may be large:-

- (a) Expenditure under the new scheme for an additional 3,000 planes a month.
- (b) Expenditure under the new munitions programme (tanks, anti-aircraft guns, filling factories, etc., etc.)

BRITISH EMBASSY,

7th August 1940.

AS

PLAIN

London

Dated August 7, 1940

Rec'd 1:08 p.m.

Secretary of State,
Washington.

2611, seventh.

It may be useful to the Secretary of the Treasury and the National Defense Commission to know that Mr. Greenwood, Minister without Portfolio, who has supervisory charge of coordinating economic matters, referred in the course of his speech in the House of Commons this afternoon to the changed position with regard to British purchases in America following the dissolution of the Anglo-French organization. He pointed out "that the work of the North American Purchasing Commission had been affected by the fact that America was now itself engaged in an effort of national rearmament and was mobilizing its industries for that purpose. The task of the purchasing committee in New York was now far more than that of active purchaser on account of the United Kingdom and the Empire. It has to consider the general program and requirements in common with America. We are taking steps to ensure that

Mr. Purvis,

AS-2- No.2611, seventh, from London.

Mr. Purvis, the Director General of the committee, is given the additional personnel and authority to enable him to cope with his vitally important task. I may add that despite the difficulties which Purvis has had from time to time in obtaining quick action from this end he is regarded as indisputably the best man for the job and his work is fully appreciated.

KENNEDY

McL

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Vichy, France.

DATE: August 7, 1940, 8 p.m.

NO. : 249

The information furnished by Matthews regarding the regulation of banks in occupied France has been received by the Treasury Department with interest. Excerpts of cable no. 233 dated August 2, 5 p.m. and cable no. 261 dated August 5, 5 p.m. have been furnished the four banks in New York who have establishments in France by the Treasury Department through the Federal Reserve Bank in New York.

Matthews is requested by the Treasury Department to continue to furnish any information regarding conditions which American or other banks operating in France have imposed on them.

It is to be hoped that as long as Matthews is not in Paris, the personnel of the State Department in the capital will carefully observe the treatment which German officials are according American banks. Because of Albert George's long and valued experience, it is believed that he would be useful to Trimble in getting in touch with American friends in the four banks referred to and can in a most discreet manner ascertain any difficulties which these banks under the new conditions may be confronted with.

Any

Any system which the Embassy may be able to work out for transmitting reports, by telegraph if possible, stating observations on the subject mentioned above will be greatly appreciated by the Treasury Department.

WELLES
Acting
(HG)

EA:MSG EU A-G

EA:EHS

(Handed by Mr. Finant of the British Embassy to Mr. Cochran
in the Treasury at 3 P.M. August 7, 1940)

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With reference to the memorandum
handed to Mr. Morgenthau by Sir Frederick
Phillips on July 19th ("Monthly Changes in
Foreign Exchange Position"), the drain on
Great Britain's gold and United States dollar
resources in July, 1940, amounted to \$210 million.

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TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

BRITISH EMBASSY,

7th August 1940.

SMP

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 7, 1940

TO Secretary Morgenthau

FROM J. P. Chamberlain

Re: Relief Payments to
Blocked Countries.

The Foreign Funds Control would like to have a policy fixed in regard to payments of relief by residents in the United States to dependents in countries subject to control. Applications to send relief to over 1,000 persons have been received. They are for small amounts. A quick investigation of the records would indicate that many of the applications are for the benefit of a wife or a wife and children while some apply to parents, brothers or sisters and some contain a request to send relief to a personal friend, usually an old person or a woman. In some cases the applications are for permission to send relief to a wife, who is a national of and resident in the country covered by the order, but who has American children. As to the amount, probably 90% of the applications are for \$100 or less and about 50% are for sums of \$50 or less. Applications from Norwegians form the largest group up to the present. There have been a few for France and other occupied countries.

A large proportion of the requests are to continue payments which American citizens, or persons domiciled and resident in the United States or persons who have applied for citizenship, had made prior to the going into effect of exchange control. In such cases it would seem clear that the application to send relief money to the dependent in the occupied territory has not been the result of pressure applied in the occupied country nor would there be difficulty in determining that the application represented a genuine case of a maintenance payment. Letters received making the applications indicate great anxiety on the part of the persons applying over the situation of their dependents abroad, and it may be assumed that the foreign born population will grow more concerned as conditions grow worse. It should also be pointed out that payments may be made freely to Germany, Italy and Japan and to other countries not under the exchange control.

It is suggested that the refusal to allow such relief payments in small amounts will probably cause a strong feeling among the foreign-born groups affected, and that there will be representations by Senators and Members of Congress on behalf of constituents based on humanitarian grounds. It is also believed that the result of making these relief payments in small amounts to individuals abroad will improve the sentiment towards America in the countries to which relief is sent.

- 2 -

On the best information available, it appears probable that these relief payments would reach the persons to whom sent. It is probable that the German government will assure payment to the persons to whom the relief is sent as it is in its interest not to stop these payments. The Red Cross informs us that experience in Poland would lead to the same conclusion.

The amount involved in dollars is not expected to be very large, if the amount which can be sent in each case is limited and the class of persons who may make the remittances is restricted to American residents who have been making such remittances prior to the going into effect of the control.

It is suggested that persons domiciled for a year or more in the United States, who have been sending money to their relatives or dependents in countries subject to exchange control, be authorized to continue to make payments up to \$50 per month for an individual and \$10 for each additional member of a family, not exceeding \$100 a month to one family. It is believed that these limitations; to persons domiciled here who desire to continue payments which they have been making, will safeguard against abuse; but if it is desired to limit the policy further, the authority might be limited to citizens of the United States or to persons who have declared their intention to become citizens.

J. P. Chamberlain,

AS

PLAIN

London

Dated August 7, 1940

Rec'd 1:02 p.m.

Secretary of State,
Washington.

2610, August 7, 1940

FOR TREASURY FROM BUTTERWORTH.

1. The first list of bearer securities which may have fallen into enemy hands, referred to in the third section of my No. 1913 of July 1, is now compiled and copies will go forward in the next pouch. It contains about 8,000 distinguishing numbers of 25 securities including British, Belgian, German, Austrian, Norwegian and Roumanian Government bonds and various railway, mining and oil company bonds, et cetera.

2. Moving the second reading of the Finance Bill the Chancellor of the Exchequer in the House of Commons last night again indicated the interim character of his budget by referring in detail to the increase in income tax rates on certain incomes (for example a married man with two children earning stlg 400 per annum paid stlg 1.13.4. last year and now pays stlg 15.16.8, while the group

AS-2- No.2610, August 7, 1940, from London.

group paying more than half their income in taxes now reaches down to those receiving stlg 5,820 per annum as compared with stlg 17,200 last year and stlg 8,770 under the April budget). Sir Kingsley Wood said that time should be given before further measures are taken by the Government so that taxpayers may make the necessary adjustments. His speech offered no further reply to the criticism that his budget proposals are inadequate to meet the situation.

KENNEDY

HPD

MEMORANDUM

August 7, 1940

To: The Secretary

From: Mr. Young

Subject: Routing of applications for export licenses for items covered by the President's proclamations of July 2 and July 26, 1940.

On the basis of conversations with Colonel Maxwell, Export Control Administrator, and Mr. Yost, Acting Chief, Division of Controls of the State Department, the attached diagram has been prepared showing the routing of export license applications for restricted items. Significant points are as follows:

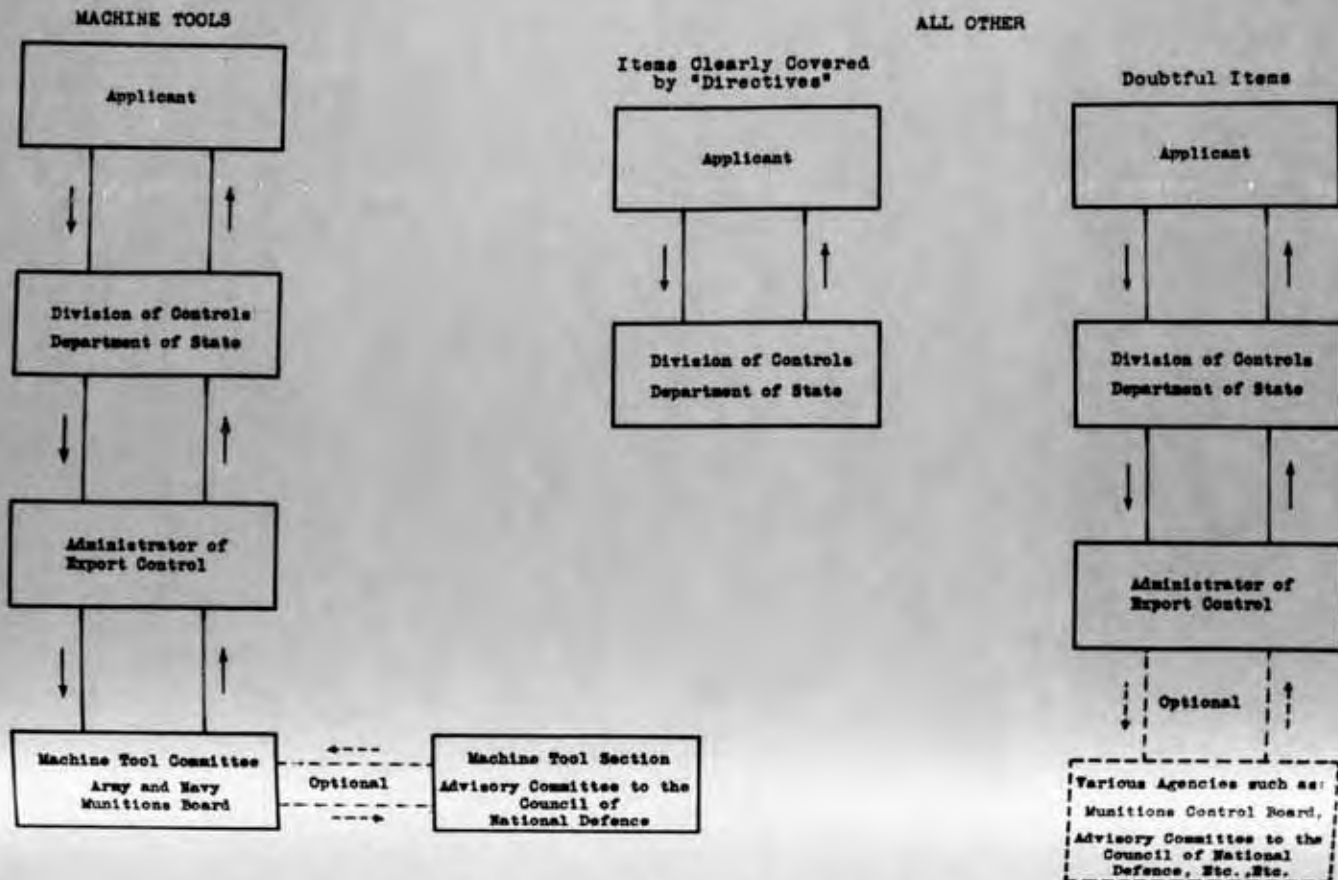
1. Machine tools is the only item for which there is a regular routing beyond the Division of Controls of the State Department. These licenses are issued only after being referred to Colonel Maxwell, who refers them in turn to the Army and Navy Munitions Board, which in some, but not in all, cases clears them with the Machine Tools Section of the Advisory Commission to the Council of National Defense.
2. All other applications are approved or disapproved in the Division of Controls of the State Department based upon a series of "directives" which have been issued by Colonel Maxwell and which now number between 50 and 60.
3. Applications which the State Department feels are not covered by the "directives" mentioned above are considered doubtful and referred to

- 2 -

Colonel Maxwell for decision. These, in turn, may be referred to the Army and Navy Munitions Board, the Advisory Commission or to other agencies for a recommendation as to what action should be taken.

P4.

Routing of Applications for Export Licenses for Items Covered by the President's Proclamations
of July 2, and July 26, 1940
AS OF AUGUST 7, 1940



Source: Lt. Colonel H.L. Maxwell, Administrator of Export Control, and
Charles W. Test, Acting Chief, Division of Controls, State Department.

Y

SECRET

Apart from a number of small payments to German diplomatic and consular officials, the following payments of larger amounts have been noted:-

<u>Date</u> 1940	<u>Amount</u>	<u>Paying Bank</u>	<u>To</u>	<u>Remitting Bank</u>	<u>By Order of</u>
18th March	\$80,224	Federal Reserve Bank	German Embassy	B. I. S.	German Foreign Office Reichsbank
18th March	60,000	" " "	Consulate General San Francisco	B. I. S.	" "
15th April	480,000	National City Bank	Consul General New York	Credit Suisse New York	No name mentioned
29th April	50,000	"	" "	B. I. S.	Reichsbank
25th May	60,000	National City Bank	Consul General San Francisco	Credit Suisse Zurich	German Foreign Office
30th May	200,000	Chase Bank	Consul General New York	Nordiska Forenings- banken Helsinki	Reichsbank (x)
3rd June	250,000	"	"	Winterthurbank Zurich	"
3rd June	68,000	"	"	Union Bank of Switzerland	"

(x) Precautions were taken in this case to ensure that no mention was made of the Reichsbank's name and the Nordiska Foreningsbanken were asked to verify that payment had been made.

On the 18th June, the Banco Aleman Transatlantico, Buenos Ayres advised the Reichsbank that the German Embassy had paid in to them \$1,000,000 in bank notes for the account of the Reichsbank.

(Initialed) R. J. S.

7 Aug. 1940

THE WHITE HOUSE
WASHINGTON

August 7, 1940.

MEMORANDUM FOR THE ADMINISTRATOR OF EXPORT CONTROL:

**Subject: Export Licenses Issued
Prior to July 2, 1940.**

1. The President has given further consideration to the proposal to revoke export licenses outstanding on July 2, 1940, and has decided that no general revocation is necessary or desirable.

2. However, you are directed to consult with the Secretary of State and the Secretary of the Treasury with a view to determining the necessity for the revocation of any particular license in the interests of the National Defense.

3. Whenever it is determined that the revocation of a particular license will benefit the National Defense to a material degree, you are authorized to direct the Department of State to revoke the license.

EDWIN M. WATSON,
Brigadier General, U.S.A.
Secretary to the President.

cc: Secy
Secretary of the Treasury

"E.M., Jr."

"S.W."

SECRET

(Handed by Mr. Stopford of the British Embassy to
Mr. Cochran in the Treasury at 5:45 p.m., August 7, 1940)

INFORMATION RECEIVED IN CONNECTION WITH THE
BOOKING OF OCCUPIED TERRITORY ASSETS.

1. On the 25th April, 1940 Messrs. Paulsen and Co. of Copenhagen instructed Industrias Benidas F. Matarsso, of Sao Paulo, to remit \$9,000 to the National City Bank of New York for account of the Credit Suisse without mentioning their name and at the same time to inform the Credit Suisse that these funds are for the credit of the Copenhagen Handelsbank account Paulsen. The Sao Paulo Company was also to ask the National City Bank to confirm by cable to the Credit Suisse that the money had been received for their account.
2. On the 17th June the Copenhagen Handelsbank instructed the Credit Suisse, Zurich to close their (Copenhagen Handelsbank) dollar account and to remit the amount by telegraph to the Guaranty Trust Co., New York, in favour of Svenska Handelsbank Goteburg and arrange for New York to notify Goteburg by telegram.
3. On the 24th May the Tokionama Specie Bank, Yokohama, informed the Twentsche Bank, Amsterdam, that they had sold for the latter's account 5,000 U. S. Dollars.
4. On the 26th June Buenos Aires advised the Oryde M.J. Voor Ersten en Matasien, Amsterdam, that the proceeds of their collections in the Argentine would be frozen under Argentine regulations and suggested that the Banks in question should be instructed to credit amounts to the Dutch firm's account with the Chase National Bank, New York, in order to ensure dollar payment.
5. On the 4th July Lafontaine, Shanghai informed the Banque Belge pour l'Etranger, Bordeaux that the freezing of their account in the United States was not causing much inconvenience owing to the precautionary measures taken. He added that they were keeping all mail administration in Shanghai and suggested that it should be forwarded to their New York branch to be held as the disposal of Bordeaux.
6. On the 2nd July Mr. Welmann, Suite 3401, 30 Broad St., New York, informed the Ausfuhrzollamt, Berlin that business in dollar-gulden was stopped in New York and asked them to enquire from Mr. Puhl at the Reichsbank, whether he could offer up to 500,000 gulden against dollars for South American friends.
7. On 25th June an unidentified person in New York informed "Hanselants", Berlin, that the Manufacturer's Trust Co., were asking whether Berlin could sell gulden for the fulfilment of commercial contracts. He added that the enquiry was apparently based on the fact that the Foreign Exchange Committee had refused to liquidate gulden contracts. He suggested that he should put forward the Reichsbank's suggestions in this matter and hoped that Haaseleit's would be able to carry through any resulting transactions for the Reichsbank.

He noted that the American order referred only to the Dutch balances of U.S.A. banks and not to the gulden transactions of the U.S.A. banks with German banks.

8. On 26th June The Manufacturers Trust Co., New York, instructed the Rotterdamsche Bankvereniging, Amsterdam, (in reply to a previous communication) to buy 10,000, delivery 17th May covered on 23rd May at 321½ and to buy 111,000 for delivery 19th June covered on 19th June at 359½.

9. On 8th June Mr. Barreau, of New York, asked the Stahl Union Export, Dusseldorf, whether they had persuaded his Dutch friends to offer him the whole issue of stock, payable against a promisory note maturing in five years and with his option to make partial payments before maturity. After consultation with lawyers he advised most urgently that immediate action should be taken in view of political developments. He added that the interest of his Dutch friends was properly safeguarded provided his advice was followed.

10. On 12th June an unidentifiable person advised Mr. Barreau (whose telegraphic address appears to be "Stelcopile, New York") that they intended for tactical reasons to make a telegraphic remittance of \$50,000 to Barreau's account through the Chase Bank and in the name of a neutral person. This amount would later be disposed of by letter or telegram giving the name of the bank and information as to whether it was to stand in Mr. Barreau's name as an American Company. If this was not feasible, they asked if Mr. Barreau had any objection to a German Company or whether he had any alternative proposal.

(Init.) R.J.S.

7 Aug. 1940



DEPARTMENT OF STATE
WASHINGTON

August 7, 1940.

In reply refer to
Eu

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses for his information and appropriate attention a copy, in translation, of a memorandum which was left at the Department of State by the Counsellor of the Spanish Embassy on August 6, 1940, regarding the unblocking of funds held in this country by La Cía de Seguros La Unión y El Fénix Español, which is said to be of Spanish nationality.

Enclosure:

Memorandum,
in translation.

JST

(TRANSLATION)

MEMORANDUM:

By virtue of the Neutrality Law the President of the Republic has ordered the blocking of the accounts existing in North American banks belonging to subjects or entities of nationalities involved in the European conflict.

The Insurance Company La Unión y El Fénix Español (La Cía de Seguros La Unión y El Fénix Español) has been included in the list. This Society is wholly Spanish since its Constitution on March 17, 1864. It is inscribed in the Mercantile Register of Madrid and in that of the Administration-General of Security and it is authorized to carry on business by virtue of a Royal Decree of the Ministry of Finance. Its main office is located in Madrid and a majority of its shares (of stock) is in the possession of Spaniards. This Company has carried on business in France, as well as in other countries such as the United States, for a long time past.

