

DIARY

Book 404

June 3 and 4, 1941

- C -

	Book	Page
China		
See War Conditions		
Coast Guard		
Executive Order transferring certain personnel to Navy - 6/3/41.....	404	134

- D -

Defense, National		
State taxation of defense activities - Foley memorandum - 6/4/41.....		344
Cumulative obligations and deliveries - report on - 6/4/41.....		346
Doughton, Robert L. (Congressman, North Carolina)		
See Revenue Revision		

- F -

Federal Housing Administration		
See Financing, Government		
Financing, Government		
Federal Housing Administration: Debenture texts approved by HMJr - 6/3/41.....		138
Finland		
See War Conditions		
Frankfurter, Felix		
Henrich, Frederick K.: Correspondence concerning endorsement for position in library at Hyde Park - 6/3/41.....		152
a) Secret Service report		

- G -

Gasoline (Aviation)		
See War Conditions: Export Control (Japan)		

- H -

Henrich, Frederick K.		
See Frankfurter, Felix		
Hyde Park Library		
See Frankfurter, Felix		

- J -

Japan		
See War Conditions: Export Control (Aviation Gasoline); Japan		
Jews		
See War Conditions: Palestine		

- K -

	Book	Page
Keynes, John Maynard		
Likes HMJr - Frankfurter reports - 6/3/41.....	404	174-A

- L -

Latin America		
Mexico: Hochschild transmits report - 6/4/41.....		365

- M -

Mexico		
See Latin America		

- P -

Palestine		
See War Conditions		
Price Control		
See War Conditions		

- R -

Revenue Revision		
HMJr asks Doughton to clear requests for information from Internal Revenue through Sullivan's office "to keep record straight"; Doughton gladly agrees - 6/3/41.....		125
a) Sullivan returns written request addressed to Helvering - 6/3/41.....		128
Rogers, Cyril		
See War Conditions: China (Stabilization Committee)		

- S -

Silver		
See War Conditions		
Soong, T. V.		
See War Conditions: China		
Spain		
See War Conditions: Silver		
Stabilization Fund		
White, Compton (Congressman, Idaho): Helped Treasury by raising question on the floor of the House how curbing inflation and disbursing the \$1.8 billion in Stabilization Fund can be reconciled - 6/3/41.....		121
State Taxation		
Foley report on defense articles - 6/4/41.....		344

- T -

Tax Research, Division of		
Report on projects during May 1941.....		213
Taxation, State		
Foley report on defense activities - 6/4/41.....		344

	Book	Page
War Conditions		
Airplanes:		
Combat Planes: Comparative statement (January 1931--April 1930) transmitted to HMJr by Lovett - 6/3/41.....	404	147
Shipments to United Kingdom and overseas commands - British Air Commission report - 6/3/41.....		151
China:		
Stabilization Committee: Cyril Rogers - China objects to appointment as British member - 6/3/41.....		175
Soong leaves with HMJr resumé of entire world situation - 6/3/41.....		355
Exchange market resumé - 6/3/41, 6/4/41.....		225,366
Export Control:		
Japan:		
Aviation gasoline shipments again deplored by Ickes and HMJr - 6/3/41.....		131
Finland:		
Reconsideration of indebtedness: Copies of communications between State Department and Minister of Finland - 6/4/41.....		362
a) FDR authorized by Senate to postpone 1941 and 1942 payments - 6/5/41: See Book 40E, page 210		
Japan:		
Schemes linked with "international fish deal": British Embassy transmits translation of documents - 6/4/41.....		347
Military Planning:		
War Department bulletins:		
"Artillery Helps Itself" - 6/3/41.....		227
German Army - miscellaneous notes on - 6/4/41.....		372
Report from London transmitted by Halifax - 6/4/41.....		368
Palestine:		
Enlistment of Jews in British Army: HMJr asks Frankfurter to check on any possible action that may have been taken - 6/3/41.....		174-A
Price Control:		
Minutes of meeting - 6/3/41.....		188
a) Discussion of		
1) Lead - provision for stockpile		
2) Automobile prices		
Security Markets (High-Grade):		
Current Developments: Haas memorandum - 6/3/41.....		190
Silver:		
Spain: Correspondence relative to final settlement for silver purchased by United States in 1938 - 6/3/41.....		135
White, Compton (Congressman, Idaho)		
See Stabilization Fund		

TREASURY DEPARTMENT
Washington

Press Service
No. 25-54

FOR RELEASE, MORNING NEWSPAPERS
Tuesday, June 3, 1941.
7/2/41

The Secretary of the Treasury announced last evening that the tenders for \$200,000,000, or thereabouts, of 91-day Treasury bills, to be dated June 4 and to mature September 3, 1941, which were offered on May 30, were opened at the Federal Reserve Banks on June 2.

The details of this issue are as follows:

Total applied for - \$334,889,000
Total accepted - 200,139,000

Range of accepted bids:

High - 100.
Low - 99.968 Equivalent rate approximately 0.127 percent
Average price - 99.973 " " " 0.107 "

(88 percent of the amount bid for at the low price was accepted)

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TREASURY DEPARTMENT

2

Washington

FOR IMMEDIATE RELEASE,
Tuesday, June 3, 1941.

Press Service
No. 25-55

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 2-1/2 percent Treasury Bonds of 1956-58 and 3/4 percent Treasury Notes of Series D-1943.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

2-1/2 PERCENT TREASURY BONDS OF 1956-58

Federal Reserve District	Total Cash Subscriptions Received	Total Cash Subscriptions Allotted	Total Exchange Subscriptions Received (Allotted in full)	Total Subscriptions Allotted
Boston	\$ 699,489,050	\$ 55,971,300	\$ 65,898,950	\$ 121,870,250
New York	4,012,804,350	321,030,450	525,659,800	846,690,250
Philadelphia	472,505,350	37,898,300	27,031,000	64,929,300
Cleveland	519,213,650	41,571,500	21,112,650	62,684,150
Richmond	307,800,150	24,650,100	43,040,400	67,690,500
Atlanta	341,838,450	27,355,400	6,995,950	34,351,350
Chicago	878,371,900	70,320,150	58,630,500	128,950,650
St. Louis	183,499,500	14,726,300	8,454,650	23,180,950
Minneapolis	110,370,600	8,838,300	6,023,200	14,861,500
Kansas City	123,704,300	9,918,400	11,540,200	21,458,600
Dallas	206,645,350	16,545,300	2,927,000	19,472,300
San Francisco	371,686,100	29,698,800	9,210,650	38,909,450
Treasury	40,325,500	3,226,500	1,100,650	4,327,150
TOTAL	\$8,268,254,250	\$661,750,800	\$787,625,600	\$1,449,376,400

3/4 PERCENT TREASURY NOTES OF SERIES D-1943

Federal Reserve District	Total Subscriptions Received and Allotted
Boston	\$ 20,000
New York	170,000
Philadelphia	310,500
Cleveland	86,600
Richmond	53,200
Atlanta	23,000
Chicago	38,700
St. Louis	68,000
Minneapolis	1,000
Kansas City	78,000
Dallas	60,000
San Francisco	15,000
Treasury	-
TOTAL	\$924,000

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June 3, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Kuhn
Mr. Cochran
Mr. Blough
Mr. Viner
Mr. Thompson
Mr. Haas
Mr. Gaston
Mr. Schwarz
Mr. Foley
Mr. Graves
Mr. Bell
Mr. Sullivan
Mrs. Klotz

H.M.Jr: I just thought Mr. Roy Blough had earned his spurs sufficiently to become a member of the nine-thirty group. We welcome him here.

Dan, this is one on you.

Bell: One on me?
(Secretary hands letter to Mr. Bell)

H.M.Jr: Yes.

Bell: Oh yes. It is answered, isn't it?

H.M.Jr: No.

Bell: It isn't formally answered, but I think the twenty-five Vultee planes are part of it.

- 2 -

H.M.Jr: Well, will you clear up my record?

Bell: Yes. I have that letter here for you.

H.M.Jr: We have got a new follow-up system. It is wonderful. It works on everybody but me.

Viner: Is that its only advantage?

Bell: Its disadvantage.

H.M.Jr: I am going to do some special checking and I wish that you (Thompson) would ask Chief Wilson to make a check-up on everybody that works in the switchboard room. That will be the first one I ask you. Including anybody that comes into the telephone room downstairs, and bank accounts - just as though you were going to employ them new, you see, and tell Mrs. Spangler that you are going to do it, but a complete check-up.

I wish you would find out what the Army and Navy is doing about these badges, which system works well and how it is so that you could put in a system if we wanted to, where to get the badges, you might even get so far as ordering the badges, but have a system ready for the various buildings.

Thompson: We have been considering that.

H.M.Jr: I am not ready to put it in, but I want it all there, the badges and everything. I want a system all worked out in case of necessity so it will be ready.

Bell: Does everybody have identification cards?

Thompson: Practically everybody. Over there in War and Navy, we have checked on that and people can walk in and pick up a badge.

- 3 -

H.M.Jr: I heard a good story of a fellow who had been in the War Department and seeing a half dozen people, and he was talking how he didn't need any badge, he could get anywhere; so when he wanted to get out, they made him go back and spend the rest of the day identifying himself, saying each place he had been and just what he had done there.

What have you got, Norman?

Thompson: I have nothing.

H.M.Jr: Bell, are you going to have a report for me from the field on the tax --

Bell: Yes, it was in yesterday, but I didn't have time to look at it last night. I will just as soon as I get through with my ten-fifteen meeting.

H.M.Jr: Well, it is in the works?

Bell: Yes.

Sullivan: Is that stamps?

Bell: That is the tax certificates.

Just as a matter of interest, General Motors paid their full year's tax yesterday of seventy million dollars.

Sullivan: Well, they had previously paid thirty-two, Dan.

Bell: Yes, thirty-eight in March, and they paid it all in June.

H.M.Jr: What do I do, write a letter thanking them?

Bell: No, I don't think so. It is just of interest.

- 4 -

- Sullivan: They haven't filed either return. They have asked for an extension to September 15, and it may be more or less than that. They paid it to stop the running of interest.
- Bell: This is a letter approving the FHA debentures. This is a letter to the Spanish Ambassador on the silver.
- H.M.Jr: Harold, I read this first news letter, and I think it is a good start. I think that everybody in the room here ought to get one.
- Graves: I think we sent that to everyone in the room.
- Thompson: I read it, and it is very good.
- H.M.Jr: And I would like, Harold, if today you would prepare just a little letter, very short, to send to every member of the Cabinet and also to LaGuardia, and one to Harry Hopkins and one to Mrs. Roosevelt, just to let them know what we are doing.
- Kuhn: That is probably going to look better in future issues, Mr. Secretary. It is going to be printed, perhaps with pictures.
- H.M.Jr: It could.
- Bell: Will it go out also to the independent establishments?
- H.M.Jr: Yes, that is right.
- Graves: We can make a complete distribution if you care to have us to all --
- H.M.Jr: I think so. In that case, these others you can just put on my card, that is all.
- Graves: Yes, that is, those to members of the Cabinet and so on.

- 5 -

H.M.Jr: Yes. Those I will write a letter to. The others I will --

Graves: I see.

H.M.Jr: I would just as lief sign letters. I think it is fairly important. If we are going to do it we might as well do it right.

Bell: There will be about sixty of them.

H.M.Jr: A card.

Bell: That is what I thought.

Graves: You asked me yesterday to report this morning about posters.

H.M.Jr: Yes.

Graves: Well, I found that we were holding up further orders for posters because of our appropriation situation. We have run into a deficiency, over-all, in expenses of loans. We decided yesterday to go ahead, since we are going to have to have a deficiency anyway, and order additional posters.

The orders were placed yesterday. The number of posters that had been received and distributed is a million one hundred seventy-five thousand. We had two hundred ninety thousand on order, and yesterday ordered a million five hundred fifty thousand additional.

H.M.Jr: Which size?

Graves: We ordered a million of that size, (indicating small size) two hundred thousand of the standard size, and fifty thousand of the size double that for billboard use.

H.M.Jr: What is the trouble?

- 6 -

Sullivan: I go on at ten o'clock. May I be excused?

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

Sullivan: There is a matter you wanted to take up with me. Did you see my attorney?

H.M.Jr: Yes. Now wait a minute. "Sullivan is to report to me on the tax suggestions which have been made by Morris Ernst."

Sullivan: Oh, he is coming down to go over the regulations that are being drafted. I reported to you on that last time.

H.M.Jr: Will you make another report after you see Morris Ernst?

Sullivan: Yes indeed.

H.M.Jr: And the Doughton letter.

Sullivan: Yes, sir, that is the one you asked to let set until you got back. I told you my attorney would discuss it with you. We will do it at ten o'clock.

H.M.Jr: Let Roy sit here. I want one person from your outfit.

Where were you?

Graves: I was telling you about the quantities of these posters.

H.M.Jr: Yes.

(Mr. Sullivan left the conference.)

Graves: What we ordered yesterday was a million of the card size mounted, and a quarter of a million unmounted. Two hundred thousand of

- 7 -

the standard size mounted and fifty thousand of that size unmounted, and fifty thousand of the big double posters unmounted.

Now, we got, as you suggested, in touch with the Boy Scouts yesterday and they gave us an estimate of the additional posters which they figured could be distributed to advantage and their estimate was five hundred thousand. They have already distributed a million two hundred thousand.

H.M.Jr: I see.

Graves: And they say that that gives us coverages, as they estimate, on your formula of having on poster in every store window. Of course, they are anxious to avoid any overdoing of this thing. There is a chance for waste or for giving the appearance of waste in poster distribution, and, of course, we are anxious to avoid that, too.

The new poster, dropping the dollar in the map of the United States, is being lettered over at the Bureau of Engraving and Printing. All these that I am speaking of are being ordered on the old design, which by the way, everybody seems to prefer to this new design; but we will begin ordering some quantities of that new poster, probably not until after our new funds are available.

We had our hearings yesterday before the Bureau of the Budget on our estimates for the fiscal year 1942.

H.M.Jr: Yow did you fare?

Graves: Very well, I think. They seemed to understand what we were doing and to approve our program.

- 8 -

You have asked me for the amounts available to the War and Navy Departments for advertising. The appropriations running to the War and Navy Departments are not specific, so our information is on the basis of what they have expended in the fiscal year '41 and intend to spend in '42 for direct advertising.

The Navy Department has no expenditures, either made or contemplated, for paid advertising. The War Department in the fiscal year '41 will have expended approximately a half million dollars, and they estimate that in '42 their expenditures will be about the same, a half million dollars in a year.

H.M.Jr: Well, you and Kuhn and I understand each other. I am not contemplating using any paid advertising.

Graves: No, I understand; and we made that plain yesterday to the Bureau of the Budget. We did, however, say that our present program contemplated no paid advertising but that we might at some subsequent time appear there and ask for funds for that purpose.

H.M.Jr: Dan, what would you think if I wrote a letter to the President and the Director of the Budget and say I think it is a mistake for one department to pay for advertising when everybody else is getting everything for nothing? It is apt to make bad feeling.

Bell: Of course this enlistment is something that has been going on year in and year out. Army and Navy both have advertised in posters.

H.M.Jr: This is in magazines. They are taking half pages of magazines.

- 9 -

- Graves: I have a breakdown of this five hundred thousand.
- H.M.Jr: Yes, I would like it.
- Graves: The amount they have expended or will have by the end of this fiscal year for newspaper advertising, one hundred ten thousand; magazine advertising, one hundred forty-three thousand; posters, twenty-six thousand; motion pictures, twenty-nine thousand; radio transcriptions, thirty-five thousand; billboard and outdoor advertising, one hundred twenty thousand; printed matter and pamphlets and so on, forty-seven thousand.
- Strictly, that last item ought not to have been included in my statement to you, because they undoubtedly do that themselves.
- H.M.Jr: Think about it.
- Bell: That is two hundred fifty thousand for newspapers and magazines?
- Graves: Yes.
- H.M.Jr: Turn it over in your mind, will you?
- Bell: It might cost you something in the end if you get to talking about the others paying for it.
- Kuhn: We are already paying for radio transcriptions in the same amount, aren't we?
- H.M.Jr: I was thinking of newspaper and magazine advertising.
- Kuhn: Then the only properly paid advertising item there is newspapers and magazines, a quarter of a million.

- 10 -

Graves: Well, billboard and outdoor advertising, Ferdie, one hundred twenty.

Kuhn: That is right.

Schwarz: Is that the Air Corps alone or the Army generally?

Graves: This is the Army generally.

White: They can't get any more, I presume, from their selectees if they need more men.

Viner: They want longer enlistments.

Gaston: Three year enlistments.

Graves: Now a couple of other matters. You asked me before you went away to get you the sentence out of our motion picture that you liked. That is the sentence.

H.M.Jr: Yes. I like that. "Build what we need and defend what we build."

Ferdie, could you put this in your file of stuff and then maybe we could use that somehow.

Kuhn: Yes, sir.

H.M.Jr: I think that was good, particularly good.

Graves: You have us down for a meeting with you on Thursday at eleven. I was wondering whether it would suit you just as well to let that go until Friday. Mr. Edwards is out of town and he has never yet been at one of these meetings, and I would like very much for him to be here.

H.M.Jr: Ten fifteen Friday.

- 11 -

Graves: Fine.

H.M.Jr: Anything else?

Graves: That is all.

I have got one thing here. Before you left on the trip, you said when you returned you would like to have the defense savings people play for you ten skits which they have on persons buying stamps and bonds.

That was to be on a Victor record, I think you said, and also the recordings of the song, "Dollars For Defense."

Kuhn: I think that was the - you wanted us to play the little radio plugs that had been done for us by movie stars.

H.M.Jr: That is right.

Kuhn: And we have those.

H.M.Jr: You have?

Kuhn: Yes. In the aggregate, they are not very interesting. As you hear them, one after the other, which you would never hear on the air, they are repetitious.

H.M.Jr: Well, you said that you thought you could play them downstairs.

Kuhn: I believe they can do that.

H.M.Jr: Would you find out?

Kuhn: Yes, sure.

H.M.Jr: Does it need an operator and all that?

- 12 -

Graves: Yes, it needs a play-back machine.

H.M.Jr: You don't think you would take up my time doing that?

Graves: I wouldn't advise you to.

H.M.Jr: Kill it.

Graves: I might on that point say this. We have been criticized somewhat - I think it has been mentioned right here - for stressing in our radio announcements the security and investment aspects of our program, and we are gradually moving away from that in all of our radio business and by the first of July, we are going to completely eliminate the talk about the security of these bonds and the investment yield and that sort of thing, and go wholly to the patriotic motives that are behind this thing.

Mr. Schwarz has had some comment adverse to our publicity at the White House the other day, which he passed on to us. We had already been aware of that and --

H.M.Jr: You are going more patriotic?

Graves: That is right, beginning the first of July. You see, these things are all manufactured a long way ahead of time. We are right now starting on manufacturing the transcriptions for the month of July.

Schwarz: Wayne Coy said that there had been some discussion over there about it.

H.M.Jr: What?

Schwarz: Wayne Coy stopped me and said there had been some discussion over there about they would

- 13 -

like to tie it more into the defense - the patriotic, and I reported it.

H.M.Jr: That is all right, talk about it, step by step.

Graves: That is right, and I think we did it right to familiarize the public first with the technical aspects of these bonds, what they were and what the interest rates were and what the yield was.

Now that we think that has been fully covered, we can move into the patriotic side of the thing.

H.M.Jr: What else, Harold?

Graves: Nothing more except that, as I think I told you, we are meeting today at ten-thirty with the Post Office Department people with a view to increasing the work which they do.

I told you of my talk with the Postmaster General and he said that they wanted to do more in helping with the exploitation of the bonds and we are meeting with them to work out a program this morning at ten-thirty.

H.M.Jr: Harry?

White: I went over to the Budget Bureau and examined that document, if you want to hear about it.

H.M.Jr: Yes.

White: Well --

H.M.Jr: What are you laughing at?

- 14 -

- White: Dan cautioned me yesterday. He said there are only supposed to be two or three who know about it. I can't understand why.
- Bell: I was just telling you what was relayed to me.
- H.M.Jr: Somebody talks here. I am a little suspicious of Jake, but outside of that --
- Viner: I have probably already talked about it.
- White: He may have written it.
- H.M.Jr: He says he probably already talked about it.
- (Laughter)
- White: The order creates an Administrator of Economic Defense and gives him no authority other than to utilize existing agencies and existing powers to prosecute any proposal or plan that he may devise or any of the agencies may devise or to recommend to the President any action or plan or any new legislation, et cetera.
- It follows the usual subscription of authority that is really nothing other than coordination and advisory, but it does put in the hands of one man the responsibility for recommending policy and for seeing that any policy which has been established by the President is carried through.

- 15 -

H.M.Jr: Does it hint who that one man would be?

White: What is that, sir?

H.M.Jr: Does anybody know?

White: Who what?

H.M.Jr: Who the one man will be?

White: No. Harold Smith didn't - said he didn't know. I told him that if the right man was selected, this could be an excellent order. If the wrong man was selected, it could be very perfunctory. It wouldn't get anywhere. He said, "Well, who is a good man," and I said I didn't know.

Viner: It is funny, but I talked about that last night on the train, and then this morning as I got off the train with somebody else. Last night with Leith and this morning with Merriam.

White: They probably will pick the wrong man, so it won't amount to much. (Laughter)

Viner: And Sunday with someone else.

Schwarz: Buried in Sunday's paper was a reference to the President of Harvard. That might make White feel better.

Bell: How about Herbert Gaston?

White: Conant would be one of the wrong men.

H.M.Jr: Anything else, Harry?

White: That is all. Oh, I am sorry. I have to let them know this morning what the Treasury opinion is. I don't know whether it is a question of approval or--

- 16 -

H.M.Jr: Let it slide, let it go.

Schwarz: For the sake of the record, we let Cecil Dickson know what you did say in your press conference.

H.M.Jr: All right. Nothing seems to bother him much.
George? Wait until afterward on those airplanes.

Haas: All right.

H.M.Jr: And you have got how much the Army has for the Bermuda base?

Haas: Yes, sir, Eddie Bartelt got that.

H.M.Jr: But you have it for me there?

Haas: Yes, sir.

H.M.Jr: Gano Dunn's second steel report, are you going to wear wings and not go back at him through me and say what a so-and-so he was and how we gave him those figures about the British needs and he should have known it, or are you just going to - I notice in your annual weekly review to me, God you are noble about it. You don't think we ought to rub his nose a little bit in the dirt?

Haas: You know you asked me to get in touch with him before you wrote this report, which I did. I have already told him that.

H.M.Jr: You have?

Haas: Yes.

Viner: In his second report he says that agencies and experts of the Government now estimate.

- 17 -

He is not taking over. He is sort of protecting himself a little, isn't he, Harry?

White: Who?

Viner: Dunn.

White: Oh, yes, he is trying to back out as gracefully as he can, and what they should do is shoot him. (Laughter)

Schwarz: Permanently?

White: Yes, really. I mean, if there are any such things as merits and demerits in a scale comparable to deserts, shooting would be too good.

H.M.Jr: Any particular spot, Harry?

White: Am I prepared to shoot him?

H.M.Jr: No, do you want to pick the spot?

White: No, I thought he asked me. I took advantage of the opportunity to give vent to my feelings.

Viner: I think another solution would involve even more wide-spread shooting. There are too many statistical agencies in this country so any man can now get any figure he wants, and there is no central place for data in this country.

White: There are too many bum statisticians.

H.M.Jr: Would you (Mrs. Klotz) get Mrs. White and ask her what Harry had for breakfast? (Laughter)

Anyway, George, would you for me - I would like

- 18 -

just a paragraph of what you said as to production and how far short it would fall, and then what Gano Dumsaid in his first report and what he said in his second report.

Haas: O.K. We expressed it, you know, in your letter you sent to the White House. You said no expert knowledge was necessary to know. You didn't give a figure, which is an exact figure - it is a debatable thing. The conclusion remains the same, that there wasn't enough capacity. I will check up and see.

H.M.Jr: What you might do, try your hand at this, as a follow-up letter to the President now. I don't know whether I will send it, you see.

Haas: All right. Your first one I read last night and it looked very good, the one you sent a month ago.

H.M.Jr: Just bring me in the first one and a follow-up letter. I will give you time to do it. How about Thursday?

Haas: I will be glad to.

H.M.Jr: And if you will stay behind a minute.

Haas: All right.

H.M.Jr: Oh, Harold, Jesse Jones wanted to come over and present a bond or something or other.

Graves: Yes, I had your note about that.

H.M.Jr: And?

Graves: Do you want to do anything about that?

H.M.Jr: No.

- 19 -

Graves: I would say not. I think we have done enough of these little--

H.M.Jr: Forget it.

All right, Roy? The kind of thing I expect from you, anything that you are studying in your group there - now, for instance, the kind of thing - I haven't the faintest idea of what this new group has started doing on the over-lapping tax study, state and municipal, federal, and have they got started. I expect you to keep me posted on that, you see.

Blough: I will have to get posted myself first. I think they were to begin yesterday, but I have not seen anything of Dr. Gullick now for a long time.

H.M.Jr: Well, nobody tells me. Anything in the tax field other than what is going on on the Hill.

Blough: You are kept informed of that?

H.M.Jr: Yes, I am, but I mean - now these fellows have fooled around here with this legislation on this state business, I mean the states' right to tax federal contractors. I don't know what has happened on it. Are you familiar with that?

Blough: The last I heard Mr. Foley - Mr. Foley knows better than I. He has been in it since I have - the last I heard, I was in his office and they had made some arrangement to handle it as nearly voluntarily as they could with the states. I don't know of any developments since then to the contrary.

H.M.Jr: You sort of feel your way and sort of watch Harry, you see.

- 20 -

- White: And do something different. (Laughter)
- H.M.Jr: And then you know - well, you get the idea. I mean, if you could sort of be a cross between Harry White and Norman Thompson it would be very good.
- Blough: There are two things I might mention now--
- White: Yes, I think he would do very well if he could achieve that effect. (Laughter)
- H.M.Jr: Go ahead.
- Blough: Two things I might mention now briefly. You may be informed of both of them, one is that Mr. Altmeyer of the Social Security Board would like to have you consider the recommendations he is thinking about and wanting to make to Ways and Means if and when they get done with the tax bill and if and when he can get clearance on it.
- H.M.Jr: I would be - it is all new. And don't forget about Professor Brown at Princeton and his dismissal wage, if you would crowd me a little bit on that.
- Blough: On the Altmeyer point, that probably is something that should take so little time for discussion because he has some rather important recommendations.
- H.M.Jr: Good. Go ahead, please.
- Blough: The other point is that the - Henderson's office, somebody in Henderson's office, has sent over a list of eighteen or twenty commodities which they think should be curtailed, the domestic consumption of which they think should be curtailed, and they

- 21 -

suggest doing it through taxation. They have not indicated, however, the standards by which they have arrived at these particular commodities, and we are having some contacts with them to find out on what basis they have made this recommendation. It isn't official, I think. I think it is not the official level, but nevertheless it is what they are thinking of.

- H.M.Jr: Well, that is the kind of thing, you see.
- Bell: Altmeyer says the President wants to send a message to Congress this week on the Social Security Act, so we really ought to get at it.
- Blough: Is it that soon?
- Bell: He said he wanted to send it this month. Did I say this week? I meant this month.
- H.M.Jr: Dr. Viner?
- Viner: I don't know whether this is of direct concern to the Treasury, but this new administration in Illinois has been investigating their unemployment insurance payments, and there is going to be a big explosion very soon. They say that twenty to twenty-five percent of the payments are illegitimate, fraud payments.
- H.M.Jr: The payees? (Laughter)
- Viner: The payments. The payees, yes.
- Gaston: The benefit payments to claimants?
- Viner: The unemployment insurance. They have got a whole list of ways of getting payments when you are not entitled to them, and I don't

- 22 -

know whether Social Security here - it is the first I heard of unemployment insurance being turned into a racket that way. False discharges, largely, where they are still working, but the collusion between employers and employees where they report themselves as unemployed, or girls going to get married, they get themselves fired instead of resigning, and then get paid for sixteen weeks.
(Laughter)

- White: It is almost worthwhile, isn't it?
- H.M.Jr: This is getting "worsen and worsen." (Laughter)
- Well, now, wait a minute, before you go any further, Jake. It smells a little bit like the laughterhouse. Does this concern us?
- Bell: It concerns Social Security Board. They have an auditing crowd that goes around continually and audits the State setups. I don't know whether they follow the payment through to the ultimate goal.
- H.M.Jr: Is the Treasury working at all?
- Bell: No, it isn't Treasury work.
- Viner: It affects federal payments.
- Bell: That is right, it affects the trust fund monies. They have always had trouble with Illinois and they held up the payments out there one time until they adopted a procedure which--
- Viner: That was on old age.
- Bell: No, I think the unemployment too. They had trouble setting up the organization.
- H.M.Jr: Can't we do something with Viner's information?

- 23 -

Bell: We can--

Blough: Excuse me, Mr. Secretary. It might have this bearing, that if the question ever arose as to turning this into a federal system, this particular information might have some bearing on the desirability of doing it.

Bell: That is what Altmeyer wants to recommend in this new--

H.M.Jr: Who will take Viner's information and put it to use? Who will do that?

Bell: I think the only think we can do will be to relay it to Altmeyer.

H.M.Jr: Who will do that?

Bell: I will do it, if Jake is willing for me to.

Viner: Oh, sure. It is going to be on the front pages of the Illinois newspapers this week, if it hasn't come out today. It is just ready to break, if it hasn't broken today.

Bell: I will call him.

H.M.Jr: Will you take it?

Bell: Yes, sir.

H.M.Jr: Any other good news?

Viner: No.

H.M.Jr: I think I will make that appointment at ten on Friday, Harold, that doesn't crowd the group meeting so much like this morning.

You (Viner) will join us right after this meeting.

- 24 -

There were two things on this English funds I wanted to talk about. What was the other thing?

- Viner: There was what you (Graves) phoned me about.
- Graves: You suggested I talk to Dr. Viner about Sprague.
- Viner: Everybody thinks he would be grand if he would do it. He is very energetic, efficient, respected.
- Schwarz: How old is he?
- Graves: He is about sixty-one.
- Viner: He is not an old man.
- Schwarz: He has a good record.
- Graves: Born in '79, as I recall it.
- Viner: And he is a good Democrat, if that interests you. One suggestion made to me in case he turns you down or you don't want him, of another man, is Philip Clark. Philip Clark did this in the last war as a young man and made his reputation on it in Illinois. He did a cracker-jack job on it, on the liberty bonds, and he is now president of the City National Bank. That is a Dawes' bank.
- H.M.Jr: No, no.
- Anything else, Jake?
- Ferdie?
- Kuhn: Nothing.
- H.M.Jr: Merle?

- 25 -

Cochran: Governor Graham Towers, of the Bank of Canada, was in yesterday evening. He is just going to be in town today and would like to come in and just shake hands with you. It is the first time he has been down in about a year.

Klotz: What is his name?

H.M.Jr: Governor Towers.

Ferdie comes in at two forty-five.

Klotz: You changed it.

H.M.Jr: Yes, but he starts then. Say three thirty.

Cochran: All right, sir.

Foley: You wanted me to remind you about Glass and Barkley. Barkley is still in the hospital but Jimmy Byrnes is on that committee, and I don't think that we ought to go down there unless one or the other is going to be there.

H.M. Jr: Who?

Foley: Byrnes or Barkley.

H.M.Jr: You don't think so?

Foley: I mean before the Committee. I think we ought to be sure that one of those fellows is there and that we talk to either one or both of them before we appear.

The other thing is this Doughton letter that Stam got him to write. The letter is very short. It says, "By virtue of the authority vested in me by the Committee, pursuant to so and so of the Internal Revenue Code, it

26
- 25 -

is respectfully requested that I be furnished forthwith any memoranda prepared in the Bureau of Internal Revenue including the Office of Chief Counsel containing suggestions as to closing loopholes in the income and state tax laws. Respectfully, Stam. Approved, Doughton."

That would create an impossible administrative situation if we had to turn over all of our memoranda to that Committee.

- H.M.Jr: You don't have to sell me on it. It is just a question of getting--
- Foley: I think what you ought to do is to arrange to see Doughton, have him come down or see him up on the Hill and ask him if he will withdraw the letter.
- H.M.Jr: I will do it.
- H.M.Jr: Anything else?
- Do you have much trouble getting into that chair. (Laughter)
- Foley: A little that time.
- H.M.Jr: We will get a bigger chair, Mrs. Klotz. Herbert?
- Bell: We didn't bother you, Mr. Secretary, on Sullivan's statement about it.
- H.M.Jr: He asked me about it, and I said to show it to the crowd.
- Gaston: It might interest you to know, if you don't already know, that the State Department has

- 27 -

arranged with the French Minister to permit two more ships, demobilized French ships, to go to Casa Blanca with general cargos.

H.M.Jr: You know what happens to those ships?

Gaston: The first of them goes Saturday. They have an oral agreement that the ships will return and they expect to have it in writing from the Ambassador. On the way back, they get captured.

H.M.Jr: They get captured on--

Gaston: And one of them on the way over, the Sheherazade.

H.M.Jr: Did that appear in the American papers?

Gaston: I think so.

Schwarz: Yes.

H.M.Jr: It is a beautiful ship.

Gaston: It is a big tanker.

H.M.Jr: You know who was on board? Was that in the paper?

Cochran: The Vice Consul going to Casa Blanca.

H.M.Jr: No, the Italian Admiral who was Naval Attache was on board.

Gaston: Oh, was he?

H.M.Jr: Yes, and he is residing in Bermuda under guard now.

She is a beautiful ship, and she is riding there, and they brought her in with this man on board.

28
- 27 -

Gaston: They had given permission - they had asked us to release that ship and then right after she sailed, they - this speech was made over there, this Petain speech, and then they asked us to hold it if we could. We had her trailed, but she never came into territorial waters. We followed her for about three days, and then she put out to sea from the Florida coast.

H.M. Jr: The gossip there was that they were holding this Italian Admiral to swap him with the Italians for the British Minister to Yugoslavia who has not yet been able to get out.

Anything else?

Gaston: General Maxwell wrote you asking for available information on suspect firms that would be useful to them in their export control. They referred particularly to information which he believed we had in the Division of Monetary Research. We do get some information from various sources, Foreign Funds and Customs and Coast Guard, that would be useful. I have written to Maxwell saying that John Wiley will be the point of contact and collect any information that might be of value to them other than that which the Customs agents are doing for them directly.

H.M. Jr: Anything else?

Gaston: That is all.

H.M. Jr: Bell, I will postpone that until ten thirty, which gives me a minute.

Bell: O.K.

June 3, 1941
10:14 a.m.

HMJr: Hello.

Rixey
Smith: Yes.

HMJr: Morgenthau talking. How are you?

S: Fine, thank you, sir.

HMJr: How's the Senator?

S: He's pretty good, but he's getting degrees today.

HMJr: Oh, he's getting - this is degree week?

S: Degree week. I think he's getting two of them.

HMJr: Good heavens. He's getting to be quite a collector, isn't he?

S: This makes the 14th, I was glad to get the 13th past.

HMJr: Good. This is the purpose of my call. At the Senator's convenience I'd like to talk with him before I come up there to testify on that Stabilization Fund and Gold Devaluation Bill.

S: Yes sir. I think he'd like to talk to you about it too.

HMJr: Well, will you fix it up?

S: Yes sir.

HMJr: He wont be back till next week though?

S: He wont be back till Sunday.

HMJr: May I leave it in your hands?

S: Yes sir.

HMJr: Thank you.

June 3, 1941
10:35 a.m.

RE AID TO BRITAIN

Present; Mr. Cochran
 Mr. Foley
 Mr. Viner
 Mr. Bell
 Mr. White
 Mrs. Klotz

H.M.Jr: All right, gents, at your service.

Bell: You remember we had a conference with Harold Smith the other day and he suggested that we might get out of this three or four hundred million dollar commitment to the British by taking all of the contracts which the British had entered into since January 1, your commitment of a billion four mentioned in the legislative committees being January 1.

We had Phillips in and asked him to give us a list of those contracts, which he has, and they total two hundred eighty-three million dollars, which together with about a hundred million dollars --

H.M.Jr: Two hundred?

Bell: And eighty-three million dollars.

H.M.Jr: Are those contracts prior to January 1?

Bell: No, after January 1.

- 2 -

H.M.Jr: How much?

Bell: Two hundred eighty-three million.

H.M.Jr: That is from January 1 to March 15?

Bell: No, after March 15 up to about May 1.

H.M.Jr: Wait a minute. Why would I be interested in anything after the fifteenth of March?

Bell: Because we were trying to find something that would come up on this three or four hundred million dollars and we thought that all contracts entered into after January 1, which is the date that you gave him the figure, as of which you gave him the figure --

H.M.Jr: This is exclusive of Lend-Lease?

Bell: That is right.

White: That is right.

Bell: Outside of Lend-Lease, and that we could transfer those to Lend-Lease, together with the facilities investment, amounting to about a hundred million, would total three hundred eighty-three million that the British would get relief for.

We discussed that with Oscar Cox and Phil Young and Oscar, after going over the testimony before the committees in Congress, particularly Smith's testimony before the Appropriations Committee, did not feel that they could take over any contracts prior to March 11, although they did take over one - I say although the Navy did take over one entered into on January 8, but they claim that there were special circumstances surrounding that which made it feasible.

- 3 -

Now, Oscar suggests in lieu of your suggestion that we take all contracts after January 1, that we take all contracts after March 11, which will amount to approximately eighty million, plus the facilities investment of a hundred million, making a total of a hundred and eighty; and then there is a contract already taken over of fifty million by the War Department plus the twenty-five million in Vultee planes, making two hundred fifty-three million.

In order to make up the difference between that and, say, three fifty, another hundred million dollars, the War Department could enter into contracts with the same firms that the British now have contracts with and for the identical material and allow the British contracts to stand, but postpone the cash liabilities until, say, '42 or '43, at which time we will have had another Lend-Lease Bill or an appropriation and the commitment made in January and February will have been forgotten, and then we can do something with those contracts at that time.

Now, we have discussed that and that is something that you are doing indirectly that you could do directly and that does look funny.

H.M.Jr: It does?

Bell: And this agenda before you (see attachment 1) gives you first your statements and then Smith's statements, you see. There are your commitments before the committee. That is the first page of that statement.

H.M.Jr: I see.

Bell: Do you want to read it?

H.M.Jr: I want to read just this thing here. I read

- 4 -

everything else but it will just take me one minute to read this thing here, what I said. Supposing you read this out loud, you see, to everybody, those first three pages.

Bell: This is Aid to Canada, March 19, 1941. (See transcript of meeting at 11:28 a.m. on above date.)

Those present were Coynes, Clark, Wrong, Playfair, Pinsent, Phillips, Bell, Cochran, White, and Foley.

"Mr. Morgenthau: Do you mind, Sir Frederick, if I clear up the thing of the testimony first?"

"Phillips: No."

"H.M.Jr: In this thing of the testimony of Mr. Smith, it is not correct, according to my understanding with the President of the United States. The understanding which we had, which I went over with him Monday a week ago, was that we looked to the British Government to pay for all outstanding contracts from the proceeds of the sale of their listed securities, which as of the first of January, were nine hundred million, and their proceeds from South Africa and Australia in gold were four hundred million, or a total of a billion nine. Is my addition correct?"

H.M.Jr: I am sorry. I have a call. I will take it in the washroom. I want to hear you read that.

(Secretary left the conference.)

Viner: Have you got the text of Mr. Smith's statement?

- 5 -

Bell: Yes, it is on the back.

White: Only certain excerpts.

Viner: All that is relevant?

White: Not at all, just some specific things.

Viner: Because it seems to me that it depends on the wording. If Smith said before the submission of the Lend-Lease Bill - but when was the Lease-Lend Bill submitted?

Bell: He didn't say that.

Foley: About the fifteenth of January.

Viner: Then all that has happened is that Smith said "act" when he should have said "bill", and then there is no problem, is that right?

Bell: No, you see Smith was there after the act had been approved and was on the appropriations bill.

Viner: I know, but had Smith said, "Before the submission of the proposal of the Lend-Lease Bill," it would have been all right.

Foley: Then there would be no conflict between what the Secretary said and what Smith said.

Viner: Why shouldn't the Treasury simply face that and say that Smith was wrong, he should have said "bill" and not "act."

Cochran: He checked up with the President and as a matter of fact, he checked here, too. Wouldn't you say he did?

- 6 -

Bell: Yes, but I think that what we were all talking about here was January 1, and we didn't give so much attention to what he might say before the Committee.

Foley: Dan corrected his testimony.

White: Why should the submission of --

Viner: You left it in that way, you mean?

Foley: Yes.

White: Why should the submission of a bill be --

Bell: We didn't talk about the three hundred million.

H.M.Jr: (Returning to conference) I am sorry, gentlemen. I will concentrate now.

Bell: I just read your statement, which said, "Which as of the first of January, was six hundred million. Their direct investments as of the first of January were nine hundred million, and their proceeds from South Africa and Australia in gold were four hundred million, or a total of a billion nine. Is my addition correct?"

"Bell: Something like that, I think."

"Cochran: Well, the gold production went up to five fifty-five."

"H.M.Jr: Is that what it was? Less - now this is where the testimony is incorrect - less what the Army and the RFC would take over of contracts which, according to their letter now is how much, Dan?"

- 7 -

"Bell: Well, potentially four hundred million."

H.M.Jr: Read that last part again.

Bell: "Bell: Less what the Army and RFC would take over of the contracts which, according to their letter, now is how much, Dan?"

And I said, "Potentially four hundred million."

You say, "Let's say between three and four hundred million."

White: May I interrupt, Mr. Secretary? I think that is very important. I don't think it has got - you say "less". That is the commitment which they have. Smith made the statement that they have a certain commitment, and then you say, "But he was incorrect, because he didn't deduct for, he didn't make allowance for, this four hundred million which you are talking about."

This is the first notion - first time that it was mentioned - that that four hundred million was mentioned.

H.M.Jr: I see, in my records.

White: In your records.

Bell: "Cochran: I think that is a little high, because that includes some contracts for which the British are not yet committed."

"H.M.Jr: Let's put it this way. Less what the Army and the RFC could take over, the Army taking over the contracts where you have a down payment on the order, and the RFC taking over those contracts where you have investment in plants. Is that correct? Well

- 8 -

anyway, that is my understanding with the President.

"Bell: Yes, but that wasn't your testimony before the Committee."

"H.M.Jr: As of the first of January. But this is my understanding with the President."

"Bell: Well, I think that is all right, but I don't think you said that before the Committee, and I think if you make that statement before this Appropriations Committee, you will get into difficulties."

"H.M.Jr: I am not. I am telling Sir Frederick what my understanding is with the President."

"Bell: That is all right."

"H.M.Jr: I am telling him what my understanding with the President was and is and still is, and there has been no change in my understanding with the President, and my understanding is that there would be no change unless some circumstance arose, and then we would discuss it again, but I want him to be able to tell this to his government, that the reason we can't testify on this thing is because I made the statement that the British government had practically stopped placing orders, and if I tell them all of this, then I have got to show that you people have been placing about thirty-five million in orders a week, which is not stopping, and my neck would be out so far it might wobble off."

"Phillips: Yes."

"H.M.Jr: But there is no misunderstanding as to what I - what my understanding is with

- 9 -

the President. It is purely between the President and myself, and I have told Mr. Hopkins what it is, so he understands.

"Just another word on it. My understanding with the President is that I am solely responsible to him and nobody else for the liquidation of your contracts up to the fifteenth of March, and from then on Mr. Hopkins takes over on anything that you purchase. This may or may not interest Canada, but it interests England a great deal.

"As I say, I can't say it publicly, because I just don't want to get into this whole explanation, of why you people have been placing around thirty-five million a week."

"Phillips: It is a pity you couldn't have said some such phrase like 'program orders'. Of course the truth was, we haven't placed any new program orders, but there were things like iron and steel and machine tools which are in a continuous progress which we can't obviously discontinue."

"H.M.Jr: When I made the statement, I really believed that all orders would come to a stop."

"Phillips: I think we should have been out of the war by now, or pretty soon, if we had stopped steel or machine tools."

"H.M.Jr: Well, I risked my job by okaying them every day, but I thought it was worthwhile. I have no regrets, but it would be damn difficult to go up and explain it on the Hill.

"I want you to know that we are going to have a private meeting this afternoon with the Vice-President and Senator Barkley and Senator Glass and Senator Adams, and I am going to

- 10 -

explain the thing to them and also tell them I am leaving town tomorrow night for two weeks, not because I don't want to testify but I want - the brain cells have to be allowed to remultiply again. But these gentlemen will know what the situation is. So don't worry too much about what the Budget Director says."

"Phillips: Yes."

"H.M.Jr: Now, I am at your service."

- Foley: What is the date of that meeting, Dan?
- Bell: March 19, just about the time the appropriation --
- Foley: Was that after the bill had passed but before the appropriation bill was up?
- Bell: Just about the time of the Appropriation Committee thing.
- H.M.Jr: That is before Smith testified, too.
- Bell: No, it was after.
- Foley: Was that after?
- Bell: It was after, because you say, "Don't worry about what the Budget Director says."
- White: He made the statement --
- Cochran: That was right on the fifteenth, you see.
- White: He spoke on March 15th.
- Foley: I see. So this meeting with Wallace and the Senate was prior to the deliberations of the Senate Appropriations Committee and after the House Appropriations Committee had heard Smith?

- 11 -

Bell: That is right.

H.M.Jr: Well now, where do we go from here?

Bell: Now, this is a memorandum which you asked to be prepared for this meeting.

H.M.Jr: Yes, I have it here.

Bell: The first page shows what you and the Budget Director told the Congress.

H.M.Jr: Well, how does what he says check with that photostat I have of what the Director and the President said to Jones and the Army to buy up those things? He signed that on March --

Bell: I don't remember what date that was.

H.M.Jr: Well, it was right along in there, March 10 or March 11. Tenth, I think.

Bell: Of course, there is a conflict between that.

H.M.Jr: Well, I think it would be very interesting if you would make a note to, no - you have got that photostat of the President's note?

Bell: Yes, you have got that, Merle, haven't you?

Cochran: I haven't got that.

H.M.Jr: It is around here.

Bell: Yes, I have got it.

White: We have it.

H.M.Jr: Oh yes, everybody has got a copy of it. Well, I mean the point is, I went over and saw the President and he wrote that thing out directing -

- 12 -

it is dated March 10 or March 11.

Bell: If that is the case, it was before Smith's testimony.

H.M.Jr: Personally, I don't see why there is so much argument. The President wrote that to the Army and the RFC that they should buy up this stuff and he did it around March 10 or - March 10 is the date, I think, that he did it.

White: The RFC is all right. They are going ahead and they are willing to go ahead to buy it and there is no problem there because they are merely buying plants and they have got a good reason that doesn't conflict with the testimony at all.

H.M.Jr: They are going ahead?

White: Yes.

Bell: They said they had investigated all these facilities and they were asking RFC to buy all of them. There were certain ones that Jones and Phillips have both agreed that they can't pick up because they are just little items here and there, but out of the hundred and thirty-three they have taken over forty-eight and will pay the British, if they haven't already done it, forty-eight million dollars in cash.

Now, there is about fifty to sixty million dollars more that they can take over and pay the British that much money, which makes around a hundred million dollars out of the hundred and --

H.M.Jr: They could if they wanted to.

- 13 -

Bell: And McCloy says they have asked them to do it.

White: Can and will, that is taken care of.

H.M.Jr: Well, I mean they have got to do it on the President's letter.

Bell: McCloy says they have investigated and they were writing him a letter to do that. That was his last letter.

H.M.Jr: You know a letter came over from Stimson just before I left, which I sent in to you.

Bell: That was the letter.

H.M.Jr: I never read it. I didn't have time to.

Bell: It is in your files.

H.M.Jr: But --

Bell: That was the letter that said that they should take them over, and they were getting in touch with the RFC to do that very thing, and Phillips says that on that basis that he doesn't think that the RFC can pay them more than between fifty and sixty million dollars.

H.M.Jr: But all together how much will they get?

White: A hundred and five.

Bell: A hundred to a hundred and five million. A hundred million I call it.

H.M.Jr: All right.

White: Now, the Army has also taken over some contracts, just as the President probably ordered them to. They already have done that sort of thing.

- 14 -

Bell: That is on page three.

White: Up to fifty million dollars.

Bell: You will find that on page three.

H.M.Jr: Is that in the hundred?

Bell: No, that is additional to the hundred.

H.M.Jr: Can't we get credit for that?

Bell: It is in here.

H.M.Jr: What do I do next?

Bell: Page three if you want to look at the figures.
The first item is the plant facilities for RFC and the second is supply contracts already taken over, fifty million.

H.M.Jr: I see. It is a hundred.

Bell: Now, these supply contracts were entered into by the British after March 11, which Cox says they will have no difficulty in taking over. They amount to about seventy-eight million dollars.

H.M.Jr: Yes.

Bell: And then there is the British Vultee plane contracts transferred to China, which we have asked them to give us credit for, twenty-five. That makes a total of two hundred fifty-three million which there isn't really a lot of difficulty about.

Now, there is a hundred million that we might have some difficulty with, and that is the one that we thought we could get the contracts

- 15 -

between January 1 and March 11.

H.M.Jr: Yes. Well, take the second one.

Bell: Now, Cox says what he wants to do is to enter into contracts by the War Department with the British contractors for the identical material now under contract to the British.

H.M.Jr: I understand that.

Bell: And then postpone the cash payments on those British contracts for a year or two.

H.M.Jr: Well, I think in view of Smith's testimony - I suppose that would be the better way to do it.

Bell: Well, we think that that is finagling a little.

H.M.Jr: That would give them three fifty-three, wouldn't it? And I told them between three and four hundred million.

Bell: I think that would meet your commitment if you could do that.

H.M.Jr: I think that is close enough.

White: Well, that is - if you are going to take that hundred million in the way in which it is suggested, then I think you are skimming it a little thin and that ought to be a little higher because this twenty-five million dollars in Chinese planes wasn't in the picture and the money which they were going to get back on plants and capital, they have regarded not as relief but as something that they would - were going to - they are selling you some plants which they own, so that if you are going to break the ice at all by using this hundred million, I think you might be - push it a

- 16 -

little bit further so they won't have any cause for argument.

- H.M.Jr: Well, let me just correct you a little bit. The money that they were to get from this plant was to be so-called "free dollars", which was my understanding, for them to use in this country for the things - the non-standard things, the difficult things, the non-American standards. That is what it was for, for them to use in any way that they wanted to.
- White: To give them cash.
- H.M.Jr: To use in this country. So what I would suggest is this. The Vultee thing, when I asked them that, if you are going to credit it against this, then they can't also use it, can they, to - can they also use it to buy --
- Viner: No.
- White: They can use it to buy anything they want.
- Cochran: No.
- Bell: They have got to use it to liquidate these contracts.
- H.M.Jr: Yes. Well, that isn't - no. I think I would let the Vultee thing go. I would like that out and let it go toward - let them use it for free cash. Call it free cash. And then if they are going to do the hundred million, it is just as easy to make it two hundred million.
- White: And I think it stops them from any - any claim that you are giving them a little less than the commitment, so I think the question

- 17 -

is whether or not you should do that at all; but if it is done, I am in favor of making it more.

H.M.Jr: I don't see any other way out.

White: Well, I will let Ed speak for himself. He is a little bit troubled by it. There is a way out which I don't think would meet the commitment. It would give them more cash.

H.M.Jr: As I understand, what you are really doing, to boil it down, Dan, you are simply earmarking the next appropriation to the extent of one to two hundred million for them.

Foley: You are doing more than that.

Bell: No, I think what you are doing is postponing the day of reckoning with the British with the American contractor in the hopes, I think on the part of Oscar Cox, that you will have in the next few months, a new Lend-Lease appropriation and in 1942 when you have to meet this bill, everybody will have forgotten about this commitment and you can take them over under the new appropriation bill, new Lend-Lease Bill. If the war ends, the British can liquidate them on a small cash payment basis.

Cochran: The question is whether the British will be satisfied with this type of relief. It still leaves them finally obligated to the private concerns while they are desirous to get all the obligations on long terms toward the Government under Lease-Lend.

H.M.Jr: That is all very nice, but somebody else give a better suggestion than that.

Cochran: Well, this is the best we can think of. I am just putting it up.

- 18 -

H.M.Jr: Well, what the hell?

White: This will solve the problem for two or three years, and then they may make a settlement, but they still have that obligation. I think they would like that better than what Jake was talking about Merle - in view of this new bill, providing for cash to loan against their security. I think they would like that less.

