

May 13, 1941
10:24 a.m.

H.M.Jr: Hello.

Operator: Senator Barkley.

Senator Barkley: Henry?

H.M.Jr: Good morning.

B: How are you?

H.M.Jr: Well, I'm amongst the living.

B: Well, you're lucky; I'm not.

H.M.Jr: (Laughs). I'm sorry.

B: I'm sorry I couldn't be at your party last night.

H.M.Jr: We missed you. Did you know what happened?

B: No.

H.M.Jr: May I tell you?

B: Yeah.

H.M.Jr: Or have you got something on your mind first.

B: Go ahead.

H.M.Jr: I told these gentlemen that were there that as the returns were coming in on excess profits that it looked more and more that the companies that had the big contracts were not going to pay any excess profits and a lot of the companies that had high earnings were not going to pay any excess profits and that therefore we were very much disturbed because we felt that the Democratic Party having passed this thing and as time went on if we didn't get the big companies with big

war profits contributing towards national defense, we couldn't defend it. Hello?

B:

Hello.

HMJr:

So, the upshot of the thing was this; they have invited Sullivan to come up there Friday before Ways and Means and point out the discrepancy and the loop holes. Hello?

B:

Yeah.

HMJr:

And then make three or four alternative suggestions, and then they said they will receive them and consider them and work them out. How does that sound?

B:

That's all right.

HMJr:

See?

B:

Yeah. Well I was tied up last night.

HMJr:

Well the thing, Alben, you never saw a tax that hit so many companies in so many different ways.

B:

Well, it's incredible, the different ways that the thing works. We thought we had the thing worked out pretty well.

HMJr:

Yeah.

B:

Well, I'll have -- I'll be glad to when the thing gets over to us to go into that further. A fellow named Albert E. Morris, who lives up in Massachusetts was down to see me the other day and he wants to be Assistant Director of the Defense Savings Staff at Boston. He's a very intelligent fellow. He's a former member of the Massachusetts' Legislature and I think was, maybe, speaker of the Massachusetts' Legislature. He was the Democratic floor leader.

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HMJr: Albert Morris.

B: And I thought that Gale Johnston handled the thing, but he told me it was up to you to make the decision so that's why I'm calling you about it.

HMJr: Well, I'll be glad

B: Can I give you the name and let you look into it?

HMJr: Of course.

B: Albert E. Morris. It's not in my jurisdiction.

HMJr: I know.

B: I know you understand, but for various reasons sometimes these people outside of my state come to me.

HMJr: Well, I'll be very glad to look into it.

B: All right.

HMJr: Thank you.

B: How's Mrs. Morgenthau?

HMJr: Fine. And your wife?

B: Fine.

HMJr: Give her my best.

B: Thank you and same to you. Good-bye.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE May 13, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 11 o'clock this morning the Secretary received Mr. J. M. Keynes, the distinguished English economist who is serving as an advisor in the British Treasury, and whose reception by the Secretary had been solicited through a cablegram by Ambassador Winant from London some days ago. The appointment was made after the Secretary had received yesterday morning a personal note from Mr. Keynes. Mr. Cochran was present during the conversation, and Mr. Keynes came to his office for a further brief talk after leaving the Secretary. Mr. Keynes stated that he came over somewhat as a "minister or messenger" from the Chancellor of the Exchequer. Sir Frederick Phillips had been over here now for several months and this was the first occasion, aside from receiving Mr. Ben Cohen in London, which the British Treasury had for having fresh contact with the American Treasury. In this connection Keynes regretted the lack of swift and direct transportation facilities between Great Britain and the United States.

Keynes brought a message of appreciation from the Chancellor of the Exchequer with respect to the Lend Lease arrangement. The British Government had in the first place been immensely gratified at the conception and drafting of the Lend Lease plan. When Keynes said he presumed that credit therefor was due the American Treasury, Mr. Morgenthau attributed the idea to President Roosevelt. Keynes said their second feeling of happiness came from the very expeditious way in which the Lend Lease Act has become operative. He feels that results are being achieved, without an undue amount of red tape, and consequently that our assistance is most timely and helpful.

At this point Mr. Keynes referred very nicely to the appreciation of his Government for the arrangements which permitted the continued purchasing of supplies on this market during the period when the Lend Lease Bill was in course of being legislated. The Secretary admitted that he had taken the responsibility personally for approving up to \$35,000,000 of purchases weekly during the three months under reference. Keynes said that this had been a most vital help, since the absolute breakdown of purchases in the period under reference might have given quite a different turn to British ability to withstand the enemy's early attacks. That is, vital supplies were needed, and the time element was so essential that a delay of three months was not possible. The Secretary let Mr. Keynes know in confidence of the delicate situation which had existed here and recounted his own reluctance to appear before the Congressional Committees with respect to the appropriation for the Lend Lease Act, considering the contracts which he had approved, and furthermore as a result of British failure to sell any direct investments by the date on which the Act was being considered.

Turning to the subject of British investments, the Secretary recounted that the British Ambassador had been a little unhappy perhaps as a result of the Secretary's

insistence that Sir Edward Peacock should consummate the Viscose sale within a certain period of time. This had been accomplished and Peacock had admitted that not more than \$5,000,000 had been lost through hastening the transaction. The Secretary felt that he had made up for this loss by getting Mr. Jesse Jones to loan \$5,000,000 more on the Brown and Williamson collateral than had been anticipated. The Secretary explained that he had talked with the representatives of Morgan and Stanley and Dillon and Read, who were handling the Viscose transaction, and that the latter had agreed to present the whole picture to him before establishing the commission which they and their associates should charge. The Secretary stressed the point that he was endeavoring to see that the British Treasury obtained the maximum amount of dollar exchange on account of their direct investments in this country. Incidentally, the Secretary spoke highly of the success which had marked Mr. Gifford's efforts to sell listed securities in this country.

Mr. Keynes stated that the British Treasury had been watching with keen interest the progress which had been made in this country toward helping Great Britain, and had naturally watched with great interest the negotiations which Sir Frederick Phillips, Under Secretary of the British Treasury, had conducted with us. He said there was no change whatever in the policy which Sir Frederick had followed of disposing of British gold, listed dollar securities, and direct investments in the United States. Mr. Keynes did, however, think that certain developments since the enactment of the Lend Lease law gave rise to questions which should be considered anew. To explain this, he spoke at some length in the following general sense.

Keynes said that we might be surprised to know that the British Treasury was becoming concerned lest they were using the Lend Lease facilities too actively. There had been a recent tendency to throw everything into this arrangement, including small purchases for British importers who normally would pay from their own funds, and who might even re-export such goods subsequently. There was a question as to whether Congress really anticipated that such materials might be encompassed in the Lend Lease plan. Furthermore, the handling of these purchases, many of them comparatively small, involved an immense amount of routine work by the officials of the two Governments. It was Mr. Keynes's thought that the Lend Lease operations of the British might be limited more strictly to armaments and agricultural products, and that other items be paid for with dollar resources. The Secretary replied that he was no longer handling details as to what should be lend-leased, since this had passed to Mr. Hopkins on March 15. He had felt, however, that the British had been best aided through a generous interpretation of the Act which was permitting them to get everything needed during this period and not exhausting their scant dollar and gold resources. He had been warned by Sir Frederick Phillips that such resources of the British might be entirely exhausted as of March 1 this year. It had now been possible to pass that date and it looked as if the British would continue to have a certain balance of gold and dollars during the next several months. Keynes's reply to this was that he thought this was now the time to make plans for the future with the view to seeing no improper use made of the Lend Lease facilities, and furthermore to work out an effective understanding with us as to how the policy of this country should be accepted by the British. With respect to the latter point, Keynes cited a recent request made of Mr. Hopkins by the British officials here to lend-lease for supplies required by India. Mr. Hopkins had asked urgently that the United States

be excused from establishing a Lend Lease arrangement to the benefit of India at this time. Keynes thought the American views should not be questioned on any matter involving domestic politics such as this might likely do. Similarly, he felt that our position should be respected when we took the stand that the training and maintenance of British air trainees in the United States should not come within the terms of the Lend Lease arrangement. Keynes was of the opinion that much time was now being lost through the British officials pressing repeatedly for objectives which the Americans were not willing to concede. He preferred that the American reasons be accepted once and for all, when the facts have been duly presented by the British. From this portion of Mr. Keynes's rather circuitous presentation of his views, it appeared that he was interested in as much as possible of the Lend Lease facilities being reserved for Great Britain herself, rather than for the British Dominions.

In this connection Mr. Keynes expressed surprise at the agreement of Prime Minister Mackenzie King of Canada to all of the arrangements which have been effected between Canada and the United States. He spoke highly of the accommodation which we are extending Canada, according to the Hyde Park announcement. His surprise was upon the willingness of Mr. King to concede that the British would no longer make gold directly available to Canada. Secretary Morgenthau explained that there had been no difficulty in the negotiations with Canada. We had kept the gold question in suspense for some time, while we were weighing the British situation. We had finally let Deputy Minister of Finance Clark know that they should expect no gold payments from England. It had been the Secretary's feeling that the day should be postponed when England might have to come directly to us to negotiate a loan, since this would be difficult. Consequently, he wished to ease the British situation as much as possible through the Lend Lease arrangements, and also through our own direct negotiations with Canada. He made the point that if a cash loan subsequently became necessary it would be easier to accomplish this to the benefit of Canada than to Great Britain. The Secretary was aware that there had been some criticism of extending aid to Canada to relieve the latter for aid extended to the mother country. In this connection he thought it was incumbent upon Canada to set up a system to provide for the sale of Canadian-owned United States dollar securities, and otherwise to utilize resources capable of producing dollar exchange. He made the point that up to the present we have not contemplated any Lend Lease arrangements with Canada other than those involving component parts acquired by Canada from the United States for inclusion in armaments destined for export by Canada to Great Britain. Canada had not seen fit to request Lend Lease facilities in her own name, those transactions under reference being for the account of and signed by Great Britain.

Mr. Keynes referred to the need of building up British reserves of gold and exchange to meet unforeseen situations. He felt that the next nine months were the particularly critical period. When the Secretary asked whether this was from a military or financial standpoint, Mr. Keynes intimated that it certainly would be the critical military period and that unforeseen financial problems might develop during those months. He hoped, therefore, that some arrangement could be made with the American Treasury which would do away with the day-to-day and week-to-week worries over the British dollar position and would guarantee that British needs would be taken care of during the next few months. The Secretary was not exactly certain as to the point Mr. Keynes was trying to make. I interposed the remark that we had for several months been working with Sir Frederick Phillips on a rather definite program

providing on the one hand for receipts of foreign exchange from trade, the sale of gold, securities and direct investments, and on the other for a schedule of payments aside from the Lend Lease arrangements. I thought that it would be easier to understand Mr. Keynes's approach to us if we considered it in terms of amending the Phillips program. Mr. Keynes remarked that he was working closely with Sir Frederick and that the latter was fully aware of the representations which he was today making. In view of this statement, the Secretary asked whether it would be agreeable that Sir Frederick attend the next conversation. It was obvious that there was more ground to be covered, and the Secretary thought it would be mutually advantageous, since Mr. Keynes is remaining here only temporarily, for Phillips, who is likely to stay on, to participate in our further meetings. Mr. Keynes agreed to this and an appointment for Phillips and himself to join the Secretary at 11 o'clock tomorrow morning was arranged.

It was agreed with the Secretary that if the correspondents waiting in his outer office approached Mr. Keynes as he left that the latter should state that he had paid a courtesy call on the Secretary. As Mr. Keynes and I went out the press men did question him, and his statement was to the above effect. Mr. Keynes came to my office for his hat, and remained to chat for a few minutes. I urged that in his conversations with the Secretary he be as direct as possible, since we were accustomed to dealing that way. I told him, for example, that I thought neither the Secretary nor I understood the last approach which he made in regard to making the British financial position more secure over a period of months. After some conversation I gained the impression that he definitely wants us to approach Congress for a new appropriation for the benefit of the British under the Lend Lease Act, perhaps around July 1. He feels that the change in the bomber program will make such a drain on the other funds from which twenty percent maximum may be borrowed, that it will be impossible to acquire necessary supplies out of these other allocations during all of the Summer months. To avoid any shortages and to guarantee continuity of production, therefore, he hopes that we may see fit to seek a new amount, perhaps three or four billion dollars. I hinted that this might be quite difficult while our tax program is still being worked out and before all of the seven billion dollars is spent. I added in this connection that there was some objection to the British building up too important cash balances while the Lend Lease program is in operation. Our citizens are beginning to realize the immensity of the load imposed upon them by the present and prospective war armament expenditures and even this first tax measure is not going to be too easy.



TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE May 13, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Reference is made to my long memorandum of this date reporting Mr. Keynes' first visit with Secretary Morgenthau.

In this first visit with Mr. Keynes, the Secretary pointed out that as far as we are concerned the Lend Lease system has been moving smoothly. Only one question has arisen. That came from a report which we received from London that a bookkeeping account was being kept there of all information given to American representatives. The Secretary had asked Phillips to pass word on to Beaverbrook to the effect that this struck us as stupid. Mr. Keynes agreed that this was a mild expression for such a transaction.

In speaking of relations with Mackenzie King, the Secretary said that the only difference with him had been on the question of approximately \$600,000,000 of French gold against which he thought there might be given a slip of paper that would permit the utilization of this important resource. This not having been done, the Secretary's calculations were upset. Keynes presumed that Mackenzie King's attitude might have been partly due to his French Canadian problem. In his talk with me after the meeting, Keynes emphasized the importance of India in providing equipment and money for the Near Eastern war area. This consequently enhanced the urgency of the question of how much help Great Britain can give India.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
Washington, D. C.

MEMORANDUM

May 13, 1941

To: Mr. Merle Cochran
From: Philip Young and Oscar Cox
Subject: Canadian Lend-Lease Transaction

I have the following comments to make on your memorandum which I received this morning:

It seems to me desirable to have a separate statement of the Canadian dollar obligations made prior to March 11, 1941 in the United States for material and supplies to be used as a constituent part of articles manufactured in Canada for the account of the United Kingdom.

During the debates on the Lend-Lease Bill there was some criticism -- in the main unfounded -- that Canada was not assisting the U.K. as much as was the United States. Also on the Lend-Lease appropriation hearings, the Committee was somewhat concerned about the taking over of British orders placed before the Lend-Lease Bill was passed on March 11, 1941. Technically this testimony related to the U.K. only and not to Canada. There was no assurance by the

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administration that Lend-Lease appropriations would not be used to take over Canadian commitments made in this country before March 11, 1941.

As a matter of policy if the Canadian commitments made before March 11, 1941, in this country are relatively small in dollar amount, it might be well not to use the Lend-Lease appropriations to take them over in view of the political backlog on this situation.

As to commitments made subsequent to March 11, 1941 by Canada for equipment ultimately to go for the U.K. account, it would seem that some practical method could be worked out for handling the equivalent amount of such dollar commitments without necessarily earmarking each item or each contract for equipment. The best way to do this would probably be to make it a constituent part of the over-all agreement with Canada on the Lend-Lease operations in its behalf.

(Initialed) P.Y.

O.S.C.

COPY: lsp:5/14/41

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 13, 1941

TO SECRETARY MORGENTHAU
FROM Edward H. Foley, Jr.

Congressman Cochran just told Bernard that the House Coinage Committee in Executive Session by a 9-7 vote adopted an amendment prohibiting the Treasury from paying more than \$35 an ounce for gold. We immediately pointed out to him the effect of such amendment was not only to take away the President's dollar devaluation powers but also to take away the powers under Section 8 of the Gold Reserve Act that the Secretary has, acting with the approval of the President, to buy gold on such terms and conditions as he sees fit. We urged Congressman Cochran to try and have the amendment killed. He said he would try to do this. Thereafter he told us that the Committee has reported out the bill with this amendment.

Bell just phoned Cochran and he agreed to hold up the Committee action for a week.

I suggest that you call Rayburn and Cochran and arrange for a meeting at which we can discuss strategy.

S. H. - F. H.

EXTENSION OF STABILIZATION FUND ²²⁹
AND POWERS, ETC.

HEARING
BEFORE THE
COMMITTEE ON
COINAGE, WEIGHTS, AND MEASURES
HOUSE OF REPRESENTATIVES
SEVENTY-SEVENTH CONGRESS
FIRST SESSION

ON

H. R. 4646

A BILL TO EXTEND THE TIME WITHIN WHICH THE
POWERS RELATING TO THE STABILIZATION FUND
AND ALTERATION OF THE WEIGHT OF THE
DOLLAR MAY BE EXERCISED

MAY 8 AND 13, 1941

Printed for the use of the Committee on Coinage, Weights, and Measures



UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1941

(750)

COMMITTEE ON COINAGE, WEIGHTS, AND MEASURES

SEVENTY-SEVENTH CONGRESS

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EXTENSION OF STABILIZATION FUND AND POWERS, ETC.

THURSDAY, MAY 8, 1941

COMMITTEE ON COINAGE, WEIGHTS, AND MEASURES,
HOUSE OF REPRESENTATIVES,
Washington, D. C.

The committee met at 10 a. m., Hon. John J. Cochran (acting chairman) presiding.

Mr. COCHRAN, Mr. Secretary, you stated you would like to have an executive session. However, the members felt we should have an open session but that questions could be asked you off the record if you did not care to have them placed in the printed record. You answered a number of questions when this matter was up before which were not included in the hearing. I think that had something to do with the manner in which the stabilization fund was administered, and you desired to keep that information from getting into the hands of people which would be detrimental to the interests of the country.

Mr. ANDRESEN. Is that the same situation that will govern here, Mr. Chairman? That you would like to have the meeting in executive session and what you say here is off the record so far as the public is concerned?

Mr. MORGENTHAU. I have prepared a statement which you can make public if you want to. I would like to have the privilege, if you ask me some questions which I do not think would be in the public interest to make public, to say so and then answer off the record.

Mr. ANDRESEN. Mr. Chairman, I make this unanimous-consent request: That the statement of the Secretary as he gives it to the committee be made a part of a record hearing of the committee and that unless the Secretary states there is something that he does not want made public the members here may be at liberty to use anything that he says with the exception of that which he says he does not feel it would be in the public interest to make public.

Mr. WHITE. I reserve the right to object.

Mr. COCHRAN. The purpose of the meeting is to consider H. R. 4640, introduced by the chairman, who, as you know, unfortunately is ill. He asked me to call this meeting. The bill is the result of a letter written by the President to the Speaker.

(The bill referred to is as follows):

[H. R. 4640, 77th Cong., (1941-42).]

A BILL To extend the time within which the powers relating to the stabilization fund and alteration of the weight of the dollar may be exercised.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (c) of section 10 of the Gold Reserve Act of 1934, approved January 30, 1934, as amended, is further amended to read as follows:

"(c) All the powers conferred by this section shall expire June 30, 1943, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated."

EXTENSION OF STABILIZATION FUND.

Sec. 2. The second sentence added to paragraph (b) (2) of section 43, title III, of the Act approved May 12, 1933, by section 12 of said Gold Reserve Act of 1934, as amended, is further amended to read as follows: "The powers of the President specified in this paragraph shall be deemed to be separate, distinct, and continuing powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section in his judgment may require; except that such powers shall expire June 30, 1943, unless the President shall so declare the existing emergency ended."

Mr. COCHRAN. The letter from the President to the Speaker, dated April 28, 1941, is as follows:

The WHITE HOUSE, April 28, 1941.

Hon. SAM RAYBURN,

Speaker of the House of Representatives.

My DEAR Mr. RAYBURN: The powers conferred by section 10 of the Gold Reserve Act of 1934, as amended, dealing with the stabilization fund, and the powers specified in paragraph (b) (2) of section 43, title III, of the act approved May 12, 1933, as amended, relating to the fixing of the metallic content of the dollar, will expire on June 30, 1941.

The existence and use of these powers have enabled the Government to take important steps in the field of international monetary and economic cooperation and to safeguard the country's interests. Unfortunately, present world-wide circumstances, including the international monetary and economic situation, is not such as would warrant the termination of such powers. Under all the circumstances, I believe that it would be in the Nation's interest to extend these powers until June 30, 1943.

The Secretary of the Treasury and other representatives of the Treasury Department would, of course, be available to discuss in detail with the appropriate committees of the Congress the problems relating to the extension of such powers.

Very truly yours,

FRANKLIN D. ROOSEVELT.

STATEMENT OF HENRY MORGENTHAU, JR., SECRETARY OF THE TREASURY OF THE UNITED STATES OF AMERICA

Mr. COCHRAN. Now, Mr. Secretary, the committee will be pleased if you will proceed. Before doing so, would you like to read your statement without interruption?

Mr. MORGENTHAU. If that is permissible.

On April 28, 1941, the President wrote to the Speaker of the House recommending extension to June 30, 1943, of the powers relating to the stabilization fund and of the power to alter the gold content of the dollar, which powers, under the present law, will expire on June 30, 1941. A bill (H. R. 4646) has been introduced to accomplish this purpose. I am appearing before you in support of this bill.

When I appeared before your committee on February 28, 1939, to recommend extension of these same powers, I said:

The emergency in the international economic and monetary field still exists and unfortunately there are no grounds for believing that such emergency will end on June 30, 1939. On the contrary, the recurrence of international crisis is as probable now as when the stabilization fund was created in 1934.

These forebodings turned out to be only too true. During the last 2 years the international exchange markets have been more disrupted than they have been in the past 20 years. I am afraid that the period ahead of us will be even more critical.

In reviewing the work of the stabilization fund during the last 2 years, I want to mention in some detail two of the operations which have been undertaken by the stabilization fund.

The first arrangement is with China. You will recall that on December 2, 1940, I appeared before a joint session of the Senate

Committee on Banking and Currency and the House Committee on Coinage, Weights, and Measures, to make a statement about the proposed stabilization arrangement with China. I had previously stated to this committee that I would not consent to the use of the stabilization fund to assist any foreign country in prosecuting a war without first consulting with the congressional committees. The transaction we contemplated and entered into with China was for currency-stabilization purposes. So long as there was any difference of opinion as to whether this type of transaction was of the character that I had promised to discuss with your committee, I decided to lay all of the facts of the proposed transaction before the joint session of the committees.

I was greatly appreciative of the vote of confidence given to Secretary Hull and myself on that occasion.

Following months of negotiation and study of the Chinese foreign exchange and monetary position, an agreement was signed on April 25, 1941, making available \$50,000,000 to China for the purpose of stabilizing the dollar-yuan rate of exchange. The agreement also provided for the establishment by China of a United States dollar-Chinese yuan stabilization fund. Included in the fund's resources will be the dollars acquired from the United States through our purchase of Chinese yuan and a further sum of at least 20,000,000 United States dollars contributed by Chinese governmental banks.

The Chinese Government is placing this fund under the control of a five-man board, one member of which will be an American appointed by China on the recommendation of the Secretary of the Treasury. This board will also have charge of the Chinese yuan-British sterling stabilization funds, which include a 5,000,000 sterling credit recently extended to China by the British Government.

These stabilization arrangements with China should be of great aid to China in her monetary problems and also in the struggle with the puppet currencies. In fact, the mere knowledge in the Far East of the contemplated arrangement has been of some assistance to the Chinese monetary position.

Under the earlier stabilization arrangement of July 13, 1937, with China, we had at one time in the stabilization fund \$48,000,000 of yuan. This amount has been reduced to \$19,000,000, fully collateralized by gold.

The second arrangement of importance to be entered into by the stabilization fund is the one signed December 27, 1940 with the Argentine Government and the Central Bank of Argentina. Under that arrangement we have agreed to buy 850,000,000 of Argentine pesos and Argentina will use the dollars to stabilize the dollar-peso rate of exchange. The arrangement also provides for the exchange of information and of views bearing on the proper functioning of such a program. The monetary authorities of the two countries expect to hold further discussions in the future, which discussions it is hoped will enable both countries to reap the greatest possible benefit from the workings of the stabilization arrangement. The machinery of the fund was most opportunely at hand to enable us to implement the Good Neighbor policy at a time when Argentina, in common with other Latin-American countries, was disturbed about a prospective drain of its foreign exchange resources. Before the Treasury actually pays any dollars to Argentina under this arrangement, it will be

necessary for Argentina to take certain action to confirm the authority of the Argentine Government to guarantee performance of all obligations under taken by it and by the Argentine Central Bank.

There has been activity recently in connection with the stabilization arrangement which we entered into in 1937 with Brazil. On October 18, 1940, we bought \$10,000,000 of milreis from Brazil under this agreement. As Brazil's foreign exchange position improved, Brazil repurchased from us \$5,000,000 of these milreis on December 13, 1940, and the remainder on February 13, 1941. Under another part of the same agreement with Brazil we have sold \$24,000,000 of gold to Brazil for dollars.

In the period which I am now describing, the functioning of the tripartite accord, the development of which had appeared to hold so much promise, was interrupted by the war. Since the outbreak of the war, the machinery set up by the tripartite accord has been inactive. We have not acquired any currency of a belligerent nation since September 1939, and at the present time we are holding less than \$4,000 worth of British pounds sterling, Belgian belgas, and French francs, acquired before the outbreak of the war. I venture to predict that the experience in international monetary cooperation gained through the tripartite accord will prove of permanent value. I believe that that machinery, which functioned in a spirit of cooperation and equality, promises more for future international economic organization than any of the aggressive monetary devices which now hold sway.

During the period from July 1, 1939, to April 30, 1941, the stabilization fund purchased approximately \$3,920,000,000 of gold. This gold was bought from 23 different countries. In the same period there were sales of approximately \$380,000,000 of gold to foreign countries. Eighteen countries sought and obtained gold from our stabilization fund in exchange for dollars. To give an idea of the far-flung extent of these operations, I will just mention Afghanistan, Java, and Uruguay as among the countries with which the Stabilization Fund cooperated in building up their reserves.

The total number of gold transactions of the stabilization fund during this period was large. The circumstances of the purchases and sales were varied. In these transactions the stabilization fund has proved an effective piece of machinery. Incidentally, the existence of the stabilization fund made it possible to carry out, with the essential speed and secrecy, three large acquisitions of gold from hard-pressed friendly countries.

As I have previously promised, we have during this period published quarterly reports of the position of the stabilization fund. This is in addition to the yearly record of the activities of the stabilization fund which the statute requires that the Treasury send to the President and to the Congress. These annual reports, the most recent one of which sent to the Congress was dated March 12, 1941, give summaries of transactions in all of the accounts of the exchange stabilization fund for the period of April 26, 1934, to June 30, 1935, and for each fiscal year thereafter up to June 30, 1940. I have with me for inspection by the committee the last published balance sheet of the stabilization fund as of December 31, 1940.

The stabilization fund has proved its value during years of unparalleled crisis in international trade and finance. Long ago we

made the dollar the strongest currency in the world. Foreign nations and foreign individuals have preferred the dollar to all other currencies. The flow of billions of European capital and the accompanying flow of gold to this country in recent years have made this point clear even to the most unfriendly critics of our monetary policies.

Now we are going forward into times of even greater peril. We are in the midst of many systems of currency and exchange control. Some are operated with no friendly intent toward the United States. Our stabilization fund is a potent weapon of defense in our international economic relations. This is hardly the time to abandon the machinery of control which we have built up to protect the dollar and the American economy.

Economic warfare, as well as military warfare, is now being waged on all sides of us. There is no certainty that even with peace these aggressive economic instruments will be abandoned by other countries. Nobody can say what kind of international economy will emerge from this war. But it would surely be unwise if we chose this time to let private speculators and foreign governments determine the exchange value of the dollar.

In these circumstances, I have no hesitation in making the strongest possible recommendation that Congress extend the stabilization fund powers.

POWER TO ALTER THE GOLD CONTENT OF THE DOLLAR

The reasons favoring the renewing of the President's power to alter the gold content of the dollar to not less than 50 percent of its former weight are comparable to those I have just given for extending the stabilization fund powers. When I was before the House Committee on Coinage, Weights, and Measures on February 28, 1939, I said:

The dollar now has identically the same gold value it had 5 years ago when the President proclaimed on January 31, 1934, that the gold content of the dollar shall be 15 $\frac{1}{2}$ grains of gold nine-tenths fine. The fact that we have kept the gold value of the dollar stable through the international monetary disturbances and alarms of the past 5 years should be adequate assurance that there is neither desire nor intent on the part of this administration to alter the gold value of the dollar except under circumstances which clearly demand such action.

Just as there were critics some years back who said that an irresponsible administration would squander the stabilization fund in a foolish manner, so there have been persistent critics who said that the President's power to devalue the gold content of the dollar would be used to bring about inflation. There is no basis for believing that we are going to have inflation in this country because the President possesses this emergency power. I am sure that the President will be as zealous as Congress in taking the steps to prevent inflation.

Obviously the administration has no present intent whatsoever to devalue the gold content of the dollar. But certainly this is not the time to remove flexible powers from the Executive when the executives of all other nations possess virtually complete powers over the domestic and external monetary affairs of their countries. In 1939 I said to Congress:

This power is a weapon in reserve needed for protection of American interests. In the monetary field it is as important as a powerful Navy in the field of defense against armed attack.

That statement is as true now as in 1939.

What steps will be necessary in the next 2 years in the international monetary field depends to a considerable extent upon the wars which are being fought all around the globe. We are not seers, and we cannot describe what the future holds in store. I feel very strongly that for Congress to remove this power at the present time because there is no immediate use for it would be an unwise step in the face of an uncertain future.

Mr. COCHRAN. Mr. Secretary, have you any further comment to make?

Mr. MORGENTHAU. No; but I am glad to answer any questions.

Mr. ANDRESEN. Mr. Chairman: Mr. Secretary, it is pretty hard to remember all of these things that you have read. I would have rather questioned you as you went along, but I know it is better to have a complete statement in the record.

Mr. MORGENTHAU. Thank you for your courtesy.

Mr. ANDRESEN. But starting at the end, like the Chinese do, and working backward—

Mr. WHITE. Would the gentleman yield for a question about the proceeding here? Just how are we going to handle this? This is very important legislation vital to the welfare of our country and everybody is greatly interested. I am wondering if the Secretary wants this to be entirely secret and kept from the public; that is, the questions and answers here. Just how are we going to proceed?

Mr. ANDRESEN. I put that inquiry when we started and the Secretary said if there was something that he did not want to go in the record he would announce it.

Mr. WHITE. Is that your idea, Mr. Secretary, for everything to be secret and kept from the public?

Mr. HALL. Mr. Secretary, can't we proceed in this manner? When you are asked a question you think should be off the record, then at that point the stenographer will not take it. Can't we go along until you say, "I would like to have this off the record"?

Mr. WHITE. I am afraid the country will get a bad impression here if it is entirely secret.

Mr. ANDRESEN. The Secretary has no disposition to make it secret. If there is something that affects the stability of the financial affairs of the Government, he will tell us so and it won't go in the record.

Mr. WHITE. We are in executive session now. All I want to do is to have clarified the Secretary's intent.

Mr. MORGENTHAU. As far as this statement is concerned, if the chairman wants to give that out to the press, it is up to you. I would not do it; but it is up to you.

Mr. WHITE. This hearing is being taken by the stenographer.

Mr. COCHRAN. I ask unanimous consent that the prepared statement which the Secretary has just read be given to the press. Without objection, it will be given to the press.

Mr. WHITE. What about the record of these hearings? Are they to be secret?

Mr. COCHRAN. The hearings will be printed as they have been in the past.

Mr. ANDRESEN. This statement will go in the hearings?

Mr. COCHRAN. I asked to have it go in.