It is desired that the account which this Company has in various banks in the United States may be freed since it is not considered to be included within the provisions of the Neutrality Law.

Washington, D. C.,

August 6, 1940.

THE WALL STREET JOURNAL
London Bureau

August 7, 1940

British Security List Published.

London.—The Bank of England has published the first list of number of bearer securities which it has reason to believe may have fallen into enemy hands as a result of the German occupation of Poland, Norway, the Low Countries and France. The list, which is 24 pages long and covers 25 securities, includes common shares of Brazilian Traction, Canadian Pacific, Hydro-Electric Securities, Rand Mines, Roan Antelope, Royal Dutch, Shell Transport & Trading and the British 3-1/2% War Loan. Other lists are expected to follow.

Any omission from the lists of numbers of any bearer securities is no guarantee that they bear no enemy taint, it is stated. On the other hand, certain numbers listed may have been removed from the various countries before enemy occupation and banks are advised to forward details where they have evidence of such removal.

* * * *

THE NEW YORK HERALD TRIBUNE

August 7, 1940

Suez Funds in U. S., Britain

Commons told what balance remains in Paris is in France.

London, August 6 (UP). Sir Kingsley Wood, Chancellor of the Exchequer, told the House of Commons today that a large part of the assets and reserves of the Suez Canal Company were now in Great Britain and the United States. The resources, he said, "are blocked under the general measures that we and the United States Government have taken."

He stated that whatever Suez Canal funds were left in Paris were in francs, and therefore "cannot increase the enemy's external resources."

TELEGRAM SENT

OK

GRAY

August 7, 1940

5 p.m.

AMERICAN LEGATION

RIGA

118.

Your 209, July 19, 6 p.m.

Treasury furnishes the following reply; QUOTE You are advised that the following transactions involving property in which Latvia, or any national thereof, has at any time on or since July 10, 1940, had any interest, direct or indirect, may be effected only pursuant to a license issued pursuant to Executive Order No. 8389, as amended, and Regulations issued pursuant thereto: (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; (b) all payments by or to any banking institution within the United States; (c) all transactions in foreign exchange by any person within the United States; (d) the export or withdrawal from the United States, or the earmarking of gold or silver coin or bullion or currency by any person within the United States;

States;

-2-#118, August 7, 5 p.m. to Riga.

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. Applications for a license to effect any of the transactions above referred to may be made to the Federal Reserve Bank of New York by any party to such transaction, whether or not in the United States.

Within the meaning of the Executive Order the term "Latvia" includes the State and Government of Latvia on July 10, 1940, political subdivisions, agencies and instrumentalities and persons acting for the benefit or on behalf thereof, and any and all other governments (including political subdivisions, etc.) to the extent and only to the extent that such governments exercise or claim to exercise de jure or de facto sovereignty over the area which on July 10, 1940, constituted Latvia.

The term "national" of Latvia includes any person who has been domiciled in, or a subject, citizen or resident of Latvia at any time on or since July 10, 1940, but does not include any individual domiciled and residing in the United States on July 10, 1940, and also includes any partnership or other organization, including any corporation organized

-3-#118, August 7, 5 p.m. to Riga.

organized under the laws of, or which on July 10, 1940, had its principal place of business in Latvia, or which on or after such dates had been controlled by, or substantial part of the stock or other securities of which has been owned or controlled by, directly or indirectly, one or more "nationals" of Latvia.

Your questions are answered as follows: (1) Yes. The term "banking institution" includes any individual or corporation holding credits for others as a direct or incidental part of his business. (2) No. Accounts subject to the provisions of law above referred to do not become "unfrozen" by reason of subsequent changes of residence or domicile by the persons in whose names such accounts are held. (3) The Treasury Department has licensed the American Express Company to accept and receive payment on drafts drawn on the Secretary of State by United States Foreign Service Officers. The American Express Company's correspondent in Riga, Latvia, the Latvijas Banka, will cash all such drafts. UNQUOTE

Treasury ^{has} / issued license to American Express Company permitting it to:

(1) Receive from Latvijas Banka, Riga, drafts drawn on the Secretary of State by Foreign Service Officers and hereafter acquired by Latvijas Banka directly from such

Foreign

~~4~~-#110, August 7, 5 p.m. to Riga.

Foreign Service Officers.

(2) Present such drafts for payment and receive payment thereof.

(3) Establish and maintain a free dollar account for Latvijas Banka to which account the proceeds of the collections of such drafts shall be credited and

(4) Make payments out of such account on the order of Latvijas Banka of the proceeds of the collections of such drafts.

WELLES
Acting
(FL)

840.51 Frozen Credits/326
EA:FL:EHS PA/D DA EU TA

August 7, 1940.

Dear Mr. Secretary:

Thank you for your communication of July 30th, enclosing copy of the note from the British Ambassador with respect to the shipment of artillery to Surinam.

Sincerely,

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

(Signed) H. Morgenthau, Jr.

The Honorable

The Secretary of State.

JCB/jm

T. G. Fair
cc to Thompson



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
60

July 30, 1940

The Acting Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith, for the information of the Interdepartmental Liaison Committee established to deal with foreign purchasing missions and for such action as the Committee may deem appropriate and may find possible in the circumstances, a copy of an aide memoire in regard to the shipment of artillery to Surinam which was left at the Department by the British Ambassador.

Enclosure:

Copy of aide
memoire.

RECEIVED

ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED

AIDE MEMOIRE

His Majesty's Embassy has been instructed to inform the State Department that the Governor of Dutch Surinam recently expressed to the Governor of British Guiana certain fears regarding the possibility that an attack might be made on Surinam by merchant ships fitted out by Germans in South American ports. The object of such an attack would be to destroy or block the ports from which bauxite is exported via the Cottica and Surinam rivers. The exports of bauxite from Surinam exceeded half a million tons in 1939. The majority of this bauxite was exported to the United States of America, which indeed is understood to obtain the greater portion of its supply from this source.

It is understood that at the moment the Netherlands authorities in Surinam dispose of no artillery, and thus have no means of preventing a hostile attack made with the object of blocking the ports. To remedy this situation, the Netherlands authorities have placed orders for a certain quantity of artillery in the United States, which however has not yet been delivered.

In view of the great importance both to the United States Government and to His Majesty's Government in the United Kingdom of maintaining the supplies of bauxite to
the

-2-

the United States for use in connexion with the American aircraft industry, His Majesty's Embassy has been instructed to draw the attention of the State Department to this question of the external security of Dutch Guiana. His Majesty's Embassy has, at the same time, been instructed to enquire whether the United States authorities could take any steps to expedite the delivery of the artillery for Surinam now on order in this country.

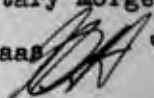
THE BRITISH EMBASSY,
WASHINGTON, D. C.,
July 17th, 1940.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 7, 1940.

TO Secretary Morgenthau

FROM Mr. Haas 

Subject: John B. Pierce Foundation House

I talked to Mr. Robert L. Davison, Director of the John P. Pierce Foundation, New York City, on the telephone this afternoon. He said he felt sure that the Foundation would be glad to turn over to the Navy Department the plans and specifications for the \$2600 house. He did not think, however, that it would be possible to put up 100 houses per week. The limiting factor, he said, was the available supply of phenol plywood, which is the chief raw material used in the construction of the house. He was not positive of this, however, and said he would make an investigation as to the quantity of phenol plywood which could be made available. He said he would be glad to come down at any time to talk to Secretary Knox.

I telephoned Mr. O'Keefe, in Secretary Knox' office, and he informed me that the Secretary was leaving town tomorrow and would not return until sometime next Tuesday. He said that Secretary Knox had received the article concerning the Pierce Foundation House, and that he would get in touch with Mr. Davison and make an appointment for him to see the Secretary upon his return.

August 7, 1940
12:07 p.m.

H.M.Jr: Hello.

Operator: Go ahead.

Secretary
Stimson: Hello, Henry.

H.M.Jr: How are you?

S: I've just been doing that errand that you asked me to help you on, about Munitions Board.

H.M.Jr: Oh, yes.

S: I've had Burns and Hines of the Board and also Maxwell here. All exportations of aviation gasoline have been stopped tight. By that they mean -- what they have standardized or defined as aviation gasoline is 87 octane gasoline and that they also have stopped absolutely all tetra -- something other of lead

H.M.Jr: Tetraethyl lead.

S: -ethyl lead by which the ordinary gasoline could be stepped up and I've discussed the thing with them at length.

H.M.Jr: Good.

S: I think that's solid. They say they have had very perfect cooperation with Joe Green on that matter.

H.M.Jr: Well, I'll get you the

S: Of course, I've discussed the whole matter with them and I think I have given them a pretty fair indication of how I feel about it.

H.M.Jr: Well, I think that will be very helpful. Am I right that before they can get a license it has to go through the Munitions Board?

- 2 -

- S: No, I don't think you are. I don't think it has to go through them. I think it goes through Maxwell, but I think the Board laid down general principles. I may be wrong on that, I did not ask that precise question.
- H.M.Jr: Well, I'm having
- S: I called in Burns first, who is one of the Executive Committee of the Board, and you know him.
- H.M.Jr: Yes, I know Burns. He's a good man.
- S: And he at once -- he said that he hadn't been in any -- they hadn't had any meetings for a long time and so he'd have to check up on it. Well, he went out and he brought back Hines and Maxwell, and with the three I've had pretty near a half hour's talk.
- H.M.Jr: Well, they know how you feel.
- S: They do. (Laughs).
- H.M.Jr: Well, I think I'll have a
- S: As clear as the English language can express it.
- H.M.Jr: I think I'll have a specific case this afternoon and if I do, I'd like to send it over to you.
- S: All right.
- H.M.Jr: But I've asked for a chart of how this licensing thing works and if I get it I'll send you over a copy of it.
- S: Of course, they're not stopping aviation oil -- lubricating oil.
- H.M.Jr: No, they're not.
- S: They're not, and there are a lot of other kinds of petroleum that they're not stopping.

- 3 -

H.M.Jr: Well, you get

S: I mean, I wish they were but they're not, I mean, that didn't come within the order.

H.M.Jr: The aviation lubricating oil.

S: Yes.

H.M.Jr: Well, I'll know enough more about it by tonight or tomorrow and whatever I get I'll send along.

S: Well, all right. I'd be glad to look at it. Any more news from our friends on the Hill?

H.M.Jr: Well, you and I are going to testify Friday morning.

S: I hadn't heard that.

H.M.Jr: Well, Sullivan tells me they expect you and Knudsen and Knox and myself all to testify Friday morning.

S: Put me down at the tail of the list so there won't be much to say when I am reached.

H.M.Jr: Well, we'll put you right up at the front.

S: No, then they'd take up the whole time with me.

H.M.Jr: Well, as a matter of fact, they've asked you to speak first.

S: Yes, of course, I might as well. What I say will be very small and I'd like to know beforehand what sort of thing they

H.M.Jr: I'd like to meet Patterson sometime.

S: Well, why not send him instead of me?

H.M.Jr: Where?

S: Up to this Board.

- 4 -

H.M.Jr: Oh, no. They want you. But I mean, sometime I'd like to meet him.

S: Why, yes. I want you to meet him.

H.M.Jr: No, the Committee wants you; they don't want Patterson.

S: Well, he's a great fellow. He's getting on in great shape.

H.M.Jr: Good. All right.

S: All right.

H.M.Jr: Thank you.

August 7, 1940
2:58 p.m.

H.M.Jr: Hello.

Operator: Doughton.

H.M.Jr: Hello.

Cong. Bob
Doughton: Henry, how are you?

H.M.Jr: I'm all right. How are you?

D: All right, thank you. Well, I want to congratulate you and thank you for getting the boys to work together yesterday. They've finally pinned down to business and we got along all right, I guess.

H.M.Jr: Well, I'm awful glad to hear it.

D: Yeah, we were to have begun the hearings tomorrow but some of them insisted it wouldn't be adequate notice and the Republicans -- Mr. Treadway was rather making a point of that and he'd gone along so well -- the minority members had -- I thought it best not to give them anything to kick on and that gives a little more time to get a fuller report written up anyway. They weren't certain they could get the report ready tomorrow so --

H.M.Jr: I see.

D: now what I wanted to speak to you especially about was this. Get the names, outside of yourself, of any persons down there that you expect to testify the first day and I could put them on the calendar.

H.M.Jr: Well, I thought you were going to have Stimson and Knox and Knudsen.

D: How's that?

- 2 -

H.M.Jr: Stimson, Secretary Stimson

D: Well, I was not going to put anybody on, of course, until I conferred with you. We thought that it would be well for them to testify, but the order in which they come I wanted you to designate. What about you get -- make the first statement, then will you answer the questions or will Sullivan take hold and explain the matter. How will that go?

H.M.Jr: Well, I'll let Sullivan do the explaining.

D: Well, I thought probably you'd want him to do that and Stamm, too.

H.M.Jr: Yeah.

D: And then the next witness you'd suggest would be -- of course, we'll not put them on. They can just put you on and then you can just yield to them. It won't be necessary to put them on the calendar. Then you'd suggest Stimson and what about Knox and then your man

H.M.Jr: Knudsen.

D: Knudsen. If we take Stimson we had better take Knox too, wouldn't you think so?

H.M.Jr: Very much so.

D: Yeah. But that'll be enough for us to put on then for the first day then. If we finish up and the time is not all taken if there's anybody else there, why we can hear them, but it'll probably take all day to get through with them with the questions that will be asked.

H.M.Jr: That's right.

D: Don't you think so?

H.M.Jr: Yes.

- 3 -

D: Well, everything seems to be in mighty fine shape up here.. I'm addressing a letter to each member of the Committee on Finance today inviting them to sit with us and cooperate in the hearings.

H.M.Jr: I think that's wonderful.

D: How's that?

H.M.Jr: I think that that is wonderful.

D: Well, it looks just as favorable up here as it could now from what we can see on the surface. I don't see a thing that looks unfavorable, and I want to thank you again for your fine strategy and fine diplomacy and fine work in helping us get the thing in as good a shape as it is.

H.M.Jr: Well, that's very nice of you.

D: All right. Well, good-bye.

H.M.Jr: Good luck.

RE CONSERVATION OF OIL

August 8, 1940
9:00 a.m.

- Present: Mr. Knox
 Mr. Ickes
 Mr. Holland
 Mr. Frey
 Mr. Humphrey
 Mr. White

H.M.Jr: Mr. Humphrey, the reason I bothered you to come down is that we wanted to get a little bit posted on the oil business in Japan and particularly Tidewater's interest in Japan. Would you care to tell us, just perfectly frankly, what the set-up is?

Humphrey: No. Probably I should give you the history.

H.M.Jr: Would you do that?

Humphrey: In about 1924, the Associated Oil Company began selling crude oil and products to Japan and that developed a business that toward the end of '28, they suggested that they organize a refinery, joint refinery, for the purpose of developing, as the Associated Oil Company thought, the outlets for products in the Far East. I believe it was sometime late in '28 that a memorandum by the Mitsubishi interests - I presume you are more familiar with the interests than I am, but as I understand it, the Mitsubishi-Shaw, as they call it, is a holding company and that holding company is owned principally by another Japanese company. That company, in turn, owns other corporations over there that are engaged in various industrial enterprises, mining, shipbuilding, electric manufacturing and others. I can't relate them all.

That memorandum of agreement contemplated, as I said, that it would organize a refinery and enter into the manufacture and refining of petroleum products.

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We provided in the agreement that the crude oil would be furnished by the Associated to the extent that it was available. In other words, it was not hard and fast in the quantity they demanded, but we furnished the quantity that might be part of our surplus. That memorandum agreement was formally consummated in '29 and by the terms of the agreement it provided that this refinery would be built in Japan and that each would contribute one-half of the capital, that the organization would be so set up under the laws of Japan that there would be an equal number of directors, that no action would be taken except through the consent of our representation, and that in case of any misunderstanding or difference of opinion, that either party could buy the other out. The price to be paid would be the amount of investment plus six percent less any dividends that might have been declared in the meantime.

That progressed until 1933 when the business developed and they increased the capitalization from 100,000 shares of 50 yen each to 140,000 shares and again it was increased, I think, in '36 or '37 - I am just trusting to my memory --

H.M.Jr: Well, this is just --

Humphrey:to 200,000 shares and each party, each stockholder, would take half of the increased capital. The company continued to do business as it is at the present time. I don't suppose you want to know whether the business prospered or not.

H.M.Jr: Well, it would be interesting, sure.

Humphrey: I would like to have this memorandum so I can see if any mistakes are made.

H.M.Jr: This goes into the safe. There is only one

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copy. There is only one copy and it is purely for my memory. I mean, you are not testifying.

Humphrey: No, I appreciate that, but I would like to have an accurate statement, that is all.

We have invested at the present time in our share about a million 490 thousand and, say, \$800, which represents 50% and that is on the present basis of exchange. The company has capitalization, as I said, of 200,000 shares and is indebted to interests over in Japan for the sum of about nine million yen.

About a year or so ago, two years, I wanted to have that credit based on a - put on a long-term basis, or rather capitalized, but I did not care to make any more investments, so recently, about two or three months ago, we finally decided that they would increase that capitalization up to twenty million yen. At present it is ten million and it went up to twenty million. Increased money would take up the loan.

Knox: Is that on a fifty-fifty basis?

Humphrey: Yes. But I insisted that I would not put in any more money and proposed this agreement, that we would --

Knox: To whom?

Humphrey: To the Mitsubishi Company, that they would purchase all the increased capital, provide the money for it, pay off the debt, but they would give us an option to re-purchase one-half of the increase at any time before the first of January, 1948. It also provided that the present surplus of the company would be enjoyed fifty-fifty, as in the present basis, and that although they would have three-fourths of the

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capital, it would operate as it operated in the past. The agreement would be made that our 50% interest would be represented as having been passed by five out of ten directors and that that joint ownership and joint operation would continue until after the first of January, 1948, and if we failed to take advantage of our option then, that they would have control.

H.M.Jr: Have you been able to draw any dividends out of Japan?

Humphrey: Yes, strange to say, we have received dividends regularly. I think that the company has made, since it started operations - it started operations about 1931. I would say it made over six million yen. We have received our dividends regularly. There has only been one dividend that was not received in regular course. That amounted to 100,000 yen. The latest dividend declared was in July. We are entitled to 150,000 yen and they secured permits to send a third during August, a third in September, and a third in October, and we received our third in August, already. We received it on the second of August. I am giving that out of memory. I think there are about 6,600 yen profit during the period of operation.

Knox: Six million, you mean.

Humphrey: Six million, yes.

H.M.Jr: What does this oil refinery - what kind of products does it turn out?

Humphrey: Well, it was a combination of straight run and cracking and it turned out the ordinary motor gasoline. Recently, they had a patent, I believe, or an agreement with the Universal and they

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built an iso-octane plant sometime in '39. I don't know as the plant is operating yet. I don't think it was a great success. It has only been operating for a few months.

Knox: Do they make aviation gasoline?

Humphrey: Yes. The quantity, I don't know. I have no details there. It was all put up by the Japanese people themselves under the direction, I think, of the representative of the Universal Products Company.

Knox: Is that the people that make the tetra --

H.M.Jr: No, another man is the head of that. He is a Chicago fellow.

