

RE INDIANA INVESTIGATION

March 20, 1940
10:15 a.m.

Present: Mr. Foley
Mr. Sullivan
Mr. Landis
Mr. Magill
Mr. Graves
Mr. Helvering
Mr. Mooney
Mrs Klotz

H.M.Jr: Well, Mr. Helvering, what I would like you and Mr. Graves to do this morning is review what I call the Indiana cases, just where we are and the decision that Treasury has to make in regard to whether we do or don't get a court order. Now, whatever way you want to proceed, and these two gentlemen that I have invited down, will you please feel free to interrupt at any stages.

Landis: That is always easy.

Helvering: Mr. Secretary, Mr. Graves has been in touch with the writing of this recommendation, and so forth, and I would like to have him make a statement about it.

Graves: The matter that is before the Department for decision is the question of whether a petition will be filed with the District Court at Indianapolis to compel testimony from the Treasurer of the Hoosier Democratic Club, which is in the newspapers referred to as the Two Percent Club. I think, Mr. Morgenthau, that I might read this memorandum which I gave you last night, which sums up the background of that petition.

"On November 7, 1938, Honorable James W. Morris, Assistant Attorney General for the Attorney General, addressed a letter to the Commissioner of Internal Revenue referring to him for appropriate action a communication which the Department of Justice had received from one George R. Jeffrey, relative to charges of possible tax evasion by the Hoosier Democratic Club. The Commissioner had himself received a similar letter direct from Jeffrey and on October 20, 1938, had, through the Chief of the Intelligence Unit, referred this matter for investigation

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to Mr. A. P. Madden, Special Agent in Charge of the Chicago Division. Madden assigned the case for investigation to Special Agent Vaughn.

"During November, 1938, Special Agent Vaughn interviewed Bowman Elder, Treasurer of the Hoosier Democratic Club, with a view to eliciting information necessary to determine the taxable status of the Club.

"On November 30, 1938, Elder addressed a communication to Special Agent Vaughn, giving certain information asked for by Vaughn and stating grounds upon which the Club claimed exemption from taxation.

"On December 2, 1938, Special Agent Vaughn transmitted Elder's communication to the Bureau of Internal Revenue at Washington with a request that on the basis of the facts submitted the Bureau make a rule as to the taxable status of the Club.

"On January 13, 1939, the Bureau addressed a letter to the Hoosier Democratic Club, calling upon it for certain supplemental information concerning the Club's activities and its finances.

"On February 6, 1939, Elder, in response to this request from the Bureau, transmitted to the Bureau a sworn statement concerning the scope of the Club's activities, incorporating tabular statements of receipts and expenditures."

Since that time, that is, since February 1, 1939 -

"Since that time, an investigation by officers of the Bureau of Internal Revenue has been proceeding to secure accurate information regarding the Club's receipts and expenditures and to verify the statements made by Elder with a view to securing a tax-exempt status for the Club."

Now, this investigation has been proceeding since February and has developed beyond a doubt that the statements filed by Elder with the Bureau, under oath, were false and misleading.

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Elder has consistently refused to disclose the information which is essential to a determination of the question raised by Jeffrey, who originally presented the matter to this Department and to the Department of Justice, and the petition that is now under consideration has as its purpose compelling Elder to appear either before the court or before revenue officers in the court's discretion to furnish true and complete information with respect to the receipts and expenditures of the Club.

Now, that is where we are. I perhaps might say that that investigation, begun in November, 1938, was undertaken as a routine investigation by the officers of the Bureau of Internal Revenue and it proceeded as a routine investigation, I think, probably without your (Secretary's) knowledge and I might go so far as to say probably without the knowledge of the Commissioner --

H.M.Jr: Which one?

Graves: This routine investigation into the taxable status of the Two Percent Club.

H.M.Jr: Well, I am just trying to make a record. I mean, I didn't know anything about this until I read the investigation on Mr. Greenlee.

Graves: That is right. That is what I was going to explain.

H.M.Jr: I don't know when that was.

Graves: I was going to come to that phase of the thing.

H.M.Jr: This thing that you told me, the first I knew about it was yesterday.

Graves: That is right. In May, 1939, a recommendation was made to the President by Senators Van Nuys and Minton that one Greenlee be appointed Collector of Internal Revenue at Indianapolis. I think that was probably your first knowledge of this situation. At that time, according

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to the record, conferences were held between yourself and Commissioner Helvering and the decision was reached that the President would be advised that there was no vacancy in the office of the Collector of Internal Revenue at Indianapolis. That was for the reason that the incumbent of that position, and he still is the incumbent, a man named Smith, has been a very competent Collector. I think Mr. Helvering would tell you he is probably one of his half dozen most capable Collectors and the view was taken - the position was taken by you with the President that you were unwilling to see this man Smith removed, since his record as Collector had been excellent. The matter was dropped for a time, but in June, 1939, the President again, through General Watson, requested you to proceed with this Greenlee appointment.

At that time you directed the usual investigation into the qualifications of this candidate, Greenlee. That investigation proceeded until late July, at which time you transmitted to the President the results of the investigation which showed that this man, Greenlee, had been patronage secretary to McNutt during the time when McNutt was Governor of Indiana in 1933 to 1937; that prior to 1933, this man had had no income of any proportions and no substantial property; that in the course of this investigation he was called upon, as usual, to furnish a net worth statement, that is, a statement of his assets and liabilities. He furnished such a statement which showed his net worth to be in excess of \$100,000. When questioned as to the sources of his income, and mind you this was a personnel investigation and not an income tax investigation, merely to determine this man's qualifications to be appointed Collector of Internal Revenue, there was some failure to return income of these proportions in his income tax returns, but when questioned as to the sources of his income, he gave evasive answers, contradictory answers. He, for instance, said that he won substantial sums of this money playing poker. Ultimately, his statement was that he had been a candidate for the Democratic nomination for

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Governor in 1937 - 1938, and that many people in Indiana had made contributions to him to be used in his campaign, that he had expended a certain fraction of the collections that he had received for campaign purposes, but after the campaign was over there was a residue, which, as I recall, was said by him to be \$60,000.

H.M. Jr: Sixty?

Graves: Sixty. He put this in a safety deposit box and from time to time had used that for his expenses and had used that for investments. I say that was his ultimate statement.

Investigation by our offices disclosed that he, while patronage secretary for Governor McNutt, had been in the position to control or to participate in the control of granting of permits to liquor dealers. Indiana operates under a license system. Its licenses are exceedingly lucrative for the reason that they are monopolistic in character. Each region, according to population, may have only one, or a certain limited number of beer dealers. All of the beer coming into the State of Indiana must pass into their system through, as I recall it, 14 importers, which have particular sections of the State and their connection, the connection of these importers with beer imports, is purely nominal. They don't receive the physical product. They merely get a cut on the transaction as between the wholesaler who furnishes the product and the retailer who buys it. In any case, these licenses, being monopolistic, are very lucrative and they were, according to our investigation, divided up among political figures in Indiana and Mr. Greenlee saw to it that, according to our investigation, he himself received one of these importer's permits.

Now, he didn't take it in his own name. He took it according to our investigation, in the name of a dummy, but with an agreement on the part of this dummy that when he, Greenlee,

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should leave the service of the State, the stock that was in the name of the dummy would be --

H.M.Jr: It was his son, wasn't it?

Graves: No, it was a man named Handy.

Halvering: It was his son.

Graves: Yes. It is the Handy Beverage Company of Shelbyville, Indiana. Handy, the father, had a certain part of the stock and the son, the dummy, had 51 percent of the stock and the agreement was that this son would transfer the stock when Greenlee left his state office and there is that evidence; while it perhaps lacks full corroboration, it is certainly substantiated by the fact that that transfer actually was consummated when Greenlee left the service of the state in 1937.

That much we know and of course Greenlee's revenue, income, from that source was a very substantial income. There is also evidence - which cannot be substantiated at this moment by certain proof - that Greenlee participated in other ways in graft payments from contractors and others in Indiana.

Now, you sent this record to the President in late July and following that you gave instructions - as it happens, I was Acting Commissioner of Internal Revenue at the time and your instructions were given to me - that you wanted, in view of the evidence that had been developed in this case of Greenlee, that you wanted a thorough-going investigation to be made by the Income - by the Bureau of Internal Revenue into all of these liquor licensees, there being evidence of irregularities in this one case, it seemed probable that a further investigation would disclose similar irregularities in other cases.

So at that time a substantial force of investigators were assigned to that project. As I

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said a moment ago --

H.M.Jr: Just a second. There is a thought that comes to me as you go along. It would be interesting just for another reason, but all relative - I wonder what was the date that McNutt was put into his present position. Does anybody know?

Poley: It was around May or June, about eight months ago.

H.M.Jr: Go ahead.

Graves: As I said a moment ago, up to that time the investigation of the taxable status of the Hoosier Democratic Club had been conducted as a routine matter and as, I think you just said, it was not brought especially to your attention. In the process of this intensive investigation which began last August, it quickly developed that the key to this whole corrupt situation, if such it was, in Indiana, was this Two Percent Club and an approach was made again - I should amplify that by saying that evidence was quickly developed that payments by liquor dealers had been made in substantial sums, on the testimony of the dealers themselves, to this Club and it seemed to our investigators that an investigation of the Club would be productive more quickly of the results - of a result than to pursue 50 or 100 possible different companies or concerns who may have made payments to the Club, so an approach was again made to this Hoosier Democratic Club after August, and at that time a complete examination of the books was made by our officers and certain facts were developed in that way, which I think are important enough for me to state now.

It was found in the first place that the charter or by-laws of the Club contemplated that its receipts mainly would be paid over to the State Democratic Committee and to the National Democratic Committee, but in examining the payments recorded on the books of the Club as having been made to the State Democratic Committee, it was found that the officers of the Club - I will say found that Bowman Elder, the Treasurer of

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the Club, had falsely recorded substantial payments as having been made to the State Democratic Committee, which in fact had not been made to the State Democratic Committee. The falsification was in this: Checks would be drawn by Elder, charged against the bank account in which the Club's funds were deposited, drawn to the order of the Treasurer of the State Democratic Committee, taken by Elder to the Treasurer of the State Democratic Committee. The Committee's endorsement would be procured on the check and the check would then be retained by Elder and cashed by him and the funds deposited by him in a safety deposit box or in a special bank account.

Now, the examination that I referred to disclosed amounts aggregating \$117,500, whereby by the collusion of the officers of the State Democratic Committee, the record shows payment to the Committee, when in fact the money was never paid out of Elder's hands. It was retained by him, and as he testifies, disbursed for general purposes.

Now, we can get no testimony from Mr. Elder as to what became of that \$117,500. He won't say. He won't say who got it. He won't say what purposes the money was expended for.

- Foley: Well, they were general political purposes.
- Graves: I am coming to that.
- Magill: May I ask there, Harold, to what years does this \$117,00 apply?
- Graves: The whole period, Mr. Magill.
- Magill: Is some of it directly traceable to later years?
- Graves: Well, this went to all these years.
- Magill: What I am getting at is this, a person might reasonably say he doesn't remember very well

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what happened to the money he had in 1933.

Graves: Oh yes, some of it was as late as 1938. '38, in fact, was a big year.

Now, as Mr. Foley just suggested, the statement made by Bowman Elder was not - was not, "I won't tell you." His statement was, "I can't remember in detail what became of that money. It was expended for the general purposes of the Democratic Party." That is it, isn't it, Ed?

Foley: That is right.

Graves: Now, so much for that. Evidence was obtained, or information was secured, we will say it that way, by our investigators that in addition --

H.M.Jr: May I interrupt you there? The point that - we don't know that he expended it for the Democratic Party or that he might put it in his own pocket. We don't know, that is correct.

H.M.Jr: We don't know whether it became personal income or whether he spent it.

Graves: That is correct, we don't know.

Foley: That is what I wanted to bring out. His statement is that it was for general political purposes.

H.M.Jr: He might perfectly well have put it all - spent it on himself.

Foley: He might have.

H.M.Jr: Yes, it is perfectly possible.

Foley: There isn't any evidence that that is so.

H.M.Jr: But there is no evidence that he spent it for the Democratic Party, either.

Foley: Well, he said so.

H.M.Jr: Well, that is no evidence.

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Foley: Well, it is some evidence.

H.M.Jr: But not substantiated. There is nothing to prove his statement. He might have said he spent it on exploration.

Foley: You would have to disprove it, Mr. Secretary.

H.M.Jr: No, I think the burden of proof is on him.

Sullivan: He establishes that when he testifies.

Foley: He said he spent it for general political purposes. Then you have to show he didn't, that he spent it for himself.

Graves: Evidence reached our people or information reached our investigators to the effect that substantial sums of money had been paid in to Elder by liquor people, beer importers, and beer wholesalers, and testimony was taken from the people who had actually made such contributions, copies of checks - or checks were obtained of which we have copies, showing that such transactions had occurred, and Elder, when questioned on that point, admitted that the Club had, in the period that we are talking about, from '33 to '38, received from one hundred to \$125,000 in that way. We have documentary proof of such payments up to, I think, \$87,000, Mr. Helvering. We have information that those amounts might reach as high a figure as \$500,000.

Now, again, we questioned as to the receipt of this money. Mr. Elder admits that he received such funds up to one hundred or \$125,000. When questioned as to the disbursement of these funds, he makes the same general statement as the one he made with reference to the money he secured by these spurious endorsements, expended for the general purposes of the Democratic Party, and he will not go beyond that statement in explaining the disposition of this fund. Now, there is where we stand. As long ago as December, as I understand it, the question was raised --

H.M.Jr: Before you go on that, I don't want to oversimplify this thing, but let me see if - I am

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looking now at my two special advisers, whether this is - as I understand, the thing that happened, people in the State of Indiana made contributions, political contributions, to Mr. Bowman Elder, who deposited them, I take it, in the bank.

Graves: That is right.

H.M.Jr: He then drew a check on that bank and walked over or walked around his own office and gave these checks to - what do you call them?

Foley: Hoosier Democratic Club.

H.M.Jr: Is that right?

Graves: No, as I understand, I don't think that is exactly what happened.

H.M.Jr: I thought Bowman Elder gave these checks to the Hoosier Democratic Club and they endorsed them and gave them back to him.

Foley: No, he received them as Treasurer of the Hoosier Democratic Club. He was the agent of the Club when he received the money. They traced about \$750,000 into the Two Percent Club over a period of from '33 to '38, approximately 125 or 130 thousand dollars a year. Those are straight receipts from office holders in the State of Indiana. Then, accounting for the disbursements, he fails to show what he did with approximately \$120,000. He claimed when he was first interrogated that he had drawn a check payable to the Central Democratic Committee of Indiana, but the records of the Club of the Central Democratic Committee do not show that that payment was ever received and when he was --

H.M.Jr: Wait a minute. The records of the Club were the records of the Central Democratic --

Foley: The Central Democratic Committee. The records of the Club show that he received this \$750,000 and he can account for all the disbursements except about \$120,000 that he claims he paid

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over to the Democratic Central Committee. The Democratic Central Committee, as I understand it, doesn't show on its books that the money was ever received and as to that, he says that he spent it for the general good of the Democratic Party. When they asked him more questions, he said, "Oh, it was for traveling expenses." "Well, how much?" Well, he didn't know, "And to what people?" and he names only a few people and, "What else was it spent for?" "Well, it was spent for hall hire and printing and different expenses in connection with campaigns around the state." "Well, name some of those expenses." "Well, I'm not able to name them very definitely," but he has attempted to give an explanation of what he did with the money. He hasn't said, "I won't tell you. I am not going to answer that question." He hasn't said that. But he has attempted to tell what he did with the money and that is rather important, because that has some bearing on the petition and the granting of the order, because in order to get such an order you have to show contumacy. You have to show that the witness wasn't cooperative, that he obstructed the investigation, that he refused to divulge information. Then this undisclosed fund --

H.W.Jr: Now, the so-called slush fund.

Foley: As I understand it, there is about \$125,000 there. He is very indefinite about where that money came from and he is very indefinite about what he did with that money. I mean, that might be, as I understand it, \$120,000 that he didn't account for out of the 750.

Graves: No, no, no, no possibility of that. That is entirely separate and distinct.

Foley: Why couldn't it be?

Graves: Because --

Foley: I know he doesn't claim it, but why couldn't it be?

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- Magill: The aggregate amount of the undivided funds for the period 1933 to '38 ran between \$100,000 and \$125,000. It was kept partly in cash and partly in a bank account. The funds in the unidentified group were received principally from individuals who had been granted permits to sell malt and alcoholic beverages and also from people who were friendly with the Club and the Democratic Party. That is his statement.
- Graves: They are two separate and distinct things.
- Poley: Then the \$120,000 and the \$125,000 making a total of 245 or 50 thousand dollars are not accounted for.
- Magill: I think you may have a point on your contumacy, or however you pronounce that word, but I don't - just in glancing through this - I don't see that he identified at all what happened to these funds which, according to the checks, were payable to the Democratic Committee, but actually were cashed.
- Graves: I think that is my impression, too.
- Poley: I think that is true, Ross. My point there is that he wasn't properly questioned about it. They asked him what the amount was. They didn't ask him the approximate amount and they didn't ask him how much, as an estimate, he received at any one time, and they didn't pursue it as they did the first time he was interrogated in January.
- Magill: I haven't seen that. Now, this is what I see here. I don't know whether this is all there is in here, because as I say, I haven't checked this with any care. I just saw it for about five minutes. The agents say, "Now, referring to the 35 checks you have just identified and the total is \$93,100, and as I get the situation, you are unable to explain how this \$93,100 was disbursed."
- H.M.Jr: Doesn't Mr. Landis have a copy?

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Graves: What page are you on, Mr. Magill?

Magill: I am on page 6.

H.M.Jr: Ros, could you just - I want to get one thing in my mind before you go in on this testimony. I have now the picture of Mr. Bowman Elder, Treasurer of the Hoosier Democratic Club, who is supposed to turn this money over to the Democratic State Central Committee and the Democratic State Central Committee's records don't show approximately receiving \$120,000 which he said he turned over to them. I have that picture. If I could get it as simply as that before we get into this testimony, if you don't mind, the picture on the so-called slush fund. I mean, what was the process of that? I just want to get how these two things flow. May I have just a minute? How does that flow?

Graves: Collectors were sent out to various areas in the State to take up contributions from the various liquor dealers and beverage dealers, and so on. They would get the money either in cash or in checks drawn to their personal order and they would bring the cash to Bowman Elder.

H.M.Jr: What would he do with it?

Graves: He would put that either in a bank account or in a safety deposit box.

H.M.Jr: Have they been identified?

Graves: Yes.

H.M.Jr: What does he say?

Graves: Payments have been identified to the extent of \$87,000 and he admits that the amount --

H.M.Jr: What does he claim or think he did with the \$87,000?

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Graves: He claims he expended it for the general purposes of the Democratic Party.

H.M.Jr: What do you think he did with it?

Graves: I don't know.

H.M.Jr: But the money was collected from liquor dealers and brewers and we know of \$87,000 which went into the safety deposit box and when he is asked what he did with that, he doesn't - he says, "For the good of the Democratic Party"?

Graves: Yes.

H.M.Jr: But the Democratic Central Committee or anybody else doesn't come into that picture.

Graves: No, not at all.

H.M.Jr: Two separate funds, one he gets from liquor dealers and one he gets largely from office holders.

Graves: That is right.

H.M.Jr: The office holders' money went into the Hoosier Democratic Club and the so-called slush money went directly to Bowman Elder, is that right?

Graves: You have it.

H.M.Jr: Is there any evidence --

Sullivan: Wait a minute, didn't it go to him --

H.M.Jr: May I finish, please?

Sullivan: I beg your pardon.

H.M.Jr: Just a minute, please. I don't want my thought interrupted. Is there any evidence that the money from the slush fund went into the Hoosier Democratic Club, is there any confusion of those, mixing up of those?

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Graves: It is supposed that Elder collected this money on behalf of the Club.

H.M.Jr: But I mean, there is no evidence. Do we have the Club's records?

Graves: Oh yes, we have examined them and we have photo-stats of their books.

H.M.Jr: But is there any possibility of them mixing?

Graves: No possibility of those two things being duplicated in any respect.

H.M.Jr: Now, John.

Landis: May I just interrupt here - but in both instances, to follow out the Secretary's thought, Elder was acting purportedly in behalf of the Hoosier Democratic Club.

Sullivan: That was what I wanted to interrupt for. You said in the first instance it went to him as Treasurer of the Hoosier Democratic Club and the next time he got it himself. In both cases, he was acting as Treasurer of the Club, both in respect to the slush fund and in respect to the contributions of the employees.

H.M.Jr: I see. O. K.

Magill: The only point I was going to make is a comparatively minor one in connection with what you are getting out. I don't see, on glancing through this, that he ever gave any specific destinations of these funds. The story seems to be, as I got it out of here, that the agents had him identify check after check after check which were made payable to the State Committee, or rather the Chairman of the State Committee, and he said each time that these were endorsed by the Chairman of the State Committee and that he, Elder, or the Chairman of the State Committee, cashed them. Then, when he is asked what happened to the money, his answers are - here is one of them and I think they are all like this.

"It was spent for political purposes. I cannot

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give you the details, general political purposes." Now, he repeats that explanation time and time again. There is a point in here where he says something about traveling expenses, but I don't think he ever becomes more concrete than that.

Foley: Not in that examination, but there is an examination of him conducted on the 2nd of January that --

Graves: Do you have that, Ed?

Foley: Yes, I do.

Graves: Could you identify the questions and answers that are more specific than that?

Foley: Oh, sure.

Graves: Suppose you do.

Magill: On the slush fund, what he says is this: It comes down to that on page 17 in here. He says, "The reason for that was, this was money spent for political purposes for the benefit of the Democratic Party and I was advised that no accounting was necessary." Now, as far as this examination is concerned, I think that is as specific as he gets, as far as I can see from a casual examination. But he does say that it was used for general political purposes.

You might be interested in this, Mr. Secretary. He says, "You might put this in the record. By my direction on the books of the Hoosier Democratic Club, all checks drawn to Jackson, Storen and Gramelispacher were charged to the Democratic State Committee as a matter of convenience. These said checks could have been charged to any account. The above funds were used for general political purposes and the purpose for which the Hoosier Democratic Club was organized under its by-laws and the money was in no way funds of the State Committee and never was intended to become part of the State Committee."

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That was the general story, as I get it, from casual reading.

Helvering: And those are the same amounts which, on the record of the Hoosier Democratic Club, were credited as paid to the State Central Committee.

Magill: That is right, yes, sir.

Graves: While Mr. Foley is getting that paper, I would like to make this suggestion, that there may be some defects in the interrogatory. There may be a need to a better foundation for this petition. If so, they can be easily corrected. It is a matter of reexamining Bowman Elder and asking him the particular questions which should be asked him in order to lay the necessary foundation, but I think the more important question is the question whether, in any case, we are to proceed with this.

H.M.Jr: That is the question.

Graves: With this petition.

H.M.Jr: And I want the advice of these two gentlemen, where we go from here. Have you people seen the letter from Mr. Clark?

Magill: Yes.

H.M.Jr: Have you seen it?

Viner: I have seen a draft of the petition.

H.M.Jr: No, the letter from Mr. Clark. That is the question. I mean, how should we answer this letter from Mr. Clark? That is what all the fussing is about.

Graves: I have that. I will show it to Dean Landis.

H.M.Jr: That is the jumping off point, is where do we go from here.

Magill: As it looks to me, you have got two questions, just from what - I have gone over this thing

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with Harold orally and have spent perhaps an hour before I came in here looking over this thing. I think you first have got to decide what your general policy is going to be, do you want to press this thing or don't you. Do you think that prima facie, you have got enough here so that it is worth while to press the thing to a conclusion? That, it seems to me, is the major issue. Then, as a secondary issue, there is the question, among other things, as to what reply you should make to Mr. Clark. There is the question of whether or not a further oral examination before you go to the court should be had of Mr. Elder, and so on. There are a series of questions of detailed procedure there that I think are very important.

Speaking to those for a minute, I said to Mr. Graves this morning that in my own judgment I would be inclined to think it would be certainly worth while considering whether or not you shouldn't ask Clark to give you the benefit of the Department of Justice's suggestions as to how this thing should be conducted. The only objection I see to that is it means a further delay, and that is a serious objection.

H.M.Jr: Well, as to that, I would like - my own feeling is, I think we have got to make up our own minds.

Magill: I think that is true. I think your major question is whether you want to push this or whether you don't.

H.M.Jr: I don't think we can throw it back on the Department of Justice. I think we have got to make up our own minds and I would like to make up my own mind with the help of people in the room here.

Sullivan: Apropos of Ros' remark, Mr. Foley and I had lunch yesterday with Mr. Clark and Mr. Tweedy,

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and Mr. Clark said that if we were to go ahead, there certainly should be a new examination because there wasn't the proper basis for the petition and if there were the proper basis, if the proper line of questioning was asked so that we had a basis for the petition, he then thought you could toss a coin as to whether or not the petition would be granted.

H.M.Jr: Well, who is Tweedy?

Sullivan: He is in Justice and has been working on this case with Clark.

H.M.Jr: Well, I think the thing for Landis and Magill to do is to satisfy themselves of, have we or haven't we got a case here.

Poley: That is the thing, Mr. Secretary. This isn't a question of the sufficiency of examination. It isn't a question of the sufficiency of the petition. This has a much larger question that deals in questions of policy and that is, what has to be decided here and that we can't ask the Department of Justice to decide. They will not do it. It is not their job, it is our job.

H.M.Jr: If you don't mind, I differ with you a little bit. Possibly the word "policy". The policy, as far as the Treasury is concerned, was established the first day I came in here and that is simply if we feel that a man has not paid the taxes on income received, that we take steps to collect it and that is the whole thing. That is the policy, no matter who he is or what his connections are. Now, that is the policy, so there is no question of establishing a policy.

Poley: The reason I bring up the policy question, Mr. Secretary, is this isn't just an ordinary question of income tax evasion. This is a question as to whether or not political contributions are taxable and it is a question that goes back over the whole history of the Bureau.

H.M.Jr: No, I don't agree with you on that. You haven't convinced me, because I don't - no, I can answer

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you on that and I will be glad to be interrupted. We are not - I am glad you raised that point, because in my own mind I think I see clearly and I wish - let me state how I - the question of the \$700,000 that was contributed to the Hoosier Democratic Club in good faith by the people that made the contributions, we are not questioning whether that is or isn't taxable. The thing that we are questioning is that there is a gap of \$117,000 as to what became of that money. Now, I am not questioning the thousands of people, whether the money they contributed to that organization is taxable, but I am questioning what happened to the \$117,000 that this fellow took out and claimed that he gave to the Democratic Central Committee and they never got it. Now, that is the point, as I see it. We are not arguing about whether a contribution to a Democratic or a Republican party is taxable. As far as I see it, that isn't the question at all, but the question is, what happened to that \$117,000.

Landis: You raise a very fundamental question, Mr. Secretary. Assume that that \$117,000 was - or not only the \$117,000 but the slush fund as well, the \$125,000, was taken by Elder and these other gentlemen and put into their own pockets. Let's assume that to be true. The thing that I would like to question upon that assumption is whether, those facts being established, that would change the problem of the taxability of the Hoosier Democratic Club, of the contributions made to the Hoosier Democratic Club. Assume it is embezzlement on the part of Elder --

Foley: It doesn't make any difference in so far as the taxable status of that club is concerned.

H.M.Jr: Wait a minute. I don't see that the Hoosier Democratic Club are, so to speak, on the grill. I am not questioning this Hoosier Democratic Club.

Foley: Then I think Jim's point and my point, Mr. Secretary, is that we ought not to file the

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petition which says that the purposes of the petition are to determine the taxable status of the Hoosier Democratic Club. If we think there is \$117,000 that Mr. Bowman Elder pocketed, and that he used for his own purposes, then I think we ought to send out a letter and we ought to assess a tax against Mr. Bowman Elder for that income and that will put Mr. Bowman Elder on his proof and he will have to come in and show that he didn't use it for his own personal use but that he used it for the political use of the party, and if he isn't able to show that, he will have to pay a tax.

H.M.Jr: Would you just let me go back a minute? Would you (Landis) say what you said and only make it a little bit - expand on it. Let's just go back to that point.

Landis: I would like to ask this question. I don't know the answer to it, but let's assume that I go out and collect money in behalf of the Democratic Party under the name of some club or other and I collect \$100,000 worth of tax. I spend \$50,000 of that for the purposes of the Democratic Party, accounting for it minutely, and then I make up my mind after I have collected those contributions that I am going to steal \$50,000. I would like to know whether, if that action on my part makes the original contribution, which was not income and not subject to taxation, makes it taxable income. And until that question is answered to me, I don't know anything about this.

H.M.Jr: Let Magill try to answer that. Let's just keep it on that basis.

Magill: May I step back one step, because I think - in connection with your own question, I think one analysis you have got to make is the one that Mr. Landis is entering into.

H.M.Jr: I don't quite understand that, I don't get it yet.

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Magill: The question as it has been - that is why I am going back. I wasn't sure --

H.M.Jr: I don't understand his point.

Magill: The question was initially presented, as I gather, whether the Hoosier Democratic Club was an exempt organization from income tax or not.

Landis: Let's assume that it isn't.

Magill: There is a long list in the statute, in Section 101 of the statute, of organizations which are exempt from income taxation and it is my understanding that this club contends that it is exempt under one of those provisions which has to do with what are called civic leagues. Now, it is essential to a good many of those exemptions, at least, and I should think to that particular one, that the money shall not have been spent for the benefit of particular members of the organization but shall have been spent to advance the purposes of the organization, whatever those may be. Hence, in answering Mr. Landis' question, if it should prove to be true that the funds of the club were largely expended for the benefit of particular officers or for what you will, that would, I believe, have an important bearing on the exemption of the club itself from income taxation purposes.

Now, Mr. Landis whittles that down to a still finer point, that is --

Foley: They are not exempt.

Magill: Suppose the club, on the face of it, is a perfectly proper organization and suppose the by-laws and constitution and so forth provide that its funds are to be expended solely for the advancement of Jeffersonian democracy and the promotion of social intercourse among its members. That is the record. But the fact is - take his point - that after the funds are collected, Mr. Elder pockets some of them or he gives some of them to district leaders, or he does this or that or the other thing with them that are not within the stated purposes of the club. In

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other words, the club is in fact used for an individual's own personal gain, but that isn't stated in the intentions of the organization.

Well, I think, to answer his point, my own guess would be this, just a guess, if the organization itself could show that it was organized for the purposes of promoting the Democratic Party, et cetera, and this business by Elder constituted in effect a theft, as you have described it, or an embezzlement or something of that kind, I shouldn't suppose the fact that the Treasurer is a crook ought to affect the question of whether or not the organization itself is exempt.

Now, let me say there to tie in with one of your thoughts, I think the Bureau of Internal Revenue would still have a lot of interest in whether or not Mr. Bowman Elder should report the \$100,000 or whatever it is that he has taken.

Foley: I think that is the issue.

H.W.Jr: Just one second. I am trying - what I am trying to do is the way we always do. I have got to have each thing as we go along, I have got to thoroughly understand it. Let me go back a minute and everybody can have a chance.

As I get the point here, we are talking about two propositions. Number one is, is the Hoosier Democratic Club entitled to tax exemption. That is number one. Is that right?

Landis: I would pass that for a moment and assume that it is subject to tax exemption. I mean, I would assume it is not subject to tax exemption. Assume it is not within that category of associations who are exempt.

H.W.Jr: Assume it is not, and that thing has been pending before the Bureau since '38.

Landis: Let's assume it isn't.

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H.M.Jr: Then what?

Landis: Then what this evidence discloses is that you have had a number of contributions to the club. The contributions, as such, as I understand it, are not taxable.

Helvering: There is where you are jumping over a big hurdle.

Magill: Yes, that would still be a question, I take it.

Landis: Well, it is a very doubtful question then, as to whether contributions that are made to a non-exempt organization are taxable income to the non-exempt organization.

Magill: Well, Jim, you get into another proposition there, I take it, which is another fence you jump, but I think you jumped it too quick.

If this organization could be shown to be set up really for the purpose of enriching Bowman Elder, or whoever it may be, in Indiana, then I take it not only is the organization not exempt but it might very well realize income to the extent that it compelled people to pay in funds to it which were to be used for the private profit of the fellows that organized it.

Landis: Let me clear myself on a point of law here that I think is very important. Supposing I go around and solicit my friends for contributions to a fund which I am going to give to an individual, "X", who is in financial difficulties. I assume that that thing that I have created, that fund, whatever it is, is not exempt under the income tax laws as an association. Are those contributions subject to be regarded as income either to the association or to myself or to "X"?

Magill: I would think so, at least to the extent that you didn't spend them for "X". In other words, your case is this --

Landis: No, you are jumping --

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Magill: But you go around and collect \$10,000 from your colleagues at Harvard. You say, "I am going to use this money to support refugee German Professor "X".

Landis: An individual.

Magill: An individual. Having got the \$10,000, you give maybe \$3,000 to refugee individual "X" and \$7,000 to support the Landis family.

Landis: Supposing the thing is all right to start with. Is that taxable income? I take it and give it to "X". It is taxable income to me?

Magill: Well, I don't think you can answer your question. If it is not taxable income, it is not because you are an agent for a designated purpose. You are collecting this for a particular purpose and hence it should not be treated as money which is - that you may use to buy groceries with. Now, suppose you don't - you don't use it for the designated purpose.

Landis: Then will you say it isn't taxable income to me or to "X"?

Magill: I think it is not taxable income only so long as it can be shown that you received it for the particular purpose and used it for that purpose.

Landis: All right.

Magill: Let me illustrate it --

Landis: Let me go one step further. Suppose after I get that money, I steal \$5,000 of it. Does that make \$5,000 of that \$10,000 income?