Cochran: Oh, they don't want that.

White: Although that would give them cash.

Foley: It is a more legitimate way to do it.

H.M.Jr: What is the more legitimate way?

White: Of giving them cash, yes. It is not only more legitimate, it is legitimate.

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

Bell: It is not relief.

Cochran: It is not relief.

Foley: You are not taking them out of the contracts. You are supplying them with dollars with which to meet the contracts.

H.M.Jr: This postpones the payment. My God, how can you tell three months to six months ahead? This gives them relief for the rest of the year.

White: Oh, it gives them relief to the end of the war, Mr. Secretary.

H.M.Jr: Then what the hell, it is good enough.

- 19 -

Bell: Then they will have a settlement to make with the American contractors on some small basis.

Viner: What do you mean by some small basis?

Bell: Well, just cancel the contracts.

White: Why should the contractors cancel the contracts?

Bell: Well, they did during the last war.

White: Well, if they want to be that generous they can, but they have got the British contracts and they can hold them to it.

Foley: He means at the end of the war, Harry.

White: Well, I still say if they have got a fifty to a hundred million contract with the British government, they can make a settlement.

Bell: Twelve months from now everybody will have forgotten about it.

White: Contractors haven't forgotten about it.

H.M.Jr: This is marked ten. Haven't you people seen this?

Bell: Yes. (see attachment 2.)

White: I remember you referred to it.

H.M.Jr: "Because of the general financial picture, can you hurry up (a) RFC taking over of British payments made for plants (b) War Department taking over of materiel payments."

White: Materiel payments made to the British?

H.M.Jr: Taking over materiel payments.

- 20 -

White: It doesn't make sense.

H.M.Jr: Sure.

White: Unless you mean - unless you mean down payments.

Viner: He is taking over the responsibility of making payments for materiel purchased by the British.

H.M.Jr: Sure.

White: Well --

Viner: Taking over the task of making materiel payments.

Bell: That went to Stimson and to Jones.

H.M.Jr: Now, what the hell --

Bell: Now a letter which Stimson wrote to you, as I recall the last paragraph said they felt that any further action on the part of the War Department to take over contracts would have to come from the President.

H.M.Jr: But what the hell does he keep talking about? Here he has got it in writing from the President.

Bell: That is right.

(Miss Chauncey entered the conference with a transcript of a telephone conversation between the Secretary and Harry Hopkins on March 12, 1941, at 9:03 a.m.)

H.M.Jr: Does Mrs. Klotz know about this? Who has been studying this thing?

Chauncey: Well, I just brought it in in connection with that.

- 2 -

- H.M.Jr: But I have been waiting on this for two weeks in connection with this thing, anything that has anything to do with the British treasury payment thing. Why hasn't it been done, Miss Chauncey?
- Chauncey: We gave you the March 19 transcript which you referred to.
- H.M.Jr: But I asked for a study to be made on this whole thing. It is damned funny why you didn't tell Mrs. Klotz this. Here is the whole thing in here.
- (Mrs. Klotz entered the conference.)
- H.M.Jr: Mrs. Klotz, Miss Chauncey now gives me practically the missing link on this English payment thing dated March 12 between Harry Hopkins and myself, and I asked her why she didn't give it to you.
- Klotz: What did she say?
- H.M.Jr: It was an important document like this. I mean here is the whole business about the six hundred and the nine hundred and the whole business.
- Klotz: Did we have it before?
- Chauncey: We have always had it.
- Klotz: Didn't you give it to me? Well, I can't explain it right now.
- H.M.Jr: Would you have Miss Chauncey go in your room? I mean, before I left I asked --
- Klotz: I know.
- H.M.Jr: To have a study made of this thing, and now

- 22 -

when I ask for this, Mrs. Klotz, I get this.

Klotz: I know. We have all been looking for everything that you need. We are at fault. Our system isn't good.

H.M.Jr: I asked her whether she had brought it to your attention and she hadn't.

Klotz: Our system isn't awfully good, I am finding that, because you see it is all in the index thing and that is why they can't find it.

H.M.Jr: But Miss Chauncey has had this thing for how long?

Chauncey: I have had it all the time.

H.M.Jr: But you knew about it.

Klotz: They didn't. I think she just came across it today. It is really the fault of the index.

H.M.Jr: You have known what, two weeks?

Klotz: We will work it out.

(Mrs. Klotz and Miss Chauncey left the conference.)

Bell: What date is that?

H.M.Jr: March 12. Let me read it.

White: It is unfortunate. Probably they couldn't locate it because I asked her several times to be sure to get anything that bore on this.

Bell: I think Mrs. Klotz is right. It is the index system she uses.

- 23 -

H.M.Jr: She is protecting Miss Chauncey. Miss Chauncey has had it. She is just protecting Miss Chauncey.

Bell: It is quite a job indexing all of these things. It is a very voluminous thing.

H.M.Jr: Well, look here, let me read it.

"My boys told me that they got the impression that you and Purvis were talking about the possibility of taking over some of their existing contracts."

This was the twelfth.

"Hopkins: Well, we told Purvis last night that there wasn't going to be any of that done so far as the boys said they knew."

"H.M.Jr: Well, I just wanted to emphasize it, because I'm having a devil of a time with them, you see, and past contracts I consider sort of my responsibility opposite the British Treasury."

"Hopkins: Well, that's what I told him. I told him I had nothing to do with that."

"H.M.Jr: And it has nothing to do with Purvis; it's between Phillips and me, you see. I just wanted to make sure that you and I understood each other."

"Hopkins: Well, I understood that, Henry."

"H.M.Jr: Well, I wasn't sure, and if that memo that you said you had for me from Kingsley Wood....."

"Hopkins: Oh gosh, I'd forgotten to give it to you. I'll get it out this morning, Henry."

- 24 -

"H.M.Jr: Will you do that?"

"Hopkins: Yeah. Now, I want to ask you something about this thing. Now, under the section of the bill that refers to the billion three - not the appropriation bill - now in that section of the bill, as I understand it, this stuff, if the President wanted to, he doesn't have to get a quid pro quo for it. The billion three I'm talking about."

"H.M.Jr: Yeah, I'm listening."

"Hopkins: Now, on the other hand, while this appropriation bill is going through, I think it would be great for public opinion for us and sensible for the British too, if there could be a quid pro quo worked out, where some of this stuff that now exists - some of this old stuff - that is going to the British...."

"H.M.Jr: I'm listening."

"Hopkins: Now, is there any chance of getting one or two things shown so that the American people would not think all of this stuff is simply being given to the British?"

"H.M.Jr: Such as what?"

"Hopkins: Well, I understand that - let's say that the British have a stake now in, take the Memphis plant that - that they would transfer us their interest in that Memphis plant without our giving them any dollars at all."

"H.M.Jr: Well, now, let me explain that to you."

"Hopkins: Is anything like that a possibility?"

"H.M.Jr: Well, I went into this at great length

- 25 -

for the President Monday. See? Now, are you so you can listen for a couple of minutes?"

"Hopkins: Yeah, I haven't got a thing to do."

"H.M.Jr: Well, let me just go over this - the financial part - which I take it, he still holds me responsible for."

"Hopkins: That's right. He told me yesterday he wanted you to do all of it."

"H.M.Jr: Well, it's just one of those things; it's so vast and so difficult; it's either with me all or nothing, you see."

"Hopkins: Yeah."

"H.M.Jr: Now, here is the situation on British payments - I'll come to the plants last. They've got a certain amount of - the South African and Australian gold is pledged to us for existing contracts; that's No. 1. Marketable securities, listed securities, which were six hundred million; that's No. 2. Factories which they own, like Lux Soap and Viscose, nine hundred to one billion, you see. Now, all of those I told Congress were pledged and would be liquidated against existing contracts, amounting to about one billion four, as of on the first of January."

"Hopkins: Yeah."

"H.M.Jr: That's one picture against existing contracts. Now then, they come along and they say, 'We're hard up for cash,' so the Army works out a formula whereby they'll take over English contracts where they have down payments - they've made twenty-five percent down payments, see - and they are in the process of doing that."

- 26 -

"Hopkins: Is that through the defense appropriations, or is it through the regular Army appropriations?"

"H.M.Jr: No, through regular Army appropriations."

And I was right on it, wasn't I?

Foley: Yes.

Bell: I think you were right.

H.M.Jr: "H.M.Jr: No. 2. Jesse Jones is in the process of negotiating for one hundred thirty-four millions of monies to put in plants, and the No. 1 thing he's working on is the DuPont Powder Factory. The money that they get from Jones and from the Army, we have told them that they can use that money for anything that they want. You see?"

"Hopkins: Yeah."

"H.M.Jr: Was that a belch?"

"Hopkins: Yeah."

"H.M.Jr: God bless you!"

"Hopkins: I get it."

This is all right.

White: Is this over the phone?

H.M.Jr: Yes.

Foley: I think I was in here.

H.M.Jr: "H.M.Jr: Now, that is the setup, and Purvis and his crowd are all the time trying to change

- 27 -

it and the President wrote a memorandum - I'll send you a photostat of it immediately - to the RFC and to the Army to expedite that. That is the picture, and I've got both the Army and Jones cooperating and so forth. Now, of course, they'd like to - that is very slow and it'll take considerable time, but, so to speak, it has been used once. You see what I mean?"

Bell: I don't get that.

H.M.Jr: I don't either.

"Hopkins: Yeah."

"H.M.Jr: And to set those things up as collateral again would be using them twice, you'd have to make up your mind -"

That goes back to his original statement, could they use that factory as an asset against the billion three.

White: You said they are already pledged. They have been used.

H.M.Jr: "H.M.Jr: And to set those things up as collateral again would be using them twice, and you'd have to make up your mind - well, we won't do it the other way. But Jones is three quarters through on negotiating on the Powder Plant, and my own feeling is - my own boys brought that up to me - would be to leave that aside, and in talking with the President, this is what the President said on the billion three. Have you got the financial picture?"

"Hopkins: Yeah, I have got the two points you made now complete."

"H.M.Jr: See?"

- 28 -

"Hopkins: Yeah."

"H.M.Jr: Now, I'm having a terrific time with them to get them to sell their first factory in this country, and I've put the heat on them unbelievably, and the President is backing me. For your own private ear, Monday night I told Halifax that if, by the end of the week, they didn't make a sale, I was asking that they recall Sir Edward Peacock and they got everybody in a huddle yesterday and I hope that they're going to do something."

"Hopkins: Yeah."

"H.M.Jr: Because until they sell some factories, I can't tell the world that they've kept their word or that the English businessman thinks more of his investment than of winning the war. Did you get that?"

"Hopkins: Yeah."

"H.M.Jr: Now on Monday at lunch, I probed the President very hard on what he had in mind in the way of collateral and this is what he told me."

(Mrs. Klotz entered the conference.)

H.M.Jr: Did you want to interrupt?

Klotz: The only thing I wanted to tell you, this is the meeting that Phil Young wrote up on that very same thing. (See memorandum of conference held in the Secretary's office on January 22, 1941, at 9:15 A.M.)

You remember we asked him to get it for us, and this is it. I think there is a lot of it. That was that meeting with Knudsen, Stimson, Knox and Jesse Jones and all of

- 29 -

them were present. I think you will want that.

H.M.Jr: Well, this is also - I mean, I just can't understand it. We will talk about it afterward. Thanks.

"H.M.Jr: I probed the President very hard on what he had in mind in the way of collateral, and this is what he told me. 'Henry, let's take those cutters; let's say they're worth two million; you and I can decide what they're worth better than anybody else. We'll say they're worth one million. So I'll say to them, 'You can have a cutter - two million dollar cutter for one million dollars and I want one million dollars worth of shipping returned during a five-year period after the war is over.' And he said, 'If you can build them cheaper in England, you can make the difference between the English price and the dollar value.' Now, that is what he had in mind, and I went over this whole thing that I'm going over with you."

There is one thing I don't understand. There is nothing more on that.

White: I think you ought to keep that for tomorrow, because what you last read bears on the problem that is coming up tomorrow morning.

H.M.Jr: What I don't understand, it seems as though the only record that I can find - get this particularly, Merle - that I told Phillips - unless you have something - and the three to four hundred million was on this meeting of the nineteenth.

White: That is right.

Cochran: That is right.

- 30 -

H.M.Jr: And I only told him that afterward.

White: That is right.

H.M.Jr: How in the devil did I get to tell him that? I mean, I had never told him we would take over - is it correct? I really got it sitting here by talking with Bell.

White: We were surprised. That is the first time Merle and I heard that because after that meeting we had some comments and I had some discussion. I didn't understand where that had come from or what, so that apparently we take it - it was the first time we had heard of it, of the commitment or the amount.

Cochran: What is the hour of that meeting on the nineteenth?

H.M.Jr: Oh, I haven't got it.

Bell: Here it is. Eleven o'clock.

Cochran: Because this letter from McCloy came in at one o'clock that afternoon giving that figure of four hundred twenty-one million of relief. You remember?

Bell: Yes.

H.M.Jr: But I must have gotten the figure sort of sitting here talking.

Cochran: Because that was the same day, but that came to the - the copy came to me that afternoon.

White: There were some much earlier figures, Mr. Secretary, much earlier when McCloy and that new man in the Navy were here, and we went into a discussion with Young. You remember downstairs?

- 31 -

Cochran: Yes.

White: And then worked out tentatively a figure of three hundred million and we never could get them later to explain it. But we had mentioned it to you. Which together with the hundred, you may have got it that way. But that was a long time before that, several weeks before that.

Cochran: This is the first letter we got on it. That is a reply to Mr. Bell.

H.M.Jr: Maybe this will help. This is something new. Phillip Young had never written this up and Mrs. Klotz found that this was missing. This is dated January 22. Let me just look at this a minute.

Bell: Is that the date that he wrote it?

H.M.Jr: It was the date of the conference.

White: That, I think, is a conference we referred to.

H.M.Jr: Those present, Morgenthau, Stimson, Knox, Jones, Knudsen, McCloy, and Philip Young.

"Secretary Morgenthau opened the conference by stating that the British wanted to place immediately in the United States about one and one half billion dollars worth of orders, and that it appeared that the British could be helped only to a very limited extent by the Army taking over standard United States contracts. Secretary Jones asked why it took so long and McCloy replied that it took considerable time to call in the manufacturers, readjust the contracts, and make the necessary changes in price.

"Secretary Morgenthau said that McCloy and

- 32 -

the Army people had been moving heaven and earth to get something accomplished along that line, but that it took days to do it and that a shortcut must be found. Secretary Knox said that the starting point must necessarily be the total amount of money which was currently available for such a job and added that certainly Jesse Jones didn't have a billion and one half dollars on hand. Secretary Jones said he didn't have it, and that if he did he couldn't use it for that purpose.

"He stated that the British had told him that the total was a billion one hundred million dollars. Secretary Morgenthau said that Purvis was sending over a list which should be there in a few minutes. (The list arrived shortly thereafter). Secretary Stimson inquired as to how much of the Billion and a half total was represented by United States type goods. Young said that about three hundred seventy-six million dollars were British type and eight hundred eighty four million dollars was United States type.

"Secretary Jones said that what would have to be done would be to take the most urgent items from the list and study those. Secretary Morgenthau said that a shortcut must be found. Secretary Knox added that he thought it would be necessary to go to Congress. Mr. Knudsen also said that he thought an emergency appropriation would be necessary. It was Secretary Jones' reaction that if Congress were asked for the money it could probably be secured without much trouble.

"Secretary Morgenthau said that he had no argument with the three hundred eighty million dollars worth of British type stuff, but he did feel we should go easy in buying it.

- 33 -

McCloy said he thought it was fictitious to talk about a distinction between British and United States types on the grounds that we would probably adopt some of the British type stuff anyway.

"Knudsen said that he thought we ought to start with what we already know about, and in response McCloy said that, after all, the critical items in the British list were of standard type. Secretary Stimson stated that he thought new crises were coming along, one inside of four weeks, and another some time after next winter. Secretary Jones asked Mr. Knudsen if he were buying for the British. Knudsen replied that he had been told at the White House that the Army and Navy were going to do it. He added that he didn't see how the United States could buy anything except United States type stuff until after the Lend-Lease Bill was passed; until that time the British would have to buy British type stuff with their own money.

"Secretary Morgenthau asked if they would buy British type stuff after the bill was passed. To this question both Secretary Knox and Secretary Stimson replied, 'Yes, provided that the President thought it was in defense of the United States.' Secretary Stimson pointed out his testimony before the House Committee in which he stated that there should be only one purchasing channel, and that the British purchasing agencies out in the field should be cut out.

"Secretary Jones said, 'Let's put up something to shoot at as it would save time,' and suggested that the discussion start out with respect to plants. Mr. Knudsen asked as to how much was involved in setting up new plants and the materials for the new plants. Secretary Jones replied that there was a substantial amount

- 34 -

needed for the facilities and to set up the machinery. He suggested that the War Department and Knudsen send a letter to the President telling Jones to go ahead and place the orders.

"Secretary Stimson asked Jones how far he was prepared to go, and Secretary Jones replied that he would do all that needed to be done until Congress passed the Lend-Lease Bill. He added that he saw no reason why orders could not be placed for the product as well as the facilities. Further, it was Secretary Jones' reaction that the bill would be hurt if an appropriation for the British were requested before its passage.

"Secretary Morgenthau asked Secretary Jones to repeat his position in order that it be made perfectly clear. Again Secretary Jones said if you people will request the President to request Jesse Jones to do it, then it can be done, and at the same time the authorization should cover enough orders to make it worthwhile. Mr. Knudsen pointed out that all the orders could be placed and that actually only one third of the amount of money would be necessary. In other words, only that portion of it which would have to be used for an initial down payment.

"Secretary Jones said that he could commit enough money for that provided, of course, that the Secretary of War asked the President to direct Jones to do it. Secretary Morgenthau suggested taking York Safe and Lock as an example, which appeared on the detailed list of British contracts in the memorandum referred to above. Secretary Morgenthau asked Jones as to whether he could place the whole order for eighteen thousand dollars worth of bombs and ammunition with that company and actually

- 35 -

give out the down payment. Secretary Jones said yes, that he would order the goods if he had a request from the War Department and the Navy Department and the President."

Now, that gets down to it, doesn't it? I mean, they haven't placed these orders. That is placing stuff that they needed.

White: That was placed on January 10.

Bell: Is this the beginning of the approval of that thirty-five million a week? It is about at that time, wasn't it?

H.M.Jr: No. Then this says, "Secretary Morgenthau asked if McCloy should continue his negotiations with the British, taking over as many contracts for United States type goods as possible. Secretary Stimson said that he thought McCloy should so continue as far as he could. Secretary Jones said that he could only buy an outstanding plant from the British, not every little piece of property.

"Secretary Morgenthau said that he was still troubled about what the British would do for money. McCloy stated that there was three hundred million dollars of aircraft manufacturing capacity included in the one billion dollars of proposed British contracts. He suggested that Secretary Jones go ahead and finance that as there was certainly no doubt about the United States needing it too. Mr. Morgenthau asked Secretary Jones if he could do it, and Jones replied that he didn't know if he could go so far as three hundred million dollars. Secretary Stimson added that he didn't know whether or not he could certify to that extent."

This doesn't bear on that thing.

- 36 -

- White: Well, it does only to the extent that I think it was around that time that we had those meetings with McCloy and Patterson in which they were trying to figure out how much Americans had included in their orders that they could buy and the figure around two hundred sixty-two million or three hundred million was being very tentatively used and every time he reconsidered it he found further difficulties, so there was no definitive figure given.
- H.M.Jr: Merle, I would like you to ask the British if at any time prior to the nineteenth I ever said anything about the three or four hundred million.
- Cochran: When Phillips and Keynes sent that - gave us that memo that day, Phillips stopped by and saw me out there. I said, "Where do you tie in - where do you get that three or four hundred million dollars," and he says, "From that meeting we had with the Secretary there," and referred to it there as March 19, you see. I asked him that and I have it in my memo.
- Bell: But we say here that it was not clear from the record as to the basis for the three or four hundred million dollar figure. Phillips did, however, on January 6, 1941, mention the desirability of maintaining a reasonable working balance with a minimum of two hundred fifty million. That is the first time we can find any mention of any figures.
- H.M.Jr: Let me just say this. Make a note, I am giving to Mr. Bell and charging him with it - he will give it back to Mrs. Klotz to be put in the safe tonight - my conversation with Hopkins dated March 12, 9:03. It goes into my safe tonight. And the January 22 Philip Young memorandum. That also goes into my

- 37 -

safe tonight. And the President's memorandum, photostat, March 10.

Now, I think this. You might re-read the stuff, you see, but I can only do about so much. I think that out of this - we haven't yet come to the memo, but if we can drop out "D" on page three, the twenty-five million Vultees and put down -

Bell: Two hundred for "E".

H.M.Jr: Two hundred for "E", you see, and then I wonder if I couldn't get a meeting with Hopkins and try to negotiate that.

Bell: I think that is the next step, that Hopkins will have to be in on the next conference.

White: Don't you want to voice your doubts, Ed?

Foley: I don't think so, because I think the Secretary is perfectly aware of it. He says it is the only way out for him. The only thing that I am worrying about, Mr. Secretary, is this: If it is merely a deferment of the orders that the British have placed so that they don't have to meet those payments on those contracts, that is all right; but I am afraid it is going to be more than that and I am afraid somebody is going to be probing into this some day and they may uncover it and then it may be embarrassing. What I am afraid of is that in addition to deferring our Army will then enter into contracts for the same items with the same manufacturers and then will turn around when those articles have been delivered and paid for by our Army and make them available to the British under the Lease-Lend Bill, so what we are really doing is buying those materials and giving them to them.

H.M.Jr: Yes.

- 38 -

- Foley: In the light of everything that has been said that might be rather embarrassing to explain.
- White: Might it not be possible for them to actually defer them and not do that second step?
- Foley: Well, I wouldn't --
- White: So that they don't get identical things.
- Foley: I wouldn't be bothered if you could eliminate the second step.
- H.M.Jr: I have a counter proposal. Supposing you went to the XYZ manufacturing company and said, "Now look. You have got a contract for ten million dollars for bombs with the English. Now, the Army needs that, and for reasons we don't care to explain we would rather have that than have you make it for the British, so we are going to ask you to cancel your contract with the British and we, the United States Army, will write a new one for that."
- Then that question doesn't - I think I am improving it - that question doesn't come up of the contract there if and when the war is over.
- Viner: But if the British need the stuff --
- H.M.Jr: All right.
- Bell: Then would you come in conflict with your testimony?
- H.M.Jr: No, but I mean they are just going to cancel it.
- White: But they are going to ask further questions. They are going to say, "What did you do with the stuff that you ordered?"

- 39 -

- Foley: That is right. If we have a need for that stuff and if we can use it --
- Viner: And the English haven't. And if the English haven't got a need for it.
- Foley: Well, I am not so worried about the English need for it. I mean, if we have a need for it and can use it and do, then I think we can explain it; but if we don't need it, we simply can pay for it and turn around and give it to the British, but then it seems to me that there is a patent violation of the commitment that was made to Congress.
- White: But they can get something else. If it goes into a general pool --
- Bell: I don't see much difference.
- Cochran: If we give them a relief and don't let them get the munitions --
- White: No, I say they will get the goods but let the goods come out of some general pool.
- Viner: You are assuming that there is available --
- White: If there isn't something identical, there should be something like it which will enable the Army to say that we want control over these goods and the business of supplying the British is dependent on other considerations.
- Viner: What you would have there is probably a major job of survey by the Army of all these contracts to see (a) what they can take over and use; (b) what the English can safely relinquish, and that is likely to be, I should suppose, six weeks at a minimum.

- 40 -

White: Well, supposing it is six weeks. There is no hurry about this.

H.M.Jr: No.

Viner: And before they will know what amount of that is flexible that way.

H.M.Jr: Well, six weeks doesn't mean anything.

White: Particularly since they are going to get something right away. It certainly would be a safer way out, but I don't think the contracts should be canceled.

In order to be perfectly safe, they should be deferred. That is, the British pick the contracts up whenever the Americans are through with their contracts so you can stand - then they can make a settlement if they want to on twenty-five percent bases or something.

H.M.Jr: Then it is a cleaner thing if you can get them to cancel the contract.

Foley: Well, Harry's point is that if you canceled the contract, since it is an out and out gift of three hundred fifty to four hundred million dollars to the British --

White: In violation of your testimony.

Viner: They don't get the stuff.

Foley: They get the stuff.

Viner: Oh, and they get the stuff, too?

H.M.Jr: How about the deferment?

Foley: Well, on a deferment basis at least there is a contract liability there. The American

- 41 -

manufacturer still has the orders from the British.

H.M.Jr: And technically it doesn't fly in the face of the testimony?

Foley: Technically it doesn't --

Bell: As long as it is there you can always say to Congress that there are still --

H.M.Jr: What are you worrying about, Ed?

Bell: He is afraid somebody will look under the cover --

Foley: I wouldn't worry, Mr. Secretary, if we didn't turn the goods right over to the British and give it to them.

White: The identical shipment. It would merely mean some bookkeeping to enable you to slide out.

H.M.Jr: Well, let's again say it is a hundred million dollars worth of bombs. All right, we take over that contract and defer it. I mean, you would rather say that we would give them a hundred million of something else?

Foley: Yes.

H.M.Jr: Well, does that make it look a little prettier?

Foley: Yes. I think definitely the contract ought not to be canceled. I think the commitment should be left on the books of the American manufacturer.

Bell: If you can substitute material you are in a much better position.

- 42 -

Foley: And if you can make these substitutions I think that you can fudge it out.

H.M.Jr: So we can get one thing started, why can't we ask Oscar Cox whether he will take this program up with Harry, that when Harry understands it I would like to have Harry sit down and talk it over with me.

Bell: He may have taken it up --

Foley: Already.

Bell: Already, yes, because we talked to him last Thursday.

White: In fact, you could push that a little further and then they could take the contracts which won't be delivered until six months or a year from now, which would make it very easy to substitute other material. It doesn't matter when these contracts were made.

Foley: That is right.

White: Because the date no longer is important.

Viner: I wouldn't worry about next year. The situation is going to be so different that you will be able to wash out these things --

White: Exactly.

Viner: It is for the next three years.

H.M.Jr: Does this bother you (Viner) at all, doing this way?

Viner: Only thinking of you. I would say there from what I get of the record that there are conflicting commitments and that for three or six months at least I would play very

- 43 -

cautiously two considerations. Don't contradict definitely what you have told Congress. Keep yourself clear for the next six months of that.

Secondly, don't get in the way of the English fight.

Foley: That is right.

Viner: Those are the two considerations and I would say this is the best way out, all right, and don't worry about next year, because it will all be washed out one way or the other. I think for many things --

Foley: That is why this deferment idea is best, provided you don't keep on giving identical stuff.

(The Secretary held a telephone conversation with Mr. Cox as follows:)

June 3, 1941
11:49 a.m.

HMJr: Hello.

Operator: Mr. Cox.

HMJr: Hello, Oscar?

Oscar
Cox: How are you?

HMJr: I'm fine. Where are you?

C: I'm over the Federal Reserve,
right this minute.

HMJr: Where?

C: The Federal Reserve Building.

HMJr: Yeah. They must have bad connections
over there.

C: Yeah.

HMJr: Can you hear me? Oscar?

C: Yes.

HMJr: Can you hear me?

C: Yes, very well.

HMJr: We've been spending a couple hours
on this question of the - my statement
to Phillips, the thing for 4 hundred
million dollars and I - they've given
me your suggestion. Hello?

C: Yes.

HMJr: And the only - we have a little bit of
a counter proposal, that is, I think
we ought to leave the vultee thing out.

C: Yes, I think that.....

- 2 -

HMJr: And if they get anything on it let them use that money for what ever they need in this country.

C: Right.

HMJr: I hear you better now.

C: Good.

HMJr: And then on this question of the War Department taking over some of the contracts asking the contractor to postpone delivery on the British, which I understand is known as the Oscar Cox idea around here. Instead of making it a hundred, we thought it would be just as easy to make it two hundred.

C: Yeah.

HMJr: And then there wouldn't be any question about our trying to whittle it down. The suggestion as I understand it Ed makes says though that if we do that, we don't give the identical same material to the British, we give them something else, but equal in dollars.

C: Well, you may give them the identical material.

HMJr: Well, he thinks it'd be better not to.

C: Yeah. Well, it's six of one and half a dozen of another. If they get enough.....

HMJr: Well, Ed's gone a little moral on me, I don't know where he was over the week end.

C: Uh huh.

HMJr: But you might talk to him about it.

C: All right.

- 3 -

HMJr: And now here's - have you broached this to Hopkins?

C: No, I haven't.

HMJr: Are you going to see him today?

C: I think so.

HMJr: Well, I tell you what I wish you would do, I wish you'd talk to him about it today.

C: All right.

HMJr: And then say I'd like to get together with him tomorrow if possible.

C: All right, I'll do that.

HMJr: What?

C: I think we'll see him this afternoon.

HMJr: Well, if you are going to see him this afternoon you might let either Ed or me know.

C: All right.

HMJr: The first thing in the morning.

C: Fine.

HMJr: Or let Ed know tonight and I can call Hopkins then the first thing in the morning. See?

C: All right, fine.

HMJr: Now Ed's here and when he leaves my room he'll call you up and explain that about his moral qualms. See?

C: All right.

- 4 -

HMJr: What? - If you could get that
 through, that would help a lot.

C: All right, I'll do my best.

HMJr: Thank you.

C: Did you see the battle of the
 Bismarck?

HMJr: I had a front row seat.

C: I thought you'd have a front
 row seat.

HMJr: Yeah.

C: Good for you.

HMJr: All right, Oscar.

C: Thanks very much.

- 44 -

- H.M.Jr: How is that? Now, I tell you what we will do. No one has called up from the State Department about that quid pro quo, have they?
- White: Yes.
- Foley: Dean called me yesterday afternoon.
- H.M.Jr: And he is in a hurry?
- Foley: I told Dean we were going to see you at ten-fifteen tomorrow and we wouldn't have any word for him until later tomorrow morning. At least he said that would be all right, but the President wanted to be able to say when the message went to Congress on the eleventh of June that negotiations were under way with the British looking to the entering into of an agreement.
- H.M.Jr: Well now, I will tell you. I have got all morning tomorrow morning. We will continue on the Maynard Keynes thing and then we will go on the quid pro quo. How is that? I mean, we will do the six fifty, the Maynard Keynes thing, first, and then the other.
- White: We have this letter from Tinkham which is important.
- H.M.Jr: I can't do any more now, and could - is there any reading that Viner can do between now and ten-fifteen?
- Bell: You mean on this?
- H.M.Jr: Yes.
- Bell: Yes, I think he can read the documents. I tried to tell him in about five minutes what the thing was.

- 45 -

- H.M.Jr: Well, if he did he would be even better than I think he is. He is pretty good.
- Cochran: Are we meeting again this afternoon in your (Bell's) room on these things?
- Bell: No, on the agreement.
- H.M.Jr: What are you going to meet on?
- Bell: On the agreement.
- H.M.Jr: Meeting in your room first makes it much easier for me. I think we have made a little progress. I must have pulled a fast one on myself. I must have turned to you and said, "How much is that, Dan," and you said, "Three to four hundred million," and I must have turned to Phillips and said, "Three or four hundred million."
- Bell: We don't know where the three hundred million came from.
- White: Was there any figure mentioned in your discussion with the President?
- H.M.Jr: All I say is, I went over the thing in greatest detail, but in dictating later what I said to the President there is no reference to it.
- White: I think you said thirty-five million dollars a week was what they were giving in orders. It was about ten weeks, you said, ten weeks or so and that made the three hundred.
- H.M.Jr: No, the three to four hundred million dollars as I remember it, I think that Jones said something in the press. I think if you would look up that you would find the day before I met with Phillips that there - look up and see if he didn't say something in his press

- 46 -

conference.

Viner: Have you looked up your own press conferences?

H.M.Jr: Around that time? You might do that, too, will you? Supposing from March 10 to March 20, Dan, look up my press conferences and Jones' and Stimson's and see if there isn't something in that ten days, will you?

Bell: Yes.

H.M.Jr: Jones, Stimson, Morgenthau.

White: I wonder whether Philip Young might remember anything on that. He was in every one of those conferences and followed it, I think, more closely than anybody here.

H.M.Jr: Dan, you might ask Philip.

Bell: All right. You asked me --

H.M.Jr: You might ask Philip Young.

Bell: You asked me how much this amounted to. We had just received this letter from McCloy, and I got my four hundred million, do you remember, from the last paragraph in his letter.

It says, "It will be noted that as a result of the foregoing, the British will be relieved to the extent of about four hundred million dollars." And Merle called attention in the statement which I hadn't been over that it would reduce that some.

Cochran: Yes.

Bell: That was the reason for his remark in that testimony.

- 47 -

H.M.Jr: But you said the McCloy letter didn't come in until noon.

Cochran: That is the copy that came to my room. Dan probably had the original.

H.M.Jr: You must have had it.

Bell: That is where I got the figure. Either that or McCloy had given it to me over the telephone.

H.M.Jr: You see, I had in my mind all the time that Jones and McCloy are going to relieve these people of a certain amount of money. We had been working on it since January.

Then I turned to Dan and said, "How much is it good for," with Phillips sitting here, and you said --

Bell: "What is the amount," you said.

H.M.Jr: And you said how much?

Bell: I said about four hundred million.

H.M.Jr: So I said three to four hundred million to be safe. I think I just got the figure at the time, having in mind all the time pressing the War Department. I don't think I had that figure until then.

Bell: It certainly isn't in the record that we can find any place.

H.M.Jr: Well, thank you all.

11:00 (am)

Used by Treasury Dept. office
6/4/41

June 3, 1941

see 6/4 memo
which reversed this
one of 6/3/41.TO THE SECRETARY:

Subject: British financial requirements in United States and resumé of negotiations respecting partial relief therefrom

A. Administration commitments to Congress with respect to existing British obligations in this country

1. The Secretary told Congress that
 - (a) Great Britain has the dollar resources sufficient to meet the balances due on contracts entered into prior to January 1, 1941 (About \$1400M)
 - (b) The British have agreed to sell during 1941 every dollar of property that they own in the United States in order to raise funds for this purpose. (See Appendix A for pertinent quotations and A-2 for excerpt from memorandum handed you by Peacock.)
2. Budget Director Smith told the House Appropriations Committee that
 - (a) None of the \$7 billion appropriation would be used to pay for any of the goods ordered by the British Government before the Lend-Lease Act (March 11, 1941)
 - (b) The British Government would pay for orders placed before the Lend-Lease Act out of their dollar assets. (See Appendix B for pertinent quotations.)

B. Commitments by the Secretary to the British in conference with Sir Frederick Phillips and others on March 19, 1941

The Secretary stated that the President, Hopkins, and himself had agreed to relieve the British of from \$300 - \$400 million of commitments. (No date was mentioned.)

It is not clear from the record as to the basis for the \$300 - \$400 million figure. Phillips did, however, on January 6, 1941, mention the desirability of maintaining a reasonable working balance of \$250 million.

(See Secretary's statement on March 19 in diary on Secretary's desk.)

C. What the British have requested

1. Attainment as soon as possible of a working cash balance of \$600 million.

This request was contained in an undated Aide Memoire forwarded to us from the White House on March 19, but evidently dating from a prior date. The same request was made in the letter from Waley of the British Treasury to Ben Cohen and included in a cable from London dated March 18. (See Appendix C.)

2. Keynes' letter to the Secretary of May 16

This letter and the memorandum accompanying it made two points:

- (a) Reference to the Secretary's earlier commitment to relieve the British of \$300 - \$400 million of contracts.
- (b) Request for an additional \$650 million of relief from contracts. This is to enable the British to place orders outside of Lend-Lease for the following categories of goods:
 - (i) Those difficult to administer, estimated to amount to \$400 million for two years (\$200M a year)
 - (ii) Those giving rise to legal or political difficulties, estimated at \$250 million for two years (\$125M a year)

(The British also stated that if Lend-Lease excluded all shipments to the Dominions, they would require additional relief.)

D. What can we do for them?

1. With respect to the \$300 - \$400 million

(a) Plant facilities by RFC

Already taken over	\$ 48 M	
Can be taken over (estimated investment \$85M)	52	\$ 100 M

(b) Supply contracts taken over by Army 50

(c) Supply contracts entered into by British after March 11, 1941, which can be taken over by War Department 78

(d) British Vultee plane contracts transferred to China under Lend-Lease Act	25	
		\$ 253 M

(e) Relief by War Department entering into contracts for identical materials now under British contracts and thus deferring British cash liabilities under such contracts to a later date. (See Cox's memorandum, Appendix D.)	100	
		\$ 353 M

We have some doubts about adopting proposal (e), but it is added here as a policy matter for discussion.

2. With respect to the \$650 million

(a) Nothing has as yet been done, but it is clear that you could give them further relief through Mr. Cox's proposal set out under (e) above. We do not recommend this.

(b) The purchase of Vultee planes from the British to be sold to China provides for an additional \$25 million of cash to be given to the British. (See (d) above.) It may be possible to expand this a little more by finding other items.

(c) Mr. Keynes ascertained that the \$650 million relief could be reduced by \$50 million by arranging to purchase certain commodities under Lend-Lease. Through administrative arrangements, it would seem to be possible to reduce the \$650 million still further, so that even the minor detailed purchases could be brought under Lend-Lease. This device has been only tentatively explored.

APPENDIX A

Statements made by Secretary Morgenthau before the Senate and House Committees with respect to British payments in the United States.

A. The Secretary before the House Committee on January 15, 1941.

"From this financial picture which I have given to you I am satisfied that they can pay with dollars during this year for what they have already bought. But when it comes to finding the dollars to pay for anything like what they need in the future, they just have not got it." (p. 55)

"I believe that, given the time, by that I mean the balance of this year, they are in a position to pay for the orders already placed." (p. 61)

"I feel that given the balance of this year and provided that our markets stay as good as they are now they will be able to raise the dollars necessary for the orders which are placed with our manufacturers. After they have done that there is very little left over and for that reason their buying has practically come to a standstill pending action by the Congress. * * *" (p. 69)

B. The Secretary before the Senate Committee on January 28, 1941.

"The British Government owes American manufacturers \$1,400,000,000 on orders already placed. This sum will largely have to be met in the calendar year 1941. It has enough gold and dollar exchange assets to meet these outstanding commitments, but the British just haven't got the dollars to take care of their additional needs." (p. 9)

". . . in order to raise \$1,775,000,000 that they need to meet their outstanding obligation, it means that they have got to sell every share of United States securities they own and all of their properties that they own in the United States within the calendar year." (p. 21)

"Senator Vandenberg, they have enough money to take care of the orders already placed. They do not have enough money to place any new orders." (p. 26)

"England being willing to sell every dollar of her investments in the United States, and the American investor being willing to buy it, would only provide her with enough dollars to pay for the orders she has already placed . . ." (p. 48)

"I have not looked into the individual cases, but if Lord and Lady Astor own real estate in New York their assets will be on the auction block with the rest." (p. 66)

- 2 -

"Every dollar of property, real property or securities that any English citizen owns in the United States, they have agreed to sell during the next 12 months, in order to raise the money to pay for the orders they have already placed, they are going to sell—every dollar of it." (p. 66)

"Senator Byrnes, they will have to sell every share of United States stock and every piece of property that every English citizen owns in this country within the next 12 months in order to raise sufficient money to pay for the orders that are already placed."

A-2

The British Government are prepared to place all British direct investments under the control of the United States Government so that these may be sold in orderly fashion and so that the United States Government, through suitable representatives, shall be able to supervise and if they think fit control the selling.

If desired, the British Government are also willing as rapidly as is practicable to transfer to the United States Government the title to these investments.

APPENDIX B

Statements made by Budget Director Smith before the House Appropriations Committee on March 15, 1941 — extemporaneous comments.

"Yes, it is not contemplated that any of the \$7,000,000,000 is to be used for that purpose (that is, to pay for any of these goods already ordered by Great Britain). Orders that have been placed by the British Purchasing Mission are to be paid for, I understand, by the British out of their dollar assets." (p. 67)

"I would assume that if the British Purchasing Mission continued to place orders now, they would have the assets to pay for those." (p. 67)

"It is my understanding that it is not contemplated to use any of this money (the \$7 billion appropriation) for this purpose (i.e. to pay the cost of any of the then-outstanding contracts.)" (p. 72)

"As to the second question (whether any money from the \$7 billion appropriation will be used to pay the cost of the then-outstanding British contracts), it will not be done, because it is pretty clear that you would have to establish a bench mark as to where British orders left off and where Lend-Lease orders began. Otherwise we would be in confusion as to transactions. It is contemplated, as indicated in this testimony, that the British would make payments for outstanding orders that the British Purchasing Mission have committed themselves to up to the passage of the Lend-Lease Act." (p. 72)

Attached are answers which were prepared by the Treasury and used in toto by Mr. Smith before the House Appropriations Committee. Answers to questions 3 and 5 are relevant.

Answers prepared by the Treasury for Mr. Smith,
Director of the Bureau of the Budget, to present to the
Appropriations Committee on March 15, 1941

Question 1: It is understood that the British orders up to January 1, 1941 were about \$3 billion, and that expenditure was about \$600 million. Is that correct? What have the British spent here since that time?

The total of the orders placed in this country by the British Purchasing Mission up to January 1, 1941, was approximately \$2.7 billion. Up to January 1, 1941, the British Purchasing Missions had made payments of approximately \$1.3 billion on these orders.

From January 1 to March 12, 1941, payments by the British Purchasing Mission were \$382 million.

Question 2: Has the policy been to pay cash or securities for orders up to this time?

The practice of the United Kingdom has been to pay cash on all orders placed in the United States up to this time. All goods delivered have been fully paid for. A substantial portion of the value of the goods delivered was paid for in advance and a portion of the value of the goods yet to be delivered has already been paid for. Generally, they have paid 25 per cent cash when orders were placed in addition to capital investments required.

The dollars to pay for these orders have been derived by the British Government partly from the sale of British investments in the United States, partly from the liquidation of British dollar balances, partly from the sale

- 2 -

of British gold holdings to the U. S. Treasury, and partly from dollars acquired from a variety of other sources.

Question 3: What is the proposal as to paying for deliveries of existing orders?

Part of the cost of the future delivery under existing orders has already been met by advance payments; the remaining liabilities of the United Kingdom in respect to such orders will be met from her existing dollar resources and with dollars which she will acquire in the future. Such dollars will come from further sales of British holdings of U. S. securities, sale of Britian's direct investments in the United States, gold acquired by the British Government, and the net dollar proceeds of British exports of goods and services to the United States and elsewhere.

Question 4: What is the value of British holdings in the United States and the Western Hemisphere outside of the United States?

The value of British holdings in the United States as of January 1, 1941, is estimated by the Treasury at \$616 millions of marketable securities and \$900 millions of direct investments.

The nominal value of United Kingdom investments in Canada is nearly the equivalent of 2 billion U. S. dollars, and of United Kingdom investments in Latin America is the equivalent of over \$3-1/2 million. This refers to the nominal value; the market value would, of course, be much less. In the case of the Canadian investments the market value is much

- 3 -

closer to the nominal value than in the case of the Latin American investments. The United Kingdom is using a substantial amount of these each month to pay for war materials obtained from Canada. Some of the investments in Latin America are in complete default, many are in partial default, whereas nearly all are payable either in sterling or in local currencies. The liquidation value in U. S. dollars of these Latin American securities, particularly in view of widespread controls of foreign exchange transfers, is very uncertain. The details of these investments will be found on page 54 of the hearings before the House Committee on Foreign Affairs on H. R. 1776.

Question 5: What steps, if any, have been taken to meet prior commitments and what steps are to be taken as to commitments yet to be made?

The United Kingdom will meet her liabilities on existing orders from her existing dollar resources and from dollars which she will acquire in the future. The steps by which these dollar resources are being acquired have been indicated in the answer to question 3 above.

The British Government does not have funds adequate to meet additional commitments. It is for these additional commitments that the Lend-Lease arrangements will be required.

Question 6: What is the monthly rate of expenditure by England and its dominions for war purposes?

The monthly rate of expenditures for United Kingdom, Canada, New Zealand, Australia, South Africa and India taken together is, according

- 4 -

to our information, roughly the equivalent of \$1-3/4 billion. Nearly \$1.5 billion of this is the expenditure of the United Kingdom alone.

Question 7: What are the British dominions, and particularly Canada, prepared to do for aid to Great Britain?

Canada is, of course, helping directly with troops, naval and air forces, and is paying all expenses of Canadian forces operating abroad as well as at home. It is anticipated that during the coming year Canada will spend a total of \$1.4 billions on her direct war effort. This alone constitutes about 25 per cent of her expected material income. In addition, Canada is supplying Britain with large increasing amounts of goods and services in return for a considerable part of which she is getting either sterling in excess of her needs or the repatriation of Canadian securities to the United Kingdom.

Just as in the case of Canada, Australia, New Zealand, South Africa and India have under way and are financing themselves, a war effort of considerable magnitude in relation to their national income. In addition, these countries are acquiring excess sterling in London and repatriated securities as payment for exports of merchandise, services and gold to the United Kingdom and to the dollar exchange areas. This is a form of economic and financial assistance of considerable value to the British war economy.

Question 8: What has Great Britain, its dominions and particularly Canada, appropriated for this war?

- 5 -

This information is not readily available; but we have requested it for the committee. However, because of differences in budgetary practice, such figures will not be at all comparable with the defense appropriation figures for the United States.

Question 9: What are the potash and borax holdings of the British in the western part of the United States?

Our preliminary information is that there are three large potash and borax companies with properties in the western United States in which the value of the British investment is estimated to be roughly more than \$20 million. These properties are included in the British direct investments referred to in answer to question 4.

Question 10: What have we bought in the way of gold from Great Britain and its dominions, including Canada, since 1934 (by years)?

The net imports of gold from British Empire by years are given in the table below. It should be pointed out that London has been, prior to the war, the leading gold market of the world and hence gold imports from the British Empire were not solely for British account.

Net Imports of Gold from British Empire, 1934-1940
(Million dollars)

	<u>United Kingdom</u>	<u>Other British Empire</u>	<u>Total</u>
1934	500	183	683
1935	316	184	500
1936	174	182	356
1937	892	204	1,096
1938	1,209	144	1,353
1939	1,826	976	2,802
1940	633	2,995	3,628
Total 1934-40	5,550	4,868	10,418

APPENDIX C

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O
P
Y
(Handed by Mr. Stone in the Department of State to Mr. Cochran of the Treasury when the latter called at the office of the Secretary of State at 3:30 p.m., March 27, 1941)

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: March 18, 1941, 8 p.m.

NO: 1060

The following is strictly confidential for the President, the Acting Secretary and the Secretary of the Treasury.

Deep concern is expressed by the Prime Minister over the report which his Chancellor of the Exchequer gave him that a much smaller part of their existing commitments in the United States would be taken over under the Lease Lend Bill than had been anticipated by the British Government. The British had apparently thought that there would be released to them about £195,000,000 on account of past payments on existing commitments. They have now been informed that not more than £90,000,000 will be released for this purpose, and the amount may be very considerably less. Also, they will have to provide future payments on account of the greater part of commitments already made.

The British believe that in view of the foregoing, it will be extremely difficult for them, considering their other requirements, to meet their own and Canadian exchange requirements in the United States; in order to function properly in meeting the war emergency, they feel they should have not less than £150,000,000 for a working balance.

It is the strong belief of the Prime Minister that they should have more leeway and freedom than are given in the arrangements now contemplated. He expressed the hope that the British situation might be sympathetically reconsidered by the President and Secretary Morgenthau. The thought occurs to me that it may be Secretary Morgenthau anticipates more rapid liquidation of

securities and investments of the British than is believed practicable by the Chancellor of the Exchequer. In order to help you to get the picture as it was put to the Prime Minister and the Chancellor of the Exchequer, I quote below the letter of March 17 from Under Secretary Waley to Mr. Ben Cohen:

(The letter in paraphrase):

My dear Mr. Cohen:

I set forth below the figures which I mentioned to you in our talk this morning. It is necessary for us to take care of

Commitments in the amount of 360,000,000 on existing contracts made by the U.K. in the U.S.A.

Approximately 150,000,000 in payments by the sterling area to Canadian gold or dollars.

150,000,000 will be needed to reconstitute a working balance.

Those payments by the U.K. to the U.S.A. which the Lease Lend Bill does not cover.

The foregoing would total, say, 660,000,000 in addition to (omission).

It has not been possible for us to estimate the figure for the last-mentioned item, as we have not yet had the necessary information.

The United Kingdom has the following to apply towards meeting the aforementioned needs:

Visible and invisible exports in the amount of 45,000,000 from the United Kingdom to the United States of America.

An amount of 25,000,000 for the favorable balance of the rest of the sterling area.

A net total of 90,000,000 in new gold (120,000,000 mined, but 30,000,000 taken off for gold outgoings elsewhere).

- 3 -

An amount of (omission) from the sale of marketable securities and direct investments.

These items would total 160,000,000, plus (omission).

To estimate the last figure for any particular period of time it is again difficult; however, it would seem difficult to figure on an amount more than 150,000,000 within a year.

Taking all of the above figures into account, it would be indicated that more than £700,000,000 would be needed, of which there is in sight not more than approximately £300,000,000. Therefore it would appear that the U.K. might well find, when it is in a position to figure more closely, that it will be necessary that commitments on existing orders in the U.S.A. amounting to £360,000,000 will have to be taken care of for it, and that the U.K. receive £195,000,000 in reimbursement for advance payments and capital, in order to be in a position to bridge the gap - or at any rate, a large proportion of this assistance will be necessary.

Sincerely yours, S. D. Waley."

WINANT

COPY

lap

C O P Y

Office for Emergency Management
DIVISION OF DEFENSE AID REPORTS
Washington, D.C.

MEMORANDUM

June 2, 1941

To: Mr. Harry White
From: Mr. Oscar Cox
Subject: Deferment of British Contracts.

1. You just asked me to write down the suggestion I made on Thursday.
2. Since the Director of the Budget assured Congress that the Lend-Lease appropriation would not be used to bail out British contracts placed before March 11, 1941, it seems wise to me not to break faith with Congress.
3. By utilizing a variation of the accepted deferment procedure immediate relief can probably be given to the British from their presently stringent dollar exchange position. In substance, this suggested procedure is illustrated by the following example: The War Department, with Lend-Lease funds, offers to place a contract for the self-same or similar aircraft which the British have on order. At the same time the War Department and the British ask the manufacturer to defer the British contract, make what refunds are possible and postpone the payments to be made by the British accordingly. In this way, if the

- 2 -

manufacturer agrees, the dollar payments required to be made by the British can be postponed without running afoul of the Director of the Budget's representations to Congress.

The largest or several largest British contracts requiring the heaviest dollar payments now and for the rest of 1941 should doubtless be used if it is decided to follow this procedure.

4. This suggested procedure is, of course, in addition to the:
 - a) Possibility of taking over British contracts entered into after March 11, 1941;
 - b) The taking over of plant facilities, etc., by the RFC;
 - c) The taking over of the Vultee plane order by Lend-Lease, etc.

APPENDIX A

Statements made by Secretary Morgenthau before the Senate and House Committees with respect to British payments in the United States.

A. The Secretary before the House Committee on January 15, 1941.

"From this financial picture which I have given to you I am satisfied that they can pay with dollars during this year for what they have already bought. But when it comes to finding the dollars to pay for anything like what they need in the future, they just have not got it." (p. 55)

"I believe that, given the time, by that I mean the balance of this year, they are in a position to pay for the orders already placed." (p. 61)

"I feel that given the balance of this year and provided that our markets stay as good as they are now they will be able to raise the dollars necessary for the orders which are placed with our manufacturers. After they have done that there is very little left over and for that reason their buying has practically come to a standstill pending action by the Congress. * * * " (p. 69)

B. The Secretary before the Senate Committee on January 28, 1941.

"The British Government owes American manufacturers \$1,400,000,000 on orders already placed. This sum will largely have to be met in the calendar year 1941. It has enough gold and dollar exchange assets to meet these outstanding commitments, but the British just haven't got the dollars to take care of their additional needs." (p. 9)

"... in order to raise \$2,775,000,000 that they need to meet their outstanding obligation, it means that they have got to sell every share of United States securities they own and all of their properties that they own in the United States within the calendar year." (p. 21)

"Senator Vandenberg, they have enough money to take care of the orders already placed. They do not have enough money to place any new orders." (p. 26)

"England being willing to sell every dollar of her investments in the United States, and the American investor being willing to buy it, would only provide her with enough dollars to pay for the orders she has already placed . . ." (p. 48)

"I have not looked into the individual cases, but if Lord and Lady Astor own real estate in New York their assets will be on the auction block with the rest." (p. 66)

(a)

- 2 -

"Every dollar of property, real property or securities that any English citizen owns in the United States, they have agreed to sell during the next 12 months, in order to raise the money to pay for the orders they have already placed, they are going to sell—every dollar of it." (p. 66)

"Senator Byrnes, they will have to sell every share of United States stock and every piece of property that every English citizen owns in this country within the next 12 months in order to raise sufficient money to pay for the orders that are already placed."