Mr. WHITE. It appears to me to be irregular. I do not know whether this is a secret or a public hearing. I am uncertain as to how we are going to proceed.

Mr. HALL. Aren't these hearings, after they are printed, public records? Therefore, if we want to keep anything secret, we cannot even let it go into the minutes, Mr. White.

Mr. WHITE. I expect the press would like to be represented here. I just do not know how we are proceeding. I am trying to conform to the wishes of the Secretary. So far as I am personally concerned I am in favor of a public hearing.

Mr. ANDRESEN. As I understand it, we have now approximately \$22,500,000,000 plus in gold according to the last statement. That is as of May 5, 1941—\$22,519,000,000 plus, or maybe a little more than that. How much gold is there under earmark to the credit of foreign countries? I believe the last figure I saw was \$1,800,000,000, or around that figure.

Mr. WHITE (Treasury Department). \$1,900,000,000. That is not included in this figure.

Mr. ANDRESEN. Can you tell us, Mr. Secretary, what your estimate is of the total world supply of gold at the present time?

Mr. WHITE (Treasury Department). The world stock of monetary gold has been usually estimated at approximately \$30,000,000,000.

Mr. ANDRESEN. \$30,000,000,000? It has gone up about \$2,000,000,000 since last year, when I think it was \$28,000,000,000.

Mr. WHITE (Treasury Department). Very likely. Gold is being produced at the rate of almost \$1,500,000,000 a year.

Mr. WHITE. At what rate?

Mr. WHITE (Treasury Department). \$1,500,000,000.

Mr. ANDRESEN. That is about double the former production before the increase in price?

Mr. WHITE (Treasury Department). I can get the exact figures.

Mr. ANDRESEN. Can you put them in the record?

Mr. WHITE (Treasury Department). Gladly.

(The matter referred to is as follows:)

World gold production, 1920-40

Year:	Ounces	Year:	Ounces
1920.....	19,207,452	1935.....	29,999,215
1930.....	20,903,730	1936.....	32,930,554
1931.....	22,284,200	1937.....	35,118,298
1932.....	24,098,676	1938.....	37,703,334
1933.....	25,400,205	1939.....	39,651,307
1934.....	27,372,374	1940.....	42,206,000

† Estimated.

Source: Treasury Department, Division of Monetary Research, May 9, 1941.

Mr. ANDRESEN. Now, as I recollect here, the Governors of the Federal Reserve Board recommended that this power be discontinued that is in the hands of the President to further devalue the dollar.

Mr. MORGENTHAU. I think that is correct.

Mr. ANDRESEN. It is quite apparent that you are in disagreement with that recommendation of the Federal Reserve Board?

Mr. MORGENTHAU. I am. Yes. If I may just amend your statement. It was not the Board; it was what they call the Advisory Committee of the Federal Reserve. But the Federal Reserve Board—

Mr. ANDRESEN. They concurred in it?

Mr. MORGENTHAU. Yes.

Mr. ANDRESEN. And sent it up to the Congress?

Mr. MORGENTHAU. Yes.

Mr. ANDRESEN. Add they also recommended to do away with the authority now vested in the President to have, or the Secretary to have, \$1,000,000,000 worth of currency printed?

Mr. MORGENTHAU. Under what is known as the Thomas amendment, yes.

Mr. ANDRESEN. Yes; the Thomas amendment.

Mr. MORGENTHAU. But that is not up now in this matter.

Mr. ANDRESEN. No; that is not up now.

Do you wish to make any comment for the benefit of this committee on why you are opposed to the recommendation of the Federal Reserve Board of Governors?

Mr. MORGENTHAU. Well, I do not want to fence with you, but I am here supporting this bill which will do two things. One: Continue the authority which Congress has given the President; namely, the stabilization fund powers; and two, continue the power to alter the gold content of the dollar. And I am here, as I say, supporting the bill. If the Federal Reserve System think that is wrong, let them say why. They are in disagreement with me, I am not in disagreement with them. I am just asking for a continuation of powers which have been renewed three times, I believe, or given to the President three times. If the Federal Reserve Board or any other group of bankers think that is not wise, under our democratic system, they can get up and say so.

Mr. ANDRESEN. Do you think this is a healthy proposition for us to continue to buy all of the gold of the world at the price set by the President and the Secretary of the Treasury?

Mr. MORGENTHAU. Well, Mr. Congressman, I think it is the only system I know of at present that we can function under in this upset world. Again and again I have asked people for suggestions to better the system. I am always ready to sit down with anybody who has a suggestion for improvement. I have been unable to get any better method of settling our balances of payments in international trade. I do not know of a better method.

Mr. ANDRESEN. Of course, during the past couple of years we have been living under unusual world conditions, and we have been buying a lot of gold here and much of that money has been used by warring democracies to settle their payments for the things they bought in the United States. But some years ago you expressed alarm about the great amount of gold that was coming into this country. And when we consider the earmarked gold, plus what we have already purchased we have close to 90 percent, between 85 and 90 percent of the world supply of gold.

Mr. MORGENTHAU. You are a little too high, I think.

Mr. ANDRESEN. Well, I assume that the gold that is earmarked will eventually find its way into the Treasury to be used in the settlement of balances when those countries run out of other dollar exchange.

Mr. MORGENTHAU. Not necessarily. After all, we have a lot of gold here that is frozen for countries that have been overrun by Germany. It does not follow that this gold necessarily will eventually find its way into our Treasury.

Mr. ANDRESEN. Well, of course, they are using some of it now to maintain the governments that are existing outside of the conquered countries.

Mr. MORGENTHAU. That is true, but the sums involved are very, very small.

Mr. ANDRESEN. That may be.

Mr. MORGENTHAU. It is just a trickle.

Mr. ANDRESEN. Of course, a good many of us are concerned about what these foreigners are going to use for dollar exchange to pay for things that they buy in this country after this war ends—and it is going to come to an end—and if they do not have gold to pay us with that means we have to take the products of those countries produced under probably totally different conditions than we are used to here in the United States.

Mr. MORGENTHAU. Well, it has been true now for 5 or 6 years, that certain countries have been very limited in the amount of dollar exchange they can acquire to pay for goods in this country, and they have not been able to buy here; or their purchases have been very limited. I don't know, and I don't pretend to be able to see into the future very far to know, if and when peace comes to the world, on what basis we will do business in international channels. I just do not pretend to know, and I have not yet been able to find anybody who can forecast how we will conduct business.

Mr. ANDRESEN. I thoroughly agree with you we would like to find something about the future so we could prepare for it. But I would not even venture a guess myself, and I am sure you find yourself in the same position.

Mr. MORGENTHAU. I try to be honest about it. If I had an answer, I would tell it. But I do not know what the answer is.

Mr. ANDRESEN. Let me refer briefly to the stabilization fund. How much of a balance do you have in the stabilization fund now that is not being used?

Mr. MORGENTHAU. What we have done—Mr. Bell can correct me—we never used more than \$200,000,000 of the fund, at any one time.

Mr. ANDRESEN. You still have approximately \$1,800,000,000 that is not being used?

Mr. MORGENTHAU. We have exactly \$1,800,000,000 that we have never touched.

Mr. ANDRESEN. Very little of the reserve that you have is drawing interest?

Mr. MORGENTHAU. I would say none of it is.

Mr. ANDRESEN. None of it is drawing interest.

Mr. MORGENTHAU. No.

Mr. ANDRESEN. I am sure it has occurred to you, and I would like to ask you because I have been wondering as long as we are paying interest on such large amounts in this country for national defense and for the expenditures that we are making in excess of the amount collected for taxes, here we have \$1,800,000,000 not drawing interest and lying dormant. That means at the rate of 3 percent, \$54,000,000 a year, and if it would be used it would eliminate the paying of that much interest at 3 percent.

Mr. MORGENTHAU. Well, the average is 2.5 percent.

Mr. ANDRESEN. Figure at 2.5 percent it would be \$40,000,000 or \$45,000,000 a year. Now we are in the process of having a tax bill drafted, a very drastic one. And \$40,000,000 or \$45,000,000 is quite a bit of revenue to find. Can you see any good reason why we should not use this money now in the stabilization fund that has been dormant.

ever since the fund was created to meet the obligations for national defense so as to eliminate that interest?

Mr. MORGENTHAU. I would be glad to give a reason. I have felt that this \$1,800,000,000 is a sort of nestegg that belongs to the people of this country—one that we could use in case the time might come when I might not be able to borrow, except at very unreasonable rates. We may always be able to borrow, but the time might well come when over a short period, on account of some great catastrophe, I might not be able to borrow the amount of money I have to borrow to run this Government without paying exorbitant rates. The money in the stabilization fund is a reserve against that time. I have looked on it as a very sacred trust. If I invested it the way you suggested, in Government bonds, I would use up that power and it would be gone. I have always felt here is something against not only a rainy day but against some situation which might come about when for a period of 3 months or 6 months I just could not go into the money market and borrow.

Mr. ANDRESEN. Well, the new tax bill we are going to have, if I understand the proposals correctly, is going to be a pretty stiff proposition.

Mr. MORGENTHAU. Well, it should be—if you don't mind my saying so.

Mr. ANDRESEN. Well, now, you say this stabilization fund is held by you in trust for the people because you feel it belongs to them?

Mr. MORGENTHAU. Yes.

Mr. ANDRESEN. Well, certainly you contend also this national defense is for all of the people, too?

Mr. MORGENTHAU. Yes.

Mr. ANDRESEN. And, therefore, it would be a good place to put the money in order to help pay for these expenditures for all the people for national defense?

Mr. MORGENTHAU. There can be no argument on that. But there is also this sense of caution on my part, having seen three or four times when for a very short period it was very difficult to borrow. I never had a time I could not borrow at a rate. But after all, when they started out in 1917 on the Liberty Loan I think they had to pay up to 4.5 percent.

Mr. BELL. 4.25 percent on the note issue; and up to 4.75 percent on the Liberty bonds.

Mr. MORGENTHAU. The very fact that I have this reserve is a kind of a cap on the market to keep the people who own the money from running the rates up on me, because they know I have it. We have gradually gotten the average rate on our public debt down until it costs only about 2.5 percent, and it is these various instruments which Congress has given the President and the President has passed on to me which have made it possible to keep money so cheap. Just as soon as they know that on a certain date I have got to borrow a billion dollars and there is no other place I can go to but the banks, I will begin to pay through the nose. I will not get money at 2.5 percent. I will pay 3 percent or 4 percent or 4.75 percent. I may have to pay 5 percent. But it is these very reserve powers which we have, which Congress controls and has given the President and he, so to speak, passed on to me, which make it possible to keep the rate down. And the \$15,000,000 which we might apparently save could very quickly

disappear if we had to pay one-half percent more on the total debt. Now, that is the way I feel.

Mr. ANDRESEN. Of course, you know that the situation is wholly different now from what it was during the World War days where the Government was not in the loaning business in pretty near every line such as we are today. As a matter of fact the only place a person can put his money now is in Government securities with any degree of safety. That is, as long as the Government is secure, then the obligations that the people own are secure.

Mr. MORGENTHAU. I hope you have bought some of my bonds.

Mr. ANDRESEN. I certainly have.

Mr. MORGENTHAU. Good.

Mr. ANDRESEN. I will have faith in the Government and that we will muddle through in some way. But pretty near the only place people can put their money in today is in the Government. Now, you yourself are for adopting the policy, and I think properly so, of going to the people to get the money rather than to the banks through the sale of these new defense bonds, and I assume that program is going to succeed.

Mr. MORGENTHAU. But the fact remains, Congressman, after we have gone to the people and gotten a goodly proportion of their savings, as much as they will trust me with, we do have to go to the large pools of capital to borrow money. And I would hate to be in the position, which I have not been in to date, where I would have to go with my hand out and on my knees: "Please lend me a billion dollars or half a billion dollars." The minute Congress takes these reserve powers away from the President and away from me then I will be placed in the hands of the owners of the money in this country. I sincerely hope Congress will not do it because I will have to pay through the nose, and so will everybody else through increased taxes on account of higher interest rates.

Mr. ANDRESEN. I do not agree that you will have to pay through the nose because I think you are pretty clever in getting money, even without this money.

Mr. MORGENTHAU. Thanks for the compliment. But I have only been able to do it on account of the powers Congress has given us, these reserve powers. And just as soon as you take that away from us then I am no different from any other individual. When a man goes into a bank and says, "I want to borrow a thousand dollars to buy a new tractor or a new threshing machine," if this man has got some money in the bank he is treated one way, but if he has nothing in the bank and he is entirely dependent on the farm machinery company, the farm machinery company will soak him good and plenty. If that man has some money he can go perhaps to a bank and borrow for 3 percent. But if he has to depend on the farm machinery company, the way it used to be in the old days, he would pay 10 or 12 percent for the tractor. It is the same idea. I am no different from the farmer who goes to the bank or the fellow who wants to buy anything on credit.

Mr. ANDRESEN. If this power is not renewed, or, we will say, if it is renewed and you are unable to get money then by one stroke of the pen the President could give you over \$4,000,000,000 just by decreasing the gold content of the dollar.

Mr. MORGENTHAU. Perfectly true. He can also, as he said, walk on his head up Pennsylvania Avenue.

Mr. WHITE. May I ask a question at that point?

In the event of that proceeding, what happens to our gold certificates held in the Federal Reserve banks. I notice that the bulk of gold is obligated to the Federal Reserve. How by a stroke of the pen can this \$4,000,000,000 by devaluing the dollar be added when the certificates are out against the dollar?

Mr. ANDRESEN. Just the way they did it at the time back in 1933 or 1934 when they decreased the gold content of the dollar. Isn't that correct, Mr. Secretary? That could be done.

Mr. MORGENTHAU. Mr. Bell, could you answer that, please?

Mr. BELL. As I look at it title in the gold is in the United States Government. If gold were devalued the profit out of that devaluation would go to the Government and the Federal Reserve banks would be paid in dollars available at that time for the face amount of the certificates they hold.

Mr. WHITE. The May 5 statement of the Treasury of the United States shows \$17,387,287,510.80 in gold certificates held by the Board of Governors of the Federal Reserve banks. That calls for gold of such quantity. What does it call for? I have never seen—we have never had the privilege of seeing those gold certificates. What do they represent?

Mr. ANDRESEN. The Secretary of the Treasury could authorize the redeeming of the certificates in gold if he so desired, according to the law.

Mr. WHITE. According to the way we handled it in this committee before when I was a member we went through the mechanics of taking title to the gold and then devaluing it and then issuing against it gold certificates that were handed back in lieu of gold taken from the Federal Reserve. I am just wondering, with those gold certificates out, and you say by a stroke of the pen that Mr. Morgenthau could increase the Treasury to the tune of \$4,000,000,000, just how that can be done with all this gold obligated to the Federal Reserve in the form of gold certificates. I cannot understand, unless we went through the mechanics of reacquiring title to those certificates and reissued them.

Mr. BELL. A gold certificate calls for \$100 in gold. It would just call for \$100 of the new value, that is all. It calls for \$100 in gold at the new value.

Mr. WHITE. Then the gold certificates handled by the Federal Reserve are a very insecure thing if it is just on the value which is determined to a large degree by the President with the power to devalue gold.

Mr. BELL. They can change their books. Could they not?

Mr. WHITE. They could not change their books but it would change the security.

Mr. BELL. They would still have \$17,000,000,000 of gold certificates in their possession.

Mr. WHITE. I appreciate the courtesy, Mr. Andresen.

Mr. ANDRESEN. You were referring to the stability of the American dollar. Of course, we recognize the fact that the dollar is the outstanding currency in the world. But in relation to other currencies there may be need for another devaluation. Of course, one purpose of the devaluation to start with was to equalize the currencies of the world and the tripartite agreement was entered into. And since we

did enter into that agreement and particularly in the last 4 years there have been devaluations of other currencies which might warrant another operation the same as we had originally; is that not correct?

Mr. MORGENTHAU. Well, of course, at present we in the Treasury are not worrying so much about devaluation by the other countries. I mean, everybody in this country now is and should be, in my opinion, defense minded. And it is more against the day when the fighting ceases and people sit back and again want to do business through normal channels of trade that I think it is important that the President of the United States through Congress be allowed to continue to have this power. Against the day—not today or tomorrow—but against the day when there once more is peace and we find what kind of competition we are up against in the world markets to do business with American merchandise. Now nobody knows what that competition will be, but I believe it would be a mistake at this time to take that authority away from the President. I do not see that anything can be gained by it. He has demonstrated that he is fully competent to hold that great trust and not abuse it. And on the other hand we just do not know what is around the corner. It is a useful authority as a sort of preventive, rather than positive action that he might take. That is the way I feel.

Mr. ANDRESEN. The only way you can make it work after the war is over, if you want to do business throughout the world, is to take this gold we have already purchased and loan it to those other countries so they can spend it with us again.

Mr. MORGENTHAU. We might have to do that.

Mr. COCHRAN. Mr. Reed?

Mr. REED. No questions.

Mr. COCHRAN. Mr. Hall.

Mr. HALL. Mr. Secretary, you said this fund might come in handy during a rainy day, but under the provisions of the original act, I have not it here before me, can you now use this fund for general governmental purposes? Have you authority to do it?

Mr. MORGENTHAU. No. But the way we could do it, Congressman, would be through the purchase of Government securities.

Mr. HALL. You would use it in that manner?

Mr. MORGENTHAU. You could use it in that manner.

Mr. HALL. Now, as has been said here, since we met 2 years ago, the gold in the world has increased about \$2,000,000,000 and the amount we have obtained has increased about \$4,000,000,000; is that right?

Mr. MORGENTHAU. About right.

Mr. HALL. That means in about 4 or 5 years if we keep up this present trend we will own all of the gold in the world except that which is newly mined gold; is that right?

Mr. MORGENTHAU. I do not think so, but I may be wrong. It looks as though with the exception of the newly mined gold we have about all the gold we are going to get now. That is the way it looks, with the exception of newly mined gold.

Mr. HALL. Is there any indication that that is so?

Mr. MORGENTHAU. Yes; there is.

Mr. HALL. There is?

Mr. MORGENTHAU. Yes.

Mr. HALL. Let us assume we own all of the gold except newly mined gold. Do you think that would be a dangerous condition so far as the use of gold in the world is concerned? In other words, I am a believer in gold, but I am wondering how good it is going to be if we own it all.

Mr. MORGENTHAU. If it were left to me, I certainly would not want to bring that condition about. But I find myself on the horns of a dilemma. We are the biggest stockholder, and we are due to get bigger. And these various foreign governments, whenever these people of the treasury are permitted to speak, give every indication that they are still very much interested in gold. Certainly every time they get an opportunity they buy some. That is particularly true in South America. All I can say is, for the time being, I frankly do not see any other course open to us if we are to continue on the present basis.

Mr. HALL. As we do reach that point where we own all of the gold, would it be your position to more or less hold back the purchases of gold so we would not reach the point where this Government would own all the gold except newly mined gold?

Mr. MORGENTHAU. The trouble, Congressman, is that the minute I, as Secretary of the Treasury, hold back, so to speak, or discriminate against any particular country wanting to sell us gold, or in any way indicate that I have lost confidence in gold, that minute the world loses confidence in gold and it might very rapidly depreciate in value in the eyes of those governments that want to acquire it.

Mr. HALL. My thought was if we do reach that point automatically the value of gold will depreciate.

Another question, Mr. Secretary. You show in your statement you have purchased gold with the fund to the amount of \$3,000,000,000. Of course, that is twice the amount of the fund. How do you get that gold out of the fund?

Mr. MORGENTHAU. It clears through this fund. Would you like to have the mechanics of it?

Mr. HALL. No. I want just the result.

Mr. MORGENTHAU. We put it into the fund and then clear it out. We use it as a revolving fund.

Mr. HALL. I see. That is all. Thank you.

Mr. COCHRAN. Mr. White.

Mr. WHITE. I have got a few questions I would like to ask the Secretary, but I will defer them at this time to let some of the other gentlemen inquire.

Mr. GALE. Mr. Secretary, in case the authority of the President to devalue the content of the dollar was not extended to him, would that materially affect the stabilization fund or the operation of the stabilization fund?

Mr. MORGENTHAU. It would not necessarily.

Mr. GALE. The two, then, are not inseparably bound together.

Mr. MORGENTHAU. No; they are not.

Mr. HALL. While the chairman is out I want to thank you, Mr. Secretary, for coming before us with the China situation. I think that is a splendid attitude and is the spirit of cooperation we need today.

Mr. MORGENTHAU. I have given my word, and it is the only thing I have that is worth anything.

Mr. SCOTT. Mr. Secretary, just to enlighten me, is it not a correct statement that a further devaluation of the dollar would operate as a pro tanto repudiation of the Government's monetary obligations? Or, if I can put it another way, would it not amount to a confiscation of the claims against the Government?

Mr. MORGENTHAU. Now, if you do not mind, I would call that a legal question and I will have a lawyer answer that.

Mr. SCOTT. I have no objection, sir. I am not asking it in a spirit of criticism but rather for information, of course.

Mr. FOLEY. We have argued that problem before the Supreme Court.

Mr. SCOTT. I am trying to learn something and would appreciate if you would answer me in that spirit.

Mr. FOLEY. I am not sure I understand your question. If I do, I believe the answer is: The obligation is to pay in dollars, and even if the gold content is reduced, payment in dollars will constitute a full discharge. I do not think that is a repudiation of the obligation.

Mr. SCOTT. To the extent to which the gold content of the dollar is reduced, would not that operate as a confiscation to the same extent of claims against the Government?

Mr. FOLEY. I should not think so, sir; because the obligation is one to pay in dollars, and it is still a dollar which is paid even though the gold content may have been reduced. It is still a dollar.

Mr. ANDRESEN. Will you permit a suggestion there?

Mr. SCOTT. Yes.

Mr. ANDRESEN. In the case of the Philippine Islands, when the original devaluation took place, didn't you pay them, or weren't they authorized to receive, the profits, so-called, of the gold they had?

Mr. BELL. I think it was authorized, but it has not been paid. There was an authorization.

Mr. ANDRESEN. It is held, and we recognize, they are entitled to receive it.

Mr. FOLEY. The authorization is there, but I understand the appropriation has not been made.

Mr. BELL. Congress refused to make any appropriation. They did authorize it.

Mr. ANDRESEN. How about in the case of the Panama Republic— they were actually paid the difference, were they not?

Mr. FOLEY. That was dealt with in a new treaty.

Mr. ANDRESEN. And they received the difference?

Mr. FOLEY. The new treaty dealt with the problem to the satisfaction of both parties.

Mr. ANDRESEN. As a matter of fact, was not the decision of the Supreme Court to the effect largely you had to show damage, and in its application to ordinary citizens, they were not able to show damage because they were paid in dollars?

Mr. FOLEY. In all the decisions of the Court no one has been allowed more than dollar for dollar.

Mr. ANDRESEN. That is, for American citizens.

Mr. FOLEY. Foreigners too.

Mr. ANDRESEN. I am glad to hear that we are treated on a parity.

Mr. SCOTT. That was news to me too. I did not know that.

Mr. HALL. Let us assume we own all of the gold except newly mined gold. Do you think that would be a dangerous condition so far as the use of gold in the world is concerned? In other words, I am a believer in gold, but I am wondering how good it is going to be if we own it all.

Mr. MORGENTHAU. If it were left to me, I certainly would not want to bring that condition about. But I find myself on the horns of a dilemma. We are the biggest stockholder, and we are due to get bigger. And these various foreign governments, whenever their people of the treasury are permitted to speak, give every indication that they are still very much interested in gold. Certainly every time they get an opportunity they buy some. That is particularly true in South America. All I can say is, for the time being, I frankly do not see any other course open to us if we are to continue on the present basis.

Mr. HALL. As we do reach that point where we own all of the gold, would it be your position to more or less hold back the purchases of gold so we would not reach the point where this Government would own all the gold except newly mined gold?

Mr. MORGENTHAU. The trouble, Congressman, is that the minute I, as Secretary of the Treasury, hold back, so to speak, or discriminate against any particular country wanting to sell us gold, or in any way indicate that I have lost confidence in gold, that minute the world loses confidence in gold and it might very rapidly depreciate in value in the eyes of those governments that want to acquire it.

Mr. HALL. My thought was if we do reach that point automatically the value of gold will depreciate.

Another question, Mr. Secretary. You show in your statement you have purchased gold with the fund to the amount of \$3,900,000,000. Of course, that is twice the amount of the fund. How do you get that gold out of the fund?

Mr. MORGENTHAU. It clears through this fund. Would you like to have the mechanics of it?

Mr. HALL. No. I want just the result.

Mr. MORGENTHAU. We put it into the fund and then clear it out. We use it as a revolving fund.

Mr. HALL. I see. That is all. Thank you.

Mr. COCHRAN. Mr. White.

Mr. WHITE. I have got a few questions I would like to ask the Secretary, but I will defer them at this time to let some of the other gentlemen inquire.

Mr. GALE. Mr. Secretary, in case the authority of the President to devalue the content of the dollar was not extended to him, would that materially affect the stabilization fund or the operation of the stabilization fund?

Mr. MORGENTHAU. It would not necessarily.

Mr. GALE. The two, then, are not inseparably bound together.

Mr. MORGENTHAU. No; they are not.

Mr. HALL. While the chairman is out I want to thank you, Mr. Secretary, for coming before us with the China situation. I think that is a splendid attitude and is the spirit of cooperation we need today.

Mr. MORGENTHAU. I have given my word, and it is the only thing I have that is worth anything.

Mr. SCOTT. Mr. Secretary, just to enlighten me, is it not a correct statement that a further devaluation of the dollar would operate as a pro tanto repudiation of the Government's monetary obligations? Or, if I can put it another way, would it not amount to a confiscation pro tanto of such claims against the Government?

Mr. MORGENTHAU. Now, if you do not mind, I would call that a legal question and I will have a lawyer answer that.

Mr. SCOTT. I have no objection, sir. I am not asking it in a spirit of criticism but rather for information, of course.

Mr. FOLEY. We have argued that problem before the Supreme Court.

Mr. SCOTT. I am trying to learn something and would appreciate if you would answer me in that spirit.

Mr. FOLEY. I am not sure I understand your question. If I do, I believe the answer is: The obligation is to pay in dollars, and even if the gold content is reduced, payment in dollars will constitute a full discharge. I do not think that is a repudiation of the obligation.

Mr. SCOTT. To the extent to which the gold content of the dollar is reduced, would not that operate as a confiscation to the same extent of claims against the Government?

Mr. FOLEY. I should not think so, sir; because the obligation is one to pay in dollars, and it is still a dollar which is paid even though the gold content may have been reduced. It is still a dollar.

Mr. ANDRESEN. Will you permit a suggestion there?

Mr. SCOTT. Yes.

Mr. ANDRESEN. In the case of the Philippine Islands, when the original devaluation took place, didn't you pay them, or weren't they authorized to receive, the profits, so-called, of the gold they had?

Mr. BELL. I think it was authorized, but it has not been paid. There was an authorization.

Mr. ANDRESEN. It is held, and we recognize, they are entitled to receive it.

Mr. FOLEY. The authorization is there, but I understand the appropriation has not been made.

Mr. BELL. Congress refused to make any appropriation. They did authorize it.

Mr. ANDRESEN. How about in the case of the Panama Republic—they were actually paid the difference, were they not?

Mr. FOLEY. That was dealt with in a new treaty.

Mr. ANDRESEN. And they received the difference?

Mr. FOLEY. The new treaty dealt with the problem to the satisfaction of both parties.

Mr. ANDRESEN. As a matter of fact, was not the decision of the Supreme Court to the effect largely you had to show damage, and in its application to ordinary citizens, they were not able to show damage because they were paid in dollars?

Mr. FOLEY. In all the decisions of the Court no one has been allowed more than dollar for dollar.

Mr. ANDRESEN. That is, for American citizens.

Mr. FOLEY. Foreigners too.

Mr. ANDRESEN. I am glad to hear that we are treated on a parity.

Mr. SCOTT. That was news to me too. I did not know that.

Mr. HALL. In other words, by lowering the content of the gold in the dollar we can control the foreign as well as the domestic situation so far as payments are concerned?

Mr. FOLEY. The contract remains the same. It is one to pay in dollars.

Mr. HALL. Do the usual foreign contracts, if you may call them that, call for payment of gold or dollars? What I have in mind in this: If it would call for payment in gold they have a tremendous advantage over the domestic situation, have they not, if you do lower the content?

Mr. FOLEY. Well—

Mr. HALL. Is your answer "yes?"

Mr. FOLEY. No. I was going to make an explanation. The joint resolution of Congress which takes out the gold clause is applicable to the foreign situation as well as the domestic situation.

Mr. HALL. I know. But before we lowered the content of the dollar we must have had some foreign agreements, did we not? Now, we could not change those by an act of Congress.

Mr. FOLEY. Oh, yes.

Mr. HALL. In other words, if a contract calls for payment in gold we can by an act of Congress change that foreign agreement and pay in dollars?

Mr. FOLEY. Yes.

Mr. HALL. Has the Court upheld that?

Mr. FOLEY. Yes.

Mr. SCOTT. My thought, Mr. Secretary, was this: While I recognize fully this particular act does not go that far, would it not be possible if the power to devalue the dollar were extended—that is, to devalue it without limitation—that in itself would be a repudiation of the public debt; if it were devalued down to a diminishing figure, if it were devalued down so that there was practically no gold in the dollar, that in itself would amount to a repudiation of the public debt.

Mr. MORGENTHAU. The reason I am not answering this myself is we have had so many cases before the Supreme Court I do not want to say anything that some litigant might use against me. So if you do not mind I would like to refer to my lawyer. I do not want them to bring up what I say here and sue us again.

Mr. SCOTT. Your lawyers know more about it than I do.

Mr. MORGENTHAU. You and I are in the same boat—if I may put myself in your boat.

Mr. SCOTT. I would be very happy to be in yours.

Mr. MORGENTHAU. Mr. Foley, what about that question?

Mr. FOLEY. I do not think it would be a repudiation of the public debt.

Mr. SCOTT. Would you mind telling me why you do not think so. It seems quite obvious to me.

Mr. FOLEY. It is an obligation to pay dollars, as I said before, and I think that obligation is complied with when the payment is made in dollars even though the gold content is not the same at the time payment is made as it was at the time the contract was entered into. Congress has complete power over money and if Congress chooses to change the gold content or chooses to give the President that power, why, I do not think it constitutes a repudiation.

Mr. SCOTT. At that time, dollars, however, would not be backed by gold if this power were carried out to its fullest possible extent, this power to devalue the gold content of the dollar. Then obviously the dollar would not be backed by gold; that is true, is it not?

Mr. FOLEY. I do not think it is necessarily true. I think it would be backed by gold even though the content of gold has been reduced. I think it is still backed by gold.

Mr. ANDRESEN. Do you still have the same dollar if you just have 1 grain of gold in it? The fact of the gold has nothing to do with the dollar because you make any kind of dollar legal tender in payment of all the obligations of the country according to the law passed by Congress.

Mr. FOLEY. I think that is an absurd situation because there is a floor and there is a ceiling in the present law. You cannot go below 50 percent and cannot go above 60 percent.

Mr. ANDRESEN. I mean so far as gold being tied into the dollar we use for legal currency. It bears very little relationship. For the purpose of bookkeeping you say there are so many grains of gold in the dollar and that gives you the dollar value of the gold you have. Outside of that we are using mostly silver certificates around here, of course, in dollar bills. That is all the Congressmen use. And they are only silver certificates and have nothing to do with gold. So that I maintain this: That so far as gold is concerned it has very little relationship, if any, to the dollar we use in the natural course of business.