Humphrey: It is the Dutch process.

Frey: The Universal Products owns the patents on a certain line of cracking processes and on this method of producing iso-octane.

H.M.Jr: Is that the Chicago crowd?

Frey: They are the Chicago crowd.

H.M.Jr: Do you furnish them with American engineers to supervise?

Humphrey: No. We had our engineer go over there and - in, say '31 or '32, to supervise the erection of it and under the set-up it is provided to be managed by directors consisting of the president, the vice president and management directors, so termed. They must agree on all the operations. We have a vice-president who is not an engineer at the present time. We had an engineer over in the beginning, but we have a man named Jones who is more or less our representative in export sales and he lives over there.

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H.M.Jr: Do you sell them all the crude?

Humphrey: Well, we don't sell them all the crude. We have the preference, if our price is the same, but I think they have been buying crude from Ecuador, Mexico and South America, some other places in South America.

H.M.Jr: I see.

Humphrey: And I think they have some from Bahrein, I am not sure, but we have generally sold them the most of the crude. We sold them probably - again, I am giving you from memory - since the refinery started, probably nine million barrels of crude oil and most of that, I think probably six or seven million of that, was of Kettleman crude and some of the balance is another crude and some is this high octane crude.

Knox: How many other refineries are there there?

Humphrey: I have never been in Japan, so again I am giving it from memory. I think that probably - this refinery is not the largest. I asked the other day and I think someone told me there was about - the capacity of the refineries was about 60,000 barrels.

Frey: The capacity is about 5,000 barrels a day.

Humphrey: 5,000?

Frey: Yes.

Holland: That is for that one refinery.

Humphrey: Oh, you must be wrong, because our refinery --

Frey: No, I mean your refinery.

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- Humphrey: Our refinery is straight run and cracking about 8,000 a day.
- Frey: You have about 5,000 of straight and 4,000 of cracking.
- Humphrey: Uses a combination and a thousand of lube oil. But I think the total capacity of the refineries of Japan - there are the Nippon Refinery, the Ogura Refinery, and I don't know the other one, but they told me about 60,000 barrels a day of refinery capacity.
- Frey: I think that is about right.
- Ickes: Have you any idea how much oil they have in storage in Japan?
- Humphrey: No, I wouldn't be able to say, but you know they passed that oil storage act about, I think, four or five years ago where they required all people doing business in Japan to carry about six months' storage. I don't imagine they have more than that.
- Knox: What would that amount to in round figures, how many million barrels?
- Humphrey: I wouldn't be able to guess that, even, because I would have to know the number of companies operating and I don't know the number.
- Ickes: You mean the companies selling oil to Japan as to --
- Humphrey: No, the companies doing business in Japan. For instance, take the refining company in which we are invested, the Mitsubishi Oil Company, that had to carry sufficient crude oil in storage - that would be equivalent to

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the preceding half year's storage.

- Knox: On that basis, you are producing how many thousand barrels a day of crude in that refinery, about five?
- Humphrey: The capacity is for about 8,000, that is the present capacity, but how much they use, I don't know. I can get those figures. They have 8,000 of crude oil and then they have a lube oil plant there of 1,000 barrels of oil a day. This lube oil is only heavier lube. It has nothing to do with aviation.
- Ickes: Would it be possible to estimate how much they probably have in storage on the basis of this six months' storage?
- Humphrey: Well, I might be able to have an estimate made for you, but as I am not in the practical or the technical end of the business, I would be guessing and I don't know if my guess would be worth much, but I have coming here today - I think he arrives from California today - our research man who has been in Japan, was there for about a month - in 1938. He may know. There may be some way of getting that information.
- (Mr. White entered the conference)
- Ickes: Would you be willing to send that in to Secretary Morgenthau?
- Humphrey: We would be very pleased to do that. I might say this, that - and of course this is all for ourselves, I wouldn't - it is not any secret matter, except the Secretary of State's Department. They have, as I told you, the Mitsubishi-Shaw is the holding company controlled by a Japanese and that company has

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always had the stock held right in their own family. They had about 1,200,000 shares and I think about 120 million capitalization and adopting - following the policy that was adopted by Mitsubishi, Mitsui, I believe, about a year or two ago, began to distribute the stock. They decided to increase their capitalization 1,200,000 shares and to extend to every stockholder of any company, subsidiary of theirs, the privilege of participating in the increase and they set apart for our company, 10,000 shares.

Well, I was not anxious to make more investment in Japan. We thought it over and decided that if we would do anything, it would be more or less of a courtesy investment of 2500 shares. That would be at a premium of 50 on a share. The share was for 50 yen. Before doing so, I took it up with the Secretary of State and considered for a while and he just said, of course we had the legal right to invest if we wanted to, but they hoped we wouldn't do it, so we didn't do it. They told me it was over-subscribed by the Japanese themselves.

I don't know if there is any material matter you would like to know.

Ickes: I have a question I would like to ask. This Kettleman Hill oil that you sent over, do you buy that and send it over or do you operate out there?

Humphrey: We operate, too.

Ickes: Are you operating under a Government lease?

Humphrey: We have one, yes. I think we have the Watson permit.

Ickes: Some of this Kettleman Hill oil is probably

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Government-owned oil, owned by the Navy.

Humphrey: No, it is not on that. I should have added - you know, the Tidewater Associated Oil Company is the result of a consolidation between the Associated and the Tidewater. The Tidewater operated in the East and Mid-Continent and the Associated was essentially a California company and this contract was originally made with the Associated Oil Company. The consolidation did not take place until 1936 and then it was the Tidewater Associated Oil Company.

But about the Kettleman Crude, we purchase some, of course, and we produce some there.

Ickes: Do you distinguish that from companies that are operating under Government leases?

Humphrey: Well, we purchase - I don't know whether Seaboard - we purchase some from Seaboard. I don't know whether it is under a Government lease or not.

Holland: That is a Government lease.

Ickes: In other words, Government oil has been going over there.

Knox: Do you say you discontinued your purchases there?

Humphrey: We discontinued purchases from Seaboard. We have our own plant in the Kettleman Hill unit.

Ickes: Have you any interest in Coalinga?

Humphrey: We have none in the Coalinga new discovery out there, but we have a lease out there.

Holland: You still operate that Felix property, don't you,

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Mr. Humphrey, off the east edge of Kettleman?

Humphrey: No, that is pretty nearly out.

Holland: Then your interest in the Kettleman Association is merely the stuff you hold on a Government lease?

Humphrey: No, we took over the Terra Bella Company and the Belmont properties there and we have that interest, too.

Ickes: To what extent are you shipping oil and gasoline to Japan now and what kind of gasoline?

Humphrey: We never - at least that I recall - shipped any aviation gasoline. We may have at some time in the past. We have shipped this high octane crude that all the companies on the Coast have been shipping that may have been manufactured into aviation gasoline. It could be, anywhere, but we have shipped - I think our greatest year was 1937, '38, and probably about the same in '39. The shipments this year have not been as great, although we have our nominations for the rest of this year. I think nominations to the extent of maybe 500,000 barrels. Again, I am talking from memory and I don't follow those things closely.

Ickes: Would it be a fair presumption that if Coalinga and Kettleman Hill oil is sent over there now, it would be refined for aviation gasoline?

Humphrey: I don't know. With the technical advice I have, Kettleman oil could be made into aviation gasoline with the addition of the three cc's of lead.

Ickes: Preferable to some other grades, isn't it?

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- Humphrey: No, they tell me just the contrary, that it is not the most economical way of producing that because you require so much quantity of Kettleman oil and Coalinga, I think, all they use that for is lubricating oil, heavy lubricating oil, not for aviation lube. Is that correct about the Kettleman Hill's not being very desirable for aviation.
- Frey: I --
- Humphrey: That is my advice.
- Frey: There are two streaks of Kettleman, you know. That is the heavy and the light. The light yields a very high return of gasoline and it could be leaded up to aviation, especially after it is cracked, and now that you have iso-octane to work with, you could lead that up to aviation grade.
- Humphrey: You could?
- Frey: Yes.
- Humphrey: Wouldn't it be quite expensive as compared with the other grades of crude out there?
- Frey: There are other grades of crude in California that give higher octane.
- Humphrey: That is why I was very anxious to have our research man come on to discuss the different crudes, so that we would be more or less advised of the interpretation of that proclamation.
- Holland: Aren't the Kettleman and Coalinga very fine lube stocks?
- Humphrey: Coalinga always was.

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Holland: I am talking about Coalinga, now.

Humphrey: I didn't know it was used for aviation lubrication. Of course, Coalinga crude is very fine for lubricating oils, for heavy lubricating oils, not for the lights, which you would just use in aviation.

Holland: The Kettleman crude was always very good for lubricating stuff, wasn't it?

Humphrey: It has some - but I wouldn't want to express an opinion on that, because I never so understood that it was compared at all with Coalinga.

Ickes: How much fuel oil is going over?

Humphrey: Well, I don't know. I think we shipped the other day some Diesel, but we haven't shipped much fuel lately. You see, I think California shipped, I would say, probably 70,000 barrels a day. Would that be fair? Last year or so. That is, from all the companies in California.

Ickes: What does Japan need, particularly, the fuel oil or the gasoline or oil out of which gasoline can be refined?

Humphrey: Again, I wouldn't know, but I might guess they would need more for aviation than anything else.

Ickes: They are rather dependent on us for fuel oil, aren't they?

Humphrey: I don't know. I would say that if we were - now, for instance, this extrusion oil, that won't stop oil from going in the refineries in South America. It won't stop them from Bahrein. Bahrein is shipping lately in there.

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Ickes: They aren't shipping very much yet, are they?

Humphrey: Very little, but they are beginning to. I think that you would find that the various companies that have their refineries in South America - and take the Col-Tex and then the Dutch Shell, of course, in East Indies. They all have outlets in Japan and I don't know how much they are shipping.

H.M.Jr: When that - your expert comes down, if he would get in touch with Dr. White, Dr. Harry White here, I would appreciate it.

Humphrey: I would be very glad to have him do it. Is there any other information you want, because I believe here, of course, the public good and public safety is paramount to everything and while we have had a very, very pleasant relationship with these people, very profitable, and it is remarkable the way they do business, unless it was because they wanted the oil - I just want to say something off the record.

(Discussion off the record)

H.M.Jr: I appreciate your attitude. Thank you for coming down.

RE EXCESS PROFITS TAX

August 8, 1940
9:30 a.m.

Present: Mr. Gaston
Mr. Bell
Mr. Foley
Mr. Sullivan
Mr. Coyle
Mr. White
Mrs Klotz

H.M.Jr: Now, where do I start now? What do I read?

Sullivan: Well, this is a combination of a tax statement and the fiscal statement. The second two pages you have there are Mr. Coyle's boiling down of the statement you had yesterday, the first paragraph, and the rest is the work we did.

H.M.Jr: Where do I start, on page --

Sullivan: I think it would be best to start right at the beginning.

Gaston: It reads as a complete document right through.

Coyle: It may need a little smoothing.

H.M.Jr: Who wants to read it?

Sullivan: I will read it, if you want me to.

H.M.Jr: Yes. I don't want to read out loud.

Sullivan: "On May 31, 1940, I appeared before your Committee to urge the passage of a bill to assist in financing the emergency defense program --"

H.M.Jr: Who wrote this?

Sullivan: This first part?

H.M.Jr: Yes, this page.

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Sullivan: Roy and Tarleau and Dave and myself.

H.M. Jr: Okay.

"On May 31, 1940, I appeared before your Committee to urge the passage of a bill to assist in financing the emergency defense program through raising the debt limit for defense purposes and increasing taxes over a five-year period. I congratulate your Committee and the Congress on the speed and unanimity with which this measure was considered and passed. It is an example of that prompt and cohesive action of which an aroused and vital democracy is capable. The world developments since that time and the resulting necessity for further expanding our defense program have more than justified the prompt and effective action you took.

"The national defense program places upon us the duty of reconsidering certain features of the tax structure, in order to obtain a rapid expansion of production and a fair distribution of the tax burden. With your permission, I shall be glad to present information available in the Treasury in regard to possible modifications of the tax laws for these purposes. But first, if I may, I should like to use this opportunity to give an outline of the fiscal situation as it has developed since I appeared before the Senate Committee on June 12th last, during the consideration of the Revenue Bill of 1940.

"On June 12th, I stated that according to the estimates of the Bureau of the Budget and the Treasury, with the revenue laws then in force and the appropriations which had passed or were pending, the deficit for the fiscal year 1941 would be \$4,350,000,000. The balance

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of the borrowing authority at that time under the limitation of \$45,000,000,000 was only \$1,950,000,000."

H.M.Jr: Do you mind if I cross out the word "only"?

Sullivan: Yes, I think that is a good cross-out.

H.M.Jr: I don't want them to titter. All right.

Sullivan: "With the anticipated rate of expenditure this balance would be exhausted and the working balance of the Treasury would be seriously depleted by the end of January 1941.

"In view of these circumstances, a provision was placed in the Revenue Act of 1940 authorizing the issuance of not more than \$4,000,000,000 of short term obligations for financing national defense expenditures. At the same time additional taxes were provided, most of which are to be used to retire within five years any defense obligations issued under this authority."

H.M.Jr: Excuse me. "...most of which..." Aren't all of them?

Sullivan: No, the excise taxes were continued for another five years and only the increase in those taxes was earmarked.

H.M.Jr: All right, go ahead.

Sullivan: "As I reported to you, these provisions of the bill then pending before your Committee were sufficient to meet the situation as it existed at the time."

I think we should change "the" to "that". All right, Dave?

Coyle: Yes.

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Sullivan: "With the rapid deterioration of world conditions, however, the President found it prudent to plan for an enlargement of the national program of defense, and requested the Congress to provide additional funds for this purpose."

Wouldn't "expansion" read better than "enlargement"?

Coyle: I think so, yes.

Sullivan: "The accompanying table shows the appropriations and contract authorizations for defense now made or pending before this Congress. The total as of August 5th is \$14,709,000,000, to be expended as rapidly as circumstances will permit during the next few years."

Shouldn't that be "....expended effectively...?"

Coyle: The point is that the intention is to push the defense program.

Sullivan: Yes, but I mean, I think you may be opening up the idea of throwing it out the window and don't care what you get for your money.

Bell: "...as circumstances permit..." Doesn't that take care of it? How about that word "deterioration"?

H.M.Jr: Do you mind - I saw the word, too. Let's go through it once and then come back.

Bell: All right.

Sullivan: "The Bureau of the Budget and the Treasury now estimate that the receipts for the current fiscal year will amount to \$6,367,000,000, and that the total expenditures will probably exceed \$12,000,000,000, leaving a net deficit

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of about \$5,700,000,000. The attached statement shows the revised Budget estimates as of August 1st, compared with those made on June 3rd and those included in the President's Budget Message of January 3rd, 1940.

"To meet the expected deficit of \$5,700,000,000, we have as of July 31st, a balance under the \$45,000,000,000 limitation of \$965,000,000, and the whole of the \$4,000,000,000 authorization of the 1940 Revenue Act. In addition the Treasury has a working balance of \$1,504,000,000.

"By the end of the year 1940, the borrowing power under the general limitation will be down to about \$800,000,000, and that under the \$4,000,000,000 authorization will have been reduced to about \$2,450,000,000. On June 30, 1941, according to present estimates, the balance under the general debt limitation will have shrunk to \$300,000,000, and the \$4,000,000,000 credit will have been exhausted. In addition, it will have been necessary to draw upon the working balance of the Treasury, reducing that balance to about \$1,275,000,000.

"On the basis of these estimates it is obvious that in view of the requirements of the defense program, the present combined debt limitation of \$49,000,000,000 will sooner or later need to be increased. Whether an increase will be required before the end of the present fiscal year must depend in the first instance upon the speed at which the defense program can be brought into action. Naturally we all hope that present estimates of the rate of defense expenditure can be greatly exceeded, and it is for the very purpose of accelerating this program that we are now discussing a change --"

We should make that "changes".

"....in the tax laws.

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"At the same time, I may point out that in addition to readjusting the tax burden in a way to hasten the production of defense material, the proposed tax legislation may properly be aimed also at a definite increase in revenues which will help to underpin the fiscal position of the Treasury. Accordingly, it is proposed not only to provide for changes in the period of amortization on war facilities, and for the repeal of the present profit limitation on contracts, but also to enact an excess profits tax that will provide a maximum of return with a minimum of restriction on the productive activity necessary for defense."

H.M.Jr: Has anybody got that paragraph in the resolution which they passed about a month or two ago before they adjourned, where they said they would take off the excess profits thing?

Sullivan: Yes, sir.

H.M.Jr: Can you lay your hands on that?

Sullivan: Yes, sir. I can telephone and have that sent right in.

H.M.Jr: I will just wait for it.

(Resolution was brought in).

H.M.Jr: Go ahead, John.

Sullivan: "During the course of the deliberations on the Revenue Act of 1940, it became apparent that the rapid development of the defense program might necessitate further legislation. The necessity of passing the Revenue Act promptly in order that the tax increases might begin without delay prevented the Congress from

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taking the time to make the necessary study which this further legislation would require. Your Committee instructed the Treasury to study the problems and report back as soon as possible and the Committee on conference gave us similar instructions."

H.M.Jr: I don't like it at all. Go ahead. I am not going to say that.

Sullivan: "In the short time which has elapsed those instructions were received, the Treasury Department has concluded studies of the problem which it had begun some time ago. The results of these efforts have already been referred to your Subcommittee on Taxation. The Treasury Department has endeavored to discharge its duties and follow your instructions to the best of its ability during the time available.

"The first of the tax changes which I wish to discuss with you today is that of taxing excess profits. In order that the defense program may proceed quickly and effectively the great volume of defense funds which have been appropriated must be poured through the channels of industrial production at tremendous speed. In the process, however hard we may try to prevent it, some persons and some business concerns will make greater profits than can be permitted.

"The President in his message to Congress of May 21, 1940, presenting the national defense program, stated that we must guard against the creation of "war millionaires." On July 1, 1940, in another message, he called for the passage of an excess profits tax to prevent this from happening.

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"The Treasury Department presented to the Subcommittee a plan for an excess profits tax. The Subcommittee adopted certain aspects of this plan but added other provisions which alter the character of the tax in important respects. In view of the need for immediate action, the Treasury does not wish to delay the passage of a bill dealing with the problems before you and accordingly interposes no objection to the plan recommended by the Subcommittee.

"In addition to excess profits, the proposed legislation deals with two other problems: amortization and suspension of the profit limitations of the Vinson-Trammell Act.

"The agencies of the government charged with the duty of letting contracts for national defense orders have brought to our attention an aspect of the present income tax law on which they have requested revision. I refer to the provisions for depreciation -- which, incidentally, are more generous to taxpayers in America than in any other country in the world. Under existing law the taxpayer is permitted to spread the cost of his depreciable assets over their expected useful life. This arrangement is fair to the taxpayer and fair to the government since this cost is allowed in the form of deductions from income during the years when the asset is contributing to the taxpayer's income. In the case of the expansion of plant and construction of equipment for the defense program, however, the length of time during which orders for weapons and other materials of war will continue is uncertain. In those cases in which the plant and equipment will have little or no other use after the completion of the defense program, the rate of depreciation must be

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increased if the manufacturer is to have the opportunity of charging the cost against income during the period of the emergency. Such accelerated depreciation, or amortization, cannot be allowed under existing law. The Advisory Commission to the Counsel on National Defense, and the War and Navy Departments have informed the Treasury Department that the inability of manufacturers to secure special amortization allowances is impeding the letting of defense contracts. Because of this situation, we recommended to the Subcommittee that provision be made by law for special amortization of the cost of new plant and equipment necessary to the defense program over a period of five years, with a provision for shortening this period if the emergency should last for a shorter period.