APPENDIX B

Statements made by Budget Director Smith before the House Appropriations Committee on March 15, 1941 — extemporaneous comments.

"Yes, it is not contemplated that any of the \$7,000,000,000 is to be used for that purpose (that is, to pay for any of these goods already ordered by Great Britain). Orders that have been placed by the British Purchasing Mission are to be paid for, I understand, by the British out of their dollar assets." (p. 67)

"I would assume that if the British Purchasing Mission continued to place orders now, they would have the assets to pay for those." (p. 67)

"It is my understanding that it is not contemplated to use any of this money (the \$7 billion appropriation) for this purpose (i.e. to pay the cost of any of the then-outstanding contracts.)" (p. 72)

"As to the second question (whether any money from the \$7 billion appropriation will be used to pay the cost of the then-outstanding British contracts), it will not be done, because it is pretty clear that you would have to establish a bench mark as to where British orders left off and where Lend-Lease orders began. Otherwise we would be in confusion as to transactions. It is contemplated, as indicated in this testimony, that the British would make payments for outstanding orders that the British Purchasing Mission have committed themselves to up to the passage of the Lend-Lease Act." (p. 72)

Attached are answers which were prepared by the Treasury and used in toto by Mr. Smith before the House Appropriations Committee. Answers to questions 3 and 5 are relevant.

Answers prepared by the Treasury for Mr. Smith,
Director of the Bureau of the Budget, to present to the
Appropriations Committee on March 15, 1941

Question 1: It is understood that the British orders up to January 1, 1941 were about \$3 billion, and that expenditure was about \$600 million. Is that correct? What have the British spent here since that time?

The total of the orders placed in this country by the British Purchasing Mission up to January 1, 1941, was approximately \$2.7 billion. Up to January 1, 1941, the British Purchasing Missions had made payments of approximately \$1.3 billion on these orders.

From January 1 to March 12, 1941, payments by the British Purchasing Mission were \$382 million.

Question 2: Has the policy been to pay cash or securities for orders up to this time?

The practice of the United Kingdom has been to pay cash on all orders placed in the United States up to this time. All goods delivered have been fully paid for. A substantial portion of the value of the goods delivered was paid for in advance and a portion of the value of the goods yet to be delivered has already been paid for. Generally, they have paid 25 per cent cash when orders were placed in addition to capital investments required.

The dollars to pay for these orders have been derived by the British Government partly from the sale of British investments in the United States, partly from the liquidation of British dollar balances, partly from the sale

of British gold holdings to the U. S. Treasury, and partly from dollars acquired from a variety of other sources.

Question 3: What is the proposal as to paying for deliveries of existing orders?

Part of the cost of the future delivery under existing orders has already been met by advance payments; the remaining liabilities of the United Kingdom in respect to such orders will be met from her existing dollar resources and with dollars which she will acquire in the future. Such dollars will come from further sales of British holdings of U. S. securities, sale of Britain's direct investments in the United States, gold acquired by the British Government, and the net dollar proceeds of British exports of goods and services to the United States and elsewhere.

Question 4: What is the value of British holdings in the United States and the Western Hemisphere outside of the United States?

The value of British holdings in the United States as of January 1, 1941, is estimated by the Treasury at \$616 millions of marketable securities and \$900 millions of direct investments.

The nominal value of United Kingdom investments in Canada is nearly the equivalent of 2 billion U. S. dollars, and of United Kingdom investments in Latin America is the equivalent of over \$3-1/2 billion. This refers to the nominal value; the market value would, of course, be much less. In the case of the Canadian investments the market value is much

closer to the nominal value than in the case of the Latin American investments. The United Kingdom is using a substantial amount of these each month to pay for war materials obtained from Canada. Some of the investments in Latin America are in complete default, many are in partial default, whereas nearly all are payable either in sterling or in local currencies. The liquidation value in U. S. dollars of these Latin American securities, particularly in view of widespread controls of foreign exchange transfers, is very uncertain. The details of these investments will be found on page 54 of the hearings before the House Committee on Foreign Affairs on H. R. 1776.

Question 5: What steps, if any, have been taken to meet prior commitments and what steps are to be taken as to commitments yet to be made?

The United Kingdom will meet her liabilities on existing orders from her existing dollar resources and from dollars which she will acquire in the future. The steps by which these dollar resources are being acquired have been indicated in the answer to question 3 above.

The British Government does not have funds adequate to meet additional commitments. It is for these additional commitments that the Lend-Lease arrangements will be required.

Question 6: What is the monthly rate of expenditure by England and its dominions for war purposes?

The monthly rate of expenditures for United Kingdom, Canada, New Zealand, Australia, South Africa and India taken together is, according

to our information, roughly the equivalent of \$1-3/4 billion. Nearly \$1.5 billion of this is the expenditure of the United Kingdom alone.

Question 7: What are the British dominions, and particularly Canada, prepared to do for aid to Great Britain?

Canada is, of course, helping directly with troops, naval and air forces, and is paying all expenses of Canadian forces operating abroad as well as at home. It is anticipated that during the coming year Canada will spend a total of \$1.4 billions on her direct war effort. This alone constitutes about 25 per cent of her expected material income. In addition, Canada is supplying Britain with large increasing amounts of goods and services in return for a considerable part of which she is getting either sterling in excess of her needs or the repatriation of Canadian securities to the United Kingdom.

Just as in the case of Canada, Australia, New Zealand, South Africa and India have under way and are financing themselves, a war effort of considerable magnitude in relation to their national income. In addition, these countries are acquiring excess sterling in London and repatriated securities as payment for exports of merchandise, services and gold to the United Kingdom and to the dollar exchange areas. This is a form of economic and financial assistance of considerable value to the British war economy.

Question 8: What has Great Britain, its dominions and particularly Canada, appropriated for this war?

This information is not readily available; but we have requested it for the committee. However, because of differences in budgetary practice, such figures will not be at all comparable with the defense appropriation figures for the United States.

Question 9: What are the potash and borax holdings of the British in the western part of the United States?

Our preliminary information is that there are three large potash and borax companies with properties in the western United States in which the value of the British investment is estimated to be roughly more than \$20 million. These properties are included in the British direct investments referred to in answer to question 4.

Question 10: What have we bought in the way of gold from Great Britain and its dominions, including Canada, since 1934 (by years)?

The net imports of gold from British Empire by years are given in the table below. It should be pointed out that London has been, prior to the war, the leading gold market of the world and hence gold imports from the British Empire were not solely for British account.

Net Imports of Gold from British Empire, 1934-1940
(Million dollars)

	<u>United Kingdom</u>	<u>Other British Empire</u>	<u>Total</u>
1934	500	183	683
1935	316	184	500
1936	174	182	356
1937	892	204	1,096
1938	1,209	144	1,353
1939	1,826	976	2,802
1940	633	2,995	3,628
<u>Total 1934-40</u>	<u>5,550</u>	<u>4,868</u>	<u>10,418</u>

EXHIBIT B-2Development of the \$300 - \$400 million figure of relief promised the BritishMarch 12, 1941

The Secretary mentioned in his telephone conversation of today with Mr. Hopkins that the British are hard up for cash, so the Army working out a formula whereby they will take over English contracts where they have down payments amounting to 25% of the contract. He said they were in process of doing that and it would come out of the regular Army appropriations. He also said that Jesse Jones was in process of negotiating for \$134,000,000 of plant investments. He said that he had told the British that they could use the money that they get from the Army and Jones on account of these transactions for anything that they want to use it for.

March 13, 1941

The Secretary in his Press conference gave the reporters some background history of why he was not going to testify on the Lend-Lease Appropriation Bill and finally got into the question of taking over some of the contracts. He emphasized that this was given to the reporters as a background only. One of the reporters told the Secretary that the statement is being made rather flatly at the OPM and War and Navy Departments that the United States will take over all British war material orders now unfulfilled and pay for them and then turn them over to the British under the Lend-Lease program. He asked whether or not that was true. The Secretary said it was not true as of today, but you never know what is going to happen. The situation had not changed since he was on the Bill and he still expected the British to pay for their outstanding contracts.

After being questioned at length, the Secretary said to help the reporters out, he would say that the RFC has for some time been negotiating for the plant facilities that the English had invested in in this country, also for some time the Army has been negotiating to take over contracts where the British had made down payments of, say 25%, which would take care of a certain amount of British contracts. The Army would be taking over those contracts where it would have use for that particular material. The Secretary said he was telling them this because there was no thought of taking over all of the present British contracts. A reporter asked the Secretary if he could give him the dollar volume of contracts under consideration for transfer. The Secretary said he did not know, but he would give them percentages, it might run to 20 - 25% of their present contracts. When asked how much the present contracts were, he said he did not care to say but

someone reminded him that he had testified that the present outstanding unliquidated commitments amounted to about \$1,400,000,000. The Secretary admitted that and one of the reporters asked if they could not apply the percentage he had given to the figure furnished the Committees. The Secretary said they would not be off much. He reminded them that the figures were of January 1. One of the reporters said, "In other words, about \$400,000,000." The Secretary said "no", he thought it would run possibly around \$300,000,000, they might say between \$300 - \$350,000,000. The Secretary went in to this question rather fully in his Press conference, but only for background purposes.

It might be well to copy all of his Press conference and attach it to this file. This is being done.

March 15, 1941

Mr. Jesse Jones gave out a Press release today stating that the Defense Plant Corporation, at the request of the War Department and with the approval of the President, is arranging to buy several munitions plants, the cost of which aggregates approximately \$46,000,000. He said other plants may be acquired later.

March 17, 1941

The Journal of Commerce, under Washington date line of March 16, commented on Jones Press release of March 15. It carried this paragraph presumably based upon the Secretary's Press conference of the 13th:

"Earlier last week, high Government officials revealed that the total of British plants and commitments to be taken over by this Government may run as high as \$350,000,000.

"It was indicated that the companies which built the plants would reimburse the British for any investments they had made out of the proceeds received from this Government."

Excerpt from Report of Secretary Morgenthau's Press Conference, March 13, 1941

- Q. The statement is being made rather flatly at the OPM and in the War and Navy departments that the United States will take over all British war material orders now unfilled and pay for them and then turn them over to the British under the Lease-Lend program. Do you know whether or not that is true?
- A. Well, for background, it certainly isn't true as of today, see. Now, you never know what is going to happen, but up to now - let's say as of last night, it was not so.
- Q. It is just being discussed?
- A. It is not even being discussed. I mean, the situation is just as I described it when I was on the Hill, that we expect the English - I don't want direct quotes on this - to pay for the - their outstanding contracts. I would think that that would come more from the English than it would, possibly, from anybody connected with the administration, but certainly as of last night, that was not the case, but as I say, that is to help you, but please don't --
- Q. Do you know the value of those --
- Don't attribute it.
- A. I would be surprised if anybody who really had anything to say would say that.
- Q. Well, we picked it up from three different places yesterday.
- A. Well, all I can say is, as of last night, that was not the plan, definitely. I am not going to say that it might not be shifted.
- Q. They might take over the facilities after British orders are completed or something?
- A. Well, again to help you gentlemen out, the R.F.C. has for sometime been negotiating for the plant facilities that the English have invested in, in this country, you see. That is No. 1 No. 2, for sometime the Army has been negotiating to take over contracts where the English had made down payments, 25 per cent down, you see, which would take care of a certain amount of contracts. The Army only would be taking over those where they have use for that particular material, you see, and where they have made payments - cash payments, but no investment in plant. Where there is plant investment, the R.F.C. is taking care of that. Now, maybe that - but that leaves a great many other contracts, the bulk of the contracts still uncleared.

Q. Both of these, as I understand, apply only to plants.

A. No, the R.F.C. has been negotiating for the ones where there are plants. The best example is that powder factory down in Tennessee somewhere, the other - but where, for instance, they have a contract and they have paid down 25 per cent down payment, some of those the Army have been taking over.

Q. Those are war materials?

A. War materials, which the Army has a use for.

Q. And those are plants to manufacture war materials only?

A. Only, and where the Army - they fitted into the Army plan. But you fellows - I am telling you the facts, but you will have to get - how are you going to write this now?

Q. "A high official said today."

A. All right.

Q. "Unimpeachable sources."

Always impeccable.

Run it right behind this freezing order item. Well then, that does create the picture of us taking over some of the uncompleted contracts entered into by the British here.

A. That is right, but there is no thought - the reason I am telling you all of this, there is no thought of taking over all of their present contracts, with the exception of these two instances, you see.

Q. Can you give us any dollar volume of what they will mean?

A. Oh, this might run - I will give it to you in percentages. It might run from 20 to 25 per cent of their present contracts.

Q. And how much are the present contracts?

A. I am not saying.

Q. Didn't you testify that they --

A. Pardon

Q. I was going to inquire whether that includes aircraft?

A. I am not sure.

Q. Mr. Secretary, when you testified on the Lease-Lend Bill, didn't you testify from those long tables that they had something like a billion seven hundred million --

A. Four.

Q. A billion four, was it?

A. Around that.

Q. To pay for this year?

A. Yes.

Q. Couldn't we apply this percentage to that figure?

A. You wouldn't be far off. Of course, those figures were as of January 1st, you see.

Q. They have paid some since, but they have probably incurred some new obligations.

A. Well, I don't want to get in on that, but if you apply this 20 to 25 per cent as of the situation of January 1, you wouldn't be far off.

Q. In other words, about 400 million dollars.

A. No, it would be about - it would run around 300 million. It might run say between three -

Q. Three and three fifty?

A. Yes.

Q. This does not apply to all plants?

A. That is right. This is - I will do it once more. There are two things--

Q. I mean the 20 percent.

A. Yes, it does. What the Army and RFC might do jointly. If the RFC, Jones, does the plants through one of his corporations--

Q. Defense Plant Corporation.

A. And the Army simply negotiating for those contracts which they have a use for, where there is a cash down payment.

Q. Where there is a cash down payment?

A. Yes. Where there has been a cash payment.

Q. Didn't you specify before where the cash payment had been 25 percent?

A. Well, sometimes it is - it runs about 25 percent.

Q. Why just where there is a cash payment?

A. I think that is fairly obvious.

Q. Mr. Secretary, I don't quite get the reason for that cash down payment. Will you tell us again for background, why it is?

A. Well, it is a custom which the American manufacturer seems to be following with the English. When they place an order, they want a down payment. I think they do with most anybody.

Q. Well, don't - say if the Army takes over an order in which there has been a 10 million dollar down payment, would the Army return the 10 million to the British?

A. Sure. Well, no, what most likely happened, the way we have done, they would take it over and they would give the money to the manufacturer and the manufacturer would return the money to the British.

Q. Yes, but I mean down payment would flow back to--

A. Yes, but I mean the Army would say, "We will take over this contract," and they would take it over and start fresh, so I suppose that would happen, the man would pass his contract and the British would reimburse him and the contract would go to the Army.

Q. Have any of these actually occurred?

A. I am realizing now I am getting into the Army and AFM. I think I had better stop. I think I have talked too much already, but I have heard there has been all this misunderstanding, and we might just as well have the truth.

Q. I have seen the figure of a hundred and sixty million dollars used as an estimate of the British investment in munitions plants in this country. Do you know whether that is approximately correct?

A. I don't want to say anything more than that I have, that this thing might run around three or three hundred and fifty million dollars if everything went through, you see.

Q. Would it run about 50-50 as between plants and contracts, between the AFM and the Army?

A. Well, I would rather not. I think I have talked too much already.

EXHIBIT B-3COPY

(In the President's handwriting)

EMJr

Because of the General
financial picture can you
hurry up.

(a) R.F.C. taking over of
British payments made
for plants

(b) War Dept. taking over
of materiel payments
made by the British.

(Signed) FDR

at Lunch March 10th 1941. (In a different handwriting)

APPENDIX

Handed by Mr. Stone in the Department of State to Mr. Cochran of the Treasury when the latter called at the office of the Secretary of State at 3:30 p.m., March 27, 1941)

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: March 18, 1941, 8 p.m.

NO: 1060

The following is strictly confidential for the President, the Acting Secretary and the Secretary of the Treasury.

Deep concern is expressed by the Prime Minister over the report which his Chancellor of the Exchequer gave him that a much smaller part of their existing commitments in the United States would be taken over under the Lease Lend Bill than had been anticipated by the British Government. The British had apparently thought that there would be released to them about \$195,000,000 on account of past payments on existing commitments. They have now been informed that not more than \$90,000,000 will be released for this purpose, and the amount may be very considerably less. Also, they will have to provide future payments on account of the greater part of commitments already made.

The British believe that in view of the foregoing, it will be extremely difficult for them, considering their other requirements, to meet their own and Canadian exchange requirements in the United States; in order to function properly in meeting the war emergency, they feel they should have not less than \$150,000,000 for a working balance.

It is the strong belief of the Prime Minister that they should have more money and freedom than are given in the arrangements now contemplated. He expressed the hope that the British situation might be sympathetically reconsidered by the President and Secretary Morgenthau. The thought occurs to me that it may be Secretary Morgenthau anticipates more rapid liquidation of

securities and investments of the British than is believed practicable by the Chancellor of the Exchequer. In order to help you to get the picture as it was put to the Prime Minister and the Chancellor of the Exchequer, I quote below the letter of March 17 from Under Secretary Daley to Mr. Ben Cohen:

(The letter in paraphrase);

My dear Mr. Cohen:

I set forth below the figures which I mentioned to you in our talk this morning. It is necessary for us to take care of

Commitments in the amount of 360,000,000 on existing contracts made by the U.K. in the U.S.A.

Approximately 150,000,000 in payments by the sterling area to Canadian gold or dollars.

150,000,000 will be needed to reconstitute a working balance.

These payments by the U.K. to the U.S.A. which the Lease Lend Bill does not cover.

The foregoing would total, say, 660,000,000 in addition to (omission).

It has not been possible for us to estimate the figure for the last-mentioned item, as we have not yet had the necessary information.

The United Kingdom has the following to apply towards meeting the aforementioned needs:

Visible and invisible exports in the amount of 45,000,000 from the United Kingdom to the United States of America.

An amount of 25,000,000 for the favorable balance of the rest of the sterling area.

A net total of 90,000,000 in new gold (120,000,000 mined, but 30,000,000 taken off for gold outgoings elsewhere).

by amount of (omission) from the sale of marketable securities and direct investments.

These items would total 160,000,000, plus (omission).

It estimates the last figure for any particular period of time it is again difficult; however, it would seem difficult to figure on an amount more than 160,000,000 within a year.

Taking all of the above figures into account, it would be indicated that more than \$700,000,000 would be needed, of which there is in sight not more than approximately \$300,000,000. Therefore it would appear that the U.K. might well find, when it is in a position to figure more closely, that it will be necessary that commitments on existing orders in the U.S.A. amounting to \$360,000,000 will have to be taken care of for it, and that the U.K. receive \$195,000,000 in reimbursement for advance payments and capital, in order to be in a position to bridge the gap - or at any rate, a large proportion of this assistance will be necessary.

Sincerely yours, S. D. Waley."

WINANT

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OFFICE FOR EMERGENCY MANAGEMENT
DIVISION OF DEFENSE AID REPORTS
Washington, D. C.

MEMORANDUM

June 2, 1941

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To: Mr. Harry White
From: Mr. Oscar Cox
Subject: Deferment of British Contracts.

1. You just asked me to write down the suggestion I made on Thursday.
2. Since the Director of the Budget assured Congress that the Lend-Lease appropriation would not be used to bail out British contracts placed before March 11, 1941, it seems wise to not not to break faith with Congress.
3. By utilizing a variation of the accepted deferment procedure immediate relief can probably be given to the British from their presently stringent dollar exchange position. In substance, this suggested procedure is illustrated by the following example: The War Department, with Lend-Lease funds, offers to place a contract for the self-same or similar aircraft which the British have on order. At the same time the War Department and the British ask the manufacturer to defer the British contract, make what refunds are possible and postpone the payments

- 2 -

to be made by the British accordingly. In this way, if the manufacturer agrees, the dollar payments required to be made by the British can be postponed without running afoul of the Director of the Budget's representations to Congress.

The largest or several largest British contracts requiring the heaviest dollar payments now and for the rest of 1941 should doubtless be used if it is decided to follow this procedure.

4. This suggested procedure is, of course, in addition to the:
 - a) Possibility of taking over British contracts entered into after March 11, 1941;
 - b) The taking over of plant facilities, etc., by the RFC;
 - c) The taking over of the Vulcan plane order by Lend-Lease, etc.

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Attachment #2

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H.M.Jr:

Because of the general financial picture, can you hurry up

- (a) R.F.C. taking over of British payments made for plants
- (b) War Department taking over of materiel payments made by the British.

F.D.R.

At lunch, March 10, 1941

June 3, 1941
12:52 p.m.

Cong. Compton
White:

Hello, young man.

H.M.Jr:

Yes.

W:

Congressman White of Idaho. I suppose you're pretty busy these days, kind of hard to contact.

H.M.Jr:

Well, I'm sorry.

W:

Well, I just wanted to tell you that - I tried to tell you the other day - you know we had this Stabilization bill and the devaluation thing up and I guess you're satisfied with the way

H.M.Jr:

Well, they passed it.

W:

Well, I know they passed it but you know there was a little work connected with that. We had some Republican opposition and one thing and another. I don't know whether you followed the debate.....

H.M.Jr:

Well, I was away. I've been away.

W:

Well, I know you were; I know you're busy as the devil too. Mr. Secretary, I just wanted to tell you that our friend, Bratter, you know Herbert.

H.M.Jr:

Yes.

W:

He and I are as far apart as the poles but we got together on this minority report. You know the Republicans came in and talked about the effect of devaluation inflation.

H.M.Jr:

Yeah.

- 2 -

W: Next minute they wanted to disburse the fund, the Stabilization Fund. I asked them on the floor - Bratter called my attention to the inconsistencies of the thing and I asked them how they were going to curb inflation if they were going to dump a billion, 800 million in the stream and dissipate our reserves.

H.M.Jr: Yeah.

W: You'll find it all in the record.

H.M.Jr: I'll look it up.

W: Of the 7th.

H.M.Jr: Well, I appreciate

W: Well, I don't want to bother you; I know you are busy as the devil but more power to you.

H.M.Jr: Well, I appreciate the help.

W: But you'll see what I said about your management of the thing.

H.M.Jr: I'll look it up.

W: All right. Thank you.

H.M.Jr: Thank you.

June 3, 1941
2:32 p.m.

HMJr: Hello.
Operator: You wanted to talk to Mr. Foley?
HMJr: Oh yes.
Operator: Now?
HMJr: Yeah.

2:35 p.m.

Operator: Mr. Foley
HMJr: Ed?
Ed
Foley: Yes, Mr. Secretary.
HMJr: This Congressman White of Idaho called and called and I finally talked to him and he seemed very much surprised that I didn't know that he had evidently said something nice about me on the Hill. Well, of course, I wasn't here.
F: Oh.
HMJr: I wish you'd check with your Legislative session and they - if something like that happens it's up to them to bring it to your attention and mine. If somebody like White goes out of his way that he gets a note from me or something you see.
F: Yeah.

- 2 -

HMJr: I can't dream it.

F: Well, that's, of course, right
and I - I mean I didn't know
he had said anything....

HMJr: Well.....

F: Complimentary either. Well, we'll
check it and see.

HMJr: Well evidently he must have made
quite a speech and he feels hurt
that I didn't know about it.

F: I see.

HMJr: Look into it for me.

F: All right, I will.

HMJr: Thank you.

June 3, 1941
2:37 p.m.

Robert
Doughton: All right, Mr. Secretary.

HMJr: How are you, Bob?

D: First rate, Henry. How are
you?

HMJr: I'm never better.

D: Well, we've felt better about
a lot of things in a lot of
ways, I'm sure.

HMJr: Bob?

D: Yeah.

HMJr: I would like to ask a little
favor of you.

D: Well, let's hear it.

HMJr: Back on May 10th....

D: How's that?

HMJr: Back on May 10th, Stamm wrote
a letter to Helvering - hello?

D: Yes, I hear.

HMJr: Stamm.....

D: Stamm wrote a letter....

HMJr: To Helvering....

D: To who - Helvering? Yes.

- 2 -

HMJr: Asking that - oh, any reports that were prepared in the Bureau be sent to Stamm, you see?

D: Yes, you talked to me about that.

HMJr: I know. You countersigned it.

D: Yeah.

HMJr: Well, it's a little bit irregular and it kinda upsets the whole Treasury organization.

D: Oh well, if anything about it does that, you know I wouldn't be in favor of it. I thought if it was just routine matter that he - that would be - he's part - he's our staff, you know.

HMJr: I know.

D: If it's the information he needed, why - didn't see any reason why he shouldn't get it.

HMJr: Well - no - but just....

D: Now, what you want with me?

HMJr: Well, I'd like to send the letter back to you and any time that you want anything, see?

D: Yeah.

HMJr: If you or your secretary will just ask John Sullivan, why you can have my shirt.

D: Well, you know I wouldn't ask any thing that wasn't perfectly proper for me to have.

HMJr: Well, you could ask something improper and I'd still give it to you.

D: Well, I wouldn't ask it, if I knew it.

- 3 -

HMJr: I know that.

D: Yes.

HMJr: But anything that you or your office wants, you just ask John, he'll see that you get it.

D: You mean if we - if I want it for the Staff?

HMJr: That's all right.

D: Yeah.

HMJr: But if it goes through John, as Assistant Secretary, it just keeps my ship running a little smoother, that's all.

D: That's all right. That's perfectly satisfactory with me and if I've done anything wrong about that, I'm sorry.

HMJr: No, you haven't. You never can.

D: You want to send the letter back to me.

HMJr: Well, if it's agreeable, I'll just stick it in an envelope without anything and just address it to you.

D: So there's no record down there.

HMJr: That's right.

D: That will be entirely satisfactory and glad for you to do it.

HMJr: You are a gentlemen.

D: I thank you and I try to be and you are too and always have been.

HMJr: Thank you.

D: Goodbye.

MEMORANDUM

June 3, 1941.

TO: The Secretary
FROM: Mr. Sullivan

In accordance with your instructions I have today returned without covering letter to Congressman Doughton the May 10th letters signed by Mr. Colin F. Stam, Chief of Staff of the Joint Committee on Internal Revenue Taxation, and approved by Mr. Doughton. These letters were addressed to Commissioner Helvering and asked that Mr. Stam be furnished with any memoranda prepared in the Bureau of Internal Revenue relating to increase in miscellaneous, estate, and gift taxes, and recommendations to close loopholes in income and estate tax laws.

I am transmitting herewith photostatic copies of these letters. One set of photostatic copies has been sent to Mr. Foley and the other set has been retained in my files.

TWS

MEMBERS

SENATE	HOUSE
FRANK W. BURNETT, MICH., CHAIRMAN	ROBERT L. DOURNITH, N. C., VICE CHAIRMAN
WILLIAM F. GEORGE, GA.	THOMAS H. CULLEN, N. Y.
W. L. WALSH, MASS.	JERRY COSPER, TENN.
FRANCIS M. LA FOLLETTE, JR., WIS.	ALLEN T. TREADWAY, MASS.
WALTER CAPPER, KANS.	FRANK CROWTHER, N. Y.
	BRYANT C. BROWN, SECRETARY

COLIN F. STAM
 CHIEF OF STAFF
 G. G. CHRISTEN
 ASST. CHIEF OF STAFF

Congress of the United States
 JOINT COMMITTEE ON INTERNAL REVENUE TAXATION
 Washington
 May 10, 1941.



Honorable Guy T. Helvering,
 Commissioner of Internal Revenue,
 Washington, D. C.

Dear Mr. Commissioner:

By virtue of the authority vested in me by the Committee pursuant to sections 55(d), 5010 and 5011 of the Internal Revenue Code, it is respectfully requested that I be furnished forthwith any memoranda prepared in the Bureau of Internal Revenue, relating to suggestions for increased revenue to be derived from miscellaneous taxes, including estate taxes and gift taxes.

Respectfully yours,

Colin F. Stam
 Colin F. Stam,
 Chief of Staff.

Approved:

R. L. Doughton
 Vice-Chairman,
 Joint Committee on
 Internal Revenue Taxation.

MEMBERS

HOUSE

ROBERT L. DOWDTON, N. C., VICE CHAIRMAN
THOMAS H. CULLEN, N. Y.
JACK COOPER, TEXAS
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SENATE

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WILSON MANN
M. LAFFLETTE, JR., WYO.
COPPER, KANS.

BRYANT C. SPURIN, SECRETARY

Congress of the United States
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

Washington

May 10, 1941.

Honorable Guy T. Helvering,
Commissioner of Internal Revenue,
Washington, D. C.

Dear Mr. Commissioner:

By virtue of the authority vested in me by the Committee pursuant to sections 55(d), 5010 and 5011 of the Internal Revenue Code, it is respectfully requested that I be furnished forthwith any memoranda prepared in the Bureau of Internal Revenue (including the office of the Chief Counsel), containing suggestions as to closing loopholes in income and estate tax laws.

Respectfully yours,

Colin F. Stam,
Chief of Staff.

Approved:

Vice-Chairman
Joint Committee on
Internal Revenue Taxation.

June 3, 1941
4:00 p.m.

Operator: Go ahead.

Harold
Iches: Hello.

HMJr: Hello.

I: Henry?

HMJr: Yes, Harold, may I congratulate you on your new responsibility?

I: If you feel like it.

HMJr: Well, I do sincerely.

I: Thanks a lot.

HMJr: I think it's swell and good for the country.

I: Henry, what I called you up about; I get these weekly reports and we seem to be sending a hell of a lot of gasoline still to Japan.....

HMJr: That's right.

I: Hell of a lot.

HMJr: I hope that.....

I: I like what you said yesterday about freezing the credits of Germany and the other countries.

HMJr: You did?

I: Yeah.

HMJr: Harold, some time ago we did a little job here when our men questioned it and we thought that far eastern thing to be handled through Conservation.

- 2 -

I: Yeah.

HMJr: I don't know whether I ever sent that to you or not.

I: No, I don't think so.

HMJr: Would you care to see it?

I: Yes. I don't know about it.

HMJr: What?

I: Yes, I'd like to see it.

HMJr: We thought it could be handled that way.

I: Yeah.

HMJr: What?

I: Let me take a look at it.

HMJr: All right.

I: Like to see it. How are you, otherwise?

HMJr: Oh, I'm fine. I had a wonderful trip.

I: That's good.

HMJr: Pep, etc. Like to see you soon.

I: All right, I'd like to talk with you, Henry.

HMJr: Right, thank you, Harold.

I: I wish you could cut out that gasoline to Japan.

HMJr: Well, I think you're the fellow that can do it.

I: Well, I'll raise some hell, anyhow.

- 3 -

HMJr: Let me dig this thing up?

I: All right, do that.

HMJr: I'll do that.

I: Send it over.

HMJr: Thank you.

I: Goodbye.

EXECUTIVE ORDER

134

DIRECTING CERTAIN PERSONNEL OF THE COAST GUARD TO OPERATE
AS A PART OF THE NAVY, SUBJECT TO THE ORDERS OF THE
SECRETARY OF THE NAVY

WHEREAS section 1 of the act of January 28, 1915, 38 Stat.
800 (U.S.C., title 14, sec. 1), provides:

"That there shall be established in lieu of the existing Revenue-Cutter Service and the Life-Saving Service, to be composed of those two existing organizations, with the existing offices and positions and the incumbent officers and men of those two services, the Coast Guard, which shall constitute a part of the military forces of the United States and which shall operate under the Treasury Department in time of peace and operate as a part of the Navy, subject to the orders of the Secretary of the Navy, in time of war or when the President shall so direct. When subject to the Secretary of the Navy in time of war the expense of the Coast Guard shall be paid by the Navy Department: Provided, That no provision of this Act shall be construed as giving any officer of either the Coast Guard or the Navy, military or other control at any time over any vessel, officer, or man of the other service except by direction of the President";

AND WHEREAS it is essential, for the strengthening of our national defense within the limits of peace-time authorizations, that certain personnel of the Coast Guard operate as a part of the Navy, subject to the orders of the Secretary of the Navy:

NOW, THEREFORE, by virtue of the authority conferred upon me by the statutory provisions above set out, I hereby direct that such number of commissioned, chief warrant, and warrant officers and enlisted men of the Coast Guard required to man and operate certain naval vessels, as may be agreed upon by the Chief of Naval Operations and the Commandant of the Coast Guard, shall operate as a part of the Navy, subject to the orders of the Secretary of the Navy; and such Coast Guard personnel while serving on such naval vessels shall be subject to the laws enacted for the government of the Navy.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

June 3, 1941.

JUN 3 1941

My dear Mr. Ambassador:

Further reference is made to your letter of May 6, 1941, relative to final settlement for the Spanish silver purchased by the United States Government in 1938.

I regret that the Department is unable to advise you at this time as to the date when the melting of such silver will be completed. However, I wish to assure you that the work is proceeding as rapidly as available facilities at the Assay Office in New York permit. As stated in our letter of April 18, 1941, when the various charges (including those for attorneys' fees and other litigation expenses) are more precisely determined, you will be promptly advised in the matter.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Senor Don Juan Francisco de Cardenas,
The Spanish Embassy,
2700 Fifteenth Street, N.W.,
Washington, D.C.

FH:EB/na - 5/22/41

File to Mr. Thompson

By Messenger

17938

THIS NO. _____ MUST
APPEAR ON GENERAL COUNSEL
STATE DEPT. APPROVING MARKED

May 6, 1941

Re: Spanish silver

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

Dear Mr. Secretary:

I acknowledge with thanks the receipt of your letter of April 18th relating to the charge for melting, parting and refining the Spanish silver purchased by the United States Government in 1938.

I note your statement of charges for melting, etc., and that the basis for final settlement can be determined when the melting of each shipment is completed. I would appreciate some indication as to when this melting is expected to be completed, and I respectfully request that this be done as promptly as practicable.

It will also be appreciated if you will let me know as soon as possible of the items of expense mentioned in the last paragraph of your letter.

It is my hope that we may conclude a final settlement in the near future.

Sincerely yours,


Juan F. de Cardenas
Spanish Ambassador

April 18, 1941

My dear Mr. Ambassador:

In connection with your recent inquiries as to the basis of settlement for the five shipments of silver purchased from the Spanish Government during the year 1938, I beg to advise you that the charges of the New York Assay Office to cover the cost of melting, parting and refining such silver will be as follows:

Melting, parting and refining charge, per gross troy ounce, (before-melting weight):

<u>Silver Content</u>	<u>Charge</u>
875 to 925 thousandths fine	\$0.0070
800 to 874-3/4 thousandths fine	\$0.0072

As the melting of each shipment of such silver is completed, and an assay made, it will be possible to determine, as a basis of final settlement for such shipment, the silver content, and to fix, in accordance with the foregoing schedule, the precise amount of the deduction for melting, parting and refining. An additional charge will be made to cover the cost of cartage.

The attorneys' fees and other expenses of the litigation involving such shipments have not as yet been ascertained, but you will be promptly advised in this respect as soon as the matter is determined.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Senor Don Juan Francisco de Cardenas,
The Spanish Embassy,
2700 Fifteenth Street, N. W.,
Washington, D. C.

JAL:fw 4-14-41

Original forwarded to
Addressee from Office of the Secretary
By Messenger

JUN 3 1941

My dear Mr. Ferguson:

I have received your letter of May 13, 1941, with which you transmitted copies of three proposed texts for debentures of the Federal Housing Administration, one text that of a debenture to be issued under Section 204 of Title II of the National Housing Act, as amended, the second text that of a debenture to be issued under Section 207 of Title II of the same Act, as amended, and the third text that of a debenture to be issued under Section 604 of Title VI of the same Act, as amended.

The three texts have my approval and in accordance with established usage you may arrange through the Commissioner of the Public Debt for the preparation of the necessary plates and the printing of debentures. It is to be understood that this approval does not extend to the rate to be borne by the Defense Housing Insurance Fund debentures, which I assume will be a matter for later determination.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. Abner H. Ferguson,
Administrator,
Federal Housing Administration,
Washington, D. C.
TFC:bv:ejn 5/28/41.

File to Mr. Thompson

By Messenger

FEDERAL HOUSING ADMINISTRATION
WASHINGTON

13958

ABNER H. FERGUSON
ADMINISTRATOR

May 13, 1941

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

Sir:

In view of the provisions of the Public Debt Act of 1941, it is necessary to prepare new forms of debentures for issuance by the Mutual Mortgage Insurance Fund and the Housing Insurance Fund, pursuant to contracts entered into subsequent to March 1, 1941 to eliminate the provision of the existing form granting exemption from taxes imposed by the United States.

In view of the recent amendment to the National Housing Act by the addition of Title VI, Defense Housing Insurance, (Public Law #24 - 77th Congress) it is also necessary to prepare a new form of debenture to be issued by the Defense Housing Insurance Fund.

A member of our Legal Staff has conferred with your Legal Department relative to this matter, pursuant to which I am herewith enclosing in duplicate, for your approval, copies of the three proposed forms.

Your prompt advice with respect thereto will be appreciated.

Respectfully yours,


Abner H. Ferguson
Administrator

14. DEFENSE HOUSING INSURANCE FUND
For value received, will pay to

S E R I E S

Dated
Due

or registered assigns, the sum of
on July 1, 1919, with interest
on such principal sum from 1919
at the rate of two and three-quarters per centum January 1 and July 1
(2 3/4%) per annum, payable semiannually on the
first day of January and the first day of July
in each year until the principal hereof shall
be payable. This debenture is issued and pay-
ment hereunder will be made pursuant to the

2 3/4%

Interest payable

authority, and in accordance with the provisions, of Section 504 of Title VI of an Act
of Congress entitled "National Housing Act", Approved June 27, 1934, as Amended, and
reference is hereby made to said Act for a statement of the rights, privileges, and
immunities of the holder of this debenture as fully and with the same effect as if here-
in set forth. In accordance with the provisions of said Act, this debenture shall be ex-
empt, both as to principal and interest, from all taxation (except surtaxes, estate, in-
heritance, and gift taxes) now or hereafter imposed by any territory, dependency, or
possession of the United States, or by the District of Columbia, or by any state, county,
municipality, or local taxing authority. Debentures of this series may be redeemed at
the option of the Federal Housing Administrator acting with the approval of the Secretary
of the Treasury, in whole or in part, at par and accrued interest, on any interest day
or days, on three months notice of redemption given in such manner as the Administrator
shall prescribe. In case of partial redemption the debentures to be redeemed will be
determined by such method as may be prescribed by the Administrator. From the date of
redemption designated in any such notice, interest on the debentures called for redemp-
tion shall cease. The said principal and interest shall be payable, when due, at the
Treasury Department, Washington, D. C., or at any government agency or agencies in the
United States which the Secretary of the Treasury may from time to time designate for
that purpose.

This Debenture is Fully Guaranteed as to
Principal and Interest by the United States

THE UNITED STATES OF AMERICA

by HENRY MORGENTHAU, JR.
Secretary of the Treasury

DEFENSE HOUSING INSURANCE FUND

BY

ADNER A. FENGLON

Federal Housing Administrator

Transferable on the Books of the Treasury Department, Washington, D. C.

Dated
Due

or registered assigns, the sum of
Dollars (\$) on July 1, 19 , with interest on
such principal sum from , 19 , at the
rate of two and three-quarters per centum (2-3/4%)
per annum, payable semiannually on the first day
of January and the first day of July in each year
until the principal hereof shall be payable. This
debenture is issued and payment hereunder will be

Interest payable
January 1 and July 1

made pursuant to the authority, and in accordance with the provisions, of Section 204 of Title II
of an Act of Congress entitled "National Housing Act", approved June 27, 1934, as amended, and
reference is hereby made to said Act for a statement of the rights, privileges, and immunities
of the holder of this debenture as fully and with the same effect as if herein set forth. In
accordance with the provisions of said Act, as amended, this debenture shall be exempt, both as
to principal and interest, from all taxation (except surtaxes, estate, inheritance, and gift taxes)
now or hereafter imposed by any territory, dependency, or possession of the United States, or by
the District of Columbia, or by any state, county, municipality, or local taxing authority. De-
bentures of this series may be redeemed at the option of the Federal Housing Administrator acting
with the approval of the Secretary of the Treasury, in whole or in part, at par and accrued interest,
on any interest day or days, on three months' notice of redemption given in such manner as the Ad-
ministrator shall prescribe. In case of partial redemption the debentures to be redeemed will be
determined by such method as may be prescribed by the Administrator. From the date of redemption
designated in any such notice, interest on the debentures called for redemption shall cease. The
said principal and interest shall be payable, when due, at the Treasury Department, Washington,
D. C., or at any Government agency or agencies in the United States which the Secretary of the
Treasury may from time to time designate for that purpose.

This Debenture is Fully Guaranteed as to
Principal and Interest by the United States

THE UNITED STATES OF AMERICA

MUTUAL MORTGAGE INSURANCE FUND
By
ASHER H. PETERSON
Federal Housing Administrator

By
HERBERT ROSENBERG, JR.
Secretary of the Treasury

Transferable on the books of the Treasury Department, Washington, D. C.

TRANSFER

FOR VALUE RECEIVED THE UNDERSIGNED HEREBY ASSIGNS TO

THE WITHIN REGISTERED DEBENTURE AND AUTHORIZES THE TRANSFER THEREOF ON THE BOOKS OF THE UNITED STATES TREASURY DEPARTMENT.

(SIGNATURE OF ASSIGNOR)

PERSONALLY APPEARED BEFORE ME THE ABOVE NAMED ASSIGNOR, KNOWN OR PROVED TO ME TO BE THE OWNER OF THE WITHIN DEBENTURE OR HIS DULY AUTHORIZED REPRESENTATIVE, AND SIGNED THE ABOVE TRANSFER, ACKNOWLEDGING IT TO BE HIS FREE ACT AND DEED. WITNESS MY HAND, OFFICIAL DESIGNATION AND SEAL.

(SIGNATURE OF ATTESTING OFFICER)

(OFFICIAL DESIGNATION)

(SEAL)

DATED AT _____

FOR VALUE RECEIVED THE UNDERSIGNED HEREBY ASSIGNS TO

THE WITHIN REGISTERED DEBENTURE AND AUTHORIZES THE TRANSFER THEREOF ON THE BOOKS OF THE UNITED STATES TREASURY DEPARTMENT.

(SIGNATURE OF ASSIGNOR)

PERSONALLY APPEARED BEFORE ME THE ABOVE NAMED ASSIGNOR, KNOWN OR PROVED TO ME TO BE THE OWNER OF THE WITHIN DEBENTURE OR HIS DULY AUTHORIZED REPRESENTATIVE, AND SIGNED THE ABOVE TRANSFER, ACKNOWLEDGING IT TO BE HIS FREE ACT AND DEED. WITNESS MY HAND, OFFICIAL DESIGNATION AND SEAL.

(SIGNATURE OF ATTESTING OFFICER)

(OFFICIAL DESIGNATION)

(SEAL)

DATED AT _____

NOTE: To transfer the within debenture the owner, or his duly authorized representative, must execute an assignment in the form appearing above, in the presence of an officer authorized by the Secretary of the Treasury to witness assignments, first establishing his identity to the satisfaction of the witnessing officer. The witnessing officer will then attest the assignment by affixing his signature, official designation and seal, with the place and date of execution. Bank officers must affix the seal of the bank or trust company, while witnessing officers who have no seal must certify to that fact in the attestation. Assignments must be executed in accordance with the general regulations of the Treasury Department governing transactions in United States bonds and notes. Detached assignments will not be accepted, but if required, additional assignments in similar form may be written on the back of the debenture. Officers authorized to witness assignments include: judges and clerks of United States courts; United States district attorneys, collectors of customs, and collectors of internal revenue; executive officers of Federal Reserve Banks and branches; of Federal Land Banks; of banks and trust companies incorporated in the United States, and branches thereof, domestic and foreign; and of incorporated banks and trust companies in Alaska and the insular possessions of the United States doing business under Federal charter or organized under Federal law; commanding officers of the Army, Navy and Marine Corps of the United States (for members of the military and naval establishments of the United States); diplomatic and consular representatives and commercial agents of the United States on duty abroad; and certain officers of the United States Treasury at Washington. A notary public, a justice of the peace, or a commissioner of deeds is not authorized to witness assignments.

In cases not covered by these instructions full information may be obtained from the Treasury Department, Division of Loans and Currency, Washington, D. C., or from the Federal Reserve Bank of the district.

2³/₄%

SERIES B

INTEREST PAYABLE

JANUARY 1 AND

JULY 1

Dated
Dus

or registered assigns, the sum of
Dollars (\$) on July 1, 19 , with interest on
such principal sum from , 19 , at the
rate of two and three-quarters per centum (2-3/4%)
per annum, payable semiannually on the first day of
January and the first day of July in each year until
the principal hereof shall be payable. This debenture
is issued and payment hereunder will be made pursuant

2-3/4%
Interest payable
January 1 and July 1

to the authority, and in accordance with the provisions, of Section 207 of Title II of an Act of Congress entitled "National Housing Act", approved June 27, 1934, as amended, and reference is hereby made to said Act for a statement of the rights, privileges, and immunities of the holder of this debenture as fully and with the same effect as if herein set forth. In accordance with the provisions of said Act, as amended, this debenture shall be exempt, both as to principal and interest, from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by any territory, dependency, or possession of the United States, or by the District of Columbia, or by any state, county, municipality, or local taxing authority. Debentures of this series may be redeemed at the option of the Federal Housing Administrator acting with the approval of the Secretary of the Treasury, in whole or in part, at par and accrued interest, on any interest day or days, on three months' notice of redemption given in such manner as the Administrator shall prescribe. In case of partial redemption the debentures to be redeemed will be determined by such method as may be prescribed by the Administrator. From the date of redemption designated in any such notice, interest on the debentures called for redemption shall cease. The said principal and interest shall be payable, when due, at the Treasury Department, Washington, D. C., or at any Government agency or agencies in the United States which the Secretary of the Treasury may from time to time designate for that purpose.

This Debenture is Fully Guaranteed as to
Principal and Interest by the United States

HOUSING INSURANCE FUND

THE UNITED STATES OF AMERICA

By

AMNER H. FERGUSON

Federal Housing Administrator

By
HENRY MORGENTHAU, JR.
Secretary of the Treasury

Transferable on the books of the Treasury Department, Washington, D. C.

TRANSFER

FOR VALUE RECEIVED THE UNDERSIGNED HEREBY ASSIGNS TO

THE WITHIN REGISTERED DEBENTURE AND AUTHORIZES THE TRANSFER THEREOF ON THE BOOKS OF THE UNITED STATES TREASURY DEPARTMENT.

(SIGNATURE OF ASSIGNOR)

PERSONALLY APPEARED BEFORE ME THE ABOVE NAMED ASSIGNOR, KNOWN OR PROVED TO ME TO BE THE OWNER OF THE WITHIN DEBENTURE OR HIS DULY AUTHORIZED REPRESENTATIVE, AND SIGNED THE ABOVE TRANSFER, ACKNOWLEDGING IT TO BE HIS FREE ACT AND DEED. WITNESS MY HAND, OFFICIAL DESIGNATION AND SEAL.

(SIGNATURE OF ATTESTING OFFICER)

(OFFICIAL DESIGNATION)

(SEAL)

DATED AT _____

19__

FOR VALUE RECEIVED THE UNDERSIGNED HEREBY ASSIGNS TO

THE WITHIN REGISTERED DEBENTURE AND AUTHORIZES THE TRANSFER THEREOF ON THE BOOKS OF THE UNITED STATES TREASURY DEPARTMENT.

(SIGNATURE OF ASSIGNOR)

PERSONALLY APPEARED BEFORE ME THE ABOVE NAMED ASSIGNOR, KNOWN OR PROVED TO ME TO BE THE OWNER OF THE WITHIN DEBENTURE OR HIS DULY AUTHORIZED REPRESENTATIVE, AND SIGNED THE ABOVE TRANSFER, ACKNOWLEDGING IT TO BE HIS FREE ACT AND DEED. WITNESS MY HAND, OFFICIAL DESIGNATION AND SEAL.

(SIGNATURE OF ATTESTING OFFICER)

(OFFICIAL DESIGNATION)

(SEAL)

DATED AT _____

19__

NOTE: To transfer the within debenture the owner, or his duly authorized representative, must execute an assignment in the form appearing above, in the presence of an officer authorized by the Secretary of the Treasury to witness assignments, first establishing his identity to the satisfaction of the witnessing officer. The witnessing officer will then attest the assignment by affixing his signature, official designation and seal, with the place and date of execution. Bank officers must affix the seal of the bank or trust company, while witnessing officers who have no seal must certify to that fact in the attestation. Assignments must be executed in accordance with the general regulations of the Treasury Department governing transactions in United States bonds and notes. Detached assignments will not be accepted, but if required, additional assignments in similar form may be written on the back of the debenture. Officers authorized to witness assignments include: judges and clerks of United States courts; United States district attorneys, collectors of customs, and collectors of internal revenue; executive officers of Federal Reserve Banks and branches of Federal Land Banks; of banks and trust companies incorporated in the United States, and branches thereof, domestic and foreign; and of incorporated banks and trust companies in Alaska and the insular possessions of the United States; doing business under Federal charter or organized under Federal law, commanding officers of the Army, Navy and Marine Corps of the United States (for members of the military and naval establishments of the United States); diplomatic and consular representatives and commercial agents of the United States on duty abroad; and certain officers of the United States Treasury at Washington. A notary public, a justice of the peace, or a commissioner of deeds is not authorized to witness assignments. In cases not covered by these instructions full information may be obtained from the Treasury Department, Division of Loans and Currency, Washington, D. C., or from the Federal Reserve Bank of the district.

2³/₄%

SERIES

INTEREST PAYABLE**JANUARY 1 AND****JULY 1**

or registered assigns, the sum of
Dollars (\$) on July 1, 19 , with interest on
such principal sum from , 19 , at the
rate of two and three-quarters per centum (2-3/4%) Interest payable
per annum, payable semiannually on the first day of January and July 1
January and the first day of July in each year until
the principal hereof shall be payable. This debenture
is issued and payment hereunder will be made pursuant

Dated
Due

2-3/4%

to the authority, and in accordance with the provisions, of Section 604 of Title VI of an Act of Congress entitled "National Housing Act", approved June 27, 1934, as amended, and reference is hereby made to said Act for a statement of the rights, privileges, and immunities of the holder of this debenture as fully and with the same effect as if herein set forth. In accordance with the provisions of said Act, as amended, this debenture shall be exempt, both as to principal and interest, from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by any territory, dependency, or possession of the United States, or by the District of Columbia, or by any state, county, municipality, or local taxing authority. Debentures of this series may be redeemed at the option of the Federal Housing Administrator acting with the approval of the Secretary of the Treasury, in whole or in part, at par and accrued interest, on any interest day or days, on three months' notice of redemption given in such manner as the Administrator shall prescribe. In case of partial redemption the debentures to be redeemed will be determined by such method as may be prescribed by the Administrator. From the date of redemption designated in any such notice, interest on the debentures called for redemption shall cease. The said principal and interest shall be payable, when due, at the Treasury Department, Washington, D. C., or at any Government agency or agencies in the United States which the Secretary of the Treasury may from time to time designate for that purpose.

This Debenture is Fully Guaranteed as to
Principal and Interest by the United States

DEFENSE HOUSING INSURANCE FUND

By

ARNER H. FERGUSON
Federal Housing Administrator

THE UNITED STATES OF AMERICA

By

HENRI MORGENTHAU, JR.
Secretary of the Treasury

Transferable on the books of the Treasury Department, Washington, D. C.

TRANSFER

FOR VALUE RECEIVED THE UNDERSIGNED HEREBY ASSIGNS TO

THE WITHIN REGISTERED DEBENTURE AND AUTHORIZES THE TRANSFER THEREOF ON THE BOOKS OF THE UNITED STATES TREASURY DEPARTMENT.

