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BRITISH EMBASSY,
WASHINGTON, D. C.

July 1st, 1940.

Personal and Secret

Dear Mr. Secretary,

I enclose herein for your
personal and secret information a copy
of the latest report received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. Sturges

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
on evening of June 30th.

Enemy reconnaissance aircraft, probably carrying out weather reconnaissances, active over east and west coasts of England yesterday. One Dornier 17 shot down. About 50 enemy aircraft raided United Kingdom last night, dropping bombs in Yorkshire, Staffordshire, Lincolnshire, Cambridgeshire, Sussex and South Wales. No damage or casualties reported except at gas works and at infirmary. Two people killed and 8 wounded. Deterioration of weather conditions prevented interceptions, and probably also caused enemy to curtail operations.

Blenheims attacked Dheville aerodrome yesterday and report that all bombs fell on aerodrome area. Photographic reconnaissance also carried out over northwestern France and coasts of Norway. Enemy battleship and camouflaged warship observed in Trondheim harbour and one large ship together with much activity in Kiel harbour. Three out of 88 heavy bombers missing as result of attacks on explosive factories and marshalling yards in northwest Germany last night. Thirty-five tons of bombs dropped on chemical factories at Cologne, Dusseldorf and

Kocchet on night of June 28th - 29th, causing large fires and explosions. Aerodromes and marshalling yards also subjected to heavy attacks.

No change reported in location of French fleet. Very doubtful however if anything can be done to secure cooperation of this fleet, and short of surrender to the enemy position cannot deteriorate further. Feelings of officers very from definite hostility to negative wishes not to embarrass British fleet.

Reported French "Emile Bertin" started unloading bullion at Martinique on June 28th. French Chief of Staff has informed British authorities that aircraft carrier "Bearn" is to unload her aircraft at Guadalupe before returning to France.

French authorities at Dakar have refused fuelling facilities to British ships which have troops on board.

British destroyers in Mediterranean report sinking one Italian submarine on June 27th and two Italian submarines on June 29th. One other Italian submarine sunk in Mediterranean on June 29th, by flying boat, which picked up four survivors. British submarine "Orpheus" now presumed lost. One Dutch ship sunk by torpedo off west coast of France yesterday.

It is considered likely that death of Air Marshal Balbo will probably have adverse effect/

effect on morale of Italian air force.
Blenheims from Egypt inflicted severe casualties
on enemy troops and aircraft at Birelgubbi on
June 28th. One enemy fighter shot down and
another severely damaged. Two Blenheims shot
down and another missing.



DEPARTMENT OF STATE
WASHINGTON

July 1, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of paraphrase of telegram No. 1903 of July 1 from London.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

AS ST. M. 1 JUL. ONE

THE SECRETARY'S DEPARTMENT
RECEIVED

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London

DATE: July 1, 1940, noon.

Rec'd 5:50 a.m.

NO.: 1903, RUSH.

TRIPLE PRIORITY.

FOR THE SECRETARY OF THE TREASURY.

Tomorrow or Wednesday Phillips will leave, and around the 12th of July he will arrive in Washington. Bewley will accompany him.

Phillips will have the information which you need.

KENNEDY.

TO THE SECRETARY
TECHNICAL ASSISTANT
DIVISION OF THE

240 JUN 1 11 54

TELETYPE DEPARTMENT
RECEIVED

EA:LWW

FROM: MR. FOLEY'S OFFICE

7

TO:.....

7/1/40

Miss Chauncey —

Attached is a photostatic copy
of the T.D.

Also attached is the press release,
the proclamation, and another copy of
the T.D.

I understand we can't get a
photostatic copy of the proclamation,
since that does not come back to us
after signature.

s

(T. D.)

Anchorage Regulations

Regulations for the control of vessels in the territorial waters of the United States.

Approved by the President

THEASURY DEPARTMENT,
Washington, D. C.

To Collectors of Customs, and Captains of Ports and Others Concerned:

Section 1, title II, of the so-called espionage act, approved June 15, 1917, 40 Stat. 220 (U.S.C. title 50, sec. 191), provides in part as follows:

"Whenever the President by proclamation or Executive order declares a national emergency to exist by reason of actual or threatened war, insurrection, or invasion, or disturbance or threatened disturbance of the international relations of the United States, the Secretary of the Treasury may make, subject to the approval of the President, rules and regulations governing the anchorage and movement of any vessel, foreign or domestic, in the territorial waters of the United States, may inspect such vessel at any time, place guards thereon, and, if necessary in his opinion in order to secure such vessels from damage or injury, or to prevent damage or injury to any harbor or waters of the United States, or to secure the observance of the rights and obligations of the United States, may take, by and with the consent of the President, for such purposes, full possession and control of such vessel and remove therefrom the officers and crew thereof and all other persons not specially authorized by him to go or remain on board thereof."

By virtue of a proclamation issued on the 27th day of June, 1940, the above quoted provisions of law are now in full force and effect.

- 2 -

Pursuant to the authority contained in the above quoted act, the following rules and regulations are hereby promulgated:

(1) All existing rules and regulations of any department, agency or instrumentality of the United States governing anchorage and movements of vessels in the territorial waters of the United States are hereby reaffirmed and continued in force during the period of the present emergency, except as modified by these rules and regulations.

(2) The rules and regulations governing the anchorage of vessels herein reaffirmed or promulgated shall be enforced by the captain of the port, or where the port has no such officer, by an officer of the Coast Guard or the Customs Service designated by the Secretary of the Treasury. In any case where there are no applicable rules or regulations governing the anchorage of vessels, all anchorage shall be in accordance with the directions of the captain of the port or other officer designated by the Secretary of the Treasury pursuant to this section.

(3) The movement of any vessel between points within the area of a port, and the movement, lading, and discharging of explosive or inflammable material or other dangerous cargo shall be under the supervision and control of the captain of the port, or other officer designated by the Secretary of the Treasury pursuant to section (2) hereof.

(4) The captain of the port or other officer designated by the Secretary of the Treasury pursuant to section (2) hereof is hereby authorized to cause to be inspected and searched at any time any vessel, foreign or domestic, or any person or package thereon, within the territorial waters of the United States, to place guards upon such

vessels, and to remove therefrom any or all persons not specially authorized by him to go or to remain on board thereof.

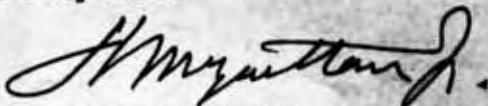
(5) The collector of customs, through the captain of the port or other agency acting for the collector, is hereby directed, subject to the approval of the Secretary of the Treasury, to take full possession and control of any vessel, foreign or domestic, in the territorial waters of the United States, whenever it appears that such action is necessary in order to secure such vessels from damage or injury, or to prevent damage or injury to any harbor or waters of the United States, or to secure the observance of the rights and obligations of the United States. Pending action by the Secretary of the Treasury, the collector of customs is authorized to detain any such vessel and is directed to communicate the facts by the most expeditious means available to the Secretary of the Treasury.

(6) The Secretary of the Treasury may require all lighters, barges, ferries, tugs, motor boats, sailboats, and similar craft operating in the harbor or waters of any port of entry, to be especially licensed by the collector of customs for such purpose and may revoke any license so granted for any failure to comply with the anchorage or harbor regulations for such port, or to obey the orders issued thereunder by any duly authorized officer, or for any act inimical to the interests of the United States in the present emergency.

(7) No vessel shall depart from any port or place in the United States, or from any port or place subject to the jurisdiction of the United States, on a voyage on which clearance by a customs officer

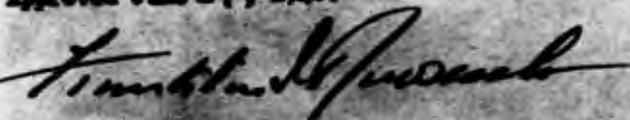
- 4 -

of the United States is required, unless the principal customs officer in charge of the port of departure shall have been authorized by the Secretary of the Treasury to permit the departure.



HENRY MORGENTHAU, JR.
Secretary of the Treasury.

Approved June 27, 1940.



FRANKLIN D. ROOSEVELT,
President.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Friday, June 23, 1940

Press Service
No. 21-43

Secretary Morgenthau today issued rules and regulations for control of foreign and domestic vessels in United States harbors and waters, carrying out the provisions of the proclamation signed yesterday by the President.

The Secretary also set up an Office of Merchant Ship Movements to enforce the regulations under the supervision of Assistant Secretary of the Treasury Herbert E. Gaston. Three Coast Guard officers assigned to duty in the new office are Commander W. N. Derby, assistant chief personnel officer of the Coast Guard; Lieut.-Commander A. C. Richmond, who has been on general duty at Coast Guard headquarters, and Lieut. F. E. Pollio, acting chief intelligence officer of the Service.

The regulations will provide increased control through Captains of the Port over the anchorage and movement of vessels in United States harbors and over handling and loading of explosives and other dangerous cargo.

The President's proclamation and the Treasury regulations read as follows:

CONTROL OF VESSELS IN TERRITORIAL WATERS
OF THE UNITED STATES

13

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

WHEREAS, A proclamation issued by me on September 8, 1939, proclaimed that a national emergency existed in connection with and to the extent necessary for the proper observance, safeguarding and enforcing of the neutrality of the United States and the strengthening of our national defense within the limits of peace-time authorizations, and that specific directions and authorizations would be given from time to time for carrying out these two purposes,

WHEREAS, The continuation of the conditions set forth in said proclamation of September 8, 1939, now calls for additional measures within the limits of peace-time authorizations,

WHEREAS, Under and by virtue of section 1 of title II of the Act of Congress approved June 15, 1917, 40 Stat. 220 (U.S.C. title 50, sec. 191), it is provided as follows:

"Section 1. Whenever the President by proclamation or Executive order declares a national emergency to exist by reason of actual or threatened war, insurrection, or invasion, or disturbance or threatened disturbance of the international relations of the United States, the Secretary of the Treasury may make, subject to the approval of the President, rules and regulations governing the anchorage and movement of any vessel, foreign or domestic, in the territorial

waters of the United States, may inspect such vessel at any time, place guards thereon, and, if necessary in his opinion in order to secure such vessels from damage or injury, or to prevent damage or injury to any harbor or waters of the United States, or to secure the observance of the rights and obligations of the United States, may take, by and with the consent of the President, for such purposes, full possession and control of such vessel and remove therefrom the officers and crew thereof and all other persons not specially authorized by him to go or remain on board thereof.

"Within the territory and waters of the Canal Zone the Governor of the Panama Canal, with the approval of the President, shall exercise all the powers conferred by this section on the Secretary of the Treasury."

AND, WHEREAS, It is essential, in order to carry into effect the provisions of said Act, which are quoted herein, that the powers conferred therein upon the President, the Secretary of the Treasury and the Governor of the Panama Canal be at this time exercised, or available for exercise, with respect to foreign and domestic vessels.

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT, President of the United States of America, by virtue of the powers conferred upon me by the provisions of the said Act of Congress quoted herein, do hereby declare the continuation of the conditions set forth in my proclamation of September 8, 1939, and the existence of a national emergency by reason of threatened disturbance of the international relations of the United States.

AND, I therefore consent to the exercise, with respect to foreign and domestic vessels, by the Secretary of the Treasury and the Governor of the Panama Canal, of all the powers conferred by the provisions of said Act.

- 3 -

IN WITNESS WHEREOF, I have hereunto set my hand and caused the seal of the United States to be affixed.

DONE at the City of Washington this 27th day of June
in the year of our Lord
nineteen hundred and forty
and of the Independence of
the United States of America,
the one hundred and sixty-
fourth.

FRANKLIN D. ROOSEVELT

By the President:

CORDELL HULL
Secretary of State.

Anchorage Regulations

Regulations for the control of vessels in the territorial waters of the United States.

TREASURY DEPARTMENT,
Washington, D. C.

To Collectors of Customs, and Captains of Ports and Others Concerned:

Section 1, title II, of the so-called espionage act, approved June 15, 1917, 40 Stat. 220 (U.S.C. title 50, sec. 191), provides in part as follows:

"Whenever the President by proclamation or Executive order declares a national emergency to exist by reason of actual or threatened war, insurrection, or invasion, or disturbance or threatened disturbance of the international relations of the United States, the Secretary of the Treasury may make, subject to the approval of the President, rules and regulations governing the anchorage and movement of any vessel, foreign or domestic, in the territorial waters of the United States, may inspect such vessel at any time, place guards thereon, and, if necessary in his opinion in order to secure such vessels from damage or injury, or to prevent damage or injury to any harbor or waters of the United States, or to secure the observance of the rights and obligations of the United States, may take, by and with the consent of the President, for such purposes, full possession and control of such vessel and remove therefrom the officers and crew thereof and all other persons not specially authorized by him to go or remain on board thereof."

By virtue of a proclamation issued on the 27th day of June, 1940 the above quoted provisions of law are now in full force and effect.

Pursuant to the authority contained in the above quoted act, the following rules and regulations are hereby promulgated:

(1) All existing rules and regulations of any department, agency or instrumentality of the United States governing anchorage and movements of vessels in the territorial waters of the United

States are hereby reaffirmed and continued in force during the period of the present emergency, except as modified by these rules and regulations.

(2) The rules and regulations governing the anchorage of vessels herein reaffirmed or promulgated shall be enforced by the captain of the port, or where the port has no such officer, by an officer of the Coast Guard or the Customs Service designated by the Secretary of the Treasury. In any case where there are no applicable rules or regulations governing the anchorage of vessels, all anchorage shall be in accordance with the directions of the captain of the port or other officer designated by the Secretary of the Treasury pursuant to this section.

(3) The movement of any vessel between points within the area of a port, and the movement, lading, and discharging of explosive or inflammable material or other dangerous cargo shall be under the supervision and control of the captain of the port, or other officer designated by the Secretary of the Treasury pursuant to section (2) hereof.

(4) The captain of the port or other officer designated by the Secretary of the Treasury pursuant to section (2) hereof is hereby authorized to cause to be inspected and searched at any time any vessel, foreign or domestic, or any person or package thereon, within the territorial waters of the United States, to place guards upon such vessels, and to remove therefrom any or all persons not specially authorized by him to go or to remain on board thereof.

(5) The collector of customs, through the captain of the port or other agency acting for the collector, is hereby directed, subject

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to the approval of the Secretary of the Treasury, to take full possession and control of any vessel, foreign or domestic, in the territorial waters of the United States, whenever it appears that such action is necessary in order to secure such vessels from damage or injury, or to prevent damage or injury to any harbor or waters of the United States, or to secure the observance of the rights and obligations of the United States. Pending action by the Secretary of the Treasury, the collector of customs is authorized to detail any such vessel and is directed to communicate the facts by the most expeditious means available to the Secretary of the Treasury.

(6) The Secretary of the Treasury may require all lighters, barges, ferries, tugs, motor boats, sailboats, and similar craft operating in the harbor or waters of any port of entry, to be especially licensed by the collector of customs for such purpose and may revoke any license so granted for any failure to comply with the anchorage or harbor regulations for such port, or to obey the orders issued thereunder by any duly authorized officer, or for any act inimical to the interests of the United States in the present emergency.

(7) No vessel shall depart from any port or place in the United States, or from any port or place subject to the jurisdiction of the United States, on a voyage on which clearance by a customs officer of the United States is required, unless the

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principal customs officer in charge of the port of departure shall have been authorized by the Secretary of the Treasury to permit the departure.

H. MORGENTHAU, JR.
Secretary of the Treasury.

Approved June 27, 1940.

FRANKLIN D. ROOSEVELT,
President.

Filed 6/28/40 -
date of F.D.R.'s
note to H.M.D.R.

JUL 1st 1940

MEMORANDUM FOR THE PRESIDENT

The attached memorandum dated June 26, 1940 to you from Secretary Compton does not require a reply. It relates to §2(a) of H. R. 9822, the naval shipbuilding expediting bill which you approved on June 25, 1940, which authorizes the negotiation of contracts without competitive bidding.

On June 27, 1940 I gave you a memorandum discussing this matter to which was attached a letter for your signature to Secretary Compton conferring the necessary authority. That letter was in reply to an earlier undated letter from Secretary Compton to you which covered the same point covered by his memorandum dated June 26.

I am attaching a copy of the draft letter which I submitted with my memorandum of June 27, together with a copy of my memorandum.

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

thk
7/1
E. J. Th
GEX:6
7-2-40
cc to Thompson

By Messenger 5

June 27, 1940

MEMORANDUM FOR THE PRESIDENT:

The draft of letter attached to the memorandum of Acting Secretary of the Navy Compton relates to section 2(a) of H. R. 9822 (the Naval Shipbuilding Expediting bill now before you for approval). This section does not relate to the profit-limiting provisions of the Vinson-Trammell Act, but authorizes the Secretary of the Navy upon receipt of authority from the President during the national emergency declared on September 8, 1939 to exist, to negotiate contracts for the acquisition, construction, repair or alteration of naval vessels or aircraft, or any portion thereof, including plans, spare parts and equipment, as well as machine tools. These contracts can be negotiated without competitive bidding.

According to the reports of the House and Senate Committees on Naval Affairs the object of the provision is to save time that would otherwise be consumed in advertising for bids, evaluating them after they are received, and perhaps re-advertising.

There was some reluctance to delegating such broad authority to place contracts without competition and in the report of the Senate Committee on Naval Affairs it is stated that "witnesses of the Navy Department assured the Committee that it would be the policy of the Navy Department to continue to submit to competitive bidding its requirements for naval material, wherever practical, resorting to negotiated contracts only where such action would hasten the naval program." Accordingly, in the draft of reply to Secretary Compton which I have prepared at your request and attach hereto, the authority of the Secretary of the Navy to negotiate contracts without competitive bidding is limited in accordance with the statements of the witnesses from the Navy Department to the Senate Committee. Other standards by which the Secretary of the Navy may determine in what cases he should negotiate contracts without competitive bidding and what constitutes a fair and reasonable price are included in the draft of reply.

Secretary of the Treasury.

My dear Mr. Secretary:

Pursuant to the authority vested in me by section 2(a) of an act entitled "An Act to expedite naval shipbuilding, and for other purposes" and subject to the provisions and conditions of said section, I hereby deem it to be in the best interests of the national defense during the national emergency declared by me on September 8, 1939 to exist that the Secretary of the Navy be authorized, after the date of approval of said Act, to negotiate contracts, for the acquisition, construction, repair or alteration of complete naval vessels or aircraft, or any portion thereof, including plans, spare parts, and equipment therefor, that have been or may be authorized, and also for machine tools and other similar equipment, without advertising or competitive bidding.

However such authority shall not be exercised unless the Secretary of the Navy shall find and determine that if advertising or competitive bidding were required, the bids submitted pursuant to such advertising would not represent the operation of effective competition or unless the Secretary of the Navy finds and determines that advertising for a reasonable time would seriously hamper, impede and delay the acquisition by the Secretary of the Navy of the items specified above.

Such contracts may be negotiated on any basis or system (other than on a cost-plus-a-percentage-of-cost system) which the Secretary of the Navy shall deem appropriate and may include any type of contract heretofore entered into by the Secretary of the Navy after competitive bidding.

Prior to the execution of any such contract the Secretary of the Navy shall find and determine that the price or prices included therein is fair and reasonable having due regard to (a) the cost of production of the same or comparable items in efficient, privately-owned plants operating at a rate of capacity equal to that at which the contractor's facilities will be operated during the period of the performance of the contract, and (b) wherever possible, the cost of production of the same or comparable items in Government-owned plants.

Sincerely yours,

Franklin D. Roosevelt

The Honorable

The Acting Secretary of the Navy.

CLK:JJO'G:RNF:LSW
6-27-48
copied on 7/1/48

THE WHITE HOUSE
WASHINGTON

June 28, 1940.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

FOR PREPARATION OF REPLY
FOR MY SIGNATURE.

F. D. R.

THE WHITE HOUSE
WASHINGTON

June 28, 1940

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY
FOR PREPARATION OF REPLY
FOR MY SIGNATURE.

F. D. R.

DEPARTMENT OF THE NAVY
Office of the Secretary
Washington

26 June 1940

MEMORANDUM TO THE PRESIDENT.

Subject: Negotiated Contracts for Public Works.

The Act approved April 25, 1939, authorized the Secretary of the Navy to negotiate contracts for the construction of certain Naval air stations outside of the continental limits. At that time only three such contracts were contemplated and the Act provided that they must be approved by the President.

In the current emergency it became necessary, in the interest of speed of construction, to seek authority to negotiate all public works contracts, and this authority has been granted by the Congress, with your approval.

The number of public works contracts which will soon be negotiated will be in excess of one hundred and may possibly reach a total far greater than this. In order to relieve the President of the burden of personally approving all of these contracts, there was inserted in the Bill to expedite National Defense a provision which would permit the Secretary of the Navy to approve negotiated contracts "acting by direction of the President". In order to avoid all possible delays it will be appreciated if, by approving this memorandum, you authorize me to sign negotiated public works contracts by your direction, contingent upon your approval of H. R. 9622.

(signed) Lewis Compton

Acting Secretary of the Navy

F.S. Adm. McNeill concurs in this recommendation.
L.C.

original returned to Pres. 7/1/40

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON

26 June 1940

MEMORANDUM TO THE PRESIDENT.

Subject: Negotiated Contracts for Public Works.

The Act approved April 25, 1939, authorized the Secretary of the Navy to negotiate contracts for the construction of certain Naval air stations outside of the continental limits. At that time only three such contracts were contemplated and the Act provided that they must be approved by the President.

In the current emergency it became necessary, in the interest of speed of construction, to seek authority to negotiate all public works contracts, and this authority has been granted by the Congress, with your approval.

The number of public works contracts which will soon be negotiated will be in excess of one hundred and may possibly reach a total far greater than this. In order to relieve the President of the burden of personally approving all of these contracts, there was inserted in the Bill to expedite National Defense a provision which would permit the Secretary of the Navy to approve negotiated contracts "acting by direction of the President". In order to avoid all possible delays it will be appreciated if, by approving this memorandum, you authorize me to sign negotiated public works contracts by your direction, contingent upon your approval of H. R. 9822.



Acting Secretary of the Navy

*P.S. Gen. Mozzell concurs in
this recommendation.*

ml

WAR DEPARTMENT
WASHINGTON

June 25, 1940.

MEMORANDUM FOR THE PRESIDENT:

Subject: Certifications regarding special additional equipment and facilities.

Reference is made to your memorandum dated June 15, 1940, concerning the anticipated enactment of H.R. 9822 and the certifications which would be required to be made by the Secretary of War pursuant thereto regarding special additional equipment and facilities acquired to facilitate completion of Army aircraft. Steps were taken promptly to bring to the attention of the chiefs of the supply arms and services concerned the information and suggestions contained in your memorandum.

The War Department has not yet received a draft of the regulations which will govern the procedure in the matter of these certifications. I am, however, in receipt of a letter from the Secretary of the Treasury under date of June 20, 1940, copy attached, advising me of the proposed organization and procedure in that Department to handle the matter.

The main objective sought by Section 4, H. R. 9822, was to facilitate and expedite the entering into of contracts in cases necessitating the acquiring by contractors and subcontractors of special additional equipment and facilities. The War Department will do everything in its power and will cooperate in every way with the Treasury Department and with the contractors and subcontractors to accomplish that end.

It is not understood to be the intent of the bill in question to make final action on the certifications in question mandatory before contracts are executed, the law being purposely

drawn so as to allow flexibility in this respect. In view of the time that may be required to process the detailed certifications and clear them with the Treasury Department, and in order not to set up any possible impediment to expediting execution of important contracts involved in the defense program, it is proposed, unless otherwise instructed, to prepare contracts and pertinent certifications concurrently in all applicable cases and take up the question of certifications with the Treasury Department at the earliest possible time with a view to prompt final determination of the matter.

It is believed that the foregoing is in substantial agreement with the views of the Treasury Department and with the spirit of your memorandum of June 15th.



Louis Johnson,
Acting Secretary of War.

1 Encl.
Copy of letter
from the Sec. of
Treasury dated
6/20/40.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 1, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Leroy-Beaulieu telephoned me from New York at 11:00 this morning. He stated that the Ambassador had just received a cable from the French High Commissioner at Beirut, Syria, complaining because a check which had been drawn by the Bank of Syria and Lebanon (Banque du Syrie et du Liban) of Beirut, on the National City Bank of New York, payable to the Chase Bank, had not been paid by the National City, since this was considered a blocked transaction. Leroy-Beaulieu explained that the bank in question was the central bank of the two mandated territories above mentioned. He has spoken to Mr. Knoke about the matter. Leroy-Beaulieu feels that he must ask that transactions of this bank be licensed, but he is prepared to accept a "partial" license, feeling that there is necessity to be careful.

Leroy-Beaulieu stated that a further cablegram had been received from the Bank of Indo-China to the effect that the twenty-five percent percentage granted it is not sufficient. He asked if the percentage could be increased, at least for the branches of the Bank of Indo-China that are situated in China (as apart from Indo-China). In China proper the Bank of Indo-China must operate in competition with other banks, and it is understood that "runs" are beginning or may occur when depositors realize that their funds may not be completely available.

Leroy-Beaulieu stated that his Ambassador had raised this question with Secretary Hull on Friday afternoon, in the presence of Assistant Secretary of State Berle. Mr. Hull is said to have been most friendly and desirous that nothing should be done under application of the freezing processes to cause any trouble at all for the French Government or its interests in the Far East.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 1, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

At 12:45 on Saturday, June 29, I received Mr. S. D. Ren, Executive Vice President of the Universal Trading Corporation.

Some days ago, Mr. Lochhead had discussed with two or three of us informally by telephone, and Mr. Morris had talked over personally with Messrs. Foley, White and myself, the question as to whether the Universal Trading Corporation should seek to have title returned to it in the goods which it has shipped to China but which are still found in Indo-China. No action had been taken following these conversations.

Mr. Ren stated, however, that since the situation with respect to French Indo-China had become more acute, Mr. Chen had cabled to the Universal and to the Chinese Embassy here, suggesting that the question of possible American Government protection for the goods now in Indo-China be raised with the State Department. Mr. Ren had consequently come to Washington on Friday and had talked over the matter with Messrs. Adams and Mackay in the Far Eastern Division. The decision was that the Universal Trading Corporation should approach the French authorities seeking permission to send their goods on into China, basing their plea upon the fact that the merchandise had been purchased under credits given by the American Export Import Bank. If this move failed, an effort would be made to obtain permission to export the goods from Haiphong to another port. If the second alternative should not succeed, the question was then to be referred to the Department of State to see whether the latter would be willing to make any representations in behalf of the Universal Trading Corporation. Before Mr. Ren had visited the State Department, the Chinese Ambassador had had a preliminary conversation with Mr. Hornbeck, but called Ren down from New York in order that the latter might give more technical details to the Department of State.

While with me, Mr. Ren asked that I bring to the attention of our Procurement Division the fact that eight hundred tons of Chinese tin have now been received by the Universal Trading Corporation in the United States, and nine hundred tons are en route. Mr. Ren hopes Mr. Nelson may be interested in this metal. I am referring a copy of this memorandum to Mr. Nelson.



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE July 1, 1940

TO Secretary Morgenthau
FROM Mr. Haas *[Signature]*

The attached tables and chart indicate a decline of 71,000 persons in the number employed by the Work Projects Administration to 1,714,000 during the week ending June 19, 1940, compared with 1,785,000 persons during the week ending June 12, 1940.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week Ending 1939-40	Number of Workers (In thousands)
December 6	2,075
December 13	2,123
December 20	2,144
December 27	2,152
January 3	2,160
January 10	2,190
January 17	2,222
January 24	2,244
January 31	2,266
February 7	2,288
February 14	2,306
February 21	2,319
February 28	2,324
March 6	2,324
March 13	2,319
March 20	2,312
March 27	2,288
April 3	2,204
April 10	2,162
April 17	2,118
April 24	2,092
May 1	2,059
May 8	2,008
May 15	1,970
May 22	1,945
May 29	1,925
June 5	1,859
June 12	1,785
June 19	1,714

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

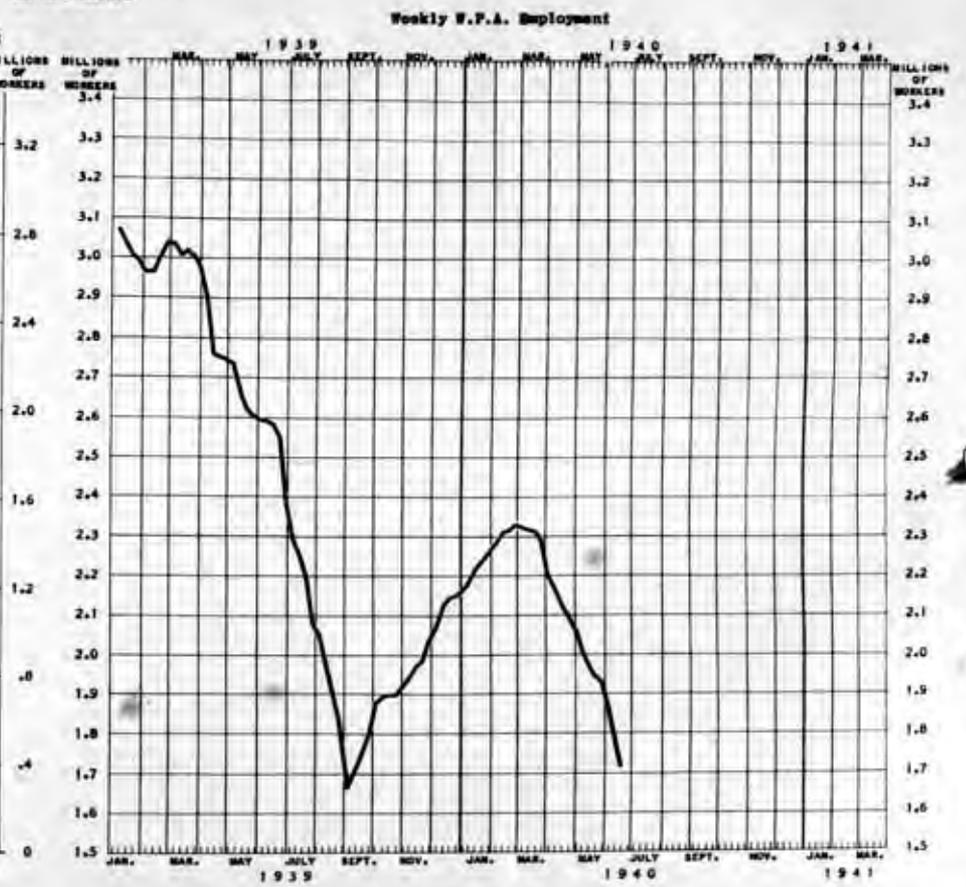
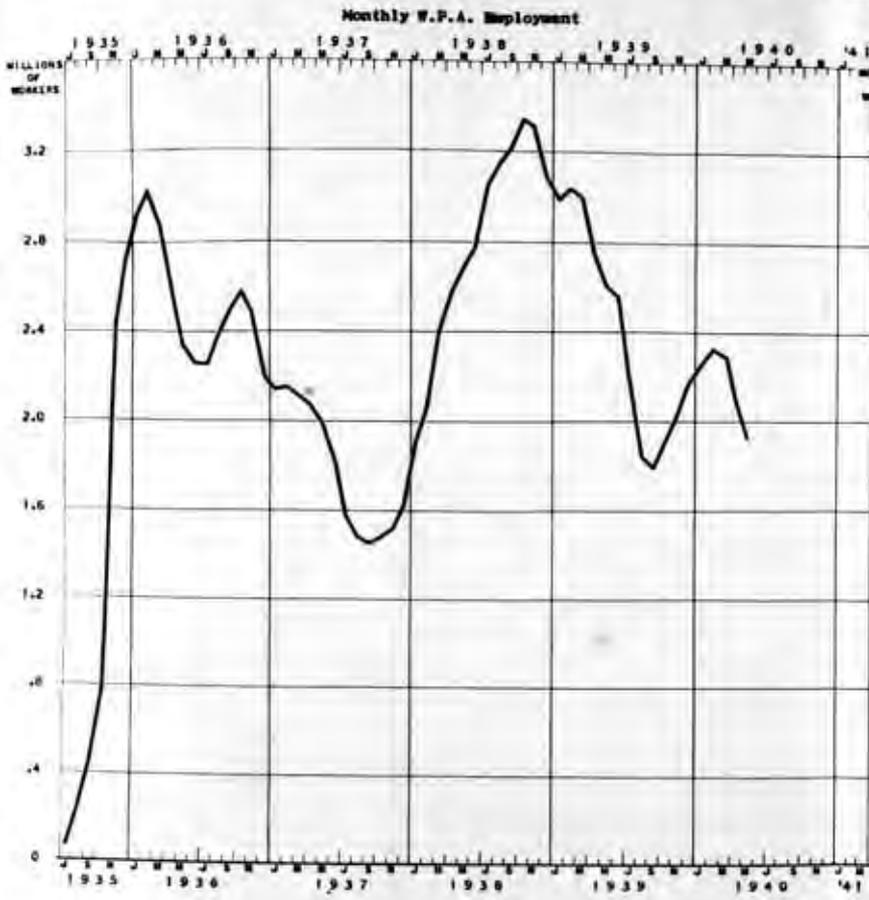
	Number of Workers (In thousands)
1937	
July	1,569
August	1,480
September	1,448
October	1,476
November	1,520
December	1,671
1938	
January	1,901
February	2,075
March	2,445
April	2,582
May	2,678
June	2,807
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,925

Source: Work Projects Administration.

Monthly figures are weekly figures for the latest week of the month.

They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States



SOURCE: WORK PROJECTS ADMINISTRATION

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 1, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Leroy-Beaulieu telephoned me from New York at 11:25 to the effect that his Ambassador had instructed him to learn through me whether Secretary Morgenthau could receive the two of them Tuesday or Wednesday, preferably tomorrow. Leroy-Beaulieu said the Ambassador desired to have a talk personally with the Secretary, such as he had had with Mr. Hull on Friday, in regard to the application of the freezing process, and other French financial problems. When I reminded Leroy-Beaulieu that Under Secretary Bell handled the freezing business, he said he was aware of this, but that the Ambassador was strongly desirous of having a few words with the Secretary himself.

I am to call Leroy-Beaulieu back and let him know the hour at which the Secretary may desire to receive the Ambassador and himself.



STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 1, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was quiet today. Sterling opened at 3.79, two cents lower than Saturday's closing rate. It continued to move downward during the morning, reaching a low of 3.77-1/2 at noon. After recovering to 3.82 by mid-afternoon, it again weakened and closed at 3.79-1/2.

We understand that the New York agencies of Japanese banks, whose operations do not appear in the reported turnover figures, were fair buyers of sterling this afternoon.

Sales of spot sterling by the six reporting banks totaled £325,000, from the following sources:

By commercial concerns.....	£112,000
By foreign banks (Far East, Europe and Near East).....	£213,000
Total.....	£325,000

Purchases of spot sterling amounted to £113,000, as indicated below:

By commercial concerns.....	£ 83,000
By foreign banks (Far East and Europe).....	£ 30,000
Total	£113,000

There were no reported sales of sterling to the British Control on the basis of the official rate of 4.03-1/2.

The Guaranty Trust Company stated that it had purchased £1,000 from the British Control at the official rate of 4.03-1/2, the funds to be used to pay for a whisky shipment.

There was little change in the other currencies. The closing rates were as follows:

Swiss franc	.2265
Canadian dollar	17% discount
Lira	.0505
Reichsmark	.4000
Cuban peso	9-15/16% discount
Mexican peso	.1980 bid, .2020 offered

We purchased the following amounts of gold from the earmarked accounts indicated:

\$24,000,000 from the Bank of Sweden
10,600,000 from the Royal Netherlands Government
3,550,000 from the National Bank of Belgium
\$38,150,000 Total

The Federal Reserve Bank of New York reported that the Bank of England made the following shipments of gold from England to the Federal:

‡ 7,005,000 to be earmarked for account of the National Bank of the Kingdom of Yugoslavia.
2,088,000 to be earmarked for account of the Swiss National Bank.
2,017,000 for account of the Royal Norwegian Government, disposition unknown.
1,461,000 for account of the Bank of Finland, disposition unknown.
\$12,571,000 Total

The State Department forwarded to us a cable stating that the Chase National Bank, London, shipped \$57,000 in gold from England to its head office at New York, for sale to the U.S. Assay Office.

Another substantial drop in the Bombay gold price took place over the weekend. Today's equivalent was \$32.88, off 70¢ from Friday's quotation.

Spot silver in Bombay was equivalent to 43.88¢, off 3/16¢ from Friday's price.

In London, spot silver was fixed at 21-11/16d, up 1/16d. The forward quotation was also 21-11/16d, up 5/16d. Elimination of the spread between the two prices was attributed to speculative buying of forward silver. The U.S. equivalent of 21-11/16d is 39.43¢.

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

We made ten purchases of silver totaling 1,180,000 ounces under the Silver Purchase Act, all of which was new production from foreign countries, for forward delivery.



CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 1, 1940

TO Mr. Cochran

FROM Mr. Hawkey

There follows a summary of the gold transactions effected by us with the central banks of foreign countries during the month of June:

	<u>Purchased From</u>	<u>Sold To</u>
Argentina	\$ 15,000,000	
Belgium	4,416,000	
Chile	185,000	
Colombia	2,800,000	
England	242,725,000	
France	332,913,000*	
Java	4,000,000	
Lithuania		\$1,000,000
Nicaragua	210,000	
Portugal		3,000,000
Switzerland	20,000,000	
Uruguay		1,000,000
Venezuela	600,000	
Total	\$622,849,000	\$5,000,000

In order to replenish our cash balances with the Federal, we sold \$656,581,000 of our gold holdings to the U. S. Assay Office during the month under review.

England and France have sold \$1,667.5 millions in gold to the United States (to the U. S. Fund and Treasury) since September 1, 1939, distributed as follows:

	<u>June, 1940</u>	<u>Sept. 1939--June, 1940</u>
	(in millions of dollars)	
England	\$242.7	\$ 766.8
France	332.9	900.7
Total	\$575.6	\$1,667.5

* Includes a special gold purchase of \$241,576,000 on June 19 against which we advanced \$229,497,000 to France. We replenished our cash balance by a gold sale of \$229,497,000 to the U. S. Assay Office.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent called by appointment at 2:55 this afternoon to give some confidential information which the Embassy desired that the Secretary receive. The Embassy had today heard from London to the effect that Phillips and Bewley would leave England on the 2nd or 3rd, and should arrive in the United States around July 12 or 13. The Embassy is awaiting word from Secretary Morgenthau as to what publicity should be given to this visit. The Embassy would like to have some decision on this at a date sufficiently early to permit them to cable the text of any press release to London for approval.