Magill: I would be inclined to think so.

Landis: Well, that is important.

H.M.Jr: Let's ask Mooney how he would rule on a thing like that. Take this case, Mr. Mooney, that

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Mr. Landis has set up. You just go through the motions. How would you handle it?

Mooney: I would say that when I received that, I received it as a gift.

H.M.Jr: When who received it?

Mooney: I am an agent now that goes around and solicits.

H.M.Jr: You are going to collect \$10,000 for a fund to give some refugees.

Mooney: That is right. Now, I would say that when I received that money it was given to me for the purpose of turning it over to the refugees. When I received it, it didn't constitute taxable income to me because I was receiving it as a gift for a specific purpose. I would say that if we stop at that point the Bureau of Internal Revenue would never say that that amount constituted income to me but if I misappropriated that fund, if I used it to my own benefit, made investments with that money, I would say the minute I had that I have appropriated that money to my own use and we would say that constitutes taxable income.

Doley: But you wouldn't tax the refugee.

Landis: For the fund?

Mooney: No.

H.M.Jr: Wait a minute, three men pointing fingers at him. Give the fellow a chance.

Mooney: You are asking another question. I answered the question within the limits which were submitted.

Landis: That is right.

H.M.Jr: Do you want to restate it?

Sullivan: I would like to ask one that I think will clarify it quite a bit.

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Mooney: Well, yes, that is another question, whether it will be, say - whether I would be liable for a tax return or not. I am an individual. The minute I get that money you might say that I am a trustee. Therefore, I should be required to file a trust return. I am an individual, showing the distribution of that money to the beneficiaries. It wouldn't constitute taxable income to the beneficiaries, because after all it is a gift to the refugees. I am acting merely as a medium through which the money passes.

H.M.Jr: I am a trustee with one other person for some money that my mother-in-law left my three children. Don't we file a return on that?

Klotz: Sure.

Magill: You better had, if you haven't.

Landis: You are getting income out of that trust fund.

Foley: You are a fiduciary, though.

H.M.Jr: Don't I file a return?

Foley: Of course you do, because that money is earning money and you account for it.

Mooney: I would answer the question, I would say that you would be supposed to file a return.

Sullivan: Well, I want to ask one --

H.M.Jr: I will answer you --

Magill: I think you can get this - you can consider another thing, Mr. Secretary. There is another proposition that comes in, of common experience here. You may be paid money for traveling expenses or whatever. If the money was really expense for that purpose, I take it you realize the taxable income. On the other hand, if your firm said, "Well, we don't want to monkey with expense accounts and here is \$100 for that trip to Washington," and actually it only cost you \$50.00, at least theoretically you would be supposed to report the other

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\$50.00 as income for the particular year. Now, when you apply that to the Two Percent Club, I think whether or not the intention was that certain organizations were to be enriched by it, if the facts were that they were enriched, that it does have an important bearing on the exemption of the club itself. And I think it certainly is arguable that unlike the refugee case, the individuals who have received the money have received taxable income.

Landis: I would like to interrupt there and just point out in what Mr. Magill is saying, which I think is very important in any inquiry in the direction of this case, it seems to me that the question of the taxable status of the Two Percent Club is an immaterial question to the issues that are raised by this program. Such investigations of the tax laws as may have occurred in connection seem to me not to have been incurred by the Two Percent Club. They seem to me to have been incurred by the fellow who took the money. If he took the money, he stole it from the Two Percent Club.

H.M.Jr: That is what I told Harold Graves night before last, didn't I?

Graves: Yes.

H.M.Jr: That is the position I took night before last. Are you through?

Landis: I would say, therefore, that the justification for examining into these expenditures does not flow from the fact that the Treasury is particularly interested in the examination of the Hoosier Democratic Club. Rather, it is interested in the question as to whether Mr. Elder or Mr. Greenlee, or whoever they are, reported a true income.

Magill: I don't think that is wholly true.

H.M.Jr: This is marvelous.

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Magill: For this reason.

H.M. Jr: This is wonderful.

Magill: Look at this thing for a moment in its darkest light, that is, let's - I am not assuming that these are the facts, but just look at it as the darkest picture. Suppose that the Hoosier Democratic Club was set up as the organization which was to dispense patronage to see that the boys got and held their jobs, to dispense liquor contracts and dispense public contracts, et cetera, et cetera. Let's assume that the fact is that we have only discovered a part of the picture and that the fact is that hundreds of thousands of dollars went to the Hoosier Democratic Club through these years, that it was the recognized receiving and disbursing agency for slush funds in Indiana. Well now, if some one organization or association for that purpose --

Landis: I quite agree.

Magill: And these payments are made with these things in view and then payments go out of the club for this or that or the other thing, but not solely for the interests of the Democratic Party, et cetera, I would be disposed to think then that the Hoosier Democratic Club itself is a profit-making organization which is subject to the income tax and that it ought to be taxed and that it doesn't really make any difference exactly who got the money.

Now, you are also concerned, obviously, with whether Mr. Elder was making a good thing out of this and whether X, Y & Z were making a good thing out of it, because you want to tax them personally, too, but I don't think you can assume in advance that the question of the exemption of the Hoosier Democratic Club is a wholly immaterial thing.

Landis: I agree on that. In other words, if you want to paint this picture which will show that the so-called contributions coming in from your liquor dealers, et cetera, are not contributions but are payments by way of a

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consideration flowing out from the Hoover Democratic Club, whatever that consideration may be, then you have something that you can crawl into.

H.M.Jr: I am glad you called it the Hoover Democratic Club. May I just interrupt the thing here just a second, right on this particular point? Since November, 1938, the question has been pending before this Bureau, is or isn't the Hoosier Democratic Club taxable. Now, is it fair for me, as Secretary of the Treasury, to ask you people if you have time enough to make up your mind, and if you haven't, why haven't you? Why haven't you made up your mind, Mr. Helvering, since November, '38, is the Hoover - now I am doing it - the Hoosier Democratic Club is or isn't taxable?

Helvering: Well, from the information we have, I have long held that they were, so far as I am concerned, because first Mr. Magill and Mr. Landis both touched upon it. To be exempt they must show contributions to be voluntary. There is no question of that in my mind, that many of these were given for a consideration. Therefore, the Democratic Hoosier Club, the Hoosier Democratic Club should file a return and by the very nature of their filing a return we would find out what the expenditures were and where they went to, for what purposes.

H.M.Jr: Let's just stick on this one thing. Is that agreeable to you?

Magill: Certainly.

H.M.Jr: Supposing I simply say - now look, I am sick and tired. I have waited since November, '38, and you people have had ample time to make up your mind, is or isn't it. Then, what is your answer, what additional information do you need to make a recommendation that this Club is or isn't taxable?

Landis: Could I interrupt there? I don't think you are asking the right question.

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H.M.Jr: All right.

Landis: Because it has - that question has a double answer. A Club like the Hoosier Democratic Club may or may not be tax exempt from this standpoint. It may be tax exempt so that whatever income it acquired is exempt under the laws of the Federal Government. Now, that is one category in which the eleemosynary institution fits. I don't think that is the question in this case.

H.M.Jr: How would you put it?

Landis: I think the question Mr. Helvering raised a moment ago is that you are inquiring as to whether or not this was assumed to be not tax exempt, is receiving any income and therefore ought to make a return to the U. S.

H.M.Jr: Is receiving any income?

Landis: Yes. Contributions are not income.

Foley: They are gifts and not within the definition of income.

Helvering: If the gifts were contributions, there is some consideration.

Foley: If you could say they are securities for jobs --

Magill: I think --

Foley:and considerations for the gift and it is no longer a gift.

Magill: Which he didn't state. Mr. Helvering said, I think, two things, really, first that the payments to the Hoosier Democratic Club were in large part not contributions at all but were required payments of one sort or another, secondly, I think it is implicit in what Mr. Graves, in particular, said with respect to this program, that it is the assumption that large amounts have been received by the Hoosier

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Democratic Club which so far had not been disposed for purposes which, if known, would indicate that the Hoosier Democratic Club is not an exempt organization.

Helvering: And if they are not exempt they should file a return with expenditures and receipts fully set out.

Mooney: Could I elaborate a little on that? First of all, we would have to determine whether or not this Hoosier Democratic Club is exempt or not from taxation. That is the first problem. Now, if we were to rule on this case in a manner similar to cases of a similar nature, we would hold that it is not entitled to exemption because to qualify as an exempt corporation, it has to come within the provisions of Section 101. We would say that it is not a civic league because it is partisan in nature and its activities are devoted to a certain particular interest which is not for the purpose of the general welfare of the community as a whole.

Now, we have ruled in any number of other cases that such political organizations as this are not exempt from taxation. That is one step. After we rule that they are not exempt, then they are required just the same as any other corporation to file a return.

Then in connection with the filing of that return, we have to ascertain whether or not they have any taxable income. Now, if the receipts of the club or the political organization are contributions and gifts, they do not constitute taxable income. That is a conclusion to be reached from the nature of the receipts of the income. We would have to analyze the receipts to determine whether they were in truth and in fact contributions, therefore not includable in gross income. So in many instances, and I would say in practically all instances, Mr. Secretary, where we have held that a political organization is not exempt from filing a tax return, nevertheless that organization is not subject to

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the payment of any taxes, because it has no taxable net income.

Now, in this case, if we proceed under the premise that it is not entitled to exemption, it may or may not ~~owe~~ any tax, depending upon whether or not what it receives does or does not constitute taxable income. I would say a true political contribution to that organization in the sense that it is a voluntary gift to the organization to be dispensed for political purposes, does not constitute taxable income, it would be excluded under provisions of it being a gift. We have so ruled. But in determining that question, then we would have to take into consideration whether or not these amounts in the total - we would have to analyze also the receipts of the company. As I understand it, the so-called slush fund receipts are not recorded on the books and records of the Hoosier Democratic Club.

Graves: That is right.

Mooney: Now, it is true, I believe, and it has been stated that Elder acts as agent for the Hoosier Democratic Club, that he was receiving the slush funds for the benefit of the Club, but the Club records do not reflect the receipt of such payments. Now, is it possible that there are also other items that have been received ostensibly for the Club that are not reflected on the Club's records? We have to make inquiry of Bowman Elder and ask if that is so. In other words, our investigation has developed the fact that the Club has received money. Then it is our problem, after we have held that they are not exempt, to determine whether or not the receipt of that money constitutes income.

Now, it may not constitute income to the Club but we then inquire into how it was spent and if it was appropriated to any of the officers for the special benefit of any of the officers or employees of the Club and they have benefitted by the distribution of that money, I say that then that would constitute income to them.

H.M.Jr:

Well now, in this study that you have made, and you have given a very clear statement that

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I can follow, and this was your sole responsibility, where would you go from here if you had to make up your mind.

Mooney: I would say this.

H.M.Jr: If you have made up your mind. I can skip it, but if you have made up your mind, how would you proceed on this matter?

Mooney: I haven't made up my mind, but I would like to make this statement. To me this is an ordinary case. Here is a case of a corporation that we know has received money. It may be exempt or it - it is not exempt. I would say this. I have made up my mind, Mr. Secretary, that it is not exempt under the statute. There would be one possibility that it might qualify under Section 101-9, which is a social club, but it has no social aspects at all, so therefore it couldn't, in my opinion, qualify under 9. It must, if it qualifies at all, qualify as an exempt corporation under 101-8. I think it is understood that it comes without that provision. So therefore, it is not exempt from taxation. Therefore, it is in the same position as any other corporation.

All right. We require every other corporation to file a return, whether it is taxable, whether it has taxable income or not, it has to file a return which permits us to make the necessary investigation to determine whether it has to be taxable income or not. Then, in connection with the investigation of any taxpayer who is liable for the filing of a return, we do not get the cooperation that we are entitled to and it is necessary for us to go into court and get a court order compelling the production of records and testimony - we do that, if it is necessary. So, looking at it from the viewpoint of an ordinary case, I see no reason why we shouldn't do it.

The question as to the time or the appropriateness of the time, I think that is another matter.

H.M.Jr: This procedure which you are talking about now, about going into - getting a court order to

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make the club produce its records, is that the procedure, let's say, the one that we sent over to the Department of Justice and that they requested or is this the one --

Mooney: I really don't know.

Graves: He has examined the petition which we have before us now.

H.M.Jr: Would his man be - fit into the petition as it was a week ago or as the way it is now?

Graves: Well, either way, but I think --

Foley: We have got the books of the Club, Mr. Secretary.

H.M.Jr: I think this would be it, Mr. Secretary, as I get Mr. Mooney's procedure. Mr. Mooney would first send the Club a ruling to the effect that the Treasury determined it was not an exempt organization, wouldn't you, and that returns should be filed for the years 1933 to 1939, inclusive. Having received the returns, you would examine them, if you did receive them. If you concluded that certain expenditures here listed were not adequately detailed, you would send an agent out to examine the records of the Club. Maybe you can short circuit that, because maybe you have already looked at them. If you didn't get adequate information, then it would be up to the point of this petition for a court proceeding. Is that it?

Mooney: That is the usual procedure. In other words, where in the course of our investigation the taxpayer refuses to disclose his records, it is necessary for us to go in and get a court order for him to produce, and if he does produce, but we are satisfied as a result of our investigation that there are items that are not reported on the books, that he has knowledge of other items of income that he refuses to divulge or items of expenditures that he refuses to divulge, we could go to court and get an order compelling him to testify. As I understand it, although I am not familiar

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at all with what has gone on before --

H.M.Jr: Then you are in the same status as Mr. Magill and Mr. Landis.

Mooney: As far as this petition is concerned, I consider that it is necessary because of the failure on the part of the officer of the corporation to divulge the necessary information from which we can determine whether or not the organization itself is taxable and also whether or not individuals who may have appropriated some of that money to their own benefit are taxable. It has a twofold purpose.

H.M.Jr: Well, whoever wants to take the witness on hand. I would like to ask a few questions on this business of exemption from the necessity of filing a return. That is, 1108, as far as - I don't know the numbers at all, but I am just taking your number there. As I understand the general purport of that section, certain associations, corporations, clubs, et cetera, may or may not be required to file a return.

Mooney: If they are given an exempt status.

Landis: Now, does the ordinary political association, such as, we will say, the National Republican Party, file a return under that?

Mooney: Not if they are given an exempt status.

Landis: Are they given an exempt status?

Mooney: It is a matter of right. They can't declare themselves exempt. I believe they have to write in and ask the Commissioner of Internal Revenue.

Foley: Have they ever done that, Tim?

Mooney: I don't know.

Foley: They have never filed a return and the same thing is true for the Democratic National

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Committee and the State committees and right straight down the line, and they haven't asked for exemption.

Mooney: Well, let's look at that from a practical angle. I think the answer there is that they probably have assumed that if they did make application, it would have been granted.

Foley: And the Bureau went along with that assumption.

Mooney: That is right. Now, this is true, also. Various subsidiary political organizations from the various states have written in and asked as to whether or not they are entitled to exemption. We have written them and told them no, they are not exempt.

Foley: In some instances, and in some instances we have. I don't think our record is awfully good on that.

Mooney: It isn't. Well, it may appear to be confused, but when you analyze this, I don't believe it is, as to why we have in some instances said yes and sometimes no. It in turn depends upon the kind of construction that you are going to place upon 101-9. As a rule, they all come in and ask for exemption under 101-8, which is a civic league, organized for social welfare and we say that in such instances we construe a civic league like, say, the Columbia Heights Citizens Association, or some organization of that type, which is non-partisan and has regular meetings and is devoted to the welfare of a particular community. There is no question about institutions of that sort who ask for an exempt status, but in every instance to my knowledge, where you have had a state political organization with no social features attached to it at all, so that it has to qualify as an exempt corporation under 101-8, invariably we have denied them exemption.

Now, that doesn't mean that we ever get a dime of tax by denying them the exemption, but that does make it mandatory that they file returns and then, if they have any income; in other words, it is possible that they may invest

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some of the contributions, particularly if some wealthy individual may give them a large contribution of \$5,000 and they may decide to invest that. If they have any of that investment income, that would be subject to taxation. Now, those cases invariably have been denied exemption and they have been required to file returns.

In other instances where there are social features attached to the club, such as your New York Democratic State Committee - that may not be the exact name, I don't know, but it is the Democratic organization in New York City, anyway - which has a lot of social features attached to it.

Foley: That is the Young Democratic Club and I am familiar with it.

Mooney: Maybe that is it, Ed.

H.M.Jr: You are a Director of it, aren't you?

Foley: I was.

Mooney: The Union League, say, of Philadelphia or Chicago --

Foley: They have got exemption.

Mooney: Right; so did this National Democratic Club in New York, on this basis.

Foley: It is not the National Democratic Club.

H.M.Jr: It might be the National Democratic Club, because the Club has that building at 37th Street.

Foley: That is right.

H.M.Jr: And it is really a lunch club.

Foley: That is right, but I am trying to distinguish it from the National Democratic or the State Democratic Committee.

H.M.Jr: But there is a club in New York which is more or less of a luncheon club. I am a member.

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Polley: Sure.

Mooney: They have written in and asked for exemption under 101-9, because 101-9 is worded this way. "Any club organized and operated for pleasure and recreation and other non-profit activities is entitled to an exempt status if the earnings or income do not inure to the benefit of any one particular shareholder." All right, now first of all to qualify under that section a club has to have social activities to be a club. If it is social, it is subject to the dues tax, too, and whether or not it is subject to the dues tax, determines whether it has any social aspects or not.

Now, under an interpretation of that section, as it has been interpreted in the past, if it qualifies as a social club, because that section says, "And other non-profit activities," it is entitled to an exemption. In other words, under a broad interpretation of other non-profit activities, which would include political activities, obtaining contributions for political purposes and so forth, they would be given exemption and wouldn't be required to file a return and I think when you analyze it that way, why, our rulings are really not in such a state of confusion, I think, as at first glance they would appear to be.

H.W.Jr: Let me just put it this way. Knowing how these things are ruled on, how these things are done, it seems to me that there is plenty of smoke here for us to be suspicious of the fact that this club may be a cloak to collect money from office holders and from holders of liquor licenses, and so forth, to collect money, knowing that you can do it under the cloak of this kind of a club and then this man may use it for any purposes in the world, including the lining of his own pockets, and there is enough here, and enough doubt, that I don't see why we haven't got the right to run this thing down, to find out what disposition was made of this money by this individual. Now, the fact that he is using the cloak of a Democratic club may prove to

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have been very smart, but the fact remains that this individual from two sources, one from office holders and one from holders of liquor licenses, et cetera, has collected a lot of money and there is some \$200,000 which he just says, "Well, I can't give you the details."

Foley: Why not assess him for that, Mr. Secretary? Let's assume he got it. Let's assume it was income to him.

H.M.Jr: That is the purpose of this thing. As I say, I am trying to see this thing clearly and the fact that there are so many people who can have so many differences of opinion - I don't ask these men down to hold a class here instead of Columbia and Harvard unless it is interesting. Otherwise, they wouldn't come next time. I would hate to disappoint you and give you something that you just - well, that is easy, it is just like that. Why do they bother to bring me down here by plane?

Magill: My gosh, did Landis get a plane?

H.M.Jr: Not - American Airlines, not Henry Morgenthau, Jr.

Magill: Oh, that is all right.

Landis: I would like to interject an idea, because my earlier questioning leads up to this kind of consideration. I do it in due humility, because I am not too familiar with this procedure of compelling testimony in connection with the income tax cases. I am somewhat familiar with the procedure of getting recalcitrant witnesses to talk in other cases. One fine thesis that I think ought to underlie, certainly in the cases with which I am familiar, the use of the compulsory process to get testimony from the witness, and that is the definition of what the objective of the proceeding is, that is, the objective hasn't got to be simply one of very nice curiosity or anything of that nature. It should tie itself up with the conception of what the violation of the law is that is being charged in this instance.

Now, as I see it, there are three possible violations that may have occurred. One is the

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violation of law by Elder in not reporting sums that he may have received from the 117 thousand plus the rest, as taxable income. A secondary violation of the law that may have occurred is that the club, as such, should have filed a statement with the Internal Revenue Bureau, because it was not entitled to an exempt status under 1108, or whatever it is. A third, and perhaps the most difficult of all to prove, is that the club has gotten taxable income, that the contributions are not contributions but that they are paid for consideration coming out from the club.

H.M.Jr: I am going to ask you to start over again. They just gave me a slip saying that the committee voted 14 to 4 to do away with foreign silver purchases. Let's start over again.

Lendis: Well, I think it is very important when one thinks of the initiation of a proceeding to compel a contumacious witness to testify to have that proceeding related to a definite object of being concerned with the discovery of a violation of law, not simply, as I say, curiosity, and I would base that upon the general judicial attitude toward that, probably, as well as the general public reaction that will attend any such use of judicial process. I think the public reaction in such a thing is justified if there is a charge of violation of law, but if there is no clear charge of violation of law, that kind of thing becomes, as Holmes expressed it, "A fishing expedition."

H.M.Jr: Who expressed it?

Lendis: Holmes.

H.M.Jr: Did they have them in those days?

Lendis: Yes, they had them in those days. Therefore, I think that a cause like this has to be analyzed with reference to what alleged or supposed violations of law are involved and, as I see it, there seems to be three. One is the violation of law on the part of these individuals, Elder,

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in not reporting the sums he may have received from the Hoosier Democratic Club as taxable income. The second is that the Club itself may not have filed the required statement on the ground that it wasn't exempt, which is a touchy question. The first question is not a touchy question. The first question seems to me to be one of those questions of plain honesty, that the Bureau ought to be keen on considering. The third question, which would be immensely difficult to prove, is the contention that the Club itself has received taxable income on the ground that the contributions are not contributions but are payments for favors coming from the Club.

H.M.Jr: Right. Granted.

Landis: And if this thing is to proceed, and I don't want to express any judgment on that at the present time, it seems to me at the start one ought to take the easiest method of proceeding, the less contentious method of proceeding, and proceed in connection with the alleged violations on the part of the officials.

Having established those alleged violations, the very proof that will establish that will give you the basis for ruling that the Club is not a tax-exempt club. Perhaps it may also give you the basis, or further inquiry may be needed, inquiry of the type I doubt has been carried out, to show that the contributions are not contributions, that they are earned income to the Club. I say earned not in a technical sense but in a popular sense. That seems to me the stage of procedure about which one could work up a situation of this kind.

H.M.Jr: Well, Jim, following what you are saying, take the easiest of the three routes.

Landis: Yes.

H.M.Jr: The individual ones. How would we proceed on that individual one?

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- Landis: I don't know. I am not too familiar with this field, Mr. Secretary. I wonder if there has been an effort to examine this man Elder with reference to his income; the direction of the effort has been toward the Hoosier Democratic Club, not toward the individuals, as I understand, in this case.
- Graves: I might make some observation about that. The fact is that the man could not be compelled to testify with reference to his own income.
- Landis: On the ground that it would incriminate him.
- Graves: Exactly. No court in the world would give you an order to get that testimony.
- Landis: After all, you could ask him, as the Bureau constantly does, to produce his records. See what you get from those personal records, and then the Club, as Treasurer for the Club, he has not that defense, so that the examination of the problem of the expenditures, the \$117,000 expenditures, would tie itself up with the question of whether or not Elder got that money.
- Graves: That again is a question of laying a better foundation for this particular proceeding.
- H.M.Jr: May I get in on it? This is where Graves stopped me night before last. I was at exactly the same point that you are now, and then I was told that if we proceeded, Mr. Elder couldn't be made to testify against himself. Now, let's just take this a minute. Let me take Mooney, if you don't mind, or I don't care, anybody. Supposing the decision is made that we will proceed and we want to find out from Mr. Elder what he did with this money or any other money. We know of 200 and some-odd thousand dollars which he has received. We know that by his own admission. How can we legally and properly get him to explain that \$200,000?
- Mooney: If we proceed against him individually?
- H.M.Jr: Yes.

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- Mooney: I would say there is no way in which you could compel him to testify against himself, because he would say that - he would refuse to answer on the grounds that it might tend to incriminate him.
- Magill: Mooney, this occurs to me. I have been thinking about that point. Mr. Graves, am I right that this testimony seems to indicate that the so-called slush fund, the payments from the liquor dealers, went to Bowman Elder personally and not to the Hoosier Democratic Club, as such?
- Graves: I think the most we can say is that it went to him as Treasurer of the Hoosier Democratic Club. There is some question about the intent of those who contributed. For instance, we find among the checks --
- Magill: Well, without going into that too much, at any rate, it does appear, doesn't it, that he got the money, that he kept it in a little tin box at the Indiana Athletic Club and some of it in a bank account, and that he himself disbursed it?
- Graves: That is right.
- Magill: That it didn't go through any other --
- Graves: And was never recorded on the books of the Club.
- Magill: Then back to Mr. Mooney. Would it be feasible on the basis of this evidence or similar evidence which you might obtain in a further examination of Mr. Elder, simply to make an assessment against Elder or send him out a deficiency letter with respect to - this amount of money, whatever it is, \$125,000, and just charge him with the personal income tax on that amount, after which he would have the burden of showing what happened to it.
- Graves: I think if you did that, he would pay it.
- Foley: Isn't that what you want?

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Graves: Not as I understand it.

H.M.Jr: Well, just a minute.

Magill: You might charge him with making false and fraudulent returns, too, and crack him with another 50 percent.

Graves: I think you could put all the penalty you want in there and he would pay it.

Landis: That would be a very serious admission of the Club.

Graves: Their reaction would be, "We are willing to pay this to get rid of the inquiry."

H.M.Jr: I am going to come back to you in a minute, because you are shocking Foley and I don't want Foley to be shocked, so we will come back to that in a minute. Ed is delicate.

You raised your hand.

Sullivan: I was wondering if this discussion about forcing Elder to testify wasn't rather academic. Over three weeks ago he asked if he couldn't come down and tell the story.

H.M.Jr: Oh, that is quite different. He wanted to come into my office privately, through the back door and talk to me.

Sullivan: No, that isn't my understanding.

H.M.Jr: Well, it is mine.

Sullivan: Then you have had some conversations that I don't know about.

H.M.Jr: He didn't want to see anybody but me.

Sullivan: Who?

H.M.Jr: Elder.

Sullivan: Well, that is news to me.

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H.M.Jr: Well, when he talked to the agent, when he talked to Agent Sullivan in Indianapolis, he refused to talk to him, but he is willing to come down here and see me.

Sullivan: Well, I don't know about that.

Klotz: That is the impression we got.

Sullivan: When did he refuse to talk to Sullivan?

H.M.Jr: In his testimony. His testimony was taken down. John, if you are right, then it is all the easier, see, because he not only tried through his attorney to reach you, but he tried to do it through two other attorneys, to reach me, see, but the impression I got is that he would come in here, up this elevator, up to me, but he wouldn't talk to the accredited representative of the Treasury.

Sullivan: That is not the impression given to me.

H.M.Jr: If I am wrong, there is nothing that has been lost.

Sullivan: That is right.

H.M.Jr: If I am wrong. Is that right?

Sullivan: That is right.

Magill: May I ask another question? Mr. Mooney, if this was just an ordinary case of John Doe in Oregon and nobody is running for President from Oregon, and other facts being the same, what would you do in the usual course of events with respect to Mr. John Doe, who is Treasurer of the Oregon Democratic Club, et cetera?

Mooney: Why, I would approach the problem with two objectives in view.

Helvering: You mean on the basis they had asked for exemption?

Magill: That isn't the question I want him to answer. What I am - well, we will take that up next.

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I don't know why I need to put it in Oregon, but all I want to do is ask you what you would do in the ordinary case, on the ordinary facts, the other facts being the same, and the particular question I have in mind, these facts we are just speaking of, suppose it appears that the liquor slush fund was kept by this Treasurer in a little tin box, and so forth, and he disbursed it and he says, "I disbursed it for the general purposes of the Democratic Party," but you haven't yet discovered what the dickens he really did with the money. What would you do so far as he personally is concerned?

Mooney: First of all, if you only had an individual involved --

Magill: I am assuming you have got the whole picture.

Mooney: You would proceed directly against the individual. Suppose you had a corporation and it so happens --

Magill: Wait a minute, if you don't mind. May I pin you on the individual? Would you do anything as to Bowman Elder in this case?

Mooney: Well now, I am not sure that I have your question properly in mind. You said, assume now that you have got another case out in Oregon, that involves --

Magill: I think maybe I had better erase that. What I want to do is - and I may as well make it explicit - I want to take the McNutt element out of the situation. Let's assume that is not a question of any public interest whatever. It is a question of the ordinary administration of the Bureau. But aside from that fact, the other facts are identical with what they are here. What would you do as to the individual?

Mooney: With respect to the individual, I would say this: We are concerned primarily with the Government collecting any taxes that are properly due upon the net income realized.

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If we found that here was an individual who had utilized a corporation for the purpose of collecting and covering up the collection of income which constituted income when it was realized, and then the diversion of that income from the corporation to him, we would proceed against both the corporation and the individual for the purpose of collecting the corporate tax liability, if any, and the individual tax liability, under the theory that what he received was from the corporation taxable to him as a dividend. There is your ordinary case which we have every day.

Magill: Take this little variation out of it, if you will. Let's assume that so far as this slush fund is concerned, it appears that it didn't really go to the corporation, that it went into the Treasurer of the corporation's own books, if you like.

Mooney: Well, there you have to assume a lot of things. In other words, it would be based upon your assumption or your determination of your ultimate facts, what course you would follow. I mean by that, this: If the slush fund is a fund and if he is custodian of the fund in his own individual capacity or acting as trustee for someone else other than the Hoosier Democratic Club, and it has no connection with the Hoosier Democratic Club, the Hoosier Democratic Club would not be a party to any inquiry on our part as to the receipt of that money and the disbursement of the money.

On the other hand, if he is custodian of that fund as the Treasurer of the Hoosier Democratic Club and he is acting for the Club in his capacity as custodian of that fund, why then it belongs to the Hoosier Democratic Club. It is part of the receipts of the Hoosier Democratic Club, he being the agent for the Hoosier Democratic Club and the Hoosier Democratic Club is still in the picture and if that constituted a taxable income, regardless of whether an individual operates as an individual or whether he operates as trustee or whether he operates as an agent for a corporation or an officer

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of a corporation, the ultimate question there as to who receives that money is, is the recipient of that money taxable under the theory that it is taxable income. First of all, you have got to determine --

Magill: Would you proceed against the bulk, in other words, would you determine some kind of a -- is this a case where you put in a jeopardy assessment? I don't know.

Helvering: Not unless they were giving away the fund.

Mooney: A jeopardy assessment there only arises for precautionary measures to protect the interests of the Government, so far as collections are concerned.

Magill: What I am getting at, I should think at the very least this slush fund is a slippery item, that it is going to be very hard to find out who did get it and who was beneficially interested in it. Well then, would you proceed against both the club and Elder?

Mooney: (Nodding head affirmatively) In other words, here is a man acting as an officer of a corporation. We are interested in knowing what was received by the corporation and how it was expended. Now, he is an officer of the corporation and can be called upon, I believe, to testify as to the nature of the receipt of this money and how it was expended, because he is then testifying in his capacity as an officer of the company as to how that fund was received by the corporation and other parties separate and apart from themselves, another identity, whereas you couldn't call upon him in his individual capacity to testify --

Magill: I don't know that you need to get him to testify. If you -- in the ordinary tax proceeding, put the shoe on the other foot. If you think that I received \$10,000 income last year that I didn't report, you don't waste any time getting me to testify about it. You simply slap a deficiency on me for that amount of money and

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if I want to explain that, actually I got it but I paid it over to Guy Helvering, or something or other like that. I have to make that explanation if I am going to get out of a tax on myself, but the club you use is an assessment against me.

Mooney: Well, in the ordinary case now - for instance, a good example would be rebates that were not reflected on the books of the corporation and the President of the corporation appropriated them to his own use. We proceed there against the individual. We also proceed against the corporation under the theory that it was received by the corporation and then passed on to the individual and we tax both of them.

Magill: You determine what, a deficiency against both, is that what you do?

Mooney: Right. We would determine a deficiency against both.

Magill: Have you gone over this testimony here?

Mooney: No, I haven't. There, of course, Doctor, you have one element in those cases that is not present in this case, which is the one factor which Dean Landis has indicated will probably be our most troublesome problem. In the case that we imagined, say, of the rebates, there is no question in anyone's mind but what the receipt of those rebates constitutes income to the corporation. There is no question there as to the nature of the income. Here in this case it is a very difficult problem as to whether or not the receipts, all the receipts constitute taxable income or not, depending upon whether or not they are in fact contributions in a true sense of the word, or whether they are not contributions but in fact something other than contributions. In other words, that in itself is not --

Magill: Let me ask you two or three things here now. First, when those various cases came out of New York a while ago, in which this miraculous tin box came into being, I don't know whether

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you know about that group of cases --

Mooney: Tin Box Town?

Magill: I think there was a Sullivan that had the miraculous box.

Mooney: It might have been O'Hara.

Magill: Did you go after Sullivan?

Mooney: Yes.

Magill: Now, suppose the Tonawanda Democratic Club, which was simply Sullivan in another name, and he collected these funds and he used some of them for the Democratic Party and he used a lot of them for Sullivan. Well, you would still go after Sullivan, wouldn't you?

Mooney: We would go after both of them. If we were satisfied, if we felt that they were not in fact true contributions - in other words, the mere fact that he utilizes the corporation, wants to get the advantage of a corporation, that in turn subjects the corporation to a possible liability as well as himself.