Mr. WHITE (of Idaho). Would not the legal tender feature be the controlling factor in the dollar?

Mr. FOLEY. I think that is right.

Mr. SAUTHOFF. On page 8, the fourth line, you say:

Nobody can say what kind of international economy will emerge from this war.

Of course, I presume we are all in accord with that. It is just a lot of guessing if you do make any attempt to analyze it. But I have this in mind. Let us say Europe wound up all German or all Russian. They set up their own economy and set up their own monetary system. Ours goes right out the window. And as a customer of ours they would be a total loss.

Mr. MORGENTHAU. As you said in your earlier remarks, it would be a guess. There is no more reason to believe our monetary system would go out the window than the system that they set up might go out the window.

Mr. SAUTHOFF. Except as to foreign trade, that has been our best customer.

Mr. MORGENTHAU. When peace descends on this world under what conditions are we going to do business with those countries? Well, I just do not know. I do not pretend to know.

Mr. SAUTHOFF. Well, sometimes I wonder, Mr. Secretary, if we do not pay too high a price for that business.

Mr. MORGENTHAU. That might be true.

Mr. SAUTHOFF. That is all, Mr. Chairman.

Mr. WHITE. On the Chinese situation, Mr. Secretary, in stabilizing the currency of China there is a conflict existing between the interest of the Japanese rule or regime and the Chinese regime as to what kind of money can be used?

Mr. MORGENTHAU. Oh, yes.

Mr. WHITE. And the Japanese are trying to impose their so-called federal reserve system on the Chinese to retire silver from circulation to withdraw it and control the circulation of money.

Mr. MORGENTHAU. The National Government of China with the capital at Chungking have their own currency and it is that currency which we are trying to help them to stabilize. Now, it is perfectly true that the Japanese in the conquered territory have set up puppet governments and are trying to establish their currency. But it is the National Government with the capital at Chungking which we recognize. It is their Central Bank we are trying to help in the stabilization of their currency.

Mr. WHITE. In other words, if I read the press reports right, one of the issues when they blockaded that British settlement of Hong Kong was they wanted the British to accede to let the Chinese use Japanese currency? That was one of the reasons for the blockade, was it not?

Mr. MORGENTHAU. I cannot answer that. I do not know that.

Mr. WHITE. In other words, if the Japanese are successful then our country would then be taken for a loss in stabilizing the currency of China.

Mr. MORGENTHAU. That might be so.

Mr. WHITE. I want to ask a few more questions, but I will yield to anybody else who desires to ask questions.

Mr. WORLEY. Mr. Secretary, you may have answered this question before. Suppose this power were not extended, briefly, what, in your opinion, would be the results?

Mr. MORGENTHAU. You are talking about the devaluation of the dollar?

Mr. WORLEY. Yes.

Mr. MORGENTHAU. Or the stabilization fund?

Mr. WORLEY. The stabilization fund and the devaluation of the dollar both.

Mr. MORGENTHAU. I feel about both of them in the same way. Under conditions as they are today there is not very much use for them on a day-to-day basis. In the case of the stabilization fund, as I said, earlier this morning, it is that reserve power which we have which I believe is one of the factors which makes it possible for us to carry a public debt at an average rate of 2.5 percent. I think that is very important. I do not say it would happen, but if Congress should take those various emergency powers away from the President, such as the stabilization fund, I think there is a fair chance that we would have to pay more for money because I should find myself in the position that the owners of the money, the people who own the money would, so to speak, "have me."

Mr. WORLEY. You would just have to pay more interest?

Mr. MORGENTHAU. Yes; I think the rate would go up. That is just my belief.

As to the right to devalue the dollar I do not see any immediate use for it. On the other hand if and when this fighting stops, in the scramble for trade, it is a weapon which the President has in reserve which he might use. But the greatest use for it, I have always claimed, is the fact that he has had it. It is like the fire engine. A man in a town where there is a good fire engine and a good police department is going to hesitate a long time before he sets fire to some-

body's place, because he knows, first he may get caught and second, there is good apparatus to put it out. That is the way I feel on this gold devaluation. The President has had it since 1934; he has never used it; he has never threatened to use it. But take that policing power, if you want to call it that, away from him, this reserve, this fire engine, and somebody may be tempted to light a fire. And when we have not got it, and by the time we come to Congress to get it, it will be too late because this is one situation in which you have to move and move fast. That is my belief. I think it is much more important to let him continue to have it, he having demonstrated that he can handle the trust, than to take an unnecessary risk and take it away from him. I do not see what is to be gained other than exposing the Nation to possible attack. Does that answer your question?

Mr. WORLEY. Very well.

If this is good as a temporary proposition which admittedly it has been, why would it not also be good as a permanent proposition? In other words, instead of extending it for 2 years why not give that power permanently?

Mr. MORGENTHAU. I think it is perfectly healthy and normal and good democracy for me to come up here and for you to have me report.

Mr. WORLEY. You have other things to do, do you not?

Mr. MORGENTHAU. True. But I am very glad to be here, to have you gentlemen ask these questions and have the Congress consider it. It is a very important trust that Congress has given to the President and I think it is democracy working at its best to come up here and have me as the President's agent make a report on this very important trust to you people. I am very glad to do it.

Mr. WHITE. Mr. Secretary —

Mr. ANDRESEN. May I make one observation with reference to the China transaction?

Mr. WHITE. I yield to the gentlemen from Minnesota.

Mr. ANDRESEN. Thank you very much.

I have observed during the last 3 or 4 years that we have sold here in this country or permitted the selling of a large amount of munitions and raw materials for munitions to Japan, that we have purchased from them between four and five hundred million dollars worth of gold, and we are still continuing the practice of selling raw war materials. Last year alone we sold \$54,000,000 worth of gasoline and lubricating oils and a great deal of finished steel and machine tools. And nearly everything they buy from us is something that goes into war materials. Now, we feel friendly to China. You are trying to help China, and we want you to do it. We want China to win. But why in the name of God should we continue to send war materials to Japan who is unfriendly to us and with whom we are going to have trouble some day?

Mr. MORGENTHAU. I think you are going to have to ask the State Department to answer that question.

Mr. ANDRESEN. I cannot understand why we are aiding those who are set up to be our enemies, and the people cannot understand it.

Mr. WHITE. We are not at war with China.

Mr. ANDRESEN. I know. But we may go to war with Japan. Here the talk is that Japan is allied to the Axis Powers. So far as material aid going to China, look at the exports to China. They are insignificant compared to what is sent to Japan.

Mr. WHITE. On top of that we have already repealed the Neutrality Act.

Mr. ANDRESEN. Yes; but there is no reason why we should buy gold from Germany, Japan, or Italy, or any other country that is trying to conquer the world, or help them in any way. And the best thing we can do, if we want to help China, is to stop sending raw materials to Japan.

I ask unanimous consent that the committee ask some member of the Federal Reserve Board to appear before the committee. We must take prompt action on this if we are going to get it through in time and have it considered in time. I would like to request, Mr. Chairman, that we continue these hearings and invite as our next witness some member of the Federal Reserve board of governors.

Mr. SCOTT. I would like to join in that request.

Mr. COCHRAN. The Chair puts the unanimous consent request.

Mr. HUNTER. I object, Mr. Chairman.

Mr. WHITE. I understand in this connection the supplemental hearings are not to be executive but they will be open hearings; is that all right?

Mr. ANDRESEN. I have no objection to that, just whatever the committee wants to do. This meeting this morning could have been an open hearing just as well as not.

Mr. WHITE. I think if we are going to put this bill through on the floor of the House the more information we can have available for the Members the better off we are.

Mr. COCHRAN. Everything said here this morning will be in the record of the hearings which will be printed immediately except what the Secretary asked to take out. The hearings will be presented to the Secretary for revision.

Mr. ANDRESEN. Mr. Chairman, I understand the gentleman objects, and therefore I move that the committee invite a member of the Board of Governors who is familiar with this affair to appear before the committee.

(Whereupon a vote was taken, and the motion carried.)

Mr. WHITE. Mr. Secretary, there are many things I could ask on the plan embodied in the legislation, but I think it is pretty well gone into in our last hearing. Now, I am only going to ask a very brief question or two. Coming to the proposition of the gentleman from Minnesota as to the advantage of disbursing the present stabilization fund in adhering to your statement found on page 8 it says, "Economic warfare, as well as military warfare, is now being waged on all sides of us." And on page 7 you say "Our stabilization fund is a potent weapon of defense in our international economic relations. This is hardly the time to abandon the machinery of control which we have built up to protect the dollar and the American economy." If this fund was disbursed and dissipated in paying current expenditures then you would be left without that weapon?

Mr. MORGENTHAU. Yes.

Mr. WHITE. And the other nations, particularly England has a stabilization fund that is operating, and we need this fund in reserve to offset their manipulations and to work along with the stabilization funds of other nations.

Mr. MORGENTHAU. If you don't mind, Congressman, I did not put it just that way. The way I put it was this. For day to day use

today, I do not think we have much need for it. But as I pointed out early in the morning I do feel that the stabilization fund and other of those reserve powers that the President has do make me independent of the money markets so I am not at the mercy of the people who control the money markets of this country. And they know it. And just as soon as you take that away I feel I might be placed at their mercy and there is an excellent chance I would have to pay a great deal more interest for the money which I borrow.

Mr. WHITE. You have in the stabilization fund similar reserves to those of other corporations? You have a very large reserve to draw on in case of emergency?

Mr. MORGENTHAU. Well, I have \$1,800,000,000.

Mr. WHITE. And you feel it is necessary to maintain it and that it is to the advantage of the American people and to the Government to have such a reserve available?

Mr. MORGENTHAU. I do, very sincerely.

Mr. WHITE. There is one more question I am interested in. In the purchase of gold we have a pretty well regulated machinery for the acquisition of gold by having the gold taken over by the Federal Reserve Banking System and turned over to the Government. And that is a plan that has been in operation in acquiring the great deal of gold we have of foreign gold.

Mr. MORGENTHAU. Yes.

Mr. WHITE. Why do we find it necessary to use and what advantage do we have in using the stabilization fund for that purpose when we already have the machinery of the Federal Reserve?

The question was: We have a pretty well-regulated machine or plan for acquiring foreign gold through the Federal Reserve Banking System that is acquiring a large amount of the gold, and it has been bought through the operation of that plan; is that right?

Mr. BELL. Yes.

Mr. WHITE. Now, then, we have been using the stabilization fund for the same purpose. What advantage do we obtain from the use of the stabilization fund instead of letting gold go through its regular channels acquiring it through the Federal Reserve and through that transferring title to the Treasury.

Mr. BELL. Many times it is advantageous to keep these transactions secret, and that can be done through the stabilization fund, whereas it cannot very well be done through the regular Treasury channels. They would show up immediately in the Treasury figures; whereas in the stabilization fund they do not show up.

Mr. WHITE. Then we may have in our ownership and possession large quantities of gold that nobody knows anything about except the Treasury officials?

Mr. MORGENTHAU. Well, they are limited to a revolving fund of \$200,000,000. They can never buy more than \$200,000,000.

Mr. WHITE. There is the element of secrecy. Who is it kept secret from, everybody except the Treasury officials?

Mr. BELL. Operators and speculators. It is quite an advantage sometimes. But generally speaking our regular machinery in the Treasury is to take care of situations of that sort.

Mr. WHITE. Then the advantage of using the stabilization fund to acquire gold which is brought into this country is more or less that it is secret and is not public otherwise it could just as well be handled by the Federal Reserve?

Mr. BELL. It could be handled through the regular Treasury routine machinery and all transactions which come in through the Stabilization Fund do not necessarily have to be secret.

Mr. COCHRAN, Gentlemen, the Secretary stated in his remarks that he had the balance sheet of the stabilization fund. I have it here before me and I think it would be a very good idea to include it in the hearings, don't you, Mr. Secretary?

Without objection it will be included in the hearings.

This statement shows a profit of \$25,581,763.31, which is a pretty healthy condition.

Balance sheet of the exchange stabilization fund as of June 30, 1940, and Dec. 31, 1940

	June 30, 1940	Dec. 31, 1940
ASSETS		
Cash:		
Treasurer of the United States, gold		
Treasurer of the United States, checking account	\$2,806,000,000.00	\$1,800,000,000.00
Federal Reserve Bank of New York, special account	1,504,334.29	1,373,506.77
Outstanding officers' balances and advance accounts	127,136,000.35	143,200,401.00
	11,072.96	11,266.21
Special accounts of Secretary of the Treasury in Federal Reserve Bank of New York: Special account No. 1, gold (schedule I)	1,328,774,375.89	1,044,790,207.59
	\$6,046,180.63	\$7,662,866.69
Due from foreign banks (foreign exchange):		
France		
Belgium	17.88	15.96
Sterling	545.00	503.40
Central Bank of China (secured deposits)	1,830.40	2,269.62
Banco do Brasil (secured deposits) 1	24,712,500.00	19,117,212.65
		3,086,722.44
Investments in United States Government securities (schedule 2)	10,115,832.54	24,417,622.69
Accrued interest receivable (schedule 2)	10,448,723.13	10,448,723.13
Other accounts (deferred charges)	2,730.73	2,436.45
Commodity sales contracts (deferred charges)	5,013.43	20,000.44
	2,636.40	2,636.40
Total assets	2,044,377,510.15	2,027,018,377.70
LIABILITIES AND CAPITAL		
Accounts payable:		
Vouchers payable		
Due to foreign banks	3,018.05	7,899.41
	22,847,963.21	1,428,654.98
Capital account	22,849,961.26	1,416,614.12
Excesses less administrative expenses (schedules 3 and 4)	2,000,000,000.00	2,000,000,000.00
	21,027,527.89	22,862,512.12
Total liabilities and capital	2,044,377,510.15	2,027,018,377.70

¹ Consisted of 65,000,000 yuan as of June 30, 1940, and 65,010,027.40 yuan as of Dec. 31, 1940. Gold held as collateral amounted to \$10,370,075.85 as of both dates.

² Consisted of 100,534,246.56 milivins as of Dec. 31, 1940. Gold held as collateral amounted to \$1,664,420.57.

Back figures: Annual balance sheets for the years 1934 through 1940 may be found in the Annual Report of the Secretary of the Treasury for 1940. Quarterly balance sheets commencing Dec. 31, 1939, may be found in previous issues of the Treasury Bulletin.

SCHEDULE I.—Location of gold held by and for account of the exchange stabilization fund¹

(Schedules for balance sheet of the exchange stabilization fund)

Location	June 30, 1940		Dec. 31, 1940	
	Ounces	Dollars	Ounces	Dollars
Federal Reserve Bank of New York	462,392,042	10,163,721.49	199,392,911	4,628,491.99
United States Assay Office, New York	1,955,227,691	43,820,459.14	1,170,411,299	40,964,708.13
Total	2,417,719,733	53,984,180.63	1,369,794,210	47,593,200.12

¹ Excludes gold held by the Treasurer of the United States.

EXTENSION OF STABILIZATION FUND

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SCHEDULE 2.—U. S. Government securities held by the exchange stabilization fund

Issue	June 30, 1940			
	Face value	Cost	Average price	Accrued interest
24 percent Treasury bonds of 1951-51.....	\$70,000,000	\$10,000,000.00	\$100.0000	\$2,221.31
24 percent Treasury bonds of 1949-53.....	50,000	49,842.53	99.2813	56.55
24 percent Treasury bonds of 1940-45.....	402,000	399,082.50	99.2743	453.07
Total U. S. Government securities.....	10,452,000	10,448,925.03		9,730.93

Issue	Dec. 31, 1940			
	Face value	Cost	Average price	Accrued interest
24 percent Treasury bonds of 1951-53.....	\$10,000,000	\$10,000,000.00	\$100.0000	\$1,800.11
24 percent Treasury bonds of 1949-53.....	50,000	49,840.52	99.2813	61.44
24 percent Treasury bonds of 1940-45.....	462,000	459,082.50	99.2743	485.53
Total U. S. Government securities.....	10,512,000	10,498,923.02		12,487.08

SCHEDULE 3.—Earnings of the exchange stabilization fund

Source	Jan. 31, 1934, through June 30, 1940	Jan. 31, 1934, through Dec. 31, 1940
Profits on British sterling transactions.....	\$310,494.44	\$310,638.00
Profits on French franc transactions.....	351,537.90	351,537.90
Profits on gold bullion (including profits from handling charges on gold).....	12,967,527.19	14,801,700.44
Profits on silver transactions.....	105,371.27	105,371.27
Profits on sale of silver bullion to Treasury (nationalized).....	3,473,362.29	3,473,362.29
Profits on investments.....	1,019,326.18	1,019,230.18
Interest on investments.....	3,298,140.14	3,553,269.89
Miscellaneous profits.....	473.74	473.74
Interest earned on foreign balances.....	30,717.32	80,429.71
Interest earned on Chinese yuan.....	1,265,656.11	1,411,928.07
Total earnings.....	22,726,618.72	28,913,287.87

SCHEDULE 4.—Administrative expenses of the exchange stabilization fund

Classification	Jan. 31, 1934, through June 30, 1940	Jan. 31, 1934, through Dec. 31, 1940
Salaries.....	\$723,750.40	\$814,740.65
Travel.....	47,755.00	51,181.70
Substance.....	55,108.04	37,193.43
Telephone and telegraph.....	270,050.42	300,120.74
Printing, etc.....	13,811.21	15,410.15
All other.....	98,077.81	112,904.39
Total administrative expenses.....	1,198,077.83	1,331,634.36

Mr. COCHRAN. Mr. Secretary, the committee greatly appreciates your kindness, and you have been a lot of assistance.

Mr. WHITE. I want to present a unanimous-consent request to extend my remarks in the hearing.

(Whereupon the committee adjourned to meet pursuant to the call of Acting Chairman Cochran on May 13, 1941, at 10 a. m.)

STATEMENT OF INVESTIGATION

STATE DEPARTMENT OF INVESTIGATION
WASHINGTON, D. C.

NAME OF SUBJECT: [Illegible]
ADDRESS: [Illegible]
CITY: [Illegible] STATE: [Illegible]

DATE OF INTERVIEW: [Illegible]
BY: [Illegible]

CHARACTER OF CASE: [Illegible]

SYNOPSIS: [Illegible]

DETAILS: [Illegible]

REMARKS: [Illegible]

EXTENSION OF STABILIZATION FUND AND POWERS, ETC.

TUESDAY, MAY 13, 1941

COMMITTEE ON COINAGE, WEIGHTS, AND MEASURES,
HOUSE OF REPRESENTATIVES,
Washington, D. C.

The committee met at 10 a. m., Hon. John J. Cochran (acting chairman) presiding.

Mr. COCHRAN. The committee will come to order. In pursuance of the motion adopted at the last meeting, I invited Mr. Eccles to appear before the committee. Mr. Eccles declined the invitation and said that he had no desire to appear or to send anyone here.

Mr. ANDRESEN. Mr. Chairman, after you talked with Mr. Eccles I also had the privilege of speaking with him in regard to the invitation. The motion that was made here and adopted was an invitation and not a demand or request. Mr. Eccles said that he had no disposition to appear simply on an invitation from the committee. However, he indicated that if he were specifically requested to appear that he would comply with the request.

Mr. COCHRAN. Well, any Government official will do that.

Mr. ANDRESEN. I do not know whether they will or not. But let me conclude this statement. Now, in view of the fact that Mr. Eccles and the entire Federal Reserve Board, the members of the Federal Reserve Advisory Committee and all of the high ranking officers of the Federal Reserve System, have for the first time in the history of our country or in the history of the Federal Reserve System made a specific recommendation to Congress on certain legislation, it seems to me that our committee should have the benefit of their conclusions, particularly with reference to the repeal of the powers now vested in the President to devalue the dollar. And in order to get the matter before the committee and to put the invitation to Mr. Eccles in such form so that he will appear before our committee, I move that Mr. Eccles, the Chairman of the Federal Reserve Board, be specifically requested to appear before the committee and give testimony on H. R. 4646 just as soon as he can.

Mr. GALE. I second the motion.

Mr. COCHRAN. No specific recommendation has come to Congress that I know of, in reference to this matter. There was some expression of some kind in a bulletin.

Mr. ANDRESEN. No; no. There was a specific recommendation from the Federal Reserve Board.

Mr. COCHRAN. Where did it go?

Mr. ANDRESEN. It came to the Congress. It went to the Speaker and to the Vice President, I believe.

Mr. COCHRAN. When?

Mr. ANDRESEN. In January.

Mr. COCHRAN. That was published in the January issue of the Federal Reserve Bulletin, was it not? There were some remarks in reference to it. That was not a specific recommendation which came to the Congress. Here you are creating a situation where you are asking a man specifically to come before this committee who does not desire to come, but out of respect to the Congress of the United States, if specifically requested, he will come. He has expressed himself as having no desire to come here.

Mr. ANDRESEN. If their recommendations mean anything, of course, we should have the benefit of their knowledge. Now, Mr. Eccles did not hesitate to appear before the Ways and Means Committee in opposition to the recommendations made by the President through Mr. Morgenthau on the tax question. He appeared there and vigorously fought the recommendations made by the President and Secretary Morgenthau.

Mr. COCHRAN. I do not think your motion should be adopted to bring a man before the committee who has no desire to come. There is absolutely nothing new that we can get on this. We have secured all the information on this before. This is not a new matter. It is an extension of time on this legislation.

Mr. ANDRESEN. Let me counter that again. We have at least 8 or 9 and probably 10 new members on this committee who are not familiar with this matter and who are sitting on this committee for the first time.

Mr. COCHRAN. Well, you have heard the motion.

Mr. HUNTER. Let us have a roll call on the motion.

Mr. WHITE. I ask for a roll call.

(Whereupon the roll was called.)

Mr. COCHRAN. The motion is not agreed to.

There is no request whatsoever before this committee, in writing or otherwise, from anyone to appear here to testify in opposition to this bill.

Mr. ANDRESEN. Mr. Chairman, may I make a request? Dr. Sparr, of the National Economist League, has made a request for an opportunity to appear before this committee.

Mr. COCHRAN. Don't you think Dr. Sparr should have addressed the committee rather than to come to an individual of the committee?

Mr. ANDRESEN. Well, I am making the request for him. Of course, I hope that the members of the committee have a right to express themselves without offending the chairman.

Mr. COCHRAN. I think that any official request to this committee to appear before the committee should have been made in writing to the committee so that we would know where we are going. We came in here this morning with the notion that we were going to consider this bill. And this will cause a delay in the consideration of the bill and cause the adjournment of this meeting to get Dr. Sparr here.

Mr. ANDRESEN. Well, he can be here tomorrow. Now, as far as delay is concerned, of course, we have been here pretty near 5 months or four and a half months, and there did not seem to be any particular hurry to bring it up. They knew that the authority in the bill was to expire on June 30.

Mr. WHITE. The gentleman appreciates the fact that it is a short time now to get the bill on the calendar and past the Senate.

Mr. ANDRESEN. I recognize that. This last-minute stuff is no excuse to me when we have had 4 or 5 months to bring it up.

Mr. McINTYRE. Will the gentleman yield?

Mr. ANDRESEN. I will be glad to.

Mr. McINTYRE. The gentleman knew of this meeting several days before today.

Mr. WHITE. I wonder why Mr. Spart was not heard.

Mr. ANDRESEN. I just got the request this morning over the telephone.

Mr. HUNTER. Mr. Chairman, I believe there was another witness, Dr. Smith, who was told he could appear here this morning.

Mr. ANDRESEN. We fixed that with him. He is going to appear on the floor, so he will not come before the committee.

Mr. HUNTER. Are there any other witnesses?

Mr. COCHRAN. There is absolutely no other request of any kind except the one just stated now by Mr. Andresen.

Mr. HUNTER. Mr. Chairman, I move the bill be reported out and recommended for passage.

Mr. ANDRESEN. I raise a point of order on that motion. The bill has not been read for amendment yet.

Mr. LARRABEE. I move the committee go into executive session to consider this bill.

Mr. COCHRAN. It is moved and seconded that the committee go into executive session to consider the bill.

All in favor say "aye." Contrary, "no." The ayes have it.

The committee is in executive session.

×

May 13, 1941.

Memorandum Re Effect of Congressman Andresen's
Amendment to Limit to \$35 an Ounce the Price
to be Paid for Foreign Gold

The purpose of H.R. 4646 is simply to continue for an additional period of two years the powers which the President and the Secretary of the Treasury have possessed since 1934 in regard to the stabilization fund and gold dollar devaluation.

Section 2 of H.R. 4646 extends the power to reduce the gold content of the dollar. To this same section has been added a Committee amendment which provides that no foreign gold can be acquired at a price in excess of \$35 an ounce.

The effect of the amendment is to nullify completely the power to devalue the dollar given in the first sentence of Section 2 since any dollar devaluation necessarily increases the price of gold. This is true, of course, because the value of the dollar is expressed in terms of gold and when the gold content of the dollar is reduced it means that you have to pay more dollars to buy an ounce of gold. This effect is recognized by Congressman Andresen, the sponsor of the amendment, who is reported to have said: "For all practical purposes, the amendment nullifies the President's power of devaluation".

Congressman Andresen's amendment also constitutes a pro tanto repeal of Section 8 of the Gold Reserve Act which is permanent legislation and which authorizes the Secretary of the Treasury, acting with the approval of the President, to purchase gold at home or abroad "at such rates and upon such terms and conditions as he may deem most advantageous to the public interest".

- 2 -

The reasons for the continuation of the President's power to devalue the dollar were fully explained by the Secretary of the Treasury in his testimony before the Committee on May 8, 1941. The Secretary stated that the Administration has no present intent whatsoever to devalue the gold content of the dollar, but that this is not the time to remove flexible power from the Executive when heads of other nations possess virtually complete powers over the domestic and external monetary affairs of their countries. The power to devalue the dollar is a strong reserve weapon and is much needed to protect American monetary and economic interests.

There is no basis whatever for believing that the continuance of these existing monetary powers will have any inflationary effect. On the other hand, to take away these powers may well affect the interest rates which the Government will have to pay on the enormous financing program upon which it is embarking.

At a time when the United States owns over 22 1/2 billions of gold constituting about 80% of the world's monetary stocks of gold, Congress should not hastily adopt legislation limiting existing executive powers to deal with gold.

Congressman Andresen's amendment should be stricken from the bill.

May 13, 1941
12:04 p.m.

HMJr: Hello.

Operator: Speaker Rayburn is in the Chair. I have his Clerk, Mr. Wright.

HMJr: Hello.

Wright: Mr. Secretary.

HMJr: Yeah.

W: This is Ted Wright - the Speaker's office.

HMJr: Who?

W: Ted Wright.

HMJr: Oh yeah. Look, in this Committee of Weights, Coins, and Measures, you know...

W: Yes sir.

HMJr: They just pulled the damndest boner I have seen pulled in a long time. Of course, if old Somers had been around, I don't think they would have done it.

W: Yes sir.

HMJr: And they have just put through this amendment where they just kill the rights of the President to de-value the dollar or do anything else.

W: Yes sir.

HMJr: Now a - it's a - we just got to do something about it, that's all.

W: Yes sir. Well, I want to mention it to the Speaker.

HMJr: Yeah. I understand that Cochran has been in touch with him.

W: Yes sir.

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HMJr: You see.

W: He was in there just a minute ago.

HMJr: Well, I wish you would let the Speaker know I'm really upset about it.

W: I surely will, Mr. Secretary.

HMJr: And tell him that if he would like for me to come up the first thing tomorrow morning and have a little meeting with him, I'm available.

W: All right, Mr. Secretary.

HMJr: But I'm counting on him to get us out of this hole.

W: All right.

HMJr: And I'm really upset.

W: All right, Mr. Secretary, I'll tell him.

HMJr: Thank you.

May 13, 1941
2:16 p.m.

H.M.Jr: Hello.

Operator: Speaker Rayburn.

Speaker
Rayburn: Henry.

H.M.Jr: Sam, Henry talking.

R: Yeah. I had kind of a blow-up in the committee this morning over there. I didn't know anything about it but I've got those fellows to agree to change their votes so it will be all right tomorrow.

H.M.Jr: Are you going to kill that thing?

R: Huh?

H.M.Jr: They've changed their votes.

R: Yeah.

H.M.Jr: On that amendment?

R: Yeah.

H.M.Jr: Well, what a man you are.

R: There were two fellows that were not there that I got to agree to go and then Dan McGehee voted that way; he didn't seem to know much about it and I got Dan to agree to vote to reconsider - to move to reconsider - and then I got McIntyre, who said he didn't seem to know much about it and he'd go along, so that's two changed and that'll make it seven to nine the other way and then the two of us ought to make it eleven, you see.

H.M.Jr: Well, for heaven sakes.

R: And I think it will be all right in the morning. I told Jack to call his

- 2 -

committee in the morning and that I had these votes for him.

H.M.Jr: I'm ever so much obliged.

R: All right, Henry. Sorry I couldn't be with you last night but

H.M.Jr: We had a good party.

R: Well, that's fine, but I told these people - they were having this convention here - about a month ago that I'd come down and visit with them.

H.M.Jr: You know what we decided?

R: No, I haven't talked to anybody.

H.M.Jr: Well, I put up to them the fact that as we began to get these returns from the excess profits tax, it looked more and more as though the thing wasn't working, and so we wanted to know whether we couldn't come up there and point out the defects and then make, oh, three or four suggestions for their consideration as to how to change it. See?

R: Yes.

H.M.Jr: And they said O.K.

R: Well, that's fine.

H.M.Jr: So Sullivan is going to go up there Friday and point out the defects and the fact that it doesn't hit any two companies the same and a lot of companies aren't hit at all; some of them are hit too hard, and give them fifteen or twenty examples of things that are unfair and then make three or four suggestions for, possibly, correcting it.

R: Well, that's fine.

H.M.Jr: And they're all satisfied.

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R: Yeah. Well, I thought I'd tell you about this other thing.

H.M.Jr: Well, I was worried.

R: I knew it was distressing you.

H.M.Jr: I wrote the President a little note and said that I had asked you to help and if he didn't hear from me again why to forget about it.

R: Well, it's all right. They'll report your bill in the morning.

H.M.Jr: Thank you.

R: All right, Henry.

May 13, 1941
3:27 p.m.

HMJr: Hello.

Arthur D. Healey: Hello.

HMJr: Morgenthau speaking.

H: Mr. Secretary....

HMJr: Yes.

H: I just hate to break in on you when I know that you are so busy.

HMJr: Always got time.

H: I want to talk to you about a young man named Morris, Albert Morris from Massachusetts. He was formerly the Minority Leader of the House of Representatives there and he's had a pretty good background of all training and public speaking and publicity work and all that sort of thing, and he's anxious to get the job of Assistant - well, to be Assistant to Dan Dougherty, who has been appointed as a Massachusetts man on this Bond work, you know.

HMJr: Oh yes.

H: And Morris is anxious to get the position, which I understand is to be open as his Assistant.

HMJr: Well, I'm glad you brought it to my attention and I'll look into it Congressman.

H: I understand that a Mr. McCormack either called you or will call you about Morris. Morris' sister joined up there last year in the Speaker's Bureau....

HMJr: Oh yeah.

H: During the campaign and we feel that we people from Massachusetts (Laughs) he

- 2 -

lives in my district, but we feel that he really is entitled to some consideration.

HMJr: Well, John did call me.

H: Yeah. And on the other hand we know that we are recommending a fellow with plenty ability.

HMJr: Fine. Well, thank you very much. I'll look into it.

H: All right.

HMJr: Thank you.

May 13, 1941.