(SIGNATURE OF ASSIGNOR)

PERSONALLY APPEARED BEFORE ME THE ABOVE NAMED ASSIGNOR, KNOWN OR PROVED TO ME TO BE THE OWNER OF THE WITHIN DEBENTURE AS HIS ONLY AUTHORIZED REPRESENTATIVE, AND SIGNED THE ABOVE TRANSFER, ACKNOWLEDGING IT TO BE HIS FREE ACT AND DEED. WITNESS MY HAND, OFFICIAL DESIGNATION AND SEAL.

(SIGNATURE OF ATTESTING OFFICER)

(OFFICIAL DESIGNATION)

[SEAL]

DATED AT _____

FOR VALUE RECEIVED THE UNDERSIGNED HEREBY ASSIGNS TO

THE WITHIN REGISTERED DEBENTURE AND AUTHORIZES THE TRANSFER THEREOF ON THE BOOKS OF THE UNITED STATES TREASURY DEPARTMENT.

(SIGNATURE OF ASSIGNOR)

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(SIGNATURE OF ATTESTING OFFICER)

(OFFICIAL DESIGNATION)

[SEAL]

DATED AT _____

NOTE: To transfer the within debenture the owner, or his duly authorized representative, must execute an assignment in the form appearing above, in the presence of an officer authorized by the Secretary of the Treasury to witness assignments, first establishing his identity to the satisfaction of the witnessing officer. The witnessing officer will then attest the assignment by affixing his signature, official designation and seal, with the place and date of execution. Bank officers must affix the seal of the bank or trust company, while witnessing officers who have no seal must certify to that fact in the attestation. Assignments must be executed in accordance with the general regulations of the Treasury Department governing transactions in United States bonds and notes. Detached assignments will not be accepted, but if required, additional assignments in similar form may be written on the back of the debenture. Officers authorized to witness assignments include: judges and clerks of United States courts; United States district attorneys; collectors of customs, and collectors of internal revenue, executive officers of Federal Reserve Banks and branches; of Federal Land Banks; of banks and trust companies incorporated in the United States, and branches thereof, domestic and foreign; and of incorporated banks and trust companies in Alaska and the insular possessions of the United States doing business under Federal charter or organized under Federal law; commanding officers of the Army, Navy and Marine Corps of the United States (four members of the military and naval establishments of the United States); diplomatic and consular representatives and commercial agents of the United States on duty abroad; and certain officers of the United States Treasury at Washington. A notary public, a justice of the peace, or a commissioner of deeds is not authorized to witness assignments. In cases not covered by these instructions full information may be obtained from the Treasury Department, Division of Loans and Currency, Washington, D. C., or from the Federal Reserve Bank of the district.

2³/₄%

SERIES D

INTEREST PAYABLE

JANUARY 1 AND

JULY 1

June 3, 1941

Dear Mr. Lovett:

Thank you for your letter of May 19th enclosing statement showing the situation of the Air Corps as of April 30th.

Yours sincerely,

(Signed) H. Hergenthan, *992*

Hon. Robert A. Lovett,
Assistant Secretary of War for Air,
War Department,
Washington, D. C.

*Copy took the statement
to WHH luncheon 6/4/41*

Present
+1 Enc. ch
6/1/41

WAR DEPARTMENT
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON, D. C.

May 19, 1941

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

Dear Mr. Secretary:

I attach a condensed schedule showing the situation of the Air Corps as of April 30 with respect to the number of combat planes on hand suitable for use against a modern air force.

Footnote on the attached schedule shows the number coming through with leakproof tanks and armor.

Very sincerely yours,



ROBERT A. LOVETT
Assistant Secretary of War for Air

Enclosure

COMPARATIVE CONDITION OF COMBAT EQUIPMENT

FIT FOR USE AGAINST MODERN AIR FORCE

	Heavy Bombers	Medium Bombers	Light Bombers	Furguit	Total
January 31	57	33	13	176	279
February 28	68 ^o	33	39 ^o	208 ^o	348
March 31	79 ^{oo}	63 ^o	81 ^{oo}	327 ^{oo}	550
April 30	53 ^{ooo}	91 ^{oo}	92 ^{oo}	195	431

Notes

- * None with armor; 5 with leakproof equipment.
- ^o None with armor; 15 with leakproof tanks.
- ^{oo} None with armor; none with leakproof tanks.

^o 14 with leakproof tanks; none with armor.
^{oo} 33 of these are B-26 airplanes with armor and leakproof tanks, but grounded since 4/23/41 owing to structural defects in landing gear.

^o 26 with leakproof tanks and rear armor.
^{oo} 46 with leakproof tanks and rear armor only.
^{ooo} 8 with armor; 77 with leakproof tanks.

^o 29 with leakproof tanks and armor.
^{oo} 137 with leakproof tanks and rear armor.

150

MEMORANDUM

FROM British Supply Council in North America

TO Mrs. Henrietta S. Klotz

Compliments of E.N. Gray

STATEMENT NO. 17

157

AIRCRAFT SHIPPED TO U. K. & OVERSEAS COMMANDS

DESTINATION	ASSEMBLY POINT	By Sea During Week Ending May 10, 1941	By Air During Week ending June 1, 1941
<u>ER</u> alo I	F. E. Singapore	21	-
<u>SIKORSKY</u> apeake	U. K. U. K.	3	-
<u>E</u> on III	U. K. U. K.	3	-
<u>ED</u> on III	U. K. U. K.	5	-
on V	U. K. U. K.	15	-
on V	U. K. U. K. (via Gander)	--	2
<u>ADATED</u> lina I	U. K. U. K. (via Bermuda)	-	4
lina I	F. E. Singapore (via San Diego)	*	1
rator	U. K. U. K. (via Gander)	-	2
	U. K. U. K. (via Gander)	-	3
A L S		47	12

h Air Commission
, 1941

June 3, 1941

My dear Mr. President:

I am inclosing herewith, for your information, a letter which I received from Felix Frankfurter, dated May 28th, in which he inclosed two letters to him from Professors Samuel E. Morison and Frederick Merk in regard to Frederick K. Henrich, an applicant for a position in your library at Hyde Park. I am also inclosing a report from Chief Wilson to me on this matter.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

By Messenger 3⁰⁵

June 3, 1941

My dear Mr. President:

I am inclosing herewith, for your information, a letter which I received from Felix Frankfurter, dated May 28th, in which he inclosed two letters to him from Professors Samuel E. Morison and Frederick Merk in regard to Frederick K. Henrich, an applicant for a position in your library at Hyde Park. I am also inclosing a report from Chief Wilson to me on this matter.

Yours sincerely,

(Signed) E. Hergenthan, Jr.

The President,
The White House.

By ~~XXXXXXXXXX~~

June 8, 1941

My dear Mr. President:

I am inclosing herewith, for your information, a letter which I received from Felix Frankfurter, dated May 28th, in which he inclosed two letters to him from Professors Samuel E. Morison and Frederick Merk in regard to Frederick K. Henrich, an applicant for a position in your library at Hyde Park. I am also inclosing a report from Chief Wilson to me on this matter.

Yours sincerely,

(Signed) H. Morgenthau, Sr.

The President,
The White House.

By ~~Handwritten~~

May 29, 1941.

My dear Justice Frankfurter:

Your letter of May 28th, addressed to the Secretary of the Treasury, reached here during his absence from the city. As soon as Mr. Morgenthau returns to the office, you may be sure your letter will be brought to his immediate attention.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz
H. S. Klotz,
Private Secretary.

Honorable Felix Frankfurter,
Associate Justice of the Supreme Court,
Washington, D. C.

GKF/dbs

May 28, 1961.

My dear Justice Frankfurter:

Your letter of May 28th, addressed to the Secretary of the Treasury, reached here during his absence from the city. As soon as Mr. Bergenthien returns to the office, you may be sure your letter will be brought to his immediate attention.

Sincerely yours,

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GHY/dbs

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Your letter of May 28th, addressed to the Secretary of the Treasury, reached here during his absence from the city. As soon as Mr. Morgenthau returns to the office, you may be sure your letter will be brought to his immediate attention.

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H. S. Klotz
H. S. Klotz,
Private Secretary.

Honorable Felix Frankfurter,
Associate Justice of the Supreme Court,
Washington, D. C.

GXF/dbs

Supreme Court of the United States
Washington, D. C.

CHAMBERS OF
JUSTICE FELIX FRANKFURTER

May 28, 1941

Dear Henry:

I am sorry to add to your chores but since the enclosed letters apparently concern an inquiry that the Secret Service made for the President's library at Hyde Park, I must invite your personal attention. I cannot very well refuse serving as a conduit when appealed to by two such important and wholly dependable scholars as Professors Samuel E. Morison and Frederick Merk. You probably know that Sam Morison is one of the really distinguished historians of this country, a friend of the President and one of his close advisers regarding his library at Hyde Park.

I miss not seeing
Ever yours,
v.t.

you!
P.T. I have written
all from Morison
has just come

Hon. Henry Morgenthau, Jr.

Telegrams & telegrams to 44 B71 on memo. 158

From - L. MORISON
Harvard College Library, 417
Cambridge, MASSACHUSETTS

CAP 7187

158

May 27, 1941

Dear Felix

As you may gather from
my telegram I am still very much
interested in the case of Bronsick.
So far as he could learn in
Washington (and he got nothing
really definite) he was rejected as
a secret service report either by
the President himself or someone
very close to him. The President
does not probably know that
I was asked to suggest this appointment

The only "patronage" I have had ¹⁶⁰
connection with the Hyde Park Library
and that I selected Henrich with
as much care as if it had been a
nomination to the President's body-guard.
Henrich is in fact much that type -
he has a sort of dog-like loyalty and
faithfulness, which is not (I repeat
to dog) a common combination with
scholarship of a high order.

I shall await suggestions from you
as to what I can do about this - by letter,
or seeing the President; if by letter, tell
me how to address it so it will reach
him.

Dreadful events these days, but
I feel calm and confident as to the

Abstracts - Grant. Co, returned from England very
optimistic about extent of damage. British morale,
and technical progress of British scientific

As above know when you read these parts

Sincerely

Yours.

HARVARD UNIVERSITY
DEPARTMENT OF HISTORY
CAMBRIDGE, MASS.

May 14, 1941

to Mr. Felix Frankfurter
U.S. Supreme Court, Washington, D.C.
Dear Mr. Frankfurter: Fred Horrich, who will
present this note to you, is a graduate student
in American History at Harvard, whom I have known
for many years, and who is this year serving as
my assistant. He was recently chosen for a
post in President Roosevelt's library at Hyde Park,
and the appointment had been all but confirmed
when an adverse report was made on him by
the Secret Service. What the nature of the report
was he has been unable to determine. Nothing
can be learned except the fact that the report
was adverse. I know Horrich well enough
to be able to say that he is, in point of
character and his views, a perfectly trustworthy
and safe person. He is not even a hint -
he is no more radical than I am. He has been
in fact, a consistent supporter of the President
and the New Deal. If the Secret Service report

is adverse on any grounds of radicalism, it
is a miscarriage of justice, and can rest
on nothing except error or the personal
spite of some enemy.

163

He has asked me to write to you in
the hope that you could advise him as to
how to proceed. I hope you will do
whatever you can for him.

Sincerely yours,
Frederick Merk

The Great Admiral: a Life



of Christopher Columbus

164

Also: The Second Voyage of Columbus (1939)
Portuguese Voyages to America (1940)
Journals of Columbus and other Documents

from S. E. MORISON
Harvard College Library, 417
Cambridge, Massachusetts
May 14th
1941

Dear Felix,

You know the interest and pains that I have taken about the President's Library at Hyde Park. When asked to nominate a scholarly person for junior archivist there I recommended my pupil Frederick K. Henrich, one of our best men in the Graduate School, Schlesinger's assistant and one of sterling character. He was offered the appointment, accepted but has just been told that as the result of an ^{Secret Service} ~~F.B.I.~~ investigation into his character, he can't have it. He supposes the objection is owing to his association with a New Theatre group at Buffalo six years ago about which he told the ^{Secret Service} ~~F.B.I.~~ people fully and frankly.

This seems to me just the kind of thing we were up against during the last war. I hoped at least we wouldn't have that sort of thing now that Bob Jackson is in charge. The worst of it is we don't know to whom to go to clear up his record (in which we are much more interested than the job).

Please, out of friendship for me, if for no other reason, give this excellent young man ^{and} ~~help~~ as to what to do. You can depend absolutely on his discretion.

Affectionately yours,

Samuel Eliot Morison

Mr. Justice Frankfurter

Room 417
 Capitol Park Hotel
 Washington, D. C.
 May 19, 1941

Mr. Justice Felix Frankfurter
 United States Supreme Court
 Washington, D. C.

Dear Sir:

You will see by the attached letters to you from Professor Samuel E. Morison and Professor Frederick Merk that I am an applicant for the position of Junior Archivist at the Franklin D. Roosevelt Library, Hyde Park, N. Y. On April 4 I had a conversation with Mr. Fred W. Shipman, Director of the Library, in which he indicated that he believed I was qualified for the position. A week ago, however, I was informed that my application was rejected. In further conversations with Mr. Shipman and with Mr. R. D. W. Connor, Archivist of the United States, they informed me that they still consider my qualifications satisfactory, but that Mr. Shipman had been given instructions that I was not to be appointed. Neither of them would tell me who had given Mr. Shipman these instructions, but as a result of my conversations with them I was led inevitably to the conclusion that this rejection was based on a report which had been made about me by the Secret Service. I have been in Washington for several days trying to find out the nature of this report, but I have been unable to learn anything about it. Therefore, at the suggestion of Professor Morison and Professor Merk I am asking you for your advice.

The information on which I believe the Secret Service must have based their report concerns my connection in 1935 and 1936 with the New Theater Group of Buffalo, N. Y., a small "workers' theater". This organization had a few members who were also members of the Communist Party and they were the dominant force in its affairs. For a few months in 1936 I acted as president of the group, and my election to this office was the result of the support of the Communists in the organization. I was not then a Communist and never have been. I disagreed with the Communists on practically every issue except the desirability of a theater like ours. I believed then and I still believe that a theater of this kind could serve a useful purpose. The developments of the last few years, however, make it clear to me that I was unwise in my choice of associates in this venture. "

If this information, which I submitted to the Secret Service in the form of a letter, is the basis for my being considered disqualified for holding a position in the Franklin D. Roosevelt Library, I should like to protest against such a decision with every means at my disposal. If charges have been made against me detrimental to my character or loyalty, I should like to be told of them, and be given an opportunity to defend myself. At the present time, I am forced to rely solely on conjecture, for I have not seen the Secret Service report, or even been told what it contains.

My purpose in coming to Washington is not solely to obtain a reversal of the decision that I am not a suitable person to work at the Franklin D. Roosevelt Library. Although this is of course important to me, it may be too late to make any change in regard to that particular position. It is of far greater importance to me to learn whether charges of this kind have been made against me, and if so to be given a chance to clear my name by refuting them.

If there is any advice which you can give me as to what I can do about this situation, I would be most grateful to you.

Very truly yours,

F. K. Hourich
Frederick K. Hourich

Home address:
72 Foster Street
Cambridge, Massachusetts

72 Foster Street
Cambridge, Massachusetts
April 17, 1961

Dr. V. P. Connelly
United States Secret Service
Boston, Massachusetts

Dear Mr. Connelly:

You requested in our interview this morning that I give you a written statement concerning my connection with the New Theater Group of Buffalo, in 1935 and 1936. I will try to give you the facts as clearly as I can, from my memory and the few records that I have kept.

The New Theater Group was organized sometime in the winter of 1934-35, but its active life, and the time when I was connected with it lasted from the late summer of 1935 to the early summer of 1936. It was an attempt at a workers' theater devoted to showing the facts of social conditions on the stage. Whether it ever attained this aim is very doubtful to me. Its headquarters at that time were in the Teck Theater building at Main and Beard Streets in Buffalo, which it left in the summer of 1936 for some hall on Kensington Avenue, if I remember rightly. I believe it disintegrated in the next winter, although it might still be in existence. It was affiliated with the New Theater League, an organization with New York headquarters.

I was interested in a workers theater as an idea, because of the fact that I had been active in the "Theatre Intime" an undergraduate theater in Princeton when I was there, and because my sympathies were with the labor union movement and with the various proposals for some kind of social reform that were in the air at that time. I attended a few of the earlier meetings of the New Theater Group but dropped out because it seemed to be just a lot of talking. This was late in 1934. The next summer I learned that they were actually going to put on a production—a series of skits at a party—and it was then that I became active. During the following winter and spring we produced about four or five evenings of "entertainment" culminating in the production of "Waiting for Lefty" by Clifford Odets in June, 1936. This production was disastrous from a financial point of view, and led to the breakup of the group. During this period I was president of the group for about five months, and as I was one of the two or three members who had had any theatrical experience at all, I was one of the more active members of it. I lost some thirty dollars of my own money on the "Waiting for Lefty" production, for as none of the other members had any money at all I had to foot the bills. The organization was obviously a failure as a theater, and my interest was dying out, and I resigned when I decided to come to Harvard to do my graduate work in history. Aside from seeing a few of the former members on the street when I have been in Buffalo, I have had no contact with the group since June or July of 1936.

This group had about twenty or thirty active members, and perhaps five or six of these were active members of the Communist party. The rest may be termed fellow travelers, and the group itself was certainly what is now known as a front organization. Our headquarters were in rooms rented by the Communist party under the name of some non-existent "workers' school," and the rent that we paid was given to party representatives. The Communist members actually ran the group, although there were several bitter factional quarrels within it. As I look back on it all I realize that I was none president as a tool of the party members in the group, and that I acted as front man for them. I think they had some idea that they were making a communist out of me, but I can truthfully say that I never seriously considered becoming one. I was interested in by communist in an academic sense and I wanted to know what they stood for, but my real interest was in the theater, and in the friends I met through it. As a matter of fact I disagreed with the communists on everything except the desirability of a theater like ours, and the desirability of better living conditions for working people. At one meeting I made a fight against a plan in

propose constitution approving of Soviet Russia and the whole party line, and put in an amended clause of my composition stating our group's aim as being merely that of producing entertaining and realistic plays about social conditions. It is only fair to me and to the non-communist members to say that while the New Theater Group certainly had a radical orientation, we did not as a whole have any idea of disloyalty, but were motivated by rather confused ideals of social betterment. X

It is also significant to me that this group was active, and I was connected with it, at a time when the Communist party "line" was devoted to the "united front," with a lot of talk about all liberals and reform groups cooperating in support of democracy, civil rights, labor unions, and so on. Communists in those days had very little to say about their ultimate aims, and it was very easy to be friendly with them without realizing the cynical indifference they evidently had to the welfare of Americans except as pawns in the game Russia was playing. Whereas today anyone can see the disloyalty and dishonesty of their program, many people did not see it five years ago, and I was one of those who had the wool pulled over their eyes.

As I say above, I have had no connection with the New Theater Group or any other radical organization since the summer of 1936, when I came to Harvard to study history. My ideas have been greatly clarified since then. For one thing I have learned a great deal about American history, and have seen how progress in social conditions has been made within our American institutions, and my faith in those institutions has been confirmed. For another, I have been able to look at communism from a more detached viewpoint, and I have become about as opposed as a person can be to communism or any other form of subversive activity. The course followed by the communists in these last five years has thoroughly disgusted me and opened my eyes to the tactics they use in controlling organizations like the New Theater Group. My opposition to such tactics, and such a program, has become stronger all the time, and I have done whatever I could to oppose them whenever I have come across them.

Another change in my attitude in the last five years is on the question of pacifism. When I was in college, and for a few years thereafter, I was a convinced pacifist, but I have reversed myself completely. I now believe that I owe my country whatever service it demands of me. And I feel that there are times when war is far and away the least of the evils between which a country must choose. I support the present policy of the government in every detail, and if I am drafted will serve to the very best of my ability.

On the other hand, I have never given up my liberal ideals, and my study of American history has only strengthened my belief that democracy is good precisely because it gives Jefferson and Wilson a chance to fight for the common man. I think that just about sums up my political convictions, and I hope it is clear that I believe there is a tremendous difference between ideals of this sort, and the program of the communists.

I hope that you will check up on this story, and I am sure that you will find it true. I have left out any important facts it is because I have forgotten them, and I hope you will discover them. I look back on my activities in the New Theater Group as rather silly, and certainly very confused, but I do not think that they were any more so than yours.

In any way in which I can be of further assistance to you, I hope that you will let me know, for I shall be glad to tell you anything I can.

Very truly yours

Ernest R. Whitcher

May 31, 1941.

Memorandum for the Secretary

From Chief Wilson

Attached is letter from Mr. Justice Frankfurter, dated May 28th, to you in which he enclosed two letters to him from S. B. Morrison, one from Professor Frederick Merk, one from Mr. Frederick K. Henrich and a copy of a letter from Mr. Henrich to Secret Service Agent W. P. Connelly of Boston.

Mr. Henrich is an applicant for a position as Junior Archivist at the Franklin Roosevelt Library at Hyde Park and his name has been suggested by Mr. Morrison. All applications for positions at the Library are referred to the Secret Service for character investigation. As Mr. Henrich was residing at Boston, the case was referred to our Boston office; however, as most of his life Mr. Henrich had lived at Buffalo, a request was made by the Boston office that our Buffalo Agent submit a special report relating to his activities for use of the Boston office in preparing a final report. The special report of the Buffalo office was mailed to Boston on April 24, 1941, and a copy of it was mailed to Washington. The report received in Washington was referred to the White House, and on review of same the Secret Service was instructed to discontinue the investigation of Mr. Henrich at Boston. Mr. Fred V. Shipman, Director of the Library, was then informed by Miss Legend that the President did not believe this man was the type for appointment to the position.

Copy of the report of our Buffalo Agent is attached. No recommendation was made by the Secret Service regarding the action to be taken on the application. The report pointed out that Mr. Henrich had been employed for two years by the Merchants Mutual Casualty Company, as bookkeeper, and resigned to re-enter Princeton University. The manager of the Merchants Mutual Casualty Company stated that the applicant had been associated with the New Theatre Players of Buffalo and that he was a radical type of person. Lieutenant William Griffith of the Buffalo Police Department informed the Secret Service Agent that some members of this New Theatre Players had been in trouble with the police over the possession of a gun, and that the police found they had a large amount of Communist literature in their possession.

- 2 -

Mr. Frederick Keller of Buffalo, who is alleged to have an excellent reputation, and who is interested in acting, advised the Agent that he was invited to attend a meeting of the New Theatre Players and upon his arrival he decided that the group consisted of Communists and Reds, and he left the meeting. The report states that at present the New Theatre Players are inactive in the City of Buffalo, and that it is alleged they have made their headquarters with the C. I. O. at 70 West Chippewa Street, Buffalo, New York.

The copy of the letter from Mr. Henrich to Agent Connally of Boston, dated April 17, 1941, which was not forwarded to the White House, as we had instructed our Boston office to discontinue the investigation, confirms most of the information in the report of the Buffalo Agent. He states that he was president of the group for about five months, that their efforts were disastrous financially, that he resigned to go to Harvard to take up graduate work in history, and that he has had no contact with the group since July of 1936. He states "the group had about 20 or 30 active members, and perhaps 5 or 6 of these were active members of the Communist Party. The rest may be termed 'fellow travelers,' and the group itself was certainly what is now known as a front organization. Our headquarters were in rooms rented by the Communist Party under the name of some non-existent 'workers' school,' and the rent that we paid was given to party representatives. The Communist members actually ran the group, although there were several bitter factional quarrels within it. As I look back on it all I realize that I was made president as a tool of the party members in the group, and that I acted as front man for them. I think they had some idea that they were making a Communist out of me, but I can truthfully say that I never seriously considered becoming one. I was interested by Communism in an academic sense and I wanted to know what they stood for, but my real interest was in the theater, and in the friendships I formed through it. As a matter of fact, I disagreed with the Communists on everything except the desirability of a theater like ours, and the desirability of better living conditions for working people. At one meeting I made a fight against a clause in a proposed constitution approving of Soviet Russia and the whole party line, and put across an amended clause of my composition stating our group's aim as being merely that of producing entertaining and realistic plays about social conditions. It is only fair to me and to the non-Communist members to say that while the New Theatre Group certainly had a radical orientation, we did not as a whole have any idea of disloyalty, but were motivated by rather confused ideals of social betterment."

Attention is invited to the statements in Mr. Henrich's letter of May 19th to Mr. Justice Frankfurter. He states: "The information on which I believe the Secret Service must have based their report concerns my connection in 1935 and 1936 with The New Theatre Group of

- 3 -

Buffalo, N. Y., a small 'workers' theater.' This organization had a few members who were also members of the Communist Party and they were the dominant force in its affairs. For a few months in 1936 I acted as president of the group, and my election to this office was the result of the support of the Communists in the organization. I was not then a Communist and never have been. I disagreed with the Communists on practically every issue except the desirability of a theater like ours. I believed then and I still believe that a theater of this kind could serve a useful purpose. The developments of the last few years, however, make it clear to me that I was unwise in my choice of associates in this venture."

Buffalo, N. Y.

April 24, 1941

Second District
Post Office Box 93,
Niagara Sq. Sta.

RE: Frederick L. Henrich,
Applicant for a position
at the Franklin Roosevelt
Memorial Library, Hyde Park, N. Y.

Mr. Harry L. Barker,
Supervising Agent,
Boston, Massachusetts.

Sir:

This report is submitted in answer to your letter of April 18th relative to the above named applicant, requesting that investigation be made in this district covering the points enumerated in your letter.

The records of the Bureau of Vital Statistics, Buffalo, N. Y., were checked. They indicate that the applicant was born January 19, 1912, and that his full name is Frederick Eablen Henrich.

The applicant attended Public School No. 16, 939 Delaware Ave., Buffalo, N. Y. He graduated from this School in 1926. Interviewed Mr. Frank Gott, Principal of Lafayette High School, 370 Lafayette Ave., Buffalo. His records indicate that the applicant graduated from that School in 1930. These records also show that Henrich registered for admission to Princeton University.

A search of the records of the Identification Bureau, Police Headquarters, Buffalo, N. Y. did not disclose any criminal record against the applicant.

Interviewed Lyle P. Bement, Credit Manager for the Merchants Mutual Casualty Company, 268 Main St., Buffalo, N. Y. The records of this Concern show that the applicant was employed to do bookkeeping work from August, 17, 1934 to August 15, 1936, at which time he resigned to re-enter Princeton University. The application for employment by this Company contains a statement to the effect that the applicant had received his Bachelor of Arts degree from Princeton University in 1934. It is noted that this point was not mentioned in your letter of April 18th.

- 2 -

Questioned Mr. Bessert as to the type of person the applicant is and, without hesitation, Bessert replied that Henrich has Communistic tendencies. I questioned him as to what caused him to reach his conclusion, or if he had any supporting facts, and he stated that he was a radical type of person and, from his demeanor and general conversation, he had arrived at this conclusion. Then asked Mr. Bessert if he knew that the applicant was associated with the New Theater Players in Buffalo and he replied that he had heard the applicant talk about this Organization. However, Mr. Bessert declined to furnish this information in written form, neither was he inclined to give a letter in favor of or against this applicant. He stated that Henrich got along fair with his fellow employees and that his work was also fair.

At the Federal Bureau of Investigation interviewed Agent A. C. Schlenker to ascertain whether or not there is any record of the applicant's being connected with the Communist Party or with the New Theater Players' being connected with the Communist Party. Mr. Schlenker examined the files and informed me that there was no record pertaining to either the applicant or the New Theater Players.

Lt. William Griffiths, in charge of the Alien Investigation Squad, Buffalo Police Department, checked his records to see if there was any information pertaining to the applicant but no record was found to connect him with the Communist Party. However, Lt. Griffiths recalled that two or three members of the New Theater Players were arrested in the City of Buffalo, as he recalled, for having possession of a gun and as having in their possession large amounts of Communistic literature. There is no way this could be checked because Lt. Griffiths does not know the names of the two or three players who were arrested. However, the Director of the play entitled "Take My Stand," — Stanley Chisell — is an Attorney in the City of Buffalo and is known to the writer. His clientele to a great extent is made up of people who have Communistic tendencies and who belong to the Party. Chisell is reputed to be a Communist and he has been under the scrutiny of the Bar Association of Erie County, and he has been reprimanded by both City Court Judge Kelly and Federal Judge John Knight of Buffalo, N. Y., for his conduct in court.

Interviewed Frederick Keller, who is interested in acting and who attended Canisius College in Buffalo. He said that he was invited to attend the meeting of the New Theater Players at the Old Teck Building, Buffalo, N. Y. and, upon his arrival there, he saw that the group consisted of Communists and Reds and immediately left. Mr. Keller has an excellent reputation.

- 3 -

None of the other names appearing in the Program were recorded in the Police Records as Communists.

At present the New Theater Players are inactive in the City of Buffalo and it is alleged that they have combined and made their headquarters with the CIO, 70 West Chippewa St., Buffalo, N. Y.

Interviewed Charles McArthur, who resides at 113 Lexington Ave., Buffalo, N. Y., and who operates the Gray Auto Gasoline Service Station at 2230 Delaware Ave., Buffalo, N. Y. He states that Henrich is a first cousin of his wife's and that he has known him for a number of years and found him to be honest, efficient, capable and a one hundred per cent American. Requested Mr. McArthur to furnish a letter supporting these statements which he promised to furnish. This letter is attached to this report.

As requested in your letter, the four programs are being returned along with this report.

Respectfully,

/s/ Edwin Manning,
EDWIN MANNING,
Agent.

Inc.

APPROVED:

/s/ William A. Karp
WILLIAM A. KARP,
Agent-in-Charge.

APPROVED:

/s/ James J. Maloney
JAMES J. MALONEY,
Supervising Agent.

cc New York

June 3, 1941

I spoke to Justice Frankfurter, and he says that he is absolutely positive that Lord Halifax and Brandeis never got together, but he will check up. I said that I do not want to be a bottleneck on this question of whether or not the Palestines can enlist in the British Army, and if Justice Frankfurter did not mind I was going to leave it with him and Justice Brandeis to let me know if there is anything that I can do to help. In the meantime I told him that I was not going to do anything. He said that that was all right.

I asked for permission to send over to the President the correspondence from him and the two Harvard Professors in relation to Mr. Henrick, and he said okay.

Justice Frankfurter said he saw Maynard Keynes who was very enthusiastic about me, and said that I had been treating him very well. I said that I was surprised he felt that way, and Frankfurter said that he had told him the whole story and how frank I had been, and he appreciated it very much.

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STRICTLY CONFIDENTIAL

No. 11

Chungking, June 3, 1941.

Subject: Transmitting Memoranda Regarding the Elimination of
Mr. Cyril Rogers from the New Stabilization Committee.

STRICTLY CONFIDENTIAL

Air Mail

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

1/2/ I have the honor to transmit herewith as of probable interest to the Department, memoranda prepared by Everett F. Drumright, Second Secretary of Embassy, and Major J. M. McHugh, Naval Attache, regarding the objection of the Chinese Government to the appointment of Mr. Cyril Rogers as the British member of the new Stabilization Committee.

Apparently the Minister of Finance, Dr. H. H. Kung, objected to criticism of his policies by Mr. Rogers and subsequently insisted that he be eliminated from the Stabilization Committee.

Mr. Rogers has been serving the Chinese Government without compensation since he severed his connections with the Bank of England over a year ago and the present action of the Chinese Government is undoubtedly an act of ungratefulness. The opinion that the Government is showing ingratitude was expressed by Mr. Tsuyee Pei, one of the Chinese members of the Stabilization Committee, and was made known also to the Generalissimo by the British Ambassador.

Respectfully yours,

C. E. Gauss

Enclosures:

- 1/ Memorandum prepared by Everett F. Drumright, Second Secretary of Embassy.
- 2/ Memorandum prepared by Major J. M. McHugh, Naval Attache.

Original and two copies to Department by air mail.

Two copies by pouch to the Department.

JJM/wr

851 Financial

Copy:bj:6-26-41

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Enclosure no. 1 to despatch no.
11 dated June 3, 1941, from the
Embassy at Chungking.

May 31, 1941.

MEMORANDUM

Subject: Stabilization Committee and Possible
Elimination of Cyril Rogers as British Member.

When I saw Mr. W. D. Allen, Secretary of the British Embassy, at luncheon yesterday, he asked when we expected Mr. A. Manuel Fox to arrive. I replied that our latest word was to the effect that Mr. Fox is expected to arrive in Hong Kong about June 3. I added that we were not informed when Mr. Fox is expected to arrive in Chungking. I remarked that our information is to the effect that the Committee is to have its headquarters in Chungking. Mr. Allen replied that his Embassy had the same information.

Mr. Allen then volunteered the information that there is opposition in Chungking to Mr. Cyril Rogers' sitting on the committee. He went on to say that Mr. Rogers had been openly critical of Dr. H. H. Kung in the past, and that it seemed that the opposition to Rogers' appointment flowed from Dr. Kung. He said that he did not know who would replace Rogers as the British nominee, although he intimated that the British would accede to Chinese desires for the replacement of Rogers.

Mr. Allen remarked that his Embassy had recently received a telegram from Washington to the effect that Sir Frederick Phillips and John Maynard Keynes, the British economist, had recently held a long conference with the Secretaries of State and Treasury, Mr. Currie and one or two other American officials concerning the granting of financial assistance to China. He indicated that these conversations had gone beyond the mere question of the stabilization of China's currency.

E. F. D.

A True copy of
signed original.

inc

OFFICE OF THE NAVAL ATTACHE
AMERICAN EMBASSY
CHUNGKING, CHINA

3 June, 1941.

STRICTLY CONFIDENTIAL

MEMORANDUM FOR: The Ambassador.

Subject: Elimination of Mr. Cyril Rogers from
the new Stabilization Committee.

1. In a conversation with Mr. Tsuyee Pei on 2 June, 1941, the fact that the Chinese Government has protested the membership of Mr. Cyril Rogers on the new Stabilization Committee was confirmed. Mr. Pei said that he had received this information just before he was suddenly called to Chungking on the morning of May 31st. Mr. Pei remarked, incidentally, that he suspected politics of playing a part in the fact that Dr. Kung had called him to Chungking prior to the arrival of Messrs. Rogers and Fox. The excuse given was that the Chinese members of the new Committee ought to meet before the arrival of the foreign members. Mr. Pei stated that he considered the action of the Chinese Government in protesting Mr. Rogers' membership to be an act of extreme ungratefulness. (The representations were apparently made to London on the basis that Mr. Rogers had indulged in considerable criticism of Dr. Kung in the past, and that his presence on the new Committee would therefore prove to be embarrassing).

2. Mr. Pei remarked, however, that this would not solve the question of procedure with regard to Fund (A), the stabilization fund of which Mr. Rogers has been primarily in control, and which is still operative. He also informed me that for over a year now, since Mr. Rogers severed his connection with the Bank of England, he has been serving without pay. He did not, as has been supposed, accept any kind of contract with the Chinese Government or with the Bank of China. He has been receiving only his expenses (presumably from the Chinese Government).

3. Mr. Pei added that during the first meeting of the Chinese members with Dr. Kung yesterday morning, Dr. Kung had stated that he hoped the new Committee could embark on its work and meet the problems confronting it with an open mind without being handicapped or prejudiced by the policies of the former Stabilization Committee. He had looked directly at Mr. Pei while making the statement, and Mr. Pei said he had merely smiled in return (Mr. Pei will be the only representative

of the old Committee serving on the new if Mr. Rogers is eliminated). Mr. Pei remarked to me that he felt sure he would be eliminated also in due course, and that his only concern was that it would not be a clean-cut action permitting him to get away, but rather that he would be kept hanging around with no work to do.

4. During a subsequent and separate conversation later in the afternoon with the British Ambassador, the above was confirmed. Sir Archibald stated that he had first received a cautious informal approach on the question, but subsequently had received a vehement appeal. He said that he had at the time told the Generalissimo that he considered the act one of ungratefulness on the part of the Chinese, and subsequently had repeated this statement officially on orders from his Government. He said that the British Treasury had violently opposed the request and that the question was not yet settled, but that he personally saw no point in continuing the opposition since Rogers' presence on the Committee would obviously compromise its chances of success. In response to a leading question from me, he stated that no successor had as yet been indicated, but gave me to infer that it would be some one sent from England.

Respectfully submitted

(SMD) J. M. McHugh

J. M. McHUGH
Major, U. S. Marine Corps,
Naval Attache and
Naval Attache for Air.

A true copy
of signed original

en:copy

June 3, 1941
3:25 P.M.

The following telephoned by Mr. Ely of the Division of Territories and Island Possessions, Department of the Interior:

"Following for Secretary of Treasury stop Plane turned back to Manila on account of bad weather stop Expect to continue to Hongkong tomorrow morning stop signed Taylor, Frese, Fox.

"Have been able to devote considerable time while on flight to study and conference with Rogers whose views are not convincing nor impressive stop We are ready to start work immediately on arrival Hongkong signed Fox."
(Above message dated at Manila June 3).

*Handed to Secy
11:30 am 6/4/41
NAC*

JUN 3 1941

My dear Mr. President:

In accordance with your letter of May 28 it will be a pleasure for me to cooperate fully with the Secretary of the Interior in accordance with the import of your letter to him with respect to our national defense petroleum problems.

Faithfully yours,

(Signed) E. Sargent Shriver, JR

Secretary of the Treasury

The President,
The White House.

By Messenger

WHT:dm

File to Mr. Thompson

THE WHITE HOUSE
WASHINGTON

May 28, 1941

My dear Mr. Secretary:

I am enclosing a copy of my letter to the Secretary of the Interior in which I have requested him to assist me in obtaining the coordination necessary to meet our national defense petroleum problems.

I have assured the Secretary that you will cooperate fully in accordance with the import of that letter.

Sincerely yours,



Enclosure.

The Honorable

The Secretary of the Treasury

THE WHITE HOUSE
WASHINGTON

May 28, 1941

My dear Mr. Secretary:

Recent significant developments indicate the need of coordinating existing Federal authority over oil and gas and insuring that the supply of petroleum and its products will be accommodated to the needs of the Nation and the national defense program. Government functions relating to petroleum problems are now divided among numerous officers and agencies of the Federal Government and the principal oil-producing States. The various phases of operation in the petroleum industry itself are numerous and complex. One of the essential requirements of the national defense program, which must be made the basis of our petroleum defense policy in the unlimited national emergency declared on May 27, 1941, is the development and utilization with maximum efficiency of our petroleum resources and our facilities, present and future, for making petroleum and petroleum products available, adequately and continuously, in the proper forms, at the proper places, and at reasonable prices to meet military and civilian needs.

Some of the problems with which we are now confronted and which require immediate action are: The proper development, production, and utilization of those reserves of crude oils and natural gas that are of strategic importance both in quality and location; elimination or reduction of cross hauling of petroleum and its products and the development of transportation facilities and of methods by which more efficient use can be made of existing transportation and storage facilities; balancing refining operations to secure the maximum yields of specific products with full consideration for requirements, the most economical use of the raw materials, and efficiency of production and distribution; and the elimination of the drilling of unnecessary wells in proven fields and of other unnecessary activities and equipment.

In order to provide the desired coordination, I am hereby designating you as Petroleum Coordinator for National Defense. In that capacity it will be your function and responsibility as my representative:

1. To obtain currently from the States and their agencies, from the petroleum and allied industries, from the officers and agencies of your Department, and from other appropriate Federal departments and agencies information as to (a) the military and civilian needs for petroleum and petroleum products, (b) the factors affecting the continuous, ready availability of petroleum and

- 2 -

petroleum products for those needs, and (e) any action proposed which will affect such availability of petroleum and petroleum products.

2. To make specific recommendations to any appropriate department, officer, corporation or other agency of the Federal Government, particularly the Office of Production Management and the Office of Price Administration and Civilian Supply, to the appropriate agency representing any State or any combination of States, and to any appropriate industry or part thereof, as to action which is necessary or desirable, on the basis of your determinations, to insure the maintenance of a ready and adequate supply of petroleum and petroleum products.

In carrying out these responsibilities, it is expected that you will consult with the several officers and agencies of the Federal Government, and with the States acting severally or in any joint capacity, to the end that all governmental participation shall consistently further the purposes above outlined. It is also expected that you will consult with the petroleum industry and those industries which affect its functioning, to aid them in shaping their policies and operations in the discovery, development, production, processing, transportation, storage, distribution, marketing, consumption, and import and export of petroleum and petroleum products.

In order to facilitate your work and efforts, I am requesting that the several departments and agencies having functions related to the petroleum problem give you antecedent advice of any action proposed which may affect the continuous, ready availability of petroleum or petroleum products for military and civilian needs, so that you may have opportunity to make specific recommendation concerning such action. I am also requesting that they notify you of all meetings and conferences dealing with those problems, so that your representatives may be in attendance when you deem it advisable.

It is suggested that from time to time you call together all or any of the heads of such departments and agencies, or their representatives, as a committee to discuss such problems as may arise and to develop ways and means of effectuating the highest degree of coordination of Federal functions for the furtherance of the policy herein outlined. The heads of the departments and agencies concerned are being informed of this suggestion and of the contents of this letter, and I am sure you will find them ready to cooperate fully in rendering the assistance requested herein or otherwise needed to assure success of the program.

Within the limits of such funds as may be made available to you, you may employ necessary personnel, including a Deputy Coordinator whose appointment shall be approved by me and to whom you may make any necessary delegation of functions, and may make provision for necessary supplies, facilities, services and for actual and necessary transportation, subsistence, and other expenses incidental to the performance of their duties. You will, of course, make use of such statistical, informational, fiscal, personnel, and other general services and facilities as you now have available or as may be made available to you through the Office for Emergency Management or other agencies of the Government.

Yours sincerely,

FRANKLIN D. ROOSEVELT

The Honorable -
The Secretary of the Interior

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THE WHITE HOUSE
WASHINGTON

May 28, 1941

My dear Mr. Secretary:

I am enclosing a copy of my letter to the Secretary of the Interior in which I have requested him to assist me in obtaining the coordination necessary to meet our national defense petroleum problems.

I have assured the Secretary that you will cooperate fully in accordance with the import of that letter.

Sincerely yours,



Enclosure.

The Honorable

The Secretary of the Treasury

THE WHITE HOUSE
WASHINGTON

May 25, 1941

My dear Mr. Secretary:

Recent significant developments indicate the need of coordinating existing Federal authority over oil and gas and insuring that the supply of petroleum and its products will be accommodated to the needs of the Nation and the national defense program. Government functions relating to petroleum problems are now divided among numerous officers and agencies of the Federal Government and the principal oil-producing States. The various phases of operation in the petroleum industry itself are numerous and complex. One of the essential requirements of the national defense program, which must be made the basis of our petroleum defense policy in the unlimited national emergency declared on May 27, 1941, is the development and utilization with maximum efficiency of our petroleum resources and our facilities, present and future, for making petroleum and petroleum products available, adequately and continuously, in the proper forms, at the proper places, and at reasonable prices to meet military and civilian needs.

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- 2 -

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Yours sincerely,

FRANKLIN D. ROOSEVELT

The Honorable
The Secretary of the Interior

June 3, 1941

Dear Private Reitter:

I should like to congratulate you and thank you for the fine work you did in helping us to bring a film message about Defense Bonds and Stamps to the people of the United States. You have done a real service to your country.

If the army should ever transfer you to the east coast, please remember that it would be a pleasure for me to meet you and thank you personally.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Henry Morgenthau, Jr.
Secretary of the Treasury

Private George Morton Reitter
72nd Air Base Group
Moffett Field, California

FK/hlb

6/3/41

File to Mr. Thompson

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM J. J. O'Connell, Jr.

June 3, 1941.

For your information

The regular weekly meeting of the Price Administration Committee was held in Mr. Henderson's office this morning at 11 o'clock. All of the agencies which are members of the Committee were represented, Donald Nelson representing OPM and Secretary Wickard representing the Department of Agriculture. The other agencies were represented by alternates.

Mr. Clayton, representative of the Federal Loan Administrator, advised that they are making preparations to acquire a stockpile of from 80,000 to 100,000 tons of lead. They are discussing the matter with Canadian interests, who apparently have a quantity to sell, and are also exploring the possibility of getting some from Mexico, Peru or Bolivia. As is usually the case with such heavy raw materials as lead, the transportation problem is the most serious hurdle to overcome.

Mr. Henderson referred to the recent appointment of Secretary Ickes as Petroleum Coordinator, and indicated that he felt the move will have a very salutary affect upon the oil industry. He stated that the appointment had been made with his complete knowledge and approval and that it does not represent any cutting down of the function of OPACS.

There was some general discussion about the problem of controlling automobile prices, which have shown some tendency to rise. Mr. Henderson pointed out that there are very serious difficulties about controlling the price of an unstandardized article such as an automobile not present in such industries

Secretary Morgenthau, 2.

as oil, steel, or copper. The situation is further complicated by the fact that the industry will be operating at substantially less than capacity, which will affect the unit cost adversely, whereas the other industries referred to are operating at or above capacity. It was agreed that Mr. Henderson's staff should canvass the price situation more thoroughly and report back to the Committee at a later date for its views.

After some further general discussion of the problems of Mr. Henderson's office, the Committee adjourned at 12.25.

Joseph J. O'Connell

Prepared by: Mr. Turner
Mr. Murphy
Mr. Haas

190

DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 3, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Current Developments in the High-grade Security Markets

SUMMARY

- (1) During the month of May prices of Treasury notes advanced moderately. Treasury bonds declined in price to May 21, but have since then recovered these losses (Charts I and II).
- (2) The new 2-1/2 percent Treasury bond of March 15, 1956-58 went to a premium of 2-24/32 points at the close of the first day of "when-issued" trading. It is currently quoted slightly above 103.

Current yields of the outstanding taxable Treasury bonds indicate that the added cost of an additional year decreases quite rapidly in the maturity range covered by these issues. A 1949-51 issue would cost about 14 basis points more than a 1948-50, while a 1956-58 issue would cost only about 3 basis points more than a 1955-57 (Chart III).

- (3) When the spread between the yield of a taxable and that of a partially tax-exempt Treasury bond is expressed as a percent of the coupon rate, it appears that the tax allowance implied by the spread is smaller for long maturities than for short ones. This tendency also appears in connection with guaranteed issues, but is less clear with respect to Treasury notes. The tendency for the tax allowance to diminish with lengthening maturity becomes considerably obscured, moreover, when all taxable issues are arranged in order of time to maturity without regard to their classification as Treasury bonds, Treasury notes, or guaranteed issues.
- (4) High-grade corporate bonds varied only slightly in price during May (Chart II). Municipals have regained the all-time high prices established at the end of December 1940 (Chart IV).

Prepared by: Mr. Turner
Mr. Murphy
Mr. Haas

190

DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 3, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Current Developments in the High-grade Security Markets

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- (4) High-grade corporate bonds varied only slightly in price during May (Chart II). Municipals have regained the all-time high prices established at the end of December 1940 (Chart IV).

Secretary Morgenthau - 2

I. United States Government Securities

During the month of May the prices of Treasury notes advanced moderately but fairly steadily. Treasury bonds declined on balance to a low on May 21, but have since recovered to levels approximately the same as at the end of April (Chart I). The three outstanding taxable bonds have shown relatively greater strength than the partially tax-exempt bonds in the same maturity class. Taxable notes, on the other hand, have recorded smaller net gains for May than tax-exempt notes. Price changes since April 30 are shown by maturity classes in the following table:

	Average price change April 30 - June 2		
	Tax-exempt issues	Taxable issues	All issues
	(In thirty-seconds)		

Notes

1 to 3 years	+ 8	+ 3	+ 7
3 to 5 years	+ 8	+ 3	+ 6

Bonds

5 to 15 years	0	+ 7	+ 1
15 years and over	+ 2	-	+ 2

The average yield of long-term Treasury bonds, moving inversely to prices, has decreased on net balance by 2 basis points since April 30 (Chart II).

II. The New Treasury Bond

The 2-1/2 percent Treasury bond of March 15, 1956-58, which was offered on May 22, was somewhat more generous than the market had anticipated. This is shown by the fact that the "rights" rose by about 18/32 on the day of offering,

Secretary Morgenthau - 3

closing that day at 102-16/32. On the first day of trading on a "when-issued" basis, the new issue closed at 102-24/32. It is currently quoted at about 103-2/32.

Chart III shows the yields of the three outstanding taxable Treasury bonds compared with a curve of the yields of partially tax-exempt Treasury bonds. It is interesting to note that the added cost of each additional year of maturity decreases quite rapidly in the maturity range covered by the three outstanding taxable issues. Whereas, on the basis of current prices, it would cost an average of 12 basis points a year (or 46 basis points in all) more to issue a 1952-54 than a 1948-50, it would cost an average of only 5 basis points a year (or 20 basis points in all) more for a 1956-58 than for a 1952-54. As a matter of fact, the additional cost of the one year from 1948 to 1949* is about 14 basis points, while the additional cost of the year from 1955 to 1956 is only about 3 basis points.

III. Difference in Yield between Taxable and Tax-exempt Government Securities

It appears from Chart III that the spread between the yield of a fully taxable Treasury bond and the estimated yield of a partially tax-exempt Treasury bond, measured in basis points, is about the same for the intermediate as for the long maturities. When such an unchanged spread is translated into an implied tax allowance, expressed as a percent of the coupon rate, however, this tax allowance decreases as the maturity lengthens. The most probable explanation of this is the larger proportion of the longer maturities held by corporations and other institutions not in fact subject to the tax, or by individuals to whom the value of the exemption is only 4 percent of the coupon.

The table below shows for all outstanding taxable direct and guaranteed securities of the United States, the differences in yield as compared with corresponding partially tax-exempt securities, and the tax allowances, expressed as a percent of the coupon, which these differences

* The years here given are first call dates, but the procedure is legitimate inasmuch as all the issues compared have two-year call periods.

Secretary Morgenthau - 4

imply. In the case of Treasury bonds, the comparison is based on the partially tax-exempt yield curve shown in Chart III. In the case of Treasury notes and of guaranteed issues, where there is no partially tax-exempt security outstanding with exactly the same maturity or call date as that of the taxable security, the comparison is based on an interpolation between the yields of partially tax-exempt securities with the nearest corresponding maturity or call dates.

Comparison of Yields of Taxable Securities With
Estimated Yields of Partially Tax-Exempt Securities
of Corresponding Maturity
June 2, 1941

	Yield of Taxable Security	Yield of Partially Tax-Exempt Security	Yield of Corresponding Taxable Security	Yield of Corresponding Partially Tax-Exempt Security	Yield Spread	Tax Allowance (As percent of coupon) Compared with Partially Tax-Exempt Security
(Percent)						
<u>Notes</u>						
3/4 percent 3/15/43	.22	.10	.12			16 $\frac{1}{2}$
3/4 percent 9/15/44	.67	.54	.13			17
3/4 percent 12/15/45	.74	.68	.06			8
<u>Bonds</u>						
2 percent 3/15/48-50	1.59	1.27	.32			16
2-1/2 percent 3/15/52-54	2.05	1.71	.34			14
2-1/2 percent 3/15/56-58	2.25	1.93	.32			13
<u>Guaranteed</u>						
7/8 percent RFC 10/15/42	.39	.15	.24			27
1-1/8 percent RFC 7/15/43	.63	.39	.24			21

Secretary Morgenthau - 5

As the table indicates, in each group, except that of Treasury notes, the tax allowance decreases from the shorter to the longer issues. In the note class, there is practically no difference in the tax allowance between the March 1943 note and the September 1944 note. The strikingly low tax allowance for the December 1945 Treasury note is very probably due to the fact, which is indicated by other evidence, that this issue is selling out of line with the market.

When the eight outstanding taxable securities are arranged in order of time to maturity without regard to their classification as Treasury notes, Treasury bonds, and guaranteed issues, as is done in the following table, the tendency for tax allowances to decrease with the lengthening term of the securities becomes obscure.

Comparison of Yields of Taxable Securities With
Estimated Yields of Partially Tax-Exempt Securities
of Corresponding Maturity
June 2, 1941

		Tax Allowance (as percent of coupon) Compared with Partially Tax-exempt Security
7/8 percent	10/15/42	27%
3/4 percent	3/15/43	16
1-1/8 percent	7/15/43	21
3/4 percent	9/15/44	17
3/4 percent	12/15/45	8
2 percent	3/15/48-50	16
2-1/2 percent	3/15/52-54	14
2-1/2 percent	3/15/56-58	13

As is indicated in the above table, there is a general tendency for tax allowances to be larger on the shorter issues than on the longer issues. The most marked exception is the

Secretary Morgenthau - 6

December 1945 Treasury note which, it was indicated above, is believed to be out of line with the market. Also, the tax allowance on the July 1943 issue (an RFC note) is greater than that on the March 1943 Treasury note which is 4 months shorter. The principal real discontinuity appears, however, in the fact that the March 1943 Treasury note carries the same tax allowance as the March 1948-50 Treasury bond, which is 5 years longer to earliest redemption date and 7 years longer to final maturity.

