

DIARY

Book 189

May 9 - May 15, 1939

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 9, 1939, 9 a.m.

NO.: 907

FROM COCHRAN.

This morning I returned from Basel where over the weekend the directors and shareholders representatives of the BIS held their annual meeting.

On Sunday the Swiss National Bank invited the group to luncheon at Zurich and showed us through the Swiss National Exposition which on the sixth of May had opened there.

We got back to Basel by special train in time for those directors who are also Central Bank Governors to have their usual Sunday informal and secret meeting. The selection of a successor to the presidency (Beyen retires in 1940) was the principal business discussed. Chairman Niemeyer, it was decided, would talk with the three private bankers whose names have been mentioned - one of them a Dutchman, one Swedish, and one American - and that at the June meeting he would make his report. Chances are best for the American so far.

Some of the directors would like to reach a final decision on the presidency by June; the French prefer

to

- 2 -

to wait until 1940 is nearly here. It is my understanding, confidentially, that one of the French directors in the BIS may be replaced (either Brincard or Vogue) ~~might~~ ~~replaced~~ by a Frenchman who might be interested in living in Basel. He would then have an opportunity to exercise the functions of both President of the Bank and Chairman of the Board, as McGarrah and Fraser did originally. At the time the positions were separated, and Beyen became resident President and Niemeyer non-resident Chairman, it was agreed that as far as nationalities were concerned the chairmanship should alternate. Therefore the French presumably would like to head the institution after Beyen and Niemeyer.

On Monday morning the directors' meeting was brief, and only routine business was discussed at that time. Beneduce, who has been named an Italian senator and must consequently leave the board, attended his last meeting. Professor Francesco Giordani, who has been with Beneduce in the Italian Reconstruction Institute, is to succeed Beneduce as director. This was also the last meeting attended by Bachmann, who retires as President of the Swiss National Bank's Board of Managers. As successor to Bachmann the BIS would like to appoint Weber, but Weber is still personally reluctant to accept the appointment.

The

The shareholders representatives from twenty-one countries held their ninth annual general meeting on Monday afternoon, at which President Beyen gave his report. I am forwarding a copy of this document by mail, and a summary thereof has been given to the press and presumably it was cabled to the United States. The report is longer than usual, and a vast amount of well-arranged financial and monetary data is contained therein. On matters of policy, general opinions are not so outstanding as in some reports. It is admitted that recently international politics has overshadowed other factors, and made practically impossible constructive progress along financial and monetary lines. The current race in armaments is, furthermore, impoverishing nations and inevitably the standard of living is being reduced. The American experiment has received considerable space, as well as discussion of our apparent inability to lower wages in line with prices of finished products. Emphasis was placed on the decline in American industrial activity and the unusually large American demand for imports of primary products in 1938 as being factors which affected the world economic situation tremendously.

END SECTIONS ONE TO FOUR, INCLUSIVE.

BULLITT.

EA:LWW

CJ

GRAY

PARIS

Dated May 9, 1939

Received 10:45 a.m.

Secretary of State,  
Washington.

907, May 9, 9 a.m. (SECTION FIVE)

Two outstanding sentences expressing definite conclusions in the report are quoted herewith:

"Neither cheap money nor the spreading of purchasing power through the budget or by increases in wages has anywhere brought about a sustained revival of business so long as the reestablishment of a real equilibrium within the cost and price structure has been impeded by internal or external causes. No monetary policy can by itself repair the mistakes which arise from an unbalanced direction and remuneration of a country's productive forces."

The Central Banks at Prague and Danzig sent no representatives. The National Bank of Albania which even before the April event had its head office in Rome did send a representative. There were no delegates from the Central Banks of Greece and Lithuania. Vice President Welldon of the First National Bank of New York  
again

-2- #907, May 9, 9 a.m., (SECTION FIVE) from Paris

again voted the American shares. Formal general meeting accepted the President's report, approved the usual 6% gold dividend, transfers to reserves, auditor's report, et cetera, with no unusual business. Kano of Japan and Galopin of Belgium were elected Vice Chairmen of the Board of Governors replacing Beneduce and Vogue, respectively, whose three year terms expired.

BULLITT

KLP

PARAPHRASE OF SECTIONS SIX AND SEVEN, TELEGRAM NO. 907  
OF MAY 9, 1939, 9 a.m.

Reference my telegram No. 890 of May 5, 6 p.m. - the Einzig story in the FINANCIAL NEWS suggesting that in the voting at Basel there was possibly an alignment of axis and anti-axis powers was completely absurd. I was told confidentially by Hechler, the German Assistant General Manager of the BIS, that recently he had brought to President Funk's attention the fact that the Reichsbank had acquired the BIS shares of the former Austrian National Bank with the absorption of Austria by Germany. The reply by Funk was that he did not want the Reichsbank to have any more voting BIS rights than any one of the other founding banks had. He was interested, therefore, to find out whether any excess which the Reichsbank had would be bought back by the BIS.

There was an entirely cordial atmosphere at Basel; most of the Central bankers have known each other for many years, and these reunions are enjoyable as well as profitable to them. I had talks with all of them. The wish was expressed by some of them that their respective statesmen might quit hurling invectives at each other, get together on a fishing trip with President Roosevelt or at a World's Fair, overcome their various prides and complexes, and enter into a mood that would make comparatively simple the solution of many of the present political problems.

Since

- 3 -

Since such a happy meeting is not likely to take place, my friends expect 1939 to continue to be a period of maneuvering for position, and a period of tension. Since there is serious rearming by Great Britain and France, these observers believe that the year 1939 offers Germany the last chance to spring a war of such violence and shock that it would have any possible chance of bringing the western powers to terms in the few months that Germany could keep up such a high-speed campaign, considering her present resources. Time is working in favor of the democracies. It is now expected that in August - before visibility for air attacks becomes bad and when the harvests are in - Germany may create one final acute situation to achieve aims without actual war, but to go so far as to cause real concern in a "battle of nerves".

END SECTIONS SIX AND SEVEN.

BULLITT.

PARAPHRASE SECTIONS EIGHT TO ELEVEN, INCLUSIVE,  
TELEGRAM NO. 907 OF MAY 9, 1939, 9 a.m.

Pleasure was expressed by many of my friends at the firm attitude which France and Great Britain have now assumed, but they would have been even happier to see settled the matters of Danzig, the Corridor, the Suez Company shares and tolls, the Addis Ababa Railway, Djibouti, and even Tunisia. It is their belief that the totalitarian states have some reasonable claims on these points, and that ordinary negotiations should have been used for their adjustment. It is difficult for any one to admit that they are willing to talk now, lest this be construed as weakness. Therefore every one goes on arming and threatening, trying to save face, and preparing for eventualities that may result from lack of efforts at common understanding between nations.

The one development which can be safely predicted is that currencies will weaken below present levels, and the willingness of peoples to bear their added burdens will be sorely tested, because of the drain on treasuries of the present armament race, which is paralyzing activity except in certain armament industries and grinding humanity down to a lower standard of living so that financial authorities will fail to maintain sound policies.

There

There is one consolation in that a few months of armament effort at the rate it is going now may make the statesmen more willing to do that little amount of yielding that may be inevitable if there is to be no war. Countries will be faced with a choice of doing this, or of resorting to forced conversions, capital levies, and so on, in order to meet the bills. The first alternative may not bring out as much resentment in the people as the latter.

The weakness of the Italian economic situation is realized only too well by my Italian friends, who most decidedly do not want to be drawn into a war by Germany even though a military alliance is required by present power politics. Italy is still not trusted as an ally by Germany, and no one believes that Great Britain and France are acquiring very worth while friends in the east, particularly if they join hands with Russia. There is a secret hope on the part of almost every one that the British may be able to exert enough influence on the French and Poles to avert an open break.

It

- 3 -

It seems inevitable that almost from the beginning the United States would be looked to for important aid in the financing of an anti-axis war, if no reserves are immediately realizable, and with capital limited, sterling weak, and the anti-axis countries strained to catch up with German and Italian military equipment. Credits would be sought from the Export-Import Bank for obtaining certain commodities; securities which are held on the American market by foreigners would have to be liquidated or put up as collateral for loans of a character that would certainly stretch Johnson Law bans. There would likely be tremendous pressure on us to abrogate the Johnson Law in order to permit actual floating of foreign loans on our markets for military purposes, even before all of the above methods were exhausted. Without this full support, the allies most likely could not carry on a war to eventual success.

According to my friends, there is some salutary effect on Germany by American arming. However, they do not expect our economic reprisals and official criticism either to bring the Germans to terms or to cause Hitler to be displaced. The United States may be called upon  
to

- 4 -

to aid Germany in economic recovery some day. It is the opinion of my friends that before long the Germans themselves will have to take steps in regard to their economic problem, and that in the meantime the outside powers should keep calm; there is encouraging evidence that German officials, particularly those in the younger Nazi ranks, are now seriously concerned over the country's situation, and are earnestly looking for ways to solve their problems.

END SECTIONS EIGHT TO ELEVEN, INCLUSIVE.

BULLITT.

EA:LWW

RECEIVED  
MAY 8 1948  
APRIL 1948  
OFFICE OF THE DIRECTOR  
GENERAL INVESTIGATIVE DIVISION

PARAPHRASE OF SECTIONS TWELVE, THIRTEEN AND FOURTEEN  
OF TELEGRAM NO. 907 OF MAY 9, 1939, FROM PARIS.

This afternoon the young Nazi assistant to Funk spoke frankly to one of my neutral friends. ~~this afternoon~~  
The Reichsbank President had found too much work, he said, and lacked experienced assistants for the Reichsbank in Berlin as well as for such posts as the Slovakian Bank. It is easier for the new men to recite their ideas to Hitler than it was for Schacht, but there is a poorer crop of ideas. The Bank has a good exchange man in Puhl, but he does not have the vision necessary to head the central (omission). Recommendation was made by my friend for recalling to the Reichsbank of Blessing, who was the best understudy of Schacht and who has now been engaged by Unilever as the general manager for Germany.

The above-mentioned young Nazi and his friends believe that the BIS offers them their best contact with the outside world. They want to have capable representatives in the BIS in order to break the way for approach to more normal business and monetary relations with the important countries of the world.

I had talks with Trip of the Netherlands, Backmann and Weber of Switzerland, and Janssen of Belgium, and had opportunity to discuss the question of tripartite consultations in the event of war upon control of money  
and

- 2 -

and markets. On Friday I had given to Rueff in the French Ministry of Finance an oral summary of my understanding of the American views in this regard.

War is not expected by President Trip. Should there be a war, with immediate invasion of the Netherlands, any plans would fall flat. Should the neutrality of the Netherlands be respected, full powers for the Government to do the necessary would undoubtedly be requested and granted immediately. Should a European war break out, Trip sees the early possibility of having to let currencies fluctuate for a while at least. He said that treasuries of European countries could not afford to see their stocks of gold risk being exhausted in a futile defense of a fixed rate during the first weeks of war or the imposition of exchange control.

Review under the Tripartite Agreement would be necessitated by either alternative, and if this accord is to survive, it might be necessary to modify it.

President Trip particularly expressed appreciation that speedy and confidential methods of consultation are open to our several monetary authorities, which in the event of an emergency should certainly be utilized.

The sentiment expressed in the preceding paragraph is shared by the Belgian and Swiss Central bankers.

The

- 3 -

The authorities in Switzerland would presumably have little cause for dumping American securities, in view of their already large gold and dollar holdings. Special precautions with American banks holding Swiss accounts have been taken to see that should Switzerland be invaded these funds should not get into German hands.

June 12 has been set as the date for the next meeting of the BIS.

With regard to telegram No. 333 of May 3, 2 p.m., from the Department, I am sailing on the NORMANDIE on the tenth of May.

END MESSAGE.

BULLITT.

RECEIVED

MAY 10 1944

THE DEPARTMENT OF THE TREASURY  
WASHINGTON, D. C. 20540

EA:LW

JR

PLAIN

London

Dated May 9, 1939

Rec'd 2:12 p.m.

Secretary of State,  
Washington.

647, May 9, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

The "feeling" in the city continues better today. It is due mainly to the absence of untoward political developments but also the reduction in the number of unemployed by 82000, an amount slightly greater than the normal April seasonal decline, has had an encouraging effect. There has been some institutional buying of gilt-edged securities and war loan for example appreciated to 92-9/16. The only real buying of equities came from the provinces. But city sentiment is acutely sensitive and could be turned by events rapidly and decidedly.

The inactivity in the foreign exchange market continues and the British authorities moved the forward dollar rate to 1-3/8 on a comparatively small market. Gold was fixed at a slight discount and of the 186 bars sold 116 were married and the British fund gave a small quantity. Buyers were pro-rated on a 50 per cent basis.

KENNEDY

REB

A portion of this telegram must be closely paraphrased before being communicated to anyone. (C)

BERLIN

Dated May 9, 1939

Rec'd 4:25 p. m.

Secretary of State,  
Washington.

334, May 9, 6 p. m. (GRAY)

Number 25. FOR TREASURY FROM HEATH.

The total "disclosed" debt of the Reich at the end of February 1939 stood at 29,537,000,000 marks an increase of 10,439,000,000 marks for the first eleven months of the fiscal year ending April 1, 1939.

Not all the increase, however, represents government borrowing. Some 459,000,000 of 4-1/2% bonds were issued in February in exchange for Austrian bonds. In June 1938 there was a similar conversion of 367,000,000 marks of Austrian bonds taken from the Austrian National Bank. The net "disclosed" borrowings of the government for the first eleven months of the fiscal year were therefore around 9,600,000,000,000 marks.

Including the 459,000,000 for the conversion of Austrian bonds the "disclosed debt" increase in February was 1,428,000,000 marks. There was a net increase of

330,000,000

REB

2-#334, From Berlin, May 9, 6p.m.

330,000,000 marks in other long term debt mainly (328,000,000 marks) of 4-1/2% bonds privately issued to savings institutions and insurance companies. The net increase in short term debt was 639,000,000 marks. Of this increase some 539,000,000 marks was in the form of treasury bills sold on the money market.

Final returns show the Reichs revenues from customs duties and taxes for the fiscal year ended March 31, 1939 as 7,690,000,000 marks as compared with 13,958,000,000 marks for the preceding fiscal period an increase of 3,732,000,000 marks or roughly 27%.

The above figures omit the receipts from the punitive levies on the Jewish community which to date have brought in some 500,000,000 marks bringing total tax revenue to 18,190,000,000 marks.

It is to be remembered, however, that a portion of the Reichs tax revenues are paid over to the provincial and municipal governments. No calculations as to the share of the provinces and municipalities in Reichs tax revenues for the fiscal year just ended have been published but it is assumed that it was in the neighborhood of 2,800,000,000 marks.

No

REB

3-#334, From Berlin, May 9, 6p.m.

No figures have been published in recent years as to the miscellaneous revenues of the Reich from ownership or participation in industrial enterprises, railroads, lands, forests, profits on mintage of coin, excess earnings of Reichsbank, et cetera, but it is assumed that last year they exceeded 1,000,000,000 marks. From available data it may be estimated that during the fiscal period just ended the Reich spent something in excess of 26,000,000,000 marks.

The revenue for these expenditures came from the following sources.

Net tax revenues (after deduction of contributions to the municipalities and provinces) roughly 15.4 billion marks.

Public borrowing (estimating March borrowing at 700,000,000 marks but not counting some 825,000,000 of marks worth of bonds issued in exchange for Austrian obligations) 10.2 billion marks.

Miscellaneous revenues of the Reich 1,000,000,000 marks.

Total 26.6 billion marks. (END GRAY)

- 4 -

However, it seems very probable that expenditures actually were considerably larger than this; for one thing, according to various reports, there has been hidden borrowing on the part of the Reich during the past six months in the form of more of a delay in paying for material which they have bought.

KIRK.

RECEIVED

MAY 10 1950

THE ASSAULT DEPARTMENT  
Office of the Secretary  
Federal Bureau of Investigation

EA:LWW

JR

GRAY

London

Dated May 9, 1939

Rec'd 7 p.m.

Secretary of State,  
Washington.

645, May 9, 6 p.m.

STRICTLY CONFIDENTIAL FOR TREASURY FROM BUTTERWORTH.

One. The Chancellor of the Exchequer in the course of a speech last night before the British Bankers' Association made the following significant statement:

"Rearmament must have priority but subject to this condition being satisfied I stand for the view that the less normal economic arrangements are dislocated the better for the present and the future. Control of foreign borrowing is a very good example of a type of problem with which the Government is faced in the present exceptional times. If we were at war controls on the country's economic life would necessarily have to be more complete. But conditions today are so far from normal that the country needs some of the restraints which war time controls would imperiously impose. Imports are inevitably increased and exports decreased by the claims of rearmament. The main avenues through which capital might flow abroad are effectively controlled by the

Foreign

-2- #645, May 9, 6 p.m., from London.

Foreign Transactions Advisory Committee. That Committee's work, without statutory authority using its influence merely because there is a high spirit of understanding and good sense in the city, is widely approved by the business community. But private purchases of foreign securities could if not restrained amount to a very considerable drain on our capital. They can be stopped completely only by measures of inspection, registration and control, all of them very hampering and very undesirable if they can be avoided. They are measures which for my part I would be very reluctant to impose unless the need for them is proved. The principle on which we have worked at the Treasury is that we would only seek power from Parliament to impose prohibitions whenever that was the only way of attaining a necessary object without exception or without excessive cost. The great institutions represented by you tonight could by an organized effort exert a great and beneficent influence. If that is done I hope it will be possible to continue to avoid imposing formal restrictions which certainly will be found to be very galling and very inconvenient to a great number of people. It does not really depend on the Government; it depends on the cooperation which I am sure we will get from those who advise and control the subject of private citizens' investments."

Two.

-3- #645, May 9, 6 p.m., from London.

Two. As pointed out in the memorandum on "British borrowing to finance armaments" of March 31, the outlook here points definitely towards the economic and financial mobilization of Great Britain and mobilization without regulation and control in some form is impossible.

The establishment of a ministry of supply, reported in my 525, April 20, 6 p.m., is a concrete step in this development. The fact that the ministry will have wider legal powers than the duties initially assigned to it, nevertheless, is illustrative of the process by which very slowly but surely controls are being imposed and put into effect.

The adoption of the conscription scheme as reported in my No. 563 of April 26, 6 p.m., though it is limited to six months training of men 20 and 21 years of age, marks a definite change of policy which may prove the opening wedge to more general regulation of man power. In any case by withdrawing some two <sup>hundred</sup> thousand men for a six months period from the labor market it brings nearer the day when "full employment" could be reached.

The mathematical extent of the pounds 380,000,000 arms borrowing in the current fiscal year need not theoretically or necessarily produce a condition of inflation in view of the extent of unemployment of both  
labor

-4- #645, May 9, 6 p.m., from London.

labor and industrial capacity. Although unemployment has been declining fairly rapidly since the beginning of the year the number of registered unemployed still aggregates one million six hundred forty-four thousand. This number will of course be further reduced as conscription is put into effect and the amount by which labor will be absorbed in the fighting forces will have a direct effect on the length of time before "full employment" could obtain. But in any case before a general labor shortage should develop acute bottlenecks are likely to appear which will produce what might be termed a spotty inflationary effect and will also of course render the smooth development of the arms production program difficult. The priority powers to be included in the Ministry of Supply Bill furnished one method of meeting these difficulties but it may also become imperative at some stage to introduce restraints on consumption of nonessentials. The automobile horsepower tax imposed in this year's budget was no doubt designed to reduce nonessential gas consumption and motorcar production thus freeing skilled labor for the expanding aircraft industry. However, in due course the question may arise as to whether the tax method of curtailing consumption is

-5- #645, May 9, 6 p.m., from London.

is not too general in its effect and consequently whether it can be sufficiently selective to meet fully the requirements in the developing situation.

It is becoming increasingly clear that the trade balance position constitutes a major problem. One indication of the concern with which this problem is regarded is the effort being made by the British Government to increase manufactured exports, over ten per cent of which are incidentally now covered by the export credit guarantees. Another indication is Simon's statement that British residents should refrain from exporting any further capital which amounts to yet another "request restriction" by which British finance is being subjected to Government control. It might have been thought that the British Government would be reluctant to impose this particular restriction especially insofar as British capital now leaving this country is building up a reserve of overseas assets which would be available in the event of war and consequently the Chancellor of Exchequer's statement underlines the importance he now attaches to the balance of payments position. The state of the money market is of course also a factor.

Some

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Some idea of the possible extent of the import needs which the British Government envisages is suggested by an offhand statement made in a private conversation with the United States Military Attache by the Minister of War on April 7. Hoare Belisha said that in about a year Britain would be confronted with insuperable difficulties in finding exchange to purchase American industrial products incident to rapid rearmament; the dollar value would be bound to fall along with the standard of living in British Government and he foresaw a bad time in these respects in 1940. It should be said that in making this statement he was assuming that war would not breakout during the period referred to.

Three. The above observations apply to what is now being called a condition of "near war". The longer this condition endures the more will it inevitably grow to resemble the conditions of war itself. Nevertheless, there will be retained a number of features in the British economic and especially in the financial system which would be immediately altered on the outbreak of a war. In view of Britain's experience in 1914-18 and because her potential adversaries are already completely organized on a war footing there is no doubt that British finance and industry would be immediately placed on a totalitarian

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totalitarian basis. Indeed the "secret" paper preparation is already outlined and largely completed; for example, a ministry for economic warfare is to be set up on the outbreak of a war and many of my friends in the city have been assigned to it and are quietly engaged in their spare time in familiarizing themselves with their possible duties.

The primary aims for which such a totalitarian economy would be designed such as the obtaining of armaments and essential civilian supplies would naturally entail certain secondary necessities. In spite of the immeasurably larger foreign assets of Great Britain and France as compared with the Axis countries the desire to keep the adverse trade balance as low as possible would give rise to a planned and definite export policy as well as rationed imports. Wherever essential war needs did not monopolize industrial capacity in Great Britain production for export would be concentrated upon and regimentation to the end would be undertaken with the British Government, for example, ordering producers to turn out given products and export them at given prices, with or without subsidies. The impact of what would be a virtual Russian trading system would have far reaching effect on American trade. Though this thrust

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thrust into export markets would of necessity be limited in the case of many industries by preoccupation with armament production, it would for that very reason be the more intense in those fields where a surplus could be produced and would be accentuated by the pressure for foreign exchange from current transactions which would be regarded from the first as of paramount importance and would assume increasing importance as reserves of foreign assets were realized and the invisible export income from them was curtailed. The drastic nature of such a British thrust for exports and its effect on our trade constitutes a contingency which might well be borne in mind when arranging any assistance in the way of liquidizing British assets in the United States.

Four. A related question is that of priority of disposal. Whereas the British would no doubt prefer to use first the holdings of their nationals in dollar securities (and in due course of Canadian and South American bonds) they will be reluctant to part with such direct investments in the United States, Canada and South America as the insurance, public utility and branch manufacturing businesses controlled by British interests,

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interests, especially if they find that their assets must be sold rather than pledged as security against loans. It would seem that the fact that direct investments and equity shares in British controlled companies were not mobilized in 1915-18 should not preclude our affording careful consideration whether, in our interest, priority on a purchases basis should not be given to such investment in any scheme for the provision of British purchasing power in the United States. The Ambassador particularly suggests that this aspect of the problem be weighed. A memorandum has been prepared estimating the extent and analyzing the nature of British overseas assets and it goes forward in next pouch.

Five. Incidentally I have the impression that it is generally assumed here that the United States has an unlimited capacity to produce not only various raw materials but also industrial products which could be drawn on in the event of war and that little consideration has been given here to the fact that on the outbreak of a war our own armament program would be immediately pushed to the foreground and the question of rationing our capacity, as between our own needs and those of such foreign producers as Britain and France, would inevitably and acutely arise in many instances.

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# INDUSTRIAL MOBILIZATION PLAN

REVISED 1936



APPROVED JOINTLY

HARRY H. WOODRING  
Acting Secretary of War  
September 14, 1936

CLAUDE A. SWANSON  
Secretary of the Navy  
September 9, 1936

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# INDUSTRIAL MOBILIZATION PLAN

Revised—1936

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## FOREWORD

The accompanying plan is a revision of the plan for industrial mobilization submitted by the War Department in 1931 to the War Policies Commission appointed under the authority of Public Resolution No. 98, Seventy-first Congress, second session, and published in part 2 of the hearings before the Commission.

The Assistant Secretary of War is charged by existing legislation with the responsibility for assurance of adequate provision for the mobilization of matériel and industrial organization essential to wartime needs. However, he has not the necessary authority to deal with questions relative to matériel except those pertaining to the Army. The Navy Department is as vitally interested in this problem as is the War Department and it is necessary that the needs of the two Departments be coordinated, in order that there be proper planning. Through joint administrative action the necessary coordination has been provided for by the establishment of the Army and Navy Munitions Board.

In formulating this plan, there have been taken into consideration the recommendations of the War Policies Commission of March 5, 1932, and the provisions of H. R. 5529, 1935, which passed the House of Representatives, was amended by the Special Committee on Investigation of the Munitions Industry of the Senate, and recommended for passage by the above special committee, the Senate Military Affairs and the Senate Finance Committees.

The tendency to overemphasize administrative efficiency and underemphasize national effectiveness has been guarded against. The objective of any warring nation is victory, immediate and complete. It is conceivable that a war might be conducted with such great regard for individual justice and administrative efficiency as to make impossible those evils whose existence in past wars is well known. It is also conceivable that the outcome of a war so conducted might be defeat. In all plans for preparedness and policies to be pursued in event of war it must never be overlooked that while efficiency in war is desirable, effectiveness is mandatory.

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as Britain and...

## INTRODUCTION

### 1. Historical sketch.

Complicated weapons and machines are used up rapidly in war. Armies and navies<sup>1</sup> must not only be well supplied initially but maintenance must be adequate and continuous. Thus, the success of a modern fighting force is directly and immediately dependent upon the ability of the nation's resources to satisfy promptly its requirements in munitions. In addition, throughout the duration of the war the nation must continue to provide all the material things upon which the health and well-being of its population depend. War is no longer simply a battle between armed forces in the field—it is a struggle in which each side strives to bring to bear against the enemy the coordinated power of every individual and every material resource at its command. The conflict extends from the soldier in the most forward line to the humblest citizen in the remotest hamlet in the rear.

Prior to 1914 the tremendous influence that industrial and economic factors would exert in modern war was but dimly appreciated. Since the World War, however, many thoughtful students have devoted to these subjects a great amount of study and research. Exhaustive accounts of almost every kind of industrial and economic activity in that war are now available. These serve as a basis for the deduction of principles applicable to the economic and industrial phases of modern warfare.

The industrial experiences of most of the great belligerent nations during the World War were in many important particulars strikingly similar. The following observations apply with almost equal force to each of these countries:

Adequate provision to supply the munitions needed by the armies in battle for more than a brief period of time had not been made. The amounts of ammunition and supplies consumed daily on the battlefield far exceeded pre-war estimates.

It was quickly found necessary to begin exercising a governmental control over the essential raw materials, labor, power, transportation systems, and producing facilities, and to direct their use for those purposes which would best meet the immediate needs of the Nation as a whole.

Violent disturbances of prevailing price levels occurred and governmental measures to fix or control prices became necessary. These measures varied both in scope and kind in different countries.

The administrative machinery for controlling national industry was set up as a separate and independent governmental agency, directly responsible to the supreme executive head of the state.

It was found that a high national morale was needed to secure coordinated effort by a whole population. Methods adopted to direct and control the resources of the country had to appeal to the people as necessary, fair, reasonable, and effective.

<sup>1</sup>To save repetition, the term "armed forces" and the adjective "military", when used, include both the Army and the Navy.

The industrial and economic fabric of the enemy was attacked in every possible way. (The Allies did this by physical blockade and pressure upon neutral countries; the Central Powers did it by launching submarine attacks on enemy sea commerce.)

Methods used to direct the industrial effort had to be extemporized in the heat of conflict. The folly of permitting a country to drift into war without having made provision for prompt mobilization of industry was brought home to the people and to their leaders. The Allied Nations were saved, initially at least, from disastrous results because the enemy, through a like failure, was unable to take full advantage of the situation. Specifically, in the case of the United States, grave consequences during the preparatory and transition periods were avoided because of the protection given by the armies and navies of our allies. In many cases, however, improvised methods were unable to prevent extravagance and delays in procuring munitions or to prevent profiteering in some quarters and unnecessary suffering in others.

Since the World War each of the major powers has attempted to devise a system under which, in the event of another war, the repetition of its industrial mistakes of 1914-18 could be avoided, its material resources rallied to the Nation's support with the minimum of delay and the maximum of effectiveness, and post-war reconstruction facilitated.

The chairman of the War Industries Board of 1918 had the following to say in his final report to the President:

"That much of the confusion experienced in collecting the supplies for this war could have been avoided by a more painstaking, thorough, and comprehensive effort on the part of the Government supply bureaus to work out a program of requirements, even a program tentative in many of its details, there is little doubt. That such a program would have been exceedingly difficult to frame is quite certain."

Experience in modern war has demonstrated that lack of adequate plans for industrial mobilization and for military procurement is the source of many evils in war, among which may be listed:

Delay in the procurement of necessary munitions, perhaps even to the point of jeopardizing national safety.

Waste of resources in overproduction on the one hand and a shortage of essential items on the other resulted due to lack of knowledge concerning the amount of supplies needed.

Improper distribution of the load due to lack of knowledge concerning the most logical places for production of munitions causing: (a) Congestion, (b) difficulties in transportation, (c) inefficient use of resources, (d) upsets in price structure.

Uncoordinated purchasing by many Government agencies of tremendous amounts of supplies, encouraging competition among these agencies, and inevitably resulting in further maladjustments in the price structure.

Inequitable distribution of war's economic burdens.

The foregoing suggests the thought that there should be established units of specially qualified officers of the War and Navy Departments devoted in time of peace to studies of supply programs for probable military undertakings. As these programs would always have to be based upon the ability to obtain the supplies outlined, the two Departments should be required to go deeply into a study of the industrial resources and possibilities of the country as they relate to war needs.

## 2. Outline of procurement problems.

The War and Navy Departments have the task, under the authority of Congress, of building up a defensive structure that will make hostile attack improbable. They have also the duty of making all industrial preparation permitted under current congressional policy that will, in the event of attack, contribute to the defeat of the enemy and to the elimination of those preventable evils that have made their appearance in all past wars.

The task imposed is no simple one. The problem consists in making all the prearrangements necessary to insure effective use of material resources in war. The system evolved must incorporate the views of the Army, the Navy, and of industry, and must receive the approval of Congress and of the President. Constant study and research are demanded. Peacetime planning agencies for deriving a coordinated industrial plan are essential to success.

## 3. Industrial mobilization plans.

Mobilizing a nation for war is an involved and intricate process. Adequate provisions must be made to meet the necessities of the civilian population. Over and above this accomplishment, peacetime armies and navies must be greatly expanded, equipped, and maintained in sufficient strength to accomplish the defeat of the hostile armies and navies. Armed forces must be left free to fight and must not be burdened with any other national responsibility that would tend to divert their attention from this basic mission.

Mobilization and maintenance of armed forces result in a decrease in the number of citizens available for productive purposes at the same time that a great increase in the output of productive establishments is required in order to provide the necessary munitions in war. Two methods are available: First, to increase the aggregate volume of output; second, to divert labor and raw materials from the production of nonessential items to the production of those things absolutely necessary to the successful conduct of the war. In a major conflict both methods must be used.

The United States is almost self-contained industrially. There exist within its borders in ample quantities the labor, power, facilities, and, with certain important exceptions, all the raw material necessary in war. Particularly is this statement true as applied to the total strength in man power. It is almost impossible to assume a situation where the population would be in danger of suffering actual hardships in war due to a lack of personnel to produce the necessities of life. In practice, therefore, it is customary to approach the mobilization problem from the standpoint of determining how many men are estimated to be necessary for the organization of military and naval units under a given situation, rather than how many could safely be

so organized. The size of the armed forces to be raised and the estimated rate at which they would consume munitions are derived from joint war plans. The amount of material that must be produced in war over and above (or at least different from) that produced in peace comprises what is usually referred to as the "war load" on industry.

Hence the first important step in the preparation of a complete plan for industrial mobilization is the determination of material requirements by the Army and Navy separately in accordance with their respective war plans.

Requirements for any assumed situation having been determined, the next logical step is the development of specific plans by which these items may be promptly procured from industry.

When the requirements of the armed forces and other agencies have been determined, and the methods for the distribution of this load to industry have been worked out, the third essential step of the industrial mobilization problem becomes evident, viz, to determine the probable effect of the war load on industry, and to develop measures that will assist industry in absorbing that load.

The essential elements of production are raw materials, labor, facilities, management, power, finances, and transportation. The problem is to assure the most efficient use of these things.

Having determined upon the proper uses for materials and services, the next problem is how to assure that they will be so used. Plans for this must be concrete, definite, and practical. Methods must be developed for utilizing efficiently the war powers of the President, the authority likely to be accorded by Congress, the wartime power of commandeering, and, above all, the force of public opinion. The support of public opinion is so essential that anything that may appeal to the majority of the people as unnecessary, unfair, or unjust cannot be permitted in the plans. The economic burden of war must be equitably distributed. This entails a proper control of prices, a problem that must be solved if profiteering is to be prevented, and the cost of the war kept to the minimum.

To do all these things in time of war will require a control and coordination of the Nation's economic resources. After there have been developed the methods to be employed to make effective the industrial controls that have been decided upon as necessary, the next step is to determine in what administrative bodies the authority for exercising them should be reposed, and how these bodies should be grouped together for efficient administration.

The organizational plan is intended to operate under leaders and conditions of the future and must necessarily be elastic in its provisions. It is necessary, however, to foresee its essential parts in order that responsibility may be definitely established and relationships with other important agencies understood. The planning agencies must also make necessary arrangements in peace to facilitate the organization and functioning of the control body upon the outbreak of war.

To summarize: The following comprise the essentials of a complete plan for the mobilization of industry:

*a. Procurement planning.*

- (1) Determination of material requirements.
- (2) Plans for the procurement of such requirements.

*b. Plans for control of economic resources and mobilization of industry.*

- (1) Determination of measures to be employed to insure the proper coordination and use of the Nation's resources.
- (2) Plans for the organization of administrative machinery to execute these control measures.

The execution of the plans under (a) above is a responsibility of the War and Navy Departments, while the execution of plans under (b) above is a responsibility of the President, acting through such agencies as he and the Congress may establish.

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## PART I. PROCUREMENT PLANNING

### SECTION A. OUTLINE OF POLICIES

Procurement planning is for the purpose of insuring timely and orderly production, fabrication, and supply of material required by the Army and Navy during a national emergency.

#### 1. Principles.

All plans for procurement are to be based upon the following general principles:

*a.* Provisions for procuring stocks of material, equipment and supplies in quantity, quality, and location must be made to insure that essential production begins in the early stages of a national emergency and that material requirements are supplied as promptly as possible.

*b.* Army and Navy procurement planning must be coordinated.

*c.* Due consideration shall be given to the essential needs of the civil population.

*d.* The least possible disturbance must be caused in the normal economic life of the country. The production load must be intelligently distributed.

*e.* Industrial facilities shall be prorated for use by the Army and Navy in all cases where the ratio between productive capacity or availability and the combined Army and Navy demands indicate the necessity therefor or where such combined demands create critical problems relative to power, labor, transportation, or material. The necessity for and the extent of such distribution to the Army and Navy shall be determined by the authorized coordinating agency. This proportional division of industrial resources shall be termed "allocation."

*f.* Up to the time that allocation of facilities or of materials is made to the Army or Navy as provided for in *e* above, each Department may proceed with procurement planning including the designation of facilities or sources of supply to meet its requirements as may be deemed desirable by such Department. If and when it becomes apparent that both Departments desire to utilize the same facilities or sources of supply, conflicting interests of the two Departments will be referred to the authorized coordinating agency.

*g.* The two Departments may make direct use of unallocated facilities or of commercial supplies not designated for allocation control until such time as a shortage develops, or it has been determined by either Department or by a coordinating agency for procurement that a shortage will develop, at which time allocation between the Army and Navy will be made.

*h.* There must be no competitive procurement efforts among Government purchasing agencies to secure commodities or the output of

facilities, the availability of which has been determined by the coordinating agency to be inadequate for the supply of combined military requirements, or where competitive efforts would be detrimental to the Government's interests. In such cases where commodities or facilities have not been previously allocated, requirements must be cleared through the coordinating agency and the demands of the two Departments will be filled on the basis of military priorities.

i. Copies of obligatory orders placed with facilities allocated in whole or in part shall be filed with the agency authorized to coordinate the utilization of industrial resources. Obligatory orders desired to be placed on unallocated facilities must be cleared through that agency.

j. Each Department must select and train specialized procurement personnel for use in a national emergency.

k. During peace, liaison with industry shall be maintained in order to familiarize industry with military specifications and other problems peculiar to procurement of munitions.

If these principles are followed, it is believed that supplies adequate to the needs of the Army and Navy will be forthcoming, opportunity for profiteering will be minimized, and the economic burden of war will be equitably distributed.

## 2. Development of Army and Navy procurement plans.

The Army and Navy are each responsible for their respective procurement plans. Because of the differences in organization, planning procedure, and administration of procurement functions, the systems of procurement planning of the two Departments differ in some particulars. Each Department recognizes the following successive steps as being essential to all procurement plans:

- a. Determination of types of equipment and of supplies.
- b. Determination of requirements in time and quantity.
- c. Determination of sources of supply.
- d. Determination of procurement methods and procedure.

## 3. Coordination of procurement planning.

In order to initiate and develop the policies and directives necessary to support the above-defined principles and to coordinate procurement activities of the two Departments, the Army and Navy Munitions Board has been created.

## 4. Essential features of procurement planning.

a. In order to effect orderly mobilization of industry and to insure timely production therefrom, the following features shall be given consideration in formulating procurement plans:

- (1) Determination of procurement requirements.
- (2) Determination of sources of supply.
- (3) Allocation of industrial facilities where deemed to be necessary for specific production tasks.
- (4) Descriptions of manufacture, specifications, and drawings.
- (5) Control or acquisition of essential commodities.
- (6) Suitable contract forms to meet wartime procurement needs.
- (7) The augmentation of inspection and purchasing personnel necessary for expansion of peacetime organizations.

b. The importance and the scope of the consideration to be given to these features depend on the particular needs of each Department. However, the points of interest in common to both the War and Navy Departments are recognized to be as follows:

- (1) *Procurement requirements.*—The procurement requirements of each of the two Departments are calculated by the respective Department. When the total procurement requirements have been computed by the War and Navy Departments and allocation of facilities is desired, the requirements are made known to the Army and Navy Munitions Board and form the basis of the coordination of procurement planning by that agency.
- (2) *Sources of supply.*—Each Department may conduct such industrial surveys as appear to it desirable. In assigning tasks to industrial plants in war, care should be taken where possible, to leave a portion of the normal capacity of the plant for ordinary peacetime production. This will facilitate readjustment under post-war conditions.
- (3) *Allocations.*—By allocation is meant the assignment of definite facilities to an authorized procurement agency of the Army or Navy to supply the needs of the Department concerned. Where complex noncommercial items, or commercial items in quantities abnormal to the Nation's peacetime demands are required for military use in war, resulting procurement problems must be met by a planned distribution of industrial resources.

When requested by either Department or on the initiative of the Army and Navy Munitions Board, allocation studies shall be conducted by joint Army and Navy committees appointed by that Board. The deliberations of these committees will be reviewed by the Board and allocation between the Army and Navy will become effective when approved by that agency. Insofar as practicable, joint use of commercial plants is to be avoided. Certain plants must necessarily serve both the Army and Navy. When both Departments desire the use of the same facility, capacity credits against its production will be assigned to each Department by the Army and Navy Munitions Board. The advantages offered by this system of allocation are—

- (a) It permits prearrangement for production of munitions.
- (b) It permits orderly distribution of the war load.
- (c) Each allocated plant will be forewarned of the task it will be expected to perform and can make preparations to meet it, thus facilitating early production.
- (d) Competition for the output of a single plant between several Government agencies is prevented.
- (e) The elements of cost may be studied in peace, permitting the development of wartime contracts which will protect both industry and the Government.

- (4) *Descriptions of manufacture, drawings, and specifications.*—Each Department shall prepare proper drawings, specifications, and when necessary, descriptions of manufacture for items not ordinarily produced commercially to permit facilities with no prior experience to undertake production. The Army and Navy will, as far as possible, standardize specifications.
- (5) *Essential commodities.*—The agencies of the two Departments concerned with the several phases of procurement will conduct studies of the essential commodities entering into the manufacture of munitions, for the design or procurement of which such agencies are responsible. The Army and Navy Munitions Board will initiate action to insure that such studies of the War and Navy Departments are prepared and coordinated.
- (6) *Contract forms.*—It is considered proper to adhere insofar as possible to the peacetime method of awarding contracts where time permits and where commodities are not under control or facilities are not under allocation. When a shortage of material or of labor develops, or when allocation of facilities has been made, free competition ordinarily existing in peacetime is absent. In such cases, the two Departments recognize the necessity for development of contract forms to meet the exigencies of wartime purchase.

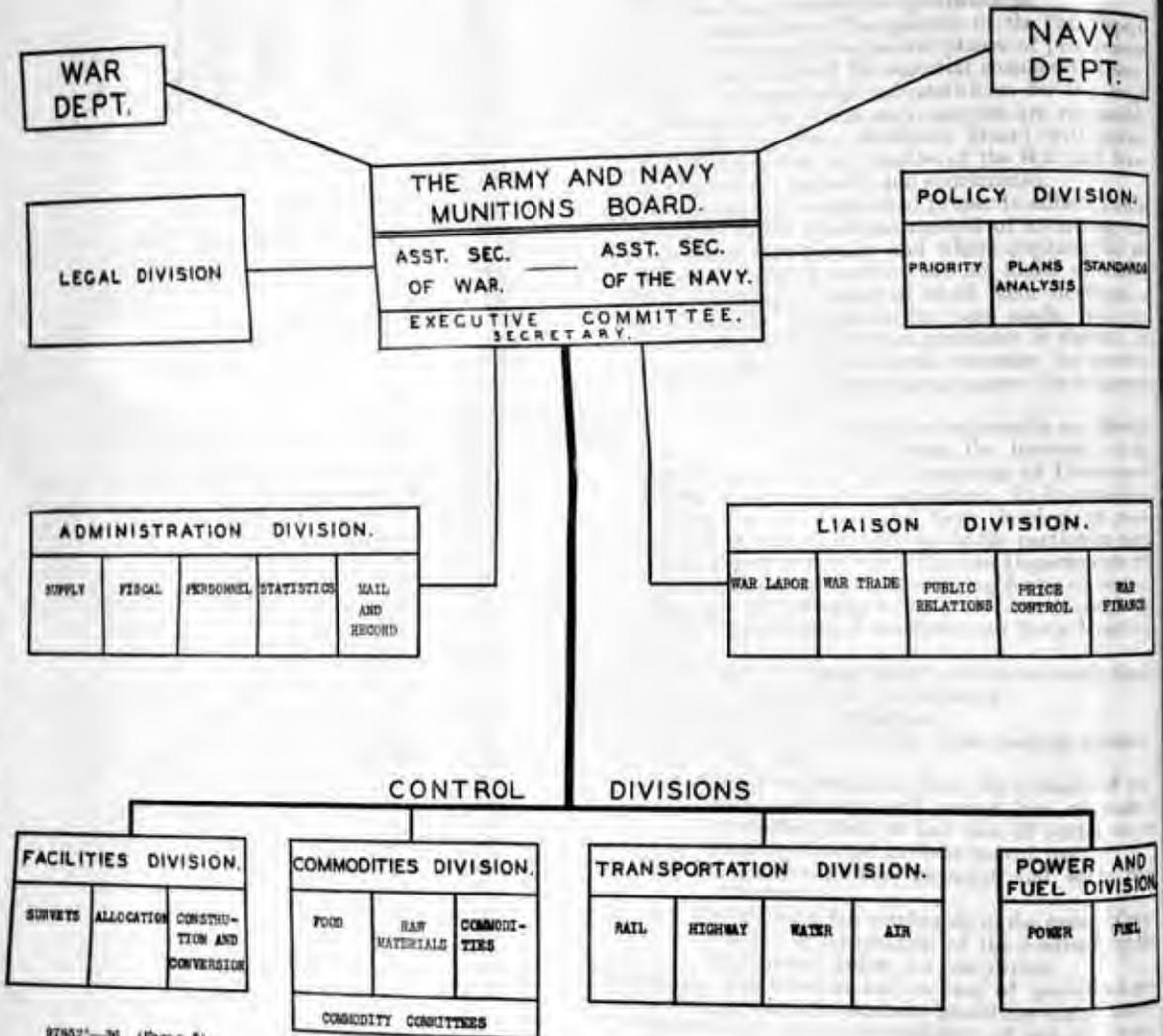
Contract procedure should be such as to provide an effective stimulus for production, protect the interests of the Government, and prevent the awarding of Government business to irresponsible contractors. It is considered essential that the Army and Navy develop, in peacetime, forms of contract which will satisfy the particular needs of each Department in war. The two Departments will explore ways and methods of utilizing forms of contract which may be common to both services through the coordinating medium of the Army and Navy Munitions Board.