Magill: I don't like your word "contribution", in a sense. They are contributions in a sense by somebody who wants to get value for his money. He isn't interested in the Democratic Party a darned bit, but he is interested in getting favors from Sullivan or whoever it may be. Or another case I think of, that is the thing again without the club where the real estate experts in Big Bill Thompson's machine - there were four or five of those fellows who got about \$500,000 a year for appraising real property the city was going to take over. I don't think anybody supposed for a moment that those particular fellows kept the \$500,000 they got, but the actual procedure was to collect a tax from them on the \$500,000, which I believe you ultimately succeeded in doing. You won the cases. I don't know whether you got the money. So it seems to me that in

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answer to Mr. Landis' question half an hour ago that - isn't it really indicated here that you proceed against both on the basis of your normal procedure?

Mooney: I think I have answered that before, that that is so.

H.M.Jr: What does that mean, proceeding against both? Again, if you don't mind, how would you proceed against both.

Mooney: We would proceed against both for the purpose of making a - first, our necessary investigation, as a result of which we would conclude whether or not either one or both derived taxable income, subject to taxation.

Now, in our normal case, we ascertain our facts. It isn't necessary for us to go into court and get - to get the production of records and testimony. If it is necessary, though, to do it, I believe we have instituted a petition in court compelling the production of records and testimony of all the parties for the purpose of ascertaining what the true facts are and then ascertaining the liability if we find that there is a liability due. In other words, the mechanics of the proceeding are probably different, depending upon the nature of the case.

Foley: Well, Tim, suppose you make an assessment against the Hoosier Democratic Committee for income it had never received and make an assessment against Bo Elder at the same time for income he had received on behalf of the Hoosier Democratic Club, but which isn't reflected on the books of the Club. He comes in and pays a tax on that. He says, "Sure, I got it. I will pay a tax." What have you got against the Club?

Mooney: Well, there again --

Foley: You can't tax the same income twice.

Mooney: Wait a minute, maybe you can. There again you have jumped a lot of hurdles. Assuming now that

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that does represent income to the Club and if it was stolen from the Club, the Club might be entitled to an exemption representing the money embezzled from the Club.

Voley: Suppose it doesn't claim a deduction.

Mooney: Well, if it doesn't claim a deduction - I can't conceive of it not claiming a deduction, but if there was an embezzlement, if they didn't claim it, I would say that it is impossible to reach a conclusion that the failure to claim it is an admission on their part that it does constitute income and that it was a disbursement to the individual as a dividend. In other words, wherever you have a corporate set-up --

Voley: I don't think it makes any difference, Tim, but we haven't got a corporation here. This is an unincorporated association.

Mooney: You have got an unincorporated association which, if taxable, would be taxed under corporate rates.

Voley: But we haven't got a corporation here.

H.M.Jr: May I just interject a minute? Following on the idea of doing the normal thing, which I always like to do; I always think I am on safer ground if I do the thing that we would do if there weren't any national prominent people involved, am I correct in this that - let's say we only proceeded against Elder and not against the Club simultaneously. Elder might say, "Well, that is the Club." Aren't there certain disadvantages of only proceeding against one only? Elder might say, "Well, as Treasurer of the Club, you have to start all over again." You have lost that time, but if you go against both simultaneously there is 200 some odd thousand dollars that was either income or receipt to one or the other. Is that right or wrong?

Mooney: I think that's right.

H.M.Jr: You go along simultaneously with both. I appreciate this, which I think is what possibly Mr. Landis might have had in mind, from the

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standpoint of publicity or public reaction I think we will get a better break if we just proceeded against Mr. Elder, but I don't know how important that is. Is that what you had in mind?

Landis: I am not sure I had that in mind. I was just doing some thinking along that line. Going on the basis of what I know at the present time, I could not make up a judgment on the various different methods of procedure. How necessary is it to resort to this device at the present time in the light of whatever evidence is available, I don't know. I can't reach a judgment on that without having some knowledge of what the evidence is.

Sullivan: May I ask one question?

H.M.Jr: Surely.

Sullivan: Is there any suspicion on the part of the Bureau that Bo Elder took this money himself?

Helvering: Well, I think maybe he did.

H.M.Jr: The question is - how did you answer it? The question is whether you thought Elder might have taken it.

Helvering: I say there is no question in my mind but what he has disbursed this money in various ways, but whether it was to pay campaign expenses or to individuals, I don't know.

Magill: You don't think he used it for his own personal benefit.

Helvering: I would not think so.

Magill: Is he a person of means?

Sullivan: Substantially.

Helvering: I think so.

Graves: Lately!

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Sullivan: His family have always had a great deal of money, haven't they?

Graves: I did not know that. It may be true.

Sullivan: I thought so. I may be wrong.

(At this point, the Secretary suggested a recess while he discussed some matters with Mrs. Klotz.)

Magill: What bothers me and what bothered you (Landis) as a lawyer - it's the point I think Foley made right at the beginning - and that is that on the face of this explanation here, this testimony, if you take it for what Elder said and assume he was telling the truth under oath, the only evidence that you have at all with respect to the destination of these funds which he collected were that they were used for party purposes. That's all you have got. Now, I don't think that's so, and you (Landis) probably don't think it's so and I don't suppose Ed thinks that's so; that probably there is more to it than meets the eye here. On the other hand, I am afraid on the basis of what you have here, as I have glanced at it casually, that you do not yet have a basis to go before the Court and say, "This fellow has refused to answer our questions as to what happened to this money and we want you to compel him," and I don't think you can convince the Court on what you said here that it appears that there was misappropriation of these funds or they were used for bribes or some other thing if he says they were used for party purposes.

Now, it seems to me perfectly clear, Mr. Secretary, if I may state my conclusion on that, that before you go to the Court it would be essential that somebody of the order of Foley, of a high order of intelligence, should frame a series of pretty searching questions to ask Elder, using what you have here as a basis, and before you go to the Court you should first put Elder over the hurdles in a very severe way, having in mind the objective - what Mr. Landis has stated - what violation of the law are you trying to find. What violations of the law do you think exist?

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Your question to be directed to bringing out facts on that question, and secondarily, bringing out a square statement by Elder that, "I am not going to tell you." I don't think you have that here.

H.M.Jr: What I would like you to do is this: I would like to stop at this point. I would like to resume right after lunch. If Mr. Magill and Mr. Landis have no date, I would like to eat with them at one o'clock and then these gentlemen are at your disposal, unless you want to have fresh air. Have lunch with me at one o'clock and resume this at 2. Is that all right?

Magill: Sure.

Landis: Sure.

(Whereupon, at 12:50 p.m. the conference was recessed until 2:00 p.m.)

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AFTERNOON SESSION

(The conference was reconvened at 2:00 p.m.)

- H.M.Jr: I want to ask the Commissioner something. Have you gone ahead with the 90-day letter to Greenlee?
- Helvering: No.
- H.M.Jr: I thought you were going to. Greenlee and Keeler.
- Helvering: Keeler, we did.
- H.M.Jr: Why not Greenlee?
- Helvering: We don't have the information which we hope to get as the result of further investigation.
- H.M.Jr: Well, let me just pursue this thought a minute. Supposing we decide that we don't go in with a petition to examine the Hoosier Democratic Club. Haven't you got enough to go ahead with a 90-day letter to Greenlee?
- Helvering: Yes - well, I would have to check the record to see just what we have got on that. We have got some \$60,000 which we think is unexplained income. Of course, we would have to give him a 90-day letter in which he would have an opportunity to explain what it was.
- H.M.Jr: Well, let me put this up to be knocked down by these people here. I have been listening to this thing and I can't see - the way I feel at 2:16 is that I would like to send Mr. Greenlee a 90-day letter and I would like to send Mr. Bowman Elder a 90-day letter on the 200 and some odd thousand dollars. Now, am I correct that if these go out your people would then - either Mr. Elder says, "I don't," or, "I do." If he owes it, he pays it. If he doesn't, who does he appear before?
- Helvering: He probably would ask for a conference with the agent in charge of his district. If he accepted the assessment, of course he would go to the Collector's office and pay it.

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H.M.Jr: But if he doesn't, the agent in charge?

Helvering: He would ask for a hearing, undoubtedly, and at the end of 90 days, if he hadn't asked about that, he would have to file a petition with the Board of Tax Appeals.

H.M.Jr: In these conferences, let's say with the agent, the agent in charge can ask him any question he wants to and if the answer is, "I spent it for political purposes," with no documentary evidence to prove it, that wouldn't be accepted by your agent, is that right?

Helvering: Yes.

H.M.Jr: And then this question of his testifying against himself, all of that is out, is it? He has got to explain this slush fund of \$80,000 and the 120, which he admits he has pocketed, he has got to give documentary proof what he did with it or we would just take it for granted the money went into his own pocket. We have that right, haven't we?

Helvering: Any unexplained items we won't allow as a deduction.

H.M.Jr: But he has got to have documentary proof, hasn't he?

Helvering: Well, it wouldn't have to be written, if that is what you mean.

Foley: Well, the burden of proof would be on him to show he didn't keep the money but he used it for political purposes.

H.M.Jr: Yes, but just one second. But Ed, I just want to get this thing straight. Not to insult you. I am Bowman Elder. I say, "Mr. Foley, I spent \$10,000 in the State of Michigan --"

Foley: This isn't my money. You can't tax this against me.

H.M.Jr: I just say, "Mr. Foley, I spent \$10,000 out of the 200 that I sent over to Michigan. I gave

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it to John Smith." Do you accept that?

Foley: On that statement?

H.M.Jr: Yes.

Foley: No.

H.M.Jr: Don't I have to prove it, don't I have to show to whom the money went and everything else?

Foley: That is right.

H.M.Jr: I have got to give a satisfactory explanation to you of what I did with that \$200,000.

Foley: Otherwise, I will make you pay the tax on it.

H.M.Jr: What is the matter with that, as a method to proceed?

Foley: Nothing.

H.M.Jr: What is the matter with that?

Foley: That is what I suggested.

H.M.Jr: Did you?

Foley: This morning, yes.

H.M.Jr: But not prior to today?

Foley: Well, yes, in your (Sullivan's) office, that we send out a letter against Bowman Elder. We gave you a recommendation to that effect.

Sullivan: That is right.

Foley: In writing.

H.M.Jr: To me, in writing?

Foley: Yes, sir.

H.M.Jr: Do you mind, to refresh my memory?

Sullivan: You asked me to find out how Mr. Ireby and Mr. Helvering and Mr. Foley and I felt about doing

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exactly that and I wrote you that on the Keeler case the 90-day letter would go out at once. On the Greenlee case, Mr. Foley and I felt that it should be done that way and Mr. Irey felt that he would have to wait to get a report back and wait until the petition was filed before he could determine whether or not there should be a criminal prosecution agreement.

H.M.Jr: Are there two separate memoranda?

Sullivan: No, sir, both of those things are on my memorandum to you.

Foley: I haven't given you a memorandum on it.

Sullivan: I have given you two memoranda on that matter. That was on the first one. Do you want me to send for it?

H.M.Jr: I have sent for it. Ros, do you want to pick this to pieces, this present angle?

Magill: Well, that seems to me to be, what you are suggesting, a thoroughly sound method of procedure. Now, there are two threads left, it seems to me, that you might want to tie up. There is still the question about the Club, as to what you want to do about that.

H.M.Jr: What do you think we ought to do about it?

Magill: Well, that is a very knotty question.

H.M.Jr: Look at all the lecture material you are getting here.

Magill: May I think out loud? I think you feel to start with that the thing to do, probably, at this moment, the thing that I would kind of itch to do if I were a lawyer, would be to put this fellow Elder on the spot again by a more thorough cross-examination than what he got at Mr. Sullivan's hands and on this previous occasion.

H.M.Jr: You are speaking of Agent Sullivan?

Magill: Agent Sullivan, yes.

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H.M.Jr: This is New Hampshire Sullivan.

Magill: I see. And see whether you could get out of him anything more which would enable you either, A, to have a basis for a petition to the Court, or, B, to proceed against the Club. The difficulty that I think you would foresee in that is that if Elder is at all wise or well advised in further examination by Sullivan, he will account for that money in a way which, on the face of it, would be a satisfactory explanation, although it wouldn't be detailed.

H.M.Jr: Can I interrupt you?

Magill: Yes.

H.M.Jr: We talked about that at lunch and going through that all again and you told me and I wanted Mooney to listen to this, no matter how well these questions are phrased, this Elder, being smart at this stage, he can give as good an answer as he did before, in evading it.

Mooney: Give as good or better.

Magill: If he is smart, I don't think he would say in the further examination that he wouldn't answer, he is not going to tell you. He will say, "Well now, this is 1933 you are asking me about and in that year I handled about \$50,000 for the Club. Now, all I can tell you is that that year we had such and such campaigns around the State of Indiana and I campaigned in 25 counties and we hired halls and bands and so forth. I don't know how much each of those cost, because I didn't keep a record of it and I don't have to."

H.M.Jr: May I interrupt again?

Magill: Yes.

H.M.Jr: But on the 90-day letter before our man, he can't answer that way, can he?

Sullivan: No, the burden of proof is on him. He either talks satisfactorily or pays.

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H.M.Jr: That is the point. I am sorry, Ros.

Magill: No, that is all right. Now, that is one thing, this Club item, whether you really want to do something about the Club, and I would agree with Mr. Landis, as an effective proposition you can be a lot more effective publicly and every other way in dealing with these individuals than you can dealing with this Club. Well, then the other thread that I have in mind is whether or not there are not a good many other fish in the sea besides Elder and Greenlee and whatever this other fellow's name is, Keeler, whether you want to proceed in such a way that you are apt to catch some more of them or what proceedings could be taken which would be apt to result in catching some more of them. That is a question for Trey, but I suppose that we - one thing that is impressive here is that if this Elder is a big fellow in Indiana and if you can take some proceeding against Elder which will lead people in Indiana to feel that he isn't above the law, the chances are that you will catch some more and that is about as important as getting some taxes out of Elder himself.

H.M.Jr: There is nothing in here about sending Bowman Elder a 90-day letter.

Sullivan: No, sir, you said Greenlee.

H.M.Jr: But I said Bowman Elder.

Sullivan: You mean this afternoon?

H.M.Jr: Yes, I said Bowman Elder.

Sullivan: Oh, I beg your pardon, sir. I understood you to ask Mr. Helvering --

H.M.Jr:two questions about him, and then I said Bowman Elder.

Sullivan: We never referred to Bowman Elder in that memorandum.

Toley: I was under the impression that that was in this memorandum. I remember where it was. It

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was at lunch down stairs the day John and I had lunch down stairs with you, that I made the suggestion.

H.M.Jr: Well, I don't remember it, but I will take your word. But it isn't in this memorandum.

Sullivan: No, sir.

H.M.Jr: The reason I was surprised was, I was so pleased with myself night before last when I made the suggestion to Harold, "You proceed against Bowman Elder, not on the 90-day letter, but to proceed.

Foley: Well, Guy, when I talked with you - when was it, last Thursday, before I went up to New York - that was the recommendation I made to you.

H.M.Jr: A 90-day letter for Bowman Elder?

Foley: Yes.

H.M.Jr: But this isn't it.

Sullivan: No.

H.M.Jr: This is Keeler and Greenlee. We agreed on that.

Sullivan: You called me and asked me to sound them out.

H.M.Jr: But they haven't gone ahead with Greenlee. I said okay. They haven't proceeded.

Sullivan: Elmer wanted to wait on that until he got the report and decided on the criminal prosecution.

H.M.Jr: Well, I would have sworn he had gone ahead with it, because I gave you a green light on Greenlee.

Sullivan: I beg your pardon. I asked you if you had seen the memorandum.

H.M.Jr: And I said yes, go ahead.

Sullivan: You said it was all right. But what the memorandum sets forth is that Irey wants to wait on Greenlee.

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- H.M.Jr: Well, I was under the impression that you had gone ahead. What do you think, Guy, about proceeding now with a 90-day letter against Bowman Elder and a 90-day letter against Greenlee? I take it the Keeler letter has gone.
- Helvering: Yes. Well, in discussion with Mr. Foley, I said to Mr. Foley, and it is the same thing I expect to say here, that we decided that there weren't sufficient grounds to ask for a petition on what we have now, that Mr. Bowman Elder be interviewed again. If the result of that was that we were still in as much dark by his answers by continually saying he didn't remember, it was just for the general good of the party, or whatever his answers were, then we ought to make up, in that case, if we didn't have sufficient grounds after this examination, ask for an order to make up the notice to the Club that they were not exempt and would have to file a return and also assess the tax against Bowman Elder.
- H.M.Jr: Guy, there isn't one chance in a hundred that he is going to give you any more information on another interview.
- Helvering: I think that is true.
- Foley: You won't get any more if you get an order out of him, I think.
- H.M.Jr: I haven't crossed that bridge, but I am satisfied if you go and interview this fellow again on the same basis, that you are not going to get any more information, because all he is going to do is call in the newspaper fellows and tell them again some more of this persecution stuff. Let me put it to you a little different. Let me shoot at it from another angle. Supposing we go ahead. Isn't Mooney - aren't you finally responsible for collecting this tax?
- Mooney: For the determination of the liability.

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- H.M.Jr: Let me address my question to you. In proceeding with a 90-day letter tomorrow against Mr. Keeler, Greenlee and Bowman Elder, do you feel that you would be giving up anything by taking that route as your chances of collecting it if he pocketed it, rather than going around through the Court and the petition? That is a fair question.
- Mooney: I couldn't answer that for the reason that we don't know what we might run into, based upon cross-examination of Bowman Elder or what answers he might give to certain questions asked of him.
- H.M.Jr: Let me put it another way. On a 90-day letter basis, you have the right to ask the questions - you have got the precedent and procedure and everything else and the burden of proof is on him and he goes into Court and refuses to testify because it would incriminate himself, is that right, which isn't true on the deficiency letter, is it?
- Mooney: No, the deficiency letter - of course, you would have a civil suit there. He could say that he spent the money for political purposes. I don't believe we would accept that statement without substantiating evidence.
- H.M.Jr: Don't say you don't think. Supposing I asked you personally to handle this Bowman Elder case for me. I don't think I would, but supposing I did. How would you go ahead on the 90-day basis?
- Mooney: I would say that unless I had proof of the actual disbursement of these funds to third parties, I would say that that income constituted taxable income to him, because I was not satisfied that the amount had actually been expended. In other words, I don't believe the mere statements that he has made already have furnished the burden which is necessarily imposed upon him to prove that that doesn't constitute income to him.
- H.M.Jr: Let me ask you another question. Supposing we find that out of this \$200,000 he pocketed

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\$25,000 or \$50,000. Is that embezzlement, and if so, what? Is that a Federal or State statute?

Graves: State.

Sullivan: State.

H.M.Jr: Well, under the precedent of the Bureau, do we turn over our evidence to the State of Indiana?

Mooney: I don't believe we do.

H.M.Jr: We don't. Well, if we find he pocketed it, then that brings in the Club at that time, doesn't it?

Foley: You mean the Club could take action against him if it wanted to in Indiana?

H.M.Jr: If it wanted to.

Foley: Sure. They could present that to the Grand Jury and have him indicted under the laws of Indiana.

Magill: If you are going to send out a 90-day letter to Bowman Elder at this time, shouldn't you also send a letter to the Club, advising that it doesn't have any exemption and we want a return?

H.M.Jr: Yes.

Landis: I disagree with that.

Foley: I don't go along with that. I think we ought to answer this request that we have from them as to whether or not they are entitled to exemption from taxation.

H.M.Jr: How would you answer?

Mooney: I think that is what Dr. Magill meant.

Foley: I didn't understand it that way.

Holvering: You meant we should notify them?

Magill: That ties in with what I have in mind. If you have a request from them, why in the dickens

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don't you give them a ruling? If your ruling is that they are not exempt, which I should think it would be, tell them they are under obligation to file a return for these years.

H.M.Jr: They are under obligation.

Magill: Yes.

Foley: It follows from that if you tell them they are subject to tax, not entitled to an exemption. Then I suppose in order to claim exemption for all their political contributions, they would have to list them and then they would have to take their deductions as gifts and not as income and then it would be up to the Bureau to say that they had to pay a tax or they didn't have to pay a tax.

H.M.Jr: What is the matter with that? I mean, as Ros Magill said, it is up to us to fish or cut bait. They either a civic organization or they aren't. I guess there is nobody in this room who doubts but what they are not a civic organization.

Helvering: There is no way they could qualify for exemption.

H.M.Jr: Is there any reason why in a day or two you couldn't write them and say it is up to them, that they are not qualified, and it is up to them to file a return for the years involved?

Foley: Well now, I think there are two problems there. First, you can answer the inquiry that you have from them as to whether or not they are entitled to exemption from tax, but the next step, it seems to me, is up to them and it isn't necessarily up to us to say, "Now go ahead and file your returns."

Magill: Why do you draw that line, Ed? If they are not exempt from tax, then they are supposed to file returns. Why don't you tell them so?

H.M.Jr: I think I can cut this very short. There must be letters going out every day or every week notifying organizations that they are not tax

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exempt. What kind of a letter is this?

Mooney: Denied exemption, directly to the company. We also notify the Collector of Internal Revenue and we tell the organization they must file income tax returns.

H.M.Jr: Why not handle it the way you handle it every day? Whatever the way it is done in every other case, do it the same in this case. Nobody can argue about that. If Mr. Helvering has decided that they are not entitled to tax exemption, handle it the way you handle every other notice that goes out. What, Guy?

Helvering: Yes, sir.

H.M.Jr: There can't be any argument about that.

Sullivan: Are any political organizations exempt without a social aspect?

Mooney: I would say no. To my knowledge, every one that has been granted exemption has qualified under nine as a social club. That is in the case of these few that I mentioned this morning, the New York Democratic Club, the Union League of Philadelphia, and similar organizations.

Helvering: You must recognize the fact that State Committees, National Committees, can never ask for any exemption.

Poley: That is right, and what you are doing, Guy, here, it seems to me, is penalizing the fellow that asks you. He must do the right thing, so he says, "Am I subject to tax or am I not subject to tax?" so you say, "You are subject to tax, therefore you have got to file returns." Now, if the Hoosier Democratic Club on this theory is not entitled to an exemption, then I don't think that any of the other political clubs on the same theory are entitled to exemptions.

Magill: I think you are wrong on this for this reason, which it seems to me makes all the difference, and I suppose is why we are sitting here. As

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I gather, there is a strong belief among those present here that this Hoosier Democratic Club was a racket, that it was a collecting agency for the State of Indiana, that it is a political organization, but that is only half the story. The rest of the story is that it was collecting large funds which were disbursed in various probably illegitimate ways. Now --

Foley: What is the matter --

Magill: Wait until I finish. If this thing was simply the Republican National Committee or the Democratic National Committee, or the Indiana State Committee, I presume all of us would agree that there would be no difficulty on any one of two or three ways in establishing that it is not liable to any income tax. On the other hand, this particular organization, we think, is a kind of wolf in sheep's clothing, if you like. It has established a form and a pretense of political activity which is a cloak for the collection of bribes and graft and disbursements of those among various people and it is on that basis that I, at least, would move that this thing is not a social club; it is not a civic club; indeed, it is very contrary of all those things; that what is done is to debauch the State of Indiana and it is for that reason that we say we don't - far from giving an exemption, we think it is just the kind of a thing that should be kicked in the pants.

Now, I don't see that you concern yourselves for a moment with the status of the Young Democrats in New York or anybody else. In the first place, we take these cases as they come. The one we have in front of us is this particular one and they have asked for a ruling; all right, let's give it to them. I don't know why it shouldn't have been given to them before, but at any rate let's give it to them now and when the Young Democrats ask for exemption, we will take them as they come and rule on them and for all I know, you may want to go up to Congress next year and get a more specific exemption of the whole kit and boodle of them.

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Foley: I would do it the other way, Ros. I would go up to Congress and recommend that none of them are exempt, they all have to keep books and file returns.

Magill: If somebody in New York called Bowman Elder or Tim Sullivan, or whoever runs the Tonawanda Club, which is really an agency to collect graft and only incidentally to support the Democratic Party, I would go after them with a big club and I don't know why you shouldn't on the basis that something called the Young Democrats may well be exempt. It may very well be. I would say exactly the same thing I said to Harold Graves this morning, if this was a Ladies Aid Society of the First Methodist Church of Evanston, Illinois, it was something with a very nice name like that and it was established that what it really was existing for was to collect graft from the red light district and dispense it to political leaders, the fact that part of their money went to support a foreign missionary in China wouldn't preclude me from going after them with a gun and saying, "Boys, you are not exempt because you are not spending your money in the way you are supposed to."

Sullivan: Ros, you are going just half way and if the thing --

Magill: I thought I was going 125 percent of the way.

Sullivan: I don't think so. I think if the things you cite in support of your taking the position that they are not exempt are true, then their entire income is taxable.

Magill: Well, I don't think so, but that is another reason.

Melvering: Well, their entire income wouldn't be taxable. They had expenditures.

Sullivan: If they expended it illegally, it wouldn't be a deduction, would it?

Magill: No, but here --

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Foley: The expenditures wouldn't make any difference, it would be receipts.

Magill: If you and I want to give - to spend a thousand dollars trying to get McNutt elected President and make speeches all over the country or do whatever else we can do, we can do it and it hasn't any effect on our tax returns one way or the other. Now, suppose that all of us in this room would like to see McNutt elected President, so we form an organization and put some money in the kitty for that purpose and not all of us travel, but some of us do. I am still inclined to think there is no income tax liability involved, not in this organization status, but the fact that we have simply banded together for a common purpose and there is no organization which has any income at all. But that is a fine spun theory that I don't think we need to go into.

H.M.Jr: I can't - somebody back in November raised the question whether this Club was tax exempt or not, didn't they? Somebody raised it, and for a year and a half we have sat here and haven't answered that question. I think it is up to the Commissioner to answer yes or no.

Helvering: Well, they are sending a statement of facts. They sent in a statement of facts. We asked them to verify that statement and couldn't get it verified, so we asked Mr. Irey to make an investigation as to whether those facts are true or not and if this was - we have in the file their application and what they set out. Up to the present time we haven't got - haven't received sufficient answers to answer that question. Technically, on the ground on which they made the application --

Foley: Then it follows from that if you don't give them a grueling, that until they prove otherwise they are subject to tax, isn't that right, John?

Magill: Ed, I don't get you. Why should you be so dog-gone hesitant about giving these people a ruling that they are subject to tax and by golly they have got to file a return? I don't see the basis for that.

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- Foley: I will tell you, Ros, because the thing - you are putting the Bureau in the field where the differences between these Clubs are so nebulous and so unsusceptible of determination that you are injecting the Bureau into the political field.
- H.M.Jr: Well, if you don't mind, Mooney gave me an explanation on the difference this morning and he convinced me that there is a difference.
- Foley: Well, I understand that difference, but that isn't the difference that Ros is referring to now. Ros says this is a racket and this agency is merely a collection agency to corrupt all of the - not corrupt, but I mean it is a collection agency in Indiana.
- Magill: Part of its purpose was to corrupt, too, as far as that is concerned.
- Foley: To corrupt public officials and other people that were recipients of money from the Club. Now, that isn't the distinction that Tim Mooney gave us this morning. He says --
- H.M.Jr: Now, wait a minute, Ed. I don't want to get too legalistic. Let's forget for a minute this burning desire for reform which burns in Magill's breast, see. I wish you wouldn't keep bringing in my friend Kitty's name on this. Let's just forget for a moment, see. We go back to Mr. Mooney and his description this morning. You are so worried about the good reputation of the Bureau, see, that they can't say one day they will rule this Club as exempt and the other day it isn't. I say what this fellow said this morning, I am willing to have him say it or to put it in my mouth to say it if I have got to go before the Joint Committee on Taxation and explain how we rule on political clubs, because I will make him write it out and then I will say it. Wouldn't you be willing to take what he said this morning?
- Foley: Sure, I would take that. You mean the National Democratic Club in New York. It has club facilities --

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H.M.Jr: And the Young Mens Democratic Club of New York, the young fellows. I mean, the ones he described.

Foley: Well, I don't think he put the Young Democratic Club in that status.

H.M.Jr: The ones he described this morning.

Foley: You take the Union League Club in Philadelphia and put it in the same status and the Union League Club in New York and put it in the same status and he would give all of them exemption, because there are some social aspects in connection with their political activities. I agree with that, but I understand that Ros is injecting a different --

H.M.Jr: Never mind about Ros.

Foley: He says they are bad boys and they smell a little bit, then we ought to go after them and if they are not so bad and if they don't smell so much, then we ought to leave them alone, and I say that is an impossible administrative situation.

H.M.Jr: Well, what you are saying is that we can't do this thing by sense of smell and I agree with you, but I also agree with Ros that it stinks to high heaven.

Magill: I still say that at least a Scotchman can distinguish a crook from an honest man and that is all I am asking you to do.

Foley: You mean that does not apply to the Irish?

H.M.Jr: The President settled the religious issue last night. Wait a minute - all right, how many fingers? (Mr. Sullivan raising hand)

Sullivan: I very carefully held my hand not in profile so that question wouldn't be asked. What is our answer to the question about the various State and National committees? I mean, I don't think we can take the position of playing ostrich and saying that --

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- H.M.Jr: Worry about that when you leave the room and go in and talk with the State boss at Kansas about that, will you.
- Helvering: I could tell you very quickly what we did to them in Kansas. We held them taxable, the Jackson Club, and it is exactly the same Club as this one.
- Sullivan: Here is the question I am raising, when anybody makes an application to us for exemption, we rule that they are not exempt, a political organization, without social aspects. Now, are we justified in not demanding returns from the important ones that do not ask for exemption?
- H.M.Jr: Listen, you haven't got enough to do, see, waiting for a tax bill. Now, this is something for you to study.
- Sullivan: That is what I was trying to do right now.
- H.M.Jr: But do it somewhere else, will you?
- Sullivan: I think that that is --
- H.M.Jr: Now, look --
- Sullivan:very important.
- H.M.Jr: Now, look, while you are waiting for a tax bill, you study that, see, and --
- Sullivan: But if this ruling of a denial of exemption goes out, the horse is gone.
- H.M.Jr: Well - no.
- Helvering: Do you think they are exempt?
- Poley: I am perfectly willing --
- H.M.Jr: Wait, give the Commissioner a chance.
- Sullivan: I think they are in exactly the same position as the Democratic and Republican National Committees and State Committees.

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Helvering: Well, they have asked us for an exemption. Now, what I want to know, do you think they are exempt?

Sullivan: If the others are, yes.

H.M.Jr: Is who exempt?

Helvering: The Hoosier Democratic Club.

H.M.Jr: You don't think - do you think this Hoosier Democratic Club is exempt?

Sullivan: I think they are in exactly the same situation as the Republican and Democratic National Committees.

H.M.Jr: They are not before us.

Foley: Well, no, but John is saying, Mr. Secretary, that you can't go in without knowing where you are coming out.

H.M.Jr: Oh, now look, I have been trying to be honest and - I am not afraid if I take this step, where the next one is going to lead me, see. I also want to take this step, one, because it is pending before us, and two, because I think it will be useful, but it doesn't give Mr. Bowman Elder an avenue of escape. Now, if I am wrong on that, please tell me, because that is what I have got in my mind, that if we don't proceed at this time and tell this Club that they are not tax exempt, it gives Mr. Elder an avenue of escape.

Sullivan: No, that doesn't follow, sir.

Helvering: No.

Sullivan: They are not related, those two questions.

H.M.Jr: They are not related?

Sullivan: No.

Foley: No.

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- H.M.Jr: Do you agree that they are not related?
- Magill: I don't. I think they are very much related. You don't charge the Club --
- H.M.Jr: If I am wrong, then I don't have to take this step at this time, but I think that they are - would you tell me in legal language which will hold these fellows, at least they can answer you, I mean - I do this thing by ear. Now, you give them some book, will you, why these two things are related?
- Magill: One very likely thing Elder can say is, "This was no money of mine. I got this simply in behalf of the Club and the Club isn't up in any proceedings. Go ahead, talk to them." Now, you discover that a year from now, maybe, after you have gone after Elder for a while and then finally he seeks to use this out. "All these funds you are charging me with, I got as Treasurer for the Club and they were disbursed on behalf of the Club and it is the Club's money and it isn't mine." Now, he has got a perfectly good out there, so far as I can see.
- Foley: What is the tax exemption of the Club got to do with it, Ros?
- Landis: Nothing.
- Foley: Either they were political contributions or they weren't.
- Magill: No, no. Take the next step. If you rule that the Club is not exempt, which seems to me clear as a bell, as far as that is concerned --
- Foley: Well, I don't agree on that but I will go along.
- Magill: I just don't see where it has a thing in the world to do with the Republican Committee or the State Committee of Indiana. You are ruling on this thing - you really can rule on it on an entirely different basis.
- Foley: Maybe you can distinguish it, but I don't think I can, Ros.

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Mooney: May I say something?

H.K.Jr: Please. If I am going to be noble, I want to be noble for some good reason.

Magill: You had better be noble on a good granite foundation.

H.K.Jr: Indiana limestone.

Mooney: I think the Bureau would take the position that in this particular case these contributions that have been made to the Club were not taxable income to the Club, that they constituted two donations or contributions, but still the Club would not be entitled to an exempt status, similar to the rulings which we have issued on other Clubs, the Club would not be entitled to the exempt status and therefore would have to file a return. Then in connection with the filing of the return, the question would arise as to whether or not these contributions constitute a taxable income or not, which is entirely separate and distinct as an issue, separate and apart from determining whether or not the Company or the Club is entitled to an exempt status. That is what Dr. Magill said about the purpose for which this money was used for the nature of the receipt of the money is something that is separate and apart from determining whether or not they are entitled to an exempt status.

Now, I would say that to look at this Club, Hoosier Democratic Club, as a strictly political club, with none of this background at all before us, we would make a ruling if it is entitled to an exempt status or not in line with what we had ruled with respect to other clubs of the same character, two political organizations carrying on an activity, and we would say, "You are not entitled to an exempt status. You would have to file a return."