"The Vinson-Trammell Act limits profits on contracts with the United States Government for the construction of naval vessels and contracts for airplanes or parts thereof for the Army and the Navy. The Treasury Department has been informed by the Advisory Commission to the Counsel of National Defense and by the War and Navy Departments that the restrictions of the Vinson-Trammell Act have discouraged many manufacturers from making contracts or subcontracts. It has been stated to us that the extensive special bookkeeping requirements necessary to determine the actual profit on the contracts has served to discourage manufacturers from proceeding with national defense work. In the light of the information that had been given to us, the Treasury Department recommended to the Subcommittee the suspension of the Vinson-Trammell Act for the period in which an excess profits tax is in effect. The Vinson-Trammell Act, as I have pointed out,

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deals with only a limited kind of contract, namely, contracts for the construction of naval vessels and for airplanes. With the extension of the defense program to include large scheduled purchases of all types of equipment useful and necessary for the national defense, it is evident that broader profit-limiting provisions are necessary. The excess profits tax, which is of general application, should accomplish that purpose. It does not seem necessary or desirable to have what are in effect two profit-limiting provisions outstanding at the same time. For this further reason the Subcommittee seems to be well justified in providing for suspension of the Vinson-Trammell Act during the period that an excess profits tax is in effect.

"I would like to stress the importance of passing without delay this three-point program of an excess profits tax, amortization of national defense investment, and suspension of the Vinson-Trammell profit limitations. We must have businessmen moving forward making commitments, building plants, installing machinery and turning out orders at the time and in the quantities necessary. It will help them do these things at the lowest cost to the government and with the least hesitation if they know at the earliest possible moment what the provisions of the tax laws are going to be.

"I trust that by emphasizing agreement on essentials and minimizing difference of opinion on details, we can move forward unanimously and promptly toward this three-fold contribution to the one goal all Americans so earnestly desire -- the adequate defense of the United States of America."

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H.M.Jr: Well, let me just go back on the other thing a minute. I don't see why I have to say what is on this page at all. I don't see why I just can't start in, "The national defense program places," et cetera. I don't see why I can't start right there.

Sullivan: All right.

H.M.Jr: Do you?

Gaston: Yes, you have got two introductions there.

H.M.Jr: Yes. So let's take the time I have between now and 10:30 to see if we can finish this much. I think we can before I say anything about the other.

"The national defense program places upon us the duty of reconsidering certain features of the tax structure, in order to obtain a rapid expansion of production and a fair distribution of the tax burden. With your permission, I shall be glad to present information available in the Treasury in regard to possible modifications of the tax laws for these purposes."

I would like to say there, "I shall be glad to have members of my staff present it."

"But first, if I may, I should like to use this opportunity to give an outline of the fiscal situation as it has developed since I appeared before the Senate Committee on June 12th last, during the consideration of the Revenue Bill of 1940."

That paragraph I like and I will take.

White: A slight change as we go along.

H.M.Jr: In that one paragraph?

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White: Yes.

"In order to obtain a rapid expansion of production --" I think it is worth repeating, "...production in material needed for national defense." Otherwise, why didn't you make those changes before? We needed a rapid expansion.

H.M.Jr: Sold. It is a good point. Anything else, Harry?

White: That is all. I thought Ed had a point about the Senate Committee. Do you still feel that way, Ed, on the last line?

Foley: Well, I supposed the reason the reference is made to the Senate Committee, the Ways and Means Committee --

H.M.Jr: Just so there is no misunderstanding, I am expecting Mr. Coyle to take these changes and I am looking to you (Coyle) to give me the finished document.

Coyle: I am putting it down.

Foley: I assume the reason the Senate Committee is referred to here instead of the Ways and Means Committee is because the Secretary appeared there later.

Bell: The latest statements were at the time he appeared before the Senate Finance.

H.M.Jr: Before I appeared before the Ways and Means Committee on such-and-such a date and the Ways and Means on such-and-such a date.

Bell: The table only gives the changes since the last.

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H.M.Jr: His idea is, he doesn't want to offend them.

Foley: The Ways and Means will say, "We don't know what you gave to the Senate Committee. We want to be brought up to date from the time you appeared before us."

Bell: You might eliminate the Committee entirely and say that the estimates that have developed since the last estimates of June 30th are so and so, or something like that.

H.M.Jr: You get the idea, Mr. Coyle, don't you?

Coyle: Yes.

H.M.Jr: All right.

Bell: Are you going to discuss all these changes in the tax laws?

H.M.Jr: I will come to that.

Bell: I was thinking in that sentence you say, "I shall be glad to have my staff present the --"

H.M.Jr: The way I feel now, no, I am not going to.

Bell: I was going to suggest if you are, "I shall briefly discuss it."

H.M.Jr: I have something in mind which, if I can sell it to the crowd - I don't expect to do it. That is why I sent for that resolution. I had that idea in mind.

Sullivan: Here it is, sir.

H.M.Jr: This is the Ways and Means? You can tell me which one I want.

"On June 12th, I stated --"

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As I remember, that paragraph is okay.

"In view of these circumstances, a provision was placed in the Revenue Act of 1940 authorizing the issuance of not more than \$4,000,000,000 of short term obligations for financing national defense expenditures. At the same time additional taxes were provided, most of which are to be used to retire within five years any defense obligations issued under this authority. As I reported to you, these provisions of the bill then pending before your Committee were sufficient to meet the situation as it existed at that time.

"With the rapid deterioration of world conditions --"

What is the matter with that, Dan?

Bell: The word "deterioration" distracted me. I just wanted to change it.

H.M.Jr: Should we say, "complete collapse"?

Bell: I would just say, "rapid changes." Everybody understands they are for the worst.

H.M.Jr: Suits me all right.

White: Do you want to say the President found it prudent?

H.M.Jr: That word, I went over it six times in my mind. I don't like the word "prudent."

Sullivan: That is my fault.

Gaston: "Wise."

White: I don't like the, "President found it." I would rather say, "It became necessary," or

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"became desirable," or something like that.

- H.M.Jr: I suggested yesterday I wanted to give the President credit for this.
- White: Well, is that - are you giving him credit?
- Bell: "....found it essential...", or "advisable."
- White: It seems as though it is the opinion of one man. I am wondering whether you don't give him more credit by not mentioning him.
- H.M.Jr: How would you do it, Harry?
- White: "With the rapid deterioration of world conditions, however, it became necessary to plan for--" and so forth.
- H.M.Jr: Leave out the word "President"?
- Gaston: "And the President requested --"
- White: "And the President requested --" yes.
- H.M.Jr: Okay, sold.
- White: Sounds a little bit too much like a dictator.
- H.M.Jr: Sold, sold. The rest of that stuff is all right.
- White: You objected to the word "enlargement" before.
- Coyle: That is "expansion" now.
- Bell: "Expansion."
- H.M.Jr: They have got it, you see, in the last paragraph, "....production of defense materials."
- Bell: I am wondering if you need the last sentence in the third paragraph on that page.

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H.M. Jr: Why not? Oh - "Naturally we all hope that present estimates...can be greatly exceeded"? No.

Coyle: That leaves it open to come back on it without any embarrassment. That is the reason I put that in. Of course, both of these two last paragraphs here are entirely my own suggestion. They weren't what we were talking about yesterday, but they were just sort of to lead into the kind of statement that you wanted to make afterward so as not to commit yourself that this is the last tax bill even in the present fiscal year. You say, "We are in a moving situation."

H.M. Jr: That is all right. I like it. I like the whole thing. I mean, what I am saying is that we are giving my estimate but I hope I am wrong and I hope the thing will go much faster than what we think it will.

Coyle: You might come back in January and say, "Well look, they did move faster than we thought and we need more money."

H.M. Jr: That is all right.

White: You say, "Upon the speed at which the defense program can be brought into action." That appears as if you hadn't done anything yet. I wonder if that ought not to be changed to, "the speed with which the defense program progresses."

H.M. Jr: That is good; it is sold.

This next paragraph, "In addition to readjusting the tax burden in a way to hasten the production of defense material, the proposed tax legislation may properly be aimed also at

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a definite increase in revenues which will help to underpin the fiscal position of the Treasury."

- White: That word "underpin" sounds as though the fiscal position is about to topple over.
- Coyle: How about "strengthen", is that all right?
- H.M.Jr: All right.
- Coyle: That, of course, also shouldn't be accepted without careful examination because, you see, there you are asking for revenue which was abandoned yesterday when this was being discussed. This is a tax for social purposes, to keep from making millionaires, not for making revenues.
- H.M.Jr: I think it is all right.
- Coyle: But it seems proper to me that the Secretary of the Treasury remarks he would like to have some money. Could you accept the words, "speed up"? The "hasten" sounds panicky.
- Sullivan: I would like to direct attention to the last phrase which says, "...to enact an excess profits tax that will provide a maximum of return..." Whether or not that is to be changed, I think, depends on what you are going to say in the rest of your statement, but this provides merely a minimum of return.
- Bell: And a maximum of restriction.
- Coyle: Yes, but this is the Secretary of the Treasury saying what he would - it may properly be aimed at doing those things.
- Sullivan: I think we had better leave it until we find

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out what the rest of the statement is going to be.

H.M.Jr: What I had in mind was this: I mean, this can be refined between now and half past 3:00. That will be my last chance. I want to see which one --

Sullivan: I think the former is the better resolution.

H.M.Jr: Well, let me read this thing. That is what I had in mind. This is House --

Sullivan: House Ways and Means Committee, unanimous.

H.M.Jr: What I would say is, just for introduction I would say, "May I take the liberty of reading to you gentlemen the resolution which was unanimously passed by you," see, and then I would read the thing.

"During the executive sessions, there have been discussed proposals to provide special amortization for national defense industries and to provide for the imposition of excess profits taxes. These two measures - each in itself requiring a complicated and exhaustive legislative project - must be considered together. It is the desire of this Committee, which is favorably reporting a bill which will enable a larger proportion of our citizens to participate in the responsibilities of providing an adequate national defense than has ever been the case before, that there shall not be an opportunity for the creation of new war millionaires or the further substantial enrichment of already wealthy persons because of the rearmament program. Accordingly we have instructed our technical assistants and the appropriate Treasury

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officials to accelerate their work in these two fields so that bills will be prepared for submission not later than the opening of the next session of Congress, which if passed by the Congress may become retroactive and apply to income earned during the calendar year of 1940 or may become effective upon any other date which Congress, in the light of information it then possesses, may deem advisable."

Now, what I would like to say is, "Now, since you gentlemen have passed this very excellent resolution, in the minds of contractors who desire to do business with the Government has been raised the barrier that until they know definitely through action on the part of Congress what taxes they will have to pay on this year's profits, they have been hesitant to sign with the Government. Therefore, to remove these barriers, it was the joint opinion of Congress and the executive end of the Government that we should not wait one minute longer than necessary and put on the statute adequate legislation to take care of the present situation as we see it."

White: You mean you would begin with that in place of this?

H.M.Jr: This is my thought, in place of all of this. "The Treasury staff has put all of its available information collected over years at the disposal of Congress and I sincerely hope that the bill which you are about to consider --"

Bell: Say, "tax program."

H.M.Jr: Let me get through this.

"....that the bill which you are about to consider will fully incorporate the very

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excellent sentiments expressed so ably in the joint resolution which I have just read."

- Coyle: It seems to me that is the finish. That that you have just been saying is your --
- H.M.Jr: That is all I am going to say. I am not going to say any more.
- Gaston: You mean you are going to follow this fiscal review?
- H.M.Jr: I am going to follow the fiscal thing and then say this. That will finish it, that is all.
- Gaston: Otherwise, you would get in hot water.
- Coyle: And not mention individuals?
- H.M.Jr: No.
- White: I am troubled by one thing. Do you get the impression you are making Treasury, in a large measure, responsible for the delays up to now?
- H.M.Jr: No.
- White: The way it is phrased - and maybe it can be phrased a little bit differently - you are saying that the contracts have been delayed in signing.
- H.M.Jr: I said in the minds of these people they have raised the barriers, in their own minds.
- White: I think my fear is a matter of phraseology.
- H.M.Jr: If you read this resolution, Harry, this resolution says they won't take it up until some time this fall.
- Bell: That raised the barriers right there.

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- H.M.Jr: And therefore, to remove these barriers in the minds of these contractors, it is the joint opinion of the Congress and the Executive that we will accelerate this thing and get it through once and for all.
- White: But the public has been saying, or a portion of it, the critical public has been saying that it has been the activities of - the failure of the Treasury Department to modify these changes which have stood in the way, and now here comes your statement that in their minds they have --
- H.M.Jr: I can't say I have taken the leadership in pushing this thing forward.
- White: I think the trouble is a matter of phraseology and I think it can be adroitly worded to give that impression.
- H.M.Jr: I didn't get that impression from what I said, did you, Herbert, that we are the stumbling block?
- Gaston: No, I didn't get that. I think you emphasized that it was in the minds of the contractors.
- Coyle: The impression I got was that this resolution which was wholly proper for Congress to pass, nevertheless gave the business men the idea that something was going to happen and until it happened they didn't know what to do next.
- H.M.Jr: You have got it. And therefore, the Congress and the Executive, which is the national defense, the President and the Treasury, with the Congress, decided we would do this thing at once and remove this mental hazard, if you put that down, remove this mental hazard.
- White: Created by the resolution. That is a different story.

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- H.M.Jr: But to remove this mental hazard.
- Sullivan: This mental hazard is more definite than the answer in this resolution, because in this resolution it calls for a preparation of the bill for submission to Congress not later than the opening of the next session, but the resolution passed two weeks later by the conferees moved that up to not later than October first of this year, so I think Mr. Coyle should have that other resolution.
- Coyle: This resolution says it should apply to income earned during the calendar year 1940. That is what made the blood run.
- H.M.Jr: Without getting down to the words, for a minute, Mr. Coyle, do you like my words or don't you?
- Coyle: Yes. I hadn't thought of omitting so much, but I thought to finish up with that seemed to be perfect.
- H.M.Jr: I don't want to go into all this business of the Vinson-Trammell and all the rest. I simply want to say, "Gentlemen, if you will carry out what you said in your resolution, everything will be happy." What does it do? It leaves me in the position that if they don't, I am free to say, "Well, I think it is a lousy bill," and it leaves the President free, but I don't want to go into all this detailed stuff.
- Gaston: Does the resolution have enough about the objectives of a bill or should you restate what you think should be the objectives of a bill?
- H.M.Jr: Herbert, I think I could spend three days which I haven't got, and I think that

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resolution is a pip. You (Sullivan) wrote it, didn't you?

Sullivan: Yes. I think the only reason it is good, I only had time for one draft and didn't even have a chance to correct that.

White: You mean we didn't have time.

Sullivan: No, I say I didn't.

White: Okay.

H.M.Jr: Coyle, you go into another room and see what you can do, will you? I don't want - after all, Sullivan, if he is going to do it, he has to do it one way and I have to do it another. This is the way I would like to do it.

Sullivan: I like your way.

H.M.Jr: I don't like - and it leaves me in the beautiful position that I say, "Now, gentlemen, if you do what you said you would do, wonderful, and if you don't, I think you are a bunch of lice."

Sullivan: The only --

Coyle: That leaves Bob LaFollette in a position where he can stand up and say, "As the President says, you said you would do it. Now, you lice, go ahead and do it."

H.M.Jr: And I would say, "Good, swell," but I think it overcomes everything and I want to say that this is a mental hazard in the minds of these people, because I don't believe it was anything else and I am not going to admit that there was a real objection. Try it, will you, for me and see what you can do?

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What is the matter, Ed?

- Foley: There is nothing the matter. You are going to have to defend yourself once you stop. Treadway is going to say, "Well, Mr. Secretary, this Committee has the right to expect some leadership from the Secretary of the Treasury. Now, what is your program?"
- H.M.Jr: "My program is your resolution. Carry it out."
- Foley: But he is going to say, "We asked you to consider this matter and come down here and give us specific recommendations and now you give us our own resolution."
- H.M.Jr: We did. "You have them, Mr. Treadway."
- Bell: Did he say that, that he furnished everything to the Subcommittee?
- H.M.Jr: Try this this way. I think it is a good out. See what Coyle can do with it. Let him try it. It will be sometime around 3:30, gentlemen.
- Sullivan: The one thought I have in mind is this, and I have that in the paragraph --
- H.M.Jr: Tell Coyle about it, will you? I have got press.
- Sullivan: I just wondered if you don't want to protect yourself against being held responsible for the kind of bill they are going to pass.
- H.M.Jr: How can I be? If they will do what is in that resolution --
- Foley: Not on that statement. You can't be held responsible on that statement for anything they do.

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- H.M.Jr: That is right.
- Coyle: Well, everybody knows what the facts are. It is in the Wall Street Journal this morning.
- H.M.Jr: Well, Coyle, are you - I mean, what I like about it - is it something that I have given you that you can be sympathetic to?
- Coyle: Yes. This strikes me as being the perfect way of putting it right in their laps, and all business men know what has happened up there and you are just going up there and tell them, "Now, gentlemen, here it is; what are you going to do about it?"
- H.M.Jr: I think it is all right. Think about it, and somewhere around 3:30, all of you come back.

Second Draft

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August 8, 1940.

STATEMENT OF THE SECRETARY OF THE TREASURY
BEFORE THE WAYS AND MEANS COMMITTEE
August 9, 1940.

On May 31, 1940, I appeared before your Committee to urge the passage of a bill to assist in financing the emergency defense program through raising the debt limit for defense purposes and increasing taxes over a five-year period. I congratulate your Committee and the Congress on the speed and unanimity with which this measure was considered and passed. It is an example of that prompt and cohesive action of which an aroused and vital democracy is capable. The world developments since that time and the resulting necessity for further expanding our defense program have more than justified the prompt and effective action you took.

August 8, 1940
3:00 p.m.

RE REMITTANCES TO OCCUPIED TERRITORIES

Present: Mr. Long
Mr. Chamberlain
Mr. Livesey
Mr. Bell

H.M.Jr: If I can run through this memorandum.

Chamberlain: Mr. Long has a copy of it.

H.M.Jr: Have you had a chance to read it?

Long: I have not.

H.M.Jr: Have you got a copy for Mr. Livesey?

Chamberlain: I have not, Mr. Secretary.

H.M.Jr: I can read mine.

Long: This includes payments from aliens here to their families abroad?

Chamberlain: As we have got it drafted, there are two possibilities. One would be any person who has been domiciled here for over a year and had been sending money to his family abroad. That is going a little further than the first suggestion I made to the Secretary. The second suggestion --

H.M.Jr: Is to make it only for American citizens.

Chamberlain: American citizens and declarants. I would like to put that in there.

*12/7
see memo filed
under date of 8/8
attached to letter to
the Pres.*

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Long: Declarants?

Chamberlain: I would like to do that, if you don't see any objection. Our organization would like to see it extended to persons who had been domiciled here for over a year and who have been sending, as you see, remittances regularly. We don't want to, at this time, as I said the other day, extend it to new payments.