It should, of course, be observed that the tax allowances here discussed include an important element of scarcity value for the outstanding tax-exempt securities and so do not represent in their entirety the additional cost of borrowing by means of taxable securities.

IV. Other Domestic High-grade Securities

High-grade corporate bonds held fairly steady in price and yield during May (Chart II). Municipal bonds, on the other hand, were strong, and at the month's end had regained the all-time high prices (and low yields) established at the end of December 1940 (Chart IV).

New bond offerings to the public in the New York market during May amounted to about \$244 millions. This is somewhat larger than the monthly average of such offerings during the past year. Three issues comprised about three-fourths of the total.

Last week an issue of \$80 millions of 3-3/8 percent, 30-year bonds of the Union Electric Company of Missouri was offered to the public at 107-3/8 to yield 3.00 percent. These bonds, which are rated AA by Moody's Investors Service, went to a small premium almost immediately. This issue is probably one of the last large public utility issues to be offered which is not subject to the recently established rule of the SEC requiring competitive bidding for such issues.

An issue of \$51.2 millions of serial bonds of the City of Detroit was offered on May 8 at prices to yield from .60 to 2.65 percent. The interest cost to the City was 2.64 percent, the lowest in its history for an issue of comparable

Secretary Morgenthau - 7

maturity. One half of the issue was sold on the day of offering. The third large offering during May consisted of \$50 millions of 3 percent, 20-year debentures of the Firestone Tire and Rubber Company, which were offered at 99 to yield 3.07 percent. This issue was quoted at a discount of about 2 points from its offering price after the removal of syndicate price restrictions.

On May 26 a nationwide underwriting group offered to the public preferred and common stocks of American Viscose Corporation in the aggregate amount of about \$62 millions. The offering was oversubscribed on the offering day.

Attachments.

197
Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES
Points Plotted Represent the Difference from December 28, 1940 Price of Each Maturity Class

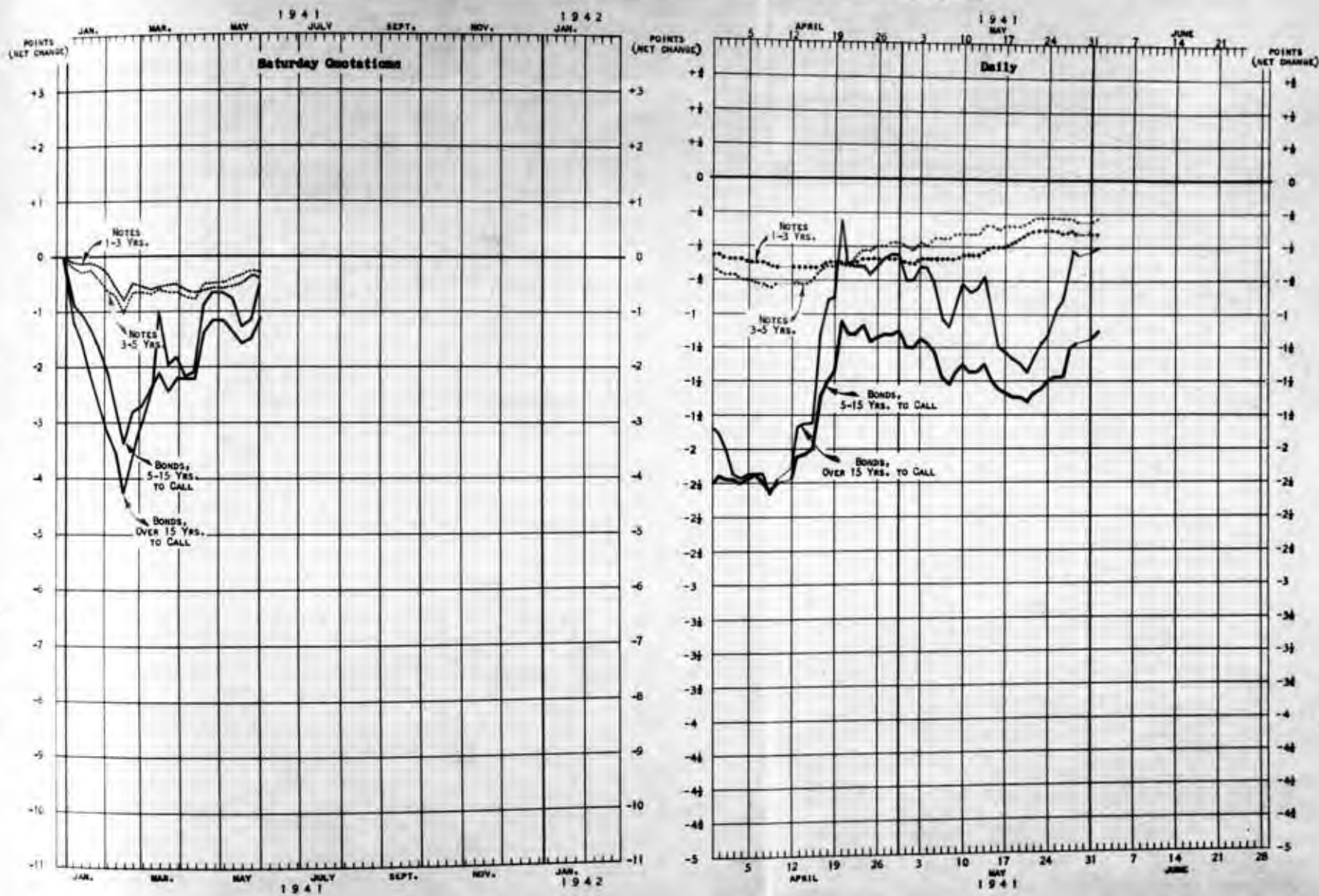
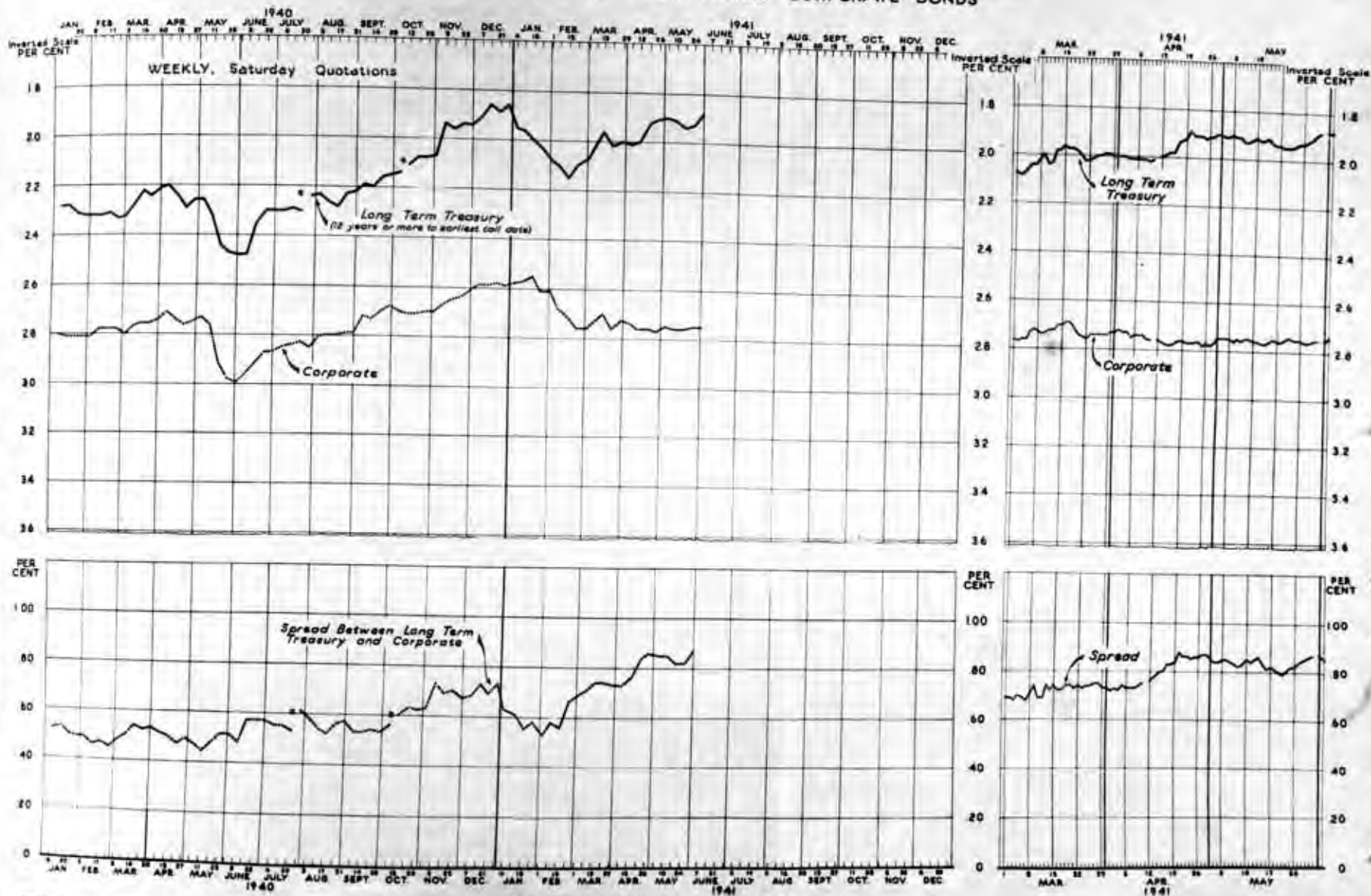


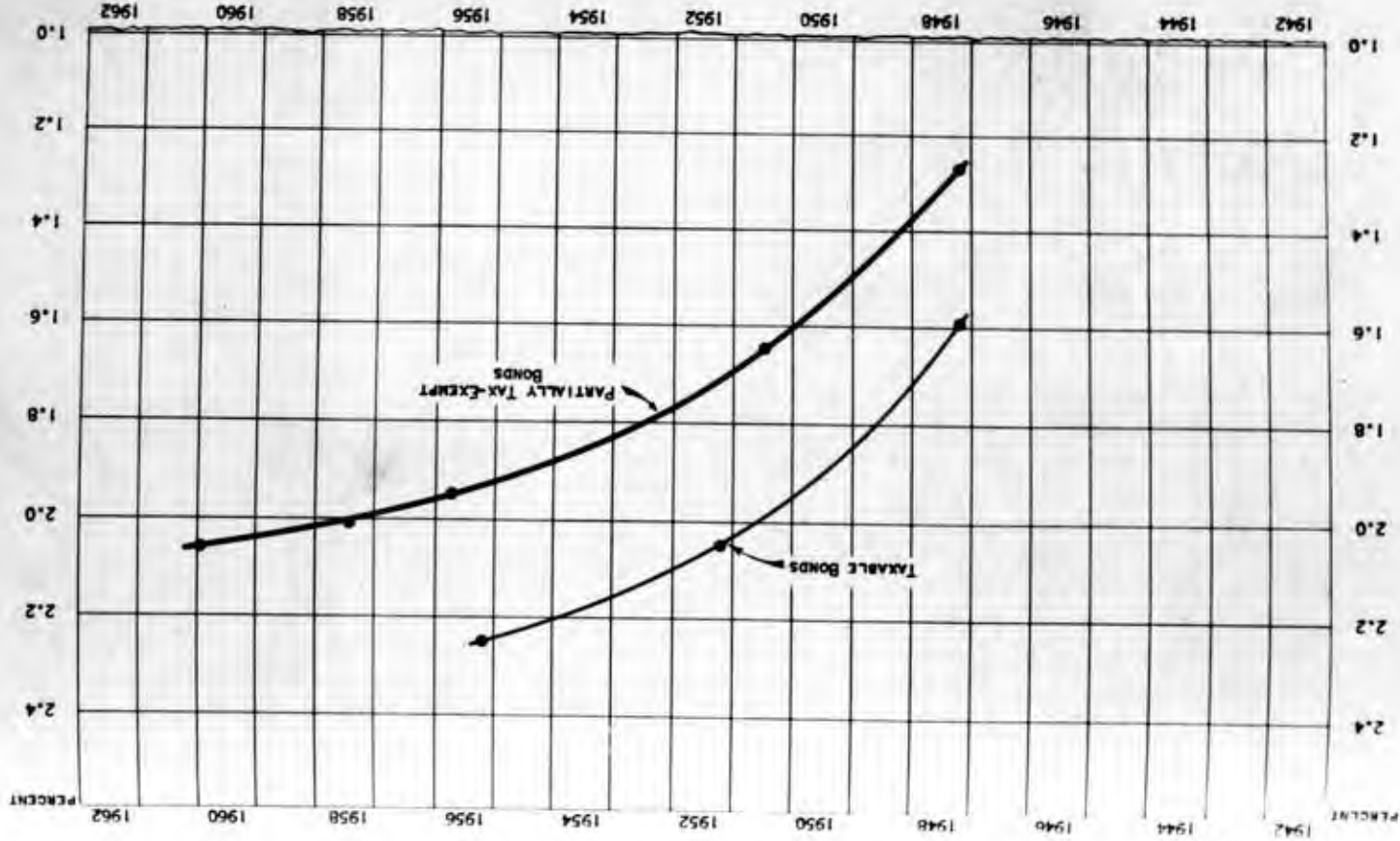
Chart II

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U S TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS



* Changes in comparison of Long Term Treasury average

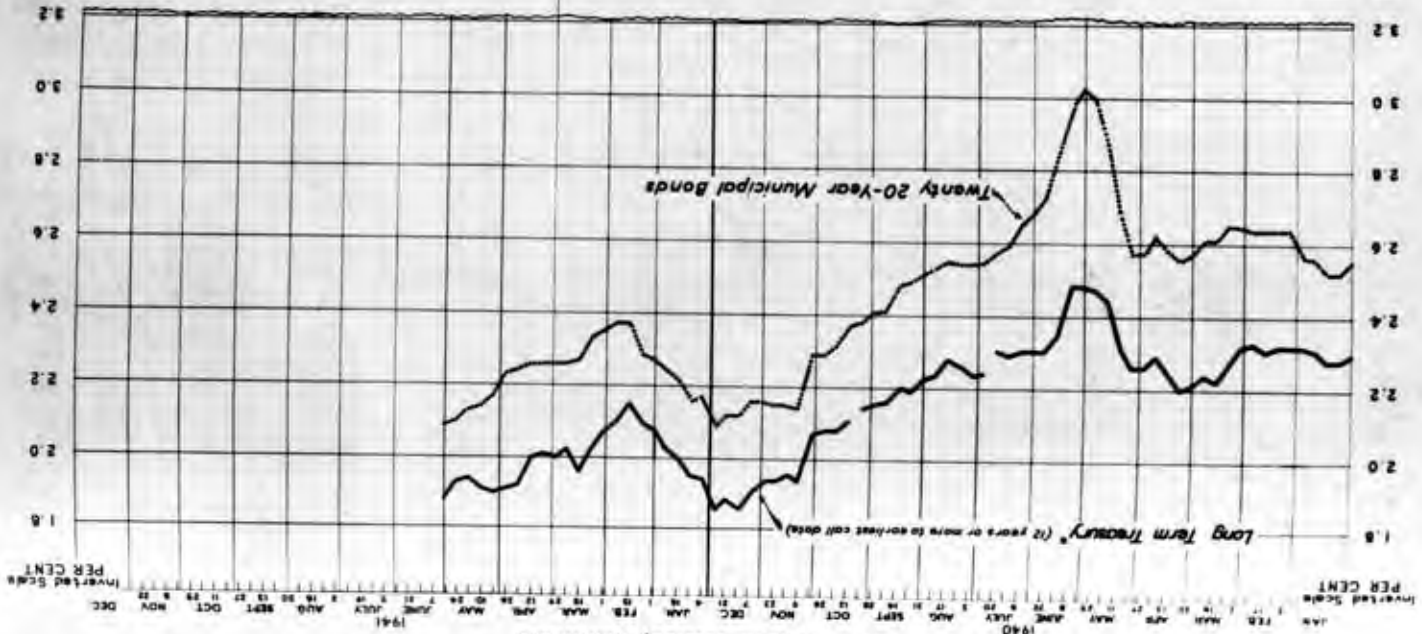
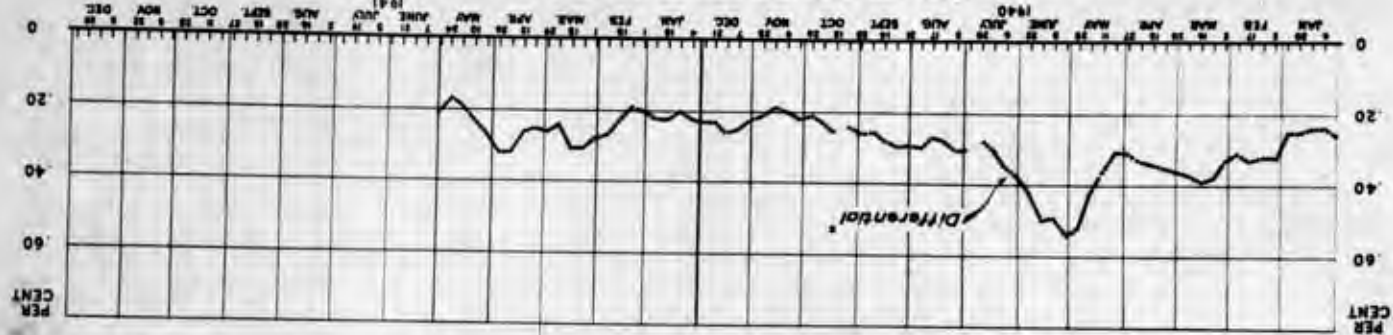
Office of the Secretary of the Treasury
Bureau of Economic and Statistics



COMPARISON OF YIELDS OF TAXABLE AND PARTIALLY TAX-EXEMPT TREASURY BONDS
Based on Closing Prices, June 2, 1941

Office of the Secretary of the Treasury
Bureau of Finance and Control

*Based on low interest changes in comparison of long term Treasury averages



AND DOW-JONES AVERAGE OF ALL LONG TERM U.S. TREASURY
Yields Based on Saturday Quotations

Confidential Memorandum**Summary of American public opinion
concerning the war****Note:**

The accompanying data indicate briefly the state of public opinion before the President's fireside chat of May 27th. The results are based on published figures of the American Institute of Public Opinion (Gallup poll) and some published and unpublished data from the Princeton Public Opinion Research Project (financed by the Rockefeller Foundation,, using the same methods as the Gallup poll).

It is especially important in understanding public opinion that no single question be relied upon but that, instead, a whole pattern of results be studied at once and the contexts of the various questions compared.

Any further information, evidence, or analyses that may be of interest will be gladly provided.

June 3, 1941

Hadley Cantril,
Director, Princeton Public Opinion
Research Project

The following figures indicate:

1. Expectations people have concerning the outcome of the war and U. S. participation;
2. Their opinions concerning U. S. intervention;
3. What they regard as the implications of a German victory.

EXPECTATIONS

Which side do you think will win the war—Germany and Italy, or Britain?

Germany and Italy	18%
Britain	52
Neither	8
Undecided	24

Do you think the United States will go into the war in Europe sometime before it is over, or do you think we will stay out of the war?

Already in	13%
Go in	53
Go in only if it is a long war	6
Go in only if Germany and Italy are winning	6
Stay out	14
Undecided	8
Combined:	
Will go in	76%
Will stay out	14
Undecided	8

U. S. INTERVENTION

At the present time, which of the following should the U. S. do about helping England?

Do nothing	6%
Do no more or less than we are now	15
Do everything possible to help England, except go to war	67
Declare war on Germany and Italy and send our army and navy to Europe	10
Other	1
Undecided	3

If you were asked to vote today on the question of the U. S. entering the war against Germany and Italy, how would you vote—to go into the war, or to stay out of the war?

Go in	29%
Stay out	66
No opinion	5

Which of these two things do you think is the more important for the United States to try to do?

To keep out of war ourselves	35%
To help England win, even at the risk of getting into the war	62
No choice	3

Should the United States navy be used to guard ships carrying war materials to Britain?

Yes	52%
No	40
No opinion	8

Would you rather see Britain surrender to Germany than have the U. S. go into the war? (Would you prefer to have the U. S. go into the war, rather than see Britain surrender to Germany?)

Would rather see Britain surrender	26%
Would rather have U. S. go into war	62
No opinion	12

U.S. INTERVENTION (continued)

Do you think President Roosevelt has gone too far in his policies of helping Britain, or not far enough?

Too far	19%
Not far enough	17
About right	54
No opinion	10

Some people say that if the United States goes on helping England, Germany may start a war against our country. Do you think we should continue to help England, even if we run this risk?

Yes	76%
No	21
No opinion	3

If Brazil, Argentina, Chile, or any other Central or South American country is actually attacked by any European power, do you think the U.S. should fight to keep that European power out?

Yes	85%
No	12
No opinion	3

Should the United States take steps now to keep Japan from becoming more powerful, even if this means risking a war with Japan?

Yes	80%
No	26
No opinion	14

IMPLICATIONS OF A GERMAN VICTORY

Suppose the United States does not go into the war, and Germany defeats England, do you think you, personally, would be affected by this German victory?

Yes	78
No	17
Don't know	10

If Germany and Italy should defeat Britain in the present war, do you think Germany and Italy would start a war against the U.S. within the next ten years?

Yes	62
No	29
No opinion	9

The following figures indicate the intensity of opinion or the conviction with which opinion is held.

The results show that persons who want to help England at the risk of war are more convinced of their opinions than the non-interventionists.

As of late April, 1941

INTENSITY OF OPINION

Which of these two things do you think is the more important for the United States to try to do:

		<u>To keep out of war ourselves</u>	<u>To help England win, even at the risk of getting into the war</u>
WEAK	I am not at all strongly convinced on this matter	8%	5%
MODERATE	I guess it is the best thing to do	11%	17%
STRONG	I am absolutely convinced that this is what ought to be done	18%	41%
	Total	37%	63%

The following figures indicate what people give as their chief reasons for holding the opinions they do.

Important to notice here are

- the small percentage of non-interventionists who are worried about war aims;
- the strength of the traditional isolationist, pacifist appeals;
- the hard-headed, selfish reasons assigned by the majority of interventionists for their position. (This position is, obviously, harder to change than a more ideological or sentimental one.)

(As of late March 1941)

Major Reasons Indicated for Basic Attitudes

Those who THINK IT IS MORE IMPORTANT TO KEEP OUT OF WAR than to help England at the risk of war (52% of total population)

	Percentage of those who think it is more important to stay out of war who give reason indicated (not percentage of TOTAL population)
1. Do not like war aims (an imperialist war, England undemocratic, war aims not clear, etc.)	5%
2. Appeals to economic self-interest (nothing in it for us, being played for suckers, England never payed war debt, etc.)	15
3. Military disadvantages of involvement (aid to England will delay defense, or will weaken us, not sufficiently prepared, etc.)	6
4. Economic, social, and cultural consequences of involvement (war would bring depression, dictatorship, fifth columns, etc.)	4
5. General isolationist point of view (avoid foreign entanglements, present war none of our business)	16
6. Pacifist appeals (avoid war at any cost, futility of war, sentimental appeals)	31
7. Specific personal reasons (would have to go to war myself, family members involved, etc.)	4
8. Miscellaneous reasons	<u>25</u>
Total	100%

Major Reasons Indicated for Basic Attitudes (continued)

Those who THINK IT IS MORE IMPORTANT TO HELP ENGLAND EVEN AT THE RISK OF GETTING INTO THE WAR than it is to stay out of war (69% of total)

	Percentage of those who think it is more important to help England who give reason indicated (not percentage of TOTAL population)
1. Economic advantages to the U.S. of an English victory (secure foreign trade, save South America, obviate threat of German barter system, etc.)	5%
2. Military advantages of a "help England" policy (keep war in Europe, keep us from going to war, England first line of defense, etc.)	54
3. Ideological stakes in English victory (preserve democracy, protect our institutions, etc.)	17
4. Miscellaneous reasons	<u>24</u>
Total	100%

WHAT PEOPLE HAVE WHAT OPINIONS?

Sectional differences.

Believe it is more important
to help England at the risk
of war than it is to stay out
of war (as of late April, 1941)

South and Southwest	78%
Rocky Mountain	68
Pacific Coast	65
New England	64
Middle Atlantic	62
West Central	57
East Central	52

Differences by economic and educational groups.

The more educated people are, the more information they possess, the higher their incomes, then the more interventionist they are.

Differences by religion.

One of the most significant and consistent determinants of opinion toward aid to Britain is religion. Catholics are generally at least 15 to 20 per cent less in favor of such aid on all such questions.

This difference persists even when nationality background is ruled out (Irish and Italians) and even when economic status is held constant.

The difference does not hold, however, on questions concerning Far Eastern policy where Catholics can accept the majority point of view without internal conflict.

Differences by sex.

In general, women are approximately five per cent less interventionist than men.

June 3, 1941.

MEMORANDUM FOR THE SECRETARY:

Attached is a summary report of the projects which have been worked on in the Division of Tax Research during May, 1941.

Attachment.

RB

I. New Projects

1. Revenue Revision 1941

- (a) Data and exhibits requested by members of the Ways and Means Committee in connection with the Hearings were prepared. (Staff members).
- (b) A memorandum comparing the British and American tax systems was completed. (Mr. Atlas).*
- (c) A comparison of Federal taxes under the Revenue Act of 1915 and under the present law was prepared. (Mr. Zorach).
- (d) Excess profits
 - (1) Memoranda were prepared dealing with (a) the revision of the excess profits tax under the invested capital method and (b) the proposal

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

- 2 -

to determine the excess profits credit on the basis of the ratio of average base period earnings to present capital.
(Mr. Campbell).

- (2) Tables were compiled containing statistical data relating to various excess profits tax proposals.

(Mr. Gordon and Mr. Copeland)

(e) Income taxes

A memorandum was prepared analyzing changes in the tax liability of married persons under a proposal of the Staff of the Joint Committee on Internal Revenue Taxation (a) to allow personal exemptions and dependent credit for normal tax purposes only and (b) to increase the dependent credit progressively according to the number of dependents.

(Staff Members).

(f) Excise taxes

- (1) The possibilities of imposing floor stock taxes in connection with the additional

- 3 -

excise taxes contained in the Treasury proposal were analyzed. (Mr. Campbell)

- (2) A tabular comparison of excise taxes imposed upon various commodities and services under the World War Revenue Acts but not included in the current Treasury proposal was prepared. (Mr. Zorach)
- (3) A memorandum of the Independent Theater Owners of Ohio respecting (a) the proposed reduction of the exemption under the admissions tax and (b) the proposed tax on film rights was analyzed. (Mr. Farioletti)
- (4) A memorandum analyzing the significance of mandatory tobacco loan rates at 85 percent of parity prices with respect to proposed tobacco excise tax increases was prepared. (Mr. Farioletti)

- (5) A memorandum by the Radio Manufacturers' Association concerning the proposed excise tax on radios was analyzed. (Mr. Farioletti)
- (6) A memorandum with respect to the proposed excise tax on candy and chewing gum was prepared. (Mr. Farioletti and Mr. Copeland).
- (7) The effect of the proposed excise tax increases on tobacco consumption and prices was analyzed. Trends in consumption of tobacco products were also studied. (Mr. Farioletti and Mr. Copeland).

2. Income tax payment

A memorandum analyzing the problems involved in facilitating income tax payments was prepared. (Mr. Atlas).

3. Taxation of life insurance companies

A preliminary analysis was prepared on the proposal made by the life insurance companies to tax such companies upon new business written. (Mr. Mills)

- 5 -

4. Tax evasion and avoidance

Background material on the President's Message on the Prevention of Income Tax Evasion, 1937, was prepared for transmission to Judge Rosenman for use in connection with the forthcoming volume of the President's Public Papers and Addresses. (Mr. Ecker-Racz and Mr. Gordon)

5. Estate tax

A memorandum was prepared analyzing the proposal to exclude from the estate tax base the proceeds of life insurance policies purchased to pay the estate tax

(Mr. Ecker-Racz and Mr. Mills)

6. Sales taxation

A memorandum analyzing the problems involved in imposing a manufacturers' or wholesalers' sales tax was prepared (Mr. Farioletti and Mr. Copeland)

7. Excise taxation

A preliminary memorandum discussing excise tax policy in relation to the National Defense program was prepared (Mr. Farioletti)

8. Intergovernmental fiscal relations

Material relating to conflicting taxation has been assembled into five volumes. (Miss Wells).

9. International Railways of Central America

A memorandum analyzing the proposal to exempt the International Railways of Central America from Federal corporation income taxes was prepared

(Mr. Ecker-Raez)

10. Treasury Bulletin

An article for possible publication in the Treasury Bulletin was prepared comparing taxpayers' reported State of residence in 1936 with the States in which they filed their income tax returns. (Mr. Anderson)

11. Report on Treasury Income Tax Study

A report on the Treasury Income Tax Study at Philadelphia was prepared for distribution to members of the Conference on National Income and Wealth. (Mr. Anderson).

II. Continuing projects

1. Collection at source

A memorandum analyzing the problems involved in the collection of the

individual income tax at source is
in final stages of preparation.

(Mr. Atlas)

2. Taxation of interest on savings bonds

An analysis of the problems involved
in the taxation of interest on savings
bonds is in process. (Mr. Atlas)

3. Capital gains and losses

An analysis of the tax treatment of
capital gains and losses of individuals
and fiduciaries since 1938 in relation
to the tax treatment of other sources
of income is in final stages of prepa-
ration. (Miss Coyle).

4. Income of husbands and wives

A report upon the proposal to combine
the income of husbands and wives for
income tax purposes is being prepared.
(Miss Coyle).

5. Sales taxation

(a) A memorandum analyzing the proposal
to impose a tax on value added is
in final stages of preparation.
(Mr. Farioletti and Mr. Copeland).

(b) A memorandum analyzing the advantages

and disadvantages of a retail sales tax as opposed to a manufacturer's or a wholesaler's sales tax, is in process. The problems which have arisen in the administration of State retail sales taxes are also being studied. (Mr. Farioletti, Miss Wells and Mr. Copeland).

6. Social security taxes

An analysis of a proposal to increase the yield from social security taxes is being prepared. (Mr. Gordon).

7. Financial records of corporations

A financial record of representative corporations for use in connection with the study of tax problems is being compiled. (Mr. Anderson).

8. Treasury Bulletin

An article is being prepared for possible publication in the Treasury Bulletin analyzing the Income Tax Study of individual proprietorships (Mr. Anderson).

9. State income taxes

A tabular statement of provisions in State income tax laws relating to business

taxes incurred in connection with the collection or production of taxable income is in process.

(Mr. Ecker-Racz and Mr. Mannen)

10. Intergovernmental fiscal relations

An historical summary of important developments in intergovernmental fiscal relations is in process

(Mr. Gordon).

11. Income, excess profits and undistributed profits taxation

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

- (a) Analysis in the light of issues raised by the undistributed profits tax of the statistics made available from income tax returns and other sources. (Mr. Atlas and Mr. Copeland).
- (b) Analysis of the proposal to allow corporations with five or less shareholders to be treated for tax purposes as partnerships. (Mr. Mills)
- (c) Analysis of special treatment afforded financial, personal service and public utility companies, the professions and agriculture under the World War and

present excess profits taxes of the United States, Great Britain and Canada. (Mr. Mills).

III. Routine Assignments

1. Technical review of forthcoming Treasury publications

Statistics of Income for 1938, Part 2 for Corporations, was reviewed. (Mr. Anderson and Miss Hughes)

2. Hearings before the Committee on Ways and Means

A daily report on the Hearings on revenue revision, 1941, was prepared (Mr. Mannen, Mr. Farioletti, Mr. Atlas).

3. Digests and comments on other studies

A review of the report entitled "Financing Defense" prepared for the American Farm Bureau Federation by members of the staff of the Iowa State College is in process. (Mr. Farioletti).

4. Statistics

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

suggested tabulations from the corporation income and excess profits tax returns. (Mr. Blough, Mr. Shere and Miss Coyle)

- (b) An analysis of the Income Tax Study data relating to differences between the use of size classifications based upon assets as of the beginning or end of year is in process. (Mr. Anderson)
- (c) Administrative reports and statistics of the Bureau of Internal Revenue are graphed and commented upon for Mr. Sullivan's information. (Mr. Campbell)
- (d) Data relating to different taxes digests of tax items, and congressional activity on tax items of interest to the Division are currently prepared. (Staff members).

5. Correspondence

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



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 3, 1941

TO Secretary Morgenthau
FROM Mr. Coolbram

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns £26,000
Purchased from commercial concerns £ 2,000

Open market sterling remained at 4.03-1/2, and there were no reported transactions.

The Argentine free peso, which reached a new high of .2388 at the close yesterday, reacted to close at .2380 today.

The Cuban peso moved to a new current high of 2 $\frac{1}{2}$ discount, as compared with 2-1/8 $\frac{1}{2}$ last night.

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

Canadian dollar	11-3/4 $\frac{1}{2}$ discount
Swiss franc	.2321-1/2
Swedish krona	.2385
Belgian mark	.4005
Lira	.0526-1/4
Brazilian milreis (free)	.0905
Mexican peso	.2070

In Shanghai, the yuan was unchanged at 5-11/32 $\frac{1}{2}$, and sterling was again quoted at 3.90-7/8.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, a price of 23-7/16d was again fixed for spot and forward silver, equivalent to 42.55 $\frac{1}{2}$.

The Treasury's purchase price for foreign silver was unchanged at 35 $\frac{1}{2}$. Handy and Harman's settlement price for foreign silver was also unchanged at 34-3/4.

We made two purchases of silver amounting to 275,000 ounces under the Silver Purchase Act, representing new production for forward delivery. Of this amount, 100,000 ounces came from Peru and 75,000 ounces from various foreign countries.

- 2 -

The Federal Reserve Bank's report of May 28, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$77,174,000, an increase of \$996,000 since May 21. Also shown were the Yokohama Specie Bank New York agency's principal dollar liabilities to and dollar claims on Japanese banks in Asia. These stood as follows on May 28:

	<u>May 28</u>	<u>Change from May 21</u>
Liabilities: Deposits for Japan and Manchuria.....	\$52,399,000	+ \$ 514,000
Deposits for China.....	16,589,000	- 636,000
" : U.S.Treas.Bills, comm.paper, etc.....	26,525,000	- 627,000
Claims : Loans.....	\$34,878,000	- \$2,481,000
" : Other - mainly Jap. import bills.....	6,841,000	- 826,000

It will be observed that the Agency's claims were reduced \$3,307,000 in the week of May 28, while its liabilities fell only \$449,000 on balance.

J.M.P.

CONFIDENTIAL

RESTRICTED

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, June 8, 1941.

TENTATIVE LESSONS BULLETIN
No. 113
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.

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"ARTILLERY HELPS ITSELF"SOURCE

Section 1 of this bulletin contains a translation of Artillery Helps Itself, an article which appeared in the Artilleristische Rundschau, authoritative German military journal, in November, 1940. Section 2 consists of the comment of an American official observer in January, 1941.

CONTENTS

1. "ARTILLERY HELPS ITSELF"
2. COMMENT BY OBSERVER

RESTRICTED

RESTRICTED1. "ARTILLERY HELPS ITSELF"

War teaches that an emergency always brings difficulties which are not fully anticipated in peacetime training. Sooner or later there appear in each unit men who can master the difficulties, but at the beginning of each campaign, before these men have been found, there is a period of great danger. Success of the surprise element and achievement of the blitz victory leading to complete annihilation of the enemy demand that all units function without friction on all missions from the very start.

This means that artillery should never lose control with the more mobile weapons and, of course, should never become an obstacle. Since artillery is dependent upon itself and must help itself, it must get into action by overcoming all obstacles as quickly as possible.

Our battery belonged to a tank division. The first obstacle we encountered in Poland was sand. Although matters went fairly well during daylight, tank attacks commenced in the evening and we had to use illuminating fires in order to follow along. One morning when we looked at the map to see what progress had been made during the night, we found that we had advanced only seven kilometers, although we hadn't had a moment's rest.

After the first few hundred meters we had discovered a method of getting along over the sandy paths, which were interrupted at some places by swamps and demolished bridges. At all times we had two or three men, including battery officers, out ahead to reconnoiter on foot the best route, which frequently led off the regular path, over fields, and through meadows. After finding the best route, these men guided the foremost vehicle forward with a flashlight.

Often we preferred halting to continuing the march into the unknown. Halting involved no loss of time, since the ammunition train, which moved only with great difficulty, could be brought up each time we stopped. The wheels of the train's last vehicles dug deepest, and often men had to dismount from their vehicles and smooth out the rut and rutted sand. When the going became extraordinarily bad, we knocked down wooden fences along the way and built makeshift stakewalks over the ruts. That always helped. The last men across loaded the material onto their vehicles in order to have them at hand where there were no fences along the way.

The maneuverability of a motorized unit in difficult terrain is greatly increased if each vehicle carries with it boards

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or something of a similar nature; there is room for them on every vehicle.

It is not often fully realized that entrenching tools and other equipment are extensively available to a battery from army equipment, signal equipment, and motor transport equipment. If non-commissioned officers and men are trained to independent and quick action and if they know their equipment, many small terrain obstacles can be overcome quickly and with little difficulty. For example, the sides of a ditch encountered on a detour can be levelled down and the bottom filled in so quickly that very little time is lost.

We soon learned to bring up to the front the reserve tractors which are normally at the rear of the column. If we came to a difficult place and a motor truck got stuck despite anything we did to improve the road bed, the tractor took position alongside the road on the far edge of the difficult stretch, and with its towing line it pulled one vehicle after the other across the obstacle. Then the tractor drove past the vehicles and resumed its position at the front of the column.

At times critically narrow bridges or dangerous curves were marked on both sides with flashlights so placed that chauffeurs were not blinded.

Sometimes swamps were encountered and our fences were of no avail. We halted, cut down a few trees, sawed them into pieces of about twice the width of the vehicles, filled the swamp with the branches, and put the trunks of the trees on top. Thus we provided a stakeroad that held out long enough for the whole battery to cross. Spots that became weak as the vehicles rolled over them were reinforced.

We did not sleep during the first night in Poland, but we were proud of our accomplishments when we learned that our battery was the only one of the battalion which had managed to bring up all of its vehicles. To do this, each man had to be able to work on his own initiative under uniform leadership, and each individual had to know where to find a spade, an axe, a hatchet, or a saw.

The following are approximate figures on what equipment a battery has for pioneer purposes: 70 spades, 25 claw-hatchets, 6 axes, 4 saws of various types, a large number of towing lines and cables from 2.5 to 7.5 meters in length, a few wire cutters, 25 meters of cable, a wood hammer, and a sledge. Where possible, we increased this basic allowance, especially of saws and axes. One item of equipment was added; each piece of artillery was given a rake for use on sandy trails.

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On the eighth day of the war when we reached the Vistula south of Warsaw, the bridge had been demolished and troops forming the bridgehead had crossed the river on inflated rubber rafts and ferries. Advance observers of all batteries were with them, and they directed fire practically alone during subsequent days because the main OP's furnished little opportunity for observing operations on the eastern bank of the wide Vistula lowlands. Artillery liaison commands assisted to a small extent in directing the fire.

Under these circumstances we wondered what our advance observers would do if, dependent solely upon themselves, they had to cross a stream - not merely empty handed in summer but equipped with radio and observation equipment in winter. After we had returned to Germany we read the General Pioneer Service regulations, formed our own opinions, and then attempted to solve the problem. We found that luckily this problem can always be solved technically. Streams are not an obstacle for men with equipment but without vehicles. This fact must be remembered by all advance observers, signalmen, and couriers.

Wooden rafts are uneconomical when the time consumed in their construction and their capacity for buoyancy are taken into account. Building material must be as light as possible and water displacement as great as possible. We took inner tubes, pumped them up tight, made a square out of four, six, or nine of them, and tied a deck securely over them. Time was gained, of course, when we could locate a deck ready to be installed, as, for example, the fences which we have already mentioned. Boards or poles may be used, but a considerable amount of rope is required for each raft, since no nails may be used for this work. In a pinch, two tires will carry a man with equipment; three will carry him easily.

We made similar rafts of tissue canisters, but these offered several disadvantages. Eight canisters are necessary to carry a man; construction is more difficult and requires more time, and since the draught is greater, the danger of damage to the raft is greater.

A raft made of a tarpaulin filled with some light material such as straw, reeds, or simply brush was of quite a different nature. The four corners of the tarpaulin were tied together after it had been stuffed with this material. A raft made of the tarpaulin of a standard Diesel tractor and filled with brush carried two men, and despite several small holes in the tarpaulin, it functioned for nearly an hour. If straw or reeds are used, the durability is greater, but the carrying capacity gradually becomes smaller. In principle each straw and each reed remains a little raft in itself, even when the tarpaulin becomes filled with water.

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We built one raft for four or five men out of a larger tarpaulin - one which measured about six by eight meters - and reinforced it on the sides with two poles which we wound in straw.

If cable is at hand, the raft can be drawn back and forth across the stream and the ferryman can be eliminated.

Something is always possible. If the advance observer does not have the necessary equipment in his vehicle, he can have it brought up very quickly. A house or village may afford barrels, tube, and other useful things.

In the same way that a body of water cannot represent an obstacle, lack of natural observation posts cannot preclude observation. There are trees and chimneys. A certain amount of drill will be necessary for overcoming the tendency to ponder over what should be taken along to the lofty seat and in what order of priority. First of all, a line tied to the belt will provide the means of hauling up everything else that is needed. A safety belt and one of the various types of climbing irons should be available, but usually they remain unheeded in the observation car or in one of the vehicles of the train.

It is not difficult to be a first class gunner under normal conditions on the maneuver field. It is much more difficult - and above all is much more important - to give weapons the opportunity to be at the right place at the right time. The energy of the leaders, the cleverness of all personnel in all situations, and the proper training of the battery will afford this opportunity.

2. COMMENT BY OBSERVER

The Germans design and equip their organization for a specific purpose; their army was given definite training for the type of warfare used in Poland and France. They conduct their maneuvers under conditions as near as possible to those of wartime and no maneuver is ever stopped on account of bad weather or unfavorable terrain.

In this article no mention is made of laying wire, but there is mention of getting the radio forward with the observer. This is an indication that the Germans believe the field artillery must depend on radio in a fast moving situation.

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G-2/2657-220; No. 407 M.I.D., W.D. 12:00 M., June 3, 1941

SITUATION REPORTI. Western Theater.

Air: German. Extremely limited activity last night with small attacks on Tyne and Humber river ports.

British. A fairly strong offensive effort was made last night, with attacks on Berlin, Dusseldorf, Duisburg-Ruhrort and coastal points.

II. Mediterranean and African Theaters.

Ground: No operations of importance to report.

Air: Axis. Attacks on Tobruk and Malta.

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Paragraphs of Code Sublogram
Received at the War Department
at 11:17, June 5, 1941.

London, filed 16:55, June 5, 1941.

1. British Air Activity Over the Continent.

a. Day of June 2. Activities consisted of three offensive patrols over the French coast by planes from the fighter command, one attack on airframes and barracks in the Kiel area, and extensive attacks on enemy shipping by planes from the bomber and coastal command. Two Axis ships were sunk in the vicinity of Kiel.

b. Night of June 1 - 2. The Royal Air Force was inactive during this period.

2. German Air Activity Over Britain.

a. Night of June 2 - 1. There were ten German planes engaged in bombing operations on shipping in the vicinity of Firth of Forth, the Clyde, and the Humber.

b. Day of June 2. Operations on this day were insignificant. A total of three planes were plotted over England.

3. Aircraft Losses, British Theater.

a. No British losses were reported for the operation of day of June 2.

b. During the British offensive patrols over the coast of occupied France, fighter planes shot down two Germans and damaged two others. It is also believed that another plane was unable to return to its base.

4. British Air Activity - Other Theaters.

2. Suez. Flares of the Royal Air Force based in Egypt made bombing attacks on airports at Heliopolis and Helwan. Ships engaged in evacuating men from the Island were protected by Royal Air Force patrols.

3. Libyan Theater. The airport of Benghazi was subjected to attacks by British planes and Axis headquarters in the vicinity of Hamalet and Cyrenaica were strafed.

4. Axis Air Activity - Other Theaters.

a. Syrian Theater. Withdrawal of troops was accompanied by almost incessant air attacks by the German Air Force on the British naval vessels engaged in this operation.

b. Egyptian Theater. The harbor of Tobruk was bombed by fourteen Junker JU-87's.

5. Aircraft Losses - Other Theaters.

a. No British losses were reported.

b. During the Royal Air Force attacks on Axis headquarters one Axis plane was destroyed. During the attack on Tobruk two Junkers were shot down by anti-aircraft fire.

END

Distribution:

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, G 2
War Plans Division
Office of Naval Intelligence
Air Corps
G-3

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*over agreement
and the two*

June 4, 1941
11:00 a.m.

RE AID TO BRITAIN

Present: Mr. Bell
Mr. Viner
Mr. Cochran
Mr. White
Mr. Foley
Mr. Bernstein
Mr. Morgenthau, Sr.

H.M.Jr: Here comes just now a report from Jones on the progress of the Tennessee Powder, Buffalo Arms, Kelsey Wheel and so forth.

Bell: Is that in answer to our letter of May 2?

H.M.Jr: Yes. It is written June 4.

Look, gentlemen, in order that I don't hold up the State Department, could we do the quid pro quo first? I think it is going to be very simple. Would you mind doing that first?

Foley: You (Bell) have got the analysis.

Bell: Here is an analysis of the two bills, column by column.

H.M.Jr: Should I take the time now to read it?

White: I don't think so, because the issue is rather clear. I think it can be stated rather briefly.

- 2 -

H.M.Jr: Let me just have a minute.

(Mr. Morgenthau, Sr., entered the conference.)

H.M.Jr: All right, now, Dan. What do you want to say?

Bell: Well, we hardly know what to do with the thing. It is entirely different from the agreement that the boys drafted here. Ours was, of course, a little tight and a little strict and probably quite commercial, but it is entirely different from the agreement they have drafted and the information we get is that it has been approved at the State Department. Whether there can be many changes in it or not we don't know, but we don't think you should approve it and we just don't know how to approach the problem here.

H.M.Jr: Does anybody disagree with Dan's position?

Cochran: You say you don't think we ought to approve it?

Bell: I said I didn't think the Secretary ought to approve the agreement.

White: You don't think he ought to?

Bell: No. Isn't that right?

White: Yes, that is right.

Foley: I think the difference between us is this, Mr. Secretary.

H.M.Jr: Difference between the State and Treasury?

Foley: No, this group here. There are some of us who feel that you should recognize this as a State Department product. We submitted

- 3 -

our draft. They rejected our draft and came back with a counter proposal.

Now, the differences are so fundamental that if the President wants to go forward with the State Department draft, we should take the position that it is the State Department's business and that since they have the primary responsibility, we are leaving the matter up to them. I think Harry and Jake feel that this is a matter of very major importance, and that we can't divest ourselves of that responsibility and it is up to us to try to work out with the State Department something which is neither what we originally suggested or which the State Department has suggested, but an agreement that will provide for an economy in the post war period that will be best for the two countries.

White:

With some slight modifications, which probably will clarify another point. We feel as they do that there are two approaches to the problem and the decision as to which approach should be made is one of very high policy which the President and you and Hull should make in the knowledge of what is going on in England, which we can not know, that if the approach is one of a business arrangement the one which was drafted here with some slight modifications we think is desirable.

If, however, the approach is to be one such as the State Department apparently has in mind of a document attempting to outline the pattern of economic relations after the war, then I think we all feel that it is a very inadequate document and a very poor document and I think Jake and I and possibly some of the others feel that if that is the intent, it is an extremely important document that ought to take a long time to prepare and that

- 4 -

you ought not to approve it; nor can you say it is their responsibility, because it is a Government document of great importance.

H.M.Jr: Well, of course the President simply placed it on Mr. Hull and said he should consult with me.

Bell: I think this document --

Viner: Mr. Secretary, you can't - on the quid pro quo side, I have gone through the record carefully. You are right and there is the letter to you by the President and to Hull which assigns the task to Hull of arranging the quid pro quo; but on the kind of a world we shall have after the emergency, he has not assigned it to the Secretary of State and until you are told to the contrary, you have a responsibility not to approve of a draft unless you really think it is a good draft.

You see, there are two things in the State Department document. There is the quid pro quo element, and there is an outline of the kind of economic relations that shall go on in the future between the British Empire and ourselves. On the last, he has received no assignment, as far as your record goes, from the President, and you have not been absolved from any responsibility, whatever it may be, in that connection.

White: I would go further. I think that solution is impossible. I think the Secretary can disapprove, but I don't think he can say, "This is not my affair."

He can either approve or disapprove. I don't think he can say, "This is Secretary Hull's responsibility."

- 5 -

- Bell: Well, I take it that the State Department would take the last element as their responsibility without any assignment, future foreign relations.
- Viner: Oh, I wouldn't say that - no.
- Bell: Without any assignment from the President. They wouldn't need that.
- Viner: Oh, I can't believe that. There is nothing more important, potentially more important, and I say no one department could say that a thing of that sort would be - it would be a matter of major Governmental policy and all the brains in Washington ought to be --
- Bell: That might be true, but that wouldn't be the way they would view it. It is a foreign affairs matter and that is the reason for their taking hold of it, I think.
- Viner: It is internal. The internal economy would be very seriously affected and I can't believe that, that they would take that position.
- White: Moreover, I don't think the Secretary of the Treasury should be guided by their notions of what his responsibility is.
- Viner: I have another criticism of the State Department draft. I think it is a confused, muddled document, because they are not themselves clear in mind as to whether they are writing a quid pro quo agreement or writing a blueprint for the future world.
- H.M.Jr: What is the word for a multi-sexed person, if there is such a thing?
- Viner: Hemaphrodite.

- 5a -

H.M.Jr: That is it.

Viner: Use that in your letter to Secretary Hull.

H.M.Jr: What I want is hemaphrodite, that is what I want. But that is like most State Department drafts.

Bell: It probably wouldn't sell very well here.

Viner: It would be, I say, an intellectual exposure of this country and this Government if at the present stage they were to issue that document and if it were to be interpreted as our blueprint for the future, because it is so inadequate and it is so inadequate a level for that.

H.M.Jr: Well, supposing, Jake, I do this, that I call up Acheson myself. He is handling this. I will say, "Look here, Dean, we have given this matter thought and we understand there is a time factor. All I can tell you is that we can not approve the document and I wish you would give that word to Mr. Hull."

White: I shouldn't like him to think that you can't approve it because you feel that your document is the right one.

H.M.Jr: Then can I --

Viner: Say that we have serious misgivings about the document and before we could give it our approval we would like to present some considerations, rather than say we can't approve it.

H.M.Jr: No, I don't want to say that. I will say I can't approve it because I think it is wholly inadequate.

- 6 -

White: Even for the purpose apparently which they are intending it for. I wouldn't want him to go back to Hull and Hull to the President and saying the Treasury disapproves because they think their document is the one that should go, and then it would make it appear that the difference of opinion lies between a tough document and theirs.

Viner: My position is a little different here. I am not dissatisfied with the mercantile or the commercial aspects of the State Department document. Of the two, I would prefer the State Department approach. My only criticism of their document is it seems to me a confused and muddled one and it mixes in the post war world with the question of what are the quid pro quos to be for the Lease-Lend thing.

So that - and if you disapprove - they have a right to know why you disapprove. I don't think you have a right to say simply that you disapprove. What can they do then? How can they act administratively on that basis?

H.M.Jr: They can do just what I expect them to do, go ahead and disregard us.

Viner: Oh, but you don't want that. If you can cooperate with them, you can help them.

H.M.Jr: If you sit here the way I have, month after month, and wait for them, you can't change them.

Now, all right, you stay here for one month --

Viner: I know, but that is what the outside public is saying about this Administration, that it can't get together.

H.M.Jr: I can't help it, Jake, I have worn myself to a frazzle.

- 7 -

Viner: I can't help it, you have got to try.

H.M.Jr: Well, I am very sorry, I have quit trying. As long as Mr. Hull is Secretary of State, as far as I am concerned I can't do a thing. You can't do anything. I mean, the man - doesn't any more - he kept talking trade treaties and trade treaties for five years after the thing no longer was of any importance.