H.K.Jr: I don't think there is any argument.

Landis: I think Mr. Mooney is making the point very clearly that the proposition as to Elder's liability has nothing to do with the tax

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exempt status of the Club. I think you are making that point very clearly, because you would say --

Magill: No --

Landis: Wait a minute, let me just finish this, because what Mr. Mooney would say would be irrespective of the legality or the illegality of those expenditures, irrespective of whether or not Mr. Elder can account for them to the last dime or whether he can't account for them. The Club is still not tax exempt.

Mooney: That is true.

Landis: And therefore, we say those things, those two cases, have no relationship to each other.

Magill: Well, but you have got this further string in your bow and Mooney may not want to take it, but Mooney has it in mind and all I am objecting to is, one attribute of an exempt organization under Section 101 is the use that it makes of attorneys. That is one way you determine whether an organization is exempt or not and that applies to the particular paragraph which you have in mind here, so that if this Club was being used for the purpose of feathering Mr. Elder's nest, or somebody else's nest, I don't mean the Democratic Party being used for somebody's individual profit, that would go to the question of whether or not the organization is exempt. Now, isn't that correct, Mooney?

Mooney: That would be another factor, too.

Landis: That is another factor. But the Jackson Club of St. Louis, or whatever it was that was mentioned here a moment ago, has been ruled to be non-tax exempt for the same reason this Club can be ruled not to be tax exempt, so that the racketeering angle has no necessary relationship to the question as to whether the Club is tax exempt. It does have a relationship to the very much more difficult question which you can't approach at this time, namely, whether or not the Club has taxable income. It does have relationship to that.

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H.M.Jr: May I get in on this and say why I think they are related? You send word to this Club that nobody here, on the merits of the Club alone, is going to say they are entitled to exemption. Therefore, we send out the usual papers notifying them that they are not and it is up to them to file an income tax blank during these years, and I take it when they file an income tax, they have got to show receipts and expenditures. Is that right?

Helvering: Yes.

H.M.Jr: When they show receipts and expenditures and we have that on one hand and showing receipts and expenditures on the other, and on this hand we have what Mr. Mooney said he did with the \$200,000 - or the \$120,000 that the Club didn't get, we can put the two side by side and they may make a picture. Therefore, I say that the two things are related and they will be useful in this trying to establish whether there is a tax or not, because the Club has to show receipts and expenditures on the one hand over these years and Mr. Elder has to say - here the Club says, "We didn't get \$117,000," and Mr. Elder says, "I gave it to the Club," or, "I didn't give it to the Club," or, "I did this with it," and the two things go down a parallel course and it can't help but be useful to anybody who is making an investigation of Mr. Elder. I am not interested in investigating the Club at this stage, but I am interested in what did Mr. Elder do, and if we have receipts and expenditures for that Club, they ought to be very useful to you (Mooney). Am I right or wrong?

Mooney: You are right.

H.M.Jr: Therefore, I say the two things to dovetail into each other.

Landis: I would like to ask a question, though, and that is, how are you going to get those receipts and expenditures?

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H.M.Jr: Well, that is something else again.

Landis: I think that is the question.

H.M.Jr: They say they have the books.

Helvering: Here is the receipts.

Landis: Yes, but you don't need those.

Magill: The burden of proof will be on them.

Landis: I didn't propose procedure with reference to their not having filed income statements.

Magill: In their return, they would have to show what they did with the money.

Landis: That is, you would send them a 90-day letter?

Magill: Mooney says they are not exempt, send us a return for these years. The next thing is, if they send returns or not. If not, I suppose you make up a deficiency letter as best you can on the basis of what you have got.

Mooney: We would normally make an investigation, which investigation is under way at the present time for determining just what the nature of the receipts are, what the disbursements are, and who, if anybody, is subject to taxation.

Helvering: Mr. Secretary.

H.M.Jr: Mr. Commissioner.

Helvering: I would just like to make a statement right in the room here, now. There are two objections that are being followed in this. If the objective is to tax the people who ultimately received the income, we don't need to worry about that. If the objective is to proceed against these fellows who have received money and failed to report it or falsified their returns, of course we won't get very far with that proceeding because they will pay this tax.

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Now, I am perfectly willing, if we say that this exposition here of this investigation doesn't give a ground for filing the petition and you say, and I am inclined to agree with you, that you don't think we would get any more out of Bowman after examining him for a dozen times more, then we are in the same position after examining him again that we are now. We won't have the ground for filing a petition.

H.M.Jr: That is right.

Belvering: Therefore, we haven't got enough to file a petition and we won't have after subsequent examinations. Then the thing to do is to make up these various tax amounts and assess them. We can collect the tax, but to cover up, then, there is hope to be developed as to where this money went, and so forth, but it will not be developed. May I just give you an illustration? It isn't a political club, but Mr. Street, of Chicago, an attorney who represents an insurance company in the State of Missouri, filed a return for \$500,000, or whatever the amount was, in which he was willing to pay the tax and did pay the tax. Now, if it hadn't been for a mistake he made in that return, that would have closed the whole thing on the Missouri insurance case.

Now, if you file these taxes against Mr. Elder, he would pay them and unless we found out different, it would close all these cases. If that is what wants to be done, collect the cash.

H.M.Jr: Are you ready to make a recommendation?

Belvering: What is that?

H.M.Jr: Are you ready to make a recommendation?

Belvering: Yes. My recommendation was that we question Bowman Elder once more in detail and if the sufficient evidence isn't then available on which to base a petition for the advice of the Attorney General, that we proceed to go ahead and collect these taxes and close this case.

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H.M.Jr: Would you feel very badly if I told you to forego with one more examination and proceed with a 90-day letter?

Helvering: No, if that is what you think is good policy to do, but if that is the procedure, we don't need any advice on that. We can handle that. It is regular procedure.

H.M.Jr: Well, what would you say as a betting man that the chances are on another examination you will get any additional information?

Helvering: Well, I think Bo Elder is smart enough to say that he can't remember, he spent it for general purposes.

H.M.Jr: Then, Guy, I don't consider that I am overruling you. I am not.

Helvering: No, I only made that suggestion because they intimated they wanted to talk further.

H.M.Jr: Do you consider I would be overruling you if I said to proceed with a 90-day letter?

Helvering: Not at all.

H.M.Jr: And to notify the Club their request for exemption has been refused and they will get the usual treatment as in such cases?

Helvering: I will certainly agree with that. Of course, really they are not exempt, Mr. Secretary, but that doesn't say they owe us any tax.

H.M.Jr: The material goes out and then we sit and wait a reasonable time to see whether they file a return or not, is that right, or do you begin to make an investigation?

Mooney: We give them - set a limit to file returns.

H.M.Jr: How much time?

Mooney: Well, I think that is usually - I couldn't say offhand, but that is taken up with the Collector.

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The Collector contacts them.

H.M.Jr: Whatever the usual thing is. You would give them the same as anybody else?

Mooney: Yes.

Belvering: The procedure, Mr. Secretary, is, we notify the Collector of the ruling that they are not tax exempt and they notify them and they may ask for 30 to 60 days to prepare the returns and he will grant it.

H.M.Jr: Ed?

Foley: All right.

H.M.Jr: John?

Sullivan: Yes, I think it is a good solution, except I am still worried about that thing you told me to worry about in the future.

H.M.Jr: Well, you have pending a tax bill. Don't let's go over it again.

Sullivan: No, I understand.

Belvering: Well, John, we have been having these rulings now to my certain knowledge for seven years and no conflagration has started from it. May I just take this - every State or National Club is established on a well-defined legal law. They say that in the State - to the State Committee, both Republican and Democratic or any other Committee, must have a meeting of county of state members in which they form a committee and set up in the statute just how that will be done. They are statutory committees. All these voluntary committees are on an entirely different basis.

H.M.Jr: Harold, you have been on this thing. What do you think?

Graves: Well, my belief is if you go this way this ends our investigation. You see, if you issue a

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90-day letter to Mr. Bowman Elder and follow the usual procedure, which I understand you would want to have followed --

H.M.Jr: Absolutely, the usual way.

Graves:the procedure would be this: You would give him what is called a 30-day letter, which gives him a chance in the informal proceeding to protest the preliminary determination represented by that 30-day letter. That is 30 days. Then file a protest, under oath, which starts conference proceedings in the office of the Internal Revenue Agent in Charge and that may go on indefinitely in the ordinary case but it could be cut off preemptorily by the Internal Revenue Agent in Charge, if that was desired, but in any case you would have a month and a half go by before, under the ordinary procedure, you could issue the 90-day letter. The 90-day letter gives the taxpayer an additional 90 days before he has to move a finger. Any time during that 90-day period he may appear again before the Bureau of Internal Revenue or he may not. He may wait until the last day of the 90-day period and file a petition to the Board of Tax Appeals. That starts proceedings which may be protracted over many, many months, so that the 90-day letter gives no promise of a settlement of this thing by eliciting information from Bo Elder. He can let this go easily for eight or nine months to a year before you get this thing to an issue.

Now, under those circumstances, I say that if you follow that procedure, it really puts an end to the Indiana investigation, because we would never get anything out of Bo Elder in the expiration of that 90 days' period that would give us further information on which to proceed.

H.M.Jr: I don't think we could get anything the way we are going now. I think we have got everything we are going to get.

Graves: I think it should be clearly understood if this is done that we should withdraw our

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investigators and quit annoying people, either - in other words, you go forward with all of the weapons that we can command or we should stop, and if this procedure should be decided upon, my judgment is we should stop.

H.M.Jr: As far as McNutt is concerned, we would stop.

Foley: That is right.

Graves: I would say stop as to all the remaining people against whom we have no specific evidence.

H.M.Jr: I agree with that.

Graves: That leads me to mention Greenlee. I understood you to say you wished a 90-day letter issued against Greenlee. I think that - at least I am told by these men with whom I have been advising that we have a probable criminal case against Greenlee. If a 90-day letter is issued in his case, that defeats any criminal proceedings.

H.M.Jr: And how long will it take you to make up your mind whether you have or haven't got a criminal case in this?

Graves: I don't know. I imagine the boys will take - it might be two weeks or two months.

Foley: Well, that isn't necessarily so, is it, Harold, that you defeat your criminal case if you send out the 90-day letter?

Graves: Practically, because if you send out the letter and he pays the tax, you can't prosecute him.

Foley: Well, on the Schenck case we put it up to the Department of Justice and the Department of Justice said, "We will take it up with the U. S. Attorney in New York," and the U. S. Attorney advised us to send out the 90-day letter, gave us a recommendation, so we sent it out.

Graves: That doesn't mean that you haven't, by doing that, defeated your criminal prosecution.

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- Foley: No, but that is the thing, you see, Mr. Secretary, that Eddie Greenbaum ran up against in the Mitchell case. He says it is very hard to go up against a jury when the jury wonders why you have never told the defendant how much he owes. The defendant keeps saying, "I have asked these people to tell me. I am willing to pay the amount of the tax. They are hounding me and they aren't interested in the amount of the tax. They won't tell me."
- Graves: That came up in the Annenberg case.
- Foley: And I don't think it is necessarily so that you destroy the criminal case by a 90-day letter.
- H.M.Jr: Let me get a law on this thing. I will get you out of here, Ros. Supposing we go ahead with a 90-day letter on Mr. Greenlee and we find that the \$60,000 was deliberately hidden, and so forth and so on, that makes it a criminal case, doesn't it? The fact that he admits it and pays it - after we collect it, is it too late --
- Graves: Not legally, no, but you take this man before a jury and he gives testimony that he has paid this tax liability, satisfied it in full, the Government has got every dime that is coming to it, that constitutes a big defense for this fellow.
- H.M.Jr: But I have always thought - I never could understand when I went through the Mellon case, it seems to me that a civil suit and a criminal action - it always seemed cockeyed to me that we proceed on a criminal basis and then a civil suit afterwards. First we establish the fact that a fellow owes so much and then if he does, what he did was criminal, then he should pay the criminal fine, but we always do it the other way around.
- Foley: We put it up to the Department of Justice, Mr. Secretary, because they handle the criminal side and we handle the civil side. If they tell us to go ahead with the civil side and not wait until the criminal case has been tried,

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we go ahead with the civil side every time and it doesn't necessarily mean that you can't go ahead with your criminal case.

H.M.Jr: How about letting the Department of Justice decide on Greenlee?

Poley: Sure, absolutely, that is the fair thing to do.

Graves: That is all right, because that would be the normal course of action in the Greenlee case, is to complete our investigation and send it to the Department of Justice and let them decide and ordinarily we do not issue the 90-day letter in such a case until after it has gone to the Department of Justice and they have decided.

H.M.Jr: And how long will it take you to clean up the Greenlee case?

Graves: I don't think our investigators can say, because it depends on their getting certain additional evidence which they have been trying to get and so far haven't succeeded in getting and of course we shouldn't go on forever with that. If we can come to that evidence pretty quickly, perhaps we should do something else.

H.M.Jr: Then let's try to clean up the Greenlee investigation, turn it over to the Department of Justice and ask them, is this a criminal or civil suit. O. K.?

Helvering: Yes.

Sullivan: Has Elmer left town?

H.M.Jr: Yes.

Sullivan: Because in that memorandum I think you will see a note that he felt that without such a petition the criminal action against Greenlee might fall.

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H.M.Jr: Well, Harold and the Commissioner are acting together on this.

Sullivan: I was just thinking, Harold might be able to check with Elmer.

H.M.Jr: I never discussed the question of a petition with regard to Greenlee. I am not familiar with the Greenlee case, except very roughly. I am only familiar with the Bowman Elder case and I am satisfied that we don't want to ask for a petition, but I don't know enough about the Greenlee case and I should think having established a precedent in regard to Bowman Elder, you fellows could go ahead and decide Greenlee on your own. I mean, without calling in a - me, or these other gentlemen.

Graves: That is true. I understood you to say that you wanted us to discontinue any further investigations or proceedings except as to persons against whom we have definite, specific evidence.

H.M.Jr: And in the room here, we have certain facts now about Mr. McNutt and we either have them or haven't and I said the other day, now let's clean up what we have got.

Graves: Well, as to that, I would suppose, Mr. Secretary, that if we turn up a few thousand dollars against McNutt and have no intention of furthering our investigation to develop something more substantial, we ought to quit in respect to Mr. McNutt and not come in to trivialities in this case.

H.M.Jr: I agree with you on that.

Helvering: In other words, if he hasn't returned his income, he ought to return it and pay a tax on it.

Magill: If he owes us a thousand dollars, make him pay it, doggone it.

H.M.Jr: We have enough now on McNutt to show that he should have filed a return.

Helvering: We have got certain items and if he can explain those, there is no income tax and he ought to be exonerated.

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Foley: It is your idea that somebody ought to interview him?

Helvering: Yes.

Foley: And ask him what he has to say about these items.

H.W.Jr: He has never been interviewed?

Foley: No.

H.W.Jr: Well, he should be. I don't want to go too fast. Let's just go back a minute on this Bowman Elder business. Let's forget about Greenlee and McNutt.

Jim, are you satisfied on the decisions on Bowman Elder, on the Hoosier Democratic Club?

Landis: No, I am not. I would like to express just why I am not. And I think what has been said recently has considerable relevance to it. I am quite satisfied with the idea of going after Bowman Elder by the 90-day letter. He may or may not pay under those circumstances. If he pays, that tells us something. If he doesn't pay and fights us, that will tell us something. If at the same time you investigate Mr. McNutt on these matters, you will learn something more that has some relevance to the entire picture of the Hoosier Democratic Club. The Greenlee investigation will tell you something more that has some relevance to the picture of the Hoosier Democratic Club, and I would hold off on my - with reference to the Hoosier Democratic Club until I got that material. I have no question at the present time that that Club is not tax exempt in the same way that State Democratic Committees are not tax exempt. It would seem to me in taking that position with the Hoosier Democratic Club, we cannot act in an ostrich-like fashion and say we will neglect to treat other outfits that we know are on a parity, we will neglect to put the same burden on them that we are going to put upon the Hoosier Democratic Club. The only justification for that, for a differentiation

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along that line, seems to be not upon the basis of casual inquiry coming in from the Jackson Club and the Hoosier Democratic Club and none coming in from the State Democratic Committees, but a justification for treatment might lie along the lines of the bad as distinguished from the good. At the present time, you haven't - you have suspicions, but you haven't got enough evidence to really tell the world the Hoosier Democratic Club falls in the bad class. You may have that as a result of these various things. It may be necessary that you will eventually be forced to come forward with some kind of a petition of the nature you have now to compel testimony from certain people. As you consider just exactly what you are going to do with the Hoosier Democratic Club and just exactly what the general line of policy is that the Treasury should have with reference to political institutions that are not at the same time social clubs, there I would delay.

H.P.Jr: On that. But you would not delay in sending Mr. Bowman Elder a 90-day letter?

Landis: No, I don't see the excuse for delaying it and I think I would disagree with Mr. Graves in saying that that would foreclose the whole issue, because you have, even if Elder pays up, you still have the Hoosier Democratic Club to play with. I mean by that, seriously, either to say this thing is worth going into or not worth going into, depending upon how these others go.

Graves: What I was trying to say was, the mere postponing of the say when you can come to a determination of these matters for a matter of 90 days or nine months under ordinary procedure --

Landis: True, it does, and my own judgment would be that I would postpone it and I would think justifiably postpone it in the way to accumulating more evidence on the thing, because that is certainly the most touchy angle of this whole proposition. Elder is not the touchy angle. No individual who doesn't pay his tax is a touchy angle. The United States

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Government oughtn't to be affected in any way by that. But this issue of whether or not you are going to rule that statewide political organizations are not tax exempt and therefore are under an obligation to file these statements, is an issue which the Treasury has never really faced. It has faced it in small, negligible instances. Nobody knows about the Jackson Club in New York and the Republican Club, but everybody knows about the Two Per Cent Club. I think that is a rubicon for the Treasury. Either you cross it or you don't cross it, but I think the Treasury ought to think very carefully. I am all for crossing it, but I think it ought to think very carefully how it is going to cross it.

H.M.Jr: How would it be if we decide tonight that we go ahead with the Bowman Elder angle now, give him a 90-day letter?

Graves: Under the regular procedure?

H.M.Jr: Under the regular procedure. I will be back here on the 8th of April. We will put this question to the Hoosier Democratic Club, and put it in Mr. New Hampshire Sullivan's ice-box where he can take it out and look at it every day. Between now and the 8th of April, your people, Helvering, will try to clean up this McNutt thing, what we have now on hand, the bank account in New York. Have we heard from that?

Graves: No.

H.M.Jr: Different things that you already know about or leads, I mean I wouldn't go out indiscriminately and - get all of this thing together. Now, if between now and April 8, you think you have got sufficient evidence that you want to interview him, I have a private telephone wire there and you can call me up on the phone and you can say, "Well, Mr. Morgenthau, I don't want to wait until the 8th of April. We have got enough now to interview Mr. McNutt." I don't want you to wait on me, see.

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Helvering: I would like to have that decided today, because just practically we have these items and I think if Mr. McNutt can explain them we ought to give him that opportunity at the earliest possible date.

H.M.Jr: I can't hear you.

Helvering: We have these certain items and if he can explain those --

H.M.Jr: How long can you stay?

Magill: I can stay until 5:00.

H.M.Jr: You don't want to fly, do you?

Magill: Not particularly.

H.M.Jr: You have got another ten minutes, haven't you?

Magill: Don't stop on my account.

H.M.Jr: Who can tick the things off, the questionable items?

Helvering: I can only do it from information that has been handed me.

Graves: I can get a memo on that if you like, in just a minute.

H.M.Jr: You go get it. Have you got a memorandum?

Graves: The boys have got it out here.

H.M.Jr: Let's see what Guy knows.

Helvering: I know of two items. One item - or two or three items relative to bank deposits in cash and insurance.

H.M.Jr: He has got two items of \$5,000 each, hasn't he, that he deposited in the bank in cash?

Helvering: Five thousand.

H.M.Jr: You told me ten. Is that right? He has got an

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insurance policy running to around \$120,000 made out to his wife, which is paid for by either Elder or - by Elder, running to around \$4900. Then he has got a stock brokerage account in Chicago which we have a copy of, and one year he made \$2,000 and the other year he made \$3,000. Is that right?

Helvering: That is right, yes.

H.M.Jr: And we have run into another account in New York which we have got a subpoena on. But those are the things we know about, right? And from '32 to '37 he did not file any returns. All of these would be taxable.

Foley: What Guy wants you to say is - just as soon as I have got all I need, then I would like to be authorized by you to contact Mr. McNutt and interview him, the sooner the better, isn't that right, Guy, and not wait until you come back?

H.M.Jr: Do you recommend that?

Foley: Yes, I recommend it.

H.M.Jr: Do you recommend it?

Sullivan: Yes, sir.

H.M.Jr: Let's say just as soon as you've got the things together on these items, I would interview him.

Helvering: I will have to get further information about these two or three items.

H.M.Jr: I think you have got everything, unless there is something they have got in the Bank of New York. They have got \$10,000 of cash deposits, his life insurance policy, his stock exchange account in Chicago. Those are all documentary evidences; a thousand dollars on speeches. That doesn't amount to anything. But those are the things - and the fact he did not make any return in '32 or '37.

Landis: I report my speeches.

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H.M.Jr: Anybody advises me he is a tax-exempt institution.

I will tell you what I ticked off. Two items at five thousand each. His life insurance policy made out to the estate or his wife, premium, \$4900; a stock exchange account in Chicago, one year, \$2,000 profit and one year, \$3,000 profit.

Graves: Roughly.

H.M.Jr: And an undisclosed, yet, account in New York which we don't know about.

Graves: That is right.

H.M.Jr: Anything else? And a thousand dollars on speeches.

Graves: And then invested \$3500 in a newspaper at Fort Wayne, Indiana, and he brought back with him from the Philippines \$25,000 as an opening account, as I understand it, of the "McNutt for President Club" in Indiana and the condition was that that was received by him in consideration of his tending to further legislation in this country favorable to people in the Philippines.

H.M.Jr: That, plus the New York thing and we have no other leads, have we?

Foley: This is the first time we have heard anything of this.

H.M.Jr: It is?

Foley: Sure it is.

H.M.Jr: Wonderful.

Helvering: I haven't heard anything of that last one.

Graves: That --

Sullivan: That clicks with you, that last one.

Helvering: Which?

Sullivan: That last item clicks with you.

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Helvering: \$25,000?

Sullivan: Yes. I don't mean the amount, but wasn't he here on some legislative business?

Graves: Yes, he was.

Helvering: He was here. I didn't know he got any money for it. I thought he was doing that as a Philippine representative.

H.M.Jr: I will decide here now unless somebody shouts, that just as soon as you can tie these things together, he is to be interviewed.

Helvering: I think that is only fair to him.

H.M.Jr: But then we stop everything else. We pull all these threads together and interview him. Mr. Bowman Elder gets the 90-day letter and Mr. Greenlee - when you get that stuff together you send it over to the Department of Justice for a ruling if it is criminal or civil and on the advice of Chief Landis, we take another look at the Democratic Club.

Helvering: Now, that is - I asked Dean Landis a question --

H.M.Jr: Excuse me. I want you to know that the only man I know of that addresses Tammany Hall Clubs in New York is Counselor Magill. You didn't know that, did you?

Poley: I never heard it.

Magill: Whose club was it?

H.M.Jr: You know darn well. How much did you get for the speech?

Magill: I didn't get a dime for the speech.

H.M.Jr: All right.

Magill: What was that? He was an insurgent, that fellow. But that is - never mind.

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H.M.Jr: All right.

Helvering: Might I clear just one more point, Mr. Secretary?

H.M.Jr: You have got 3½ minutes to let this fellow go.

Helvering: I would just like - Dean, if you were in my place and this request had been made of you for a ruling, did I understand you to say you wouldn't make the ruling or you would make the ruling and take time to investigate --

Landis: No, I would hesitate to make the ruling even at the present time. I don't see that there is pressing need for that ruling. I think that is a very curious ruling which you are called upon to make, and although I think it is a clear one. I don't think there can be a question about the clearness of it.

H.M.Jr: Of course, these other Clubs - I don't know - I only know of one or two to my own personal knowledge. They didn't assume any evidence like this does, but there wasn't any question about it when it came down to making a ruling that they weren't exempt and required to file returns. In many of those cases, and this one particularly I know all about, I think when they got their evidence all in and they were taxable, yet they made a statement showing they had gotten so much money and they had spent so much for these purposes and the help they had to hire in the office ate it all up and therefore there was no tax. Now, in this club, if these items show that all but \$117,000 can be shown as expenses, and I understand it can --

Graves: That is right.

Helvering: And they say that \$117,000 went to Mr. Elder. They have accounted for their money.

H.M.Jr: Guy, as long as Jim Landis asks to wait, what I would like to do is make an appointment now

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with these people for the first Wednesday or Thursday when I am back. Is it Wednesday or Thursday that is best?

Magill: Friday is better than either one.

Landis: Friday is practically the only day for me.

H.M.Jr: Then let's say that on Friday, April 12, we will meet again at 1:00 o'clock.

Landis: That is all right.

H.M.Jr: And we will report to you gentlemen at that time what we have done, where we are, and New Hampshire Sullivan will have made a complete study, et cetera and so forth, and in the meantime, we have got - are you perfectly happy?

Graves: Yes.

H.M.Jr: Satisfied?

Graves: Yes.

H.M.Jr: Mooney, O. K.?

Mooney: Certainly.

H.M.Jr: Satisfied?

Mooney: Yes, sir.

H.M.Jr: Think this is all right?

Mooney: Yes.

H.M.Jr: I am satisfied.

Klotz: Definitely.

H.M.Jr: I think it is a good day's work.

Helvering: Then we proceed with the 90-day letter to Bowman Elder, we either recommend a prosecution or assess a tax, we delay the advice of the Club as to

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whether they are taxable or not, draw these things together and have some man whom Mr. Graves and I designate --

H.M.Jr: That is right.

Helvering:interview Mr. McNutt as soon as possible.
Does that cover it?

H.M.Jr: Entirely. O. K., that is a good day's work.
Thank you all.

C
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March 19, 1940

MEMORANDUM FOR THE SECRETARY:

Following is a summary of the record relative to the inquiry into the taxable status of the Hoosier Democratic Club:

(1) On November 7, 1938, Hon. James W. Morris, Assistant Attorney General, for the Attorney General, addressed a letter to the Commissioner of Internal Revenue, referring to him for appropriate action a communication which the Department of Justice had received from one George R. Jeffrey, relative to charges of possible tax evasion by the Hoosier Democratic Club.

(2) The Commissioner had himself received a similar letter direct from Jeffrey, and, on October 20, 1938, had, through the Chief of the Intelligence Unit, referred this matter for investigation to Mr. A. P. Madden, Special Agent in Charge, Chicago Division. Madden assigned the case for investigation to Special Agent E. H. Vaughn.

(3) During November, 1938, Special Agent Vaughn interviewed Bowman Elder, Treasurer of the Club, with a view to eliciting information necessary to a determination of the taxable status of the organization.

(4) On November 30, 1938, Elder addressed a communication to Special Agent Vaughn, giving certain information asked by Vaughn, and stating grounds upon which the Club claimed exemption from taxation.

(5) On December 2, 1938, Special Agent Vaughn transmitted Elder's communication to the Bureau of Internal Revenue at Washington with the request that on the basis of the facts submitted the Bureau make a ruling as to the taxable status of the Club.

(6) On January 13, 1939, the Bureau addressed a letter to the Club, calling upon it for certain

supplemental information concerning the Club's activities and finances.

(7) On February 6, 1939, Elder, in response to this request, transmitted to the Bureau a sworn statement concerning the scope of the Club's activities, incorporating tabular statements of receipts and expenditures.

(8) Since that time, an investigation by officers of the Bureau of Internal Revenue has been proceeding, to secure accurate information regarding the Club's receipts and expenditures and to verify the statements made by Elder with a view to securing a tax-exempt status for the Club.

The pending investigation has developed, beyond a doubt, that the statements filed by Elder with the Bureau, under oath, were false and misleading. Moreover, Elder has consistently refused to disclose the information which is essential to a determination of the question raised by Jeffrey and subsequently referred to the Bureau by the Department of Justice, as above stated. The petition for a court order now under consideration is for the purpose of compelling Elder to supply this information.

GRAVES.

HNG/mff

KEESHIN FREIGHT LINES, INC.

J. L. KEESHIN
PRESIDENT

221 WEST ROOSEVELT ROAD
CHICAGO

March 21, 1940

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

My dear Mr. Secretary,

Enclose herewith copies
of memoranda which I received from Mr. A. B. Bassi,
from Hongkong, China, addressed to H. E. Minister
Chang Kia-Ngau, dated January 10, February 6, 9,
and 12, respectively.

Very truly yours,


J. L. Keeshin

JLK:LR

Encs. (9)

OFFICE
SECRETARY OF TREASURY

1940 MAR 23 AM 8 57

9:40

THE SECRETARY

To

H.E. Minister Chang Kia-Ngan

With reference to the contemplated purchase of forty pick up units; so classified, and twenty wreckers, listed under tabulation of Bid, Specification UBI-T8 and T9 Bids 875 and 876 respectively, of Universal Trading Corporation, there seems to be considerable confusion.

For the pick up units listed, the Ford specification; which, in this case is assumed to be the approved unit, list the 1-ton Pick up, with express type body, 96 x 54 x 19.17 on 122" wheel base chassis powered with the 85 H.P. engine.

The twenty wreckers listed are specified with the express type pick up bodies within which is to be mounted a crane. Body special service type, mounted on $1\frac{1}{2}$ ton chassis of 134" wheel base, also powered with the 85 H.P. engine.

Mr. T. K. Chao's letter of transmittal of Jan. 4th, 1940 with attachments, asking for comment on the subject, includes a copy of his letter to S. D. Ren approving the selection of sixty, Ford Panel Bodied 134" wheel base units powered with the 90 H.P. motor; which we assume he refers to be the "95" engine and, in which he asks that they be purchased at \$1,000 gold complete.

It is our understanding that the original intention to secure these pick up units equipt with express bodies was for the use of the Highway Bureau's engineers for use in carrying tools equipment and men on the several sectional divisions.

Work of this type requires very little accumulated mileage as it represents many short runs and long standing periods.

It has been previously suggested that for this work that the Chevrolats owned by the Szechwan Kwangsi administration, which were not adequate for the purpose they were purchased, be rebuilt and furnished with available bodies and turned over to the Highway Bureau where they would adequately handle the requirements imposed upon them, with practically no other investment than the repairs required.

If it is found that an insufficient number of these Chevrolets are available to complete the forty necessary pick up units, then the one ton Ford Chassis with express body, which we feel is quite acceptable for this work, could be purchased to make up the deficiency.

If this should be the case; which we consider unlikely, due to the fact that Szechwan Kwangsi lists over 300 of these units, we also suggest that under this circumstance, these pick up units be purchased from the stocks at Hong Kong where they could be secured at a price below that for any new purchases from America. These specific units are New Late Model 1939 - "85" H.P. Fords and available for immediate delivery.

As to the twenty wreckers contemplated, it would in the case of the Panel bodies be impossible to mount thereon a wrecking crane of any type. In addition we cannot reconcile the purpose for which wreckers would be purchased by the Bureau of Highways or the Bureau of Highway Transportation except to furnish transportation agencies with facilities for servicing disabled equipment. However on this score we cannot help but feel that all transportation agencies are responsible for maintaining; among their service and maintenance equipment, facilities for salvaging their own disabled units.

With further reference to the foregoing, your letter of December 12th with attached list of Highway Bureau supplies for distribution, expressly inferred; that these 60 units were in Haiphong and not on the proposed purchase list of U.T.C. and subject to your approval.

We call your attention to these discrepancies in the interest of more definite and reliable information in the future so that neither of us may be misled into a recommendation for purchases that are considered superfluous.

Chungking

Jan. 10th, 1940

M. E. Sheehan

per A. S. Bass

Regreded Uclassified

C
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YRef: 1/2/40

To

H.E. Minister Chang Kia-NGauAdjustment of Road Building Machinery Requirement

Subsequent to the receipt of the attached communication from Universal Trading Corporation with reference to the subject matter, a discussion was held with Mr. C. L. Lee, Supervising Engineer, Bureau of Highways, and later, with both Mr. Lee and Mr. T. K. Chao, Director-General of Bureau of Highways. A confirmation of the consensus of opinion and decisions reached is as follows:

The original estimated requirements, consider the machinery alone and the appropriation for the total amount was predicated thereon, ignoring both cost items of transportation and spare parts.

In addition thereto, the substitution of a more suitable device under Item No. 3 also contributed towards a substantial increase. However it is felt that the additional utility value of this unit would justify the additional cost.

In preference to greatly reducing the number or eliminating anyone type of equipment and or utilizing as suggested in the Universal cable, the unused portion of the automobile spare parts appropriation, it was felt that a reduction in each class of equipment within a logical balance was advisable under the circumstance to eliminate the possibility of protracted delays.