Dear Mr. Secretary:

I refer to your letter of May 8, 1941, suggesting that I designate an officer of the Coast Guard to meet with representatives of the Navy Department and the War Department to investigate rail-to-ship loading terminals to handle safely the large volume of explosives now moving in export trade.

On January 31, 1941, I addressed a letter to Mr. Knudsen, Director General of the Office of Production Management, Council of National Defense, inviting his attention to the urgent need for providing rail-to-ship loading terminals for explosives in several of our important ports. As a result of this letter, a number of conferences were held among representatives of the Army, Navy, Coast Guard and Office of Production Management. It was finally determined that the subject matter should be handled by the Joint Army and Navy Explosives Board, and the whole matter was thereafter referred to that Board. It is my understanding that this Board has made a survey of the harbors of the United States but, so far as I know, no further action has been taken.

I feel very strongly that some immediate action should be taken toward providing these terminals and I welcome your suggestion that a committee be created consisting of representatives of the Army, Navy, and Coast Guard. For this purpose I designate Commander W. H. Derby, United States Coast Guard, as the representative of this Department.

Sincerely yours,

(Signed) H. K. H. K. H. K.

Secretary of the Treasury.

The Honorable
The Secretary of the Navy.

File to Mr. Thompson

By Memorandum 5/14
of 32

The SECRETARY OF THE NAVY
Washington

240

(SC)LR1-3/QB
Serial 045523

May 8, 1941

CONFIDENTIAL

Dear Mr. Secretary:

At a recent interdepartmental conference, concern was expressed with regard to the lack of properly isolated rail-to-ship loading terminals to handle safely the great volume of explosives now moving in export trade.

It is believed that the matter of security from major explosions should be investigated in our principal ports, particularly New York Harbor, Delaware River, Baltimore, Hampton Roads, New Orleans, San Francisco Bay, and Puget Sound.

In view of the fact that several different agencies of the government have interests and statutory responsibilities in this matter, it appears desirable that a preliminary joint study be made by the three services that are best qualified to understand the necessity for preventive measures and to determine the best arrangements for insuring security. I refer to the Army, the Navy, and the Coast Guard. It is my thought that the result of such a study should be presented to the President for his further action if conditions warrant.

Should you concur in this proposal, the Navy Department is prepared to name a member to serve on such a committee, and it is suggested that the Treasury Department similarly designate a representative from the Coast Guard. Possibly the War Department member appropriately would be the chairman of such a body.

A similar communication has been sent to the Secretary of War.

Sincerely yours,

/s/ Frank Knox

The Honorable
The Secretary of the Treasury

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE May 13, 1941

TO Secretary Morgenthau
FROM Mr. Wiley

A telegram from Rio de Janeiro to the Department of State says that the German Embassy there has just received \$125,000 in gold by Lati plane and has deposited it in the Bank of Brazil. The source of the gold is not given.

*Italian air lines
operating in
South America*

[Handwritten signature]

cc: Mr. Gaston
Mr. Cochran
Mr. Pehle

JT

GRAY
BERLIN

Dated May 13, 1941

Rec'd 11:16 a.m.

Secretary of State,
Washington.

1852, May 13, 9 a.m.

FOR TREASURY FROM HEATH.

My 869, March 7, 3 p.m.

Complete figures for the Reich's indebtedness as of January 31, 1941, have just been published showing that during the month the Reich borrowed a total of 3697 million marks of which 1782 million marks represent long term and 1905 million marks represent short term borrowing. The total disclosed debt of the Reich stood at 83,190 million marks. The short term debt (revised figures) was 38,417 million marks and the long term indebtedness 44,773 million marks. January borrowings were at a higher rate than during the eight months period of May - December, 1940 when the monthly average was 3.25 billion marks.

MORRIS

WSE

INCOMING CABLEGRAM

Received on May 13, 1941

London, May 13, 1941

Federal Reserve Bank of New York

New York

No. 496/41 FOR KNOKE

All Iraq accounts have by order of Treasury been blocked and no payments or movements of securities may be made except with the permission of the Treasury. The only exception under the order is a general permit to bankers to honor drafts drawn under confirmed credits opened prior to the 9th of May. These will be the only instruments which may be credited to a registered sterling account without special permission of the Treasury.

BOLTON
Bank of England

COPY:lap:5/14/41

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 13, 1941

TO Secretary Morgenthau
 FROM Mr. Coe

Subject: Licensed Exports of Copper Since April 1.

Preliminary and incomplete figures for the period April 1 to April 26 show that over \$800,000 worth of copper was exported to areas other than the British Empire and China. The table below gives a breakdown by countries, with the numerous Latin American countries which received copper being lumped together:

	(In Thousands)
Latin America	\$ 264
Netherlands Indies	123
Egypt	33
Philippine Islands	22
Portugal	7
Belgian Congo	1
All other	<u>385</u>
Total - exclusive of British Empire and China	\$ 836
British Empire	565
China	<u>51</u>
Total - all countries	\$1,451

These figures were checked out hastily by officials in New York and telephoned to Washington. It is probable that they have included some British Empire (and United Kingdom) exports in the relatively large "All other" figure of \$385,000. Figures are not available for those products made out of copper whose export is not subject to license.

These figures indicate that our exports to areas outside the British Empire and China though comparatively small are large enough to enable us substantially to increase our exports to the United Kingdom and China if we desire to do so. In tonnage our exports to these areas are now running at a rate of one-tenth our monthly imports of copper. Of course, these exports are only a very small fraction of total domestic consumption.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 13, 1941

TO Mr. Coe
FROM Miss Kistler

Subject: Licensed exports of copper since April 1, 1941.

The control of U. S. copper exports has not yet reached war-time tightness. During the first 26 days of April known U. S. licensed exports of copper products totaled 9.4 million pounds and were valued at \$1.5 million. Below is a preliminary tabulation of our licensed copper exports for the period April 1-26. Less than half of these exports, on a value basis, were to British Empire countries and China. Exports of licensed copper were also made during this period to eight Latin American countries, to Portugal, Netherlands Indies, Egypt, Philippine Islands, and Belgian Congo. The figures below do not include exports of non-licensed copper products. The figures are preliminary and more complete information will be available later.

Licensed Exports of Copper — Documents
Received in New York, April 1-26, 1941

	<u>Pounds</u>	<u>Dollars</u>
	(In thousands)	
British Empire *	4,606	565
China	390	51
Latin America		
Argentina	1,292	161
Brazil	369	41
Chile	88	14
Colombia	37	6
Bolivia	1	**
Cuba	155	27
Mexico	1	**
Venezuela	94	16
Other		
Portugal	45	7
Netherlands Indies	880	123
Belgian Congo	17	1
Egypt	90	33
Philippine Islands	134	22
All other	<u>1,221</u>	<u>385</u>
Total	9,420	1,451

* Figures not complete

** Less than 500 pounds

Attached are tables with more detailed information.

Licensed Exports of Copper — Documents
Received in New York, April 1-26, 1941

A. Exports of Refined Copper in Ingots,
Bars, and other Forms

	<u>Pounds</u>	<u>Dollars</u>
	(In	Thousands)
United Kingdom	3,359	369
Canada	45	10
Argentina	693	71
Netherlands Indies	503	57
Brazil	369	41
Belgian Congo	17	1
China	12	2
Other	<u>3</u>	<u>1</u>
Total	5,001	552

B. Exports of Copper Pipes and Tubes

Canada	54	16
British India	18	5
All other	<u>26</u>	<u>8</u>
Total	98	29

C. Exports of Copper Plates and Sheets

British India	604	87
Union of South Africa	13	2
All other	<u>147</u>	<u>34</u>
Total	764	123

D. Exports of Copper Rods

British India	366	47
China	312	38
All other	<u>76</u>	<u>13</u>
Total	754	98

- 2 -

	<u>Pounds</u>	<u>Dollars</u>
	(In Thousands)	
E. Exports of Copper Wire (bare)		
Chile	87	14
British India	81	14
China	67	10
Netherlands Indies	53	10
Portugal	45	7
All other	<u>91</u>	<u>17</u>
Total	424	72
F. Exports of Covered Copper Wire		
Egypt	90	33
Argentina	67	15
Netherlands Indies	64	13
Cuba	54	10
Colombia	37	6
All other	<u>507</u>	<u>119</u>
Total	819	196
G. Exports of Weatherproof Copper Wire		
Philippine Islands	134	22
Cuba	101	16
Venezuela	95	16
All others	<u>40</u>	<u>9</u>
Total	370	63
H. Exports of other Insulated Copper Wire		
Argentina	533	75
Netherlands West Indies	200	27
Union of South Africa	66	16
Netherlands Indies	59	16
All other	<u>332</u>	<u>99</u>
Total	1,190	233
I. Exports of other Licensed Copper Manufactures		
Total		86

MEMORANDUMCONFIDENTIAL

May 13, 1941

To: PRICE ADMINISTRATION COMMITTEE
From: R. K. Thompson, Secretary

The following additional items have been placed on the agenda for discussion at the meeting to be held on Thursday, May 15, 1941, at 11:00 a.m.:

Questions of shipping rates, movement of flaxseed, and tax on paint, as raised in memorandum addressed to Secretary Wickard by Dr. Ezekiel, under date of May 10.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE May 13, 1941

TO Secretary Morgenthau

FROM Mr. Wiley

Re: General John F. O'Ryan

Mr. Thurston of FBI reports that yesterday afternoon he checked the MID files on General O'Ryan. There were numerous references to him therein, most of which had to do with his service record, revealing nothing of any interest whatsoever. It was noted, however, that according to a newspaper clipping in the files, General O'Ryan, in June, 1933, was grand marshal of a parade of 150,000 persons in an anti-Nazi demonstration sponsored by the American-Jewish Congress preceding a rally in Battery Park at which Mayor LaGuardia and Bainbridge Colby were the principal speakers.

In other words, the files of FBI, MID and ONI appear to contain nothing more precious than antique newspaper cuttings. FBI in New York is endeavoring to obtain supplementary information on the General.

Jaw
m

STATEMENT NO. 14
AIRCRAFT SHIPPED TO U. K. & OVERSEAS COMMANDS

TYPE	DESTINATION	ASSEMBLY POINT	By Sea during week ending April 19, 1941	By Air during week ending May 10, 1941
<u>BREWSTER</u>				
Buffalo	F. E.	Singapore	6	-
<u>CONSOLIDATED</u>				
Catalina	U. K.	U. K. (via Bermuda)	-	8
<u>BOEING</u>				
17	U. K.	U. K. (via Gander)	-	1
<u>UNITED</u>				
Chesapeake	U. K.	U. K.	2	-
<u>GRUMMAN</u>				
Martlett II	U. K.	U. K.	4	-
<u>GLENN MARTIN</u>				
Maryland I	M. E.	Alexandria	5	-
<u>LOCKHEED</u>				
Hudson V	U. K.	U. K.	29	-
TOTALS			46	9

British Air Commission
May 13, 1941

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 13, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£61,000
Purchased from commercial concerns	£13,000

The Federal Reserve Bank of New York sold £15,000 in registered sterling to the American Express Company.

Open market sterling held steady at 4.03-1/4. The only reported transactions consisted of sales of £3,000 to commercial concerns.

Further improvement took place in the Cuban peso and a current high of 2-3/16% discount was reached this afternoon.

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

Canadian dollar	12-3/4% discount
Swiss franc	.2321-1/2
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2380
Brazilian milreis (free)	.0505
Mexican peso	.2066

In Shanghai, the yuan was quoted at 5-11/32¢, representing a decline of 1/16¢. Sterling advanced 7/8¢ to 3.90-7/8.

There were no purchases or sales of gold made by us today.

The Treasury issued licenses under both the Gold Reserve Act and Executive Order No. 8389, as amended, permitting the Federal Reserve Bank of New York to effect the following transfer of gold in its vaults:

\$1,241,382 from B.I.S. account no. 2 to the account of the Bank of Sweden. Gold in B.I.S. account no. 2 is owned by that bank.

The Federal Reserve Bank of New York reported that the Bank of Canada made two shipments of gold with a combined value of \$4,303,000 from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

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

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

We made one purchase of silver amounting to 34,538 ounces under the Silver Purchase Act. This consisted of new production from Java, and was bought for spot delivery.

A handwritten signature in dark ink, appearing to be 'W.M.F.', is centered on the page.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 13, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	<u>\$ Proceeds of Shares Sold</u>	<u>\$ Proceeds of Bonds Sold</u>	<u>Total</u>
May 5	1,476,737	276,236	1,752,973
6	2,596,864	228,522	2,825,386
7	4,120,197	135,879	4,256,076
8	1,289,263	1,658,668	2,947,931
9	2,025,139	1,052,724	3,077,863
10	110,991	16,108	127,099
	<u>11,619,191</u>	<u>3,368,137</u>	<u>14,987,328</u>
Sales from February 22, 1940 to May 3, 1941	<u>243,664,741</u>	<u>28,060,282</u>	<u>271,725,023</u>
Total February 22, 1940 to May 10, 1941	255,283,932	31,428,419	286,712,351

Miss Poate reported sales of non-vested securities for the week ending May 3 totaled \$200,000.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 13, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
May 5	62,832	1,476,737	862,000	276,236
6	84,910	2,596,864	329,000	228,522
7	285,764	4,120,197	391,000	135,879
8	77,529	1,289,263	1,866,000	1,658,668
9	136,792	2,025,139	2,301,300	1,052,724
10	9,800	110,991	19,000	16,108
	657,627	11,619,191	5,768,300	3,368,137
Sales from 2/22/40 to 5/3/41	8,018,025-1/2	243,664,741	30,033,250	28,060,282
Total 2/22/40 to 5/10/41	8,675,652-1/2	255,283,932	35,801,550	31,428,419

Miss Poate reported sales of non-vested securities for the week ending May 3 totaled \$200,000.



DEPOSITS IN TREASURER'S ACCOUNT FROM SALE UNITED STATES SAVINGS BONDS (ALL SERIES)

(In Thousands of Dollars)

(Based on Telegraphic Reports)

	<u>TOTAL MAY 1 TO MAY 10</u>	<u>MAY 12</u>	<u>MAY 13</u>	<u>MAY 14</u>	<u>MAY 15</u>	<u>MAY 16</u>	<u>MAY 17</u>	<u>TOTAL TO DATE</u>
Treasury	335	45						380
Boston	8,543	2,597						11,140
New York	13,233	1,868						15,101
Philadelphia	5,494	1,349						6,843
Cleveland	9,982	752						10,734
Richmond	5,044	1,403						6,447
Atlanta	3,988	776						4,764
Chicago	9,921	2,050						11,971
St. Louis	8,817	487						9,304
Minneapolis	2,600	86						2,686
Kansas City	5,964	874						6,838
Dallas	4,306	555						4,861
San Francisco	<u>5,643</u>	<u>1,389</u>						7,032
TOTAL - - - -	83,870	14,231						
Cumulative Total	83,870	98,101						

DEFENSE SAVINGS STAFF
ADVANCE NOTICE RADIO PROGRAMS

TUESDAY, MAY 13

Time: 12:00 - 12:15 P.M.

Station: WJSV, Washington, D. C., and Columbia
Broadcasting System Network.

Program: Proctor & Gamble Company "Life Can Be
Beautiful."

Time: 8:30 - 9:00 P.M.

Station: WRC, Washington, D. C., and National
Broadcasting Company Red Network.

Program: Fibber McGee and Molly.

THESE PROGRAMS PROMOTE SALE OF DEFENSE BONDS AND STAMPS

RESTRICTED

G-2/2657-220; No. 390 M.I.D., W.D. 12:00 M., May 13, 1941.

SITUATION REPORTI. Western Theater of War.

Air: German. Limited and scattering night attacks on ports in southern England.

British. Normal night operations, centering on Mannheim and also including Cologne, Coblenz, Ostend and Dunkerque.

II. Mediterranean and African Theaters.

Ground: North Africa. Patrol activities and artillery fire are reported in the Tobruk and Sollum areas.

Air: Attacks on Tobruk and Malta.

III. Iraq.

Guerrilla fighting continues. Some evidence of German leadership.

RESTRICTED

CONFIDENTIAL

258

Paragraphs of Code Radiogram
Received at the War Department
at 10:46, May 15, 1941.

Berlin, filed May 15, 1941.

Islands occupied by Italian forces are specified in
Italian reports. German troops landed on Miles May twelfth.

FITCH

Distribution:

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

CONFIDENTIAL

CONFIDENTIAL

259

Paraphrase of Code Radiogram
Received at the War Department
at 11:04, May 13, 1941.

Budapest, filed May 13, 1941.

I have been informed that individual Yugoslavs are continuing their guerrilla fighting. The Croats are said to be discontented. Several German divisions with tanks and artillery went through this city May twelfth toward the north.

Friends consider the German troops in the Balkans are approximately as follows:

1. Three divisions in the Banat going east.
2. Fourteen divisions are in Rumania.
3. Five divisions are moving toward Bulgaria from Nis.
4. There are seven divisions in Greece on the Turkish border.
5. Two divisions are in the eastern part of Hungary.
6. There are seven divisions to stay in Yugoslavia.
7. Eight divisions are in other parts of Greece other than the Turkish front force.

PANTRIDGE

Distribution:

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

CONFIDENTIAL

May 14, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Foley
Mr. Thompson
Mr. Coe
Mr. Schwarz
Mr. Cochran
Mr. Sullivan
Mr. Kuhn
Mr. Graves
Mr. Haas
Miss Chauncey
Mr. Bell
Mr. O'Connell

H.M.Jr:

I thought you people would be interested to know that as a result of that Pearson and Allen letter I had Pearson and Allen in here by myself yesterday.

"We have written the following letter to the Secretary of State:

"I learned that Secretary Morgenthau is much upset over the story published in my column of May 12, regarding the question of freezing Axis funds in the United States and that some of the questions have been raised as to whether this story originated from the Treasury Department.

"Of course, as you know, it is difficult for a newspaperman to reveal his news

- 2 -

sources, but I am able in this case to give you my word that the information regarding this particular story did not come from the Treasury either directly or indirectly. As a matter of fact, the original information contained in the story came from Allen.

"I have been in Texas during the preceding week. Mr. Allen suggested I discuss the matter with the State Department, which I did with one official. He declined to comment except to say that he did inform me he suspected my information came from the Treasury. I was unable to deny or confirm this suspicion, because at that time I didn't know. Since that time I asked Mr. Allen regarding the source of the story, and he has told me exactly where it came from.

"The source, I can assure you, was not even remotely connected with the Treasury.

"Mr. Allen or I would be delighted to call upon you at any time if you so desire to answer any further questions as far as it is ethically possible."

I am going to call up Mr. Hull later on and tell him I am sick and tired of having him call me up and jump on me every time somebody writes something in the paper that is unfavorable to the State Department. I am being innocent. (Laughter)

Before anybody jumps on me, I want to clear up - have we heard from Jesse Jones?

Foley: Not a word.

Bell: The bill was reported out, wasn't it?

Foley: No, they are meeting today, Dan.

- 3 -

- Bell: Didn't I see a report on my desk of that committee reporting out these additional powers for the RFC?
- Foley: It was the House Committee, Dan, Steagall. This was the Subcommittee in the Senate. They are meeting today. They held it up until today to give us an opportunity to either appear or submit a statement or any we didn't want to be heard.
- We communicated our views to Mr. Jones and asked him to do it.
- H.M.Jr: How can we get in touch with Jones?
- Foley: Well, I am going to have somebody in the meeting this morning to see what happens. I thought we would let it ride.
- H.M.Jr: Now, the principal thing that bothers me - I have been up since five-thirty this morning - is this statement of George's. What is this statement of how much of the increased national income goes to the wages? What is the statement you made, George?
- Haas: The increase of this March over last March, national income payments, is about eight hundred million dollars. Seventy-three percent of that eight hundred million dollar increase went to wages and salaries.
- H.M.Jr: Well, as a result of that, I had Harold come up to the house and I have asked him to meet - have his group here at ten-fifteen Friday, Dan. You sit in, too, will you?
- Graves: Ferdie ought to be at that meeting.
- H.M.Jr: All right. And I think we ought to have both

- 4 -

economic staffs here. You (Coe) might come and listen, too.

The point is this, that I told Graves up to now we have been using a shotgun. We are going to have to use a rifle, and I want to know - lay out plans to direct the rifle at these wages so that we get our proportion of them. I have got to know more about what this campaign is and as a result, Harold is going to hop on a train tonight and spend a day out in Michigan, because that is the industrial center, and see what they are doing out there.

I wish, Bell, if you are not ready that you would be by Friday to report on this tax plan.

Bell: We have done something.

H.M.Jr: Well, I would like to have something by Friday.

Bell: You wouldn't want to do anything about that, however, until your tax bill is pretty well along.

Sullivan: It would be helpful, because if they ask me, if I can say that we have a plan that is being worked out and we are sure we will need no additional legislation, that would be very helpful to me, Dan.

Bell: I think you can say that now.

H.M.Jr: Yes, we don't need legislation. I want something Friday, Dan, and - what are those figures again?

Haas: The increase in national income payments this March over last March was about eight hundred million dollars, seven hundred ninety-eight to be exact. The increase is eight hundred

- 5 -

million dollars. Of this increase, seventy-three percent of it went to wages and salaries.

Bell: How much of the total national income goes to wages and salaries?

Haas: I would have to check that.

Bell: Is that pretty high?

Haas: Oh yes. It is the biggest factor.

H.M.Jr: Well, I am going to have O'Connell later. I want him to do something else.

Now, this is all scattered. We have got to concentrate this thing, I don't know whether with Norman or Harold. I have got about three different requests for three different jobs. I think Foley or Sullivan, one of them was to remind me about Tom Connally.

Sullivan: Who was that?

H.M.Jr: Somebody was to remind me about Tom Connally. You didn't remind me.

Sullivan: Scharff is a man who has been in the Customs Service for some time. He was recommended for promotion by Congressman Thomas of Texas and I sent that letter in to Mr. Gaston and Mr. Gaston is thoroughly familiar with the situation. Apparently Scharff is an able fellow and when, as, and if his superior is transferred to Mexico City, it looks as though they would be agreeable to moving Scharff up, isn't that correct, Herb?

Gaston: I don't think so.

Sullivan: You don't?

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- Gaston: No. Scharff is a good man, but I think there is a reason why he shouldn't be moved up in that district.
- H.M.Jr: After all, our personnel has political complexes, but I want an answer at nine thirty tomorrow morning, you see, on Scharff. I have got to let these people know. I just can't let this thing - I have got to let him know yes or no, you see.
- Thompson: It is the first I have heard of it.
- H.M.Jr: I know, but in the future, I just can't have these fellows making these requests and then not take care of them, you see.
- Thompson: Yes.
- H.M.Jr: I have just got to do something. Herbert can decide what he can, but the letter to be written to Connally for my signature should be prepared by you and I would like twenty-four hour service, see.
- Sullivan: You also wanted to be reminded about McSweeney, of Ohio, for Bond Administrator, who was suggested to you by both McCormack and Cooper.
- Graves: I have the answer on that. Would you like me to give it?
- H.M.Jr: Please.
- Graves: McCormack called me and I told him I would be glad to talk with McSweeney. McSweeney has --
- H.M.Jr: This isn't the man from Massachusetts?
- Graves: No, he is from Wooster, Ohio, former Congressman at large in Ohio, and for some years a

- 7 -

member of Congress representing the district in which Wooster is situated. He is a very nice and able man, former Public Director of Public Welfare for the State of Ohio, I found in talking with him.

Gaston: A candidate for the Senate, wasn't he?

Graves: He was Democratic candidate, as I understand it, for the Senate the last time, and he seems to have a great many misgivings about undertaking this job.

I talked with him yesterday the last time. He was on the verge of leaving for Ohio. While we did not commit ourselves about appointing him as State Administrator in Ohio, of course I told him that I thought it would be well if he would go out there and study the literature and material which I gave him, and talk to people in Ohio generally about this problem and write me, because I am not sure that the man wants the job. He seemed to doubt his own ability to handle it. That is the status of that case.

H.M.Jr: Norman, write an interim letter to John McCormack and who else?

Sullivan: Jere Cooper.

H.M.Jr: An interim letter, and get the facts from Harold Graves.

He has talked to the man and he has taken the thing under consideration and that we will be glad to keep him posted later on. We have just got to take care of these people on the Hill, see?

Get your facts from Harold. Write a letter

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for my signature today on those two people.

Now, what other ones are there? Oh yes, this so and so from Massachusetts.

Graves: Well that man - I talked to Congressman Healey about him, no others, although I understand that other members of Congress have talked with Herbert on this thing.

Gaston: I talked with the Secretary, and he repeated it to me.

Graves: I told this man when he came to see me that our Deputy State Administrator in Massachusetts would be appointed on the recommendation of Mr. Daugherty, and that therefore he should see Daugherty. He didn't want to see Daugherty.

He told me that we had the authority to appoint him as Deputy State Administrator without any reference to Mr. Daugherty's wishes. I told him simply we would not do that.

He left in a bad humor because we wouldn't proceed with his appointment without any reference to Daugherty. I have since talked with Daugherty and Poland, who is from Massachusetts, and both tell me that this man has utterly no qualifications that would interest us. In fact, he has characteristics which would definitely disqualify him for work of this kind.

Mr. Daugherty's idea, with which I agreed, is that he has got to give a non-partisan cast to this organization in Massachusetts if it is to make any appeal to the citizens of that state. He himself is a Democrat, and he seemed to feel that the smart thing to do would be perhaps to get some Yankee

- 9 -

Republican as his deputy and under the circumstances I have told Herbert that I think it would be a bad mistake for us to make any use of this fellow.

H.M.Jr: Can we place part of the blame for turning him down on Daugherty?

Graves: Well, Daugherty has told me he wouldn't have him. I would hate to embarrass Daugherty any further than we have to, as he is starting his job up there.

H.M.Jr: Supposing you write a letter, Norman, along these lines. You can find out from my office who are the people interested. Simply say that in view of the fact that we have appointed a Roosevelt Democrat to head up this matter in Massachusetts --

Sullivan: Oh, oh, oh, excuse me. No. You are getting into something there, sir.

H.M.Jr: No?

Sullivan: No, that is the Dever campaign and Dever got licked for Governor because he wasn't the least interested in Roosevelt and Dan Daugherty ran Dever's campaign. McCormack and Healey know that.

H.M.Jr: Where was Daugherty?

Sullivan: He was running Dever's campaign.

H.M.Jr: Who is Dever?

Sullivan: Dever was the Democratic candidate for Governor who would have won had he been for Roosevelt.

H.M.Jr: Well --

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Sullivan: Better leave that phrase out.

H.M.Jr: It is much better to write a forthright letter and say that we are trying to keep this thing, inasmuch as we want to appeal to all the people, we are trying to keep this thing on a non-partisan basis and that there is the fact that we have Mr. Daugherty, a very prominent Democrat in Massachusetts, who is heading the thing up and both Mr. Daugherty and I feel that his deputy should be a Republican. Why not say so?

Graves: I would suggest that we say, "should be selected without regard to any political background."

H.M.Jr: O.K. Fix me up something like that, Norman, and before I get it let John Sullivan initial it. (Laughter)

Sullivan: I walked into that one.

H.M.Jr: Well, you can make any changes.

Sullivan: All right.

H.M.Jr: Now look, these letters which are political, inasmuch as they are political, I want Herbert Gaston to initial on all of them; and where they come from Massachusetts, New Hampshire, and so forth and so on, with anybody displaying any interest, like Sullivan, he could initial it. We have nobody here from Ohio, but I want this thing to flow to me. I want to service these people.

Let Herbert - if you have got any doubts, we have got a political committee. It is Helvering, Gaston, and Foley. Throw it on them and get them to decide and you write

- 11 -

the letter for me, you see. You are on that, aren't you?

Foley: Yes.

H.M.Jr: There is Gaston, Foley, and Helvering, isn't that right?

Foley: Yes. I think John is on it, too.

Sullivan: I thought I was taken off that.

H.M.Jr: And Thompson. There you are. You have got your committee. Let them make the decisions, but you see that I get the letter and see that these things are taken care of, because they are very friendly on the Hill and I want to keep them that way.

Thompson: Did these come in by telephone calls?

H.M.Jr: We set a new system up this morning.

Thompson: They are all new to me.

H.M.Jr: Mrs. McHugh is the person that is going to look after them. She is going to - she has been going after - she will tell Harold Graves I have had three calls on this thing but nothing was done, to see that there was a decision. Just tell Harold Graves.

Well, the thing drags on and on, so I have decided that from now on Mrs. McHugh is going to give me a little memorandum which she will give to Mrs. Klotz to come in every morning and every morning I will raise hell, so you fellows can say, "Well, for God's sake, we had better clean it up."

Sullivan: Just to keep the record straight, I want to say that I think Daugherty is going to

- 12 -

do a perfectly swell job. I have never liked the guy. He is honest, and conscientious, and industrious and ambitious and he really will do a swell job.

Graves: I think I might give you something for the record too, on another aspect of this thing. The appropriation that runs to us for this - let's say the promotional campaign, is an appropriation available only for persons qualified under the Civil Service rolls or experts whom the Civil Service Commission may permit to be appointed in the absence of Civil Service eligibles.

In other words, we have always got to make a showing before the Civil Service Commission.

H.M.Jr: All right, that is for the record and on the record it is your job to fight and see that those rules are lived up to.

Graves: I am doing that, sir. I don't think we have yet submitted people to the Civil Service Commission who have not been well qualified.

H.M.Jr: And if you succumb to this political pressure, you are not half the man I think you are.

Graves: Well, we haven't caved in yet.

H.M.Jr: I haven't put any pressure on you yet, so keep on fighting and hope, but just remember we have got to get a little legislation, too, and we have got to get some more money on the Hill. There is a happy medium on all of these things. But it also - excuse me,

The letters, Norman, they will be brought up at nine-thirty now every morning, and I want you to write the letters and see that - see?

- 13 -

Now, one other thing I have got in my mind. I have got no notes on any of this. This clerk that comes from the home town of one Jere Cooper, she is a sister of the leading banker, she is a sister-in-law of the leading doctor, she is a cousin of the leading --

Sullivan: Judge of Probate.

H.M.Jr: judge. And she is the aunt of the leading funeral director.

Sullivan: She is practically the town.

H.M.Jr: She is all the town. Now, what is she doing?

Thompson: She is doing only average work.

H.M.Jr: What is she doing? (Laughter)

Thompson: She is doing a very routine, average type of work.

H.M.Jr: In what group?

Thompson: Foreign Funds.

H.M.Jr: Foreign Funds? Well, could she qualify under Civil Service for Defense Savings Bonds? Could she be transferred?

Thompson: No.

H.M.Jr: She couldn't? Why not?

Thompson: She has no Civil Service. She will apply for Civil Service if she stays in Foreign Funds.

H.M.Jr: What I was thinking of was giving her a raise and putting her somewhere else.

- 14 -

Thompson: We could detail her.

H.M.Jr: Where?

Thompson: To Harold Graves. (Laughter)

H.M.Jr: How much is she getting?

Thompson: Fourteen forty and wants eighteen hundred.

H.M.Jr: That is too much.

Thompson: I would suggest we give her sixteen twenty.

H.M.Jr: It is worth it.

Bell: You remember, Mr. Secretary, we wrote a letter in that case and said we would give her a promotion after she had been here six months.

H.M.Jr: He objected because I didn't write the letter. I have got to sign it and I have got to give it to her.

So, get her out of that place and put her somewhere else and I will sign the letter.