What is our whole trouble with the Argentine? The President of the United States told me to get together, and from that day to this we haven't got a trade treaty, have we, with the Argentine; and there they are - everything that is pro Nazi - just because they wouldn't sign a Hull trade treaty.

My father said the right thing. William Jennings Bryan was more interested in his peace treaties and because he got twenty-one - twenty-one or twenty-two peace treaties, he thought he was a great man.

Mr. Hull has twenty odd trade treaties and where has it got us?

Viner: But what good do you do? What you want is to get desirable results. What good do you do by --

H.M.Jr: I am not the President of the United States. I am only an appointive officer. I am only a hired man. I can't tell the President. I can only go so far. You for instance go up against Herbert Feis and the other people and try to --

Viner: I saw no trace of Herbert Feis in any of that document. I would like to see some sign of an attempt at least between the staff here to

- 8 -

work it out on the staff line and see. There isn't enough --

H.M.Jr: Well, there comes a time - I mean, there comes a time when the thing isn't - it isn't worthwhile the mental effort.

Viner: You mustn't say that.

H.M.Jr: Well, I am sorry.

Bell: We thought that the President approved the Treasury agreement in principle. Now, if he did, then I shouldn't think that he would approve this, would you, Ed?

Foley: Well, I don't know what has happened behind the scenes and I don't know how much --

H.M.Jr: What I say here about the State Department and Mr. Hull is strictly in the room.

Foley: Well, this is the way I look at it, Mr. Secretary. I don't visualize this document as important as either Jake or Harry. I don't think it is a very important document because I think the things are going to change so fast during the next few months that what happens then makes this thing inconsequential, no matter which way the balance goes, and you can't write anything now that is going to determine economic relationships between the two countries in the post war period because you don't know what situation we are going to be in or what situation they are going to be in.

If they are going to win, well, that is one situation. On the other hand, if they are going to make peace, that is an entirely different thing and I don't see how sitting here now you could visualize all of the things

- 9 -

that have to be taken care of in a real post war economic document.

Viner: Well, there is much truth in that.

White: I agree with you except when you say it isn't important. I agree with you as to your reason for its not being important.

Bell: That is just a reason for postponing the document.

Viner: Yes, but this would be important from another reason. I am taking now the outsider's point of view. The country is worrying about these future developments. This is an indication as to the state of thought down here, and I say from the point of view of the Administration it would be unfortunate if a half-baked, muddled document like this is given to the public as being the state of mind of the Administration now.

Foley: Why can't the Secretary call up Dean Acheson and say this, Jake? "We are not - we are apart here on the kind of a document that we need. I understand for political reasons there is some desire and some need for haste. I realize that you have to make a report on the eleventh of June and that for purposes of that report it may be politically feasible to be able to say that negotiations are underway between the State Department and the British looking toward a document that will establish the economic relationships between the two countries in the post war period, based upon the amount of help and assistance that we are giving to Great Britain at the present time.

Now, for the purposes of starting those negotiations, the State Department document or

- 10 -

any other document would be all right. Go ahead and start your negotiations, but don't enter into any definitive arrangements until you can see more clearly what the future is going to hold for both Great Britain and the United States.

Cochran: I think, Mr. Secretary, that is about the idea. If you could state that this is the basis and suggest it in the negotiations, they might want to call on someone from the Treasury to sit in with them, that there are certain things we would like to work out if this is to be a program in the future.

I don't like to see you throw it down as not acceptable because I think it gives merely your own idea as to how this ought to be settled perhaps better than the Treasury draft did. I mean, it is not as stiff as the Treasury draft and they have the responsibility.

Mr. Hull is the spokesman on most of these things as Dan said, and I don't think there is a lot in there you can take exception to. We may not consider it a finished document but still if we got the economists and lawyers from all the different departments together who are concerned, I don't think we would get anything out for an awful long while.

Bell: You wouldn't give the British this document as a basis for your negotiations?

Cochran: I would let the State Department take it up with the British as a basis with --

Bell: You mean this document they have drawn?

Cochran: I mean, they will have to see it before --

- 11 -

- Foley: You have got to start with something. The British aren't going to talk in a vacuum.
- Cochran: And let the President give out the word that we are negotiating and if they would consult us so we would have someone, Harry or someone else, to help on the technical drafting of it.
- H.M.Jr: I can't help it. Jake doesn't like to hear me say it, but as far as I am concerned, I am licked in the State Department. I can't do anything with Mr. Hull. Every time the President asks me to do something, Mr. Hull goes into a sulk and gets mad. He asks me to do this and that and the other thing.

On the oil to Japan, the question of doing something to keep Russia happy or the question of freezing funds, all of those things which the President wants and I have just worked myself to a frazzle and Mr. Hull gets madder and madder at me and is a worse enemy and so forth and so on.

Well, the President has him as a spokesman. He is his Secretary of State. I am through being the President's whipping boy on the foreign affairs stuff. I won't do it. Let the President of the United States do it. I am not going to be his whipping boy.

He tells me that is what he wants and I go ahead and try to bull it through and Mr. Hull gets mad at me. Why should I do that? Let the President of the United States tell Mr. Hull what kind of a document he wants or if he wants to freeze funds or doesn't want it, if he wants to be friends with Russia or he doesn't, if he wants Japan to have gasoline or he doesn't, if he wants strategic materials to go out or he doesn't.

- 12 -

- Viner: I am sure the President wants whatever contribution the Treasury can make to make this a sound document.
- H.M.Jr: I have been his whipping boy for several years on this, and a lot of other things.
- Let him say what he wants. That is his privilege. Why should I always have my neck out? For two years I went up against the War and Navy Department to try to get France and England this stuff. Well, we got it for them. I don't think I will do it any more, Jake.
- White: Could this be a compromise, Mr. Secretary, to call up Dean Acheson and have him come over here to Mr. Bell's office --
- Viner: Sure, try it.
- White: Let him hear all the comments and criticisms and in that way you can keep out of it and Bell can indicate that from that point on after they have heard what we have said, the baby is theirs, we don't approve of it; but let him understand the reason.
- Bell: We might keep it on the under staff level for a time as Jake says.
- Viner: And see what happens.
- Bell: And if it is all set in their mind, you can withdraw.
- Viner: I am willing to bet it isn't nearly as closed as --
- H.M.Jr: Do you mind having a stenographer present?
- Bell: Not at all.

- 13 -

White: Then you can keep out of it until --

H.M.Jr: I tell you what you do, Dan. Who made that suggestion?

Foley: Harry.

White: I think we are all thinking of it.

H.M.Jr: When they see me in this mood, you see, they by-pass me. I am willing to be by-passed. It is a good idea. We will let Jake take him on. He is full of vim and Chicago. We will see what he can do.

Viner: I am willing to make a forecast that there really isn't any serious barrier between the two departments and that the staffs can come to a reasonable understanding.

H.M.Jr: I tell you what you do, Dan, step out and call up Acheson and find out when you can get together and come back. I am tickled to death. We will go on with this next thing. Do you mind?

Bell: No.
(Mr. Bell left the conference.)

H.M.Jr: I have got just so much fight, Jake. I am going to put my fight where I have got a chance of winning.

Viner: I think that this fight aspect is - it is not clear to me yet that there is a fight aspect there.

White: The answer is that in most things of any significance - those things that are unimportant, there is complete cooperation

- 14 -

and sometimes one has a way or the other; I don't think there is anything that can be said about any lack of co-operation or coordination.

On matters that are important, there has been a different point of view, and I don't think the Treasury point of view has prevailed once.

Viner: I think that was another error in which I think the Treasury has been right and the State Department wrong.

For instance, this economic warfare. I don't see --

White: I feel like you do. I don't like to see the Secretary withdraw, because though he hasn't won, you can't say that he hasn't had definite effect and that he must continue to do so; but I can appreciate how he feels about it.

Viner: Even so, he would have to give his reasons.

H.M.Jr: I would give them if anybody would listen to me.

(Mr. Bell returned to the conference.)

Bell: He is out of the building until after lunch and can't be reached.

H.M.Jr: All right. Now the next thing.

- 15 -

Bell: Do you want me to give you a little more dope on the three fifty?

H.M.Jr: Yes. We are trying - English Treasury finances. Yes.

Bell: In the memorandum which Young prepared of the conference held on January 22, at which Knox, Knudsen, McCloy, Jones, and Stimson were all present, you discussed the matter of tiding the British over until after the Lend-Lease, and there was quite a discussion of taking over plant investments and contracts, and there was a figure mentioned of three hundred million, although it was more to plant investments than it was to contracts. At that time you asked Stimson if McCloy could go on studying and negotiating with the British for taking over the contracts in which they - for materials in - for which they had a use, and Jones said that he would study the plant investments, but he didn't know that he - he didn't think that he could go as high as the three hundred million figure.

On March 10, of course, was your luncheon appointment with the President at which he gave you that notice. You had a press conference on March 13 in which one of the boys said - the reporters, that the statement is being made rather flatly at the OPM and in the War and Navy Departments that the United States will take over all British war material orders now unfilled and pay for them and then turn them over to the British under the Lend-Lease program.

Do you know whether or not that is true? You denied that for several questions and said that it was not true as of last night, and then they insisted that they had heard a great deal about it and there must

- 16 -

be something behind it, and you said, "Well, again to help you gentlemen out, the RFC has for sometime been negotiating for the plant facilities that the English have invested in in this country. That is number one.

Number two, for sometime the Army has been negotiating to take over contracts where the English had made down payments, twenty-five percent down, which would take care of a certain amount of contracts. The Army would be taking over those where they had use for that particular material and where they had made payments, that is cash payments, but no investment in plant. Where there is investment in plant, the RFC is going to take care of that.

Then someone asked you, "What is the dollar volume of that?" and you said, "I cannot say." Then they asked you what the dollar volume was of the contracts and you didn't say that, and somebody said, "Well, didn't you give a billion four hundred million dollar figure to the committees in Congress?" and you said, "Yes." Then they said, "Would it be all right if we took - " oh, they asked you what the dollar volume of contracts was, and you said, "Well, I can't give it to you in dollar volume. I think the percentage would be better," and you said, "It might run from twenty to twenty-five percent of their present contracts." So they applied that twenty to twenty-five percent to a billion four and came out with four hundred million, and you said, "No, I think that is a little high. It will run between three hundred and three hundred fifty million dollars."

H.M.Jr:

What day is that?

- 17 -

Bell: That was March 13.

Now, that was off the record and just for their background, you see.

On the fifteenth, Jesse Jones gave out a press release which gave the information on taking over the powder plants and the machine gun plants, forty-six million, and he says, "Other plants may be acquired later." Now, that was the only indication that others were under consideration except the forty-six million.

On March 17 and under a Washington dateline of March 16, the Journal of Commerce in commenting on Jones' press statement said this. In connection with that. "Early last week high government officials revealed that the total British plants and commitments to be taken over by this government may run as high as three hundred fifty million dollars. It was indicated that the companies which built the plants would reimburse the British for any investment they had made out of the proceeds received from this government."

That was just before your conference of the nineteenth, and that was all I could find in the record about the three hundred fifty million, and I take it that the basis of it really was that memorandum that the President gave you, and they apply a twenty or twenty-five percent figure to the contracts. Now, if they had applied the twenty or twenty-five percent figure to the total contracts, you see, we would have come out with about a six or seven hundred million dollar figure, but they applied it to the unliquidated part of the contracts as of January 1 and came out with the three hundred fifty million.

H.M.Jr:

That is most likely the history of it.

- 18 -

- Bell: This has been changed, and I will add the memorandum on that.
- H.M.Jr: Here is the point. If we have any trouble with Hopkins, which I don't think we will have, I think that we will have an ally in Ben Cohen. He will be ready to go to town on it.
- I had almost two hours today and cleared up their misunderstanding. He couldn't believe that a cable marked "Special for the President and the Secretary of State and the Secretary of the Treasury," dated May - March 18?
- Cochran: Yes.
- H.M.Jr: That I never received it, that the State Department never delivered it to me until the twenty-seventh. It was marked, "Special, Confidential, Urgent." He just wouldn't believe it.
- Now, what about the Keynes thing?
- Bell: Now, on page two of that memorandum under "C", you will find the--
- H.M.Jr: Have you got a copy my father could see?
- White: Yes, I have one here.
- H.M.Jr: The aide memoirs forwarded to us from the White House?
- Bell: That was the Kingsley Wood memorandum?
- Cochran: That is the one Hopkins gave you so late.
- Bell: You referred to it in your conversation on the telephone, that he had lost it.

- 19 -

H.M.Jr: Was that in there?

Bell: Yes.

H.M.Jr: Oh, I see.

Bell: That is the Cohen cable there, you see. Two under "D" is the six fifty.

H.M.Jr: Well, you do nothing on the six fifty?

Bell: We haven't done anything on it because we have been concentrating on the tree fifty, thought we would like to get that cleared up first.

White: We did have some discussion with them on the six fifty in which we talked a little--

Bell: That is "C".

White: about the possibility of, through administrative arrangements, taking care of all of it. The Legal Division feels that that could be done, that we could take care of all of that two hundred million dollars a year.

H.M.Jr: Wait a minute, Harry. Will somebody state for me - let's forget about the three to four hundred million, see. Let's put that to one side.

Now, what else does the British Treasury want in the way of relief.

Bell: Six hundred fifty million dollars.

H.M.Jr: Well, how, Dan?

Bell: Well, they haven't expressed any way as to how it should be done except that Keynes said that they could reduce it by fifty million, arranging through Hopkins that it should come under the Lend-Lease. Now, we think others could

- 20 -

come under the Lend-Lease too, which would give them relief.

H.M.Jr: I don't know if I understand it. Is it that they want it the way you said in the first case, a working balance of six hundred million?

White: They feel they have to spend about six hundred million dollars during the next two years for things which they at first thought might come under the Lend-Lease, but for one reason or another they feel may not appropriately come under the Lend-Lease and should be expended otherwise. Therefore, they would like to be relieved of that six hundred million dollars so that they could spend that six hundred million on these things about which there is doubt.

H.M.Jr: Has anybody got a suggestion?

White: Well, I think there are two. In the first place, he has already reduced that by fifty million following our discussion.

H.M.Jr: Call it six hundred.

White: The second is that there is this possibility that more of the things which they think can not be done under the Lend-Lease can be done under the Lend-Lease if they make some administrative changes which they think is difficult.

H.M.Jr: What is that?

White: Well, for example, let's say they have an importer that buys iron and steel goods. He buys it from a private concern here and it is a private concern over there. He gets an import permit and so he is entitled to buy

- 21 -

it, but they feel that in order to accumulate all those purchases and get them under the Lend-Lease - would be administratively very difficult for them. There is no legal restriction at this end, and I think both Cox and Bernstein believe that that could be done administratively here if the British wanted to take some additional trouble and go to some additional expense, but I think that could account for another - possibly two hundred million a year. So we could reduce the six hundred fifty million that he is asking for by fifty already reduced, another four hundred million if they can get all of this done under that method. That will leave two hundred million which they feel are goods like agricultural implements which they would like to buy here but which they said that Hopkins felt it was politically inadvisable to include under the Lend-Lease arrangements.

Now, I think that that policy might change so that it might be even possible to include that sort of thing under the Lend-Lease so they wouldn't need that two hundred, which leaves only one other item left which they didn't put a figure on, namely, the purchases of the Dominions.

- H.M.Jr: Now, wait a minute. Before you get to that, have you liquidated the six hundred million down to zero?
- White: If they can do both of these, it isn't necessary for them to get the six hundred.
- H.M.Jr: My mathematics doesn't follow you. I still think there is two hundred million left.
- Bell: No, he covered the six fifty, but there is another item there which--

- 22 -

- White: Fifty million they have already got, which reduces the six fifty to six hundred. These miscellaneous items are two hundred million a year, which makes it four hundred million. You see, they are operating on a two year basis in this letter.
- H.M.Jr: That leaves it down to four hundred million.
- White: Two hundred million because that is two hundred a year which is a total of four hundred.
- Cochran: But on the agricultural implements, I thought those things which Hopkins objected to more were such things as funds for these British trainees here.
- White: That was one, but he also mentioned agricultural implements.
- Bell: Things that Hopkins considered politically but not legally impossible to bring under the Lend-Lease Bill.
- H.M.Jr: Have they given us a list of the things?
- White: They only mentioned two of them to my knowledge, the training expenses and the agricultural implements, no specific details.
- H.M.Jr: What do you think, Jake?
- Viner: Why, it seems to me that there is no economic question involved here. It is a question of administrative and legal considerations solely. They are not asking for more money. They are asking for more flexibility in the use of the funds that they can get under Lend-Lease.
- White: Well, not wholly. That is, it may work out

- 23 -

that way or it may not. They are asking to be relieved of let's say six hundred million dollars of commitments so that they would have that six hundred million to spend for things which might not come under the Lend-Lease, but there is no definite indication that this--

Viner: Well, I would say if they - if what they needed was two billion instead of thirteen hundred million, to say, "Well, we will give you thirteen hundred," would be absurd. There is no denial that they need this, so I still say the only issues are administrative and political.

White: I think so.

Viner: I have no opinion on that. The issues may be important but they don't interest me.

H.M.Jr: If I can get Hopkins for lunch tomorrow, I will do that rather than sit around and wait for Winant to make up his mind. Then we can do this thing after lunch.

(Secretary on White House phone)

H.M.Jr: Hello, Handy. Don't tell me the President is on the wire listening.....

How about Mr. Hopkins?....

(To Mr. Hopkins)

Hello, how are you?.....

Good.....

I was disturbed to hear that you weren't well. I hear that you don't take your medicine. Do I have to come over and hold your nose and put

- 24 -

it down?.....

Harry, would you like to come over and eat some of my food for lunch, and then I would like to sit down and go over this Keynes memorandum and see if we can't clean it up because it is largely between you and me. Will you bring whoever you want?.....

After lunch.....

I would a little rather, wouldn't you? And then I will.....

Yes. And then there is this question - this whole question of the three or four hundred million, that question. Oscar knows about it. Ed has been speaking to him. And then this other question of various things that you might put in Lend-Lease that Keynes has been asking for. I will look for you tomorrow. Thank you. Take your medicine now.

Bell: There is one other item--

H.M.Jr: Just a minute. The darn fool forgot to take his medicine. He was terribly sick last week. He has got to take his certain medicine every day. He stopped it.

Well, let's let this thing go, but I think this, gentlemen, if you could do this for me, Dan, either this afternoon or tomorrow morning. Could you get hold of Maynard Keynes and go over this whole thing with him once more, and I think it would be good to have Oscar Cox here, you see, and Philip Young, so that they will kind of be prepared and can argue what we could or couldn't, so when we meet with Hopkins at two o'clock we would at least be up to the minute. We would know what Keynes - maybe Keynes has accomplished

- 25 -

something.

Bell: Do you mean now on the three or four hundred million?

H.M.Jr: And on the six fifty.

Bell: Supposing Hopkins doesn't go along with this Cox proposal, and then we are in the basket again, aren't we? If we discuss that with Keynes and tell him this is a possibility, and then Hopkins--

H.M.Jr: Well, then leave that out and stick to the six fifty.

White: It won't be much help unless Cox and somebody else is there to let them talk with Keynes as to what the possibilities are, because I think Dan has pushed without them - with Keynes as far as he can.

H.M.Jr: Yes, but I think it would be good to have Keynes in tomorrow morning so that he knows we are working on this thing, you see, Dan, and that Cox and the others - think if you could have them in, you see.

Bell: I am sure they have done nothing since they were here last Thursday.

H.M.Jr: Who?

Bell: Keynes.

H.M.Jr: Well, I have.

Bell: They were waiting on a call from us.

White: He has seen the President. You don't know what he has told him.

- 26 -

H.M.Jr: He has seen the President?

White: Yes, he said he saw him about two hours. Oh, that was the same day that he was here.

H.M.Jr: Do you think it is a mistake?

Bell: I don't know. It can't do any harm, but I don't see what we would get out of it.

Cochran: I think you ought to be pretty sure in your mind whether you want to go ahead with that two hundred million that way.

H.M.Jr: Well, let's wait--

Cochran: Because if you do, he can say, "Well, why can't you go to a billion the same way?"

H.M.Jr: Then let's do this. I do think you ought to have Oscar in, don't you?

White: If you leave Keynes out, I think with the other two we might push them a little bit harder on what they might do.

Bell: We have had Cox in on the three hundred million, you know.

H.M.Jr: Have you?

Bell: Yes, we had him in Thursday.

H.M.Jr: Then let's let it wait until two o'clock tomorrow.

Bell: We have discussed with Cox the six fifty, but not in any great detail, but he thought at the time that some of the six fifty could come in under the Lend-Lease.

White: If we could get from Keynes - if you could get

- 27 -

a more detailed list of what sort of operations are coming under that six fifty, maybe it would be--

- H.M.Jr: It is physically impossible - no it isn't. I can see Keynes at three forty-five this afternoon and freshen myself up on the six fifty if you want me to.
- White: Well, I think that wouldn't be helpful unless--
- Bell: It is just taking your time.
- White: If you just want to make him believe you are working on it.
- Foley: It seems to me, Mr. Secretary--
- H.M.Jr: Well, look, go into Mr. Bell's room and decide what you want to do and if you want me to do anything, let me know.
- Foley: I don't think you want to see Keynes until after you talk to Hopkins.
- H.M.Jr: Do you want to see Oscar before?
- Bell: Oscar is all right on the first item, and he thinks he can take care of some of the six fifty under the Lend-Lease.
- H.M.Jr: Do you want to have him over here before? He can't decide the thing.
- White: Well, I think that if we can get a little more information from Keynes, we might get it over the phone, and a little more discussion with Cox and Young, I think it might be helpful for your records.
- H.M.Jr: Bell, would you adjourn this meeting into

- 28 -

your room and whatever you fellows decide,
I will go along.

Bell:

All right.

Analysis of Drafts of Lend-Lease Agreement

Treasury Draft

Preamble. Recital of authority in the President under the Lend-Lease Act and his determination that defense of Great Britain is vital to our defense.

Article I. The President will furnish Lend-Lease aid to Britain as valued and listed in schedules attached to the Agreement.

Article II. Britain agrees to redeliver useful defense articles, equivalent amount of similar defense articles and amounts of tin, rubber, jute and other products produced in the British Empire or elsewhere. To the extent that the foregoing does not constitute full reimbursement, Britain agrees to furnish us other things, services, information, etc., acceptable to the President.

Article III. By future agreement the parties may substitute any other arrangement for repayment by Britain for Lend-Lease aid.

State Department Draft

Preamble. The President has determined the defense of the U.K. is vital to the defense of the U.S. and that therefore the U.S. is providing aid toward that defense. U.S. and U.K. declare that in doing this they are engaged in a cooperative undertaking open to all nations to establish a just world peace. The obligations of U.K. under the Agreement are to be discharged in such way as to make for the future establishment of international economic relationships essential for maintenance of peace with freedom of opportunity.

Article I. U.K. to supply similar aid to U.S. should our defense at any time require it.

Article II. U.K. will continue to examine with U.S. need for military, naval and air bases and give support and assistance in strengthening the defense of the U.S.

Article III. (1) U.S. recognizes ~~RIGHT~~ to itself of use by U.K. of aid given under Lend-Lease Act.
(2) U.K. will return to U.S. articles which shall not have been destroyed or consumed. This will constitute full discharge of the obligation for such articles.

Article III - Continued.

(3) All military material destroyed or used up in the war to be written off.

(4) Against obligations for food and other non-military material, U.S. and U.K. will periodically review economic and U.K. will receive credit in amounts determined by the President after consultation with U.K. for any benefits or other consideration acknowledged by the President.

(5) Obligations remaining at end of emergency shall be liquidated so far as possible in such way as not to burden the international economic relations between the two countries or between either of them and other countries in the post-war period.

Article IV. (1) To carry out the purposes of the Agreement, U.K.

Article IV. The President is to determine the fair value of any consideration or benefit received by the United States from Britain and to give Britain credit therefor. The status of the account under the Agreement is to be periodically reviewed.

undertakes:

(a) to give full support to the U.S. in its program of international trade and financial policies which will reduce obstacles to trade;

(b) to aid U.S. in improving trade and financial relations with British Empire and other countries, especially where difficulty exists by reason of clearing agreements entered into by U.K.

(c) to join U.S. and other countries in devising fair methods for dealing with surplus products and providing non-discriminatory access to raw materials.

(2) U.S. and U.K. continue negotiations to relieve want caused by war, as soon as such relief will help the oppressed and not aid the aggressor.

- 3 -

Article V. Britain agrees it will not, without consent of President, transfer title or possession of any defense articles, etc.

Article VI. Provision re protecting patent rights of American citizens.

Article VII. Material delivered by Britain to United States in payment is to be delivered in the United States and such payments are to be exempt from restrictions, regulations, and taxes of Great Britain.

Article VIII. United States may at any time cease furnishing Lend-Lease aid to Britain but this will not affect Britain's obligation to repay. Any default by Britain shall entitle the United States to enforce its rights.

Article IX. President may exercise his power through any officer or agency designated by him.

Article X. Provision re parties giving notice to each other.

Article XI. Verbal provision re legality of execution of document.

Article V. Records shall be kept of materials transferred under Agreement and of all credits and liquidations and every ninety days such accounts shall be exchanged and reviewed.

Article VI. Same as Treasury Article V.

Article VII. Same as Treasury Article VI.

State draft has no equivalent provision.

State draft has no equivalent provision.

State draft has no equivalent provision.

State draft has no equivalent provision.

Article VIII. Similar to Treasury Article XI.

June 4, 1941
11:27 a.m.

HMJr: Hello.

Operator: Mr. Forrestal.

HMJr: Hello.

James
Forrestal: Henry?

HMJr: Yes.

F: It just occurred to me in connection with the thing that we are setting up with these plants to do sort of a naval morale building, people that are making our goods, airplanes, guns, and what not.....

HMJr: Yeah.

F: So we are having fellows - we are going to get King, you know, from the Fleet to go to talk to some of them.

HMJr: Yeah.

F: You might like to slide a minute man in to say, while they are building the Navy, don't forget you need money to build it with, see?

HMJr: Oh, fine.

F: Is Kuhn the fellow to talk with in that, over at your place?

HMJr: Yes, he'd be the fellow.

F: Well, all right, I'll tell our people to do that.

HMJr: Yeah, that will be swell.

F: Okay.

HMJr: Thank you.

June 4, 1941
12:11 p.m.

HMJr: People throw these things at me, now this thing that I told you and Bell....

Merle Cochran: Yes sir.

HMJr: This thing of that thread company and that decision I wouldn't pass on it until Jones looked at it. I want a report written on that.

C: All right.

HMJr: See?

C: Yes sir.

HMJr: Will you please?

C: Surely. I'll do that.

HMJr: There is no record you see of what I said.

C: I know - I'll tend to that. We haven't phoned yet, we are in this meeting, just a continuation on those other things, you see.

HMJr: That's all right. Thank you.

C: All right, sir.

June 4, 1941
2:30 p.m.

Dean's Desk

RE AID TO BRITAIN

(Conference Held in Mr. Bell's Office)

Present: Mr. Viner
Mr. Acheson
Mr. Cochran
Mr. White
Mr. Bell
Mr. Cox

Bell: Dean, we have been going over this draft of the proposed agreement with Great Britain under the Lend-Lease. You asked us for our comments with a view to getting it to the British so that you could put some reference to it in the forthcoming agreement. *att to Han met today*

Acheson: Well, the next step is to submit it to the President.

Bell: Yes, I left that out; but you wanted to get it back so that you could get in this thing some reference to it. It is rushing us a little.

As you know, there is quite a different approach to the problem in this agreement than the one we submitted. We don't want to argue about that agreement at all, and we don't care about it. It is probably a little strict in spots and maybe a little commercialistic, but we thought it might help us in our comments if you would give us some background here on this agreement, whether or not there has been any change in

- 2 -

policy because when we drafted the first agreement, we thought we were embodying the views and ideas of the President. Also, maybe what you want to accomplish by this type of agreement.

Maybe when we get through, there won't be so much difference, because when we did draft ours we had some of those things in mind. We left it entirely in the hands of the President. You are trying to put it into the form of an agreement.

Maybe there is just a different approach and that is all there is to it, but if we get some background, maybe it would help us.

Acheson:

Well, I think I can tell you in general the various transitions of thought that we have been through over there.

We started out with the document which you sent over. I think that is the second edition of it which we really began to think about, and the second edition had one quite important change from the first. The idea of that was that whatever existed, whatever of these military items existed at the end of the war and were returned, wiped out all the obligations on those items.

The first agreement that you had said that you would value the items when they were given to the British and then value them when they came back. The difference would be wear or tear or obsolescence and would be charged against them.

The second one didn't do that. Then you had a second category which was items used up, military items used up in the course of the war, and as to those, the agreement was to be

- 3 -

that they should be replaced in kind with an option on the part of the British to replace the equivalent in value of some other commodities if they wanted to.

And then there was a third category which was agricultural and other materials and those were to be paid for by transferring jute or rubber or tin or whatever commodities the British had which we didn't have in the same amount.

Then you had another provision which seemed to us probably to be the one under which you would chiefly operate, which was that these agreements could be substituted by anything else that the parties agreed on. That was about the thing.

Now, this is not radically different, but it is different in some important respects. It seemed to us that in the first place replacing in kind the used up materials - you weren't probably going to do that in the long run. Either this war would be a draw or the British would lose it or the British would win it. If it was a draw, probably they would be getting ready for the renewal of the struggle and I don't think they or we would be wanting them to replace everything to us which they had bought. They would have to go and manufacture a lot of stuff for themselves of a defense character.

If the war was won, there was no particular sense in having the British turn their industrial plant over for a great many years in making a lot of stuff which might not be wanted.

Therefore, it seemed to us undesirable to put down a fixed obligation of that sort which you could get out of by some other agreement. Then when you came to the third category,

- 4 -

which were the agricultural and other items which were to be repaid by jute, tin and other things, two things seemed to us probably true about that. There wouldn't be enough of that sort of commodity in the world to repay that except over a long time, and the British economy might be such that if you tried to turn over jute, tin and all of those items, without any - getting any foreign exchange by it, you might create a situation which would be pretty difficult to handle, and it seemed that we shouldn't tie ourselves down to that kind of a situation.

Bell: You mean that was flexible. They didn't have to take it.

Acheson: They didn't have to, but there didn't seem to be a way out. So in trying to think about that we said first of all, let's have an agreement which is sensible, which can be carried out so we won't come to the end of this war and then have charges of bad faith and all that kind of stuff going on. Then if possible, let's have one which has some kind of a constructive objective besides dealing with the present emergency. And thirdly, let's see if we can't while we are doing this, get the British to agree to some things which they might not otherwise agree to.

So after a good deal of discussion and thinking those things over, we had the same view as you had about the first category. Any materials which they had left at the end of the war, let's say, "Give those back and that wipes the slate clean on those."

When you come to the second category, it seemed to us better to say that the use of those for the purpose for which they were intended

- 5 -

discharges the obligation. "If you fire a shell at a German, that is what we want you to do with it, and the fact that you do it - all bets are off on that." That, we thought, would reduce the debt to some sort of manageable proportions. It wouldn't be as vast as it otherwise would be.

Bell: You felt that that was carrying out the intention of Congress?

Acheson: We really don't know what the intention of Congress was. It obviously couldn't have been that these things have to be paid for, because after the experience of the last war, they just know that that can't happen and the whole idea of Lend-Lease was not to get in the fix that you and I unhappily were in in 1933.

It seemed clear to us that you couldn't repay the items which were destroyed in cash or in goods. You just couldn't do it. And to attempt to do that would create more trouble after the war than not to attempt it.

That left a third category, which was items of an agricultural nature or foreign exchange or whatever else they got under the program and we thought it was desirable to have something there which would hold that down so they wouldn't think the sky was the limit and just take everything they could, so we said, "Now, in this category, there is an obligation and against this we will credit whatever the President acknowledges that he has received of benefit to the United States, whatever that may be. That is up to him. He will receive it and credit it. And then when we get through, we will liquidate this in such a way as to not place a burden on economic relations."

In other words, it seemed to us that this

- 6 -

transaction was fundamentally one of high policy, international policy, and that you have to look for the compensation in the same realm. You couldn't enter into the transaction from the point of view of international relations and international policy in order to defeat Hitler and then look for the compensation in a purely commercial field. It just wouldn't work.

So, we put in that fourth provision, the economic part of it, in the hope that if we sat down right away before we got too deeply committed in this war with the British they would be willing to go quite a way toward either cracking now or laying the foundations for cracking the Ottawa agreements and the various restrictive monopolistic agreements and practices which they have had so that when you got through with this, you could open the international trade to a better start.

We also thought that if we could get them together into this matter of dealing with surpluses which exist both in South America and in Africa, it would both take care of those immediate economic situations and you might have something which you could hold out as an offer to Europe and say "Whenever you fellows get rid of this guy Hitler, here is a lot of coffee and cocoa and cotton and wheat and beef and everything that is just stored right here a couple of thousand miles away from you, ready to go."

Now, that is the general background of our thinking. We wanted to preserve as much of an obligation as it seemed within the realms of fact could exist and also have something which would encourage the British to want to go on instead of being completely sunk by

- 7 -

something absolutely overwhelming, and we laid the foundations for an agreement with them for post war reconstruction.

Bell: You think that you can write into this agreement the rules of the game that will be played after the --

Acheson: No, certainly not. We didn't try to in this agreement. We thought that Article four created an obligation on their part to sit down with us now, at this time, which is the most opportune of all times, and try to work out something further than we can possibly state in this agreement.

Bell: I don't get what you mean. Do you mean aside from the agreement?

Acheson: Well, Article 4 in itself does not contain the substance of anything. What it really says is the British commit themselves to go along with the - a program of international economic relations of a certain character. They commit themselves to do the best they can to remove restrictions of the same character. They agree to enter into discussions with us now about the surpluses and the post war relief situation.

Now, that is all they do in that. They say, "We will accept this general line and we will sit down and talk with you," and that seemed to us as far as you could go at this moment. You ought to sit down right away and carry that on to a conclusion.

Viner: As your Article 4 is worded, United Kingdom agrees to give its support to the United States in the program.

Are you sure that the United Kingdom isn't

- 8 -

prepared to go on a more ambitious program than we are?

Acheson: No.

Viner: Why wouldn't it be more tactful to say the United States and the United Kingdom agree that they will together try to work out something?

Acheson: That is a subject on which we had almost endless debate over there as to whether that should be the wording. There were two schools of thought on it. It seemed to me that probably the best way to resolve it was in a lawyer's way, that this agreement is an agreement regarding consideration which moves from the British and therefore it was put in that form rather than in the form of either an executive agreement or a treaty which might have to be ratified.

I don't know that we have under this act authority to say that we and the British agree on something.

Viner: I thought a statement - what I had in mind was some sort of a statement such as the Tripartite Agreement. Nobody raised a question on that. It was a statement of policy.

What worries me about this whole document is that it makes me think of 1919 and tying up payments under the covenant of the League of Nations and putting off forever the taking of a collector's bill on what you want and they may want for purposes not connected with paying the bills.

But you are really lowering, it seems to me, rather than raising the tone of this by mixing the Lease-Lend with the millennial blueprint.

- 9 -

Acheson: Just how are you?

Viner: Well, you see you are saying to the English, "We are doing these things for you. We want compensation. The compensation is that you have to be decent in a decent world after the war," and then inform the English - that remains as the origin of any world settlement they make - that it is part of a settlement of a debt to us instead of being part of a common upsurge of humanity to reform the world and fix it up on a broad scale. Its origin is in a Lease-Lend agreement.

Acheson: You would like it better if it were in a separate agreement?

Viner: I certainly would, and also on a more comprehensive scale, bigger than you have here. You leave certain things out except by implication.

I would say cooperative effort to maintain stability of exchanges, to maintain stability of production, cooperative efforts to develop backward areas on a righteous and just way, I mean the whole program and not merely a selection and they would react, I believe on this, "Oh, we have a much bigger program than that in mind for the post war world. We would be very happy to talk about it now or later and we would like to go much further than you, and I say don't tie it up with a commercial arrangement.

In the interest I would say of Secretary Hull's philosophy, you are putting that into - you are making it a compensation to us whereas what we ought to hope is that it is a joint effort, each one voluntarily renouncing past sins and promising to be better in the future.

- 10 -

Acheson: Well, you will find strong views of the same character in the Department of State, and that was one of the views very strongly held over there. If it is the view of Treasury --

Viner: I must explain. I am an outsider even here and I - there is no authority attached to what I said except what weight there may be in the argument.

Acheson: Well, there were people who held that very strongly. Roughly speaking, there were two schools of thought on that. One school took the view that you have and thought that the British would go very much further than this and you could get a separate document which would be better than the Tripartite Act, would be quite a ringing and resounding document. This started out a good deal more ringing and resounding than it ended up.

Then there were the other people who thought that they were more realistic than the other school, who said they thought whatever the British said now, their situation would be fairly tough after the war and the tough Englishmen would revert to another type of thinking and it was rather better to have them committed to a more limited program in a more serious way than to have a broader statement which was simply a statement of policy.

Now, that is a matter that can be reconsidered.

Bell: You mean, do you feel that you have to give the British a draft of an agreement first before you start the negotiations, something on which to work, or could it be just an informal discussion?

Acheson: I imagine that they had better have a piece

- 11 -

of paper of some kind. If you say something to them, by the time three or four of them get back there and begin cabling to London, there may be some confusion as to what it was. It doesn't have necessarily to be a draft of an agreement. You could put the point down and say, "This is generally what we have in mind."

I think it is perfectly open to consideration whether you want this economic document separate and different from that or in the same one. It is not foreclosed by anything that we have done.

White: Don't you feel --

Acheson: Pardon me.

White: Go ahead.

Acheson: But I would like also to get before we get through your advice on the Lease-Lend part of it strictly.

White: Don't you feel that there are a great number of very large problems which will emerge from this war which we can foresee in some general outline under various given hypotheses, they won't be any surprises, but the specific character of those problems will not emerge until a little later and that our ability to establish a kind of working principle which we feel will be best for ourselves and best for England and best for the world are something which can be stated with a great deal more realism and a great deal more effect a little further along when that picture clarifies and that a document of this kind or almost of any kind that you could write now in terms of principles can be interpreted later by another sovereign power in such a way as to vitiate a

- 12 -

good deal of the benefits to be obtained from it if they wish to do so, if they wish to be hard-boiled, if they wish to be tough and feel that they have their own national problems to see first it would take almost any one of these statements of policy and within that framework juggle around and get out not very far different from what has been true in the past or what may be true in the future, so that utilizing the present opportunity to obtain from the British certain commitments as to policy which might strengthen the hands of those who would like to go in that direction later I think has a little less value than one might think at this stage of the program, that if we wait either until around the peace table or until the picture is much more clear than it is now and then come out with a document which they would share either in the form of an agreement among both of them or in the form of their contribution toward the permanent solution of the problems which were initiated by our cooperation with them in time of need, you could well have a document that might historically be the Magna Charta of international economic relations that would do justice to our Government and to the efforts that went into the shaping of a modified order and would be a document around which, as Jake has suggested, you could build all aspects of your economic relations.

The attempt to settle some of these trade problems here seems to preclude a document of that kind later on if this takes the form of a definitive draft some time soon, or at least it makes that more difficult. It becomes sort of anti-climatic. Whereas if the position is taken now where you can begin your discussions in whatever fashion you feel is desirable but offering as little as possible and let the exchange of views grow out of a

- 13 -

discussion, see what they have in mind, what you have in mind, sufficiently to justify the President saying that negotiations are going forward and yet not getting quickly enough to the point so that the views become crystallized in a written form.

I think that there is much to be gained if you could achieve that without - and at the same time avoid the problem that I think disturbs you and disturbs many of us, that we don't want to have the kind of document that will frighten them off, to think that they are mortgaging their future if they win. I think we all would like to avoid that.

If there is some sort of compromise in which you could leave the field open, give them some assurance that there isn't going to be that document emerging and yet not putting in any specific form either in the way of principles or in the way of definite commitments until we see a little more clearly, I think we might have the sort of document we prefer in the end.

Acheson:

I agree thoroughly with what you said in starting out, that the details and even perhaps more than the details of the post war situation are certainly not clear now, and it would be foolish to try and deal with them. I think that is beyond this group. I don't agree that we ought to wait until there is a peace to begin discussing these things or finding out where they stand and where we stand. I think by that time it is too late. It is all over and they will go their way, and by that time there will be all sorts of ideas in this country which will make it impossible to act; so if you put everything off until the end of the war, then you put it off forever. I feel very sure of that.

- 14 -

Now, what --

White: Mind you, that wasn't an alternative that I was mentioning. You may have misunderstood me.

Acheson: I don't think it was. There was a little suggestion in what you said that we ought to put it off until we sat around the peace table.

White: The definitive document might be ready by then.

Acheson: Now, what I should like to see is two documents. I would like to see a document now which is pretty general in its character. It may be that that Article 4 is too limited. It may be more what Mr. Viner was talking about. It ought to be something which points the general way and says, "This is the kind of thing that we are going to do."

Now, just how and what the details are going to be, nobody in the world can tell. We don't know yet, but this is what we are going to do and we are going to start working and thinking about it right now. We are going to appoint a joint committee or a joint commission and we will start out with immediate problems that we have.

Here is this whole question of South American surpluses and African surpluses and East Indian surpluses. I would start right on that now and tie that into the situation which is bound to emerge at the end of the war which is that Europe is going to be absolutely busted and absolutely starving and unclothed.

Now, it can begin on that. We see that now. From there we can move into other things as

- 15 -

we see them, but we will move along this road.

Now, if you could get that document and then the implementation of this would have to come later if it was possible. I think probably you and I are talking about the same thing.

White:

I think there is a compromise, one between a document which would be sufficiently specific to begin the discussions. How rapidly you would want that document to be consummated I think it is a little difficult to foresee now, and I don't think it is important unless the British feel it is important. I don't see as it has any importance for us beyond the statement that those negotiations have begun and that you are dealing with very complex matters.

The situation is changing very rapidly and there is no time being lost in attempting to complete the arrangements. But once that has been said, I don't quite see the need for speed and I see many reasons why the longer the gestation period, the better the document, the more exchanges of views there will be and the better the results can be. I was directing part of my remarks against a reason that you advanced and I don't know how important it is.

You thought you might be able to get more out of the British in the way of commitments to certain lines of policy if that document were made now than you would be in a position to do if the matter were delayed, and it is that that I am a little bit in doubt about because I can't help but feel that the success of the document, the success of the quid pro quo that emerges in its larger aspects, cannot depend upon any shrewd position or shrewd

- 16 -

bargaining merely because we have them, so to speak, where we want them, and we can get them to sign certain things, accept certain things, that we have by that gained something.

I am inclined to believe, unrealistic as it may seem, that the success of any outcome depends on mutual appreciation of the ends to be attained and achieved, so I don't quite see the need for speed; and once that is removed, I don't think there is any difference among us.

Bell: Wasn't the need for speed here just this report going to Congress? Wasn't that one thing?

Acheson: Let's be clear about what I would say. What we are now talking about, seems to me to envisage three documents. One is the Lease-Lend and the other is a general economic directive and then ultimately is the specific document which works out the second.

I think you have got to start with something now on Lease-Lend, you have just got to do that and the British are already worried about what they are getting into. That ought to be cleared up.

If everybody feels that the economic - the second thing ought not to be associated with the first, I don't think that is the cause of any great difficulty. I think it ought to come along at about the same time.

Bell: But you have got to have something in the Lend-Lease to hang your hat on later, haven't you?

- 17 -

Viner: I would say that is awfully dangerous. The history, I think, indicates that we ought to separate our plan for the future world --

Bell: What are you going to do, have an informal understanding then that here is the Lend-Lease agreement and have an informal understanding that we start right on an economic agreement?

Viner: But have the quid pro quo in the Lend-Lease agreement. Don't take these things in which we will feel that we want to do what they are doing as much as they want to do what we are doing. Don't make that a compensation to us, because later on they will say, "Well, we did this only as a part of a bargain and on this thing we will recalculate that or we will revalue that or we will default on a debt payment."

Let it be instead as Harry White said, if possible. You see, this seems to me as if you think you have to drag them into this. I would say the response to it would be that that is a very narrow statement of the area for cooperation between these countries, that there isn't enough indicated, there is much more that needs to be done, a broader program. I would say that if you wanted to introduce it into the Lend-Lease agreement, then don't make it as the United Kingdom undertakes to do something for us, do it for itself.

I wouldn't say they are making us a gift by that. They are doing something they will ultimately need to do for themselves.

Bell: And that is not a consideration for the things we are giving them?

- 18 -

Viner: No.

Bell: Not part of the quid pro quo?

Viner: No. I still remember all the poison that got into the post war settlement because reparations was tied up with the covenant.

Bernstein: Dean, would you mind developing the point you made a moment ago, that there was need for having some agreement right now and that the British were worried about what they were getting into?

Acheson: Well, I don't know whether I can develop it much more than I have, Bernie. Several times people who have come down to talk with me on economic defense or economic warfare or whatever you call it, have expressed concern as to what is happening about this Lease-Lend, what are the terms of it.

It is very vague. They don't know. There is a tremendous lot of stuff being transferred. Has that got to be added to the old war debt and is there going to be another period of paying in anguish after this war, ending up with hostility between us or does the Lease-Lend mean somewhat along the lines of the President's original statement that we are not getting into these cash transactions any more, we are getting into something else, and if so what are we getting into. I think they are disturbed about it.

Bernstein: These are the British?

Acheson: Yes, and I think they feel that they would like to have us disclose our mind a little bit as to what we think Lease-Lend means. What are these considerations which we are expecting?

- 19 -

- Bernstein: Are they troubled by the interpretation of Lease-Lend that the President gave in his press conference last December?
- Acheson: Well, I haven't any information as specific as that. I don't think I recall exactly what he did say.
- Bernstein: That was the garden hose concept of getting back something.
- Acheson: Yes. Well, of course, you are faced with the fact that the greatest part of this isn't going to be where you can get it back. It is going to be gone. What do we do about that? And I don't think there is very much in anything that has been said so far to them which indicates what you are going to do about it and that is what I think we ought to clarify to some extent.
- Bernstein: Does this concern that you say they express suggest to you that it calls for some immediate action or is it something that you could discuss with them on a general basis, that you were thinking about terms in terms of the future? The time isn't propitious for one reason or another to crystallize that thought? Would they feel concerned and would it make a difference in their policy?
- Acheson: I don't suppose it would make a difference in their policy because their policy is clear. They are going on and fight this war and win it. But if it is possible now for us to say what we have in mind, why not go ahead and say it?
- Bernstein: That is the other side, as to whether or not it is possible. What I was just trying to do is see if we can bring out why it is desirable to do it now. If it is merely the

- 20 -

concern that stems from curiosity, that is one thing. If it is the concern that influences policy, that is another; and at this moment we are only talking about the British half of it. Is it one rather of curiosity rather than policy?

Acheson: No, I don't think it is curiosity. I think it is worry. The immediate future is black, the distant future is black and any real light is very helpful.

Bernstein: Why, because of policy considerations?

Acheson: Yes, I think the attitude and spirit of the people if it can be helped ought to be helped.

Bernstein: Well, would it seriously affect the policy then to say this is no easy thing to work out and it takes a lot of talking and a lot of thinking? The spirit in which we are doing this ought to be evidenced by what we have been doing and what we have been saying so there ought to be no basis of concern or fear of bankruptcy or anything of that sort.

Let's feel our way a little more slowly. Would that sort of approach be acceptable to them?

Acheson: I suppose so. I suppose anything will be acceptable, but I don't know that it is going to be any clearer to us by July than it is now. If this were a war which were going to end next year or year after next and you have some definite time conceptions, that might be one thing; but I think it would be quite bad to let this thing just go on with a greater and greater debt piling up to a time they might look forward to when there is a different Administration in Washington, people with different ideas than are now in office, with

- 21 -

the whole thing completely in the air.

Bernstein: Well, the only alternative isn't an indefinite postponement. It can be postponed for "X" months and things like that.

Coming at it from our point of view, assuming that the agreement were to exclude Article 4, that is, essentially your Article 3 concept or the agreement on Article 4, why would it be to our particular interest at this moment to attempt to crystalize that?

Acheson: Well, I think it is to our interest, as I said, to do anything we can to clarify this so that they know where they stand, so that they have more courage and more hope than they otherwise would.

If we can improve that, we improve our position and if we can't, we can't that is all.

Bell: You say it is important to clarify it now and probably get some agreement underway. Do you mean now in the next month or two months? You don't mean - what I am thinking about is that you have to give this document to the British say this week and start negotiations in order that you may say something in this for the coming report to Congress. Do you feel that is important?

Acheson: That is not my idea, that is the President's idea.

Bell: Do you feel that we might talk him out of it and just say that we are having informal conferences with the British to discuss the general ideas and then say in your report to Congress that we are negotiating with the British or we have under consideration the matter of the agreement with the British

- 22 -

under the Lend-Lease Act. As Harry says, it is complex, and ought to thoroughly cover the subject and it will take some time to work it out and then maybe you can sit down and work out the type of agreement or two types of agreements you are thinking about, and that would give you at least sixty days to think about it. When the next report goes up, you can give them a copy of the agreement.

- Viner: The reports are quarterly, are they?
- Bell: Yes, ninety days. We felt that if you gave this to the British that you certainly could never get any more than what you stated there. That is the maximum.
- Acheson: I think that is true.
- Bell: So that you ought to be very careful what you hand them in your first document.
- Bernstein: Do you envisage that this agreement, particularly if it excludes Article 4, would be a public document?
- Acheson: Well, we have gone through several stages on that. The first idea was that it was not. It was just purely a private agreement.
- Then there was a view that what you might do would be to put quite a lot in the first part of this document which would really be in answer to the Tripartite Pact. One time we had the four freedoms in it. We had quite a lot of stuff of general character, the Declaration of Independence and the Constitution and all those things.
- Bell: The Declaration of Independence would sell well with the British.

- 23 -

Bernstein: Dean, was that something between draft one and two?

Acheson: Yes, that was. That went in and out.

Bell: Right out.

Acheson: Yes, that didn't survive the first meeting, because there were all kinds of difficult questions asked, if you put these four freedoms in, who is going to guarantee them, and how do you apply them and a lot like that; and it seemed to raise more doubts than it solved, so that the public nature of the thing began to diminish.

Now, the public quality of it survives chiefly in the introduction, which says we are engaged in this cooperative undertaking to do what the Secretary of State and the President and the other Cabinet officers had said we are doing in their speeches.

In Article 1, which is sort of a reciprocal arrangement by the British, if we get in the same tight spot they are to come through, which might reassure some people about the Far Eastern situation. It reviews bases and that sort of thing.

Bernstein: Assuming that you had to make it public on Congressional request or otherwise, what do you think would be the reaction of this country, and I don't say the public - of course, the public isn't a single thing - what would be the reaction of certain groups, let's say, currently opposed to the Administration and what use could they make of the publication of an agreement which - along the lines you drafted either with or without Article 4?

- 24 -

Acheson: Well, I suppose that groups opposed to the Administration would attack this document just as they would attack anything that the Administration did and they would make all sorts of statements that the document was vague, that we didn't get anything for this, that we ought to take over all British assets in South America and take the West Indies and that sort of thing.

Bernstein: Would it have an effect on some part of the public that might otherwise be willing to go along with the administration of its policies?

Acheson: I don't think so.

Bell: Has Mr. Hull been over this and approved it?

Acheson: Yes. Mr. Hull has been over it and I don't think he has given it very prolonged study. He has discussed it about three or four times with us. A great many things that were in it are not in it now, because he thought they were not wise.

I don't know - I wouldn't say that he has no doubts about anything that is in it. He probably has. He wanted to get your views over here and then he wanted to get the President's views.

Bell: He hasn't discussed any of the points in there with the President yet or got his ideas at all on this thing?

Acheson: No. The letter from the President was written on the sixteenth of May and asked Mr. Hull to work out something or other, some kind of a draft, to bring it over and talk it over with Secretary Morgenthau and then to see the President at his earliest convenience.

Then Harry Hopkins told us that the reason for

- 25 -

bringing this up and pressing it at the present time was that he had to make a report on the ninth of June and at that time he would like to be able to say that some agreement had been made with one of the countries --

Viner: You mean some negotiations had been entered into?

Acheson: I think his idea was that he wanted some actual agreement either with the Dutch that they were going to pay cash or somebody or other and that this most important one of all was under discussion. It is very difficult.