In general contracts developed jointly or independently should endeavor to accomplish the following:

- (a) Initiate early production.
  - (b) Prevent the contractor from making unreasonable profit.
  - (c) Protect the contractor from the hazards of wartime production and permit him to make a reasonable profit or fair rate of rental on the property devoted to Government use.
  - (d) Provide for prompt payment and early final settlement.
  - (e) Provide for a fair settlement in the event of cancellation or termination of the contract by the Government before its completion.
- (7) *Personnel.*—The selection and training of specialized and technical personnel to augment peacetime organizations is recognized to be the responsibility of each of the two Departments.

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ORGANIZATION OF  
THE ARMY AND NAVY MUNITIONS BOARD.



### 5. Scope and coordination of studies.

It is recognized that success in wartime production is dependent upon availability of manufacturing facilities and upon the ability of manufacturers to secure the necessary commodities, materials, sub-assemblies, power, labor, management, and transportation needed for the production of military supplies in an industrial mobilization. Studies of these factors of production shall be made as directed by the Army and Navy Munitions Board and coordinated by that agency. The scope of these studies should include the following:

*a. Commodities.*—Studies of critical commodities with particular emphasis on probable shortage will be carefully made and frequently revised. The total requirements of the Army and Navy and the essential needs of the civil population will be considered. All practicable means of obtaining a sufficiency of supply will be explored. These studies will include—

(1) The maximum use of acceptable substitutes and standardization in preparation of specifications.

(2) Stimulation of importation and domestic production.

(3) Preparation of plans for conservation and distribution of necessary commodities.

*b. Facilities.*—Since there will necessarily be construction of new facilities and the extension or conversion of existing ones in order to meet some procurement programs, the studies or plans for such operations must be coordinated to insure that such expansion or extension is consistent with the allocation agreements and other provisions and policies as set forth herein.

*c. Power.*—Availability of power necessary in the war load of industry should be considered in the preparation of procurement plans in order that the power resources of the Nation may be properly utilized. Studies will be instituted at intervals to revise estimates of power requirements and conservation in keeping with the changes in that utility.

*d. Transportation.*—The transportation facilities of the Nation are, at this time, considered adequate if properly utilized. Transportation studies will be made at intervals to insure that all plans take into consideration the Nation's transportation systems which will be available in war.

### 6. Raw materials.

As a result of these studies, the Army and Navy Munitions Board will prepare a list of raw materials deemed essential to be placed under control on industrial mobilization.

## SECTION B. THE ARMY AND NAVY MUNITIONS BOARD

### 1. General.

*a.* The Army and Navy Munitions Board has been established by joint action of the Secretary of War and the Secretary of the Navy as the official agency for coordinating war-procurement problems involving Army and Navy interests.

## INDUSTRIAL MOBILIZATION PLAN

b. The Army and Navy Munitions Board consists of the Assistant Secretary of War and the Assistant Secretary of the Navy, assisted by an executive committee and by various divisions and other committees. One representative from each Department shall serve on each division and committee. (See chart.)

c. Approval of action taken by the Munitions Board is not required, except that any plans prepared by it that affect joint war plans and joint Army and Navy policy relative to the national defense are required to be referred to the Joint Board for consideration before submission to the Secretaries of War and Navy. Problems upon which the Munitions Board cannot reach agreement will be forwarded to the Secretary of War and Secretary of the Navy for adjudication.

d. The Army and Navy Munitions Board is hereby authorized and directed to—

- (1) Formulate and keep up to date such pertinent plans and policies as in the opinion of the two Departments should be adopted by the Federal Government for coordinating and controlling national industrial effort in an emergency.
- (2) Assure the necessary coordination in the procurement war plans of the Army and Navy, and in all plans, studies, and appendices thereto intended to facilitate the Government's efforts in an emergency to promote orderly mobilization of industry.
- (3) Form and direct the activities of such joint committees as may be necessary to consider, investigate, and make recommendations concerning pertinent subjects falling within the purview of the Board's responsibilities.
- (4) When a war emergency is imminent and until the War Resources Administration is functioning, to guide industrial activities and the utilization of materials incident to the procurement programs of the Army and Navy, and in general coordinate the procurement program so that the War Resources Administration can operate under circumstances favorable to future control.
- (5) After the full development of the War Resources Administration as a national industrial superagency, the Army and Navy Munitions Board will continue to function as a procurement coordinating agency for the Army and Navy.

### 2. Guiding policies.

a. It is a continuing duty of the Army and Navy Munitions Board to further war procurement planning in those phases wherein a joint Army and Navy interest arises.

b. The procuring agencies of the War and Navy Departments are charged with full responsibility for the timely procurement of the supplies assigned to them for procurement. The Army and Navy Munitions Board, in coordinating plans, will continually recognize the responsibility of the procuring agencies and in formulating plans will leave to the established procuring agencies the greatest freedom of action and initiative consistent with the necessary interdepartmental coordination in time of war.

6. Shortages and delays in the procurement of supplies in time of war will be minimized by peacetime studies of Army and Navy requirements and of the resources and facilities available to the Nation and by the preparation of plans to adjust discrepancies between Army and Navy requirements and national resources.
7. It is vital that material requirements be determined with rapidity in order that allocations and priorities may be made to meet changes in the military or naval situation.
8. Procurement plans must be currently revised to conform to approved plans of military operations.
9. It is essential for the successful launching of a war procurement program that the War and Navy Departments keep available for procurement work at the outbreak of war qualified personnel conversant with the problems involved.
10. The personnel required to cope with problems involved in procurement planning and war procurement must receive a high degree of training.
11. In the coordination of procurement plans of the Army and the Navy, due consideration must be given to the essential needs of the civilian population.

### 3. Executive committee.

*a. Organization.*—The executive committee consists of three officers of the Army and three officers of the Navy, on duty in the War and Navy Departments, to be selected by the Secretary of War and the Secretary of the Navy, respectively.

*b. Functions.*—The executive committee is charged with—

- (1) Coordinating the work of the divisions of the Board.
- (2) Developing and recommending policies pertaining to procurement, in time of war, of supplies in which the Army and the Navy have joint interest.
- (3) Submitting annually on May 1, a schedule of proposed subjects for future consideration and study.
- (4) Preparing and submitting on May 1 and November 1 of each year a progress report of joint procurement planning.
- (5) Causing a joint study to be made annually of the several parts of the industrial mobilization plan, and submitting as of May 1, each year, a report on the status of this plan, together with any recommended changes.
- (6) Studying methods in use in the War and Navy Departments for determining data on which procurement plans are based and making recommendations leading to the simplification and coordination of methods in order to reduce the time required for the presentation of total material requirements under any specific plan of operations.
- (7) Adjusting conflicting requirements arising in plans for war procurement. Any deficiencies which may develop in a war procurement plan supporting a joint plan of operations which may affect the execution of the joint plan are referred to the Joint Board for a military priority decision.

- (8) Recommending the personnel to be assigned from the Army and Navy Munitions Board and from the Army and Navy to the office of the Administrator of War Resources as provided for in the Industrial Mobilization Plan in case of the establishment of such a superagency.
- (9) Considering such other matters as may be referred to it by proper authority.

*c. Secretary.*—One officer from the Army and one officer from the Navy, selected by the respective departments will be assigned to duty in the Army and Navy Munitions Board, the senior officer to be the secretary of the Board.

#### 4. Divisions.

The Army and Navy Munitions Board is designed to be available as a nucleus for the War Resources Administration pending its full organization. The Army and Navy Munitions Board has thus been organized into divisions appropriate to a rapid transition to full development under that agency. These divisions are composed of officers engaged in similar duties within their respective departments. Representation from the Army and the Navy is provided on each committee or division. The general functions of these divisions are to prepare in time of peace plans for procurement and industrial mobilization and to coordinate these plans during war until superagency control is established.

*a. Legal division.*—The functions of this division are:

- (1) To study and develop drafts of proposed legislation necessary for carrying into effect the provisions of the industrial mobilization plan.
- (2) To promote uniform wartime contractual procedure.
- (3) To advise the Army and Navy Munitions Board on legal matters.

*b. Policy division.*—This division analyzes plans, acts on questions of priority following approved policies based on command decisions and promotes the standardization of items of equipment and supply used in the two services and the materials used in their production.

*c. Administration division.*—This division administers required functions of supply, fiscal, personnel, statistics, and mail and record.

*d. Liaison division.*—This division is in liaison with the constituted agencies dealing with war labor, war trade, public relations, price control, and war finance, keeping the Army and Navy Munitions Board informed on all conditions pertinent to these subjects and assists in the development of plans pertaining thereto.

*e. Facilities division.*—The function of this division is to coordinate the needs of the War and Navy Departments for the facilities which will be required for the production of munitions, either directly or indirectly, to support joint plans of operations in time of war.

This coordination is accomplished by the allocation of existing facilities, recommending the location of new facilities necessary to increase production in essential industries, and coordinating plans for the extension or conversion of existing facilities to meet the industrial war load of the Army and the Navy.

*1. Commodities division.*

- (1) *Organization.*—The commodities division is organized into such a number of commodity committees as may be found necessary to investigate the availability of strategic and critical raw materials necessary to support joint plans of operations and to recommend the development and use of substitutes to relieve probably acute shortages. Each commodity committee consists of one or more representatives from the War Department and one or more from the Navy Department. Each committee representative will be one whose normal duties require detailed knowledge of the uses in his department of the commodity under study in the committee to which he is appointed.

The work of the several commodity committees is coordinated by two commodity division representatives, one designated by the Office of the Assistant Secretary of War and one designated by the Office of the Chief of Naval Operations. The division representatives are responsible for the efficient performance of the work of the division and report direct to the executive committee.

- (2) *Functions.*—The commodities division is charged with—
- (a) Coordinating those joint studies and activities of the War and Navy Departments directed toward insuring a supply of strategic and critical raw materials for the production of articles required by the War and Navy Departments to support a joint plan of operations.
  - (b) Recommending the distribution of the available supply between the War and Navy Departments in case of actual or indicated shortages in time of war, in accordance with priorities established by the Joint Board.
  - (c) Promoting the development and use of substitutes to relieve indicated shortages in strategic and critical raw materials.
  - (d) Making, under the direction of the executive committee, studies of the parts of the industrial mobilization plan which pertain to strategic and critical raw materials, reporting the status of the plans and submitting recommended changes or additions to the executive committee.

*Transportation division.*—The functions of this division are to coordinate requirements for transportation and communication facilities necessary to support joint plans of operations, and to recommend suitable action to insure adequate transportation and communication service for producing and delivering military supplies in time of war.

*Power and fuel division.*—The functions of this division are to coordinate power and fuel needs in their relation to the production of war requirements as determined necessary for the support of joint

plans of operations, and to recommend suitable action to insure their adequate supply to all facilities producing military supplies.

## PART II. CONTROL OF ECONOMIC RESOURCES AND MOBILIZATION OF INDUSTRY

### SECTION A. MEASURES TO BE EMPLOYED

#### 1. General.

The President as Commander in Chief of the armed forces and as Chief Executive of the Nation has many problems relating to industrial and economic affairs in war which must be solved. The more important of these problems are to mobilize material, labor, and capital for the support of the fighting forces; to protect industry and the civilian population from unnecessary deprivations; to control industrial and commercial relations with neutral and allied nations; to arrange the importation of needed supplies; to arrange the exportation of surpluses and to interfere with and damage the enemy in every way possible.

The measures adopted must be such as to minimize damaging effects of sudden changes in industrial activity and to maintain an approximate economic equilibrium throughout the Nation. No radical changes in normal economic relationships between individuals and between an individual and the Government should be instituted. The methods and customs of peace must be employed as far as practicable, otherwise confusion and chaos will result. The attempt should be to guide and to influence the operation of natural forces rather than to oppose them by arbitrary and unnecessary regulations. Individual speculation must be opposed. There must be no competitive efforts among Government purchasing agencies to secure materials or the output of facilities the availability of which has been found to be inadequate for the supply of military requirements or where competitive efforts would be detrimental to the Government's interests. The Government must know the national needs and, by wise and conservative measures, direct the efforts of the population toward meeting them.

Two great forces are at the disposal of the Federal Government in war for exercising the necessary controls. The first of these embraces the war powers of the Federal Government; the second is the force of public opinion. Due to the fact that in this country war is declared only in response to a very definite expression of popular will, there exists from the beginning of an emergency a unified and intense public opinion, which, properly directed under a popular leader, will make effective any reasonable, practical, and efficient plan that may be adopted.

#### 2. Specific.

The more important measures applicable to the control of industry in war are as follows:

*a. Priority control.*—Priority is a method of control that was widely developed in the World War. It is used mainly—

- (1) To direct the flow of materials and services into the channels of supply of the war-making agencies.

- (2) To divert the use of resources from nonessential needs into channels of essential production.
- (3) To assure the equitable distribution of materials and services to the civilian population.

Since the demand for essential commodities becomes imperious in war, some agency must distribute equitably available supply to recognized need. Thus the greater need takes precedence over the lesser need; the immediate need over that which may safely wait.

Priority does that. Wisely and sympathetically administered, it facilitates maximum military effort at minimum burden to all, and assures to each individual need a reasonable share in the common supply.

This plan, through the functioning of an Administrator of War Resources, provides definitely for the exercise of priority determinations as between the respective needs of Government agencies and as between the needs of the Government and of the civilian population.

*b. Price control.*—Certain conditions in war, particularly in the early stages of war, disturb the price structure or are increased in their disturbing intensity as the price structure itself is upset. They are—

- (1) Unusual governmental demands. To meet these demands, it is necessary to call into production many high-cost producers who cannot profitably operate in peace.
- (2) Diminished available supply for civilian uses.
- (3) Reckless governmental buying. The Government's practice becomes contagious and leads to, and almost compels, reckless private buying.
- (4) High-cost production due to the necessity of employing unskilled workers as industry expands and as skilled workers are absorbed into combatant units.
- (5) Increased insurance, interest, and tax rates as hazards of trade and demands for money increase.
- (6) Restriction or threatened restriction of essential imports.
- (7) Inflation of the currency as the Government seeks to finance its vastly increased purchases.

The above-enumerated conditions make exacting demands for a control to be established over prices. The inevitable necessity for such control measures should result in the establishment of governmental price control in the early period of any major war.

*c. Commandeering.*—The power of the Commander in Chief to seize materials needed by the armed forces in war and the power of a sovereign State to take what is needed for the public good are well established. The Constitution limits the exercise of these powers by requiring that they be enforced by due process of law and that adequate compensation be paid to the owner. Section 120 of the National Defense Act provides expressly for the placing of compulsory orders for the manufacture of supplies and for the requisitioning of those plants that refuse to accept such orders. The Naval Appropriation Act of March 4, 1917, confers similar powers for requisitioning (in time of war) for the procurement of war material for the Navy to those conferred in the National Defense Act. While commandeering is important as an enforcement measure, its use tends to place the

Government in business; it should, therefore, be employed only as a last resort.

*d. Control of foreign trade.*—This requires the licensing of importers and exporters, negotiations of trade agreement, and the forbearance of the economic isolation of the enemy. These measures, involving questions of military strategy and of diplomatic relations, are of the utmost importance.

*e. Organization of Government corporations.*—It will be necessary in certain cases to organize corporations controlled or owned by the Government. These corporations will render services or take business risks which it would be unreasonable to expect from privately owned bodies. Examples of such corporations are marine-insurance corporations, war-finance corporations, ship-building corporations, power corporations, and corporations for trading in raw materials.

### 3. Application of control measures.

The control measures described above may be applied to industry as follows:

*a. Facilities.*—Existing facilities are assigned for the production of critical materials desired for the armed forces by a system of "allocations," previously described in part I, section A. New construction incident to the supply of military requirements or for the necessary well-being of the civilian population is to be regulated and controlled by the administrator of war resources. New construction, not immediately connected with the war, should be restricted as far as practicable.

*b. Raw materials.*—Military necessity requires that control of certain raw materials be established in order to obtain essential war production. It, therefore, becomes necessary to institute control over many important raw materials by Presidential proclamation upon the recognition of a national emergency. The flow of raw materials is to be directed in the desired channels by the action of "priorities," commandeering, and by arrangements between the Government and industry represented by war-service committees. The importation of raw materials will be carried on by governmental agencies or by private corporations under license from the War Trade Administration.

*c. Labor.*—The assurance to industry of an adequate labor supply, both in numbers and by occupational qualifications, will require the organization of a labor administration with an administrator of labor appointed by and directly responsible to the President. Among the more important problems to be considered are the minimizing, by an equitable distribution of war orders, of excessive migrations of labor; the prevention of unethical competition for labor by war industries; compilation for the information of the President of lists of industrial deferments required for efficient operation of war industries; the avoidance and settlement of labor problems; and the coordination of employment services.

*d. Finance.*—The methods used to finance the war and the regulation of the amount of currency in circulation determine the degree of inflation and the general trend in prices and must be considered in connection with price-control measures. The direction of the flow and the furnishing of new capital to the support of those industries on which the welfare of the country most depends must be secured (1)

by a system of priorities administered by an agency to be established by the President, and (2) by the creation of a corporation charged with the loan of Government funds. These measures are in addition to those which will be employed by such existing agencies as the Federal Reserve System.

*e. Power.*—The supply of power to industry is largely a local matter. Priorities, commandeering, and, if necessary, the formation of a Government corporation to control local situations are among the measures which may be employed.

*Fuel.*—The supply of fuel to industry through the establishment of a priority system gives to governmental control over industry a means of restricting the operation of unessential industries and of continuing those of an essential nature.

*f. Transportation.*—Transportation facilities, including rail, highway, inland waterways, pipe lines, and airways, will operate under the management of their own leaders, as directed by the Administrator of War Resources. The principal measures available to insure the necessary coordination in use and operation of transportation facilities are the establishment of priorities and embargoes.

## SECTION B. ORGANIZATIONAL PLANS

### 1. General.

Broad plans for industrial mobilization take cognizance of the genius of American Government and the popular concept of the responsibilities and duties devolving upon the Executive Branch in time of war. They have been developed on the following basic considerations:

*a.* Control of industry in war is a function of the President acting under the authority accorded him by the Constitution, by Congress, and by public opinion.

*b.* The size and the special and emergency nature of the task of coordinating American industrial effort demand a special organization to be made available to the President promptly upon the outbreak of war.

*c.* Plans must be practical rather than theoretical. In the interests of national morale they must operate justly and distribute war's burdens as equitably as practicable.

*d.* Emergency measures become effective primarily through the support of public opinion. Justice and fairness, supplemented by strong and intelligent leadership, will be more effective than arbitrary regulations, no matter by whom promulgated.

In the hands of a war-time President there is placed by the Constitution, by Congress, and by public opinion, a vast responsibility and a corresponding authority. His personal leadership must make itself felt forcibly and instantaneously from the seat of government in Washington to the remotest hamlet of the country. A smooth-working organization, specially designed for the unusual and emergency tasks that will develop, is essential.

The existing Cabinet departments are not adaptable to the performance of these duties. Their functions are specifically defined by law and custom and do not include the activities which must be undertaken by governmental agencies of a supercontrol character

during war periods. In general, existing departments are overburdened by their normal peacetime functions. Several of the more important departments exist to perform particular functions, both in peace and war. It would be unwise to superimpose emergency restrictive control measures over normal duties of service within such governmental agencies. The changes required in our institutions to make use of Cabinet departments as control organizations in war would be immensely greater than those necessary to establish temporary organizations specially for emergency control.

The controls and functions under discussion are not and should not be exercised in peace. The emergency organization would automatically terminate after the war. If these controls were exercised by a Cabinet department the tendency would be to retain such added war-emergency powers after the end of the war and thus establish permanently abnormal bureaucratic powers.

A further objection to the use of Cabinet departments for war control would be the difficulty of collecting all the scattered agencies and authorities into a focus and directing them toward the accomplishment of a definite purpose.

The existing Cabinet departments would, of course, continue to operate in war as they do in peace.

## 2. Organization of the Executive Branch of the Government of the United States.

*a. General.*—The chart facing this page shows the agencies through which the President will exercise those functions which are peculiar to his office in wartime and which are considered essential to the successful prosecution of the war effort. At the same time, the existing executive structure is maintained for carrying on, under necessary restrictions, the usual statutory duties. Full use is made of those departments which in peacetime have been granted special powers for use during periods of emergency and of those whose peacetime functions are of the same nature as those to be performed during an emergency. Thus the Interstate Commerce Commission, the Federal Reserve Board, the Federal Trade Commission, and various bureaus of the several executive departments habitually perform duties which will be extremely important functions of wartime control.

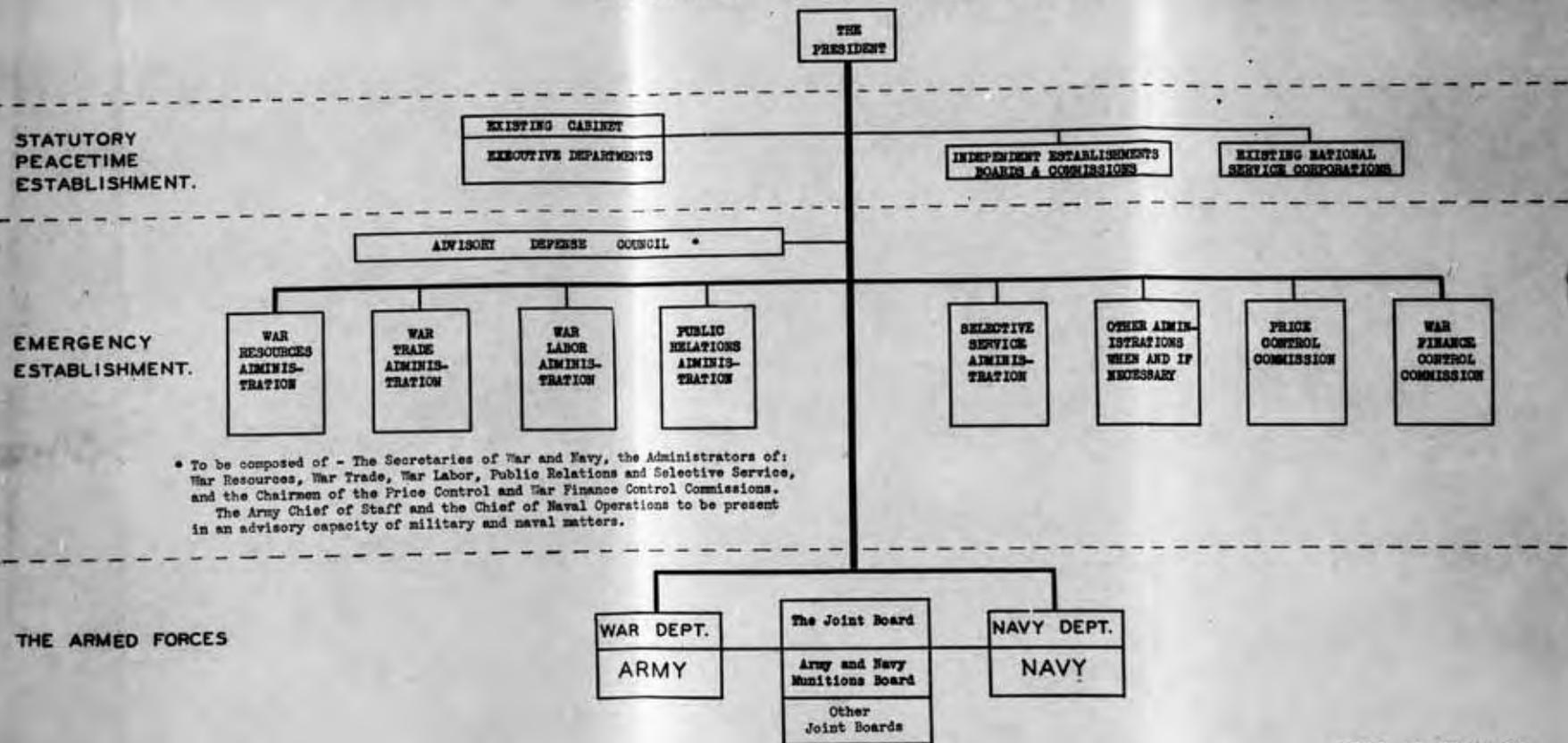
Special agencies are shown for those activities which pertain strictly to the mobilization of resources for the prosecution of war. This policy is generally conceded as the most practicable one, especially from a political standpoint, since the agencies created thereby may be quickly demobilized and existing agencies may take up their normal peacetime functions with a minimum of delay and unhampered by extraneous powers and duties not appropriately a part of the normal Federal system.

President Wilson made the following statement in this respect when advocating the passage of the Food Control Act in 1917: "It is proposed to draw a sharp line of distinction between the normal activities of the Government represented in the Department of Agriculture in reference to food production, conservation, and marketing on the one hand, and the emergency activities necessitated by the war in reference to the regulation of food distribution and consumption on the other. All measures intended directly to extend



Regraded Unclassified

ORGANIZATION OF  
THE EXECUTIVE BRANCH  
OF THE  
GOVERNMENT OF THE UNITED STATES.



\* To be composed of - The Secretaries of War and Navy, the Administrators of: War Resources, War Trade, War Labor, Public Relations and Selective Service, and the Chairmen of the Price Control and War Finance Control Commissions. The Army Chief of Staff and the Chief of Naval Operations to be present in an advisory capacity of military and naval matters.

the normal activities of the Department of Agriculture in reference to production, conservation, and the marketing of farm crops will be administered, as in normal times, through that Department, and the powers asked for over distribution and consumption, over exports, imports, prices, purchases, and requisitions of commodities, storing and the like, which may require regulation during the war will be placed in the hands of a commissioner of food administration, appointed by the President and directly responsible to him" (W. I. B. Bulletin No. 3, p. 47).

President Hoover's opinions in respect to organization and mobilization of industry and of the civil population generally, in war, are set forth in his letter of April 1924 to the House Committee on Military Affairs published in House Document No. 271, Seventy-second Congress.

*b. The Cabinet.*—The President's peacetime Cabinet remains as his advisory body for normal activities. His Cabinet officers continue to direct and control the organizations for which they are responsible. They cooperate with the war agencies.

*c. Advisory Defense Council.*—The Advisory Defense Council is the President's special war ministry. Its functions are to aid and advise the President in all matters pertaining to the prosecution of the war. It cooperates under the general supervision of the President to control and direct the combatant, economic, and moral forces of the Nation in waging the war.

*d. War Resources Administration.*—The functions of the War Resources Administration follow closely those performed by the War Industries Board during the World War. In general, its mission is to coordinate the munitions requirements of the Government and the requirements of the civilian population for the ordinary necessities of life and to effect an equitable adjustment between these requirements and the production capacity of the Nation.

The organization, functions, and procedure are set forth in appendix I.

*e. War Trade Administration.*—The control of war trade involves functions and activities requiring cooperation between the Departments of State, Commerce, and Agriculture, and the War Resources Administration, and might affect materially the strategic plans of the War and Navy Departments. For this reason establishment of an independent organization is indicated. Its primary mission is to control imports and exports to the best interests of a successful economic mobilization, negotiate trade agreements, and to further the economic isolation of the enemy.

The organization, functions, and procedure are set forth in appendix II.

*f. War Labor Administration.*—The mission of the War Labor Administration primarily is to insure that war industries and industries catering to essential civilian requirements are able to secure and maintain adequate forces of labor skilled and unskilled, to accomplish their missions. Consideration of the human elements and the political questions involved indicates the desirability of establishing a separate agency.

The organization, functions, and procedure are set forth in appendix III.

*y. Public Relations Administration.*—The mission of this administration is to coordinate and direct the national publicity activities so as to insure that the purposes, views, and progress of the Government in prosecution of the war are properly and adequately presented to the people and that the aid of public opinion is enlisted to the fullest possible extent in behalf thereof.

The organization, functions, and procedure for this Administration are being revised by appropriate agencies, and, when completed, will be included in the next revision of the Industrial Mobilization Plan as appendix IV.

*h. Selective Service Administration.*—This agency is responsible for the administration of the Selective Service Act which, upon enactment, will govern the selection of personnel for and their induction into the armed forces.

The organization, duties, and procedure for this Administration are being revised by appropriate agencies, and, when completed, will be included in the next revision of the Industrial Mobilization Plan as appendix V.

*i. Other administrations.*—The need for separate administrations for the control of food, fuel, power, and transportation may arise. It is intended that such control as is now deemed necessary during the early stages of industrial mobilization will be exercised through the War Resources Administration. However, if later conditions necessitate, independent administrations will be created and their status will be as indicated on the chart.

*j. Price Control Commission.*—This is a quasi-judicial body for the formulation of policies and methods for the control of prices and profits, and for the stabilization of fair wages. Its decisions are published in the name of the President and they are administered through the established wartime control agencies. Representation of interested Government agencies on this committee is intended to insure complete cooperation and the elimination of conflicting action.

The organization, functions, and procedure are set forth in appendix VI.

*k. War Finance Control Commission.*—The necessity for preferential application of capital and resources to essential enterprises calls for official control of security issues with a view to preventing unnecessary capital expenditures. There will also be need to render financial assistance to industry in order that it may adjust itself to essential wartime production. When on account of excessive risks or the lack of adequate assurance of a reasonable return on the investment, private capital will not make itself available to essential enterprises, the Government itself must assume the responsibility.

The organization and powers of this commission are set forth in bill no. 3, appendix VII.

*l. National war service corporations.*—Independent administrations may find it necessary to organize and incorporate certain subsidiary agencies for the accomplishment of established policies.

# APPENDIX I. INDUSTRIAL MOBILIZATION PLAN, 1936, WAR RESOURCES ADMINISTRATION

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### SECTION A. AUTHORITY

When a war emergency is imminent, the establishment of the War Resources Administration should be effected by the President based upon the wartime powers of the Government and existing supporting legislation.

Other administrations provided later in this plan will require definite legislative authority for their establishment. The War Resources Administration is initially in effect a transition organization to bridge over economic control from peace to war. Pending the establishment of other superagencies, it would, insofar as it is able, perform the duties prescribed for all superagencies. Legislative authority does not now exist for some of the control measures set forth to be exercised, but the plan provides drafts for the necessary legislation.

Drafts of a Presidential proclamation and of additional legislation for carrying into effect the provisions of this plan are contained in Appendix VII, Legislation.

### SECTION B. INTRODUCTION

1. The War Resources Administration is the pivot about which the wartime industrial control turns. It is the most powerful arm of

the President for converting the industries into war uses. It is the first meeting point of the war machine and industry. It is the first national superagency established and can operate to a limited degree under the wartime powers of the Government and existing legislative authority until additional legislation is secured to cover the full control powers herein set forth. It will clear requirements for the Government war agencies, industry, and the civilian population, allocate to manufacturing units suitable portions of the requirements of the armed forces and of the civilian population, apportion to such facilities proportionate parts of existing stocks or available production of raw materials or of finished parts subsidiary to the manufacture of primary items, assign priority of production and delivery to war materials, curtail nonessential production, eliminate wasteful production by various restrictions, and collaborate with other governmental agencies in controlling prices.

2. It will be noted that there is a similarity in the organization charts of the Army and Navy Munitions Board and the War Resources Administration as both have similar functions—the balancing of requirements and resources. The planning agencies of the Army and the Navy initiate this work by peacetime procurement planning and by providing for initial placing of orders for munitions on outbreak of war. The Army and Navy Munitions Board, although not exercising any control over civilian industry, coordinates the industrial demands of the Army and the Navy and, until the War Resources Administration is created and ready to function, clears procurement requirements for the fighting forces, allocates facilities, assigns production and delivery to meet prescribed military priorities, and in general coordinates the procurement program so that the War Resources Administration can take over its functions under circumstances favorable to future control.

3. It will be seen that the organization and procedure of the War Resources Administration as set up in this plan differ in some important respects from the War Industries Board of the World War which developed by successive steps in the midst of chaotic and uncontrolled conditions.

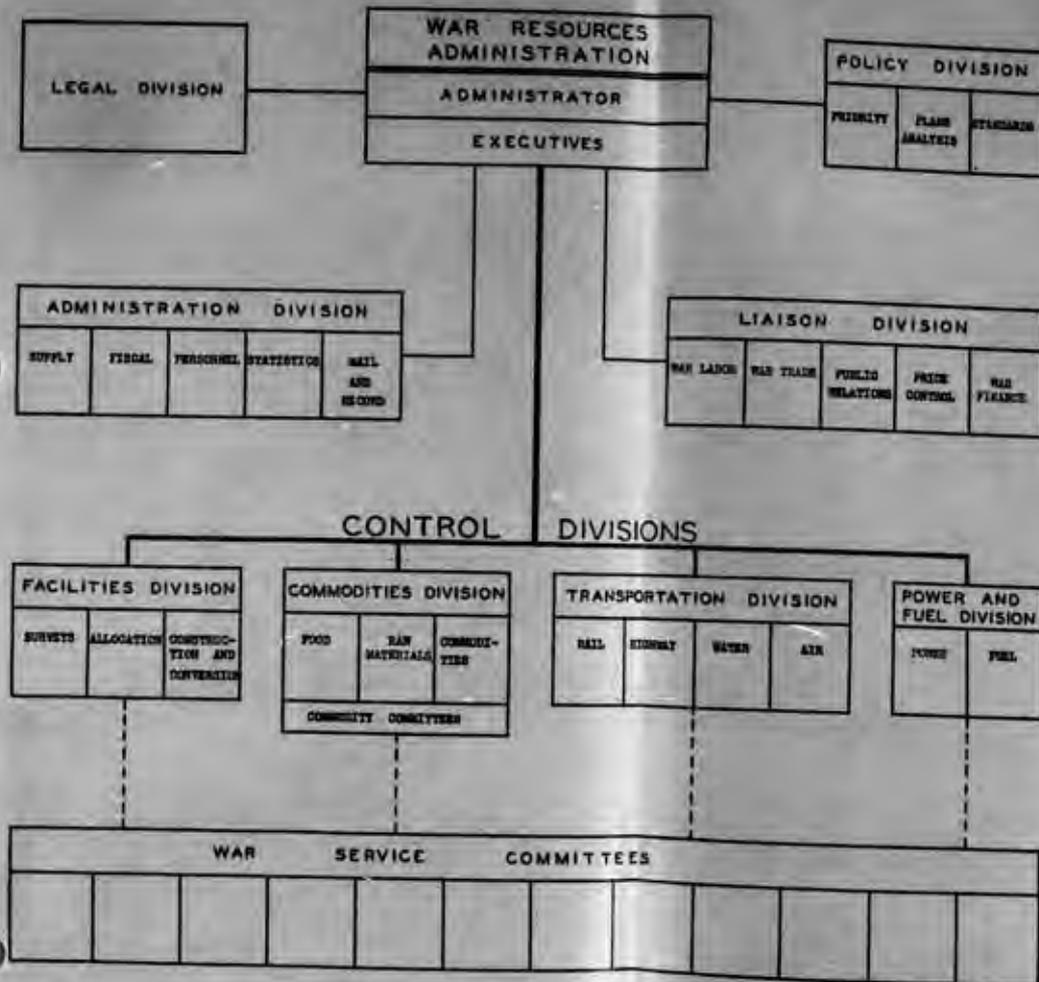
SECTION C. ORGANIZATION

The organization of the War Resources Administration shown on the chart opposite is a development of the War Industries Board of the World War, and is deduced from its principal function of synchronizing Government requirements and resources. The keystone of the organization is the scheme of contacts with all of the governmental agencies and the industries of the country.

SECTION D. ADMINISTRATOR OF WAR RESOURCES

The powers and responsibility of the War Resources Administration are vested in the Administrator, who is appointed by the President and to whom he is directly responsible. The Administrator is a member of the Advisory Defense Council.

ORGANIZATION OF  
WAR RESOURCES ADMINISTRATION



sions of the Price Control Commission, for these control divisions are charged with the administration and enforcement of price control policies and measures adopted by the Price Control Commission. Statistical data respecting price control decisions and current prices of commodities and supplies are kept by this section.

*e. War Finance.*—This section maintains liaison with the War Finance Control Administration to present to it the needs of essential industries for additional capital either through the marketing of new issues of stocks and bonds or through the medium of direct financial assistance in the form of governmental loans.

#### SECTION F. CONTROL DIVISIONS

##### 1. General.

The control divisions under the Administrator of War Resources are organized primarily to administer the established industrial control policies approved by the Administrator. They will, in addition, administer certain control policies originating in other duly authorized governmental war control agencies, such as the Advisory Defense Council and the Price Control Commission.

The chiefs of the control divisions will exercise full control, under direction of the Administrator, of the commodities or services falling within the purview of their responsibilities.

As the War and Navy Departments are charged with the responsibility for the preparation of plans and policies for industrial mobilization, these two Departments will provide the trained officer personnel required to assist in the initiation and execution of these plans and policies upon the declaration of war. One officer from each Department will remain on duty in each of the control divisions to represent their respective Departments. Other governmental agencies interested in specific commodities or services will be represented as conditions warrant.

The control divisions will be concerned primarily with the administration of approved priority policies, creation of new facilities, and opening of sources of supply, conversion of existing facilities where necessary to new uses, allocation of facilities and apportionment, where necessary, of materials and services, conservation of resources and facilities, and the administration of approved price-control policies.

The control divisions in coordinating procurement will continually recognize the responsibility of established governmental procuring agencies and will leave to them the greatest freedom of action and initiative consistent with the necessary coordination.

The control divisions will arrange for any required engineering or other scientific research, or process development, through liaison with existing agencies, including War, Navy, and other Federal Departments and agencies, State agencies, educational institutions, industrial establishments, trade associations, engineering and scientific societies, and endowed research institutions.

The control divisions will supervise appropriate research in connection with:

- (1) Conservation of critical and strategic raw materials.
- (2) Substitutes for critical and strategic raw materials.

(3) Improvement in industrial practices and processes employed by war industries.

(4) Technical aspects of enemy industry.

## 2. Facilities division.

*a.* This division assists in the coordination of procurement through the allocation, extension, conversion, and construction of facilities which involve not only the Army and the Navy, but other branches of the Government procuring war requirements.

*b.* It equalizes the load placed upon industry by proper geographic and strategic distribution. It takes into consideration the use of existing facilities, with a view to using the available and existing distribution of power, labor, and transportation. It insures the placing of war orders and contracts with existing facilities, which in turn promotes rapid and efficient production and reduces the need for new facilities to a minimum. In general, instead of allocating war orders, as was done during the last war, facilities for producing these war orders will be allocated. In other words, this control division takes necessary action on requisitions for the allocation of facilities, after investigation and upon advice of the other divisions, sections, and committees concerned. It recommends, after investigation, the suitability of the facility to produce the items for which it was requisitioned. It receives, investigates, records, and assigns facilities to a Government agency, either upon requisition for the allocation or upon a request by a procuring agency for a facility for the production of a specific requirement. In this way this division acts as a clearing house and decides upon the adaptability of a facility for allocation. It also investigates sources of supply and recommends facilities for allocation, when called upon to do so. Copies of all data on facilities in the allocation sections of the War and Navy Departments and the Army and Navy Munitions Board should constitute a nucleus of information for this division. This division will keep in close contact, and should receive advice from the commodity committees and the divisions having to do with power, labor, and transportation. Liaison will be maintained with the major procuring departments, through the representatives of those departments who are assigned to this division, and with industry through war service committees.

## 3. Commodities division.

*a. Functions.*—The functions of this division are exercised through commodity committees. These functions are—

- (1) To ascertain the probable total requirements.
- (2) To assure timely supply of critical and strategic raw materials to war industries and other essential industries.
- (3) To anticipate possible shortages in production of commodities.
- (4) To control the distribution of the stock of available supplies in conformity with the determined priorities.
- (5) To investigate and recommend the scales of prices at which essential materials may be sold and to administer price-control measures in accordance with established policies.

- (6) To prepare and supervise the execution of regulations relating to the sale and production of commodities.
- (7) To encourage the use of other materials by less essential industries where necessary to prevent the possibility of a shortage of critical and strategic materials.
- (8) To ascertain the needs of industries engaged in producing critical and strategic materials, and find means to satisfy them.
- (9) To be acquainted with manufacturing methods and processes involved in the production of essential materials.
- (10) To determine available sources of supply and important factors affecting the production rate, stocks on hand, and similar questions bearing on quantities available.
- (11) To initiate measures to stimulate the production of those essential materials in which a shortage might occur.
- (12) To secure information as to stocks, production, and consumption from persons, companies, societies, or others interested.

*b. Commodity committees.*—Commodity committees are composed of a chairman appointed by the chief of the commodities division, representatives of the Army and the Navy and other interested governmental agencies having war requirements, and such technical assistants as may be necessary. The power of decision is vested in the chairman, under direction of the chief of the division. Sufficient committees will be organized to take cognizance of all commodities over which control is necessary.

*c. Methods.*

- (1) Control by allocation: The allocations of raw materials may be made to war industry and to other essential industries. These allocations should be based upon the priorities accorded the products of these industries. This control may be readily effected by a system of permits in which a commodity committee will certify the amounts of strategic and critical raw materials to which any industry may be entitled. The actual distribution may be made or controlled by the commodity committee, by other Government agency, or by any designated agency such as a trade association. The agency designated for the distribution shall approve the individual permits submitted by consumers in accordance with the limitations established by the commodity committee, and shall control the custody of all or a designated portion of all supplies received either from domestic sources or through importations. Producers and importers will be required to conform to the rules of the commodities division as to the control of supplies and the distribution methods decided upon.

Examples of different methods which may be established as practiced during the World War are cited as being applicable to different commodities. These illustrate the forms of a control that could be exercised in connection with any commodity.

- (a) *Mercury*.—The Navy Department was designated as the purchasing agency for all supplies of mercury to be used by Government consumers and contractors. The producers and importers were required to sell a minimum stated percentage to the Navy Department; the percentage being changed from time to time according to supplies made available and to Government requirements. The various purchasing agencies of the Government were given allowances for this material and up to these amounts could purchase from the Navy Department and have deliveries made to their manufacturing plants or to those of their contractors.
- (b) *Tin*.—The American Iron and Steel Institute was made the consignee of all tin imports into this country, and operated the system of distribution of this metal under supervision of the commodity section of the War Industries Board. Later a private corporation was formed which acquired all tin stocks of the country and, under rules promulgated by the War Industries Board, became the sole seller of tin to the industry of the country.
- (c) *Steel*.—A director of steel distribution was appointed by the steel industry to assure an orderly allocation of steel requirements for the industries of the country. The director acted under instructions of the commodity section, and when any restriction was decided upon, the director carried such orders into effect by limiting the amount of steel available to any manufacturer of the industry restricted.
- (2) *Licensing*.—Another method of control which may be employed is that of licensing dealers and producers. Licenses should specify rates of profit, amount, and character of output and other conditions under which licensees are permitted to operate. This method was employed efficaciously by both the Food and the Fuel Administration during the World War.
- (3) *Procedure for gathering and disseminating statistics and data relating to commodities*. One of the earliest measures to be taken in the interests of securing data upon which the necessary action can be based will be the organization of consuming and of producing industries into trade organizations and the formation of war service committees which shall be given the duty of collecting pertinent data regarding stocks, consumption, articles produced, producing methods, and practices, and measures necessary to increase production. The war service committees will be given the elements of the existing situation and will be requested to formulate methods to meet it in such a way that the war industries

of the country shall be assured adequate supply of their necessary commodities and that the remaining supply shall be equitably distributed. Endeavor will be made in this distribution that no plants and no industry shall be completely denied the raw materials essential to their continuance.

Each commodity committee shall establish a unit for the assembling and evaluation of statistics received, and prepare questionnaires to insure that it shall be supplied with data essential to carrying out its functions. Current data will be required regarding stocks, production, shipments, imports, sales, consumption by principal articles, and prices.

Commodity annexes, which are detailed plans for the procurement and control of strategic and critical materials, are prepared and currently revised by the Army and Navy Munitions Board and are on file in the records of that Board. These will indicate the more pressing problems requiring early research. Where rationing or restriction is necessary, the commodity division will analyze current statistics to determine the amount of conservation or restriction of consumption required, and research will be initiated to determine the items of manufactured materials or manufacturing processes where conservation methods or restriction of use can best be applied.

Dissemination of information to industry will in general be made through war-service committees. Where an industry has not yet been organized, the information, rulings, and other pertinent data may be sent directly to individuals or through local organizations.

Whenever deemed desirable to give wide publicity to any matter concerning production or conservation, the public-relations division will be called upon to disseminate the necessary information.

#### 4. Transportation division.

*a. General.*—The transportation agencies should operate under the coordination of their own leaders.

War and other emergency powers assigned to existing Federal commerce control agencies by congressional legislation should continue to be administered by such bodies, in cooperation with the chief of this division.