Sullivan: I have got to get into this one, too, because you sent me up to see Jere and I explained to him that it was the rule of the department to wait until they had been there six months.

H.M.Jr: Well, I know, but he didn't expect this to be turned over to you or somebody else. He

- 15 -

told me all of that himself.

Sullivan: He told you part of it.

And then I said, "Well, Jere, here is the rule. Now, I think you are smarter to wait until the six months is up, and then nobody can accuse you of getting special treatment for your own constituents."

Well, he didn't like that put up that way.

He says, "Well, I expect eighteen eighty anyway."

I said, "I know you couldn't possibly get that before the six months is up, and I don't know that you could get it then; but I think you would be better to put your trust in the Secretary and wait until she serves the regular length of time."

Now, I don't know whether you can put her up to eighteen eighty at the end of six months. That is the figure you used to me.

Thompson: Eighteen hundred.

Bell: Eighteen hundred.

Sullivan: Eighteen what?

- 16 -

Thompson: Eighteen hundred.

H.M.Jr: What is the girl's name?

Sullivan: R-h-e-a is the last name, I think.

Thompson: Colline Rhea.

H.M.Jr: Well, Miss Rhea, and she is getting now how much?

Thompson: Fourteen forty.

H.M.Jr: And you think we can put her to what?

Thompson: Sixteen twenty.

Bell: That is three jumps.

H.M.Jr: Do you want me to tell him we will do this on the first of July or should you tell him?

The thing he is complaining about, he wrote me a longhand letter, and I didn't answer it.

Sullivan: He expects a minimum of eighteen hundred.

H.M.Jr: Supposing when I get a chance I call him up myself?

Sullivan: Fine.

H.M.Jr: I will call him on the phone.

- 17 -

Now, having done all the important business of the day, I am exhausted.

- Gaston: This is no time to give you Joe Guffey's troubles.
- H.M.Jr: It is important, though. We have got to keep these people happy.
- Gaston: We have got a bad mess with Joe Guffey on the Deputy Collector of Internal Revenue in western Pennsylvania.
- H.M.Jr: After all, he can't come out for Roosevelt for the fourth time.
- Gaston: He said he had never so much as gotten a glass of ice water from the Administration, and I reminded him of a couple of glasses of ice water he had gotten.
- Bell: I would like to remind him of a few.
- H.M.Jr: Well, what else have you?
- Gaston: We have a young lieutenant engineer in the Coast Guard who would like very much to go out on these cutters as a United States observer on the cutters in British service. I don't think we ought to encourage the idea at all.
- H.M.Jr: No.
- Gaston: Lieutenant Alger.

Here is a Coast Guard bill pending in the House now. Hearings are being held to clarify certain acts relating to the Coast Guard. It would be an appropriate time, if we wished it, if we were permitted to amend the statutes so as to provide that the

- 18 -

President, either in time of peace or in time of war, could assign to the Navy such parts of the Coast Guard as he wished to assign. In other words, not to make it obligatory that the Coast Guard go to the Navy.

H.M.Jr: This is a bill?

Gaston: We have no bill up, but there is a general Coast Guard bill amending various statutes for other purposes, and if we wish to change the law so as to remove that obligatory provision that Coast Guard must go to the Navy in time of war, it is a good time to do it.

H.M.Jr: Try it.

Gaston: You think without consulting - just - without consulting anybody we can ask for the amendment up there?

H.M.Jr: I can't handle all of this stuff. My mind just can't take it all.

Gaston: Well, the question is whether we ought to consult the President directly or through the Bureau of the Budget as to whether he is willing that we should amend the law in that way.

H.M.Jr: The normal way would be to write a letter to the President, and I will sign it.

Gaston: All right. I wondered if you thought it worth while to mention again sometime those ice breakers. The fellows have made a very careful study of--

H.M.Jr: What should I do with it?

- 19 -

Gaston: If an occasion arose where you could mention it to the President--

H.M.Jr: There is no use of mentioning it. If you write a letter for me. Is the thing ready?

Gaston: We have submitted an estimate and it is in the hands of the Budget and the Budget may - we have already had a hearing. Waesche has been over there. The Budget may step on the ice breakers unless they are specially--

H.M.Jr: Well--

Gaston: We will let it go just with the hearings.

Did you want to see - Martin Nicholson is still in town. Do you particularly want to see him? I don't know any special reason you should.

H.M.Jr: I forgot last night about it. I go into a series of meetings. If he can be here a few minutes before eleven, I will shake hands with him.

Gaston: All right. That is all.

H.M.Jr: Ed?

Foley: I have an analysis of the two drafts of the lease-lend agreement, one ours and one the State Department's, and I would like the chance to talk to you about it because the State Department is trying to push us on it.

H.M.Jr: Well, just skip that. I mean, don't bring up anything new today. If you don't mind - if there is something that affects today's business or anybody, I will help you, but nothing new. I just can't take it. Ask

- 20 -

What's-his-name for an appointment. Have you got anything you want to clear today?

Foley: I have got nothing I have to clear.

H.M.Jr: All right?

Foley: Sure, I can always let it go.

H.M.Jr: I mean, anything that should be cleared today.

Foley: Well, no. I will have more tomorrow.

H.M.Jr: Well, maybe I won't do so much talking tomorrow.

Sullivan: Apparently this news story on the dinner at your house Monday night came from the Hill. I talked to Doughton. He said a newspaperman came to him and he said, "I don't know anything about it." So the newspaperman said, "Well, I have already talked to McCormack." So Doughton called McCormack, and McCormack said, "I don't know where he got it. He came around and said, 'I understand you were at Secretary Morgenthau's last night.'" I don't know whether McCormack talked to him or not. Chick said yesterday morning one of his boys came in here and said this man from the Hill had told him about the dinner. How about it?

H.M.Jr: Maybe while Connally was awake he talked.

Anything?

Sullivan: No, nothing that can't wait.

Cochran: Phillips came in last night after you

- 21 -

talked with me, and he promised to put this proposition in his own words if Keynes doesn't make it clear. It is about the - along the lines we thought.

- H.M.Jr: Did you have a chance to get my memo this morning?
- Bell: I got it, but that information is not available. Phil Young tells me it will be available - I have the allocations and, of course, the actual expenditures are less than half a million dollars. As to what contracts are entered into, Phil said he won't have that for another day or two.
- H.M.Jr: Why?
- Bell: I don't think it has seeped through from the War Department yet.
- H.M.Jr: Do you know how much of the seven billion they have been getting?
- Bell: Two billion eight hundred million, I think. I will have it.
- H.M.Jr: All right, just so you have it.
- Bell: No, it is three billion eight hundred seventy-four million that has been allocated. Of which one billion eight hundred million was for airplanes.
- H.M.Jr: How much?
- Bell: One billion eight.
- H.M.Jr: And how much has been spent?
- Bell: I think it shows up on our statement at less

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than a half million dollars, largely or all of it probably for administrative expenses.

H.M.Jr: This fellow Keynes is coming over here - in the room here - to try to get another lend-lease bill, so I asked Dan to take a look at what the situation is.

Sullivan: Maybe he is going to testify on the tax bill.

Bell: As I read Merle's memorandum, it is the airplane section of that bill and, as you recall, they asked for an appropriation out of the seven billion of only two billion and fifty-four million for airplanes and parts, and out of that two billion and fifty-four they have allocated one billion eight hundred ninety-six million which only leaves approximately one hundred fifty million dollars to be allocated.

H.M.Jr: Can't they transfer twenty percent?

Bell: Yes. As I recall, they can increase that sum by twenty percent, and they can decrease any of the others not more than thirty percent in order to make up that money. The largest one is for agricultural products, one of the largest, one billion three hundred fifty, and they have only allotted two hundred twenty-five million, and one of the other large ones, a billion three hundred forty-three million for ordnance and ordnance stores, and they have allotted seven hundred twenty-five million, a little more than half. The other one was a little more than a sixth. So they could get another four hundred million dollars by reducing the others. I thought probably to do anything else would take more legislation.

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H.M.Jr: I can see you (Foley) at eleven thirty.

Foley: All right, thanks.

Cochran: And we have the Canadians in at ten fifteen. I got in touch with Young and Cox yesterday. They have given me a written memo which you might want to see before we start the meeting.

H.M.Jr: I will, if I can.

Cochran: Or at least Dan can tell you how we feel about it here.

H.M.Jr: All right.

Kuhn: Senator Tydings has written to James Warburg to ask whether he will appear as a witness on automatically balancing the budget. Warburg writes to you and asks whether this is seriously put forward. He says he does not wish to be a witness unless you think this is important.

H.M.Jr: Well, we learned, Dan and I, there are five hundred letters sent out by Brookings Institute. They are the people that sent this letter out.

How would you answer this Warburg?

Bell: Oh, I think he has got to use his own judgment. I don't think we can advise people outside as to what they should do to that.

Kuhn: He asked specifically whether the Administration is behind this proposal.

H.M.Jr: The answer is no. Tell him it is Brookings Institute and tell him that we understand that five hundred letters went out.

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Bell: In the Bureau of the Budget they only sent one letter and that to a subordinate and that subordinate has been given instructions to ignore the letter.

H.M.Jr: Could he tell him that in confidence.

Bell: Oh, I don't know as that means anything. I think I would let him use his own judgment. Just tell him it is not an Administration measure.

Probably Lew Douglas has got one and everybody else.

Kuhn: That is all, sir.

Haas: I have a few items. One of them is the breakdown figures on those agricultural expenditures. I have those.

H.M.Jr: Hold them.

Haas: And this question of the agricultural loans.

H.M.Jr: Well, I will have O'Connell in in a minute.

Haas: All right. I think all the other is material that can wait.

H.M.Jr: Good.

Schwarz: Do you wish to see a few stories?

H.M.Jr: What?

Schwarz: Do you wish to see a few newspaper stories?

H.M.Jr: Yes. Thanks.

Schwarz: That is all.

- 25 -

Coe: You wanted to know whether copper was going to any place but the U. K. The answer is yes. More copper is going to non-British Empire countries than to the British Empire and China, in April.

H.M.Jr: Can you give me the breakdown?

Coe: Yes, we have the figures here.

H.M.Jr: Thanks. I spoke to Harry White last night. He finds everything very interesting.

Coe: Where is he?

H.M.Jr: He was at Norfolk yesterday, and he said, "They told me to go down to Norfolk and I would see four hundred men working down there on WPA on a defense project, and I was never so disgusted in my life." He said, "I went down there and saw people splashing a lot of paint and shoveling gravel around," and he says, "I hoped I was going to see something good, but up to now I haven't seen anything." He said, "It is the most discouraging thing." He said, "'Now you look at that and that is going to be good. Now, this is a good one.'" He said he gets - he said he has yet to see a good project. He is to call again tomorrow.

Bell: That ought to be a good place for WPA when they can't get labor down there--

H.M.Jr: He sounded very disgusted.

Harold?

Graves: I have nothing.

H.M.Jr: Dan?

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Bell: Mine can wait except that Dr. Burgess wanted to see you tomorrow to pay his respects and, second, to hand to you the answers to the Wagner questionnaire by his Committee of the American Bankers.

H.M.Jr: Eleven o'clock.

Bell: If I could see you sometime today. Do you want an open market meeting next week, Tuesday?

H.M.Jr: Yes.

Bell: Eleven?

H.M.Jr: Yes.

Bell: That is all.

Thompson: I have a deferment case in Customs. Mr. Shamhart is a Lieutenant Commander of the Navy, and Mr. Johnson has asked for a deferment. He is a very important and valuable man over there, but I don't know whether we can ask for a deferment since he is a reserve officer and presumably should serve in that capacity.

H.M.Jr: Will you talk to Gaston?

Gaston: Yes. We talked it over with you once before, and as a result - Shamhart wrote a letter himself requesting deferment, and they have now turned it down.

H.M.Jr: Who is "they"?

Gaston: The Navy Department.

Foley: Is he a Lieutenant Commander?

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Gaston: Yes.

Foley: He ought to go.

Gaston: Well, the point is they will have him doing work over there that is probably less important than the investigative work of the Customs Service that he is in charge of now.

Thompson: I can send it along, if you want to stay out of it?

H.M.Jr: No, I don't want to ask him.

Thompson: Well, he will have to serve.

H.M.Jr: I can't help that.

Gaston: You may be interested to know that the Navy Intelligence is hiring our men and various investigative services quite freely around the country, not reserve men being called in, but they are going out and paying men who are getting, for instance, twenty-six hundred in the Treasury Investigative Services, and they are offering them thirty-five hundred to come over to the Navy as investigators. They are hiring quite a lot of men by that method.

H.M.Jr: It shows they are smart.

Gaston: That shows the men are smart.

Bell: May I be excused?

H.M.Jr: Yes.

(Mr. O'Connell entered the conference.)

H.M.Jr: O'Connell, you are having a meeting tomorrow

- 28 -

aren't you.

O'Connell: Yes, sir, at eleven.

H.M. Jr: I wish you would raise the question that according to the newspapers, it says that Mr. Henderson is taking the position that it is all right to raise agricultural prices up to eighty-five percent of parity, and I would like to know whether that is so, and, if so, how does he justify it? If you read the stories today - and you can talk with Haas. He can give you a lot of stuff. Now, in the room here, and I don't want you to pass it outside of this room, the Director of the Budget told us yesterday he is going to recommend to the President he veto this bill, but if you will read, and George will give it to you, Collin's article in the New York Tribune of Monday, "Inflation by Legislation," isn't that what it is called? And how can Henderson justify this, and particularly when you see him, George can give you a lot of charts on what has happened since they have talked about this thing. I mean, Ed O'Neal gets up and says, "Well, it won't increase the cost of living more than five percent."

Now, from the Treasury's standpoint, they have got to increase the borrowing power of commodity credit by a billion two hundred million and they are just freezing these prices, corn, wheat, and cotton, and if they do it for that, there is no reason why they shouldn't freeze wages and everything else. It is just a spiral, and I just want to know and if you consult with George, "How does he justify his position. I don't see how he does it." So will you raise that?

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O'Connell: Certainly.

H.M.Jr: And smoke him out on it.

O'Connell: All right.

H.M.Jr: And get your facts and figures from George.
Thank you all.

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May 14, 1941

My dear Mr. President:

The acceptance by the House and Senate of the conference report on S. J. Res. 60, providing for mandatory crop loans at 85 percent of "parity", leads me to call your attention to the serious inflationary threat which this legislation presents. The development of inflation by an Act of Congress, when the tax program being worked out in Congress is designed to control inflation, would seem an outstanding incongruity.

It is recognized that such loans will raise prices directly, not only for the products immediately affected, but also for competing products. Press reports this morning mention estimates of the Department of Agriculture that food costs would be raised 10 to 20 percent. The pending loan legislation, in fact, has been an important factor in the recent accelerated rise in commodity prices, which has been accompanied by a rise in living costs, as shown on Chart 1 attached.

Not only is this legislation designed to raise prices directly, but the method proposed for financing the price-raising program would do it in the most inflationary way — through the creation of new money. This would be the result of financing the crop loans by selling Commodity Credit securities to banks, and thus expanding bank deposits dollar for dollar. The magnitude of the sum involved is indicated by the proposal to increase the borrowing power of the Commodity Credit Corporation for this purpose by \$1,200,000,000. While such action would be ideal for boosting prices during a depression, it is clearly a serious inflationary threat in the present emergency.

I question, furthermore, the need for such legislation. The defense program has caused a marked improvement in farm incomes. Prices received by farmers, as shown on Chart 2 attached, have risen sharply since the beginning of the war and more noticeably in the past few months. Prices of goods bought by farmers, on the other hand, have held practically steady. In consequence, the purchasing power of farmers in 1940 reached a higher level than in 1929, and is continuing to improve. In the opinion of Secretary Wickard, farmers will have a total income in 1941 "of at least a half billion dollars more than they had in 1940."

As stated by the chief of the Bureau of Agricultural Economics: "Over nine-tenths of the cash income from farm production is derived from the money income of consumers in the domestic market." Since the increased wages of industrial workers and the increased defense buying of farm products are going directly into raising farm incomes, I can see no present need for compounding the benefits to agriculture.

Faithfully yours,

(Signed) E. Hergenthan, JWD

The President,

The White House.

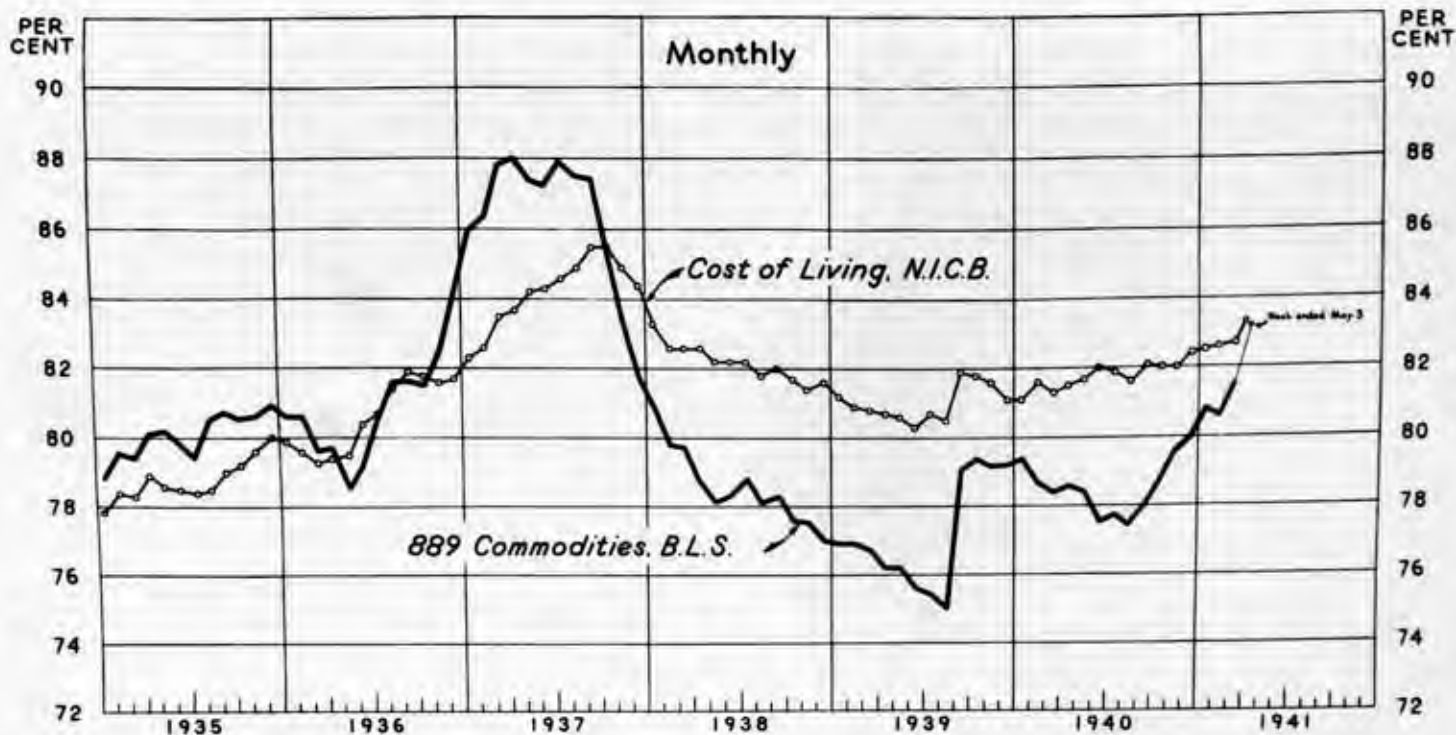
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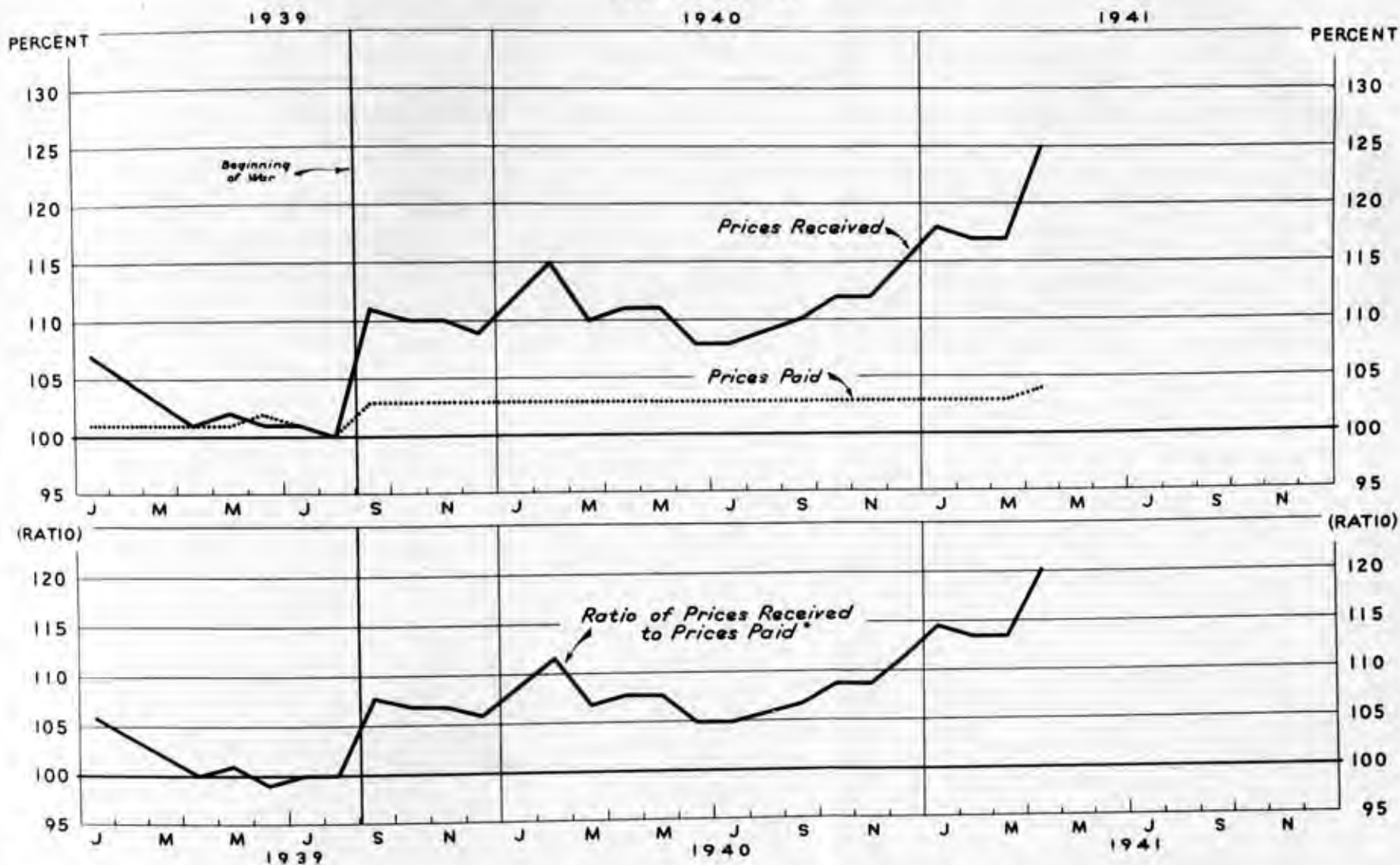
Mr. Hoover 345

COMMODITY PRICES AND COST OF LIVING

1926 = 100



COMPARATIVE TRENDS OF PRICES RECEIVED AND PRICES PAID
BY FARMERS SINCE BEGINNING OF THE WAR
AUGUST 1939=100



*Based on August 1939=100

May 15, 1941

Dear Leon:

I am sending you herewith, for your information, a copy of a letter which I have sent the President today.

Yours sincerely,

(Signed) Henry

Mr. Leon Henderson,
Chairman, Price Administration Committee,
2000 Massachusetts Avenue,
Washington, D. C.

By Messenger 6⁰⁰

May 15, 1941

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By ~~Handwritten~~

May 15, 1941

Dear Claude:

I am sending you herewith, for your information, a copy of a letter which I have sent the President today.

Yours sincerely,

(Signed) Henry

Honorable Claude R. Wickard,
Secretary of Agriculture.

By Messenger 6⁰⁰

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Secretary of Agriculture.

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Honorable Claude R. Wickard,
Secretary of Agriculture.

By ~~XXXXXXXX~~

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 14, 1941

TO Secretary Morgenthau
FROM Herbert Merillat

HEARINGS OF WAYS AND MEANS COMMITTEE
Wednesday, May 14, 1941

No one appeared to be much impressed by a protest against the proposed check tax.

Professor Irving Fisher proposed a graduated tax on spending in lieu of increases in existing income taxes. Republican members expressed considerable interest in his plan, but pointed out that it would not raise the revenue required immediately. Fisher said the revenue goal of the Treasury was too high and Jenkins remarked that the committee might not find it possible to raise $3\frac{1}{2}$ billions in additional revenue. Doughton asked wherein Fisher's plan differs from a general sales tax and Fisher replied that his tax, unlike the sales tax, would be graduated in rate. In response to a question from Crowther, Fisher said he favored adoption of the Keynes plan in this country. The Democratic side did not question Fisher much concerning his tax proposal.

The committee was attentive to an argument of brewers against increased taxes on beer, but questioning of the witness was deferred until tomorrow.

May 14, 1941

D. W. Bell

Secretary Morgenthau

For the meeting this morning, I wonder if you could have the figures as to how much money under the seven billion Lend-Lease Bill has been allocated, and how much of it is under contract, and how much of it actually has been spent.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 14, 1941

TO Secretary Morgenthau
FROM Mr. Coe ^{ffc}

Subject: Conference with Canadian officials.

Present: Dr. Clark, Mr. Shields and Mr. Coyne of the Canadian Government, and Secretary Morgenthau, Mr. Bell, Mr. Cochran and Mr. Coe of the Treasury, May 14, at 10:15 o'clock.

Dr. Clark presented orally the proposal made in the memorandum of May 9, presented by Dr. Clark to Mr. Cochran, and discussed in the meeting of May 12 with Mr. Bell. He outlined the administrative difficulties of transferring a large volume of existing contracts from Canadian private firms to the United States Government. These contracts cover the goods which Canadian firms had previously agreed to purchase in the United States to manufacture war materials which will go to the United Kingdom. Dr. Clark intimated that out of approximately \$220 million of such contracts which it is now permissible for the United Kingdom to lend-lease in the United States and to send to Canada, there are \$100 million worth of goods where the problems of identification and transfer would be difficult. His proposal was that Canada should pay out this \$100 million for these items, and that instead Britain should lend-lease in the United States another \$100 million of goods which would be sent to Canada but would be used in the Canadian war effort, each item of which would not have to go to the United Kingdom. After some discussion, Secretary Morgenthau restated the Canadian proposal and gave his opinion that it would be all right for \$100 million worth of defense articles to be sent under lend-lease to Canada irrespective of its future destination if Canada satisfied this country that it was undertaking to use its own dollars to complete the purchase of the same amount of goods on British account. The Secretary stated that Dr. Clark and Sir Frederick Phillips of the British Treasury should jointly initial a short memorandum setting forth this proposition, and he stated that he would turn this proposal over to Mr. Hopkins

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with the recommendation that it receive favorable consideration.

In the course of the discussion, Secretary Morgenthau pointed out that he had several times noticed the reluctance of Canada to enter into direct lend-lease obligations but that he had never received a satisfactory explanation of this attitude. Dr. Clark admitted that there was such a reluctance and though he agreed that in a long war it might be impossible for Canada to avoid becoming indebted to the United States, he stated that it was the desire of the Canadian authorities to make the maximum effort in aid of Britain out of Canada's own resources and, if possible, to avoid becoming indebted to the United States. The Secretary reminded Dr. Clark that Canada had not yet sold any of her securities and Dr. Clark replied that the machinery for taking over and selling these securities was now ready to move.

Mr. Shields, Deputy Minister of Munitions and Supply, informed the Secretary that Canada had just set up a new corporation -- War Supplies Limited -- from which the United States War Department would make purchases of war materials produced in Canada. The United States War Department had not wanted to purchase goods from a foreign government. The new corporation will sub-contract the orders placed by the United States. The United States will get the same prices and priorities as would the Canadian Government. The new corporation is non-profit and is guaranteed by the Government.

May 14, 1941

Harry Hopkins had lunch with me today. I outlined to him the agreement that I had come to with Clark of Canada; namely, that of the \$120,000,000 which Canada has on order here for supplies to go to England that they should be lend-leased directly to England; that on the \$100,000,000 Canada has on order for many small items, which will also go to England, that instead of trying to lend-lease this \$100,000,000, England should place a new order for \$100,000,000 of supplies in this country for Canadian use. Hopkins agreed to this.

I also told Hopkins that the English had brought up the question of the three or four hundred million that the Army and RFC were to take over, and that they needed to buy somewhere between 250 and 300 million of some special supplies. Hopkins asked whether we couldn't clean up the whole thing in a lump sum of 500 million, and I told him that I thought we could.

Hopkins wanted to discuss the question of what we were going to do and what the President was going to say in his speech on the 27th. He said that following Hull, Stimson and Knox the President had to say something, and that most of his friends felt that the next move was to get us into the war. I told Hopkins that during the last week or ten days that I had arrived at the conclusion for the first time that if we were going to save England we would have to get into this war, and that we needed England, if for no other reason, as a stepping stone to bomb Germany. I told him that we also needed the British Fleet.

You could see that Hopkins was groping and didn't seem to have the answer, so I made this suggestion. I said that instead of the President trying in some way to declare us in the war, how about doing something internally first. I suggested, first, that he declare a national emergency; second, that he create a Cabinet post for supply; and, third, that he create a position for home defense; and that after he did all three of these things and sent them up with a message

to Congress and announced who the respective individuals would be, I felt confident that these combined moves would be well received because he ought to first take care of our internal situation in my opinion before he took on any external situation. I gathered that Hopkins agreed with me.

I think that both the President and Hopkins are groping as to what to do. They feel that something has to be done but don't know just what. Hopkins said the President has never said so in so many words, but he thinks the President is loathe to get us into this war, and he would rather follow public opinion than to lead it.

I then told Hopkins Dr. Wise had been in to see me, and wanted to know if there was not some way of making it possible for Jews in Palestine to enlist in the English Army up to 50,000. I told him that Dr. Wise said there hadn't been a single Jewish soldier captured alive, and that General Wavell publicly had complimented them on their fighting ability. Hopkins said he thought the man they should see was Halifax, and I told him that I told Dr. Wise yesterday I thought Justice Brandeis should see Halifax. Hopkins said he would see what he could do and would try to find out how the English felt about it, and possibly the President might say something to Churchill. Hopkins asked whether he would have to see Dr. Wise, and I told him no but I asked him whether I could tell Wise that he was going to look into it. Hopkins said I could.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 14, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

There is attached hereto a copy of a memorandum left with me at 4 o'clock this afternoon by Messrs. Clarke and Coyne of Canada. It sets forth the explanation of the Canadian proposal which Mr. Clarke presented to the Secretary this morning, and is signed by both Mr. Clarke, Deputy Minister of Finance of Canada, and Sir Frederick Phillips, Under Secretary of the British Treasury.

Mr. Clarke told me that he is obliged to stay over through tomorrow. If we have any further question on this memorandum, he would be happy to hear from us. Furthermore, he would be glad to have our advice as to what the next step should be. Should he tomorrow get in touch with either Mr. Hopkins or Messrs. Young and Cox, or should Mr. Coyne do this at an early date? Has the Secretary any message for the Canadians following his conversation with Mr. Hopkins this noon?