The following tabulation sets forth our understanding in finalizing this subject matter:

<u>Original Estimate</u>		<u>Equipt Required</u>	<u>Actually Bid</u>	
<u>Total</u>	<u>Each</u>		<u>Each</u>	<u>Total</u>
25,000 - 2,500		No. 1-10 Adams Tractor or Equivalent		
		International 64 H.P. Crawler ---	2,795	27,950
15,000 - 1,500		No. 2-10 Adams Road Maintainer or Equip.		
		Same No. 62 -----	787	7,870
20,000 - 2,000		No. 3-10 Motor Graders Adams or Equip.		
		Caterpillar Tandem -----	4,136	41,360
40,000 - 2,000		No. 4-20 Stone Granulators		
		Iowa Portable (Caterpillar Powered)	2,315	46,300
60,000 - 3,000		No. 5-20 Diesel Rollers		
		Galison Disal 5 to 8 ton -----	2,968	59,360
160,000				182,840
		Spare Parts		21,540
		Freight		31,009
				235,389

Adjustments to the foregoing were made as follows:

No. 1-9 International Tractors -----	2,795	25,155
No. 2-9 Adams No. 62 Maintainers -----	787	7,083
No. 3-4 Caterpillar Motor Grader -----	4,136	16,544
No. 4-12 Iowa Stone Crushers -----	2,315	27,780
No. 5-13 Galison Rollers 5 to 8 ton -----	2,968	38,584
		115,146
Reduced - Spare Parts approx.		14,500
" - Freight approx.		21,500
		151,146

The total while approximate, permits of a fluctuation within the amount of \$8,854 which should guarantee the actual total, remaining within the appropriation.

Chungking

Feb. 9, 1940

(Signed)

M. E. S.

A. E. Bassi

Regraded Unclassified

COPY

DLT MINISTRY OF COMMUNICATIONS CHUNGKING

REFERRING PURCHASE ROAD MACHINERY DECISION MADE ON FOLLOWING
MAKES AND TYPES CRAWLER TRACTOR INTERNATIONAL 64HP DIESEL
56 INCH GAUGE DOLLARS 2,795. WHEEL TRACTOR INTERNATIONAL
58 HP DIESEL DOLLARS 2.125 ADVISE WHICH TYPE PREFERABLE MAINTAINER
ADAMS NUMBER 62 DOLLARS 787 DIESEL MOTOR GRADER CATERPILLAR
46 HP TANDEM DRIVE LEADING FRONT WHEEL DOLLARS 4.136 PORTABLE
STONE CRUSHER IOWA MANUFACTURING CO 9 BY 16 INCHES 9 CUBIC
METER PER HOUR THREE QUARTER INCH CRUSHED STONE WITH CATERPILLAR
DIESEL DOLLARS 2.315 ROLLER GALLON DIESEL 5 TO 8 TONS TANDEM
STANDARD ELECTRIC STARTER DOLLARS 2.968 ALL DELIVERIES NOT
MORE THAN FIVE WEEKS ALL STANDARD UNITS COMPLETE WITH REGULAR
EQUIPMENT ACCESSORIES AND SPAREPARTS APPROXIMATELY DOLLARS
21.540 FREIGHT DOLLARS 31.009 TOTAL DOLLARS 235.380 EXCEEDING
APPROPRIATION BY DOLLARS 85.380 SHALL WE REDUCE NUMBER OF UNITS
OR USE DOLLARS 88.000 THE UNUSED PORTION OF AUTOMOBILE SPARE
PARTS APPROPRIATION CABLE INSTRUCTIONS UNIVERSAL

Chungking

Feb. 8th, 1940

C
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To

H.E. Minister Chang Kia-NGau

With particular alarm we view the present situation with reference to the shortage of Motor Fuel and Lubricant stocks in Free China, and feel that an answer to this situation is one of immediate concern. The regulations surrounding the procurement of petroleum products has in no way alleviated the scarcity and the restrictions imposed upon those, who are most competent to handle the situation, has added to the aggravation.

Organizations; whom for years, have established ways and means of procurement and distribution of these products, have been restricted and in some cases completely disorganized by the red tape, with which, free movement of this essential commodity is wrapped. Especially with reference to embargoes placed on Motor Gasoline in the past.

Quotas that have been established; for the Rail facilities available, have seldom been reached and the restricted use of the Highways has added to the confusion and scarcity.

The so called "black market" prices have no doubt found their inception in this resultant scarcity.

Each change in the established routes of communications have resulted in long delays to reorganize personnel and methods for procurement of supplies via new channels.

Private enterprise and initiative is stifled thru the restraint placed upon its ability to quickly function in matters of vital concern to its particular specialization, is inexcusable. The thousands of Motor Vehicles now standing idle is mute testimony to the possibility of such a situation existing.

The example of waiting for U.T.C. gasoline to be transhipped to Burma, rather than seizing the opportunity to obtain any and all additional fuel stocks available; thru any source whatsoever, is deplored and toleration of its continuance should be discouraged immediately.

In order to assure a greater volume and a more reliable service of supply, it is suggested that the established petroleum marketers in China, be permitted to exercise their initiative and utilize their experienced staffs and economical system of distribution, to lay down stocks of Fuel and Lubricants, throughout their marketing territories in quantities, based on a plan which they consider will best satisfy a uniformity of distribution and anticipated demand.

Transportation should be made available to them either thru C.F.C. or their choice of private contractor at regular rates or they should be permitted and/or encouraged to establish their own system of Transportation, be it land, water or air, as may be required to accomplish their objectives.

The stocks thus laid down would still remain the property of the marketer with no expense or investment to the National Government involved therein. Supplies could be requisitioned by the National Government as and when required and obtained immediately either thru the Fuel Control Commission or in any other expedient manner from stocks on hand.

This foregoing is with particular reference to so called free stocks and does not in any way refer to purchases for Civil or Military bodies against foreign loans such as U.T.C.etc.

Regulations by the Fuel Control Commission should be within the scope of providing for a minimum volume that must be imported thru any facility available and also provide, that all Petroleum products are subject to diversion to Government use, whenever or wherever held by supplier and that an inventory of stocks shall at all times be made to the Commission to include receipts and disbursements and to whom the disbursements are made. Permits; preferential as to their issuance, based on normal requirements of purchaser should be obtained from the commission for the issuance of Fuel,

this should not affect the supplier, on goods in transit to destinations or areas not in receipt of, minimum requirements, allocations or quotas.

The foregoing suggestions do not in any way suggest restricting the functions of the Fuel Control Commission, but removes a burden of responsibility from that body, in that it assures; within reason, that free stocks of motor fuel will be available at interior points, when, as and if arrangements for purchases are completed.

The Marketer on the other hand, is relieved of Peak and Valley demands and can prepare for anticipated requirements, in a steady and uniform manner.

It is anticipated that if the foregoing suggestions were effective at this time, stocks would be either at hand or an increase in volume thru any port of entry could more quickly be accomplished, by an organization already functioning, than establishing a new service of supply, however efficient the plans or personnel.

With particular reference to the Rangoon Gateway, it is logical to assume that somewhere within China's border on the Burma highway, a cost differential ceases to exist on freight from Rangoon to Kunming versus freight from Haiphong to Lashio. This point would vary in either direction, dependant upon methods of transportation used. Based on the advantage of laid down cost, the volume thru either port of entry would be regulated naturally. Thus an organized regular movement, regardless of volume, would be in effect and any sudden advantage or change in conditions prevailing, would require only an orderly increase in activity of an existing service of supply, thru regular channels, thereby avoiding confusion and interruption of operations.

The first assault by the enemy, upon the Indochina Yunnan Railway indicated the necessity for immediately establishing a service

of supply via Burma as the most reliable means of obtaining uninterrupted movement of Fuel and Materials for the conduct of hostilities. Any dependence upon the further use of the railway above Lachai for the despatch of materials considered contraband; for the present at least, seems futile. Continued interruptions thru further assaults against this facility appear imminent.

It would seem logical at this time to suggest that a joint survey be prepared by the authorized representatives of the Petroleum marketers now serving the Central Government and a representative of this Ministry, to determine ways and means of obtaining "free stocks" of Petroleum products for distribution in China; thru the Rangoon gateway, utilizing both the personnel and facilities for distribution of the supplier and the aid of this Ministry in the matter of the transportation problems involved, for a mutual solution of an aggravating and serious problem.

(Signed)

M. E. S.

A. B. Bassi

Chungking

Feb. 12th, 1940

GROUP MEETING

March 21, 1940
9:30 a.m.

Present: Mr. Haas
Mr. Thompson
Mr. Graves
Mr. Harris
Mr. Cotton
Mr. Viner
Mr. Cochran
Mr. Foley
Mr. Sullivan
Mr. White
Mr. Schwarz
Mrs Klotz

Foley: Here is a matter the President sent over for recommendation in connection with the restoration of civil rights. The man plead guilty to tax evasion in 1930. He didn't serve any sentence and it will restore his civil rights. It has been recommended by the Department of Justice.

We won yesterday in the Board of Tax Appeals, the Chicago Stockyards case, where there is an unreasonable accumulation of surplus and this means that approximately five or six million dollars will be distributed and it is a fact that the Supreme Court has held that on questions of fact on such matters the finding of the Board of Tax Appeals is conclusive.

White: Is that the first substantial case?

Foley: Yes.

White: I think that ought to get a little publicity, in view of the controversy which was raised last year and in view of your statement to the effect that you were going to proceed along these lines to accomplish the objective which the previous law was set up to do.

H.M.Jr: Talk it over with Chick.

Sullivan: Did you read the memorandum on the new attitude of the Navy on Vinson-Trammell contracts?

H.M.Jr: No, I did not.

- 2 -

Sullivan: Well, they have come in and now they don't care to certify, which is quite a change in their attitude from the proposed amendment that they wanted to have conclusive certifying privileges and we would not have any discretion and now they are very reluctant and say that the terms in the September press release were a mistake. I assume that we shall insist upon their certification, shall we not?

H.M.Jr: Oh, definitely.

Sullivan: The attorneys for Glenn Martin are coming over this morning. I don't know what they have in mind.

Cochran: The ticker just now said the Queen Mary sailed at 8:20 this morning, they didn't know where.

Reynaud was to have the members of the prospective Cabinet meet at 8:45 our time this morning. The names haven't been indicated, but he was trying to get a national Government from one side and it went quite over to the right.

Silver in London is a little down this morning. It was 35.30 yesterday, 34.54 this morning. There was just that one matter of Leroy-Beaulieu --

H.M.Jr: I have this matter about Leroy-Beaulieu and two Assistant Treasury Attaches and he asks how close is this to my heart. Well, it is not - it isn't a matter of life and death with me. Is it with you?

Harris: No, but it is something that we sometime ago thought might be desirable to do. At that time I think the State Department didn't want to do it. Now, the State Department seems to be fairly agreeable to it. I think it would be a good thing.

H.M.Jr: Well, if the French don't want to do it on their own, I am certainly not going to have them check this up as a major concession to me.

- 3 -

Harris: All right.

H.M.Jr: I am not going to - it isn't that important. If they don't want to do it, okay. I mean, they are making such a mountain out of this thing.

Cochran: Yes, I agree there.

H.M.Jr: Tell them I - that I originally asked for it and I haven't changed my mind but if they are going to make this thing as though they are doing me a great big favor, as far as I am concerned, they can jump in the Seine River.

Harris: That would be "insane", all right.

H.M.Jr: Is that all?

Cochran: Yes.

H.M.Jr: Joe?

Cotton: I have nothing.

H.M.Jr: Chick?

Schwarz: I have canvassed, unofficially, the Military Affairs Committee of the House and just in the event you have read the story in the Washington Post this morning and the opinion of the Committee is that there is no basis for that story. It is rather obvious as a result, then, that it was planted with that rider which covers the War Department as the suggestion to the Committee. The Committee has no such feeling. As a matter of fact, it is thinking of dropping the whole thing.

H.M.Jr: You mean of having me come up?

Schwarz: Well, dropping the whole inquiry, if you call it that. The story says there were some Committee men asked, but nobody has asked the Chairman of either the Committee or the Subcommittee to invite you.

John Mitchell was in yesterday afternoon, after listening some time to Mr. Clapper's poison, and

- 4 -

I talked to him a little bit and defensively, just background, he had so many allegations that I felt impelled to give him some of the picture.

H.M.Jr: O. K. Anything else? Will you be here for a day?

Viner: Part of a day.

H.M.Jr: Which part?

Viner: The greater part.

H.M.Jr: You might read my testimony before the Committee on silver.

Viner: I will. I was just told that --

H.M.Jr: The statistics are very interesting. It shows how much influence I have on the Hill. I will be seeing you during the day sometime.

George, can you stay behind a minute?

Haas: All right.

H.M.Jr: Basil?

Harris: There was a piece in the London paper this morning, an extract, saying that the British were very interested in the amount of copper that was moving from New York to Vladivostock. So apparently they are at last getting aware of that.

H.M.Jr: There is a boat loading for Vladivostock, I take it, in New York, wasn't it?

Harris: Yes.

H.M.Jr: And it was loaded with copper and they unloaded and I don't get the significance of it.

Harris: I don't either. The instructions came through the Russian official agency, Amtorg.

- 5 -

H.M.Jr: It would be interesting if they stopped shipping copper entirely.

Harris: Yes, wouldn't it?

H.M.Jr: Someone thought it might have something to do with the fact that they were afraid the British were going to stop their vessels and if there was not copper on board they would have less excuse to seize the vessel.

Harris: Yes.

White: There is a ship being loaded with several million dollars worth of material, much of which could easily be regarded as raw material, so that if the British were looking --

H.M.Jr: Do you know the name of the boat?

White: No, I don't. The report is just on my desk.

H.M.Jr: Well, it is the one that they are loading now that they took the copper off.

White: But this has a lot of things besides copper.

H.M.Jr: Yes, a lot of machinery.

Harris: They put other stuff on in its place.

The Queen Mary, they said they were going to clear for the Canal Zone. Then when they came in they cleared for Trinidad. They cleared the Mauretania for Bermuda.

H.M.Jr: If anything more comes in while I am gone and - Bell is here - in regard to this copper and shipments to Russia, would you give it to him so he can forward it to the President, please?

Harris: Just like yesterday, you mean.

H.M.Jr: Yes.

Harris: Yes.

H.M.Jr: Anything else?

- 6 -

Harris: Well, could I have two minutes sometime this morning? I have just got two small matters I would like to talk to you about.

H.M.Jr: Do it right after this meeting.

Harry?

White: Nothing.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: You are all set now?

Graves: Yes, we are proceeding. Sullivan went to Indianapolis last night to disband this force we have.

H.M.Jr: O. K.

Graves: We are proceeding here today with this 90-day letter procedure, which I think we can finish this week. Next week we will take up the third man.

H.M.Jr: O. K.

Thompson: In the reduction of the force in the Procurement Division, we made no exception, as you know, to the formula list. Mr. Graves and I feel, however, that an exception should be made for the White House cripple.

H.M.Jr: Definitely.

Thompson: We will have vacancies from time to time in our other divisions and offices in the Department and I thought we would fill them with some of these people.

H.M.Jr: Definitely, and there is one person there that Congressman Doughton is interested in.

Thompson: Yes, I have a special list, which includes Miss McKinney, Mr. Doughton's protege.

- 7 -

H.M.Jr: McKinney, that is the name, isn't it?

Thompson: I will watch the vacancies. We have three emergency vacancies in the Secret Service now to be filled by men only on duplicating machine work.

H.M.Jr: Are they over there?

Thompson: Yes. I can fill all of these vacancies by Procurement people.

Did you want me to tell you about this purse snatcher?

H.M.Jr: Would you (Mrs. Klotz) mind calling up Mrs. Morgenthau and asking her about a man in Procurement who has helped out in Self-Help, and if you can get his name, if there is a vacancy, even if it is a - a mimeograph man, is it? He succeeded in getting them 6,000 pairs of shoes for the Self-Help cause. If we get his name and there is a vacancy --

Thompson: This man is one of the emergency employees under Mr. Wilson, I think. He was appointed about 15 months ago on recommendation of Admiral Peoples. He seems to have fallen by the wayside.

H.M.Jr: May I see his picture? Is that the one?

Thompson: This is the second chance, because nearly a year ago --

Harris: One of those he held up was Houghteling, you know. He got his watches.

Thompson: Well, one of the girls whose pocketbook he tried to snatch works down in the Appointment Division.

H.M.Jr: He held up Mr. Houghteling?

Thompson: This is the second time. About six or eight months ago he did the same thing.

- 8 -

H.M.Jr: Well, I have nothing to do with it. It is the District police.

Thompson: Oh, yes.

H.M.Jr: What is the matter with him, anyway?

Thompson: Well, I imagine - a Minister came in to plead for him last time.

Harris: I think he has been playing the ponies, as I hear. He is backing the wrong horses, I guess.

Thompson: This is his second offense and he is definitely going to jail.

H.M.Jr: Do you know how we send down mail while I am at Sea Island?

Thompson: Yes, I suggest we send it down by the Dining Car Steward and send you a telegram to have the train net to get the pouch from the Steward.

H.M.Jr: Don't bother sending me a telegram. Send it to the man who is going to meet the train. This saves me one more telephone call. If there is any important mail to reach me, you can get it to Mr. Thompson by when?

Thompson: I think by 4:00 o'clock.

H.M.Jr: By 4:00 o'clock. He can send it down and I will get it the next morning, if there is something really important. I expect to get away tonight. I have a telephone down there, if it is really important. Anybody expecting a child or something like that, to call me up? I am expecting you all at lunch at 1:00 o'clock unless you have other engagements.

Klotz: Were they invited?

H.M.Jr: Were you all invited once?

Klotz: They don't look it.

Foley: Never heard it.

- 9 -

Harris: Never heard it.

Klotz: I am sorry. The lunch is prepared but you didn't give invitations.

H.M.Jr: I will see you now, Basil, and you with him, George.

March 21, 1940.
3:45 p.m.

H.M.Jr: Hello.

Operator: Captain Collins. Go ahead.

H.M.Jr: Hello.

Captain Collins: Mr. Secretary?

H.M.Jr: Yes.

C: I thought you ought to know this before you left, I had a reaction to the meeting.

H.M.Jr: Yes.

C: Wilbur called, he said that those people that were there this morning were more than overjoyed at it.

H.M.Jr: I see.

C: They had never met you, and that their only regret was that they couldn't have had a meeting with you five years ago.

H.M.Jr: Why is that?

C: Uh?

H.M.Jr: Why is that?

C: Just on general principles.

H.M.Jr: I see.

C: They were just highly elated over it and Wilbur told me to tell you that Mr. Hunt said that any time you wanted him or any of the organization to come to Washington they were yours to command.

H.M.Jr: Well that's -

C: They thought that you had done a perfectly marvellous job there this morning and it was going to clear the atmosphere at least in so far as they were concerned with our friend.

H.M.Jr: Good.

C: And so I thought you'd like to know it.

- 2 -

H.M.Jr: Which was the man that sat at my left and did most of the talking at the beginning?

C: That was Hunt, the President.

H.M.Jr: Oh he's the President.

C: He's the President of American Aluminum.

H.M.Jr: I didn't know that.

C: And the big fellow, the grey haired fellow is the vice-president in charge of sales and the boy that mixed it up with Purvis is the New York man.

H.M.Jr: But for Hunt who started off, he's president.

C: He's the president of the company, he's the big shot.

H.M.Jr: Well that's the man who invited me to come down to Alco.

C: That's right. That's the one.

H.M.Jr: Yes, yes.

C: He's a son-in-law, I believe, of Davis, Chairman of the Board.

H.M.Jr: Well I don't think that Purvis made a very good presentation.

C: I don't either. I think it was lousy.

H.M.Jr: Yes. I don't think it because it made him out pretty small potatoes.

C: I think so.

H.M.Jr: What?

C: I think so too. They were very much impressed over that statement that he came forth with toward the last when you smoked it out of him.

H.M.Jr: Well -

C: The horse trading phase of it they didn't, they said they had suspected that right along and that

sort of confirmed some of their suspicions about some of the other tactics that those people have used.

H.M.Jr: Well it seems to me that he tried to mix the two things up, and I wouldn't let him.

C: That's right. No, that's the trouble there. When you kept them from jumping the hurdle there why that ruined his play.

H.M.Jr: Yes. And it may be twenty thousand tons of ingot that have nothing to do with our domestic situation.

C: Not a bit. Not a bit.

H.M.Jr: And incidentally you know, he told us yesterday that bauxite comes from British Guiana. It comes out they get very little from British Guiana.

C: Yes. None at all.

H.M.Jr: Yes.

C: As far as they're concerned they got none. You remember their figure was seventy-five out of Dutch and twenty-five cent domestic.

H.M.Jr: Well if and when the Army releases any stuff send a note over to Norman Thompson and he has the mail bag that comes down to me.

C: Yes sir.

H.M.Jr: See?

C: You wouldn't want me to give you a ring?

H.M.Jr: Not on that.

C: All right sir.

H.M.Jr: Don't - call me when it's something I've got to decide.

C: I won't bother you.

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H.M.Jr: But if it's just on a release of planes or engines - a letter is plenty good.

C: All right, fine. Well I'll keep the memoranda going to Norman and he can put them in the pouch for you.

H.M.Jr: That's right. But the letter business - I mean the telephone is something that you've got to need my help and I'm more than willing to give it.

C: I see.

H.M.Jr: See?

C: Yes sir.

H.M.Jr: O.K.

C: All right sir, and I hope you have a very pleasant trip.

H.M.Jr: I liked the meeting and I thought it was a good meeting.

C: Oh it was gorgeous.

H.M.Jr: Right.

C: Gorgeous.

H.M.Jr: Because - well I just didn't like the way Purvis handled himself.

C: Well it may be a forerunner of a lot of other deals.

H.M.Jr: That's right. That's right.

C: Though it's a good indicator.

H.M.Jr: O.K.

C: All right sir.

H.M.Jr: Thank you.

C: Thank you sir. Goodbye.

March 21, 1940.
5:00 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

Senator

King:

Sorry to bother you my dear friend, this is Senator King.

H.M.Jr: You never can bother me.

K: I've had a cold for four or five days and the doctor made me stay in, in my bedroom, I'm going to get out tomorrow. I'm a little bit disturbed, pardon me for troubling you, about the action of the committee on the repeal or modification of the Silver Act. It seems to me that in view of the fact that we're getting so - our exports are being paid for largely in silver and in view of the uncertain condition and so on, it might be wise to defer action upon either the gold, putting the gold into circulation and withdrawing silver for a little while.

H.M.Jr: Well, what I testified was this that I felt that this was not an appropriate time to cut off the purchase of foreign silver but there wasn't a single senator from the Rocky Mountain states - they had to back me or who would testify.

K: Is that so.

H.M.Jr: I never was so lonesome in my life.

K: Well if I hadn't been sick I would have been there.

H.M.Jr: Well there wasn't a single person there, a so-called friend of silver, not one.

K: Well I'm so sorry.

H.M.Jr: And the State Department wouldn't come up, they wouldn't say anything and they left this whole thing to me. I simply said, which I believe, that this is an inappropriate time to do it.

K: Well I think that you took the wise course.

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H.M.Jr: And I said if they're going - they voted twenty-five thousand dollars to study the monetary and fiscal affairs of the country and why take a move on silver.

K: Sure.

H.M.Jr: An isolated move when they're going to study the whole business.

K: Well I - it seems to me it's very stupid. They ought to wait until -

H.M.Jr: But Senator King there wasn't a single person -

K: Well I'm amazed.

H.M.Jr: - that would appear. Key Pittman was so busy that day that he sent a man over there with a written memorandum.

K: Yes.

H.M.Jr: He was too busy to come.

K: Well that's too bad.

H.M.Jr: And here I was, all by myself, a farm boy from Dutchess County -

K: (laughs)

H.M.Jr: An apple grower and supposed to be an expert on silver.

K: Well I wish there were more men in public life that had the sense that you've got my dear friend.

H.M.Jr: Well it's very kind of you to say so, but -

K: Because I've esteemed you so highly and I've had much confidence in your integrity and in your ability.

H.M.Jr: That's very kind of you but there's certainly - I never was so lonesome in my life as I was on that day.

K: Well I may drop around in a day or two and talk a little further with you.

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H.M.Jr: Well I'm leaving in a half an hour for Georgia,
with my family.

K: Well you'll be back when?

H.M.Jr: I'll be back -

K: Next week?

H.M.Jr: No, about ten days.

K: Oh yes.

H.M.Jr: This is the childrens' school vacation.

K: Oh I see.

H.M.Jr: And I'm going away with them.

K: Well, God be with you.

H.M.Jr: Thank you, goodbye.

March 21, 1940.
4:53 p.m.

H.M.Jr: Hello.

Operator: Delano. Go ahead.

H.M.Jr: Hello.

Preston: Hello sir.

H.M.Jr: Preston?

D: Yes sir.

H.M.Jr: First, unofficial business, we enjoyed our evening very much with you the other night.

D: So nice of you to say so.

H.M.Jr: Official business, I'm leaving and I wondered if you had anything recently on the new capital for Bank of America.

D: It's getting pretty close.

H.M.Jr: It is.

D: I think that the immediate point is that Mr. Jones is in discussion with them concerning their price for conversion. He disagrees with them on that and has told them that they have to revamp it some.

H.M.Jr: Yes.

D: We have raised two points, one is the question of the amount of retirement that we will permit them to make each year on the preferred stock.

H.M.Jr: I see.

D: And on that I think we're getting very close to an agreement. They're willing to come to about a million dollars a year.

H.M.Jr: I see.

D: The other is that we would like to have them.

H.M.Jr: I don't hear very well.

D: Hello.

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H.W.Jr: I hear better now.

D: The other is that we would like to have them put at least twelve million dollars of this into immediate capital rather than the cut back to seven and a half which they had in mind, and on that point we're supported by Mr. Jones of the RFC and I think they'll meet us on that. So I think we're coming close -

H.W.Jr: How do you mean they'll beat you?

D: They'll meet us.

H.W.Jr: They'll meet you.

D: Yes, meet us on that. So I think we're coming close Mr. Secretary, on all these things and I think by the time you come back we'll have the whole thing settled.

H.W.Jr: All right.

D: I'll be - when the thing gets down to the point of where there is agreement all around I'll of course give it to Danny so that you can have a report from him on it where you are, you see?

H.W.Jr: Well after it's all over, when I come back, we'll all have to have a party.

D: (laughs) I think we've got one coming.

H.W.Jr: I think so. We'll charge it up to the Bank of America.

D: Well I - (laughs) - there may be some way of doing that.

H.W.Jr: They might even give it.

D: I would think they ought to don't you?

H.W.Jr: They ought to give something.

D: I think so (laughs) How long are you going to be away Mr. Secretary.

H.W.Jr: I hope to be away for at least two weeks.

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D: Hope you get a good rest sir.

H.W.Jr: Thank you.

D: Goodbye.

H.W.Jr: Goodbye.

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE March 21, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

In accordance with the instructions given by the Secretary in the 9:30 meeting this morning, I telephoned Mr. Leroy-Beaulieu, Financial Counselor of the French Embassy, at 10:30. I told Leroy-Beaulieu that the Treasury Department had for some time sought diplomatic status for two members of its staff in Paris, in addition to Treasury Attaché Waite. I added that the Treasury Department had renewed this request to the State Department some weeks ago, and that the State Department had seen fit to transmit the request to our Embassy in Paris for appropriate representation to the French Government. Leroy-Beaulieu said that he understood this much from his own people, but wanted to know how much importance the Secretary really attached to the matter. I told Leroy-Beaulieu that we had made the request through the appropriate channels and desired that it be given appropriate consideration. We were not making a special issue of the request and were not appealing for his intervention.



STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

347

INTER-OFFICE COMMUNICATION

DATE March 21, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

In talking with Leroy-Beaulieu this forenoon in regard to the French Government shift, he felt that the new Cabinet could not be called one of National Union. I remarked upon the number of Socialists who had been added on the Left. Leroy-Beaulieu countered by pointing out that Reynaud himself was to the Right and that other Right leaders, such as Rollin, Minister of Commerce, had been added. He did not think that the complexion of the Cabinet had been much changed, however, and insisted that the principal result was more to correct a state of mind than to take a definite course of action on specific issues. Leroy-Beaulieu said that when he saw Reynaud recently, the latter was complaining that the Allies were letting the opponents take the initiative in the war. He favored reversing this. Reynaud would like to make orderly plans, emphasizing the danger of letting things drift and "muddling through". He will bring home to the people the sacrifices that must be borne, and will probably insist upon stricter internal regulations with the view to an effective carrying out of the war. Leroy-Beaulieu doubts that any immediate change in actual plans for a military campaign will be made. Leroy-Beaulieu reminded me that Daladier is not out, that he continues in the Cabinet as Minister of War, and that he represents French thought even better than Reynaud, the former being well known throughout the country while the latter is primarily a Parisian.

Leroy-Beaulieu thinks Reynaud has a good chance of forming a Cabinet which may last for some time.



(Confidential)

P A R A P H R A S E

A telegram (no. 141) of March 21, 1940, from the American Ambassador at Chungking reads substantially as follows:

It can well be seen that what action to take in regard to Japanese military notes must be a serious matter to those faced with the necessity of taking some steps looking toward the reopening of trade on the Yangtze River. If the Japanese are concerned with the existence of the military notes in connection with the reopening of the river to general trade the reason must be that they want to avoid a repetition in the Yangtze area of the somewhat unfortunate experience in the Tientsin area of the Federal Reserve currency notes. The regime sponsored by the Japanese in the Yangtze valley is dependent for its success upon both economic and military support which has been coming altogether from Japan in the past. In discussing the development of export trade from Japan to China, Japanese economists have not seen fit to recall to their own attention or to the attention of the world the fact that a very large part of Japan's exports to China has been necessary to redeem Japanese military notes and Japanese yen currency, thereby causing loss to Japan and benefit to Chinese currency. How to transfer to Chinese and foreign trade responsibility for supplying economic aid without assisting Chinese national currency and causing Japan to lose hoped-for benefits is Japan's present problem. Inflation has been brought about and trade has been strangled by the link system which was made necessary by attempts to hold up currency of the Federal Reserve Board in North China. It is natural to expect that a like situation will develop in the Yangtze area if an altogether new currency similar to the notes of the Federal Reserve Board and protected by the link system is introduced. In the event of such action Chinese goods will only be driven through smugglers' routes benefiting French Indochina, Hong Kong and the Chinese national currency.

(See also paraphrases of telegrams no. 221 of March 17 and no. 87 of March 19, from Shanghai and Peiping, respectively.)

THE ALUMINUM COMPANY OF AMERICA

March 21, 1940
11:15 a.m.

Present: Captain Kraus
Captain Collins
Major Lyons
General Brett
Mr. Hunt
Mr. Wilbur
Mr. Stanley
Mr. Davies
Mr. Foley
Mr. Purvis
Colonel Cave

Hunt: I might explain, Mr. Secretary, that Mr. Stanley is our Sales Manager and Mr. Davies is the Manager of our New York office, who has been in direct touch with the British and the French mission, and Mr. Wilbur is the Manager of our Washington office, who has been in touch with your people here in Washington.

H.M.Jr: Thank you. The reason I asked you gentlemen to come down was this: As you know, the President has asked me to do sort of a coordinating job for him and in doing this, and in talks with Mr. Purvis, he is very much worried that his serious bottlenecks will develop in aluminum and the various shapes and forgings and so on that I can't discuss technically as we begin to get into this program. As he described it to me, he told me it figures roughly this: The figures which I am carrying in my mind are that the production of ingots of the aluminum company in the United States is around 150,000 tons and is expected to go to 180,000 tons when you open up your West Coast plant.

Hunt: That is a little low.

H.M.Jr: And that there are some 200,000 tons of ingots produced in Canada. He tells me that by rule of thumb if we go to a thousand planes a month in this country, it will consume some 60,000 tons of aluminum. He also tells me that they ran into this thing in '37 in England and that was one of their great troubles. I just have a smattering of this, but for the first talk with you and the reason I wanted the Army and Navy represented is because, after all, if it

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is as serious as he paints the picture, our own national defense comes very much to the front. He tells me that a thing like a tube, for instance, that it takes six months before it is ready for use. It goes through certain finishing processes and he is very much - anyway, I am just repeating and he tells me that on castings - forgings, that you fellows are going to be right up against it and won't admit it. Furthermore, he thinks that you are holding a pistol to his head on some 20,000 tons of ingots that you want to get from Canada. There is the story and I wondered if you people would care to say, looking forward to the production that we now have for our Army and Navy and civil production and what we have on hand for foreigners plus what we are going to get, do you people feel that you can take care of it during the next two years?

Hunt:

Yes, sir, we feel that we can. We are practically sure of it. If it is handled in a reasonable way and we get the orders promptly. One great trouble is that we hear a lot of talk about what requirements are going to be made, but they are very slow in placing the orders. There are always changes in specifications. But we have no fear but what we can take care of all of this business if the orders are placed and we understand what they are, what they want. In the first place, about the ingot, we usually talk in millions of pounds. The foreigners very often - or usually talk in tons.

H.M.Jr:

Could you talk in tons, because I have learned my lesson on that. Just switch from pounds to tons. When it gets to pounds the figure will be so high. If you don't mind.

Hunt:

That is all right, sir. About a year ago we had around 160,000 tons in stock. We are making at the present time 170,000 tons, roughly, a year. We shipped the British, last year, something over 30,000 tons on the orders. We knew that the --

H.M.Jr:

May I interrupt you? Was this in the form of ingot or --

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Hunt:

Mostly ingots, some fabricated. We knew that they were increasing their capacity very greatly, both in England as well as in Canada, so when they approached us in regard to their requirements this year, we asked them to furnish us the ingot, not that we haven't got it, but we were preparing against increased needs in this country, both from our own military authorities as well as domestic consumption, and against the time when we will bring in larger production on the West Coast. We said, "Here, we can give you the fabricating capacity, but we would like to have you furnish us the ingots, especially inasmuch as we have supplied you with all this metal last year." They didn't seem to make any particular bones about it and said, "All right, sure. You put it up to us and - that you want the ingot and we will supply it."

As far as that has been, we think it is wiser for the - this country to have plenty of ingot in the country at all times against any needs that may arise from our own military authorities or our own domestic business. It is on that basis that we figure that in 1941 or '42 there will be plenty of production of ingot. Of course, it takes a long time to increase your ingot production. You have got to go back to your water power and all the facilities along the line. They have the metal and we asked them to supply it. We didn't hold any pistol to their heads --

H.E.Jr:

That is my definition, not his. He is a very polite gentleman.