*b. Functions.*—The transportation division exercises control over all modes of commercial transportation in the zone of the interior and over all uses thereof. Its functions are as follows:

- (1) To formulate policies relative to the employment of the transportation facilities of the country.
- (2) To establish, under approved policies, rules and regulations to govern the operation of the Nation's transportation facilities and their use by shippers.
- (3) To effect such control as may be necessary to insure the most efficient use and operation of transportation facilities. This control is effected by means of the rules and regulations mentioned in (2) above, through the agency

of war-service committees and in cooperation with established Federal regulatory bodies. The use of transportation facilities by Government agencies is also governed by the rules and regulations established by this division.

*c. Mobilization.*

- (1) Upon the outbreak of an emergency of such magnitude as to place a serious additional load upon transportation facilities, it is not foreseen that the increase in load will be applied suddenly. Hence the mobilization of the transportation division and the measures to put it in operation may take place in orderly progression.
- (2) However, it will be necessary to accomplish certain preparatory measures with a minimum of delay in order that the work of the division may become effective in time to avoid the results of lack of timely coordination of the transport system. Such preparatory measures will consist of—
  - (a) Final revision of plans for the operation of the division.
  - (b) Preparation of draft of directive to the division from the Administrator of War Resources or checking and perfecting such draft as already exists.
  - (c) Preparation, in collaboration with personnel having cognizance of legal matters, of drafts of any necessary legislation, or revising such drafts as already exist.
- (3) The initial measures set forth above will be accomplished by the appropriate personnel of the Army and Navy Munitions Board functioning in the manner prescribed for peacetime. These measures should be undertaken as soon as it becomes apparent that the office of the Administrator of War Resources will be called into existence.
- (4) The final phase of the mobilization of the division will take place after the formation of the office of the Administrator of War Resources and will consist of the appointment by him of the chief of the transportation division, who will then proceed to complete and perfect an organization and to carry on the work already initiated by the Army and Navy Munitions Board.
- (5) The transportation annex is the detailed plan for control of transportation in a war emergency and is prepared and currently revised by the Army and Navy Munitions Board. This annex is on file with the records of that Board.

**5. Power and Fuel division.**

*a.* The mission of this division will be to insure that an adequate supply of power and fuel is furnished to facilities essential to war production, with a minimum of interference with the normal production, distribution, and use by the civilian population.

## INDUSTRIAL MOBILIZATION PLAN

b. This division has jurisdiction, under the Administrator of War Resources, over the development and use of power and fuel for war-time purposes. Its functions are as follows:

- (1) To formulate policies relative to the alleviation of shortages.
- (2) To establish, under approved policies, such rules and regulations governing use and conservation as may be necessary to insure an adequate supply.
- (3) To effect, through the media of war service committees and regional—or zone—control agencies, the control necessary to carry out the rules and regulations mentioned in (2) above.
- (4) Through the cooperation of the power and fuel industries, to cause the development of additional sources of supply if and where needed.
- (5) To maintain contact with established Federal and State peacetime regulatory bodies, with a view to the removal of existing restriction which might impede wartime production.
- (6) To assist in financial arrangements for those industries and—if and when necessary in order to prevent shortages for war purposes—to cause the formation of appropriate national-service corporations.
- (7) To cooperate with the other control divisions and with other governmental agencies in the furtherance of measures designed to assure an adequate supply of power and fuel.

c. Upon the outbreak of an emergency of such magnitude as to place a serious additional load upon power facilities, it is not foreseen that the increase in load will be applied suddenly. Hence the mobilization of the power section and the measures to put it in operation may take place in a reasonably unhurried manner.

d. For both power and fuel, it will be necessary to accomplish certain preparatory measures with a minimum of delay in order that the work of the division may become effective in time to avoid the results of lack of timely measures to insure the adequacy of power supplies. Such preparatory measures will consist of—

- (1) Final revision of plans for the operation of the division.
- (2) Preparation of draft of directive to the division from the Administrator of War Resources, or revising such draft as already exists.
- (3) Preparation, in collaboration with personnel having cognizance of legal matters, of drafts of any necessary legislation, or revising such drafts as already exist.

e. The initial measures set forth above will be accomplished by the appropriate personnel of the Army and Navy Munitions Board functioning in the manner prescribed for peacetime. These measures should be undertaken as soon as it becomes apparent that the War Resources Administration will be called into existence.

f. The final phase of the mobilization of the division will take place after the formation of the War Resources Administration and will

consist of the appointment by the Administrator of War Resources of the chief of the power and fuel division. The chief of this division will then proceed to complete and perfect the organization of the division, assisted by representatives from the Army and Navy Munitions Board.

Detailed plans for the control of power and fuel, prepared and currently revised by the Army and Navy Munitions Board, are filed with that agency.

The Federal Power Act of August 26, 1935, authorizes the Federal Power Commission, during any war period, to order such temporary connections of facilities and such generation, delivery, interchange, or transmission of electric energy as in its judgment will best meet the emergency and serve the public interest.

### SECTION G. WAR SERVICE COMMITTEES

#### 1. Composition.

Under the supervision of corresponding sections of the control divisions of the War Resources Administration, these committees are selected by each branch of industry or trade to serve on its behalf as a point of contact with the Government. They are not Government officials and are not a part of the governmental organization.

When a committee is formed, care should be exercised to see that it represents all interests in the particular industry, both small and large, and that the members are selected from among the ablest and best-informed men in that field, who command the respect and confidence of the industry as a whole.

#### 2. Purpose.

To provide an organized method by which the Government can quickly present to all the factors in an industry its needs in a particular line and receive dependable information as to how they may be met and what facilities are available.

To provide organized machinery to collect information and advise the Government as to what the needs of industry will be to meet the future requirements of the Government. (See sec. F, 3, c, (3), p. 23.)

#### 3. Mobilization.

Under the supervision and coordination of corresponding sections of the control divisions of the War Resources Administration, these committees will be organized as fast as conditions warrant. Those representing the main industries, such as steel, will be required on "M" day, or soon thereafter, while the necessity for others may not develop for many months after hostilities have begun. Between these two extremes will lie many cases of intermediate importance.

### SECTION H. REGIONAL AGENCIES

In the development of the organization of the War Resources Administration, the necessity for regional agencies will be met by their establishment as the need therefor arises.

## INDUSTRIAL MOBILIZATION PLAN

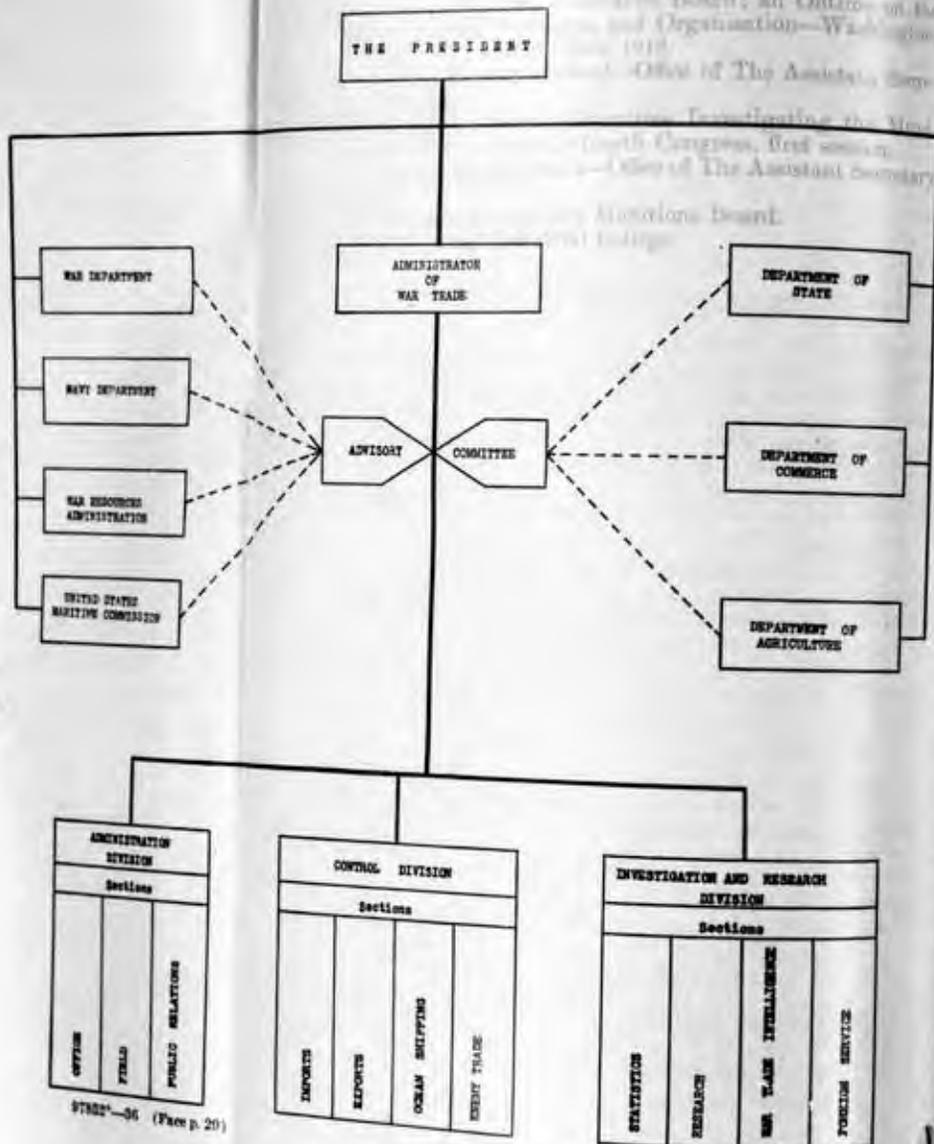
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Regraded Unclassified

ORGANIZATION

WAR TRADE ADMINISTRATION



ADMINISTRATION DIVISION		
Sections		
OFFICE	FIELD	PUBLIC RELATIONS

CONTROL DIVISION			
Sections			
IMPORTS	EXPORTS	OCEAN SHIPPING	REBUT TRADE

INVESTIGATION AND RESEARCH DIVISION			
Sections			
STATISTICS	RESEARCH	WAR TRADE ENFORCEMENT	FOREIGN SERVICE

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## APPENDIX II. INDUSTRIAL MOBILIZATION PLAN, 1936, WAR TRADE ADMINISTRATION

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### SECTION A. INTRODUCTION

The control of war trade involves functions and activities requiring cooperation between the Departments of State, Commerce, and Agriculture, the War Resources Administration, and the United States Maritime Commission, and may affect materially the strategic plans of the War and Navy Departments. The exercise of wartime control over imports and exports will therefore require the establishment of an independent organization.

### SECTION B. AUTHORITY

To establish the War Trade Administration and to exercise the functions outlined herein require legislative authority and executive action.

Draft of a proposed bill to effect these measures is contained in appendix VII.

### SECTION C. ORGANIZATION

The organization of the War Trade Administration is shown on the chart facing this page. This organization is deduced from and follows closely the War Trade Board of the World War.

## SECTION D. FUNCTIONS

The major functions charged to the War Trade Administration are to—

1. Exercise control of all exports and imports and, for such purposes, to issue licenses under such terms and conditions as are not inconsistent with law, or refuse licenses for the exportation or importation of all articles except coin, bullion, or currency.
2. Apply economic pressure on the enemy by preclusive purchase and by trade negotiations.
3. Administer established price-control policies relating to war trade. (See appendix VI.)
4. Provide for the conservation of ocean tonnage by import restrictions and priority control of export shipments.
5. Make effective a policy of reciprocity with other countries whose exports and imports may be influenced by the war.
6. In cooperation with the Administrator of War Resources, to provide for the conservation and augmentation of domestic supplies through export restrictions and by obtaining essential imports from foreign countries.

## SECTION E. ADMINISTRATOR

The powers and responsibility of the War Trade Administration are vested in the Administrator who is appointed by the President and to whom he is directly responsible. The Administrator is a member of the Advisory Defense Council.

## SECTION F. ADVISORY COMMITTEE

This committee is composed of representatives from the State, War, Navy, Agriculture, and Commerce Departments, the War Resources Administration, and the United States Maritime Commission. The purpose of the committee is to advise in the formulation of policies and plans in order to insure coordinated action by the agencies represented.

## SECTION G. ADMINISTRATION DIVISION

## 1. Office section.

The functions of this section are to furnish the required personnel, space, equipment, supplies, and to establish an efficient office practice.

## 2. Public relations section.

The functions of this section are the preparation of authorized publications and their distribution, the operation of the library, clipping service, translation service, and the printing of enemy trading lists and confidential suspect lists.

The director of this section represents the War Trade Administration on the advisory committee of the Public Relations Administration.

### 3. Field section.

The functions of this section include—

*a.* Jurisdiction and management of all branches, cooperative offices, and representatives of the War Trade Administration in the United States and its possessions.

*b.* Liaison with the Treasury Department, Post Office Department, and other governmental agencies, to execute the policies of the War Trade Administration.

*c.* Operation of a war trade information service for exporters and importers throughout the country.

## SECTION H. CONTROL DIVISION

### 1. Import section.

The purpose of this section is to control imports by a system of licenses in order to obtain essential materials from foreign countries.

The section chief will have on his staff advisers on commercial, legal, and foreign trade matters.

The functions of the section are to—

*a.* Issue import licenses.

*b.* Determine the application of war trade policies to import licenses requested.

### 2. Export section.

The function of this section is to act upon all applications for licenses to export in order to—

*a.* Control exports in the interest of conserving essential war materials.

*b.* Determine necessity for embargoes on exports to neutrals, or to regulate allotments to them in accordance with definite agreements.

*c.* Control exports to neutrals for bargaining purposes and to adjust unfavorable tonnage conditions.

*d.* Control foreign distribution of allowed exports.

### 3. Ocean shipping section.

The function of this section is to provide means for the conservation of ocean tonnage and for the transportation of necessities by import restrictions and by priority control of export shipments. It will carry out the policies of the War Trade Administration by its control over bunker and ship stores, by refusing or withholding licenses to any vessel not under military control entering the harbors of the United States, and by exercising control over cargoes, destination, and ship activities in general.

This section will maintain records of licenses issued, ship movements, ship cargoes, agreements entered into by shipowners, charterers, and operators; it will maintain records of shipowners, masters of vessels, and parties interested in the transfer of ships, and maintain a file giving the nationality, type, tonnage, and ownership of all vessels; it will approve the transfer of ownership of vessels; and audit ship stores. It will maintain branch agents in all ports of entry. The work of the section will be carried on by the collectors of customs.

#### 4. Enemy trade section.

The functions of this section will be to act upon applications for licenses involving enemy trade; to administer the control, by license, of the continued conduct of business in the United States by enemy concerns; and to grant licenses to enemies or enemy allies to assume or use other names than those by which they were known at the beginning of the war.

### SECTION I. INVESTIGATION AND RESEARCH DIVISION

#### 1. Statistics section.

The functions of this section are to furnish statistical service to the agencies of the War Trade Administration; to provide a service for checking the use of licenses, to detect different forms of abuse, such as overshipment, altering of licenses, etc.; and to supply conversion and stowage factors of commodities for governmental agencies such as the United States Maritime Commission, War and Navy Departments, and War Resources Administration.

#### 2. Research section.

The function of this section is to conduct research for the purpose of obtaining special information concerning actual and potential foreign sources of supply of materials and products critical to the enemy or to the United States.

#### 3. War trade intelligence section.

The primary function of this section is the determination of the enemy or nonenemy status of persons or firms trading with any person or firm in the United States. The collateral functions are—

- a. To pass on the character of the consignors or consignees named in import and export license applications.
- b. To supply the enemy trade section with information concerning applicants for license to trade with the enemy, and concerning the character of the persons with whom it is desired to trade.

#### 4. Foreign service section.

The functions of this section are—

- a. To determine the need of war trade representatives in the foreign field.
- b. To locate, investigate, and employ men to fill these needs and instruct and train them in the requirements of their positions.
- c. To keep foreign agents supplied with proper equipment and clerical help and advised of the policies and instructions of the board.
- d. To receive, copy, digest, and distribute reports of foreign agents.

### SECTION J. MOBILIZATION

The Bureau of Foreign and Domestic Commerce of the Department of Commerce has peacetime functions which closely parallel several functions of the War Trade Administration, and is therefore the logical source for trained personnel to assist in the formation of a War Trade Administration.

This Bureau has offices in the principal cities of the United States and has established contacts with importers and exporters for the dissemination of trade information. These offices have established a routine of communication with traders which could be readily modified to meet the conditions existing in wartime. Many of the reasons for which these offices were established, e. g., the promotion of foreign commerce, will cease to exist in wartime or will be completely changed by wartime foreign-trade policy. These offices will therefore become available for war work as the scope of their normal operations declines.

Similarly, the bureau's representatives in foreign countries could be utilized to carry on the foreign contacts in accordance with the policies of the War Trade Administration.

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## APPENDIX III. INDUSTRIAL MOBILIZATION PLAN, 1936, WAR LABOR ADMINISTRATION

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### SECTION A. INTRODUCTION

#### 1. General.

In time of war the man power of the Nation has two distinct missions; to provide men for the armed forces and to provide men for the maintenance of those armed forces. To meet the needs of the former, a selected portion of the male population within such ages as the Congress may direct will be called to the colors. The war effort

of the remaining major portion of the population must be so directed that it may meet the necessary demands of the armed forces in addition to the normal maintenance requirements of the civilian population. The plan for the organization of a War Labor Administration as set forth in this appendix has been developed to assist in this program and to provide machinery for the equitable and voluntary distribution of labor, skilled and unskilled, male and female, to industry and agriculture during the war period and to further to the utmost the war effort while causing the least possible disruption to normal industrial effort.

## 2. Industrial classification.

For the purposes of this plan, industries are classified as follows:

- a.* Those directly engaged in the production, transportation, and storage of supplies for the armed forces.
- b.* Those indirectly engaged in the production, transportation, and storage of supplies for the armed forces.
- c.* Those engaged in the production, transportation, and storage of supplies essential to the welfare of the civilian population.
- d.* Other industries.

The War Labor Administration will be concerned primarily with the problems of furnishing and maintaining adequate labor in those industries classified under *a*, *b*, and *c* above. The extension of such labor control policies as may be adopted to cover industries falling under classification *d* above will depend upon the developed magnitude of the war effort.

## 3. Functions.

The operating functions of the Administrator of War Labor from the time of mobilization are in cooperation with industry—

- a.* To determine labor requirements.
- b.* To fill those requirements by bringing together the job and the worker.
- c.* To keep together, so far as conditions will permit, the job and the worker.

Should the magnitude of the war warrant it, an additional operating function will be that of supervision over the industrial education and mechanical training of labor required by industry for necessary expansion or in replacement of men taken into the armed forces.

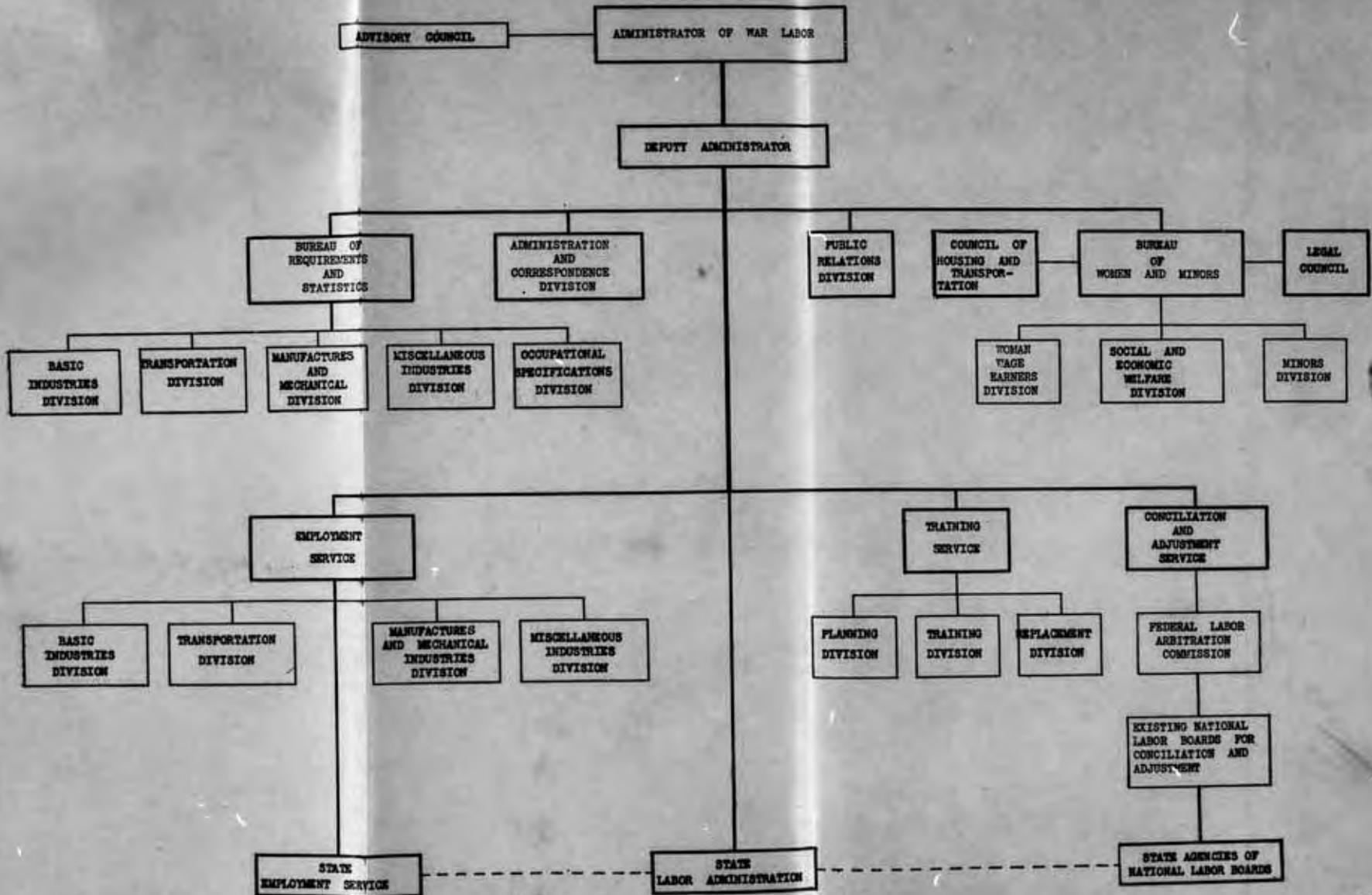
## SECTION B. AUTHORITY

To establish the War Labor Administration and to exercise the functions outlined herein requires legislative authority and executive action. If, at the outbreak of war, there should exist no legislative enactment providing for the creation of appropriate administrations with the necessary additional war time powers, proposed legislation and appropriate Presidential proclamations to cover these agencies will be found in appendix VII.

## SECTION C. ORGANIZATION

The organization of the War Labor Administration is shown on the chart. The effect of this organization is to place under one admin-

# WAR LABOR ADMINISTRATION



istrative head all the functions relating to employment and conciliation which were divided among several independent agencies during the World War.

#### SECTION D. ADMINISTRATOR

The powers and responsibilities of the War Labor Administration are vested in the Administrator who is appointed by the President, and to whom he is directly responsible. The Administrator is a member of the Advisory Defense Council. His mission is to insure first, that war industries, and second, that industries catering to essential civilian requirements are able to secure and maintain adequate forces of labor, skilled and unskilled, to accomplish their missions. The Administrator should be an outstanding citizen who is thoroughly familiar with the problems entering into the relationship between employer and employee and who is capable of dispassionate judgment in their solution. He should have the complete confidence of both management and labor in industry.

#### SECTION E. DEPUTY ADMINISTRATOR

The Deputy Administrator of Labor is appointed by the President on nomination of the Administrator of War Labor. He shall perform such duties as may be designated by the Administrator and shall act as Administrator of War Labor in the absence or disability of the latter.

#### SECTION F. ADVISORY COUNCIL

The Administrator of War Labor is assisted in the formulation of policies and the adoption of means to administer such policies by an advisory council consisting of 10 members, 4 of whom shall represent industry, 4 representatives of labor, and 2 representing the general public.

Members of the advisory council are appointed by the President.

The advisory council shall meet from time to time as directed by the Administrator of War Labor.

The Administrator or his deputy shall preside at all meetings of the advisory council.

Among the principal questions to be considered by the advisory council are—

1. Measures to prevent grievances of employers or employees, whether actual or imaginary, from interfering with war production.

2. The effect of organization of employers into trade associations and of labor into trade unions and the effect of the maintenance of the right of collective bargaining between such organizations on industry's ability to meet the material requirements of the armed forces.

3. Standards of wages, hours of labor, and working conditions.

4. Equality of pay for identical work.

5. Necessity for the modification of the statutory workday with due regard for the national necessity and the welfare of labor.

6. Maintenance of maximum production in all war work, and the suspension for the period of the actual emergency and a reasonable adjustment thereafter of restrictive regulations not having the force of law which unreasonably limit production.

#### SECTION G. PUBLIC RELATIONS DIVISION

The mission of this division is to act as a central agency for the dissemination of information to the public of official, educational, and informative material in support of the policies and methods involved in the War Labor Administration.

The chief of the division represents the Administrator of War Labor on the advisory committees in the office of the Administrator of Public Relations.

Methods and policies for the coordination of national publicity activities will be shown in appendix IV.

The division consists of two sections:

1. An information section which shall collect and tabulate full information on the work of the War Labor Administration, and prepare press and other releases for the information of the public. It will also prepare subject matters which appeal to the patriotism of the public to the end that the greatest possible participation in the war effort, particularly by men and women in industry, may be secured. Its work will consist primarily in the education of the public to an understanding of the magnitude of the industrial effort.

2. A publicity section which shall establish and maintain friendly relations with the press and with the radio, theater, and motion-picture activities and similar avenues of publicity. This section will be charged with securing the publication of press and similar releases relative to the war labor program, subject to the regulations established by the Administrator of Public Relations.

#### SECTION H. ADMINISTRATION AND CORRESPONDENCE DIVISION

In addition to caring for the usual office routine of correspondence and filing and the operation of stenographic and messenger pools, this division will be the custodian of the proceedings of the advisory council.

#### SECTION I. BUREAU OF WOMEN AND MINORS

##### 1. General.

This Bureau studies all problems peculiar to the employment of women and minors in industry and recommends regulations regarding their employment.

While the Bureau is itself primarily an advisory rather than an administrative agency, the peculiar nature of its work will call for a comprehensive organization to be composed of specialists in their various fields. Both advisory and administrative agencies of the Bureau will work in constant, though informal, contact with all other agencies of the War Labor Administration, particularly the employment service and the Requirements and Statistics Bureau.

## 2. Advisory agencies.

*a. Council of housing and transportation.*—The council will keep informed of the progress of infiltration of women into industry and commerce, particularly where the migration of considerable numbers is involved. All migration involving change of residence is to be considered. The council's recommendations regarding the housing and transportation of these workers will consider their families also in cases where the welfare of children is involved.

*b. Legal council.*—For several reasons, the statutes of the various States prescribe certain restrictions in the hours and conditions of employment of women and minors in industry. Other restrictions are brought about through regulations issued by various authorized Federal and State agencies, by agreements with trade unions, and in other ways. Many of these regulations and restrictions are expedient rather than necessary to the well-being of either the Nation or the workers. In a national emergency much of this expediency is lost and the operation of some of these regulations and restrictions may well be suspended.

This division has the double function of recommending in appropriate cases the suspension in whole or in part of such restrictions and, with the cooperation of the division of public relations, of securing the approval of public opinion to the action taken.

## 3. Administrative agencies.

*a. Woman wage-earner's division.*—In normal times there are approximately 10,000,000 women and girls over 16 years of age employed in industry, commerce, and the professions. The specific mission of this division is to divert the greatest possible number of these, particularly those engaged in mechanical and correlated scientific work, to munitions and essential civilian industries. This task will be largely educational in cooperation with the division of public relations. The division also must be prepared to undertake an active recruiting campaign in cooperation with the employment service for the securing, training, and infiltration of women, not gainfully employed, into industry, commerce, and auxiliary services to fill vacancies caused by the withdrawal of men to the colors and to provide for the labor expansion of many essential industries.

The work of the division will be divided among three sections:

- (1) *Section of women labor employed in commercial and routine office occupations.*—This section recommends methods to meet the needs of war and essential civilian industries for trained women. This includes the transfer of women factory workers from plants of lesser to those of greater essentiality.
- (2) *Section of highly trained women labor employed in administrative, professional, and scientific research positions.*—This section recommends methods to meet the needs of essential industries for women of exceptional training in highly specialized fields.
- (3) *Section of woman labor required for service with troops.*—This section is charged with locating women who comply with the occupational specifications of the War and

Navy Departments, and aiding any agencies of these Departments which may be established for the purpose of recruiting women of such classifications for duty with the armed forces.

*b. Social and economic welfare division.*—The accumulation of large numbers of women in restricted industrial areas to meet the labor demands of expanded essential industries presents serious problems in the maintenance of their social and economic welfare. This division through decentralized welfare units working under State organizations maintains social welfare agencies within the various industrial facilities as well as providing for social contact and aid during the leisure hours of employed women.

*c. Minors division.*—While the employment of children under the age of 16 years in industry or agriculture will be avoided wherever possible, it must be recognized from the beginning that the nature of the emergency may require such employment in its later stages. In the earlier stages, minors over 18 years of age, and in some cases over 16 years, can be utilized to advantage. The safeguarding of the morals and the physical health of such employed minors is the subject of the particular study of this division. This division further recommends regulations covering the employment of minors and their training for such employment, and lists classes of occupations from which they should be excluded.

#### SECTION J. BUREAU OF REQUIREMENTS AND STATISTICS

##### 1. General.

This bureau is an operating agency of the War Labor Administration. Its function is to collect and tabulate, primarily for the benefit of the employment service, all possible information regarding labor requirements both in war industries and in those essential to the welfare of the civilian population.

Labor requirements include the numbers by sex of unskilled and semiskilled workers and of skilled workers by occupational classifications, and the geographical distribution of such requirements.

This bureau lists occupational classifications which require time for the training of the worker. Similarly, this bureau lists non-productive occupations, and those which either are not essential to the war effort or are of a nature which permits them to be performed equally well by women or by men outside the draft age. The purpose of this listing is to afford the maximum replacement of men by women and the relief of men from nonessential occupations for transfer to positions in essential industries.

The determination of labor requirements of specific occupational classifications, particularly those of the "key men" class, requires an understandable and uniform terminology of such occupations.

##### 2. Basic industries division.

This division is subdivided into four sections:

Agriculture and animal husbandry section.

Forestry section.

Power section.

- Mining section:
  - Coal subsection.
  - Metals subsection.
  - Miscellaneous subsection.

### 3. Transportation division.

This division is subdivided into three sections:

- Railway section.
- Marine section.
- Miscellaneous section.

### 4. Manufactures and mechanical division.

This division is subdivided into seven sections:

- Construction section.
- Metal-working industries section.
- Wood-working industries section.
- Clothing industries section.
- Textile industries section.
- Boot, shoe, and leather industries section.
- Miscellaneous mechanical industries section.

### 5. Miscellaneous industries division.

This division is subdivided into six sections:

- Wholesale and retail trade section.
- Professional section.
- Clerical section.
- Hotel and domestic service section.
- Chemicals section.
- Miscellaneous section.

### 6. Occupational specifications division.

This division is subdivided into 10 sections:

- Rail transportation section.
- Marine transportation section.
- Miscellaneous transportation section.
- Communications section.
- Metal workers section.
- Wood workers section.
- Textiles section.
- Garment workers section.
- Leather and shoe workers section.
- Miscellaneous section.

## SECTION K. EMPLOYMENT SERVICE

### 1. General.

This service is an operating agency. Its function is to bring the job and the worker together. To accomplish this objective it must obtain the applicant's qualifications and be assured of the existence of the job for which his services are desired. Otherwise there will be large migrations of labor with serious complications in transportation, housing, and supply systems.

The war organization for labor mobilization requires a system of selective recruiting carried on simultaneously throughout the country and a personnel competent to perform this task. It requires a strong, though small, central organization for purposes of specialized

study and personal contact with other agencies of the Government and of industry and a thoroughly decentralized field force. It will utilize fully existing Governmental employment services and will cooperate closely with all State and municipal employment agencies.

Labor requirements in numbers of unskilled workers and in numbers and by occupational classifications of skilled workers will be obtained from the Requirements and Statistics Bureau, from the Army, Navy, Department of Agriculture, Bureau of Mines and other Governmental agencies, and from industry direct.

The work of the service is carried out through regional agencies which will vary in their organization according to the industrial, commercial, or agricultural character of the areas served.

## 2. Organization.

a. This service is organized into four divisions corresponding to the divisions of the Requirements and Statistics Bureau respecting types of industry served. These divisions make special studies of employment conditions and of labor requirements in their respective industrial fields as necessary preliminaries to the placement of required personnel.

b. The organization of these four divisions is as follows:

- (1) *Basic industries division.*—This division is subdivided into four sections:
  - Agricultural and animal husbandry section.
  - Forestry section.
  - Power section.
  - Mining section:
    - Coal subsection.
    - Metals subsection.
    - Miscellaneous subsection.
- (2) *Transportation division.*—This division is subdivided into three sections:
  - Railway section.
  - Marine section.
  - Miscellaneous section.
- (3) *Manufactures and mechanical industries division.*—This division is subdivided into seven sections:
  - Construction section.
  - Metal working industries section.
  - Wood working industries section.
  - Clothing industries section.
  - Textile industries section.
  - Boots, shoe, and leather industries section.
  - Miscellaneous mechanical industries section.
- (4) *Miscellaneous industries division.*—This division is subdivided into six sections:
  - Wholesale and retail trade section.
  - Professional section.
  - Clerical section.
  - Hotel and domestic service section.
  - Chemicals section.
  - Miscellaneous section.

## SECTION L. CONCILIATION AND ADJUSTMENT SERVICE

**1. General.**

This service is an operating agency. Its function is to keep the job and the worker together so far as this may be reasonably possible. To accomplish this result there should, of necessity, be promulgated an emergency national labor policy establishing the economic relationship that should be maintained between management and labor for the duration of the war, and establishing the national policy to govern in the settlement of all labor disputes.

**2. Organization.**

The Conciliation and Adjustment Service will consist of a Director, an Advisory Board and a Federal Labor Arbitration Commission. The Federal Labor Arbitration Commission will act as a central directing body for the coordination of the work of existing national labor boards under war emergency conditions. Such boards, which in peacetime have statutory jurisdiction within definite fields of industry, will have the added duties of operation under such wartime labor policies as may be adopted for national compliance. The cessation of war, with the removal of the Federal Labor Arbitration Commission will leave these respective Federal labor boards to function normally under their peacetime statutory directives.

The work of the service will be decentralized to the regional and industrial district agencies of the respective national labor boards. The adjudicating body of last resort will be the Federal Labor Arbitration Commission, but it will not take jurisdiction in any dispute until all other resources have been exhausted.

**3. Director.**

The director will be chairman of the Federal Labor Arbitration Commission.

**4. Advisory board.**

The director will be assisted by an advisory board composed of one representative each of the Army, Navy, Department of Agriculture, Department of Commerce, and Bureau of Mines, two representatives of employers, and two representatives of employees. All representatives except of the employer and labor groups will be designated by the organizations they represent. The latter will be designated from their associates by the employer and employee groups, respectively, of the Federal Labor Arbitration Commission.

**5. Federal Labor Arbitration Commission.**

The Federal Labor Arbitration Commission will be composed of the director of the conciliation and adjustment service, five representatives of employers, designated by industry, and five representatives of employees, designated by labor.

## SECTION M. STATE AGENCIES

In order that the work of the War Labor Administration may be decentralized in the interests of efficiency, the Administrator of War Labor shall create State War Labor Administrations to meet the labor problems arising within the respective States.

State War Labor Administrations will consist of a State War Labor Administrator, a State Advisory Council, and four administrative divisions. The Advisory Council will consist of six members, two of whom shall represent industry, two to represent labor, and two to represent the general public.

The four divisions of the State Administrations will be as follows:

*Administrative.*—To provide for the usual office routine.

*Statistics.*—To compile statistics of available labor both male and woman; to obtain the requirements for labor by all essential industry within the State; to compile data on replacement of male by woman labor; to study necessity for employment of minors; to report on effect upon industry of adopted national labor policies.

*Male labor.*—To prepare available men for labor through supervision of "vestibule schools" within industry and through liaison with other forms of manual or industrial education; to maintain an inspection service over conditions of employment within industries.

*Woman labor.*—To effect for woman labor what the above division does for male labor.

Requests for labor by essential industries within the States will be filled by the State employment service to which the operations of the Federal Employment Service have been decentralized.

The duty of adjusting disputes between management and labor within the several States will devolve upon the State agencies of the National Labor Boards operating under the general direction of the Federal Labor Arbitration Commission.

#### SECTION N. MOBILIZATION

For a war of major magnitude, the War Labor Administration should be organized immediately after M-Day. The employment service should be formed by the transfer of that function from the Department of Labor. The Conciliation and Adjustment Service should be formed by bringing all similar Federal bodies under one directing head—the Federal Labor Arbitration Commission—for the coordination of all similar activities to conform to the provisions of an adopted national labor policy for the war period.

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**APPENDIX IV. INDUSTRIAL MOBILIZATION PLAN, 1936,  
PUBLIC RELATIONS ADMINISTRATION**

The organization, duties, and procedure for this Administration are being revised by appropriate agencies, and, when completed, will be included in the next revision of the industrial mobilization plan as appendix IV.

**APPENDIX V. INDUSTRIAL MOBILIZATION PLAN, 1936,  
SELECTIVE SERVICE ADMINISTRATION**

The organization, duties, and procedure for this Administration are being revised by appropriate agencies, and, when completed, will be included in the next revision of the industrial mobilization plan as Appendix V.

## APPENDIX VI. INDUSTRIAL MOBILIZATION PLAN, 1936, PRICE CONTROL COMMISSION

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### SECTION A. INTRODUCTION

Public opinion in the United States believes that individuals should not be permitted to reap undue profits at the expense of the people and of the Government during times of a national emergency. Any effort looking to the curtailment of excess profits must include some means of controlling or regulating the prices at which commodities and services may be sold. Stable prices are also essential to the success of the industrial effort. No business can be conducted satisfactorily if it cannot ascertain its own costs and prices with reasonable accuracy in advance.

The War Policies Commission, in its majority report published in Public Document 264, Seventy-second Congress, first session, makes the following recommendation:

That the Congress should empower the President, in the event of war, to institute a program under which prices may be stabilized and thereafter adjusted at such levels as will minimize inflation and will secure to the Government the use of any private property needed in the prosecution of the war without affording the owner thereof profit due to the war. It should be clearly stated that such a program will not be placed in operation until Congress specifically directs it as a necessary measure in the conduct of the war.

## SECTION B. AUTHORITY

To establish the Price Control Commission and to exercise the functions outlined herein require legislative authority and executive action. Draft of a proposed bill to put into effect the above measures is contained in Appendix VII.

## SECTION C. ORGANIZATION

## 1. Price Control Commission.

This commission should be quasi-judicial in character and in no sense should it become an operative or an administrative agency. It is empowered to call for information and testimony from governmental and civilian institutions in order that the factors of supply and demand may be given proper consideration in its deliberations. Its decisions and policies are to be administered through and enforced by appropriate executive agencies as hereinafter indicated.

The initial membership of the commission should be as follows:

*a.* The chairman, appointed by and directly responsible to the President. He is a member of the Advisory Defense Council.

*b.* The Administrator of War Resources.

*c.* The Administrator of War Trade.

*d.* The Administrator of War Labor.

*e.* Chairman of the War Finance Control Commission.

*f.* The Assistant Secretary of War.

*g.* The Assistant Secretary of the Navy.

## 2. Cooperating agencies.

The principal agencies concerned either directly or indirectly in the compilation of data, furnishing of testimony, administration, enforcement, or other activity concerning price control are as follows:

*a.* The price control sections of the several executive departments and independent Government agencies.

*b.* The control divisions in the War Resources Administration.

*c.* The war service committees.

*d.* The War Labor Administration.

*e.* The national service corporations.

*f.* The Federal Trade Commission.

*g.* The United States Tariff Commission.

*h.* The Department of Agriculture.

*i.* The Interstate Commerce Commission.

*j.* The Public Relations Administration.

*k.* Department of Commerce.

*l.* Treasury Department.

*m.* The War Trade Administration.

*n.* Securities and Exchange Commission.

*o.* The War Finance Control Commission.

— ORGANIZATION —  
**FUNCTIONAL CONTROL OF PRICES  
 IN WAR**

**THE  
 PRESIDENT**

RESEARCH AND FACT FINDING AGENCIES

ADMINISTRATIVE AND CONTROL AGENCIES

**CHAIRMAN  
 PRICE CONTROL COMMISSION**

Secretary

**PRICE CONTROL COMMISSION**  
 Quasi-judicial body for the formulation of policies and methods for the control of prices and profits, and for the stabilization of fair wages. Hears testimony of producers and consumers and determines fair and reasonable prices and rates of profit to be established. Recommends just compensation in cases relating to commandeering and requisitioning.

**WAR AND NAVY DEPARTMENTS**  
 Development of procedure and policies which will assure reasonable prices in the procurement of munitions, investigations and advice concerning prices being paid.

**TREASURY DEPARTMENT**  
 Follows methods in public finance which will minimize currency inflation.

**WAR TRADE ADMINISTRATION**  
 Control of war trade. Negotiates trade agreements. Controls distribution and prices of imports in conformity with established policies.

**WAR LABOR ADMINISTRATION**  
 Administrative agency for mediation, conciliation and adjustment of wage disputes.

**WAR RESOURCES ADMINISTRATION**  
 Administers price control policies affecting essential industries.

**WAR FINANCE CONTROL COMMISSION**  
 Approves sale of securities. Makes loans to essential industries.

**GOVERNMENT RESEARCH AGENCIES**  
 Statistical and research work in connection with production costs, especially Bureaus of Mines and Foreign & Domestic Commerce.

**DEPARTMENT OF AGRICULTURE**  
 Statistical and research work relating to prices to be established on farm products and farm implements.

**INTERSTATE COMMERCE COMMISSION**  
 Usual statutory authority over rates to be charged in Interstate Commerce.

**UNITED STATES TARIFF COMMISSION**  
 Studies and investigations relating to tariff duties and their effect on the domestic price structure.

**FEDERAL TRADE COMMISSION**  
 Collects data on production costs and makes usual investigations relating to trade practices.

WAR SERVICE COMMITTEES					
				Information and testimony on matters affecting their respective industries.	

## SECTION D. METHODS, PROCEDURE, AND GENERAL POLICIES

**1. Measures to be adopted.**

*a.* The time for the initiation of price-control measures is left to the discretion of the commission as are also the scope and nature of the control which is to be applied to particular commodities or groups of commodities.

Whether early action is to be limited to a selected class of necessities and essential war materials or is to be extended to include the entire price structure is dependent upon conditions which exist at the time and upon the extent to which it can be shown that the action taken is reasonably necessary for the national defense and the successful prosecution of the war.

Early action is essential where the known requirements of the Government for any commodity are so large as to make a scarcity of the item or an unwarranted rise in its price or the prices of related commodities a certainty. Such conditions necessitate—

- (1) Immediate licensing of importers and exporters.
  - (2) Control over the supply and distribution of critical and strategic raw materials and basic commodities either by license, by governmental monopoly or as otherwise provided in the procurement plans for such materials.
- b.* The Commission in its discretion may prescribe—
- (1) Maximum, minimum, or absolute prices.
  - (2) Margins of profits to producers and dealers.
  - (3) Differentials based either on primary markets or upon zones or districts.
  - (4) Different prices for different localities or for different uses in the same locality.

**2. General policies.**

The following general policies should govern the action to be taken:

*a.* Prices, when established, should apply alike to governmental and to civilian purchases. They should remain in force until changed by the Commission.

*b.* In general all prices should be considered as maximum. Minimum prices should be prescribed only when such action is necessary to stimulate production to a point higher than has been brought about by current conditions, or as a special aid to producers of a certain commodity.

*c.* Uniform per unit prices, slightly above the bulk line of cost, should be prescribed for basic commodities and raw materials, except where it is manifestly to the national interest to prescribe a graded scale of prices based on differences of cost. A graded scale of prices, if carried out in full detail, is practically a cost-plus system and gives an incentive to wasteful and inefficient management. Moreover, this method involves laborious investigations, is difficult to apply, and provides opportunities for fraud and evasion. The single-price policy, allowing differentials for quality, transportation, and margins between producers and dealers, makes less of a departure from normal business conditions and is less complex in its administration.

*d.* The prices of certain classes of manufactured goods and of certain groups of commodities, such as foodstuffs, are subject to great

variation and rapid fluctuation due to a variety in grades and quality and to peculiar conditions which obtain in their production and distribution in different localities. The establishment of prices under such conditions presents administrative difficulties of extreme complexity. Margins of profits may be prescribed for those engaged in the production and distribution of such commodities.