C
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P
Y
(Handed by Mr. Clarke, Deputy Minister of Finance of Canada,
to Mr. Cochran in the Treasury at 4 p.m., May 10, 1941.)

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Washington, May 14th, 1941.

From April 20th, 1941, to June 30th, 1942, it would be necessary for Canada, under present programs to spend approximately \$220 million in U.S. funds for purchases in the United States of articles and materials required for Canadian production for the United Kingdom. In the Hyde Park Declaration of April 20th, 1941, it was agreed that "in so far as Canada's defense purchases in the United States consist of component parts to be used in equipment and munitions which Canada is producing for Great Britain....Great Britain will obtain these parts under the Lease-Lend Act and forward them to Canada for inclusion in the finished articles."

Part of the estimated amount of \$220 millions represents the value of defense articles which retain their identity in the process of being incorporated in Canada into war supplies for the United Kingdom, or which are otherwise readily identifiable and capable of being dealt with directly and effectively under the machinery of the Lease-Lend Act. The balance consists of a very large number of items, including materials, which it would be very difficult so to identify and administer, involving thousands of contracts which would individually represent very small sums. At present it is estimated that the former category will amount to approximately \$120 million for the period mentioned, and the second category to about \$100 million.

Pursuant to the Hyde Park Declaration, it is agreed that the United Kingdom will obtain under the Lease-Lend Act for forwarding to Canada, defense articles up to a total value of approximately \$220 million, or such amount as may be determined from time to time to represent the actual value of the "United States content" of Canadian War Supplies to the United Kingdom. In part these will be the actual articles represented by the first category mentioned above. Articles coming within the second category will continue to be purchased in the United States and paid for in cash by Canada, but Canada will be compensated by other defense articles to an equivalent value, which it would otherwise have to purchase in the United States. These will be obtained by the United Kingdom under the Lease-Lend Act and transferred to Canada.

The object of this understanding is to carry out the purposes of the Hyde Park Declaration so that Canada shall not have to pay out U.S. dollars to purchase U.S. goods which are ultimately to be supplied to the United Kingdom.

(Signed) W. C. Clark

F. Phillips

THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

May 14, 1941

TO THE SECRETARY:

Colonel Meecham of the War Department came to see me this afternoon, stating that he had been in contact with Canadian officials with respect to the purchases which the War Department contemplates in Canada. He has seen Dr. Clark since his conference with you this morning and Dr. Clark told him that he had explained to you what the Canadian Treasury and the War Department contemplated in connection with these purchases and that you had agreed to the proposals. Colonel Meecham said that while this was good news to the War Department, Under Secretary Patterson thought that it would be best for them if they could get an informal confirmation of the Treasury's approval.

I asked Colonel Meecham to state just what the arrangement is. He said that the Canadian Government has set up a Canadian corporation entirely owned by the Canadian Government and run by Canadian officials. Any orders which the War Department desires to place in Canada will be placed in the first instance with this Canadian corporation. The Canadian corporation will then place these orders through the Ministry of Supply with the Canadian companies that they want to manufacture the materials for the War Department. Mr. Clark explained that this will give the War Department the benefit of the Canadian priorities system and will give it the same prices as the Canadian Government pays for similar materials. Colonel Meecham said that they will pay the Canadian corporation for the materials just like they would pay an American corporation, namely, with dollar checks. He wanted to know if this arrangement is satisfactory to the Treasury.

I told him that you had told Dr. Clark that this seemed like a good arrangement and offered no objection to the proposal. I told Colonel Meecham that so long as the Canadian Government did not come under the Lease-Lend Act and was making its own purchases in the United States and paying for them with its own dollars, we could not object to this arrangement. As soon as the Canadian Government comes under the Lease-Lend Act, it will

- 2 -

be up to the Treasury to see that this Government does not accumulate a large supply of dollars. I told him that I thought we could control this, but if we could not we might have to ask them to modify their arrangement for these purchases. He said this was quite satisfactory to him. He thought that an informal understanding of this character between the Treasury and the War Department is satisfactory, but he would take the matter up with Under Secretary Patterson and if he preferred a confirmation in writing, the War Department would send us a letter.

sub

TREASURY DEPARTMENT

306

INTER-OFFICE COMMUNICATION

DATE May 14, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 11:00 a.m. today the Secretary received Sir Frederick Phillips, Under Secretary of the British Treasury, together with Mr. John Maynard Keynes, the distinguished British economist who is serving as advisor to the British Treasury, and who recently arrived in the United States. The visit this morning was in continuation of Mr. Keynes' first visit yesterday. Messrs. Bell, Coe and Cochran were present during the meeting.

The Secretary opened the conversation by informing his visitors briefly of the plan which had been tentatively agreed upon at the meeting which had just been concluded with Messrs. Clark, Shields and Coyne of Canada. This involved lend-leasing to Great Britain to compensate Canada for constituent parts of exports from Canada to Great Britain which are purchased in the United States. The Secretary told Phillips that he had asked for a memorandum of the proposition which should be initialed both by Phillips and Clark. Both Phillips and Keynes thought the arrangement would be quite acceptable.

Phillips spoke first for the visitors. He said that the Secretary would recall that he had promised the British when the Lend Lease Bill was passed that he would take care of them insofar as existing contracts were involved, but that contracts from then on should be under the Lend Lease Act. Thereafter the Secretary would not be concerned with the details of the Lend Lease administration, and any questions arising on the working of the Act would have to go to the Lend Lease administrators. Furthermore, Phillips said that the Secretary had advised them that if it were a financial matter the British should not take "No" for an answer.

Phillips stated that the British had been carrying on along these lines for two months, but that they are now beginning to run into certain difficulties which arise on both sides of the water. On this side of the water they find that there are several types of application which raise administrative or political difficulties for the administrators here. Sometimes it is impossible to bring what they ask for legally under the Act, and other difficulties seem to be of a political nature, e.g., in connection with applications on behalf of certain of the Dominions and India. Phillips added that the British had one common purse of foreign exchange with India and the Dominions, and that a refusal of an Indian application had the same effect on the British Treasury as the refusal of an application for the United Kingdom.

The Secretary interrupted at this point to ask about this Indian problem. He was not aware that there had been any question brought up with respect to India, and no one of his assistants had been aware of this until Mr. Cochran reported the visit of Mr. Keynes yesterday. The visitors replied that this difficulty had arisen directly with Mr. Hopkins and that the latter had set forth his position in a letter. The Secretary asked his visitors to go into details of this matter with his assistants following the meeting.

As respects the difficulties experienced on the other side of the water, Phillips proceeded as follows: The essential point of the Lend Lease Act is that it applies to goods which pass from the United States Government to the British Government. Unless that condition is satisfied, the transactions cannot be brought under the Lend Lease Act. If an ordinary businessman in England places an order with a businessman in the United States, that is not under the Lend Lease Act. To bring it under the Lend Lease Act, two steps are necessary. First of all some United States Government Department must acquire the goods on this side from the American supplier. Secondly, it must pass those goods to the British Government which, in turn, has to pass them on to an individual firm in the United Kingdom if the ordinary methods of distributing goods are to apply. This, of course, complicates a great many business transactions. It is feasible in very many cases, but now the British are coming to a sort of hard core of cases in which it is simply impossible for that machinery to be worked. Thus, some of the goods which, apart from this question of machinery, could come under the Lend Lease Act and must come under the Lend Lease Act if the British financial position is to be secured, cannot in fact be brought into the framework.

Phillips then passed to the question of their balance. He said the Secretary would recollect that the British were at the stage of pressing Mr. Jesse Jones and the War Department to take over existing facilities and existing contracts to the total of between \$300,000,000 and \$400,000,000. Negotiations with Mr. Jones were proceeding, which cover that part of the field, although it is only a small part of the total. With the War Department Phillips said they could make no progress at all and the British were informed by the War Department that the latter are unable to take over any existing contracts as they understand that it is contrary to the instructions from the White House.

The Secretary asked for more information on this point. He was informed that the British had submitted to us a list of the contracts which it had been thought by the British the Army or Mr. Jones might feasibly take over. This list was dated May 2 and had arrived shortly after letters had been sent by the Treasury to Messrs. Jones and Stimson asking for up to date information as to prospects for taking over British-financed plants and contracts. To these letters we have not yet received reply. The Secretary instructed Mr. Bell to get directly in touch after the meeting with Assistant Secretary of War McCloy to learn just what the position of the Army is in the premises.

Phillips continued that the above-described deadlock would have to be removed by some method or other. That is, he pointed out that some method would have to be found to remove the deadlock in connection with the War Department taking over existing contracts to an amount necessary to give the British working balance.

Phillips asked the question as to whether it is not desirable at the same time to clear up the other problem which he had started off with so that the Army could take over substantially more of British existing contracts, permitting the issuance simultaneously of new and simpler rules as regard future Lend Lease procedure so as to obviate the difficulties which are constantly arising in practice. In other words, the British were asking for a larger capital sum now to cover a reduction and simplification of the material which they could obtain in the future under the Lend Lease Act.

Keynes pursued the argument further by suggesting that the materials which should be included under the Lend Lease Act should be definitely materials of war and raw materials which enter predominantly into war articles, together with agricultural products. He thought that these were the items which the Congress had in mind in approving the Lend Lease Bill.

The Secretary referred to Mr. Keynes' visit of yesterday and asked if he was correct in his understanding that Mr. Keynes desired to make the point that a second Lend Lease Act should be sought. Keynes corrected this impression, saying that only a second Lend Lease appropriation was recommended.

The Secretary assured his visitors that he was at their disposal at any time, upon twenty-four hours' notice. He suggested that they retire to Under Secretary Bell's office for a further discussion, and particularly that they submit a definite list of the items which from the British standpoint should not be included under the Lend Lease Act, and also information with respect to those items which the Lend Lease administrators have so far barred.

Upon leaving the Secretary's office, the group went to Under Secretary Bell's office. There Keynes talked at considerable length upon the importance of the British building up an army in India for use in the critical area of the Middle East. He said that the United Kingdom itself looked after one army which was in that area, and might be principally in India. For the Indian Army there was a complicated financial arrangement, originally negotiated by Sir Frederick Phillips, which provided for a certain sharing and refunding of costs. Keynes had the impression that Hopkins was opposed both to the British lend-leasing for taking care of the requirements which it is obligated to handle in India, as well as direct lend-leasing in behalf of India. He thought it imperative to learn if Hopkins is going to be definitely opposed to all lend-leasing for India and other parts of the Empire, either directly or through the British. If this is the case, either for war materials or commercial needs, or for both, considerable alteration is made on the picture insofar as dollar resources of the British Government are concerned. He thought that non-military items for India, Australia, South Africa and New Zealand might amount to around \$250,000,000 a year.

Keynes reverted to our conversation in the Secretary's office, and again recommended that lend-leasing be "cleanly" for those articles which are definitely envisaged by Congress as falling thereunder, armaments, material for armaments, and agricultural products. He said there was a middle class of articles which it is difficult to say are wholly civilian or wholly military. He cited an example of drop forgings which go into a pool. The third class would be those articles which

- 4 -

are definitely and finally commercial and should not enter under any circumstances under the Lend Lease arrangement. Keynes' point was that the Lend Lease arrangement should not be worked too hard.

When, in the Secretary's office, the question of a new appropriation had arisen, the Secretary told Mr. Keynes that following the initial conversation yesterday, he had asked Under Secretary Bell to give him such information as the Treasury had on hand with respect to the extent to which the \$7,000,000,000 appropriated to implement the Lend Lease Act had been spent or allocated. Mr. Bell gave figures indicating that up until the end of last week allocations amounted to a little over one half of the \$7,000,000,000, while amounts actually disbursed reached only \$500,000. The visitors had made the point that the President had not desired that anything be considered as definitely allocated until contracted. There were various programs definitely decided upon and sums counted upon for carrying out such programs which have not been included in the figures which Mr. Bell had. Thus they were convinced that the total was much further used up by already established programs than Mr. Bell's figures revealed. The point was also developed that his figures included arrangements for China and any other areas benefiting from the Lend Lease Act, as well as Great Britain.

In the meeting in Mr. Bell's office there was some further discussion of these figures, but nothing significant was brought to light. Mr. Keynes promised to begin at once compiling the information which he had brought along that could be included in the memorandum which the Secretary had requested.

The meeting in Mr. Bell's office adjourned shortly after 12 o'clock. At 12:35 Sir Frederick Phillips telephoned me that he would like to have another talk with me. He came to my office at 12:45. He had with him a copy of the letter on the Indian question, which I reproduce herewith.

"The White House
Washington
May 7, 1941.

Dear Purvis:

I do not believe that any requisitions should be filed by the British Purchasing Mission for any defense materiel for India. Under any circumstances this should be handled as an entirely separate proposition. I doubt very much if our Government would want to weaken our own defense by sending materiel there at this time.

I think this would be equally true if there were any requests for re-transfer of materiel to India.

Very sincerely yours,

(Signed) Harry L. Hopkins"

- 5 -

Sir Frederick showed me a copy of a cablegram which he had received from London, after reporting this letter. This cablegram, pointing out the importance of the Indian situation from the British Government's side will be summarized in a future memorandum from the British. I told Phillips that it was not necessary to get the British data which the Secretary had requested to us today, but that we should have it before Monday, and preferably on Friday morning.

In this personal conversation with Phillips alone I went over briefly the visit this morning with the Secretary and asked Phillips to confirm that I definitely understood what the British were seeking. I told him that I understood that:

- (1) They desired that the Lend Lease arrangements be used for purely military and agricultural articles;
- (2) That commercial purchases by individuals in the United Kingdom from private concerns in this country be eliminated from the Lend Lease Act;
- (3) That the British refrain from trying to have included under the Lend Lease Act items for troop training in the United States and for perhaps India and other areas when the American Lend Lease administrators object thereto on political or other domestic grounds;
- (4) That there be taken over by our Government under the Lend Lease Act an amount of goods and plant facilities contracted for prior to the passage of the Lend Lease Act which would be sufficiently large to provide dollar exchange to take care of the articles which are eliminated from the Lend Lease Act under points (2) and (3); and
- (5) That a supplemental appropriation be sought from Congress, that is, in addition to the \$7,000,000,000 now outstanding, to take care of the above arrangements. This means that the British would look to the Secretary of the Treasury for arranging for the taking over under Lend Lease of more than the \$400,000,000 of old contracts and plants heretofore mentioned. The extra funds thus acquired through reimbursement on such contracts would be used by the British to take care of commercial purchases, India, etc. The Army would have to be reimbursed from some source, however, to the extent that such contracts are taken over, so this would mean that much heavier drain upon the Lend Lease appropriation, and would hasten the date by which a second appropriation would have to be obtained. Phillips admitted that the British position was based upon the undertaking which the Secretary of the Treasury gave in a meeting shortly after the Director of the Budget testified on the Lend Lease Appropriation Bill.



THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

5/14

Box 680
Benjamin Franklin Station
Washington, D. C.

Dear Cochran,

I enclose copies of the memorandum which
Phillips promised you this morning.

Yours sincerely,

(s) E. W. Playfair

Mr. H. Merle Cochran,
U. S. Treasury,
Washington, D. C.

MEMORANDUMINDIA AND THE LEASE LEND ACT.

C
O
P
Y

So far as finished munitions are concerned, India's requirements are included in the requisitions put forward by the United Kingdom, but apart from these there are many important classes of goods, such as mechanical transport machinery and material such as steel, which have to be obtained for India from the United States if India is to make the highly important contribution to the war effort which we are expecting from her.

In the first place, in addition to her normal garrison of British and Indian troops, India is raising large new forces and is, of course, responsible for their morale and for their equipment. These new forces already amount to over 300,000 men and they are still expanding. We can greatly increase the number if and when the supply situation allows of it. India has been able to send important forces to serve in the theatres of war in North and East Africa; she has supplied garrison troops for the Far East; and we are basing on India our present operations in Iraq and in the Persian Gulf. Moreover, right from the beginning of the war India has made a most important contribution to the general problem of war supplies. For the past year we have wholly relied on India as the chief source of supply for all Allied Forces in Africa and the Middle East. This is particularly important since the short haul for most of these supplies needed in the Middle East is from India and our shortage of shipping makes it doubly important that we should be able to maintain and develop our supplies from this source. Both for supply and for strategic reasons we have chosen India as the centre of the eastern supply organisation which is designed to co-ordinate and to develop to the maximum the supply resources of all British territories East and South of Suez. The target at which we aim has been fixed for the present at the supply by this organisation of the requirements, excluding a limited list of certain specialised types of equipment, of half a million men, to which we must add substantial requirements for naval purposes and for the repair of ships. With this objective in view, far reaching steps have been and are being taken to expand production in India both of munitions and general equipment, but if we are to be able to exploit to the full the enormous basic internal resources of India she must be able to import finished and semi-finished manufactures and certain materials, and for the greater part of these the United States is the only possible source of supply.

From the financial angle, of course, India is part of the sterling area and any balance of dollars which results from trade between India and the United States is available for other parts of the sterling area to finance their essential requirements from the United States.

Washington, D. C.,
14th May 1941.

COPY - dm

May 14, 1941

Dear Arthur:

I beg to acknowledge receipt of your letter of May 14th with inclosed memorandum, for which I thank you.

Yours sincerely,

(Signed) Henry T

Mr. Arthur B. Purvis, Chairman
British Supply Council in North
America,
Box 680, Benjamin Franklin Station,
Washington, D. C.

May 14, 1941

Dear Arthur:

I beg to acknowledge receipt of your letter of May 14th with inclosed memorandum, for which I thank you.

Yours sincerely,

(Signed) Henry M

Mr. Arthur B. Purvis, Chairman
British Supply Council in North
America,
Box 680, Benjamin Franklin Station,
Washington, D. C.

May 14, 1941

Dear Arthur:

I beg to acknowledge receipt of your letter of May 14th with inclosed memorandum, for which I thank you.

Yours sincerely,

(Signed) Henry

Mr. Arthur B. Purvis, Chairman
British Supply Council in North
America,
Box 680, Benjamin Franklin Station,
Washington, D. C.

*Discussed with
Mr. Purvis by [unclear]
at lunch 5/15*

*adca
-714*

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

317

TELEPHONE: REPUBLIC 7860



Box 680
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

Most Secret

May 14, 1941.

Dear Henry:

Middle East

This is the memorandum which has been filed with the War and Navy Departments, and which I mentioned to you last night.

Yours sincerely,

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

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE: REPUBLIC 7860

BOX 890
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.~~SECRET~~

12th May, 1941

MEMORANDUM TO:

The Honorable The Secretary of War
The Honorable The Secretary of the Navy

Urgent British Requirements
in the Middle East Campaign

You are aware of the purposes of the visit to the United States of Brigadier J. M. Whiteley, representing the General Officer, Commanding-in-Chief in the Middle East (General Wavell).

Arising from the visit of Brigadier Whiteley I have the honour to hand you herewith a memorandum prepared by him, together with various annexures in which are set out certain additional urgent requirements in war material which it is hoped that it may be possible to secure from U.S. sources.

May I emphasize the confident belief that if these ships, aircraft and weapons can be made available in the months of May, June and July, the position in the Middle East theatre will be sustained and the whole of North Africa thus prevented from falling into the hands of the enemy.

Copies of the memorandum and its annexures are being handed separately to the Chief of Staff, U.S. Army, and the Chief of Naval Operations by Major-General Beaumont-Nesbitt and Admiral Danckwerts respectively.

Arthur B. Brown
Chairman,
British Supply Council in
North America

Copy for: The Honorable The Secretary of Treasury

Regraded Uclassified

To: Representative in Washington of Chief of Imperial General Staff.

MEMORANDUM ON MIDDLE EAST

1. The supply position in the Middle East is giving General Wavell considerable anxiety. Apart from the general shortage of equipment, deficiencies have been caused by shortage of shipping and the length of sea communications in addition to losses incapable from active operations. Exceptional measures are therefore essential to remedy this situation, and it is in order to emphasize this fact that General Wavell has sent his personal representative to Washington.

2. The Middle East is of great importance to the British for the following reasons:

(a) The oil bearing areas in Roumania, the Caucasus, Iraq and Iran are within, or within striking distance of, the Middle East.

(b) The Middle East is the frontier zone of the Mohammedan world.

(c) A withdrawal from the Middle East would inevitably shake Turkish confidence and vitiate any hope of eventual Turkish collaboration. Similarly, the position of General Weygand in North Africa and his ability to resist German pressure and infiltration would be entirely undermined, with the resultant German control of Casablanca and Dakar. This would have serious repercussions on the Battle of the Atlantic.

(d) The loss of the Middle East would have a serious effect on British and world opinion.

The British intend, therefore, to defend their interests in the Middle East whilst realizing that failure would have a serious, but not necessarily decisive, effect on the result of the war.

3. The scope of possible United States assistance in the near future has been examined in Washington, and as a result Annexure "A" to this memorandum has been prepared to show the ordnance items which General Wavell would be very grateful to receive should it prove possible to make them available from the United States. Annexure "B" gives a representative list of major items of equipment which it is anticipated will be despatched to the Middle East from the U.K. during the period of the next three months. The principle adopted is to despatch a percentage of monthly production in the U.K. as high as possible compatible with the improvement of the defence of the U.K. itself.

4. The Middle East is far removed from centres of production; moreover, the area is extensive and lacking in communications. There is, therefore, a delay of some three or four months between the shipment of weapons and their delivery in the fighting areas. Equipment to be effective in the Middle East this summer and autumn must, therefore, be shipped without delay.

5. The British Army has a considerable force in the Middle East; but, owing to the lack of certain items of equipment, it can only develop about one half of what should be its fighting strength. Its most pressing needs in ordnance are:

- 2 -

Armoured Fighting Vehicles
Anti-tank Weapons
Anti-aircraft Weapons
Transport
Artillery

Trained personnel to man this equipment is already available in the Middle East.

6. Success in the Middle East depends very largely upon naval and air operations. This memorandum deals with army ordnance requirements only. It should not, however, convey the impression that naval and air requirements are not equally important. It should be emphasized that adequate trained personnel is available in the Middle East for the additional army equipment for which we are asking.

7. To enable him to make his plans, General Wavell would like to know as soon as possible the items which can be made available, and forecasted dates of shipment.

(Signed) J.M. Whiteley, Brigadier,
General Staff, Middle East

6th May 1941.

SECRETANNEXURE "A"

REQUIREMENTS IN MAJOR ITEMS FROM NORTH AMERICA FOR THE
MIDDLE EAST

For Shipments in May, June and July

<u>Serial</u>	<u>Item</u>	<u>Number</u>
<u>Artillery</u>		
1	155 mm. Hows. Hi-speed complete with stores	56
2	Ammunition 155 mm. rounds	490,000
3	75 mm. M.2 Anti-tank guns	400 (a)
4	Ammunition 75 mm. M.2 A.P. rounds	398,000
5	37 mm. A.T. gun	200 (a)
6	Ammunition 37 mm. A.P. rounds	857,000
7	Additional 37 mm. A.T. ammunition for 37 mm. Bofors now in Egypt if Middle East say that U.S. ammunition is suitable - approximately rounds	86,000
8	Equipment for two observation battalions, particulars with B.P.C.	
<u>Armoured Fighting Vehicles</u>		
9	M.3 light tanks - total including May shipments	600
<u>Anti-aircraft</u>		
10	3" A.A. equipments with fire control instruments tractors stores and ammunition at 2000 r.p.g.	200
11	Light A.A. guns - 37 mm. - with fire control instruments and 2000 r.p.g.	180
<u>Coast Defence</u>		
12	Coast defence guns, about 6" with instruments and 500 r.p.g.	3
13	Anti-motor torpedo boat guns, 6 to 12 pdr. with instruments and 1000 r.p.g.	7
14	Coast defence searchlights	23
<u>Transport</u>		
15	Normal types of transport are available in U.S. and Canada in adequate quantities but delivery has been seriously delayed through lack of shipping.	

(a) The total anti-tank guns required is 600 and the totals
of Items 3, 4, 5 and 6 should be adjusted accordingly.

Annexure "A" (Cont'd)

- 2 -

<u>Serial</u>	<u>Item</u>	<u>Number</u>
<u>Transport (cont'd)</u>		
16	10-tonner lorries	700
17	Transporters - 25 ton and 18 ton	350
18	Machinery and tools particulars with B.P.C.	
<u>Engineer Equipment</u>		
19	Air Compressor trucks	20
20	Bridging equipment with transport:-	
	(a) Small box girder sets	30
	(b) Large box girder sets	5
	(c) Heavy pontoon	5
21	Mobile lighting sets 5 K.V.A.	50
22	Water supply equipment engineer - sets	100
23	Welding sets portable	25
<u>Signal Equipment</u>		
24	Wireless sets - particulars with B.P.C.	20
25	Field cable, miles	24,000
<u>The following items of which the B.P.C. have Particulars*</u>		
26	Road and excavating plant	
27	Machine tools	
28	Steel - high speed and mild	
29	Other engineer stores	
30	Survey equipment	
31	Quartermaster (Ordnance) stores	
32	Other signal equipment	
33	Office equipment	

SECRETANNEXURE "B"

UNITED KINGDOM SHIPMENTS OF CERTAIN ITEMS TO
MIDDLE EAST THEATRE OF WAR
(Monthly Average).

The following list shows estimated monthly shipments of major items from U.K. to Middle East theatre for the next few months. These shipments will continue month after month at an increasing rate as the steadily rising curve of British production makes this possible.

In addition, there is constantly and regularly shipped a mass of other materiel such as Vickers Machine Guns, armoured cars, bridging and other engineer equipment, mechanical transports, etc.

<u>Serial</u>	<u>Item</u>	<u>Number</u>	<u>Remarks</u>
<u>Artillery</u>			
(a)	Field Guns	100	
(b)	Ammunition for (a)	350,000	
(c)	Medium guns and Howitzers	8	
(d)	Ammunition for (c)	50,000	
(e)	Anti-tank guns	10	
(f)	Ammunition for (e)	160,000	Including ammunition for 2 pdrs. in Tanks.
<u>Armoured Fighting Vehicles</u>			
(g)	Infantry and Cruiser Tanks	16	Based on a lower percentage of production but in addition to complete Army Tank Brigade of 150 Infantry Tanks about to go out.
<u>Anti-Aircraft.</u>			
(h)	Light anti-aircraft guns	60	Estimates only, based on a percentage of production. The actual guns sent to Middle East are allocated monthly by Chiefs of Staff.
(i)	Heavy anti-aircraft guns	40	
(j)	Ammunition for (h)	150,000	
(k)	Ammunition for (i)	80,000	
<u>Infantry</u>			
(l)	Bren guns	1,000	
(m)	Anti-tank rifles		Few can be spared just yet as owing to enemy action these were put out of production and are only now starting to get back.

ANNEXURE "B" (contd.)

<u>Serial</u>	<u>Item</u>	<u>Number</u>	<u>Remarks.</u>
(n)	Ammunition for (m)	80,000	
(o)	2-inch Mortars	200	
(p)	Ammunition for (o)	250,000	
(q)	3-inch Mortars	140	
(r)	Ammunition for (q)	20,000	
(s)	Pistols	2,500	
(t)	Carriers	200	
(u)	Compressor trucks	12	

12th May, 1941

S E C R E TANNEXURE "C"URGENT BRITISH NAVAL NEEDS IN THE MIDDLE EAST.

The British Naval Commander-in-Chief's most urgent need which could be provided from United States sources is for two 18,000 ton Fast Tankers to operate in the Middle East and thus release tanker tonnage urgently required elsewhere.

S E C R E TANNEXURE "C"URGENT BRITISH NAVAL NEEDS IN THE MIDDLE EAST.

The British Naval Commander-in-Chief's most urgent need which could be provided from United States sources is for two 18,000 ton Fast Tankers to operate in the Middle East and thus release tanker tonnage urgently required elsewhere.

SECRETANNEXURE "D"REQUIREMENTS OF AIR ITEMS FROM NORTH AMERICA FOR
MIDDLE EAST.

(For shipment in May, June, July, 1941.)

- (1) Out of the total requirements, i.e., 588 Fighters, 210 Bombers and 50 Navy Fighters, it was the intention of the British to supply:-

- (a) 500 Curtiss P-40 Fighters, representing their share of the total output of this type for the period.
- (b) British share of total output of Curtiss P-40-D type.
- (c) The total output of Martin 187 type.

Adequate deliveries of (b) and (c) will not, however, materialize; the Martin 187 type being behind schedule for delivery.

- (2) A deficiency therefore arises in British needs from U.S. sources for the period as follows:

- (a) Fighters.

288 P-40 type fighters.
56 spare engines.
56 spare propellers
Aircraft spares.

- (b) Bombers (attack and medium)

110 Douglas A-20 type (unsupercharged)
100 B 25 or B 26 type.
40 Spare engines
40 Spare propellers
Aircraft spares.

- (c) Navy Fighters.

50 Brewster or Grumans
10 Spare engines
10 Spare propellers
Aircraft spares.

12th May, 1941

It is appreciated that these totals may not be available in the time but any substantial portion would be of material assistance.

- (5) U.S. shipping space for the above aircraft would be a necessity for them to reach their destinations within the required time.

May 14, 1941
11:37 a.m.

HMJr: Hello.

Operator: Speaker Rayburn.

HMJr: Hello.

Speaker
Rayburn: Yes.

HMJr: Sam?

R: Yes, Henry.

HMJr: You're a friend in need.

R: Did they come out all right?

HMJr: Yeah. They tell me thirteen to
six or something like that.
So you

R: Well, I got two fellows that were
there....

HMJr: Yeah.

R: To agree to change their votes
which made a difference of four...

HMJr: Yeah.

R: And I got two fellows who were not
there yesterday to agree to go.
Well, that's fine, Henry.

HMJr: I'm ever so much obliged.

R: Well, that's all right. You and
I get along pretty well anyhow.

HMJr: For my I think we get along
wonderful.

R: (Laughs) All right, Henry. Well, fine.
I'm glad it turned out that way for
your sake, and all of us.

HMJr: Thank you.

May 14, 1941
12:05 p.m.

Grace
Tully:

HMJr: How are you?

T: Fine thank you. How are you, sir?

HMJr: Oh, alive.

T: Mr. Secretary, the President said would you be good enough to send over the proposed outline of what you are going to use on Friday, so that he can look it over.

HMJr: I see.

T: And he said also that he hoped very much that you would be able to get the tricky amendment taken out of the gold bill.

HMJr: Well, you can tell him that - just a minute - that's been done.

T: It has been done?

HMJr: Yeah. This morning.

T: Yes.

HMJr: Was a vote on it. Thirteen to six.

T: Thirteen to six.

HMJr: Yeah. Was done this morning.

T: All right, grand. I'll tell him that.

HMJr: And he wants the other thing?

T: Yes. He said if you could send it over he would probably be able to go over it this afternoon. Unfortunately he can't... he isn't seeing, you know, anybody.

HMJr: How's he feeling?

-2-

T: Well, he's feeling pretty well.

HMJr: Good.

T: Feeling much better.

HMJr: Well, at least he gets my letters,
that's something.

T: Oh, yes. (Laughs) He does a little
work in the afternoon.

HMJr: Well, thank you.

T: All right, Mr. Secretary, if you
send it over, we'll see that he gets
it.

HMJr: Thank you.

T: All right, sir.

May 14, 1941
12:06 p.m.

Operator: Mr. Sullivan.

HMJr: John?

John
Sullivan: Yes, Mr. Secretary.

HMJr: Got a call from the White House. The President wants to see your statement of what you are going to give Friday.