In regard to emergency measures, the Embassy has been informed that the British are moving all of their gold out, presumably to Canada. About two-thirds of the gold has already left, and the complete removal is expected to be completed in a fortnight. Although Pinsent did not have specific information on the point, he thought this statement included all official British gold, as well as gold earmarked in Great Britain for other governments and central banks.

With respect to securities, Pinsent gave me the following information. First, the British are not proposing to vest title to all securities in the Government, as the Netherlands Government did at the time of its departure from The Hague. Secondly, the British are not proposing at this stage to destroy securities after listing them. Thirdly, the British are shipping securities to Canada, with lists of owners, for depositing in Canadian banks.

Pinsent was gratified to learn that the above precautions were being taken and intimated that his Embassy had made certain recommendations toward this end.

Pinsent told me that the British Consul at Manila had inquired with respect to our postal regulations, particularly as to whether he was obliged thereunder to open official mail which might be suspected of containing securities. Pinsent has argued with his Embassy that no protest in the premises should be made, since it is to the interest of the British that mail of consular officials be investigated, this being, in his opinion, one of the most likely channels for the transmission of securities which the Germans may have looted.



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 1, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 4:30 p.m., I told Mr. Leroy-Beaulieu by telephone that the Secretary would be pleased to receive him and the French Ambassador at 11:00 tomorrow, Tuesday, a.m. Mr. Leroy-Beaulieu hoped that Mr. Bell would be available for a conversation after this meeting, in the event that the Ambassador desires to discuss details of freezing operations.



Bordeaux

Dated July 1, 1940

Rec'd 2:35 p.m. 2nd

Secretary of State

Washington

302, first.

Department's 48 to Matthews transmitted today
by courier.

WATERMAN

ALC

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 1, 1940.

CONFIDENTIAL FILES _____

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke _____

Mr. Bolton called at 4:30 o'clock p.m. He spoke for over a half hour but the connection was poor and it was frequently difficult to follow him. He referred to the recent effort made by American importers to prevail upon the British to be more generous with them and allow more time to settle at the free rate legitimate engagements previously entered upon. The British Control had as a result recently and temporarily exempted contracts entered into before June 8 and granted permission to use free sterling in cover. That meant that anybody who had, for instance, bought forward rubber or forward tin on a sterling basis and had not bought the necessary sterling, could do so at this time in the free market. Evidently there were still a number of contracts uncovered (some of them going back to last March when the export control was first put on five commodities and when certain long term contracts were exempted from the need of covering at the official rate). What they in London could not understand was why no attempt was being made now to cover such contracts. I tried to emphasize the legitimate character of open contracts, the fact that they were entered upon in good faith and that a short position in sterling against imports contracted for on a sterling basis was not a sign of speculation but rather of prudent and conservative management which would buy sterling only after it had actually sold the merchandise and thus eliminate the risk of taking a sterling position.

Bolton continued that the granting of an exemption as requested by our importers was really valueless because the British

OFFICE CORRESPONDENCE

DATE July 1, 1940.CONFIDENTIAL FILESUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.FROM: L. W. Knoks

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authorities were certain that the free market would not exist much longer but that it would completely disappear in two or three weeks. Of that they were absolutely sure. I pointed out that these statements of his did not seem to agree with his cable #624, or else what did he mean when speaking of certain purposes for which free sterling could still be used? Legislation now pending, he replied, would prevent any further sterling being credited to free U. S. accounts. Traffic hereafter would be a one way traffic. What about the man, I asked, who had sterling coming to him on September 15 and owed it on September 30, both under contracts made prior to June 8? They would take care of him, Bolton replied. If, in a case like that, an overdraft was needed they would grant it. The refusal to grant future additions to the balance of free sterling (see D of #624) did not exclude temporary increases in such balances. I asked how about sterling balances owned by markets like Shanghai, which I assumed still had considerable balances in London? Would Shanghai continue to offer them for sale? Bolton replied that that simply complicated their general problem. He agreed with me that the possibility of transfers from Shanghai accounts to other foreign accounts would really imply continued trading between free sterling accounts. That being so, I continued, all that our people here requested was to be given a little time to cover in the free market what they still needed for perfectly legitimate old contracts. If, of course, this free market dried up, then the concession permitting to cover at the free rate was a useless one. Bolton's comment was

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE July 1, 1940.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.FROM: L. W. Knobe

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that the complete elimination might soon be expected. By special arrangement with South America they had already brought the free rate up to 4.05. The British Treasury had tried to warn the world markets for many weeks and months as to the future of the free market so that this latest development should have been expected. I replied that these negotiations, as far as I knew, were now in the hands of our Ambassador in London; our people here would be greatly disappointed, I was afraid, if something couldn't be done for them. Did I know what the sterling position was? I pointed out that as far as our banks were concerned it was insignificant; probably less than \$5,000,000. But that figure, of course, did not tell the whole story. What the total was of uncovered commercial commitments of the nature which we discussed at the beginning nobody knew. Rubber wasn't the only commodity bought on a sterling basis. There were many others such as wool from South America, leather, bristles, essential oils, cocoa beans, coffee, etc. With regard to all of them our importers had claimed that their business was legitimate, that they acted in good faith and were now asking that they be allowed to cover at the free sterling rate. The British would be glad to make that promise, Bolton replied, but were of the opinion that the remaining sterling market would not be big enough to satisfy such commercial demands. Even if it did not disappear altogether it would probably be so insignificant that only small demands could be satisfied. That was what he had been trying to

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 1, 1940.CONFIDENTIAL FILESSUBJECT TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF ENGLAND.

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warn the banks in London all the time. Did the total of outstanding contracts, in my opinion, represent a large sum of money? I replied that I did not know; all I could say was that rubber was probably the most important item and if anybody knew how much the rubber trade needed, he could be reasonably sure that that was the bulk at least of the total demand.

I reverted for a moment to his cable #624 and asked whether trading between official sterling accounts was permissible. Could, for instance, the Guaranty Trust and the National City Bank, if they had official accounts, sell to each other and buy from each other; if so, at what rate? Were they at liberty to sell at a rate lower than the official (at a loss to them)? Bolton's reply to all these points was in the affirmative. As to the rate, he added, they were hopeful that such dealings would be between 4.02 1/2 and 4.03 1/2 but if somebody wanted to take a loss by selling lower or buying higher that was his funeral.

Bolton made brief reference to the question of the evacuation of children and adults to the United States and Canada. I knew, he assumed, that affidavits were necessary to the effect that such evacuated persons would be wholly maintained here or in Canada by friends or relations in the two countries. Unfortunately, however, there were now cases coming to their notice in which false affidavits had been furnished, which would, of course, raise a good deal of discontent and trouble. If I happened to hear of any such cases

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 1, 1940.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knobe

BANK OF ENGLAND.

§

would I please let him know? This I promised, but added that the whole matter was one with which undoubtedly Mr. Kennedy would interest himself.

As stated at the outset, the conversation was lengthy and frequently difficult to follow because of poor connection. This will explain the somewhat disrupted report on the conversation.

LWK:KW

TO USE IN CONNECTION WITH
TECHNICAL INVESTIGATION
DIVISION OF FBI

SO 6 AM 7 JUL 1940

RECEIVED
TELETYPE UNIT
JUL 2 1940

JR

PLAIN

47

Stockholm

Dated July 1, 1940

Rec'd 2:25 a.m., 2nd.

Secretary of State,
Washington.

686, first.

Wheat crop estimated half million tons compared normal 850,000 but with carryover more than ample domestic requirements. Agricultural working hour regulations suspended until October 15. Inventory ordered all lubricant stocks over 25 kilograms. Government revenues May 265 million crowns compared 233 year ago and first eleven fiscal months 1620 compared 1262 year ago due higher taxes. Sweden-Russian trade negotiations dragging involving principally Russian petroleum products, oilcake and Swedish iron and steel products. Swedish investments in Rumania unimportant principally known items match monopoly seven per cent bonds about 27 million crowns outstanding and joint ownership with Italy of the electric company at Brasov and this not believed adversely affected. Company being formed probably function under auspices state railways to operate trucks on Narvik Haparanda service may later assume monopoly all forwarding business this route.

INFORM COMMERCE.

STERLING

REP

15557

EN

PLAIN

Tientsin via N. R.

July 1, 1940

Rec'd 1:25 p.m.

Secretary of State, "

Washington.

106, July 1, 10 a.m.

My 102, of June 27, 5 p.m.

Customs notification 1249 of June 27 was amended on June 29 in a notice to the local press by substitution of the words "interport import" in place of the word "reimport" wherever the latter occurs in the earlier notification.

Sent to the Department. Repeated to Peiping, Chungking, Shanghai, Tsingtao, Chefoo. By mail to Tokyo.

FLETCHER

DDM

July 1, 1948

Dr. Feis

Mr. Cochran

STRICTLY CONFIDENTIAL

Will you kindly send the following cablegram to the proper destination for receipt by Mr. Matthews of the American Embassy in France:

"For Matthews from the Treasury.

Federal Reserve Bank of New York requests that following message be communicated to Governor Janssen of the National Bank of Belgium:

'Referring your message of June 26 through Matthews. It is contrary to our policy to hold any of our own gold abroad and we would not wish to earmark abroad in our name gold belonging to other parties. If gold should be shipped to us to hold in our vaults under earmark for your account it would of course be subject to current regulations.

Signed. Federal Reserve Bank of New York"



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE July 1, 1940

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: The Business Situation,
Week ending June 29, 1940.

Conclusions

(1) Although business activity continues to record further gains, there has been some evidence of temporary hesitation in the past week, apparently due in large part to uncertainties arising from the French defeat. This has been reflected particularly in the action of industrial material prices, which have noticeably weakened. Steel scrap prices have declined for the first time in 11 weeks.

(2) Looking further ahead, a continuation of the business rise seems in prospect, based on a mounting volume of new orders and on evidence that consumer buying is beginning to increase. Our weekly new orders index has risen practically to the earlier war high in September 1939; and both automobile sales and department store sales have increased contra-seasonally.

(3) Our basic business indices, now available for the month of May, indicate that the foundation has been laid for a more extended business advance. New orders had already risen in that month to an FRB equivalent of 119, bringing a further substantial increase in unfilled orders. Our indexes of basic demand and sales in May continued above the level of production. All three indexes have apparently shown further improvement in June.

(4) The beginning of steel order releases for 1941 automobile models, and extensive programs for railroad equipment buying, promise additional support to steel activity this summer. New orders reported last week by the U. S. Steel Corporation increased to 108 per cent of capacity.

- - - - -

Secretary Morgenthau - 2

Foundation laid for further business advance

Despite some current evidence of hesitation in business activity, reflected particularly in a weakening of industrial material prices, the foundation appears to have been laid for a further business advance in the months ahead. This is indicated by (1) the relatively high level of new orders during May, as compared with the level of industrial production; (2) further gains in the volume of industrial buying during June; and (3) evidence that expanding employment and payrolls are beginning to increase consumer demand, which will provide an additional stimulus to industrial activity.

Our monthly index of new orders, now available for May, rose to the equivalent of an FRB index (unadjusted) of 119, which compares with an actual index (unadjusted) of 109 in that month. (See Chart 1) This 10-point excess of orders, as indicated on the chart, follows a similar excess in April. Thus the backlog of unfilled orders has again been increased. Our estimate of unfilled orders, based on the cumulated differences between new orders and production, at the end of May stood at the highest level since last December. (Lower section of chart)

On top of the May backlog of unfilled orders, new orders during June have shown a further increase, as shown by our weekly new orders index. (See Chart 2) The combined index in the week ended June 22 practically reached the earlier war peak of September 1939, due chiefly to increased orders for steel, Government buying of woolen goods, and larger orders for cotton textiles.

Both our basic demand index and our index of sales for May indicate that a strong foundation for a business rise existed even before plans had been made for the huge national armament program. (See Chart 3) Both indexes have continued for several months at a higher level than industrial production, suggesting that inventories of finished goods during that period were being reduced. A somewhat comparable situation existed in the early summer of last year, as the chart indicates.

Secretary Morgenthau - 3

Rising payrolls increase consumer buying

The upturn in industrial production, which has begun to increase national income payments, is already being reflected in the volume of consumer purchasing. The national income in May, according to preliminary figures, rose slightly to an annual rate of \$71.0 billions, as compared with \$70.8 billions in April. Accompanying this increase has been a rise in our index of domestic sales to 90.3 in May versus 89.6 in April. (See Chart 4) The sales level, it will be noted, is still below its normal level in relation to national income, a favorable factor in the outlook for consumer buying.

A further expansion in retail sales is shown by sales data for recent weeks, during which period there has probably been a more rapid rise in employment and payrolls. Sales of automobiles increased sharply during the second period of June, contrary to seasonal trends in the past two years. General Motors' retail sales in that period rose to a daily average of 6,000 units, from 4,900 units in the first period of the month.

Department store sales have increased contra-seasonally since the beginning of June. The sales figures for the last three weeks averaged 11 per cent higher than in the corresponding weeks of 1939, whereas in the two previous weeks they had been running below 1939.

Employment gains in aircraft, machine tool and shipbuilding industries

In the face of a slight decline of 0.6 per cent in employment in all manufacturing industries from mid-April to mid-May, employment in the aircraft, machine tool and shipbuilding industries, which have been prime beneficiaries of war orders, continued to move ahead. Aircraft employment increased 7.6 per cent in that month, while the machine tool and shipbuilding industries showed gains of 2.0 per cent and 3.2 per cent, respectively. Payrolls in all manufacturing industries during the same period showed the slight gain of 0.1, while aircraft and shipbuilding payrolls jumped 6.0 per cent and 5.3 per cent, respectively. Machine tool payrolls, however, gained only 0.5 per cent.

The stepping-up in operations in the above mentioned industries during the past year may be gauged from recently released employment and payroll data shown in the following table:

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Per cent gain May 1940 over May 1939

	Employment	Payrolls
All manufacturing	+ 6.5	+13.4
Aircraft	+93.6	+89.4
Machine tools	+56.2	+78.7
Shipbuilding	+29.3	+35.9

In view of the national defense program now under way and the intensification of the British war effort, very active operations in the above industries appear assured for many months to come.

The steel situation

New orders booked by the U. S. Steel Corporation during the week ended June 20 totalled 365,000 tons, a gain of 100,000 tons over the previous week, and representing about 108 per cent of capacity. New business appears to be coming in well in the industry generally, according to trade reports, and total orders in June are estimated as far ahead of the previous month.

Offering further support to steel activity during the summer is the prospect of near-term releases on automobile steel for 1941 models. Ford has already released orders covering requirements for 100,000 to 150,000 cars, and other users of automotive steel are expected to begin placing orders soon. Work on present unfilled orders is expected to prevent any important seasonal downturn in July operations.

Steel activity this week is scheduled for a sharp decline over the Fourth of July holiday, the estimate of the American Iron and Steel Institute showing a reduction of 12.3 points to 74.2 per cent of capacity. (See Chart 5) Last week, as the chart shows, some evidence of a slackening in steel activity was seen in various districts, coincident with a weakening in prices of steel scrap.

The composite average of steel scrap prices (shown on Chart 5) was off 34 cents to \$19.58 a ton last week, the first decline in 11 weeks. Scrap is being offered more freely, in part because of the French capitulation and some piling up of scrap at Atlantic ports.

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Further gains in railroad equipment buying

The recent increase in railroad equipment purchases gave evidence last week of gathering further momentum. The Pennsylvania Railroad announced that it will acquire over 2,500 freight cars in addition to other equipment, while the Norfolk and Western Railroad will buy 1,550 freight cars in addition to 25,000 tons of rails. The Southern Pacific has announced a \$20,000,000 buying program, which includes over 2,000 freight cars and 25 locomotives. The most freight cars ordered in any full month so far this year has been only 2,081, ordered in May. Earlier in the week orders aggregating 46,000 tons of rails were placed by two other railroads, and a little earlier in the month a 9,000 ton order was placed. These are the first large scale domestic rail orders since last January, when about 73,000 tons were ordered.

In addition to a desire to anticipate developments arising out of the national defense program, other factors lending support to increased equipment buying are a continued better than seasonal rise in freight car loadings and an improved railroad earnings picture. Even with no further gain in general business activity, freight car loadings should rise to around 830,000 cars in the peak week in October on the basis of the normal seasonal trend. This figure would be about 30,000 cars under last year's top, which was the highest since 1930.

Commodity prices lower

Prices of raw industrial materials declined steadily last week (see Chart 6), a continuation of the price weakness first noticeable in the metal markets immediately following the capitulation of France. Declining tendencies were noticeable in spot prices of steel scrap, copper, tin, rosin, flaxseed, burlap, rubber and silk, and additionally in futures prices of lead and zinc.

Several influences seem to have operated to weaken prices for basic industrial materials: (1) The cessation of French buying has reduced the demand for various raw materials, and has raised the question whether certain materials which the French Government had on order (notably copper) might not come back onto the market. (2) There is some feeling that the war may have passed the stage of most active using-up of raw materials, and at an earlier date than had generally been expected. (3) Rumors of the possibility of a negotiated

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peace last week, reinforced by sharp gains in Canadian and free sterling exchange, again directed attention to the possibility of a sudden ending of the war. (4) The closing of Mediterranean markets for our products may have had some influence on prices.

Prices of basic foodstuffs, on the whole, have continued to hold generally steady (refer to Chart 6), although grain prices turned downward at the end of the week. The relative firmness of foodstuff prices is doubtless due in part to their previous extensive decline, and perhaps in part to a growing realization of the potential food requirements of Europe after the war. The wheat crop in Europe this year is expected to be lower than for any other harvest since 1930, with the chief shortage apparently in a belt extending from Belgium across Germany through Rumania and the Balkans. Among the basic foodstuffs, gains were shown last week in spot prices for the fats and oils group, meats, and sugar.

The broader indexes of commodity prices have persistently declined over the past month or more. (See Chart 7) In the week ended June 22, both the BLS all-commodities index and the BLS index of raw material prices had lost more than the temporary gain made during April after the invasion of Norway.

Weekly business indexes

The New York Times index of business activity for the week ending June 22 moved ahead for the eighth consecutive week, although the rate of advance slowed down considerably. The gain for the week, amounting to .4, carried the index to 102.8.

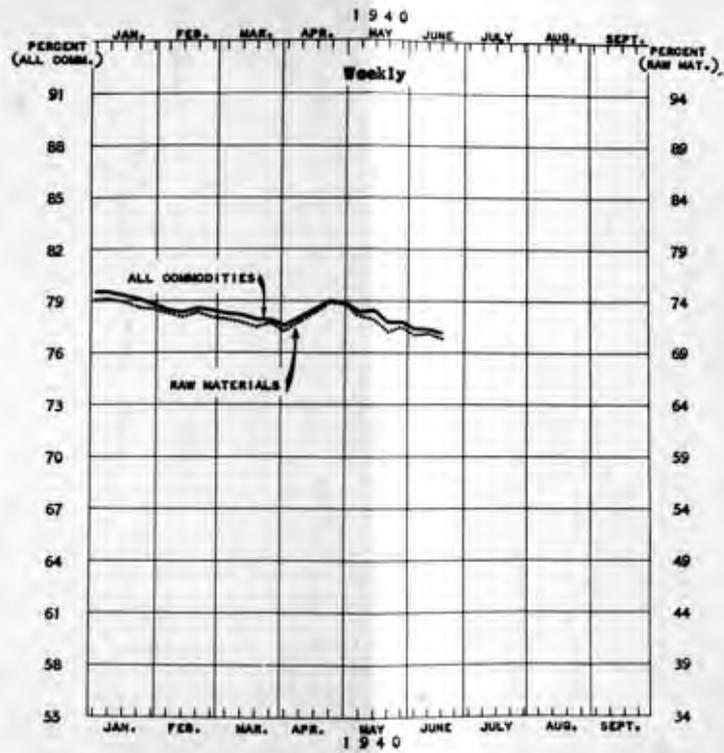
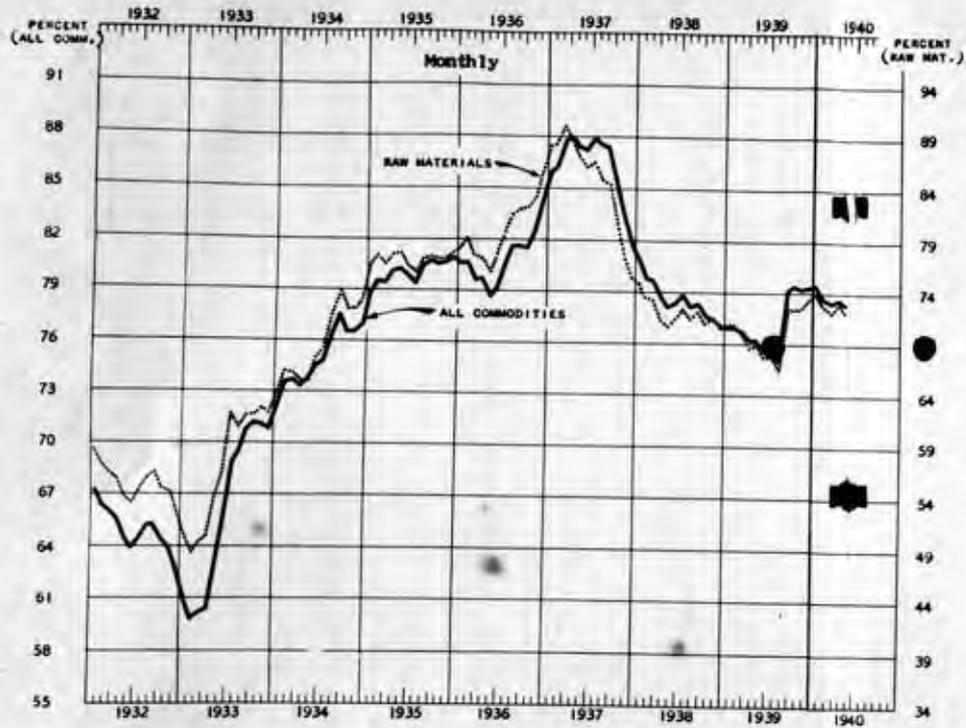
The principal factors in the gain were another contra-seasonal rise in steel ingot production and a greater than seasonal increase in freight car loadings, actual loadings reaching another new high for the year to date. The only components of the index to decline were electric power and automobile production. Electric power output declined contra-seasonally, and in weighted influence almost offset the rise in steel ingot production.

Barron's index of business activity for the week ending June 22 advanced more rapidly than the Times' index, rising 1.5 points to 111.7.

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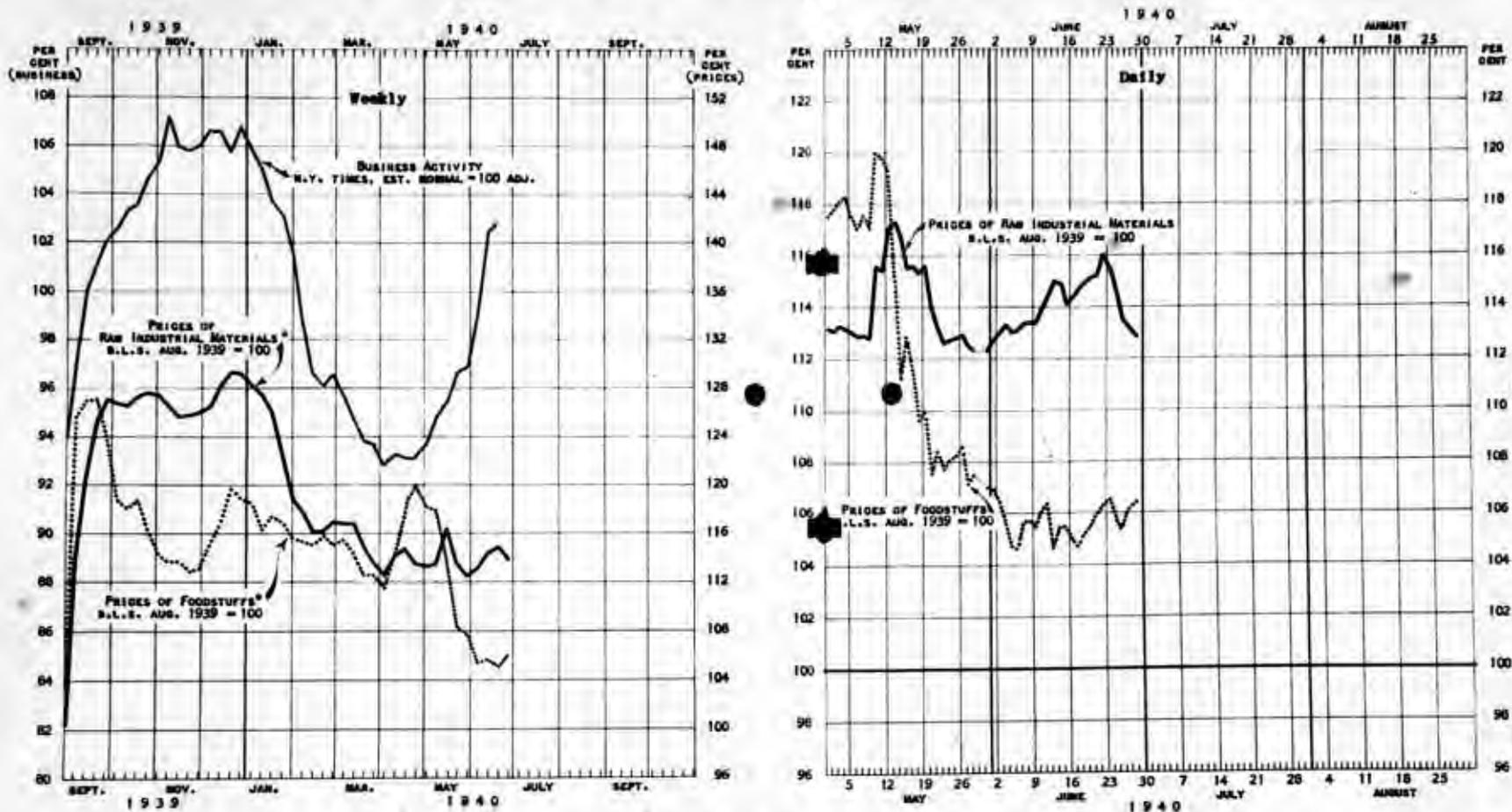
Preliminary data thus far available for the week ending June 29 reveal moderate declines in steel ingot and automobile production. However, the decline in steel ingot production was less than seasonal, and the adjusted index is expected to show a further gain of about 1 point. A drop of 2,510 units in automobile production cut output to 87,550 units for the week and reduced the adjusted index by nearly 2 points. However, production was still nearly 17,000 above the corresponding week of 1939. Automobile production during the current week will doubtless show a very substantial decline. Since the holiday falls on a Thursday, and the broad seasonal trend of the industry at this time is downward, a long week-end shut-down seems in prospect.

**B.L.S. ALL COMMODITY PRICE INDEX AND INDEX
OF RAW MATERIALS**
1926 = 100



Office of the Secretary of the Treasury
Division of Research and Statistics

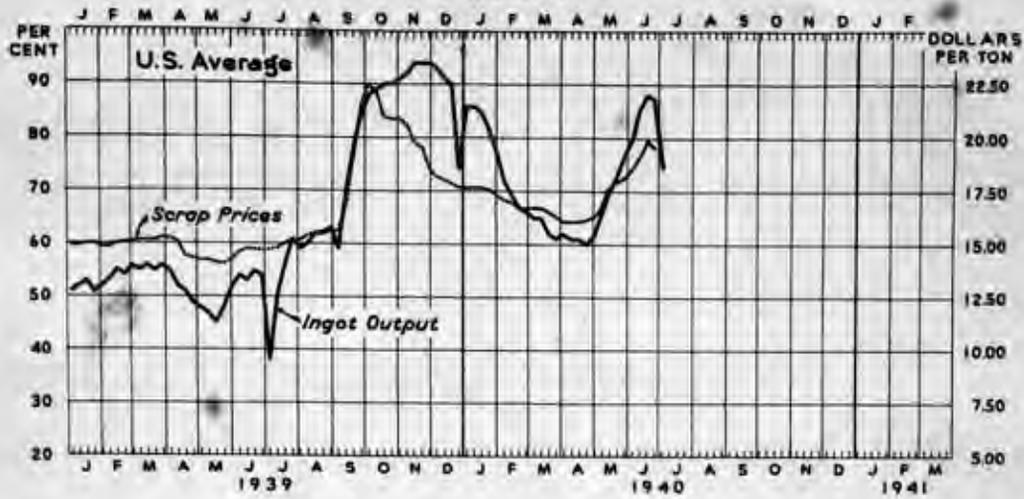
BUSINESS ACTIVITY AND PRICES OF RAW INDUSTRIAL MATERIALS AND FOODSTUFFS



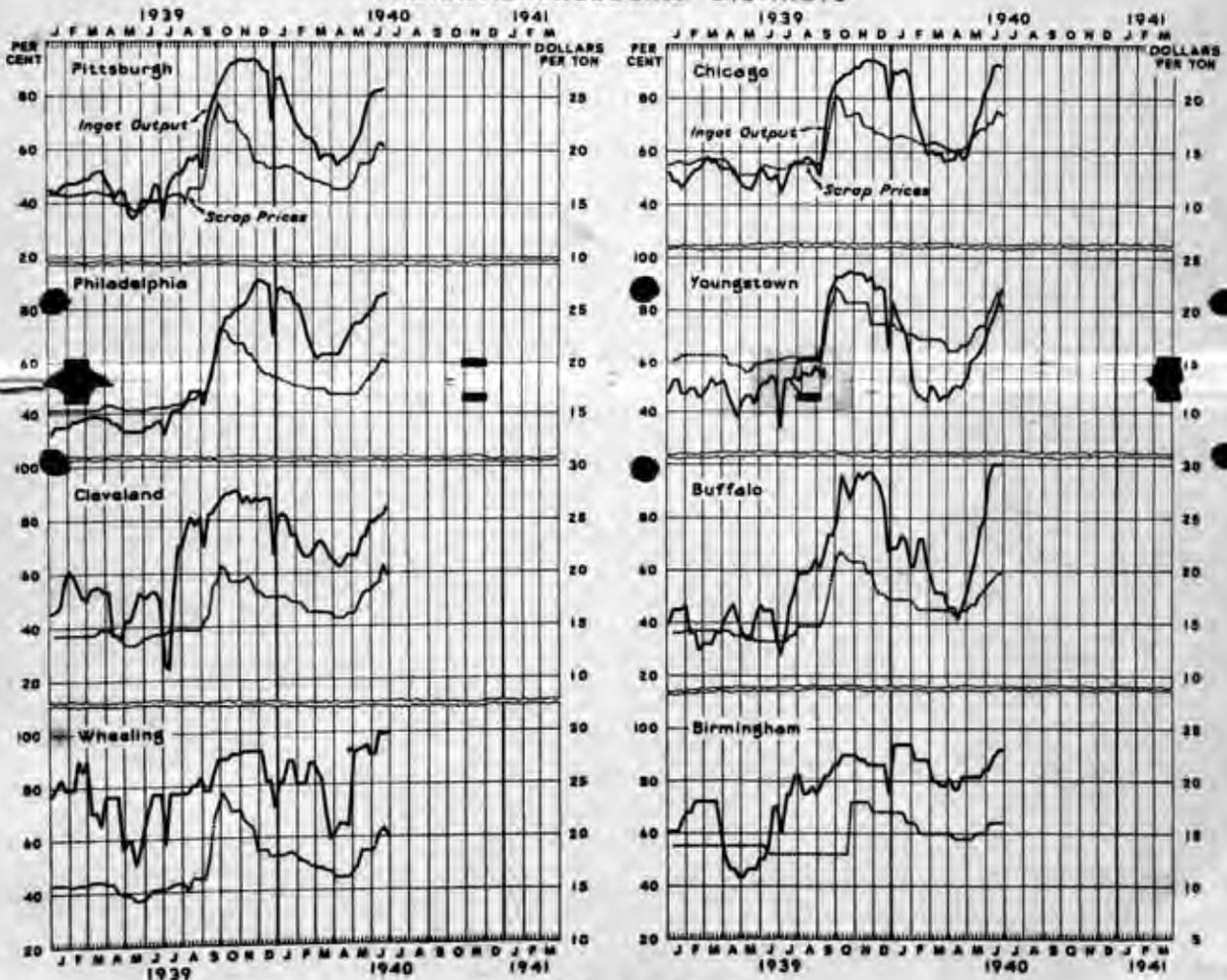
* FIVE DAY AVERAGE IN PRICES

STEEL OUTPUT AND SCRAP PRICES

Ingot Output in Percent Capacity WEEKLY



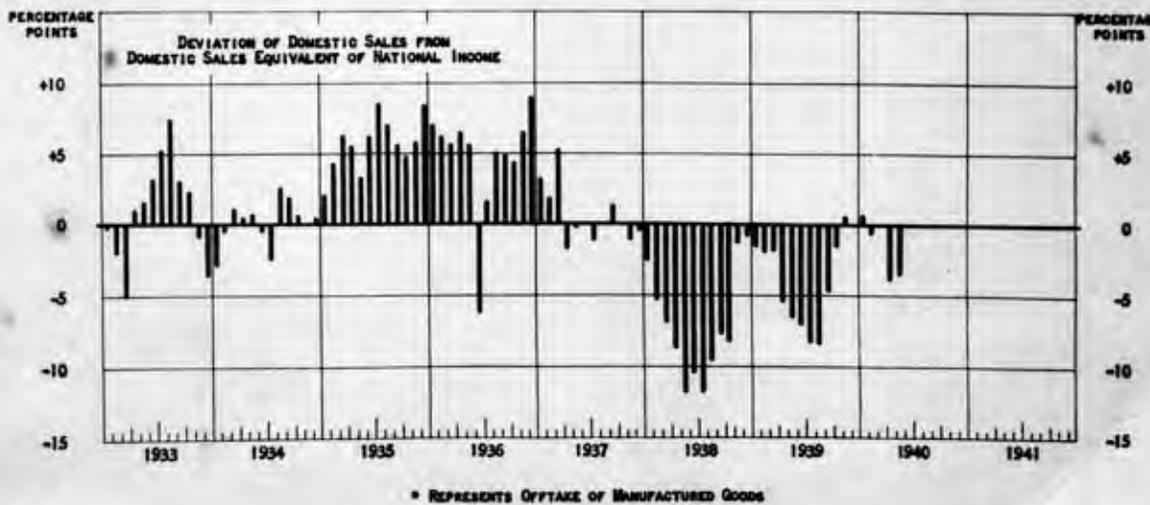
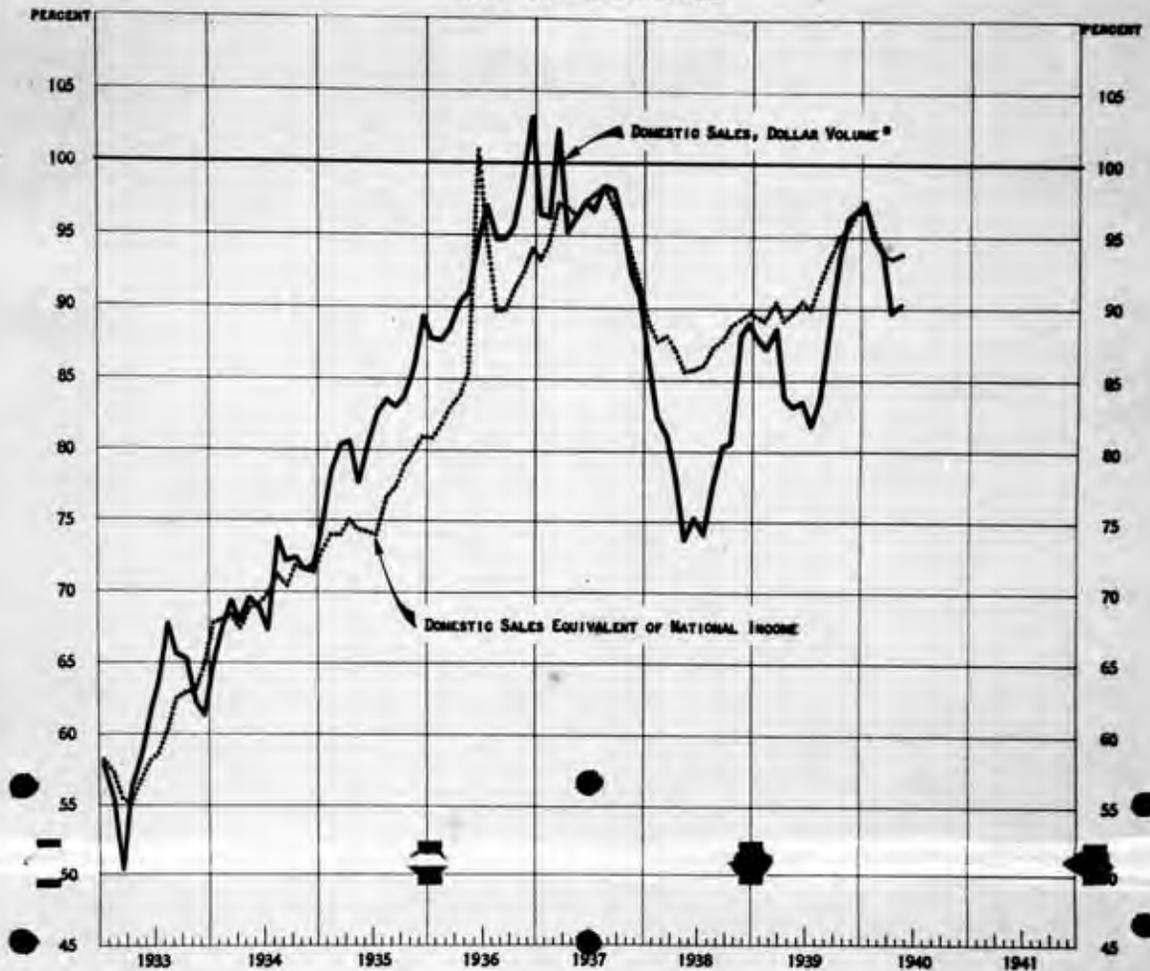
PRINCIPAL PRODUCING DISTRICTS