### 3. Basis for determination of prices.

In the determination of prices, the Commission should be guided by the fact that just compensation must be allowed. With this in view it may base its decisions as to prices and/or profits on whichever of the following it deems to be most desirable in each case.

a. Profits earned by the industry or the commercial activity concerned over a pre-war period to be specified by the Commission.

b. The cost of producing the last unit of the indispensable amount of the commodity required by the war program either throughout the industry as a whole or upon a regional or territorial basis.

c. Prevailing market prices.

d. Actual cost of production plus a reasonable return on capital investment. The determination of what constitutes capital investment presents many difficulties which make this method one of limited use except in the formation of rate schedules for services of public utilities.

### 4. Procedure to be followed.

a. *General.*—Interested war service committees and the control divisions in the office of the Administrator of War Resources as representatives of the producer and the consumer may be called upon for testimony and advice regarding the prices or margins of profit to be established for their respective commodities or enterprises. Cost and other data may be obtained from the Federal Trade Commission, the Securities and Exchange Commission, and other statistical agencies. Rulings of the Price Control Commission should be promulgated in the name of the President and administered by the appropriate control divisions in the office of the Administrator of War Resources.

b. *Rates for public utilities.*—The Interstate Commerce Commission should continue to regulate transportation rates. Representation of this Commission and of the War Labor Administration on the Price Control Commission should serve to maintain a proper balance between commodity prices, utility rates, and wages.

c. *License system.*—Producers and dealers in foodstuffs, certain basic raw materials, and manufactured necessities should be put under license control. Licenses may specify margins of profit and other conditions under which licensees are permitted to operate. Administration of these measures should be effected by the appropriate control divisions in the office of the Administrator of War Resources through such local and community organizations as are deemed by them to be necessary.

d. *Foreign trade.*—Foreign trade is controlled by a system of licenses which specify conditions relating to prices, Government options, distribution, and resale desired by the Price Control Commission and other control agencies. The War Trade Administration is responsible for the administration of these measures.

*e. Critical and strategic raw materials.*—Complete control over the supply and distribution of certain critical and strategic raw materials may be necessary. Government-owned corporations or designated private associations, under license control, should procure the available supply of such commodities. Resale and distribution should be at prices designated or approved by the Price Control Commission. When necessary, procurement may be made by means of requisitions.

*f. Rentals and real-estate prices.*—In order to retard the tendency toward and undue rise in the prices of real estate and rentals, a presidential proclamation may be promulgated declaring it unlawful to buy, sell, rent, or lease any real estate or place of dwelling, or business at a higher rate or price than is in effect at the time designated. Modification of this general ruling may then be made from time to time in order to keep these prices in consonance with wages and commodity prices.

Regulation of private construction and development projects in those cities where the influx of essential war labor makes such projects necessary may be had through existing building-permit systems of the city or community concerned.

*g. Publicity.*—The development and promulgation of the publicity campaign are functions and responsibilities pertaining to the office of the Administrator of Public Relations. The Price Control Commission should keep the Administrator of Public Relations informed as to its aims and policies, and as to the extent of the control required. The controlling objective to be obtained is the crystallization of public sentiment against rising prices and against such activities as hoarding, speculation, and waste.

*h. Interest and insurance rates.*—Where the Commission finds that high interest and insurance rates are adversely affecting the operation of price-control measures, it should notify the appropriate governmental agency and recommend that remedial action be taken.

*i. Enforcement measures.*—When the voluntary cooperation of the public and the producers cannot be enlisted in the enforcement of the Commission's rulings it has recourse to the following alternative actions through appropriate control agencies:

- (1) Use of the priority function.
- (2) Revocation of licenses.
- (3) Rationing.
- (4) Prosecution of violators.
- (5) Commandeering and requisitioning of facilities and commodities.

##### 5. Related activities.

It is not intended that this plan prescribe the methods and functions of agencies other than those directly responsible for the initiation of price-control measures. The broad general policy under which they will be carried on as an aid to price control is as follows:

*a. Government contractual relations* are to be so administered as to insure the contractor against undue risks incident to wartime production. Reasonable profits only are to be allowed. The contractor is given an incentive for efficient production and is penalized for inefficiency.

*b.* In those cases where undue profits are allowed to accrue to low-cost producers the excess-profits tax should be designed to recover such profits.

*c.* The War Trade Administration's activities in negotiating trade agreements and securing needed items of foreign production should be designed wherever possible to stabilize and not disrupt the price structure.

*d.* Conservation, by curtailing the nonessential uses of materials and services, will lessen the demand factor and thus tend to relieve the upward pressure on prices.

*e.* An intensive antihoarding campaign will be effective in freeing existing resources and further increasing the supply of essential goods.

*f.* The War Finance Control Commission should direct the flow of private capital into essential uses and curtail the non-essential.

*g.* Government procurement activities are to be so supervised and coordinated as to eliminate competition between Government agencies, reduce unnecessary purchases, and to insure an equitable distribution of the production load.

*h.* The Treasury Department assisted by the Federal Reserve System should employ those methods of public finance which will keep currency and credit inflation to a minimum. This is essential to the success of any effort looking to the control of prices.

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## APPENDIX VII. INDUSTRIAL MOBILIZATION PLAN, 1936, LEGISLATION

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### SECTION A. INTRODUCTION

The formulation, in time of peace, of plans for the mobilization and utilization of the industrial resources of the Nation in time of war is a duty imposed by Congress. In the performance of that duty consideration must be given to the content and scope of legislative enactments which will facilitate and make possible the working out of such plans. In consequence, drafts of bills which can be presented to Congress when war is imminent are prepared and revised from time to time. Naturally, such drafts are not written in all detail, since many details can be supplied only when possible contingencies can be forecast with reasonable accuracy.

### SECTION B. EXISTING LEGISLATION AND PRESIDENTIAL AUTHORITY

The more important laws and authority under which the President could, in the event of an emergency and without further legislation, by virtue of his constitutional powers, take steps toward industrial mobilization are as follows:

#### 1. War powers.

In time of peace the coordinate branches of the Government have fairly well-defined powers. To these in war are added additional powers, *war powers*, which are not so clearly defined but arise out of, or spring from, expressed or implied constitutional grants. The Constitution of the United States, by creating a sovereign State, authorizes all acts necessary to preserve, protect, and defend the sovereignty thus created. While no attempt was made by the framers of the Constitution to enumerate all of these powers, that fact in no wise restricts or prohibits their exercise.

James Madison, as quoted in Lodge's *Federalist*, pages 250-251, discusses the essential indefiniteness of these war powers and adds this significant statement:

\* \* \* It is in vain to oppose constitutional barriers to the impulse of self-preservation.

Alexander Hamilton, quoted in the same publication (pp. 136-137), says respecting war powers:

\* \* \* These powers ought to exist without limitation, because it is impossible to foresee or define the extent and variety of national exigencies, or the correspondent extent and variety of the means which may be necessary to satisfy them \* \* \*

First will be noted the recognized war powers of Congress.

In the *Prize cases* (2 Black, 635, 668) the Supreme Court said:

By the Constitution, Congress alone has the power to declare a national or foreign war \* \* \*

And, again, in *Miller v. United States* (11 Wall. 268), the Court said:

Of course, the power to declare war involves the power to prosecute it by all means and in any manner in which war may be legitimately prosecuted.

The Supreme Court has given the broadest possible interpretation to the meaning of the term "war", holding it to embrace all cases where a country attempts to maintain its rights by the employment of force.

In general, it may be noted in passing, all Presidents since Washington have recognized in their State papers this constitutional prerogative of Congress.

In *Ex parte Milligan* (4 Wall. 2, 139), the Supreme Court differentiated between the war powers of the Congress and of the President in these words:

Congress has the power not only to raise and support and govern armies, but to declare war. It has, therefore, the power to provide by law for carrying on war. This power necessarily extends to all legislation essential to the prosecution of war with vigor and success, except such as interferes with the command of the forces and the conduct of campaigns. That power and duty belong to the President as Commander in Chief. Both these powers are derived from the Constitution, but neither is defined by that instrument. Their extent must be determined by their nature and by the principles of our institutions. The power to make the necessary laws is in Congress; the power to execute is in the President. Both powers imply many subordinate and auxiliary powers. Each includes all authorities essential to its due exercise. But neither can the President in war, more than in peace, intrude upon the proper authority of Congress, nor Congress upon the proper authority of the President. Both are servants of the people, whose will is expressed in the fundamental law.

Fairlee, in the *National Administration of the United States*, page 33, gives a simpler and briefer delineation, thus:

Congress regulates whatever is of general and permanent importance, while the President determines all matters temporary and not general in their nature.

Senator Knox, an able constitutional lawyer, stated in part, as quoted in the *Congressional Record*, page 2359, May 14, 1917:

\* \* \* The war powers of the Constitution, in my opinion, are dormant until a status of war is declared by Congress; and then they may be exercised without limitation or qualification to the extent that the safety of the Nation demands. Of this, Congress is the judge, except as the Commander in Chief of the Army and the Navy, in the actual conduct of the war, and in a case of great emergency or dire necessity, may be compelled to act. By this construc-

tion of the Constitution, Mr. President, the Constitution itself is preserved in its entirety. Indeed, the exercise of the war power is the only way in which the Constitution can be preserved. \* \* \* My position is that the Congress of the United States, after the war has been declared, may pass any law which it believes is necessary for the preservation of the Nation.

Next will be noted the recognized war powers of the President.

The war powers of the President are not so simple of definition as are those of Congress, because they are of two types, or are resident in two quite separate legal entities. They are, first, those which the President has as the Executive head of the United States. They are, second, those which the President has by virtue of his office as Commander in Chief of the Army and of the Navy. If one were to think that these two duties were assigned to two different persons, a differentiation between the duties as well as their overlapping would readily be apparent. The Supreme Court in the *Prize cases* previously noted said:

The Constitution confers on the President the whole executive power. \* \* \* He is Commander in Chief of the Army and Navy of the United States \* \* \*.

In Woodburn's American Reports (181, 14 Fed. Cas., 8006, p. 976) we find this statement:

Congress can pass no law which can deprive the President of power conferred in creating him Commander in Chief.

Mr. Gard, as quoted in the Congressional Record, June 20, 1917, page 4253, said:

The President has the constitutional power to employ the means recognized by the laws of war as necessary to conquer the enemy.

In *McCormick v. Humphrey* (27 Ind. 144, 154) the court said:

\* \* \* and every executive act of the President, intended and calculated to carry the war to a successful issue, are acts under the Constitution \* \* \*.

While the authorities do not indicate any clear distinction between the legislative function of Congress under the war power and an act of the President as Commander in Chief, Mr. Channing, in a legal opinion submitted to Judge Parker on September 29, 1917, suggests the following test:

Where the act is of a character not usually regarded as military, but necessary for the common defense, it should be authorized by Congress, where the public interest will not suffer from the consequent delay. Where, however, the President has reasonable ground to believe that the national defense will suffer through such delay, then there exists an appropriate instance for the exercise by the President of his war power.

## 2. Eminent domain.

The question of procurement by the Government of things needful in war necessarily involves a consideration of the power of eminent domain.

Nichols, in his treatise on eminent domain (vol. 1, p. 1), says:

Eminent domain is the power inherent in the sovereign State of taking or authorizing the taking of any property within its jurisdiction for the public good.

Cooley, in *Constitutional Limitations* (7 ed., p. 759), states the generally accepted principle that—

The right to appropriate private property to public use lies dormant in the State until legislative action is had.

The courts, in an unvaried tenor, uphold the same principle. In *Monongahela Navigation Co. v. United States* (148 U. S. 312), in which the question was involved as to the right of Congress to determine compensation for property taken, the Supreme Court held, in substance, that the taking of private property for public use and the use made of such property are political powers normally exercised by the legislature, in great urgency by the Executive, but that the question of compensation is one always for judicial determination solely.

The taking of private property by the Executive without statutory authority will be considered later in a discussion of the law of necessity.

The exercise of the power of eminent domain was recognized in the American Colonies, but was hedged about with many restrictions designed to preserve the rights of citizens. The power the colonists recognized probably grew out of the royal power of purveyance in the English law. As early as Grotius, this power is recognized as an element of sovereignty, but Grotius always insisted on the accompanying requirement that where possible "compensation be made to him who has lost what was his, at the common expense."

As a matter of fact, the limitation in our Constitution providing for due legal process and just compensation is in almost the exact wording of a like limitation upon the exercise of eminent domain in the Twelve Tables of Rome posted on the public walls of the city 300 years before Christ.

Normally the President's exercise of eminent domain is through and by virtue of some statutory grant, such as section 120 of the National Defense Act, which empowers him to place compulsory orders in time of war for certain war supplies and in emergency to requisition manufacturing plants. There are other like statutes which have been passed by Congress. Of course, the taking of private property for public use is a normal peacetime activity of the Government but is always based then in some statutory grant.

Eminent domain differs from taxation in that the latter places a uniform proportioned burden on all citizens for the maintenance of the Government, while in the former the liability arises not through any individual obligation but because of the public need. It differs also from the levying of money upon individuals through regulations, such as the tariff law, when used for the purpose of protecting manufacturers, and fines, penalties, and forfeitures levied for crimes. An example of the forfeiture of confiscation of private property by legislative act is noted in the Espionage Act (40 Stat. 220) and the Shipping Board Act (39 Stat. 728), through which Congress in the World War authorized the forfeiture of vessels, and of arms and other articles, used or intended for export purposes contrary to law.

### 3. Law of necessity.

Closely allied to the power of eminent domain, but distinguished from it in certain important particulars, is the law of necessity. This is another implied power conferred upon the United States Government by so much of the Federal Constitution as provides for the national defense. It is the right of self-preservation.

Nichols, in his treatise on eminent domain, page 264, says:

The right of taking, destroying, or injuring property in time of war in some cases rests upon this power of destruction from necessity and in others upon the power of eminent domain. The mere fact that a government is engaged in war does not justify it in impressing the property of its citizens without compensation. But the national defense is a public purpose, and if ships and munitions are needed, they may be taken by eminent domain and paid for. Beyond this, however, at the actual seat of the struggle necessity compels the contesting armies to enter upon, dig up private land, and to seize supplies for their own use or to destroy them so that they will not fall into the hands of the enemy. All this may be done, not only in the enemy's country, but wherever military operations are being carried on and whenever the emergency arises. For this the owner has no remedy, except against the officer directing the operations, in case his view of the necessity was not reasonable under the circumstances.

In *Parham v. The Justices* (9 Ga. 341) the court discussed the law of necessity at considerable length, noting such instances as "the pulling down of houses and raising bulwarks for the defense of the State against an enemy; seizing corn and other provisions for the sustenance of an army in time of war, or taking cotton bags, as General Jackson did at New Orleans, to build ramparts against the invading foe." The court said, "These cases illustrate the maxim *salus populi suprema res*—the good of the public is the supreme law \* \* \*." The court was very definite in indicating, however, that this power could be relied upon only in "cases of urgent public necessity, which no law has anticipated and which cannot await the action of the legislature."

Or, as expressed by the court in *American Print Works v. Lawrence* (3 Zab. (N. J.) 598),

"\* \* \* The necessity must be immediate, imperative, and in some cases extreme and overwhelming, mere expediency or utility will not suffice."

Mr. Lawrence in *War Claims Against the United States* (13 Amer. Law Reg. 406) stresses the point that in general an exercise of the law of necessity does not ordinarily create a claim for compensation of damages.

But, in *Hefleblower v. United States* (32 Ct. Cl. 237) the court said:

"\* \* \* If the conditions admitted of the property being acquired by contract and of being used for the benefit of the Government, the obligation attaches and it must be regarded as acquired under an implied contract; but if the taking, using, or occupying was in the nature of destruction for the general welfare or incident to the inevitable ravages of war, such as the marching of troops, the conflict of armies, the destruction of supplies, and whether brought about by casualty or authority, and whether on hostile or national territory, the loss in the absence of positive legislation must be borne by him on whom it falls and no obligation to pay can be imputed to the Government \* \* \*."

The Supreme Court has recognized the law of necessity in such cases as *Mitchell v. Harmony* (13 How. 115), a case arising during the Mexican War in Mexico, and involving the seizing of a private duly authorized wagon train by a military commander of the American forces; and in *United States v. Russell* (13 Wall. 623), a case arising out of the seizure by a military officer in the Civil War of plaintiff's vessel. In the former case the Supreme Court held the officer making the seizure liable in damages, because the urgency of

the situation did not warrant the seizure. In the latter case the court held the United States liable under the implied promise to pay because the seizure was in the nature of an ordinary taking under the power of eminent domain.

It will be readily recognized that much of the taking of private property by the executive branch of the Government in time of war must justify itself in this law of necessity. The exercise of this power by the President or his agents in time of war, in great urgency, constitutes a portion of that power which is often so vaguely referred to as the war power of the President.

The outstanding instance of a Presidential act which was premised upon the law of necessity was the freeing of slaves in the Civil War, 4. Act of August 29, 1916 (39 Stat. 649; U. S. C. 50:1-6), which authorized the creation of the Council of National Defense. This body is purely advisory and while it was used during the World War to inaugurate the various control measures later developed under the War Industries Board, its usefulness is definitely limited by its lack of executive authority.

Act of August 29, 1916 (39 Stat. 604, 645; U. S. C. 10:1361, 1362). Section 1361 authorizes the President in time of war, through the Secretary of War, to take possession and assume control of any system or systems of transportation, or any part thereof, and to utilize same. Section 1362 provides that in time of war or threatened war preference and precedence shall, upon the demand of the President, be given over all other traffic to the transportation of troops and materials of war.

5. Section 120, National Defense Act (U. S. C. 50:80). This statute confers upon the President broad powers to place compulsory orders for the procurement of such products or materials as may be required. The statute is broad enough to authorize the placing of compulsory orders for either finished products or raw materials. The use or disposition of such products after their acquisition by the Government is in no way limited by the statute; but the power may be exercised only in time of war or when war is imminent. Producers must give such orders precedence over orders from all other sources. If any person refuses to comply with the order, his plant may be taken over by the Government. The law provides adequate penalties for its violation.

6. The Naval Emergency Fund Act (U. S. C. 50:82). This statute conferred similar requisitory powers for procurement of war material for the Navy as was conferred upon the Army in section 120 of the National Defense Act. It was worded also to include "any form of aircraft" and therefore construed as applicable to Army aircraft. The words "war material" were defined as broad enough to include raw materials out of which war materials were to be fabricated.

7. Acts of July 2, 1917, and April 11, 1918 (40 Stat. 241, 518; U. S. C. 50:171), and act of July 9, 1918 (40 Stat. 888; U. S. C. 50:172), confer upon the President certain war powers with respect to the exercise of eminent domain in the acquisition of land and the acquisition of property for the production of lumber.

8. Public Law No. 855, Seventy-fourth Congress (H. R. 8555), approved June 29, 1936, gives the Government the additional power

to take and purchase or use certain vessels for national defense or during any national emergency declared by proclamation of the President.

9. The Federal Power Act of August 26, 1935, authorizes the Federal Power Commission in time of war to order such temporary connections of facilities and such generation, delivery, interchange, or transmission as in its judgment will best meet the emergency and serve the public interest.

10. The Secretary of Labor has, by the organic act creating his Department, the duty to act as mediator in cases of industrial dispute. The statute, however, is not mandatory in terms and may be of little effect in an emergency.

11. It is readily seen that, except in the case of determining rates for the services of public utilities, no statutory provisions for the direct regulation of the exchange value of commodities now exist. The President without new legislation is therefore entirely restricted to the line of action employed during the greater part of the World War; that is, the setting of prices through agreements where possible and enforcement through the enlistment of public cooperation and through the use of various indirect controls such as priority, commandeering, etc.

12. In the preparation of legislation designed to authorize direct control of prices, the following must be taken into consideration:

a. The Supreme Court has never passed specifically upon the constitutional powers of Congress, by authorization to the President, to fix conclusively the price at which one individual may sell to another. Discussion of the constitutionality of such an act must rest upon the axiom that the Federal Constitution is not suspended during a state of war.

b. The fifth amendment, which prohibits the taking of private property for public use without just compensation, must be taken into consideration. It is fairly well established that—

- (1) The question of what constitutes just compensation is one for judicial decision rather than for legislative enactment.
- (2) The taking of private property for public use and the use made of it are political functions to be exercised by the legislative branch.
- (3) Price fixing when applied to property already owned and which the owner is forced by Government authority to sell at a loss, constitutes a taking of private property for public use.
- (4) Any scheme for price fixing, without a constitutional amendment, must provide an opportunity for court review of the fairness and justice of the price which is fixed.

c. The only court decisions which tend to throw any light on the subject are those on the so-called public-utility cases. Certain businesses, such as those of common carriers and innkeepers, were recognized at common law as being affected with public interest. Congress and State legislatures from time to time have declared other industries to be so affected.

*d.* What constitutes a public calling has never been precisely defined, yet it may be argued that a state of war creates an emergency which affects the entire industrial and agricultural structure of the Nation with a public interest, thus endowing Congress with the necessary regulatory powers.

*e.* Price regulation, even though exercised under such authority, must be subject to court review as to the fairness and justness of the prices fixed. (Refer to *German Alliance Industrial Co. v. Lewis*, 233 U. S. 280; *Smyth v. Ames*, 169 U. S. 466; *Stanislaus County v. San Joaquin Canal Co.*, 192 U. S. 201.)

### SECTION C. NEW LEGISLATION REQUIRED

#### 1. General.

*a.* Additional legislation deemed necessary to carry into effect this plan for industrial mobilization is as follows:

- (1) A bill making available to the President the material resources of the Nation.
- (2) A bill authorizing the establishment of a Bureau of Marine War Risk Insurance in the Treasury Department.

*b.* The first step in the preparation of drafts of proposed bills is to study the history of past wars insofar as that history relates to the particular subject in mind. In view of the fact that in the World War various agencies for control and supervision of industrial and economic activities and for supplementing normal peace-time governmental functions were set up and operated, a study of that period is of particular significance. Further, in drafting laws which might be applicable in a future emergency, consideration must be given to changing conditions in this Nation and to governmental, economic, social, and industrial developments in other countries. The special steps applicable to each bill are noted in connection therewith.

**2. A bill making available to the President the material resources of the Nation.**

*a. Consideration of like legislation in the World War.*—No comparable enactment in the World War. In general somewhat the same authority was exercised by the President by virtue of the following emergency legislation.

- (1) *The Emergency Shipping Fund Act (40 Stat. 182).*—The requisitory powers conferred by this statute were somewhat broader than those in the Naval Emergency Fund Act and were intended to provide for a merchant fleet. The authority granted to the President under this statute was limited to a period running "six months after a final treaty of peace is proclaimed between this Government and the German Empire."
- (2) *The Food and Fuel Control Act (40 Stat. 276).*—This act granted requisitory powers relating to "food, feeds, fuels, and other supplies necessary to the support of the Army or the maintenance of the Navy, or any other public use connected with the common defense." The powers conferred apparently did not cover the requisition of the

raw materials out of which any of the foregoing ultimate articles are made. The law provided for conservation of food supplies and the expeditious movement thereof from producer to consumer. It was intended also to stimulate production. It provided penalties for hoarding and wasting food supplies. It authorized the licensing of individuals or companies whose gross sales exceeded \$100,000 a year. It prohibited the exacting of excessive prices for any necessities (the section granting this power so far as its penal clause was concerned has been declared unconstitutional). The law also established a minimum price for wheat. With respect to coal and coke, the requisitory powers related only to the "plants, business, and all appurtenances thereof belonging to such producer or dealer as a going concern" in respect to compliance or noncompliance with regulations the President was authorized to make. The same act also granted requisitory powers relating to nitrate of soda. The provisions of the act were limited to the period of "existing state of war between the United States and Germany."

- (3) *The Trading with the Enemy Act (40 Stat. 411).*—The requisitory powers of this act authorized the appointment of a custodian of enemy or ally of enemy property and quasi-requisitory powers relating to enemy or ally of enemy patent, trade mark, print, label, or copyrighted matter. Also the statute permitted the President to keep secret any invention for which a patent was asked.

(4) *Miscellaneous.*—

The Espionage Act, June 15, 1917 (40 Stat. 217), and the Trading with the Enemy Act, October 6, 1917 (40 Stat. 411), and amendments, conferred the power and authority exercised through the War Trade Board.

The Overman Act (40 Stat. 556): This statute conferred a general power upon the President during the war and for six months after its termination to effect such a coordination or consolidation of existing bureaus, agencies, and offices of the Government as in his opinion would lead to a more efficient prosecution of the war and for the support and maintenance of the Army and Navy.

Congress authorized the creation of the War Finance Corporation by act of April 5, 1918 (40 Stat. 506). This act was amended August 24, 1921 (42 Stat. 181), and by act of February 20, 1924 (43 Stat. 15). The amendments related primarily to the attempts to solve post-war financial problems.

Congress authorized the creation of the Capital Issues Committee by title II of the act of April 5, 1918 (40 Stat. 512). This committee superseded a similar one of the Federal Reserve Board. This earlier committee, however, had no legal sanction, definition of powers, or financial support.

There are certain other statutes of an emergency character passed during the World War, and there are certain other statutes of permanent legislation. These are not here indicated because they are of minor importance.

*b. Consideration of like legislation by the Seventy-fourth Congress.*—During the first session of the seventy-fourth Congress in 1935 the House of Representatives passed bill H. R. 5529 which provided for the mobilization of the Nation's resources in time of war. The bill was completely revised by the Special Committee of the Senate to Investigate the Munitions Industry, and was further amended and favorably reported and recommended for passage by the Senate Military Affairs Committee. Since title I of the bill comprised a complete revenue act, the Military Affairs Committee recommended that the bill be referred to the Finance Committee of the Senate for consideration. When the second session of the Seventy-fourth Congress adjourned, the bill had been amended and favorably reported out by the Senate Finance Committee.

Although H. R. 5529, Seventy-fourth Congress, has not been enacted into law, it has been favorably reported and recommended for passage by three Senate committees after extensive hearings. The industrial titles, that is, titles III to VI of the bill, inclusive, contain the control measures considered by the War and Navy Departments to be necessary in order that the industrial effort of the country may be brought into support of the military effort. The War and Navy Departments have gone on record before congressional committees as supporting titles III to VI, inclusive, of this bill.

Title I has not been considered in the revision of this industrial mobilization plan. Since this title outlines a complete revenue act for wartime purposes, the War and Navy Departments consider that these tax provisions are without the purview of these Departments and this title is mentioned here only to emphasize that tax provisions must not be of such a drastic nature as to hinder, hamper, or destroy the more important mission of producing munitions as required in war.

With reference to title II the War and Navy Departments stated that they did not consider this title necessary but would not oppose it as amended in Senate Report 889. For the above reasons, titles II to VI, inclusive, of H. R. 5529, as set forth in Reports Nos. 889 and 2337, United States Senate, have been utilized herein with slight modifications as the draft for proposed legislation to give to the Government the necessary industrial controls in war.

An outline of titles II to VI, inclusive, follows:

#### TITLE II. INDUSTRIAL MANAGEMENT PROVISIONS

This title authorizes a draft of industrial management. When in the opinion of the President the successful prosecution of the war requires it, he may establish rules and regulations for the registration of all persons in the *management or control* of industry. This is intended to apply to persons in executive positions who are unwilling to cooperate in the industrial war effort. In the discretion of the President registered persons in any industrial plant or indus-

try may be brought into the service of the Government for the duration of the war and shall be subject to the jurisdiction of the War Department. However, the Secretary of War is not to interfere with the internal management of the industries. He may, in the public interest, transfer registrants to any civilian service within the jurisdiction of the War Department. The compensation of such persons industrially drafted will be paid by the Government at rates to be fixed by the President, and they may not accept any other compensation from any plant in which they render services during the war. Rules and regulations for the administration of this title would be made by the President and penalties are provided in the bill for violations of such rules and regulations. The provisions of this title are permissive, not mandatory.

#### TITLE III. WAR RESOURCES CONTROL

This title gives the President very broad powers to control all of the resources of the Nation by price fixing, licensing, rationing, requisitioning, priorities, and other measures for directing and unifying the industrial war effort.

The President by this title is granted discretionary wartime power and authority as follows: To fix prices; to regulate commodity exchanges; to establish a system of priorities or rationing in favor of users most vitally linked with the prosecution of the war; to provide a system of licenses for organizations or persons engaged in manufacturing, mercantile, or public service industries; to regulate the sale, use, transportation, manufacture, or distribution of any product; to requisition any product and to sell or otherwise dispose of such products; to enforce regulations against waste, hoarding, speculation, and profiteering; to commandeer any manufacturing plant or other establishment. The President, of course, may not find it necessary to invoke all of these powers.

The President is also authorized in this title to establish as many agencies as he deems necessary to execute the functions of control over war resources. The appointment of administrators to exercise the powers granted is also authorized. The President could regroup, redistribute, or reassign the duties and functions of the procurement of war supplies for the military and naval establishments.

"Just compensation" is provided for persons who comply with any requisition of their property by the Government. What constitutes just compensation is to be determined by the President, but it is not to include loss of profits or anticipated profits. Those persons not satisfied with the amount of compensation to which the Government decides they are entitled are to be paid 75 percent thereof, and they may sue the Government at the close of the war for such amount as added to 75 percent will make just compensation. The bill confers jurisdiction on the United States District Courts to hear and determine such disputes.

#### TITLE IV. SECURITIES EXCHANGE PROVISIONS

This title empowers the President by proclamation to close all security exchanges for the duration of the war should he see fit.

## INDUSTRIAL MOBILIZATION PLAN

## TITLE V. WAR FINANCE CONTROL

This title creates a War Finance Control Commission of five members named by the President. No security issue in excess of \$100,000 may be offered for public or private sale unless approved by the War Finance Control Commission. The Commission may advance the necessary funds to any corporation or agency engaged in production essential to the prosecution of the war.

## TITLE VI. GENERAL PROVISIONS

This title provides that any person convicted of willfully violating any of the provisions of the act or any of the rules or regulations made thereunder shall be fined not more than \$100,000 or imprisoned for not more than 1 year, or both, together with the cost of prosecution.

The effective date of all the titles of the act would be "immediately upon the declaration by Congress that a state of war exists between the United States and any foreign government and that the existence of such state of war creates grave national emergency."

The text of titles II to VI, inclusive, of a bill, including the heading used by the Seventy-fourth Congress, is as follows:

H. R. 5529

74th Congress  
1st Session  
(Senate Report No. 882)

74th Congress  
2d Session  
(Senate Report No. 2237)

[NOTE.—Words deleted from H. R. 5529 are marked thus: ~~deleted~~.  
Words added to H. R. 5529 are marked thus: CAPITAL LETTERS.]

## IN THE SENATE OF THE UNITED STATES

April 11, 1935

Read twice and referred to the Special Committee on Investigation of the Munitions Industry

May 1 (calendar day, May 3), 1935

Reported by Mr. Nye, with amendments, and referred to the Committee on Military Affairs

May 13 (calendar day, June 14), 1935

Reported by Mr. Sheppard (for Mr. Logan), with amendments; referred to the Committee on Finance

June 10, 1936

Reported, under authority of the order of the Senate of June 8, 1936, by Mr. Connally, with amendments.

## AN ACT

To prevent profiteering in time of war and to equalize the burdens of war and thus provide for the national defense, and promote peace

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, \* \* \*

## TITLE II. INDUSTRIAL MANAGEMENT PROVISIONS

## SHORT TITLE

This title may be cited as the "Industrial Management Act."

## REGISTRATION OF INDUSTRIAL MANAGEMENT; POWERS OF PRESIDENT

The President is hereby authorized, when in his opinion the successful prosecution of war so requires or renders advisable, to require, under such rules and regulations as he may establish, the registration of all or any class of persons engaged in the management or control of any technical, industrial, or manufacturing plant or establishment of any kind whatsoever, whatever the form of ownership thereof, corporate or otherwise, or who have been engaged in such capacity within six months prior to any declaration of war.

## STATUS OF REGISTRANTS

Whenever the President shall, in his discretion, deem any technical, industrial, or manufacturing plant or establishment or any group thereof comprising an industry to be essential to the maintenance of the military establishment, or the effective operation of the military forces, or the maintenance of the national interest during the emergency, he may proclaim such plant, establishment, or industry so to be. Thereupon any person registered pursuant to the provisions of this title shall, if within a classification promulgated by the President in his said proclamation, be brought into service of the Government for the duration of the war and shall be subject to the jurisdiction of the War Department. The Secretary of War is authorized and directed to provide such rules and regulations as may be necessary for the government of such persons so brought into the service of the Government. Such rules and regulations by the Secretary of War shall not affect nor interfere with the internal management of the industries in which such persons are engaged, but the Secretary may at any time, if he deem the public interest in successful prosecution of war so to require, remove such person from such industrial position and assign him to any service within the jurisdiction of the said War Department. Upon such removal the vacancy so created shall be filled in the normal manner by the officers or managers of the plant or establishment affected, but the person chosen as such replacement shall immediately be subject to the provisions of this title.

## LIMITATION OF INCOME; PENALTIES

No person brought into the service of the Government pursuant to the provisions of this title shall at any time receive any salary, gift, compensation, or other emolument whatsoever, either directly or indirectly, for services rendered during war time from any plant or establishment for or in which such person shall render services during time of war. Such person shall receive for services rendered during time of war only such compensation and allowances as shall be fixed and paid by the President. If any such person does receive any salary or compensation from any other source for services rendered during war time he shall be dishonorably discharged from the service of the War Department and shall in addition thereto be guilty of a felony and shall be punishable by a fine not exceeding \$10,000 or by imprisonment for not more than ten years, or by both such fine and imprisonment.

## RULES AND REGULATIONS

The President shall have power to make all necessary rules and regulations for the administration of this title and such rules and regulations shall have the force and effect of law and violation thereof shall be a misdemeanor punishable by a fine not exceeding \$1,000 or by imprisonment for not more than one year, or by both such fine and imprisonment, and in addition to such penalty any offense punishable by military law shall be subject to the jurisdiction of military courts.

## INDUSTRIAL MOBILIZATION PLAN

## TITLE III. WAR RESOURCES CONTROL.

## SHORT TITLE

This title may be cited as the "War Resources Control Act."

## WAR RESOURCES CONTROL; POWERS OF PRESIDENT

Whenever the President, upon a finding of fact to such effect, shall deem such action to be necessary to the maintenance of the military or naval establishment or the effective operation of the military forces or the maintenance of the national interest during the period this Act is in effect, he shall have power and authority as follows: (a) With respect to any product, foodstuff, material, real property, or right declared by him essential for the national security and defense in the prosecution of war, to fix and establish just and reasonable maximum, minimum, or absolute prices or rates or rentals at which such product, foodstuff, material, commodity, real property, or right may be bought, sold, rented, or otherwise contracted for, whether such transaction be with the Government or between persons of the civilian population or between any other parties whatsoever:

(b) To close any commodity exchange;

(c) To publish rules and regulations with the force and effect of law for the government of such commodity exchanges as are not closed, which rules and regulations may include, among other things, the regulation of the prices or priorities at which commodities may be sold; the establishment of priorities and rationing in favor of purchasers or users most vitally linked with the successful prosecution of war; the limitation or fixation of fees, commissions, or other charges collected by such commodity exchanges or their agents for any service whatsoever; the elimination of short, long, future, and marginal selling and hedging, and speculation of all types and varieties whatsoever;

(d) To prohibit the publication of prices quoted on commodities sold or formerly sold on commodity exchanges and to prescribe and prohibit the delivery or transmission for delivery through the mails or by telegraph, telephone, wireless, or other form of communication, of such prices or of any quotation or report of the price of or contracts or sales made of commodities sold or formerly sold on such exchanges;

(e) To requisition the physical plant or place occupied by any commodity exchange or such part of such plant or place, together with such elevators, warehouses, and other marketing facilities wherever located, including private telegraph and telephone wires, as he may require; and to requisition all stores or supplies of any such commodities held by any person;

(f) To limit the sale of any commodity to the Government, and to establish allocations, quotas, and priorities for sales to itself and others, either at the time of sale or in advance of such sale;

(g) To resell any commodity purchased by the Government, and to establish allocations, quotas, and priorities among purchasers and users in favor of those most vitally linked with the successful prosecution of war;

(h) To fix and establish the order or preference to be observed by any manufacturer, producer, dealer, distributor, carrier, public utility, or other person whatsoever, in manufacturing, producing, filling existing or future contracts for, complying with orders or requisition for, transporting, distributing, or delivering of any product, foodstuff, material, commodity, real estate, or right;

(i) To regulate, limit, or prohibit the purchase, sale, use, IMPORT, EXPORT, transportation, manufacture, or distribution of any product, foodstuff, material, commodity, real estate, or right;

(j) From time to time, whenever he shall find it essential to license the production, manufacture, sale, USE, IMPORT, EXPORT, storage, distribution, or transportation of any product, foodstuff, material, commodity, real property, or right in order to carry into effect any of the purposes of this act to the successful prosecution of war, and shall publicly so announce, it shall be unlawful for any person, after the date fixed in such announcement, to engage in or carry on any business as enumerated in this section, unless he shall swear and hold a license pursuant to this section:

<sup>1</sup>This change is to broaden the activities referred to, including those relating to importing and exporting of materials.

(k) To issue such licenses as are provided by subsection (j) of this section to fix the conditions of such licenses, and to prescribe requirements for systems of accounts and auditing of accounts to be kept by licensees, submission of reports by them with or without oath or affirmation, and the entry and inspection by the President's duly authorized agents of the places of business of licensees. The President may order the revocation of the license of any licensee who fails to comply with any condition of or in a license, or who fails to observe any price, rate, or priority fixed or established pursuant to this title, or who fails to perform or comply with any contract, requisition, or requirement of the United States or any official thereof acting pursuant to authority granted by this title, or otherwise fails to comply with the provisions contained in such license;

(l) To requisition and take possession of any product, foodstuff, materials, commodity, real property, or right, and on such terms as he may deem advisable to sell or otherwise dispose of such product, foodstuff, material, commodity, real property, or right;

(m) To promulgate and enforce rules and regulations against waste, destruction, hoarding, speculation, and profiteering with respect to any product, foodstuff, material, commodity, real property, or right, or to limit the use of the same to war purposes;

(n) To regroup, redistribute, or reassign duties and functions of procurement of war supplies for the military and naval establishments; provided that no one appointed or designated by the President hereunder shall in any manner, directly or indirectly, participate in the determination of any question affecting his personal interests, or the interests of any corporation, partnership, association, or trust in which he is directly or indirectly interested;

(o) In the event of emergency, or in the event that inefficiency, labor dispute, or inability to agree on rates or terms of public contracts or any other cause has impaired or delayed the usefulness of any technical, industrial, or manufacturing plant or establishment to the successful prosecution of war, to requisition the physical establishment or resources of such plant or establishment or any other part thereof and operate it under such rules and regulations as he may deem proper in the circumstances, and with such personnel as he may deem suitable to best subserve the interests of the nation in successful prosecution of war.

#### ADMINISTRATION OF TITLE

The power and authority conferred by this title upon the President may be exercised in whole or in part under his direction and during his pleasure by such officers or officers of the United States as he may designate, and he shall have power to appoint an administrator or administrators to exercise such designated powers. Such administrator or administrators shall receive salary or salaries of \$10,000 per annum. The President is authorized to create or provide for such additional agencies of the Government as he may deem necessary to execute the functions authorized under this title, and to appoint and dismiss at pleasure such officers and employees and to fix their salaries and compensation. Such administrator or administrators may make such expenditures as are necessary to execute their functions under this title, and the President shall make a report to Congress upon the first day of each regular session which shall include the names and compensation of all officers and employees of such administrator or administrators. There is hereby authorized to be appropriated such amounts as may be necessary to the proper execution of this title.

#### STANDARD FOR FIXING OF PRICES

In fixing any price pursuant to the provisions of this title the President shall be guided as near as may be by the differentials established on the basis of

\* The War and Navy Departments are in sympathy with what was intended in the lines recommended for deletion, but believe that the proposed wording makes the measure too drastic and that this proposed wording would deprive the Government of the services of practically every experienced person who knew anything about the problem with which he had to deal. The danger contemplated in this clause is less serious than the danger resulting from leaving the direction of the great procurement activities to the individuals necessarily selected by the standard proposed to be set up. The great bulk of business men are, after all, honest and patriotic.

## INDUSTRIAL MOBILIZATION PLAN

pre-war parities as of any year or period of years, as the President may designate, prior to the declaration of war but not more than twenty years prior to such declaration; and in fixing the prices of agricultural commodities the President shall be further guided by such level as will give such agricultural commodity a purchasing power with respect to articles that farmers buy equivalent to the purchasing power in such pre-war years or period of years. Any such base period of peace-time years may be altered or modified from time to time as the President may direct. The President may also prescribe differententials based upon primary market or markets or upon zones or districts or may prescribe different rates or prices for different localities or for different uses in the same locality.

## COMPENSATION TO OWNERS

For compliance with any requisitions of property pursuant to the provisions of this title the owner of such property shall be justly compensated for such loss as he may have incurred as a result of such requisition, not including loss of profits or anticipated profits, in such manner and in such amount as the President shall determine. If the compensation so determined be unsatisfactory to the person entitled to receive the same, such person shall be paid 75 per centum thereof, and shall be entitled to sue the United States immediately upon the close of war to recover such further sum as added to said 75 per centum will make up such amount as will be just compensation therefor, and jurisdiction is hereby conferred, regardless of the amount in controversy, on the United States District Court for the district in which such property is or was situated to hear and determine all such controversies in the manner provided for by section 24, paragraph 20, of the judicial code: *Provided*, That no court shall have jurisdiction to entertain suit, whatever the character of either party, plaintiff or defendant, to restrain or enjoin requisition by the Government of the United States, under this title. The authority herein in this section granted the President is extended for a period of one year beyond the expiration of the effectiveness of this act for determination of claims filed hereunder, and such extension for such purpose shall be an exception to any inconsistent provision of this act.

## APPROPRIATION

There is hereby authorized to be appropriated for the creation of a revolving fund to enable the President to make purchases of commodities as herein authorized the sum of \$200,000,000. All moneys received by the President on behalf of the United States in the exercise of powers under this title shall revert to such revolving fund, including any moneys received by him for or in connection with the sale or disposition of any product, foodstuff, material, commodity, real property, or right pursuant to this title.

## DEFINITIONS

Where used in this title—

(a) The phrase "technical, industrial, or manufacturing plant or establishment" shall include, among others, gas and electric power plants, mines and wells, railroads, pipe lines, and other public utilities; as well as all plants or establishments of consequence to the successful prosecution of war;

(b) The term "commodity" shall mean any article of commerce sold or offered for sale upon a commodity exchange; the term "commodity exchange" shall mean any central market place where articles of commerce are sold on a short, long, future, or marginal basis, or where common articles of commerce are continuously sold without being present or in view of either the buyer or the seller, or where "bid and asked" quotations are commonly furnished on demand for articles of commerce, or any place commonly known as a "commodity exchange."

## EXTRA COMPENSATION PROHIBITED

Neither during his term of office nor thereafter, on account of services rendered during such term, shall any administrator or other agent of the United States acting under the provisions of this title receive, nor shall any other person receive on his behalf, any reward, compensation, or other emolument whatsoever from any source directly or indirectly regulated or affected by the

provisions of this title, nor shall any such administrator or agent, nor any member, attorney, agent, or employee of any such administrator or agent in any manner, directly or indirectly, participate in the determination of any question affecting his personal interest, or the interests of any corporation, partnership, association, or trust in which he is directly or indirectly interested.<sup>1</sup>

#### FEES AND COMMISSIONS PROHIBITED

At no time and under no circumstances shall any fee, commission, or other emolument be paid as or in lieu of brokerage on any transaction in which the United States is either buyer or seller of a commodity.<sup>2</sup>

#### ILLEGAL EXCHANGE AND TRAFFIC

Where, under the authority of this title, the President has closed any or all exchanges in the United States dealing in the purchase or sale of any commodity, it shall be unlawful for any person to establish an exchange or to deal or traffic in the purchase or sale of such commodity in lieu of such closed exchange or exchanges in any extemporized market or over-the-counter trade or in any other manner.

#### RULES AND REGULATIONS

Rules and regulations made by the President under this title shall have the force and effect of law, and the violation of such rules or regulations shall be a misdemeanor punishable by a fine of not more than \$1,000 or by imprisonment for not more than one year or by both such fine and imprisonment, but such rules and regulations, in order to be effective, must be published and made available for public distribution at a price no greater than the cost of publication.

### TITLE IV—SECURITIES EXCHANGE PROVISIONS

#### SHORT TITLE

This title may be cited as the "War Securities Exchange Control Act."

#### POWERS OF THE PRESIDENT

In addition to all other powers possessed by the President by law as of the effective date of this title, and not in substitution therefor, the President may by proclamation close any or all exchanges where securities are bought, sold, or offered for sale and by rules or regulations prevent any public or private sale of any such securities. Such rules and regulations shall have the force and effect of law. Such proclamation shall remain effective, if so intended by the President, for the duration of the effectiveness of this title. For the purposes of this section, the word "security" shall be defined in like manner as the same is defined by section 2 of the Securities Act of 1933, as amended by Act approved June 6, 1934, as in effect on March 15, 1935.