S: Yes sir.

HMJr: Will it be finished by three?

S: I hope so, sir. It wont be polished but it will be finished.

HMJr: Will be finished.

S: I ought to talk with you a little bit before then.

HMJr: Before what?

S: Are we going over there?

HMJr: No, no. No - no, he just said to send it over.

S: I see. Well, this is the statement that is drawn in accordance with the instructions of Monday evening.

HMJr: What?

S: This statement is drawn in accordance with the suggestions of Monday evening.

HMJr: Yeah.

S: Pointing out that there were defects in the present law, suggesting four methods of revising it and recommending none.

- 2 -

HMJr: Well, it isn't ready at this
minute, is it?

S: No sir.

HMJr: But will be ready at three?

S: Yes sir.

HMJr: Put the heat on.

S: Yes, the heat is on.

HMJr: Thank you.

S: Yes sir.

May 14, 1941
2:17 p.m.

HMJr: Hello.

Hall
Roosevelt: Hello, Henry?

HMJr: Yeah.

R: Hall Roosevelt.

HMJr: How you do?

R: How you, sir? I want to ask you a question you probably can't answer it. Now, that I'm in the bond business I'd like to take the ad space that I have and put it in on a Defense ad and shift it around from the rental situation to buy it through your banks. I'll read you just about what I think we ought to put in. Be Patriotic, be safe buy U. S. Defense Bonds. Apply to your local savings bank. Am I interfering with anything you have in mind?

HMJr: Oh no. Under what company.....

R: Is that okay?

HMJr: What company is that?

R: H. L. Swan.

HMJr: No. Why, that's all right, sure.

R: All right, my boy, we'll go right ahead and put as much push behind it as we can.

HMJr: Good.

R: We don't want it - we want the fellow to go to his savings bank.

HMJr: Fine.

R: Okay.

HMJr: Thank you.

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R: All right, Henry, that's fine.

HMJr: You bet.

May 14, 1941
3:00 p.m.

RE TAXES

Present: Mr. Helvering
Mr. Sullivan
Mr. Foley
Mr. Tarleau
Mr. Blough
Mr. Bell
Mr. Gaston

H.M.Jr: Well, I will read it first.

Sullivan: That is what I thought.

H.M.Jr: How many of these copies have you got?

Sullivan: That one and three others.

H.M.Jr: Well, supposing you take this one and read it out loud. Have you got one for Guy?

Sullivan: Yes, sir.

H.M.Jr: Supposing I read a page at a time.

Sullivan: Fine.

H.M.Jr: The fact that only twenty-four filed on a

- 2 -

consolidated basis, hasn't that got something to do with the fact that very few of the big companies have returned?

Sullivan: Yes, sir. If I might explain why we put so much of this explanation in here, not only is it an explanation of our tardiness in reporting to the Committee, but we also advise them that only a fifth have already reported and more information is coming in very soon, which gives us leeway in executive session, you see.

H.M.Jr: Do you point out only a fifth?

Sullivan: That is on page 2-A, sir.

H.M.Jr: Oh, I haven't come to that, have I?

Sullivan: That is right.

H.M.Jr: What do you mean, "No disclaimer was filed by two thousand four hundred forty-two corporations"?

Sullivan: Under the law, if they file under both methods of computation, they are not deemed to have selected either. If they file under one method, they disclaim the opportunity to come back later and use the other method.

H.M.Jr: Has Mr. Bell got a copy of this?

Sullivan: No, sir, there are some more on the way up.

H.M.Jr: I like that, where it says it is up to the Committee.

Sullivan: Yes. I think that is not only your idea, but it was specifically requested by Mr.

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Doughton when he left your house the other night that I put in something that would indicate the Committee was not a rubber stamp.

H.M.Jr: That is good.

"Unexcessive profits," is that all right, in the middle of page 3.

Sullivan: "And at the same time that other unexcessive profits."

H.M.Jr: I have never seen that word used.

Sullivan: It means in excess of the standard.

H.M.Jr: I know.

Sullivan: It isn't a good word, but it is the best we have that is descriptive.

H.M.Jr: Is it in the dictionary?

Sullivan: That is descriptive of this present situation.

Tarleau: I have my doubts whether that is in the dictionary.

H.M.Jr: It might perfectly well be, but I have never seen it before.

Sullivan: Suppose we put it in quotes.

H.M.Jr: Well, I would do something. I mean, it is just a - it is a word I am not familiar - I mean, I know what you mean, but I just wondered if you haven't--

Bell: Put the word "not" there. Make it "not excessive."

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- Sullivan: Or "non-excessive."
- Gaston: I think "non-excessive" would probably give greater freedom of usage.
- H.M.Jr: What do you mean "overt generosity"?
- Sullivan: Well, I think that would mean that it was intentional, premeditated.
- H.M.Jr: You mean it was unintentional, don't you?
- Sullivan: No, sir, it was intentional and premeditated.
- H.M.Jr: Then why not say it?
- Gaston: "Overt" doesn't mean intentional. It means open, unconcealed.
- Sullivan: Well, it was. Why not take it out altogether?
- H.M.Jr: I just don't like it. Do you, Herbert?
"Overt generosity." I don't like it. What would you say, "generosity"?
- Sullivan: That is good enough.
- H.M.Jr: If anybody can understand this but another lawyer, I will eat a couple of hats.
- "If excessive profits were determined solely by reference to invested capital, without any consideration of prior earnings, overcapitalization would be rewarded and conservative corporate management would be penalized."
- Sullivan: That means a company that voted a lot of unnecessary bond issues would be allowed a larger rate of return than a company with good management who had gotten along with

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a smaller amount of capital in the business.

H.M.Jr: Maybe the Committee would understand it, but no newspaper reader will know what the hell you are talking about. I know I don't.

This is all so foreign to the way I presented it that there is no use of beginning to pick it to pieces.

"Several arguments may be made for increasing the role of the excess profits tax."

You gave no explanation, no justification for either statement.

Now, take your sentence, "Several arguments," then your middle sentence about the middle group, and then you go back into excess profits. It just don't make sense to me.

Helvering: You mean that second sentence isn't connected with the rest of it?

H.M.Jr: No.

"Several arguments may be made for increasing the role of the excess profits tax."

Then you bring in the middle group and just make a statement, "Our present needs call for very substantial increases in the taxes." It has nothing to do with the previous statement.

Sullivan: That is right.

H.M.Jr: Then under those circumstances, what, because lower income groups have to be taxed, it seems only fair to provide for an excess profits tax?

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Sullivan: Yes, that is the argument that has been made repeatedly in this room in the last week, sir, that since we are increasing the tax on the individual in the lower income bracket, there is all the more pressure for increasing the excess profits tax on the corporations. That is why it is in there, because that has been one of the main themes of our conferences, I thought.

H.M.Jr: No.

Bell: I thought that was an argument for an increase in the normal tax on corporations, too.

H.M.Jr: Who worked on this with you, John?

Sullivan: Mr. Blough and Mr. Tarleau and Mr. Ecker-Racz.

H.M.Jr: You see, you haven't completely sold me on why this present tax is unfair. There is no driving point. There are no examples. It leaves me absolutely cold. A lot of legal - well, I had better not say what I think. I can't send this over to the President.

Sullivan: That is all right.

H.M.Jr: I mean, we have been talking here for so long.

Supposing you gentlemen, all except Sullivan, go in Mr. Bell's room and let John and I have a little talk, will you?

May 14, 1941

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DRAFT OF PROPOSED STATEMENT BY MR. SULLIVAN
BEFORE THE WAYS AND MEANS COMMITTEE

Our purpose in coming here today is to discuss with you the revision of the excess profits tax. On April 24, 1941, when we outlined the Treasury's tax program, I indicated a general need for strengthening the excess profits tax. The Treasury was then unable to make specific recommendations pending the examination of the first set of corporation tax returns filed under the new excess profits tax law.

The delay in our receiving the tax returns, normally due on March 15, was occasioned by the excess profits tax revisions enacted earlier this year, which necessitated an extension in the filing date. The returns at hand today are still very incomplete. This is especially true in the case of the returns of the large corporations. Nonetheless, after examining these limited returns we have a little better comprehension of the tax than we had three weeks ago. Let me summarize what we have found.

By noon of May 14, 1941, 6,023 taxable excess profits tax returns had been received at the Bureau of Internal Revenue. We have tabulated 5,550 taxable returns received through April 30, 1941. Most of these are small corporations, only 42 having excess profits

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of more than \$500,000. We find that 1,789 computed their excess profits credit under the invested capital plan and 3,761 under the average earnings plan. In other words, more than two-thirds of these corporations used the average earnings plan. The proportion was somewhat less for the very smallest corporations (with taxable excess profits of less than \$20,000).

The total excess profits tax of the 5,550 corporations amounted to \$58 million, of which \$48 million was computed under the average earnings method and \$10 million under the invested capital method, or nearly 5 to 1 under the average earnings method.

Borrowed invested capital for companies using the invested capital method amounted to \$149 million out of a total invested capital of \$873 million, or about one-sixth. This means that the total capital, both borrowed and equity capital, was \$1,022 million, of which \$298 million, or nearly 30 percent, was borrowed. Borrowed capital constituted a much larger proportion of total capital for the smallest than for the larger corporations in this tabulation.

The figures on consolidated returns are not very useful since so few of the larger corporations had filed. Out of the 5,550 corporations, 24 filed on the consolidated basis.

Specific disclaimers representing a definite choice of method of computing the credit were made in 3,108 cases, of which 2,195 were under the invested capital method and 913 under the average earnings method. No disclaimers were filed by 2,442 corporations which

-2a-

computed their credits under both plans on the return.

One hundred eleven corporations reported having abnormal income in the taxable year and 131 corporations using the average earnings method reported abnormal deductions in the base period.

With regard to these figures, it should be remembered that they represent less than 20 percent of all the returns we expect to receive. It must be remembered also that they pertain primarily to small corporations. The returns on which 60-day extensions were granted were due last night. These are being rushed to us by air-mail and will be examined as promptly as possible. We may therefore have more information on this subject before you conclude your deliberations. Our principal conclusion is that, in view of the present emergency, the excess profits tax urgently requires revision.

I have been impressed with the fact -- and the people of the country understand it to be a fact -- that in the United States tax laws are initiated by this Committee. With this fact clearly before us, we have examined the many suggestions that have been made for the revision of the excess profits tax and we are here today to submit to you such of these ideas as our experience indicates may merit your consideration.

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I believe that the ideal of excess profits taxation needs no sponsors before your Committee. I am sure that you share the President's determination that no corporation shall be permitted to reap vast untaxed profits from the defense program; and that the Federal tax system must contain provisions which will return to the Treasury appropriate portions of the profits created by public defense spending.

The heart of the problem of excess profits taxation is the definition of normal profits. This is the credit deducted from current earnings in determining the amount of excess earnings. So long as the correct determination of normal profits is wanting, some truly excessive profits will go untaxed at the same time that other ^{now} ~~un~~excessive profits are subjected to tax.

The excess profits tax enacted after careful and lengthy consideration last year prescribed a two-fold standard of normal and of excessive profits. Corporations were given the option of being taxed either on the basis of invested capital or on the basis of their earnings during a four-year base period.

For corporations electing the invested capital method, normal profits were defined as the equivalent of an 8 percent return on invested capital. Corporations choosing the base period earnings method were permitted normal profits, free of

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excess profits tax, in an amount equal to 95 percent of their excess profits net income for the base period.

As a result of this option the number of taxable corporations and the amount of taxable excess profits are far lower than they would be if either of the two methods was employed alone. Although a great number of corporations are benefiting extensively from the defense program, many either are not subject to the excess profits tax or if subject to it are taxable on only a small portion of their profits.

The answer to the ~~quest~~ generosity of the two-fold standard for normal and excessive profits is not its replacement with one or the other single standard. Neither of the two is in itself acceptable.

If excessive profits were determined solely by reference to invested capital, without any consideration of prior earnings, overcapitalization would be rewarded and conservative corporate management would be penalized. At all events, a uniform and fixed rate of return on invested capital is an inadequate standard for determining the normal profits of all the different varieties and classes of corporations that must be taxed. Clearly, a rate of return fair for stable businesses may not be fair to those in risky undertakings. A rate of return fair for well-established

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corporations may not be fair for new corporations. A rate of return fair for large corporations may not be fair for small corporations.

The alternative criterion base period earnings also has its shortcomings. An excess profits tax determined by the average earnings during a base period would exempt many corporations profiting from national defense expenditures merely because their earnings were abnormally high during the base period. The profits in the four years preceding the defense program are not necessarily normal profits. They may have been abnormally high or abnormally low. The tax returns at hand contain many examples of both.

These problems of excess profits taxation are difficult and to our knowledge have nowhere been solved with complete satisfaction. In more normal times when the opportunities for excessive profits are more limited and the Government's revenue requirements are less pressing, it would be, perhaps, the better part of wisdom to probe longer for the right solution before actually imposing the tax. But these are not normal times. The Government's need for revenue is pressing. The situation calls for a practical decision. If it appears that no ideally-perfect excess profits tax is within our reach, then we must choose that structure which will achieve most of our objectives and create the fewest hardships. We propose to present for your consideration several alternatives -- none of which is perfect -- each of which has some advantages.

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1. In the Treasury's \$5½ billion tax program it was proposed that \$954 million be raised from additional taxes on corporations, partly by increasing the corporate income tax and partly by strengthening the excess profits tax.

Several arguments may be made for increasing the role of the excess profits tax. Our present needs call for very substantial increases in the taxes on the lower income groups. Under those circumstances, it seems only fair to provide for the adequate taxation of excess profits created largely by the defense program. You will recall that when the present excess profits tax was enacted our calculations were based on a defense expenditure of \$4 billion. In the past year this figure has been increased ten-fold, and today we face the fact of an impending \$40 billion program.

In order to increase the yield of the excess profits tax, its basic provisions must be strengthened or the rates increased.

One method of attaining this objective is by reversing the order in which the income and the excess profits tax are now computed, and thus returning to the procedure provided in the World War excess profits tax laws. Under this suggestion, recently made to us by the Chief of Staff of the Joint Committee on Internal Revenue Taxation, the excess profits tax would be computed without reference to the corporation income tax and would be allowed as a

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deduction in computing the corporation income tax. This is the reverse of the present practice. Now, the general corporation tax is computed first and is allowed as a deduction in determining the income subject to the excess profits tax. Since the present plan was first proposed the corporation tax rate has been increased to 24 percent and there is before you a proposal to increase it to 30 percent. These increases in the corporate income tax reduce the base of the excess profits tax and in the case of some corporations eliminate it entirely. They present a compelling reason for giving serious consideration to the reversal of these deductions.

Corporations which do not benefit from the defense program and earn no more than they did in the base period are now required to pay their share of the present higher general corporation taxes. It follows, I think, that corporations which earn more during the emergency should not only pay their share of the general corporation taxes but an excess profits tax as well. The present system of deductions prevents this from occurring with respect to substantial amounts of corporation profits.

Reversing the deductions will solve this problem. Changes in the general corporation rates will not affect the excess profits taxes payable by corporations while at the same time the corporation will be protected against paying a normal tax on the amount due the Government as excess profit taxes.

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Lest there be any later misunderstanding, I wish to make it clear at this time that this plan will in effect reduce the amount of the excess-profits credit. It will do this less in the case of corporations filing under the average earnings method than for those using the invested capital method. At the 30 percent corporation income tax rate suggested to your Committee, the proposal would reduce the 8 percent invested capital credit to the equivalent of 5.6 percent in the case of corporations subject to the 50 percent excess profits tax rate. For corporations using the average earnings method and similarly subject to the highest excess profits tax rate, the proposal would effect a reduction in the credit from 95 percent of average earnings to 79 percent.

In the absence of a special provision, the proposal would also reduce the credit allowed new corporations and newly invested capital. Such results could be prevented, in part, by providing that the invested capital used in computing the credit for these corporations be increased by an amount equal to 25 percent of that part of invested capital that is new capital.

Under this proposal, the yield of the excess profits tax would be increased and that of the corporation income tax decreased, with a substantial net gain in the total for the two taxes. The schedule of tax increases which I submitted in my former statement provided for \$534.5 million additional yield from the corporation income tax, \$400 million from excess profits tax, making a total of \$934.5 million from additional corporation taxes. Under the proposal I have just outlined, with no increase in rates, the excess profits

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tax would provide \$662.5 million and the corporate income tax \$273.6 million, or a total of \$936.1 million.

2. There are several other possibilities for increasing the yield of the present excess profits tax. I have already indicated that the determination of taxable profits on the basis of average earnings during the pre-defense period exempts many corporations profiting from emergency expenditures merely because their earnings were high before the defense period. This deficiency could be rectified by replacing the present average earnings and invested capital credits with a credit based on the rate of return in the base period, but in no event to exceed 10 percent. This provision, incorporated in a plan we submitted to your subcommittee last year, combines the invested capital and, to limited extent, the base period earnings concepts. Under the plan, regardless of the level of earnings during the base period, the maximum credit could in no event be more than 10 percent of average base period capital.

This method has been criticized on two grounds. First, the incomes from, and values of stocks which had been selling on the basis of present and expected earnings might be drastically affected, with the result that stockholders who had purchased the stock in good faith might find their investment much more seriously impaired than others who had purchased securities in companies

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whose earnings records were more in harmony with their invested capital. Second, the invested capital being so prominent a part of the plan would have to be determined with great care and on a uniform basis for different corporations.

If it is desired to impose an excess profits tax which will reach the high rates of profits, regardless of the earnings of the base period, this is obviously the way to do it.

3. I have already referred to the fact that under present law a number of large, old, and often overcapitalized corporations, with low earnings records in recent years are benefiting enormously under the defense program. However, even with the increased profits, their rate of return is low. They either are not subject to the tax or are taxable on only a small portion of their profits. Such concerns, as well as others, may properly be called upon to pay additional taxes on their earnings. An additional tax of this type could be imposed in the form of a minimum excess profits tax. This may be accomplished by imposing a minimum income and excess profits tax of 40 percent, with somewhat lower rates for small corporations. The result of this would be that a corporation not subject to excess profits tax would pay a minimum tax

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of 40 percent of its income. The increased corporate tax yield of this minimum tax together with the previously indicated shift in deductions is estimated at \$1,201.0 millions. This figure is comparable with the \$954.5 million increase in corporation taxes previously suggested to your Committee.

There are several precedents for the imposition of minimum taxes of this kind. The Dominion of Canada, for instance, imposes a 75 percent excess profits tax or a minimum tax of 12 percent of total profits before income taxes, whichever results in a greater tax. Great Britain supplements its excess profits tax by a national defense contribution based on income and payable only in those cases where it amounts to more than the excess profits tax.

4. Another method of approaching this problem is to replace the excess profits tax by a 40 percent income tax rate on all corporations. The value of this method lies in the freedom from uncertainty which would result from it. It would avoid difficult administrative problems which loom large in the administration of the excess profits tax. It would reduce the temptation to wasteful corporate expenditures such as over-advertising and excessive salaries to corporate officials, and would eliminate the necessity for special relief to corporations

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on which the excess profits tax would fall in a discriminatory manner.

The certainty and uniformity thus achieved would permit taking of large revenues from corporations while leaving them a more definite incentive to increase their future income. In other words, the rate of the flat corporate tax would never be so heavy on any dollar of income as the excess profits tax rates combined with the normal tax rates would necessarily be on some corporations in order to produce the same amount of revenue.

It is estimated that this plan would produce \$959.8 million.

5. There remains one other possibility. The increases in the individual income tax rates, combined with relatively low taxes on capital gains, tend to encourage the retention of earnings by corporations. The heavy corporate taxes may have similar effects since the corporate management may be constrained to retain the earnings it has left after taxes.

The above problem might be interpreted to call for another undistributed profits tax. If such a tax is imposed, however, it should not be such as to force the distribution of actual cash or property to the stockholders. While such distribution is highly desirable under some economic conditions, the present circumstances call for saving rather than spending. Accordingly,


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the retention of cash in the corporation is not socially undesirable.

The principal objection to the 1956 undistributed profits tax was the enforced disbursement of cash dividends.

Accordingly, if such a tax is to be imposed, it is suggested that it be designed so that corporations will not be forced to distribute cash, provided that the stockholders assent to being taxed on their shares of the corporate earnings.

An undistributed profits tax might be imposed in conjunction with a general income tax or in combination with a general income tax and an excess profits tax. If imposed in lieu of the excess profits tax, in combination with a 40 percent general income tax, it is estimated that it would yield \$1,689.4 million.



THE SECRETARY OF THE TREASURY
WASHINGTON

May 14, 1941.

My dear Mr. President:

I am enclosing herewith preliminary draft of the proposed statement to be made by Mr. Sullivan before the House Ways and Means Committee on Friday, May 16th. This statement has been drafted in conformance with the suggestion outlined in my letter to you on yesterday: to indicate the need for revision of the present law and to show the different ways in which this can be accomplished. In its present state the draft does not indicate the Treasury's preference.

Sincerely,

The President,

The White House.

May 14, 1941
3:35 p.m.

H.M.Jr: Hello.

Drew
Pearson: Hello, Mr. Secretary. Drew Pearson.

H.M.Jr: Go ahead.

P: Didn't need to bother you really. I got that letter down there before 10:00 o'clock and I hope the reaction will be all right.

H.M.Jr: Well, I haven't talked to the gentleman yet.

P: Yeah. Say, here's something I meant to ask you about yesterday. You remember I talked to you about that Toledo Internal Revenue business - Collector.

H.M.Jr: Yes.

P: I talked to Ed Flynn and I've talked to Sherman Minton. Ed Flynn is still on the fence. Minton feels very strongly in favor of Congressman Hunter's candidate. I was wondering in view of the deadlock in the Ohio situation whether that wasn't a situation where the Treasury could sort of act on its own.

H.M.Jr: Well, let me take a fresh look at it, will you?

P: All right. You've got too much to worry about but, I tell you, I'll call up - what's-his-name who was handling that

H.M.Jr: Gaston.

P: Yeah, I may - with your permission I'll tell him a little bit about it.

H.M.Jr: I wish you would.

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P: And if you get a chance sometime you
might push it.

H.M.Jr: O.K.

P: Thanks ever so much.

H.M.Jr: Thank you.

May 14, 1941
3:46 p.m.

H.M.Jr: Hello.

Operator: Miss Tully.

Grace
Tully: Yes, Mr. Secretary.

H.M.Jr: Grace, I cannot send over the statement to the President which has been prepared because I can't endorse it.

T: I see.

H.M.Jr: I'm terribly embarrassed but I just can't send it over, but I want you to assure the President that before any statement is read on the Hill he will have ample time to look at it.

T: All right, grand. I'll tell him that.

H.M.Jr: He'll have ample time but I simply cannot send this one over.

T: All right, sir, then I'll tell him that he'll see it before Friday but you don't know just when it will be.

H.M.Jr: Well, if he doesn't have ample time we'll postpone the hearings.

T: All right, sir.

H.M.Jr: But certainly we're not going to put him on the spot, but I'm on the spot and I feel terrible about it.

T: Well, that's all right. I mean, he just thought that because you would want him to see it before then to see if he had any comments or recommendations was the reason why he said to "tell the Secretary to get it over to me fairly soon and I'll try and go over it."

- 2 -

H.M.Jr:

Well, I thought I could but I've just finished reading it and I can't put my name to it, so I'm not going to take up his time.

T:

All right, Mr. Secretary, I'll tell him.
All right, sir.

May 14, 1941
4:15 p.m.

H.M.Jr: Hello.

Operator: Congressman Doughton.

Robert Doughton: All right.

H.M.Jr: Henry talking.

D: All right, Henry.

H.M.Jr: I've got bad news.

D: What's that?

H.M.Jr: Well, the Treasury isn't going to be ready Friday.

D: Oh, my Lord!

H.M.Jr: Yeah. We haven't been able to get together down here. That's the truth.

D: Well, I thought that you were all just going to come down and submit a number of propositions and kind of leave it to the Committee where - are you not going to come at all, is that the idea?

H.M.Jr: Oh, yes. We're going to come but we're not prepared as to how to present it.

D: Well, of course I can't insist upon your coming until you're ready, understand that, but it is very embarrassing.

H.M.Jr: Well, you can put it right on us.

D: You know you thought you'd come week before last - you told me yourself you'd come Monday up here and then we went on and that didn't come, and then you said the other night you'd come Friday and I've been telling everybody that. They're after me, you know, all the time. Well, have you got any - are you approaching any (laughs) solution of it any way?

- 2 -

H.M.Jr: I think so. I mean, I just feel sick about it; I am sick.

D: Well, it has got out somehow. I never had any reason to believe - but the newspapermen after me yesterday morning said there was out that there was a disagreement between you and Sullivan. I told them I had never heard of anything like that.

H.M.Jr: Well, I haven't seen anything in the papers about that.

D: Yeah.

H.M.Jr: I haven't seen anything in the papers about it.

D: Well, shall we

H.M.Jr: Well, I mean, we'll just have to come up Monday, that's all there is to it.

D: Well, then you see we'll have to go over two or three days to give those - if anybody wants to come in opposition they've got time to kind of load their guns. That was the understanding you know that whenever the Treasury came why then we'd let a little time elapse so that if anybody wanted to come in opposition to it they'd have time to prepare their case.

H.M.Jr: Well, I never felt lower and I've got no excuses, but we're just not ready, that's all there is to it.

D: You just can't come until Monday.

H.M.Jr: Well, it's

D: Well, can I for certain count on you for Monday?

H.M.Jr: Yeah, we'll have to.

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D: Well, all right.

H.M.Jr: We'll have to.

D: (Laughs). Well, all right. Thank you very much. If I can be helpful in any way let me know.

H.M.Jr: Thanks for your charity.

D: That's all right. Good-bye. (Laughs).

May 14, 1941
4:35 p.m.

H.M.Jr: Hello.

Operator: Commissioner Helvering.

Guy
Helvering: Hello.

H.M.Jr: Guy, I wonder if you can help me out. I've reached an impasse between you and me that I just had - I couldn't send Sullivan's statement over to the President. Hello?

H: Yes.

H.M.Jr: And I've had to ask Doughton to give us until Monday now. Now, let me ask you this. You always give me a straight answer. Do you think the present law is all right the way it is on the books now as far as excess profits go?

H: Well, we'd have to increase the rate very materially to raise the amount we were figuring on.

H.M.Jr: Well, I mean, do you think it is a fair law?

H: Yes.

H.M.Jr: You think it is.

H: Yes, I think it is.

H.M.Jr: I see.

H: You won't be able though, Mr. Secretary, to get any additional excess profits tax out of these who get additional income as a result of war contracts. It'll be a flat rate that will hit all of them just alike, but those are the fellows who'll be hit the hardest because they make the largest income.

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H.M.Jr: I don't think I quite understand you.

H: Well, what I mean is the corporations that have these war contracts are going to have to pay a larger income tax with just a straight increased rate and you'll catch them that way although you'll catch the other corporations on account of increased business as a result of the war and no war contracts have a larger income too.

H.M.Jr: Well, how are you going to do that?

H: What? (Pause). But I don't think it's unfair because

H.M.Jr: You mean put a floor in, say, of 40% or something like that.

H: Yeah.

H.M.Jr: You mean keep the present excess profits tax but have a floor in so that you catch anybody under a certain amount.

H: Yes, increase the rate for instance to 40% just like it is now and everybody of course - some of the corporations will contend that they're not getting this as a result of the war but business generally is increasing as a result of the war and the ones who get the big jump-up are the ones who'll make the big contribution.

H.M.Jr: That's right. Well, think about it and if you've got any ideas put it down on paper, will you?

H: All right.

H.M.Jr: I may call on you tomorrow morning sometime.

H: That's all right.

H.M.Jr: Thank you.

May 14, 1941
4:42 p.m.

H.M.Jr: Hello.

Hull's
Secretary: Just a moment, please, Mr. Secretary.

Cordell
Hull: Hello, Henry.

H.M.Jr: Cordell, did you get a letter from
Drew Pearson.

H: Yes, yes. Between three fellows somebody
was wrong but I'm not going to give it
any more thought. I got very direct
information but somebody was wrong out
of three fellows.

H.M.Jr: Well, now, look. Please don't judge me
guilty so quickly.

H: No, I'm going to forget the matter.

H.M.Jr: Because I've told you and tried to prove
to you that I don't go around criticising
other members of the Cabinet.

H: No, and I don't think you would tell
secret proceedings of the Cabinet.

H.M.Jr: Well

H: Somebody does but I don't think you would.

H.M.Jr: Well, I never have and the day that I
do will be the last day I'll ever go to
Cabinet.

H: Well, you have an idea maybe who does;
I think I do, but I never say anything
about it.

H.M.Jr: But, Cordell, don't be always - you know -
thinking I'm the guilty fellow.

- 2 -

H: Well, there have been so many things in the last four or five months that

H.M.Jr: You see, somebody tells you, well, if there is some criticism in the papers it's Morgenthau. Well, now

H: Yeah. Well, I'm going to pay no more attention to that now.

H.M.Jr: Because when you call me up like that it upsets me and

H: Well, that was - of course you know the thing was rotten - the article was rotten.

H.M.Jr: Well, I agree with you. I agree with you.

H: And I had gotten what looked on its face like an absolutely accurate report, but I'm not going to pay any more attention to it because they differ about it.

H.M.Jr: Well, now, don't just - believe it or not I'm not going around and criticising any member of the President's Cabinet.

H: Yes. Well, I hope things will come along.

H.M.Jr: I hope so. Good-bye.

May 14, 1941
4:53 p.m.

HMJr: Hello.

Guy
Helvering: Mr. Secretary.

HMJr: That's me.

H: I wonder - on page eleven and twelve of this memorandum, it suggested another method of approaching the problem on a flat corporation tax.

HMJr: Yeah.

H: I just wondered if you had given that some thought.

HMJr: Well, we have.

H: That's the simplest way to administer it.

HMJr: What's that?

H: That's the simplest way to administer it.

HMJr: Well, there's been a suggestion on flat corporate tax hooking it up with an undistributed profits tax. They seemed to think that that was necessary. I don't know whether it is nor not.

H: Well, that would help the individual of course to increase his tax by getting his dividends and it wouldn't be a bad idea.

HMJr: But, suggestion was made that we make it a high tax, a high undistributed profits tax, so they couldn't hold it and also make it so that they could distribute their profits through stock if they wanted to and keep their tax.

H: Yeah.

- HMJr: See?
- H: But, the simplest way for administration, Mr. Secretary, is a straight corporation tax of, say, 40%.
- HMJr: I agree with you.
- H: Yeah. And for these complications of the results of this excess profits and the way we have to go back and make returns of these other companies in a lot of the cases in things like that is a hard problem. If they had a straight 40% rate on corporations on their income, we would get nine hundred and thirty nine million, and then if they want to put any qualifying phrases on there about forcing them to distribute, well that's all right.
- HMJr: Well, think some more. Maybe you and I aren't at all apart.
- H: Uh huh. But, that would make a very simple administration and we'd get this money collected now while with all these comparatives we have to go into in getting these tables up as to what their income was for the four years and the abnormalities that they would say existed in some of the years and all that, will defer its collection.
- HMJr: I see.
- H: Just a flat 40% on corporate income would get the result of the amount of money we want, I think would satisfy the corporations except some of them would kick on a high rate but that isn't a high rate if they don't have an excess profits tax attached on to it.
- HMJr: Do you think they would have to hook on an undistributed profits tax with it?
- H: Well, we would have to do that to insure them distributing.

- 3 -

HMJr: Well, there you are.

H: Well.....