H.M.Jr: I got that, but you have two proposals in there, one is aliens and the other is American citizens.

Chamberlain: One is to American citizens and all persons who have been domiciled here for over a year.

Long: This includes all the categories, this includes alien residents.

H.M.Jr: The last paragraph --

Chamberlain: Yes, sir, the last paragraph --

Long: A person domiciled for a year or more in the United States. I see. There are two different proposals.

H.M.Jr: Yes.

Long: One is more limited to extent than the other, in amounts.

Chamberlain: The amounts are the same, Mr. Long. The number of the - the class of persons who can be allowed to send is wider in the first proposal than in the second, and our organization would prefer the first proposal. They think it would be better from the point of view of the alien population and alien citizens - not the alien citizens, but the non-American born population in this country.

H.M.Jr: What is the one you prefer?

Chamberlain: We prefer all persons who have been domiciled for a year or more and who have been sending a year or more.

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- Long: And whether they are declarants or not?
- Chamberlain: That would be our proposal. They must have been domiciled here for a year. That would --
- Long: Do you think that makes a difference, Mr. Livesey?
- Livesey: No, you have got other restrictions on the thing, have you not, that is, restrictions that they have previously sent money?
- Chamberlain: Yes, we have that restriction. That, we think, is important.
- Long: That would be for the bona fides of the transaction.
- Chamberlain: Yes, and it would simplify the administration, the question of sending relief funds initially now being a possible cause of difficulty.
- Long: Would that in any way involve investigations or commitments by the agents of the Department abroad?
- Chamberlain: Not this proposal, it would not. If you are going to go widely into the question, that we are not ready to recommend yet. I will want to talk - discuss that with your department before we make any proposals.
- Long: That might be very --
- Chamberlain: I realize that, Mr. Long, and therefore we don't want to take it up with the Secretary until we have got the proposal in better shape.
- H.M.Jr: As I understand the thing - I don't want to get into too many details. The thought, as I get the thing, is that a person living in this country under certain qualifications and who has been sending money for a year or more would be permitted to send \$50 a month to one member of the family and \$10 for each additional person, not to exceed \$100 per month per family and do it through

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whatever financial channels he chooses.

Chamberlain: Yes, through the channels that we --

Bell: Through the usual channels, American Express or --

Chamberlain: We feel quite convinced that the money will be delivered. All the evidence we get is one way on that.

Long: I don't see any objection to it.

H.M.Jr: You see, it is pretty hard here to explain - the Red Cross is sending - they are doing it and, of course, we are reminded daily that any amount of money can go into either Germany or Italy, any amount. What I want to do is - I mean, we can decide now which way we want it. Do you want it a person or declarant who has been here one year or more?

Chamberlain: We would rather have one person domiciled here a year or more.

Bell: And has been sending.

Chamberlain: Yes, that is the requirement.

H.M.Jr: How do you feel?

Long: I don't know how I feel, in the first place. It doesn't require - it is just exercising the power, utility of the American Government for an alien rather than for an American citizen, but if a fellow is here and the people are there and there is real suffering - there is going to be real suffering unless some of these people - many of these people do get their remittances - I don't think we ought to be too technical about it and stand on the detail of American citizenship.

Chamberlain: I feel that way quite strongly, Mr. Secretary, and the people in our division feel the same.

H.M.Jr: I wouldn't have any feelings one way or the other. It is getting it down to such a

refinement that by the time they make out a blank it will be like an income tax.

Long: On this proposal, I would feel that way, but if it was necessary for the American Consuls and agents abroad to run around and extend services to persons who are not Americans, I think the Department would object.

Chamberlain: That won't require that.

Bell: This, too, is just the first step. We may want to do something else later on. You have got the American citizen who hasn't sent any money abroad at all and he is suddenly faced with the question of sending some relative two or three or four or five hundred dollars. I think you are going - you have got that before you now on a small scale, but sooner or later you are going to have pressure up on you on that, I think. I have got a number of telephone calls from people who want to send money to relatives over there.

H.M.Jr: My wife gets them, too.

Long: We send it there.

Bell: Those are the American citizens. These are people who are not American citizens but American citizens are relatives here.

H.M.Jr: But you send money to American citizens in occupied France.

Long: Yes. We send money to American citizens in occupied France, and I think we send money for American citizens to their relatives in occupied France, don't we?

Livesey: No, not if they are not American citizens.

Long: If the recipient is not an American citizen?

Bell: That is right, it is confined to American citizens.

H.M.Jr: It all clears through him.

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- Bell: Well, we gave the State Department a general license with a limitation on American citizens, right at the beginning.
- H.M.Jr: Let me put it this way, if everybody is in accord, what I would like to do is write more or less a formal letter recommending this to the President, because he has been at us on this that we shouldn't do anything and then I would like to send this over to the State Department.
- Long: Just send it to the Secretary.
- H.M.Jr: I will send a little note that you and Mr. Livesey were over here and I would like the Secretary's approval and I will send it on to the President. We will get it over this afternoon. His position - I brought it up in Cabinet Friday a week ago about sending money over and he didn't want to send any. Now, of course, since then there are 7 or 8 million dollars worth of Red Cross money and there has got to be some consistency. As I understand, he talked it out with Norman Davis. *see letter to Paul, dated 10/28/47*
- Bell: Of course, as I understand it, that was more for child feeding.
- Chamberlain: Child feeding, and as Mr. Swift told me the other day, partly for clothing for refugees.
- Bell: Well, it was 2 million dollars.
- H.M.Jr: Without asking anybody's advice, we decided yesterday to give the Rockefeller Foundation 250,000 dollars to finance this expedition that is going to the various countries to see what the plagues are. That seems so good for us to know that I just didn't ask anybody. You wouldn't raise any objection to that?
- Long: I think it is very necessary. They are sure to have difficulties over there.
- H.M.Jr: I didn't ask anybody. I just thought that was good sense, but this other thing is something --

I will write it and take the responsibility and send it over. Why don't I send it to you, but I will address it to the Secretary of State, and send it to you and then you can tell about this meeting, whoever is acting, and say, "Well, this is all right," and get somebody to countersign it and get it back.

see letter to Sumner Welles dated 2/9-

- Bell: Something on the bottom like, "I concur, Acting Secretary of State."
- H.M.Jr: Whatever the proper way is. The way I do with the President is put down, "Approved" in the corner with a typewriter and he signs it, and I put down, "Approved," Mr. Hull or someone else.
- Long: Send it to me and I will see that the Acting Secretary gets it.
- H.M.Jr: I just say down in the corner, "Approved by the Secretary of State," and somebody can sign down in the corner. I say, I want him to know that we have had this talk and I think - after all, the way I look at it, it keeps these foreign elements quiet in this country and it gives these other people a little ray of hope in thinking that the United States is a place to look forward to help from.
- Long: You have got a thousand applications. Is there any indication how many there would be a month?
- Chamberlain: How much?
- Long: How many applications and what is the total amount?
- Bell: These are largely on a monthly basis, aren't they?
- Chamberlain: Most of them will be on a monthly basis.
- Long: It would be about 75,000 average, wouldn't it?
- Chamberlain: I don't think so, Mr. Long. I don't believe

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it would average much over 65 dollars.

Bell: I think it will run from 25 to 175.

Long: Well, they can't send more than a hundred.

Bell: I mean the applications are.

H.M.Jr: If it ran a hundred thousand a month, it would be all right.

Long: Give them foreign exchange to that amount?

Bell: Well, we have got a thousand applications over three months. If you confine them to \$100 a month and you have a thousand a month, that would be \$100,000, but they won't average a hundred.

Chamberlain: They won't average that. You see, we get a great number now. They won't go on increasing anything like that rate. There will be a good many more.

Long: All right, sir, we will approve it.

H.M.Jr: And if you could --

Long: Send it to my office.

H.M.Jr: To your office. If we could get it back tomorrow morning, I would appreciate it. Thank you very much.

Bell: I wonder if I could talk about another question while Mr. Long is here?

H.M.Jr: If you could get this prepared for me - could you do it before you go into that meeting?

Chamberlain: Yes, I could do it. Do you want the material in this memorandum?

H.M.Jr: If you would, please.

Chamberlain: Shall I attach this memorandum?

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- Long: The memorandum gives two suggestions and you could give one.
- H.M.Jr: This should go as a letter to the President saying we would like to make the following recommendations and we would like to have his approval. We arrived at this after consultation with Mr. Long and Mr. Livesey.
- Chamberlain: All right, sir.
- H.M.Jr: And when it is written, whoever does it, actually put it in the hands of McKay, somebody, and then it will come to me promptly. Thank you.

RE EXCESS PROFITS TAX

August 8, 1940
3:30 p.m.

Present: Mr. Gaston
Mr. White
Mr. Coyle
Mr. Foley
Mr. Schwarz

H.M.Jr: Did I say all this? Where do I start?

Coyle: You only said part of it.

H.M.Jr: All right. This is the third draft, a carbon copy, headed "Statement by Secretary Morgenthau."

"The national defense program places upon us the duty of reconsidering certain features of the tax structure."

Now, I want to get in the "now" after that.

Bell: "...reconsidering now certain features of our tax structure."

H.M.Jr: Where would you put the "now"?

Coyle: I think I would put it at the end, "...reconsidering certain features of our tax structure now," and then pause there.

H.M.Jr: "...in order to obtain a rapid expansion of production for defense and a fair distribution of the tax burden. With your permission, I shall be glad to have --" Has Sullivan seen this?

Coyle: He looked it over. He had to go off.

Gaston: The last I heard, he was still up on the Hill. That was five minutes ago.

H.M.Jr: "With your permission, I shall be glad to have

members of my staff present information available in the Treasury in regard to desirable modifications --"

Bell: I don't like that.

H.M.Jr: "With your permission, I shall be glad to have members of my staff present information available --" What would you do, leave out the words "in the Treasury"?

Coyle: Just say "members of my staff."

H.M.Jr: "...members of my staff present information available in regard to desirable modifications of the tax laws for those purposes. But first, if I may, I should like to use this opportunity to give an outline of the fiscal situation as it has developed since the beginning of June when the Revenue Bill of 1940 was under consideration."

White: Don't you want the word, either "additional" or "increased" after "a fair distribution"? "In order to obtain a fair distribution of the additional tax burden." Presumably you have tried to get a fair distribution before.

Bell: It really isn't that, is it?

Coyle: Not if you start cutting off Coca Cola's income.

White: All right, I still think that comma ought not to be there.

H.M.Jr: Well, you fellows who like to play with commas, you can do it once more after I leave.

White: I will.

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H.M.Jr: "According to the Budget estimates, as of June 3rd, with the revenue laws then in force and the appropriations which had passed or were pending, the expected deficit for the fiscal year 1941 was \$4,350,000,000. The balance of the borrowing authority at that time under the limitation of \$45,000,000,000 was \$1,950,000,000. With the rate of expenditure anticipated at that time this balance would be exhausted and the working balance of the Treasury would be seriously depleted by the end of January 1941."

You keep referring to this time, "as of June 3rd." That is all right. Anything on this paragraph? Harry?

White: No.

H.M.Jr: "In view of these circumstances, a provision was placed in the Revenue Act of 1940 authorizing the issuance of not more than \$4,000,000,000 of short term obligations for financing national defense expenditures. At the same time additional taxes were provided, most of which are to be used to retire within five years any defense obligations issued under this authority. As I reported to you, these provisions of the bill then pending before your Committee were sufficient to meet the situation as it existed at that time."

Anybody stop me.

"With the rapid deterioration of world conditions, however, it became necessary to plan for an expansion of the program for national defense, and the President requested the Congress to provide additional funds for this purpose."

That is what I want to say.

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"The accompanying table shows the appropriations and contract authorizations for defense now made or pending before this Congress. The total as of August 5th is \$14,709,000,000, to be expended as rapidly as circumstances will permit during the next few years.

"The Bureau of the Budget and the Treasury --"

- White: Shouldn't that be "...to be expended during the next few years"?
- H.M.Jr: What is the change?
- White: "...to be expended during the next few years as rapidly as circumstances will permit."
- Bell: That puts it a little closer.
- H.M.Jr: Coyle can do what he wants about that.
- Coyle: I thought about that, but I wanted to emphasize as rapidly --
- White: The way it is now, it looks as though you are going to spend it as rapidly during the next few years and from then on, slowly, which I take it is not the meaning.
- Coyle: Oh, I see, yes. I hadn't thought of that. All right, we will change that.
- H.M.Jr: "The Bureau of the Budget and the Treasury now estimate --"
- Am I authorized to talk for the Bureau of the Budget?
- Bell: Yes, in this case. You see, we did it before because it was more or less of a joint estimate.

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(Foley entered the conference)

H.M.Jr: Have you seen this?

Foley: Yes.

H.M.Jr: Like it?

Foley: No.

H.M.Jr: Good. You don't like it?

Foley: No.

H.M.Jr: What don't you like about it?

Foley: Well, Mr. Secretary, I hate to go down and just read them their own stuff and not make any comment at all on the necessity for the program or what you think the program ought to be. It isn't going to sit very well with the Committee and I think you are going to get a lot of hostile questions from the Committee. Now, let's assume that you are going to get the questions anyway. I think maybe it would be better to do it this way, just to go down without any statement at all and say, "You all realize what the problem is. I have my people here and I am willing to answer any questions that anybody wants to ask," and just take it on a question and answer basis.

H.M.Jr: Let me read it. You see, I haven't gone through it.

White: It smacks of a little bit smart.

Foley: I am afraid it is a little bit insolent just to read them their own resolutions and not offer them any suggestions at all. Coming

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from you, I think you are going to --

White: You might get around that by taking certain excerpts, possibly, instead of repeating the whole thing.

Bell: Paraphrase.

White: Possibly paraphrase it and refer to it, but just to read them back in quotes - I am impressed with what Ed says, although I hadn't thought of it before.

H.M.Jr: Well, anyway --

"The Bureau of the Budget and the Treasury now estimate that the receipts for the current fiscal year will amount to \$6,367,000,000, and that the total expenditures will probably exceed \$12,000,000,000, leaving a net deficit of about \$5,700,000,000. The attached statement shows the revised Budget estimates as of August 1st, compared with those made on June 3rd and those included in the President's Budget message of January 3rd, 1940.

"To meet the expected deficit of \$5,700,000,000, we had as of July 31st, a balance under the \$45,000,000,000 limitation of \$965,000,000,000, and the whole of the \$4,000,000,000 authorization of the 1940 Revenue Act. In addition the Treasury had a working balance of \$1,504,000,000.

"By the end of the calendar year 1940, the borrowing power under the general limitation will be down to about \$800,000,000, and that under the \$4,000,000,000 authorization will have been reduced to about \$2,460,000,000. On June 30, 1941, according to present estimates, the balance under the general debt

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limitation will have shrunk to \$300,000,000, and the \$4,000,000,000 authority will have been exhausted. In addition, it will have been necessary to draw upon the working balance of the Treasury, reducing that balance to about \$1,275,000,000.

"On the basis of these estimates it is obvious that in view of the requirements of the defense program, the present combined debt limitation of \$49,000,000,000 will sooner or later need to be increased. Whether an increase will be required before the end of the present fiscal year must depend in the first instance upon the speed at which the defense program progresses. Naturally we all hope that present estimates of the rate of defense expenditures can be greatly exceeded, and it is for the very purpose of accelerating this program that we are now discussing changes in the tax laws."

Gaston: I have a suggestion to make here. That isn't the sole purpose. I would change the sentence around to read, "Naturally we all hope the present estimates can be greatly exceeded and certain changes of the tax laws we are now discussing are for the very purpose of accelerating this program." You see, all of the changes are - all of the purposes we discussed are not changes for accelerating the program.

Bell: You might argue that the whole thing is, because you get the tax law or additional tax levy out of the way and you take over from the industry that pressure or that waiting attitude.

Gaston: The primary purpose is that the excess profits taxes are to prevent excessive profits and to add to the Federal revenues.

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- Bell: The fact that that is hanging over, industry is holding it back - you might argue the other way.
- White: This next sentence troubles me a bit. "The readjusted tax burden to speed the production --" That is doubtless what is being done, but it doesn't sound so good. I wonder whether we might not say, "readjust tax structure."
- Coyle: "Tax structure," yes.
- White: This is true as it is, but it doesn't set so well.
- H.M.Jr: "At the same time, I would point out that in addition to readjusting the tax burden in a way to speed the production of defense material, the proposed tax legislation may properly be aimed --" That is a funny one.
- Bell: Do you want to --
- H.M.Jr: It ought to be "should."
- Bell: Do you want to bring out the social aspects of this?
- H.M.Jr: Why not?
- Coyle: That came in this quotation and if we cut the quotation down, that would be the part, I imagine, that you will have to leave in to prevent the formation of millionaires. The purpose of this paragraph is to hint that you would like some more money and a tax that doesn't have any teeth is not what you are looking for, but you should not say so in any more drastic language than you could help.

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- White: Don't you think the Secretary of the Treasury should always say at a time like this that we should aim at a definite increase?
- Gaston: Yes, I think so, that isn't too strong.
- White: Should aim at --
- Coyle: It is a question of how much.
- H.M.Jr: If the bill falls short of that, it isn't my fault.
- White: Should aim at it.
- H.M.Jr: It may be a bum shot.
- Bell: Are you going to strike out "also"?
- White: No. If you took out the word "definite" it should, "aim also at an increase." Then "strengthening it by" shouldn't be so bad.
- H.M.Jr: Now, how does it read? "Proposed tax legislation should --"
- Coyle: "The proposed tax legislation should aim also at increased revenues which will help strengthen the fiscal position of the Treasury."
- H.M.Jr: Are you going to leave out the word "definite"?
- White: Yes, I think since you are being - I would be inclined to say "should also aim," so there is more than one aim, but in line with the thought that it is merely a statement of almost a pious wish rather than --
- Coyle: It is a pious wish, but it becomes a part of the record so when you come back next January it will support you.

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H.M.Jr: Okay.

"May I take a few moments of your time to read --"

White: If you adopt the other practice, it could be introduced very simply. You could say, "In the report of this Committee before," and then you could paraphrase and give some excerpts and I think it might get around that other difficulty and still include much of what is in here and then with a few additional paragraphs taken from the --

H.M.Jr: Let me just go through with it. I don't know whether I agree with that or not.

"May I take a few moments of your time to read, from the report of your Committee on the Revenue Bill for 1940, the excellent paragraph which --"

Instead of saying "excellent paragraph", say "excellent statement of policy."

Coyle: It is not a resolution.

H.M.Jr: "...your excellent statement of policy," isn't it?

White: That, "May I take a few moments of your time to read," is bad, because that is what it is. Now, "Let me read, boys, just what you said."

Coyle: If you are going to quote from a paragraph only a few sentences, then you don't have to start out with this solemn incantation.

H.M.Jr: Going to page 5, after the second resolution, "The public policies laid down in these two statements --"

I wonder if this wouldn't help it. I want to

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say, "I am in hearty accord with the public policies laid down in these two statements."

White:

Couldn't you say that, but say that first and say, "I am in hearty accord with the policies laid down in the statements this Committee made," and then make some statements.

H.M.Jr:

That would take the curse of it off. You could say this, "I am in hearty accord with the following statements which the Committee made, and there is nothing that I can add to them. I have nothing to add to them. I feel that they are all inclusive," something along that line.