### TITLE V—WAR FINANCE CONTROL

#### SHORT TITLE

This title may be cited as the "War Finance Control Act."

#### FINANCE CONTROL COMMISSION

There is hereby created the War Finance Control Commission, hereinafter in this title called the "Commission", to consist of five members appointed by

<sup>1</sup> See note under (a), War Resources Control; Powers of the President.

<sup>2</sup> The payment of a brokerage fee can easily, on occasion, save a buyer large sums of money and a great deal of time. In actual practice, what happens when a buyer utilizes a broker is that the purchaser asks the broker to locate certain specific merchandise for him. This the broker does. The broker's fee is paid by the seller (who thus is put in touch with a customer at less cost than he could locate such buyer himself) and the purchaser pays the going market price. Procurement agencies in time of war would not commonly deal through brokers, but they should not be prohibited from doing so.

the President, with the advice and consent of the Senate, for a term of office to expire at the expiration date of this Act, unless sooner removed by the President in his discretion. Such members shall receive compensation not exceeding \$10,000 per annum. ~~No such member, so appointed, shall refuse to serve as a member of such commission.~~<sup>6</sup> Neither during his term of office, nor thereafter on account of services rendered during such term, shall any such member receive, nor shall any person receive on his behalf, any reward, compensation, or emolument whatsoever from any source directly or indirectly regulated or affected by the provisions of this title, ~~nor shall any member, attorney, agent or employee of the Commission in any manner, directly or indirectly, participate in the determination of any question affecting his personal interests, or the interest of any corporation, partnership, association, or trust in which he is directly or indirectly interested.~~<sup>7</sup>

#### POWERS OF COMMISSION; APPROVAL OF SECURITIES

No security may be registered with the Securities and Exchange Commission as provided in the Securities Act of 1933, as amended, and as in effect March 15, 1935, or its successor in law or in fact, unless it shall have been approved previously by the Finance Control Commission pursuant to the provisions of this title. No security the total or aggregate par, face, or actual value of which, plus the aggregate par, face, or actual value of any other securities issued by the same person since the effective date of this title, is in excess of \$100,000 shall be sold or offered for sale or for subscription either publicly or privately unless such security shall have been approved previously by the Finance Control Commission pursuant to the provisions of this title. Such approval shall be granted if the Commission find, after hearing held upon notice to any applicant for such approval, if such hearing is requested, that either—

- (a) The security is part of a current transaction maturing in less than nine months;
- (b) The security is issued solely in exchange for an outstanding security and that no money or other property consideration is involved in the transaction;
- (c) The security is offered for resale, having been originally sold prior to the effective date of this Act or pursuant to its provisions; or
- (d) The sale of such security is compatible with the public interest in the successful prosecution of war, and that the proceeds from the sale of such security will be applied to the extension or improvement of the capital plant, CAPITAL or efficiency of an industry, establishment, or agency necessary or desirable to the successful prosecution of war. Under no circumstances shall the Commission grant approval under this section if it shall find none of the preceding conditions to exist, nor shall it grant such approval if it shall find that the proceeds from the sale of such securities will or may be applied to purposes not connected with the successful prosecution of war or that the sale of such securities may attract or absorb funds potentially more useful to the successful prosecution of war.

#### POWERS OF COMMISSION; FINANCING

The Commission may, upon application to the Commission by any officer or agent of the United States or upon application of any officer or agent of any industry, establishment, or agency, after finding that owing to inadequate capital plant, CAPITAL or other inadequate financial resources the efficiency or usefulness of any such industry, establishment, or agency for the successful prosecution of war is impaired or impeded, loan or advance such sums as may in its judgment be necessary to eliminate such impaired or impeded usefulness or efficiency, upon such security, if any, as it deems necessary. If such loan or advance is made upon application of any officer or agent of the United States, no reimbursement except interest at a rate to be fixed by the Commission shall be required during the effective date of this Act, but the United States shall have a lien superior to all other liens for the repayment of such loan or advance upon all real assets or fixtures constructed or purchased with such funds.

<sup>6</sup> The bill states that no member so appointed shall refuse to serve. It is not believed that this is a wise provision, as a man who served against his will in a position of this character set forth would not normally give good service.

<sup>7</sup> This prohibition seems unnecessarily drastic, although naturally a man should not benefit by decisions he assists in making.

## TAX CREDITS AND ALLOWANCES

No depreciation, amortization, exhaustion, wear and tear, obsolescence, or other deduction shall be allowed or credited against gross income under any tax act, including title I of this Act, for any part or portion of the construction or purchase cost of any real asset or fixture constructed or purchased with funds provided by the Commission pursuant to section of this title for any war or taxable period during which this act is in effect.<sup>3</sup>

## REVOLVING FUND; APPROPRIATION

There is hereby authorized to be appropriated the sum of \$500,000,000 to be used by the Commission as a revolving fund for the purposes of making loans and advances pursuant to the provisions of section of this title.

## DEFINITIONS

Unless the context otherwise requires, the definitions established by section 2 of the Security Act of 1935, as amended by Act approved June 6, 1934, as in effect March 15, 1935, are hereby adopted as applicable to this title.

## PUBLICITY

All approvals of securities made by the Commission pursuant to section and all loans or advances made pursuant to section of this title shall be public records and shall be available for public inspection in such detail and under such reasonable rules and regulations as the Commission may prescribe.

## TIME LIMITATIONS ON ACTION

Wherever in this title provision is made for an application to the Commission for any purpose, and such application is made, the Commission shall act upon such application within thirty days of the filing of same, or state publicly the reason for failing to do so.

## LIMITATION ON POWERS OF COMMISSION

Nothing contained in this title shall be deemed to limit or control the power of the United States Government or any agency thereof to issue securities.

## LIMITATION OF EFFECT OF APPROVAL

No action taken by the Commission pursuant to the provision of section of this title shall be construed as approving the legality, validity, worth, or safety of any security.

## TITLE VI—GENERAL PROVISIONS

## SHORT TITLE

This Act may be cited as the "War Emergency Act."

## SUSPENSION OF CONFLICTING AND INCONSISTENT ACTS

All Acts or parts of Acts conflicting or inconsistent with the provisions of this Act are, to the extent of such conflict or inconsistency, suspended during the effectiveness of this Act.

## CRIMINAL PENALTIES

Any person who willfully violates any provisions of this Act or any of the rules and regulations made thereunder shall, unless other criminal penalties be provided herein for such violation, be guilty of a misdemeanor, and shall upon conviction thereof be fined not more than \$100,000 or imprisoned for not more than one year, or both, together with the cost of prosecution.

<sup>3</sup> Deleted as being a tax measure.

## INDUSTRIAL MOBILIZATION PLAN

## SUCCESSION TO RIGHTS AND DUTIES

On the expiration of this Act, the United States of America shall be successor to the rights and duties acquired or incurred by any board or commission created by this Act.

## SEPARABILITY CLAUSE

If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

## EFFECTIVE DATE OF ACT

Except as otherwise provided herein, the provisions of this Act shall become operative and in full force and effect immediately upon the declaration by Congress that a state of war exists between the United States and any foreign government and that the existence of such state of war creates grave national emergency; and such provisions shall remain in full force and effect for the duration of such war and thereafter until the Congress shall declare the emergency created by such war to be at an end.

Amend the title so as to read: "An Act to provide revenue and facilitate the regulation and control of the economic and industrial structure of the Nation for the successful prosecution of war, and for other purposes."

Passed the House of Representatives April 9, 1935.

Attest:

SOUTH TRIMBLE,  
Clerk.

### 3. A bill authorizing the establishment of a Bureau of Marine War Risk Insurance in the Treasury Department.

#### a. Consideration of like legislation in the World War.

- (1) The Bureau of Marine War Risk Insurance in the Treasury Department was created, and its duties and powers defined, by act of September 2, 1914, as amended.
- (2) The proposed bill follows the general tenor of the World War legislation, which was found to be eminently satisfactory. There is, however, not the same detail respecting personnel and salaries. This would necessarily be determined by circumstances at the time of proposal of legislation and can then be readily supplied. The advisory board authorized in the act of September 2, 1914, has not been included in the proposed bill, because the creation of such a board was apparently found unnecessary in the operation of the World War bureau.

#### b. Procedure in preparation of draft of proposed bill.

- (1) Initiative—Treasury Department.
- (2) Consultation with—
  - (a) War Department, Navy Department, and Department of Commerce.
  - (b) Leaders in the shipping industry.
  - (c) Committees of Congress.

#### A BILL

To authorize the establishment of a Bureau of Marine War Risk Insurance in the Treasury Department.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, To provide for the export shipping of the United States adequate facilities for the insurance of its commerce against the risk of war, the President is authorized to establish in the Treasury Department a bureau to be known as the Marine War Risk Insurance Bureau.

Sec. 2. That the said Marine War Risk Insurance Bureau, subject to the general direction of the Secretary of the Treasury, shall, as soon as practicable, make provision for the insurance of American vessels, their freight and passage moneys, and cargoes shipped or to be shipped therein, as well as the vessels and cargoes of States friendly to the United States engaged in export and import trade with the United States, against loss or damage of the risks of war whenever it shall appear to the Secretary of the Treasury that such vessels, shippers, or importers are unable in any trade to secure adequate war risk insurance on reasonable terms.

Sec. 3. That the Marine War Risk Insurance Bureau, created under authority of this Act, with the approval of the Secretary of the Treasury, is hereby authorized to adopt and publish a form of war-risk policy and to fix reasonable rates of premiums for the insurance of vessels, their freight and passage moneys, and cargoes against war risks, which shall be subject to such change, to each part for each class, as the Secretary shall find to be required by the circumstances. The proceeds of the aforesaid premiums, when received, shall be covered into the Treasury of the United States.

Sec. 4. That the Marine War Risk Insurance Bureau, with the approval of the Secretary of the Treasury, shall have power to make any and all rules and regulations necessary for the carrying out of the provisions of this title and to employ such legal agents or other agents in the nature of insurance experts as may be required in carrying into effect the purpose of this title, such agents to be paid for their services at a rate per annum to be determined by the Secretary of the Treasury. In the event of disagreement as to the claims for losses, or amounts thereof, between the said bureau and the parties to such contracts of insurance, an action of the claim may be brought against the United States, in the District Court of the United States, sitting in admiralty, in the district in which the claimant or his agent may reside.

Sec. 5. The director of the Marine War Risk Insurance Bureau, upon the adjustment of any claims for losses, in respect of which no action shall be begun, shall, on approval of the Secretary of the Treasury, promptly pay such claims and losses to the parties in interest, and the Secretary of the Treasury is directed to make provision for the speedy adjustment of claims for losses and also for the prompt notification of parties in interest of the decisions of the bureau on their claims.

Sec. 6. That all moneys received from premiums and salvage shall be covered into the Treasury to the credit of any appropriations made for the payment of losses and be available for the purpose thereof.

Sec. 7. The President is authorized, whenever in his judgment the necessity for further war insurance with the United States shall have ceased to exist, to suspend the operations of this title in as far as it authorized insurance by the United States against losses or damage by risks of war, which suspension shall not affect any insurance outstanding at the time of any claims pending adjustment. For the purpose of the final adjustment of any such outstanding insurance, or claims, the Marine War Risk Insurance Bureau may, in the discretion of the President, be continued in existence for such length of time as it proves to be necessary in the premises.

Sec. 8. That a detailed statement of all expenditures under this title and of all receipts hereunder shall be submitted to Congress at the beginning of each regular session.

#### SECTION D. PRESIDENTIAL PROCLAMATIONS

##### 1. BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

###### A PROCLAMATION

Whereas Congress has enacted and the President has on the \_\_\_\_\_ day of \_\_\_\_\_ approved a law to provide revenue and facilitate the regulation and control of the economic and industrial structure of the nation for the successful prosecution of war and for other purposes.

I hereby establish and create the following agencies for carrying into effect the powers and authority granted in said law: War Resources Administration, War Labor Administration, War Trade Administration, War Finance Control Commission, Price Control Commission, and an Advisory Defense Council.

II. I hereby appoint and designate \_\_\_\_\_ as Administrator of War Resources. His duties and powers shall be to advise and assist the President

## INDUSTRIAL MOBILIZATION PLAN

in all matters relating to the mobilization and utilization of the material resources of the Nation for the purpose of national defense, in accordance with and in furtherance of the plans for industrial mobilization heretofore approved by the President. I hereby direct that the Administrator of War Resources shall have and exercise all powers and authority vested in me in the said act, insofar as applicable to, and in furtherance of the mobilization and utilization of material resources for the purpose of the national defense. I hereby direct that the Administrator of War Resources shall establish and set up, under his direction and supervision, agencies for the control of military and civil requisites, priorities, food, commodities (including fuel and power), conservation, facilities, and transportation. Said Administrator of War Resources shall also have the authority to employ such assistants and subordinates, including such counsel as may from time to time be deemed by him necessary, and to fix the compensation of such assistants, subordinates, and counsel.

III. I hereby appoint and designate \_\_\_\_\_ as Administrator of War Labor. His duties and powers shall be to advise and assist the President in adjusting labor resources of the Nation to the demands of national defense, in accordance with and in furtherance of the plans for industrial mobilization heretofore approved by the President. Said Administrator of War Labor shall also have authority to employ such assistants and subordinates, including such counsel as may from time to time be deemed by him necessary, and to fix the compensation of such assistants, subordinates, and counsel.

IV. I hereby appoint and designate \_\_\_\_\_ as Administrator of War Trade. His duties and powers shall be to take all such measures, subject to my approval, as may be necessary and expedient in accordance with and in furtherance of the plans for industrial mobilization heretofore approved by the President. Said Administrator of War Trade shall also have authority to employ such assistants and subordinates, including such counsel as may from time to time be deemed by him necessary, and to fix the compensation of such assistants, subordinates, and counsel.

V. I hereby create a Price Control Commission and appoint and designate \_\_\_\_\_ as chairman of said commission. His duties and powers shall be to advise and assist the President in all matters relating to the control and stabilization of prices in accordance with and in furtherance of the plans for industrial mobilization heretofore approved by the President.

VI. I hereby establish a War Finance Control Commission to be composed of the following members: \_\_\_\_\_, chairman, \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_. The duties and powers of said commission shall be to administer the powers conferred by the said act. The commission shall also have the authority to employ such assistants and subordinates, including such counsel as may from time to time be deemed necessary and to fix the compensation of such assistants, subordinates, and counsel.

VII. I hereby establish an Advisory Defense Council to advise and assist the President in all matters relating to the present war emergency to be composed respectively of the Secretary of War, the Secretary of the Navy, the Administrator of War Resources, the Administrator of War Trade, the Administrator of War Labor, the Administrator of Selective Service, the Administrator of Public Relations, the Chairman of the Price Control Commission, and the Chairman of the War Finance Control Commission; with the Army Chief of Staff and the Chief of Naval Operations in an advisory capacity.

All departments and established agencies of the Government are hereby directed to cooperate with the agencies and officers established by this proclamation in the furtherance of the respective duties assigned such agencies and officers.

THE WHITE HOUSE,

(Signature.)

(Date.)

2. BY THE PRESIDENT OF THE UNITED STATES OF AMERICA.

## A PROCLAMATION

By virtue of authority vested in me by the War Emergency Act, approved \_\_\_\_\_, I do hereby proclaim to all whom it may concern that the public

safety requires that, except at such time or times and under such regulations and orders and subject to such limitations and exceptions as the President shall prescribe, until otherwise ordered by the President or by Congress, the following articles, namely: All kinds of arms, guns, ammunition, and explosives, machines for their manufacture or repair, component parts thereof, materials or ingredients used in their manufacture, and all articles necessary or convenient for their use; all contrivances for, or means of transportation on land or in the water or air, machines used in their manufacture or repair, component parts thereof, materials or ingredients used in their manufacture, and all instruments, articles, and animals necessary or convenient for their use; all means of communications, tools, implements, instruments, equipment, maps, pictures, papers, and other articles, machines and documents necessary or convenient for carrying on hostile operations shall not, on and after the \_\_\_\_\_ day of \_\_\_\_\_, in the year \_\_\_\_\_, be exported from or shipped from, or taken out of the United States or its territorial possessions, except for use of the military force of the United States, or its allies in the war; and

I do hereby further proclaim to all whom it may concern that the public safety requires that, except at such time or times, and under such regulations and orders, and subject to such limitations and exceptions as the President shall prescribe, until otherwise ordered by the President or by Congress, the following articles, namely: Corundum, emery, nitric acid, sulphuric acid, ethyl alcohol, methyl alcohol, airplane motors, automobiles, potash and its salts, benzol, phenol, toluol, coconut shells, cranes, chromium, manganese, nickel, tungsten, vanadium, cork, jute, kapok, manila fiber, oakum, sisal, coffee, sugar, helium, animal hides, quebracho, machine tools, camphor, iodine, nux vomica, opium, quinine, surgical instruments, mica, tin, antimony, graphite, platinum, aluminum, quicksilver, uranium, optical glass, flaxseed, paper and pulp, petroleum, cotton linters, nitrates, plerac acid, rubber, shellac, silk, steel and iron, asbestos, magnesium, industrial diamonds, boron and tungsten carbides, chlorine, sulphur and pyrites, and wool, shall not, on and after the \_\_\_\_\_ day of \_\_\_\_\_, in the year \_\_\_\_\_, be exported or shipped from, or taken out of the United States or its territorial possessions, except for the use of the military forces of the United States or its allies in the war.

The regulations, orders, limitations, and exceptions prescribed will be administered by and under the authority of the Administrator of War Trade, from whom licenses, in conformity with said regulations, orders, limitations, and exceptions will issue.

In witness whereof, I have hereunto set my hand and caused the seal of the United States of America to be affixed.

Done at the city of Washington this \_\_\_\_\_ day of \_\_\_\_\_, in the year \_\_\_\_\_ of \_\_\_\_\_

(Signature.)

THE WHITE HOUSE,

(Date.)

Washington, D. C.

May 9, 1939

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

Dear Mr. Secretary:

You requested us to present a plan by which the railroads, in private operation, could be counted upon to handle satisfactorily the enlarged traffic which would be required of them in the event of a great national emergency, such as war.

There is a vital distinction between the situation which would be presented if the United States is not a participant from that which the railroads would face if the United States itself is at war.

Without United States participation, the railroads have only their common carrier obligations. Traffic, both freight and passenger, moves in a steady, automatic stream, and the railroads are privileged to meet the problems of sporadic congestions through embargoes.

With our entry into war, the law provides that, upon demand of the President, all Government passengers and freight must be moved in strict preference and priority, and this created in 1917, and would again occasion, operating problems of the most serious nature, accompanied by extraordinary expense. Experience has demonstrated that there is no shortage of railroad line haul capacity. In other words, there is a surplus, under practically any conceivable condition, of line transportation, and the railroads likewise have adequate terminals,

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provided always that the freight can be promptly disposed of on arrival.

We can safely disregard the movement of passengers, including troops and their impedimenta, because these are always immediately disposed of at destination.

The congestion of freight traffic in 1917 arose from two causes -

First, the shipment of freight in quantities far beyond the ability of the receiver to absorb and vast exports without consideration of the availability of ocean shipping; and

Second, the legal requirement that Government freight be moved in preference and priority, without a proper discrimination between kinds of Government freight.

It is imperative that these two periods be considered separately.

#### Without United States Participation

We believe that the railroads can handle the additional traffic which a foreign war would create, provided the cars and locomotives now awaiting repairs are put in serviceable condition.

As a whole, our railroads own 1,663,794 freight cars, of which 215,000, or 12.9%, are unfit for immediate service because of need of repairs. In from six to nine months, depending upon the labor market and the availability of material, these cars can be repaired at an approximate additional cost of \$75,000,000.

The railroads own 43,264 locomotives, of which 8,149,

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or 19%, are unserviceable because of needed repairs. We estimate, the availability of labor and material assumed, that these bad order engines could all be repaired in from six to nine months at an approximate cost of \$33,000,000.

The total additional cost for the repair of all unserviceable freight cars and locomotives would be approximately \$108,000,000.

New Equipment. Under severe service conditions, freight cars will more quickly wear out, and there is undoubted need for more locomotives to replace those which should, as an economy measure, be retired. No doubt a considerable number of freight cars and locomotives will be built anyhow, but it is our judgment that in the first year there should be purchased as a minimum 700 new locomotives and 60,000 freight cars. If the emergency is continued, the second year purchases should be higher - conceivably as many as 100,000 new freight cars and 1,500 locomotives. This equipment should be financed by the issuance of Car Trusts, bought by the Government on terms and conditions which the railroads could afford to meet.

Locomotive and Car Repairs. The immediate and pressing necessity would be the repair of freight cars and locomotives. The Government should be prepared, therefore, to loan to the railroads the amount needed to make the necessary car and locomotive repairs, not in excess of \$108,000,000. For these advances the railroads should give their respective notes without the requirement of collateral, and repayment of principal or interest should not be required until some future time, to be agreed upon, when the emergency shall have been

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surmounted.

We estimate that with the freight equipment in its present condition, and with individual movements restricted to the ability of the receiver to immediately dispose of the same, the railroads could move 25% more than they are handling at the present time.

With all of the cars and locomotives placed in serviceable condition, we estimate that the roads collectively could move a larger aggregate business than they were called upon to handle in 1918, which was 45% more than the traffic now handled.

Track. No immediate emergency exists with respect to the permanent way, although admittedly, due to the long continued depression in business, rail and tie replacements are somewhat below the normal average, and in the event a much greater traffic volume should continue for a considerable period there should be a material increase in replacement of rails and ties, and for this purpose an additional expenditure of approximately \$150,000,000 might be required in the next two or three years. To the extent that additional track repairs are occasioned by the emergency, we feel that the same consideration should be extended by the Government as recommended in case of emergency locomotive and car repairs.

Based upon actual experience, too much emphasis could not be placed upon the vital necessity of controlled loading of freight beyond the capacity of the receiver to absorb. The Interstate Commerce Commission can, with its present power under the Car Service section (15 and 16 Sec. 1) of the

Act, grant the necessary authority to accomplish this essential purpose.

There is, however, no present way by which an embargo can be placed against Government freight regardless of conditions. We recommend that the Interstate Commerce Commission be given this power to apply to an emergency.

Dealing with any emergency which would not involve the participation of this Government in war, and with the sympathetic cooperation of those branches of the Government engaged in the shipment of freight, and with financial means, labor and material available for needed repairs to locomotives and cars, our opinion is that the railroads can satisfactorily handle the volume of traffic that would be placed upon them.

The railroads are thoroughly organized through the Association of American Railroads, and, in our judgment, no other central organization is needed. The railroads can be counted upon to give to this organization such authority and support as is necessary, within legal limitations.

With United States Participation in a War.

We have had experience with this contingency, and, in our judgment, it is essential that the legal requirement for the movement of Government freight in strict preference and priority be ~~waived~~ *waived*. There should be provided an officer in the Executive Department of the Government in whom would be vested the authority to approve, upon proper presentation of fact and without delay, such measures of relief as are necessary to meet additional and unusual demands arising from a

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Government at war.

The Association of American Railroads should be privileged to place in each of the Government departments which ship freight an authoritative representative, as was done during the period of Federal Control, these representatives to have the authority to issue permits without which freight could not be loaded and forwarded. Based upon experience, this would facilitate and greatly enlarge the movement of essential freight. This was accomplished in 1918, notwithstanding the fact that in the beginning of that year, and due almost wholly to causes beyond the control of the railroads, there was a serious congestion of freight far beyond the capability of the receivers, both private and Government, to absorb.

Such an Executive authority should be authorized, as was the Director General of Railroads in 1918, to grant increases in rates, fares and charges where it is apparent to him, after consultation with the Interstate Commerce Commission, that the railroads, on account of unexpected increase in operating costs, must have additional revenue in order to carry on.

Based upon experience, there will unquestionably arise conditions which will require individual railroads to make great sacrifices to accomplish the specific purposes of the Government. The Executive authority should have power to grant extra compensation for an individual railroad, which, in order to respond to the essential needs of the Government, must temporarily surrender the class of traffic which it is

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accustomed to handle and subordinate itself to a movement of an altogether different character and volume because of the essential needs of the Government in the emergency.

The time is too short to enumerate all of the phases of power which, in our opinion, should be vested in this Executive authority, but we emphasize that they should be extensive, and in particular include the right to temporarily relieve the railroads from legal restrictions, which may interfere with the free flow of traffic. We do not believe that they should comprehend the management of the railroads nor go beyond the authority to approve.

The essentials of management should remain in the railroads, exerted in a general sense by the Association of American Railroads. This Association is now a very complete national organization, composed of all the essential trunk lines and most of the essential short lines. Its headquarters are in Washington. The President of the Association would be a point of contact with the Executive authority. He is assisted by an Executive Committee of six railroad chief executives selected from the different parts of the country. The by-laws provide that, when necessary, this Executive Committee would be in continuous session.

In the event of actual Federal Control, and we do not minimize the fact that due to financial conditions it may conceivably become necessary for the Government to formally take over the railroads as was done December 28, 1917, however, we strongly represent that it would not be necessary for the

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Government to assume the details of operation, and such details should continue to be handled in the way that we have herein recommended, vesting in the Executive authority the necessary jurisdiction to be exercised through the Association of American Railroads.

We also call attention to the fact that it may not be necessary for the Government, in the circumstances, to formally take over all the railroads in the country. Ordinarily the crux of the problem is within a certain area or region. In 1918 for instance, no great difficulties were experienced in the South or in the Western regions and they had no insurmountable difficulties which were not the reflex of the situation in the Eastern region. Obviously, if any railroads were taken under Federal Control, all the carriers in that region should likewise be taken because the difficulties would not be individual but general, and the relocations of traffic and the essential problems would be the same for these neighboring and, to an extent, parallel carriers.

In such circumstances, the matter of a return or rental becomes of paramount importance. By direction of President Wilson, the average net railway operating income for each carrier for the three years preceding June 30, 1917, was made the compensation of individual carriers for their property, and authority was granted the Director General of Railroads to vary from this fixed return where there were extraordinary or unusual conditions arising on an individual carrier during the so-called test period. For this test

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period, it should be emphasized that the railroads as a whole were paid 5.14% upon their property investment. We now face an entirely different situation. In 1938 the railroads as a whole earned an average of 1.43% upon their property investment and many of them earned nothing at all.

With the authority to increase rates, as was done promptly by the Director General of Railroads in 1918, the revenue needs of the railroads could conceivably be met. If for any reason this was not done, then we know of no other method than for the Government to assume the operating results, allowing to each individual carrier an amount which would represent such a return upon its property as could be justified by taking into consideration its actual net railway operating income over a considerable period of years, which period would include not alone the depression years but an equivalent number of the years of normal business activity.

Inasmuch as the question of coordination of railroads with other forms of transportation was not referred to in our conversation it has not been discussed here.

Respectfully submitted,

*C. R. Gray*  
by *C. W. Ross* Secy.  
*Samuel Wilson*

May 9, 1939

Present:

Mr. Doughton  
Mr. Cooper  
Mr. Hanes  
Mrs. Klotz

HM, Jr: (to Mr. Hanes) I asked ~~asked~~ these people to help me dictate a memorandum of what happened. I just don't know.

Mr. Doughton: Before we start, I want to get this situation clarified. You and I have had several brief conversations -- you and I. I got the impression, or I would say I was very hopeful and somewhat under the impression, that when it came down it had been an understanding, an accord, reached among you three: the President and you two, about this matter. I don't see it exactly in that light now.

HM, Jr: Hanes and I are right together. You don't have to line us up. We are lined up. We are talking here. I thought I knew where the President was when I saw him, Thursday or Friday, when I asked him could I see you. Then, when I saw him yesterday and had this session of an hour and a half -- it was after he had seen the leaders -- he practically put me in the position -- when you boil it all down, I said, "Well, Mr. President, why don't you say what you want? You don't want a tax bill."

Mr. Doughton: When he called me yesterday afternoon, then I recognized the fact that he had not approved what you had in mind.

HM, Jr: He did on Thursday or Friday, because I have got the stuff. I have got the book. I have got it in his own handwriting. I took that book over and he made corrections and I have page after page in his own

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handwriting. And then he said, "Prepare the stuff giving the pros and cons," and we did it and then we wrote it just the way he wanted it and took it back yesterday. I am not going to pull my punches a bit! And then when I went back with the thing prepared the way he wanted it, he said no. So that's where I am.

Mr. Doughton: Well, we will start from scratch now; from this morning.

HM, Jr.: And I certainly had every reason to believe after, I don't know how many hours he went over this thing, and we re-wrote it just the way he wanted it and then when I gave it to him yesterday he wouldn't even look at it.

Mr. Doughton: That conference yesterday morning upset things.

HM, Jr.: He claims at this conference yesterday they said it is more important to adjourn Congress than it is to have a tax bill and all they want to do is just extend these things.

Mr. Cooper: I don't know what all these intervening conferences have been about, but my impression is, as I have understood it from the conferences I did attend, the very clear impression I got then is exactly in accord with this morning's conference.

HM, Jr.: I agree with you that was the way he was when we were last there together. But Hanes and I have felt -- the way I told you two gentlemen: we were sitting in the parlor and I think I said to the President that we feel that business is getting worse and that one of the ways to improve business is to shift some of the taxes.

Now, the President uses the word "repressive". I say change some of the worst taxes from the standpoint of deterrents and put on some which are the least repressive -- using his own word. Now, we started with the five and when I went there with him, Thursday or Friday, and had the list, he did not cross one of them

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out. Not a one! And evidently I did not make any headway. I thought I was and I was led to believe it. I have not changed and I can say that for Hanes and myself, and I want to make it perfectly plain. I said to the President, yesterday, it's much better that I don't go up on the Hill at all.

Mr. Cooper: Why, certainly!

HM, Jr: Because I have got convictions. I have got my responsibility to my country, which comes first. I am charged with certain duties. I am not going to stultify myself for anybody.

And it isn't as though this thing is something I arrived at as the wind. I go back to the report Magill and Shoup wrote, which took them six months to prepare. Then Hanes comes here and he makes a whole study. We presented practically the same identical thing to the President in December 1937 and he agreed to most of them then.

Now, gentlemen, we have tried spending money. We are spending more than we have ever spent before and it does not work. And I have just one interest, and if I am wrong, as far as I am concerned, somebody else can have my job. I want to see this country prosperous. I want to see people get a job. I want to see people get enough to eat. We have never made good on our promises. We have never taken care of them. We have said we would give everybody a job that wanted it. We have never taken care of the people through your mountains and your mountains who get a \$30.00 or \$40.00 a year income. There are 4,000,000 that don't have that much income. We have never done anything for them. I want to see those people taken care of.

We have never begun to tax the people in this country the way they should be. We took this program to the President showing how to raise another \$2,000,000,000 and how to balance the budget, and we had it in October of this year. \$2,000,000,000! We have never begun to tax the people. I don't pay

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what I should. People of my class don't. People who have it should pay. We have not changed. We have been absolutely consistent for two or three years. It's never a good year to have a tax bill, but I think it's a darn good year to begin to balance the budget. This statement I made yesterday about the \$380,000,000 over and above the budget, I asked him before I made that. I said, Mr. President, I am shocked about this; I don't know how you feel about it?

"When's your next press conference?"

"Four o'clock."

"Say it then."

But what are we going to do about it? The biggest deterrent of all, I think, is that the country does not know when the end is in sight and this unbalancing of the budget, that's the biggest deterrent of all and that's what frightens people. I had a man travel up and down this country and he has come back -- an intelligent fellow; he has kept away from big cities -- and the unanimous report was that people are not afraid of paying more taxes if they are convinced that it is honestly spent, but they are against waste.

But why not let's come to grips? And as I say, all I am interested in is to really see this country prosperous and this form of Government continue, because after eight years if we can't make a success somebody else is going to claim the right to make it and he's got the right to make the trial. I say after eight years of this Administration we have just as much unemployment as when we started.

Mr. Doughton: And an enormous debt to boot!

HM, Jr.: And an enormous debt to boot! We are just sitting here and fiddling and I am just wearing myself out and getting sick. Because why? I can't see any daylight. I want it for my people.

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for my children, and your children. I want to see some daylight and I don't see it. And that's why Hanes and I are making the fight, and if we are successful he and I will contribute more out of our pockets than others because it will hit us the hardest. If they take our suggestion, to take our money or leave it to them after we die, it hits Hanes and me relatively more than anybody in this Administration. Nobody can be more unselfish than we are. If I wanted to, I could follow what Mr. Mellon did and as long as he was here taxes over \$700,000 never went up, but the plan we have here hits Hanes and me relatively more than anybody else who works for Mr. Roosevelt because we happen to fall into that class, so if anybody says we are interested in Wall Street, he's lying.

Mr. Cooper: To analyze your statement briefly, it's the position of you two gentlemen that there should be a tax bill to raise enough revenue to make a start towards balancing the budget?

HM, Jr: Yes!

Mr. Cooper: All right. Now then, if that is true, certainly by all the rules of the game, that recommendation should have come to us in January if it was coming at all.

Mr. Hanes: Nothing more true than what you say and we tried our best to get it there.

Mr. Cooper: That's not our fault.

HM, Jr: Check!

Mr. Cooper: It may not be your fault. Now, if it is because of the views of the President -- you can't get anywhere by not recognizing those views, because after all whatever is done must be approved by him, so if you don't have that approval in advance you never have any element of certainty to sustain

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you in the position you are taking. Suppose we work ourselves sick. You gentlemen do likewise. Then wind up with a program that he won't take. What practical good have you accomplished?

HM, Jr: Well, we have accomplished this, Jere. This is not something new. Looking the world over, each country through their armament program and this rearmament race is gradually getting near financial suicide.

Mr. Cooper: No doubt about that!

HM, Jr: If we don't have war -- and I most fervently pray we won't and I will do everything I can to keep it from coming if it is possible for me -- and if there is no world war, certainly this country ought to lead the world back to financial sanity and that financial sanity would be that we live within our means. Now England, within the last two or three weeks, has been the last country to go overboard and even now when she raised the budget she's going to increase -- half of the increased budget is going to come out of taxes.

Now, talking with somebody in the office yesterday, before I made my statement about being bothered about this increased expenditure for the Agricultural bill, they said, "Why stick your neck out? It will pass. Nobody else is going to object." I said no; that's why I am going to do it. Just as long as I sit here, I am going to be that kind of person and any time the President does not like what I say it is very easy for him to say so and I have a perfectly good farm without any mortgage on it. And just as long as I am here, I am going to continue to be that kind of a fellow.

If you want to know where the trouble lies -- in the Budget message the President talked about increased taxes and getting enough money. I gave it to him this morning. Enough money from the least repressive taxes to pay for the \$212,000,000 that they voted last year. Then, when he steps on this boat, without my knowing anything about it, he said no in-

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creased taxes, and then I came along and said, "Fine! I hope Congress takes a look at the various taxes to see if any of them are deterrents." And that's all I have ever said. But here, within four weeks, first he says "Let's get enough increased taxes to pay for last year's parity payments," and then within four weeks, maybe five or three; within several weeks, he comes along and says, "No new taxes."

Now, all I am saying to you, gentlemen, is I think I have been consistent. I think I am an American. I think I am thinking of my own country. And when I have got to become a deficit spender and believe in this compensatory theory, the President ought to get somebody else to sit in this chair because I don't -- I am loyal to him and have been with him longer than ~~with~~ anybody else, but I can't appear before your people and stultify. That's why he made the suggestion that you begin hearings and don't invite me up. He knows me. I have been with him twenty-five years and he knows I won't stultify myself and that's why I think people have a certain amount of confidence in me, because they know me. This thing is so much bigger than I am that I am very unimportant.

Mr. Doughton: My personal opinion -- Mr. Cooper might not agree -- but as far as I am concerned, I would not favor, I would really be opposed, not arbitrarily, but opposed to our attempting any kind of tax legislation until you came up and gave us your position which I supposed was satisfactory to the Administration.

Mr. Cooper: Of course, that's the course we have always taken and the President has naturally dictated to us to follow that course now. And as the Chairman indicates, we want to know -- at least, I want to know -- that whatever we are starting out to try to do is in accord with the program of the President.

Just one other point, in line with the statement you have made, as indicated by my previous remark if we were expected to draft and pass a general

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tax bill raising \$1,000,000,000 or \$2,000,000,000 additional revenue, we should have had that job turned over to us at the beginning of the session and not now, which we hope to be near the close of the session.

HM, Jr: Jere, the President of the United States after, as I told him, he had me down last night (because he went at me from one o'clock to 3:30 yesterday) and after he had been at me for two hours and twenty-five minutes, in the last two minutes he said, "Henry, supposing this country is a \$67,000,000,000 country and that's all it's going to be. What's your recommendation?" I said, "I haven't got one." He said, "Henry, you must have." I said, "I have not been thinking along those lines." He said, "Supposing we are a \$67,000,000,000 and don't get any further. What's your recommendation?" I said, "I have not been thinking that way." I said, "Have you been thinking about it?" Then, at 3:25 last night, "Well, how about going after balancing the budget and raising \$2,000,000,000? Have you such a program?" I said, "Yes; we showed it to you in October, 1938. It's all done. Hanes, Bell and I were over there in October, 1938, and presented it to you." I want you to know Hanes and I and Bell saw the President in October, 1938, and presented that program. He has never said another word about it until 3:25 last night.

Mr. Cooper: I have no doubt of that. The first time I ever met Mr. Hanes was in Chairman Doughton's office. He made the remark at that time that he favored raising \$1,000,000,000 more taxes. I assumed from that that you gentlemen had been thinking along that line, but the fact remains it has never come to us.

HM, Jr: Well, then, you know why.

Mr. Cooper: We know why it has not. We are not responsible and I grant that you are not responsible, but the President is in the driver's seat. If you are going anywhere in this country, you have to ride with him.

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HM, Jr.: Or not ride at all.

Mr. Cooper: You have to walk.

Mr. Doughton: I agree with you. If there is to be a tax program we ought to have known it earlier, but our program has been what we did last year on Social Security, when we deferred that, we would not have been any farther along. As far as I was committed, the first thing we would take up would be amendments to Social Security and we put our whole time on that.

Mr. Cooper: We have worked since the first day of February.

Mr. Doughton: I took up Social Security because I agreed to do it.

Mr. Cooper: My view is in all probability with a clear, concise, definite program for a revenue bill, presented by the Treasury with the approval of the President, we could have worked that out and disposed of that in Committee and in the House in a much shorter period of time than we have had to devote to Social Security.

Mr. Doughton: We could yet if we could start from scratch with an understanding. I don't think anything in the House would take us as long as the Social Security.

Mr. Cooper: My very clear impression of the President's position this morning, as I indicated a while ago, is just what I have understood it to be all along and, as I see it now, he still is not in a position to advocate a general tax bill to raise \$1,000,000,000 or \$2,000,000,000 at this session of Congress, because his very definite suggestion, or proposal, was that that be given study with a view to reporting the third day of next January.

HM, Jr.: But he did suggest this: first, that you have a bill to take care of Social Security.

Mr. Doughton: We have that.

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HM, Jr: Then he said, two, have another bill to take care of future tax-exempts on Governments.

Mr. Doughton: Extend the excises.

HM, Jr: Three, a resolution extending the excises, but you also got your corporate. And then he said, four, have a bill which would take up ....

Mr. Cooper: ... so-called deterrent taxes ...

HM, Jr: .... and he said start with the carrying over of business losses.

Mr. Cooper: That's right.

HM, Jr: And he suggested that you, as Chairman of the Sub-committee begin to hold hearings on that and that after you had held your hearings on that and heard the proponents, you ask me to come up.

Mr. Cooper: And give estimates of the effect on revenue.

HM, Jr: And then he said that that bill would be the "catch all" for all the amendments and try to keep them from having any amendments on any other bill except that.

Mr. Cooper: Substantially, that's my understanding. Then, the fifth thing, have a Joint Resolution providing for a Joint Committee to make a study of possible reductions in expenditures and a proposed tax plan that would look to the balancing of the budget over a three-year period, and that to go over, with the report on it to be made by January third.

Mr. Doughton: Representatives on that Committee would be three members of the House Ways and Means and three of the Senate Finance and three of the Appropriations Committee and three from the Treasury.

Mr. Cooper: As I understood it, he suggested six members, three from the House and three from the

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Senate and then, if we thought well of it, to have three from the Administrative or Executive branch of the Government. Of course, I did not raise the question at that time, because we all seemed to understand that many details of a suggestion of that type would have to be worked out, but we run into immediate trouble in the selection of that type of Committee. Now then, if it is a question of studying the revenue and recommending a tax program, of course the Ways and Means Committee of the House and Finance Committee of the Senate would naturally furnish the personnel for such a Committee, but when you chuck up with that the question of studying possible reduction in expenditures that immediately brings in the Appropriations Committees of the two Houses because they are the spending Committees.

Mr. Doughton: I have got it in my mind that that was in the back of somebody's head, to let the Appropriations Committee be represented if we had a Joint Committee of that kind to formulate a long-range three-year program.

Mr. Cooper: And I definitely understood that he thought it was desirable to have a small Committee. He made that remark.

Mr. Doughton: He got the idea, perhaps, along with these single-barrel bills; first, with Social Security which deals with deterrent taxes to some extent; then excise taxes and a bill to take care of future tax-exempts, and then the deterrents, starting with carrying over of business losses, and it requires such elaborate study then we could be dropped and this Committee could go on with further study. We might possibly get through with one phase of it if we could get agreement. We might get agreement on business losses; otherwise we would go along on the long-range proposition of tax revision, reducing expenditures; that that should go over, the intermediary study, until Fall.

Mr. Cooper: I think it was very clearly indicated that it's the President's idea that we divide

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the program up into separate bills; that we have the bill dealing with Social Security, which is the course we have been following. The tax part of the Social Security program is involved in the whole Social Security problem. That's one. Then a resolution extending expiring taxes. Then hearings and a bill on tax-exempt securities. Then, four, a bill dealing with the so-called deterrent taxes to business with the starting point the carry-over of business losses. And then the fifth thing, this suggested general Committee to give a study of possible reduction of expenditures and a possible tax program looking to the balancing of the budget within a three-year program.

HM, Jr.: Beginning next year.

Mr. Cooper: A report of that Joint Committee to be made on January 3rd.

You remember, the President pointed out if you get your Social Security tax bill through and you get your Resolution passed extending expiring taxes, the status continues as it now exists. The Government will go right on. Now then, if by that time Congress is in a mood to adjourn, you can adjourn with the status continuing as it exists now. If Congress wants to remain in session long enough to then take up and dispose of the question of tax-exempt securities and the question of tax deterrents to business, all right. If not, if adjournment comes before action is taken on those, you still have your present status continuing and your financial program of the Government continuing just as it is now.

HM, Jr.: And Mr. Doughton pointed out, as I remember, that if we started hearings -- you people started hearings on business carry-over, who is going to guarantee that Mr. MacCormack and the Republicans are not going to bring up the whole program and run away with the whole show?

Mr. Doughton: Of course, I am fearful they will do it if we don't reach some understanding with them. If they thought we were trying to head it off,

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the Congressman has gone on the air and Harrison has made different and different statements and unless we reach an understanding with them -- that's the essential thing, first. If they would let us go along with the extension of these expiring taxes without amendment and then tax-exempts, unless we could we have the whole fight on either one of those.

HM, Jr: And the President suggested that you gentlemen talk it over with Pat Harrison and see if you could arrive at a suggestion.

Mr. Doughton: That was a suggestion I thought was all right and, moreover, we want to talk it over with all the members of our Sub-committee. If we start out, even with MacCormack, with the public mind as it is, with the Republicans all lined up behind him -- what I want to do is agree -- I think we would have a long fight and be whipped and be discredited.

Mr. Cooper: And going back to the original proposition -- what have you to gain if you work yourself down, both the Treasury and the Ways and Means, and come out with a bill and it's loaded down or shot to pieces either in the House or in the Senate and winds up in such shape your President won't approve it? I have this idea on that point which would safeguard that. The conferees of the Ways and Means would never agree to a bill that the President might not want but would not accept. I think we could prevent that contingency from arising.

HM, Jr: He did not sign the last one.

Mr. Cooper: He didn't sign the last one and as far as my part is concerned I don't intend to get myself in that shape again if I can help it.

HM, Jr: That's why I say it is better not to let me go up on the Hill, because you can find out where I stand any minute in twenty-four hours of the day.

Mr. Cooper: To be quite frank, that's the only way to deal with us. I don't see any good purpose

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to be served by you<sup>s</sup> coming up on the Hill or by your devoting any further time or effort to this thing until you can get an absolute understanding and clearance with the President.

Mr. Doughton: On that point, unless you do come up on the Hill -- outside of the Resolution extending these expired taxes -- unless you do come up, my opinion is that our Committee will not budge.

HM, Jr.: It's all right.

Mr. Doughton: As far as tax legislation is concerned.

HM, Jr.: The President said he would write a letter. How did you put it -- "get our ducks lined up". Nothing more I can do.

Mr. Cooper: To be quite frank, that's the way I see it; although I will never be in that position, if I occupied the chair you do that's what I would do.

HM, Jr.: I have done all I can. I am through. You are right. We are just back where we were a month ago, but let me remind you, you and I went to see the President twice in the same week on Social Security.