HMJr: The - one of the best tax men in the country suggested that to me over the week end. That's a straight 40% with an undistributed profits tax to make sure they force the thing out.

H: Yeah, so we get the proportionate tax from the individual.

HMJr: Yeah.

H: That's the best scheme, I think, the simplest of administration and the quickest in collection.

HMJr: Now, so our - what about - have you got some good cases up there showing what's the matter with the present law?

H: Well, I don't know of any right off hand but we just commenced to get those, you know.

HMJr: Well, they are looking it up; suppose you have your crowd look at some.

H: Yeah.

HMJr: See if they have any suggestions of inequality.....

H: Yeah.

HMJr: Of companies.....

H: Yeah, all right.

HMJr: Will you do that? We are going to have something tomorrow morning.

H: (Laughs)

HMJr: Well, let some of your boys work tonight. I don't expect you to.

- 4 -

H: They have all gone, I think. But I'll see if I can get hold of some of them.

HMJr: Well, get them in a little earlier than in the morning.

H: Yeah, I'll do that.

HMJr: Will you do that?

H: Yeah.

HMJr: Thank you.

May 14, 1941
5:06 p.m.

Operator: Mr. Sullivan.

H.M.Jr: John?

John
Sullivan: Yes.

H.M.Jr: I want an estimate of what the Treasury plans proposed last summer on a tax bill, what that would produce in the way of revenue.

S: Yes, I asked for that and I was told it would take two or three weeks.

H.M.Jr: Well, I don't understand it.

S: Well, you see there wasn't any basic information on it last summer, that's why.

H.M.Jr: Well, I should think they would have had it anyway. Didn't they estimate it last summer?

S: On a variety of different proposals we gave them

H.M.Jr: Well, how about the straight Treasury proposals? I mean the one - the 4-10.

S: I don't know. I'll find out if I can get that for you, sir.

H.M.Jr: Well, tell them I'm asking for it.

S: I will, sir.

H.M.Jr: Now, this would be on the coming year.

S: On '41?

H.M.Jr: '41.

S: Right.

- 2 -

H.M.Jr: Thank you.
S: And you want me to call you back?
H.M.Jr: No, no. I'm leaving now.
S: Right. Good-bye.



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

May 14, 1941

372

TO THE SECRETARY:

You asked me this morning to call Mr. McCloy to find out the situation with respect to the War Department taking over under the Lease-Lend Act certain contracts of the British Government in order that the British may get relief from their dollar requirements in this country.

I have talked to Mr. McCloy and he said he understands that Mr. Jones is about to close the agreements with respect to the Tennessee Powder Plant and the facilities for machine guns aggregating approximately \$50,000,000. No money has been paid to the British on this account, but this sum should be paid over to the British within the next week or ten days. He said that Mr. Jones does not feel that it is wise to go forward with the acquisition of any further facilities or any products through the Defense Plant Corporation since the passage of the Lease-Lend Act. The two mentioned were under consideration at the time the Act passed and those are about to be completed.

McCloy said that he talked to you about this the day you went with him to visit the Aberdeen Proving Grounds. You told him at that time that you had made a commitment with the British that they would get relief to the extent of \$300,000,000 or \$400,000,000, first on account of Mr. Jones' taking over the plant facilities, and second on account of the War Department's taking over certain contracts which the British had negotiated. He said that he had been away for a few days and had just gotten back this afternoon and would immediately take up the whole matter. He had in mind going after Mr. Jones to get him to reconsider his position on the plant facilities, urging that he take over as many of these as he possibly can.

He has instructions from Mr. Hopkins that the War Department should not take over any of the British contracts, apparently because of Harold Smith's testimony before the Appropriation Committee to the effect that the British had sufficient dollar resources in this country to pay for the commitments then in existence. He said that the War Department had taken over machine

- 2 -

gun contracts and that there would be paid shortly to the British approximately \$9,000,000. In view of your statement to him during your visit to Aberdeen he said he was again going to take up this question of taking over the British contracts and see if something could not be done to carry out your commitment. He thought it could be done, but if he has any difficulty he will enlist your support, both with Hopkins and with Jones.

swB



DEPARTMENT OF STATE
WASHINGTON

May 14, 1941

My dear Mr. Secretary:

The draft of an over-all agreement to cover defense articles made available to Great Britain under the Lend-Lease Act, enclosed in your letter of April 25, has been under consideration for some time by members of the Department and representatives of the Treasury. The suggestions which have been made are to be incorporated in a new draft which, it is hoped, will be ready for early consideration. I shall get in touch with you as soon as the draft is ready so that we may discuss it.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

1201 MAY 13 6 11 AM '41

RECEIVED DEPARTMENT OF STATE
MAY 14 1941

LS

PLAIN

LONDON

Dated May 14, 1941

Rec'd 1:46 p.m.

Secretary of State

Washington

1919, fourteenth.

FOR TREASURY.

1. Replying to a question in the House of Commons yesterday the Prime Minister made the following announcement regarding the duties to be performed by Beaverbrook:

"The Minister of State will discharge general cabinet duties and the special duties assigned to a member of the Defense Committee of the War Cabinet. The Defense Committee works in two sections: the Defense Committee (operations) and Defense Committee (supply). In future the Lord Privy Seal will act as Deputy Chairman of the former; and the Minister of State of the latter body. The Minister of State will also act as referee on priority questions."

2. The Chancellor the Exchequer replying to a question regarding unit trusts stated:

"I have come to the conclusion that in the national interest units and sub-units issued by unit trusts should be brought within the definition of securities and

regulation 6

-2- 1919, fourteenth from London.

regulation 6 has been amended accordingly. The effect of this amendment and of an exemption order issued concurrently is that unit trusts will not be able, without treasury consent, to issue units and sub-units in excess of the number existing on the 12th May."

WINANT

RR

EH

GRAY

Berlin

Dated May 14, 1941

Rec'd 1:30 a.m., 15th.

Secretary of State,
Washington.

1904, May 14, 7 p.m. (SECTION ONE).

For Treasury from Heath.

The German press today features Finance Under Secretary Reinhardt's exposé of tax returns for the fiscal year ended March 31 last and the forecast of revenues for the present period. Whereas tax revenues for the last fiscal year had originally been forecast at 25,000,000,000 marks revised upward to between 26 and 27 billion marks the actual tax returns were 27.2 billion marks. Tax revenues for the current fiscal year are forecast at 30 billion marks and in addition thereto Reinhardt claims there will be administrative revenues (from state owned enterprises fees et cetera) of 5 billion marks returns of 1.4 billion marks from the war contributions imposed on the municipalities at the beginning of hostilities and 3.6 billion marks from the "matricular" war levy on the protectorate and the war costs indemnities imposed on occupied territories. Thus the Reichs revenues are expected to total 40 billion marks for the present fiscal period

EH -2- 1904, May 14, 7 p.m. (SECTION ONE) from Berlin.

period which figured at par of exchange is roughly equivalent to 16 billion dollars of which in the neighborhood of 1.5 billion dollars will be furnished by occupied territories. The actual burden on the occupied territories will be heavier than the figure indicated since in all cases the Reich has assigned an artificially low exchange rate for the currency of the occupied country.

Reinhardt's exposé gives two other interesting figures; (one) an estimate of the present annual German national income of 100 billion marks and (two) a statement that the debt of the Reich on March 31 last was around 90 billion marks. For the first quarter of this year therefore the Reich debt increased some ten billion marks indicating annual borrowings of 40 billion marks. When to the forecast Reich's tax and miscellaneous revenues of 36.4 billion marks expected to be derived from all accounts during the present fiscal year are added possible Reich's borrowings of 40 billion marks municipal and provisional taxes of possibly 4 billion marks and quasi compulsory labor and charitable contributions and unemployment insurance and pension premiums et cetera
aggregating

EH -3- 1904, May 14, 7 p.m. (SECTION ONE) from Berlin.

aggregating perhaps 5.5 billion marks the state public and semi public institutions will have collected or borrowed a total of 89.5 billion marks which does not come far from matching Reinhardt's estimated national income of 100 billion marks.

MORRIS

CSB

EH

PLAIN

Berlin

Dated May 14, 1941

Rec'd 2 a.m., 15th.

Secretary of State,
Washington.

1904, May 14, 7 p.m. (SECTION TWO).

Reinhardt's exposé shows that property and transaction taxes (including income taxes) yielded 17.7 billion marks in the fiscal year ended March 31 last compared with the 16.3 billion marks the previous fiscal period, custom and consumption taxes 5.4 billion as compared with 5.3 billion, the war surtax on income tax 2.5 billion as compared with 1.1 billion, the war excise tax on beer, tobacco and sparkling wines 1.6 billion as compared with 0.8 billion. The increased tax revenue Reinhardt pointed out were obtained despite cancellation of the tax on increased income at the close of the 1939-1940 fiscal period during which it yielded 300 million marks and a 167 million mark drop in returns from the emigration tax.

The income tax on wages and salaries (Lohnsteuer) yielded 2977 million marks the last fiscal period as compared with 2645 million marks the preceding fiscal year.

The

EH -2- 1904, May 14, 7 p.m. (SECTION TWO) from Berlin.

The returns from this tax for the single month of March 1941, however, were 259 million marks as compared with 203 million marks in March 1940.

The yield of the assessed income tax during 1940-1941 was 5126 million marks as compared with 4347 million marks in the preceding fiscal period or an increase of 18% for the year. The March 1941 return of 885 million marks was, however, 31% above returns in March 1940.

The corporation tax yielded 3476 million marks during the last fiscal year as compared with 3214 million marks during the preceding period an increase of 8.2%. The yield during March 1941 of this tax, however, was 674 million marks 23.4% over the March 1940 figures.

The turnover tax gave 3929 million marks during the year ended March 31, 1941 an increase of 5.3% over the 3733 million marks collected in the preceding fiscal period. In March 1941 the returns from this tax, however, were 274 million marks an increase of 14% over the March 1940 returns.

(END OF MESSAGE).

MORRIS

EMB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

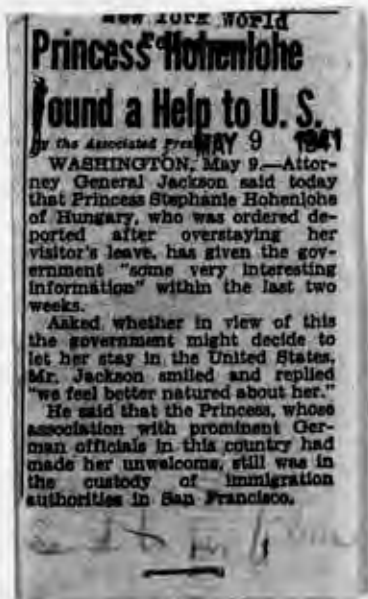
STRICTLY CONFIDENTIAL

DATE May 14, 1941

TO Secretary Morgenthau
FROM John C. Wiley.

Re: Princess Stephanie Hohenlohe.

The attached clipping concerning Princess Hohenlohe may be of interest to you. FBI informs us that they know nothing of the developments in this case, since the matter is entirely in the hands of the Bureau of Immigration and Naturalization. However, FBI expects information shortly from the Attorney General, and will transmit it to us as soon as received.



5/14/41

FROM: MR. SCHWARZ'S OFFICE

383

TO: The Secretary

So far, only the Lief Erickson and Andrew Johnson projects check with the Baltimore Sun. The Scripps-Howard people have their own little campaign on, which is why Lucey was at your press conference Monday.

(C)

GUNS OR MONUMENTS?

WHILE we are talking about saving that billion from non-defense expenditures why not make a start right now with a few millions? Anyone with any business experience knows that the way to cut is to begin with the nickels and the dimes; with the lead pencils and the taxi fares, the stationery and the long-distance telephone calls. That's where you find the dribble. Otherwise you exhaust your energy arguing whether, as in this case, a billion can be saved, and, like as not, decide it can't be done—and so save nothing.

We think a billion is a pathetically small objective to shoot at; that at least two or three billions of loose fat could be pared off, and that in the process our Government would become correspondingly stronger, because we would become leaner and fitter. But it will never be done unless it's done item by item.

So let's consider monuments. Of all the spending proposals at a time like this, these stand out as the most ridiculous.

Already on the monument and memorial list are over \$6,000,000 suggested appropriations. These range from \$1000 for a plaque to the inventor of the steel plow, to \$5,000,000 for a Benjamin Harrison national forest in Indiana, the brainchild of Sens. Willis (R.) and Van Nuys (D.).

Rep. Reece (R., Tenn.), a member of the Republican family of economizers, would spend an as-not-yet-estimated sum for an Andrew Johnson memorial.

Rep. Flannagan (D., Va.) would toss in \$50,000 of taxpayer dough for something nice to commemorate Gen. William Campbell, of the Revolutionary War. An equal sum is urged by Rep. Culkin (R., N. Y.) as a tribute to Maj. Gen. Jacob Brown of Sackets Harbor, N. Y.

Rep. Hare (D., S. C.) is more modest in his appraisal of the services of former Gov. Andrew Pickens as those services relate to a monument to be erected near Edgefield, S. C., but he comes up with another one for \$50,000 for Gen. Andrew Pickens, to be erected at Pendleton, in Rep Hare's state.

Rep. Smith (R., Me.) grows generous to the memory of Maj. Gen. Henry Knox, late of Thomaston, Me., to the tune of 25,000 bucks.

Lief Erickson is sponsored for an as-yet-unmentioned amount by Sen. Nye (R., N. D.), and Rep. Murdock (D., Ariz.) gets sentimental regarding Francisco Vasquez de Coronado. No price yet named.

And so it goes.

Now, just as a practical start toward that much-mentioned billion, we suggest that all these honored dead, who have waited quite a while already, can wait some more. Or, to put it another way, that here is over \$6,000,000 dollars we know damn well can be saved.

May 14, 1941

Messrs. Kuhn and Schwarz
Secretary Morgenthau

I wonder if there wouldn't be some way of getting the Baltimore Evening Sun to syndicate that column for a very reasonable price so that other papers would take it. The column I am referring to is the one that they are running on economy, etc. If we could get several hundred newspapers running that, it would have a very pleasant effect. Please think it over and report to me before noon today.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 14, 1941

TO Secretary Morgenthau
FROM Mr. Schwarz (C)

In accordance with your memorandum this morning, I talked with John Owens of the Baltimore Sun, who reports that they do not do any syndicating but that they are happy to have their stuff reprinted with credit. Therefore, Mr. Kuhn and I shall suggest such reprinting in as many places as possible, aware of course that folks pay more attention to what they buy than what they get free. Mr. Owens was grateful to learn of your interest in their effort and asked that you be informed that Hamilton Owens is in direct charge of the series and that they are being written by Newton Aiken.

May 14, 1941

My dear Mr. Berlin:

I am terribly sorry that I shall not be in town when you are here as I leave after Cabinet on Friday for the country. However, Mr. Kuhn will be delighted to see you between four and five o'clock on Friday.

I am quite excited at the thought that you have some ideas about a song and am really disappointed that I cannot have the pleasure of discussing it with you personally.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Irving Berlin,
799 Seventh Avenue,
New York, N. Y.

Special Delivery

IRVING BERLIN

May 13, 1941

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

Dear Mr. Morgenthau:

Since writing you, I have thought about a song for your Defense Bonds Campaign and think I have something that shows some promise. I told Howard Dietz about it today and he seemed very enthusiastic. However I would like to discuss it with you or someone from your department before making a definite decision.

I am going to Washington on Friday to attend the Boy Scout Rally and will be at the Willard Hotel after four o'clock. Would it be possible to see either you or Mr. Kuhn anytime after four o'clock on Friday or sometime Saturday?

Best wishes.

Very sincerely yours

/s/ Irving Berlin

IB:MG

UNITED STATES SAVINGS BONDS AND SAVINGS STAMPS

CONFIDENTIAL

Daily Sales Since May 1, 1941

On Basis of Issue Price

(In thousands of dollars)

Date	All Bond Sales				Post Office Bond Sales	Bank Bond Sales				Savings Stamps
	Total	Series E	Series F	Series G	Series E	Total	Series E	Series F	Series G	
May 1941										
1 & 2	\$ 35,781	\$ 5,087	\$ 4,678	\$ 26,016	\$ 4,405	\$ 31,377	\$ 682	\$ 4,678	\$ 26,016	\$ 1,145
3	30,401	2,593	3,648	24,160	1,310	29,091	1,283	3,648	24,160	106
5	14,969	2,982	2,087	9,900	1,581	13,387	1,401	2,087	9,900	113
6	14,967	3,845	2,092	9,030	1,607	13,360	2,238	2,092	9,030	91
7	17,802	3,872	2,155	11,775	1,351	16,451	2,521	2,155	11,775	99
8	16,925	4,565	1,210	11,151	1,235	15,690	3,329	1,210	11,151	82
9	15,189	4,011	1,591	9,586	1,156	14,033	2,855	1,591	9,586	81
10	13,800	4,156	1,415	8,229	1,187	12,613	2,969	1,415	8,229	71
12	17,051	4,542	1,578	10,930	1,485	15,567	3,058	1,578	10,930	92
13	19,887	4,374	2,219	13,294	1,220	18,667	3,154	2,219	13,294	92
Total	<u>\$196,772</u>	<u>\$ 40,028</u>	<u>\$ 22,674</u>	<u>\$134,071</u>	<u>\$ 16,538</u>	<u>\$180,234</u>	<u>\$ 23,490</u>	<u>\$ 22,674</u>	<u>\$134,071</u>	<u>\$ 1,973</u>

Treasury Department, Division of Research and Statistics.

May 14, 1941

Source: Division of Savings Bonds. The post office figures are estimated by the post office on the basis of actual sales by 100 larger post offices. The bank figures are taken from Federal Reserve Bank reports and include their own sales.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

DEPOSITS IN TREASURER'S ACCOUNT FROM SALES OF UNITED STATES SAVINGS BONDS (ALL SERIES)

(In Thousands of Dollars)
(Based on Telegraphic Reports)

	TOTAL MAY 1 TO MAY 10	MAY 12	MAY 13	MAY 14	MAY 15	MAY 16	MAY 17	TOTAL TO DATE
Treasury	335	45	9					389
Boston	8,543	2,597	2,011					13,151
New York	13,233	1,868	4,763					19,864
Philadelphia	5,494	1,349	1,573					8,416
Cleveland	9,982	752	1,578					12,312
Richmond	5,044	1,403	523					6,970
Atlanta	3,988	776	564					5,328
Chicago	9,921	2,050	2,682					14,653
St. Louis	8,817	487	955					10,259
Minneapolis	2,600	86	734					3,420
Kansas City	5,964	874	500					7,338
Dallas	4,306	555	447					5,308
San Francisco	5,643	1,389	764					7,796
TOTAL - - - - -	83,870	14,231	17,103					
Cumulative Total	83,870	98,101	115,204					

Office of the Under Secretary
May 14, 1941

DEFENSE SAVINGS STAFF

ADVANCE NOTICE RADIO PROGRAMS

WEDNESDAY, MAY 14

Time: 2:30 - 2:45 P.M.

Station: WRC, Washington, D. C., and National
Broadcasting Company Red Network.

Program: Proctor & Gamble Company "The Guiding
Light".

Time: 7:00 - 7:30 P.M.

Station: WMAL, Washington, D. C., and National
Broadcasting Company Blue Network.

Program: Quiz Kids. Opening and closing announcements.

THESE PROGRAMS PROMOTE SALE OF DEFENSE BONDS AND STAMPS

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 14, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£40,000
Purchased from commercial concerns	£14,000

Open market sterling remained at 4.03-1/4. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 5,000
Purchased from commercial concerns	£ 6,000

The Canadian dollar weakened slightly and closed at 13% discount, as compared with 12-3/4% last night.

The Cuban peso advanced to a new current high of 2-1/8% discount. Yesterday's final quotation was 2-3/16%.

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

Swiss franc	.2321-1/2
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2375
Brazilian milreis (free)	.0505
Mexican peso	.2066

In Shanghai, the yuan was unchanged at 5-11/32¢, and sterling was again quoted at 3.90-7/8.

We sold \$1,700,000 in gold to the Central Bank of the Uruguayan Republic, which was added to its earmarked account.

No new gold engagements were reported.

In London, a price of 23-1/2d was fixed for spot silver, representing a gain of 1/16d. The forward quotation was also 23-1/2d, unchanged. The dollar equivalent of this price is 42.67¢.

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

-2-

We made one purchase of silver amounting to 100,000 ounces under the Silver Purchase Act. This consisted of new production from various foreign countries, and was bought for forward delivery.

We also purchased 300,000 ounces of silver from the Bank of Canada. So far this month our purchases from that source totaled 350,000 ounces, as compared with the agreed monthly limit of 1,200,000 ounces.

The report of May 7 received from the Federal Reserve Bank of New York giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$7,394,000, an increase of \$403,000 in the short position since April 30. Net changes were as follows:

Country	Short Position April 30	Short Position May 7	Change in Short Position*
England**	\$ 648,000	\$ 670,000	+ \$ 22,000
Europe	3,424,000	3,455,000	+ 31,000
Canada	240,000 (Long)	209,000 (Long)	+ 31,000
Latin America	383,000	520,000	+ 137,000
Japan	1,328,000	1,464,000	+ 136,000
Other Asia	1,418,000	1,526,000	+ 108,000
All others	30,000	32,000 (Long)	- 62,000
Total	\$6,991,000	\$7,394,000	+ \$403,000

*Plus sign (+) indicates increase in short position, or decrease in long position.
Minus sign (-) indicates decrease in short position, or increase in long position.

**Combined position in registered and open market sterling.



CONFIDENTIAL

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, May 14, 1941

TENTATIVE LESSONS BULLETIN
No. 104
G-2/2657-235

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.05 (9-19-40) M-B-M.

THE ATTACK ON FESTIEUX AND THE MARCH TO THE AISNESOURCE

This bulletin contains the translation of an article published in the Militärwissenschaftliche Rundschau, authoritative German military journal, in November 1940. The article was translated by the Translation Section, Army War College.

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALSTHE ATTACK ON FESTIEUX AND THE MARCH TO THE AISNE

On May 19, 1940, the 2d Battalion, 75th Infantry, reinforced by the heavy machine gun squad and mortar squad of the 8th Company, was assigned the mission of securing the right flank of the regiment. The company had orders to move out to the right, advance through Montaigu, gain the south edge of the woods two kilometers south of Montaigu, and in that position to secure the regiment over night. The company succeeded in crossing the open plain into Montaigu unnoticed, despite the fact that six hostile tanks had been observed parked under trees two kilometers northwest of Montaigu. Encountering considerable difficulty in crossing the densely wooded ridge south of Montaigu, the company did not reach the designated security zone until 2 A.M. May 20, after covering a distance of 29 kilometers, or 18 miles.

At 8 A.M. the company received orders as follows:

"The reinforced 5th Company will move on to Courtrizy and establish outposts there. Small security elements will push on south to the Reims road."

By 10 A.M. the 5th Company arrived at Courtrizy, and finding the village clear of hostile troops, it established outposts. Two squads had orders to advance to the Reims road. Making their way forward, they drew machine gun and rifle fire from the south, the direction of the Reims road, but the opponent withdrew shortly.

An antitank gun of the 14th Antitank Company arrived and was directed to establish cover against hostile tanks at the Reims road. As the two squads reached the road, the antitank gun clashed with four 18-ton tanks, an armored car, and an armored ammunition carrier which had driven up from the direction of Festieux by following the trail which leads through the woods just south of the Reims road. Replying to the fire of the hostile tanks, the antitank gun shortly was caught between fire from several directions, and its crew was killed. The hostile tanks continued to fire for a while on the security elements along the edge of the woods and then turned back toward Festieux, driving along the Reims road.

That moment, a second antitank gun, which the company commander had ordered forward as soon as he learned that hostile tanks were present, reached the position of the two squads and was directed to a favorable location.

The six armored vehicles of the enemy immediately turned about and resumed their attack on the security elements. The armored car and one of the 18-ton tanks were destroyed by the antitank gun, and the armored ammunition carrier was demolished at close range by two

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hand grenades. The other three hostile tanks escaped in the direction of Festieux. No casualties were recorded on the German side.

By that time, the main body of the 5th Company arrived and was displaced as follows:

One platoon was placed along the edge of the woods just north of the Reims road, front facing south. Two platoons were strung out in the woods southeast of Festieux, one of them occupying the part north of the Reims road, the other that on the south side of the road, and both facing Festieux. The company command post, with a machine gun squad and a heavy mortar squad, was set up close to the location of the platoon on the south side of the road. While the antitank gun remained in its position, the antitank rifle went into position close to the road.

At 1 P.M. the company commander observed, on the road approaching Festieux from the north, a long column of hostile motorized forces, including motorcycles, armored cars, trucks and ten 18-ton tanks. Immediately he ordered the heavy mortar squad and heavy machine gun squad to open fire on the hostile vehicles, which were in the act of deploying at the north entrance of Festieux. The effect of mortar shell, fired at a range of 1,430 yards, was terrific, and the enemy was in confusion.

Some of the vehicles tried to escape. Three tanks left hurriedly; the other seven, with a motorcyclist in the lead, made a dash against the reinforced 5th Company, whose position was favorable, but the motorcyclist was shot down immediately. The leading tank was destroyed by the fire of the antitank gun as it was about to penetrate the line of the company, and the next tank met the same fate. The remaining five tanks turned back into the direction of Festieux, and although one of them went up in flames shortly before reaching the village, its crew escaped.

Four hostile armored cars now could be seen approaching Festieux from the north. At the same time the main body of an antitank company arrived at the command post of the 5th Company on the Reims road and immediately opened fire with all available guns at 2,000-yard range. Although the armored cars suffered but slight damage, the crews deserted their vehicles and fled on foot.

It was now 3:30 P.M., the commander of the reinforced 5th Company decided to launch an assault on Festieux, and by 4:15 the company was in position to attack from the east. The ensuing assault met with only small resistance offered by individual riflemen; the greater part of the enemy was taken prisoner. The four armored cars and a large

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number of motor vehicles fell into the hands of the assault troops without casualties on the German side.

The battalion commander, meanwhile, had received orders to reach the Oise-Aisne Canal at and southeast of Braye-en-Laonnois that same evening. When the battalion took up the advance, it was still without news of the situation on its right and left. Tank and flank attacks could be expected momentarily.

The grass to the right of the road was still bent to the ground - evidence that the French troops had just departed - and the fire in a deserted fire place was still smoldering. Suddenly the commander of the leading echelon of the battalion shouted a warning; a barrier of timber, planks, and trees was blocking the road. The officer, thinking he had seen a movement, brought the antitank gun into position in a matter of seconds and soon a shot rang out and swept part of the barrier away. There was not a sign of life behind it.

Orders called for reaching the objective by daylight, and the battalion had to keep moving, although feet were tired and eyes were smarting from the dust.

Passing through Chemouille, the battalion reached a crossroads at which signs pointed to the Chemin des Dames, Ailette, and Cerny - all names which became unforgettable in the days of the World War.

The battalion marched on through the valley without securing its flanks, heedless of any enemy that might be lurking in the hills on the right and left, and as if by some miracle, the advance encountered no interference. The retreating French forces had left the villages behind them in a state of pillage and destruction.

A wide, paved highway extends through the valley of the Ailette and leads toward the dominating broad ridge along the Chemin des Dames. To the right and left of that road, hardly a spot of ground is left that was not plowed under several times during the World War, and not a single large tree with a real trunk can be seen. Everything in this region had been destroyed by 1917, but now the roots have come to life again and the stumps have grown into bushes. The old shell holes by the side of the road are filled with murky water. Over to the right, there lies an old trench, its walls collapsed, and in front of it is a rusty wire entanglement.

Were the French asleep? Why had they decided to give up this vital ridge without firing a shot? Certainly they remembered its importance from the days of the World War.

When the advance guard of the battalion arrived at the foot of the

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Chemin des Dames, the sun had been down for an hour and the daylight was growing dimmer. The battalion continued its march up the winding road to Cerny, with machine gun fire rattling in the distance.

As the first men of the advance guard entered the village, a shot rang out from one of the houses, with five or six more shots following in rapid succession. A squad immediately went into action, beating down the doors to search the buildings, when a lone French soldier appeared - evidently he had been asleep when his comrades had left.

Still the battalion kept marching. At 10 P.M. the companies branched off into their respective company zones; signal elements followed them, prepared to establish telephone communication at a moment's notice. Either the French artillery was not ready to open fire or it failed to notice the approach of the battalion in the dark. The battalion was able to cross the barren slope along the Chemin des Dames without encountering any interference.

"Forward" was the password of the day. Every step forward meant ground gained - ground which it would not be necessary to wrest from hostile artillery the next day. On the left, there lay the World War cemetery of Cerny - thousands of white, plain wooden crosses.

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Paraphrase of Code Cablegram
Received at the War Department
at 08:45, May 14, 1941.

London, filed 04:00, May 14, 1941.

EXTRACT

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It is reported here that the mission to the United States will contain a large number of persons, including Admiral Godfrey who was until recently Director of Naval Intelligence, also Admiral Little now Second Seaford and Lieut. General Wemyss at present the Adjutant General to the Forces.

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I. Daily Cable.

1. British Air Activity over the Continent.

a. Daylight May 13. Sea-borne traffic off the Netherlands Islands and Norwegian coasts were attacked by British bombers. Bombing missions were also performed over Saint Nazaire and Heligoland. No reports have been received concerning the success of the attacks. Fighter squadrons performed offensive missions over Calais, Cherbourg and Le Toquet.

b. Night of May 12-13. The area surrounding Mannheim and Ludwigshafen was bombed by 100 British planes. A minor operation was performed against Cologne and the Coastal Command attacked Saint Nazaire and Brest.

2. German Air Activity over Britain.

a. Night of May 12-13. German attacks against objectives in Britain were on a smaller scale than for a number of weeks. Only a few planes were observed and there was but one attack reported against Tees and Darwick, with the exception of a minor raid on Moray Firth and single planes over Northolt airfield and Weymouth, Devon and Bristol.

b. Daylight May 13. German air operations were again below normal with a few planes being observed over east Kent.

3. German Air Losses British Theater.

a. Daylight May 13. One plane was shot down over east Kent.

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4. British Air Activity Middle East Theater.

a. Italian East Africa. Daylight May 11. The Italian positions in the vicinity of Amba Alagi and Gondar were bombed.

b. Libya. British planes based on Malta made an attack on a convoy north of Tripoli. One large freighter was believed to have been sunk and a direct hit was observed on one destroyer.

5. Axis Air Activity Middle East Theater.

a. Daylight May 12.

(1) Libya. German planes renewed their bombing of Tobruk.

(2) Malta. A certain amount of damage was suffered at the Dugesi airfield as a result of 3 different raids by German planes.

(3) Iraq. One German He-110 was encountered and damaged by a British Air Force patrol in the first reported clash between German combat planes and the British. It is thought that the plane was based on Syria.

6. Axis Air Losses Middle East Theater.

a. Daylight May 11.

(1) Egypt. An Axis plane was shot down by a British Tomahawk near Alexandria.

(2) Libya. In German attacks on Tobruk 3 planes were shot down by anti-aircraft artillery.

II. The following is a summary of British Military Intelligence information up to May 14.

1. The British campaigns on Abyssinia and Iraq are making successful progress.

2. Seven different columns of Axis troops supported by about 30 armored cars and the same number of tanks attempted to advance in the Sallum area but retreated after having been heavily bombed and machine gunned from the air.

3. The Suez Canal has been opened to traffic from Ismailia to Kantara after several mines had been discovered and exploded.

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