Coyle:

I would question --

H.M.Jr:

Damn it, Ed, you have got to be a little slick. If I start off and say, "I am in hearty accord with what you said in these two statements, gentlemen, and they are so good that there is really nothing that I could add to them; therefore, I would like to read them verbatim --"

Coyle:

I question whether you want to read the resolution at all when you come to read it over. It doesn't say anything except that the Conference Committee --

H.M.Jr:

You mean the second one?

Coyle:

The second one.

H.M.Jr:

I don't think the second one is important.

Gaston:

I think we could just say a resolution of similar tenor was adopted by the Conference Committee.

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- Bell: Do you think we need to quote them at all? How about just making the statement you are in accord with the policies laid down in the resolution?
- Coyle: The only place that the things comes in is the direct quote on the creation of new war millionaires, further --
- Bell: Could you paraphrase it?
- Gaston: "As to the general policies involved, there is little that I can add to the paragraph in the report of your Committee on the Revenue Bill for 1940 --"
- White: "...with which I am heartily in accord." You don't have to - you go on record and then anyone will read it.
- Gaston: But he justifies this paragraph later by saying, "Now, this thing - the reason why we have to act now is because this thing was published in the --" It pretty well justifies it.
- H.M.Jr: Now, wait a minute. We started without that and Sullivan had seven pages trying to explain what was in this resolution, and the point that I am doing with my eyes open, I am rubbing their nose into this thing and this thing wasn't to be done until next fall. This has been hanging over their heads and this is a directive from Congress to their technical staff and ours - we were going along, but we couldn't wait. Now, I can't say that. They would say, "Well, hell, this is --" But I can quote it and throw back their own words into their teeth. I realize what I am doing. "This was the policy laid down --" and so forth and so on.
- You see, Ed, look, no matter how you put it, I am not going to go up and say, "I think this

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is a swell bill and I recommend this bill." I have always done that before.

Foley: Right.

H.M.Jr: I have got to duck it and I think this is a slick way to do it.

Bell: You have the advantage of not having --

Foley: What I would rather see you do, Mr. Secretary, is talk piously and platitudinously about national defense and its relation to the tax program and then say that by delay of course we can get a better excess profits tax. "The longer we delay, the better the tax is going to be but I think, gentlemen, the thing that is most important now for the whole country is to get an excess profits tax on the books so that the national defense program may flow forward and that is ever so much more important than it is to get a perfect excess profits tax."

White: At this time.

Foley: "At this time, and you may have one idea, the Treasury may have another, but to my mind the all-important thing is to tell the business man what taxes he has to pay on this year's profits and the sooner we do that, the better we are going to be off. You are going to be here next year; there will be a Secretary of the Treasury next year. If there are inequities in the Administration of whatever privilege this Committee passes, I am willing to leave it to the good judgment and intelligence of this Committee to devise a formula that is fair and equitable. Changes may be made next year. I have never hesitated to come back here and point out --"

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- H.M.Jr: All right, then we say, "If changes are made next year," and that gives them an alibi to say, "Hell, you haven't even got a bill and you are talking about changes.
- Foley: But, Mr. Secretary, they are liable to say if this bill is passed that this bill hamstring the program because it is a bad bill. I mean, you are dealing with an intangible psychological factor here.
- H.M.Jr: I tell you what I am going to do. Let's make a few corrections which I suggested here, go through with this, and then do the thing the way Foley says, you see, I mean scrapping mine, but let me get mine perfect and then let Foley write his down and polish it up and I can take a look at it after supper, you see. That would be fair, wouldn't it?
- Foley: Sure.
- H.M.Jr: See what I mean?
- Coyle: I thought that part was so important that you cut out of the thing we had this morning that I suggested here on the last page they answer, because they are going to throw something at you to the effect, "What do you think of the bill which we have now got recommended by the Subcommittee?" And in that I wanted to say just about what Ed was saying, but in very careful words, so as not to say, "We will come back," but to leave yourself open to come back and not to say that any further changes in the tax law will ever be required, but leave that closing in there because if you put it in words at any point or allow yourself to say in answer to a question of that sort that, "Of course, we might have

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to come back next January, conditions have changed," then the business men will all sit down on their fannies and say, "Look, we got a tax bill and they gave us warning they are still going to change next year and with this damned New Deal uncertainty, how can we do business?"

- White: You can't suggest you are going to iron out inequities next year, because that is what they are complaining about on their investment.
- H.M.Jr: That is very good. Let me just finish this thing here, what I have got. Now, where do you differ from this, Ed, so that I don't have to have two things, so that I will get one instead of two? Where do you change this?
- Foley: Well, I think, Mr. Secretary, that I wouldn't quote from the provisions of the Conference Report and the provisions in the Ways and Means Committee statement. I think I would begin to talk there about the three things that are under consideration, suspension of Vinson-Trammell, special amortization and excess profits, and then I would talk about the national defense program, the need for getting the national defense program under way quickly, and there are a number of ways that excess profits formula can be worked up, but in the interest of speeding up the national defense program it is better to satisfy perfection for an excess profits tax formula than it is to delay longer.
- H.M.Jr: Then I can add - what isn't perfect about this bill, Mr. Foley? What don't you like about it?
- Coyle: Well, that particular paragraph is covered by this paragraph that Roy Blough wrote.

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- H.M.Jr: That is good.
- Coyle: In which you say that they added other provisions to alter it, but you would interpose no objections. Then they would say - if they ask you what is the matter with it, you would say, "That is exactly what we won't go into at any great length to delay the program, which we mustn't do under any circumstances."
- Foley: The important thing is to get something settled.
- H.M.Jr: Look, I am not really well. I am quite under the weather. Couldn't you people put your heads together and knock out something which I could take and I could take a look at around 8:00 o'clock tonight? I mean, you (Foley) have a bunch of teeth into this thing today.
- Foley: No, I haven't been working with them.
- H.M.Jr: Well, why don't you - you have got an hour or two. You could knock out something for me.
- Gaston: And send it out to the house?
- H.M.Jr: Send it out to the house and I will just take it, that is all. You know how I feel about the thing.
- White: It shouldn't be difficult to incorporate a paragraph along with the other.
- Coyle: I don't think so. We have got it in the original papers that we had, the way we doped it out yesterday.
- White: Well, something along the lines of what he first stated could be fitted in nicely here and even include a statement that the principles enunciated in that report are those

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to which you subscribe very strongly or something. You might even take a sentence or two out of that. I think two drafts can be very easily --

H.M.Jr: I don't want two drafts. I want a final draft. I am just not up to it.

Gaston: I think we can summarize or quote briefly those two statements and then work in a little of what Ed says.

White: I think there could be agreement on one draft.

H.M.Jr: I don't want two drafts, I want one.

Foley: What I would like to spare you, Mr. Secretary, is a whole surge on the part of the Committee from the representation, because you haven't given them anything and from the Democrats, because they think you broke faith with them, of questioning. I would like to have something smooth so that you could get rid of it and then get out and then they could go to Knudsen and Knox and Stimson and then leave to John and the tax people the details.

H.M.Jr: Well, if you can do that, it is an answer to a maiden's prayer.

White: I think Ed is right. If you make them think you are acting a little smart, they will try to get even by putting you on the spot with questions.

Gaston: I wouldn't say this - what you are proposing may not be just right.

Bell: I would be very careful about that, because that will certainly provoke questions.

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Gaston: I would say that speed is the important thing, that you are heartily in accord with what the Committee has heretofore said on the principles and we ought to get action.

Bell: If it isn't perfect --

H.M.Jr: Do you mind just dropping everything you are doing and concentrating on that so you can send me up one draft to the house and then you will have to wait to have the draft printed tonight, but they haven't got it in such shape I can take it, but they are going at it now, and whenever it comes out, I will read it and you can be waiting here and I will call you. I think that is the best way, don't you?

(Mr. Schwarz entered the conference)

Chick, you can wait here for a call as soon as this is ready.

I am not up to it physically. If you people agree on it, I will just take it. That is the best way. I hate to put the burden on you, but at least you won't --

Coyle: It oughtn't to take us very long.

Foley: No, I don't think so.

Coyle: We have already prepared one.

H.M.Jr: You are going to be there tomorrow and see how your stuff goes?

Coyle: I hadn't thought of it.

H.M.Jr: Yes. It will be interesting. I would appreciate it if you will do it that way for me.

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Coyle: All right, we will do that.

H.M.Jr: And I will just take it as it is.

August 8, 1940

Statement by Secretary Morgenthau

The national defense program places upon us the duty of reconsidering certain features of the tax structure, in order to obtain a rapid expansion of production for defense and a fair distribution of the tax burden. With your permission, I shall be glad to have members of my staff present information available in the Treasury in regard to desirable modifications of the tax laws for those purposes. But first, if I may, I should like to use this opportunity to give an outline of the fiscal situation as it has developed since the beginning of June when the Revenue Bill of 1940 was under consideration.

According to the Budget estimates, as of June 3rd, with the revenue laws then in force and the appropriations which had passed or were pending, the expected deficit for the fiscal year 1941 was \$4,350,000,000. The balance of the borrowing authority at that time under the limitation of \$45,000,000,000 was \$1,950,000,000. With the rate of expenditure anticipated at that time this balance would be exhausted and the working balance of the Treasury would be seriously depleted by the end of January 1941.

In view of these circumstances, a provision was placed in the Revenue Act of 1940 authorizing the issuance of not more than \$4,000,000,000 of short term obligations for

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financing national defense expenditures. At the same time additional taxes were provided, most of which are to be used to retire within five years any defense obligations issued under this authority. As I reported to you, these provisions of the bill then pending before your Committee were sufficient to meet the situation as it existed at that time.

With the rapid deterioration of world conditions, however, it became necessary to plan for an expansion of the program for national defense, and the President requested the Congress to provide additional funds for this purpose. The accompanying table shows the appropriations and contract authorizations for defense now made or pending before this Congress. The total as of August 5th is \$14,709,000,000, to be expended as rapidly as circumstances will permit during the next few years.

The Bureau of the Budget and the Treasury now estimate that the receipts for the current fiscal year will amount to \$6,367,000,000, and that the total expenditures will probably exceed \$12,000,000,000, leaving a net deficit of about \$5,700,000,000. The attached statement shows the revised Budget estimates as of August 1st, compared with those made on June 3rd and those included in the President's Budget Message of January 3rd, 1940.

To meet the expected deficit of \$5,700,000,000, we had as of July 31st, a balance under the \$45,000,000,000 limitation of \$965,000,000,000, and the whole of the \$4,000,000,000

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authorization of the 1940 Revenue Act. In addition the Treasury had a working balance of \$1,504,000,000.

By the end of the calendar year 1940, the borrowing power under the general limitation will be down to about \$800,000,000, and that under the \$4,000,000,000 authorization will have been reduced to about \$2,460,000,000. On June 30, 1941, according to present estimates, the balance under the general debt limitation will have shrunk to \$300,000,000, and the \$4,000,000,000 authority will have been exhausted. In addition, it will have been necessary to draw upon the working balance of the Treasury, reducing that balance to about \$1,275,000,000.

On the basis of these estimates it is obvious that in view of the requirements of the defense program, the present combined debt limitation of \$49,000,000,000 will sooner or later need to be increased. Whether an increase will be required before the end of the present fiscal year must depend in the first instance upon the speed at which the defense program progresses. Naturally we all hope that present estimates of the rate of defense expenditures can be greatly exceeded, and it is for the very purpose of accelerating this program that we are now discussing changes in the tax laws.

At the same time, I would point out that in addition to re-adjusting the tax burden in a way to speed the production of defense material, the proposed tax legislation may properly be aimed at a definite increase in revenues which will help to

strengthen the fiscal position of the Treasury. Accordingly, it is desirable not only to provide for changes in the period of amortization on war facilities, and for the suspension of the present profit limitation on contracts, but also to enact an excess profits tax that will provide a maximum of return with a minimum of restriction on the productive activity necessary for defense.

May I take a few moments of your time to read, from the report of your Committee on the Revenue Bill for 1940, the excellent paragraph which deals particularly with the tax changes now under consideration:

"During the executive sessions, there have been discussed proposals to provide special amortization for national defense industries and to provide for the imposition of excess-profits taxes. These two measures--each in itself requiring a complicated and exhaustive legislative project--must be considered together. It is the desire of this committee, which is favorably reporting a bill which will enable a larger proportion of our citizens to participate in the responsibility of providing an adequate national defense than has ever been the case before, that there shall not be an opportunity for the creation of new war millionaires or the further substantial enrichment of already wealthy persons because of rearmament program. Accordingly we have instructed our technical assistants and the

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and the appropriate Treasury officials to accelerate their work in these two fields so that bills will be prepared for submission not later than the opening of the next session of Congress, which if passed by the Congress may become retroactive and apply to income earned during the calendar year of 1940, or may become effective upon any other date which Congress, in the light of information it then possesses, may deem advisable."

I should like also to recall for this record the resolution adopted by the Committee of Conference in the tax bill, on June 21st.

"Resolved by the committee of conference on H. R. 10039, That the committee is firmly of opinion that an excess-profits tax should be enacted as soon as possible and be made applicable to the calendar year 1940 and all taxable years beginning of 1940, and to all subsequent years. In pursuance of this policy the Treasury Department is urgently requested to submit to the Ways and Means Committee of the House and to the Finance Committee of the Senate not later than October 1, 1940, a plan for such tax, together with supporting data and drafts for proposed legislation."

The public policies laid down in these two statements are, I believe, of vital necessity in the defense of our democratic institution. Since these statements of policy were made, however, there has arisen in the minds of contractors who desire to do business with the government a barrier of uncertainty as to the

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conditions under which they will be required to work. In some cases, on this account, contractors have been hesitant to sign with the government. To remove this barrier, it was the joint opinion of the Congress and of the Executive branch of the Government, that instead of waiting until October, we should take immediate steps to obtain adequate legislation to cover the situation that now exists.

The Treasury Staff has placed all of its available information, collected over many years, at the disposal of the Congress. I sincerely hope that the bill which you are about to consider will fully incorporate the statesmanlike policies so ably expressed in your report and in the resolution from which I have just quoted.

Question:

Mr. Secretary have you anything to say about the relative merits of the bill as submitted by the Treasury and the bill recommended by the Subcommittee?

Answer:

The Treasury Department presented to the Subcommittee a plan for an excess profits tax, with corresponding changes in the amortization rules and the Vinson-Trammel Act. The Subcommittee has adopted many features of this plan and has added other provisions which alter the excess profits tax in certain respects. In view of the need for immediate action, the Treasury does not wish to delay the passage of legislation dealing with the problems before you, and accordingly interposes no objection to the plan recommended by your Subcommittee.

August 8, 1940.

Dear Mr. Emdson:

I am sending you herewith, for your confidential use, two copies of the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - August 3, 1940; Unfilled Orders and
Estimated Deliveries on August 3, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - August 3, 1940; Unfilled
Orders and Estimated Deliveries on
August 3, 1940.

These tables carry forward through August 3, 1940
the information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. William S. Emdson,
Chairman, Advisory Commission to the
Council of National Defense,
Room 2262, Federal Reserve Building,
Washington, D. C.

WMA *AK*
FILE COPY

By Messenger 4⁰⁰

August 5, 1940.

My dear Mr. Secretary:

I am sending you herewith, for your confidential use, the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - August 3, 1940; Unfilled Orders and
Estimated Deliveries on August 3, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - August 3, 1940; Unfilled
Orders and Estimated Deliveries on
August 3, 1940.

These data have been compiled from reports submitted
by airplane and airplane engine manufacturers.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of War,

Washington, D. C.

FILE COPY

By Messenger

August 8, 1940.

Dear General Marshall:

I am sending you herewith, for your confidential use, the following reports:

Part I - Airplane

Deliveries of and New Orders for Airplane,
May 1 - August 3, 1940; Unfilled Orders and
Estimated Deliveries on August 3, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - August 3, 1940; Unfilled
Orders and Estimated Deliveries on
August 3, 1940.

These tables carry forward through August 3, 1940
the information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.

General George C. Marshall,
Chief of Staff,
War Department,
Washington, D. C.

GA
HMS

FILE COPY

By Messenger 4⁰⁰

August 5, 1940.

Dear Admiral Stark:

I am sending you herewith, for your confidential use, the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - August 3, 1940; Unfilled Orders and
Estimated Deliveries on August 3, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - August 3, 1940; Unfilled
Orders and Estimated Deliveries on
August 3, 1940.

These tables carry forward through August 3, 1940
the information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.

Admiral Harold B. Stark,
Chief of Naval Operations,
Navy Department,
Washington, D. C.

MA
M
FILE COPY By Messenger 4⁰⁰

August 5, 1940.

My dear Mr. Secretary:

I am sending you herewith, for your confidential use, the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - August 3, 1940; Unfilled Orders and
Estimated Deliveries on August 3, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - August 3, 1940; Unfilled
Orders and Estimated Deliveries on
August 3, 1940.

These data have been compiled from reports submitted
by airplane and airplane engine manufacturers.

Sincerely,


(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of the Navy,

Washington, D. C.

 FILE COPY

By Messenger 

August 5, 1940.

Dear Mr. May:

As requested in your letter of July 27, 1940, I am sending you herewith, for your confidential use, the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - August 3, 1940; Unfilled Orders and
Estimated Deliveries on August 3, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - August 3, 1940; Unfilled
Orders and Estimated Deliveries on
August 3, 1940.

These data have been compiled from reports submitted
by airplane and airplane engine manufacturers.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Stacy May, Director,
Bureau of Research and Statistics,
The Advisory Commission to the
Council of National Defense,
Washington, D. C.

BA *Hunt*
FILE COPY

By Messenger *KL*

In reply refer to Initials
and No.

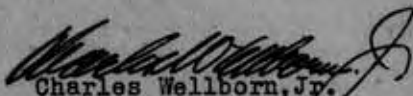
NAVY DEPARTMENT
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON

9 August 1940

My dear Mr. Morgenthau:

This will acknowledge receipt by
Admiral Stark of confidential reports, Part I -
Airplanes, and Part II - Ariplane Engines, which
information carries through August 3, 1940.

Yours sincerely,


Charles Wellborn, Jr.
Commander, U.S. Navy,
Aide to Admiral Stark.

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

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON

August 9, 1940.

Dear Mr. Morgenthau:

Thank you very much for the following reports which you sent me on August 8, 1940:

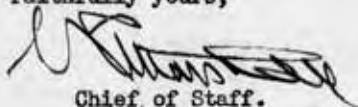
Part I - Airplanes

Deliveries of and New Orders for Airplanes, May 1 - August 3, 1940; Unfilled Orders and Estimated Deliveries on August 3, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane Engines, May 1 - August 3, 1940; Unfilled Orders and Estimated Deliveries on August 3, 1940.

Faithfully yours,



Chief of Staff.

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

THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE
FEDERAL RESERVE BUILDING
WASHINGTON, D. C.

August 9, 1940

My dear Mr. Secretary:

Please allow me to acknowledge your note of August 8 and thank you for sending us the reports on airplanes and airplane engines which accompanied it.

We shall see that these figures are properly safeguarded and made available, under proper controls, only to the several divisions of the Advisory Commission to the Council of National Defense.