Now, how you do it, I don't think is the vital question.

Bell: There is one point on which you see nothing in the press or the Congressional Record about the agreement that is going to be made. I haven't seen a reference to it, not one.

Acheson: I notice in all the forms that go over from the Lease Lend organization for the President to sign, he makes a finding of the defense of the other countries essential to the defense of the United States and that has been made in accordance with Sections 4 and 6.

I have fortunately not been the counselor so I don't know just what it means.

Bernstein: That is, from the public point of view, would they be just as satisfied for the time being with an open account, which presumably is the way you can describe the current situation as against something which would crystallize it in the terms that you do in your draft.

Acheson: I suppose the American public would. I don't

- 26 -

believe they care very much one way or the other.

Bernstein: That is, from the American public there is - you can say to them or they might assume that there is an agreement.

When you and I are doing business together and I keep giving you merchandise, the understanding is that you are going to give me something. It is a little different under the Lend-Lease, but just because we haven't spelled out your obligation or in this situation we haven't spelled out Britain's obligation doesn't mean that there isn't something Britain owes us and considering all the circumstances, the public might think, "Well, that is about as good as anything they can do."

Acheson: I think that is about right as far as the public is concerned, but I don't think that - it seems to me to be an important thing that before the British go very much further they are entitled to know where they are going.

Bernstein: What is their choice?

Acheson: I don't think they have much choice.

Bernstein: I think if you really mean they don't have much choice, then the only alternative is just curiosity. The probabilities are, or the possibilities are, that it might affect their choice. Then that would be a very serious problem.

Acheson: Well, of course I feel that you are going to go through some pretty terrible times in the next three months. They are going to get worse and worse and there are going to be all sorts of things said in England, said to the British by the Germans. One of them can easily be,

- 27 -

"Where are you getting your American friends? You are running up a pretty nice debt. You owe them God knows how many billions already and quite a lot more. What is there in this war for you anyway?"

I think it would be helpful if there was some clear answer to that.

Bell: Have you got anything, Ed?

Foley: No, I think it has been covered pretty thoroughly.

Dean, the only thing that I think we might ask is how crystallized is this? I mean, is it advanced to the point where further discussions would not be profitable either because of the limitations on the time or because you people are pretty well set over there as to the way you want to do it?

Acheson: No, I don't think it is crystallized at all, Ed. The thing has been chiefly in my hands.

First of all, I had the draft that you sent over and not very much happened about that and after awhile it was sent in to me and I took hold of it and got the various people talking about it and then we produced a draft that would satisfy very many of us and gave that back to you and then it seemed to die again for awhile and not much was done about it.

Then the President wrote this letter of the sixteenth in which he evidently wanted something to happen and Mr. Hull gave that to me and said, "Now, you get the people of this department together and present something to me that you recommend and I will discuss it with you," so we spent about two weeks going

- 28 -

over and over this thing and we had, as I say, three or four conferences with the Secretary.

Certain ideas he didn't think were any good. Finally we got this one which got the greatest amount of agreement within the department, and the Secretary said, "Well, this is at a point where I am willing to put it up to Mr. Morgenthau and the President. If they have different ideas, we will have to start over again on it."

The main time element in this has been the President's request to have something done and I have been the person who has been trying to get some words on a piece of paper which we could get more than one person to agree to.

Foley:

Well, it seems to me that the thing that all of us agree on is that this economic document could very well be left until some later date when we can see a little more clearly just what the situation is.

On the quid pro quo side of it, it is just a question that has to be settled by the President himself as to whether or not it would be more feasible to write such an agreement as would create the liability and the obligation on the part of the British subject to being considered at a later date when the discussions looking to an economic agreement could begin or whether we should write off now any liability or obligation on the part of the British for the bulk of the stuff that we turn over to them, which obviously they will consume and won't be able to return to us.

Acheson:

Yes. Well now, I take it that on purely Lease-Lend agreement now, without any economic aspects in it, everybody seems to be agreed that whatever they have in existence at the end of the

- 29 -

war and give back wipes off any debt about that. That was in your draft and it is in our draft and, of course, was in the President's statement about the thing and I suppose we are all agreed on that. That at least would be something for them to know.

Foley: That is right.

Acheson: Now then, you come to the other things. There are several views that you could take. There is the one that you took in your agreement of putting in the fact that you replace the used up items in kind. That I don't like because it crystallizes on one method, and probably on a method which can not be carried out, the obligation as to those particular items. I think that is undesirable from all kind of points of view.

Then there is the other side of it which was the one in our draft, that if these are sunk in the war or if they are expended in the war or used up for purposes for which they are lent, "we write it off because the very fact that your defense is vital to ours means that we wanted you to fight with these weapons instead of having to fight with them ourselves." That is the other view.

Then that leaves the third category of items to be dealt with. There is possibly a third attitude which we thought about at one time and had in one draft. That is to put the second and third category together, that is, you give back whatever is left and you write that off.

Now, all the rest of the obligations are going to be written off by your giving us whatever kind of military equipment you have at the end of the war, which the joint board says

- 30 -

in the interests of common defense you can spare.

The genesis of that idea was that this was a military operation and it ought to be repaid in military terms rather than commercial ones which would gum up everything, that probably they would have a lot of material left at the end of the war and if the war were won, that is something which could then be either used in connection with operations elsewhere in the world or could be returned to us and then we would have approximately what we gave them and you would not be involved in commercial transactions.

That seemed to me not to be an altogether brilliant idea, because you couldn't tell how the war was coming out. Probably a great deal of the stuff wouldn't be any good to us anyway.

Bernstein: Of course an awful lot could be put in museums.

Acheson: Oh, we might get a good deal of materiel and our ammunition wouldn't fit their guns and so forth. But if you could now take those two views and see whether these various Secretaries and the President were ready to sign about those, then you would get to a point where you can say to quite a lot of this stuff, "Here are two main principles which work anyway." If you can't do any of that and you are still left with the situation that this is an open market and we are going to build up a money debt and dispose of it some time in the future, I think it would be better to do nothing than to do that. I think that would impress them intensely.

Bernstein: It seems to me you might very well run into

- 31 -

that situation if the President continues to have in mind getting something concrete for what he is going to give them, then you have got to consider, do you want to ask them for it. Would it be better or worse?

Actually when you present this to the President, the moment you leave out the economic stuff, what you have to present to them is, for the stuff we are giving, one thing everyone has agreed on is this military stuff that they still have at the end of the war. The question is with regard to the rest of them, are we going to be - are we going to leave ourselves in a position to say, "You have got to give us something among A, B, C, and D unless at some later time we agree you are going to give us something else;" or are we going to say, "You can have it either for nothing or for something which later on we both agree you can give us without hurting yourself too much."

Now, essentially that is the difference between the two approaches, and I don't mean to suggest that is the difference between the two departments, because it is essentially a drafting job being done for each of the two points of view, but that is the point, it seems to me, that you are presenting to the President.

Now, I take it what you are now saying is that if the President should happen to suggest that he feels he wants to have something, then it is unwise to ask for it, ask the British for it, and pursue the third line.

Acheson: Well, it depends what the President has in mind. If we are not able to decide yet what we want --

Foley: We really don't know what he has in mind, do we?

- 32 -

Acheson: No.

Foley: The only thing we know on that score - I mean I am talking about the Treasury - is that our draft in its initial form was taken over to him and shown to him, and he went over it paragraph by paragraph and indicated that it was generally what he had in mind and at that time we got the impression that he wanted some consideration from the British for the stuff that was turned over to them and used up other than just coming to our aid or wiping it off entirely.

We redrafted the thing to take care of the points that he made as we went over them. We have never been back to him, because he told us to submit it to you and we have never had another meeting with him.

I was wondering whether there is anything to give any assurance that he favors a less commercial document than the draft we have.

Acheson: Well, I don't know, but when the President asked us to make a suggestion to him, it seemed to me that it was our duty to make the best suggestion that we could.

Foley: Absolutely.

Acheson: And not try to find out what we thought he wanted and then tell him that.

Foley: Yes.

Acheson: And I thought it was very important to bring out the elements in the problem, say, "Well, Mr. President, the Treasury Department and the State Department talked about this and they think right away that whatever they give back,

- 33 -

we ought to write off the obligation. There is no difference among any of your advisers about that point."

I think the President would probably say, "Well, that is what Lease-Lend is about." He would agree on that one.

Now, you come to the rest of it. Generally speaking you could divide it into military stuff and the civil stuff. There isn't a great deal of sense in that division. People think about it in that way. I don't know that a shell that you fire at someone is any different from a loaf of bread you eat in order to fire the shell. The people have thought about it differently.

Now, what do you want done about the military equipment which is used up in the war? There are several things that you can do about it.

One way is to say that we will write it off, and on the whole the State Department believes that that is the best thing to do, because the debt is going to be so large anyway, together with what you have already got, that piling up money debts isn't going to give you any greater claim on the British than you have already got, and it will only make trouble and you have got a perfectly good out now on that part of it.

Then you come to the civil articles and there we think that you ought to keep an account of them. You can give the British credit against that for anything that they do, which is not going to be very much unless they make some great invention like the detection of night bombers, which might be so important that you could write off the whole business.

- 34 -

However, if there isn't anything of that sort, then you have got a debt of some sort which you have got to work out, we think, in the political field.

Now, if there was - the Treasury might say, "Well, that is all pretty sensible but we think on the whole we had better not try to work it out now, because we can't foresee what we want."

I should think we could foresee pretty well what we want.

Viner: You would want more than you have there then, I would say, although not on the quid pro quo basis.

Acheson: Yes, but I mean we could foresee what we would want would be in the field of economic collaboration after this thing is over, that we would not think that it would advance the post war world very much to have them giving us without getting any foreign exchange for it tin, jute, rubber and various products of that sort.

I think both we and they would be worse off if they did that.

Bernstein: Dean, do you envisage Mr. Hull submitting to the President, in addition to this material, a memorandum which analyzes the problem somewhat along the lines you just mentioned of first dealing with the

- 35 -

purely Lease-Lend problems, and then saying that breaks down into roughly three categories, the stuff they return, the military they use, and the civilian stuff.

With regard to the first item, there seems to be general consensus. With regard to the other two, there are the following approaches, and these are the considerations one way or the other and the following approaches would be at least the three, that is, either the approach of trying to get something definite, telling them they don't have to give us anything, and the approach of the open account and weighing each of those approaches both from the British point of view as well as from our point of view.

Then, after that, say - talk about something for the future, that is, the blueprint of the future, both in terms of what you will want to do now and what you may want to do in the future, submit it to the President on that basis. It would make it possible for them more readily to focus on it.

- Acheson: I frankly hadn't gone as far as that. I had written a memorandum explaining what this thing was.
- Bernstein: Well, that memorandum simply is --
- Foley: An explanation. Document.
- Acheson: Yes, that just explains it. Now what was done would depend very much on what you people thought about it over here. If you thought the document ought to be different, then we

- 36 -

would talk with you and try to meet that and make it different and if we all agreed on it, then we would tell the President about the fact that we agreed on it, and that there were alternatives. If you thought it was unwise and impossible to give him any document at the present time, then we ought to do something else, but I hadn't gotten as far as thinking about what we were going to do, because I hadn't known what the situation was.

Bell: Well, it isn't too late then to reconsider this whole matter, if we wanted to and it isn't a matter of time now to get it to the President this week, you don't think, other than to tell him generally what has been done?

Acheson: Only his wish, that is all.

Bell: Did he actually want an agreement this week or just to say that - well, he did want you to start negotiations, didn't he? That is right.

Acheson: That is what we heard through Harry. The President's letter you have which said, "At your earliest convenience, but talk with Mr. Morgenthau first."

Bell: I am wondering if the two Secretaries could sit down with the President and go over the general policy matters and then the two Departments get together on those policy matters and draft an agreement.

Is it too late for that or beside the question as to whether there should be one agreement or the two agreements.

Acheson: No, I don't think it is too late for that at all.

- 37 -

- Bell: And if you had to negotiate with the British before the report goes up so you could make some reference to those negotiations, couldn't they be on an informal basis without having any document before them as a basis for that discussion?
- Acheson: Yes. As I said before, I think a memorandum is better than just talk because everybody remembers it differently.
- Bell: The difficulty with a memorandum is the same difficulty with your agreement, I suppose. You can't expand on it once you put it down on paper.
- Cochran: Well, he wouldn't have to use this whole document, Dan, do you think? He could say that they could make a date this week to start conversations and have just about half of that explanation on the outside, just have the frame work of the points that might be included.
- Bernstein: Here are two sentences that crystallize the whole thing, and those two sentences are that military materials you use you don't pay back, and for civilian materials that you use, you pay back consistent with our joint interests. That is your whole problem, two sentences. Whether you give it to them with the word on the top of the page, "Agreement Between," or you strike out that word and say, "This is the idea. It comes to the same thing. You are crystallized on those two points."
- Cochran: I have missed quite a bit here, but my interpretation of their document was that this blueprint partly represented a quid pro quo and that it makes a better impression with Congress and with the public if you can submit something to them showing British agreement to the

- 38 -

policies of that sort, and I don't know what your thought - I think you were talking about two documents. Did you go any further with that?

Acheson:

Well, I think what we had in mind that is that in the destroyer business the things were dealt with separately. We gave the destroyers to the British and the British gave us the bases. Now, you might here have a document which is the Lease-Lend document, and then you might have another separate one along about the same time which didn't recite anything about Lease-Lend, but said that we had had discussions between the two Governments and that the economic situation during the war and after the war - and we thought it was absolutely essential to save humanity that we work together on this and that certain broad lines were laid down, and we had appointed people to get to work right away to see what could be done in the light of existing law and national policies to carry this out. That is the other way of doing it. There is a good deal of support for that way of doing it.

But so far as getting the President's ideas and giving him what suggestions and advice we can give him, perhaps if they just had a memorandum which dealt with these things and said, "Here are the alternatives and here, very briefly, are the considerations which apply to them. Now will you instruct us which one of these lines to follow. We will go ahead and follow that."

Has Mr. Morgenthau been over this and thought about it?

Bell:

Not in detail. We have just discussed with

- 39 -

him a little this morning and told him we thought we ought to get together with you and get the background, and he wasn't in a position to talk to Mr. Hull yet. But we would like to tell him something tomorrow morning as to what we think he ought to do. I would like to suggest to him that he and Secretary Hull get together with the President as to matters of policy, and then let the two staffs, the staffs of the two Departments, get together and work out a program.

- Viner: With or without a memorandum?
- Bell: Secretary Hull and Secretary Morgenthau, you mean? With a memorandum. I think it would be easier for them if they had a memorandum. What do you think of that, Dean?
- Acheson: I think that is perfectly feasible.
- Bell: And that doesn't interfere - well, it would interfere, of course, with his ideas to put something in the report, wouldn't it?
- Bernstein: Unless you could submit the thing to him either tomorrow or Friday and get a decision and you could have--
- Bell: They probably won't see him this week.
- Acheson: The tenth is what, Wednesday?
- Bell: Wednesday is the eleventh.
- Foley: Tuesday is the tenth.
- Acheson: His report has to be up on the Hill Tuesday.
- Cochran: It will be a weekend negotiation.

- 40 -

- Bernstein: Well, it seems to me if you submitted the memorandum to the President and the two Secretaries and the President says he would rather see it worked out along the lines X, Y, Z, you wouldn't have to - you could give them a memorandum of four or five sentences.
- Viner: Couldn't he say that we have opened negotiations with, and make that actually a fact by telling them that we are planning for a schedule of meetings and telling them the general lines of the topics for discussion? Wouldn't that be technically opening the negotiations?
- Acheson: I guess so.
- Viner: And that wouldn't take time you see, because it wouldn't need - you inform them and they say, "O.K.," and then I open negotiations.
- Foley: Sure.
- Viner: It might be feasible even on that time schedule to handle it that way, it seems to me.
- Acheson: Can I get your views as to these various items, not from the point of view of what Mr. Morgenthau would ultimately conclude but how it strikes you now if you were advising him? What about this second item of expendable items?
- Bell: What is that one?
- Viner: The ammunition that they shoot.
- Foley: For the purpose for which it was delivered to Great Britain has to be returned in kind.
- Viner: Or has not to be returned at all, which one?

- 41 -

Acheson: If you were advising on that, knowing all the complexities and difficulties, what would you say?

Bernstein: Well, it seems to me on that point there is at least one other thing we have in mind. The draft of the - the so-called Treasury draft doesn't make that compulsory. It makes possible the demand for repayment in kind or something else or nothing.

Foley: Because it says other considerations satisfactory to the President.

Bernstein: Or that you can have a whole new agreement, you see. The choice really isn't one between we will tell them they can wipe it off the books or we will tell them they have got to pay. The choice is perhaps a little - they can wipe it off the books or they have got to do one of a series of things unless we decide otherwise in the future.

Bell: I think if we were following our own feelings over here that we certainly could go along with your ideas on the thing, that it probably ought to be written off, but I think we had the question as to whether you could do that strictly speaking and call it a Lend-Lease agreement and then it wasn't exactly in accord with what the President told us at the time we drew the agreement. I am sure the Secretary feels just like you do. He has said on many occasions that if he had his way he would give them all this material and aid to keep them fighting. He was told by the President what to put in the agreement and that was the reason for it. I don't think we will have any difficulty with the Secretary on this, do you? It expresses his ideas, I am sure.

Cochran: I think he would be a little more concerned

- 42 -

with some of the points Viner has raised about this outline for the future.

Foley: Well, I take it that we can agree among ourselves that that should be left out of this agreement and the negotiations of that arrangement can be left to the future.

Viner: Or--

Foley: And limit ourselves now to quid pro quo.

Viner: Or I would say that it would seem to me perfectly all right when we tell the English that we are ready to enter negotiations with them under Lease-Lend, simultaneously to tell them we would like to start talking vaguely about the sorts of arrangements that the two nations might make in an after-war world to create a better world, economically. I mean, I see no objection to telling them now that we would like to start talking. I don't object to the simultaneity at all. I think, repeating, it would be very unfortunate in terms of later reactions to have the quid pro quo agreement tied up with a charter if we can work out a charter, and I would have supposed that the State Department particularly isn't defeatist about that and hopes that there may emerge out of this a plan for a better world.

Acheson: That was the whole idea.

Bell: You wouldn't want anything in the agreement about it even in the most general terms.

Viner: If I did, I would make it Article 4 or Part 2, and I wouldn't make it a promise of one country to the other which labels that country as the unwilling country and the other one as

- 43 -

part of a compensation, and then I would make this a much broader statement so that it takes in satisfactory monetary arrangements, satisfactory capital movement arrangements, satisfactory arrangements for cooperative effort in raising the backward areas of the world. You have got surpluses here only as a post war hunger problem.

What about the cooperative effort to deal with surpluses over the continuing future. I mean, this program - for me, this program comes a little as a shock coming from the State Department. It seems to me the State Department's thinking has been much broader and more imaginative than this would indicate. I think you are missing - you see I am talking as an outsider - I think you are missing a cue on that as the State Department. It is your major responsibility and interest, and you are not showing enough knowledge of your own past history, of thought and effort and interest.

Acheson:

Well, the thing started out very much along the lines that you have just described, and then a great deal was said along the lines Harry White was talked about, and I said, "The moment you bring these things in, you are getting too specific. How do we know what we can do about development of undeveloped areas? Maybe that can't be done or maybe this is too much of a detail." So gradually each fellow took his shotgun and brought down a bird, and there were only a few left in the tree when we got through.

Viner:

Well, state areas of problems in which the two countries will be able to work out with cooperation of the other countries a solution, and then you don't commit yourself to anything except mutual good will in working out something in these areas as to problems. You know what the areas are.

- 44 -

- Bernstein: Is this thing, in effect, a preliminary statement of the two things?
- Acheson: No, only in some of the economic areas. It has nothing to do with the political part.
- Bernstein: Are you going to reestablish Poland?
- Cochran: There is a risk when we get to tying the two countries too closely together that they may suspect Clarence Streit, the editor of "Union Now."
- Viner: That is the book. The "Federal Union" is the project.
- Bell: Could some of these things that you are talking about, Jake, be written in the preamble of the agreement?
- Viner: Of this agreement?
- Bell: Yes.
- Viner: Well, I am all for the two countries talking to each other, and I think the sooner they start, provided they don't talk in draft form, the sooner they start and start educating each other and start knowing - finding out to what extent their thought is moving along parallel lines, I would say the better it is. As for putting it in with this document, I would say I don't care if you can word it that it doesn't matter - because I think in the first place that may be unfair to them. They may be willing to contribute to a proper world even aside from this compensation. In the second place, those people who would sob that we are not getting enough compensation from them for our munitions would also say they don't want this sort of an agreement afterward. That is an additional evil in this proposal.

- 45 -

In other words, they don't want free trade. What is the assumption that those groups want free trade or removal of trade barriers? Unless you make it one-sided. Unless you say they shall practice free trade toward us, but--

Acheson: Of course that doesn't make any sense.

Viner: No.

So I say as quid pro quo, it is either a false front or it puts an unfortunate start. I would say, in a way, we are doing a disservice to all the people in the world, including the Frenchmen and the decent Germans and everybody else who want, we will say, a clean chart tied up with nothing national or personal in the line of selfish questions and that we are going to do nothing to collect for a loan under that charter.

Acheson: Is this a way of getting ahead or is there some other way? Suppose you are making another draft of this and leave out this article 4, leave out all the economic business. Leave in what we have got about the methods of payment. Have a memorandum which explains that this is a recommendation of both Departments. At the same time there ought to be discussions started of an economic character and, as soon as possible, a general document, sort of an economic answer to the tripartite pact ought to be put out, followed by a continuing study of work in this, that, and the other field, bringing to the attention of the President that there are other ways of dealing with the second group of items here. One of those is a way which was suggested in the first Treasury draft which sets up a return in kind if the President wants it and makes that transmutable into something else if the

- 46 -

British want it, and then there is a third one which is a complete out in the future, or there is still the other way of treating this as an open account too. Considerations which bear on the decision are A, B, C, D, and E. A, that it is easier to get rid of the thing now than it will be later; B, that it is more encouraging for the British to know what they are going to have to do with this expendable group and, on the other hand, here are the following considerations. You can put those out and say, "Now, here it is. We have got something specific and clear to talk about. Whatever you decide on this, we are going to carry it out." I think the President ought to have, when he thinks about this, the area in which the recommendations are brought together, and then notifications that there is an alternative which he might want to consider; but, if the Treasury and the State Department both feel a certain way on this expendable group, I think they ought to say, "We have thought about this quite a little. Maybe it would have been differently if we had thought longer, but at the present time this is the way we recommend it to you."

- Bell: I think that sounds like a good program.
- Acheson: Another way of doing it is not to submit any kind of a draft, but just simply a list of problems to be decided. I am afraid that may lead him to believe that nobody has any recommendation on these things.
- Viner: Or you might show a draft to the President, but only a list of things to be discussed to the English, the draft being to guide you in your negotiations, but not to be disclosed to the English until a later stage.

- 47 -

- Foley: I didn't understand that was Dean's point. Dean's point was that we might not give the President any draft at all.
- Viner: Then he raised--
- Foley: But he might think that we should have given him some kind of a draft because that would indicate perhaps to him that we hadn't given any consideration at all to some recommendation to him.
- Viner: My only point was that even though we do give the President a draft, that doesn't necessarily involve us in giving the English a draft in your first meeting.
- Acheson: Well, if you want to go ahead on that basis, I will.
- Bell: It sounds all right to me. Does it to you? Has anybody got any objection to that?
- White: No, that is all right.
- Bell: Now, who is going to prepare the memorandum, you? Do you want any help from this Department?
- Acheson: I will want all the help I can possibly get. I spent all yesterday afternoon and all this morning before different Congressional committees. I don't have a terrible lot of time.
- Bell: Bernie, could you draw up a memorandum of the type that Dean is talking about?
- Bernstein: I suppose so. I should assume that Dean wanted to draw something up with the State Department points of view, and then let us take a look at it, or if Dean wants anybody from the Treasury

- 48 -

to sit with him at any point in the drafting of the memorandum, we can work along with him.

- Bell: I was trying to help him out. He is a busy man.
- Bernstein: The State Department knows there is nothing we would like to do better than to help them out in the drafting of any document.
- Acheson: To get before the President what this thing would look like, Article 1, nobody has any objection to that?
- White: Nothing wrong with that.
- Acheson: Article 2?
- Bernstein: Did you get the idea from the President, Ed, that he wanted to be more specific?
- Foley: He didn't want to be.
- Bernstein: Did you want to reexamine your preamble, such a thing as the second paragraph of it, whether that involves anything like the economic analysis in materials of the good life?
- Acheson: Well, that was merely a declaration of a more or less self saving character that we were not engaged in any dreams of conquest or any skull-duggery between the British and ourselves.
- White: The inclusion of that such a desirable tone on the other hand if it is a cooperative undertaking, there is no reason for any quid pro quo. A cooperative undertaking doesn't belong in that document of this character.
- Bernstein: You think you have given away your case?

- 49 -

- White: At least you are making the remainder look a little peculiar. You start out by saying "We are engaged in a cooperative effort, you using your men and your material, we, on the other hand contributing such matter, material, as we can under the Lend-Lease." Now in exchange for what we are getting, this is what we want.
- Bernstein: In effect, that is what they said on the World War debt, that it was a cooperative undertaking and that was our contribution.
- White: You mean that is what they said after it was over.
- Bernstein: Yes, after it was over.
- Bell: That isn't a matter that you have to take up with the President, what is in that preamble, do you?
- Bernstein: I only raised it because I gathered Dean was going through from the point of your saying how much of it we all agreed to.
- Acheson: Let's bracket that and put a question mark on it and say this possibly ought to be transferred to a second document.
- Viner: Except that this is an interim proposition. We are engaged now, you see, in this cooperation. The peace that I take it you would talk about here is a military settlement and not the order that is to be established in the world after the peace. It may be altogether separate from a peace treaty. We wouldn't possibly participate in a peace treaty. That was one of the things, as to whether it is clear that this is a interim arrangement for a post emergency arrangement.

- 50 -

- Acheson: If you take Article 4 out, the necessity for this paragraph and its original conception may go too. The reason for this was that when we talked later on in Article 4 about post war settlements, we wanted it very clear in the event this document was public that this wasn't a private performance between the British and ourselves, particularly having in mind the South American countries. We didn't want them to think that the British and ourselves were going to get together and tell them what they were going to do. This was open to everybody. If we don't have them, we are giving them aid, and this is the way of paying for it, you could take that out.
- Viner: And use it in another document.
- Cochran: But I don't get the point as to where this other document would come in.
- Foley: Later on, Merle.
- Cochran: I mean, it wouldn't be released simultaneously with this.
- Viner: No.
- Bell: But there might be some - at the time you released this, there might be some general statement of policy.
- Acheson: What we were thinking about, Merle, is the Lease-Lend agreement to provide solely for whatever methods of paying the principal there are. At about the same time that is released, a joint statement of the two countries giving the general direction in which they propose to sit down immediately and try to work out present problems and future problems as they arose, and then ultimately as you went along specific

- 51 -

crystallization of the second document into - it started out with a trade treaty. They have already approached us on that.

- Viner: It might be a continuing series of machinery.
- Acheson: We ought to have a joint commission to examine all of these things.
- Cochran: I see.
- Acheson: So then we have gotten down to Article 3.
- White: Article 3 begins with that one "In the light of the new document," that first paragraph. "Recognize the benefits of defense." Do you feel that any concessions, if you wish to call them concessions, such as the use of material themselves will fulfill their purpose, do you think it needs any stated defense? I am wondering whether that first paragraph--
- Viner: I wonder what the President's message was on Lease-Lend and what he said then. Didn't he say something very much like this in his message to Congress?
- White: About lending a hose and getting the hose back?
- Foley: There wasn't any message, Jake.
- Viner: Wasn't there?
- Bernstein: No, this bill was introduced directly by--
- Viner: In Congress.
- Foley: There was a conference at the White House--
- Bell: Was there something in his annual message on it?

- 52 -

- Foley: On Thursday. The bill was introduced on Friday and the two majority leaders held press conferences immediately after the bill was introduced, but there had been discussions on the part of the President in his press conference, and a lot of stuff had appeared in the press so that the public was aware that the bill was being prepared, but he didn't have it in a speech. It was very early in the session. It was introduced around the fifteenth of January, and the basis for it was a press conference that he held around the middle of December when he talked about a garden hose that you lent to your neighbor so he could spray a fire, and then when the fire was out he gave you back what was left of the hose. A big hunk had been burned up, but he gave you back part of the hose.
- Burnstein: He also talked about getting back such things as jute, tin, and other raw materials.
- Foley: And he actually suggested some of those commodities that we had in our draft. We had a few in there, and he added some more, didn't he, Dan?
- Bell: Yes.
- White: I am wondering in general whether that subsection 1 may not partake of the character of the very article that you were just talking about, about its being a cooperative enterprise.
- Acheson: Well, I think this is different. It seemed to me that if this document is made public, it recalls to people that if you just take back these articles without charging depreciation or wear and tear, you have gotten something out of the use of them.

- 53 -

- Viner: You might say that that justifies the handling of these things on other than an ord. basis.
- Acheson: That was my idea.
- Viner: But that doesn't tell you what it does justify, but it tells you it justifies a departure from the usual channels to that method.
- White: I don't know whether this is important, whether this would be any kind of conversation at all, but containing in this document as distinct from a larger document, but in this document, putting this in, might raise the question of saying, "Well, now, if the United States recognizes the benefit of the defense to her, if she is measuring the benefits that she has derived from our defense, why is she asking for any of these things other than that we will promise to do the same thing for her in case she gets into trouble?" It seems to me you make it a little more difficult to request anything. It might not be necessary. I approve of it, and I think it is true, but I wonder whether it belongs here.
- Acheson: Well, you see, under this document what you do is to get back what is left. That is all you do, and the non-defense articles are paid for in some way or other, so that this has a perfectly logical place in that setup. It does not have a logical place, if you have a running account on the articles that are used up.
- Bernstein: Supposing you try to work that concept with a "whereas" clause. You could say, "Whereas, since the use of this thing is of benefit to the United States, it is not being disposed of on the dollar-for-dollar basis." The

- 54 -

obligation to repay is not based on any dollar-for-dollar basis. That, of course, carries out the President's idea, the Congressional idea, and it doesn't say what the basis of the repayment is, but we can see that it isn't to be a dollar-for-dollar repayment.

Bell: I am wondering if you couldn't do a lot in "whereas" clauses that you couldn't put down at the bottom of the agreement.

Viner: Well, you can do this. "Whereas the United States recognized the benefit of the compensation to be given to the United States for these things shall be as provided in the following articles," or "that the claims of the United States with respect to these loans will be satisfied by the provisions of the following items." And there you are saying that because there is benefit to us in the transaction, we are not asking for full commercial payment, but it doesn't say that whereas there is benefit, therefore you don't have to pay anything.

Bernstein: You have that sentence and then move on to your third paragraph of your "whereas" clause again.

Acheson: All right, we will put it up in there.

Bernstein: We have the concept of the benefit and then go right along, "Whereas we recognize so and so, the United States agrees upon conditions under which the obligation will be discharged."

Viner: "Agrees to accept as discharge of the obligation the fulfilment of the following terms."

Foley: That is the idea.

- 55 -

- Acheson: Now then, 2 of Article 3 is one we have been talking about. "Defense articles which have not been destroyed shall be returned on the request of the President."
- Foley: It is all right.
- Acheson: Three at the present time writes off everything which is used up.
- White: My first reading of that wasn't clear, but if it is clear that this refers to only those materials that were used up.
- Bell: Is that strictly war materials?
- Viner: And preparation for, like machine tools.
- Bell: But it is all equipment.
- Viner: It says "excluding articles for civilian use."
- Foley: Harry raises the questions as to the meaning of the word "consumption."
- White: I take it that that may be satisfactory.
- Foley: He might want to be a little broader, "to be rendered unusable or effectively destroyed."
- Viner: "Shall be discharged upon the destruction or consumption or the rendering unusable of."
- Foley: Yes, something like that.
- Viner: Or "rendering unserviceable of."
- Foley: Same thing.
- Bell: That is the big matter of policy, isn't it? Is that one?

- 56 -

- Viner: Yes, the question as to whether they shall be discharged or whether they shall give you quid pro quo in time.
- Acheson: That is the thing to be brought out in the memorandum, that under three there is an alternative possibility he ought to consider.
- Four is really just what we had before.
- Foley: Yes.
- Acheson: "That all other obligations by reason of any transactions - they shall periodically review their accounts and so forth."
- White: That might be a very troublesome paragraph.
- Bernstein: That is a very important limitation. If you can show it will hurt you, you don't have to pay us. I think that is what you had in mind.
- Viner: Could you say "is not unduly burdening"?
- White: If you put "unduly burden," you don't make it possible for a great deal of discussion subsequently--
- Foley: Why don't you leave it in the discretion of the President of the United States?
- White: Well, if you did that--
- Viner: That is open account then.
- Bernstein: Yes, it approaches more--
- White: At least you would remove it from the realm of controversy, because you know what you get involved in here in the question as to whether or not a payment would constitute a undue burden on a country.

- 57 -

- Viner: You can't say really that it shall be liquidated in the way that the President shall decide.
- White: No, "shall be liquidated so far as possible - " no, you would have to--
- Foley: "Shall be liquidated in a manner satisfactory to the United States unless the President of the United States shall decide that such liquidation shall create such a burden."
- Viner: Then it wouldn't be satisfactory to the United States.
- White: What would happen if that five were left out? Would there be any serious difficulty?
- Viner: It does leave the question unsettled of what happens at the end of the war of these claims that have not been settled.
- Foley: That is more in the nature of the Treasury draft.
- Viner: If five isn't there.
- Bell: Why not say, "It shall be liquidated at such time as, in the judgment of the President, it would not create an undue burden"?
- White: At such rate or such time. Supposing it were a billion dollars, let's say. Now, in the President's judgment a hundred million dollars a year or fifty million dollars a year are all that could be liquidated without an undue burden. That would be the decision which he could make. It could be even ten million or none or he could postpone payments. It would put a great deal of flexibility in it. If he were reasonable, as one would hope, it would accomplish this--

- 58 -

Bernstein: I wonder if I could make a remark not necessarily relevant to this point, but to the overall. It is just a new approach to the whole thing. Supposing you had a document which, in effect, gave us rights along the lines of the President's point of view as reflected in his press conference and, at the same time, he says to the British in a separate document, "My present - my intention is that if you do so-and-so and so-and-so and so-and-so we are not going to ask you for any payment."

White: Yes, but he will be President only maybe for four years.

Bernstein: Well, I just wanted to see if that is a possible way of bridging the gap between something that - that meets his point of view as then reflected and, at the same time, doesn't--

(Mr. Cox entered the conference.)

Bell: You know Jake Viner, don't you?

Cox: Sure.

White: After all, I think the point can be made that the British Government and the United States Government must deal with each other apart from the question of personal - what the President himself feels, but what the President himself feels the incoming President might not feel, and they have a right to have a document which transcends individual preferences.

Viner: They have a right also, if you are formulating rights, they have a right to know what the maximum is that we would demand, the worst thing that we would demand, so that they know a limit. Even as this is worded, we might ask the original cost to us plus compounded

- 59 -

interest. There is nothing in here which would stop that.

White:

You mean if they felt they had to pay a billion dollars, they might be willing to finish the war, and if they thought three billion, they might feel reluctant?

Viner:

No, if this is a statement of our rights, it ought to be a statement of their maximum liability.

White:

Their maximum liability depends upon their own actions, doesn't it?

Bell:

In other words, if this category comes to a billion dollars, the President ought to have discretion not to exceed a hundred million a year.

Viner:

What about the total amount of bill?

Bell:

That would be the dollar value.

Viner:

What interest?

Bell:

Nothing is said about interest. How can you collect interest? That is part of a contract, isn't it?

Viner:

This is a contract, isn't it?

Bell:

But there is nothing in here about interest. You can't go outside of the contract and collect interest.

Bernstein:

Sovereigns aren't ordinarily subject to paying interest unless they have expressly agreed to it.

White:

My only thought is that this might be very controversial.

- 60 -

- Viner: And by implication, interest is out of the picture, you say?
- Foley: Sure, if you don't cover it.
- Viner: Of course, loan, you see - the word "lend" isn't used here any where, is it?
- Bell: You loan without interest.
- Bernstein: I think Jake is thinking of some of those old law cases which soak interest at six percent if you don't say anything about it.
- Viner: Yes.
- White: Jake, you say there is no maximum. There is sort of an implied maximum. The things which they have left they return. The things which they use up they do not return. Now, it doesn't take very much--
- Viner: No, that is military. You haven't exhausted the categories.
- White: Military things. Well, it doesn't take very much reasoning to figure out a maximum for a year of war of the other things. You can't figure within a hundred million dollars, but you can certainly figure within a billion.
- Viner: Let's assume we know concretely what they got in physical stuff. They still wouldn't know what is their financial obligation with respect to that.
- White: I say they would know within a billion dollars.
- Bell: I don't see why they wouldn't know the exact amount. This is the category--

- 61 -

- White: They wouldn't know what they are letting themselves in for.
- Viner: If we shipped wheat to them under this Lease-Lend, do we also notify them we have shipped them so many bushels of wheat at so much per bushel?
- Bell: I think so.
- Foley: If we intend to Lease-Lend the wheat, we do. We place a value on it, and we get a receipt for it from them.
- Bell: That is right. There are documents in the files showing the value of the materials.
- Foley: You get a receipt for everything you turn over, don't you, Oscar?
- Viner: And what value you place on wheat?
- Foley: Just whatever anybody agrees on.
- Cox: Well, all the valuations haven't been done yet, but the President has got a regulation now which would set new stuff like we buy currently at the cost. Old stuff would be valued - I mean, let's take an old rifle. It would be valued at its original cost plus depreciation or obsolescence.
- Viner: There are three prices for wheat in the country. Which price is he giving them?
- Cox: The cost paid by Agriculture.
- Bell: Cost of acquisition, plus the freight to--
- Cochran: Point of delivery.

- 62 -

- Viner: They have got different ways of taking wheat. They can buy it with food stamps.
- White: I imagine they have some idea of what it costs.
- Cox: Yes.
- Bell: Well, how about this paragraph that Dean is talking about?
- Acheson: The whole thing has to be worked out by an agreement anyway, and this simply indicates that the agreement - in doing it you shall try to work it out so that as far as possible you don't--
- Bell: I think the general idea there is all right, isn't it?
- White: If you put down the words about burden, which is implied, it is a good idea. Of course, something of this concept ought to be woven in, but I am a little bit afraid as it is stated here it would be a constant ground for acrimony after settlement, even if it is only two hundred million dollars. They might say that they won't have much gold and in order to sell that additional amount of goods, they would say, "Your tariffs are too high, et cetera et cetera."
- Viner: You don't say--
- Acheson: In such a way as in the judgment of the President of the United States.
- White: Something of that character.
- Viner: Of course, as five is now, you give no indication of who is going to decide that.

- 63 -

- Acheson: It will just have to be done by some sort of a commission to settle it.
- Viner: That is a different proposal from the unilateral one.
- Acheson: You don't know the total amount, and therefore you can't say one year, two years, five years.
- Viner: My point is that it might be decided by the President as has been suggested or it might be decided by negotiation or a commission, and this doesn't tell you which is contemplated here, does it, as it stands now?
- Viner: That might be worth while to have a commission for this reason. The commission operating on a problem of this kind could do some very excellent work. "It is the finding of the commission that in view of these and these obstacles, it is difficult or impossible," and recommendations following - you could have a good deal of--
- Bell: Maybe you could make this economic commission permanent to decide all these questions. It is a continuing study, almost, anyhow. It will be for years after the war. Well, I should say generally the thing is a right approach to it. It may not be the right words.
- White: And I think there has got to be more and more, if possible, getting away from unilateral advantages in these settlements. If we can approach the direction of commission findings, even on matters where there are rights in one direction and not in another. Of course, it hasn't worked very successfully in the past.
- Acheson: Suppose we said, "Shall be liquidated in such a manner as may be determined by a joint commission."

- 64 -

- White: "In such manner and at such rates."
- Viner: I would say, "The manner and time of liquidation."
- White: That is all right.
- Viner: Because you see you have cash versus kind. You have got the kind being the identical kind or a substitute kind.
- White: I should be inclined to say, "The manner and rate."
- Bernstein: You could possibly say, "Terms and conditions," which would be over all, assuming you want to use that. "Terms and conditions of liquidation shall be determined by--"
- Cox: You are going to have this commission sitting for twenty years, aren't you?
- White: Oh, well, this is a sort of subtle thing.
- Acheson: Is that legal? The act says, "The President shall determine the terms and conditions." This says, "The commission."
- Bernstein: Why can't he delegate--
- Cox: Not a joint commission.
- Bernstein: Doesn't the act permit him to delegate his responsibility to an agency?
- Viner: Or, "Shall be submitted to the President on the basis of the recommendations of the joint commission," in which you still leave him the right to reject the report, but get the moral weight.

- 65 -

- White: I think that would sit better.
- Acheson: Yes.
- Foley: You are still leaving it then at the discretion of the President?
- Viner: That is right, but there is the moral weight of whatever the commission finds. I don't think that is a bad procedure, myself. In their case, it gives them a chance to.....
- Foley: What does the law say, Bernie?
- Cox: Delegate it to any officer or agency or employees of the U. S. Government.
- Bernstein: It might mean that. "And he may exercise any power conferred on him by the act through such department, agency, or other officer, as he shall direct."
- Viner: That is the execution of the motive. It is not the determination of the motive.
- Bernstein: He can turn over any power or authority conferred to him under the act.
- Cox: This is perfectly all right.
- Acheson: I haven't got it all worked out. "The terms and conditions of liquidation of whatever balance of obligation may remain at the end of the present emergency shall be determined by the President after recommendations of the joint commission, and the President shall, in so far as possible, do it in such a way as to not burden the English."
- White: What is that last, "The President, in so far as possible," are you putting that in too?

- 66 -

- Acheson: Yes, putting this last in and leaving it up to the President.
- Viner: I would prefer that you leave it to the commission to take into consideration, but don't qualify the President.
- White: "The commission shall take into consideration the difficulties or the problem of--"
- Viner: "Shall take into consideration the desirability of arranging for such litigation in a manner which would less burden - would take into consideration the importance of avoiding undue burdens on the--"
- Acheson: "After recommendations of a joint commission which shall, so far as possible, give regard to the terms and conditions which shall not unduly burden."
- White: I think "unduly" is almost necessary.
- Viner: Technically, any transaction would burden them.
- Acheson: Then four would come out, and you go right along with the rest. Five has the--
- Bell: Where do you begin there to go along with the Treasury agreement? Some place they are pretty much alike, aren't they?
- Acheson: Beginning with five.
- Bernstein: There are a lot of things left out.
- Acheson: Are there?
- Bernstein: You know, some of the technical things, but it is based on a little different philosophy,

- 67 -

being able to exercise rights which you don't have here, and therefore you don't need those.

Viner: Is the rest of it all right now?

Bell: Is the rest of the agreement pretty much in line?

Foley: Yes. The only thing that I thought mechanically, Dean, there might be some difficulty about is the identifying of material and fixing it at that - we said in ours, "According to schedules attached," and you completely disassociated this thing from--

Acheson: We probably should have schedules attached.

Bell: Well, we have got schedules over here.

Foley: I would like to tie them up with the agreement.

Bell: I think so. Oh, I thought that was in his agreement.

Viner: Does that mean that you would impose on the British the necessity of keeping physical accountings so that they keep segregated guns they buy here for cash?

Cox: They don't have to do that, just annex the schedule. You see, everything that is turned over under the Lend-Lease, we have a record of, and everything that comes in, we have a record of, and it will all be valued.

Viner: But whether they are the identical guns or not?

Cox: Oh, I don't think on a schedule you have that problem. The main purpose of the schedule would be to show what their debit balance is

- 68 -

and what their credit balance is.

Foley: Jake means in so far as returning at the end of the war if they are not used up or destroyed.

Cox: Well, you just add that to the credit side, don't you?

Viner: If they bought--

Foley: How would you tell if they bought a P-40 and we gave them a P-40?

Viner: That is a lawyer's problem, it is not mine.

Bernstein: Do you get that--

Foley: Well, I think it is probably a British problem. I mean, do they mark each thing they get from us with a label saying "Lease-Lend"?

Viner: Do we want them to? Are we requiring them to or will we accept any P-40 as a return of the P-40 that we lease-lent them?

Foley: I think any P-40 can be accepted as a return of one loaned to them.

Viner: It isn't in the use of it, it is in the return of it.

Foley: I think you have got to trust them, Jake.

Viner: I wouldn't want to trust them. I would want them to do that.

Actually I see how there are going to be lots of charges of that sort.

Foley: How are you going to avoid them?

- 69 -

- Bell: Does your five there provide for a schedule?
- Acheson: Yes, it does, and Bernie suggests we put in that sentence, "Shall be exchanged and reviewed and attached to this agreement."
- Bell: O.K. with that one?
- White: Now, Oscar, are you evaluating information? Because we have got a bit of information that we think is worth a lot.
- Cox: Where did you get it, Harry? That is a problem that hasn't been decided yet, because if you take, for example, their stuff on night fighting, I don't know how in the world you could put a dollar value on it, or whether you have to use the dollar sign. It may be that you just want to balance it off ultimately against defense information that you have given them.
- White: It is like goodwill. The remainder charged off against information.
- Cochran: You see, we had word that they had commenced evaluating information over there.
- Cox: No, the only instruction that went out from the President was that they were supposed to give out information.
- Bell: Let's get this finished. You have got in there now that you attached the schedules of five. That is all right, isn't it? That ties in with our agreement now.
- What else?
- Acheson: Then the rest of these are the regular patent and non-transferability of title.

- 70 -

Bell: And they follow our agreement?

Bernstein: One technical point. Are you interested in specifying - what do you do under Lend-Lease? Where do you make delivery, here or there?

Cox: Most of the deliveries are at ship-side.

Bernstein: Here?

Cox: And some of the deliveries in the Red Sea are going to be paid to the Red Sea port.

Viner: So we pay the transportation?

White: What happens when they are sunk en route?

Cox: What do you mean, for what purpose?

White: For value.

Bernstein: Do they get charged?

Foley: Suppose they don't get there, that is what he means. Do you still charge them with it?

Cox: That hasn't come up yet, fortunately.

Bell: They sign a requisition, don't they?

Cox: They sign a receipt. It is delivered into their custody.

Bernstein: How would you handle it--

Foley: You handle that by reference to your schedules.

Bernstein: How would you handle it on the way back?

Cox: If it is lost, you mean?

- 71 -

- Bernstein: No, I mean the question of these things that you say they will give back to us under your first clause.
- Acheson: We will try writing something up to submit to the President.
- Bell: Dean, I appreciate your coming over and giving us all this time. It has been a great help.
- Acheson: I am delighted to, Dan.
- Bell: Well, you have been very nice.

June 4, 1941
3:02 p.m.

HMJr: Hello.

Captain Forster: Hello, Mr. Secretary.

HMJr: Yes, Forster.

F: Memorandum for Mr. Forster:
"I am returning herewith the letters of the Secretary of the Navy and the Attorney General together with a draft of an Executive Order and patent, etc. which you referred to me this date." That's May 31.

HMJr: Who signed it?

F: "I have taken the matter up with the Treasury Department and am advised there is no objection on the part of the Treasury to the issuance of the proposed Executive Order. I recommend that the proposed order be approved. John B. Blandford, Jr., Assistant Director."

HMJr: Well, who did he take it up with in the Treasury?

F: Doesn't say.

HMJr: What?

F: Doesn't say. "I have taken the matter up with the Treasury Department"...

HMJr: Well, could you ask him who he took it up with?

F: Yes, I could ask him.

HMJr: Would you do that?

- 2 -

F: Yes, of course I would, but then I can't do any more than that.....

HMJr: Well, nobody asked you to - nobody that's reasonable and I'm reasonable.

F: Uh huh.

HMJr: But I would like to know who did he take it up with.

F: All right, I'll find out.

HMJr: Please.

F: Right.

HMJr: Now, you let me know.

F: Yes.

HMJr: Thank you.

F: All right.

June 4, 1941
3:17 p.m.

HMJr: Hello.

Operator: Mr. Forster.

HMJr: Hello.

Captain
Forster: Hello.

HMJr: Morgenthau.

F: Budget tells me that they tried
to get hold of Gaston and he
wasn't available, they talked
to Waasche and Waesche cleared it.

HMJr: I see. All right, thank you
very much.

F: Right-o

HMJr: Thank you.

F: All right.

DEFENSE SAVINGS STAFF

ADVANCE NOTICE RADIO PROGRAMS

WEDNESDAY, JUNE 4

Time: 3:15 - 3:30 P.M.

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

Program: Stellas Dallas.

Time: 6:00 - 6:15 P.M.

Station: WMAL, Washington, D. C., and National
Broadcasting Company Blue Network.

Program: Easy Aces.

Time: 7:00 - 7:30 P.M.

Station: WMAL, Washington, D. C., and National
Broadcasting Company Blue Network.

Program: Quiz Kids.

THESE PROGRAMS PROMOTE SALE OF DEFENSE BONDS AND STAMPS

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

June 4, 1941.

FROM E. H. Foley, Jr.

State taxation of defense activities.

(1) The Attorney General in a memorandum dated May 8, 1941 addressed to the Solicitor General and others supports in large measure the position taken by the Treasury, as distinguished from that taken by the War Department, upon the question of state taxation of defense activities. It is fair to say that Bob Jackson and myself see eye to eye on the constitutional principles applicable to the problem of intergovernmental immunities. We both agree:

(a) That a Federal function is not necessarily protected from a tax which may well be substantially absorbed by private persons, and

(b) That a tax which is levied in terms or in effect by a state upon the Government of the United States is invalid.

(2) If we differ, it is only in the application of these principles to particular problems. For example, contrary to my view, the Attorney General states that a cost-plus-contractor in respect of his purchases "seems to act simply as a purchasing agent on behalf of the United States". But this is a difference solely in the interpretation of the cost-plus-contract and does not go to the heart of the matter.

(3) Accordingly, I have no objection to the enactment of legislation embodying the important principles upon which we agree, leaving to litigation only the narrow and more or less superficial areas of ambiguity. As I conceive it such legislation

Secretary Morgenthau,

2.

(a) would specifically exempt the Government of the United States from any state tax levied upon or required by state law to be passed on to the Government, and

(b) would clearly disclaim any intention to exempt private persons who derive income from or deal with the Government of the United States from any non-discriminatory state tax which could legally be absorbed by such private persons.

(4) In my opinion such legislation would simply express the implied immunity already granted by the constitution and at the same time would negate any possible inference that Congress by its silence had consented to such state taxation. Consequently, it would hardly embarrass our efforts to establish in the courts as well as in the Congress the principle that, even though a state function is important enough to warrant immunity from a tax upon the state itself, the fact that the expenses of the state might be lessened if a private person were held exempt from Federal taxation (for example upon the interest received from state and municipal bonds) is not an adequate basis to demand immunity.

F. H.

CONFIDENTIAL

346

**EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
DIVISION OF DEFENSE AID REPORTS**

**REPORT ON CUMULATIVE OBLIGATIONS AND DELIVERIES
UNDER AN ACT PROMOTE THE DEFENSE OF THE UNITES STATES**

**WASHINGTON, D. C.
JUNE 4, 1941**

**EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
DIVISION OF DEFENSE AID REPORTS**

**REPORT ON CUMULATIVE OBLIGATIONS AND DELIVERIES
UNDER AN ACT TO PROMOTE THE DEFENSE OF THE UNITED STATES**

**WASHINGTON, D. C.
SUBMITTED JUNE 4, 1941**

June 5, 1941

Major General James H. Burns
Executive Officer
Division of Defense Aid Reports
Washington, D. C.

Sir:

In accordance with your request, arrangements were made with the several departments and establishments to obtain special reports as of May 31, 1941, on the cumulative amount of obligations incurred under the Defense Aid Supplemental Appropriation Act, 1941; and also deliveries of defense articles under "An Act to Promote the Defense of the United States".

The reports of the several agencies, which in some cases were compiled from telegraphic advice from their field offices, disclose the following status on these classes of transactions:

- (a) Cumulative obligations incurred under
the Defense Aid Supplemental
Appropriation Act, 1941 \$995,015,322.75
- (b) Deliveries of defense articles
procured from the Defense Aid
Supplemental Appropriation
Act, 1941..... 10,729,684.10

and

Deliveries of defense articles
procured from appropriations
made prior to March 11, 1941 64,472,741.77

Total deliveries..... \$ 75,202,425.87

The cumulative obligations represent the actual or estimated amounts which will be required for payment or fulfillment of contracts.