* Largely due to reduction in capacity

INDICES OF DOMESTIC SALES AND DOMESTIC SALES EQUIVALENT OF NATIONAL INCOME

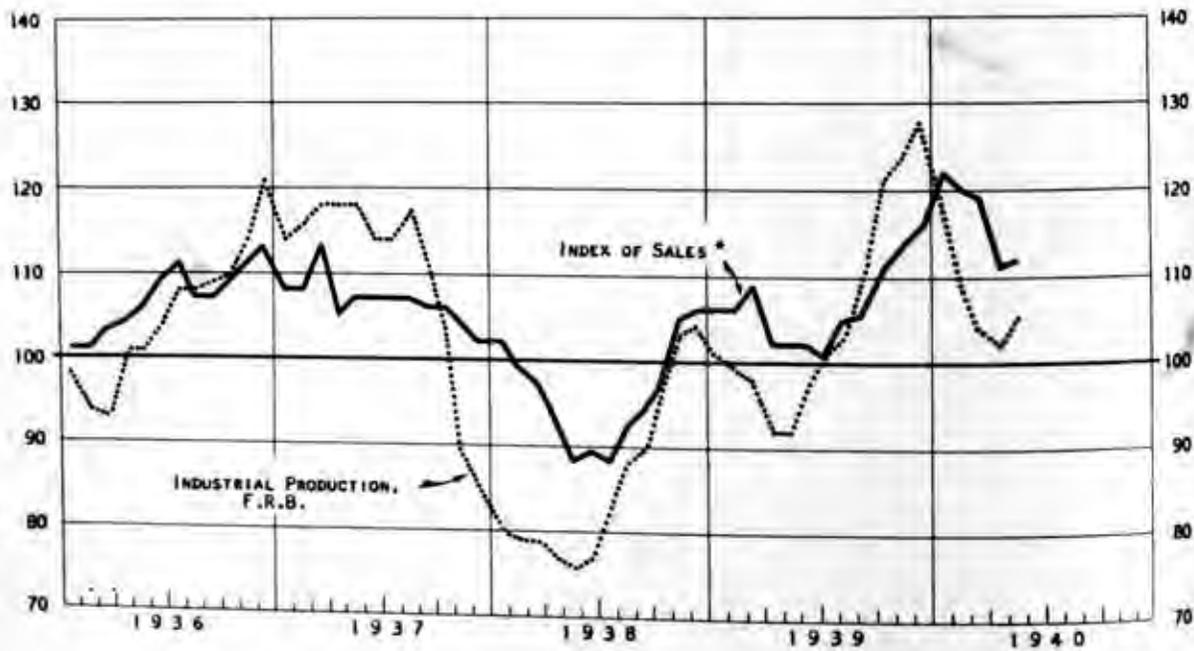
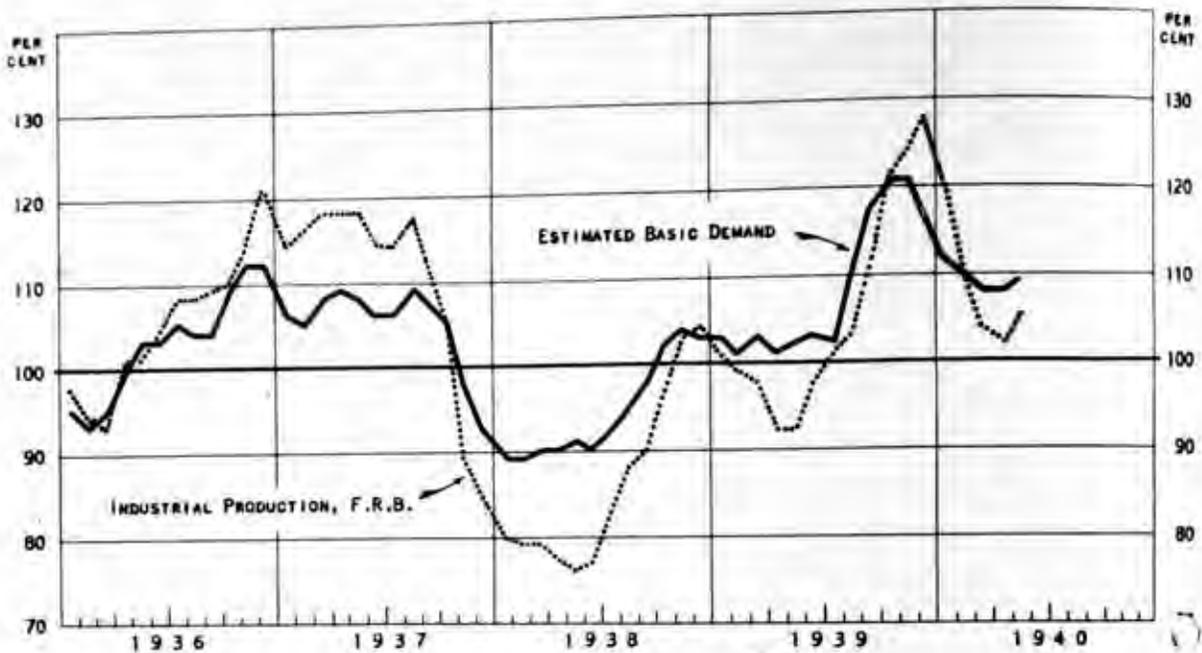
1936 = 100, SEASONALLY ADJUSTED



* REPRESENTS OFFTAKE OF MANUFACTURED GOODS

INDICES OF BASIC BUSINESS TRENDS COMPARED WITH INDUSTRIAL PRODUCTION

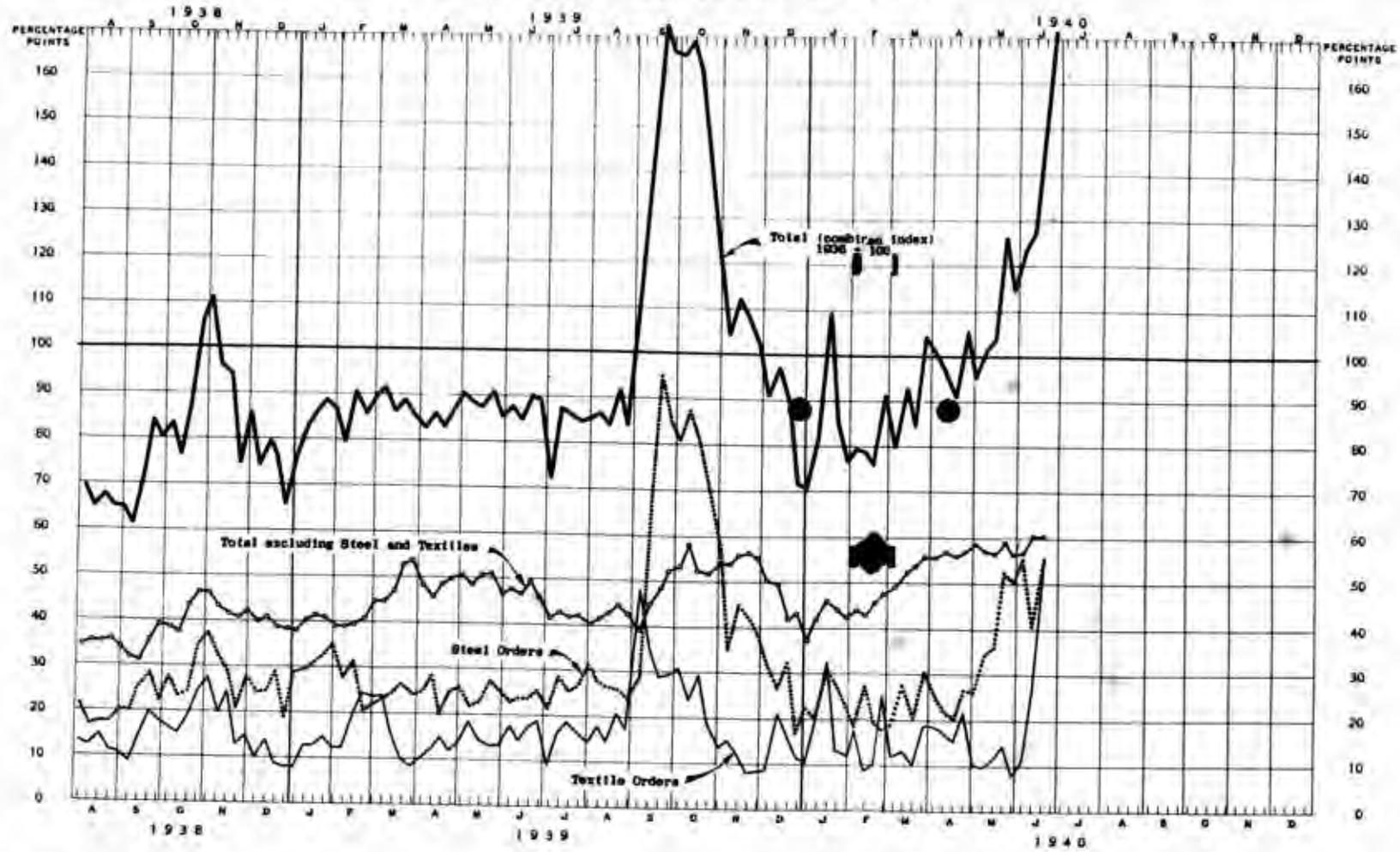
1923 - '25 = 100, SEASONALLY ADJUSTED



* REPRESENTS "OFFTAKE" OF MANUFACTURED GOODS, IN PHYSICAL VOLUME

INDICES OF NEW ORDERS

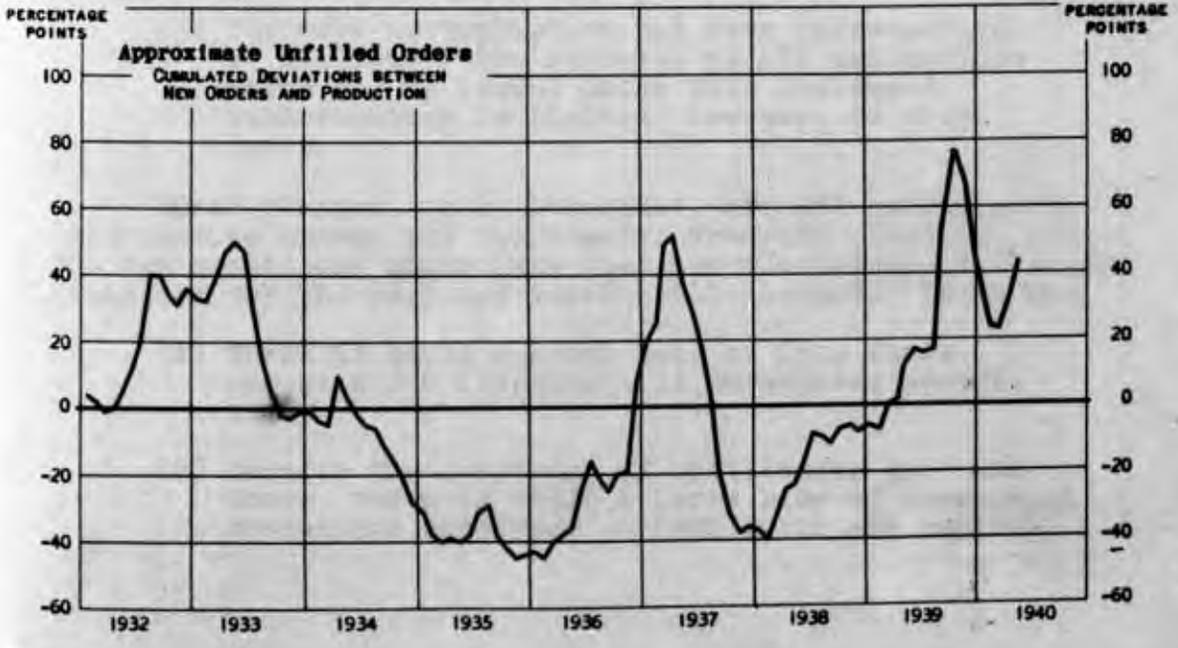
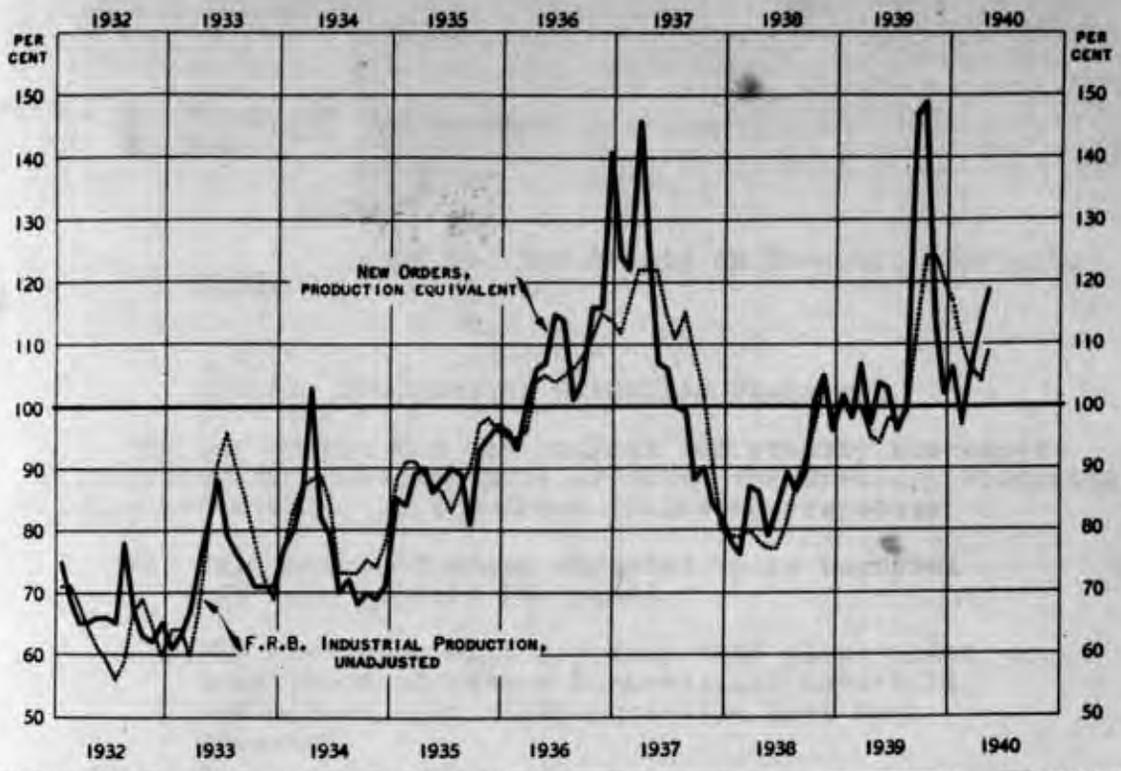
Combined Index of New Orders and Selected Components



Office of the Secretary of the Treasury
Bureau of Research and Statistics

1 - 85 - C

INDICES OF NEW ORDERS AND INDUSTRIAL PRODUCTION SHOWING APPROXIMATE UNFILLED ORDERS 1923 - '25 = 100



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 1, 1940

TO Secretary Morgenthau
FROM Mr. Haas *HAAS*
Subject: The Effect of the War Crisis on Treasury Financing Plans

I. Fundamental Situation Unchanged

The war crisis and the outlook for greatly increased expenditures on armaments have affected the Treasury financing picture principally in the three following respects:

- (1) The amount of money expected to be borrowed has been greatly increased.
- (2) The borrowing will probably take place under conditions of better business and more full employment than might otherwise have been expected.
- (3) The debt authorization has been increased by \$4 billions. The maturity of all obligations which may be issued under this increased authorization is limited, however, to five years.

These changes, while important, are not sufficiently important to change the fundamental Treasury financing plan. The two conditions which have been the foundation of Treasury financing for the past ten years still persist. These are:

- (1) There is still a large body of idle funds pressing for investment in Government securities.
- (2) Despite the existence of bottlenecks here and there, there is still a large body of unemployed productive resources -- both labor and capital.

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Each of these conditions has an important corollary for Treasury financing policy. These are:

- (1) As long as idle funds continue to press for investment, no coercion or persuasion is needed to facilitate Treasury financing. We may continue to rely upon the offering of Treasury securities for voluntary subscription unaccompanied by any intensive selling effort.
- (2) As long as an important volume of productive resources continues idle, no effort should be made to borrow funds which would otherwise have been expended for consumption -- i.e., no effort should be made to stimulate saving. An ample volume of funds is now available for investment and a successful drive to stimulate savings at the present time would merely postpone the liquidation of our unemployment problem. In time of war, with a full employment of our productive facilities, the situation would be quite different. Under such conditions an increase in saving would be necessary in order to avoid inflation.

II. Increased Desirability of Selling Securities to Investors Other than Banks

The most important effect upon Treasury financing plans of the changes which have occurred during the past eighteen months is to increase the desirability of placing Government securities with investors other than banks.

The holdings of direct and guaranteed United States securities by all active banks increased about \$1.4 billions in the calendar year 1939. During the same period the total deposits (excluding inter-bank deposits) of these banks increased by \$4.2 billions to \$58.7 billions. This is about 8 percent in excess of the amount of such deposits on June 30, 1929. Demand deposits alone were 16 percent in excess of 1929.

Since the first of the year the Government security holdings of all weekly reporting member banks have increased by a further \$500 millions, and their total deposits (excluding inter-bank deposits) have increased by an additional \$1.8 billions.

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There is nothing alarming in these increases. Indeed, as long as unemployment continues substantial, an expansion in the circulating medium can do no harm and is probably a positive benefit -- although it greatly increases our ultimate problem of credit control.

These increases, however, plus the fact that our prospective total volume of new financing has been greatly increased, plus the improvement in business which is expected as a result of the rearmament program, plus the fact that \$4 billions of new financing must (by statutory requirement) be issued in the form of securities primarily attractive to banks, do seem to make it especially desirable that the financing with respect to which the Secretary has an option, should be placed so far as possible with investors other than banks. Even if a considerable effort is made in this direction the banks seem certain to obtain an ample supply of Government securities during the next year or so.

The best way of implementing the policy just recommended seems to be to reserve the approximately \$2.8 billions remaining under the regular debt authorization, plus such amounts of this authorization as may be retrieved by the maturity of outstanding securities (other than Treasury bills) for medium- and long-term financing, leaving all short-term financing to be accomplished by national defense obligations. If this should appear insufficient, it might prove advisable to run off the Treasury bills issued under the regular authorization, allowing their approximate place in the market to be taken by obligations issued under the national defense authorization. It is probable, however, that before such action becomes advisable its necessity will have been obviated by new legislation with respect to the debt limit.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

Prepared by: H. C. Murphy

DATE July 1, 1940

TO ~~Mr. Tolson~~ Mr. C. M. Benthou

FROM Mr. Haas

Subject: Review of the Book "How to Pay for the War" by
John Maynard Keynes

SUMMARY

The Keynes Plan of war finance has attracted widespread attention in England, and would probably be strongly urged upon the Treasury if the United States should become involved in a war. It is a plan of war finance only, however, and is not applicable to the United States under present conditions.

The outstanding merits claimed by Mr. Keynes for his plan are (1) that it would avoid inflation and so keep down the money cost of the war, and (2) that it would place the war debt in the hands of the same persons who had made the war sacrifices. If the plan or some equivalent of it is not adopted, Mr. Keynes contends (1) that the total war cost will be increased greatly by inflation, and (2) that the war debt will represent principally sacrifices made by the working class, but will be held principally by the upper-income class -- i. e., that one class will have been rewarded for the sacrifices of another.

The essential feature of the plan consists of placing a graduated proportion of all incomes in blocked accounts. The amounts so blocked, after deducting income taxes, would be in the nature of forced loans to the government. A substantial proportion of the total funds so raised would be secured from wage earners and others in the lower-income groups. This is necessary in order to effect the reduction in civilian consumption necessary for the diversion of resources to the war effort. (The maximum diversion possible by reduction of the consumption of the upper-income groups is not sufficient to support a major war effort.) The greater part of the diversion of funds from the upper-income groups would be in the form of taxes, however, while the greater part of that from the lower-income groups would be in the form of forced loans.

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Other features proposed by Mr. Keynes, but not essential to the plan, include children's allowances, a minimum ration of necessities at a fixed price, and a post-war capital levy.

The outline of the review is as follows:

- I. Background of Mr. Keynes' Plan
- II. Outline of the Plan
- III. Underlying Analysis
 - Taxation vs. Borrowing
 - The Process of Voluntary War-borrowing
- IV. Rationale of the Plan
- V. Other Proposals of Mr. Keynes
 - (1) Children's Allowances
 - (2) Iron Ration
 - (3) Post-war Capital Levy

I. Background of Mr. Keynes' Plan

Mr. John Maynard Keynes' plan of war finance, first put forward in a series of articles in the London Times last November and amplified in a brief book published this spring, has received a great deal of attention in England.

The principles of the plan and the analysis underlying it would be equally applicable to this country in case of war, and would probably be strongly urged upon the Treasury in such an event. (Mr. Jerome Frank has already proposed it in a modified form in an address to the Army War College.) It should be noted at the onset, however, that the plan is applicable only under the conditions of full employment, which would be brought about either by war or by

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intensive preparation for war. It is not applicable to the United States under present conditions, and Mr. Keynes would probably be the last to urge it at this time.

II. Outline of the Plan

Mr. Keynes is in favor of financing as large a portion of the cost of a war effort as practicable by direct -- principally income -- taxation. Most of the cost not so provided, he believes, should be financed by compulsory borrowing.

This borrowing would be in part from the upper-income groups, but more largely from the wage- and salary-earning classes. In general, the higher-income groups would be called upon to make their contribution to the war effort principally in the form of taxes, and the lower-income groups principally in the form of forced lending to the government. The lowest-income groups would be exempted completely.

The forced lending -- which Mr. Keynes calls by the pleasanter term of "deferred pay" -- would be accomplished by paying a portion (graduated in accordance with the size of the wage or salary and the family responsibilities of the recipient) of all wages and salaries in the form of blocked accounts. Such accounts would bear interest at the rate of 2-1/2 percent, but, except in special emergency cases, would not be available for expenditure until some time after the conclusion of the war, most probably during a post-war slump.

Government loans placed on a voluntary basis would not be entirely eliminated by the Keynes Plan, but primary reliance would be placed upon taxes and forced borrowing.

The proposal just outlined is the essence of the Keynes Plan. Mr. Keynes also makes certain other suggestions -- notably for "children's allowances", for an "iron ration", and for a "post-war capital levy" -- which he believes would make his plan work more smoothly or more equitably. These suggestions are not essential to the plan itself, however, and discussion of them will, therefore, be deferred until the last section of this memorandum.

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III. Underlying Analysis

Taxation vs. Borrowing

It has long been recognized by economists that every war must be financed, in the last analysis, on a pay-as-you-go basis. The total amount which can be devoted to war expenses consists of the gross national income -- i.e., the total national output -- less the consumption of the civilian population.* In order to achieve the maximum war effort the government must see to it that the national income is as large as possible, that the civilian consumption is as small as possible, and that the difference between them is diverted to the government to be used for the purpose of prosecuting the war. This is the problem of war finance.

In order to secure the diversion to itself of the whole excess of the national income over civilian consumption, the government has two instruments -- taxation and borrowing. To the extent that taxation is availed of, the war is "financed" as well as "really paid for" on a pay-as-you-go basis. To the extent that borrowing is availed of, the persons making the present sacrifices for the war effort -- or, in any event, those acquiring the bonds -- are given claims on the future income of the community. The total sacrifice required for the war effort must be made during the war, however, as there is no other way in which the war can be fought. The fundamental difference between taxation and borrowing is that taxation provides a final distribution of the burden as it is being borne, while borrowing leaves its final distribution to a post-war reshuffling.

There is another customary difference, however, between taxation and borrowing. Taxation is compulsory, whereas borrowing is voluntary. This does not matter greatly as long as the necessary war effort requires no more funds than the community is willing to save voluntarily at the present price level. Modern warfare is a very costly thing, however,

* The only exceptions to this consist of drawing on foreign assets and gold to finance an unfavorable balance of payments, and drawing on existing domestic stocks of goods. Neither of these would likely be of importance in the case of the United States.

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and this condition is not one likely to be often fulfilled.* When it is not, the gap is met by inflation with very unfortunate consequences.

The Process of Voluntary War-borrowing

A government intent upon winning a war is not likely to (and, Mr. Keynes believes, should not) let scruples of orthodox finance prevent it from acquiring the munitions or other war goods which it needs, and which can be physically produced. It can and will see that the appropriate resources are devoted to producing them, and that lawful money is made available for purchasing them. The flow of goods available for civilian consumption will accordingly be reduced by the amount of the goods required for the war effort.

This is well and good if the amount of purchasing power remaining in civilian hands has been reduced by taxation and voluntary loans to an amount sufficient only to purchase at the old price level the reduced amount of goods remaining for civilian consumption. This is not very likely, however, in Mr. Keynes' opinion, considering the immensity of modern warfare and the relative inefficacy of the instrument of voluntary borrowing. If the amount of purchasing power remaining in civilian hands is more than enough to purchase the goods available for civilian consumption, prices must rise until the two are equated.

Such a rise in prices increases the flow of money into the Treasury. The increased national income (in terms of money) which it occasions falls in the first instance principally into the hands of corporations and of individuals in the higher-income brackets. A large amount of it, therefore, is immediately diverted to the Treasury by the high rates of war taxation. Most of the remainder, furthermore, can be borrowed by the Treasury by means of "voluntary" loans. The "voluntary" borrowing system, therefore, seems to be operating successfully.

* The new British budget proposes war expenditures (excluding the ordinary cost of government) of an amount equal to about 40 percent of the national income at its pre-war rate, or over one-third of the maximum income which Mr. Keynes believes possible at the pre-war price level. The budget figure, moreover, has been widely criticized as too low, and the alternative figure suggested by the Economist is equal to about two-thirds of the national income at its pre-war rate, or nearly 60 percent of the maximum obtainable income at pre-war prices as estimated by Mr. Keynes. Germany's present war expenditures are estimated to be equal to about 50 percent of her national income.

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This apparent success is only temporary, however. The increased receipts, in Mr. Keynes' opinion, have really come from the pockets of the working class who have had their cost of living increased without a corresponding rise in wage rates. They will naturally press for such a rise and, after a greater or lesser time lag, will probably obtain it.

The working class, however, will not subscribe a large proportion of their increase in wages to war loans, nor will they have to pay it away in taxes. They will try to spend it on consumption. This is impossible, however, as the whole amount of goods available to be consumed is definitely limited. They will succeed, therefore, merely in bidding up prices, and so again increasing the money incomes of the upper-income classes. These classes will, as before, pay away most of the money so received in war taxes and in subscriptions to war loans, thereby again relieving the position of the Treasury. The working class will thereupon press for another rise in wage rates -- and so on without determinate end. (In actual practice, of course, the process occurs continuously rather than by a series of fits and starts.)

The only thing, Keynes says, which prevents prices from moving rapidly skywards is the lag between the rise in prices and that in wages. This lag, he estimates, was approximately one year during the last war. If the lag had been shorter or the war had been longer, prices would have risen without determinate limit. (As it was, the cost of living in England about doubled between 1914 and 1918.)

Such a process of inflation has two very undesirable consequences. In the first place, it greatly increases the cost of the war. Keynes estimates that at least £2 billions of the £7 billions of the British debt incurred during the last war was due to avoidable inflation. This difficulty is made doubly bad if prices fall after the war, so that the debt incurred at a high price-level has to be repaid at a lower one.

Even more striking, however, in Keynes' opinion, is the inequity of this "voluntary" borrowing-inflation system of war finance. As already noted, taxation distributes the burden of the war on a pay-as-you-go basis. Borrowing presents a vastly different picture, however. Here, there

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is an amazing disparity between sacrifice and reward. The real burden during the war is borne for the most part by the working classes in the form of increased labor and a lower standard of living. When the storm is over, however, the fruits of this sacrifice in the form of government bonds are held, not by the laboring classes who made the sacrifice, but by the upper-income classes who merely profited by the lag between prices and wages, and invested a portion of their profits in war loans. It is the correction of this inequity which Keynes claims is the major advantage of his plan.

IV. Rationale of the Plan

Keynes starts from the premise (for which he presents ample statistical justification) that the war cannot be financed by the rich alone, that some working class sacrifice is necessary. This sacrifice must take the form of a reduction in the peacetime level of consumption -- or, at the very least, of foregoing any increased consumption from the proceeds of overtime wages and other extra compensation for the increased labor required in wartime. Accepting this sacrifice as inevitable, he is concerned merely that it should finally inure to the benefit of the workmen who made it, rather than that it should finally be represented by bonds in the hands of the upper-income classes -- as he believes to be the case when a major war is financed by voluntary borrowing.

The rationale of the plan is very simple. Mr. Keynes proposes:

- (1) That the aggregate purchasing power which all members of the community, rich and poor alike, have available for expenditure should be limited to an amount sufficient to buy the available quantity of goods at pre-war prices;
- (2) That any income which the members of the community collectively receive in excess of this amount should be appropriated by the government for expenditure on behalf of the war effort;

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- (3) That this appropriation should be partly by means of taxes and partly by means of forced loans -- primarily by taxes in the case of the upper-income groups and primarily by forced loans ("deferred pay") in the case of the lower-income groups.*

If this is not done, it is Mr. Keynes' contention that the consumption of the working classes will be equally reduced by an inflationary rise in prices, and that this rise will greatly increase the cost of the war. Furthermore, the sacrifice which will have been borne by the working classes during the war will be represented principally by government debt held by the upper-income classes after its close.

* The relationship between the contributions proposed for the different income groups is shown in the following table applicable to the earned income of a married man without dependents:

Total income	: Income tax : and surtax : payable 1/	: Income : deferred	: Remain- : ing : income
L100	Nil	Nil	L100
200	Nil	L29	171
300	L15	49	236
400	31	68	301
600	93	76	431
1,000	218	135	647
2,000	562	285	1,153
5,000	2,055	630	2,315
10,000	5,268	1,156	3,576
20,000	13,018	1,896	5,088
100,000	80,768	4,133	15,099

1/ Rates provided in the 1940-41 budget.

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V. Other Proposals of Mr. Keynes

The proposal for "deferred pay" is the heart of the Keynes Plan. The plan would work and accomplish its purpose by the application of the "deferred pay" proposal alone. Mr. Keynes' other proposals are "extras" designed to make the plan work more smoothly or more equitably. These proposals may be summarized as follows:

- (1) Children's Allowances. An allowance of 5 shillings a week should be paid directly from the Treasury for every dependent child irrespective of the income class of his parents or guardians. In the case of the upper-income classes, the Treasury would obtain an offset to this expenditure by the elimination of dependent child allowances for the income tax.

This proposal is primarily one for social reform, rather than for war finance. The reason for its introduction into the plan -- apart from Mr. Keynes' undoubtedly sincere desire to improve the condition of the underprivileged -- was probably to help enlist the support of the Labor Party, which has been notably cool to the plan.

- (2) Iron Ration. The government should see to it, by subsidy if necessary, that a minimum ration of necessary articles should be available at no advance in prices. As long as the government succeeds in this endeavor, the trade unions should agree that they will not press for increased wages because of the increased cost of living.

The purpose of this proposal seems to be to strengthen the government's hand in seeking an agreement with the trade unions that they will not press for increased wages during the war because of the increased cost of living. If the institution of the "iron ration" is necessary to attain this end, it might even be called an essential feature of the plan, as it is clear that successful pressure on the part of the trade unions for wage rates adequate to maintain the pre-war standard of living would wreck the plan completely.

Secretary Morgenthau - 10

- (3) Post-war Capital Levy. The government should undertake to liquidate a large portion of the war debt by a capital levy made immediately after the war -- and, if possible, before the onset of the post-war slump.

This is primarily a reform rather than a war-finance measure, and one of its collateral purposes is doubtless to make the plan more palatable to the Labor Party.

A capital levy, it should be noted, is unsuitable as an instrument of war finance, since it effects merely a redistribution of existing wealth and not the diversion of current income, as is required for the war effort. This objection does not hold, however, against Keynes' proposed post-war levy, as its purpose is entirely distributional and so within the theoretical limits of accomplishment of a capital levy.

TELEGRAM SENT

MacD

GRAY

July 1, 1940

7 p.m.

AMERICAN EMBASSY

LA BOURBOULE (FRANCE)

FOR MATTHEWS FROM THE TREASURY.

Federal Reserve Bank of New York requests that following message be communicated to Governor Janssen of the National Bank of Belgium:

QUOTE. Referring your message of June 26 through Matthews. It is contrary to our policy to hold any of our own gold abroad and we would not wish to earmark abroad in our name gold belonging to other parties. If gold should be shipped to us to hold in our vaults under earmark for your account it would of course be subject to current regulations. Signed. Federal Reserve Bank of New York. END QUOTE.

EA:FL:LWW

HULL
(FL)

RAW

PLAIN

London

Dated July 1, 1940.

Rec'd. 1:45 p.m.

Secretary of State,
Washington.

1913, July 1.

FOR TREASURY FROM BUTTERWORTH.

1. British Treasury advises that the management of the Anglo-Chinese Stabilization Fund will shortly approach the American banks in Shanghai and ask whether they will make available storage space for stocks of currency. As the fund has sold sterling and acquired Chinese currency the amount of notes has increased; these they do not want to deposit so that they will not be used for loans. No doubt due to the Far Eastern situation they intend to ship some of these notes which have been in Hong Kong to Shanghai for safe-keeping and accordingly their storage facilities will be overcrowded.

2. Supply expenditure after standing during the first three weeks of June around STLG 60 million per week - 50-0/0 above the April and May weekly averages jumped to over STLG 70 million last week, bringing the deficit for the first quarter of the fiscal year to STLG 506.7 million, in spite of an increase in revenue over the corresponding quarter of last

PAP -2- 1913, July 1, from London

last year of STLG 44 million. This is always the leanest revenue quarter. The deficit has been met by STLG 44 million of saving certificate (net) sales, STLG 43.6 million of baby defence bonds subscriptions, from the new "on tap" 2-1/2-0/0 war bonds (which raised STLG 42.7 million in five days) STLG 203 million of 3-0/0 national war bonds received in the first few weeks of the quarter, and by an expansion in the floating debt of STLG 173.4 million, though the tender issue of Treasury bills increased by only STLG 39 million during the quarter. With expenditure now at the rate of STLG 3,500 million per annum (including debt charges) and Simon's September budget being for only STLG 2,667 million, the necessity for a second budget is obvious in spite of the forthcoming purchase tax bill and the patriotic response of savers large and small.

3. Further to the second paragraph of my 1630 of June 15, 1940, 1 p.m. the Bank of England today asks banks' cooperation in compiling list of numbers of bearer securities which may have fallen into enemy hands, with full particulars including names and addresses of beneficial owners, place of deposit, definitive numbers and denominations. Purely domestic securities of enemy occupied territories, securities with no market in the United Kingdom, and securities physically held

PAP -3- 1913, July 1, from London

held in the United Kingdom are not to be included.

4. Special arrangements for purchase by certain banks of French franc notes from members of Polish forces stationed here provide for purchase by units of these forces on presentation of authenticated lists of holdings.

5. Bank of England today notifies banks of South African regulations complementing new United Kingdom regulation 5 B (see despatch No. 5389 of June 10 and telegram 1525 of June 6). Payments for exports to sterling area countries to be made in a sterling area currency; to Canada and Newfoundland in sterling obtained from Canadian control; to Netherlands Indies in sterling or Java or Curacao guilders; to Argentine, Sweden and Roumania in sterling from special accounts; to French and Belgian empires position to be clarified later, payments for exports to the United States and dependencies or Switzerland to be made by sterling bill on credit drawn in the United Kingdom providing for reimbursement in dollars or Swiss francs respectively, or in sterling purchased in the United Kingdom official market or in dollars or Swiss francs exports to other countries, in sterling at present. These provisions do not (repeat not) apply to South African (or Southwest African) exports in fulfillment of contracts of sale entered into prior to May 29, 1940. This differs from United Kingdom regulation as indicated in my No. 1671 of June 15th.

KENNEDY

Treasury Department 81
Division of Monetary Research

Date 7/2/40 19

To: Miss Chauncey

From: H. D. White

This is a copy of the preliminary draft which went to the Secretary and which I understand the Secretary took to the President.

MR. WHITE
Branch 2058 - Room 210

July 1, 1940

MEMORANDUM FOR THE PRESIDENT

1. Dr. T. V. Soong, President of the Bank of China, was being seriously considered a few months ago as the man to replace Dr. Kung as Finance Minister of China. But I believe the Generalissimo had some doubt as to whether he would carry out his wishes as faithfully as would Kung and therefore hesitated at the last minute to make the shift despite the widespread dissatisfaction with Kung's reported financial laxity.

It is not certain whether T. V. Soong is completely in sympathy with continued resistance to Japan. In any case, Soong is hardly to be regarded with the same confidence as K. P. Chen who has just returned to China.

2. I presume Dr. Soong is going to ask for financial aid to China, probably in the form of a loan by our Stabilization Fund, for the purpose of stabilizing Chinese currency. T. V. Soong and Mr. Arthur Young (one of the financial advisors -- an American -- to the National Government) have been, for more than a year, eager to obtain such a loan. (The yuan was 16 cents in the beginning of the summer of 1939; during the next few months it dropped to 8 cents, declined gradually to 6 cents, and in May of this year dropped to 4½ cents when the support of the Anglo-Chinese Stabilization Fund was removed. Since then the yuan has strengthened and is now around 6½ cents.) The financial community in China feels that such a loan is essential to prevent collapse of the Chinese currency and with it the prestige of the Nationalist Government, and also to make possible continued resistance by the guerillas who are supported with National Government currency.

We in the Treasury have studied the matter very carefully and much as we wish to help China we believe that a stabilization loan to China is beyond the legitimate scope of our Stabilization Fund operations.

- 2 -

(a) It is our feeling that both the benefits to the National Government from such a loan and the danger of imminent collapse of the Chinese yuan are exaggerated by proponents of a stabilization fund loan.

(b) Efforts to stabilize the yuan cannot be successful unless we are willing to lose large sums. It is impossible to stabilize the yuan without loss of large sums because the National Government of China does not have anything approaching adequate control over foreign exchange operations. It must be borne in mind that both foreign and Chinese banks in international areas, and in the areas under de facto Japanese control engage in yuan operations which are not under control of the Nationalist Government. Attempts to stabilize the yuan under such conditions serve only to finance imports non-essential to the conduct of the war, and to facilitate illegitimate flight of capital, and to provide foreign exchange for the Japanese. The risk of loss in supporting the yuan is so great, and the advantages to the National Government so small, that we would not be warranted in taking it with funds now in the Stabilization Fund. If the United States is ready to lose \$25 or \$100 million in the course of a year or two, the yuan exchange can be maintained at something like current levels. We feel, however, that if the United States is willing to extend that much aid, it can be extended for more effective purposes than an attempted stabilization of the currency.