Hunt:

I see. But we thought it was good business. Of course, from our own company's standpoint, we would make more money if we supplied the ingot and we have it and we could supply it. We have got at the present time some 100,000 tons of stock. Our production is coming right along, but we thought it was wise business in the long run to get the ingot from them.

Now, as far as the fabricated parts --

H.E.Jr:

Excuse me. Was he correct that your production was going to go to 180,000 tons shortly?

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Hunt: Our production is going to be in 1941 - will be 200,000 tons or over, two hundred and - two hundred and ten, maybe more. It depends a great deal on the water, and take in the South this year we have got a very low water - a dry season and next season in all probability we ought to have a very good water. It usually runs that way, so that in 1941 I think we will be 210, maybe 220,000 tons and that ought to take care of all the needs of anything that is in sight at the present time. In fact, we are looking for orders.

H.M.Jr: Well, I don't mind, just talking here in confidence, both Mr. Purvis and Sir Henry Self don't agree with you. Neither of them agree with you and Sir Henry Self says they were right up against the same thing as that in 1937 and that it took them all this time to get straightened out. He says it is a very slow process.

Hunt: That, in confidence too, I think there may be some reasons why Mr. Purvis is trying to --

H.M.Jr: I thought maybe you would tell me before we had them in. We are all citizens of the United States and I take it we have all got one interest and that is our national defense interest first. I wondered if he had some selfish interests of which I wasn't aware and that is why I want to get it first.

Hunt: I don't say that this is in his mind, but it is possible that - at least, if he can control the entire production of an industry, such as aluminum and have it sewed up so that it can't go to any one else, he at least prevents it going any place where he doesn't want it to go and he sits in a rather nice position as far as American industry, as well as American military affairs.

H.M.Jr: How could he possibly control it?

Hunt: If he - he would like very much, that is one thing we have noticed, that --

H.M.Jr: Excuse me.

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Hunt: Well, while I don't want to make any accusations, still --

H.M.Jr: If that machine bothers you, there is just one copy which goes into my safe. There is just one. But I have got so much I can't remember it and there is only one copy and the only person I report to on this thing is the President of the United States and there have never been any leaks out of this office, but I do have one copy and his notes are burned, but the one copy does go in the safe for my grandchildren.

Hunt: I see.

H.M.Jr: I can't remember these things, but with the exception of the President, he is the only person I report to.

Hunt: We thought that there was a feeling that on the part of the mission that they were very much interested in our capacity for various products, total and all along the line. We have been conservative in giving them the capacity. In the first place, we didn't think it was any of their business and we didn't want to tell them it was "X" amount and then find that they wanted it all and that we had nothing left, and we wanted to keep a little cushion. That very likely is the reason that he has had those figures and given them to you, which no doubt he has gotten from our people. Maybe Mr. Davies has given them to him. We felt that they were more interested in the capacity than they were in placing orders. They have placed very few orders. The orders that they have placed, they have been changing the specifications on. We can't get shipping instructions and we can't get this and that and as far as their people down the line, why, they are entirely satisfied with what - with our service. We have broken our necks to rearrange our schedules at times to suit them and various things. It is possible that they would like to control all of the industry so as to prevent any possibility of any leaks and - into Germany. It is also

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possible that some of the metal that they are getting is not being used for military purposes. We have sort of felt that there might some of it creep down into South America and they are going after some of those markets, but I am not making any accusations about it. In other words, I have felt that our company policy has been that while we wanted to give them all that they wanted and needed for military purposes, that after all, our first duty was to the United States military purposes and American industry and that we didn't want them to have a mortgage on our entire capacity or our entire industry. They have shown indications they would like to have it.

H.M.Jr: Of course, we can't let them have that.

Hunt: No, sir, I realize that.

H.M.Jr: I am not familiar with - I understand a considerable amount of bauxite comes from British Guiana.

Hunt: Yes, sir.

H.M.Jr: You say --

Hunt: Dutch Guiana, I beg your pardon.

H.M.Jr: Is that controlled by the British?

Hunt: No, sir, that is Holland.

H.M.Jr: Are you having any trouble getting the bauxite you need?

Hunt: No, sir. We are having a little trouble getting the bauxite, but the Dutch Government is causing no trouble.

H.M.Jr: Does it all come from British Guiana and --

Hunt: Dutch Guiana.

H.M.Jr: Dutch Guiana.

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- Hunt: Oh, no, bauxite is very widely distributed over the earth's surface. There is lots of it in the East Indies and in Africa. There is lots of it in the southern part of France. That is where it was first discovered.
- H.M.Jr: But as to consumption in the United States, what proportion comes from British Guiana and what proportion from Dutch Guiana?
- Hunt: The consumption in the United States, about two-thirds comes from Dutch Guiana, that is, Holland, Dutch, in the northern part of South America, and about one-third from Arkansas, the State of Arkansas.
- H.M.Jr: And what proportion from British Guiana?
- Hunt: Practically none. British Guiana supplies Canada and some European countries.
- H.M.Jr: Then they couldn't hold you up?
- Hunt: No, sir, they can't.
- H.M.Jr: There is no way of their putting a leverage on you by saying you can't get the bauxite?
- Hunt: Not unless they would declare war on the United States or Holland or interfere with our shipments, and then we have fairly good-sized mines in Arkansas which we have conserved purposely to - against war needs.
- H.M.Jr: Well, on the present basis of your ingot production, what proportion of the bauxite is produced within the United States?
- Hunt: On the present proportion, around a third, a quarter to a third, but we could push that up, if we had a war and our shipping was shut off, we have enough American production of bauxite in Arkansas and Georgia blocked out that we could last for three or four years without any more than we have discovered and as we get deeper, it is like anything else, you find more. We have done that purposely and at considerable expense.

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H.M.Jr: How long does it take to get a mine like that in production?

Hunt: We could put it right into production within 30 or 60 days. It is working now.

H.M.Jr: Is it surface mining?

Hunt: Surface mining, mostly. There is some underground.

H.M.Jr: But you could, in 30 days.

Hunt: Yes, sir. You need have no fear that we would be shut off from bauxite under any conditions. We could take care of the situation very well.

H.M.Jr: General Brett, would you like to ask some questions?

Brett: No, sir, he is giving a very clear indication. We have checked on our things, Mr. Secretary.

H.M.Jr: Nothing new?

Brett: We were not worried from our standpoint, after having laid their production figures on the table for us.

H.M.Jr: You are not worried?

Brett: That is, including the aviation industry of the United States as well as our own requirements.

H.M.Jr: Even if we get in this foreign order?

Brett: Even to taking care of the foreign order. We felt that the aluminum company can meet all the requirements of American industry under any circumstances and to the extent that they can expand within a reasonable time. On the item of forgings, with the exception of forgings, and that is purely a question of placing of orders, anyway, so that the company has an opportunity to meet the demand. Now, the forgings have been held up due to the failure of the industry to place their orders and give them time. That is

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usually the last item they ask for.

H.M.Jr: Well, I can't remember all these things. Did somebody mention forgings to me?

Kraus: Extrusions, possibly.

H.M.Jr: What the hell is an extrusion?

Kraus: It is a piece that is manufactured by squirting it out of a die, rather than a closed die, and it is literally extruded through a gate.

Brett: Those things are something that can be taken care of by increased facilities as business warrants.

H.M.Jr: But he made a firm statement that it takes six months for a tube to cure, or something like that.

Davies: That is not a case.

Munt: That is not the case, no, sir. He is mistaken there.

H.M.Jr: Well, he is coming in. How about you, Captain Kraus?

Kraus: We have had no distress, Mr. Secretary, over the ability of the aluminum company to meet our needs and the general domestic needs. The only question under which we had some - not real distress, but at least an acute interest, was when some of the inquiries for - foreign inquiries appeared to us to exceed by a considerable amount what their fabricating industry could consume, and it looked as if there might be a doubling up, an effort to accumulate stock against the possibility of interruption of shipment, which might make a temporarily serious condition in this country. If this stuff were all dumped abroad, maybe as much finished aluminum as we will say the French airplane industry could consume in several years, we might be pretty hungry for aluminum during that period, but I don't think that many of those

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inquiries have eventuated into orders, but I am quite sure that some of those inquiries that are merely heard about as rumors far exceeded the capacity of the fabricating plants in western Europe to utilize within a reasonable time, and that was the only worry we had, that if those orders - if those inquiries eventuated, we might have a temporary scarcity of aluminum here, because it would all have been, maybe two or three years supply would have gone abroad.

Brett: May I ask a question, sir? Is that recently?

Kraus: I haven't heard any more about it in recent weeks.

Brett: That was some time ago?

Kraus: Yes, and as I say, very few of those inquiries have eventuated into orders and that was the only thing that disturbed us.

Brett: Of course, there must be an orderly procedure on this, Mr. Secretary, from the standpoint of the fact that no one member of the industry, of the aircraft industry, must lay in a tremendous stock. There must be an allocation and a movement of the supplies as they show their demand and they must get their orders in promptly for what they need, but we have had no anticipation of any difficulty at all as far as the United States is concerned.

H.M.Jr: I didn't know whether this was like the engine situation.

Brett: Well, we have checked this on several occasions, sir, against way last fall, the early part of last fall, and under - each time we have had perfect confidence in the fact that we could meet the program as we had laid it down and then when the question of the 8,000 plane program came up, we immediately made another check and we felt confident that the aluminum company could meet all the demands within the United States. Of course, it might have to be controlled and allocated and checked on.

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H.M.Jr: Well, you see, if asking Sir Henry, who, I gather, has had charge of their production for three years, what was one of their troubles, one of their things he said, "I think I called it a major trouble in '37, was getting aluminum." He said that that was their major trouble.

Hunt: That may have been from their own - trouble from their own production over there, because they had no trouble over here.

H.M.Jr: I am just - he didn't say here, but he said in England, their principal trouble was --

Hunt: Very likely that was true in the foreign situation, because they have made very large commitments in Canada since '37. We have understood that the British Government have loaned the producer there in Canada quite a large sum of money at a very low rate of interest and taken some kind of obligation on their production over a period of time and they have gone into it very heavily in the last year or two.

H.M.Jr: Where does the French aluminum company get its ingots?

Hunt: You mean its ore?

H.M.Jr: Yes.

Hunt: It gets it from the southern part of France.

H.M.Jr: Are they self-contained?

Hunt: Yes, sir. The Good Lord gave the French a great blessing there because they not only have the water power and the bauxite, but they have other ingredients that are very convenient and very little shipping and very little delay.

H.M.Jr: And they can produce enough to take care of their own needs?

Hunt: They always have. They have a very high duty into France and up until the war, there was

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figuratively speaking not a pound of aluminum shipped into France, up until September.

W.C.Jr: This isn't entirely within my jurisdiction, but if at any time you people felt that in this thing that we are trying to do here, that the English were trying to take trade advantage of us in South American, I would be interested in hearing about that.

Mont: We don't want to make any accusations, but the way the thing has been handled, while we thought we were giving them all the results that they wanted and needed and could use, we have been a little - wondering what all the shooting was about, to be frank with you.

W.C.Jr: Well, unless somebody has some idea, I will have Mr. Purvis in now.

Now, General Brett, I want you to stay, please. Are you getting ready to get up?

Brett: No, sir.

Stanley: May I say a word, Mr. Secretary? I think one of the salient points was raised by Captain Krause here. Now, I assume that our intelligence in this country must know fairly well what the production of aircraft in France is and what the production in England is and it is my personal opinion that what has been shipped over there from this country, plus what they produce in their own country, is way beyond any production or anything that it is possible to use in that program. Now, in the early stages --

W.C.Jr: You are talking about airplanes or aluminum?

Stanley: I am talking about aluminum in airplanes.

W.C.Jr: You mean they are taking in more aluminum than they can possibly use?

Stanley: Use in airplanes, as we understand the program.

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For instance, here, I think Captain Collins in the early stages - we said find out what they want. 2,000 tons of sheet a month. The whole aircraft industry of the United States doesn't use 2,000 tons of sheet a month. Another time they said, "Well, what do you want?" "2,000 tons of rod a month." It is perfectly absurd. The quantities that they have mentioned, they are absurd, so that I think that we must - I went to see the Commissioner in New York in November. I said, "Gentlemen, we want to do everything we can to help you, but we must have a program. Tell us what your program is, what you want, and when you want it, and we will try and give it to you." To this date, we haven't a comprehensive program.

H.M.Jr: What you say doesn't surprise me, because it was sometime this December or January that that mysterious Frenchman was here. We called up the Embassy to try to find out who he was, to get him accredited before he came down here. We never were able to locate him. You have heard that story?

Stanley: Yes, sir.

H.M.Jr: I won't see anybody unless he is accredited by the Embassy and the State Department. I couldn't locate him.

Stanley: If the British Mission will say what their program is, what their production is, and what excess they want to take care of it, and if the French Mission will do the same and we get the same information from our own Army and Navy, then we have got something to work on and we can do something constructively. All this general talk that the Commissions are handing us is useless in planning.

H.M.Jr: Well, I would tell them that.

Stanley: Oh, we tell it to them.

H.M.Jr: Tell them in here.

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Kraus:

Your related subject, Mr. Secretary, might give you some of the background. Both the War and Navy Department are making every effort to make the production of finished aluminum as it relates to aircraft manufacture a production business. We are wholesally inspecting their product and whenever they have any in stock, it is available for us here as an inspected product and it permits the production operation of the industry.

Now, the Navy Department - I imagine the War Department has done the same thing - the Navy Department has urged its airplane contractors to release quantities so that the aluminum company can process those individual items in a production manner, and I am quite sure the War Department has done the same thing, and that applies with very great gravity and seriousness to the foreign program, too. If they are going to dribble out releases for particular airplanes, the industry - I doubt very much if the industry can attain these very satisfactory figures of output except in ingot, as Mr. Hunt has mentioned. It could produce ingot until it was blue in the face, but we can't run this industry as a production rolling mill running 24 hours a day without a run of the same thicknesses and the same kind of material or these capacities just evaporate and aren't obtainable so it is important that they conduct their business in a manner off mass production.

H.M.Jr:

Fortunately, I am of a suspicious nature and this thing didn't make two and two and that is why I asked you to come down and let Mr. Purvis come in and tell his story. It may be something important and it may not, but I feel it was worth my time. If it is all right, shall we have him in now?

Hunt:

Just a second, now, Mr. Secretary. One possibility about that six months on that tubing business, it is possible that this is the answer to that. We do know that their technique in Europe is entirely different from our technique.

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They have in this process of hardening, they use what we call, "age hardening," that is, taking time to do it. We have a process of artificially hardening and accelerating it and it doesn't take nearly as long. That may be the answer to the six months proposition.

Stanley: Or it may be alloys. They want special alloys. They are perfectly willing to buy our American built planes from the standard alloys of the War Department, but when they want something they want something different. You can realize what that does to production.

H.M.Jr: I think a little plain talk is always helpful.

(Mr. Purvis and Captain Cave enter the conference)

Mr. Purvis, I have been going to school for the last half hour and I think we have had, from my standpoint, a very satisfactory talk, a very frank talk, and to sum up, I think what these gentlemen feel is that they don't know what the Allies want. If they knew what the Allies really wanted, then they would be in a position to say whether they could or could not produce it for them, first taking care of our own domestic needs. They find themselves in the position that they don't know. They have assured me, and representatives of the Army and Navy have assured me, on the present basis, as far as the domestic needs and national defense are concerned, we are all right, but until they know what the Allies want, they can't tell whether there is or is not a bottleneck.

Purvis: Yes, right.

H.M.Jr: And they say quite frankly they are waiting and that the specifications - everything is shifting and they don't know as of today what you really want.

Purvis: May I present it from a slightly different angle? I think there was a stage when that would have been a very legitimate position to take. That was at the stage where, having

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certain capacities available on the other side, both in France and in England, requirements growing, it was obvious that a surplus had to be obtained elsewhere and this was the only place, of course, to get it. Naturally, therefore, the question became, what could we get from here. I do suggest that the difficulty in getting exact specifications at that time was the usual difficulty that you get. You come into a market. You want to find out roughly what tonnages are available and what kind of sheet or bar, or whatever it may be, because you can't give specifications and tie them in with an existing program which is drawing supplies from a great many other factories until you know what is available in the market, roughly speaking, in tonnages and during that stage when we were ascertaining what the productive possibilities here were in tubes, bars, sheets, and so on, forgings and so on, there was a lack of detailed specification.

However, I would be very surprised if in the last few weeks there has been such a lack. For instance, I would say that on the British end today there are two divisions, if I remember rightly, though I haven't been in the strict detail, but the orders which are being discussed, partly placed, for British account, are of about 10,000 tons in all, I think, and I would say that there is a detailed specification of all that.

The second thing, of course, is such orders as may come out of the new aviation contemplated program. There we are in the formative stage of the exact numbers. I don't know to what extent details have been placed, but that won't be so difficult anyway, I would imagine, from the aluminum corporation's standpoint, because it will be for American specifications, U. S. Army standard, both by U. S. concerns - and that would seem to me to simplify the whole thing so that from the strictly British angle, as far as I know, there is an exact specification of every quantity that we wanted in the hands of the aluminum corporation and has been part of the negotiations which have been going on.

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In the case of the French, I believe that it is perhaps of the order that specifications are there for 70 percent of the amount. I would rather feel that at this stage the difficulty that we are up against is that there is no supply, apparently. Otherwise, we may give specifications of the kind of sheet or tube or whatever it will be, but we are met with the reaction, "Well now, you all have to supply this material from which it is made." Well, that is, of course, driving us back on our own markets. There is very much a question whether there is any point in coming away from our own market if we are simply driven back in it, except in some particular stages.

Now, that is one phase of our difficulty and the other phase is merely that the deliveries are naturally, in certain cases, very far ahead. We have been unable to get anything that would fit in with the requirements that we want, particularly in regard to the three bottlenecks that I mentioned to you yesterday, Mr. Secretary, the forgings, the tubes, and so on. Now, there is our picture and I think it is a fair statement.

Stanley: How late is your information?

Furvis: You mean in days or hours?

Stanley: I just thought possibly you weren't up to date, that is all.

Furvis: It depends on what you mean by up to date. If you are talking about hours, I have been away for 18 hours.

Stanley: Well, a week, say.

Hunt: Go ahead, Mr. Davies. You have been in touch with the situation in New York.

Davies: I will take those three commodities, tubing, rods and --

Hunt: He said die castings.

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Purvis: Forgings, tubes and die castings.

Davies: You don't mean die castings. Do you mean forgings?

Purvis: That is an indirect bottleneck.

Davies: That has never been mentioned.

Purvis: It is simply a bottleneck that exists.

Davies: We have been told by the engine people --

Hunt: Mr. Purvis, if you will give us an order for a million pounds of die castings today, we will ship them to you.

Purvis: Then I must evidently modify my statement to this point, that I was talking about what I believed to be the three bottlenecks in the thing as it comes to us.

In the case of the forgings and in the case of the tubes, it is based on direct inquiries or orders placed. In the case of the die castings we are up against - it is merely what the engine makers tell us in connection with the new program we will probably run into. Is that right?

Davies: As I understand it, yes, that is correct.

Hunt: Go ahead on the other things.

Davies: We have never had an inquiry from you for forgings. You mentioned rod. In the first place, you mentioned your total requirements for 1940 would be 1102 tons. Inside of two weeks or three weeks, that changed to 10,000 tons. It is a little hard when something multiplies by ten on you while you are planning on the first unit.

Purvis: War is like that.

Davies: We have orders for ten percent of what you want. Those orders were received, the first

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one, the sixth of March. Before the end of March, we promised to have a carload of tubing ready for you. You said you were in desperate need. So in less than three weeks we were going to ship a carload of tubing to you. You gave us an order for 800-odd tons of rod on March 6. On March 13, I called up Mr. Robbins and said, "We have a carload. Where is your inspector?" The balance of the 9,000 tons we received the details the day before yesterday.

Purvis: What - I still couldn't see, however, what you want me to - what you are trying to prove there. Am I right in thinking - I am not trying to prove that you are not trying to do what we want to the extent of your capacity, because my information has been that everything that you could do in that regard in working out the details of the situation has been done in the most satisfactory way. I am talking about the facts that - affecting future orders, the 1102 tons we know is placed. The deliveries are not quite as good as we would have liked or hoped, particularly on tubes, as you know, because that has been the subject, I have no doubt, of considerable discussions. You are giving us some delivery, I admit.

Davies: We started delivery in three weeks. I think that is pretty good.

Purvis: It is not the start of the delivery, it is the quantities. It is a question of your capacity. We are not complaining about that. That is the condition. But the fact is that if we could get three times as many tubes from you today, you would get the orders, as you know, tomorrow, provided you have the material.

Davies: As of two weeks ago, I was told that you wanted 2,000 tons of tubing.

Purvis: We do.

Davies: Two days ago I was told that it was 1,000.

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Purvis: Was any suggestion made on your part that the 2,000 would be tied up with the question of supplies being --

Davies: Could I finish? I would like to finish on this tubing. The 2,000 became 1,000 and the sizes became entirely different, so I am just saying that we haven't the order yet and we just heard that it was changed two days ago and we are prepared to take that and run it. I don't know where the difficulty is. The point is on the time, sir.

Purvis: I understood that those - any tube orders that were placed - as I say again, I am not in the detail of these orders, but my understanding was that any further tube orders placed with you would start delivery about August.

Davies: Defer the tube orders. As the position was given to me --

Purvis: So there was no hurry to place the - and would be conditioned on getting ingot from the other side, so that I don't think there is any - is that about right?

Davies: You are right about additional shipments; new orders would begin in July or August, but we must know before July or August what we are going to plan for.

Purvis: Oh, very much. You will know, absolutely. That is why we have been discussing it. But we are faced, I think, with the fact that you say first we have got to have ingot and secondly, we can't do anything for you. Now, what we are naturally - the reason - when we go back to the other side and say that the deliveries are impossible until such and such a date, what always happens between buyer and seller? Quantities are liable to change, even specifications, because it may not come in time to be of any good. But we are not complaining about that. That is tied up into your capacity.

Davies: All I was attempting was to explain to you that as fast as these orders are coming in

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you are getting action on them. As fast as we have had any details, you have had action, very promptly.

Purvis: Perhaps we are talking about two slightly different things. As I understand it, you would like to give us action but haven't the capacity.

Davies: We have given you action.

Purvis: You have given us a small start. We could have taken the whole quantity in one month. We have cut the quantities, because the times at which we could get them in England and in France have caused a variation in quantities.

Davies: Isn't it a fact that if you were to obtain - you said you could have taken all that tubing at one time. Isn't it a fact that if you took all that tubing at one time, you would have enough tubing to build all the airplanes the British could build in the next two or three years?

Purvis: I wish it were.

Davies: Is it so?

Purvis: I am afraid that our specifications in the use of our tubing in airplanes are so utterly different from yours here that that is just not so. We wouldn't be, I assure you, just now requesting tubes if we didn't want them very badly.

H.M.Jr: Could I just shift this discussion for a minute? Let's forget about the immediate needs of the English and French as to what they have. I mean, personally if I had to umpire this thing, I would say sit by and we would watch you go a couple more rounds.

Purvis: I think it is round 50 for me.

H.M.Jr: I wouldn't want to make a decision right now. You would have to go at least five more rounds for me to decide. It would be a highly technical decision at that. But there certainly are grounds for you gentlemen to get together,

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because there seems to be a definite misunderstanding as to what you want and what the aluminum company can do as to your immediate needs, but I should think that would be accomplished - that doesn't bother me so much, because I think you both can take pretty good care of yourselves. That is the thing which I would like you to talk about, Mr. Purvis. Is that this order which is in contemplation for 8,000 planes - 11 or 12,000 engines, whatever it is, and what worries, if any, would you have if you placed those orders in the market as to the availability of aluminum and its various forms, shapes and extrusions.

Purvis: I think chiefly, as I understand it, though Colonel Cave perhaps can give - the actual forgings as distinguished from the stock from which the forgings are made, and this thing that we are warned by the engine makers of die castings. I think those are the most important. Tube would probably be difficult, but not impossible. Is that a fair statement on the basis of the information we have?

Cave: I think so, sir. I should like to consider that, that I think you gentlemen must have somewhere a better idea of this problem than I have, because I have only been able to take two American factories which happened to be supplied - and get the details. I have had to apply that information to this program and say that one will be in proportion to the other, which may not be, and it is only in that way that I can get out figures at all. I think you have had a copy of the figures, have you not?

Davies: No, sir, I am not sure that I know the figures that you have in mind.

Cave: It amounts to a total of over a - from, say, now until next April, '41, of something like 15,000 tons. I don't know whether that figure has been mentioned to you.

Davies: I have never heard the date of April. I have

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heard no date beyond the end of this year.

Purvis: That would have to be - of course, you have your order in ahead of time.

Cave: That is my estimation, which I don't think you will find is very far out by proportions. It may be wrong in tons.

Purvis: You have had to work from rough calculations.

Cave: Yes.

Stanley: Are we talking for domestic manufacture?

Purvis: Manufacture of this new order.

Davies: I haven't seen the figure, but I would agree with it. It sounds right.

Stanley: You are talking now, not the stuff to ship abroad --

Purvis: Two problems, as I tried to bring out. One is what would be shipped from this country of the extrusion sort, the other is what would go into the program of further orders as placed.

Stanley: I would like to suggest to Mr. Purvis that this problem of capacity, you appreciate, depends upon the business that you are going to put in your mills. Now, we have been threatened with a lot of airplane business in this country for a long time. When you ask us to tell you what our capacity is, what do you expect to tell us when we don't know what we are going to get in this country? You are just asking an impossible question.

Purvis: Are you quite sure that you haven't had the - in the first place, as I said, we have given you not only the figures, but the details in regard to the orders as such from this country, a hundred percent British and seventy percent French. Now, so far as the other program is concerned, it is in the stage where the planes are being chosen as to types, and obviously final figures

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on that program can only be expressed in broad tonnages.

Stanley: If we don't know anything about the tonnage on the various products we have to produce for planes to be shipped to the Allies, we don't know that yet. Now, that is an unknown. How are we going to say what our capacity is to produce products, unfabricated products, I mean, so far as the plane products to ship to the Allies? You have got to know something.

H.M.Jr: I gather here - you see, this plane order is rapidly coming to a head. It looks that way. Now, what I am interested in on this thing is that if this order does materialize and therefore 8,000 or 9,000 or 12 or 13,000 engines, I take it that you people have made a rough estimate how much aluminum it is. And you say it is 15,000 tons?

Cave: Roughly 15,000 tons.

H.M.Jr: And you people who are in this business know what that means, a breakdown, how much is tubing, how much is this, that and the other. Now, the point I am interested in is this: Let's say that this order materializes within a couple of weeks.

Purvis: Maybe, yes.

H.M.Jr: Within a couple of weeks. And that is placed in the United States for engines and planes on top of what our Army wants and our civil needs and our normal exports. What do you gentlemen think, would the aluminum company be prepared to handle that without the distortion, and so forth and so on?

Stanley: Of course, the time element, Mr. Secretary, you realize - over what period of time are these planes to be delivered? When does delivery start and over what period of time are they to be completed?

Purvis: Roughly speaking, you have got the 15,000 tons by March of next year to be completed.

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Stanley: When is it to begin? Approximately when will the manufacture of these planes in this country begin?

H.M.Jr: Well, I want to help him on that. He has got to get his releases, and so forth and so on, from the Joint Board. Let's say if he is lucky, a couple of weeks. I mean, if he --

Brett: You are talking about the release of aircraft? I am not in any position to say.

H.M.Jr: Well, I will say if he is lucky. That is a perfectly safe statement. He may get the release for export within, say, a couple of weeks. He may get it sooner or he may get it within a week or three weeks. But sometime certainly between now and the 15th of April, they ought to know what they can or cannot get. It certainly won't take the Army and Navy longer than between now and the 15th of April to know what they are willing to do.

Brett: Of course, we have an actual estimate of all of the aluminum which is required in sheet forgings, castings, wire, bars, rods, tubing. The 2800 P-40's and 3,000 Martins and 3500 Allison engines and so many Wright engines and so many Pratt Whitney engines. This thing has been coordinated throughout with the aluminum company and the total is this 66 million, which is approximately your 150,000 tons, which you speak of - 15,000, or whatever it is. This is in tons, but I mean --

H.M.Jr: Then the aluminum company does know.

Stanley: Oh, we know what the proposed 3,000 program is, but now I just talked with Martin yesterday.

H.M.Jr: Then you do know --

Stanley: Oh, we knew the original 3,000. We have broken that all down with the people here, but that has all changed now. That has never come through.

H.M.Jr: All right. Now, they are talking about 5,000 planes and - let's put it on this basis. This

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is simple. If you broke that down and that order is bigger than what they are talking about now, could you take care of that?

Stanley: We figured when we went over those figures that that was for 18 months, beginning August or September - the original idea on this program was that it was to start March 1, and complete it September 1, 1941.

Purvis: That is the last delivery of the last plane. It is six months ahead to the Allies, gentlemen, isn't it?

Stanley: That has never been questioned.

H.M.Jr: Supposing that order was 20 or 25 percent bigger than what you are talking about now, isn't it? If that order was placed instead of March 1, supposing it was placed May 1, and the whole thing was shoved along two months, I mean, the whole thing was advanced two months to American industry. I am not talking about exports, but aluminum to be supplied to American manufacturers, that is my principle.

Hunt: The answer to that is unqualifiedly yes, we will take care of it.

Purvis: You will? And you will be able to take care of --

Hunt: Yes, we are taking care of the virgin aluminum. Isn't that a fact?

Davies: Yes.

Purvis: For any of the outstanding orders for these things for France and England?

Hunt: For the planes. Now, the metal that is being shipped direct from us to you, we are asking the British to supply us that metal this year.

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H.M.Jr:

Now, may I interrupt just a second? Before we come back to that I just want to ask, if you don't mind my checking, I want to ask General Brett if he will answer this. Take the order as it was originally planned, the 8,000 planes, the one that was supposed to go through on March 1 and all the rest, and after all, place the order two months later and the delivery dates are all the same. Are you satisfied from the standpoint of the Army that if that order is placed in this country without any - that the aluminum company would be prepared to continue your program and the Navy's program and take care of our domestic needs without any distortion, take care of you on time and then take care of the Allies besides?

Brett:

That is the result of checks over the period since, well, starting way last year in the spring, checking with the aluminum company throughout and then with the expansion program, and of course we have conducted checks not only on the Army business but on the Navy business and also commercial business and keeping in touch as far as possible with foreign business, and during these periods of checks that we have automatically kept up with the aluminum company, I can say that every - there may be intangibles that may develop that I can't put my finger on, but today I believe that the aluminum company can take care of our program as it is now laid out, can handle the Navy, not only from the air standpoint, but also their normal orders for surface craft, and that as a result of these estimates which were made on the original statement of the 8,000 program, that in the logical course of production that the aluminum company can handle it, provided the contractors under just a certain amount of pushing and encouraging, get their orders in so that they can get their specifications - special pieces, such as the forgings and extrusions and things of that sort. Now, that is the reaction we have had from the aluminum company over a period of the last three or four months, that

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every time an additional business was in the offing, they have come to us and we have sat down and they have shown their production capacity and we believe - I say this because this estimate right here is based on 2800 P-40's, 30,000 Martin bombers, 3,000 Douglas, 3500 Allison, 4364 Wrights and 3851 Pratt & Whitney engines.

Now, this is the program that includes sheet forgings, extrusions, castings, and so forth.

H.M.Jr: That is bigger than what you contemplated.

Purvis: There is just one little point that perhaps might usefully be made and that is this, that of course what we are trying to do is to obtain those planes in addition to the planes we can build in England and France, not afterward, and I am not sure whether General Brett has taken into account the inquiries that are in the market for direct shipment.

H.M.Jr: I am coming to that in a minute. I am trying to divide this thing. My first interest is the use internally, and I want to entirely satisfy myself that the internal situation is all right. That is my principle charge from the President, that we should look after the United States first.

Purvis: That is legitimate and proper.

H.M.Jr: I see what you have in your mind, but I will come to that in a minute.

Brett: I would like to make one suggestion and that is when I say commercial, I am speaking of commercial aircraft only.

H.M.Jr: You mean the airlines?

Brett: Commercial aircraft. It doesn't include such demands as might be made for such as special trains and the like.

H.M.Jr: I wouldn't expect that.

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Brett: Speaking purely of the aircraft.

H.M.Jr: I am talking about American airlines or that 25 million dollar program for Civil Aeronautics.

Brett: I am including that.

H.M.Jr: Now, Captain Kraus, do you differ at all?

Kraus: No, I am in entire agreement with it. In fact, the data was collected in the War and Navy common pool.

H.M.Jr: You are satisfied?

Kraus: We are satisfied with it and I agree with General Brett.

H.M.Jr: May I ask the aluminum company or whoever wants to answer this question, in connection with this order we are talking about, if it is received from the Allies for the planes to be manufactured in the United States, is there any question about getting any ingot from anywhere, I mean, is there anything - any deal that is pending in connection with this?

Hunt: Not as far as I know. Do you know of anything, Mr. Davies?

Davies: No, sir.

Stanley: I would like to qualify that just a little bit by saying that we want to protect our present inventory and keep it about where it is and up until the time when our increases are coming in, which are in the fall out in Vancouver, September or October, so we think in the interest of national defense and the interest of the United States that it is our responsibility to carry sufficient inventory of raw aluminum to meet any emergency and we have aluminum and we are making it every day, but we think when it comes to all this extra program that as much as we shipped 30,000 tons last year to France and England, that it is pretty nearly up to them to help

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out and give us the ingot back here so as to protect our position.