Mr. Cooper: Yes.

HM, Jr.: And the first time we went over he was for raising the taxes.

Mr. Cooper: Yes.

HM, Jr.: And everybody around the room all agreed with him. And when we came out Johnnie said, "Does that mean it's that way? I said, "No, Johnnie; I am going to make one more trial." I asked Jim Farley to write every State Chairman, because I am so sick and tired of hearing I don't know politics and, by God! those fellows know politics, and every single one of them said everything I did is the best thing we have done this year; is the best thing this year as far

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as the party is concerned and it's the only thing that has been done to help business.

Mr. Cooper: I grant you that's a real substantial help to business.

HM, Jr.: All right, it's the only thing! The President is the President; I am only his hired man. But you open this thing up and you see what happens and the Republicans -- Vandenberg, I saw him out the other night and he damned me up and down, with a smile on his face, for taking away the best show he had -- Social Security. Now they have one left, as far as the Treasury is concerned, and what we are trying to do is give them the best show they have and they will just howl their heads off that this Administration would not do one thing to help business.

Mr. Hanes: "The Secretary of the Treasury said they should do something and they have done nothing," that's what they will say.

HM, Jr.: I am not going to stultify myself. I will keep my mouth shut. I will always be loyal to my President as long as I hold this chair, but he can't make me say something I don't believe in. That's different. I am not going up there and make a fool out of myself.

Mr. Cooper: Again to be absolutely frank, it's doubtless my fault, my incapacity to grasp it, but I have never been able to see yet when you are faced with the ultimatum you have got to wind up with the same amount of revenue that you are receiving now, how you are going to give anything substantial or important to business in the way of tax relief unless you open up all these loop-holes that we have been working here for six or seven years to close. In other words, when you have to have so much money, how are you going to get that money?

HM, Jr.: I know you have been sincere on that.

Mr. Hanes: That's the way of killing any hope,

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any chance of doing anything constructive for the tax bill. You are not taking any chances. You have taken \$27,000,000,000 worth of chances. That's what you have done with the people's money. You have taken \$27,000,000,000 worth of chances and you are unwilling to take \$250,000,000 chance to raise the velocity of business in this country and put people back to work and put them off the relief rolls. You are unwilling to take \$250,000,000 .....

Mr. Cooper: If you come along and say you want to raise \$250,000,000 less revenue than you are now, we can do that, but if you are going to wind up with the same amount of revenue that you are receiving, I don't see how you are going to give substantial relief or assistance. I don't see how you can do it without closing up loopholes.

Mr. Hanes: I claim you won't lose \$250,000,000. I claim if you can get private investment back into business .....

Mr. Cooper: That's speculative.

Mr. Hanes: We speculated \$27,000,000,000 so far in seven years. We are just \$27,000,000,000 worse off.

HM, Jr: And don't you think the country does not know it!

Mr. Cooper: That may be all true. Now, if you want a tax program that on the face of it and on the estimates you give us you lose \$250,000,000 revenue and depend upon pick-up and improvement and stimulation of business to yield more in the place of it, that's one thing; but when you and the President say to us that you have got to work out a tax program which on the basis of your estimate will yield the same amount of revenue that is being yielded now, I am just unable to see how you are going to provide any relief that will be of any consequence.

HM, Jr: All right. You are coming down. One minute it's \$2,000,000,000 new taxes; next minute, \$250,000,000 less. Supposing the President should

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change again and say, Well, we will make these changes and not try to make them up.

Mr. Cooper: That's a different thing. If he says we don't need the same amount of revenue based on your estimate, and we can do plenty of things -- God knows I can give relief just without limit if I don't have to raise the revenue.

Mr. Hanes: We are estimating \$8,000,000,000 on the basis of net taxable income, which is a low basis. That's where we have been. If we made our estimates on the basis of \$7,000,000,000 of net taxable income, we could make a strong case for the fact that there would be no loss in revenue.

Mr. Cooper: I grant you that, but I am assuming all along, without any reflection at all, that your estimates are honest.

Mr. Hanes: I have been back in the history of the Treasury for the past 20 years of this country. The Treasury has gone up there every time and every time they have had a suggested change in the tax law. Look at their loss of revenue. We haven't a decent tax structure in this country. We have a hodge-podge because we have added and added until you have the businessman paying 40-odd taxes when he ought to be paying one or two. Those things can be rectified.

Mr. Cooper: With utmost good spirit, you have not gone through the grind and the experience of writing a tax bill. You can't sit down and write a tax bill that will pass Congress, and I can't either. The final form of a tax bill is the result of compromise. There are some things in the present law I never have stood for and never will. But it's a matter of compromise when you have 435 members of the House. You can't have it like any individual man wants it. On the other point, when I was elected a members of the Ways and Means, my first objective -- I just strutted around with the definite purpose in mind that I was certainly going to make a contribution toward simplification of the revenue laws of this country, and the

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very first experience I had after I got on there showed me how much I was mistaken.

You have to tax business of the country as you find it. Business is complicated. It's intricate. You have all kinds of interlocking business interests. You can't require reorganization of business for the purpose of levying a tax on it. You have got to tax business as you find it and with business complicated and intricate your tax laws have to be complicated and intricate. No escape.

Mr. Hanes: I grant you all that, and it is certainly no criticism of Ways and Means, and there are certain simplifications which can be made. I go back to saying "50,000,000 Frenchmen can't be wrong", and, by God!, 50,000,000 businessmen are all agreed on eight points in the present tax bill that could be rectified very simply and without opposition, I mean from the source that you would normally get opposition, and you know every tax bill has been a fight between the Treasury and Ways and Means or between Ways and Means and Senate Finance. Here we have got a proposition here, now, which will get unanimous support of the business interests of the country.

Mr. Cooper: If you have got a program that will get the unanimous support of business people the whole long way of raising revenue for the Government -- whenever they come along and propose a tax program that's going to raise the required amount of revenue for the Government, there's a "bug under the chit" somewhere, because nobody likes to be taxed. It's part of human nature; we don't like to be taxed.

Mr. Doughton: Let me ask you this. You are in touch with business interests. Now, would they be willing if the Congress should see its way clear to do it, make such modification as you have in mind, and on the estimates made on present business we would lose \$200,000,000 or \$300,000,000, not anticipating what might happen, but on estimates made on present business, then they agree as to how they would make that up, and then if business expanded like you said and there was

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an increase in tax -- we could raise or reduce taxes -- would they be willing to lay down a program at the same time they laid down the program of repeal or reduction of taxes, lay down a program that on the basis of present business that corporations -- not sales taxes, but corporations -- would pay an equivalent amount of taxes?

Mr. Hanes: I say if you go back to January, I would say yes; if you come down to today, I would say no, because they have a divergent point of view; so many statements have been at absolute variance with facts. There are the statements that you have to raise corporate taxes from 27% to 30%; another was 34%; another was 22%; another was to put it on the big fellow and take it off the little fellow; and another was take it off the big fellow and put it on the little man. All erroneous data. No possible significance in so far as the Treasury program was concerned.

Mr. Cooper: On that point, the only figures that have come to me from you people -- and they came to me from the President as being furnished by you -- it provides a five point program and under that plan the tax burden of the larger corporations will be increased 14%.

Mr. Hanes: Jere, let me tell you something ...

Mr. Cooper: That's your own program.

Mr. Hanes: No, it isn't. Wait a minute! That's what the President asked us to bring him. That was not our program. He asked us to bring figures on that basis. You are right. It went up as high as 22. It started at 16½ or 17 and went up to 22, but that was not our original program. It called for tax in dollars regardless of percentages exactly equivalent for each step and there were only two steps in all the program and that was corporations under \$25,000 and over \$50,000. He said, Go back and bring me an estimate on five steps instead of two steps and make a graduated tax. Our original program called for the levying of a tax which was exactly equivalent in dollars to the tax which the man is now paying. No reduction in tax anybody was paying, but no increase. And that was our original .....

Mr. Cooper: You remember the first time I talked

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with you, I made the statement to you that as I had been appointed Chairman of the tax sub-committee of the Ways and Means, I was ready and glad to cooperate and talk with you any time.

Mr. Hanes: You did.

Mr. Cooper: Because I have not had any approach since then. I understand your explanation.

Mr. Hanes: I just want to make this clear. I have made no move since I have been in the Treasury that I didn't tell this fellow (Secretary Morgenthau) about. He has told me not to do anything about it.

HM, Jr: How could either John or I come? Friday night, at a quarter of eight, before the dinner, I saw the President and I said, "Is it all right with you for me to talk to Bob Doughton?" That was Friday night, and that's the first time. And up to now my hands have been tied; John's, the same way.

Mr. Hanes: I am glad that we have not violated, so far as I know, any confidence. I have not said anything to Pat Harrison or Mr. Doughton because I told the Secretary I wouldn't.

Mr. Cooper: I understand that situation, but the point I am making is this: I can't be charged with knowing about these other plans that you had when I did not know. The only thing I have is this statement here with a note from the President: "Dear Jere: Excuse my not signing it, but I want to get it up to you tonight. Here is my letter to Pat, together with photostat of what has been suggested." On the back of it, it says large corporations will be increased by 14%.

Mr. Hanes: I don't like to make any statements that I don't know are not accurate, but in my humble opinion it was worked out on that basis because for the very simple reason that it was asked for. There is nothing fair about it and we never proposed any such thing as that. I never would have sponsored it or gone up on the Hill to talk about it and our program was a fair one and in our opinion

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would raise more revenue. Not only that, it would cut people off the relief rolls and take these people off the relief rolls and it's costing us \$30,000,000,000 to keep people idle. They would contribute \$2.00 apiece if they would work; instead of that, they are on our necks. We are giving them a dole.

Mr. Doughton: Don't you think you are a little optimistic in believing any tax change we could make or any change in our present tax laws would put them back to work?

Mr. Hanes: I didn't say that. Oh, Lord! I say this, and the Secretary was going to say in his tax statement, we don't claim for a minute that this one thing is going to put anybody back to work. We say it's a step in the right direction. Our business is in the Treasury and this is the only place we have anything to do about it, so we are not going to talk about somebody else's business and it's our business to recommend to the Congress if we find some place in the tax law where it should be changed. It is our duty to go to the Congress and say so and let Congress take its choice of what it wishes to do. But I say this to you: it takes \$7,000.00 per man with machinery, tools, and equipment, to put one man to work in this country. \$7,000.00 of invested capital. Between 1924 and 1929, the private business of this country supplied \$450,000,000 per month to the economy. That's a total of over \$5,000,000,000 a year. What have we done since 1929? We have supplied less than \$50,000,000 a month. The result is a lag in our investment of over \$3,500,000,000 a year and of course we have unsettlement and we will have that until we come out and say we are going to give the fellow who takes a chance a reasonable opportunity to make some money, because venturesome capital loses four times out of five. That's the history of every capitalistic economy, is that losses far outweigh the gains and we have to take cognizance of that in our tax structure and we have not done it and, in my opinion, there is only one thing: there is the beginning, there is evidence, of good faith. As Leon Henderson called it, "an earnest" on the part of this Administration that they mean to help put this economy back on its feet and keep this type of system and, frankly, I don't want to live under any other type of Government and I think we will the way we are going.

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Mr. Doughton: Have you any other suggestion of what steps Congress might take?

Mr. Hanes: I have in mind several, but I would not make them because they are none of my business.

Mr. Doughton: You might "insin-uendo".

Mr. Hanes: We have a motto in the Treasury that we mind our own business and hope everybody else does.

Mr. Cooper: I have an individual thought as to at least what I think is a greater deterrent to business than any taxes now imposed, but I am not suggesting that because it's not down my alley.

HM, Jr.: If we were sitting around the fire ....

(Mr. Cooper asked that his remarks be "off the record, so no notes were taken. His point was labor legislation, and he elaborated on this subject, giving his views -- off the record.)

HM, Jr.: All I know is, Speaker Bankhead -- I saw him and did not ask him -- he said "Put your money on it; Congress will be here all July."

Mr. Doughton: We will not get away before August, but I would be willing to stay here until Christmas if we could .....

HM, Jr.: The President said you could put through the House the Neutrality Bill in two days.

Mr. Cooper: Of course, it's just the type of rule we adopt.

HM, Jr.: I appreciate tremendously your coming down here.

Mr. Doughton: What is our next step in your opinion, off the record and confidential.

HM, Jr.: I would say the President asked you to talk to Pat Harrison and your own Democratic Committee.

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Mr. Doughton: Yes, but I don't quite understand. The President is not ready to go along on your program. What shall I talk to Pat Harrison about? Suppose I go up there and sell it to Pat. You fellows come up and say you are not ready to recommend. I could not lay any program before him unless I knew he was in accord.

HM, Jr.: Ask Pat if he will go along on what the President suggested this morning.

Mr. Doughton: Would you like to have a report on that?

HM, Jr.: I certainly would.

Mr. Doughton: We will sound Pat out on that.

HM, Jr.: At least you can say "We don't agree with Morgenthau, but at least we know what he thinks."

Mr. Cooper: I am frequently misunderstood because I am just, by nature and disposition, positive and frank. Only way I know.

Mr. Doughton: As far as practical results are concerned, it's no sense sitting down here and talking. If you all get together up here before we start, if you will pardon our weak suggestion.

HM, Jr.: After you have seen Pat, will you give us a chance to talk with you?

Mr. Doughton: I will be glad to, just as expeditiously as I can.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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DATE May 9, 1939

TO Secretary Morgenthau  
FROM Mr. White

Subject: Gold Imports in the United States

1. How much gold has come to the United States since the European situation became acute?
2. Where did it come from?
3. What countries have lost and what countries have gained gold during that period?
4. Why has so much gold come here?
5. How much more gold are we going to get?
6. Is the gold inflow doing us any harm?
7. What can we do about it?

1. How much gold has come to the United States since the European situation became acute?

Since July 1938, when the European political situation became acute, the monetary gold stock of the United States increased by \$2,828 million. Of this amount only about \$150 million of gold was purchased from domestic producers. The remainder, \$2,678 million, was imported gold.

During September and October, the period of the Czechoslovakian crisis, \$960 million of gold was imported for sale to the Treasury and during the crisis period of March and April, about \$1,000 million of gold was imported. Net imports of gold into the United States since July 1938 (the Department of Commerce statistics of imports adjusted for net changes in earmarked gold) were as follows:

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Net imports of gold, adjusted for earmarking, by months

(In millions of dollars)

1938 - July	\$ 43
August	137
September	508
October	452
November	170
December	178
1939 - January	170
February	175
March	376
April (thru 26th)	<u>538</u>
Total for 10 months	\$2,747

In addition, during this ten month period \$428 million of gold was added to that held under earmark for the account of foreign governments or foreign central banks. The bulk of the increase was for the account of Switzerland, Netherlands, Sweden and France.

2. Where did the imports of gold come from?

The net gold imports during this 10 month period by country of export is given in the table below. These statistics are not adjusted for gold sent here to be placed under earmark because no statistics are available giving the country of export of those particular shipments which are placed under earmark.

Net gold imports into the United States, by country of export

(As reported by the Department of Commerce)

<u>Country of export</u>	(In millions of dollars)
United Kingdom	\$1,959
Netherlands	297
Japan	173
Belgium	128
Canada	102
France	90
Mexico	34
All other	<u>287</u>
Total	\$3,070

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It will be noted that these statistics show an import from the United Kingdom of about \$2,000 million of gold. A part of this amount, however, consisted of gold released from private hoards in England, a part consisted of gold transhipped from other countries, and perhaps some of the gold was released from earmark in London. The total of these items may be possibly \$600 million. The balance of the gold came from the stock of the British Equalization Fund but a part, perhaps \$300 million, does not represent a net loss of the Fund because the British authorities began, in November 1938, to earmark gold in the Dominions. The bulk of gold so earmarked comes from newly-mined gold of South Africa.

The net loss of gold by the British Equalization Fund was thus probably about \$1,100 million from July 1938 to the present.

3. Which countries gained and lost gold in the period July 1938 to April 1939?

(a) The principal countries which increased their visible monetary stocks of gold were:

(In millions of dollars)

United States	\$2,800
France	500
All others	<u>200</u>
Total	\$3,500

(b) The principal countries losing gold from their visible monetary stocks were:

(In millions of dollars)

United Kingdom	\$1,100
Japan	100
Netherlands	100
Switzerland	50
Argentina	50
All others	<u>30</u>
Total	\$1,430

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(c) Additional gold came from the following sources:

(In millions of dollars)

Newly-mined gold	\$ 900
Releases from private hoards and secret holdings of governments	<u>1,170</u>
Total	\$2,070

4. Why has so much gold come to the United States?

More than half the gold inflow reflects capital flows to the United States, and only one-fifth equals our favorable trade balance (including our silver purchases).

The items in our balance of payments which may reasonably account for the gold inflow of \$2.6 billions since July 1938 are as follows:

Net inflow of capital (recorded)	\$1,400 million
Excess of exports over imports (including silver)	550 "
Foreign purchases of American paper currency	150 "
All other - including "residual"	<u>500</u> "
Total	\$2,600 "

Of the \$1.4 billion recorded net capital inflow less than 5 percent, or \$62 million, represents net security transactions. Foreigners have purchased during that period \$48 millions in American securities and Americans have reduced their holdings of foreign securities by \$14 million.

The bulk of the capital inflow, or about \$1,100 million, has taken the form of increased bank balances held by foreigners. Central banks have increased their holdings by \$87 million and private banks and individuals by \$1,021 million.

The chief reason for the flow of capital to the United States has been the fear of war abroad with its concomitant likelihood of depreciation, strict exchange controls, and possible inflation or confiscation. Of the capital flow to the United States during the past nine months about 80 percent represents an inflow of short-term balances.

The purchase of American currency arises principally from the same cause plus the desire to have funds in the form that can be easily hidden to evade sequestration or confiscation.

Our large favorable balance of trade which appeared in 1938 is due to a combination of factors, namely, the armament race abroad and the relatively high level of recovery in most principal foreign countries serve to keep our exports from falling, while the recession in the United States cut heavily into our imports.

5. How much more gold are we going to get?

It is certain that gold will continue to flow to the United States in large amounts. We estimate that inflow during the next twelve months at from \$2 to \$3 billion, as follows:

(a) Paper currency purchases by foreigners may be an important factor in our favorable balance of payments this year. So far this year there has been an export of United States currency of \$70 millions and the movement seems to be gaining momentum. In addition currency is purchased and kept in United States vaults instead of being exported.

(b) Our balance of payments on current account will continue to yield a substantial sum due the United States. We estimate that sum to be about \$1 billion.

Our excess of merchandise exports over imports will continue though probably in amounts smaller than the previous year. Last year our favorable trade balance amounted to \$1.1 billion. However, current trends indicate a lower favorable balance for the coming year despite the increased armament program abroad. During the first quarter of 1939 the export excess was only \$175 million as compared with \$320 million in the first quarter of 1938. (A survey of our trade prospects for next year is contained in a separate memorandum.)

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Our tourist expenditures abroad will decline and foreign tourist expenditures in this country will increase owing to increased danger of war abroad and the existence of two important world fairs in the United States.

Our purchases of foreign silver will be reduced in the coming year. In 1938 we had a net outpayment on account of silver purchases of \$225 million. With the bulk of the Chinese silver already disposed of, our imports of silver will be no more than half of the amount imported last year. So far this year our imports of silver were \$24 million as compared with \$60 million last year.

There are several minor factors which will tend to reduce our favorable balance of payments. One such factor is the reduced amount of interest and dividend receipts from abroad relative to payments abroad. With improved business conditions in the United States our payments of interest and dividends to foreigners will increase, especially since foreign holdings of American securities have shown no significant change in the past year and probably will not decrease in the future. Our receipts from abroad will decline, principally because Americans are continuing to dispose of their foreign securities.

In the past year we gained large amounts of gold directly or indirectly from countries on current account which will not continue into next year. Japan sold \$150 million of gold last year, which she will not be able to repeat this year because her gold holdings are now below \$200 million. Argentina lost probably \$125 million last year which will not be repeated this year since she is successfully controlling imports to prevent so large a loss.

(c) The inflow of capital will probably continue in large amounts until foreign governments effectively restrict and control the movement of capital. We estimate this item at a maximum of \$2 billion.

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The question of how much capital will flow to the United States is really a question of how much gold the capital exporting nations will permit to flow out before they set up barriers to prevent the outflow of private funds. England has already placed restrictions on the outflow of British capital and if as much as a half billion more of capital leaves England it is likely that she will place restrictions on the outflow of foreign capital as well. The Netherlands and Switzerland now together have gold holdings of about \$1½ billion. It is unlikely that they will permit more than a half billion of this gold to be lost before they too place restrictions on the outflow. France has been importing capital in the past nine months but if this trend reversed itself it is very likely that she would soon restrict outflows.

It is unlikely that all the other countries in the world will send to the United States more than \$300 million of capital.

Therefore, in spite of the fact that the disturbed international political situation is not likely to subside in the foreseeable future, we do not expect capital inflows during the next twelve months to amount to more than \$2 billion as a maximum and probably less than this figure. It is our conclusion that the inflow of capital will subside from the heavy movement now taking place, and that if the danger of war continues to haunt Europe the free international movement of capital will soon be a luxury of the past

6. What harm is the inflow of gold doing?

The inflow of gold does us no direct economic harm:

(a) It does not add to our public debt.

(b) Though it does add to our excess reserves, these reserves do not reasonably present a problem of serious concern since there is no foreseeable danger of inflation arising merely from the existence of large excess reserves. In fact, in so far as gold inflows have any effect at all, they help possibly to some slight extent to stimulate the extension of bank credit at the present time and therefore are salutary.

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Though they do no harm and may even do some slight good to the United States, they are indirectly harmful in that they accentuate the monetary difficulties in countries that are losing gold -- and thus contributing to international monetary uncertainty -- in that the large gold imports give rise to criticisms -- no matter how ill-founded -- of our gold policy.

Therefore, it would be desirable if the inflows of gold to the United States could be reduced or checked if it could be accomplished without introducing any substantial risk of economic loss.

7. What can we do about it?

We must recognize that there is very little we can do to reduce gold imports -- except promote recovery here.

(a) We can easily stop the inflow of gold or reduce its inflow by drastically cutting the price we pay for gold, but the adverse effect of such an action would be far worse than the benefits we would hope to gain. It would be worse both for us and for the rest of the world.

(b) We can reduce gold inflows by sharply reducing our import duties unilaterally. Such a course is impossible politically and under present business conditions in the United States quite undesirable on economic grounds.

(c) Making large loans abroad will not in any way help solve the problem inasmuch as the bulk of such loans, whether made by the Government or its agencies, or by private individuals, will be spent here and thereby reduce the gold inflows to only a small extent. Thus, for example, a \$25 million loan to China increases our exports of goods, not gold. Similarly, a loan to Brazil would likewise increase our exports of goods, not gold.

We could make loans for monetary purposes which would involve exports of gold, but such amounts are inevitably small -- possibly \$50 to \$200 million at most.

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(d) We could place obstacles in the path of capital imports and even drive some of the foreign capital out of the country. But it should be recognized that the capital movements are disadvantageous to the countries which lose capital and gold, and these countries are in the better position, both technically and from the point of view of national policy, to impose penalties and controls on the outflow of capital than we are on the inflow.

From our point of view, it may be possible to discourage inflows (and at the same time increase government revenues) by placing special taxes on foreign capital. This subject was investigated two years ago and the conclusion reached at that time was that such procedure in view of the total situation was not wise. We have recently reconvened the subject (an extensive report on it is almost ready) and we have concluded that it is feasible to discourage capital inflows but that the measures that would have to be employed should be resorted to only if drastic action is warranted.

However, it may be worthwhile to revive the proposal to impose 100 percent reserve requirements against foreign deposits. Although this measure would not be very effective in discouraging inflows of capital, it would be of some effect and would probably have a beneficial effect on public opinion.

The conclusion may well be reached that the gold inflow to the United States is a reflection of disturbed world economic and political conditions, and we will continue to hold the bulk of the world's gold until world conditions again become relatively stable - if ever.

The best way to reduce the flow of gold to the United States is to have a higher level of business activity here. Our imports would then increase more rapidly than our exports, thereby benefiting the rest of the world without hurting our own manufacturers who produce for domestic markets. Thus if additional reasons are needed for increased business recovery, this is one. Or to put it in another way, solution of our domestic business problems will help solve the gold problem and the solution of the world's economic and political troubles will solve the gold problem.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 9, 1939

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

In an off-the-record conference I obtained from Justices Frankfurter and Douglas today their views on the wisdom of the introduction of legislation to permit wire tapping by enforcement officers upon the issuance of a certificate of probable cause by the head of the department or agency charged with the enforcement of the statute thought to be violated. Both Justices thought such legislation would be unwise.

Mr. Justice Frankfurter said that it was better that a hundred guilty men should be at large than that the Government should do an ignoble act. Based upon his five years' experience as a prosecutor, he said that he thought such legislation was unnecessary. It represents a short cut, but he feels that the evidence in nearly every case can be obtained through the employment of proper methods.

Mr. Justice Douglas stated that he had never permitted wire tapping at the Securities and Exchange Commission and that, in his opinion, the method was unnecessary. No doubt, in some cases its nonemployment made the work of the enforcement officers more difficult, but with patience and the utilization of other methods he found that they could always achieve their goal. He thought that SEC's record of enforcement without the employment of wire tapping was a good example that it was unnecessary.

Mr. Justice Frankfurter stated that Mr. Justice Roberts held substantially the same views he had expressed. He said that Mr. Justice Reed thought otherwise. My own opinion is that Mr. Justice Reed's opinion probably reflects the views of J. Edgar Hoover. My guess is that Justices Stone, Hughes and Black would concur in Mr. Justice Frankfurter's views.

*E. H. F.*

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 9, 1939.

TO Secretary Morgenthau

FROM W. R. Johnson.

Mr. Ballerini, Commercial Counselor of the Italian Embassy, called upon me today for information with respect to countervailing duties on Italian goods.

He stated that Secretary Hull had notified the Italian Ambassador on Saturday, May 6, of the intention of the Treasury to impose the countervailing duties; that Mr. Hull referred the Ambassador to the Treasury for detailed information; and that the Ambassador was promised that his Government would have 45 days before Treasury action. The Ambassador cabled his Government on Sunday.

I gave Ballerini a reference to the Italian decrees law providing for export subsidies on silk goods and a memorandum repeating the information we gave the State Department concerning the subsidies on wool, cotton, and leather goods. I also stated that I knew nothing of any arrangement to defer action for 45 days and suggested that this be confirmed through the Department of State.

Ballerini stated that he was not authorized to discuss the subsidies or to do more than obtain information concerning them. He did express the hope, however, that the whole matter could be kept from the press for political reasons. I explained the necessity for publishing a notice.

W. R. Johnson

TREASURY DEPARTMENT

73

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau  
FROM E. H. Foley, Jr.

May 9, 1939

For your information

Re: Annenberg

Jim Morris informed me in a telephone conversation this afternoon that the Attorney General, pursuant to a request by Annenberg's lawyers, held a short conference with them on Monday in the Attorney General's office. Annenberg's counsel were then informed that the case would be sent to the United States Attorney in Chicago for further investigation by a Grand Jury and possible indictment. A letter to this effect has been prepared and will shortly be sent to the United States Attorney in Chicago.

Jim Morris stated that a designation of Sam Klaus as Special Assistant to the United States Attorney will be prepared, as well as another designation in that respect for our Chicago man, Riley Campbell. Crouter of Jim Morris' office, Austin Hall, a member of Bill Campbell's office, together with Sam Klaus and Riley Campbell, will constitute the staff directed by Bill Campbell. The appointment of special counsel will be left in abeyance for the present.

The anti-trust division will have an observer present who will be permitted to ask questions in so far as his examination does not interfere with the tax case. In the event that a tax indictment is obtained, but no anti-trust indictment, the anti-trust division will cooperate with the tax division; and vice versa.

Jim Morris also agreed that further designations for Sam Klaus' appearance before different Grand Juries in other districts are to be made on Bill Campbell's recommendation as necessity may arise.

*E.H.F.*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

May 9, 1939

FROM E. H. Foley, Jr.

For your information

Mr. Graves and Mr. Klaus appeared at 2 p.m. this afternoon in the office of Congressman J. Parnell Thomas in response to the Congressman's request in reference to the Sokol case. Mr. Klaus was introduced by Mr. Graves as being from the General Counsel's office whereupon the Congressman stated he would not permit Mr. Klaus to be present during the examination; the Congressman also said that this was an executive session and that he would allow only the witness. When he stated to Mr. Graves that a record would be taken, which would be available, Mr. Graves entered the room alone and Mr. Klaus remained behind until after the examination.

Mr. Graves has reported that the examination concerned itself almost entirely with the Sokol claim and beyond that related only to why so large a claim had been compromised for so relatively small a figure. Mr. Graves explained on the latter point that the Department of Justice had participated in the handling and settlement of the cases and that settlement was largely the result of statements by Mr. Whitaker, representing the Department of Justice, that there were legal weaknesses in the proof, the jurisdiction, and the possible collection of any judgment. With regard to the Sokol claim the Congressman wanted to know why the claim had been denied in spite of a recommendation to the contrary by Customs officials. Mr. Graves explained that these Customs officials did not have knowledge of the facts; that the case was not a Customs case, but was handled separately under Mr. Graves; and that only he was fully cognizant of the facts. He explained that while recommendations had been made by Customs officials, they had all gone through him. Mr. Graves has also reported that the Congressman referred to alleged rumors that the Department was willing to make some payment to Sokol. This Mr. Graves promptly denied as being without foundation. Mr. Graves also said that the Congressman wanted to know why he was not being given the files and when he demanded an answer for the record, Mr. Graves stated that he was not competent to give an opinion on that subject. No reference was made to the State Department aspect of the case.

Presumably Mr. Graves will report in full to you. In the meantime, I shall attempt to obtain a full transcript of the record of the hearing.

*E.H.F.*

TREASURY DEPARTMENT

75

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

May 9, 1939

FROM E. H. Foley, Jr.

For your information

Larry Bernard reports that the House Ways and Means Committee this afternoon unanimously voted to report out the legislation removing the partition in the Second Liberty Bond Act, as amended, limiting the amount of bonds which the Treasury may issue. We are assisting the Committee in the drafting of its report. The bill should be ready to be called up on the House calendar some time next week.

Larry Bernard will contact Senator Harrison immediately and arrange for consideration of the legislation by the Senate Finance Committee.

*E. H. F.*

Secretary Morgenthau

May 9, 1939

E. H. Foley, Jr.

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Larry Bernard reports that the House Ways and Means Committee this afternoon unanimously voted to report out the legislation removing the partition in the Second Liberty Bond Act, as amended, limiting the amount of bonds which the Treasury may issue. We are assisting the Committee in the drafting of its report. The bill should be ready to be called up on the House calendar some time next week.

Larry Bernard will contact Senator Harrison immediately and arrange for consideration of the legislation by the Senate Finance Committee.

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

May 9, 1939

In Father Coughlin's publication, "Social Justice," (copy attached) there appeared a quotation of Congressman Taylor's remarks on the floor of the House on April 18th, to the effect that Secretary Morgenthau's father was a major partner in the firm of Kuhn, Loeb & Co. At the request of the Secretary, Mr. Hanes contacted Congressman Warren who promised to call Mr. Taylor's attention to the erroneous statement.

Mr. Taylor's retraction was printed in the Congressional Directory of May 9.

Mr. MAPEZ. Mr. Speaker, I give 10 minutes to the gentleman from Tennessee (Mr. Taylor).

Mr. TAYLOR of Tennessee. Mr. Speaker, I agree with the distinguished chairman of the Committee on Rules, the dean of the House, in his statement that this is a stabilization bill with the accent on the "stab." It is a stab in the heart of the constitutional prerogatives of this great body, in which we as Representatives ought to take good and earnest with the most vigilant jealousy. [Applause.]

Mr. Speaker, I am opposed to this rule and voted against it in the Rules Committee because I am opposed to the resolution which it harbingers.

In my opinion, the power of the President to fix the monetary content of the dollar has been one of the most serious deterrents to economic recovery in this country. It has operated as a Damocles sword which has intimidated business to the extent that business could not know what the value of the dollar might be from 1 day to another.

Mr. Speaker, today we have two theories of dollar valuation. We have the domestic dollar and the foreign dollar. The domestic dollar must be evaluated according to one theory and the foreign dollar another. This legislation was enacted in 1934 in the first instance, supposedly to meet an emergency. A year later its sponsors, at the behest of the administration, came back and asked that its life be extended, contending that the emergency had not abated. Two years later the same group returned again and requested another lease of life for this legislation, claiming that the emergency still existed; and today we find them returning for the third time and insisting on a stay of execution on the ground that the emergency still prevails.

Well, my friends, I would like to know when an emergency ceases to be an emergency and becomes a condition. We have had more varieties of emergencies under the New Deal than Heins had canned products. A new emergency is born every day and new "crackpot" legislation must be provided to take care of it. [Applause.]

Mr. Speaker, I wonder when and where this travesty will end, and when sanity will return to the Congress?

Away back in the "horse and buggy days" Justice Marshall warned the American people that the power to tax was the power to destroy. To translate that axiom into New Deal phraseology it means that the power of the purse is the power to dominate. By the time we shall have paid in taxes for all the New Deal experiments, and especially their monetary experiments, the United States Treasury will be completely exhausted, if not destroyed. Make no mistake about that! We are paying a few international bankers and speculators \$35 per ounce for gold now, but before all of this sleight-of-hand money manipulation is put to an end we will not have 17 cents left to buy an ounce of our Colorado gold.

The present administration came in power on the pledge, among other things, to drive out the money changers. I am now fully convinced that the senior Senator from Virginia, the former Secretary of the Treasury of the United States, knew what he was talking about when he said:

We haven't driven out any money changers, we have only chased bankers.

Instead of the House of Morgan, we have changed to state, Lord & Taylor, and the House of Morgan is a main feature of the present Secretary of the Treasury is a main feature.

Again, Mr. Speaker, since coming in power this administration made, among many others, a pledge that if any of their experiments failed they would be the first to make acknowledgment and recommend a change. I would like for the majority leader or some other representative New Dealer to tell us how much longer the American people will have to wait for the first confession. If the last November election did not mean anything else, it was a mighty strong hint that several admissions were in order. Oh, ye experimenters, ye crystal gazers, ye brain-trusters, ye New Deal exponents! How long will you continue to impose upon our credulity and abuse our patience? [Applause.]

It has been generally understood that our distinguished President was requested a million dollars to play with until he learned the value of money. If he failed to learn anything about money with a million to play with, what right, pray tell me, has Congress to expect him to learn any more about the value of money with two billions to play with? I hope he is not buying any more German marks or putting us into the slot-machine business.

Mr. Speaker, before we permit the President or anyone else to buy any more gold, Congress should find out who owns the fifteen-odd billion dollars of gold the Government claims to own. There are a good many authorities who contend that Uncle Sam has given IOU's in the form of gold certificates or receipts for this money; has returned some of it to Mother Earth, and trusted the Federal Reserve banks to hold the balance of it—until and if. But no one seems to know—and how can they know?—until the Supreme Court decides just who does own all of this precious metal. Until that is decided we will not know who is to benefit by the mark-up or suffer the loss when the day of reckoning comes.

I am in favor of amending this bill to give the President and the bankers until January 1, 1940, to make up their minds that Congress will exercise its constitutional prerogative after that date so far as money is concerned. And in the meantime Congress should give some administrative thought to the Anderson amendment, or consider the feasibility of establishing a \$35-per-ounce price for gold the world over, provided foreign nations will agree to permit us to credit their war debts with the mark-up of \$14.33 and help maintain the future price at \$35.

This is the only chance we have to lessen the war debts of our former allies and the best way to begin to stabilize world trade. No nation and no individual can be expected to trade with any degree of confidence or normalcy until they know the price of international exchange or money.

In 1929 and 1930 foreigners crashed our markets and put this country in a ballspin by withdrawing their gold. It seems to me that any prudent man would learn a lesson from that experience. However, we are in that same predicament today. Europe, or the so-called gold countries, have billions checked here today, either in vaults or in stocks and bonds purchased at a 40-percent discount. If we fail to protect ourselves now and fear vanishes from the minds of Europeans, and this gold is recalled, God only can help Americans and America's credit.

Mr. Speaker, when will Congress realize that this New Deal "brain trust" money scheme is all a nightmare and come out from under this mantle of spending and lending and playing with millions and billions of dollars of gold that a hundred and thirty million American souls vitally depend upon?

I shall offer an amendment to extend the President's money powers as heretofore granted until January 1, 1940. If my amendment is defeated, I shall vote against this bill. In the meantime I hope every Member of the House will read the minority report of the House committee. It is constructive and illuminating and points out the danger signals in this program of congressional capitulation of its constitutional function. [Applause.]

# U. S. TO LEARN MYSTERY OF OUR HOARDED GOLD

## PRESSURE FOR INQUIRY GROWS IN WASHINGTON

WASHINGTON, D. C.—Members of the House of Representatives were startled when the Hon. J. Will Taylor, Congressman from Tennessee, divulged the following information: "I am told that the venerable father of the present Secretary of the Treasury is a major partner (in the banking firm of Kuhn, Loeb and Company)."

From Henry Morgenthau, Jr. to Henry Morgenthau, Sr. is a small step.

Quoting from Senator Carter Glass, Mr. Taylor reminded the House that "we haven't driven out any money changers, we have only changed bankers!"

This congressional charge specifies the generic thought latent in the minds of millions of Americans. In the words of Mr. Taylor: "Instead of the House of Morgan we have changed to Kuhn, Loeb & Company."

In the corridors of the Capitol a small group of Representatives listened to a member suggest that the time was opportune for an investigation of the private banking system operating in the United States, together with the relationship of the Treasury Department to these private bankers.

If such an investigation should eventuate, the country would receive an answer to the mystery of gold-hoarding now being practiced by the United States Government. Nearly \$16-billion of the yellow metal is buried at Fort Knox, Kentucky. It is not the property of the American people in the full sense of the word. It is collateral, for the most part, against the billions of dollars of Government bonds now extant.

Incidentally, our Government has initiated a program of gold loans to South America. The first loan totaled \$50-million and was negotiated on

the basis that the United States would have use of the central, privately owned bank in the republic south of us as a quid pro quo.

It appears that the international financiers recognize that their goose is cooked in Europe. Endeavoring to reconstruct their empire in the western hemisphere, they are reaching out to South America with the hope of joining the republics on that continent with ours in a gold coalition which will dominate the commercial destinies of the two Americas.

Meanwhile, it appears that Europe will operate its trade on the basis of barter, thereby leaving America holding the gold bag.

In the words of Mr. Taylor, spoken on the floor of the House, "We will pay a few international bankers and speculators \$35 an ounce for gold now, but before all this sleight-of-hand money manipulation is put to an end we will not have 17c left to buy an ounce of our Colorado gold."

It is remembered that Kuhn, Loeb & Company bought and paid for the Russo-Japanese war and that its distinguished partner played a major role in bringing about the Russian Revolution in 1917.



HENRY MORGENTHAU, JR.  
SECRETARY OF THE TREASURY

PERMISSION TO ADDRESS THE HOUSE

Mr. TAYLOR of Tennessee. Mr. Speaker, I ask unanimous consent to proceed for 1 minute.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Tennessee?

There was no objection.

Mr. TAYLOR of Tennessee. Mr. Speaker, on April 13 last, in the course of my remarks on the so-called stabilization bill, I stated that I had been informed that Mr. Henry Morgenthau, Sr., the father of the present Secretary of the Treasury, was a major partner of the firm of Kuhn, Loeb & Co. I have since been informed, upon what I consider reliable authority, that I was in error in this statement; that Mr. Morgenthau is not now nor has ever been politically interested in this firm. I certainly would not intentionally do Mr. Morgenthau or anyone else an injustice, and I make this explanation accordingly.

ARKANSAS-MISSISSIPPI BRIDGE COMMISSION

Mr. CHAPMAN submitted the following conference report

May 9, 1939

To: The Secretary  
From: Mr. Hanes

Representative J. Will Taylor of Tennessee made a retroaction today on the floor of the House of the statement which appeared in the Congressional Record of April 18th. It will appear in the Congressional Record of May 9th. I am sending you draft of a letter to Congressman Warren, thanking him for his assistance.

J. W. H.

MAY 9 1939

Dear Mr. Warren:

John Hanes has told me of your kind assistance in bringing to Congressman Taylor's attention an erroneous statement which he made April 15th. I am advised that he corrected the statement on the floor of the House today. I want you to know that I appreciate your help in this matter.

With best wishes, I am

Sincerely yours,

/s/ H. Morgenthau, Jr.

The Honorable Lindsay C. Warren,  
House of Representatives.

JWH:cc

May 10, 1939.

Dear Pai

I am sending you a page from a recent issue of Social Justice.

For your information, Mr. Taylor, Congressman from Tennessee, made the statement, to which allusion is made, on the floor of the House on April 18th. His exact words were ---

"So, instead of the House of Morgan we have changed to Kuhn, Loeb & Co., of which I am told the venerable father of the present Secretary of the Treasury is a major partner."

I took steps at once to see that the misstatement was corrected, and on May 9th Mr. Taylor asked permission to address the House, making the following statement:

"Mr. Speaker, on April 18 last, in the course of my remarks on the so-called stabilization bill, I stated that I had been informed that Mr. Henry Morgenthau, Sr., the father of the present Secretary of the Treasury, was a major partner of the firm of Kuhn, Loeb & Co. I have since been informed, upon what I consider reliable authority, that I was in error in this statement; that Mr. Morgenthau is not now nor has ever been financially interested in this firm. I certainly would not intentionally do Mr. Morgenthau or anyone else an injustice, and I make this explanation accordingly."

The retraction of his error appears on page 7475 of the Congressional Record for May 9th. I thought you would like to have the facts in the case.

Affectionately,

Henry

Mr. Henry Morgenthau,  
1133 Fifth Avenue,  
New York, New York.

Enclosure.

CHS/dw

May 9, 1939

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ADD ROOSEVELT

MR. ROOSEVELT SAID HE WAS DISTURBED BY THE GOVERNMENT'S INCREASING DEFICITS AND MADE PLAIN HIS BELIEF THAT CONGRESS WAS COMPLETELY RESPONSIBLE FOR THE LATEST FARM SPENDING SPLURGE WHICH HE SAID WAS THROWING THE WHOLE TAX SYSTEM OUT OF LINE.

HE SAID THAT HE HAD BEEN PROMISED THAT IF PARITY PAYMENTS WERE VOTED SUFFICIENT REVENUES WOULD BE APPROVED TO MAKE THE PAYMENTS. THE PROMISE WAS GIVEN, HE SAID, BY THE LEADERSHIP, BUT HE DID NOT NAME THE LEADERS SPECIFICALLY.

ADD ROOSEVELT

5/9 ON448P

PRESIDENT ROOSEVELT SAID THAT CONGRESSIONAL LEADERS BROKE A PROMISE TO HIM WHEN THEY FAILED TO PROVIDE MEANS OF FINANCING THE \$225,000,000 FOR FARM PARITY PAYMENTS ADDED IN THE SENATE TO THE AGRICULTURE SUPPLY BILL.

5/9 ON449P  
ADD ROOSEVELT

"WHERE DO WE GO, I AM ASKING YOU?", MR. ROOSEVELT ASKED IN THE GENERAL DISCUSSION OF DEFICITS INCURRED WITHOUT METHODS OF RAISING MONEY TO MEET THEM.

THE FIRST QUESTION, HE SAID, WAS WHAT CONGRESS WAS GOING TO DO ABOUT THE SITUATION. ASKED WHETHER HE WOULD VETO THE LATEST MEASURE HE REPLIED THAT HE WAS SPEAKING OF PRINCIPLES.

5/9 ON453P

Treasury Department  
Division of Monetary Research

87

Date..... May 10, 1939. .... 1938

o: Secretary Morgenthau

This is important because it indicates:

(1) That Japan is desirous of pulling out of the China episode provided she can save her face and a few concessions;

(2) The terms are becoming so good that China will be seriously tempted to accept.

Now appears to be the time to initiate the question of a large loan to China (via Congressional action).

(a) China will get much better terms if the loan is talked about in official circles. If the loan should actually go through, China would be in a very strong bargaining position in discussing peace terms with Japan.

(b) Not only will there be better peace terms but we will get a firm foothold on future Chinese business and we will get the bulk of reconstruction work in China.

(c) China under peace time conditions and a revitalized Central Government will make a wonderful future market for American goods and enterprise. The better terms China can make with Japan the better the prospects for American trade with China.

MR. WHITE  
Branch 2058 - Room 200

CONFIDENTIAL

88

PARAPHRASE OF CABLE

From: Treasury Attache  
Hongkong, China

Date: May 9, 1939

Message from Mr. Nicholson

Re our message of April 27 and 28 relative to peace terms.

Koyama, who is now in Shanghai, will return to Tokyo on Wednesday.

As outlined in above messages, peace terms were again discussed and the following changes suggested:

First to read: "Adherence to non-aggression pact."