We cannot, under existing law, extend more credit to China through the Export-Import Bank. In any case, extension of further loans for the purpose of enabling China to buy foreign merchandise is not warranted because China still has available more funds than she can utilize for this purpose during the next four to six months. The Universal Trading Corporation has so far placed less than \$4 million of orders against the \$20 million credit extended to China this Spring. In view of the difficulties placed in the path of transporting goods into areas under the control of the Chinese National Government, the importation of more than a few million a month into China is impossible. Goods are now piled up in Haiphong, Indo China, and the Japanese are preventing virtually any movement of goods from Indo-China to China. It is expected that the Japanese may confiscate goods now piled up in Haiphong awaiting shipment to China.

- 3 -

The Japanese are also putting pressure on the British to close the Burma route. But even if the Burma route remains open, the Chinese cannot get more than a few million dollars worth of goods over it per month.

EDW:gal
7-1-40

THE PRESIDENT'S APPOINTMENTS:

- 10:00--GARNER, BANKHEAD, RAYBURN AND BYRNES. (BARKLEY IS IN KENTUCKY).
11:00--CLARENCE PICKETT, EXECUTIVE SECRETARY OF THE AMERICAN FRIENDS SERVICE LEAGUE.
11:15--WILLIAM S. KNUDSEN AND ACTING SECRETARY LOUIS JOHNSON.
11:45--WORKS ADMINISTRATOR CARMODY.
12:00--DR. T. V. SOONG, PRESIDENT OF THE BANK OF CHINA.
12:15--REP. JERE COOPER.
12:30--ASSISTANT SECRETARY BURLIV.
1:00--SECRETARY MORGENTHAU (LUNCH).
2:00--CHARLES WICKELSON.

7/1--R1106A

July 1, 1940
11:17 a.m.

H.M.Jr: Hello, Harold.

Harold
Smith: Yes. How are you?

H.M.Jr: How are you?

S: Say, I'm not only worried but confused about the submission of additional defense estimates and I find -- I'm going over to the White House now. I understand Knudsen and Johnson are being called in. What I find is, confidentially, from the staff over there that these proposals were submitted by Johnson without being properly digested by the staff and I think that there is a good deal of confusion over the whole matter. First, they're coming with a proposal for equipping four million men.

H.M.Jr: How many?

Four million, which doesn't show on the face of the thing at all and I think it's going to literally scare hell out of the people of this country, some of whom think that the President is now leading us into war and so on and so forth, entirely aside from the fiscal aspects of it, increasing the debt limit very much further. Now I wondered -- I got the Cabinet discussion piecemeal from Johnson the other day when I was over to the White House after Cabinet meeting on Friday, and I wondered if you had any observations that you could give me on this thing because I'm going to stick my neck out over here because I find -- I'm sure the President doesn't know the story.

H.M.Jr: Well, what I gathered was this, Harold, that Johnson made the statement that he'd worked out this plan over a year ago which of course I believe is not the truth.

S: Yeah.

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- H.M.Jr: And that he'd gotten quite a little help from Mr. Knudsen but the point is, as I get it, they don't feel that, let's say that if you give them an order for 1,000 engines that that carries the manufacturer, let's say for argument, more than six months. So in order to give him two years' work so he can plan it, they're going to give him an order for 4,000 engines. You see?
- S: Yeah.
- H.M.Jr: So that this man can set up the machinery and so forth and so on and plan to be able to produce 4,000 engines, but the thought is that they won't give him an order for more than a 1,000. In order to get -- now I've heard Knudsen drop some remarks that there isn't enough money to give a fellow a big enough order so he can plan far enough in advance.
- S: I think that's right.
- H.M.Jr: And I think he's sold that thing to Johnson and Johnson is trying to claim the credit for it the way he claims everything and I think that it's Knudsen from the few times he's seen me has felt that there isn't enough orders to spread it over far enough to interest the average manufacturer.
- S: Yeah, but they got four billion in there entirely apart from that for various munitions, a large part of which will be built in Government plants.
- H.M.Jr: Well, that I don't know but
- S: Well, you see, that sort of gives the lie to the program as a whole.
- H.M.Jr: Well, the part that I picked up here and there -- you are asking me, I can only -- is that what is the philosophy back of it? And I would say that it's the philosophy of Knudsen.
- S: That's right.

- 3 -

- H.M.Jr: But you say on top of that is four billion to actually put orders. Well, that I didn't know.
- S: Well, Johnson gave me the impression that some commitments had been made at the Cabinet meeting on a sort of political basis.
- H.M.Jr: No, no.
- S: And I couldn't quite see that.
- H.M.Jr: No, he was begging the President to get this up Monday and there were no commitments that I heard made by anybody.
- S: Yeah, and he wants it submitted Tuesday to Congress -- tomorrow -- and we haven't even got an estimate yet.
- H.M.Jr: And quite the contrary, he said it would be \$5 billion and the President said, are you sure that the Congress will accept that large an appropriation on top of what they have? He said, after all, there is only so much money to go around. And Johnson's answer was a sort of a laugh. Now the President said, are you sure of your facts, Louis, are you sure Congress will take it. And he said, yes, they'll like it, but the President made no commitment while I was there.
- S: That's what I want to know. That's fine.
- H.M.Jr: Well, for God's sake let me know after you know what it's all about.
- S: Yeah. All right. Thank you.

July 1, 1940
4:20 p.m.

Senator
Robert
Wagner:

Hello, Henry.

H.M.Jr:

Hello, Bob.

W:

How are you?

H.M.Jr:

Oh, wonderful.

W:

Good - I'm glad to hear that. I'm glad there's somebody that's wonderful.

H.M.Jr:

Yeah.

W:

Say, Henry, I'm sort of a - you know, a street sweeper and all that.

H.M.Jr:

Are you a street walker?

W:

Well, not quite. I haven't reached that -- that might come yet.

H.M.Jr:

I see.

W:

And we're working up on a platform you know.

H.M.Jr:

Oh.

W:

And you know I'm just a guy that sits around and is supposed to be chairman and just does the chores, and I would like to get, if I could, from you - or if you want to assign somebody to it - a money plank.

H.M.Jr:

A money plank.

W:

Well, Treasury plank -- whatever you want to include in it, you know.

H.M.Jr:

All right, I'll fix you up one.

W:

Will you?

H.M.Jr:

Do you want it hard or soft?

W:

Well, I'm for hard money.

- 2 -

H.M.Jr: O. K. (Laughs)

W: When do you suppose that will come along?

H.M.Jr: Well, I think it's just

W: We're all late this year, you know.
I don't know why. I think it's

H.M.Jr: Oh, I'll try to get it to you by Wednesday.

W: Oh, that's wonderful.

H.M.Jr: What?

W: That's fine.

H.M.Jr: I can do it just as well by Wednesday as
I can a year from Wednesday.

W: Yeah. All right, Henry.

H.M.Jr: Yeah, I'll fix you up something.

W: Thank you.

H.M.Jr: Thank you.

W: Good-bye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Yunnanfu, China
via Chungking and N.R.

NO.: 20

DATE: July 1, 1940, 10 a.m.

With reference to exports of tung oil and other products, the local manager of Foo Shing Company tells us that it is not clear at the present time whether there will be a stopping of exports of tungoil and other products by way of Haiphong. He has suggested to his main office, which is located in Chungking, that an office be opened by the Universal Trading Company in Yunnanfu and that instead of taking title to tung oil shipments in Haiphong, that company take title here in Yunnanfu. Universal Trading Company could also be appointed agent to handle other products.

It is estimated that the present tung oil stocks in Yunnanfu are 1,100 tons. It is said that there are several hundred tons in French Indochina; a shipment made on June 20 was the last from here. The arrangement which was agreed upon with Southwest Transportation Company last February is still in force, and if gasoline for fuel and steel drums for containers can be secured, it is thought that there are enough trucks available to take care of exports of tung oil. If the Indochina route should

-2-

should be cut off, it may be difficult to export other products, including tin. Exports of bristles by air from Yunnanfu to Rangoon are being planned. At the present time the stocks of bristles here consist of 1,010 cases; 60 cases of transit stock from Chungking are included in this amount. Recently 1,300 cases were shipped to Haiphong; it is possible that a part of this shipment is still in Indochina. A despatch follows by airmail. This message is being sent to the Department by way of Chungking.

JOHNSON

EA:EB

RE EXCESS PROFITS TAX

July 1, 1940
9:45 a.m.

Present: Mr. Sullivan
Mr. Tarleau
Mr. Blough
Mr. Bell
Mr. Magill
Mr. Helvering
Senator Harrison
Congressman Doughton
Congressman Cooper
Mr. Stamm
Mr. Paul

H.M.Jr: Well, I am sorry to ruin a lot of people's vacations. I came back from the White House and hoped I couldn't get Harrison and Doughton, in which I was successful. I yanked Tarleau off a boat.

Did you get rid of your tickets?

Tarleau: Yes, sir, I got rid of them.

H.M.Jr: You look like a new man.

Sullivan: Thank you.

Magill: You are unlucky, John.

Bell: I don't see any reason for him going back. He recouped very fast.

H.M.Jr: I have got fifteen minutes. Suppose I look this over. I think this is a good start. It is a good foundation to work on, but I would like to ask these gentlemen while they are here, is there any unanimity of opinion amongst the people here as to what form this excess profits tax should take?

Incidentally, when the President asked me Friday, he said, "How long before we can get it?" I told him a week.

Sullivan: A week for what?

H.M.Jr: For a bill. I couldn't explain to him that it would take four months to do a bill.

- 2 -

Sullivan: We didn't say four.

H.M.Jr: Well, three.

Sullivan: We said two.

H.M.Jr: He put it this way. He said, "Can you do it in a week?" And I said, "Yes."

Magill: To answer your other question, none of us have talked together at length this morning. We got together shortly before we came in here. I guess all of us have read this. I haven't talked to Paul, for instance, at all about it. This message, as you may have noticed, is open-ended on that point, for that reason. That is, there is the main question of policy to be settled at the outset, which hasn't been settled and consequently this was drawn to cover either possibility, namely, that the excessiveness of profits should be determined on the basis of average earning over some previous period of time or that the excessiveness of profits should be determined with respect to some return on the investment.

H.M.Jr: The average over, say, three years, for example, or beginning over a certain percentage.

Magill: That is right. Now, the following amendment which followed the war excess profits tax that we had before was on the basis of percentage of the investment. That is much the more difficult form of excess profits tax to draw than to administer. My own opinion would be that as an economic or academic, if you wish, matter, it is the fairer.

H.M.Jr: Which one?

Magill: The one which makes use of invested capital or that says --

H.M.Jr: May I - I have run into - one person refers to six percent and he keeps the machine tools in

- 3 -

the business, meaning the total equipment. He estimates the total plant and tools, and so forth, and lumps them all together into a phrase called machine tools. Is that the sort of thing you mean? And that ought - on the total invested capital, he figures that everything over six percent and everything over four percent --

Magill: That is essentially the idea. Go into General Motors and determine --

H.M.Jr: In machine tools, he doesn't mean machine tools. He means the invested capital in the plant.

Paul: I imagine so, yes.

Magill: That is probably the same thing. You can see the difficulty. You go in and you determine what to - to use your phrase - what the machine tools in General Motors are, what is the capital which is employed in the business. Now, that is a hard job, you can see, without going into the question in detail. You decide that is a billion dollars. Well then, having decided that, you say, "Well, all right, we will allow General Motors six percent or eight percent," or whatever it is on that investment and then you say, "We will take twenty, thirty, whatever percent of the excess which General Motors makes over that figure." The other possibility --

H.M.Jr: That was the LaFollette bill.

Magill: That was the LaFollette bill and that was the bill simply which we ended up the last war with, the same thing.

H.M.Jr: As I understand it - I am groping my way. I wish I had an hour and ten minutes. The English do it on a three-year basis and let the manufacturer pick his year.

Paul: England's taxes are on a totally different theory. It is the other school of thought, as I understand it.

- 4 -

H.M.Jr: What is that?

Paul: The other school of thought is that we allow you to consider as non excess the profits in a certain so-called representative period before the war. You can pick your year if you want or you can have an average of three or four or five years and we won't pay any attention to invested capital. We will simply tax those profits which you make today above that average. That is the other school of thought.

H.M.Jr: Well, I think we are talking about the same thing.

Magill: That is right.

H.M.Jr: As I understand it.

Magill: You see, you have got these two, Mr. Secretary, alternatives that you can figure the one way or you can figure the other, and England has adopted one scheme --

H.M.Jr: And England lets them pick the year, too.

Magill: That is right.

Blough: The English let you pick '35, '36, or the average or '35, '36 and '37 as the pre-war comparative years. Canada allows you to pick the three out of four. It is the same principle, but different years.

Magill: You can see how that works. When I was here you would find in Blough's division computations which were made for various lines of industry as to what had happened to profits during the depreciation period. Now, of course, what you would find would be in a thing like the tobacco industry that the profits had kept pretty much on the level. I suppose they have increased a little. The depreciation has had very little effect on profits. Whereas, in other industries, say steel, they had an enormous effect on profits.

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You can see, hence, that the excess profits tax on the Canadian or English design wouldn't necessarily have anything at all to do with the percentage of income on the investment.

Blough: Or with defense.

Paul: Generally speaking, the old fashioned or last war special tax is based on a concept of excess profits above the normal return on investment, whereas the other side, the British-Canadian present type, allows all concerns that have been making money or making good profits before the war to capitalize those profits into their base, so that the former type, the old fashioned type, promised to be more of an excess profits tax and the latter type tends to be more of a war profits tax. Those are your two basic concepts and decision has to be made either between them or on some compromise basis embracing both, which can be done.

Magill: As I have said, this proposed method dodges - and I say that not in criticism, but because the boys knew they were dodging.

H.M.Jr: They asked me for guidance and I couldn't give them any guidance.

Magill: Here on the first page in the middle, it says, "Some persons and some business concerns will make greater profits than they should." Of course, your question of --

H.M.Jr: Let me just, at the outset, tell you how I feel about it, because I realize there are all sorts of administrative difficulties and everything else. The way I feel about it as, so to speak, the man in the street, the kind of profits that I would like to eliminate are those that a man will make through manufacturing things or merchandise to kill people. In other words, if this man has a business and he goes along and is making so much money and has made it, but now he suddenly gets part of this big rearmament

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program and his profits jump, I think that money which he makes out of this rearmament program should be taxed to the limit.

Helvering: There is more war profits tax than strictly taxes.

Paul: Even more narrowly, your concept is merely a tax on the manufacturer of munitions or instruments of war, whereas even a war profits tax would be broader than that.

Tarleau: Mr. Secretary, you mean more of a war contracts tax. It doesn't have to be munitions themselves, but anything.

H.M.Jr: Here is the thing. I suppose I ought to sit and listen before I express myself, but if in this new bill something could be done so that we could eliminate the Vinson-Trammell and have this thing take its place, you see --

Sullivan: You mean, have Vinson-Trammell applicable to all Army and Navy contracts?

H.M.Jr: Possibly, and then there is this whole question, if in this thing we are smart enough - I mean, we want these people to go ahead and manufacture tanks and guns, and so forth and so on, and at the same time you can't expect to have universal service, et cetera, et cetera, if a couple of thousand men are going to get rich and the other fellows are going to give their lives. That is the thing you have got to be able to do and I don't know any better answer to the criticism that we are the war party than to take the profits out of war. That is the best answer I know.

Sullivan: The easy answer to what you have just talked about is the application of Vinson-Trammell to all Army and Navy contracts, but you see your excess profits --

H.M.Jr: What is it applying to now?

Sullivan: Nothing except naval vessels and Army and Navy aircraft. Now, I understand that Mr. Foley

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called in Friday and said that he was preparing some language to recommend the repeal of Vinson-Trammell.

H.M.Jr: The trouble with Foley is, we are all jammed up. He has got Professor Chamberlain in today working on something else with us and otherwise I would have Foley in, but we have got Chamberlain down there today on some of this frozen assets business, so I mean I have just got to take care of Professor Chamberlain.

Paul, just remember this. I bark out, but I don't tell you what to do. I listen.

(Congressman Doughton and Congressman Cooper enter the conference)

H.M.Jr: I guess Pat will be along any minute. I hope I didn't spoil your week-end.

Doughton: Next time you want to give me over thirty minutes notice. I got a message about 10:00 or 11:00 o'clock Saturday morning and I went down to Albermarle and the Governor was to make the principal address at a big park dedication and I found a wire saying I was summoned to be here for a very important conference at 10:00 o'clock.

H.M.Jr: Well, I will tell you exactly. I left Cabinet somewhere around 4:00 o'clock and I came up here and I called up Mrs. McCandliss.

Doughton: Couldn't you get my office?

H.M.Jr: I called your office first and if you wanted to know, there wasn't a damned person there.

Doughton: 4:00 o'clock?

H.M.Jr: Yes.

Doughton: I am glad to know that. That was Friday, wasn't it?

H.M.Jr: If you want the exact time, I will give you the exact time.

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- Doughton: I thought it was a little strange coming from the Committee.
- H.M.Jr: I called your office --
- Doughton: That was Friday night, wasn't it?
- H.M.Jr: Yes sir, and I got word that the furniture was there but there was nobody sitting in it.
- Cooper: Well, it was about 4:00 o'clock Friday afternoon when Mrs. McCandliss came down and told me - my office - and said that the Secretary's office had just called and wanted us there - here this morning at 10:00 o'clock and said she --
- H.M.Jr: 4:15.
- Cooper: Well, about 4:15. And of course she wanted to know what to do about it. She said she was just fixing to wire you and I told her to do that, to wire you immediately, and I dictated to her what to say to you and so she sent the telegram immediately and had the paper in the typewriter while I was talking to her, so that was about 4:15 or 4:20 Friday afternoon.
- H.M.Jr: I called and asked for you personally and then when I couldn't get you, they said the only person they knew who could talk was Mrs. McCandliss and I didn't know who she was, but the boys said she was okay.
- Cooper: She is assistant clerk of the Ways and Means Committee. She got hold of me immediately and I dictated that telegram to send to you and I told her to get it off at once, so she got it off right away. I figured to get it to you as quick as possible so you could make your arrangements.
- Doughton: Well, that is all right. I rode from 10:00 last night to 11:00 this morning to get here.

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H.M.Jr: You look fresh as a berry.

Doughton: That is what makes you fresh, work. If you want to kill one of my family, just let them rest. They don't count at all.

H.M.Jr: Did Congressman Jere Cooper send you any strawberries this year with a girl to deliver them?

Doughton: I seem to be very forgetful.

Cooper: I didn't get any this year, Henry.

H.M.Jr: My crop was almost a failure. I am taking it off as a loss against my income tax.

Cooper: The crop was very good down in my district. They didn't send any this year. What he is getting at, last year the Chamber of Commerce in my town had a crate of strawberries picked early one morning and sent by plane and I delivered it to the President at 4:00 o'clock that afternoon.

H.M.Jr: And with the assistance --

Cooper: Yes, they specified that a young lady had to make the presentation, so I had to dig up a girl here from that town going to school over in Baltimore. I had to get her over here from Baltimore to be at the White House to deliver those berries. She was the only one I could find from that town anywhere around here.

H.M.Jr: Shall we start or shall we wait for Pat?

Doughton: Oh, I think we can wait a little on him. Perhaps you are in a bigger hurry than we are.

What is going on in the House this morning?

Cooper: The same calendar today and a private calendar tomorrow.

(Senator Harrison and Mr. Stamm enter the conference)

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Cooper: Pat, I just remarked when I came in here that it doesn't look any too good to me. This gang is pretty honest for me to have to get into.

Harrison: I just got back from a trip to rest up.

Bell: Get a good rest? You look it.

Harrison: Well, I was down in White Sulphur.

Cooper: Did you know that just a week ago tomorrow a tax bill was approved? What in hell is going on around here?

H.M.Jr: Well, the trouble is we have Cabinet every so often. We shouldn't have Cabinet.

Harrison: Maybe when you get a different group up there, as I understand you are proposing, we might get along better.

H.M.Jr: Opposing or proposing?

Harrison: That is being proposed.

H.M.Jr: Yes, and you see the Vice President keeps telling me that he sees you at breakfast or lunch or supper over at the hotel there.

Cooper: We eat supper together.

H.M.Jr: And you are all hell bent for an excess profits tax and keep rubbing that in on him.

Cooper: Well, I want to swear him before he testifies much further.

H.M.Jr: Anyway, they brought it up again and I reviewed the situation and told the President that you three gentlemen - that nobody could have cooperated with the Treasury finer and at no time since I had been here had the President bothered as little as he had on this bill. I said he had just had two telephone calls and that is all he ever was bothered, which he allowed.

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Now, what he started to say was, he wanted to send a message up today to Congress on excess profits, so I said, well, he couldn't do that because you gentlemen had been so fine and until we did anything I wanted to talk it over, so he said fine, to get you all together and talk it over, but he seems to think that Congress is going to be here a while and why wait until October first, and if we are going to have an excess profits or war profits bill, we might better go to it.

- Cooper: Let me ask you, what is his main motivating reason? Is it the political situation?
- H.M.Jr: Well, I don't think you are very far wrong.
- Cooper: If it is politics, that is one thing. Now, if it is not, there is nothing to it unless there is some political advantage in it.
- H.M.Jr: I would say that politics had something to do with it.
- Cooper: Well, that is the way it looks to me. Well, the situation is just this --
- H.M.Jr: I say he asked me the question, Cooper asked me a very embarrassing question. He asked me whether politics had anything to do with it and I said I thought it did have something to do with it.
- Doughton: That is what everybody else will think now, isn't it?
- H.M.Jr: So he will ask me these embarrassing questions.
- Cooper: I wouldn't have done that in an open committee meeting up there, but I assume that you have this room insulated here, but that is the way it impressed me, that it must be politics. I can't see anything else in it.
- Doughton: We have all committed ourselves to some kind of an excess profits tax and we have gone

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on record and published it to the world. Your expert here said it would take him sixty days to get ready to do anything. What can we do?

H.M.Jr: Well, he has had a week's vacation and he feels entirely different.

Cooper: So far as his sending us a message, we have just sent him one.

H.M.Jr: What was that?

Cooper: The Ways and Means Committee included the statement prepared for you in our committee report and the conferees on the tax bill, Senator Harrison's group and our group, adopted a resolution in the conference, so we have sent the President a message already.

H.M.Jr: I brought that to his attention and the attention of the Vice President. I said that everybody had kept faith all along the line and that they were to bring in a report on the first of October and the President said, "That is very nice. I saw that." He said, "I think this is the first move that we should make now." Now, I didn't say it, but in the room here we are all among friends and I think he felt that in view of the fact that Mr. Willkie was the candidate, this should be the first move. He didn't make it as plain as that, but I can do a little reading between the lines and everybody seemed to think so, that this should be the first move.

Cooper: Without attempting to boast at all, I think we did the smoothest job in the committee on that statement you (Sullivan) drafted that I have ever seen done.

H.M.Jr: I know you did.

Cooper: Because that came suddenly without any advance notice or warning and I jockeyed the thing around so that I got it unanimously agreed to in the committee and they never did get their eyes open at all until it was all over.

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- H.M.Jr: I have been here seven years and in the whole time I have been here, there has never been a tax bill that went through as easy, raised as much money or bothered the White House as little. I don't know - with the exception of a few telephone calls, I never discussed the thing with him and those calls were made in the presence of you gentlemen.
- Cooper: Let me ask, John, what shape are you in now?
- Sullivan: Well, the Secretary said that I had changed my mind on the length of time --
- H.M.Jr: I changed it for you.
- Sullivan: That is what I was about to tell Mr. Cooper.
- Cooper: I knew that already.
- Sullivan: The problem that confronts us here this morning is a message to be sent up and everybody here is willing to go full steam ahead, but I still think we pay a frightful price through the years to come for hasty drafting of this legislation. Now, we are all set to go and start and work at it until we get it done. I am just wondering on time here how soon he wants it to produce.
- H.M.Jr: I will tell you what he was saying. He said a week.
- Cooper: Well, we can handle it all right. Let him send his message on up. Bob Doughton can call a meeting of the full committee and refer the message to the sub-committee and we can start to work. Now, as to how fast we will work will depend on how much time is needed to do the job and do it right. Don't you think that is the best thing we can do, Bob?
- Doughton: We can go to work, but you can't put any degree of persistency or assurance of a well thought out, well prepared bill. You can't give any assurance at this time before it is laid before the Congress.

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- Cooper: We can't present that bill at this session any time much earlier than what we have already agreed in conference, as I see it.
- Sullivan: What was agreed to in conference was not October 1, was it? Didn't it say not later than October 1?
- Cooper: You know, John, your people told us it would take sixty days.
- Sullivan: From the time we told you that.
- Cooper: And I thought you were very fair in that statement. Now then, we allowed you three months. The resolution reads, "not later than October 1."
- Sullivan: We don't need that and we don't need two months from now.
- Doughton: That was to take it up, wasn't it, not to have the bill ready?
- Cooper: The Treasury was to report to us not later than October 1.
- Sullivan: We will be able to report a great deal sooner than that, but the thing I am wondering about, that Congress will be recessing a week for the Democratic Convention and I mean, if we rush a bill through and try to get it in there before then, it will just lie idle for a week. If we have an extra week on that end, that will help a good deal.
- Doughton: You don't think we could get a bill out and through our committee and out before the Democrat's Convention?
- Sullivan: Oh, no.
- Doughton: If you do, you overrate our ability and the willingness to do things in a hurry that we want to do right in the first place. We don't want to be ridiculed and embarrassed and

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humiliated afterward about mistakes we have made. What do you think about it, Senator Harrison?

Harrison: Well, of course, if I had known that this was going to be the attitude within a week, I would have taken the attitude that I would have gone on and accepted Mr. LaFollette's ideas, because he seems to have a good part in the forces that move the Administration. I didn't think it was well thought out. I was perfectly willing to leave it to the Treasury experts and to our own and try to work out something along a practical line. To me, I don't believe to put a big excess profits on all the corporations in the country, simply because they have one good year - it has nothing to do with war profits at all, is the correct theory. I think if there are some corporations that are really making an excess profit due to this national defense program, and so on, or war influences, that is all right, go ahead and put on a high excess profits tax, but in this bill we put 21%, wasn't it, on normal corporation tax?

Cooper: Twenty and eight-tenths.

Harrison: Now, that is a pretty high rate, it is, on a normal profit. I didn't think that our Administration was going in to try to destroy business and destroy all profits. I think if there are these plane businesses or something else that are making enormous profits by virtue of this national defense thing, that is all right, jack them up, put on high excess profits.

Now, what is in your mind?

H.M.Jr: Mind?

Harrison: Yes.

Cooper: The point is this, Pat, on the line of your suggestion there. This bill provides a

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maximum corporation rate of 20.8%, which is practically 21%. That is just a normal corporation tax which applies to all of them with \$25,000 or more net income. Now, when we had an excess profits tax before, the corporation rate was only 10%. Now you have more than doubled that on all corporations whether they are engaged in the production of war materials or not, so that enters into the picture, as I see it.

Harrison: Yes, it enters into the picture, but I mean that we want to - we are not in the war yet. There are some industries that are being helped by virtue of plane manufacture and things. Are we going to confine the excess profits tax to those things or are we going to apply it to all corporations?

H.M.Jr: I had had ten minutes before you men came in. I haven't had a chance to talk it over with my own people. You have asked the same question I have asked them and we didn't even have time. I have had no more advance notice of this than you have and I have asked exactly the same question that you have and this whole question of - the next thing is, whether it should be a tax on everything over a certain percentage or whether we should do it the way the Canadians and English do, a tax on an average of over the last three or four years, but I haven't had time. I just thought we would have a quiet study and then the thing would come in and sometime before the first of October we would all get together and make a report.

Harrison: Now, here we have the President expressing himself as taking this average for three or four years.

H.M.Jr: No, he hasn't. He wants to get the message and lay it before Congress.

Harrison: But that puts us right up against a hole.

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- H.M.Jr: He did make one suggestion to me. Remember that suggestion to me three or four weeks ago about this one percent on top of every four until you got up to ninety-five percent? Do you remember that?
- Sullivan: Yes, sir.
- H.M.Jr: But he didn't say anything more than that. I mean, it was adding 14% on top of that, wasn't it?
- Sullivan: It was a graduated scale.
- Cooper: The first question you have got to decide is the type and form and nature of the excess profits tax, whether you want it a permanent tax to apply all the time or whether you want a temporary excess profits tax.
- H.M.Jr: Well, I don't know, frankly, because I work here with a pistol to my head and I try to clean up my stuff every day and I do that thing which comes first. I didn't think this was coming until next fall, so I haven't done anything about it. You can't be any more honest than that. I am not prepared. I let Sullivan go away last week and he was to be away this week, because I didn't think anything was coming and I said, "Get rested up for a couple of weeks so you can go to work with your boys this summer." That was my attitude and I pulled him out of New Hampshire to come down here. We didn't expect this. I wasn't expecting it at all.
- Cooper: Well, I had thought --
- H.M.Jr: But I guess they didn't expect Wendell Willkie, either.
- Harrison: I wouldn't pay any attention to Willkie. Wendell Willkie will be elected if we lose our heads. If there ever was a time when we shouldn't lose our heads, it is now. If we go up here and have Mr. LaFollette and some other people make

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plumbfools out of us - you can't go in there on the Floor and take one position one week and another position another week and have any confidence on the part of the people. They lose respect for you.

Well, I am not going to put myself in that attitude. If I am going to play a lone hand, I will do it. I would rather do it and take my chances on having my ear to the ground. There is no reason in the world that any message should go up there to the Congress right after this tax bill is over. We ought to go ahead in our way that we have mapped out without getting frightened and work out a plan and if we can work it out in two or three weeks, then the President, if he feels like he would be justified in sending up a message on it, all right. I don't see any reason why he is justified in doing it, particularly, or why there is any whip on him to do it now. He has to rely on us up there and we have written in our report what we thought was the wise thing to do. The Congress has expressed itself by vote for what it thinks is the best thing to do.

Now, we are ready to act as expeditiously as possible. Then that is all right, we will pass it.

- Cooper: What do you think, Pat, on the political end of it? Do you think there is going to be any advantage in getting that message up before our convention week after next?
- Harrison: Absolutely not.
- Cooper: That is the only thing I can see in it, unless he feels that from a political standpoint he should get the message up before our convention. Unless he feels that, I don't see any reason why it can't wait until after we get back.
- Harrison: We are working. We are the ones who have got to do this business. I thought we were

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all working on it. Now, if the President goes up there this week and delivers a message to Congress and says, "Gentlemen, you have failed to pass an excess profits tax last week. I think it is essential that it be done. We don't want any millionaires created," and so forth. My God, we will cite back to him that the Treasury said it couldn't be done within sixty days. Do you want the Congress to take Mr. LaFollette's idea, which doesn't work into this picture particularly? I think we would be held up for criticism.

- H.M.Jr: I am thinking out loud also. There is another way for him to do this thing. He could decide between now and the 15th what kind of profits tax he wants and then put it in the platform. What would you think of that?
- Harrison: That isn't so bad, but I think we, as somewhat experts - I am not one, but you get that glare - we ought to go ahead and work out our own excess profits tax and apply it to these things, whether there is going to be a lot of excess profits by virtue of war.
- H.M.Jr: What would you think of putting it in the platform?
- Sullivan: It would be far more effective to accomplish the thing he apparently has in mind.
- Doughton: To jump in on it right now after we have stated that we will take this matter up and study it and as soon as we can make the proper study and get the proper information, we would proceed just as expeditiously as we could, but to do it right now just on the heels of the Republican Convention would be construed as just a political movement. They would say, "Well, that is politics, now."
- Cooper: Well, Bob, we can't any more have a bill ready between now and the Democratic Convention than we can fly. We just can't do it. You take

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LaFollette's plan. He simply took the pattern of twenty years ago and applied it to now. There is a lot of things happening in this country in twenty years' time. A pattern that fit the country twenty years ago doesn't fit now.

Doughton: And he admits it. He had to go right to work to amend it when we had our conference.

Sullivan: Speaking of political effect, if he is going to make an acceptance speech, that might be the place to read the resolution that was in the House Ways and Means report, the resolution that was in the conference report, and subscribe to it and urge the acceleration of this work.

H.M.Jr: I personally think it belongs in the platform. I think that is the place for it.

Paul: That would contain the statement as to the kind of tax?

H.M.Jr: Yes.

Paul: Because that is a most important question.

Harrison: Has the President got it in his head to come up here to Congress and deliver a message and to reach the country on this business? If he has, you can make all suggestions outside, but he is going to come up here and so we might just as well fit in our work accordingly.

H.M.Jr: No, I don't think so, Pat. I don't think that that is necessarily what will follow.

Cooper: What is that?

H.M.Jr: Pat says if the President is going to do it, no matter what we say or do --

Harrison: It meant the same thing.

H.M.Jr: Yes.

Harrison: Because the President has been thinking about this a good while, all the time that we were

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studying on this business in these conferences, the President has been thinking about this excess profits. That is the thing --

H.M.Jr: And so has Mr. Hull. That is the funny thing. Hull has been talking about it, too, and the Vice President.

Cooper: Oh, I know, the first conference we had here with you, you brought it up then as coming from the Cabinet and we rather agreed. We are not in war yet and we are still hoping we may not get in and we ought to wait a while on it.

H.M.Jr: Well, how would you sum up how you three gentlemen feel? I am seeing the President at lunch. Nothing will happen between now and lunch, anyway. We don't have to tell the President anything.

How would you sum up, Bob?

Doughton: About his sending a message now?

H.M.Jr: Yes.

Doughton: And requesting us to get right down and report out a bill in the immediate future?

H.M.Jr: Yes.

Doughton: I would just sum up that it would be construed by the country as a political move and we would be expected to do something in a way that we couldn't afford to take the responsibility for. I am ready to go to work any time in the proper way to carry out the understanding we had and the notice we have given to the public. He might send his message. I can't tell the President what to do.

H.M.Jr: No, he isn't --

Cooper: I do think this, that if he does send a message, if he is hell-bent on sending a message, I think it would be very fortunate if he not specify

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a definite date in that message by which time a bill has got to be passed. If he undertakes to set out in his message when he thinks the bill has to be passed, I think that would be going too far.

H.M.Jr: Listening to you gentlemen, I personally, if he asks my advice, would advise him to do nothing and put this in the platform.

Doughton: Which?

H.M.Jr: To sit tight for two weeks and then put this thing in the platform and then cite the various things that we have done on the resolution, and so forth and so on, but put it in the platform. What would you think of that, Pat?

Harrison: Well, I don't think that he will be satisfied with it. The President moves a little faster than you or I move and he thinks it is a smart thing to come to this Congress to get it before the people quickly. Nothing has been in the Republican platform about it and we laid it aside this time and didn't act and so his way is to come up there and get the ear of the country in a message. I would prefer to see him sit with his newspaper fellows and have some of them to ask him a question, "Well, how about your excess profits tax program?" "Well, the Treasury is bending every force with all of its experts to get up and prepare it and so is the Congressional Committee up there. They are working on it and I am very hopeful before we adjourn this session of Congress we will be able to pass an excess profits tax, a reasonable excess profits bill, before we adjourn." That is the way I would like to handle the publicity.

Doughton: The Treasury experts and the staff and your committee now are all cooperating.

Harrison: Let him brag on what we are doing.

Doughton: He can claim we are doing a good job.

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- H.M.Jr: There was nothing in the Republican platform on this, was there?
- Harrison: I don't think so.
- H.M.Jr: Get a copy, Tarleau.
- Paul: There was something of rather negative character in about two sentences.
- Doughton: If he is to send a message at all, he should just ask us to go to work and make it as easy as he can and not set a time if he wants it to clear itself, but that is something we are going to do anyhow.
- H.M.Jr: Well, give me a chance to talk with him at lunch. Don't let's say anything to the press this morning, see, because we haven't got anything to say.
- Harrison: I have certainly got nothing to say.
- Cooper: Now, what do you think, Henry? Do you think that he believes that Willkie is going to come out with some statement of that kind?
- H.M.Jr: No. You were asking me, and I just think he wants to beat Willkie to the draw.
- Cooper: That is exactly what I am getting at now.
- H.M.Jr: He just wants to beat him to the draw. I don't think he has any indication he is going to do it. Let's say if you sat there - I don't like to keep repeating it, but the best thing I know, he keeps needling him on it all the time. He keeps talking that he has been there since '33 and talked about these hundred families that sit in Wall Street and control fifty million dollars. He has been saying that since '33 and we haven't done anything about it. That is what started the conversation.
- Doughton: I understood that Willkie was not going to give his speech of acceptance until after the Democratic Convention. That would give

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us time to get this in the platform. There isn't any use of talking up in the air about that.

Harrison: Guy, you used to be a good grassroots farmer and politician. What is your idea about it?

Helvering: Well, I don't think we need to be in a rush to beat Willkie to it particularly unless he just takes the bull by the horns and does everything against you that the fellows are going to advise him. I believe if we get a strong plank in the platform which the President insists on being put in there, that it might be prefaced by such a statement that is useful to us. Knowing the administrative difficulties we have had under the old excess profits bill and in fact there were a thousand cases seven years ago that hadn't been settled and some are still not settled, under the way the old bill was written, I would like to have a pretty good definition of excess profits in this bill and the system by which it is to be administered.

Cooper: The thing that occurs to me now is, if he should follow the suggestion of Senator Harrison's about statements to the press or if it should be included in the platform, will that get as much attention of the country, as many people throughout the country know about it that way, as a message?

H.M.Jr: No.

Cooper: That is what I am thinking about. He is taking the most effective way to get it down to the people. Now, of course, there is not one person out of a thousand or maybe ten thousand that knows about these statements in our report.

H.M.Jr: That is right.

Cooper: They don't know about that. A comparatively small number of them may find out about this statement to the press and nothing like all

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of them will know what is in our platform, but if he comes out with a bold, direct, positive statement, a message that will come nearer to getting it home to the people than any other way to handle it.

Harrison: That is the most effective way to spank we fellows who have had the responsibility of carrying the burden up there and the most effective way of spanking the Treasury experts for their failure to be ready to do business when we considered it and the country has got to accept it. I am willing to accept it. I don't come up for two years and I don't know whether I will ever come up again, so it doesn't make much difference. But the President has got to protect his fellows up on the Hill, because what we did on this excess profits tax was to follow the advice of the President.