H.M.Jr: Excuse me. I want to stick to this, if you don't mind. I want to have the aluminum company answer the question. The program of manufacturing planes as it is now, plus the proposed order in the United States, is your ingot situation all right?

Stanley: Yes.

H.M.Jr: And you are not asking for any release of ingots in connection with this order?

Stanley: No, this order hasn't been placed.

Hunt: We won't ask for any ingot from Canada.

H.M.Jr: In connection with this order?

Hunt: In connection with the order for airplanes which General Brett is talking about.

H.M.Jr: That is what I wanted to know. Now, you don't mind my doing it in my own way?

Purvis: I like that way.

H.M.Jr: Now, as I get it, what you are talking about is production and manufactures of ingots and sheets and tubes for export in that form to England.

Purvis: Correct.

H.M.Jr: Which, I gather, is another deal.

Purvis: Yes, and which antedated this one.

H.M.Jr: Well now, you can go to it on that and I will listen, but what I wanted to make plan is the domestic situation.

Hunt: Very good.

H.M.Jr: Is that all right?

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Hunt: Quite satisfactory and it clarifies the situation.

H.M.Jr: Now, you people want something exported in the form of aluminum products, which is something else again.

Purvis: Well now, on the - our difficulty is this, that before the clearance to place the plane order will come from the other side, the rather natural question will be asked, will this interfere with the output of planes already - for which factories are already in position to produce in England and France. That is something which obviously will be a determining factor on whether any export order for planes themselves are placed here or not.

Stanley: What do you want and when do you want it?

Purvis: It is all in your hands, sir, in detail, but I would be very happy to go over it again. The 10,000 tons for which specifications have been given to the eighth inch of every bar and tube and I understand the French have given specifications for 70 percent of theirs. After all, you had all the British --

Davies: Day before yesterday.

Purvis: But you have it, that is all. And as a matter of fact, the only reason that you didn't have it - you had a tentative one before that. You didn't like the look of that one. You suggested certain changes should be made in it, so we went back and made some changes in it, which I understand - but I mean you have had - I know specifically that you have had, Mr. Davies, a statement of the exact sizes. Admittedly we have changed. That often happens during a negotiation.

Davies: Mr. Purvis, you and I could settle this better without whirling around.

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Purvis: I think we need a ring.

Davies: I would like to point out one thing which would make this clearer to everyone. You say you changed around to accommodate us.

Purvis: Oh no, no, no, no.

Davies: Well, never mind. Let me give you an example of the difficulty we are up against when you talk about capacities. Mr. Secretary, I would like you to listen to this because I think everyone wonders what it is all about. You told us you wanted 2,000 tons of tubing of certain sizes. I told them, "What are you going to do with it?" Do you build your planes entirely out of tubing," because we know how much tubing it takes in this country and they are so far above there is nothing to it. I asked if they would mind checking to see if it was right. They were worried about a bottleneck. It came back and instead of 2,000 tons, it was 1,000 tons, and instead of being a little tube ingot, now it is big tube ingot.

Purvis: That must be a big help.

Davies: So right away you increased the capacity four times by that change.

Purvis: Mr. Davies, I think if I may suggest to you, you underrate the intelligence of the people on the other side. We begin to cable and say, "Look here, tubes are going to be very, very difficult and you have got to check," and probably what they do is to turn over their capacity to the things that are more difficult to make and give the capacity here to the things that are easier to make in order to increase the capacity here. I think you must assume that the change was in order to ease the situation. You still think, however, that the point you asked me was whether or not the - you have had specifications. I say to the British - you have had the British specifications on everything to the last eighth of an inch.

- 33 -

Davies: Two days ago.

Purvis: You asked whether you had it. You had it in an earlier form. It has changed and, as you say, it helps the situation from your view. I still think, however, that the situation as we have understood it, one of the reasons why all this hasn't moved faster, and this, I can say very positively, because we have had two or three rather fierce Anglo-French meetings in which the difference between the two nationalities came out and everybody wanted to speak at once and fortunately in this meeting they don't, but actually --

H.M.Jr: You have excluded the French today.

Purvis: Actually what we are - you would have all this specifically and definitely for - in the last five weeks if we hadn't been coming up against this fact that we shall ask you to supply the materials, which again comes back to the question of cabling back to England. You may have to tell us you can't do it.

Davies: I have been begging you to give us the orders so we can tell the mill and start working.

Purvis: Mr. Davies, if we give you tomorrow 2,000 tons of tube orders, could you start delivery of any of it before July or August?

Davies: It would help the mill a great deal in planning, if they knew what was an order and not just something I had been talking about for a couple of months.

Purvis: We had definitely understood that there were no deliveries until July or August from you on that material. If that is changed, you can have the order today.

Davies: I might say the same thing I quoted you ten days ago on a thousand tons of forgings stock and told you we are going to have a lot of capacity and we have got to know what kind of ingot to make it out of. We would like to

- 34 -

have the order and I think they are cabling London about that to make sure they haven't changed the size or specifications.

Purvis: I suggestion that this is merely a question, Mr. Secretary, of meeting the - there are two points. One is, what can they give us and the other is, when we know roughly whether they can take on so much forging or so much tube, what size do we want. There is always a movement between the two parties of that kind. That is the nature of over --

Davies: Mr. Purvis, I am not arguing with you. I am just trying to indicate willingness. That is all I am trying to do.

H.M.Jr: I feel this way. I have satisfied myself as to my chief responsibility that if the Allies place this order, can the aluminum company take care of our own needs satisfactorily and still handle this additional order without going out of the country for additional ingot production, and you answered yes. Now, when you get down to the question of shipping aluminum ingots or manufacturing it, there seems to be a little difference and there seems to be a little horse trading going on which I don't particularly care to get in on.

Hunt: We can take care of that.

H.M.Jr: I think you can and I think Mr. Purvis can take care of himself, but it has gotten down to a horse trading thing, which doesn't particularly concern me, but I really don't think it comes within my province, but I am satisfied that the chief thing - that they can handle this thing and - this additional order and the aluminum company can take it. They say they can, General Brett says they can, Captain Kraus says they can, so all we are waiting for is the order and all you are waiting for is the releases.

Purvis: Yes. That is the fact that we can assure - our other little difficulty, in order to make that

- 35 -

clear, is that before our order can materialize from England is that we shall be asked on this side of the water to give a clearance that it will not interfere with the production of planes over there by limiting shipment of the aluminum company.

H.M.Jr: I don't want to get in on that. I am not going to get in on that. Now, I don't want to get in on that. That is some more horse trading.

Purvis: I think that is the problem.

Stanley: It is a problem.

H.M.Jr: Well, I appreciate very much your coming. I am satisfied and I hope you are satisfied as to the industry being able to take care of the aluminum product as it affects the airplane and engine orders, if placed, and when placed in this country.

Purvis: Yes, subject, of course, to their being able to handle this other thing which is, of course, somewhat questionable.

H.M.Jr: Well, that is up to you folks.

Purvis: We will try and get together.

These were returned 384
to Miss Sennear,
Specy to Genl Watson
3/21/40.



TREASURY DEPARTMENT

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

The correspondence transmitted with your memorandum of February 12th is returned herewith.

The statements contained in the memorandum from the Chief of the Bureau of Aeronautics, Navy Department, confirm studies that have been made by the Treasury.

In connection with the matter of engines, it appears from investigations that I have personally made of the Pratt and Whitney and Wright plants that their production for the year of 1940 is fully obligated. If any engines are to be had for any program such as that being presently studied for Norway they will have to be taken from some of the orders at present on the books of these companies.

Wm. M. E. H.
Secretary of the Treasury.

THE WHITE HOUSE
WASHINGTON

February 12, 1940

MEMORANDUM FOR H. M. Jr.

The enclosed relates to Navy
airplane engines. Please read and return
with any suggestions you may care to make.

F. D. R.

Enclosures

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THE WHITE HOUSE
WASHINGTON

February 10, 1940.

MEMORANDUM FOR

THE PRESIDENT

I talked with Admiral Towers concerning the procurement of aircraft engines from the smaller companies. The attached memo from Admiral Towers gives the gist of his comments.

As I see it, the smaller companies are not in a position, basically, to turn out engines of powers suitable for our combat planes. They have neither the experience nor the equipment to go into production of the larger powers required. Even if the larger companies could be induced to turn over their engines for counter-part manufacture by the smaller companies, these latter have not the essential equipment to handle.

Respectfully,

D. J. Callaghan
D. J. CALLAGHAN.

NAVY DEPARTMENT
BUREAU OF AERONAUTICS
WASHINGTON

JHT-GB

9 February 1940

MEMORANDUM FOR CAPTAIN CALLAGHAN

SUBJECT: Procurement of Aircraft Engines from the Smaller Companies.

1. The smaller companies, with one exception, manufacture nothing but small engines which have a military application only in training planes. As we are required by law to manufacture 10% of our planes and engines at the Naval Aircraft Factory and this percentage represents approximately the total training plane requirements, there is little likelihood of our being in the market in the near future for any of the small engines.

2. The one exception mentioned above is the Ranger Engineering Division of the Fairchild Engine and Airplane Corporation, Farmingdale, L.I., which manufactures an intermediate size engine. This bureau has given a great deal of encouragement to that company and now has under test two different models of observation planes equipped with the Ranger engine. We expect to place an order within the next few weeks for approximately 140 observation planes equipped with Ranger engines. Our remaining procurement for the current fiscal year, amounting to some 75 planes, will be of types which require large engines not obtainable from any of the small companies. We are scheduled to procure an additional 100-150 observation planes during the fiscal year 1941 and it appears that these also will be of a type equipped with Ranger engines.

3. Summarizing, of our next 500 planes at least 140 will be equipped with engines from one of the smaller companies, and it is quite probable that more of this type will be ordered early in the fiscal year 1941.

4. I would like to point out that the big companies are big because they have developed and produced satisfactory engines of the large horsepowers required for most of the current military types, and the small companies are small because they have not. I feel that we have done everything within reason to encourage the various reputable small companies to develop large types. For example, we have contracts for experimental engines of large types with five different small companies, but this experimental development takes a long time and I see little prospect of pulling the small companies into big business on big engines for at least two

Memo. for Captain Callaghan

-2-

SUBJECT: Procurement of Aircraft Engines from the Smaller
Companies.

years. We have done all we can to encourage the placing of contracts for parts by the big companies with the little companies, and I feel that this is the manner in which the little companies can be of the most service in the near future.

A handwritten signature in dark ink, appearing to read "J. H. Towers". The signature is stylized with a large, sweeping initial "J" and a series of connected loops for the rest of the name.

J. H. Towers

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HEC:GE

Secretary of the Treasury.

[Handwritten signature]

THE WHITE HOUSE
Washington

February 12, 1940.

MEMORANDUM FOR H. M. Jr.

The enclosed relates to Navy airplane engines.
Please read and return with any suggestions you may care
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F. D. R.

Enclosures

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YM

THE WHITE HOUSE

Washington

February 10, 1940.

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Respectfully,

(Signed) D. J. Callaghan.

"C
O
P
Y"

NAVY DEPARTMENT
Bureau of Aeronautics
Washington

JHT-GB

9 February 1940

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(Signed) J. H. Towers.

"COPY"

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Efforts are being made at the moment to arrange for a diversion of some of the engines under order by the French to Norway and Sweden.

Secretary of the Treasury

CONFIDENTIAL

WAR DEPARTMENT
OFFICE OF THE CHIEF OF THE AIR CORPS
WASHINGTON

January 19, 1940

MEMORANDUM FOR General Watson.

In compliance with telephone request there is attached a letter to the Honorable Henry Morgenthau, Jr., containing the information requested.

For and in the absence of
The Chief of the Air Corps,



Ira C. Eaker,
Lieut. Colonel, Air Corps,
Executive.

Incl.

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CONFIDENTIAL

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CONFIDENTIAL

CONFIDENTIAL

WAR DEPARTMENT
OFFICE OF THE CHIEF OF THE AIR CORPS
WASHINGTON

January 19, 1940

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

Dear Mr. Morgenthau:

In compliance with your recent request for information as to the possibility of having the 450 h.p. class engine manufactured by other than the three large engine industries, such as Allison, Wright, and Pratt & Whitney, there is furnished herewith a table which indicates the additional engine companies, the type of equipment they are manufacturing, and what their production would be if converted into a 450 h.p. class engine. Of course in certain primary training planes, the lower type engine is used, that is the 220 and even the 180 h.p. engine. Therefore all of this production would not have to be changed over to the 450 h.p. class.

ENGINES MANUFACTURED
(Under 500 HP)

Manufacturer	(Per Month)	
	Maximum Production, Present	Maximum Production Facilities & present types: 450 HP Type
Jacobs Aircraft Engine Co.	55 (1)	35 (7)
Wenger Engineering Corp.	100 (2)	51 (7)
Continental Motors Corp.	508 (3)	379 (7)
Wassco Manufacturing Co.	40 (4)	9 (7)
Aviation Division (Aviation Mfg. Corp.)	150 (5)	69 (7)
Warner Aircraft Corp.	100 (6)	52 (7)
	953	595
TOTAL PER MONTH		7,140
TOTAL PER YEAR	11,436	

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398


- (1) R-775, 255 HP.
- (2) Inverted air-cooled 6-440, 180 HP.
- (3) R-670, 220 HP (this motor also used by Ordnance Department for tanks).
- (4) 125 HP motor (Ryan Trainer).
- (5) R-680, 220 HP.
- (6) Warner Super Scarab, 165 HP.
- (7) Figured on the basis of 1000 man-hours (P & W require 849).

Source: Production Data Estimates.

The above is purely a rough estimate. A detailed study is being made to determine accurate information. This study will take some little time, and will be furnished to you as soon as completed.

Very truly yours,

For and in the absence of
The Chief of the Air Corps,


Ira C. Baker,
Lieut. Colonel, Air Corps,
Executive.

CONFIDENTIAL

Regraded Unclassified

CONFIDENTIAL

January 19, 1940

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Secretary of the Treasury,
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ENGINE MANUFACTURERS
(Under 500 HP)

Manufacturer	(Per Month)	(Per Month)
	Maximum Production, Present Facilities & present types	Maximum Production 450 HP Type
Jacobs Aircraft Engine Co.	55 (1)	35 (7)
Enger Engineering Corp.	100 (2)	51 (7)
Continental Motors Corp.	508 (3)	379 (7)
Wendee Manufacturing Co.	40 (4)	9 (7)
Armstrong Division (Aviation Mfg. Corp.)	150 (5)	69 (7)
Warner Aircraft Corp.	100 (6)	52 (7)
TOTAL PER MONTH	953	595
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For and in the absence of
The Chief of the Air Corps,

Ira C. Eaker,
Lieut. Colonel, Air Corps,
Executive.

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Refer to No. AOX-PL-EMN
11-1(40)
VV

NAVY DEPARTMENT
BUREAU OF AERONAUTICS
WASHINGTON

RESTRICTED

January 16, 1940.

M E M O R A N D U M

SUBJECT: Number and Types of Navy Airplanes scheduled to be delivered during calendar year 1940.

Number	Type	Month	Manufacturer
16	Fighter - F2A	May	Brewster
16	" "	June	"
11	" "	July	"
2	Fighter - F4F	February	Grumman
10	" "	June	"
10	" "	July	"
10	" "	August	"
12	" "	September	"
18	" "	October	"
19	" "	November	"
3	Transport - GB-1	February	Beechcraft
3	" JRF-1	January	Grumman
1	" R3D	March	Douglas
2	" "	April	"
4	" "	July	"
4	Utility - J2F-4	January	Grumman
5	" "	February	"
5	" "	March	"
4	" "	April	"
4	Training - N3N	February	Naval Aircraft Factory
10	" "	March	" " "
20	" "	April	" " "
20	" "	May	" " "
20	" "	June	" " "
20	" "	July	" " "
20	" "	August	" " "
20	" "	September	" " "
16	" "	October	" " "
3	Adv. Training - SNJ	March	North American
10	" "	April	" "
10	" "	May	" "
10	" "	June	" "
3	" "	July	" "
12	" "	August	" "
13	" "	September	" "

RESTRICTED M E M O R A N D U M

SUBJECT: Number and Types of Navy Airplanes scheduled to be delivered during calendar year 1940.

<u>Number</u>	<u>Type</u>	<u>Month</u>	<u>Manufacturer</u>
1	Observation-Scout - OS2U	February	Vought
4	" "	March	"
22	" "	April	"
27	" "	May	"
24	" "	June	"
24	" "	July	"
22	" "	August	"
20	" "	September	"
10	" "	October	"
2	Scout-Bombing - SBC-4	February	Curtiss
12	" "	April	"
12	" "	May	"
9	" "	June	"
1	" SBD-1	March	Douglas
6	" "	April	"
14	" "	May	"
16	" "	June	"
14	" "	July	"
18	" "	August	"
17	" "	September	"
18	" "	October	"
17	" "	November	"
18	" "	December	"
1	" SB2U-3	March	Vought
12	" "	April	"
18	" "	May	"
16	" "	June	"
10	" "	July	"
10	" "	August	"
18	" "	September	"
18	" "	October	"
18	" "	November	"
17	" "	December	"
1	" SBN	May	Naval Airc. Factory
3	" "	August	" " "
4	" "	September	" " "
3	" "	October	" " "
4	" "	November	" " "
4	" "	December	" " "

Aer-PL-DMN
 LI-1(10)

RESTRICTED MEMORANDUM

SUBJECT: Number and Types of Navy Airplanes scheduled to be delivered during calendar year 1940.

<u>Number</u>	<u>Type</u>	<u>Month</u>	<u>Manufacturer</u>
3	Patrol-Bombing - PBM	March	Martin
3	" "	April	"
5	" "	May	"
5	" "	June	"
3	" "	July	"
1	" "	August	"
1	" PB2Y	May	Consolidated
1	" "	July	"
1	" "	August	"
1	" "	September	"
1	" "	October	"
1	" "	November	"
1	" PBY-5	July	"
2	" "	August	"
4	" "	September	"
7	" "	October	"
12	" "	November	"
12	" "	December	"

Experimental Planes

1	Fighter XF5F	March	Grumman
1	" XFL	April	Bell
1	" XF4U	May	Vought
1	Training XN5N	September	Naval Airc. Factory
1	Patrol-Bombing XPBM-1	March	Martin
1	" XPBM-2	June	"
1	Scout-Bombing XSB2A	August	Brewster
1	" XSB2C	June	Curtiss
1	Scout-Obs. XSQ 2U-1	February	Vought
1	" XSO 3C-1	January	Curtiss

Aer-FL-EMN
L1-1(40)

RESTRICTED

M E M O R A N D U M

SUBJECT: Number and Types of Navy Airplanes scheduled to be delivered during calendar year 1940.

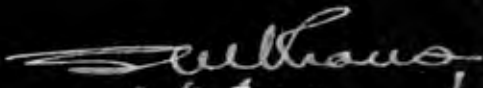
Recapitulation

Totals by Types

Fighters	127
Scout-Bombing	335
Observation-Scouting	154
Scout-Observation	2
Patrol-Bombing	66
Training	151
Advanced Training	61
Utility	18
Utility-Transport	3
Transport	10
Total	<u>927</u>

Estimates are predicated on ordering following planes with supplemental 1940 funds not later than 15 February, 1940:

81 SB2U-3
27 F4F
25 SNJ


S. M. Kraus,
Captain, U.S.N.,

By direction Chief of the Bureau of Aeronautics.

CONFIDENTIAL

Army

AIRPLANES 1940

CONTRACT

		<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug.</u>	<u>Sept</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>
B-17B	Boeing	6	4											
B-17C	Boeing								1	1	2	2	2	3
XB-24	Consolidated	1												
B-24	Consolidated						1	3	3					
B-24A	Consolidated									1	1	2	2	3
B-23	Douglas	6	12	14										
B-25	North American							1			2	6	11	20
B-26	Martin								1			2	7	10
A-20, A-20A	Douglas						3			5	6	7	8	9
YFM-1, YFM-1A	Bell		2											
YP-38	Lockheed			1	1	1	2	2	3	3				
P-38	Lockheed							2	6	9	10	14	14	11
YP-39, YP-39A	Bell			1		2		3	3	4				
P-39C	Bell												6	6
P-40	Curtiss				3	15	20	30	40	45	45	45	45	45
YP-43	Republic						5			3	4	4		

U-47B

North American

CONFIDENTIAL

Regraded Unclassified

CONFIDENTIAL

Army

AIRPLANES 1940

CONTRACT

		<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>
											1		2	10
0-52	Curtiss													
0-49	Stinson						1					4	5	10
Y0-50	Bellanca						1		1	1				
Y0-51	Ryan				1		2							
C-45	Beech	1	1	2	2	2	2	1						
F-2	Beech	2	2	2	2	1								
PT-13B	Stearman				4	8	10	15	10	15	20	25	20	20
PT-17	Stearman				1	1	5	5	10	10	10	10	15	18
PT-18	Stearman					1	5	5	10	10	10	10	15	17
PT-19	Fairchild				1	8	10	30	40	43	43	43	43	9
PT-20	Ryan	1	5	10	10	4								
BT-13	Vultee				1	4	10	17	26	32	40	40	40	40
BT-14	North American	1		3	8	14	21	29	29	29	29	29	29	29
BC-1A	North American			2	5	9	14	16	16	16	2			
AT-1	North American			1	2	4	8	14	14	14	23	14		

CONFIDENTIAL

Regraded Unclassified

CONFIDENTIAL

Army

ENGINES 1940

CONTRACT

Dec. Jan. Feb. Mar. Apr. May June July Aug. Sept Oct. Nov. Dec.

R-1820-65	Wright Aero. Corp.												
R-1830-33	Pratt & Whitney								8	16	11		
R-1830-33	Pratt & Whitney					4	4	8	12	16	16	16	20
R-2600-9	Wright Aero. Corp.		2					4	12	24	32	42	42
R-2600-5	Pratt & Whitney		1	1				4	14	22	44	54	58
R-2600-7	Wright Aero. Corp.	1	2									20	30
R-2600-5	Wright Aero. Corp.	1	8	15	20	25	25	35	40	40	40	20	10
V-1710-41	Allison Eng. Co.	2	2										
V-1710-27 RH	Allison Eng. Co.	1	1	2	3	3	3	3	3	3	1		
V-1710-29 LH	Allison Eng. Co.	1	1	2	3	3	3	3	3				
V-1710-27 RH	Allison Eng. Co.					1	10	15	15	14	11		
V-1710-29 LH	Allison Eng. Co.					1	10	15	15	14	11		
V-1710-37	Allison Eng. Co.			1	2	5	6	1	1				
V-1710-35	Allison Eng. Co.		1						6	6	8	8	10
V-1710-33	Allison Eng. Co.		2	15	15	15	30	35	50	75	75	75	75
V-1710-33	Pratt & Whitney				4	5	5	5	2				

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Regraded Unclassified

CONFIDENTIAL

Army

ENGINES 1940

CONTRACT

		<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug.</u>	<u>Sept</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>
		4	4	4	4	2								
R- 985-23	Pratt & Whitney													
R- 985-19	Pratt & Whitney United Aircraft Div.	6	6	5		12								
R- 680-11	Lycoming	4	13	15	15	20	20	20	20	20	18			
R- 670-5	Continental Motor		1	5	8	15	15	15	15	15	15	15	19	12
R- 755-7	Jacobs Aircraft Eng. Co.	1		5	5	10	10	15	15	15	20	20	20	14
R- 985-25,-27	Pratt & Whitney		4	10	17	26	32	40	40	40	40	40	10	
R- 985-25,-27	Pratt & Whitney	11	14	21	29	29	29	29	29	29	29	1		
R-1340-49	Pratt & Whitney	6	18	37	36	36								
R-1340-49	Pratt & Whitney	2	5	9	14	14	14	14	14	12				

CONFIDENTIAL

THE WHITE HOUSE
WASHINGTON

January 19, 1940.

CONFIDENTIAL

MEMORANDUM FOR SECRETARY MORGENTHAU:

The President says you can have this, but you are held responsible that you get it back for his confidential files, as these are the only copies made and he wants to retain them.

Sincerely,



EDWIN M. WATSON
Secretary to the President.

Enclosures.

I. What are the needs of our Army and Navy in the field of aviation for 1940 and 1941?

II. How many airplanes and engines, if any, could be diverted to the French and English for immediate delivery?

III. Ask for an explanation of the French and English proposed buying program.

IV. Would it be possible to have Pratt-Whitney or Curtiss-Wright license an experienced Company to manufacture their engines, the company to be located somewhere in the Mississippi Valley, as both Pratt-Whitney and Wright are on the Atlantic Coast?

Navy

January 16, 1940.

Deliveries by Months - Calendar Year 1940.

January

3 Transport	Grumman	
4 Utility	"	
1 Scout-Observation	Curtiss	Total 8

February

2 Fighter	Grumman	
3 Transport	Beechcraft	
4 Training	Naval Aircraft Factory	
1 Observation-Scout	Vought	
2 Scout-Bombing	Curtiss	
1 Scout-Observation	Vought	Total 18
5 Utility	Grumman	

March

1 Transport	Douglas	
5 Utility	Grumman	
10 Training	Naval Aircraft Factory	
3 Advanced Training	North American	
4 Observation-Scout	Vought	
1 Scout-Bombing	Douglas	
1 Scout-Bombing	Vought	
4 Patrol-Bombing	Martin	
1 Fighter	Grumman	Total 30

April

2 Transport	Douglas	
4 Utility	Grumman	
20 Training	Naval Aircraft Factory	
10 Advanced Training	North American	
22 Observation-Scout	Vought	
12 Scout-Bombing	Curtiss	
6 " "	Douglas	
12 " "	Vought	
3 Patrol-Bombing	Martin	
1 Fighter	Bell	Total 92

May

16 Fighter	Brewster	
20 Training	Naval Aircraft Factory	
10 Advanced Training	North American	
27 Observation-Scout	Vought	
12 Scout-Bombing	Curtiss	
14 " "	Douglas	
18 " "	Vought	
1 " "	Naval Aircraft Factory	

May (cont'd)

5	Patrol Bombing	Martin	
1	"	Consolidated	
1	Fighter	Vought	Total 125

June

16	Fighter	Brewster	
10	"	Grumman	
20	Training	Naval Aircraft Factory	
10	Advanced Training	North American	
24	Observation-Scout	Vought	
9	Scout-Bombing	Curtiss	
16	"	Douglas	
16	"	Vought	
6	Patrol-Bombing	Martin	
1	Scout-Bombing	Curtiss	Total 128

July

11	Fighter	Brewster	
10	"	Grumman	
4	Transport	Douglas	
20	Training	Naval Aircraft Factory	
3	Advanced Training	North American	
24	Observation-Scout	Vought	
14	Scout-Bombing	Douglas	
10	"	Vought	
3	Patrol-Bombing	Martin	
2	"	Consolidated	Total 101

August

10	Fighter	Grumman	
20	Training	Naval Aircraft Factory	
12	Advanced Training	North American	
22	Observation-Scout	Cought	
18	Scout-Bombing	Douglas	
10	"	Vought	
3	"	Naval Aircraft Factory	
1	Patrol-Bombing	Martin	
3	"	Consolidated	
1	Scout-Bombing	Brewster	Total 100

September

12	Fighter	Grumman	
20	Training	Naval Aircraft Factory	
13	Advanced Training	North American	
20	Observation-Scout	Vought	
17	Scout-Bombing	Douglas	
18	"	Vought	
4	"	Naval Aircraft Factory	
5	Patrol-Bombing	Consolidated	
1	Trainer	Naval Aircraft Factory	Total 110

Navy

413

October

18 Fighters
16 Trainers
10 Observation-Scout
18 Scout-Bombing
18 " "
5 " "
8 Patrol-Bombing

Grumman
Naval Aircraft Factory
Vought
Douglas
Vought
Naval Aircraft Factory
Consolidated Total 93

November

19 Fighters
17 Scout-Bombing
18 " "
4 " "
13 Patrol-Bombing

Grumman
Douglas
Vought
Naval Aircraft Factory
Consolidated Total 71

December

18 Scout-Bombing
17 " "
4 " "
12 Patrol-Bombing

Douglas
Vought
Naval Aircraft Factory
Consolidated Total 51

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Materiel Plan. Sec.
1/16/40

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UNDELIVERED AIRPLANES, ENGINES, PROPELLERS AS OF DECEMBER 31, 1939
(ARMY, NAVY, COMMERCIAL AND FOREIGN)

	<u>Airplanes</u>	<u>Engines</u>	<u>Propellers</u>
<u>United States</u>			
Air Corps:			
Combat	1865	---	----
Training	1500	---	----
Miscellaneous	24	---	----
Total Military	3389	5222	4283
Navy:			
Combat	958.4	---	----
Training	55.0	---	----
Total Navy	1013.4	1431	1667
Commercial	861.5	4504	1084
Total U. S.	5263.9	11,157	7034
<u>Foreign</u>			
British Empire			
Combat	282	---	----
Training	734	---	----
Total	1016	2305	865
France:			
Combat	1231.5	---	----
Training	243.0	---	----
Total	1474.5	6275	7583
All other Foreign:			
Combat	364	---	----
Training	128	---	----
Total	492	823	508
Total Foreign	2982.5	9403	8956
Grand Total	8246.4	20,560	15,990

Sources: Materiel Division Statistical Report
12/31/39

THE WHITE HOUSE
WASHINGTON

February 1, 1940.

MEMORANDUM FOR

H.M. Jr.

To read and speak to me about.

F.D.R.

OFFICE
SECRETARY OF TREASURY

1940 FEB 1 PM 1:15

Ind 3:15

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THE ASSISTANT SECRETARY OF WAR
WASHINGTON
January 29, 1940

My dear Mr. President,

Attached is the draft of the
study I promised you at Bolling Field on
the subject of "Aircraft Engine Production."

Happy Birthday!

Sincerely yours,

Lewis Johnson

The President
The White House

Enclosure

General E. M. Watson
Secretary to the President
The White House

CONFIDENTIAL

WAR DEPARTMENT
OFFICE OF THE CHIEF OF THE AIR CORPS
WASHINGTON

January 23, 1940.

MEMORANDUM TO: The Assistant Secretary of War.

SUBJECT: Aircraft Engine Production.

1. Pursuant to the request contained in your memorandum of January 18, 1940, same subject, a review of statistical data shows that there is a requirement both definite and under discussion for delivery of approximately 32,000 engines by October, 1941.

2. Considerations that are pertinent to the execution of an engine production program of this magnitude from the point of view of long range national defense are as follows:

a. Farming out of parts.

The extent and nature of subcontracting should be very carefully controlled in a manner that would avoid delays in the continued development of several liquid cooled engines of 1,000 horsepower or more now under development by the smaller manufacturers, and their normal production of training engines.

It is to the advantage of the Government to place these development types of engines in production at the earliest possible moment. It appears that the possibility of the production of the high powered engines which are in the process of development by the smaller concerns would be retarded if the total capacity of these smaller aircraft manufacturers were utilized for building parts only.

b. The farming out of complete engines through licensing or through other agreements.

The licensing of engines of the 500 horsepower class now produced by the larger manufacturers is a logical procedure and advantageous to the Government, however, it would place the smaller engine manufacturers in a position to compete with the owner of the designs when the present program is completed, and would result in a possible curtailment of commercial sales by the parent companies of the types of engines that are responsible for an appreciable portion

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CONFIDENTIAL

Memo to Assistant Secretary of War, January 23, 1940 (Cont'd).

of their normal income. This in turn would reflect to the disadvantage of the Government since a portion of the earnings derived from the sale of the smaller types of engines are utilized in the development of military engines of the higher powered classes.

c. The logical expansion of existing facilities.

The expansion of the existing facilities of the larger engine manufacturers with a maximum utilization of subcontracting is undoubtedly a logical means of accomplishing the program under discussion. However, the bottleneck in new facilities is not construction but machine tools and experienced labor. The necessary construction can be accomplished in 120 days.

d. The proper geographical distribution of new plants.

The utilization of the smaller engine manufacturers for either the licensing of smaller engines or financial assistance that would permit them to go into production on their own engines would be to the advantage of the Government with regard to the strategical location of engine factories. The construction of new facilities for the expansion of the larger engine manufacturers in further inland areas would be desirable from the point of view of national defense. On the other hand, problems of management, technical supervision, labor and subcontracting of minor parts would be introduced that would effect a considerable hardship on the larger manufacturers.

The extent of the expansion required to execute a program of the magnitude under discussion will require from 25% to 35% of the total amount of the contracts being utilized for new construction, tooling and equipment. This compared to the aircraft manufacturers, is large. Ten percent of their gross sales have been estimated as the cost of new facilities. This is the result of the added tooling required for the engine manufacturers.

e. The time factor.

In the execution of an engine program such as is under discussion, the time factor is the governing consideration. If the maximum production in the shortest possible time is required, there is an opinion that the objectives can best be accomplished by a moderate expansion of existing facilities of the larger manufacturers. This, as pointed out above, must be accompanied by utilizing the smaller manufacturers as subcontractors for parts both of higher powered military engines and for the lower powered training engines. Such a procedure would not conform to a logical plan or provide for meeting the requirements of a long range national defense policy.

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CONFIDENTIAL

to The Assistant Secretary of War, January 23, 1940 (Cont'd).

f. Licensing foreign engines.

The question of producing foreign proven types of engines by the idle plants is a means of meeting export requirements for engines that should be considered.

There are at least two facilities suitably located geographically which could be utilized for the production of foreign type engines. The bottlenecks are primarily tools, jigs, and fixtures, and in view of the present status of the machine tool industry, indicates that feasible utilization of idle factories for the production of foreign engines is problematic.