Respectfully yours,

Stacy May
Stacy May, Director
Bureau of Research
and Statistics

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

OFFICE
SECRETARY OF TREASURY
1940 AUG 12 AM 9 21
9:41
TREASURY DEPARTMENT

August 9, 1940

My dear Mr. Secretary:

Please allow me to acknowledge your note of August 8 and thank you for sending us the reports on airplanes and airplane engines which accompanied it.

We shall see that these figures are properly safeguarded and made available, under proper controls, only to the several divisions of the Advisory Commission to the Council of National Defense.

Respectfully yours,

Stacy May

Stacy May, Director
Bureau of Research
and Statistics

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

THE SECRETARY OF THE NAVY
WASHINGTON

August 8, 1940

My dear Mr. Secretary:

This will acknowledge receipt of your letter of August sixth enclosing confidential memoranda on the English destroyer situation.

I have not available the copy of the latest memorandum to which I alluded in my talk to you Monday morning and can only quote from memory. Confidentially, it was a communication from the British Premier to the President. The chief point of immediate interest was the statement that the British had lost eleven more destroyers—five of them sunk and six badly damaged.

I learned yesterday, however, that they are putting into immediate commission fourteen of the seized French destroyers which helps the situation a bit. Happily, the French had prepared and there is in process of manufacture a supply of torpedoes of the correct size to fit the French tubes and further supplies can be secured from the same source.

I also am sending herewith a copy of a letter I have just received from T. V. Soong which contains some very interesting information dealing with the Far Eastern situation.

Yours sincerely,

Frank Knox

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

Enc.

The Shoreham Hotel
Washington, D. C.
August 6, 1940

Honorable Frank Knox
Secretary of the Navy
Washington, D. C.

Dear Mr. Secretary:

You may be interested to know that upon returning from my conversation with you yesterday, I received two telegrams relating to the situation in Indo-China.

The telegram from Chungking, dated yesterday, translates as follows: "The situation in Indo-China has suddenly become tense since August 4th. Hostilities are expected any moment because the Japanese have sent an ultimatum demanding passage for their troops to attack China, and the French Government has given orders to resist any entry of Japanese troops."

At the same time, I have received a telegram from our Ambassador at Vichy in the following sense: "Japanese have demanded military and naval bases in Indo-China to attack China in the rear. French are powerless and disposed to negotiate at Tokio. Germans are reported to have told the French Delegate of the Armistice Commission not to provoke conflict with the Japanese in the Far East, thus indirectly aiding Japan. What action would American likely to take if Indo-China is invaded?"

With kindest regards.

Yours sincerely,

/s/ T. V. Soong

T. V. Soong

August 8, 1940
2:23 p.m.

H.M. Jr: Hello.

Operator: Mr. Guy Vaughn.

H.M. Jr: Hello.

Guy
Vaughn: Hello.

H.M. Jr: Henry Morgenthau.

V: Yes, how are you?

H.M. Jr: Oh, I'm fine. And you?

V: Oh, pretty good.

H.M. Jr: I wanted to ask you a couple of questions.

V: All right.

H.M. Jr: One, these number of planes that you have up in Buffalo on order completed -- the airplanes for England -- I think, around 50 or 60, is there any chance of your cleaning that up, I mean, by giving them the engines that they need?

V: Well, you mean to give them the engines later and the planes now?

H.M. Jr: No, I mean, I get these reports. I think there're somewhere between 50 and 60 of these Curtiss-Hawk planes.

V: That's correct.

H.M. Jr: It's around 60, isn't it?

V: I had the report this morning and I think there're 67 to be exact.

H.M. Jr: And they lack engines.

- 2 -

- V: And they lack engines. That's right.
- H.M.Jr: And they're your engines, aren't they?
- V: No, they're not our engines all of them, as I recollect it. If you'll just wait one second I'll get that report back from the file and give you exactly what it is.
- H.M.Jr: Yeah, I'll hold on.
- V: (Talks aside). There's -- I think it's 67 Allison planes and some Cyclone planes.
- H.M.Jr: Well, I don't remember, but I had the impression there were 60 airplanes waiting for Cyclone engines, but we won't argue. We'll wait until you get the
- V: No, I wanted to get you the actual report and tell you exactly what the figures are rather than go off half-cocked, because I see a lot of things and I don't want to be
- H.M.Jr: Well, while you're waiting for that, Mr. Vaughn, what is the status for your Ohio plant?
- V: The status of the Ohio plant is that this afternoon I just came up from a Board meeting and we have approved the R.F.C. loan and we're going to take a half a million dollars just as quick as we can get it and start -- with the approval of the R.F.C. start to purchase the property and go to work.
- H.M.Jr: Well, that is good news. So that deal is really through now.
- V: Well, it's not through but technically it's through, but physically it isn't, if you know what I mean.
- H.M.Jr: No, you've got to explain a little bit.
- V: Well, it's been all approved but the physical operation has yet to be gone through with. We've got to get the check and give them a note and then get their approval to purchase

- 3 -

the property for them as an agent and our plant is all laid out and we will then start letting bids on the equipment.

H.M.Jr: I see.

V: the contract for the plant. In other words the deal is closed on paper but we have to trail through. It was only done about an hour ago.

H.M.Jr: Well, I didn't know. I had heard so many conflicting stories that I wanted to find out.

V: Well, that is exactly the status of it. The R.F.C. Board have approved the agreement, our Board approved the agreement this afternoon about an hour ago and now we're going to take the money as quickly as they can give it to us and get authority to purchase the 200 acres and then we'll immediately let the contracts and borrow more money.

H.M.Jr: I see.

V: You see, in other words, we're just following through the paper work with the physical work.

H.M.Jr: I see.

V: Now, one second. Are you ready to take that down?

H.M.Jr: Yeah.

V: Are you ready to take this down?

H.M.Jr: Yes, I'm ready.

V: On the pursuit -- on this order for 200 airplanes, that's the P-40 with the Allison engine, we are short 67 engines.

H.M.Jr: I see.

V: There are 59 airplanes delivered to date.

- 4 -

H.M.Jr: I see. Hello?

V: Six have been accepted.

H.M.Jr: Six.

V: 66 have been accepted.

H.M.Jr: 66.

V: That's correct. Now those figures may not exactly check because there is stuff in process. In other words, the two figures I gave you don't make 200.

H.M.Jr: Well, how many Curtiss pursuit planes are there waiting for Wright engines?

V: Just a second and I'll come to that. Now, here's 324 which are not -- they're not affected yet because they are not through and waiting for engines. 50 airplanes, G-5, we placed at the Navy. Foreign pursuit -- England -- that's 285 Hawk 75's with Wright G-205's. That's the one you want.

H.M.Jr: Yes, that's the one I want.

V: Yes. We have received 202 engines. They're short 83 to complete contract. The present status of the airplanes is as follows: shipped, 173; in storage, fuselages, 73.

H.M.Jr: I think that's the thing.

V: That's the figure you wanted.

H.M.Jr: That's the 73.

V: That's correct.

H.M.Jr: Now, when are you going to get those engines for those 73?

V: We will clean them up on the 28th of this month -- the whole thing.

H.M.Jr: Oh, really.

- 5 -

V: They had 61 in July and they get the balance this month.

H.M.Jr: Well, that's wonderful.

V: Now, that doesn't mean they'll all be shipped this month but probably by the 10th of September the order will all be out equipped with motors and ready to take the air.

H.M.Jr: I see. Well, that's just what I wanted because the Allison story I know.

V: Well, that is the record from Buffalo dated July 31st. Now

H.M.Jr: I see. That's good enough.

V: if you want to be brought a little bit -- I think the shipments are going -- but giving you the date of the 28th, all the engines will be out of Paterson on the 28th. They will be in Buffalo on the 29th and it won't take them more than ten days at the most to put them all in because it is a very short job on the Cyclone compared with the Allison.

H.M.Jr: I see. (Laughs).

V: (Laughs). I have to do a little selling, you know.

H.M.Jr: You're telling me. That's all right. I like it.

V: (Laughs).

H.M.Jr: I like it.

V: Well, that's the truth though that's a matter of record.

H.M.Jr: All right. Well, that's what I wanted. I just wondered whether you really -- those engines -- those planes waiting for your own engines, how they were coming, and the Allison, of course, is another story.

- 6 -

V: That's another story. That will not clean up, of course, the way this does because they are getting underway and it's a new show.

H.M.Jr: That's right. All right, thank you very much. I'm glad that that Ohio thing is finally cleaned up.

V: What's that?

H.M.Jr: I'm glad the Ohio deal is finally cleaned up.

V: Well, I am too. You have no idea and I think following close on the heels of it, because the agreement is all worked out and it has taken a long time to do it, we have probably a duplicate agreement going ahead Monday or Tuesday at the latest, I hope, for a plant at Buffalo on the air port in connection with the Buffalo Division, another plant at Columbus, Ohio, on the air port. Now, all the property end of it, all the verbal set-up is all in order.

H.M.Jr: What are you doing at Buffalo and at Columbus?

V: A million feet in each place.

H.M.Jr: For airplanes.

V: That's airplanes.

H.M.Jr: Good heavens!

V: And at St. Louis 800,000 feet. That's airplanes.

H.M.Jr: Good heavens!

V: That's right.

H.M.Jr: You're really going after it, aren't you?

V: Well, we've been after this thing for some time.

- 7 -

H.M.Jr: Yeah. Well, those plants -- you don't get R.F.C. money on those, do you?

V: Yes, surely.

H.M.Jr: Oh, you do.

V: Yeah.

H.M.Jr: I didn't know that.

V: It's impossible to get any other money on it.

H.M.Jr: I see.

V: I mean, you couldn't -- I wouldn't and you wouldn't either go out and ask stockholders and you couldn't borrow it from a bank very well with the plant as security -- 100%.

H.M.Jr: No, I wouldn't want to see the banks make it either.

V: No, I'm sure you wouldn't. (Laughs).

H.M.Jr: No.

V: All right, sir.

H.M.Jr: Thank you.

V: I hope to see you soon.

H.M.Jr: Good-bye.

V: Good-bye.

August 8, 1940
4:15 p.m.

Lord
Lothian: Hello.

H.M.Jr: Hello.

L: Yes, Mr. Secretary.

H.M.Jr: Hello. We've had a little trouble getting together.

L: Yes, we have. I've had to rush about and no doubt you have.

H.M.Jr: Right.

L: There're just two points, Mr. Secretary. First of all, they've agreed to send that man you suggested.

H.M.Jr: The oil man.

L: Yes.

H.M.Jr: Wonderful.

L: And they want to know how soon you want him over -- how urgent you think it is he should start.

H.M.Jr: At once.

L: At once.

H.M.Jr: Yes.

L: Now, if necessary, could you help to get facilities for the Clipper -- if necessary?

H.M.Jr: Oh, yes. Yes, I can do that.

L: All right. I'll wire a message in at once. Now the second point is this: we have purchased six 70-foot motor boats from Higgins and Company, New Orleans.

H.M.Jr: Sixty

- 2 -

- L: Six, 70-foot motor boats from Higgins and Company, the builders, at New Orleans. They are for use as rescue boats for aircraft casualties in the waters around Great Britain.
- H.M.Jr: What we call crash boats.
- L: Well, yes. They call them rescue boats under this thing.
- H.M.Jr: I see.
- L: They carry no armament and the Treasury -- that is your Treasury has already agreed that the boats are not covered by the 1917 law and the Justice Department says the same. They are due to sail tomorrow morning, but somebody in the Treasury has intervened and we don't quite understand why and is asking for the assurance only normally given in the case of the transfer of registry that these boats will not be used in any circumstances for belligerent purposes. Now we can't get that insurance really in time from England.
- H.M.Jr: Somebody in the Treasury?
- L: Somebody in the Treasury, yes.
- H.M.Jr: And these are six boats made by Higgins?
- L: Higgins and Company of New Orleans. The Treasury has already agreed with us that they are not covered by the 1917 law and so has the Justice Department, but they want -- the Treasury is making difficulties now, unless we give a further assurance that they will not in any circumstances be used for belligerent purposes.
- H.M.Jr: Where are you now?
- L: I'm speaking from the Embassy.
- H.M.Jr: I'll call you back within ten minutes.
- L: Right. Thanks very much, Mr. Secretary.
- H.M.Jr: I'll call you back in ten minutes.
- L: Right.

August 8, 1940
4:18 p.m.

H.M.Jr: Hello.

Operator: Mr. Cairns.

H.M.Jr: Hello.

Huntington
Cairns: Hello, Mr. Secretary.

H.M.Jr: Huntington, Lord Lothian just called me and said that there're six 70-foot boats made by Higgins and Company of New Orleans that are to sail tomorrow and that got a clearance from Justice and from us and then somebody now is asking for insurance or something in the Treasury.

C: The British Purchasing Commission came in and asked us to clear it. We said we had no interest in it other than that the collectors had an interest and we suggested to them, why don't you follow the previous procedure, and they said they would and that they would deliver the letter to the State Department this afternoon. I thought that we ought not to receive the letter

H.M.Jr: He said somebody in the Treasury is objecting.

C: No. I just got a clearance from the Maritime Commission saying that they had no interest. I think he has been misinformed. We were expecting a letter from him to be delivered to the State Department saying that the vessels would not be used for belligerent purposes.

H.M.Jr: Supposing you call up Lothian and ask for him and tell him that I asked you to call him and see if you can get more details.

C: I'll call him at once.

H.M.Jr: He's waiting at the Embassy. Call him up and call me back. Will you?

- 2 -

C: Yes, indeed.

H.M.Jr: Please, he said that the boats are to go tomorrow.

C: Yes. Well, I understood that.

August 8, 1940
4:31 p.m.

H.M.Jr: Hello, Huntington.

Cairns: Lord Lothian is straightened out and happy.

H.M.Jr: I see.

C: He was misinformed and apparently Ballantyne heard part of the conversation and he called up to apologize.

H.M.Jr: Who called up?

C: Ballantyne called Cox after I talked to you.

H.M.Jr: Oh, of the Purchasing Mission.

C: Yes. He said that Lord Lothian was misinformed.

H.M.Jr: You might tell Philip Young about it so he can keep it straight.

C: Yes.

H.M.Jr: But Lothian was all wet.

C: He had been misinformed.

H.M.Jr: O. K.

C: All right.

H.M.Jr: By whom, I wonder.

C: Well, I don't know.

H.M.Jr: You don't know.

C: I haven't any idea.

H.M.Jr: But he's satisfied.

C: Oh, yes.

- 2 -

H.M.Jr: Do you think I ought to call him now?

C: No, he's quite happy.

H.M.Jr: O. K. Thank you.

C: I explained it to him.

H.M.Jr: Tell Phil Young about it.

C: Yes, I will.

G-2/2657-220

RESTRICTED

No. 165

SITUATION REPORTM.I.D., W.D.
August 8, 1940.
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. European Theater of War.

1. No ground operations.
2. Air Force Operations.

The Germans conducted fairly extensive operations during the night of July 7-8. Daylight attacks, described by the British Air Ministry as "in force", were launched on the 8th.

One RAF plane attacked the Le Bourget (Paris) airdrome on the 7th and the Fleet Air Arm attacked fuel storage tanks in the Bergen area, Norway, on the same date. Night raids were conducted as usual over northwest Germany.

II. Mediterranean Theater of War.

1. Ground Operations.

The Italian advance into British Somaliland is making progress. Four columns are converging on Berbera, one of which crossed from French Somaliland and captured yesterday the second most important port of Zeila.

2. Considerable air force activity on all fronts.

RESTRICTED

JI

GRAY

Berlin

Dated August 8, 1940

Rec'd 4 p.m.

Secretary of State

Washington

3426, August 8, 4 p.m.

TREASURY FROM HEATH, AND FOR THE DEPARTMENT'S
INFORMATION.

The trilateral clearance agreement between Belgium, Holland, and Germany already forecast was announced in yesterday's BOERS. No details of the arrangement were given beyond the statement that payments between Holland and Belgium will in the future be made over the Dutch-German and Belgian-German clearing agreements.

KIRK

NPL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin.

DATE: August 8, 1940, 5 p.m.

NO.: 3427.

Embassy's no. 3426, August 8, 4 p.m., should refer to Embassy's telegram of July 27, 6 p.m.,--no. 3225.

KIRK

EA:MSG

TO THE SECRETARY
OF THE ARMY

GOVERNMENT

RECEIVED

August 8, 1940

Mr. Fein

Mr. Cochran

In connection with the conversations which Acting Secretary Wallis is having with Ambassador Cuzansky, the following material may be of interest:

(Copied from Annual Report of the Secretary of the Treasury for the Fiscal Year Ended June 30, 1934)

"Statements by Secretary of the Treasury Morgenthau, January 31 and February 1, 1934, Relating to the Purchase and Sale of Gold by the Treasury.

January 31, 1934.

In connection with the announcement today (Jan. 31) that the Treasury will buy gold, the Secretary of the Treasury states that, until further notice, he will also sell gold for export to foreign central banks whenever our exchange rates with gold standard currencies reach gold export point. Like the purchases, all such sales of gold will be made through the Federal Reserve Bank of New York as fiscal agent of the United States upon the following terms and conditions which the Secretary of the Treasury deems most advantageous to the public interest:

Sales of gold will be made at \$35 per fine ounce plus one-quarter percent handling charge and will be governed by the regulations issued under the Gold Reserve Act of 1934.

February 1, 1934.

Amplifying his statement issued yesterday, * * * the Secretary of the Treasury today made public the following announcement:

"Beginning Thursday, February 1, 1934, and until further notice, I will buy imported fine gold bars through the Federal Reserve Bank of New York as fiscal agent of the United States; and other gold, foreign or domestic, through any United States Mint or the United States Assay Offices at New York or Seattle, both at the following rate and upon the following terms and conditions deemed by me most advantageous to the public interest:

"Purchases will be made at the rate of \$35 per fine troy ounce, less the usual mint charges and less one-quarter of one percent for handling charges, all subject to compliance with the regulations issued under the Gold Reserve Act of 1934."

- 2 -

It was explained that the phrase 'fine gold bars' means gold bars of a fineness of 0.999 or finer, such as are ordinarily used in the settlement of international balances, carrying a recognized stamp indicating the weight and degree of fineness. The mints will purchase imported gold in other condition, such as unrefined gold and gold in other forms than in stamped bars, along with the domestic gold specified in section 35 of the regulations issued yesterday.

Regulations as to bearded gold are unchanged."

At a press conference on January 29, 1940, the Secretary of the Treasury stated that he doubted that the Treasury would depart from its practice of purchasing gold from any country which offers it at the present price of \$35 an ounce. Replying to charges that the Treasury purchases of Russian gold were aiding to finance the activities of that country, Secretary Hargenthan stated that since the Gold Reserve Act was passed in 1934 the Treasury had purchased all gold offered to it at the established price and had never discriminated against any country. While consenting that the Treasury had discretionary power as to its gold purchases, Mr. Hargenthan declared that he did not think that power was likely to be used.

There is also attached for possible reference a copy of an address delivered by the Secretary of the Treasury on May 3, 1940, on the subject of gold.



FOR RELEASE UPON DELIVERY

Address of Secretary Morgenthau before the National
Institute of Government, Washington, D. C.,
Friday, May 3, 1940

I am particularly pleased to be able to talk to you today because I am in such hearty accord with the purpose of this series of meetings, which I understand to be education for democracy. I applaud the initiative and the public spirit of the leaders of the Women's Division of the Democratic National Committee in making this notable convention possible.