Third to be changed to: "Withdrawal of Japanese troops by easy stages, as to evacuate troops altogether is impossible; and work out methods mutually agreeable."

Fourth changed to read: "At Shanghai, Tsingtao and Hankow Japanese garrison to be maintained only until peace and order is restored."

It is desire of Koyama to return to Tokyo with concrete proposals from Government of China.

With changes as above the whole peace proposition has now been submitted to Chungking.

T. V. Soong channel through which negotiations are being conducted.

Request utmost secrecy. Will endeavor keep you informed.

CONFIDENTIAL

PARAPHRASE OF CABLE

From: Spagent, Hongkong, China

To: Secretary of the Treasury

Date: April 27, 1939

Message from Mr. Nicholson:

Apparent that Japanese are earnestly seeking peace terms.

On the 17th instant the following was submitted by an intermediary to a highly influential Chinese at Hongkong:

"The following has occurred to me: It being obvious that an honorable peace would be welcome, that direct approach, it appeared, could not very easily be made to either party, and that in way of formal approach through a neutral power there would be similar difficulty, that if there could be an exchange of ideas, informally, through some third parties, some formula might be arrived at which would be mutually acceptable. With this in mind, I approached a Japanese friend, whose name it is better not to mention, suggesting that he should obtain from Tokyo the terms suggested by them in order that they could be submitted to Chungking. My Japanese friend and myself, of course, recognized that the terms which would be suggested first would not be acceptable, but though refusal would be inevitable, it was hoped that it would be rather a modification than a flat refusal so that the way might be left open for counter suggestions, and as a result of such interchange, eventually some reasonably acceptable solution might be reached.

"My friend, in order to start ball rolling, communicated with Tokyo and received a message conveying the following brief terms:

- First. Adherence to the anti-commintern pact, or as it was expressed to me, anti-communist agreement.
- Second. Economic cooperation with favorable treatment uncertain areas.
- Third. No territorial demands. No indemnity for war expenses.

-2-

**Fourth.** Garrisons in certain places, until such time as no longer necessary, viz. until peace and order are restored.

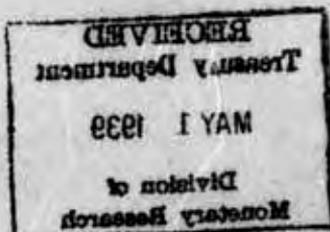
**Fifth.** Anti-Japanese activities to cease at once.

"It is realized, as I have mentioned, that such original suggestions would not and could not be acceptable, and no terms could be agreeable, it has been pointed out, which do not recognize the treaty obligations of China to other powers, and the sovereignty of China, but it is hoped that it may be possible for a reply to be given in a constructive manner to the suggestions made.

"Such constructive counter-suggestions, should they be made, would be communicated verbally and informally as terms which would possibly be acceptable to the Chinese Government. They would not be formal and would have no binding force.

"Something would have been achieved should agreement be reached in principle on a few main heads, but of course there would have to be very minute elaborations before anything like a solution could be reached."

As the above was considered totally unacceptable to an important faction of the Chinese Government, it was not submitted to Chungking.



The President,

MAY 10 1933

The White House.

My dear Mr. President:

Executive Order No. 6166 of June 10, 1933, provided in part as follows:

**"Section 1.-Procurement**

"The function of determination of policies and methods of procurement, warehousing, and distribution of property, facilities, structures, improvements, machinery, equipment, stores, and supplies exercised by any agency is transferred to a Procurement Division in the Treasury Department, at the head of which shall be a Director of Procurement.

\*\*\*\*\*

"In respect of any kind of procurement, warehousing, or distribution for any agency the Procurement Division may, with the approval of the President, (a) undertake the performance of such procurement, warehousing, or distribution itself, or (b) permit such agency to perform such procurement, warehousing, or distribution, or (c) contract such performance to some other agency, or (d) avail itself in part of any of these resources, according as it may deem desirable in the interest of economy and efficiency. When the Procurement Division has prescribed the manner of procurement, warehousing, or distribution of any thing, no agency shall thereafter procure, warehouse, or distribute such thing in any manner other than so prescribed."

It has now been determined that a consolidation of both departmental and field procurement activities in accordance with the terms of this order will result in a more economical and efficient administration of these activities.

There is attached for your approval, therefore, a proposed order consolidating the procurement activities of the Government in the Procurement Division of the Treasury Department.

It will be noted that the proposed order exempts the War

and Navy Departments as obviously no useful purpose is to be served by making a consolidation of any activities in time of peace which would not be equally effective in time of war.

While it is impossible to estimate the savings of Government funds which may be effected through the recommended consolidation, it is apparent that much duplication of work may be eliminated in the execution of contracts by the several departments for articles of a similar nature and that the proposed consolidation will result in a material decrease in personnel.

Respectfully submitted,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

CHANGES

Pursuant to the authority vested in the Procurement Division of the Treasury Department, subject to the approval of the President, by Section I of Executive Order No. 6165 of June 10, 1933, and in order to reduce Government expenditures, to increase the efficiency of the operations of the Government, and to eliminate overlapping and duplication of effort, the Procurement Division will coordinate and/or consolidate the functions of the procurement of supplies on behalf of the Government.

A. In respect of all kinds of procurement of supplies, for use either in Washington or in the field, the Procurement Division will hereafter undertake the performance of such procurement for all existing and subsequently created agencies provided that all agencies are hereby permitted to perform such procurement themselves, to the same extent as at present, until such dates as the Procurement Division may prescribe with respect to specific agencies, specific kinds of procurement, or specific supplies.

B. The offices of the Procurement Division now existing in the several states will form the nucleus for the field activities of a general procurement service.

C. All records and property pertaining to or utilized in the procurement of supplies by any agency, and all personnel engaged in the procurement of supplies for any agency, shall be transferred to the Procurement Division on such dates as the Procurement Division may prescribe with respect to specific agencies, specific kinds of procurement, or specific supplies. All unexpended balances of appropriations available to any agency for personal services and administrative expenses in connection with the procurement of supplies, to the extent authorized by law and approved by the Director of the Bureau of the Budget, shall be transferred to the Procurement Division.

D. The Director of Procurement, with the approval of the Secretary of the Treasury, shall issue such regulations and instructions as may be necessary to make the foregoing provisions effective.

Ka. As used herein—

- (1) The term "agency" means any commission, independent

establishment, board, bureau, division, service, or office in the executive branch of the Government, except the War and Navy Departments and the Marine Corps.

(2) The term "supplies" means all tangible personal property including, but not limited to, materials, supplies, articles, facilities, improvements, machinery, equipment, and stores.

(3) The words "procurement of supplies" and "procurement" include all functions relating to or associated with the purchase, rental, warehousing, distribution, and transportation of supplies, and services incidental thereto.

**L.** The Regulations Governing the Operation of the Branch of Supply, Procurement Division, approved by the President April 12, 1935, are hereby superseded to the extent that they are inconsistent with the foregoing provisions.

Director of Procurement.

APPROVED:

May 10 1939

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

APPROVED:

The White House \_\_\_\_\_ 1939.

## GROUP MEETING

May 10, 1939.  
9:30 A. M.

Present: Mr. Hanes  
Mr. Gaston  
Mr. Foley  
Mrs. Klotz  
Mr. Graves  
Mr. Lochhead  
Mr. Duffield  
Mr. Bell  
Mr. Gibbons  
Mr. McReynolds

H.M.Jr.: Now, should I write Mr. Taylor under these circumstances or not?

Foley: You mean thank him? Yes, I think it would be nice. I'll get up a letter.

H.M.Jr.: He had it done and did it very gracefully.

Hanes: I think he did it very well.

H.M.Jr.: Think I ought to write Mr. Taylor?

Hanes: I sent you a note to write the other fellow.

H.M.Jr.: That's done.

Hanes: I think it would be nice to write him.

H.M.Jr.: I don't see that it would do any harm, do you?

Gaston: No, I would do it. And then you're going to write to the editor of this magazine?

H.M.Jr.: Well, that- I've asked Foley to take care of it for me, because I want to do it in the legal manner. Show it to Gaston, though.

Foley: Yes, sure.

H.M.Jr.: I want to make it a legal document.

Well, Herbert, supposing you draft this morning for me a letter to Taylor, will you?

Gaston: Yes.

H.M.Jr.: And I think we ought to write a letter showing what he said - the correction we got. It's page 7475.

Gibbons: Is that yesterday's Record?

H.M.Jr.: Yes.

I am glad Mr. Hanes is going in for economy.

Hanes: Am I?

H.M.Jr.: Aren't you?

Hanes: I don't know. I haven't heard about it.

H.M.Jr.: The 170-word telegram.

Hanes: Oh.

H.M.Jr.: Mac, I spent a great deal of time setting up a communication system in the Treasury and methods of communication, so forth and so on. And Mr. Hanes brings to my attention a 170-word straight telegram sent by a Mrs. Lucas to one Edward E. Berney. Now, isn't that your Berney?

McReynolds: Yes.

H.M.Jr.: Well, the more I see and hear about this fellow Berney, the more I think I was a damn fool.

McReynolds: Well, if Mrs. Lucas sent it to Berney, it wouldn't be Berney's fault.

H.M.Jr.: Why not? After all . . . . How many more telegrams has she sent? I mean Berney evidently has no idea of the value of money. Mrs. Klotz has worked for me for seventeen or eighteen years and she doesn't take Government money and send me a 170-word telegram. And I thought we had a whole communication system set up anyway. I mean . . . .

Klotz: It isn't Berney's fault, though.

H.M.Jr.: Yes, it is.

McReynolds: Did he know she was going to send him a telegram?

H.M.Jr.: Well, how many other telegrams has she sent like that?

Klotz: They all do, Mr. Morgenthau.

H.M.Jr.: But we spent--I set up a whole communication system, got a communication center and everything else.

Hanes: Telegrams like that ought to be cleared through somebody, because that goes to tell him about his room being painted, so forth and so on. He could wait until he gets back here to find out about his office being painted. It isn't a question of how many words, it's a question of what the words say. No sense to the whole telegram.

H.M.Jr.: To have a man like Berney out doing reorganization . . . . And I'd like to know how many other 170-word straight telegrams he has received and hasn't done anything about.

Hanes: Better read the telegram. That's the point of the whole thing.

H.M.Jr.: I mean how can a man who is out in the field have his secretary send him a 170-word telegram about his office being painted and she's taking - and because of that, if he wants to reach her, she's at home - and have him out doing reorganization work? It's ridiculous.

And whatever happened, Mac, to the whole telegraph and communication system we set up, with the Army, and night letters and air mail and all the rest of that stuff? Who is the administrative officer for Internal Revenue?

McReynolds: Well, that works through the Assistant to the Commissioner. But I've got a monthly report coming to me now of the telegraphic expense by offices, charges through my own office. I've been suspicious of what was being done. I've got those coming in and am comparing them every month.

- H.M.Jr.: But you didn't answer my question. I personally, with your help and somebody else's, set up a whole communication system in the Treasury. What happened to it?
- McReynolds: Well, of course, it's still operating. We've still got a communications center. Revenue and Procurement have their own; they do a lot of work directly in their own shops.
- H.M.Jr.: Well, you never did what I asked you. I asked you to shift all the administrative people around. Everybody's in a rut. You get down - there's no sense of economy all the way down the line. Now, you both defend Berney. Find out how many other telegrams when he's on the road - straight telegrams he gets like that. And if you took the fellow out of Public Health and made him an administrative officer in this shop, he'd clean house. And just as long as these fellows get in there, stay for 20 or 25 years, this kind of thing will happen; just as long as - unless you change every once in a while.
- McReynolds: Well, of course, I did what I could on getting those shifts.
- H.M.Jr.: You never did anything, Mac.
- McReynolds: Yes, I did.
- H.M.Jr.: What did you do?
- McReynolds: I tried to get the set-up of the positions by the Civil Service Commission to permit us to transfer them around without reducing their pay. I was unable to do it. I've got a whole record of appeal before the Commission to get that set-up. They refused to go along with it.
- H.M.Jr.: Well, you never told me about it.
- Well, it's just once in a while - if I go out in the field or something like that, Mr. Hanes picks up - we find out about it.
- McReynolds: Well, of course, this is perfectly ridiculous, perfectly ridiculous - a thing of this kind to go on the wire.

Klotz: I think you'll find it happening all over, not only Berney. I don't think Berney is responsible.

H.M.Jr.: But Berney is . . . .

McReynolds: Well, this is a woman in Berney's office.

H.M.Jr.: It's his secretary.

McReynolds: Berney is responsible for this. I can't defend him on this.

H.M.Jr.: Berney is out reorganizing offices in the field, and he's supposed to do it to economize and make it more efficient. Well, I'd say he has no sense of money and has no sense of economy.

McReynolds: Just a letter sent by wire, that's what it is.

H.M.Jr.: Air mail letter would have been just as good.

McReynolds: This is ridiculous.

H.M.Jr.: Well, I don't - I'd really like a report on that, Mac.

McReynolds: I'll give it to you.

H.M.Jr.: What?

McReynolds: I'll give it to you.

H.M.Jr.: What other good news have you got? Thank you (Hanes) for bringing it to my attention.

McReynolds: I've got something - I don't think you'll want to take the time to go over it probably at this meeting. It's a proposed order by Procurement consolidating the purchasing activities in the field. That requires the President's approval. This is under the old Executive Order rather than trying to come in under the new. The old one is adequate, providing the activity is extended - the jurisdiction of Procurement Division in purchasing is extended by order approved by the President. I've had our lawyers working on it ever since the reorganization bill passed and they have now come around to this.

H.M.Jr.: I'll tell you what I'll do, I'll sign it and I'll let Bell and Graves and you go over it, and if you agree it's all right, let it go. How's that? I appoint the three of you a committee. Is that all right with you?

Hanes: (Nods yes)

H.M.Jr.: I'll appoint you fellows a committee of three. Who am I writing to?

McReynolds: The President.

H.M.Jr.: All right.

Bell: Has it gone through the Budget?

McReynolds: Sign it on top.

H.M.Jr.: O. K., Mac. But you three fellows go over it. What?

McReynolds: All right. This has Foley's initial on it - cleared from a legal standpoint.

H.M.Jr.: Wonderful. What else have you got, Mac?

McReynolds: That's all I've got.

H.M.Jr.: Now, if I'm unfair to Berney, you let me know.

McReynolds: I will. I will give you a report on it.

H.M.Jr.: If I'm unfair to him, you let me know, because he's Harold's pet. You look into it too, will you Harold?

Graves: Yes, sir.

H.M.Jr.: Dan?

Bell: I don't know whether you've heard or not, but there is a bill to extend the bond limitation, or eliminate the bond limitation - was reported out yesterday. Had a fifteen minute hearing and during that time they reported the bill out, so it didn't amount to much.

H.M.Jr.: Were you up there?

Bell: Yes, Larry Bernard and I went up.

H.M.Jr.: I think we'll send you up on the Stabilization Fund.

Bell: I don't think it would be so easy. But the way it turned out, some of the Republicans began to ask questions as to whether this wasn't the same bill which they passed once before, and the answer was of course yes. They said, "Well, you got into trouble over in the Senate, that's where the difficulty is. What kind of a time are you going to have over there this time?" Well, we said we thought we'd get along all right this time, so finally somebody made a motion to report it out. Very simple.

H.M.Jr.: Did you see what your President said about the parity payments last night?

Bell: Yes. What do you mean my President?

Gaston: He didn't let you down at all.

Bell: No, he was all right.

H.M.Jr.: You were so worried. What?

Bell: Well, I wasn't worried about him. I was worried about you.

H.M.Jr.: Well, I didn't know.

Bell: Of course, they said exactly what we thought they would - Russell did.

H.M.Jr.: Did he?

Bell: He was sick and tired of hearing economy talked on the farmers and spending money on everybody else.

H.M.Jr.: That's all right. The President said he had a promise from the leaders.

Bell: That's right.

H.M.Jr.: Huh?

Bell: That's right.

H.M.Jr.: Well, it didn't do any harm. Nice clean fun.

Bell: You know, of course, that the market went up substantially yesterday. Want to consider some sale of investments the next day or so? After the closing of this issue tonight, we might . . . .

H.M.Jr.: Will you talk to me about it again tomorrow? I've got something in mind.

Bell: All right.

H.M.Jr.: All right.

Bell: That's all I have.

Lochhead: The Federal Reserve shifted a million and a half of long-term Government yesterday for intermediate bonds. Took two days before they got around to shifting it.

H.M.Jr.: Aren't they getting daring!

Bell: I was talking to Allan Sproul yesterday morning. He was worried about the market. I said, "Why don't you sell some of your long-terms or shift?" He said, "That's a good idea. We'll take it up. I don't think we'll get away with it."

H.M.Jr.: Anything else, Dan?

Bell: No.

H.M.Jr.: Dan, are you going to give me a memorandum on what Hanes and you and I saw that man about the other night?

Bell: Yes, I have it in rough draft.

H.M.Jr.: Could I get it today, this afternoon? Give it to Mrs. Klotz.

Bell: Next couple hours, you'll get it.

Gibbons: Senator Brown or Senator Miller seen you yet on devaluation?

H.M.Jr.: No. Miller, I think, is coming down this morning.

Gibbons: Jim Farley asked me yesterday - I was talking to him - about this Mrs. Pike, Collector of

Customs, and he said that Brown promised to get in touch with you, that he just had gotten back from Michigan. And Miller has promised to come and see us.

H.M.Jr.: Well, Miller is coming in this morning. I had a call from Farley yesterday which I couldn't take because I just had to get a breath of fresh air yesterday afternoon.

Gibbons: I think he's left on a tour. He's going West.

H.M.Jr.: Who?

Gibbons: Farley. That's all.

H.M.Jr.: (To Kieley) Would you fix my calendar on who is coming. And ask Mrs. Spangler if that gentleman is coming for lunch or not.

Harold, I hear you did nobly yesterday.

Graves: Well, I don't know how anyone would know that, because we had no witnesses, Mr. Morgenthau. Klaus, who accompanied me, was not admitted to the hearing, so if he says that I did nobly, it's because I told him so.

H.M.Jr.: Well, . . .

Foley: That's right.

H.M.Jr.: Well, you had inside information.

Graves: I think you might be interested to know this much about that. There was very little said by this Congressman Thomas about the settlement of the Canadian cases as such. He did ask why we accepted such relatively small amount, but I think that he was satisfied with the answer that I gave him about that. Chiefly, he was attempting to explore the merits of Sokol's claim.

H.M.Jr.: I see.

Graves: He expressed some concern because there have been conflicting recommendations by different officers of the Customs Service with reference to the allowance of that claim.

H.M.Jr.: I see.

Graves: You'll be interested, I think, in this.

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

Graves: He read to me extracts of Sokol's own testimony. Sokol testified before the Committee to the effect that when he came to see you you called me in and you instructed me that any arrangement that I should make with reference to the Canadian distillery cases involving the use of Sokol as an informant would be satisfactory to you. I don't know how good your recollection is of that.

H.M.Jr.: It isn't.

Klotz: Did you ever see him?

H.M.Jr.: Once.

Graves: But I thought I should remind you of this, that Sokol came in to see you not about the Canadian distillery cases at all but about the supposed action of Saul Haas, Collector of Customs at Seattle, in holding up the payment of his reward in the rifle case. He claimed to you that Haas was trying to shake him down, as he would phrase it - hold out \$10,000 before the payment was made - and that was the subject of the conversation that Sokol had with you, and certainly that was the subject of the conversation that occurred in the room after you brought me in.

H.M.Jr.: Well, he wasn't in the room alone here with me.

Graves: Well, then it was the subject of the conversation between the three of us.

H.M.Jr.: Didn't I have a stenographer present?

Graves: No, you just introduced me and told me I was to take care of Sokol, and that's the subject that was discussed between Sokol and myself when I left the room with him.

H.M.Jr.: Did you tell that to Thomas?

Graves: Yes.

Gibbons: He came down to see me on that. I investigated the thing.

Graves: There's nothing to this charge against Haas.

Gibbons: Sokol isn't his right name. He wasn't known as Sokol to the Customs agent. The man who could identify him, the Customs agent, happened to be down in lower California at the time this check was made.

H.M.Jr.: You saw him?

Gibbons: Somebody sent him down to see me.

Klotz: When did he come?

Graves: This was December, 1934.

Gibbons: I only saw him for a minute, said I'd look into it.

Klotz: We must have a record.

Graves: The thing I was calling to your attention was that he was putting words into your mouth that you never said. That's the gist of his activity all along the line: misrepresenting what various people have done and said.

H.M.Jr.: Well, certainly there is nothing for the Treasury to worry about.

Graves: No, there is nothing whatever for the Treasury to worry about.

I would say this, too. At the end of our discussion yesterday, Thomas said that he had heard that the Treasury Department was now willing to make a settlement with Sokol, pay him something on account of his claim.

H.M.Jr.: Thomas said that?

Graves: Thomas said that to me. He wanted to know if that was true. I said no, as far as I knew, there was no foundation for that.

H.M.Jr.: Just a minute. (To Kieley) Tell Mr. Harris I'll see him at eleven o'clock.

Klotz: What's the matter?

H.M.Jr.: Can't come.

Excuse me.

Graves: I told Thomas that so far as I knew there was no foundation for that, that the Treasury Department would not be willing to pay anything whatever on account of Sokol's claim.

H.M.Jr.: Did that please him?

Graves: No, I think it displeased him. I think he was rather hopeful that some compromise could be made, we'd agree to pay something to him.

H.M.Jr.: O. K.

Gaston: Sokol apparently ran up a lot of bills around town, and those people may be trying to exert influence to get additional money paid to him.

Graves: But there is nothing for us to worry about in connection with that whole thing, Mr. Secretary.

Lochhead: The exchange markets continue very quiet, with the neutral currencies starting to creep up a little bit. There seems to be a better underlying tendency in the exchanges.

H.M.Jr.: Harry?

White: I have a report on our exports to Germany. They have dropped very sharply both compared with last month and with the year comparable, both as to cotton and other materials.

There is a cable here from Nicholson - if you haven't seen it, I think you should see it - rather important, indicates possibly that the Japanese are in a much worse situation than appears to be the case by virtue of the terms they are trying to make in China.

We finally got the report on the exports of petroleum from Mexico.

We've got a brief memorandum here on the United States currencies being hoarded and used by foreigners, both to take out of the country and apparently to keep in safety deposit vaults here. The reasons for coming to that conclusion are indicated there. If for some reason that practice should want to be discouraged, you might consider the possibility of getting a report on the one thousand, five and ten thousand bills that are outstanding, because the increase has taken place in those denominations.

During the week ending April 26th there was a continued inflow of 78 million dollars. And we have a rather lengthy report here on gold imports into the United States, which asks the important questions and attempts to answer them.

There's a memorandum here that Schmidt gave to me . . . .

H.M.Jr.: May I interrupt you? I think you'll be interested to know that Professor W. I. Myers was very complimentary on your gold statement.

White: Professor who?

H.M.Jr.: Professor W. I. Myers.

Duffield: Bill Myers.

White: Myers.

Pierson wrote a letter to Senator Wagner which . .

H.M.Jr.: Pearson of Pearson and Allen?

White: No, this was Professor Pierson of Cornell University.

H.M.Jr.: O. K., Harry.

White: (Words not understood)

H.M.Jr.: What did he say?

Klotz: I couldn't hear him.

- H.M.Jr.: You look a little down. I'm the only fellow that has a right to be down, and I'm up. So bob up a little bit. Is that right, Johnny? Huh?
- Hanes: Sure.
- White: There is a memorandum here from Schmidt which has a suggestion here which I think contains a germ of a very good idea, if you want to think about it. His suggestion arises from the fact that a protege of Aranha is studying here in Washington, and Aranha - which I got second-hand through him - happens to be a friend of Schmidt's - is eager to do some work or study in the Treasury to get an idea of how we do things here and probably to get some training here. That suggested an idea to Schmidt which he has developed here, which I think has possibilities, and that is to invite or have fellowships, without any cost, if it's legal, for various Latin-American countries to send some of their brightest young men up here to work for three months or six months in whatever appropriate division or in several - have sort of a school. I think that would do more to develop the appropriate kind of relationship at no cost . . . . That's merely an idea.
- H.M.Jr.: That's excellent. I think the no-cost thing, though - that doesn't help . . . .
- White: That doesn't help business.
- H.M.Jr.: Yes.
- White: Well, we can fix that. We can hire teachers to train them.
- H.M.Jr.: Will that contribute to recovery, if it doesn't cost anything?
- White: With a couple of amendments it will.
- McReynolds: We couldn't pay them, Harry, so . . . .
- White: Well, maybe we can lend the Brazilian Government money and with that money they can finance it.

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- Gaston: That will contribute to the recovery of our money, Harry, that we propose to lend.
- Klotz: First time she (Mrs. Lucas) ever did it.
- White: Maybe she was a member of our school.
- There is something else here. I do think that deserves some consideration.
- H.M.Jr.: Give all those things to Mrs. Klotz. I'll very carefully read each and every one of them.
- Gaston: We got a request to that effect from Chile to the State Department. They want to send a man up to study tax systems. They wanted to have the man paid a salary if he could be and Guy Helvering considered and reported it was against the law for us to pay an alien a salary, but otherwise he would be very glad to have him in the Bureau of Internal Revenue to study our tax collection system.
- White: There is a request from your office to have something translated and commented on here. I think it has kind of been missent, but we translated it. I'll give it to you (Mrs. Klotz). It has to do with some invention which a man has developed abroad and wants to call your attention to.
- H.M.Jr.: I know.
- White: I didn't know.
- H.M.Jr.: Who has my letter from George Harrison about the gold statistics? Did I take that home with me?
- McReynolds: No, you sent it in - I had it yesterday and sent it on. There were four names on it.
- White: Harrison called me up yesterday - everybody else must have been out - and wanted to know whether he should see you, or he intended to see you, about this gold letter. I said I didn't know, but that we were having a meeting Thursday at which his outfit and all the others were going to be represented, to go into the matter exhaustively. So he said possibly he thought he might wait until after that meeting before talking to you.

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Klotz: I don't know what it is.

H.M.Jr.: Well, when it comes, you just write a formal acknowledgment and send it back to me to sign.

White: Oh, you say I'll get it?

Klotz: I'll write it down. It's somewhere.

McReynolds: It's on the way. It had four names on it - mine and yours and Gaston's.

Gaston: Hasn't passed me.

H.M.Jr.: On the way out he's going to rush back to his office and hand it to you.

Gaston: Yes, it passed me en route to Archie Lochhead yesterday afternoon.

White: He volunteered the information.

H.M.Jr.: Mac is sitting on my left, has to take it this morning. Better shift your seat, Mac.

McReynolds: I can take it.

H.M.Jr.: All right, good.

White said that a letter went to Gaston indicating what they were going to do; didn't hear anything from Mr. Gaston, so they acted in the afternoon.

Gaston: That isn't correct, of course. The letter came to me after they had acted and then I merely acknowledged the letter.

White: He didn't see me smile over the phone.

H.M.Jr.: Anything else?

White: That's all.

Foley: Here is a . . . .

H.M.Jr.: Ernst is coming in at 2:45.

Foley: 2:45.

Here's a memorandum on the Annenberg case, sending it to Chicago today.

H.M.Jr.: I'll see your crowd at 10:45.

Foley: All right.

Klotz: 11:00.

Foley: 11:00.

This is on the Annenberg case. We're sending it to Chicago today. Campbell is going to be in charge, and Sam Klaus will be there and they are all going to work under Bill Campbell at Chicago. I think it's in good shape.

Here are a couple of memos about Harold Graves's talk with Thomas.

H.M.Jr.: This is where Harold Graves says he's so good.

Foley: This is where we say it's good.

This is a memorandum that Bill Johnson has sent over about countervailing duties on Italian goods. Apparently - the Italian Ambassador said that Hull has given him 45 days. Johnson didn't know that.

H.M.Jr.: That's right. Mrs. Klotz, if you will look up my telephone conversation with Sumner Welles, you'll see he told us what day Mr. Hull notified the Italian Ambassador.

Foley: The 6th of May is . . . .

H.M.Jr.: Does it say here?

Foley: Yes. One of the representatives of the Embassy said the Ambassador had been assured on May 6th that they'd have 45 days.

H.M.Jr.: 45 days.

Foley: Yes. And Bill didn't know anything about it.

H.M.Jr.: All right, that's on me. This one isn't on Mac.

Foley: Was there anything more on the German countervailing duty proposal? You remember . . . .

H.M.Jr.: This is the exact situation. We sent a letter to the Economic Adviser of the State Department and then I asked Mr. Welles to advise me besides.

Mr. Welles has told me he would advise me. So until we hear from the State Department we do nothing. But I said, "I take it we have to answer them and would you please advise me how to answer them?" And Mr. Welles has promised to do that.

Foley: Friedheim came to Johnson and said that Tannenberg told him the proposal had been made. Johnson said he didn't know anything about it.

H.M.Jr.: The matter is now with Mr. Welles and I asked him as a personal matter to please give it his own attention and advise me.

Foley: There was a letter to you from Ralph Lozier, a lawyer in town, complaining about monopolistic practices on the part of the Chinese in connection with tung oil.

H.M.Jr.: The answer is "Yes."

Foley: I don't think it is. I thought the thing to do would be for you to acknowledge the letter and say that it is an Export-Import matter and then refer the letter to Pierson, and I'll call Pierson, if you approve.

H.M.Jr.: Can't we say we are having a survey made?

Foley: Well, I think the letter can be answered.

H.M.Jr.: All right.

McReynolds: You must have gone horseback riding yesterday.

H.M.Jr.: I did.

Foley: There are two letters, Mr. Secretary. Here's the other one.

H.M.Jr.: I'd like Mr. Hanes to know about this tung oil monopoly, because he set it up.

Foley: I don't think it is. I think I should call Pierson and ask Pierson to make a copy of that letter available to Chen so that they can work on the reply.

H.M.Jr.: Yes, but I still say that I'd like very much to have Mr. Hanes know about it.

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Foley: Yes.

And here are those two letters to Steagall and Wagner about . . . .

H.M.Jr.: By hand through your man on the Hill. No letter.

Foley: No letter.

H.M.Jr.: No letter. What this is - he thought we wanted to get the opinion of the Court in the hands of Wagner and Steagall in view of Giannini's telegram. He wanted me to write it. On second thought, I wouldn't write it, but I'd let our Treasury man on the Hill drop it on the desk of Wagner and Steagall.

Klotz: The letter?

H.M.Jr.: No, the opinion.

Foley: Yes, I understand.

H.M.Jr.: And on that I wish you (Duffield) would see where my history on the Bank of America case is, whether it's up to date or not.

Duffield: You mean your record in Miss Chauncey's office?

H.M.Jr.: Yes. Now, I did have a report, oh, about a month ago from the Comptroller, and if my memory is right I have never gotten from him a summary of the last bank examination, which he said he'd give me. Now, what my object is on this - in case they should call me on the Hill to testify, I want my record on what I have done and what the Office of the Secretary of the Treasury has done in connection with the Bank to be up to date, you see?

Duffield: Yes.

Hanes: I think you'd better - the last time it was gotten up to date - that chronological order of events wasn't something that you could read from and get any sense from. It was just a statement of what the event was. I think it ought to have some explanation on each one of those items, because if you're going to - I

think if you're going to be up to date on that and be ready - you might be called suddenly and we'd have to do all that work.

H.M.Jr.: Well then, would you supervise it for me?

Hanes: Yes.

H.M.Jr.: What?

Hanes: Be glad to.

H.M.Jr.: See? But let's say by next Monday I should have an up-to-date thing - and Mr. Foley might assist too - so that if I was to testify I'd have my story of what happened.

Hanes: That's the point, you can't testify the way it is.

H.M.Jr.: Well then, let's say by next Monday I have something so that in case I should be called I wouldn't be floundering around waiting for it.

Hanes: That's right.

H.M.Jr.: Well, will you take that responsibility?

Hanes: Be glad to.

H.M.Jr.: That would go clear back to February a year ago, I think, when the whole thing started.

Klotz: Does the chronological list go back as far as that?

H.M.Jr.: No, there was one originally done for me by Oliphant.

Hanes: That one, I think, is complete enough. That was about up to October, as I recall.

Foley: And we gave that to you and you brought it down to date.

Hanes: That's right. It's the subsequent work to Oliphant's work that is not complete.

Foley: We had it down to about October and then we turned it over to Johnny.

H.M.Jr.: Between Mrs. Klotz and Hanes and Duffield and Foley and Upham - Upham's part while he was with me, see, what he did while he was with me, to make sure - I mean his part while he was here. So if I could have it by Monday . . . . That's what I called you about yesterday.

Duffield. All right. I have nothing.

H.M.Jr.: Would you (Mrs. Klotz) call Mr. Hopkins and tell him I'm sorry, I can't lunch with him today.

Klotz: Lunch or dinner?

H.M.Jr.: Lunch.

White: May I return to something I have overlooked? There is going to be some criticism of Treasury agents' activities - Customs agents' activities abroad given to the President. I can't tell you now but I can tell you later where I got the information. The President may have already received it, or will receive it. The effect of it is that they are much too active in dumping cases, countervailing cases, running around . . . . It may be a build-up to have the State Department begin taking them over.

Which leads me to the second point, that I think it's a serious error for the Department of Commerce Foreign Service to be taken over by the State Department. Now we get a lot of information, and other Departments do, that we wouldn't get through the State Department. I think that's one of the agencies that might be separated, if you're at all interested.

H.M.Jr.: How do you feel about lighthouses?

White: They can have the lighthouses - so they can see.

Foley: We've got them.

H.M.Jr.: I say they can have the lighthouses.

White: But they'll have the lighthouses before long.

H.M.Jr.: Who?

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White: State Department.

H.M.Jr.: Harry called me last night. He said something about - "I see you stole the lighthouses." I said, "We're going to use them to look for recovery."

Foley: Keep business off the rocks.

Bell: Stay on the rocks.

H.M.Jr.: Quite a letter the General wrote him, wasn't it?

White: It's a really serious thing, I think.

Bell: I don't think the State Department wanted Customs agents, if that's what you mean.

White: No, I was referring to the other. No.

Bell: At least I'm sure Messersmith feels that way.

White: Huh?

Bell: I'm sure Messersmith doesn't feel that way.

White: But Messersmith is a very strong minority in the State Department, a minority of one.

But I think it would be appropriate to answer to the question of criticism on the Customs activities that we could change the law; so long as the law is on the statute books, they've got to do that sort of thing.

H.M.Jr.: Well, I hope they send it to the President, because he's pushing me all the time for more stuff. In fact, he asks us to organize the Department over there with three letters - do just that kind of thing - same letters as that of an office building up on the Hill. Can't you get it?

Duffield: I got it.

H.M.Jr.: Which office building?

Hanes: Senate.

H.M.Jr.: Senate Office Building. You got it?

Klotz: I wasn't listening.

Hanes: That's right, Mrs. Klotz, don't you listen.

H.M.Jr.: Strike one for Johnny Hanes.

Gaston: Raymond Leslie Buell is in town today, expressed a desire to see you. He's left the Foreign Policy Association. I suppose you noticed he's devoting his time exclusively to Fortune Magazine.

H.M.Jr.: I think I'm about booked up. I don't see how I can do it.

Gaston: All right.

Klotz: See if he can come tomorrow.

H.M.Jr.: If he wants to come tomorrow . . . .

Gaston: I'll see if he's going to be in town tomorrow.

H.M.Jr.: If he wants tomorrow, he can come at eleven o'clock.

Gaston: I'll see if he'll be in town.

H.M.Jr.: Anything else?

Gaston: No, I haven't anything else.

Hanes: I'd like to stay with you afterwards.

H.M.Jr.: Sure. Mrs. Klotz, would you take the following telegram . . . .

Oh, before I forget it, Mrs. Morgenthau and I would like all of you to have lunch with us here in the Treasury tomorrow at one o'clock.

Klotz: Mr. Morgenthau's birthday.

Gibbons: Who's birthday?

H.M.Jr.: Mine. One o'clock tomorrow. I'll be fifty.

McReynolds: Growing up.

H.M.Jr.: I'm going to be fifty.

May 10, 1939  
3:16 p.m.

Robert  
Doughton: Mr. Secretary.

HMJr: Hello, Bob.

D: Bob Doughton; how are you?

HMJr: I'm all right.

D: I had a talk with Pat today.

HMJr: Yeah.

D: Quite a long talk -- made an appointment with him, and he doesn't seem to be inclined to fall in line with the program as outlined the other day that you are familiar with.

HMJr: He doesn't?

D: No. He -- I asked him if something like that that we did was sent over -- if we were to send it over.

HMJr: Yeah.

D: And he seemed to think that they wouldn't deal with it piecemeal if we sent over the expiring taxes.....

HMJr: Yeah.

D: That then they'd take up the question of -- about amending those expiring taxes by dealing with the changes in the corporation tax.

HMJr: Yeah.

D: And he seemed to think that the expiring taxes and the changes in the present Internal Revenue corporation taxes should be dealt with in one bill and dealt with before we take up the tax exempts. They agreed that it was well for tax exempts to come as a separate bill but he wanted the other to come ahead of the tax exempts. And.....

HMJr: Well -- what -- what have you got in mind as the next move?

D: Well, I've got in mind as the next move that -- unless you can dispose to, can or would convince them of some -- some other plan that would be better; that

- 2 -

a conference among -- with the Chief and you and Pat and myself and somebody representing our committee would be about the next thing that I know of. I suggested to him, or asked him about -- if we would decide to do anything of that kind, and he said to go right ahead, he wasn't going to ask Chief to be heard or for a meeting of any kind -- a conference -- but that he'd be glad to join in one if he were invited.

HMJr: Well, Bob, I appreciate tremendously your calling me. Could I kind of think this over a little bit?

D: Yes, sir.

HMJr: I want to talk it over with Johnny Hanes.

D: That's the reason I thought I ought to call you as soon as I got the word. We had the conference ready today at about one o'clock.

HMJr: Uh-huh.

D: And I thought I'd give you the benefit of it and.....

HMJr: Well, I -- let me talk it over with Johnny and I'll give you a ring, oh -- first thing tomorrow morning.

D: That'll be all right.

HMJr: Is that all right?

D: That'll be all right, and if it should be necessary, my committee doesn't meet tomorrow -- if you'd want me to I'd run down there and talk with you about it.

HMJr: Well.....

D: If you'd rather do that than talk over the phone.

HMJr: Yeah. Well, I'd much rather see you.

D: Yeah. Well, that's what I thought possibly, and.....

HMJr: Well, maybe -- I'll.....

D: If you want to call me in the morning.....

HMJr: Yeah.

- 3 -

D: .....why, I can run down there.

HMJr: That's terribly nice. I think I'll do that.

D: All right. Just call me whenever you are ready -- want me.

HMJr: Thank you so much.

D: You're welcome. Good bye.

May 10, 1939  
3:44 p.m.

Operator: Go ahead.

HMJr: Hello.

Sumner

Welles:

Hello, Henry, may I speak to you a minute?

HMJr: Please.

W: I've been studying very carefully this Tannenberg question.

HMJr: Yeah.

W: And I've been talking it over with Mr. Hull.

HMJr: Yes.

W: And his suggestion is that your Customs' man tell Tannenberg that if the German government takes unilateral action to remove the objections which we have under our law that obviously the terms of the law would not apply. But that that, of course, would in no sense be an agreement between the two governments -- it would involve unilateral action on the part of Germany to remove objectionable practices. And he thinks that's about all that would be necessary for your people to say.

HMJr: Well now, this is so important, do you mind putting that in writing for me?

W: No, I'd be glad to do that. I've -- I have had prepared here a very long letter to you on the subject, but I think it's much better just to put it very briefly and simply this way.

HMJr: Well, if you would, I'd -- I'd appreciate it. Now, what does that mean?

W: Well, that means that it's up to the German Government to prove to your people.....

HMJr: Yeah.

W: .....that the action which it may take is satisfactory and that it offers convincing evidence that the legal objections which we now have have been removed.

- 2 -

HMJr: I see. In other words, they -- they've got to prove good faith.

W: That's it -- that's it. Now, my own very strong belief, and I think you'll agree after you've read that cable, to which I referred the other day when we were talking....

HMJr: Yes.

W: My strong belief is that they can't possibly do it. They'd have to reform their entire policy in order to do it.

HMJr: Well, I'd like this memorandum for two reasons: First, it's so important I want it in writing; and in the second place, I want to show it to the President.

W: That's all right.

HMJr: But I -- I don't.....

W: But both of us -- Mr. Hull and myself, are very strongly of the belief that no agreement of any kind should be entered into with the German Government on this matter; that it should be entirely unilateral action taken on their own initiative.

HMJr: Well now, if you'd put that in.....

W: I'll be glad to.

HMJr: And then -- and do you think you can get it to me tomorrow morning?

W: Yes, indeed.

HMJr: And then -- I'd like to show it to the President.

W: All right, Henry, I'll get it over to you.

HMJr: And if he approves, why I'll follow your advice.

W: All right.

HMJr: Thank you.

W: Not a bit. Good bye.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE

May 10, 1939.

TO Secretary Morgenthau  
FROM E. H. Foley, Jr.

I suggest that you invite to your office the following members  
of the Legal Staff:

Cairns, Huntington  
Bernard, L. J.  
Bernstein, Bernard  
Wenschel, J. P.  
Cox, Oscar S.  
O'Connell, J. J.  
Manning, Thomas A. Jr.  
Tietjens, N. O.  
Kades, C. L.

*E. H. F.*

Wednesday, May 10, 1939

In discussion with Mr. Irigoyen, Financial Counselor of the Argentina Embassy, Mr. Irigoyen inquired whether we would be prepared to furnish dollar exchange against gold collateral which, instead of being shipped to the United States, would be held for our account in Argentina. He insisted that the shipment of such gold would destroy public confidence in the currency, which would be the only reason for entering into such a transaction.

After consulting Mr. Morgenthau, advised Mr. Irigoyen that we could not agree to this procedure as it had never been done before, and we decided that the facilities which the U. S. Treasury could offer to the Argentina Treasury on a technical basis were limited.

It was agreed that Treasury would not develop these negotiations any further until a more propitious time.



Approximately 5/10/39

Suggestion for a man to head up the War  
Industries Board:

Charles Hook  
Amer. Rolling Mills

OK 189

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Approx 5/10/39

Mr. Basil Harris gave this proposed plan to the Secretary as his suggestion in case of war.

CONTROL COMMITTEE

Rail Roads  
Motor Trucks

Shipping

Certificate of Necessity

INDUSTRY

Available Cars  
Class. of Trucks

Warehouses  
Storage etc

Navy Cooperation  
Crews  
Coasts etc

Merchant Marine  
Ship Yards  
Schedule etc

Shipping Permit

Location of Plants

Production Schedule

Allocation of Tonnage

Customs Coast Guard etc

PORTS

Naval Intelligence

FUEL OIL

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*T. Nisizama*

*Japanese Financial Commissioner to the United States  
Financial Attache to the Japanese Embassy*

HARUKAGE UKAWA

FINANCIAL COMMISSION  
IMPERIAL JAPANESE GOVERNMENT

120 BROADWAY  
NEW YORK CITY

Wednesday, May 10, 1939

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*Diary*

Mr. T. Nisiyama, accompanied by Mr. Harukage Ukawa, called this morning and met Secretary Morgenthau and Mr. Lochhead.

The occasion of Mr. Nisiyama's call was to advise the Secretary that he had been appointed the Japanese Financial Commissioner to the United States, which was a new post, this contact having heretofore been handled through London. Mr. Nisiyama stated he did not have anything special to discuss at the present time; that he was a banker and not a politician, and had been drafted for this job. He hoped that should occasion arise he could call upon the Secretary for information and advice concerning Japanese-American financial relations.

Mr. Morgenthau expressed his willingness to have Mr. Nisiyama call upon him whenever he had anything of importance to discuss.

Mr. Morgenthau inquired of Mr. Nisiyama as to the reason for the recent advance in the price of silk. Mr. Nisiyama stated in his opinion this was due to the fact that foreign exchange difficulties created by the war prevented them from buying cotton and wood pulp from America. This caused Japan to use more silk internally to replace cotton and it was this increased demand for silk within Japan that caused the higher price.

Mr. Nisiyama, in answer to Mr. Morgenthau's inquiry, stated that in his opinion the Bank of Japan would maintain their present gold stock and also thought that the present price of the yen should be maintained. Any change in this rate would cause severe dislocation to their economy as they were endeavoring to hold internal price down. The shipments at present coming from Japan consisted of newly-mined gold and he hoped they would be able to maintain their exchanges by shipments of newly-mined gold only without drawing on their other resources.

AL

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Dear Henry -

This is  
all the corres-  
pondence on  
the business.

"To your good  
health, Mr. Secretary"

Missy

Secretary Morgenthau

May 10, 1939

5 E. H. Foley, Jr.

For your information

The shipment of champagne from Ambassador Bullitt consigned to Miss LeHand will be released from Customs custody this afternoon and forwarded to the White House tonight.