The utilization of the existing aircraft industry for the production of foreign types of engines would be of a greater advantage to the Government than the utilization of the automotive industry for this purpose. Therefore, if it is desirable for any reason to license foreign engines for manufacture in the United States, the licenses should be placed with the aircraft engine concerns that could be depended upon to continue the development of their own engines to a point that would warrant their future production. Additional sources of engines have a definite advantage in the point of view of the Government since it fosters competition with regard to both merit and price. On the other hand, there is a limit to the number of manufacturers that can be supported during peace time by Government orders and commercial demands.

g. Supporting data.

Detailed substantiation of the foregoing comments can only be made by specific studies conducted in close cooperation with the manufacturers. These studies have not yet been conducted.

3. A summary of benefits flowing to the Government from the discussed export program is as follows:

* a. Additional manufacturing facilities for military engines of large horsepower by placing in production engines that are now under development by the smaller companies.

* b. Additional manufacturing aircraft engine facilities for the production of standardized training engines of the 500 horsepower class.

c. The creation of technical staffs and managements and the training of skilled labor necessary for the production of aircraft engines on a large scale.

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Memo to The Assistant Secretary of War, January 23, 1940 (Cont'd).

d. A strategic location of additions to present engine production facilities of the manufacturers of larger type engines.


The time factor governs the realization of the advantages cited above. In the execution of the proposed export program, requirements for deliveries largely eliminate the production of standard training engines, under license agreement, by the smaller engine manufacturers. Likewise, the required delivery schedules for the large engines precludes strategically locating additions to the existing production facilities.

4. From the point of view of long range planning and national defense, it is concluded:

a. That substantial benefits can be realized from the maximum utilization of existing facilities. Also that the experience gained by both management and labor will facilitate the production of aircraft engines in the event of war.

b. That licensing domestic and foreign engines to smaller aircraft engine manufacturers, with adequate trained personnel, will foster the desired competition in the development of new type liquid cooled engines.

c. That the maintenance over a long period of time, of the benefits acquired, will require substantial future subsidies in the form of research and development funds and means of providing educational orders for the subcontractors that would be utilized in the event of war.


H. H. Arnold,
Major General, Air Corps,
Chief of the Air Corps.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

March 21, 1940

MEMORANDUM FOR THE SECRETARY

The new so-called "Interceptor" built by the Curtiss-Wright Corporation at the St. Louis plant was designed originally as a trainer for export powered with a Whirlwind motor. China evidenced an interest in it but wanted more power. Therefore, the Cyclone 1820, developing approximately 1150 HP, was substituted for the 450 HP Whirlwind for which the plane was originally designed. The substitution of this motor increased the maneuverability of the plane and developed a climbing speed of 5300 feet per minute which, it is claimed, outclasses the climbing speed attained by any other plane so far as is known at this time.

The above information was obtained from Mr. Guy Vaughn, President of the Curtiss-Wright Corporation, who promised to give me full details on this new model as soon as he could get the information together.

Chairman, President's Liaison Committee

TO: ~~_____~~

3-2~~t~~-40

The Secretary

423

Rep. Harter's aviation
subcommittee of the House
military affairs committee
today visited the Pratt and
Whitney plant at East Hartford
in a body.

Q

From: MR. SCHWARZ

PERSONAL

MAR 21 1940

My dear Mr. Ambassador:


Please accept my most appreciative thanks for your personal note of March 19, informing me that your Government has been good enough to accept the suggestion, made at my instance, that an officer of the American Air Force be permitted to visit regularly the French Front.

It is my understanding that you are communicating this information directly to the Department of State in order that appropriate arrangements may be made through diplomatic channels to take advantage of this offer.

With kindest personal regards, I remain, my dear Mr. Ambassador,

Very sincerely yours,

(Signed) H. Morgenthau, Jr.



ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY

His Excellency
Count de Saint Quentin,
Ambassador of the French Republic,
Washington, D. C.

By Messenger MAR 21 1940 1:20 P.M.

HMC/rm 3/21/40

AMBASSADE
DE LA RÉPUBLIQUE FRANÇAISE
AUX ÉTATS-UNIS

Washington, le March 19, 1940.

PERSONAL

My dear Mr. Secretary:

Following our talk at the Embassy some time in January, I asked my Government if it would allow an officer of the American Air Force to visit regularly the French front.

I have the pleasure to let you know that I have just had an answer from my Government, according to which the Air Minister willingly accepts this suggestion. The designated officer will be able, under the direction of the High Command, to collect all useful information. He would be accompanied during his visits to the front by a French officer and would be expected to keep in close touch with the general staff of our Air Forces./.

I remain, my dear Mr. Secretary, with best personal regards,

Yours very sincerely,

Delavigne

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

AMBASSADE
DE LA RÉPUBLIQUE FRANÇAISE
AUX ÉTATS-UNIS

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Personal

The Honorable

Henry Morgenthau,

Secretary of the Treasury,

The Treasury,

Washington, D.C.

*Cochran
Please prepare
answer. H.M.*

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

427

INTER-OFFICE COMMUNICATION

DATE March 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At 4:30 this afternoon, I succeeded in reaching the French Ambassador by telephone. I told him that the Secretary was most appreciative of the Ambassador's personal note of March 19 and would personally acknowledge this communication.

In answer to my question, the Ambassador stated that he had not informed the State Department of the willingness of his Government to make the arrangement which had been suggested to him privately by the Secretary of the Treasury at an Embassy dinner. After my observations in the premises, the Ambassador stated that he would inform the State Department that he had become aware of the interest in American air official circles of obtaining the privilege under reference, and that he had accordingly communicated with his Government and had now obtained this privilege. He stated that he would attend to this communication, without indicating the real source of the request.

H. M. S.

TREASURY DEPARTMENT

428

INTER-OFFICE COMMUNICATION

DATE March 21, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

The reported volume of sterling transactions was greatly reduced today, and the rate for that currency experienced a moderate improvement. After opening at 3.71, sterling advanced steadily to 3.72-5/8 by noontime. Business during the afternoon was fairly light, and the rate remained at 3.72-3/8 until late in the day. The final quotation was 3.72-1/4.

Sales of spot sterling by the six reporting banks totaled £468,000, from the following sources:

By commercial concerns.....	£ 214,000
By foreign banks (Europe, South America and Far East)...	£ 254,000
Total....	£ 468,000

Purchases of spot sterling amounted to £217,000, as indicated below:

By commercial concerns.....	£ 157,000
By foreign banks (Far East, Near East and South America)...	£ 60,000
Total....	£ 217,000

The following reporting banks sold cotton bills totaling £8,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 7,000 by the Guaranty Trust Co.
1,000 by the National City Bank
£ 8,000 Total

The other important currencies closed as follows:

French francs	.0211-1/8
Guilders	.5310
Swiss francs	.2242-1/2
Belgas	.1703
Canadian dollars	18-5/8¢ discount

We sold \$80,000 in gold to the National Bank of Belgium, to be added to its earmarked account.

CONFIDENTIAL

The Federal Reserve Bank of New York reported the following shipments of gold:

\$ 5,902,000 from England, representing three shipments by Samuel Montagu & Co., to the Bankers Trust Co., New York, for account of the Amsterdam Bank, Amsterdam.
1,852,000 from Italy, shipped by the Bank of Italy for its own account to the Federal Reserve Bank of New York.
1,692,000 from Italy, shipped by the Bank of Italy to the Federal Reserve Bank of New York, to be earmarked for account of the B.I.S.
560,000 from Switzerland, shipped by the Credit Suisse, Zurich, to the Guaranty Trust Co., New York, for account of the Credit Suisse, London.
127,000 from England, shipped by Samuel Montagu and Co., to the Guaranty Trust Co., New York.
\$10,133,000 Total

All of the above shipments, with the exception of the one from the Bank of Italy to the Federal for account of the B.I.S., will be sold to the U. S. Assay Office at New York.

The Federal Reserve Bank of New York informed us that yesterday they credited \$6,000,000 to the Bank of England's account and \$1,456,000 to the account of the Commonwealth Bank of Australia, the sum of these credits representing an advance payment for gold shipped by the Commonwealth Bank of Australia, which was sold to the U. S. Mint in San Francisco. The partial payment to the Commonwealth Bank of Australia is of interest, since payments for similar shipments in the past have been credited entirely to the account of the Bank of England at the Federal.

There was a holiday in India today, and the Bombay silver market was closed.

In London, the prices for spot and forward silver were both quoted at 20-11/16d. off 5/16d. The U. S. equivalents were 34.54¢ and 34.37¢ respectively. The decline in the London prices was attributed to the announcement that the Senate Banking and Currency Committee had reported favorably on the Townsend Bill, which prohibits the purchase of foreign silver under the Silver Purchase Act.

Hendy and Harman's and the Treasury's prices for foreign silver were unchanged at 34-3/4¢ and 35¢ respectively.

We made ten purchases of silver totaling 1,052,000 ounces under the Silver Purchase Act. Of this amount, 300,000 ounces represented a sale from inventory and the remaining 752,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 50,000 ounces from the Bank of Canada under our regular monthly agreement.


CONFIDENTIAL

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE March 21, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 10 o'clock this morning Mr. Ballantyne, Secretary-General of the Anglo-French Purchasing Board in Washington, telephoned me, requesting assistance in facilitating the sailing from New York at 11 o'clock this forenoon on the S.S. Samaria of Colonel R. I. P. Earle. It appeared that Colonel Earle had failed to obtain an income tax clearance, concerning which he had been in touch with Mr. Perouzi at the Customs House in New York. Mr. Ballantyne informed me that Colonel Earle received no remuneration from the Board, other than a subsistence allowance, and that he had been over here only about one month. In answer to my question, Ballantyne stated that Colonel Earle had been brought over as a technical adviser on tanks. He did not know whether Earle would be returning to the United States.

After obtaining the advice of Mr. Basil Harris and of Mrs. Shipley, Chief of the Passport Division of the Department of State, I told Assistant Secretary Sullivan of the situation, and the latter straightened the difficulty with New York, so that Colonel Earle was able to sail.

Mr. Sullivan suggested that I obtain a list of the members of the Anglo-French Purchasing Board, which should be submitted through diplomatic channels to the State Department, indicating salaries and allowances, whether paid in this country or in Europe, in order that prompt clearances may in the future be given members of the Commission, without necessity for a hurried consideration of a case such as arose this morning. Mr. Purvis and Mr. Pinsent, with both of whom I was talking on different subjects this morning, were of the opinion that the State Department already had a list of members of the Commission. Mr. Purvis offered to send me directly, or through the Embassy and Department of State, a list of his assistants, together with salary figures. He remarked that several of the men, including himself, received absolutely no compensation, either in the way of salary or subsistence allowance. I told Mr. Purvis, as well as Mr. Pinsent, that I would let them know definitely what we desired after talking the matter over again with Mr. Sullivan, and finding out what the State Department actually has on file.

B. M. S.
When Mr. Ballantyne visited me on March 23, he agreed to send me at an early date a list of the members of the Anglo-French Purchasing Board in this country, indicating compensation. This list will not be all inclusive, but will provide the names of those members likely to be travelling between the United States and Europe. There are now several hundred employees, some of them American, and many of them not likely to be travelling.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 21, 1940, 6 p.m.

NO.: 375

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

This afternoon I called on Couve de Murville and talked with him about the existing French practice of requiring franc invoices for a portion of exports from the United States. Couve read to me the pertinent parts of a confidential circular which the Ministry of Finance is sending today to all departments and bureaus of the French Government in which they are expressly instructed not to request that payment be accepted in francs for exports from "free commercial settlement countries", including the United States to France. The circular states that on the contrary, such payment should be made in the exporting country's currency - reference, telegram of March 7, No. 301 from the Embassy, and despatch of March 12, No. 6207, from the Embassy; this instruction setting forth this policy was published in the March 7 issue of Journal Officiel.

Couve said that the Ministry of Finance and the Bank of France had always followed the policy (reference, telegram of March 20, No. 366 from the Embassy) that exports from the United States should be paid in dollars.

However,

- 2 -

However, sometimes it is difficult to get other departments of the Government to comply with this policy, especially since many of them were under the erroneous impression that if invoiced in francs import authorizations would more easily be approved. Incidentally, he suggested that American exporters be counseled to insist that dollar payments be made. Couve also told me categorically that they are not considering any new regulations for restricting the utilization of transferable francs.

The French authorities, he admitted, have not been too pleased by the franc drop on the free market. He was somewhat critical of the British measures bringing it about, saying that the British had acted "too brusquely" and their exchange control administration had been "rigid", but he readily admitted that the French problem is quite different from that of the British.

END SECTIONS ONE, TWO AND THREE.

SECTION FOUR.

If it were only a question of protecting the franc, he added, that could be done without difficulty.

Couve confirmed that in the Reynaud Cabinet the Finance Minister will be Deputy Lucien Lamoureux, the Foreign Affairs post being taken by Reynaud himself.

At

- 3 -

At one time Lamoureux was a reporter of the Chamber Finance Committee, and since 1926 he has served in various Cabinet posts, including a period of nine months as Budget Minister in the 1933 Daladier Cabinet. I am glad to say that Couve expects to hold his present position.

The securities market was firm today on a light turn over. Rentes advanced fractionally. The Bank of France statement published today shows no increase in advances to the state. Currency circulation decreased 686,000,000.

END OF MESSAGE.

MURPHY.

EA:LWW

AC

GRAY

Bucharest

Dated March 21, 1940

Rec'd 7:30 p.m.

Secretary of State

Washington

89. March 21, 8 p.m. (SECTION ONE).

Your 65, March 12, 5 p.m.

For Treasury and for your information.

In statistics quoted below obtained from Rumanian customs, Germany including Austria and Czechoslovakia and the two months' period December 1939 and January 1940 is compared to corresponding months of previous year.

SECTION ONE. Imports from Germany totalled 68,000 metric tons, a 28% increase over corresponding period. Their lei value was 2,500,000,000 a 79% increase. The principal increases occurred in iron, manufactures, machinery and vehicles which accounted for 75% of total value and in which arms imports are included without distinction; the significant increase in value per weight unit is understood to be due both to an increased proportion of armament and to higher armament prices. I am reliably informed that deliveries to even the most anti-aircraft deficiencies, anti-tank guns have been resumed. Imports of

- 2 - #89, March 21, 5 p.m. from Bucharest

of explosives were quadrupled; decreases occurred in imports of both vegetable and wool textiles.

SECTION TWO. Exports to Germany totalled 283,000 tons, a 45% increase. Their value was 2,352,000,000 lei an increase of 108% due principally to tripling of cereal exports and to doubling of value of petroleum although petroleum tonnage declined 10%. Lumber exports decreased to 1/7th; livestock and animal products were approximately the same; fruits and vegetables more than tripled.

SECTION THREE. Petroleum exports to Germany in metric system tons according to the MONITEUR DU PETROLE ROUMAIN, December, by Danube 53,825, by rail 21,004, total 74,829, January 30,161 by rail only.

During January no shipments to Germany were made by allied owned companies leaving Romano-Americana as largest shipper. No rail shipments via the Cernauti Lemberg Line were recorded.

No Russian deliveries of oil have been made at Corfuza since the 8,000 tons of lubricating oil unloaded February 22. It is however reported that some 13,000 tons of Russian oil in small Italian tankers is now lying at Varna, Bulgaria, awaiting rail transport.

SECTION

- 3 - #89, March 21, 5 p.m. from Bucharest

SECTION FOUR. Payment and transport situation.

Little change has occurred in the transport situation outlined in previous telegram. The increase in oil rail shipments to 33,000 tons in January indicates that Germany is having some success in supplying additional locomotives and rolling mill stock and is believed to be now using more than 3,200 tank cars here. The Danube is expected to reopen next week but there is no reliable information concerning increased tanker capacity. British interests are understood to have lent some neutral tonnage, amount unknown.

Germany's favorable merchandise balance of 148,000,000 lei for the period indicates that no payment difficulties will arise in the immediate future and local banks at present are quite willing to finance oil shipments to Germany in expectation of prompt reimbursement through clearing. Ability to balance clearing in more distant future continues doubtful and may depend partly on German ability to demand higher armament prices in compensation for increased oil prices.

SECTION FIVE. Present petroleum regulations and price situation. (END SECTION ONE).

GUNTHER

OK:RP:RR

PARTIAL PARAPHRASE, SECTIONS TWO AND THREE, NO. 89
OF MARCH 21, 1940, FROM BUCHAREST.

Activities of Petroleum Commissioner. Since his appointment in January the Petroleum Commissioner has supervised the establishment of domestic sales quotas proportionate to the companies total production and fixed domestic prices at the August level; has prohibited the sale of storage tanks without his prior approval; and is now understood to be engaged in making sufficient modification in the mining law to induce the companies to increase production and undertake new exploration, though no definite changes have yet been announced.

Petroleum export regulations. Export of refined gasoline of over 68 octane rating has since September been administratively prohibited by export permit authorities. This prohibition was extended on March 11th by formal order of the Petroleum Commissioner to all crudes or mixtures containing 68 octane gasoline. All production of high octane gasoline is being bought by Rumanian army for storage.

A decree law of March 18th establishes for the first time a fixed export and import price list in lei for all petroleum products, which the companies understand will be enforced as minimum prices on which the 25% export tax is levied; and a tax of 80% on the excess of any export price over this list. Although possibly intended as a revenue measure only, informants in the industry state
that

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that the effect of the law will be to set maximum as well as minimum prices at this official level since practically all Rumanian producers export to distributing subsidiaries and have little incentive to enforce price increases on such subsidiaries if 80% of the increase is taken by the Rumanian Government. Most of the official prices are more than 60% above August prices and 75% above current Gulf prices; they are however some 25% below the export prices prevailing during the previous week and companies are complaining bitterly. For example 60 octane gasoline is 7670 lei per ton on the official list, equivalent to \$36.24 at the present buying rate of 211.65 lei per dollar; whereas the price on March 7th was \$48.34 and the corresponding Gulf price \$20.02. This wide discrepancy between Gulf and Constanza prices is of course due to the Allied buying campaign and explains the almost complete cessation of sales to competitive free exchange markets such as Egypt and Palestine which can now import more cheaply from the Gulf.

This almost compulsory lowering of the price level is attributed in official statements to the desire of the Government to resume sales to markets having free exchange, so they will not be wholly dependent on sales to Great Britain and the clearing countries. However, the point is made

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made by the companies that the official prices are still too high to compete with those in the countries having free exchange which are accessible to ocean transport. They give two other explanations for the Government action - i.e., it is the wish of the Government to show some degree of yielding to complaints of Germany and Italy that the export prices are too high, and in this way head off demands for upward valuations of the mark and lira to compensate for the unacknowledged devaluation of the lei on the tenth of March - reference, telegram of March 4, No. 63, from the Legation. A second explanation is that the British may have decided to abandon support of the inflated price level, being convinced that their campaign of oil buying would be rendered ineffective soon by the tax of 80 percent on surplus prices, which may make over-bidding so expensive that it would be prohibitive, and by the possible institution in the near future of export sales quotas for Germany. There is support for the last-mentioned explanation in the rumors that the prices which the Government adopted in its official list were suggested by Astra Romana, which is owned by the British and which has been doing most of the buying for the Allies.

The Government has not as yet taken any official steps toward imposing quotas for Germany; however, for April delivery it is rumored that only 60,000 tons could be

secured

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by buyers in Germany, as compared with the alleged guarantee that they would have 130,000 made available each month. It is the belief of the industry that when Clodius comes to Bucharest the next time he will insist that the guarantee be effectively implemented. It is currently rumored that the Rumanian Government may do the local buying on a company quota basis and resell the product to Germany, as a face-saving device for the companies owned by the Allies.

There was definite indication some weeks ago of an embargo by Great Britain on shipments to Rumania of badly needed raw materials; orders placed in England were not dissenting, and sellers either pleaded lack of shipping space or offered no explanation at all. Unofficially, British officials in Bucharest admitted that it was by government order that this unacknowledged embargo was carried out, in order to strengthen the bargaining power of the British in the struggle for oil. However, one British official pointed out to me that it would have been better if they had permitted the goods to go to Egypt, anyway. There has apparently been resumption of shipments, at least in part. There is still no indication whether the embargo was intended merely as a sample demonstration that may be employed more forcefully at a later date or whether decision was reached by the British that they cannot stop oil

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oil shipments to the Germans without involving Rumania in the war, with the ultimate risk that Rumania would be forced into Germany's arms. Another point may be that under present transport conditions the amount of oil that could be shipped to Germany is not of sufficient strategic importance to warrant the risk involved in trying to stop it.

END OF MESSAGE.

GUNTHER.

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BUREAU OF FOREIGN AND DOMESTIC COMMERCE
OFFICE OF THE DIRECTOR

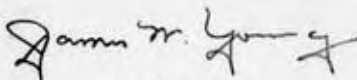
March 22, 1940

From DIRECTOR

To Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury

For

Sent at the request of Mr.
Noble, Under Secretary of
Commerce.



James W. Young

ECONOMIC DEVELOPMENTS

THE TREND OF INDUSTRIAL ACTIVITY during the first half of March continued downward. The pace of the decline was not so rapid as in February; limited data now available indicate a contraction in March about half as large as in the previous month.

EXAMPLES: Our index of industrial production which has been running about 10 points higher than the Federal Reserve index has moved as follows in recent weeks.

January 27.....	128
February 3.....	123
February 10.....	119
February 17.....	116
February 24.....	117
March 2.....	115
March 9.....	114
March 16.....	113

SIGNIFICANCE: It is of little importance that the rate of decline has recently been slower than during February—in that month there was a very large drop of 10 points in the Reserve Board's index. The significant thing is that the decline is continuing and that the March drop will be of substantial magnitude. The best guess one could make at this time would be 103 on the Board's index for March as against 109 for February. By the end of the month the rate of industrial activity probably will be below the level of last August.

MOST COMMENTATORS in the public press have interpreted this slowing in the rate of decline as presaging an upturn in the curve of business. But no signs of the bottom of the recession are as yet in evidence—let alone a recovery move. Consideration of the position of a few major industries will give an indication of the general situation.

EXAMPLES:

STEEL - The ingot rate for the current week was announced at 62.4 percent of capacity, a decline of 2.3 points from the previous week. New orders are reported by the trade journals to be running at about two-thirds of production, the low level at which they have been for the past six weeks. News from the trade is that ingots and some standardized finished steel products are beginning to pile up in the hands of producers. From these indications it appears that a further contraction in activity can hardly be avoided during the weeks ahead.

AUTOMOBILES - The automobile industry has been looked to by many to turn the tide of the business recession. To date production has held at a very high rate with assemblies averaging better than 100,000 per week since the first of the year.

(Thousand Units)

January average.....	103
February "	99
March 2.....	100
" 9.....	104
" 16.....	106

This production schedule was evidently based on anticipated sales greater than has been realized, with the result that stocks in the hands of dealers have been accumulating at a faster pace than usual. By the end of March they will approximate one-half million units. This is an excessive level of new car inventories and will require a greatly expanded sales volume as we move into the heavy spring buying period both to maintain output and to gradually reduce stocks of 1940 model cars. In January and February new car sales were about 35 percent over a year ago. For the first 10 days of March sales were only 12 percent above last year but this unfavorable showing has been attributed to inclement weather.

At this time it is difficult to see how the industry could have its usual seasonal expansion in production this spring—in fact, if there is not a considerable increase in consumer takings in the near future, larger than now appears likely, a contraseasonal decline in the rate of production is in prospect.

PAPER - This commodity is of major interest because of its wide use, and its significance as a major nondurable good. New orders have been below production all of this year with the consequence that backlogs have been continuously reduced. In recent weeks there has been a slight pick-up in new business.

New Orders for Fine, Printing & Wrapping Paper
(Thousands of tons weekly)

August.....	72.4
September.....	92.3
February 3.....	71.8
" 10.....	68.8
" 12.....	63.8
" 24.....	66.6
March 2.....	73.5

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Despite this minor rise in orders, production has continued to decline; the contraction in the latest week was the largest since the beginning of the recession.

Total Paper Production
(Percent of capacity)

August.....	82.9
November.....	97.2
January.....	90.6
February.....	86.5
March 2.....	84.0
" 9.....	79.9

This decline in production seems to us more indicative of the industry's view of the outlook than the optimistic statements appearing in the press about a prospective gain in output. While producers' stocks are below those of last August, dealers' and industrial users' inventories must be very high in the light of the expanded production schedule maintained in the September 1939-January 1940 period.

COTTON TEXTILES - Cotton mills were unusually active during the six months starting August 1939. Measured by the raw cotton consumed by mills, the volume of production was as follows:

Cotton Consumption
(Thousands of bales)

August.....	628
September.....	625
October.....	687
November.....	719
December.....	653
January.....	730
Total.....	4,042
February.....	663

This is at an annual rate of over 8 million bales, more than a half million above the all-time record established in 1937. This rate is too high to be maintained over the next six months. In fact, February showed a sharp decline contrary to the usual seasonal—although mill consumption of 663 thousand bales is still a high figure. Current reports from the trade indicate that activity is being further reduced this month. New orders have been very low, probably less than 50 percent of production, and mill stocks have started to rise. There can be no doubt that the statistical position of this important industry is unfavorable.

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SIGNIFICANCE: Thus, the evidence from these four key areas is all on the bearish side. The end of the business decline is definitely not yet in sight and all talk of a near-term reversal is idle speculation. It rests upon assumptions of improvement in basic demand factors not now apparent, or upon developments associated with the war which simply can not be appraised.

Basic commodity prices continue to weaken and the stock market lacks consistent firmness. Both of these facts suggest that business is not confident of early improvement in the economic situation.

FOREIGN TRADE NOTES

Germany: In the absence of direct reports bearing on the economic condition of Germany, some of the reports from neutral countries throw some light on Germany's export capacity.

A report from Turkey indicates that German trade with that country has declined considerably since the outbreak of the war. Turkish imports from Germany during the months of September, October, and November, 1939, amounted only to about 7 million Turkish pounds (\$5,383,000), as compared with 21 million Turkish pounds (\$16,800,000) in the corresponding months in 1938. Turkish exports to Germany in the same three months of 1939 amounted to 9 million Turkish pounds (\$6,921,000), as compared with more than 30 million (\$24,000,000) in the corresponding months in 1938.

Germany is alleged to have objected to the reservation of the entire Turkish chrome production for the Allies as an unneutral act, but the Turkish Government has taken the position that it is purely a commercial transaction.

Germany is making a great effort to maintain its exports to Sweden, but has had to discontinue its exports of textiles and shoes, and it is alleged that Sweden is compelled to import a lot of poor stuff in order to maintain the clearing agreement. It is also stated that electrical and other machinery can no longer be obtained from Germany and that there is, therefore, a considerable opportunity for American exporters.

Soviet Union: A report dealing with the economic situation in that country toward the end of 1939 enumerates the principal difficulties as follows: a shortage of skilled labor, combined with low labor productivity; an inadequate production of essential raw materials, such as coking coal, petroleum, and iron ore; a growing scarcity of foodstuffs to meet the domestic demand; and a rise in the volume of currency circulation which is reflected in increased prices on a number of essential consumption goods.

Argentina: There is reported to be a growing resentment among Argentine business men against some of the British business practices under the present abnormal conditions. In addition to the dissatisfaction with the high prices of British textiles, referred to in last week's Notes, there has also developed some friction in connection with the British purchases of Argentine meat. It appears that Great Britain has refused to furnish cargo space on British vessels for a part of the shipment of 200,000 tons of meat on the ground that Argentine authorities have not allocated shares to the foreign, including the British, meat producers in Argentina.

Sweden: The country is experiencing great difficulty in obtaining certain commodities which could be furnished by American producers. These cover copper, phosphates, shoes, machine tools, and various iron and steel products such as barbed wire and stainless steel. It is rather interesting to note that Sweden is receiving orders for certain iron and steel products from some of the Southeastern European countries which normally import such products from Germany.

Bureau of Foreign and Domestic Commerce,
March 21, 1940.

WEEKLY WHOLESALE PRICE INDEXES

(1926 = 100)

Group	1939			1940		Percent increase, Mar. 16, 1940 from -	
	Mar. 18	Aug. 26	Sept. 16	Mar. 9	Mar. 16	Mar. 18, 1939	Aug. 26, 1939
All commodities	76.7	74.8	79.3	78.3	78.2	2.0	4.5
Farm products	67.1	61.1	69.7	68.5	68.0	1.3	11.3
Foods	70.7	66.7	75.5	69.9	70.4	- 0.4	5.5
All commodities other than . .							
farm products and foods . .	80.7	80.4	82.4	83.1	83.0	2.9	3.2
Hides and leather products . .	92.6	92.6	98.3	102.4	102.5	10.7	10.7
Textile products	66.1	67.4	71.4	73.3	73.0	10.4	8.3
Fuel and lighting materials . .	73.7	73.2	74.1	72.8	72.6	- 1.5	- 0.8
Metals and metal products . .	94.4	93.5	94.9	95.5	95.5	1.7	2.1
Building materials	90.2	89.7	90.7	93.3	93.2	3.3	3.9
Chemicals and drugs	76.2	74.2	77.1	77.5	77.4	1.6	4.3
House-furnishing goods	86.6	87.0	87.1	89.6	89.6	3.5	3.0
Miscellaneous	73.9	73.1	76.1	76.8	76.9	4.1	5.2
Raw materials	70.6	66.2	73.0	72.2	71.9	1.8	8.6
Semimanufactured articles . .	74.5	74.4	82.0	79.7	79.6	6.8	7.0
Finished products	80.3	79.3	82.3	81.4	81.4	1.4	2.6

Source: U. S. Department of Labor, Bureau of Labor Statistics.

SELECTED COMMODITY PRICE SERIES

Commodity	Unit	1939			1940	
		March 22	August 30	Sept. 13	March 13	Mar. 20
Copper, electrolytic, New York	\$ per lb.	11 1/4	10 1/2	12	11 1/2	11 1/4
Lead, prompt shipment, New York	do	4.85	5.05	5.50	5.25	5.15
Zinc, New York	do	4.84	5.14	6.64	6.14	6.14
Alumina, straits, New York	do	45 19/20	49 3/4	1/75	48 1/8	46 5/8
Rubber, plantation, N.Y.	do	15 7/8	16 13/16	22 1/2	18 3/4	18 9/16
Wool, light native Hides, Chicago	do	10 1/2	11	15	13 1/4	12 1/2
Milk, 13-15 denier, 78% meripane, N.Y.	\$ per lb.	2.29	2.72	3.21	2.98	2.92
Cotton, middling, aver- age, 10 markets	\$ per lb.	8.56	8.53	9.01	10.36	10.40
Print cloth, 60x64, 38 1/2 inches, N.Y.	\$ per yd.	4 3/8	4 5/8	5 3/8	5	4 7/8
Wool tops, May 1940 futures, N. Y.	\$ per lb.	2/79.5	3/81.5	3/111.9	98.2	96.7
Sugar, raw, 96°, duty free, New York	do	2.87	2.92	3.70	2.81	2.83
Cocoa, Accra, New York	do	4.75	4.38	6.45	5.53	5.50
Coffee, Santos, No. 4, New York	do	7 3/8	7 5/8	7 3/4	7 1/2	7 1/4
Ward, cash, Chicago	do	6.40	5.65	7.75	5.95	5.75
Cottonseed oil, May 1940 futures, N. Y.	do	2/ 6.87	3/ 5.61	3/ 7.30	6.87	6.75
Wheat, May 1940 fu- tures, Chicago	\$ per bu.	2/ .67 3/4	3/ .67 1/4	2/ .85 3/8	1.01 5/8	1.05 3/4
Hogs, good and choice, 220-240 lbs., Chicago	\$ per cwt.	4/ 7.58	6.88	8.13	5.40	5.33
Steers, beef, medium, 750-1,100 lbs., Chi.	do	9.38	8.38	8.88	8.63	8.63

Nominal. 2/ May 1939 futures. 3/ December 1939 futures. 4/ Hogs weighing 220-250 lbs.

Sources: All commodities, with the exception of wool tops, cottonseed oil, hogs, and steers, are taken from the Journal of Commerce; wool tops and cottonseed oil are taken from the Wall Street Journal; and Hogs and steers are from the U. S. Department of Agriculture, Bureau of Agricultural Economics.

COMPOSITE PRICES OF PIG IRON, STEEL SCRAP, AND FINISHED STEEL

Date	Pig Iron 1/	Steel Scrap 2/	Finished Steel 3/
	(Dollars per gross ton)		(Cents per pound)
1939:			
March 21	20.61	15.17	2.286
August 29	20.61	15.62	2.236
September 19	22.61	19.25	2.236
October 3	22.61	22.50	2.236
1940:			
March 12	22.61	16.71	2.261
March 19	22.61	16.54	2.261

1/ Based on average for basic iron at Valley furnace and foundry iron at Chicago, Philadelphia, Buffalo, Valley and Southern iron at Cincinnati.

2/ Based on No. 1 heavy melting steel quotations at Pittsburgh, Philadelphia, and Chicago.

3/ Based on steel bars, beams, tank plates, wire, rails, black pipe, sheets and hot-rolled strip. These products represent 85 percent of the United States output.

Source: The Iron Age.

PRICES OF PETROLEUM PRODUCTS - IN BULK AT GULF COAST PORTS

Date	Motor gasoline, 65 octane	Light fuel oil, number 2	Diesel oil, 'ships' bunkers,	Bunker oil, grade "C", cargoes
	(Cents per gallon)		(Dollars per barrel)	
1939:				
March 22	4.50 - 4.75	3.125 - 3.375	1.45	0.70 - 0.72
August 30	4.75 - 5.00	3.375 - 3.75	1.45	0.78 - 0.80
September 13	6.25 - 6.875	3.875 - 4.00	1.45	0.825 - 1.00
1940:				
March 13	5.25 - 6.00	4.125 - 4.25	1.70	0.90 - 1.05
March 20	5.25 - 6.00	4.125 - 4.25	1.70	0.90 - 1.05

Source: Platt's Oilgram.

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