Paul: Couldn't the message be phrased so that that end of it would be all right and you were merely expediting the other program that you had already adopted?

Harrison: Yes, but I don't see any necessity for a message at this particular time. Everybody has forgotten about this thing. They think we did a great job and when you get that up, you have got the Connally Amendment up, too.

Doughton: There is this about it, Senator: If we jump into it now, in the next two or three weeks - there is no excuse in the world why you can't do the other bill. There is no reason why you didn't do it before, except that Willkie was nominated. Now you have got stage fright and jumped in and done the thing you said you weren't ready to do. Now they have scared you to death and you have jumped in, but you can do it now systematically and intelligently and you could have done it in the bill. Now they will say you are getting rattled already and have got the jitters. That will be the political reaction right there.

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- Harrison: You have got to make up your mind what course you are going to pursue, whether you get all corporations on excess profits or whether you just pursue the ones who make the big money and whether you want to follow the Canadian system or some other system. We have got to make up our minds. It looks to me like it wouldn't be difficult to get up the business.
- H.M. Jr: Bell just made a suggestion that has good common sense. It is fairly reliably reported that the President is going to have another message to Congress on more money for national defense. If that is true, in that message for national defense he could put a paragraph on excess profits and that would put it right in that message. That would be sound and logical.
- Bell: The two would go together.
- Paul: Here is the Republican platform.
- Cooper: What does it say, John?
- Sullivan: "Taxation. Public spending has trebled under the New Deal while tax burdens have doubled. Huge taxes are necessary to pay for New Deal waste and neglected national defense. We shall revise the tax system and remove those practices which impede recovery and shall apply policies which stimulate enterprise. We shall not use the taxing power as an instrument of punishment or to secure objectives not otherwise obtainable under existing law."
- Cooper: Is that all it says?
- Sullivan: That is all.
- Cooper: Excess profits are not mentioned at all.

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Bell: Not even by implication.

Paul: Rather the opposite.

Sullivan: Quite the opposite.

Doughton: All they do is criticize and never promise.

Cooper: And they voted for most all these bills we have passed.

Harrison: How much more money are you going to ask for?

Bell: I don't know what it will be. We will have to lay out a program for national defense.

H.M.Jr: I see Johnny Hanes is backing Willkie.

Cooper: He is?

Doughton: How is that?

H.M.Jr: I read according to Arthur Krock that Johnny Hanes was one of the principal backers of Willkie.

Doughton: I am not surprised.

Cooper: I am not either. He has never supported the President.

Doughton: The Democrats couldn't stand him. He is rather boastful.

H.M.Jr: Well, will you give me the rest of the day to see what happens, and then I will get in touch with you after lunch.

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Harrison: So far as I am concerned, I can give you the next month.

H.M.Jr: Well, give me the rest of the day --

Doughton: Whenever you say you are ready.

H.M.Jr: And then I will work today with these fellows and see what we can do.

Cooper: You have in mind that you may want us to drop by in the morning?

H.M.Jr: I kind of think so.

Cooper: All right. I think that would be best for you to have the rest of the day and see what you can work out.

H.M.Jr: Why don't we say --

Cooper: And let us know.

H.M.Jr: Why don't we say tentatively nine o'clock tomorrow morning? Would that be all right?

Doughton: It suits me.

H.M.Jr: Would that be all right?

Harrison: Well, I had just made an engagement at nine o'clock in the morning. There are some people who came here from Mississippi to see me.

H.M.Jr: Well, isn't that the easiest way to say no to them, to say you have got to be down here?

Harrison: I just left them, but that is all right, this can wait.

H.M.Jr: Well, I am not asking too much, am I, Pat?

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Harrison: No, no.

H.M.Jr: Then let's say tentatively nine tomorrow morning, and I will see what I can do and if I have got something - I have the idea that he ought to do one or two things, either hook it in with his - if he does send the message on national defense, hook it in there, or leave it for the platform.

Harrison: Well, before he sends this message, I hope he will know definitely the line that we will want to take.

Doughton: How was that, Senator?

Harrison: We ought to know definitely the line we ought to take on these excess profits. I think it is an unwise thing to send a message within a week, anyhow, because we are getting along pretty well now. We evolved this plan. I suppose the President knows who evolved it.

H.M.Jr: I have no suggestions from him to pass along to you.

Cooper: Stamm, I am right, am I not, on that question, one of the first things we have got to determine is the type and form of an excess profits?

Stamm: That is right.

Cooper: Whether it is going to be permanent or something temporary.

Stamm: In other words, whether you want to just get after these war profits or whether you want to make a permanent excess profits tax to get all excess profits, regardless of whether it has anything to do with the war or not. That, it seems to me, is the first big question we have got to settle. After we decide that, then we can decide these minor questions. That is the first hurdle we have got to cross.

Cooper: In other words, the question is this now,

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whether we want to provide to - regardless of the war situation, that profits shall be only so much --

Stamm: In excess of invested capital.

Cooper: In excess of the invested capital, just ordinary run of business. Here is a corporation that is making enormous profits in comparison with its invested capital. We have got to decide whether as a matter of permanent policy we want to provide for taking part of that money or whether we want to just confine it entirely to profits due to the war. That is the first big thing.

Harrison: Well now, fellows, there is this about it. They have nominated a very competent fellow for President. I have just come out of West Virginia and I heard - I heard a hundred Democrats say they were going to vote for Willkie, but that is the situation down there that is indigenous to the soil of West Virginia. John Lewis should dominate the state, and that naturally makes the fellow that has got a little money or a little business feel sore. They don't like it, so they are going to vote the Republican ticket down there, I think, and with that we will carry West Virginia because John Lewis is strong as horse radish. That is all right. I hope he will come out for Willkie so far as I am concerned.

H.M.Jr: I don't get that. They are against John Lewis so they are going to vote for --

Harrison: No, Hell, he is as strong as horse radish. He has got them all in the eyes, down there.

H.M.Jr: But he is against Roosevelt right now.

Harrison: But he isn't against this fellow Neilly. He is for Neilly and then the other crowd down there, the Republicans, I understand, the man they nominated for Governor has got the Lewis backing also. He dominates. But the fellows that I talked to, about a hundred down there, are not for Roosevelt. All the business votes in this country are not for Roosevelt. Of course, we know that. Now if we commence

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to piling up taxes exorbitantly high - how do they feel about it in New York?

Magill:

As far as I know, what they feel in New York is this, from people that I have talked to, which, of course, is not so very many: They all expect an excess profits tax and the ones I have talked to felt that what it amounted to was the sensible thing. They all know it is a competent committee, and they think what the committee did was wise. There are two or three ways to figure it. The point that you make, Senator, there are a lot of them that are greatly worried who are in businesses that haven't anything to do with airplanes or cannons or anything else, as to whether you are going to stick on some kind of a tax which will add to their already heavy burden of the corporation tax and I think they think two things, first that they are pretty sure to have an excess profits tax of some sort and second that they think that you are wise in giving yourself time to work it out. It would have been a mistake to have shot it through here the last couple of weeks.

Doughton:

What would you think of having an excess profits tax purely for national defense? If that is settled, then we can determine later whether we want a permanent excess profits tax or not. Senator Harrison was very appropriate when we met here before, and we all feel in line with his position, that we talked about a war profits tax and that was not basing it - we wouldn't alarm the country about war. If we are talking about a war profits tax now, it will just accentuate the feeling that we are going to get in the war. If we have a tax for national defense - they are all against war. If we have a war profits tax, which, as you said here before, it would look too much like we are headed and determined and our purpose and policy was that we are going to get in the war by sending our soldiers abroad and that is the most dangerous feeling that can happen to this country.

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- H.M.Jr: There was one suggestion just thrown on the table this morning, that they extend the Vinson-Trammell Act to all Government contracts, which it doesn't apply to now, and that would take care of the war profits.
- Sullivan: That takes care of the war profits right there.
- H.M.Jr: Just say that the Vinson-Trammell Act should apply to everybody who gets a contract for the Government.
- Harrison: I think that is a good thing. I don't see why the President can't do that anyhow, can't he?
- H.M.Jr: That would take care of anybody who has a contract with the Government, would limit them to 8%. It is not true now. There are a lot of exemptions. That would just apply to the Vinson-Trammell and apply the Vinson-Trammell to all of it.
- Cooper: To my recollection, the original Vinson-Trammell Act was 10% on battleships and so forth and 12% for airplanes.
- Sullivan: Those are the only two things.
- Cooper: Ten percent for battleships and 12% for airplanes?
- H.M.Jr: Now they have dropped it to 8.
- Cooper: And now then, in this bill we passed a few days ago, which hadn't yet been reported by the Senate Naval Affairs Committee, that changes the situation though. It provides for 7% and it provides for some sort of a fee arrangement.
- H.M.Jr: The one I thought passed was 8%.
- Sullivan: Seven percent of the contract price and 7.53 of the cost.
- H.M.Jr: Something like that, which would apply to everybody who gets a contract from the Government, just the way the Walsh-Healey Act applies to everybody that has a Government contract. The Walsh-Healey applies to everybody, doesn't it?

- Sullivan: That is right. That would effectively take care of anybody who is making profits out of Army or Navy contracts, without touching the fellow Senator Harrison spoke of, who is having a good year in no way related to war.
- Paul: It wouldn't do the whole job. The whole job, as far as war profits are concerned, will be done after a model of the British or Canadian one, whereas an excess profits job is one in the nature of the one we had in 1921.
- H.M.Jr: What I was thinking of was this, to make Vinson-Trammell apply just the way the Walsh-Healey does, to all Government contracts, and if there is a bill pending, you could amend that and then we have taken care of war profits and then the President could put in this plank in his platform, that Congress is studying this thing and sometime between now and the first of October we will bring in a report on excess profits, so we have done something right away. We are discouraging the munitions manufacturer who might want a war and all the rest of that stuff, because he could make fat profits. We have spiked that, and the other thing, we are going to do a job and lay it down in the platform and so forth.
- Paul: I quite agree with you there, Mr. Secretary, but I merely wanted to point out that that doesn't quite take care of war profits because there must be a lot of concerns that supply to these people who are named in the bill who are making extra sales.
- Sullivan: All such contractors are covered.
- H.M.Jr: Under the Walsh-Healey --
- Sullivan: Under Vinson-Trammell.
- H.M.Jr: But under Walsh-Healey, everybody is covered who supplies, aren't they?
- Sullivan: What Mr. Paul is talking about is a sub-contractor, and they are covered in a year if they have more than \$25,000.00.
- Stamm: It wouldn't cover foreign governments, though, would it?

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- H.M.Jr: Yes, because under the new Act - this famous so-called Ford contract, the arrangements we are making now because the manufacturers complained so that our rearmament was dragging because it was more profitable. We have got the English Purchasing Commission to agree that from now on they will have all their contracts come under the same rules and regulations as ours, you see, and I think they are going to do that. I mean, I think they have come to a partial agreement that the contracts which they make from now on - for instance, they want a tank or an airplane engine out of the same factory that we are getting ours. They are going to let the Walsh-Healey, Wages and Hours, and Vinson-Trammell apply, the whole business, so it will be uniform. What they say is, if a fellow is making an engine for an Englishman he can work time and a half or double time, and they can pay him and they will leave our work to go across the aisle to work for the French engine. So that will take care of that.
- Harrison: The next big program we are going to have on our hands is to stop this so many hours stuff during this war.
- H.M.Jr: Fortunately, that doesn't come through Treasury.
- Cooper: Well, unless we hear from you to the contrary, we will be here at nine in the morning.
- Harrison: Now, Henry, along that line, do you think the President has got authority enough in the law now on all Government contracts that the Government makes, whether they are Navy construction or Army cantonments or what it may be, to fix an excess profits tax?
- Sullivan: No, he has not. He has no authority at all except under the present law - except on Naval vessels and Army and Navy aircraft.
- Harrison: That is all he has got?
- Sullivan: Those are the only things subject to profit limitations under the Vinson-Trammell Act at the present time.

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Bell: The Secretary's suggestion was that you get legislation.

H.M.Jr: I understand the legislation is pending.

Sullivan: That is right.

H.M.Jr: It is pending.

Sullivan: That is right, but it is pending only on the reduction of rate. There is no --

H.M.Jr: He could amend that - at least he could ask Congress to amend it.

Cooper: That is true.

Sullivan: Correct, all Army and Navy contracts.

H.M.Jr: And that wouldn't be slapping the Treasury or you gentlemen on what you have done.

Sullivan: That is right.

H.M.Jr: And then he could put the other thing into his platform. What do you think, Guy?

Helvering: That is good.

Harrison: Well, I think that is all right. I think it is better than a message to Congress unless he wants just to bring it before the public right now, and I think we ought to get to work and do these things right away.

Magill: He could even do this in a message, I suppose. He could say, "I would like to see this done in the extension of this other Act with respect to war profits."

"The Ways and Means and Finance Committees have agreed on a general excess profits tax, and we expect to see that around October."

Helvering: We have got to keep in mind that business and every place is demanding to know what they are going to get on excess profits.

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- Stamm: They want to know what the rates are going to be.
- Cooper: All right, unless we hear from you to the contrary, we will be here at nine in the morning.
- H.M.Jr: Thank you.
(Mr. Cooper, Mr. Doughton, Mr. Harrison and Mr. Stamm left the conference.)
- H.M.Jr: Could you (Sullivan) fix me up a little portfolio indexed for the public, the platform and --
- Sullivan: I can give that to you on one page.
- H.M.Jr: What I was thinking about is this, and we will talk a little bit later here. I am sure the President doesn't know what the status of the Vinson-Trammell is, see, what it applies to and where the bill is and if he read - I am just thinking out loud and you people can argue back to me. The way I took it is, if he made the Vinson-Trammell apply to all government businesses, just as the Walsh-Healey does, plus the fact - and I think this would be popular - that any orders from any foreign Governments, munitions, should also have to come under those provisions, I think that would be a popular thing to do.
- Sullivan: I don't see the desirability of having the foreign orders come under the Vinson-Trammell Act.
- H.M.Jr: Why not?
- Sullivan: Well, we have been the beneficiaries of a tremendous plant expansion at the cost of foreign orders.
- H.M.Jr: That is all right, but we have worked out a new formula whereby that day is over.
- Sullivan: Why should we limit the profit our own manufacturers can make on a British contract?

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- H.M.Jr: For the same reason we do on our own.
- Magill: Wouldn't it be for the reason the Secretary gave a minute ago, if they make twice as much money building planes for the British, that is what they are going to do?
- Sullivan: No, you still control it by your export license.
- H.M.Jr: This new formula which we worked out - after all, what we do - to take a minute, for instance on this question of engines, the RFC advances the money for the machine tools and the plant if it is necessary. In nine thousand engines, we take three and they take six. We proposed to pay all the money and then they pay it back to us, as each engine is manufactured, so much over the life of the contract. Under that program, that is a great break for the English because they don't have to put up this capital, which they did, and if they are coming in under that, they should also come under this social legislation. After all, we are talking social legislation here. Let's call a spade a spade. Let's put it in just for a minute, Sullivan, and if after talking it over these fellows want to rule it out - but it seems to me from what I have listened - and I have listened to Mr. Knudsen complain that he can't get the production because the foreign orders are more profitable. Now, to be entirely sincere, they should not be any more profitable if we are going to give them a break and help them finance. They shouldn't, and they are not going to put up any more capital. We are proposing to do that, and if they want a tank, the only tank they get is a tank which is acceptable to the United States Army. We have got to give certain companies money to expand. All right, we will go fifty-fifty or twenty-five seventy-five and they roll right along with our production from now on, but we are going to put up the money and finance the plants, so what you sweated for six months ago is a closed chapter.

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Sullivan: Swell.

H.M.Jr: But the question of depreciation and all that is just the same. We can't change that. We have got Mr. Knudsen and his whole gang convinced that that stays as it is. The contract is finished just the way you had it. It is no different. The man has the choice of buying the plant or demolishing it and taking the loss. The only difference is RFC is putting up the capital instead of the English.

In the room here, I thought the thing out in order to make their money go further.

Have I sold you?

Sullivan: Yes.

H.M.Jr: Where was I? I am just arguing out loud. Vinson-Trammell and then in that, the Wages and Hours, Walsh-Healey, all of those things, would apply to all manufacturers who are manufacturing munitions, whether it is domestic or foreign. What do you think of that?

Paul: I am pretty unfamiliar with that, but it sounds very sensible to me.

H.M.Jr: In other words, a man can work 50 hours for the English and work 42 for us.

Paul: I don't see why the British or any other foreign order shouldn't be subject to the same social legislation as our domestic.

H.M.Jr: And I think it would be very popular.

Paul: I think so, too.

H.M.Jr: And it will impress the social front. I can call a spade a spade here. Then in his message, this message, he - or he could say at present that the Democratic platform will express the will of the party in regard to excess profits.

- Paul: There, Mr. Secretary, I would like to back something that Ros has just said, which I think he is a good expert witness on the general tone of business toward excess profits. I think they practically discount it. They expect it. They are not going to be horror stricken. What they want to know is, what is it going to be, where do they start, can't they make it certain? That is the big argument in favor of expediting that legislation.
- H.M.Jr: Well, are you arguing that we should do it --
- Paul: No, I am arguing in favor of a general expedition, with due regard to the protection of those in Congress who passed the last bill and the Treasury. In other words, I am trying to get that October date forwarded as much as possible without ruining anybody in the process.
- H.M.Jr: What I would like to have when I go to lunch is what we have done, what these resolutions are, what the Republicans have done, and then something along this line if you fellows agree, and then say to the President, "I haven't sat down with you. I don't know whether you want to do it the way the World War was done or whether you want to do this thing - tax everything above--"
- Magill: May I say there, I think it would be foolish to try to specify that matter in detail in the Democratic platform. There would be a great deal of will to do so, but I think it would be a great mistake to say that we, as a party, believe in this kind of an excess profits tax. Hell, you're not going to know by July 15th.
- H.M.Jr: Why not?
- Paul: Well, you can be at least in favor of that, can't you, Ros?
- Magill: In favor of what?
- H.M.Jr: One school or the other.

- Magill: Oh, I say --
- H.M.Jr: One school or the other. There are only two routes on this thing.
- Magill: There are really three.
- H.M.Jr: What is the third?
- Magill: You see, Senator Harrison's idea is, you might characterize it, this Vinson-Trammell legislation stopped there, as I get it, apply it to war profits and nothing more. The other school would be to apply it generally to any concern which is making more money than its average profit for the last three years, or something of that kind.
- Sullivan: Mr. Paul suggested to me a few minutes ago, because so many people will be going back to work in war industries, merely limiting profit on Army and Navy contracts doesn't cover it, because on account of this reemployment and new stimulant to business, all business will take an upsurge.
- H.M.Jr: But look, the way I look at it is this: Let's take any store. Let's take a department store. Let's say it is one of the biggest in town. Bridgeport in the last World War, I think, jumped from 50,000 to 250,000 and a fellow in a town of 50,000 and it grows 5 times within a year, that man's business grows 5 times as much. Well, don't we want to get his profits --
- Sullivan: We do.
- H.M.Jr: I say yes, but it is the by-product of this rearmament program.
- Paul: Well, Mr. Secretary, I would like to make one point clear. Let's get clear in our minds this issue. The case you mentioned is a clear case of the marginal war profits. They are war profits. They are suddenly created by a peculiar emergency situation but an excess profits tax of the old type would do more than that. It would dig into

the profits, say, of a concern like General Motors, which has been prosperous for years. Now, a true war profits tax as distinguished from an excess profits tax probably wouldn't touch General Motors.

Sullivan: That is right.

Paul: An excess profits tax of the old type which was meant to apply just to excess profits and not merely war profits would dig into a lot of the most prosperous concerns today who have been making large profits with relation to their invested capital.

Magill: You also get it the other way around. Perhaps we are digressing too much from your particular thoughts here.

H.M.Jr: No, I have got enough for today.

Magill: Take your Bridgeport situation. There is this kind of a thing. You have got a contractor in Bridgeport who has been making 10,000 dollars a year profits. Bridgeport suddenly expands on account of war industries and so forth and this contractor makes 50,000 dollars. However, you find that his invested capital also went up five times so that if you examine his rate of return on the so-called war profits, as compared to rate of return in peace time operations, you find they are just about the same, that he is making 6% or something. That kind of a fellow, I think, on the whole it is your small fellow who is going to be caught very much heavier by this average earning scheme of the British and Canadians than by the invested capital.

H.M.Jr: Look, gentlemen, you are now getting on a field where I want to sit down after you people have sort of cleared your own minds, if you could have a meeting, and it will take maybe several days to pump the thing into me.

Paul: I don't think it will take very long.

H.M.Jr: The point is to get a sort of meeting of the

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minds as to -- I don't think there is any disagreement here if I should say to the President, "Now look, in view of the way Harrison and Doughton and you people feel, I think the thing to do is to hit this real war profits on Government profits at once, and you can do that. We can get a message up for you in connection with this thing, this -- another national defense bill. I think that is good. Then at the same time we could say, 'Now in the platform we are going to say so and so,' and by that time we will be ready, I believe, to make the recommendations I stated."

- Magill: Why doesn't he do the other thing too, go a little more than half way and tap these boys on the back for handling the excess profits tax in this way, if he can?
- Paul: Even in this message he could say --
- Magill: Get a little unity between the Executive and Legislature, if you can. That isn't a new thought, I daresay.
- H.M.Jr: How long were you here? How many pats do we get on the back? Both of the pats went some other place.
- Magill: This is 1940, though.
- H.M.Jr: You are right. That is why I think he will listen to me at lunch.
- Sullivan: If the war contracts are definitely going to be made, this takes the heat off.
- H.M.Jr: I think so, and we can be a little bit sensational in the statement and say the way to keep this country out of war is to make it unprofitable.
- Sullivan: I don't believe that is a true statement. Whether we are going into war or staying out is going to be due to things beyond our control.

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H.M.Jr: Well, the old conception of the munitions manufacturer is the large schemer who plots us into the war. And there are a lot of people who think that, isn't that right?

Sullivan: I don't think so.

Paul: I don't think there are many any more.

Sullivan: Now we are relying on those fellows --

Magill: Anyway, we all agree that is the place to start.

H.M.Jr: Can't you between now and ten minutes of one be back in here with something on a couple of sheets of paper for me?

Magill: Sure.

H.M.Jr: And then I will take that and when I come back I will report what luck I had.

Sullivan: We will be watching out the window and I hope you are smiling coming across the street.

Magill: I think the other point you mentioned there, I think there are three sides to this, as I see it. Vinson-Trammell, a message on that. Expand, et cetera. Something in the platform, press statement, Ways and Means Committee and Finance have agreed on this program, swell idea. I hope it is.

H.M.Jr: Well, if you could give me something at ten minutes of one, I would appreciate it.

More swiftly than ever the stupendous changes of a world at war come rushing on us, forcing a continual reexamination of our national program of preparedness. Developments since the Congress concluded its deliberations on the Revenue Act of 1940 clearly indicate that immediate attention needs be given to a problem which we all have felt - Congress and the Executive alike - must sooner or later be faced. That is the problem of making sure that it will be impossible for any individual or any business concern to be enriched as a result of our national defense expenditures.

Appropriations already made by Congress for defense purposes, large as they may be, will have to be substantially increased in order that the defense program may proceed quickly and effectively. These defense funds must be poured through the channels of industrial production at tremendous speed. In the process, however hard we may try to prevent it, some persons and some business concerns will make greater profits than they should.

We have no quarrel with business receiving a reasonable return on its investment. We know that such a return is one of the foundations of a system of free enterprise in a democracy. But we cannot stand by and see a few specially privileged persons and business concerns reaping large profits from the labor and the sacrifice which our people are cheerfully making to achieve the security of their country. A time of sacrifice for all should be a time of enrichment for none.

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I have heard it said that businessmen will not undertake the task of supplying equipment for defense without large profits. I do not believe that to be true. Businessmen are as patriotic, as anxious to do their part and as willing to make sacrifices as are the rest of our people. As always, however, there will be a few who will try to take advantage of this great national effort. We must not let them do it.

The people of this country are united in a firm determination to achieve a swift enlargement of our defenses. Every element of our population is being called upon to contribute to this end. Last week, I signed a bill which will raise approximately one billion dollars a year for five years in increased taxes. This new tax law enlarges the opportunity and the obligation of every American, whatever his economic or social condition, to share in the burden of perfecting his country's defense. I congratulate the Congress on the speed and unanimity with which all groups submerged their differences and passed the bill. It is an example of that prompt and cohesive action of which an aroused and vital democracy is capable.

I have no criticism to make of the fact that the tax bill which I have just signed did not contain an excess profits tax. An excess profits tax law must be complex to fit the complexity of our economic life. It is important that such a law be carefully drawn to avoid inequities, repressive effects upon business, and

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wasteful litigation. Time and study are necessary to achieve this result.

The appropriate Congressional Committees have recognized this. They have instructed the Treasury Department and the Congressional experts to prepare a plan of excess-profits taxation. I am informed by the Treasury Department that its studies are under way and that the instructions of the Congressional Committees will be carried out promptly. I have asked the Department to accelerate its efforts and to conclude its preliminary work with all possible speed. I urge upon the Congress the increasing desirability of providing for immediate consideration of the Treasury's studies as soon as they are submitted. The additional appropriations imperative for national defense will increase still further the danger of excess profits. At the same time, we must have businessmen moving forward, making commitments, building plants, installing machinery, and turning out the equipment at the time and in the quantities necessary. It will help them to do these things at the lowest cost to the Government if they know at the earliest possible moment what their taxes are going to be.

There is another side to the excess profits problem which should not be neglected. The additional revenue required to finance the defense program ought to be received from those sources

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which represent the greatest ability to pay. Moreover, the revenue measures we adopt should not repress industry and thereby slow down production. The excess profits tax is an equitable tax. It is more than that - it is a measure to correct inequity. It is also a non-repressive tax. By levying only upon excessive profits we do not interfere with those gains that are necessary to encourage the taking of risks, the building of plants and the promotion of production.

It may be suggested that we have already taken care of the problem of excessive profits by means of legislation limiting profits of concerns which sell ships and aircraft to the Army and Navy. Such is not the case. The existing provisions of law limit profit in only a restricted field. Moreover, it is not enough to single out certain industries dealing directly with the Government. It is essential to cover all industry with general provisions.

In imposing excess profits taxation we want to tax only real profits. We do not want to tax apparent profits that turn out to be losses. Many businessmen point out that the capital they invest to carry on production for the defense program may become of little value when that program has been completed. I think we should assure those businessmen that adequate provision will be made for deducting bona fide costs and losses on plant investment and inventory in computing profit.

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The early passage of an excess profits tax law is a vital part of an adequate national defense program. Such a tax is inseparable from that program. We must do more than organize our military and naval and air defenses. We must organize our economic life to the end that it will be impossible for the few to grow rich from the sacrifices of the many. That is the only kind of economic life which is worth defending.

RE EXCESS PROFITS TAX

July 1, 1940
12:00 Noon

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

H.M.Jr: For your own confidential information, I brought in Mr. Michaelson and Mr. Mellett and asked them for their advice. They all agreed that the position I took, and also Mr. Gaston - while I was talking, Mr. Roosevelt called me up and said he just got through talking to the legislative leaders and they all advised that it should go up at once and he was writing it now and it was going to go, so I used everything I had in my barrels. Herbert heard me. I said people would think he was scared. Could I have been any more forceful?

Gaston: No. He said he talked to the legislative leaders?

(Mr. Foley entered the conference)

H.M.Jr: Well, that means Barkley and the Vice President and Sam Rayburn. So, without anybody seeing it - I said the President called me up and told me he was writing out a paragraph on excess profits and was going up on the Hill. I used everything I had and Charlie Michaelson was here and Lowell Mellett was here and I asked them while the President called me, and they agreed with the position I took. It was a great mistake at this time to do it.

The President said the legislative leaders were here this morning and they think this is the time and he was going to do it, and so that is that. Now, here he has had the advice of my own people, myself, plus Lowell Mellett, plus Charlie Michaelson.

Bell: Plus the three --

H.M.Jr: I told him.

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Bell:people who have to handle it.

H.M.Jr: Right. And I told him they absolutely were opposed to it. And Gaston, of course. He said, "That is that; we are going to do it." Herbert was here. He can tell you how hard I fought. So I have got to call up Harrison and Doughton and Cooper and tell them it is coming.

Gaston: You fought to be allowed to tell your story. You had to repeatedly beg him to let you go on and tell what had been suggested.

Bell: When is it going?

H.M.Jr: Right now.

Bell: I am just wondering if you called Harrison and Doughton, they might get Rayburn and Barkley and --

H.M.Jr: I am not going to do it. I am going to be a gentleman. I have got to tell them that the God damned thing is coming, get them off the Floor.

Bell: I think you have got to tell them.

H.M.Jr: I have got to tell them that I did everything possible. I am going to tell them that I brought in Charlie Michaelson and Lowell Mellett and they agreed with me and he overruled me and he is writing something which I have not seen.

So I said to the President, "What kind of an excess profits do you want?" He said, "Oh, that is easy." I said, "Maybe you think so. I don't know what kind you want. We have got to do something now. My God, people will say, 'If you had to do it today, why didn't you think of it last week?'"

Foley: There is only one answer to that.

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H.M.Jr: The only answer is Wendell Willkie.

Foley: That is right.

H.M.Jr: That is the answer and that is what everybody is going to say, and if you don't think that Mr. Wendell Willkie has got a bunch of the smartest publicity people in Mr. Roy Howard and his whole chain and Mr. Bruce Barton and Mr. Johnny Hanes and that whole crowd, if they don't know how to handle the papers, plus every columnist, plus every radio commentator in the United States - every single one is on his payroll, or at least the same as on his payroll. They are pushing his merchandise.

Gaston: Walter Winchell did last night.

H.M.Jr: But every radio commentator, every newspaper commentator, every columnist that I have been able to see - it is the God damndest thing I ever saw. They are going to laugh. I am glad that Gaston was here and I am glad - tickled to death that Lowell Mellett and Charlie Michaelson were here because certainly you couldn't get two more hundred percent Democrats, could you?

Sullivan: Three.

H.M.Jr: Well, Gaston is part of my family.

Sullivan: No.

H.M.Jr: I mean, as outsiders.

Sullivan: I am afraid that it is going to be interpreted that he has been stamped.

H.M.Jr: As long as we have it today, I am going to lay it on his desk. The man he has put in charge of coordinating South American - here is a list of the stuff. Brazilian Traction and Light, and so forth and so on. About 500 million dollars of merchandise they have sold.

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Bell: All in default?

Gaston: That is Forrestal.

(Telephone conversation with Senator Pat
Harrison follows:)

July 1, 1940
12:03 p.m.

H.M.Jr: Hello.
Operator: Do you want to get these people from the Capitol off the floor? They're just convening now.
H.M.Jr: Yes. It's urgent.
Operator: Right.

12:05 a.m.

H.M.Jr: Hello.
Operator: Senator Harrison. Go ahead.
H.M.Jr: Hello.
Sen. Pat Harrison: Yes, Henry.
H.M.Jr: I'd like to shoot as straight with you as you always do with me about -- and this is between the two of us, please.
H: Yeah.
H.M.Jr: About twenty minutes ago Mr. Roosevelt called me up and told me he'd just concluded a meeting with what he calls the Big Four and they were all in complete agreement with him that he should immediately send up a message on excess profits.
H: Yeah.
H.M.Jr: I pleaded with him; I did everything that I could to stop it; he wouldn't listen to me.
H: Why, that's all right, Henry.

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H.M.Jr: Now I want you to know I have not seen it.

H: I understand.

H.M.Jr: I don't know what's in it

H: Well, they announced up at the White House this morning that they were going to send a message in.

H.M.Jr: Well, I've not seen it and I've played a hundred percent square with you.

H: Oh, I know that. Well, that's all right, Henry.

H.M.Jr: I'm sorry.

H: That's all right.

H.M.Jr: O. K.

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H.M.Jr: And he said they announced they were going to send a message.

Gaston: He said they announced it at the White House that they were going to send a message up.

H.M.Jr: On this thing?

Gaston: He didn't say. I suppose so.

H.M.Jr: (To Lieutenant McKay) Ask Mrs. Betts if anything came over the ticker that the White House is going to send a message up on taxes this morning. Here it is, 11:31.

Gaston: 11:31?

H.M.Jr: That was out before he called me. This was out on the ticker before he called me.

Bell: Well, there wasn't much use arguing, then.

Sullivan: Pat says he moves pretty fast sometimes. Remember he said that this morning?

H.M.Jr: Why call me up and go through the motions of asking me? Here it is, 11:31.

Gaston: He called you up to tell you before you read it from the ticker.

Sullivan: I wonder when that message will go up? Today?

Gaston: It is probably up there. They meet at noon, don't they?

H.M.Jr: What time did the President call me, about a quarter of 12:00. wasn't it?

Gaston: About twenty minutes of 12:00.

(Telephone conversation with Congressman Doughton follows:)

July 1, 1940
12:07 p.m.

H.M.Jr: Hello.

Operator: Congressman Doughton. Go ahead.

H.M.Jr: Hello.

Cong. Robert Doughton: Hello, Henry.

H.M.Jr: Bob, after you left here the President called me up about a quarter of twelve and told me he was going to send this message.

D: Well, Sam Rayburn just told me he told him that this morning before he sent it up to the -- before the House adjourned.

H.M.Jr: And I did everything in my power to try to dissuade him.

D: Yeah.

H.M.Jr: And I was a hundred percent unsuccessful.

D: How's that?

H.M.Jr: I was a hundred percent unsuccessful.

D: Yeah. We'll just have to do the best we can about it.

H.M.Jr: Well, I tried every way I knew how to stop him.

D: Well, will it be necessary for you to have that conference tomorrow morning or is that off now?

H.M.Jr: Well, I'm seeing the President at lunch. I don't know what he's going to say. I'll see.

D: Uh-huh. Well, of course, after we read his message I think that -- after we hear his message why it might be a good idea for us to have a conference again.

- 2 -

H.M.Jr: Well, I don't know what's in the message and the Treasury has got nothing to do with it. I don't know what's in it.

D: Well, I see.

H.M.Jr: I haven't seen it -- he's writing it himself.

D: Well, if after his message is delivered and you see him, if you want us, why you let us know. And if we want you, we'll let you know.

H.M.Jr: Well, that's fair enough.

D: Is that fair?

H.M.Jr: That's fair.

D: Yeah, and if we -- and if you don't call us again why, there's just no use to come down tomorrow morning, is there? You let me know later in the day if you want me to come.

H.M.Jr: I'll let you know.

D: And if you don't call me, if I think we want to see you, I'll let you know.

H.M.Jr: O. K.

D: Fine. Thank you.

H.M.Jr: Thank you.

D: Good-bye.

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Bell: That wasn't a bad message the boys cooked up over the week-end. I think it is pretty good.

H.M.Jr: Isn't that a swell fellow to put in charge of South America? He ought to see his testimony before - on how he evaded eight or nine hundred thousand dollars taxes through two holding companies.

Gaston: Forrestal?

H.M.Jr: Yes.

Gaston: Did he have a good system?

H.M.Jr: He paid no taxes and they never did anything about it. I mean, I wish I had seen this thing before the President called me up. We had been sitting here quite a while - after all, I saw you at 11:30.

Gaston: You had had time enough --

H.M.Jr: I saw you on the dot at 11:30.

Gaston: You had had time enough to tell us of your conversation with Harrison and Doughton and what you had proposed.

Bell: That was Mellett and Michaelson who were there?

H.M.Jr: Yes.

Gaston: You were just about to ask their opinion on the thing.

Bell: They hadn't had time to reply.

H.M.Jr: We were talking at least ten minutes. I mean, if they gave me anything on the dot at 11:30 - this story breaks at 11:31, then the President calls me up and tells me this and sure there is no use in arguing with him.

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Gaston: I went into Mrs. Klotz' room and met Charlie Michaelson and stopped there about a minute and you came in.

Bell: Well anyway, it took some time to get on the ticker. It had to be out before 11:30, five minutes or so.

H.M.Jr: Rayburn announced the plan when the hour-long meeting was up.

Sullivan: Barkley must have had some fun subscribing to that.

Bell: Is Garner so friendly to this?

H.M.Jr: If he is, I have never seen it.

(Telephone conversation with Jere Cooper follows:)

July 1, 1940
12:15 p.m.

H.M.Jr: Hello.

Operator: Congressman Cooper. Go ahead.

H.M.Jr: Hello.

Jere Cooper: Hello.

H.M.Jr: Jere.

C: All right, Henry.

H.M.Jr: I just thought I'd tell it to you with my own lips. The President called me about a quarter of twelve to discuss excess profits, but it all had been decided. I pleaded with him the best I knew how not to send the message up but evidently he decided this morning with Sam Rayburn he would.

C: Well, is he sending it today?

H.M.Jr: So I understand. It's on the ticker and that's what he told me. Now I don't know what's in the message -- he's writing it himself and we've got nothing to do with it.

C: I see.

H.M.Jr: But I just wanted to let you know that I played square with you.

C: Well, I knew you'd done that but I sure appreciate your telling me, Henry.

H.M.Jr: The President called me up. He said, I'm going to write the message myself and I'm going to send it up at noon. So I don't know any more what's in it than you do.

C: (Laughs). All right. Well, we'll do the best we can.

H.M.Jr: And I tried my damndest to keep him from sending it.

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C: Well, I know that. I appreciate your kindness, Henry, and then you won't want us there at nine in the morning.

H.M.Jr: Well, I don't know what we'd discuss at nine in the morning.

C: Well, in other words, I'll just wait/^{and}unless I hear from you further I won't come over.

H.M.Jr: O. K.

C: All right.

H.M.Jr: Thank you.

C: Good-bye.

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H.M.Jr: I am not going to have these fellows not
talk to me for two years more.

July 1, 1940

Memorandum for the Secretary.

From Mr. Gaston.

McKay called me at 11:20 and said that I was wanted in your office at 11:30, that Charlie Michaelson and Lowell Mellett were coming and they were to wait in Mrs. Klotz' office.

I went to your office at 11:20, spoke to McKay, and then went into Mrs. Klotz' office and said hello to Charlie Michaelson and talked with him for perhaps two minutes when you came to the door and invited us in. Lowell Mellett had just come up on the elevator. We went into your office.