In considering your invitation it seemed to me that I might contribute most to stimulation of your thought on the problems of democratic government by talking to you about the money of the United States, and particularly about gold. I have chosen this subject because I think it is one in which all of you are interested; and it is one about which you may be asked a good many questions as the year proceeds.

One thing you will hardly need to be told about our monetary system; that is, that the American dollar is the soundest unit of currency in the world. Its value is unquestioned here at home and it is not questioned anywhere else in the world. It is a solid rock of strength and stability amid all the monetary confusion created by aggression and war. It is more than a domestic currency; it has become in the last few years more and more an international currency.

People throughout the world who are driven by disaster and fear to hoard currency prefer to hoard the currency of the United States, when they can get it.

We have tried through many means to facilitate stability in the currencies of the world. An outstanding example is the Tripartite Accord which we initiated in September, 1936. In all, six of the leading democracies of the world have subscribed to the principles of that Accord. Unfortunately, the progress we were making in the field of international finance and trade has been interrupted by the cataclysm in Europe.

One of the most striking developments of these recent years has been the universal confidence in the American dollar as one of the very few certain things in a highly uncertain world.

Some of our citizens who admit the strength of the dollar and the world's confidence in our currency now suggest that confidence in our dollar has resulted in this country receiving too much gold.

During the last 6 years we have acquired about \$10 billions of gold from abroad.

Why has so much gold come to the United States?

In the first place, we have exported many billions of dollars' worth of goods and services in excess of the amounts we have imported. Secondly, large amounts of foreign funds have come to this country to be placed and kept on deposit with our banks. Foreigners have sent their funds here for

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safekeeping because of the peace, stability, and security which this country enjoys.

Thirdly, foreigners have made large investments in American industries because they regard American business as a safe and profitable investment. Finally, Americans have been withdrawing their funds from abroad and liquidating their foreign investments in large sums because they prefer the dollar to any other currency.

It is for these reasons that we have had so large a favorable balance of payments; it is for these reasons that gold has come and is continuing to come to the United States.

Gold moves from country to country not as a commodity but as a means of payment, the one final medium through which international settlements are made.

The continued acceptance of the gold that comes here is the only sound course of action open to us. There are, it is true, other courses of action theoretically possible, but they would all have disastrous consequences.

Take, for example, the proposal so frequently made to us that we stop buying gold. It has the charm of simplicity. All that we have to do is to issue an appropriate Treasury order. But let me tell you what I think would happen. Dollars abroad would instantly become very scarce and more costly, and the foreigner would find it much more expensive to buy American goods. For example,

the British pound, the Canadian dollar, the French franc, the Dutch guilder would at once sharply depreciate. A chain of forces would be set in motion which would disrupt our trade, seriously discourage what remains of world commerce and remove from world finance the strongest element of stability.

The cessation of gold purchases would have the following three immediate effects of great importance to us:

Firstly, the sale of American products in foreign markets would be made much more difficult. This would not apply so much to war materials, which foreign countries want so urgently, but it would hit hard our export of hundreds of agricultural and industrial commodities not vital to the conduct of the war. We would lose heavily in the very markets we will badly need when the war is over.

Secondly, there would result an immediate flood of imports of cheapened foreign goods, which would deal an even more serious blow to labor, industry and agriculture in America. The very items which compete with our domestic products would deluge our home markets. Meat and dairy products, textiles and hundreds of other articles would at once be subjected to greatly intensified competition from abroad.

Thirdly, Americans who have investments abroad would find that they had suffered substantial dollar losses

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overnight just as foreigners with investments here would find that they had windfall gains overnight.

So you see this simple remedy is, in effect, a proposal that would completely disrupt our foreign exchanges and our trade and greatly increase unemployment in this country. And so with the other naive proposals which some well-meaning citizens suggest as a remedy for our accumulating gold stocks.

Shall we follow their advice and cut the price for gold? A moderate cut would be ineffective, and a cut in price sufficiently large to have a significant effect on the gold inflow would introduce the same conditions as would follow prohibition of gold imports. This also would cause a serious decrease in our trade and a big increase in unemployment.

Shall we, as some have suggested, discriminate against certain countries in our purchases of gold? Such a policy would not even have the virtue of effectiveness. The active cooperation of practically the entire world would be required to prevent any one country's gold from entering the world's markets and reaching the United States. Obviously this would be impossible even in normal times, let alone at a time such as this. Besides, the value of gold is proportionate to its unqualified use and acceptance as an

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international medium of exchange. To limit its acceptance would mean to reduce its usefulness.

There is yet another alternative which has always been open to us. Instead of taking gold we could have granted credit. Americans could again have accumulated huge unsettled claims abroad. We have had experience with that system -- extensive experience -- in the decade that ended with the economic collapse of 1929. It is doubtful that Americans would want to repeat that experience.

For the excess of goods we shipped and for the dollar credits we granted we have taken gold in the last six years instead of promissory notes. The phrase "good as gold" still has real meaning in the world. I prefer the gold to pieces of foreign paper. I think most Americans agree with me.

Our gold policy is carefully adjusted to the realities of a complex world situation. There have been many glib suggestions for changing that policy. Examination of each of these suggestions has revealed, as in the examples I have mentioned, that in the effort to remedy fancied evils they would bring on real disaster.

Of course, should basic conditions alter, should we be confronted with new and unforeseen economic and political developments, the government will necessarily take such

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action as will best protect American interests. It is to be prepared for such contingencies that the powers with respect to gold operations have been kept flexible. The Treasury is constantly observing, analyzing and studying the course of events in their relation to monetary problems in which this country is interested. But nothing has yet appeared which would warrant any change in our gold policy.

There is only one sound way in which we can work to reduce the inflow of gold and to promote the return of at least a part of the wealth it represents to useful service in the lands from which it came. That way is to do everything in our power to contribute to the return of peace to the world and to encourage reconstruction and the restoration of normal trade. With the restoration of enduring peace and economic stability abroad the gold problem will solve itself. Our great export surplus will drop--not because we shall sell less abroad but because we shall buy more. Foreign capital will be gradually repatriated -- not because we drive it out but because it is attracted home by the reemergence of security abroad. Our investors will once again invest their funds abroad -- not because of the scarcity of opportunity at home but because of greatly enhanced opportunities for sound and profitable investments in other lands. And finally our tourists will spend hundreds of millions more in foreign countries.

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These are the developments which will automatically and gradually direct the flow of gold away from the United States. These are the developments upon which we must concentrate. We must concentrate on the promotion of further recovery here and peace and security abroad not in order to correct the gold situation, but because prosperity, peace and security are in themselves the supreme ends of governmental policy. That their attainment will also solve the world's gold problem is only a by-product, but an important one.

I should like finally to turn to the question of the continued usefulness of the gold we have and the gold we are going to get. This is a matter that is troubling some people.

Let me reassure you once and for all. As long as there are independent nations, and as long as there is international trade in goods and services; so long will it be necessary to settle international balances. Gold is the international medium of exchange par excellence. Its acceptability is universal; its utility as international money survives changes in economic systems. It is used and needed just as much by the freest democracies as by the most rigid dictatorships -- as much by capitalist economies as by socialist economies. It is the refined

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instrument of international exchange of goods and services, as well as an essential ingredient in the more complex international financial transactions -- an instrument that has functioned without challenge for hundreds of years. Every foreign country wishes it had more of it; no foreign country likes to lose any of it; all countries accumulate it as soon as they can afford to do so. And the fact that some countries find it possible to conduct their international trade without gold does not mean that they prefer to do so any more than people reading by candle-light do so because they prefer candles to electricity.

Gold does not lose its value because some countries are forced to resort to clearing arrangements, barter, import controls, and other substitutes. All these substitutes are admittedly worse alternatives. They are methods of conducting trade and finance which will only be adopted when a country does not possess adequate gold holdings. Governments resort wholly to these substitute methods for keeping a country's balance of payments in equilibrium only during times of great and prolonged stress and instability, and only when for one reason or another they have been unable to prevent the loss of most of their gold holdings. All countries would like to have more gold, and the countries which have the least are,

you will find, countries which are striving most to add to their gold holdings. They do so because they know that an adequate supply of gold promotes economic strength and furthers financial stability.

To be sure, if the political picture of the world should undergo a drastic change in the future, so that instead of fifty or sixty independent nations there should exist only one or two groups dominated by ruthless powers, then international trade and finance may assume the character of domestic trade. There would cease to be independent monetary systems, as there would cease to be independent foreign policies. Balances between countries would be settled as balances between our states are now settled -- that is, by transfers of deposits. Under such circumstances it might well be that gold would no longer be needed. But under those circumstances life would be so different that the possible loss in the value of gold would, I am sure, be the least of our troubles.

Certain governments may boast of the day when independent democracies will disappear. I, for one, have no fears that such boasts can be made good. I am as confident that gold will continue to be used as the medium of international payments as I am that the majority of nations will succeed in maintaining their independence. With the return of peace and of normal economic and

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political relationships, the present barriers to the free flow of goods, capital, and services will be gradually lowered, and gold will inevitably play its indispensable role in making that result possible.

One word more -- the exchange we made and are making in return for gold is a good bargain for us. It has enabled us to increase employment and recovery. It has made possible the utilization of labor, capital, machinery and resources that would otherwise have been idle. We have expanded our exports and encouraged our domestic industry. And, moreover, we have at the same time acquired the safest physical asset in the world.

There are some sincere people who have been disturbed by stories that this country had a monetary policy that threatens to cause loss to the nation. If you meet such people I hope you will reassure them. You may tell them that the greatest and richest country of the world has the best and soundest monetary system and that there is no reason to fear that it will not remain sound.

We can feel entirely comfortable in the possession of a supply of gold with which we can meet future demands on our monetary system without any shock to our economy. We can be prepared also to play the part we ought to play in the reconstruction of the world that must follow the senseless destruction of war.

-oOo-

August 8, 1940
11:35 a.m.

Admiral Walter S.

Anderson: just got back and I thought you might be interested in talking to him.

H.M.Jr: I'd love to see him.

A: Well, now when would be convenient for you to see him?

H.M.Jr: How long is he going to be here, Admiral?

A: Well, he's only going to be here a very short time right now.

H.M.Jr: What do you call a short time?

A: Well, just a few days.

H.M.Jr: Uh-huh.

A: Then he's going away and he'll be back the end of this month and then he's going to be in Quantico and around this country for about a year before he goes back there.

H.M.Jr: Well, I've got to testify tomorrow morning but I tell you. Could he call up my office around 11 o'clock

A: Tomorrow?

H.M.Jr: Yes, and by that time I think I'll be back from the Hill, and ask for Lieutenant McKay. He takes my calls.

A: All right, I'll have him do that.

H.M.Jr: I'd like to see him.

A: And I'll have him then maintain touch and you'll see him at your convenience.

H.M.Jr: Yes. Thank you so much.

A: Don't mention it, Mr. Secretary. Good-bye.

CABLE

FROM: Commercial Attache Nicholson,
Shanghai, China.

DATE: August 8, 1940

For the Secretary of the Treasury.

Shanghai market closed easy August 7th at 3-45/64 for
cash and August 3-43/64 for September for sterling 5-19/32
for cash and August 5-17/32 for September for U.S. dollars.
Gold bars closed at 5,650 and wei wah at discount of 4.80%.

NICHOLSON

TO THE SECRETARY OF THE TREASURY
WASHINGTON, D. C.
AUG 10 1940

AS

GRAY

Hankow via N. R.

Dated August 8, 1940

Rec'd 10:10 a.m.

Secretary of State,
Washington.

54, August 8, 2 p.m.

Hankow wood oil market July.

Prices dropped from Chinese dollars 216 (United States dollars 13.50 at the rate of $6\frac{1}{4}$) per picul at beginning of month bill of sale Chinese dollars 190 (United States dollars 11.64 at the rate of $6-1/8$) at the end. 25 long tons changed hands. There were no known arrivals of exportable oil. A Japanese firm is reported to have shipped 5 tons. Hankow stocks remained approximately 2400 long tons.

Inform Commerce.

Sent to the Department. Repeated to Shanghai.

JARVIS

OSB

TREASURY DEPARTMENT

323

INTER-OFFICE COMMUNICATION

DATE August 8, 1940

TO Secretary Morgenthau
 FROM Mr. Cochran

CONFIDENTIAL

Dealings in registered sterling increased in volume today. The six reporting banks purchased £153,000 for account of their commercial customers, of which £102,000 were acquired from the Federal Reserve Bank of New York. One bank also bought £33,000 from the Federal to cover a forward contract made a few days ago with a tin concern.

The Federal Reserve Bank of New York stated that £5,000 in registered sterling were purchased from it by a non-reporting bank.

In the open market, sterling moved off from an initial quotation of 3.92-1/2 to 3.90-1/2 at the close. Trading was again very light. The reporting banks executed orders to sell £1,000 and to purchase £37,000, all for their commercial customers.

In the Far Eastern markets, the Shanghai yuan and Hong Kong dollar were both lower against the U.S. dollar, at 5-9/16¢ and 22-5/16¢ respectively. The sterling-dollar cross rate there was about 3.57.

The other currencies closed as follows:

Swiss franc	.2274
Canadian dollar	13-1/4% discount
Lira	.0505
Reichsmark	.4005
Cuban peso	10-7/8% discount
Mexican peso	.2015 bid, .2035 offered

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the South African Reserve Bank shipped \$3,216,000 in gold from South Africa to it for account of the Bank of Sweden, for sale to the U.S. Assay Office at New York.

The State Department forwarded to us a cable stating that the Swiss Bank Corporation, London, shipped \$58,000 in gold from England to its New York agency, for sale to the U.S. Assay Office.

The Bombay gold price was slightly higher at the equivalent of \$33.76.

Spot silver in Bombay was equivalent to 45.01¢, up 1/16¢.

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In London, spot silver was unchanged at 23-1/2d. The forward price was fixed 1/8d lower at 22-13/16d. The U. S. equivalents were 42.67¢ and 41.42¢ respectively.

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

We made six purchases of silver totaling 450,000 ounces under the Silver Purchase Act, all of which was new production from foreign countries, for forward delivery.

A handwritten signature in dark ink, appearing to be 'B-M-R' or similar, is centered on the page.

CONFIDENTIAL

August 5, 1940

Mr. Cochran

Mr. Egan

Wm. D. Egan

At 11:00 a.m. Mr. Sheldon of the Washington law firm of Covington, Burling, Knoble, Johnson and Shorb, reported at our office asking to see you. He said that he had a question regarding loans of gold to foreign countries by the Stabilization Fund and that he had originally shown up at Mr. Foley's office, where he had been referred to Mr. Cochran. Since you were engaged at the moment, and since his question had not been dealt with by the General Counsel, Mrs. Keith referred him to Mr. Sawyer's office (Mrs. Keith then telephoned Mr. Bernstein's office and was informed that the secretary in the latter office had been instructed to refer visitors, especially lawyers, who had questions regarding the Stabilization Fund, to Mr. Cochran's office).

Fifteen minutes later, having obtained no satisfaction from Mr. Sawyer's office, Mr. Sheldon reappeared at our office.

I spoke to Mr. Sheldon in the Secretary's outer office and found out that he wanted to know, on behalf of a New York law firm, whether the Stabilization Fund was empowered to lend gold to a foreign country. I told Mr. Sheldon that probably the only information regarding the Stabilization Fund that would be available to him consisted of the material which the Treasury had published through ordinary channels. I said, however, that I would mention his inquiry to you, and would telephone him back sometime this afternoon regarding the matter.

Mr. Sheldon's telephone number is National 3730.

(Mr. Cochran received Mr. Sheldon at 3:00 p.m. today. He told him definitely that the Stabilization Fund would give out no statements interpreting the act under which it was established, and did not give any report of its operations other than those published in the official documents of the Treasury Department. It was explained that this office would be pleased to receive the official representative of any foreign Government desiring to obtain financial assistance from the Treasury. Furthermore, no intermediary, either legal or banking, was necessary.)

WDC:lpw-4/8/40

Wm. D. Egan

File No. S. R. 40

August 8, 1940

Assistant Secretary Garton

Mr. Cochran

Mr. Pincent, Financial Counselor of the British Embassy, called on me yesterday afternoon. During our conversation the subject of the attached memoranda on the new British "consumers" tax arose. I summarized to Mr. Pincent the views set forth in your memorandum and that of Commissioner of Customs Johnson. Pincent was not aware that his colleague Sumner had taken this matter up in such detail with Mr. Johnson. I reiterated the desirability of the British trying to adjust their situation to our Customs laws, rather than look to us to provide any relief. Furthermore, I told Mr. Pincent that I could not follow his suggestion that this matter be appealed to the Secretary. I told him that from my understanding of the situation I was entirely in agreement with the views of my colleagues, and that we obviously could not make a recommendation for action on the part of the Secretary when we did not believe it fitting. Whenever the text of the legislation in question is submitted to Mr. Johnson, I explained that he would see just what our position would then be. In the meantime, there was nothing further I could do.



PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Vichy (Paris), France.

DATE: August 8, 1940, 5 p.m.

NO.: 286.

FROM MATTHEWS FOR THE TREASURY DEPARTMENT.

This afternoon the Embassy at Paris telephoned the following: The recently appointed Commissioner at the Bank of France, Karl Schaefer, ordered the closing of the Paris Bourse as of yesterday morning. There was no reason given for this action.

Evidently the Paris Embassy had its own ideas about the reasons but considered it inadvisable to telephone them, as the telephone wires are tapped. It is my belief that the closing of the Bourse is due, at least partly, to the Germans' annoyance that the Agents des Charges left their securities in the unoccupied territory and returned to Paris for trading purposes.

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I was told today by General de Chambrun of the National City Bank that the German authorities, at a meeting 3 days ago in Paris held by the Bankers Syndicate, presented a demand that all the banks submit a complete list of the names and locations of all of their branches; also the amount, location, nature and ownership of their clients' and their own securities as of May tenth and similar information as of the present date. In theory at least, this request applies of course to American banks as well as French. A report has come to my attention that, under instructions of the Germans, the Bank of France has blocked the accounts with it of Lazard Freres not only in occupied territory but also in territory which is unoccupied. I shall try to check on this report when I go to Chatel Guyon and Clermont tomorrow.

All telegraph, postal, and telephone communications, except for calls of the Embassy, between the unoccupied and occupied territories at least for the time being have been suspended and as a result the banks are having a harder time than ever with their administrative problems. I paid a visit to Finance Minister Bouthillier yesterday and he emphatically insisted that it would be impossible to continue the administration of the country from Vichy and for the Government to return to Paris was urgently needed. Almost any conditions which Germany might impose I believe he, at least, would be ready to accept.

There has been no blocking of either Canadian South African or Egyptian accounts in France Bouthillier also told me.

The following is the present situation of the four American banks: The theoretical head offices of all the banks are in unoccupied zones. The Morgan partners, all but Arragon, are in Paris now. Guaranty Trust Company's Mr. Barrett is at Vichy and is instructed not to go to Paris without consulting New York first. However, Campbell throughout all this has remained in Paris. National City Bank's Mr. Hunt has left for Paris. Pearce is now at Le Puy but in a day or two is expected to go to Paris for a temporary visit. Chase Bank's Reese Oateo is now at Chateau Newf Sur Cher and they maintain at Paris only a subordinate personnel, I believe.

(END OF MESSAGE)

MURPHY

NK

EA:EHS