Major General James H. Dumas

-2-

June 5, 1941

purchase orders or other existing legal commitments, including procurement orders to government facilities. Deliveries of defense articles are based on the transfer by the departments and establishments of the custody of such articles to an agent or representative of a foreign government upon a transfer directive of the President. The term, therefore, includes articles exported, in transit, in industrial plants or supply depots, and at port, subject to the disposition of foreign governments.

An analysis of allocations and obligations and unobligated allocations by classes of defense articles or services, is contained in the attached Schedule 1; and an analysis of deliveries of defense articles procured from the Defense Aid Supplemental Appropriation Act, 1941, and from appropriations made prior to March 11, 1941, and thereunder by classes of articles, is contained in Schedule 2.

Respectfully,

Paul W. Banning
Chief Accountant.

**STATEMENT OF ALLOCATIONS AND OBLIGATIONS
BY APPROPRIATION AND PURPOSE
UNDER THE DEFENSE AND SUPPLEMENTAL APPROPRIATION ACT, 1941**

**SCHEDULE 1
(Sheet 1 of 7)**

AS OF MAY 31, 1941

APPROPRIATION PURPOSE CLASSIFICATION	ALLOCATIONS TO AGENCIES	OBLIGATIONS (CONTRACTS, ORDERS, ETC.)	UNOBLIGATED ALLOCATIONS
Ordnance and Ordnance Stores			
Ammunition			
Small arms ammunition	338,359,000.00	316,055,303.40	322,303,696.60
Artillery ammunition	235,139,150.00	32,272,896.18	202,866,253.82
Aircraft bombs and pyrotechnics	52,330,000.00	-	52,330,000.00
Explosives, propellant powders and miscellaneous ammunition	4,432,194.00	1,398,391.05	3,033,802.95
SUBTOTAL	330,260,344.00	49,726,590.63	280,533,753.37
Ordnance Material			
Small arms and infantry weapons	81,264,000.00	5,707,543.08	75,556,456.92
Artillery material	21,348,590.00	171,877.66	21,176,712.34
Anti-aircraft material	222,063,000.00	16,015,730.98	206,047,269.02
Aircraft armament	164,601,250.00	84,483.36	164,516,766.64
Miscellaneous fire control	5,257,911.00	13,149.50	5,244,761.50
Torpeds equipment	647,000.00	-	647,000.00
Mine equipment	8,000,000.00	3,841,567.00	4,158,433.00
Miscellaneous ordnance and ordnance stores	15,000,000.00	-	15,000,000.00
SUBTOTAL	518,161,711.00	25,834,151.58	492,327,559.42
Undistributed allocations	31,734,808.00	-	31,734,808.00
Stock fund	-	17,622.50Cr	17,622.52
Shop expenses	-	43.11Cr	43.11
TOTAL APPROPRIATION	880,176,863.00	75,543,076.58	804,633,786.42

**STATEMENT OF ALLOCATIONS AND OBLIGATIONS
BY APPROPRIATION AND PURPOSE
UNDER THE DEFENSE AID SUPPLEMENTAL APPROPRIATION ACT, 1941**

PAGE 1
(Sheet 2 of 7)

AS OF MAY 31, 1942

APPROPRIATION PURPOSE CLASSIFICATION	ALLOCATIONS TO AGENCIES	OBLIGATIONS, (CONTRACTS, ORDERS, ETC.)	UNOBLIGATED ALLOCATIONS
Aircraft and Aeronautical Material			
Aircraft			
Replacements	1,396,063,000.00	334,832,066.01	1,061,230,933.99
Ferry, interceptor and fighter	232,330,000.00	20,444,414.16	211,885,585.84
Transport, utility and other	2,440,000.00	1,892,662.34	747,337.66
Training	76,800,000.00	-	76,800,000.00
SUBTOTAL	1,707,633,000.00	357,169,142.51	1,350,463,857.49
Aircraft engines, spare parts and accessories			
Spare engines and engine parts	117,625,024.00	-	117,625,024.00
Spare propellers and spare propeller parts	20,000,000.00	-	20,000,000.00
Accessories and other parts	20,000,000.00	-	20,000,000.00
SUBTOTAL	147,625,024.00	-	147,625,024.00
General aeronautical supplies and equipment	10,331,866.00	362,776.03	9,969,089.97
Inspection and reconditioning of completed aircraft	25,000,000.00	-	25,000,000.00
Undistributed allocations	46,073,607.00	-	46,073,607.00
TOTAL APPROPRIATION	1,934,633,490.00	357,531,918.54	1,577,101,571.49

**STATEMENT OF ALLOCATIONS AND OBLIGATIONS
BY APPROPRIATION AND PURPOSE
UNDER THE DEFENSE AID SUPPLEMENTAL APPROPRIATION ACT, 1941**

PAGE 1
(of 7)

AS OF MAY 31, 1941

APPROPRIATION PURPOSE CLASSIFICATION	ALLOCATIONS TO AGENCIES	OBLIGATIONS, (CONTRACTS, ORDERS, ETC.)	UNOBLIGATED ALLOCATIONS
Tanks and Other Vehicles			
Ordnance Vehicles			
Tanks	138,810,000.00	-	138,810,000.00
Other ordnance combat vehicles (except tanks)	80,767,000.00	-	80,767,000.00
Miscellaneous ordnance automotive supplies	22,397,000.00	11,881,678.66	10,515,321.34
SUBTOTAL	241,974,000.00	11,881,678.66	230,092,321.34
Other than Ordnance Vehicles			
Trucks	46,004,000.00	10,370,112.61	35,633,887.39
Automobiles	3,710,200.00	-	3,710,200.00
Other automotive supplies	2,055,000.00	407,250.00	1,647,750.00
Miscellaneous automotive supplies	8,272,800.00	788,749.21	7,484,050.79
SUBTOTAL	60,042,000.00	11,566,111.82	48,475,888.18
Undistributed allocations	16,206,800.00	-	16,206,800.00
Allocation made and notice in transit	280,000.00	-	280,000.00
TOTAL APPROPRIATION	318,502,800.00	23,447,790.48	295,055,009.52
Vessels and Equipment for Vessels			
Watercraft			
Combatant	12,750,000.00	900,000.00	12,250,000.00
Naval auxiliary and small craft	29,447,000.00	12,427,500.00	17,019,500.00
Merchant	900,011,800.00	420,791,609.60	79,220,190.40
SUBTOTAL	942,208,800.00	433,719,109.60	108,489,690.40
Equipage	4,560,140.00	109,958.65	4,450,181.35
Undistributed allocations	4,645,200.00	-	4,645,200.00
TOTAL APPROPRIATION	551,414,140.00	433,829,108.25	117,585,031.75

**STATEMENT OF ALLOCATIONS AND OBLIGATIONS
BY APPROPRIATION FOR PURPOSES
UNDER THE REVENUE AND SUPPLEMENTAL APPROPRIATION ACT, 1942**

1 MONTHS
(Fiscal Year 1942)
Page 4 of 7

AS OF MAY 31, 1942

APPROPRIATION PURPOSE CLASSIFICATION	ALLOCATION TO AGENCIES	OBLIGATION, (COMMITTED, ORDER, ETC.)	UNOBLIGATED ALLOCATIONS
Miscellaneous Military Equipment, Supplies and Material			
Quartermaster equipment, supplies and material			
Clothing	1,499,399.00	-	1,499,399.00
Equipage	4,482,931.00	323,894.00	4,482,931.00
Kitchen, mess, and field baking equipment	297,339.00	-	297,339.00
Fuel	5,264,000.00	-	5,264,000.00
Provisions	600,000.00	-	600,000.00
Miscellaneous quartermaster supplies	9,820,972.00	34,054.79	9,776,917.21
SUBTOTAL	22,318,594.00	297,948.79	22,080,595.21
Signal equipment, supplies and material	75,982,895.00	5,305,879.69	70,387,015.31
Chemical warfare equipment, supplies and material	5,799,000.00	349,530.00	5,370,230.00
Engineer equipment, supplies and material	9,752,794.00	1,260,113.77	8,492,680.23
Aircraft equipment, supplies and material	1,648,420.00	-	1,648,420.00
Undistributed	4,100,000.00	-	4,100,000.00
TOTAL APPROPRIATION	129,292,013.00	7,273,482.25	111,998,584.75
Facilities and Equipment for Production			
Acquisition of land and improvements	30,000,000.00	43,788,054.00	6,211,944.00
Machinery and equipment	8,000,000.00	-	8,000,000.00
Undistributed	64,630,000.00	-	64,630,000.00
Allocations made by President - Notice in Transit	14,504,812.00	-	14,504,812.00
TOTAL APPROPRIATION	117,134,812.00	43,788,054.00	73,344,766.00

**STATEMENT OF ALLOCATIONS AND OBLIGATIONS
BY APPROPRIATION AND PURPOSE
UNDER THE DEFENSE AND SUPPLEMENTAL APPROPRIATION ACT, 1941**

SCHEDULE 1
(Sheet 2 of 7)

AS OF MAY 31, 1941

APPROPRIATION PURPOSE CLASSIFICATION	ALLOCATIONS TO AGENCIES	OBLIGATIONS (CONTRACTS, ORDERS, ETC.)	UNOBLIGATED ALLOCATIONS
Agricultural, Industrial and other Commodities			
Agricultural Products - Foodstuffs			
Dairy Products and Eggs	\$31,658,000.00	\$17,494,832.88	\$14,163,167.12
Meat, Fish, Fowl	6,055,400.00	4,971,744.00	1,083,656.00
Fruit, Vegetables and Nuts	5,960,000.00	4,434,000.00	1,526,000.00
Grain and Cereal Products	3,090,000.00	1,891,990.00	1,198,010.00
Lard, Fats and Oils	3,577,000.00	3,497,000.00	80,000.00
Other Foodstuffs not classified above	1,543,600.00	47,000.00	1,496,600.00
SUBTOTAL	51,884,000.00	32,336,566.88	19,547,433.12
Agricultural Products - Other than Foodstuffs			
Tobacco	3,000,000.00	3,000,000.00	-
Machinery, Equipment, Materials and Supplies			
Agricultural implements	1,258,814.00	217,003.22	1,041,810.78
Road building Equipment, Materials and Supplies	2,650,054.00	1,470,056.56	1,179,997.44
Electrical Equipment, Materials and Supplies	1,796,480.00	-	1,796,480.00
Fire fighting Equipment, Materials and Supplies	770,000.00	396,039.32	433,960.68
Other	2,781,973.00	7,413.20	2,774,559.80
SUBTOTAL	9,257,321.00	2,090,512.30	7,226,808.70
Metallic Minerals			
Iron and Steel	95,314,000.00	424,830.00	94,889,170.00
Copper and Brass	15,925,000.00	230,434.33	15,694,565.67
Zinc	20,907,500.00	362,569.55	20,544,930.45
Lead	996,000.00	170,011.14	765,988.86
Other Metals and Alloys	2,712,096.00	-	2,712,096.00
SUBTOTAL	135,754,596.00	1,188,045.02	134,606,550.98
Non-metallic Minerals			
Nitrates	500,000.00	-	500,000.00
Phosphates	750,000.00	284,625.00	465,375.00
SUBTOTAL	1,250,000.00	284,625.00	965,375.00
Petroleum and Coal Products	2,898,400.00	68,691.94	2,829,708.06
Equipment, Materials, etc. for Naval and Military Bases	50,000,000.00	2,582,497.25	47,417,502.75
All Other Commodities and Articles not otherwise classified	10,811,900.00	244,561.86	10,567,338.14
Allocations made by the President, Notice of which is in Transit to Agencies	13,907,777.50	-	13,907,777.50
Undistributed	1,511,309.00	-	1,511,309.00
TOTAL APPROPRIATION	289,314,697.50	42,755,900.25	236,559,197.25

**STATEMENT OF ALLOCATIONS AND OBLIGATIONS
IN APPROPRIATION AND PURPOSE
UNDER THE DEFENSE AID SUPPLEMENTAL APPROPRIATION ACT, 1941**

I 21000008
(7 to 2 Jan 42)

**FORMULA 1
(Sheet 6 of 7)**

AS OF MAY 31, 1942

APPROPRIATION PURPOSE CLASSIFICATION	ALLOCATIONS TO AGENCIES	OBLIGATIONS (CONTRACTS, ORDERS, ETC.)	UNOBLIGATED ALLOCATIONS
Testing, Reconditioning, etc. of Defense Articles			
Servicing of Defense Articles			
Vessels	26,856,000.00	11,072,366.31	15,783,733.69
Other Defense Articles	3,918,880.00	-	3,918,880.00
Defense Aid Stores	10,000,000.00	819,883.95	9,180,116.05
SUBTOTAL	40,774,880.00	11,892,150.26	28,882,729.74
Undistributed	7,611,000.00	-	7,611,000.00
TOTAL APPROPRIATION	48,385,880.00	11,892,150.26	36,493,729.74
Services and Expenses			
Miscellaneous Services and Expenses			
Miscellaneous and Contingent Expenses	2,778,605.00	-	2,778,605.00
Allocations made by President - Notice of which is in Transit to Agencies	264,000.00	-	264,000.00
TOTAL APPROPRIATION	3,042,605.00	-	3,042,605.00
Administrative Expenses	445,574.00	26,815.54	418,758.46
GRAND TOTAL APPROPRIATIONS	4,271,422,879.90	995,015,322.75	3,282,397,556.75

**STATEMENT OF ALLOCATIONS AND OBLIGATIONS
BY APPROPRIATION AND PURPOSE
UNDER THE DEFENSE AND SUPPLEMENTAL APPROPRIATION ACT, 1941**

**EXHIBIT 1
(Sheet 7 of 7)**

AS OF MAY 31, 1941

APPROPRIATION	ALLOCATIONS BY AMOUNTS	OBLIGATIONS, (CONTRACTS, ORDERS, ETC.)	UNOBLIGATED ALLOCATIONS	UNALLOCATED APPROPRIATIONS	TOTAL APPROPRIATIONS
Ordnance and Ordnance Stores	\$880,176,863.00	\$75,543,076.58	\$804,633,786.42	\$462,823,137.00	\$1,343,000,000.00
Aircraft and Aeronautical Material	1,938,823,489.00	397,597,339.14	1,581,266,149.86	115,176,511.00	2,054,000,000.00
Tanks and other Vehicles	318,502,800.00	23,447,790.48	295,055,009.52	43,487,200.00	342,000,000.00
Vessels and other Watercraft	551,414,140.00	433,829,108.25	117,585,031.75	77,585,860.00	629,000,000.00
Miscellaneous Military Equipment	119,372,013.00	7,273,488.25	111,998,524.75	140,827,987.00	260,000,000.00
Facilities and Equipment	137,134,818.00	43,783,054.00	93,346,764.00	614,865,182.00	752,000,000.00
Agricultural, Industrial and other Commodities	880,314,697.50	41,755,500.25	238,599,197.25	1,049,645,302.50	1,350,000,000.00
Testing, Reconditioning, etc., of Defense Articles	44,385,680.00	11,892,190.26	36,493,729.74	151,614,120.00	200,000,000.00
Services and Expenses	3,042,605.00	-	3,042,605.00	36,997,395.00	40,000,000.00
Administrative Expenses	445,974.00	28,815.54	416,758.46	9,554,426.00	10,000,000.00
TOTAL	\$4,277,412,879.50	\$995,015,322.75	\$3,282,397,556.75	\$2,722,987,120.50	\$7,000,000,000.00

**DELIVERIES OF INFANTRY ARTICLES
UNDER AN ACT TO PROMOTE THE INTEREST OF
THE UNITED STATES**

**SCHEDULE 2
(Sheet 1 of 3)**

AS OF MAY 31, 1941

Classification of Articles	From Appropriations made prior to March 11, 1941	From Defense Aid Supplemental Appropriation Act	Total
Ammunition			
Small Arms Ammunition	\$165,844.00	-	\$165,844.00
Artillery Ammunition	8,220,125.38	-	8,220,125.38
Aircraft Bombs and Pyrotechnics	799,066.70	-	799,066.70
Explosives, Propellant Powders and Miscellaneous Ammunition	575,325.00	-	575,325.00
	9,760,361.08	-	9,760,361.08
Ordnance Material			
Small Arms and Infantry Weapons	7,889,019.00	-	7,889,019.00
Naval Guns	1,624,699.13	-	1,624,699.13
Miscellaneous Ordnance and Ordnance Stores	396,675.00	-	396,675.00
	9,910,393.13	-	9,910,393.13
Aircraft			
Pursuit, Interceptor and Fighter Planes	2,539,848.82	-	2,539,848.82
Transport, Utility and other types	-	\$1,455,726.16	1,455,726.16
	2,539,848.82	1,455,726.16	3,995,574.98
Aircraft Engines, Spare Parts and Accessories			
Accessories and other parts	10,700.00	-	10,700.00
General Aeronautical Supplies and Equipment	22,021.85	-	22,021.85
Ordnance Vehicles			
Tanks	7,851,690.00	-	7,851,690.00
Other Ordnance Combat Vehicles	2,547,928.00	-	2,547,928.00
Ordnance Tractors and Special Vehicles	270,098.00	-	270,098.00
	10,669,716.00	-	10,669,716.00

**DELIVERIES OF DEFENSE ARTICLES
UNDER AN ACT TO PROMOTE THE INTERESTS OF
THE UNITED STATES**

**SCHEDULE 3
(Sheet 1 of 3)**

AS OF MAY 31, 1941

Classification of Article	From Appropriations made prior to March 11, 1941	From Defense Aid Supplemental Appropriation Act	Total
Ammunition			
Small Arms Ammunition	\$165,844.00	-	\$165,844.00
Artillery Ammunition	8,220,125.38	-	8,220,125.38
Aircraft Bombs and Pyrotechnics	799,066.70	-	799,066.70
Explosives, Propellant Powders and Miscellaneous Ammunition	575,325.00	-	575,325.00
	9,760,361.08	-	9,760,361.08
Ordnance Material			
Small Arms and Infantry Weapons	7,889,019.00	-	7,889,019.00
Naval Guns	1,624,699.13	-	1,624,699.13
Miscellaneous Ordnance and Ordnance Stores	396,675.00	-	396,675.00
	9,910,393.13	-	9,910,393.13
Aircraft			
Pursuit, Interceptor and Fighter Planes	2,599,848.82	-	2,599,848.82
Transport, Utility and other types	-	\$1,455,726.16	1,455,726.16
	2,599,848.82	1,455,726.16	3,995,574.98
Aircraft Engines, Spare Parts and Accessories			
Accessories and other parts	10,700.00	-	10,700.00
General Aeronautical Supplies and Equipment	22,021.85	-	22,021.85
Ordnance Vehicles			
Tanks	7,851,690.00	-	7,851,690.00
Other Ordnance Combat Vehicles	2,547,928.00	-	2,547,928.00
Ordnance Tractors and Special Vehicles	270,098.00	-	270,098.00
	10,669,716.00	-	10,669,716.00

Classification of Article	From Appropriations made prior to March 11, 1941	From Defense Aid Supplemental Appropriation Act	Total
Other Than Ordnance Vehicles Trucks	3,005,637.00	399,911.45	3,405,718.45
Watercraft			
Combatant Ships	1,941,008.00	-	1,941,008.00
Naval Auxiliary and Small Craft	11,930,400.00	-	11,930,400.00
Merchant Ships	12,254,637.01	-	12,254,637.01
	26,126,045.01	-	26,126,045.01
Equipment of Watercraft	29,148.88	27,000.00	56,148.88
Quartermaster Equipment, Supplies and Material Clothing	602,500.00	-	602,500.00
Medical Equipment, Supplies and Material	13,500.00	-	13,500.00
Signal Equipment, Supplies and Material	-	21,866.10	21,866.10
Chemical Warfare Equipment, Supplies, Material	1,782,700.00	-	1,782,700.00
Agricultural Products - Feedstuffs			
Dairy Products and Eggs	-	4,198,932.45	4,198,932.45
Meat, Fish and Poul	-	400,898.36	400,898.36
Fruits, Vegetables and Hops	-	1,804,364.89	1,804,364.89
Grain and Cereal Products	-	\$19,736.37	\$19,736.37
Lard, Fats and Oils	-	45,072.88	45,072.88
Other Feedstuffs	-	41,046.72	41,046.72
		7,010,011.67	7,010,011.67
Agricultural Products - Other Than Feedstuffs			
Tobacco	-	988,250.00	988,250.00
Machinery, Equipment, Materials and Supplies			
Road Building Equipment, Materials and Supplies	-	19,056.28	19,056.28
Firefighting Equipment, Materials and Supplies	-	223,125.00	223,125.00
	-	242,181.28	242,181.28

Classification of Article	From Appropriations made prior to March 11, 1941	From Defense Aid Supplemental Appropriation Act	Total
Petroleum and Coal Products	-	64,413.33	64,413.33
Metallic Minerals			
Zinc	-	249,368.35	249,368.35
Lead	-	170,021.14	170,021.14
	-	433,393.49	433,393.49
All Other Commodities and Articles not otherwise classified	-	86,930.62	86,930.62
Grand Total	\$64,472,741.77	\$10,729,684.10	\$75,202,425.87

C
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Y

BRITISH PASSPORT CONTROL OFFICE

347 ✓

Cable,
Subsided, New York

Room 3801 - 630 - 5th Ave.
New York

BY SAFE HAND

June 4, 1941.

Dear Stopford:

We enclose translation of Japanese documents.

Shares in these schemes are being sold in:

Los Angeles
Sacramento
San Diego
San Francisco
Seattle
British Columbia.

It is said that promoters have raised:

\$50,000 in Vancouver
70,000 in Los Angeles
50,000 in San Francisco.

Investors buy at the rate of \$17.50 per Yen 100 but get credit for \$23.50.

It is suggested that these schemes are linked with the international fish deal. The idea is that the shippers in the U.S.A. would be paid out of the money raised from investors in these companies and the companies in turn be reimbursed in yen in Japan by the Japanese Government.

Sincerely yours,

(Signature illegible)

R. J. Stopford, Esq.,
British Embassy,
WASHINGTON, D.C.

Copy:bj:6-10-41

OUTLINE OF THE ESTABLISHMENT OF THE GREAT EAST ASIA
ASSOCIATION

In the present situation at the cross roads of the future prosperity or downfall of the various East Asiatic races, the urgent and imperative matters are to attain a firm spiritual union of the Japanese and Chinese, to expend every effort toward the recovery of productive industries and increase in materials, and thus to contribute to the nurturing of the power of the New Order in East Asia.

But the resistance of the Chungking Government does not cease. On the other hand, the Japanese and Chinese who should be working toward rebuilding under the new political authority are actually blindly following each their own situation and profit. They have forgotten to stand together for the sake of a "common existence". To see such a state of affairs is a matter of deep regret. Although results from the efforts made by the Japanese and Chinese authorities already exist, the undersigned desire to form, merely as individual citizens, a strong cell in the furthering of an independent "New Order in East Asia" by gathering and uniting the enlightened people of both countries, to deepen their mutual trust and understanding, and to become the mother body in the planning and carrying out of economic and cultural enterprises and operations.

February 21, 1930.

Councillors: General Takashi Hishikari
Admiral Hidesake Yamamoto
Major-General Riechuro Sakamishi
Vice-Admiral Takao Goto.

Advisors: Gosuke Imai,
Ryutaro Nagai
President: Marquis Nobutsune Okuma
Chairman: Tatsuo Baba
Managing Director: Yoshiomi Matsumori
Directors: Shinzaburo Ishihara
Gobei Kishimoto
Seiichi Sakamoto
Tatsujiro Shimada.

ARTICLES OF THE GREAT EAST ASIA ASSOCIATION

Name

Art. 1. This Association is to be called the Great East Asia Association.

Main Office and Branches

Art. 2. The Association will establish its main offices in Tokyo, with branches in Peking, Shanghai, Nanking, Tientsin and wherever necessary.

Operations

Art. 3. The purpose of the Association is to carry out the following:

- (1) The formation of a firm union between Japan and China to mutually utilize their private capital in investigating and planning for the development of production on the continent.
- (2) In order to bear a part of the burden in the establishment of a life group in East Asia, to receive the sanction of Japanese and Chinese authorities in order to carry out those enterprises investigations for which have been completed, and to make such enterprises independent under the supervision of the Association.
- (3) In order to hasten the union between the Japanese and Chinese people, to carry out enterprises for the scientific, religious and cultural cooperation between the two people.

General Meeting

- Art. 4. A regular meeting will be held in Tokyo in March every year. Irregular general meetings will be held when considered necessary by the President, Vice-President or the Directors.
- Art. 5. The Chairmen of the general meeting will be elected by those present, and decisions on proposals put before the meeting will be made by majority vote.

Officers, Employees and their Duties

- Art. 6. The Association will have a certain number of Directors and Committee members who will be elected by the general meeting to form a Board of Directors. The President and Vice-President will be elected by the Board of Directors. The President will select from the Board of Directors one Chairman of the Board and a certain number of Managing Directors. The Vice-President will recommend a certain number of Councillors and Advisors to form an Advisory Board. The term of officers will be two years.
- Art. 7. The President and Vice-President will supervise the affairs of the Association. The Chairman of the Board of Directors and the Managing Directors will carry out the routine affairs of the Association. The Committee members will assist the President, Vice-President, Chairman of the Board of Directors and the Managing Director in the carrying out of the affairs of the Association, and will also audit its accounts.
- Art. 8. In order to carry out the business of the Association the Board of Directors will decide upon a number of General Managers, Assistant Managers and clerks. The General Manager, Assistant Managers and clerks will follow the supervision and instructions of the President, Vice-President, Chairman of the Board of Directors and the Managing Director. When necessary the General Manager will attend meetings of the Board of Directors, and shall assist the Directors in the management of departmental affairs.
- Art. 9. The Association will have the following four departments: General Affairs, Finance, Planning and Cultural. Each Department shall have its chief officer. The organization of each branch will follow that of the main office.

Art. 10. Special Councillors will be appointed to each Department by the recommendation of the President.

Members and Eligibility for Membership

Art. 11. Applicants for membership must have the recommendation of more than two Directors, and their applications accepted by the Committee.

Accounts

Art. 12. The expenses of the Association will be met by the voluntary contributions from certain members.

Addendum

Items not mentioned above will be decided upon by the Board of Directors.

* * * * *

1. The above is guaranteed not to differ from that registered with the Bureau of Police Affairs.
2. The above does not include additions made to the Board of Directors from the Nomura Trust Co.
3. Officers of the Army and Navy on active duty have not been included among the Directors or the Councillors.

THE SEAL OF THE GREAT EAST ASIA ASSOCIATION

251 Osaka Building Annex
Marunouchi, Tokyo City.
P.O. Box Central 391.

PROSPECTUS OF OPERATIONS TO BE ESTABLISHED IN NORTH CHINA BY
THE GREAT EAST ASIA ASSOCIATION WITH THE CONSENT AND UNDER
THE SUPERVISION OF THE AUTHORITIES.

(January 1, 1941.)

Methods of concentration of capital. (All management to be under the supervision of the authorities):

- (1) To be concentrated at the British and French concessions in Tientsin through the chairman and councillors of the Finance Department of the Association, who will be appointed in various localities by the President.
- (2) Foreign currency concentrated will for the sake of convenience be placed in associated banks of the various nationalities in the various localities. Its operations will be managed in the Tientsin concessions. By payment for articles and other methods, this capital will gradually be converted into Yen, and this will then be temporarily deposited at the Yokohama Specie Bank, Tientsin, in the inclusive name of the President.
- (3) The capital thus accumulated will then be converted into Japanese government bonds. These will then be placed in the custody of the Hupeh Provincial Bank and the Associated Bank as security against which loans will be drawn. These loans will be made the Japanese investments in the holding firm for stocks in the National Policy Investment Co. which will be under joint Japanese and Chinese management and which is now being formed. Such stocks will be in the names of individuals, and the Association will leave them in the custody of the Yokohama Specie Bank, Tientsin branch, as security. Notification will be made to the individuals at places specified by the individuals. A ten percent dividend on these stocks will be guaranteed by the authorities.
- (4) For the benefit of investors, the Association will place in the hands of the Nomura Trust Co., a domestic reserve fund (\$5,000,000 for the first term; \$10,000,000 for the second) provided by the Board of Directors. The Nomura Trust Co. may then make loans upon request to individuals within the limitations considered adequate by the Association. Such loans will be made in the degree and on the basis principle that they be for the purchase of residences within Japan, or for the support or education of the aged and the young.

PROSPECTUS OF THE NATIONAL POLICY INVESTMENT HOLDING CO.

- (1) Name: Chinese Industrial Co., Ltd. (Name not yet decided.)
- (2) Capital: ¥100,000,000.

Items:	Investment by Japanese	¥5,000,000.
	Investment by Chinese	¥5,000,000.

Of the above, investments may be made with Japanese Government Bonds, which will be discounted 20% of their face value. Interest on these bonds will be left in the custody of the company as a trust deposit. The above invested bonds will be placed in the Hupeh Provincial Bank as security for loans. These loans will be re-used as security for the Hupeh Provincial Bank to receive loans from the associated Reserve Bank. In such cases, loans will be made to the amount of 80% of the amounts.

- (3) Organization: Joint Japanese and Chinese management.
a Chinese-legal limited stock company (Special company).
- (4) Management:

Directors	10
Auditors	4
Advisors	-----

(5) Investment Operations:

1. North China Production, Trade and Transportation Co.

Capital: ¥50,000,000. (Total investment to be made by the company.)

Operations: Purchase and sale of internal domestic products, foreign trade, trucking between Peking and Tientsin, lighter service in Tientsin harbour, flour manufacture.

(These will replace and succeed to the three great British invested interests.)

2. North China Mine Products Transportation Co.

Capital: ¥10,000,000. (Total investment to be made by the company).

For the purchase, export and refining of ore products.

3. Magnesite Industrial Co., Ltd.

Capital: ¥10,000,000.
 Company investment: ¥7,000,000.
 Local investment: ¥3,000,000.

The Association has already received mining and operation rights. It has a 300,000,000 ton deposit with a quality

of ore comparable to that produced in Austria.

Production of ore: 150,000 tons annually (Plan for 1st term.)

First term plans for factory to manufacture Clinker from this ore are to built at the seaport of Tientsin a factory with a daily output of 100 tons. Second term plans include electric refining by using Amur River hydro-electric power, to produce products of high, refined quality.

These products will be distributed to the United States and the European countries which will be depleted of this material when peace comes in the future, and will bring world superiority due to the excellence of its quality.

Uses for Magnesite -- Material for high power furnaces and super light alloys.)

4. East China Cotton Co., Ltd.

Capital: ¥15,000,000.

Investment ratio:

Company investment:	¥5,000,000.
Investment by spinning companies:	¥5,000,000.
Local investment:	¥5,000,000.

As far as possible to procure materials, it will operate cotton fields on the large scale American production plan.

5. East Asia Residential Co., Ltd.

Capital: ¥15,000,000. (Total investment to be made by the company.)

The purchase and management of warehouses and hotels in Tientsin, Chingtao, Peking and Shanghai, and the purchase, sales and management of immovable property, and the construction and management of official residences of the South Manchuria Railway Co.

(Assistance in the purchase of the residences and goods of evacuated British and Americans.)

* * * * *

355

Mr. Soong came in to see you at noon,
6/4, and handed you this memo. You
lunched with the President at 1 p.m.,
that same day.

Received from I. V. Looney June 4, 1941
12. P.M. (file 614)

June 3, 1941

356

Since my last report, the situation is still far from being clear, but important developments are on the way:

1. The anti-British military move in Iraq was prematurely staged, and the rapidity with which the British dealt with the situation resulted in a temporary setback for Germany.

With the consent of Vichy, besides giving airfield facilities to the Germans, the French in Syria are giving Germany every possible assistance.

Turkey tries strenuously to maintain neutrality and at the same time to remain true to her pact with Great Britain. At the moment she is busily engaged in parrying German pressure.

In North Africa the impetuous German advance in Libya has been stopped by the British on the Egyptian border. Serious difficulties are encountered by the German and Italian forces in keeping their supply routes open, and the British are completing plans for a counter-attack.

With the liquidation of the Italian forces in Abyssinia, the British are moving their troops there to reinforce their position at Suez, Iraq and Libya.

After capturing Crete, Germany will occupy the French colonies along the Mediterranean and Atlantic coasts. To facilitate military movements in North Africa Germany will penetrate Spain and take Gibraltar.

2. Germany has not attained her expected results in her Mediterranean warfare or in the Atlantic. The ranks of the best German submarine officers have been seriously depleted by sinkings and captures.

3. Of course, the battle of the Mediterranean is of paramount importance to England and only in a lesser degree to Germany. According to Dr. Schacht, however, the Mediterranean is not the main battleground of Germany.

According to current reports the predetermined German plan to attack the Soviet Union and to overthrow the Communist Government will be carried into effect early in June. Soviet Russia is increasing her supplies of raw materials to Germany with the hope of postponing the inevitable conflict. According to German plans, the German army will advance to the Volga River before September in order to finally solve the food question and to seize new resources and industrial districts.

After September Germany may attempt invasion of England, but as to that no decision has yet been taken. At the same time the German army will penetrate Spain and capture Gibraltar in order to facilitate the occupation of the Atlantic coast of North Africa to increase the effectiveness of her submarine warfare and to extend her grasp on Africa.

During the next year Germany will advance to the Ural Mountains and from there reach out for Vladivostok. The above may seem to you fantastic but barring unforeseen obstacles they will actually materialize.

4. The Hess affair shows that despite strict Government control there is internal friction among the Nazis and discontent among the populace is increasing. Morale has been maintained by constant news of fresh victories. The Hess affair has important effects among the Nazis and the German people because he was fully in touch with what had been going on.

5. Dr. Schacht is anxious for an interview with you on the German

-3-

and European situation, on the cooperation among China, Great Britain and America and the future political developments. He repeatedly requested that a meeting be arranged with you in neutral Switzerland for a few days which would be beneficial to China. He requests me to have you set a date so that he may await you in Switzerland. I have already reported this matter to the Generalissimo and shall appreciate a reply from you.

C
O
P
YDEPARTMENT OF STATE
WashingtonIn reply refer to
EA 840.51 Frozen Credits/1856

June 4, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses two copies of a paraphrase of telegram no. 334 dated June 3, 1941 from the American Legation at Budapest, regarding Hungarian funds which are blocked in the United States.

Enclosure:

No. 334, June 3,
from Budapest. (2)eh:copy
6-5-41

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Budapest, Hungary

DATE: June 3, 1941, 1 p.m.

NO. : 324

This is to inform the Department that I have called on the Prime Minister. I have given him the information contained in the telegram of the Department of May 28, 1941, No. 297. Evidently, he has been misinformed by the Hungarian Legation in Washington. He said that he would telegraph the Legation to secure its reaction to the information which I gave to him at our meeting.

The Prime minister states that, in principle, he agrees to the manner which the Treasury contemplates. He says, however, that it is impossible to run a mission on a monthly allotments basis. Block allotments were asked for the six months by the Prime Minister. His reasoning appears to be correct. I hope that such funds will be freed in view of the comparatively small amounts involved. To say the least, the situation is delicate. Therefore, I feel that, as most of the Hungarian officials are decidedly pro-democratic, everything that the United States Government can consistently do to keep them that way is justified in every respect.

Refusal has been made by Bardossy to redeposit the cash which is held by the Hungarian Legation at Washington at the present time. \$200,000 of the \$900,000 withdrawal, it will be recalled, has already been unredeposited; therefore, he feels that since

the withdrawal of the sum was made prior to the freezing of Hungarian funds he has a legal right to dispose of it as he wishes.

Any information which the Department may be willing to impart on this angle of the situation will be appreciated.

PELL

RA:PAK

eh:copy
6-5-41

C
O
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Y

362

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
KA 800.51W89Finland/231

June 4, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of the former's note of May 16, 1941 to the Minister of Finland, regarding the reconsideration of Finland's indebtedness to the United States under the agreements dated May 1, 1923 and May 23, 1932, and a copy of the Minister's reply dated May 22, 1941.

Enclosures:

1. To Minister of Finland,
May 16, 1941.
2. From Minister of Finland,
May 22, 1941.

DEPARTMENT OF STATE
Washington

May 16, 1941

Sir:

I have the honor to refer to your communication of November 25, 1940 in which after reviewing certain considerations concerning the indebtedness of your Government to the United States under the agreements dated May 1, 1923 and May 23, 1932, you suggested, under instructions from your Government, that negotiations be entered into between the two Governments for the reconsideration of Finland's indebtedness to the United States under these agreements.

The matter has not failed to receive the continued consideration of the appropriate authorities of this Government. However, under the circumstances which have existed since the receipt of your communication under reference, there has been no moment at which it seemed advisable to enter on negotiations in the sense suggested.

Legislation looking to a postponement of payments due from Finland during the calendar years 1941 and 1942 having been independently introduced into the Senate, this view has found expression through a letter addressed by the Secretary of the Treasury on May 2, 1941 to a member of the United States Senate, who has caused the letter to be published in the Congressional Record May 5, 1941. Having reference to your communication of November 25, 1940, I desire therefore to bring to your Government's attention the position of the Secretary of the Treasury as expressed on this occasion, which is in the following terms:

"It seems to me that there should be deferred for the time being any effort to authorize a reconsideration of the status of the entire relief indebtedness of Finland to the United States. The present time does not seem appropriate for reconsidering the obligations of this or any other government under their debt agreements with the United States. Reconsideration of such indebtedness growing out of the World War could be undertaken with more effectiveness when world conditions become more stable."

Accept, Sir, the renewed assurances of my highest consideration.

CORNELL HULL

The Honorable
Hjalmar J. Procope,
Minister of Finland.

800.51 W 89 Finland/218

3655

May 22, 1941

Sir:

I have the honor to acknowledge the receipt of Your Excellency's note of May 16, 1941, regarding the reconsideration of Finland's indebtedness to the United States under the agreements dated May 1, 1923 and May 23, 1932.

From your Excellency's communication under acknowledgment I gratefully note that the matter has not failed to receive the continued consideration of the appropriate authorities but under the circumstances which have existed since the proposal for reconsideration was made, there has been no moment at which it seemed advisable to enter on negotiations in the sense suggested.

I also note the position of the Secretary of the Treasury on the subject as expressed in the letter addressed by him to a member of the United States Senate and in which it is indicated that reconsideration could be undertaken with more effectiveness when world conditions become more stable.

I shall be pleased to bring the contents of Your Excellency's communication to the notice of my Government.

Accept, Excellency, the renewed assurances of my highest consideration.

(1) H.P.

His Excellency
Cordell Hull
Secretary of State
Department of State
Washington, D. C.

Copy:bj:5-6-41

Copy of Letter from B. Mexico City, June 4, 1941

On Monday the Government offices resumed work after the 10 days vacation period, which took many of the Government employees to out of town places. Those vacations, occurring twice a year, have done a lot to increment the local tourist trade, which formerly was almost negligible, but has increased considerably with the coming into existence of good highways and better lodgings.

The President, who returned at the end of last week, inaugurated on Monday the end, the new Palace which was built for the Supreme Court, on the site where in former days the thieves market used to stand, on one of the corners of the Zocalo. In his speech the President spoke of the obligation of the Supreme Court to administer a true justice to the people of Mexico, who are "thirsty for justice". The President's speech has stirred up quite a bit of excitement, because in effect administration of justice here was badly in need of a little brushing up and polishing, and the Supreme Court will have plenty of opportunity to carry good intentions into practice.

One of the most interesting cases to come up in the very next future is that of the Matehuala conflict over labor contracts and suspension of operations. It is to be hoped that the Court will revoke the impossible decision handed down by the Labor Board some time ago.

Front line attention was given by the press to statements made by the President, answering a questionnaire submitted by ex-radical leader Lombardo Toledano in regard to Mexico's international policy. While the President gave the same assurances as on previous occasions as to Hemispheric solidarity, he expressly stated that no secret agreements had been made which could impair the country's independence. The President's statements were moderate and certainly will not furnish grounds of attack or criticism to Lombardo Toledano and his friends, as they in all probability had wished. As a matter of fact, Lombardo's questioning the President was felt to be an impertinence of the newly self styled leader of Latin America's Proletarians, whose desire for publicity probably prompted the step. At least for the time, Senor Lombardo Toledano lacks importance in Mexican politics.

We are somewhat worried over the ever increasing inefficiency of the National Railways. In our opinion, this is mostly due to the growing lack of rolling stock and motive power. But with it looms the ever present threat of a new attempt to raise freight rates, especially on mine and smelter products.

The Banco de Mexico last week handed out statements, showing a considerably improved position of its reserves, which is attributed to the flow back of Mexican capital, which seems to be safer at home under present world conditions.

Otherwise there has been nothing of interest on which to report. Exchange 4.85 - 4.8525.

RECEIVED
JUL 3 1941
MEXICAN DEPARTMENT
OF STATE

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE June 4, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

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Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£45,000
Purchased from commercial concerns	£ 7,000

The Federal Reserve Bank of New York sold £5,000 in registered sterling to the New York agency of the Yokohama Specie Bank.

Open market sterling was quoted at 4.03-1/2. The only recorded transaction consisted of the purchase of £1,000 from a commercial concern.

The Canadian dollar, which has shown a firm tone during the past few days, moved to a new current high of 10-7/8% discount this morning, the best rate since November 1939. The quotation returned to 11-1/8% at the close, as compared with 11-3/4% yesterday. Tourist demand in a light market was reported to be the main factor.

A discount of 1-13/16% was recorded for the Cuban peso today, representing a three-year high. Yesterday's quotation was 2%.

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	.0526-1/4
Argentine peso (free)	.2380
Brazilian milreis (free)	.0505
Mexican peso	.2070

In Shanghai, the yuan was quoted at 5-3/8¢, up 1/32¢, and sterling was 3/8¢ higher at 3.91-1/4.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$3,886,000 from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

-2-

In London, the price fixed for spot and forward silver remained at 23-7/16d, equivalent to 42.55¢.

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 four purchases of silver totaling 500,000 ounces under the Silver Purchase Act, representing new production for forward delivery. Of this amount, 200,000 ounces came from Peru, and 300,000 ounces from various foreign countries.

The report of May 28 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 \$7,525,000, an increase of \$677,000 in the short position since May 21. Net changes were as follows:


<u>Country</u>	<u>Short Position</u> <u>May 21</u>	<u>Short Position</u> <u>May 28</u>	<u>Change in</u> <u>Short Position*</u>
England**	\$ 660,000	\$1,165,000	+ \$505,000
Europe	3,397,000	3,236,000	- 161,000
Canada	514,000 (Long)	419,000 (Long)	+ 95,000
Latin America	487,000	543,000	+ 56,000
Japan	1,111,000	1,372,000	+ 261,000
Other Asia	1,758,000	1,669,000	- 89,000
All others	51,000 (Long)	41,000 (Long)	+ 10,000
	<u>\$6,848,000</u>	<u>\$7,525,000</u>	<u>+ \$677,000</u>

*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.

B.M.F.

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BRITISH EMBASSY,
WASHINGTON, D.C.

4th June, 1941

PERSONAL AND
SECRET

Dear Mr. Secretary,

I enclose herein for your personal
and secret information copies of the latest
reports received from London on the military
situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

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

TELEGRAM RECEIVED FROM LONDON JUNE 3RD, 1941SYRIA

Two French fighters attacked one Blenheim on reconnaissance in neighbourhood of Offak on May 31st, being the first occasion for French aircraft operating from Syria to open fire on British aircraft. Syria now regarded as enemy-occupied territory.

2. New form of attack by seven ME 109's experienced during recent operations in Crete. Horizontal or shallow dive-bombing at height of few hundred feet. Bomb trajectory so flat that bomb may ricochet on striking water.
3. The Royal Air Force scored direct hit on merchant vessel in Kiel Canal June 2nd. Also bombed and sank ship off South Norway.
4. LIBYA Royal Air Force bombed Benghazi Harbour on the night of the 31st/1st; also Herakleon, Maleme, Crete on the same night destroying four and probably five.
5. June 1st, 40 enemy bombers with fighter escort dive-bombed British positions at Tobruk. One gun put temporarily out of action; two enemy aircraft destroyed.
6. CRETE Very approximate estimate of numbers evacuated is 17,000.
7. ABYSSINIA Our forces advancing on Gimma held line of River Omo which is in flood.
8. Remainder of 16 Italian colonial battalions have been rounded up in Coddu area; 650 prisoners taken.
9. IRAQ Iraqi forces reported evacuating Ramadi on the night of May 31st/June 1st.
10. Officer-Commanding Iraqi troops at Al Qurna when informed of armistice terms replied that he could not act

on /

-8-

on orders from Baghdad alone. Emissary sent on June 2nd; no answer yet.

11. Night of the 2nd/3rd, 194 British aircraft attacked Dusseldorf, Duisberg, Berlin, St. Nazaire.

12. During daylight June 2nd and night of 2nd in the same of the 3rd air activity over United Kingdom slight; one bomber and one fighter destroyed.

TELEGRAM RECEIVED FROM LONDON DATED JUNE 2ND, 1941CRETE

The evacuation of Crete is complete. Total of troops evacuated approximately 17,000. Five hundred casualties from air attack on the passage. The moon allowed bombing of ships and beaches which made operations extremely hazardous and accounts for loss of the Calcutta and damage of two destroyers already mentioned. Royal Air Force attacked Maleme and Heraklion aerodromes on the night of May 30th/31st. During these operations seven more enemy aircraft destroyed on May 31st and three probably apart from aircraft destroyed on the ground. One Hurricane missing.

2. No Royal Air Force operations June 1st or the night of June 1st/2nd owing to weather.

3. No enemy bombing June 1st over the United Kingdom but June 1st/2nd, Manchester centre of a two-hour raid. Damage by fire and blast in central area, mainly business premises, fairly extensive but casualties fairly light.

4. His Majesty's trawler "Stora" lost due to magazine explosion at Aberdeen.

RESTRICTED

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, June 4, 1941.

TENTATIVE LESSONS BULLETIN
No. 114
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.

MISCELLANEOUS NOTES ON THE GERMAN ARMYSOURCE

This bulletin is based upon the reports of American official observers in Berlin. The information in Section 1 is dated April 7, 1941; in Section 2, January 3, 1941.

CONTENTS

1. BLUE LIGHTS FOR MILITARY VEHICLES
2. TREND IN CAVALRY ORGANIZATION AND EMPLOYMENT

RESTRICTED

RESTRICTEDMISCELLANEOUS NOTES ON THE GERMAN ARMY1. BLUE LIGHTS FOR MILITARY VEHICLESa. Order

The following army order was published on March 15, 1941:

"In accordance with air raid precautions regulations of May 23, 1939, the following order is published to take effect immediately:

"In the future, military cars of all types are to be provided with blue lights for interior illumination, as well as for lighting number plates, direction indicators, and identifying markers.

"All sources of light mentioned above are to be changed by painting the electric bulbs with blue coloring matter."

b. Comment by Observer

This order indicates that, after approximately 18 months of combat experience, the Germans have come to the conclusion that blue is the most practical light for those parts of the vehicle mentioned in the order. Ordinary white light bulbs have been used heretofore.

Normal street car and bus window panes are being replaced by blue glass with a six-inch clear horizontal strip at about the level of the passengers' eyes. Station signs are also being equipped with blue light. No regulations concerning blue lights on civilian vehicles have yet been announced.

2. TREND IN CAVALRY ORGANIZATION AND EMPLOYMENT

Very little information has been released about the organization, equipment, and employment of German cavalry in the Polish and Western Front campaigns. There are indications that the German cavalry brigade located at Insterburg in East Prussia was reorganized and expanded into a cavalry division during the spring and summer of 1939. There are also indications of the existence of several cavalry regiments.

It is believed that the cavalry division - or elements of it - was employed near Saumur, France, on or about June 20, 1940.

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The fact that the Germans have retained at least one cavalry division in their army, in spite of transformation of cavalry units into armored units since 1935, indicates that they believe there are still missions for cavalry units to fulfill in modern warfare.

Although details of organization and equipment are not available, the modern German cavalry division is reliably reported to be comprised about as follows:

- 6 regiments, horsed;
- 3 battalions, artillery, horsed or motorized;
- 3 battalions, machine gun, motorized;
- 1 battalion, bicycle or motorized infantry;
- 1 battalion, motorcycle or Volkswagen;
- Undetermined number of light tanks, reconnaissance cars, pioneer, antiaircraft artillery, communication, and medical units.

Reconnaissance cars, motorcycle riflemen, and bicyclists or motorized infantry advance along roads and paths, while men mounted on horses comb the intermediate terrain. When in contact with the enemy, all troops dismount and fight on foot as infantrymen.

Assaulting cavalry units are able to develop considerable fire power because they are equipped with a relatively large number of machine guns and automatic rifles.

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G-2/2657-220; No. 408 M.I.D., W.D. 12:00 M., June 4, 1941

SITUATION REPORTI. Western Theater.

Air: Limited activity on both sides. Light German attacks on Hull and other east and south coast harbors.

II. Mediterranean and African Theaters.

Ground: Nothing of importance to report.

Air: Axis. Attacks on Malta and Tobruk.

British. Attacks on Benghazi, Libya, and Beirut, Syria.

III. Iraq.

1. For the first time press reports state that the "oil area" (Kirkuk-Mosul) has been occupied by Imperial troops.

2. The official communique reports that serious rioting broke out in Baghdad June 2 which was suppressed only after the declaration of martial law by the reconstructed government under Premier Jamil al Midfai.

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376

Paraphrase of Code Cablegram
Received at the War Department
at 4:02, June 4, 1941

Bucharest, filed 18:20, June 3, 1941.

It has been learned from authoritative sources that:

1. The Minister of National Economy Marinescu stated that General Antonescu had ordered all oil companies to store up two months' supply of all oil products in order to provide for local consumption in Bukovina, Dobrudja and Moldavia. This oil reserve is to be completed by June 15. Certain oil companies objected to this measure, stating that it would interfere with exports. They were then told by Antonescu to disregard exports.
2. All Roumanian oil reserves are being distributed around the country in small amounts.
3. The Roumanian army has asked that 90 tank cars (1000 tons) filled with aviation gasoline be placed at its disposal.
4. Oil companies in Roumania have been informed that there will soon be requisitioned from them 40% of their heavy trucks and 60% of their light trucks. No such trucks have ever been requisitioned before.
5. German troop movements continue. First line German divisions moving north from Balkans, while German garrison units are moving south into Balkans.
6. A reliable source states that the Roumanian chief of staff

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377

indicated that general headquarters would soon move to Melbavia.

RAVAY

Distribution:

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

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378

Paraphrase of Code Cables
Received at the War Department
at 08:28, June 4, 1941

London, filed 15:02, June 4, 1941.

1. British Air Activity over the Continent.

a. Daylight, June 3.

Seaboard traffic off the coast of France was bombed.

b. Night, June 2-3.

Dusseldorf was bombed by 149 planes dropping 127 tons of high explosive and 13,000 incendiaries. Duisburg was attacked by 26 planes dropping 25 tons of high explosive and 770 incendiaries. Berlin was attacked by 11 planes dropping 15 tons of high explosive and 720 incendiaries. Other targets, both industrial and military, in the Ruhr Valley and at Koln, Essen and Aachen were bombed, as was also the vicinity of Bremerhaven and Wilhelmshaven. Single planes made attacks on the airfield at Hamstede and on shipping in the harbor at St. Nazaire. Others bombed Knoeke, Ostende, the Hook of Holland and Danzig.

2. German Air Activity over Britain.

a. Night of June 2-4.

Missions were performed by single planes over Lincolnshire, Leeds and Cardiff and by four planes over Lerwick. Larger scale attacks were made on Cornwall (2 planes) the Wash (16 planes) and Flamborough Head (9 planes).

b. Daylight, June 3.

German air operations were reduced to performance of offensive missions over Great Britain and to sea patrols.

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3. British Air Losses.

a. Night of June 2-3.

Four planes were lost in widespread raids over Holland and Occupied France. ✓

4. British Air Activity, Middle East Theater.

a. Libya. Daylight, June 3.

British planes based in Egypt bombed the port of Bengasi.

5. German Air Activity, Middle East Theater.

a. Daylight, June 3.

1. Libya. German planes bombed Tobruk.

2. Palestine. A British road detail was the target of attack by planes believed to be French in Trans-Jordan near the border of Syria.

LEE

Distribution

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence
Air Corps
Assistant Chief of Staff, G-3