You said that you had called us in to ask our advice on the President's proposal to send up a message on excess profits taxes. You had just had Harrison, Doughton and Cooper in and some others that you had called in and all of them had agreed that it would not be wise for the President to send up such a message. They proposed as an alternative this plan: The Vinson-Trammell Act, limiting profits, now applies only to ships and airplanes. An amendment to it is now pending on the Hill. It could be amended so as to limit profits to 7% on all Government contracts and there could be legislation applying the same limitation to the contracts of foreign Governments. It has already been announced that we are to work on an excess profits bill to apply to 1940 profits and our position on excess profits could be made clear by a statement in the Democratic Party platform.

Just then you were interrupted by a White House phone call. The President came on the phone immediately. You listed for a moment and then said that you were talking about that right now. The President continued talking and you asked if you might be permitted to tell what you had done. You said that you

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had talked to the Chairmen of the two Committees, members of their staff, and your own advisers in the Treasury. They all thought it would be a mistake for the President to send up a message at this time advocating excess profits taxes; that it would be taken as an indication that the President was scared. Here the President interrupted and you asked again for permission to continue.

You explained that the joint suggestion of all those to whom you had talked was that the Vinson-Trammell Act, an amendment to which is now pending, should be further amended to apply to all Government contracts instead of just ships and airplanes, and that the same limitation on profits should be applied to purchases by foreign Governments. You said that the Committee leaders were very much against an excess profits tax bill at this time. They thought it would be a great mistake.

You then said you had Charlie Michaelson, Lowell Mellett and Herbert Gaston in your office, that you brought them in to ask their advice, but that you had not had a chance to ask them. You asked the President to permit you to ask their opinion and you then asked Michaelson what he thought. Michaelson said he agreed with you, that the place to go on record was in the platform. You repeated to the President that Michaelson agreed with your other advisers and was against what the President proposed to do, and you then asked Lowell Mellett what he thought. Lowell said he would not worry about the general public, but crossing up the leaders was serious and so he thought the President's plan a mistake. You reported this to the President, listened to a few words from him, and then hung up.

You said it was too late; that the President had made up his mind; that he had written his message and that he was going to send it up. He said he had talked to the "four leaders" and they all agreed it was the right thing to do. I asked who the four leaders were and you named Garner, Barkley and Rayburn. You said Garner was probably responsible for this as he was constantly needling the President on this subject.

oOo-oOo

July 1, 1940
2:30 p.m.

RE EXCESS PROFITS TAX

Present: Mr. Bell
Mr. Gaston
Mr. Magill
Mr. Paul
Mr. Sullivan
Mr. White
Mr. Foley
Mrs. Klotz

H.M.Jr: Here is the situation. I need some advice. I went over to see the President - this is all in the family - and when I drew his attention to the fact that it was out on the ticker ten or fifteen minutes before he told me, he just threw back his head and howled. He thought it was the funniest thing he had ever heard of. So I said, "Mr. President, what kind of an excess profits tax do you want? I never discussed it." "That is right," he said, "I haven't got the slightest idea. Can you fix up something and talk to me so you will be ready in a couple of weeks?" I said, "Have you got any ideas?" "Not the slightest idea." So I said, "My own advice to you, I would let Pat Harrison and Doughton cool off a little bit." He said, "That is a good idea." "Then do you want to see us all?" "Not on your life," he said. "You think the thing through, and when you have got something, come on over and talk the thing over and after you have agreed, we will see Harrison and Doughton, but take a couple of weeks."

Bell: And the message is not going in?

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H.M.Jr: The message went.

Magill: It had done gone.

H.M.Jr: It is out. The only sympathy I got over there was when I stopped in to see Steve Early at one o'clock. He said, "Why tell me? I didn't see it until it was out on the ticker."

Magill: He must have written it out in long hand.

Sullivan: Mr. Doughton tried to get you and wanted you to be sure to call him. He is very much disturbed because it includes individuals.

H.M.Jr: Also tobacco twist?

Sullivan: No, individuals. He says we take 79% of them now and the state takes another crack at them and we will have the country all up in arms.

H.M.Jr: Well, let me ask - I will start with Randolph Paul. We will treat him as the man on the street. I have got to see the press in 23 minutes. They are going to just be on my neck. Supposing you read in the paper tonight or tomorrow that when the Secretary of the Treasury was asked about the President's tax message, he said he had no comment. What would your reaction be?

Paul: Well, I wouldn't think that was the most fortunate way to answer them. I would say that it was premature to talk about the bill or something like that, and I don't see how you can say you have no comment. You will just have to say why you have no comment.

H.M.Jr: Can I say we are not ready?

Sullivan: No.

Foley: We will work the thing out.

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H.M.Jr: What would you say, Mr. Magill?

Magill: I would say something of this general order. Mrs. Klotz can polish it up.

H.M.Jr: I am sure she can polish it up.

Magill: She has got 20 minutes to polish it up. What is she waiting for? I would say something to the effect that the country has expected an excess profits tax, business has expected an excess profits tax, the Treasury has expected an excess profits tax. I myself have been working on an excess profits tax for a year, and so have our technicians. There are a lot of difficult problems, but as usual, the Treasury, as I have often said to the committees in Congress, are ready when we are called on. Your position has got to be that this is something you have been thinking of and pondering over for a long time. Why certainly it should be put in. You thoroughly agree. The country has been put on notice that it is to go into effect as of this year, on this year's profits. Our men have been working at it for a long time, holding conferences on it, and it was no surprise to us. We expected it all the time.

Paul: He wanted the country to get as much notice of it as possible.

Magill: That is the best thing in that message you were given the first thing this morning, that it is important for business and the country to know what they're up against, so far as taxes for 1939, so we can better proceed with that program. I would say also what is obviously true that there are a lot of extremely difficult problems which will have to be settled. If you think you dare to, I would say that business and individuals and what not will be given an opportunity to say their piece.

H.M.Jr: How do you spell piece?

Magill: Congress will no doubt give business, et cetera.

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an opportunity to speak up.

H.M.Jr: Mr. Sullivan?

Sullivan: You are in hearty accord with the President's announcement. I would call attention to the resolution passed by the House Ways and Means and by the conference, and say that in accordance with their instructions your personnel have been working on this problem. I don't think I would go back a year ahead as Ros suggested, because that is not entirely consistent with the position we took on the LaFollette amendment.

H.M.Jr: Ed?

Foley: Why don't you refer to your statement before the Ways and Means Committee and in answer to Senator Brown and Senator Connally's question, you said before the Ways and Means Committee you were ready to take off your coat and go to work and --

H.M.Jr: Didn't I say my vest too?

Foley: I think your vest, too.

White: Why did you stop there?

Foley: Ros says that is enough.

White: That is a good place to stop.

Foley: And work out a fair excess profits tax measure this summer. This summer the people in the Treasury have been working generally on it, and it hasn't developed to a point where we have a concrete proposal as yet, but just as soon as we can get things in shape, we will let it out. We are thoroughly in accord with the Administration views.

H.M.Jr: Put it in the hands of the leaders? Which leaders?

Magill: You haven't worked out the bill. The bill

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would be worked out in Congress, but you have been working on the various problems in connection with the thing and are prepared to discuss them and so forth.

- Paul: Cooperating with Congress.
- H.M.Jr: If I had just enough nerve, I would cancel my press conference, but I haven't got quite enough nerve to do that, so I will have to face it. It takes nerve to do that.
- Dan?
- Bell: I would just say as little as possible. I wouldn't let them know that you were surprised at the message. I would say that the Treasury staff had been working on this problem since the resolution of the Ways and Means Committee.
- Sullivan: By the way, don't you want those in here?
- H.M.Jr: What?
- Sullivan: Those resolutions.
- H.M.Jr: No.
- Bell: Cooperating with the staff on the Hill.
- H.M.Jr: I might have those resolutions, yes.
- Foley: And you might look at your testimony, too.
- H.M.Jr: I might have those resolutions.
- Magill: I think what John says about your position before the committees is probably true. At the same time, I would like to give the business the idea the excess profits tax isn't a completely new thought as far as the Treasury was concerned. We had heard of that quite a while ago and done quite a bit on it.

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- H.M.Jr: I think the only one I really ought to have is this one.
- Sullivan: I will get it in the official form for you, sir. I have the committee report.
- H.M.Jr: Get that, and I don't think I need this second one, do you?
- Sullivan: That is the conference one. It is just a shorter one.
- H.M.Jr: Which do you think I ought to have?
- Sullivan: I will get both of them in the Register for you.
- H.M.Jr: What do you think, Harry?
- White: I find myself in agreement with everything that has been said. I have not read the message so I don't know there is anything there you cannot conscientiously say you are in accord with. I think it is important as they all have stressed, not to indicate that you didn't know what was afoot, and that you weren't prepared, and I think Ros is quite right in saying that your technical staff have been working along excess profits tax lines for a long time as part of their general tax program, but that they have been working intensively since the committee meeting, at which time you indicated that you were thinking of it.
- Bell: You could say they have been thinking about it. If they have been working on it a long time, why aren't they ready?
- H.M.Jr: I am the press, and you (Foley) are the Secretary of the Treasury. "Well now, Mr. Morgenthau, at this meeting you had with Mr. Harrison and Mr. Doughton, you were all in agreement with the President? You have been in touch with the President?"

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Foley: We discussed an excess profits tax measure this morning. It didn't take the form of any concrete suggestions. We just talked about the matter in quite broad and quite general terms and the Congressmen and the Senator were interested in knowing when we would have the bill ready and how long it would take.

H.M.Jr: If I looked like that when I answered it, I know they would smell something.

Bell: What if they ask you if you saw the message?

H.M.Jr: I mean, Mr. Foley, heretofore we have met with these people, we have all talked to the President on the telephone and we have always been in agreement. Is everybody in agreement on this?

Foley: There is general agreement on the program.

H.M.Jr: Then --

Magill: Can't you say this --

H.M.Jr: Pat Harrison gives me out a statement just blasting me.

Foley: No, Mr. Secretary. Did you see what Pat said? Pat and Doughton both talked to the press and they never let the press know.

H.M.Jr: I didn't see it.

Magill: Why don't you say that?

Foley: They never indicated for a minute that --

Paul: They behaved beautifully.

Foley: They picked it right up and the leaders were over at the White House and the tax people were over here and everybody was in agreement.

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- Magill: What I think the Secretary means to say is that Mr. Doughton and Senator Harrison have made their own statements. As you say, we had a general conference.
- Foley: Pat said any statement on the details would have to come from you.
- Magill: I wouldn't - I don't think you have to say what you discussed this morning, except you discussed in general terms and they have already given out their statements.
- Paul: I think you are going to get some questions about what --
- H.M.Jr: Sammy Kraus just telephoned that Annenberg was sentenced to three years with twenty days stay of sentence. What would you expect?
- Foley: "Disclosure that the President would ask for new tax legislation came after Chairman Doughton and Chairman Harrison met with Secretary Morgenthau in a long conference. Others attending the conference at which the new proposal was discussed were Jere Cooper, Stamm, tax experts, and so on. They said the tax money matter was about the only matter discussed."
- "Bankhead said Congress would probably recess Thursday for the Democratic National Convention."
- Magill: Both Doughton and Harrison gave me statements.
- H.M.Jr: That is easy. Then the answer is simply this: We will be ready whenever they call on us.
- Magill: That is right.
- Foley: We are working along. We had a meeting this morning and we discussed the thing in general. We reported progress to the leaders and we are continuing our studies and we will have a measure and we will be ready when they call on us.

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Paul: That should - really, it is a bill of Congress, not of the Treasury, so the main talk should be from them.

H.M.Jr: That is right. That is carrying out my policy. When they call on us, we will be ready.

Magill: That is right.

H.M.Jr: Having seen this, this helps. That fifteen minutes got me right. I am all right now. I just didn't know how to handle that.

White: I just read the message. I should think you would be properly in accord with it.

H.M.Jr: You didn't know the background?

Foley: Nobody will ever know the background. The foundation is well laid.

Paul: I think he may get a question as to what kind of a tax it is going to be, whether it is going to hit everybody or --

H.M.Jr: That I can take care of. The thing I was afraid of, if I said something, that Harrison would slap me down, but having seen this, I am all right now. I am not afraid of him. Let me go to the next one. That was what I was afraid of, but I didn't know how sore Pat was. If he isn't sore, I am all right.

Now, when can you gentlemen sit down with me quietly for half a day and talk this thing over?

Paul: The first minute you want to sit down.

H.M.Jr: Well, have you been talking today?

Magill: Yes. We were going over some of the questions this afternoon before we came in. Randolph - what he said applies to me. Of course, both of us have other engagements.

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Paul: We can always put them off.

Magill: I would like to be in New York tomorrow because I have several engagements tomorrow. Beyond that --

H.M.Jr: Let me put it this way. How would this be? I know where you (Magill) live. I don't know where you (Paul) live in the country.

Paul: I don't live in the country, but I can get there. I live right in the heart of New York City.

H.M.Jr: I was thinking of - we are not so far from New Hampshire. I was thinking of the possibility of putting Saturday in on this in the country.

Magill: That would suit me fine.

H.M.Jr: How would that be?

Sullivan: Fine.

H.M.Jr: Are you in New Hampshire?

Magill: Am I? I expect to be taken in any time.

H.M.Jr: Well, you know how these blitzkriegs work. You (Sullivan) can't be terribly far away. What is it, a couple of hours?

Sullivan: Where, up there? I have got my own car. Ed could drive out there and I could sleep on the way out.

H.M.Jr: How far are you from the Vassar College?

Sullivan: Two hundred twenty-four and eight-tenths miles from my old house.

H.M.Jr: And how long did it used to take you?

Sullivan: Well, going out, it didn't take so long.

H.M.Jr: Well, I can send a plane for you if you want me to. Think about it, anyway. Why not let's

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say Saturday? How would that be?

Sullivan: That is swell.

H.M.Jr: At the farm. Say around 10:00 o'clock in the morning or thereabouts. We could spend all day on it.

Magill: That would be swell.

H.M.Jr: Do you want to get in on it, Ed?

Foley: I don't think so.

H.M.Jr: I just didn't want to hear you were slighted afterward, that was all.

Foley: No.

H.M.Jr: I think three of us is enough. Then, you don't want to be in on it, do you? I know Harry doesn't.

Magill: I don't have anything to say here particularly, but it would help, I think, in the case of each of us if John could have Tarleau and Blough send us up anything which they have got that we could usefully look at a little in advance of this Saturday morning conference. I don't know how your time would be, but if we could get it Friday morning and spend a little time on it --

Sullivan: Fine.

H.M.Jr: Why not - will you (Klotz) take a note to the President, please, and simply say this:

"Mr. John Sullivan, Mr. Roswell Magill, and Mr. Randolph Paul are coming to my home at East Fishkill Saturday morning at 10:00 o'clock. We propose to spend all day on the excess profits tax. If you would care to see it Saturday afternoon, we would, of course, be delighted to have the opportunity of presenting our thoughts

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on this subject to you. Yours sincerely."

Then if he wants to see us, we could trot over there and give him a chance to - so my suggestion would be if you get your fellows lined up, you (Sullivan) can go back up again tomorrow night and if you want to fly over, arrange with McKay and he can send a plane up to Boston to pick you up and bring you down to Hackensack and take you back up. They can do that in an hour and a half very easily. Isn't there an airport in Boston?

Sullivan: Yes, there is.

H.M.Jr: Ask McKay to do that. You say 10:00 o'clock Monday, daylight saving time?

This has been very helpful, because I don't mind facing the press now. I don't know about these other things.

White: Mr. Secretary, I don't want to butt into this and I am not thinking of myself, but you have got three tax lawyers and there is no economist going to be there. I think Blough or somebody ought to be there. Excess profits tax has a lot of economic repercussions.

H.M.Jr: Do you want a physician or a surgeon, too?

White: No, just an economist.

H.M.Jr: As far as I am concerned, have Tarleau, too.

Sullivan: I think if we are going to have one, we might as well have both.

H.M.Jr: All right. You (Paul) may have some thoughts that you want to put down on paper, too.

Paul: In the meantime --

H.M.Jr: I am starting from zero on this thing.

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- Magill: On this press business, don't you want us to go out the back door, or do you? I got caught by one of those fellows out here this morning who wanted to know what the dickens I was doing down here.
- H.M.Jr: You have been on the ticker.
- Magill: I didn't know it then, so I said you and I were discussing the farm. We were old apple knockers.
- H.M.Jr: I don't care. I am not ashamed to have you in my office.
- White: It would be a good thing.
- H.M.Jr: Would you feel more comfortable?
- Magill: No, I wouldn't. All I don't want to do is give them any interview.
- H.M.Jr: You don't have to.
- Foley: Walk right by them.
- H.M.Jr: I walk right by them. Maybe what happened to the AP man will happen to you. He put his arm on Knudsen and I told Knudsen, "Now, you better go out fast. You don't want to give these boys the idea you are ducking." He stood there with his arm around the AP fellow and the fellow never recognized him and nobody ever asked him a thing.
- (Telephone conversation with Congressman Doughton follows:)

July 1, 1940
3:01 p.m.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.

Robert
Doughton: Hello, Henry.

H.M.Jr: How are you Bob?

D: I'm sort of depressed a little. How
are you?

H.M.Jr: A little depressed?

D: Just a little -- yes.

H.M.Jr: Well, you know, after an elephant steps
on you there isn't much left to be depressed.

D: How's that? (Come in, aside)

H.M.Jr: When a big horse steps on you

D: Just one second -- one second. (Pause)

H.M.Jr: Hello. Hello. Hello.

D: Hello. Excuse me, somebody knocked at the
door.

H.M.Jr: Oh.

D: That message was fine as far as the timing --
its insistence on doing any work with any
great speed, but what about that part of
it there which says that this excess profits
tax should apply to individuals as well as
corporations. We're all upset about that.

H.M.Jr: Well, you saw the message just as quickly as
I did.

D: How's that?

- 2 -

- H.M.Jr: I didn't see the message until it was on the news ticker.
- D: Well, I've had a conference -- Jere and I have told them about it and talked with Stan about it and we're disturbed about it.
- H.M.Jr: Well, I can't do anything, Bob, and we'll just have to wait a couple of days and see what happens.
- D: The newspapermen have been running to me about it and I couldn't tell them anything.
- H.M.Jr: Well, whenever you're ready you let us know and we'll
- D: Well, I can be there any time to talk to you anytime, but you should talk about that applying without discrimination to individuals as well as corporations when we've already got surtax on them with the corporation.
- H.M.Jr: Well, I don't think we'd better meet tomorrow. I think we had better let this cool off a day or so.
- D: Well, about Wednesday I want to go home -- about Wednesday night -- sometime Wednesday.
- H.M.Jr: Well, let's see how the country reacts to this.
- D: Yeah, they can't do that because -- why, I'm looking for a terrible stir over it.
- H.M.Jr: O. K.
- D: Don't you?
- H.M.Jr: I don't know.
- D: Well, you see why it -- already there's 79% tax on individual incomes in the higher brackets, we're including their normal and then with the state income tax, why I think it's going to create a terrible stir.

- 3 -

H.M.Jr: Well, let's see what happens, Bob, and
we'll have to just cut our cloth accordingly.

D: All right, thank you.

H.M.Jr: Good-bye.

D: Good-bye.

- 14 -

H.M.Jr: He says 79% on individuals is terrible.

Magill: He is upset. Somebody has spoken to him.

H.M.Jr: Sure. I bet Williams called him up.

Sullivan: Stamm; he called me.

H.M.Jr: What does Stamm want?

Sullivan: Stamm says he gets 79%.

H.M.Jr: Now look, will you - if you ask Mr. McKay outside, we can send a car for you (Paul) if you want us to, to New York and have them take you up.

Magill: They could pick the two of us up.

H.M.Jr: We have a car that would run you up. Tell McKay where you live. It takes about an hour and three-quarters to come up. They can be at your house, say, at 8:15 and pick you up and bring you up to my place. Would you mind telling McKay outside?

Paul: Yes.

H.M.Jr: Just tell him to have a car at your house.

Magill: He can get me, too.

H.M.Jr: Where are you located?

Magill: Westport, Connecticut.

H.M.Jr: Tell him.

Magill: Have you got two?

Paul: We had better get them later in the afternoon.

H.M.Jr: Tell McKay what you want. If you want a car, they will send a car for each of you.

July 1, 1940

My dear Mr. President:

Mr. John Sullivan, Dr. Roswell Magill and Mr. Randolph Paul are coming to my home at East Fishkill, Saturday morning, at ten o'clock. We propose to spend all day on the excess profits tax.

If you would care to see us Saturday afternoon we would, of course, be delighted with the opportunity of presenting our thoughts on this subject to you.

Yours sincerely,

(Signed) H. Worgenthau, Jr.

The President,
The White House.

435-
H. W.
By Messenger

July 1, 1940

My dear Mr. President:

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If you would care to see us Saturday afternoon we would, of course, be delighted with the opportunity of presenting our thoughts on this subject to you.

Yours sincerely,

(Signed) H. Worgenthau, Jr.

The President,
The White House.

435
By Messenger

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OFFICE OF
THE ADMINISTRATIVE ASSISTANT
TO THE SECRETARY OF THE TREASURY

7-1-40(?)

MEMORANDUM FOR THE DIRECTOR OF THE BUDGET:

The attached draft of a letter for the President's signature to the Acting Secretary of War is transmitted through you inasmuch as the President's memorandum of June 28, requesting the preparation of a reply for his signature, is addressed jointly to the Secretary of the Treasury and the Director of the Budget.

(S) 
Administrative Assistant
to the Secretary.

ST:ms

77

THE WHITE HOUSE

Washington

My dear Mr. Secretary:

I have your memorandum of June 25 making certain suggestions on the procedure to be followed with reference to the certification of the percentage of special additional facilities to be charged to the cost of performing contracts covered by the Vinson-Trammell Act.

The Executive Order embodying the regulations prescribing such procedure which I have issued pursuant to H.R. 9822 takes into account the suggestions contained in your memorandum. If you have any doubt on this, the Secretary of the Treasury suggests that you have a representative communicate at once with Mr. Timothy C. Mooney of the Bureau of Internal Revenue in order that there may be no misunderstanding as to the way these matters will be handled.

Sincerely yours,

FRANKLIN D. ROOSEVELT.

The Honorable

The Acting Secretary of War

E. H. 76 *[Signature]*

THE WHITE HOUSE
WASHINGTON

June 28, 1940.

MEMORANDUM FOR

✓ THE SECRETARY OF THE TREASURY
THE DIRECTOR OF THE BUDGET

FOR PREPARATION OF REPLY
FOR MY SIGNATURE.

F. D. R.

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WAR DEPARTMENT
WASHINGTON

June 25, 1940.

MEMORANDUM FOR THE PRESIDENT:

Subject: Certifications regarding special additional equipment and facilities.

Reference is made to your memorandum dated June 15, 1940, concerning the anticipated enactment of H.R. 9822 and the certifications which would be required to be made by the Secretary of War pursuant thereto regarding special additional equipment and facilities acquired to facilitate completion of Army aircraft. Steps were taken promptly to bring to the attention of the chiefs of the supply arms and services concerned the information and suggestions contained in your memorandum.

The War Department has not yet received a draft of the regulations which will govern the procedure in the matter of these certifications. I am, however, in receipt of a letter from the Secretary of the Treasury under date of June 20, 1940, copy attached, advising me of the proposed organization and procedure in that Department to handle the matter.

The main objective sought by Section 4, H. R. 9822, was to facilitate and expedite the entering into of contracts in cases necessitating the acquiring by contractors and subcontractors of special additional equipment and facilities. The War Department will do everything in its power and will cooperate in every way with the Treasury Department and with the contractors and subcontractors to accomplish that end.

It is not understood to be the intent of the bill in question to make final action on the certifications in question mandatory before contracts are executed, the law being purposely

drawn so as to allow flexibility in this respect. In view of the time that may be required to process the detailed certifications and clear them with the Treasury Department, and in order not to set up any possible impediment to expediting execution of important contracts involved in the defense program, it is proposed, unless otherwise instructed, to prepare contracts and pertinent certifications concurrently in all applicable cases and take up the question of certifications with the Treasury Department at the earliest possible time with a view to prompt final determination of the matter.

It is believed that the foregoing is in substantial agreement with the views of the Treasury Department and with the spirit of your memorandum of June 15th.



Louis Johnson,
Acting Secretary of War.

1 Encl.
Copy of letter
from the Sec. of
Treasury dated
6/20/40.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

July 1, 1940.

TO Secretary Morgenthau

FROM Mr. Foley

At a night session in 1934 the House of Representatives adopted a rider to the Vinson-Trammell Naval Construction Act offered by Senator (then Congressman) Tobey of New Hampshire which purported to limit profits on contracts for naval vessels and naval and military aircraft.

In any communication the President sends to Congress recommending the imposition of an excess profits tax there ought to be a recommendation that the Tobey rider to the Vinson-Trammell Act be repealed. The Tobey rider is a snare and delusion. Not only does it deprive prudent businessmen of incentive to participate in the national defense program, but it affords no effective limitation of profits and is proving a very serious hindrance to rapid production under the national defense program.

I

The Tobey rider imposes a flat 100% excess profits tax on two industries only.

This form of profit limitation discriminates unfairly among manufacturers supplying material to the Government.

For example, the manufacturer of an engine (or part thereof) for a tank is not covered by the Tobey rider, but the manufacturer of an engine for an airplane is subjected to its provisions; the maker of a machine gun for general purposes is not covered, but if he manufactures one for an airplane the rider applies to him and his subcontractors.

II

The Tobey rider puts a limit on profits without regard to a fair return.

This form of profit limitation has no proper relation to the manufacturer's actual investment or risk. The profit allowed is a percentage of the contract price and of cost.

Regardless of the time in which capital is turned over and regardless of the extent to which the Government supplies needed working capital, either by advances on account of work and materials supplied or by loans, the profit per unit of production is the same.

A percentage of contract price, or of a cost which is practically guaranteed through a five-year carryover not only of losses but of deficiency of profit, although small in itself, may give an exorbitant profit as applied to each unit of a large production.

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III

The Tobey rider encourages waste and results in increased Government expenditures.

This form of profit limitation increases the prices which the Government must pay for naval vessels and naval and military aircraft.

The higher the contract price the greater the allowable profit.

Moreover, contractors receive the same amount of profit, however wasteful they may be, and have no incentive to avoid unnecessary costs.

In fact, the contractor derives an increased profit from uneconomical management thus breeding indifference to excessive cost.

IV

The Tobey rider disrupts usual channels of supply by burdening contractors and subcontractors with complex cost accounting and federal policing.

This form of profit limitation delays a contractor in securing his supplies. It applies to all subcontracts exceeding \$25,000 for all items which ultimately become a component part of a naval vessel or naval or military airplane. It applies to spare parts, repair parts and fabricating supplies back to the raw material.

Even though a subcontractor supplying, for example, cotter pins has only a small portion of his business devoted to the filling of an order for cotter pins going into a carburetor for an aircraft engine, he must educate himself as to what costs are allowed and what items are not considered proper elements of cost before he is in a position to make a firm bid to the carburetor subcontractor or to expand his plant facilities to accelerate production.

It is necessary for every contractor and subcontractor down along the line to the quarries and mines to establish a cost accounting system of a technical, complex and intricate nature and to admit to his business establishment a force of federal auditors and inspectors who will police his costs.

There is understandable hesitation and reluctance on the part of small contractors to take work involving such necessary but mighty annoying red-tape.

V

The Tobey rider is hardly self-supporting.

This form of profit limitation has not been productive of any substantial revenue.

From the date of enactment of the Tobey rider in March, 1934 through May of this year, the Treasury Department has collected about \$3,700,000 in excess pro-

-3-

fits on 2,577 contracts and subcontracts completed during that period. Of these 1,266 returns are still being audited.

Many elements of uncertainty require difficult judgments concerning the proper allocation of costs in plants having commercial and Government work not covered by the Tobey rider, as well as Government contracts subject to its restrictions.

VI

The Tobey rider was hasty, ill-advised legislation.

Notwithstanding that the Tobey rider levies a 100 per cent excess profits tax over and above the percentage limitation, it has never been studied by either the House Ways and Means Committee or the Senate Finance Committee.

In these committees is vested the function of initiating tax legislation. These committees are by experience best qualified to determine the economic and fiscal effects of excess profit laws.

VII

The Nye Committee criticized the Tobey rider as ineffective.

It is also noteworthy that the Special Committee of the Senate on the investigation of the munitions industry (consisting of Senators Nye, George, Clark, Bone, Pope, Vandenberg and Barbour) in a report made on June 19, 1936 concluded:

"* * * there is no effective profit-limitation law today * * * the price of real enforcement of the attempts of Congress to limit profits [is] a costly policing force of accountants and auditors * * * and a series of costly law suits after those audits have been completed * * * the attempts to enforce profit limitation are being thwarted * * *." [Senate Report No. 944, Pt. 7, pp. 12-13, 74th Cong., 2d sess..]

I have drafted a few paragraphs which I suggest be inserted in any message of the President relating to the imposition of a new excess profits tax, if you agree that the Tobey rider to the Vinson-Trammell Act is not worth its salt.

E. W. F. H.

At the same time a proper and effective excess profits tax is enacted into law, the Tobey rider of the Vinson-Trammell Naval Construction Act ought to be repealed. This provision imposes a 100 per cent excess profits tax over and above the percentage limitation on two industries only; i.e. aircraft and shipbuilding.

Not only does it discourage prudent businessmen, but it affords no effective limitation of profits and is proving a very serious hindrance to rapid production under the national defense program.

Now that the Congress is considering the imposition of a new excess profits tax on all industry, segments of industry should not be singled out for special treatment.

Not only does this form of profit limitation discriminate unfairly among manufacturers supplying material to the Government, but it has no proper relation to the manufacturer's actual investment or risk. The profit allowed is a percentage of the contract price and of cost. Regardless of the number of times in which the invested capital is turned over and regardless of the extent to which the Government supplies needed working capital, the profit per unit of production is the same.

Contractors receive the same amount of profit, however wasteful they may be, and have no incentive to avoid unnecessary costs.

The Tobey rider disrupts the usual channels of supply by making it necessary for every contractor and subcontractor down along the line to the quarries and mines to establish a cost accounting system of a technical, complex and intricate nature and to admit to his business establishment a force of federal auditors and inspectors who will police his costs.

Nor has this form of profit limitation been productive of any substantial

-2-

revenue. From the date of enactment of the Tobey rider in March, 1934 to June 1, 1940, only \$3,700,000 in excess profits has been returned to the Treasury.

The conclusion that the Tobey rider is ineffective as a profit-limiting measure is supported by the findings made in 1936 by the Special Committee of the Senate on the Investigation of the Munitions Industry to the effect that "there is no effective profit-limitation law today *** the price of real enforcement of the attempts of Congress to limit profits [is] a costly policing force of accountants and auditors *** and a series of costly law suits after those audits have been completed ***". [Senate Report No. 944, Pt. 7, pp. 12-13, 74th Cong., 2d sess.]

I am in favor, as I know the Congress is, of limiting profits on expenditures for national defense, but we cannot afford the delays in rapid production which have been the result of this ill-advised, uneconomic, discriminatory and ineffective method of taxation.

CONFIDENTIAL

**ARMY AND NAVY MUNITIONS BOARD
MUNITIONS BUILDING
WASHINGTON, D. C.**

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July 1, 1940

MEMORANDUM TO: Mr. Donald M. Nelson
Chairman, President's Liaison Committee
Room 298, Treasury Department

In order that you may inform the Anglo-French Purchasing Board of the War Department action, Colonel Burns directs me to forward to you the inclosed letter dated July 1, 1940, signed by the Adjutant General, concerning:

Request by the Anglo-French Purchasing Board for Surplus Armament for Canada, Eire and Casa Blanca.

For the Clearance Committee, Army & Navy Munitions Board:

E. E. MacMorland
E. E. MacMORLAND,
Lt. Colonel, Ordnance Department,
Secretary.

Inclosure:
(Ltr. 7/1/40 fr. A. G.)

CONFIDENTIAL

CONFIDENTIAL

187

Non-f. has not seen I have copy 7/1/40 PJ

WAR DEPARTMENT

THE ADJUTANT GENERAL'S OFFICE

WASHINGTON

IN REPLY REFER TO

AG 400.3295 (6-29-40)M-F

ACW

July 1, 1940.

CONFIDENTIAL

SUBJECT: Request by Anglo-French Purchasing Board for Surplus Armament for Canada, Eire and Casa Blanca.

Auth: T. A. G.

Initials: *TAG*

Date: JUL 1 - 1940

TO: War Department Representative,
Liaison Committee designated by the President,
Memo. of Dec. 6, 1939, as amended.

1. Reference is made to a request of June 28, 1940, from the Chairman of the Anglo-French Purchasing Board asking co-operation in obtaining additional stocks of war equipment for Canada, Eire and Casa Blanca from United States Government stocks.

2. Indicated below is a statement in detail showing the articles requested by the Anglo-French Board and status of each as to availability:

<u>Item</u>	<u>Articles</u>	<u>Status</u>
	For CANADA	
1.	250,000 Enfield Rifles	28,500 surplus Enfields remain unobligated which can be made available to Board for such distribution as it may direct between Canada and Casa Blanca. See Ireland, below, for rifles to be supplied to that Government if they decide to buy them.
2.	Caliber .30 ammunition	No surplus
3.	100 75 mm. guns	No surplus
4.	600 Lewis machine guns, G.T.)	All sold. Suggest that Navy be approached concerning possible availability of 4000 Browning automatic rifles, with spare magazines, as a substitute.
5.	200 Vickers machine guns, G.T.)	

CONFIDENTIAL

<u>Item</u>	<u>Articles</u>	<u>Status</u>
<u>For CANADA, cont'd.</u>		
6.	500 Thompson sub-machine guns with 1,000,000 rounds of caliber .45 ammunition.	No surplus of guns or ammunition. Suggest that Canadians consult Auto Ordnance Corporation for possibilities for immediate supply of this number of guns. Army buys the guns from this firm.
<u>For Ireland (EIRE)</u>		
7.	24 75 mm. guns	No surplus
8.	72,000 rounds ammunition	No surplus
9.	20,000 Enfield rifles	Action is in process to offer to sell 20,000 Enfield rifles to Irish Free State out of surplus stocks. These are in addition to the 28,500 referred to in Item 1 above.
<u>For CASA BLANCA</u>		
10.	10,000 Enfield rifles with ammunition	See notes on Items, 1, 2 & 9
11.	20 anti-tank guns with ammunition	No surplus
12.	200 Anti-aircraft guns (37 mm) with ammunition	No surplus
13.	50 Anti-aircraft guns (3") with ammunition	No surplus
14.	100 Tanks with ammunition	No surplus
15.	470 French 75 mm. guns	No surplus.

By order of the Secretary of War:

W. H. Dick
Adjutant General

July 1, 1940
2:58 p.m.

Mr. Sullivan: Hello.

Operator: Blanton. Go ahead.

Mr. S: Hello.

Miss Blanton: Hello, Mr. Sullivan.

Mr. S: Yes.

B: Senator Harrison told me earlier today that he'd have to be down at the Treasury in the morning. Now when he came over here he asked me to check with you and see that in view of the fact that the President's message had come over whether that conference had been called off.

Mr. S: Yes, that has been cancelled and I was going to call him and I wish you'd apologize to him for me for not having gotten in touch with him sooner.

B: Oh, that's all right, sir. And then, he'll just await your further suggestion.

Mr. S: Thank you.

B: All right, sir.

Mr. S: Good-bye.

TO: St. Mc Kay 190

D

The Secretary might
like just to glance
at this to get a
general idea
of what we are
doing.



From: Mr. GASTON

MEMORANDUM

July 1, 1940.

TO Assistant Secretary Gaston
FROM Commander Derby

General permission for departure of vessels from certain ports has been granted in some instances. The following is a list of such general permits granted:

Collector, Boston, Massachusetts: All sailings of Eastern Steamship Line vessel S.S. Evangeline on regularly scheduled trips.

Collector, Tampa, Florida: All departures of American motor vessel Pilot No. 1 and American car ferries Estrada Palma and Joseph R. Parrott and small American motor vessels under sixteen gross tons carrying no cargo and transporting fishing parties in absence of suspicious circumstances.

Collector, Tampa, Florida: All departures of P. and O. vessels for Cuba.

Collector, Ogdensburg, New York: All sailings of vessels properly cleared, except those clearing for ocean ports.

Collector, Buffalo, New York: All sailings of vessels properly cleared, except those clearing for ocean ports.

Collector, Cleveland, Ohio: All sailings of vessels properly cleared, except those clearing for ocean ports.

Collector, Detroit, Michigan: All sailings of vessels properly cleared, except those clearing for ocean ports.

Collector, Chicago, Illinois: All sailings of vessels properly cleared except those clearing for ocean ports.

- 2 -

Memorandum for
Mr. Gaston.

Collector, Milwaukee, Wisconsin: All sailings of vessels properly cleared, except those clearing for ocean ports.

Collector, Duluth, Minnesota: All sailings of vessels properly cleared, except those clearing for ocean ports.

Collector, Warroad, Minnesota: All departures of Booth Fisheries boats to Kenora, Ontario, in absence of suspicious circumstances.

Collector, San Francisco, California: All sailings of American vessels between San Francisco and American ports and all regularly scheduled departures of Matson and American President vessels.

Collector, Seattle, Washington: All movements of vessels between Puget Sound ports except final departure from district.

Collector, Seattle, Washington: All departures of vessels Northland Transportation Company and Alaska Transportation Company to Canadian and American ports. Also other vessels regularly engaged in Alaskan trade in absence of unusual circumstances.

Collector, Honolulu, Hawaii: All sailings of American vessels between Hawaiian and American ports and regularly scheduled departures of Matson and American President vessels in absence of unusual or special circumstances.

AM Derby

PERMITS GRANTED

28 June 1940

No.	Vessel	No.	From	To	Cargo
1.	PANAMA EXPRESS	Nor.	Seattle	Central Am. ports	Lumber & Miscel.
2.	ALASKA	Am.	Seattle	Ketchikan, Alaska	Petroleum products
3.	HEE WARD	Jap.	Tacoma	Tokohama via Vancouver	Lumber & Copper Cathodes
4.	CANADIAN STAR	Br.	Seattle	London via Los Angeles	Lumber, Zinc & White Metal
5.	ALFURIAN*	Am.	Seattle	Alaska	General and Cannery supplies
6.	KAIMOKU	Am.	Honolulu	San Pedro	Canned Pineapple and Sugar
7.	VAIPIO	Am.	Honolulu	San Pedro	Sugar
8.	TENDRAVA WARD	Jap.	San Francisco	Tokohama, Osaka, Kobe	General
9.	SILVERTEAK	Br.	San Francisco	Capetown & Other Alaskan ports	General
10.	WATSONVILLE	Am.	San Francisco	Aberdeen, Wash.	General Mase.
11.	CALIFORNIA	Am.	San Francisco	Antofagasta, Chile via Los Angeles	General Mase.
12.	PRESIDENT VAN BUREN	Am.	San Francisco	Manila, Hongkong, Singapore	General Mase.
13.	RANCHER	Br.	New Orleans	London, England	General
14.	INVERMILEN	Br.	New Orleans	United Kingdom	Aviation gasoline
15.	CHAFTSMAN	Br.	New Orleans	Liverpool, Eng.	General

* The Alentian and other vessels of Alaska S.S. Company granted permission for this and general permission for subsequent voyages.