The actual value of the shipment is less than \$100, and can, therefore, be cleared informally. The United States Dispatch Agent in New York will sign all necessary papers as agent for Miss LeHand. Any charges incurred will be taken care of in New York and billed to Ambassador Bullitt.

(Written in H.M.Jr.'s own handwriting:)

Dear "Missy":

Hope champagne holds out on the night.

H.M.Jr.

copy to W.R.Johnson

EHF:s Typed 5/10/39

May 11, 1939

Orig. of memo to Secy from Foley concerning shipment of champagne from Ambassador Bullitt.

Note from F.D.R. - "MEMO FOR THE P.S. Thank him and prepare a letter to Bill."

Ltr to Miss LeHand from Hugh B. Robinson, U.S.Lines, Paris, re cases of champagne from Bullittee

Ltr to J.T.Franke, Baggage Agent, N.Y. from H.B.Robinson

Ltr to Miss LeHand from J.T.Franke

Ltr to Miss LeHand from Howard Fyfe, U.S.Despatch Agency

Mimoeographed form for signature (Customs Service)

Dutiable Consumption Entry blank

Single Consumption Entry Bond blank

Pro Forma Invoice blank

MAY 10 1936

Federal Reserve Bank,  
New York City.

Attention: Mr. Knaka

Dear Sirs:

In view of the heavy demands made upon my time and that of the Under Secretary and Assistant Secretary of the Treasury acting in my place, in connection with the signing of letters confirming telephone authorizations for the purchase by the Federal Reserve Bank of New York as Fiscal Agent of the United States of silver under Section 3 of the Silver Purchase Act of 1934, I have authorized Mr. D. W. Bell, Assistant to the Secretary, to sign such letters. A copy of my authorization to Mr. Bell is enclosed for your information.

In order that your bank may be supplied with evidence of the approval by the Secretary of the Treasury of each silver purchase authorization, there will be prepared in the Treasury summary schedules which will be signed by the Secretary or Acting Secretary of the Treasury approving in summary form such silver purchase authorizations. These schedules will be furnished to your bank and will support detailed authorizations signed by Mr. Bell.

Very truly yours,

Secretary of the Treasury

Enclosure.  
WTR:NLW

**MAY 10 1939****TO MR. BELL:**

Under my authorization of November 4, 1938, authorizing you to sign any official instructions to Federal Reserve Banks, you are permitted to sign letters to the Federal Reserve Bank of New York containing instructions and authorizations with respect to the purchase of silver by that bank as fiscal agent of the United States under Section 5 of the Silver Purchase Act of 1934.

For administrative purposes in the Treasury such letters will be cleared prior to signature by you through the office of Mr. Archie Lockhead, Technical Assistant to the Secretary.

**Secretary of the Treasury****WTR:ELS****April 28, 1939**

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 8, 1939.

TO Mr. McReynolds  
FROM Mr. Thompson

The Acting Secretary mail on silver purchases was becoming rather burdensome, there being some twenty to thirty cases a day a week or two ago. I suggested, therefore, to Mr. Bell that arrangements be made to schedule the silver purchase cases so that one signature a day would do for the Acting Secretary, Mr. Bell then to sign the individual letters to the Federal Reserve Banks. This arrangement has been worked out and the attached papers, if signed, will enable us to take one further desirable step in the matter of mail signing.



Wednesday, May 10, 1939

*Henry*

Mr. Antoni Roman, Polish Minister of Industry and Commerce; Mr. Aleksander Bobkowski, the Vice Minister of Communications; and Mr. August Zaleski, President of the Polish-American Chamber of Commerce, President of the Bank of Commerce, and former Minister of Foreign Affairs, accompanied by Count Potocki, Polish Ambassador, called upon the Secretary this morning. Mr. Lochhead was also present.

Mr. Roman explained briefly that Poland was in favor of Secretary Hull's policy of freedom of trade, but claimed that Poland, as well as other parts of Europe, has been forced to use the barter arrangement because of the economic conditions existing there and that it would be difficult, and a slow process, for them to break away from the barter method. He said that if a trade agreement was concluded between Poland and the United States there would be immediately an adverse trade balance against Poland as the United States had all sorts of goods that Poland could use, whereas Poland did not have many goods which could be shipped in quantity to the United States. He thought this question would have to be developed and mentioned that Poland could manufacture glass and clothing and take the place in the United States market that was formerly held by Czechoslovakia.

Mr. Morgenthau expressed the desire to be of whatever assistance possible to Mr. Roman during his stay, to which offer Mr. Roman expressed his appreciation but added that Secretary Hopkins of Commerce Department was furnishing the necessary contacts with the United States businessmen up to the present time.

DEPARTMENT OF STATE

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DIVISION OF PROTOCOL

May 8, 1939

My dear Mr. Kieley:

In accordance with your request, I am enclosing a copy of the letter sent to you on May 1.

In regard to the suggestion that the Secretary of the Treasury might wish to receive these gentlemen on the morning of May 9 at either 10:30 or 11:00 o'clock, may I now suggest that another day be chosen, as that day is quite well filled with appointments for them, including one at the White House, the hour of which has not yet been set. The Embassy has just told me that the morning of May 10 would be a good time for them to see the Secretary of the Treasury.

Sincerely yours,

*H. Charles Spruks*

H. Charles Spruks

10:30  
✓

May 1, 1939

My dear Mr. Kieley:

With reference to our telephone conversation, the names of the three Polish officials who will be in Washington from May 8 to 12 and whom the Polish Ambassador desires to present to the Secretary of the Treasury are as follows:

Mr. Antoni Roman, Polish Minister of Industry and Commerce  
Mr. Aleksander Bobkowski, the Vice Minister of Communications  
Mr. August Zaleski, President of the Polish-American Chamber of Commerce, President of the Bank of Commerce, and former Minister of Foreign Affairs.

I should appreciate hearing from you at your earliest convenience in regard to the time which will be most convenient for the Secretary to receive these gentlemen. I understand that they will be received by the Secretary of Commerce at 11:30 a.m. on May 9. Accordingly, it is suggested that the Secretary may wish to receive these gentlemen for a brief period at either 10:30 or 11:00 a.m. that morning. Naturally if these time are inconvenient we can discuss the time of the appointment at a later date.

A similar letter is being sent to Mr. James D. Le Cron, Assistant to the Secretary of Agriculture.

Very sincerely yours,

H. Charles Spruks  
Acting Chief, Division of Protocol

Mr. John Kieley,  
Assistant to the Secretary of the Treasury,  
Treasury Department,  
Washington, D. C.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 10, 1939

TO Secretary Morgenthau  
 FROM Mr. White

JAPAN

Estimated Gold Holdings  
 as of May 1, 1939

Gold stocks on March 1, 1937 .....	\$469 million
Production from March 1, 1937 through May 1, 1939 (\$5 million a month. This is the figure usually accepted but we feel it is too high by some \$1 to \$2 million a month.) .....	130
Recovery of privately held gold .....	50
Holding of Banks of Taiwan and Chosen ..	<u>15</u>
	\$664
Exports from March 1, 1937 through April 28, 1939 .....	\$480
Gold under earmark May 3, 1939 .....	<u>12</u>
	\$468
Estimated gold holdings May 1, 1939 ....	\$196

(Our own estimate is that they have from  
 \$150 to \$175 million of gold.)

United States Purchases of Gold from Japan  
by quarters since 1937

(In millions of dollars)

1937 - I	\$ 5.7
II	41.9
III	127.1
IV	75.8
1938 - I	4.5
II	51.1
III	42.4
IV	42.8
1939 - I	62.6

Approximately 5/10/39

This was given to the Secretary by Basil Harris.

*As American Merchant Sailed by Feb 7<sup>th</sup> 1939* *Advised London*  
*142 Feb 21*

*Wain*  
*Norwegian*

SS. "BROSUND" - SAILED FEB. 9, 1939.

*arr-LONDON Feb 24*

- |   |                                   |
|---|-----------------------------------|
| 4 crts. Machinery   | ... Morey Machy. Co. Inc.         |
| 16 bbls. Witch Hazel  | ... The E. E. Dickinson Co.       |
| 21 bales Old Chicken Feathers   | ... Heemsoth Kernan Corp.         |
| 6 bales Silk Piece Goods  | ... P. A. MacDermott              |
| 8 unbx'd. Autos   | ... Studebaker Export Corp.       |
| 6 cs. Velvet Piece Goods  | ... Majestic Shipping & Fwdg. Co. |
| 3 bales Raw Furskins  | ... Pacific Merchandise Co. Inc.  |
| 33 bxs. Rough Steel Forgings  | ... The Seng Co.                  |
| 15 cs. K.D. Truck Assembly Pts.)  | ... Chrysler Export Corp.         |
| 7 cs. (6) K. D. Autos )   |                                   |
| 4 bxs., 1 crt. Machy. & Pts.  | ... D. C. Andrews & Co. Inc.      |
| 55 cs. Toys   | ... N. Y. Merchandise Co. Inc.    |
| 100 crts. Washing Machines  | ... A. V. Berner & Co. Inc.       |
| 14 unbx'd. Autos  | ... General Motors Overseas       |
| 16 cs. Sun Glasses  | ... N. Y. Merchandise Co. Inc.    |
| 28 ctns. Moth Paper Bags  |                                   |
| 6 ctns. Fibre Board Boxes with Frames K D F...                            | ... Roseth Corp.                  |
| 248 bags Paraffine Wax  | ... E. Placer                     |
| 68 double bags Raw Gum Copa   | ... Wm. H. Scheel Inc.            |
| 158 ctns., 20 cs. Grapejuice  |                                   |
| 51 ctns. Tomato Juice, 18 ctns. Grapejelly..                              | ... Welch Grape Juice Co.         |
| 29 cs. Typewriters  | ... Dumont Shipping Co.           |
| 11 cs. (12) K D Autos   | ... Chrysler Corp. Export Div.    |
| 736 bags Sugar  | ... Sugar Export Corp.            |
| 13 bales Horsehair  | ... N. Wagman & Co. Inc.          |
| 18 bxs. Sheet Zinc  | ... A. S. Wilson Inc.             |
| 32 cs. Metal  | ... Hans Sammer                   |
| 2 cs. Printing & Addressing Machy. Pts..                                  | ... C. S. Hornbostel Co.          |
| 11 cs., 1 ctns., 1 bdl. Auto Parts )                                      | ... The Studebaker Export Corp.   |
| 6 cs., 1 bdl., 2 loose Truck Pts.)  |                                   |
| 88 cs. Dictaphones & Access.)   | ... The Dictaphone Corp.          |
| 82 cs. Record Blanks )  |                                   |
| 8 cs. Machinery   | ... Hilton & Sons                 |
| 1045 bbls. Paraffine Scale  | ... D. F. Sallows Agt.            |
| 100 tcs. Oleo Oil   | ... Chas. Hollinghed Co. Inc.     |
| 2 bxs. Machy, 3 bdls. Wheelbarrows  | ... Draeger Shipping Co. Inc.     |
| 1 bx. Laundry Wringer Pts. )  | ... The Gramophone Co. Ltd.       |
| 1 pkg. Elec. Ironer Pts. )  |                                   |
| 1 ctn. Radio, 1 ctn. Battery Kits )                                       |                                   |
| 1 cs. Radios )  |                                   |
| 2 bales Raw Rabbit Waste  | ... Fein & Co.                    |
| 115 cs. Wrapping Paper  | ... Riegel Paper Corp.            |
| 10 cs. Oil Peppermint )   | ... Magnus Mabee & Reynard Inc.   |
| 3 cs. Turtle Oil )  |                                   |
| 4 bxs. Paper Container Making Machy...                                    | ... H. C. Hackney Ltd.            |
| 60 cs. Rough Typewriters, 59 cs. Used Type-writers, 1 bale Rubber Tubing. | ... Wedemann & Godknecht Inc.     |
| 10 drms., 6 pails Rubber Cement   | ... The Flintkote Co.             |
| 59 bxs. Gasoline Pumps & Pts.   | ... Dan'l. E. Burdett Inc.        |
| 30 bags Garden Seed   | ... Pitt & Scott Corp.            |
| 44 bales Scrap Rubber   | ... H. Muehlstein & Co.           |
| 2 bxs. Can Openers, 1 bx Fruit Juices..                                   | ... Dazey Churn & Mfg. Co.        |
| 6 cs. Cotton Apparel  | ... Cluett Peabody & Co. Inc.     |

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156 loose Auto Tires	)	... Braeger Shipping Co.Inc.
23 ctns. Handbags	)	
16 ctns. Imitation Leather Handbags	)	
3 cs. Machinery	)	... Butler Bros.
16 ctns. Manicure Preps	)	
12 ctns. Metal Display Cabinets	)	... A. V. Berner & Co.
167 bbls. Wax	)	... N. Wagman & Co.Inc.
44 cs. Bristles	)	... Bennett Dry Mat Ltd.
10 cs. Paper	)	... Bennett Ltd.
560 bdls. Woodpulp Board	)	... A. V. Berner & Co.Inc.
100 crts. Washing Machines	)	... Winchester Repeating Arms
300 cs. Roller Skates	)	Co. Div., Western Cartridge Co.
43 bags, 18 bales Sole Leather Offals	...)	C. H. Powell & Co.
244 ctns. Toy Books, 2 bxs. Water Heater Pts	)	John H. Faunce Inc.
1559 rough wheel Hub Forgings	)	
42 bxs. Sheet Zinc, 4 bxs. Steel Screws	)	
13 bxs., Iron Rods, 3 bxs. Brass Hardware	)	
1 cs. Mounting Tissue	)	
73 bxs. Toy Books & Cutouts	)	... R. W. Cameron & Co.Inc.
14 ets. Firestone	)	<del>Hudson Motor Car Co.</del>
4 bxs. Auto Replacement Pts.	)	... Aghajanian Bros. & Co.
2 bales S. H. Clothing	)	... I. D. Gelles
158 bdls. Old Newspaper Comics	)	... A. V. Berner & Co.
247 bags Wax	)	... H. Muehlstein & Co.
12 bales Scrap Rubber	)	... Sauerman Bros.Inc.
1 cs. Steel Pulley Blocks	)	... Karr, Ellis & Co.
50 bags Old Magazines	)	... Finlay Holt & Co.Ltd.
1 cs. Machinery	)	... Heemsoth Kernan Corp.
49 bags S. H. Magazines	)	... U.S.Forwarding Co.
20 bales Rags	)	... Chrysler Corp., Export Div.
11 cs. (12) K. D. Autos	)	... H. A. Gogarty Inc.
53 bales Rags	)	... Universal Carloading & Dist.
3 bxs. Adv. Matter	)	
1 bx. Paper Box Machy. Pts.	)	
536 ctns. Bathroom Scales	)	
10 bxs. Sterilizers	)	
51 ctns., 30 drms. Dental Wax	)	
1 bx. Vacuum Cleaner Pts.	)	
6 bxs. Gasoline Engines	)	
1 cs. Wooden Lasts	)	
7 cs. Used Sewing Machines	)	... Dumont Shipping Co.Inc.
908 ctns. Metzco, 1 cs. Adv. Matter	)	... Universal Carloading & Dist.
1 keg Hydroxylamine Hydrochloride	)	
1 cs. Auto Parts	)	
39 bales Rags	)	... D. Benedetto Inc.
1 cs. Duplicator Sheets	)	... Braeger Shipping Co.Inc.
1 bx. Typewriter Pts.	)	
87 ctns. Metal Buttons & Buckle Moulds	)	... Titan Shipping Co.Inc.
18 ctns. Handbags	)	
59 ctns. Metal Buckle & Button Molds	)	
1 cs. Dies	)	
2 bxs. Tooth Paste, 1 cs. Carbor. Wheels	)	... Amer. Shipping Co.
1 cs. Dental Paper	)	

SS. "BROSUND" - SAILED FEB. 9, 1939.

9 bxs., 7 bcls. (42) Unassembled Autos	... Hudson Motor Car Co.
9 ctns. Toilet Preparations )	... John H. Faunce, Inc.
9 bcls. Adv. Matter )	
10 bcls. Comics, 61 bcls. Magazines	... Hudson Forwarding & Shpg.
4 ctns., 1 bx. Machy. & Pts.	... D. C. Andrews & Co. Inc.
8 bxs., (12) K. D. Truck Chasses	... Rec Motor Car Co.
6 bags Magazines	... Draeger Shipping Co. Inc.
7 bags Scrap Rubber	... H. Muhlstein & Co.
2 bxs. Chemical & Ignition Wire	... H. A. Gogarty Inc.
5 bags, 187 ctns. Old Magazines	... Int'l. Forwarding Co. Inc.
9 bales, 7 bxs., 22 ctns. Radio Material	... The Ward Products Corp.
8 unbrd. Autos S U	... Ford Motor Co. of Canada
17 bags Old Magazines	... Thomas & Pierson Inc.
1 ctns. Old Magazines, 175 bcls. Newspaper Comics.	... Hyman Gilbert
5 bags Wax, 58 cs. Gasoline, 1 cs. Kerosene	... D. F. Sallows Agt.
7 bales Rags	... A. W. Fenton Co. Inc.
3 bags Magazines	... John Block & Co. Inc.
6 corr. Ctns. Steel Wool, 2 ctns. Adv. Matter	... Brille Mfg. Co. Inc.
4 bags Magazines	... R. Charles
4 cs. Firearms, 5 cs. Shotgun Wads )	... Remington Arms Co. Inc.
4 cs. Safety Cartridge Cases Empty )	
6 cs. Safety Metallic Cartridges )	
1 brd. Auto SKD )	... Ford Motor Co. of Canada
1 brd. Panel Delivery Skids )	...
8 unbr. Autos	... Packard Motor Co.
1 cs. Milling Machinery	... Sun Machinery Co. Inc.
0 cs. Roller Skates	... Winchester Repeating Arms. Co
	Div. Western Cartridge Co.
	... Ford Motor Co. of Canada
4 bxs. (2) Truck Closed Cabs	... C. S. Hornbostel Co.
0 cs. Bristles	... Rosenblatt Bros.
2 bales Woolen Rags	... A. W. Fenton Co.
9 bales Rags	... N. Y. & Overseas Shipping Agency
4 bags Magazines	

FEDERAL RESERVE BANK  
OF NEW YORK

145

*Mr. Lockhead*

OFFICE CORRESPONDENCE

DATE May 10, 1939

TO CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND (AGE)

FROM J. W. McKeon

Mr. Bolton telephoned at 11 a.m. today. There was very little to tell us. For the first time in three months they had had three whole days of relative quietness, absolutely nothing doing. He was going away on a short holiday and expected to return to his desk a week from next Monday. The dollar was slightly weaker and the market turnover was negligible. It was very difficult to find the reason for this, but continental sellers seemed to be a little less pessimistic. He felt that, at least for the present, things had taken a definite turn for the better, and naturally he hoped that they would continue. I referred to the strength of guilders and Swiss francs during the past few days; Bolton stated that there had been some short covering together with a fair commercial demand.

JWMCK:BOC

RECEIVED

MAY 11 1939

TRINITY DEPARTMENT  
Office of the Secretary  
Federal Reserve Bank of New York

JR

GRAY

Berlin

Dated May 10, 1939

Rec'd 2:06 p.m.

Secretary of State,  
Washington.

341, May 10, 5 p.m.

No. 26 FOR TREASURY FROM HEATH.

The Reichsbank statement for the first week in May showed no changes in the month of particular notes. As usual for the first week in the month there was a decrease in currency circulation but the figure of 10,438 million marks is still some 87 million marks higher than at the end the first week in April.

After a slight general improvement at the end of April stock quotations declined again so that the Reich statistical office's share index for the first week in May was 102.86 (1924-1926 equals 100). With the exception of the first week in April when it fell to 102.57 this is the lowest index figure for stocks since August 1938 when the index stood at 102.16.

KHX

RECEIVED

GSE

MAY 11 1939

THE STATE DEPARTMENT  
OFFICE OF THE SECRETARY  
WASHINGTON, D. C.

REB

GRAY

London

Dated May 10, 1939

Rec'd 1:56 p. m.

Secretary of State,

Washington.

656, May 10, 5 p. m.

FOR TREASURY FROM BUTTERWORTH.

Yesterday's somewhat optimistic mood of the city has been further extended today but incipient hopefulness of individuals arises out of sundry and often divergent views on the course of European events. But fact is that the London stock exchange has again been strong and on a larger turnover today. Another sign of the moment is the disappearance of the premium on dollar notes of which incidentally there is a plentiful supply in the banks. The foreign exchange market was more active and for the first time for many days the British authorities did not have to supply dollars; they did operate in the forward market at 1-5/16. Gold was fixed at parity and of the 125 bars sold 25 were married. The British fund supplied a fair amount; Samuel Montagu was again the big buyer.

CSB

RECEIVED  
KENNEDYMAY 11 1939  
TREASURY DEPARTMENT  
WASHINGTON, D. C.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Belgrade, Yugoslavia

DATE: May 10, 1939, 4 p.m.

NO.: 131

CONFIDENTIAL.

A good authority has informed me that the National Bank (80,000 kilograms) is shipping its entire gold reserves to London.

LANE.

EA:LWW

RECEIVED  
MAY 13 1939  
TREASURY DEPARTMENT  
Office of the Secretary  
Foreign Affairs of the Department

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 10, 1939, 4 p.m.

NO.: 916

FOR TREASURY.

CONFIDENTIAL.

In a quiet exchange market here today, currencies were firm. Apparently there was no intervention by the fund. Inactive and irregular security market, with fractional losses in rentes.

Today's financial press gives attention to reported activities in London looking to possible foreign credits and in particular to countries of central and eastern Europe. An article in JOURNEE INDUSTRIELLE mentions the coming visit to the United States of Hudson, and recalls that he had already had negotiations with Bucharest.

BULLITT.

EA:LWW

RECEIVED

MAY 11 1939

TREASURY DEPARTMENT  
RECEIVED  
MAY 11 1939

EDA

PLAIN

LONDON

Dated May 11, 1939

Received 2:05 p.m.

Secretary of State

Washington

667, May 11, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

Sentiment in the city continues more optimistic but the London Stock Exchange has been less strong today than yesterday. The foreign exchange market continues rather inactive but again today the British authorities have not had to operate in the spot dollar market. They have done so in the forward market at 1 11/32. 123 bars were sold at gold fixing of which 39 were married and a few supplied by the British fund. Buyers were pro-rated to 45% of requirements.

KENNEDY

HPD

RECEIVED

MAY 11 1939

 THE TREASURY DEPARTMENT  
 Dir. of the Treasury  
 Federal Reserve Bank of New York

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 11, 1939, 6 p.m.

NO.: 927

FOR TREASURY.

RECEIVED

MAY 11 1939

TREASURY DEPARTMENT  
WASHINGTON, D. C.

On the exchange market trading was dull, with continental currencies slightly lower than at closing yesterday. A small amount of dollars was obtained by the fund. On the security market business was almost at a standstill, rentes fractionally lower, with almost no change in other securities.

The May 4 statement of the Bank of France which was issued today shows that commercial advances decreased by 801 millions, with an increase of 687 millions in note circulation. There was a decrease of 1,642 millions in deposits; gold reserve rates 83.71 versus 83.34.

For the month of April official statistics on French economic situation show that capital issues amounted to 404 million francs as compared with the month of March when they were 401; for the month of February they were 378, and for the month of January 390. No change in general index of wholesale prices, which is 681. No change in index of variable revenue securities, which is 288; slight improvement in fixed revenue securities. For the month of March the production index moved up from 90 to 92.

BULLITT.

May 11, 1939  
9:30 a.m.

Present: Mr. Doughton  
Mr. Cooper  
Mr. Hanes  
Mr. Gaston  
Mrs. Klotz

H.M.Jr: Where have you missionaries been?

Cooper: The New York Times will tell you the story.

Doughton: Where did the New York Times get that?

H.M.Jr: I can raise my right hand and say that I did not talk.

Doughton: In our conversation yesterday with Pat Harrison we did not go into any details like that.

Cooper: No, not any of those details. There was no occasion yesterday to say that we had had a conference with the press.

Doughton: The President suggested that a certain program be laid before certain folks. Just what was the understanding? Who was to report on that conference? Was I to do it or you?

H.M.Jr: He asked you to talk it over with Pat Harrison, as I remember it.

Cooper: When a future conference be had that we ask a Senator to come along and that that invitation to the Senator should come from the President and not from us.

H.M.Jr: When you were up there talking to Pat Harrison, all this stuff about your being here was not discussed.

D: and C: No, not at all.

Cooper: The first intimation I had that anything was known about a conference at the White House was at eleven o'clock last night when a newspaper man called me and told me that there would be a story in the New York Times that the three of us had been with the President

and then he went on to say just what the article contained. I told him that I could not tell him anything about it; that I had not been to the White House today. Then he asked if I had been there any time recently and I said that I could not comment on that. Later three other newspaper men called me. I did not tell anybody anything.

H.M.Jr: You know I did not talk.

Cooper: They made one mistake in the article. They had the conference as yesterday morning. The newspaper men also asked me if Doughton was at the White House yesterday and I said I did not know; that our Committee met at eleven o'clock and worked until after five and I did not see when he had time to go there.

Doughton: The newspaper men did not call me.

H.M.Jr: They can't call me because my phone is not listed.

Now, gentlemen, I have to face the music at my press conference at 10:30. I want your advice as to what I am going to say. I cannot duck it.

Doughton: I can't tell you what to say. I think there has been a little misunderstanding.

(H.S.K. left the room.)

(In effect) Doughton said that the newspaper men kept asking why he did not call the Secretary and when he was going to call him up. It is Doughton's understanding that he was not to call the Secretary until we got things straightened out at this end of the avenue, and Doughton thinks that he is being put on the spot.

(In effect)

Cooper: As far as I am concerned I am going to stand pat. I am not going to do a thing until we get some word.

(In effect)

Doughton: I have to take a little different position. We are responsible for the revenue and here are these taxes expiring that will mean the loss of a lot of revenue and the least we can do will be to pass a resolution extending the nuisance taxes.

- 3 -

Cooper: Is it more our responsibility to have revenue than it is for the President and the Secretary of the Treasury?

Doughton: I do not want to be blamed.

H.M.Jr: I have to face the music at 10:30. Have you any objection if I continue to say that as far as I am concerned I stand on my letter of March 3rd?

Doughton: I have no suggestion or criticism to make what you say to the press.

H.M.Jr: I am just asking your advice. What else can I say? You know, Bob, I am not bluffing.

Doughton: But you are a practical man. You want to pursue the wisest plan in order to get your objective. I do not think you are ready to come up until you clear the atmosphere.

H.M.Jr: The Treasury is ready. I can come up this morning.

Doughton: If you want to come up right away and throw us into confusion and let us have a fight with the head of the Government, then you are taking the first step to carry out your own purpose.

H.M.Jr: All I want to say is that nothing has happened between the Committee and myself to alter the exchange of letters that we had on March 3rd.

Cooper: You are not yet ready.

H.M.Jr: Yes, I am.

Cooper: In view of the conference we had yesterday, do you think it is proper for you to come up?

H.M.Jr: Now that is something else again.

Cooper: The other day you said there was nothing for you to do but wait.

H.M.Jr: I have been waiting since March 3rd.

Cooper: You have your data and information prepared, but I also say it is not the appropriate time for you to submit it until you get a clearance from the President.

Doughton: If it should become obvious that you cannot get an agreement, then I suggest that you come down, but until you despair and we know that it cannot be done, I do not think you ought to come up.

H.M.Jr: Now let's forget me for the minute. The President asked you gentlemen to see Pat Harrison and then to report back, so the next thing to do is to report back.

Cooper: That is my understanding of our reason for being here now.

Doughton: I do not know whether you want us to report directly to the President or here now.

H.M.Jr: After all, you are Chairman of one of the most important committees on the Hill. If you are asking me, I suggest that you call up the President and say, "We have seen Senator Harrison and we can report."

Doughton: I did not want to do that until I saw you.

Cooper: Mr. Doughton called me yesterday and asked me what my understanding was that we reached at the White House, and he said that he and I should talk to Senator Harrison and find out what he thought of this proposed plan 1, 2, 3, 4, 5. We did that yesterday and are prepared to report. Doughton asked me then what I thought about the best course to take and he said, as he remembered it, you asked him to report back to you. I thought the President asked us to report back to him.

H.M.Jr: The only place where I differ is that Bob Doughton said, "After I have seen Senator Harrison would you like me to let you know what happens?" and I said I would like it very much and I would appreciate it. Yesterday Bob Doughton called up and said, "I have seen Senator Harrison and any time tomorrow morning we can come down to see you."

Doughton: I could not tell you everything over the telephone.

H.M.Jr: Telling me is not the same as telling the President. I have not seen Pat Harrison and it is up to you to call the White House and say that you and Jere are ready to come and tell him what has happened. It then leaves it up to the President as to whether he wants to invite Senator Harrison down or not.

- 5 -

H.M.Jr: Call up the White House and say that you and Jere have seen Pat Harrison and you two are ready to report. That leaves it up to the President to ask Hanes and me and Senator Harrison down if he wants to.

Cooper: Or whether he wants Bob Doughton and me to come.

H.M.Jr: I appreciate very much your courtesy in coming down to see me.

Cooper: The story in the newspaper is what actually happened when we saw Senator Harrison. At one o'clock we called on Pat Harrison. Doughton, Pat Harrison and I went to talk in Pat Harrison's private room and Doughton started a general conversation about tax matters and made no reference whatever to this conference we had had at the White House and no reference to this meeting. Pat Harrison was very free in his suggestions and observations and there was no occasion to refer to the White House meeting. We simply asked what he would think of a program like this: Social Security taxes (we are taking care of them); extend expiring excise taxes, and then follow that by a consideration of the tax-exempt securities, and follow that by a consideration of so-called deterrent taxes to business. There were four items, you recall.

Then Pat Harrison said he did not think it would work. It was all right to handle Social Security taxes as we were handling them. He did not think a joint resolution extending excise taxes and doing nothing else would meet with favor in his committee. If such a resolution came over in the Senate, Pat Harrison's Finance Committee would then want to write in some of these provisions with respect to deterrent taxes to business. However, Bob can check me if I am in error, but I was very favorably impressed with Pat Harrison's statement as to what he thought ought to be put in. He suggested a one-year loss carry-over. He said he reached the conclusion that he did not think we should repeal the capital stock tax. With respect to the excess profits tax he thought we might provide for a new declaration every year instead of every two or three years, as it is now. I told him that we have to watch this closely because capital stock taxes and excess profits taxes are related to each other. You want to watch them to keep from getting a loss of revenue. If in a particular

year a man has a low income or for some other reason he wants a low capital stock, he could reduce his total taxes.

Gaston: They could save taxes that way.

Hanes: We figured it would mean a loss of \$27,000,000.

Cooper: Why do they want an opportunity for a new declaration every year? Pat Harrison stated that he thought the capital stock tax would have to be retained because of the excess profits tax. He thought it ought to be changed so that they could have a new declaration every year. Then he said he thought that the present corporation taxes on corporations below \$25,000 net income should be continued and that on corporations above \$25,000 he thought it could be worked out so that a flat rate of 18 or 18½% could be applied to get the same amount of money. Then to allow one or two years carry-over of business losses. And at that point he stopped.

Doughton: He said that as far as the tax-exempts were concerned there would be more opposition and to let that go over.

H.M.Jr: I agree with you that what he is saying is a very modest program.

Cooper: He mentioned the elimination of the \$2,000 limitation on capital losses, but he was not as specific about this as he was about the others.

H.M.Jr: As long as you have to have a tax bill, the door is open.

Cooper: Of course it is. The great mistake was to ever let that 2-year limitation go into effect on corporate taxes. It was Senator Walsh's proposal -- this 2-year limitation.

H.M.Jr: I gather from what you say that Pat Harrison was in a very.....

Cooper: .....fine humor and apparently in as good a frame of mind as any man I have talked to.

Doughton: I will call the President and tell him that a meeting was held and if he does not want to suggest a conference, I will suggest one to him. If that does not work, I will then be able to tell you where I stand.

- 7 -

- Cooper: On these suggestions, as I have outlined Pat's views, on your new declaration every year with respect to the excess profits tax, that will run you a loss of \$27,000,000. I think the proposed one-year carry-over of business losses will mean a loss of revenue of \$44,000,000. That will run you about \$70,000,000.
- Hanes: That is taking an average figure.
- Cooper: It is your estimate. It is an honest estimate and I am accepting your estimate. That is about a \$70,000,000 loss of revenue. Now where do you propose to make that up?
- Hanes: According to his figures, Pat says a flat rate of about 18 or 18 $\frac{1}{2}$ % would do it. The rate now, you know, is 16 $\frac{1}{2}$ % if all profits are paid out and 19% if none is paid out.
- Cooper: 1% increase of flat rate on corporation tax produces \$75,000,000. On the capital stock tax, that is out.
- Hanes: I think that is wise.
- Cooper: I do not think that you can do anything better -- doing business in the corporate form is a great advantage. Enjoying as many advantages as people are by doing business in corporate form, I do not think it is unreasonable to ask them to pay a corporate stock tax.
- (To Mr. Hanes) On the basis of what Pat Harrison has suggested, I suggest that you revise your figures.
- H.M.Jr: He did not say anything about the upper surtaxes? I am surprised and pleased.
- (Mr. Doughton and Mr. Cooper left and Hanes and Gaston remained.)
- H.M.Jr: This is the best meeting we have had. I told you last night, Johnnie, that I was down but not licked. If we can keep Pat Harrison sweet, we still have a chance.
- (Then Mr. Hanes left and Gaston remained.)
- H.M.Jr: I feel sure that Hanes told all this stuff to Senator Harrison and Senator Harrison told this to Turner Catledge.

May 11, 1939

ADD MORGENTHAU (TIMED 1059A)

THE WHITE HOUSE SAID THAT PRESIDENT ROOSEVELT REVIEWED THE TAX SITUATION IN DETAIL YESTERDAY WITH MORGENTHAU, CHAIRMAN DOUGHTON OF THE HOUSE WAYS AND MEANS COMMITTEE, AND REP. JERE COOPER OF THE COMMITTEE. THE WHITE HOUSE SAID THAT NO CONCLUSIONS WERE REACHED DURING THE CONFERENCE.

5/11--R149P

May 11, 1939  
11:45 a.m.

HMJr: Hello.

Operator: Mr. Pierson.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Warren  
Pierson: Good morning, Mr. Secretary.

HMJr: How are you?

P: Fine, thank you, sir.

HMJr: Can I sell you any bonds in Nicaragua?

P: (Laughter) Well, I wouldn't like to take very many.

HMJr: I see. Well, can I sell you a barge canal in Nicaragua?

P: Well, I don't think so. We might -- you might sell us a boat for the river....

HMJr: I see.

P: .....or for the lake.

HMJr: God, you're tough!

P: What would you like to do?

HMJr: I?

P: What would you like to do, yes?

HMJr: Oh, I just like to sit in the bleachers and applaud the winner.

P: (Laughter) Well, there seems to be some doubt as to who won at the moment.

HMJr: Well, where are we?

P: Well, we had it all arranged last night that we'd give these lads some -- a little exchange credit for their bank.

- 2 -

HMJr: Yeah.

P: And that then we'd -- we'd send a good man or two down there to work with the road people and decide just exactly how much money they needed to do -- what they could pay for it, and that was perfectly satisfactory to the Nicaraguan President when we left. Now later, I am told by the State Department, that his advisors told him he has to have a figure to point at when he leaves. So we're right back where we started.

HMJr: I see. I see. Well then, there's nothing for me to say "yes" or "no" on?

P: I guess not at the moment.

HMJr: Well, that's easy.

P: We were -- we thought we had something that nobody could complain about at all, you see, but -- in other words, we put off the evil day.

HMJr: I see. Well, if you'll keep me posted I'll appreciate it..

P: Yes, I was -- called you last night. You -- You'd left the office.

HMJr: That's right.

P: Mr. Secretary.....

HMJr: Please.

P: .....we -- we're having a meeting at -- which Lockheed is attending, of the bank.....

HMJr: Yes.

P: .....to discuss this Spanish cotton proposition.

HMJr: Yeah.

P: Now, I'm remembering your remarks of the other day, and that still holds, doesn't it?

HMJr: Yeah. Very definitely.

P: Um-hm. All right. That's what I wanted to know especially.

- 3 -

HMJr: Well.....

P: Lockheed will probably tell you about it.

HMJr: Yeah. Well, we think that -- I don't know who made -- I don't think you ought to enter into any negotiations until the Spanish Government has withdrawn their suit. I don't think you ought to make it a pardon as though we were bargaining, you see?

P: No.

HMJr: No, it would give the impression that we were worried about it.

P: No.

HMJr: And I -- I think we should be able to say, "Well, gentlemen, as long as you are suing the United States Government why we're not going to do any business with you."

P: Um-hm.

HMJr: And not try to make it -- oh, pardon -- a bargain. I don't think we can afford to bargain.

P: Well.....

HMJr: And Ed Foley is sitting here at my desk and he is nodding his head -- he agrees with me.

P: I'm in sort of a spot here with our State Department friends because they apparently have listened to this man and they are proposing to give him some kind of an answer.

HMJr: Well, we have a representative on the Board and if you're going to have any meeting he'll certainly.....

P: Yeah.

HMJr: And -- has it gotten that far?

P: Well, I mean, all I know is -- would I please have a meeting? That's as far as it's got with us.

HMJr: Well, if you could do this for me before you have the meeting -- sort of write me a letter, or one to Lockheed and say, "Will you come to the meeting to consider the following subjects"? You see?

P: Yeah.

HMJr: Then we could prepare a letter to you and state our position.

P: Well, now this meeting, we -- we've called it for in about ten minutes.

HMJr: Oh!

P: It -- it's at twelve o'clock today.

HMJr: Well then, you could say you talked to me over the telephone.....

P: Yeah.

HMJr: .....and I'm going to take the position that we shouldn't even begin negotiations.....

P: Yeah.

HMJr: .....with the Spaniards until this thing is settled. And I -- I'm not going to budge. If the President says he wants to change it all right.

P: Well, that's fine. I told them yesterday that was your attitude.

HMJr: Well, we have to have some pride.

P: Yeah.

HMJr: And -- and to go ahead and get half way through with it, makes the suit a part of a bargain. That would be terrible!

P: Yeah.

HMJr: Don't you think I'm right?

P: I think you're right. Of course, I think it's a silly suit and we'll win it, but then.....

HMJr: Oh, yes.

P: .....we want to wait -- let nature take its course.

- 5 -

HMJr: Well, we don't -- we don't think that we should put -- lend people the taxpayers' dollars when the Government is trying to collect from us.

P: Yeah. I'm surprised at Sullivan and Cromwell; maybe I shouldn't be.

HMJr: Well, that's a client.

P: Yeah. I'm a lawyer too!

HMJr: O. K. No, but I -- I -- I'm -- unless the President over-rules me, I'm not going to budge.

P: Well, I'll make that position clear and I assume Lochhead will do the same so.....

HMJr: Well, I don't know whether he has gone but.....

P: Well, I'll do it.

HMJr: I'd appreciate it.

P: All right, sir.

HMJr: Foley is here and he's in complete accord.

P: Well, O. K.

HMJr: Thank you very much.

P: Righto!

May 11, 1939  
11:35 a.m.

Operator: Go ahead.

HMJr: (Talking aside.)

Robert  
Doughton: Hello.

HMJr: (Aside: Just a second.) Hello.

D: Secretary?

HMJr: Talking.

D: Bob Doughton.

HMJr: How are you?

D: I'm fine thank you. I communicated with the big Chief since I left down there.

HMJr: Yeah.

D: And I -- you could tell by his talk over the phone he's in a fine frame of mind.

HMJr: He's in a good frame of mind?

D: Yeah, he was fine. I told him about the substance of our conversation with Pat -- that is, if he was not willing to go along, if he wanted the matter taken up by a different way -- but he was reasonable about it and that I thought that if it met his approval, it might be very helpful to have a conference -- you and Pat and myself and maybe two or three more -- Jerry. And he said, "Fine, fine," and set Monday afternoon at four thirty.

HMJr: Good!

D: He said he'd call Pat.

HMJr: Good!

D: Yeah.

HMJr: Well that sounds good.

- 2 -

D: So I told him -- I said, "I'm very hopeful of being able to work out something and be satisfied." He said he believed we could. And now I guess that's the shape I left it in.

HMJr: Fine! Well, I think that that's a little bit more hopeful.

D: Oh, I'm feeling a good deal more hopeful about it, yes. Yes. I told him over the phone -- I said, "We just have to do something anyhow." I said, "We can't prevent them from doing something with the Senate, and the best way to go along and get what we want, or what we think is reasonable and we agree on, is to start out all together and show a disposition to do right about it -- all sides and we won't have as much trouble as starting out in a wrangle about it."

HMJr: Well, I think that's very encouraging.

D: Yeah, I feel good over it right now.

HMJr: Well, I appreciate your calling me, and that's four thirty Monday. I suppose I.....

D: Four thirty Monday. Of course you'll be notified.

HMJr: I suppose so.

D: He said he'd call Pat.

HMJr: Fine.

D: All right.

HMJr: Thank you so much.

D: You are very welcome, and good bye.

HMJr: Good bye.

May 11, 1939

The following is HM, Jr's part of his conversation with Miss Le Hand when he called her about 2:15 today:

"Hello, Missy. How are you.

Missy, you remember about a month or so ago I came out and I told you how when I went in to see the President with Hanes and the President had not said 'How do you do' to him? Do you remember?

When we met the other day at the White House I asked to bring Hanes along and the President said no -- the time Doughton was along.

There is another meeting Monday with Harrison, Doughton, myself and I think it is a great mistake not to have Hanes there.

Nobody knows that I am calling. He is Under-secretary and all that and it's much easier for me to have him pulling with us than to have him feel that he has been pushed outside. I really feel, for his sake, quite strongly about it.

Incidentally, I am 48 today."

oOo-oOo

May 11, 1939

Lunch yesterday with Tommie Corcoran. He started off by saying that he wanted to thank me for appointing Foley because he knew that certain people here in the Treasury were opposed to him on account of Corcoran's friendship for him. So I said, "Well, what you are telling me is you are thanking me for appointing him in spite of you." He laughed.

Corcoran's philosophy at present is the following: He said due to the fact that the Administration is a power house without any transmission wires, because all the Departments are torn asunder with internal strife and politics -- not like the Treasury, which has been run without politics for six years -- the President can't accomplish what he wants to. That, therefore, he, Corcoran, has come to the conclusion that the only thing to do is to get Congress out of town as quickly as possible on account of the situation abroad, and Neutrality Act; get through a spending program, and do the constructive things next year.

Corcoran was just burning with fury against A. A. Berle, because he had gone up to New York and talked to a Mrs. Herrick who, I think, is the head of either Social Security or sometime like that for the Federal Government and very close to the Labor Party and La Guardia, and told her to cross Tom Corcoran and Cohen off her list because the two of them are heading the War Party here in Washington and that he was so furious because he had been contacting the Labor Party for Roosevelt through Mrs. Herrick heretofore. Berle may be right, because during the course of the conversation Corcoran said that he would like to be transferred to the War Department in order to get things done over there. He said if we were really going to get things done, the President would have to fire about ten people in key positions and he said the President was too good-hearted to do anything like that.

I told Corcoran that I felt that the policy that he was talking about, of doing nothing, was the most sad and tragic thing that I had heard in a long time. I told him that you never could elect a Democratic President on an alibi. He liked that. He said you can only elect a Republican on an alibi. I said if you didn't do the

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difficult things this year we would leave them all undone and the most marvelous campaign issues for the Republicans to run on. He said all the members of the Cabinet and people around town appointed by the President who were running for President should be told to stop it and get behind Roosevelt for President and then we would get somewhere. He does not try to hide the fact that he is openly working for Roosevelt for a third term.

May 11, 1939

My dear Mr. President:

Mr. Hanes, Mr. Bell and I met with Mr. Jean Monnet Monday night at my house, and discussed the French debt to the United States.

The French pre-armistice cash loans, as you will notice from the inclosed statement, amounted to \$1,970,000,000. Her post-armistice debt for cash loans amounted to \$1,027,000,000, and for war and relief supplies, \$407,000,000. These figures represent the original debts and do not take into consideration the accrued and unpaid interest nor repayments made by France before and after refunding of its debt.

If we should follow the very tentative suggestion of Mr. Monnet and forgive the pre-armistice debt of \$1,970,000,000, this would leave France still owing us \$1,434,000,000.

Mr. Monnet's thought was that we might arrange some barter deal for the \$407,000,000 of war and relief supplies, leaving a net \$1,027,000,000 to be repaid us in cash.

If we should follow through with Mr. Monnet's suggestion and take up the British debt, we find that their pre-armistice cash loans amounted to \$3,696,000,000 and their post-armistice cash loans only \$681,000,000. Therefore, I raise the question at this time, before we proceed further with Mr. Monnet, whether it would be feasible to apply the Monnet formula to the British and other Governmental debts to the United States.

Mr. Monnet has grave doubts as to the wisdom of raising the French debt question at this time and we share his doubts.

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Mr. Monnet is waiting to hear from me and I shall be glad to have your views before proceeding in these conversations.

Faithfully yours,

The President,  
The White House.