PERMITS GRANTED

28 June 1940

No.	Vessel	No.	From	To	Cargo
16.	FAFELBERG	Br.	New Orleans	Curacao, NWI	Whale Oil flakes
17.	DELMORTE	Am.	New Orleans	Argentine ports & South America	Agri. Implements & General
18.	DELPLATA	Am.	New Orleans	Argentine ports	Agri. Implements, Lumber & General
19.	TELDE	Hon.	New Orleans	Canal Zone	General
20.	SANTA MARTA	Am.	New Orleans	Havana & Central America	General
21.	GANSFJORD	Nor.	New Orleans	Central American ports	Dynamite, Gasoline & General
22.	KOTKAS	Est.	Norfolk	Havana	Coal
23.	SOLANA	Am.	Philadelphia	Venezuela	Ballast
24.	LUBRAFOL	Bel.	Philadelphia	Halifax, Nova Scotia	Ballast
25.	LANCASTER	Am.	Philadelphia	Newport News & Baltimore	General
26.	ARGENTINA	Am.	New York	West Indian & S. American ports	General
27.	GYPSUM PRINCE	Br.	New York	Windsor, Nova Scotia	Ballast
28.	HOPESTAR	Br.	New York	United Kingdom	General
29.	ERRINGTON COURT	Br.	New York	United Kingdom	General
30.	EASTERN TRADER	Br.	New York	United Kingdom	General & Munitions

PERMITS GRANTED

28 June 1940

No.	Vessel	No.	From	To	Cargo
31.	L. P. ST. CLAIR	Am.	San Pedro	Savannah	Refined & Fuel Oil
32.	LOS ANGELES	Am.	Seattle	None	Diesel & Other Oils
33.	PRINCESS MARGUERITE*	Can.	Seattle	Vancouver	Passengers (Ferry)
34.	PRINCESS KATHLEEN*	Can.	Seattle	Vancouver	Passengers (Ferry)
35.	IROQUOIS*	Am.	Seattle	Victoria	Passengers (Nightly)
36.	COMANCHE*	Am.	Seattle	Vancouver	Freight only (Every other day)
37.	OLYMPIC*	Am.	Port Angeles	Victoria	Passengers & Freight (daily)

* General authorization given Collector, Seattle, to permit these vessels to depart on regularly scheduled trips and also Halibut and other Fishing Vessels in absence suspicious circumstances.

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No.	Vessel	No.	From	To	Cargo
1.	Rubens	Br.	Mobile	Jamaica, Colon	Lumber
2.	Maidencreek	Am.	Mobile	Puerto Rico	General
3.	K I Luckenbach	Am.	Mobile	Pacific Coast	General
4.	Mary B Brooks	Br.	Mobile	Cuba	Lumber
5.	Zacapa	Am.	Mobile	Panama	In ballast
6.	Normotide	Bul.	N.Y.	Brasil	General
7.	Berganger	Nor.	N.Y.	S.A. Ports	General
8.	Steel Ranger	Am.	N.Y.	Persian Gulf	General
9.	Black Osprey	Am.	N.Y.	India	General
10.	Topa Topa	Am.	N.O.	Tampa	General in bond
11.	Molra	Nor.	N.O.	Cuba	Molasses
12.	Seatrain N.O.	Am.	N.O.	Cuba	General in R.R. cars
13.	Seatrain N.Y.	Am.	N.O.	Cuba	General in R.R. cars
14.	Donnacanna	Br.	Superior	Canada	Iron Ore
15.	Glencagles	Br.	Superior	Canada	Iron Ore

PERMITS GRANTED

29 June 1940

No.	Vessel	Nat.	From	To	Cargo
16.	Ashcroft	Br.	Superior	Canada	Iron Ore
17.	Rio Verde	Nor.	Charleston	Brazil	Coal
18.	Lorraine S.	Am.	Warroad, Minn.	Canada	Fish, and supplies (Repeated trips authorized)
19.	Sisla	Nor.	N.Y.	Philadelphia	Ballast
20.	Baalbek	Nor.	N.Y.	Brazil - Phila.	General
21.	Cypria	Nor.	N.Y.	Lisbon, Casablanca	General
22.	Algio	Am.	N.Y.	Baltimore	General
23.	Henry S. Grove	Am.	N.Y.	Capetown, Africa	General
24.	Robin Goodfellow	Am.	N.Y.	South Africa	General
25.	Windrush	Am.	N.Y.	South America	General
26.	Agia Marina	Grk.	N.Y.	Albany	Ballast
27.	Point Caleta	Am.	N.Y.	West Indies	General
28.	Annikton City	Am.	N.Y.	New Orleans	General
29.	Brageland	Swed.	N.Y.	Yokohama, Shanghai	General
30.	Washington	Am.	N.Y.	South Africa	General

PERMITS GRANTED

29 JUNE 1940

No.	Vessel	Nat.	From	To	Cargo
31.	Reller	Am.	At sea N.Y.	At sea (Nova Scotia)	Towing
32.	Konareh	Br.	At sea N.Y.	Yarmonth, N. S.	Dredge in tow of S.S. Reller, and Frank Dixon
33.	Frank Dixon	Br.	At sea N.Y.	Yarmonth, N. S.	Towing Konareh
34.	Chas. H. McCormick	Am.	N.Y.	Far East	General
35.	Steel Worker	Am.	N.Y.	Far East	General
36.	Margaret A. Moran	Am.	N.Y.	Oswego	Towing
37.	Severe No. 5 & No. 6	Can.	N.Y.	Ontario	In tow of Margaret A. Moran
38.	Panlabar	Dutch	N.Y.	Boston	General residue
39.	City of San. Fran.	Am.	N.Y.	Far East	General
40.	Normanland	Am.	N.Y.	Norfolk	General residue
41.	Ville D'Yvon	Belg.	N.Y.	Liverpool	General
42.	Norman B. MacPherson	Can.	Chicago	Canada	Steel and corn
43.	Hoegh Silver- cloud	Nor.	Port., Ore.	Seattle	General residue
44.	Panama Express	Nor.	Port., Ore.	Canal Zone	Flour
45.	Panama	Pan.	Pt. Arthur	Vigo, Bilbao	Fuel oil *

* The Panama was detained about 24 hours and was released by Mr. Gaston personally.

PERMITS GRANTED

29 June 1940

No.	Vessel	No.	From	To	Cargo
46.	Siranger	Nor.	Port., Gre.	Buenos Aires	Lumber and paper
47.	Pleasantville	Nor.	Port., Gre.	Far East	Lumber and general
48.	Pilot No. 1	Am.	Miami	Bahamas	General
49.	Alecmar 2	Am.	Miami	Bahamas	Yacht
50.	Iole of June	Br.	Miami	Bahamas	Lumber, gasoline, dynamite
51.	Ema K	Br.	Miami	Bahamas	General
52.	Florida	Am.	Miami	Havana	General
53.	Encenada	Mex.	San Diego	Mexico	Fuel oil and cannery supplies
54.	Sportfisher 2	Am.	San Diego	Guadalupe	Sport fishing
55.	Worden	Nic.	Jackson- ville	Cuba	Ballast
56.	Sama	Nic.	Jackson- ville	Cuba	Ballast
57.	Lake Hallwil	Est'n.	Jackson- ville	London	Lumber and naval stores
58.	Manatawney	Phine.	Tacoma	Manila	General
59.	Marie Bakke	Nor.	Tacoma	Puget Sound	General residue
60.	Cape York	Br.	Seattle	British Columbia	General

PERMITS GRANTED

29 June 1940

No.	Vessel	N.	From	To	Cargo
61.	Escondor	Swed.	Seattle	Puget Sound	General
62.	Romulus	Nor.	Seattle	Puget Sound	General
63.	Collingsworth	Am.	Seattle	Puget Sound	Loading General
64.	Pres. Cleveland	Am.	San.Fran.	Los Angeles	General residue
65.	Korsee Lukenbaeh	Am.	San.Fran.	New York	General
66.	Georgian	Am.	San.Fran.	New York	General
67.	Floridian	Am.	San.Fran.	Portland, Oregon	General
68.	Valetapu	Br.	San.Fran.	Australia	General
69.	Kauraki	Br.	San.Fran.	British Columbia	General
70.	Daisean Ogura K.	Jap.	San.Fran.	Japan	Diesel and lube oil
71.	Ohio	Pan.	San.Fran.	Australia	Gas and kerosene
72.	Silver Bay	Br.	San Pedro	San Francisco	General
73.	Allybryn	Br.	Boston	England	Scrap Iron
74.	Alamoor	Br.	Boston	Scotland	Scrap Iron
75.	Tarmonth	Am.	Boston	Tarmonth	Passengers

PERMITS GRANTED

29 June, 1940

No.	Yessel	Na.	From	To	Cargo
76.	City of Oxford	Br.	Norfolk	London	Steel, Copper, Wheat, Tractors
77.	Delisle	Am.	San Juan	Mantanzas	Ballast
78.	Monterey	Am.	Honolulu	Australia	General
79.	Pernian	Pan.	Philadelphia	Covenas, Col.	Ballast
80.	San Marcos	Br.	Philadelphia	New York	Ballast
81.	NV Kota Gede	Dutch	Philadelphia	Baltimore	Residue
82.	Asakasan Maru	Jap.	Philadelphia	Baltimore	Residue
83.	Marva Clark	Am.	Philadelphia	Baltimore	Residue
84.	Gulfwing	Am.	Philadelphia	Puerto LaCruz	Ballast
85.	Frontolite	Br.	Philadelphia	Talara, Peru	Ballast
86.	Volunteer	Am.	New Orleans	Manila; Jap. & Chinese ports.	Steel, Carbon, Rubber, Paper & Gen.
87.	Carrabelle	Am.	Wilmington	P.R.	Ballast
88.	City of Lincoln	Br.	Wilmington	Montreal	Residue
89.	Estrada Palma	Am.	Ft. Lauderdale	Havana	General
90.	Arthur H. Rowest	Am.	Seattle	Alaska	General

No.	Special	Dr.	From	To	Status
91.	Baltimore	As.	New York	New York, P. B.	Special
92.	Washington	Rep.	New York	Mr. de Lencastre, Mrs. Susan Alroy, Arg.	Special
93.	Amalgam	As.	New York	Kennedy Pte. Services.	Special
94.	Outright	As.	New York	Ortstein; Pte. Services.	Special
95.	Expanso	Rep.	New York	Barfield, Va.	Ballot
96.	Atlanta	Rep.	New York	Magnum, Jan. I	Special
97.	Man	Pub.	New York	Magnum, Jan. I Puerto Service.	Special
98.	Sanctus	Both.	New York	Magnum via Barfield	Special
99.	Amelia	As.	New York	Magnum, B.F.I.	Special
100.	Manuel	As.	New York	New York, P. B.	Special
101.	Byman	Dr.	New York	Albany, N. Y.	Ballot
102.	Smith's Bakery	As.	New York	Smith's, Mrs. I Susan Alroy, Arg.	Special
103.	President's Secretariat	As.	New York	Smith's, Mrs. I	Special
104.	A. S. B.	Dr.	New York	Smith's, Mrs. I	Special
105.	New Service	Dr.	New York	Smith's, Mrs. I	Special

PERMITS GRANTED

29 June, 1940.

No.	Vessel	No.	FROM	To	CARGO
106.	Salon		Ethiopian New Orleans	London	General
107.	Whipple	Nor.	Mobile	Alvarn, Mex.	Ballast
108.	Southern Cross	Pan.	Miami	Balboa	Ballast
109.	Osuta	Col.	Mobile	Barranquilla, Col.	Steel houses.
110.	Hidolde	Mex.	Portland, Me.	Canada	Ballast
111.	Sarasfowl	Am.	San Diego	Los Angeles	Coffee, household effects.
112.	Harpenfjell	Nor.	Cleveland	Detroit	General
113.	Sagna	Nor.	Beaumont	Havana	Rice, Cereals
114.	Tillie Lykes	Am.	Beaumont	Havana, C.Z., and Col.	Rice, Flour, Lumber
115.	North Pacific	Am.	Seattle	Alaska	Mach. Fuel Oil, Gasoline, Lub. Oil, Food.
116.	Gen. Lykes	Am.	Lake Char.	P.R. & Haitian Ports	General
117.	Harry T. Drig	Am.	Buluth	Ontario	Scrap Iron
118.	Heronic*	Can.	Buluth	Ontario	Pass. & Gen.
119.	Heronic*	Can.	Buluth	Ontario	Pass. & Gen.
120.	Inacrea	Br.	Albany	Eng.	Corn, Wheat.

*Vessels engaged in regular passenger service with Canadian ports;
 C. C. Buluth authorized permit vessels depart on reg. trips in absence of
 suspicious circumstances.

No.	Vessel	No.	FROM	To	CARGO
121.	Valiente	Pan.	New York	Vladivostok	Machinery; General
122.	Fort Ankerst	Br.	New York	Halifax, N. S.	General
123.	Campania	Br.	New York	Glasgow, Scotland.	General; Airplanes
124.	Arabian Prince	Br.	New York	Hamilton, Ber.	General.
125.	Oriente	Am.	New York	Havana, Cuba.	General.
126.	Sherebee	Am.	New York	Puerto Plata via San Juan, P. R.	General.
127.	G. D. D.	Br.	New York	Montreal, Canada.	General.
128.	Leicester	Ger.	New York	Manchester, England.	Lubricating oils.
129.	Agul	Br.	New York	Boston, Mass.	Ballast
130.	Constantinos Louloudis	Greek	New York	Yokohama, Japan.	Scrap Iron.
131.	Irene S. Embiricos	Greek	Norfolk	Rio de Janeiro, Bra.	Coal
132	Pescador	Greek	Charlotte Amalie	Cardenas, Cuba.	Ballast
133	Nickeliner	Am.	Houston, Tex.	Havana, Cuba	Caroline
134	Oil Trader	Br.	Houston, Tex.		Ballast
135	Baym Plant	Ger.	Panama, Fla.	Japan via New Orleans & Houston	Phosphate, scrap iron.

PERMITS GRANTED

29 June, 1940.

No.	Vessel	Nat.	From	To	Cargo
136.	Sinkoku Maru	Jap.	San Pedro	Yokohama	Oil
137.	Lochkatrine	Br.	San Pedro		Fresh fruit.
138.	Balboa	Am.	San Pedro	Savannah	Gas, General
139.	Erria	Br.	San Pedro		Motor & Aviation Gas.
140.	Edw. Lachenbach	Am.	San Pedro	New York	General
141.	Martha Maersk	Dan.	San Pedro	Yokohama	General
142.	Houma	Phil.	San Pedro	Manila	General
143.	Abraham Lincoln	Hor.	San Pedro	Canada	Borax
144.	36 A 367 Gas. Co.	Am.	Int'l. Falls	Ontario	Pulpwood in tow.
145.	Donline	Hor.	Seattle	Aberdeen	General
146.	Hellenic	Greek	Seattle	Aberdeen	Ballast
147.	Jussel H.		Newport News	Trinidad	Coal, Steel
148.	Dona Aniceta	Phil.	Newport News	Manila	Cigarettes, Steel, Cotton piece goods.
149.	Asama Maru	Jap.	Honolulu	Yokohama	Cotton, Scrap iron, Cattle hides, Copper.
150.	West Point	Br.	Philadelphia	Wilmington, N.C.	Steel

PERMITS GRANTED

29 June, 1940.

<u>No.</u>	<u>Vessel</u>	<u>No.</u>	<u>From</u>	<u>To</u>	<u>Cargo</u>
151.	Steel Navigator	Am.	Norfolk	Philadelphia	General
152.	Anna	Svd.	Charleston	Havana	Super phosphate
153.	L.J. Drake	Am.	San Juan	Aruba	Ballast
154.	Velma Lykes	Am.	San Juan	Port au Prince	General
155.	Molokai	Mex.	San Pedro	Ensenada, Mex.	Ballast
156.	Hoegh Silvercloud	Nor.	Seattle	Vancouver	General
157.	Bengalen	Dutch	Seattle	Los Angeles, San Francisco Phillipines, Java, British Indies	General
158.	Hellenic Skipper	Greek	Seattle	Aberdeen	General
159.	Algoose	Can.	Buffalo	S. Ste. Marie Ontario	Coal
160.	Oeler	Can.	Buffalo	Welland, Ont.	Coke
161.	Pres. Adams	Am.	Honolulu	Japan	General
162.	Pilot No. 1*	Am.	Miami	Bimini, B.W.I.	General
163.	Estrada Palma*	Am.	Pt. Everglades	Cuba	Car ferry
164.	Jos. R. Parrott*	Am.	Pt. Everglades	Cuba	Car ferry
165.	Betsy Ross	Am.	San Pedro	Sea	(fishing)

*General authorization given to permit these vessels to depart on regularly scheduled trips in absence of suspicious circumstances.

PERMITS GRANTED

29 June, 1940.

No.	Vessel	No.	From	To	Cargo
166.	Panamerican	Pan.	Baltimore	Liverpool, Eng.	General
167.	Nightingale	Am.	Baltimore	Cristobal	General
168.	Queen City	Br.	Baltimore	Hambroer	Lumber, Steel, Powder
169.	Olypus	Am.	San Pedro	Sea	Fishing
170.	Yankee Clipper	Am.	San Pedro	Sea	Fishing
171.	Western Harborth	Am.	San Pedro	Sea	Fishing
172.	Del Rio	Am.	San Pedro	Sea	Fishing
173.	Fleming	Am.	San Pedro	Sea	Fishing
174.	Western Pride	Am.	San Pedro	Sea	Fishing
175.	Sea Rover	Am.	San Pedro	Sea	Fishing
176.	North Star	Am.	San Pedro	Sea	Fishing
177.	Elia.VanBelgie	Dol.	Houston	Galveston	Residue
178.	Wayfarer	Br.	Houston	Galveston	Cotton, Steel, Carbon, Resin
179.	Santa Marta	Am.	New Orleans	Cristobal	Ballast
180.	Conofford	Am.	New Orleans	Honduras	Ballast

29 June, 1940

<u>No.</u>	<u>Vessel</u>	<u>No.</u>	<u>From</u>	<u>To</u>	<u>Cargo</u>
151.	Crawford Ellis	No.	Galveston	Norway	Ballast
152.	Normanroy	An.	Savannah	New York	Residue
153.	Fort Hunter	Dr.	Savannah	New York	General
154.	Nic Anol	Dr.	Tampa	Scotland	Scrap Steel
155.	American Express	An.	Baltimore	Far East	General

PERMITS GRANTED

30 June 1940

No.	Vessel	No.	From	To	Cargo
1.	Kailua	Am.	Portland, Oregon	Honolulu	Lumber
2.	Taihei Maru	Jap	Seattle	Shanghai	Lumber
3.	Siranger	Nor.	Seattle	Vancouver	Residue
4.	Madras City	Br.	Seattle	B. C. Vancouver or New Westminster	Wheat
5.	Winkleigh	Br.	Seattle	Vancouver, B. C.	Wheat
6.	Hadietas ^a	Greek	Pensacola	Genoa	Rails
7.	Bedford	Br.	Newport News	New York	Tobacco, Machinery & General Ballast
8.	Dea	Nor.	Newport News	Cuba	General
9.	Hanigar	Br.	Boston	London	General
10.	Evangelina	Am.	Boston	England	General
11.	Sheak	Am.	Charlottetown	Port Alfred, Quebec	Rawhide
12.	Malika	Am.	San Francisco	Honolulu	General Misc.

^aThe HADIETAS was detained about 12 hours and was released by Mr. Guston personally.

No.	Vessel	No.	From	To	Cargo
1.	G.T. De	Br.	New York	Montreal	General
2.	Kingasa Maru	Jap.	N.Y.	Yokohama	General
3.	Saint John	Amer.	N.Y.	Yarmouth, N.S.	General
4.	Manhattan	Am.	N.Y.	Lisbon	Ballast
5.	Buenos Aires	Mer.	N.Y.	St. John, N.B.	Cotton Seed, Metal
6.	Korda	Mer.	N.Y.	Liverpool	General
7.	Bora Shell	Br.	N.Y.	United Kingdom	Fuel Oil
8.	Harberton	Br.	Lake Charles, La.	Hull, England	Scrap Iron
9.	Buron	Br.	W. Palm Beach	West End Bahamas	Canning Machinery
10.	Kinal Maru	Jap.	Phila.	Baltimore	General
11.	City of Pitts- burg	Br.	Baltimore	Manila	General
12.	Marie II	Mer.	Batavia, CoI.	Cartagena, Col.	Ballast
13.	E T Bedford	Amer.	Baltimore	Las Piedras, Venez.	Ballast
14.	Atlantian	Br.	Mobile, Ala.	Liverpool	Cotton, Cotton Waste, Resin, Hardwood Lumber, steel ingots
15.	Geo. G. Henry	Am.	Galveston	Havana	Crude Oil

No.	Name	Nat.	From	To	Cargo
16.	Charles Pratt	Pan.	N.Y.	Baltimore	Water Ballast
17.	Barfoun	Nor.	N.Y.	Houston	Water Ballast
18.	Grans Klason	Pan.	N.Y.	Cartagena, Columbia	Water Ballast
19.	Andrew Lee	Br.	Phila.	Eastport, Me.	Ballast
20.	Inverilen	Br.	Houston	Port in U.K.	Aviation gasoline
21.	Boka	Pan.	Houston	London	Sulphur, carbon
22.	Brageland	Swed.	Newport News	Canal Zone	Aluminum Ingots, Phibol
23.	Comol Rico	Am.	N.O.	Veracruz, Mex.	Ballast
24.	Fernplant	Nor.	Houston	Jap.	Phosphate, scrap iron, cotton, carbon black
25.	Bertha Brovig	Nor.	N.O.	Mex.	Nestles Baby Food
26.	Donaan Isota	Phil.	Savannah	Manila, Shanghai, Hongkong	Naval Stores, Cotton, et
27.	Annik	Nor.	Chester, Pa.	Phila.	Ballast
28.	Lancaster	Am.	Newport News	Baltimore	Manganese ore
29.	Jenny	Nor.	Newport News	Vita, Cuba	Ballast
30.	Normapenn	Am.	Phila.	Norfolk	General

No.	Vessel	Nat.	From	To	Cargo
31.	West Ivis	Am.	San Pedro	San Fran., U.S. Pac.Pts.	Coffee, general
32.	Amagisan Maru	Jap.	San Pedro	N.Y. and U.S. Atlan.Pts.	Rubber, sugar silk, etc.
33.	Majestic	Am.	San Pedro	High Seas for Fishing	Ballast
34.	Pres. Cleveland	Am.	San Pedro	Orient	General
35.	Baalbeck	Nor.	Phila.	Para, Brasil	General
36.	Beatrice	Am.	Wilmington, N.C.	Puerto Rico	Superphosphate
37.	Oregon Exp.	Nor.	Portland, Ore.	Canal Zone	Flour, general
38.	E. Regent	Lat.	Richmond	Newport News	Newsprint paper in rolls
39.	Jeff Davis	Am.	Houston	Australia	Cotton and carbon black
40.	Oncida	Am.	Houston	Threerivers, Canada	Sulphur
41.	Fresno	Br.	Seattle	London	Wheat
42.	Suriyothai Nawa	Thailand	San Francisco	Bangkok	Gasoline, kerosene
43.	Kingsley	Can.	San Francisco	Vancouver, Can.	General
44.	Panama Express	Nor.	San Francisco	Balboa	General
45.	Oliver Olson	Am.	San Francisco	Ocean Falls, B.C.	General and petroleum products

PERMITS GRANTED

JULY 1, 1940

No.	Name	Nat.	From	To	Goods
45.	Gypsum King	Br.	Boston	Windsor, N. S.,	Ballast
47.	Pollux	Nor.	Boston	Shertbrooke, N.S.	Ballast
48.	Lake Teeveree	Pan.	New York	Tampa	General
49.	Ninas Prince	Br.	New York	St. John, N. B.	Coal
50.	Luna	Neth.	New York	Pto. De la Cruz & Venezuela	General
51.	Hobjarn	Finn	New York	Finland	General
52.	Tiradentes	Nor.	New York	Cape Town, Madras & Calcutta	General
53.	Polyana	Nor.	New York	Casa Blanca, Fr. Morocco	Dried beans, sugar
54.	Dompase	Br.	New York	Montreal, Canada	General
55.	Anasone	Neth.	New York	Haiti	General
56.	Neptune	Madras.	Norfolk	Cuba	Coal
57.	Palma Del Ozama	Dom.	San Juan, P. R.	Asua, Dom. Rep.	Ballast
58.	Soame	Am.	San Juan, P. R.	Trujillo City, Dom. Rep.	General
59.	Hillineckett	Am.	San Juan, P. R.	Cuba	Ballast
60.	Antietan	Am.	San Francisco, Cal.	Vancouver, Can.	Crude oil

No.	Vessel	No.	From	To	Cargo
61.	Volunteer	Am.	Houston	Kobe, Japan	Setton, paper, carb -on black, scrap steel, steel plate etc.
62.	Bajamar	Nor.	New York	Philadelphia	General cargo
63.	Irene Myrtle	Br.	New York	St. John NB Can.	Coal
64.	Louisebank	Br.	New York	Philadelphia & Baltimore	General residue
65.	Perith Castle	Br.	New York	Boston & Baltimore	General residue
66.	Titania	Nor.	New York	Manila & Shanghai	General
67.	Talisman	Nor.	New York	Boston & Baltimore	General residue
68.	Maryetta	Nor.	New York	Cuibarica	General
69.	Alar	Nor.	New York	Las Piedras	Ballast
70.	Balcara	Br.	New York	Falmouth, England	Grain
71.	Exchester	Am.	New York	Baltimore	General residue
72.	Corisco	Am.	New York	Havana, Cuba	General residue
73.	Veli Ragna	Finn.	New York	Porson, Finland	General cargo
74.	Imperial	Chilean	New York	Cristobal	General cargo
75.	Monterey	Amer.	New York	Havana, Cuba	General cargo

PERMITS GRANTED

1 JULY 1940

No.	Vessel	Nn.	From	To	Cargo
76.	Odyseus	Br.	New York	Boston, Mass.	Ballast
77.	Casique	Am.	New York	Maracaibo	General
78.	W G Fairbanks	Mh.	Chester, Pa.	Mexico	Ballast
79.	Pastores	Am.	Philadelphia	Honduras	Ballast
80.	Steel Navigator	Am.	Philadelphia	New York	General
81.	Content S	Br.	Miami	Bahamas	General
82.	Richard Campbell	Br.	Miami	Bahamas	General
83.	Britannic	Br.	N.Y.	Liverpool	General
84.	San Jacinto	Am.	N.Y.	Puerto Rico	General
85.	Borinquen	Am.	N.Y.	Trujillo City, Dom. Rep.	General
86.	Scania	Swed.	N.Y.	South America	General
87.	Geddington Court	Br.	Baltimore	Glasgow	Steel
88.	Reinholt	Nor.	Baltimore	Manila	General
89.	Chiripe	Nor.	Baltimore	Honduras	Ballast
90.	Anderson	Nor.	Baltimore	Cuba	Ballast

PERMITS GRANTED

JULY 1, 1940

No.	Vessel	No.	From	To	Cargo
91.	Anales City	Am.	Baltimore	Shanghai	Steel plate
92.	Anna Maarak	Den.	Philadelphia	Baltimore	
93.	Domacilla	Br.	N.Y.		
94.	Sahie	Dutch.	Boston	Quebec	Ballast
95.	Hawkbill	Br.	Philadelphia	N.Y.	Steel ingots
96.	Silver Palm	Br.	Tampa	Mobile	Rubber
97.	Mananita	Den.	Charlotte Amalie, Virgin I.	Puerto Rico	Ballast
98.	Trader Second	Am.	Miami	Bahamas	General
99.	BETTY E	Br.	Miami	Bahamas	General
100.	Helen May Schoch	Am.	Miami	Cuba	Tires, lumber
101.	Cardonia	Am.	Galveston	Lake Charles, La.	Rice, beans
102.	Erviken	Nor.	Philadelphia	Wales via Halifax, N.S.	Pigiron
103.	Sixcola	Am.	New Orleans	Guatemala and Honduras	General
104.	Sithonia	Br.	Panama City, Fla.	Texas City, Texas	Ballast
105.	Cefala	Hon.	New Orleans	Havana & C. A. ports	General

PERMITS GRANTED

1 JULY 1940

No.	Vessel	Na.	From	To	General Cargo
106.	El Dorado	Pan.	Honolulu	Bangkok, Siam	Dynamite, Kerosene Oil and lubricating oil
107.	Excellent	Am.	Los Angeles	Mexican Waters	Ballast
108.	Press American	Am.	Houston	Cuba & P. R. via Galveston & Lake Charles	General
109.	Beaulieu	Nor.	Jacksonville	Aruba, NWI	Ballast
110.	Urnal	Mex.	Jacksonville	Vera Cruz	Pulp wood
111.	Arsvak	Br.	Jacksonville	Bahamas	Miscellaneous
112.	Tanja	Dan.	Norfolk	Perth Amboy, N.J.	General
113.	San Bruno	Pan.	New Orleans	Cristobal, C. Z.	General
114.	Pacific Grove	Br.	N.Y.	London	General
115.	Markland	Br.	N.Y.	Liverpool, N.S.	Paper cores
116.	Gullmaran	Swed.	N.Y.	South Africa	Wheat
117.	Kungsholm	Swed.	N.Y.	Bermuda	Ballast
118.	Schale	Am.	N.Y.	South Africa	General
119.	Hemargo	Am.	N.Y.	Mason, Miami, Havana	General
120.	Abangares	Am.	N.Y.	Santiago	General
121.	Jamaica	Am.	N.Y.	Kingston	General

JUL 1 1940

Dear Mr. Young:

On December 6, 1939, the President created an informal committee to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States, consisting of the following:

- (a) The Director of Procurement, Treasury Department;
- (b) The Quartermaster General of the Army; (c) The Paymaster General of the Navy.

Subsequently, the Executive Assistant to the Assistant Secretary of War, Colonel Burns, was designated to serve on this committee in lieu of the Quartermaster General of the Army.

The President now has designated you as Treasury representative on this committee in lieu of the Director of Procurement, Treasury Department. You will, accordingly, serve in this capacity.

Attached is a copy of the President's letter of December 6, 1939, advising of the creation of this committee.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Philip Young,
Assistant to the Secretary,
Treasury Department.

WFT:ms
ms

JUL 1 1940

My dear Mr. Secretary:

In accordance with the suggestion in your letter of June 28th, I approve the designation of Mr. Philip Young, Assistant to the Secretary of the Treasury, as a member of the informal committee created on December 6, 1939, to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States. Mr. Young will serve on this committee in lieu of the Director of Procurement, Treasury Department.

Your proposal to appoint Mr. Clifton E. Mack as Director of Procurement, Treasury Department, meets with my approval.

Sincerely yours,

(Signed) Franklin D. Roosevelt

The Honorable

The Secretary of the Treasury.

WT:ms
June

June 28, 1940.

My dear Mr. President:

In your letter to me of December 6, 1939, you advised that you had created an informal committee to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States, consisting of the following:

- (a) The Director of Procurement, Treasury Department;
- (b) The Quartermaster General of the Army; (c) The Paymaster General of the Navy.

Subsequently, the Executive Assistant to the Assistant Secretary of War, Colonel Burns, was designated to serve on this committee in lieu of the Quartermaster General of the Army.

At the time of the formation of the committee, Captain Collins was Director of Procurement. Captain Collins carried on these important committee duties along with his regular duties as Director of Procurement with the result that it was physically impossible for him to give to the regular work of the Division the supervision necessary for its efficient functioning.

Upon the resignation of Captain Collins, Mr. Donald M. Nelson came to the Treasury and took over the Procurement duties. As he is now to leave the Treasury under his new assignment, I think it is an opportune time to separate the supervision of the regular procurement functions from those of the foreign purchases under your committee set-up. I should like, therefore, to recommend that Mr. Philip Young, Assistant to the Secretary, be designated as Treasury Representative on the committee having to do with matters relating to foreign government purchasing in the United States, in lieu of the Director of Procurement.

For the supervision of the regular procurement duties I propose to appoint Mr. Clifton E. Mack as Director of Procurement by transfer from his present position in the Bureau of Internal Revenue. Mr. Mack has been devoting his time for the past several months to the reorganization of the Division and he has brought about such fine results and has shown such marked capacity for the work that I feel he is ideally equipped to take charge of the Division.

Faithfully yours,

(Sgd) W. M. C. M. Jr.
Secretary of the Treasury.

The President,

The White House.

THE WHITE HOUSE
WASHINGTON

July 1, 1940.

My dear Mr. Secretary:

I have today designated Mr. Philip Young, Assistant to the Secretary of the Treasury, to serve in lieu of the Director of Procurement, Treasury Department, on the informal committee created December 6, 1939, to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States.

Sincerely yours,



Honorable Lewis Compton,
Acting Secretary of the Navy,
Washington, D. C.

THE WHITE HOUSE
WASHINGTON

July 1, 1940.

My dear Mr. Secretary:

I have today designated Mr. Philip Young, Assistant to the Secretary of the Treasury, to serve in lieu of the Director of Procurement, Treasury Department, on the informal committee created December 6, 1939, to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Franklin D. Roosevelt".

Honorable Louis Johnson,
Acting Secretary of War.
Washington, D. C.

JUL 1 1940

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Sincerely yours,

(Signed) Franklin D. Roosevelt

Honorable Louis Johnson,
Acting Secretary of War.
Washington, D. C.

WHT:ans /

RJ

JUL 21 1940

My dear Mr. Secretary:

I have today designated Mr. Philip Young, Assistant to the Secretary of the Treasury, to serve in lieu of the Director of Procurement, Treasury Department, on the informal committee created December 6, 1939, to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States.

Sincerely yours,

(sgnd) Franklin D. Roosevelt

Honorable Lewis Compton,
Acting Secretary of the Navy,
Washington, D. C.

WFT:ms
[Handwritten initials]

THE WHITE HOUSE
WASHINGTON

June 4, 1940.

My dear Mr. Secretary:

On December 6th, 1939, I created an informal Committee to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States.

At my suggestion you designated the Quartermaster General of the Army as a member of this Committee. I should like to substitute for the Quartermaster the Executive Assistant to the Assistant Secretary of War.

Will you please issue appropriate instructions to make this change effective.

Sincerely,



The Honorable,

The Secretary of War.

THE WHITE HOUSE
WASHINGTON

June 4, 1940.

My dear Mr. Secretary:

On December 8th, 1939, I created an informal Committee to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States.

At my suggestion you designated the Quartermaster General of the Army as a member of this Committee. I should like to substitute for the Quartermaster the Executive Assistant to the Assistant Secretary of War.

Will you please issue appropriate instructions to make this change effective.

Sincerely,



The Honorable.

The Secretary of War-

THE WHITE HOUSE
WASHINGTON

December 6, 1939.

My dear Mr. Secretary:

I have created an informal committee to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States, consisting of the following:

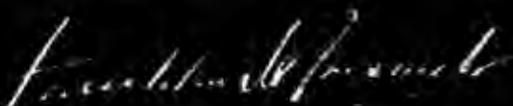
(a) The Director of Procurement, Treasury Department; (b) The Quartermaster General of the Army; (c) The Paymaster General of the Navy.

This committee will serve as the exclusive liaison with reference to procurement matters between this Government and the interested foreign governments. It will hold sessions at least once weekly, and at such more frequent intervals as may be necessary. At these sessions, it will receive an accredited representative of the embassy of any interested foreign government for the purpose of giving consideration to the requirements of such government for supplies, equipment, and materials, in relation to: (a) availability of the desired articles, (b) priorities, and (c) prices. The committee will submit a complete report of its proceedings, acts and recommendations, at least weekly, to the President through Mr. McReynolds.

The Secretary of State has informed the British and French Ambassadors of this arrangement.

Will you please inform the Director of Procurement of his designation as a member of this committee and ask him to serve as its chairman.

Sincerely,



The Honorable,

The Secretary of Treasury.

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

July 1, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of paraphrase of corrected copy of page two of telegram No. 99 of June 24 from Bordeaux.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

JUL 1 1940

TECHNICAL ASSISTANT
RECEIVED

CORRECTED COPYPARAPHRASE

Page 2, telegram No. 99 of June 24, 3 p.m., from Bordeaux.

central bank in close relationship with the Federal Reserve of the United States, and it was "totally inexplicable" that it had failed to communicate with him.

The Governor said that through your kind intervention he had received official confirmation of the crediting to the Bank of France account by the recent gold transaction. Reference: your telegram of the nineteenth of June. Up to the present the Governor had not even yet received direct confirmation from the Federal Reserve nor any reference to the 5 percent which remained to be credited. In the most emphatic way he asked that we try to get some satisfaction, or at least an explanation of the reason.

At no time have I seen the Governor as indignant as he was about this.

Last night Rueff came in to say good-bye. He said he is leaving for Chatel Guyon to take over the duties of Boisanger. The latter has been named to the armistice commission, and he is leaving for Wiesbaden immediately.

BIDDLE.

TO THE SECRETARY OF THE ARMY
TECHNICAL DIVISION
JUN 25 1918
RECEIVED

EA:LWV

July 5th - 4:00 P.M. 230
Secs. 5 + 13 not yet received

RAW
This telegram must be
closely paraphrased be-
fore being communicated
to anyone. (Br)

La Bourboule *one page of*
(Paris) *Sec. 13 revised*

Dated July 1, 1940.

Rec'd. 9:07 a.m., 3rd.

Secretary of State,

Washington.

6, July 1, 9 p.m.

PERSONAL FOR THE SECRETARY AND THE PRESIDENT.

I had long conversations today with Lebrun, Petain, Darlan and Chautemps; and also spoke briefly with Weygand, Pomaret, Marquet and many senators and Ambassadors. The impression which emerges from these conversations is the extraordinary one, that the French leaders desire to cut loose from all that France has represented during the past two generations, that their physical and moral defeat has been so absolute that they have accepted completely for France the fate of becoming a province of Nazi Germany. Moreover in order that they may have as many companions in misery as possible they hope that England will be rapidly and completely defeated by Germany and that the Italians, will suffer the same fate. Their hope is that France may become Germany's favorite province - a new Gaul which will develop into a new Gaul.

End Section One.

BULLITT

WWC

JT
This telegram must be
closely paraphrased be-
fore being communicated
to anyone. (br)

(PARIS)
LA BOURBOULE

Dated July 1, 1940

Rec'd 9:35 p.m., 3rd

Secretary of State,
Washington.

6, July 1, 9 p.m. (SECTION TWO)

This mental disorder yesterday was accompanied by a physical disorder in living conditions and office arrangements which was fantastic. As you know the French Government arrived in Clermont-Ferrand yesterday. Displeased by living arrangements it left today for Vichy. In view of the disorder none of the statements which were made to me today should be taken as indicating any fixed line of policy or opinion. The truth is that the French are so completely crushed and so without hope for the future that they are likely to say or do almost anything.

One. I called on Lebrun at 11:30. When he entered the room he had a telegram from the United States (Atlanta, Georgia) imploring him not to surrender the French Government to Germany. He said that he had received hundreds of such telegrams. I replied that these telegrams unquestionably had shown him the terrible shock to American public

-2- #6, July 1, 9 p.m. (SEC TWO) from La Bourboule

public opinion that had been produced by the idea that France could deliver into the hands of her enemy a weapon with which to cut the throat of her ally, England. He immediately became very excited and said that the French positively would not (repeat not) deliver the fleet to Germany for the Germans intended to carry out the clauses of the armistice and that he was certain that they would not take and employ these warships.

(END SECTION TWO)

BULLITT

NPL

R&W
This telegram must be
closely paraphrased be-
fore being communicated
to anyone. (Br)

La Bourboule
(Paris)

Dated July 1, 1940.

Rec'd. 10:55 a.m.

Secretary of State,
Washington.

6, July 1, 9 p.m. (SECTION THREE).

He then said that the United States had done nothing to help France which had been fighting the battle of all the democracies and that criticisms from the United States were in extremely bad taste.

I replied that we had done all that we could; that we had made it clear to France from the beginning that we would not enter the war; that the people of the United States could understand that the French army had been obliged to surrender and that this action was considered as bad as the action of the King of the Belgians in withdrawing his army from the battle at Dunkirk which had been vigorously condemned as an act of treachery by the French. The permitting the fleet to fall into German hands was however, much more serious. It meant providing means to destroy an ally.

Lebrun flew into a passion and said that the British had given almost no help whatsoever to the French. They had sent ten divisions incompetently officered which had proved to be deficient in fighting spirit. They had run from the

Somme

RAW -2- #6, July 1, 9 p.m. (section three) La Bourboulle

Somme and the British Government had withdrawn the British
pursuit planes from the battle of the Somme.

BULLITT

DDM

ATP

ATP
This telegram must be
closely paraphrased be-
fore being communicated
to anyone. (br)

(Paris)
La Bourboule

Dated July 1, 1940

Rec'd 9:10 a.m., 3rd.

Secretary of State,
Washington.

6, July 1, 9 p.m. (SECTION FOUR)

The British would soon suffer the same fate that the French had suffered. It would then be the turn of the United States and he would like to see whether either Great Britain or the United States would stand up to the Germans as well as France.

He then suddenly without mental continuity, stated that in his belief the British would be able to beat off the German attack and that he heartily hoped they would be able to. He then launched into a discription of the pitiable plight of the refugees, which is indeed horrible, and stated that if the fleet had been sent to England the Germans unquestionably in retaliation would have destroyed Paris, Lyon and every other city in France.

I have never seen Lebrun in such a state of nervous excitement and it was obviously wearisome to carry the conversation further.

BULLITT

KLP

ATP
This telegram must be
closely paraphrased be-
fore being communicated
to anyone (br)

(PARIS)
La Bourboule
Dated July 1, 1940
Rec'd 3:15 a.m. 10th

Secretary of State,
Washington.

6, July 1, 9 p.m. (SECTION FIVE)

I then called on Marshal Petain who was calm
serious (?) and altogether dignified as a (?) great (?).
After I talked for an hour the Marshal asked me to take
luncheon with him and as a result I talked with him for three
hours.

The Marshal first asked me about conditions in
Paris which I described in great detail and made a
number of recommendations all of which he noted. He
then said that he desired to thank me most profoundly for
having remained in Paris and for (?) arranged the orderly
occupation of the city.

BULLITT

Note: Repetition of entire message requested.

G8B

JT
This telegram must be
closely paraphrased be-
fore being communicated
to anyone. (br)

(PARIS)
LA BOURBOULE

Dated July 1, 1940

Rec'd 4:47 p.m., 3rd

Secretary of State,
Washington.

6, July 1, 9 p.m. (SECTION SIX)

He said that he personally and all other Frenchmen owed me a deep debt of gratitude for this act. He then said that he felt that the main outlines of the future were clear. The Germans would attempt to reduce France to a province of Germany by obtaining complete control of the economic life of France and by maintaining France in a condition of permanent military impotence. It had been obvious to him when he had returned from his Embassy in Spain that the war was lost. He had attempted to persuade Reynaud to ask for an armistice the moment the British had refused to send their pursuit planes to participate in the fighting on the Somme. The truth was that the British had scarcely participated in that decisive battle of the war. Their troops had run, and although they had had 40 squadrons of pursuit planes in England they had sent only five to participate in the battle. French losses of material in Belgium and on the French frontier had

(Paris)
-2- #6, July 1, 9 p.m. (SEC SIX) from La Bourboule

had been such that the French troops outnumbered four and five to one had finally been without munitions. The French army had disintegrated and there was nothing to do except to make peace.

The Marshal then went on to say that the question of the fleet had been a terribly difficult one. He himself had taken the position that the French fleet would never be surrendered to Germany and he wished to tell me that orders had been given to every captain of the French fleet to sink his ship rather than permit his ship to fall into German hands.

(END SECTION SIX)

BULLITT

NPL

RAW
This telegram must be
closely paraphrased be-
fore being communicated
to anyone. (Br)

La Bourboule
(Paris)

Dated July 1, 1940.

Rec'd. 10:50 a.m., 3rd.

Secretary of State,
Washington.

6, July 1, 9 p.m. (Section seven).

He thought that German conduct in France indicated a desire to obtain the collaboration of the French as the chief conquered province of Germany. He did not believe that the Germans would break the terms of the armistice and he thought that they would on the contrary do everything to obtain the good will of the people of France and their cooperation in a subordinate role.

Pétain then went on to say that he thought that it would be a good thing for France if the Parliamentarians who had been responsible not only for the policies which had led to the war but also for the relative unpreparedness of France should be eliminated from the French Government. He intended to dismiss every politician who had been connected with the Blum Government. He felt that the system of Government in France must be changed. In his opinion one of the chief causes for the collapse of the French army was that the reserve officers who had been educated by school teachers who were Socialists and not patriots had deserted their men and shown no fighting spirit whatsoever. A sense of courage and duty must be reintroduced into France.

BULLITT

RR

EN
This telegram must be
closely paraphrased be-
fore being communicated
to anyone. (br)

La. Bourboule (Paris)

Dated July 1, 1940

Rec'd 7:35 p.m., 3rd

Secretary of State,
Washington.

6, July 1, 9 p.m. (SECTION EIGHT)

Marshal Petain went on to say that he expected Germany to crush England rapidly and he believed that Germany would make her chief demands at the expense of England. Germany probably would annex certain portions of France and would probably control the west of France through economic arrangements but he felt that England would be (?) destroyed by Germany and that while Germany would take French Morocco and other French possessions on the Atlantic coast of Africa she would also take South Africa, India and Canada if the United States should be defeated. He believed that the Italians would take Tunisia, Egypt and Syria and perhaps some portion of continental France. He felt that Algeria would be permitted to remain in French hands. He expressed great bitterness against Churchill and General de Gaulle.

Petaim added that he had just asked the German Government to permit the French Government to establish a sort of Vatican City at Versailles from which France could

-2- #6, July 1, from Labourboulc.

could be governed much more efficiently than from Vichy.

(END OF SECTION EIGHT)

BULLITT

JRL

NPL

REB

This telegram must be closely paraphrased before being communicated to anyone. (br)

(PARIS)

La Bourboule

Dated July 1, 1940

Rec'd 4:50 p. m. 3rd

Secretary of State,
Washington.

6, July 1, 9 p. m. (SECTION NINE)

Three. Admiral Darlan was intensely bitter against Great Britain. He said he felt that the British fleet had proved to be as great a disappointment as the French army. It was directed not by a man, but by a board of directors who could never make up their minds about anything until it was too late. He had spent a month trying to discover who was responsible for the fiasco of the Norwegian expedition and he was unable to pin the responsibility on any single Englishman since the Board of Directors had taken the responsibility collectively.

His most intense bitterness apparently had been aroused by an experience of his own son who was with the French marines (fusillers marines) at the Somme in direct contact with the British.

(END SECTION NINE)

BULLITT

NPL

EN
 This telegram must be
 closely paraphrased be-
 fore being communicated
 to anyone. (br)

La Bourboule (Paris)

Dated July 1, 1940

Rec'd 7:35 p.m., 3rd

Secretary of State,
 Washington.

6, July 1, 9 p.m. (SECTION TEN).

He said that his son who had been taken prisoner near Calais had managed to reach Bordeaux and had told him that the British troops on the Somme had run to the Bresle before the Germans had fired a single shot and had blown up the bridges behind the French marines.

Darlan went on to say that he felt absolutely certain that Great Britain would be completely conquered by Germany within five weeks unless ~~Great~~^{Great} Britain should surrender sooner. It would in his opinion be entirely impossible for the British to send a single ship into the port of London or into the ports of Plymouth, Southampton, and Portsmouth. The Germans could take Ireland easily and close the ports of Glasgow, Liverpool, Cardiff, and Bristol. Great Britain would die of asphyxiation even with ^{out} a German invasion. For his part, he did not believe that the British Government or people would have the courage to stand against serious German air bombardments and he expected a surrender after a few heavy air attacks.

BULLITT

NPL

HSM
This telegram must be
closely paraphrased
before being communi-
cated to anyone. (Br.)

La Bourboule
Dated July 1, 1940
Rec'd 8:50 p. m., 4th

Secretary of State,
Washington.

6, July 1, 9 p. m. (SECTION ELEVEN)

I remarked that he seemed to regard this prospect with considerable pleasure and when he did not deny this remark but smiled I said that it seemed to me that I had observed that the French would like to have England conquered in order that Germany might have as many conquered provinces to control as possible and that France might become the favorite province he smiled again and nodded.

I then asked Darlan if he expected an attack on the United States. He said that he felt certain that Hitler would attack the United States shortly after disposing of England and equally certain that the defenses of the United States would prove to be as vulnerable as those of England. He then said that he felt that the President of the United States had made a great mistake in criticizing the French Government's agreements with regard to the fleet. He, Darlan, had sent word to the officers of the
fleet

hsm -2- No. 6, July 1, 9 p.m. (Section 11), from La Bourboule
fleet before the armistice negotiations that he would
take one of two courses. If the Germans should demand
the fleet and insisted on the demand they would be
ordered to leave at once for Martinique and Guantanamo
to place the fleet in the hands of the United States.
If on the other hand it should be possible to keep the
fleet out of the hands of the Germans and in French
hands he would prefer such a solution. Under no condi-
tions would he send the fleet to England since he was
certain that the British would never return a single
vessel of the fleet to France and that if Great Britain
should win the war the treatment which would be accorded
to France by Great Britain would be no more generous than
the treatment accorded by Germany.

BULLITT

KLP

BJS

This telegram must be closely paraphrased before being communicated to anyone. (br.)

(PARIS)

LA BOURBOULE

Dated July 1, 1940

Rec'd 9:59 a. m. July 4.

Secretary of State,

Washington

6, July 1, 9 p. m. (SECTION TWELVE)

He added that he had given absolute orders to the officers of his fleet to sink immediately any ship that the Germans should attempt to seize. He said that preparations for the sinking of the ships had been made on every French vessel.

I said to him that I did not see how the French could have any control over any French vessel which might return to French ports under German control. He replied that there would always be aboard the vessels sufficient Frenchmen to sink them and that they would be on the alert.

I asked what vessels he expected to send back to Toulon. He replied that he expected to send both the DUNKERQUE and STRASBOURG to Toulon. I expressed the opinion that this means that the two most valuable units of the French fleet would soon be in German hands since the Germans could always say that one term of the Armistice or another had not been carried out and that they were justified therefore in disregarding the other terms of the Armistice.

BULLITT

LMS

246-A
*second page not
received in Texas -*

JI
This telegram must be
closely paraphrased be-
fore being communicated
to any one. (br)

(Paris)
La Bourboule

Dated July 1, 1940

Rec'd 4:26 p.m. 7th

Secretary of State

Washington

6, July 1, 9 p.m. (SECTION THIRTEEN)

Darlan replied that he had just as little confidence as I had in any German promise. But (?) the behavior of the Germans since their conquest of France had indicated that Germany desired to make France a willing vassal of Germany. It was in his opinion certain that Hitler intended to bring the entire continent of Europe including England into a single customs union and that he desired to make France his leading vassal state. France could do nothing but accept such a position for the moment. Hitler might spread his empire from one end of the earth to the other including the United States but all such empires eventually broke up because the masters in each subordinate country began eventually to sympathize with the country in which they were resident. He did not believe, therefore, that German domination

RAW

This telegram must be closely paraphrased before being communicated to anyone. (Br)

La Bourboule
(Paris)

Dated July 1, 1940.

Rec'd. 9:57 a.m., 4th.

Secretary of State,

Washington.

6, July 1, 9 p.m. (SECTION FOURTEEN).

Darlan then went on to say that the British Government was refusing to permit a French cruiser and two torpedo boats which were in the harbor of Alexandria to leave for French ports. He added that he intended to give immediate orders to these ships to shoot their way out if necessary.

He commented that he felt that when England should be forced to submit to Germany's will we should find the British eager to see the United States in the same subordinate position.

Darlan then said that French army had not only been defeated but completely disintegrated. The French fleet had not been defeated and its spirit remained intact and he hoped and believed that the officers corps of the French navy would play a great role in rebuilding France. Every report from the front since May 10 indicated that the French soldier still had all the courage and ability that he had ever had. In his opinion the soldiers of 1940 were fully equal to the soldiers of 1914. But the entire system of

parliamentary

RAW -2- #6, July 1, 9 p.m. (Section 14), La Bourboule.

parliamentary government in France had been rotten and the high commander of the army had proved to be equally rotten. A complete change in French ways of life was needed.

BULLITT

HPD

RDS

This telegram must be closely paraphrased before being communicated to anyone. (Br.)

(Paris)
La Bourboule

Dated July 1, 1940

Rec'd 10:25 p.m., 3rd

Secretary of State,

Washington.

6, July 1, 9 p.m. (SECTION FIFTEEN)

Darlan said that he had positive information that in the immediate future German troops would pass through northwestern Spain to attack and seize Portugal. He thought that Portugal would be turned over to Spain with the exception of Lisbon which would be kept permanently in German hands. He stated that he had just been informed authoritatively that German troops had already crossed into Spain.

Immediately after talking with Darlan I had a long talk with Lequerica, Spanish ambassador to France. I told him without naming Darlan that I had heard this report. He replied that there was not a word of truth in the statement that German troops had crossed the Spanish frontier. Moreover, he did not believe that German troops would cross the Spanish frontier. He felt, however, that it was very important for Spain to bring the present war to an end as rapidly as possible and he hoped that a cooperation between the United States and Spain to this end might be established.

In

-2- #6, July 1, 9 p.m. (SECTION FIFTEEN), from (Paris)
La Bourboule.

In confirmation of his statement that there was no truth in the report that German troops had entered Spain he said that he had talked with the Spanish Minister for Foreign Affairs by telephone to Madrid at 12:30 today and that the Minister had assured him that the report was entirely false.

(END SECTION FIFTEEN)

BULLITT

NPL

BJS

This telegram must be closely paraphrased before being communicated to anyone. (br.)

(PARIS)

LABOURBOULE

Dated July 1, 1940

Rec'd 9:56 a. m. July 4.

Secretary of State,

Washington

6, July 1, 9 p. m.

(SECTION SIXTEEN)

Chautemps and Senator Henri Haye gave me a concrete description of the present plan to change the French Constitution. Chautemps said that Petain had asked him to join his Government and he had done so but he was gradually being shoved aside as an adviser of Petain by Laval. He said that Petain, Weygand and Laval intended to abolish the present French Constitution and to introduce a semi-dictatorial state in which Parliament would play a small role. The model would be probably the German Constitution when Hindenburg had been President and Hitler Chancellor. Petain would be Hindenburg and Laval would be Hitler. Petain, Weygand and Laval all believed that if a dictatorship of this kind should be introduced in France before the peace France would obtain much better terms than could be obtained under a parliamentary regime.

BULLITT

TFV

RAW

This telegram must be closely paraphrased before being communicated to anyone. (Br)

La Bourboule
(Paris)

Dated July 1, 1940.

Rec'd. 10 a.m., 4th.

Secretary of State,
Washington.

6, July 1, 9 p.m. ((SECTION 17)).

Henri Hays said that all the senators and deputies would be summoned to a constitutional convention to establish this new form of government.

I also talked today with one of the few men in France in whose integrity, intelligence and wisdom I have absolute confidence. I deliberately omit his name. He stated to me that he felt that the coming man in France was General Huntzinger who is now in Germany at the head of the French Armistice Commission. He believed that there would be exploratory changes in French life and that the democratic parliamentary system of government was doomed. It had produced in public life too many men who had cleverness but no character; too many men who regarded their own interests and disregarded the interests of the country. It would take an extremely long time to rebuild a strong France of character and convictions and there would be strange aberrations and eruptions but he was absolutely confident that the French soldier and the French peasant were as sound as they had

EVER

RAW -2- #6, July 1, 9 p.m., (Section 17), La Bourboule
EVER BEEN.

I received a long letter tonight from General Requin
who commanded at the end the superb French resistance at
Rethel where his troops stood until they had not one
cartridge left. (End Section 17)

BULLITT

PEG

RDS

This telegram must be closely paraphrased before being communicated to anyone. (Br.)

(Paris)
La Bourboule

Dated July 1, 1940

Rec'd 10:28 p.m., 3rd

Secretary of State,
Washington.

6, July 1, 9 p.m. (SECTION EIGHTEEN)

It gives the same impression. I have talked with many soldiers who fought until they were totally without munitions and then charged with the bayonet.

The simple people of the country are as fine as they have ever been. The upper classes have failed completely.

(END OF MESSAGE)

BULLITT

NPL

July 1, 1940
3:55 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

H.M.Jr: Hello.

Arthur Purvis: Hello. Good afternoon.

H.M.Jr: How are you?

P: Very well, thank you. I gather you've been very busy today.

H.M.Jr: Moderately.

P: (Laughs) I was just going to ask you when you felt would be best for you -- tomorrow or Wednesday, whichever was best.

H.M.Jr: Well, here's the thing. I've just had Colonel Burns and Admiral Spear and Young together, and Mr. Young is on that Committee now officially -- hello?

P: Yes.

H.M.Jr: And we're going to meet with them again at 9:00 o'clock Wednesday.

P: Oh, I see.

H.M.Jr: So I think if you came in around 10:00 o'clock Wednesday, we'd have some news for you.

P: Oh, that will be very good. I'll plan that accordingly.

H.M.Jr: See?

P: That will be very good.

H.M.Jr: Now one little thing you might do for me--- get this Rolls Royce lawyer off my neck.

- 2 -

P: That man McManners?

H.M.Jr: Yes.

P: He is -- frankly there is only one way to get him off anybody's neck and that is to give an instruction to one's secretary to remove him. He is the most long-winded and absurd person that I have yet struck in North America.

H.M.Jr: Well, that's saying a lot.

P: He really can't -- I mean, I don't know how -- nobody can handle him, you see. If you don't see him he writes you letters or he sends you telegrams or he does this or he does that and he's living in this strange past thing. I'll do my best but I don't

H.M.Jr: Well, this is the way you can get him off both of our necks.

P: Yes. (Laughs)

H.M.Jr: Air Commodore Baker forwarded us a letter from -- (aside -- who's it from) -- from --- Maurice Wilson wrote a letter to Sir Henry Self about these plans, you see?

P: Yes.

H.M.Jr: Now, if Maurice Wilson would write me a letter

P: I told him that last week -- that he ought to do that and he told me he was going to write you direct and that he fully understood that.

H.M.Jr: Well, he didn't do it.

P: Well, now I'll check Maurice Wilson because he promised me on Friday that he understood that and would do it.

H.M.Jr: Well, he hasn't done it -- at least, if he did, I didn't get it. And if he would write me a

- 3 -

letter then I will turn these damn plans over to the Rolls Royce and that's that.

P: Yes, he agreed to do that and I'll check to see he does.

H.M.Jr: Now, the plans we're talking about are the ones pertaining to the automobiles.

P: Yes.

H.M.Jr: I'm not going to turn over these plans of the advanced engines or the bombers.

P: No, I see.

H.M.Jr: It's just -- there's some automobile plans in there is what they want and I don't think your Government cares and certainly we don't.

P: No, exactly. (Laughs)

H.M.Jr: And you have an inventory of them, at least, Air Commodore Baker has.

P: Yes, yes. Well, I'll get that checked out.

H.M.Jr: Right. I think if they did that then we'd get this lawyer off of my neck.

P: Yes. All right. Now then there's one other thing -- though I've never found he'd go away as long as there's a shadow left. There's one other thing -- may I ask you?

H.M.Jr: Please.

P: Sir Horace Wilson asked me in a cable this morning what attitude you are adopting in connection with the freezing of balances held in the United States on account of the French overseas dependencies.

H.M.Jr: Well, that whole question is the one that I want to discuss.

P: Well, that's just what I guessed. I see it coming -- yes.

- 4 -

H.M.Jr: And we got a cable from Kennedy that he's coming very soon now and he's bringing Bewley -- with him, who's tops you know.

P: Yes, well, I think I'll just let Wilson know -- that's one of the points.

H.M.Jr: Did you know Bewley?

P: No, I don't know him.

H.M.Jr: Well, Bewley was the man

P: He's the man that was out before Pinsent.

H.M.Jr: That's right.

P: He's a jolly good man, I heard.

H.M.Jr: Yes. He's bringing Bewley with him.

P: Well, I think that's splendid.

H.M.Jr: So between -- but that's just the kind of thing that I want to ask Sir Frederick Phillips.

P: Exactly. Well, then, in that case I will make that clear to him.

H.M.Jr: Right.

P: Now there's one other thing that's worrying us a good deal. The Bearn, you know?

H.M.Jr: What?

P: The Bearn -- B-e-a-r-n -- that carrier which came to Halifax.

H.M.Jr: Yes.

P: We've discovered that she has gone not to Algiers but to Martinique.

H.M.Jr: I know that.

P: And our people are very worried and anxious to get those planes and are wondering whether

- 5 -

they're trying two things. In the first place they tried to get the local British naval authorities to get them unloaded in either Martinique, Guadalupe, or Nicola and get them transferred so that we can take them on, and the other thing they thought was that you might be willing to approach the French authorities and say that they were needed for Anglo-French war purposes and that you want to take them back and then let us get them again.

- H.M.Jr: Oh, man, man, man, man, man!!
- P: Get us into a lot of trouble, wouldn't it?
- H.M.Jr: Oh, God!
- P: I mean, it's really -- are we not really running into exactly the same thing all over again
- H.M.Jr: Well, supposing you put an English ship alongside and took the damn things off.
- P: That's exactly what I feel our people have got to do.
- H.M.Jr: Why, just -- I think so but I frankly would leave the U. S. Government out of this deal.
- P: Yes. I think what we've got to do is to politely seize them.
- H.M.Jr: I never heard of giving birth to a child more than once.
- P: (Laughs)
- H.M.Jr: And I had plenty of labor pains on that one.
- P: (Laughs) Nor do we want to wait nine months.
- H.M.Jr: No, or two years like an elephant.
- P: All right, thank you for today's laugh. I'll see that -- (laughs) --

- 6 -

H.M.Jr: All right. (Laughs) Thank you.

P: 10:00 a.m. Wednesday unless I hear from you to the contrary.

H.M.Jr: That's right.

P: Thank you very much.

H.M.Jr: Good-bye.

THE WHITE HOUSE
WASHINGTON

July 1, 1940.

MEMORANDUM FOR H.M. Jr.

For Procurement Director, you might consider Commander Murray L. Foyer (SC) U.S.N. -- 45 years old; last duty USN 4484T0C. I think he has been ordered to the Washington Navy Yard. He is considered one of the best younger Navy supply officers.

F.D.P.

THE ALLIED PURCHASING PROGRAM

July 1, 1940
3:30 p.m.Present: Mr. Spear
Mr. Burns
Mr. Young

H.M.Jr: At lunch today with the President we went over these memoranda which Phil Young prepared for me. Incidentally, we have got a new set-up which the President approved. No longer will the Director of Procurement be a member of this group and he approved of putting Phillip Young on it and you three fellows can get along. I told the President that. There won't necessarily be a Chairman unless you want to make one.

Burns: I think it is all going along very smoothly right now.

H.M.Jr: And the new man who goes into Procurement is a Civil Service man and the reorganization - it is Clifford Mack. He has got all he can attend to and more, too. So we will leave him out of it unless something affects it.

I am reading from what's-his-name's memo. Here is a set for each of you gentlemen. I had photostats made. Here is one for you, Phil. Isn't this wonderful service I am giving around here?

Young: It certainly is. Thank you.

Spear: I thought you were going to talk about 9822 which the President signed. That upsets the eight-hour law.

H.M.Jr: I have got two - the President sent me one, the question of the contracts sent to him by Mr. Compton for me to write on and the other one which Mr. Johnson sent to the President and both of those to be brought to me at 4:00 o'clock, but that has nothing to do with this committee. He sent me both of the originals and asked what we thought about it over here and I couldn't tell you, because I only gave it to my boys this morning.

- 2 -

"Smith and Wesson sub-machine guns:

"The British Purchasing Commission has received instructions to order 20,000 nine millimeter sub-machine guns from Smith and Wesson."

Now, on that thing, these 2,000 machine guns going to Sweden, the President said, "Let's take them away from them and give them to the British." He asked how to do it and I said I could do it through Summer Welles. Wouldn't that be the best way?

Spear: We are taking about thirty thousand dollars worth of diamonds away from that Russian ship in Seattle, at least they are talking about it.

H.M.Jr: Diamonds?

Spear: Yes, commercial diamonds.

H.M.Jr: Industrial diamonds?

Spear: Yes, sir.

H.M.Jr: These 2,000 machine guns on July 9, wouldn't that be the best way to do that?

Burns: Of course, that is what is indicated by this memorandum. You have got two ways of breaking that contract.

Spear: Why can't they do it the same way they took the machine tools up in New York off those two Russian and Japanese ships?

Burns: I know from this memorandum that there are two ways of breaking that contract. One is to certify their intended use against the Allies and the other is for the State Department to refuse a license.

H.M.Jr: Which way would you gentlemen suggest?

Burns: It looks to me as if the State Department angle which you suggested is the right way to do it.

- 3 -

H.M.Jr: I think so.

Young: We will have to talk with Joe Green about it.

H.M.Jr: Let me start with Sumner Welles.

Young: All right.

Spear: It looks as if Russia had anticipated that, doesn't it?

Young: Yes. Here is the original thing.

H.M.Jr: On this stuff, the President says from now on - for instance, these 2,000 machine guns will go to Canada, Phil.

Young: To go to Canada?

H.M.Jr: We talked the thing over and we think that it fits better from now on to give this stuff to Canada.

Burns: I think so, too.

Young: No re-export restrictions?

H.M.Jr: Well, what can we do after it gets to Canada?

Young: Well, you could put it in the original contract.

H.M.Jr: Now, Phil, we sell the stuff to Canada and - did we ever have any re-export provisions?

Burns: I don't know about that. The War Department has said for some time that Canada is at the top of the list for preferential treatment.

H.M.Jr: Don't bring that up. But these 2,000, if they can wangle these - I am going to ask Mr. Welles to see Phillip Young, you see, but he was so tremendously interested in those planes that time going to Sweden. Maybe he will help on this.

Young: There are also quite a number of planes going to Norway.

- 4 -

H.M.Jr: Are they anywhere as near as this?

Young: I think some of them are.

H.M.Jr:.. You had better look it up, Phil.

Young: I am not sure on this contract here as to whether this 2,000 is just the initial delivery and there are more to come or whether that is the total number.

H.M.Jr: The President thought we would give them to Canada. All right, gentlemen?

Spear: Yes.

H.M.Jr: Then, "Request for Canada, Ireland and Casablanca.

"Attached is a list of the articles requested together with the answer of the War Department as to availability. The War Department states that 28,500 surplus Enfield rifles can be made available to the Allies for such distribution as the Commission may direct between Canada and Casablanca."

(Telephone conversation with Sumner Welles follows:)

July 1, 1940
3:37 p.m.

H.M.Jr: Hello.

Operator: Mr. Welles is out of his office for an hour. I might get him in the Secretary's office, they're not sure.

H.M.Jr: Well, if he could step out a minute I would like to talk to him.

Operator: All right.

3:39 p.m.

H.M.Jr: Hello.

Operator: Mr. Welles.

H.M.Jr: Hello.

Sumner
Welles: Hello.

H.M.Jr: Sumner?

W: Hello, Henry.

H.M.Jr: How do you do.

W: Fine.

H.M.Jr: Well, I went over a list of requests from the Allied Purchasing Mission with the President and amongst the things about to be delivered -- 2,000 machine guns by Smith and Wesson to Sweden. Hello?

W: Yes, Smith and Wesson. I didn't get the last word.

H.M.Jr: To Sweden.

W: To Sweden. I see.

H.M.Jr: And they have a clause in their contract -- if these are to be used against the Allies, they have the right to cancel. I thought if you could see Philip Young for five or ten minutes he could explain it to you and either -- they're two ways of doing it. Either get Smith and Wesson to cancel or to refuse the license -- export license.

W: Well, I think it would be infinitely less embarrassing for us to have Smith and Wesson cancel.

H.M.Jr: Smith and Wesson cancel it.

W: Yeah.

H.M.Jr: Well, supposing we try that first, because there's no way of proving that they are going to use them against the Allies -- that's the only trouble.

W: Well, there's only this much to be said, Henry, that if they actually get started towards Sweden, two things will happen. Either the British will take them before they get to Norway where I suppose they'd have to be trans-shipped or the Germans would seize them. It's perfectly incredible to me that they'd ever reach Sweden under present conditions.

H.M.Jr: Well, I tell you what I'm -- would you make a note to tell Joe Green to sort of put a tab on this license?

W: Yes, certainly.

H.M.Jr: So that we don't let them slip through our fingers. And in the meantime, I'll have one of these gentlemen here take it up with Smith and Wesson.

W: Right, and let me know then what the result is.

- 3 -

H.M.Jr: And let you know what happens either way.

W: All right, Henry.

H.M.Jr: Thank you.

W: Thanks.

- 5 -

H.M.Jr: Now, I didn't think he would take that angle. He said he wanted us to take it up with Smith & Wesson first. It would be less embarrassing to the State Department. I thought - my God, he was on my trail for days on those damn planes. Now, who would be the best man? Colonel Burns, would you be the best man to take it up with Smith & Wesson?

Burns: I think our organization would. Colonel Mac-Moreland has a great deal to do with them. We can take it up right away when we get back.

H.M.Jr: Would you do that? And you heard me say to tell Joe Green to put a kind of tag on that license?

Spears: They haven't applied for a license yet?

H.M.Jr: I don't know. This came in over the telephone this morning, so we haven't got it so good.

Now, you see the War Department states that 25,500 surplus Enfields have been made available to the Allies.

Spears: That is the thing I want to find out. Have you seen this Section 1 of this 9822 which became law this morning?

H.M.Jr: No.

Spears: I think, sir, that you might see that, because I am going to have some difficulty with my people over there. Right here, just that sentence. That is on account of those boats is the reason they wrote that in.

H.M.Jr: Well, that is going to make it a little tougher, but that is all the more reason why they should go to Canada, isn't it?

Spears: Well, that isn't going to help it any, see.

H.M.Jr: To go to Canada?

Spears: Canada is a belligerent, too.

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- H.M.Jr: How the hell did that get in?
- Spear: Mr. Welch did that because he was mad over that boat transfer.
- H.M.Jr: Well then, that would apply to the thing on the next page.
- Spear: It applies to any of this stuff out of the Government supplies, either War or Navy, unless the Chief of Staff is willing to say that the stuff is no good and that is going to make it very difficult.
- Burns: He doesn't have to say that. He says it is not essential.
- Spear: Not essential, but you know --
- Burns: I think in the case of these Enfields that the War Department has declared them surplus and therefore they can't very well say they are still essential.
- H.M.Jr: General Marshall, as I understood it the other day in that discussion, thought they would be very valuable under some conditions.
- Burns: Of course, he is the man who has to make up his mind, but that law reads they are not essential.
- Spear: He can take a liberal interpretation on it.
- Burns: He has decided - the whole general staff decided that certainly these Enfields were surplus. Now, they couldn't make that statement if they were essential, could they?
- Spear: I see.
- H.M.Jr: Well now, in talking with the President on the fact that the Canadian - English or French are giving up some of this machinery to make small ammunition, the President felt that

- 7 -

possibly we could let some of this ammunition go with the Enfields, you see.

- Burns: I think what the Admiral says will have a great bearing on the small arms, but not on the Enfields.
- H.M.Jr: No, but if they set up a new plant, as I understand it --
- Spear: The law doesn't apply to anything except Government property. It is the use of Government property.
- H.M.Jr: What they need is this: They need 200,000 Enfields which they think they were promised and they need the ammunition to go with them and in view of that, certain machine tools for small arms production in this country - you see, the Remington and Winchester are going to have additional productions. I wonder whether we couldn't release some of that to Canada?
- Burns: That is something that we will have to take up with General Marshall. I know they are working on that right now, because you spoke to me about this an hour or so ago.
- H.M.Jr: Look, would this be crowding you too much, if I asked you gentlemen to come in at 9:00 o'clock Wednesday with an answer on this stuff? Do you think I ought to ask General Marshall to come in, too?
- Spear: I think we have got to get Admiral Stark and General Marshall on some general policy, what they are willing to do. Admiral Stark in an offhand sort of way says, "I am not going to certify this stuff that is useful material to us in time of war." Now, of course, I realize that if it is useful to us, it is useful to the British and vice versa. We don't want to give them something they can't use.
- H.M.Jr: (To Lieutenant McKay) Mac, would you call up General Marshall and Admiral Stark and tell

- 8 -

them that Colonel Burns and Admiral Spear are here and they each have a memorandum which I went over with the President at lunch and I would like to see them and if they would come to my office at 9:00 o'clock Wednesday morning, at that time they could tell me, you see, what the policy of War and Navy is.

What I think you ought to do, Phil, is give an extra copy to Major Smith. He ought to have been here today. Explain to him what happened, see. Pa Watson hasn't got one of these.

Young: Including my memo.

H.M.Jr: I have just got a local - here is an extra set.

Spear: These last three sheets are being worked on up in our Bureau now.

H.M.Jr: Here is an extra set.

Spear: That looks like all Army stuff, Colonel, doesn't it, those last three sheets on this memorandum? We got these over Saturday about 12:00 o'clock and I sent them right up to the Bureau of Ordinance. It is practically all Army stuff.

H.M.Jr: Isn't it best to have a little meeting here at 9:00 o'clock Wednesday?

Spear: I think so, sir. I think we ought to find out just what we are willing to do.

H.M.Jr: You recognize the handwriting, don't you, gentlemen?

Young: I can't read the comment.

H.M.Jr: What?

Young: What is the comment on the second one? What does it say?

H.M.Jr: "Canada, O. K."

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- Spear: O. K., ship to Canada. I have got a little picayunish thing like condenser tubes for that Canadian ship up there in Canadian waters. I have no law that I can sell direct. Of course, all this property is being transferred over to the War Department. Now, Colonel, is the War Department going to be able to certify that stuff as surplus if they ask us for it and we transfer it to you for shipment to Canada? I can't sell it for cash under any law that my Judge Advocate General says I can use.
- H.M. Jr: Well, heretofore they have never questioned it.
- Burns: When you turn something over to us for sale to somebody else, we just figure we are a clearing house and we haven't --
- Spear: This is brand new stock. These are condenser tubes we have just bought. There isn't any question about this stuff being - they are hard to get. Condenser tubes are hard to get.
- H.M. Jr: Well, I don't think we can do anything more for this afternoon, but don't you think each of your superiors will send for you?
- Spear: Then we can talk to them about this, yes.
- H.M. Jr: And Phil, you can kind of follow this through and tell Major Smith what happened.
- Young: Major Smith has a copy of all of this stuff except the memorandum.
- H.M. Jr: And you (Burns) are going to take it up with Smith & Wesson?
- Burns: Yes, sir.
- H.M. Jr: What I would like to get is another 200,000 Enfields for Canada and some more ammunition

- 10 -

to go with it. That is what I would like. I told that to the President and he said it was all right with him and it was all right with General Marshall.

Spear: You see this small arms ammunition, somebody has said we are short.

H.M.Jr: They are increasing this thing tremendously.

Burns: Yes, but on the other hand, you have got to take that with a grain of salt. We are checking on that. The weak link in ammunition is powder and I am not at all sure they have got a supply of powder.

H.M.Jr: O. K.

Spear: Mr. Secretary, do you remember the case of the - Mr. Young, do you remember the case of those six boats? I am a little bit concerned about the British request over to me for "Y" guns and something else they have contracted for down in New Orleans. How are they going to get them out of this country under that ruling of the Attorney General?

Young: That is up to the contractors.

Spear: He is liable to step into a prosecution there.

Young: There might be another question for Joe Green there as to whether or not he wanted to warn the builder.

Spear: I don't think we should knowingly let one of our citizens go ahead and contract with a foreign power and get himself into financial difficulties.

H.M.Jr: My suggestion is this: After all, the English have some very good lawyers up there. They have got Mr. Ballantyne, haven't they, former Undersecretary of the Treasury, as their attorney? Why not tell him to look into this thing?

- 11 -

Spear: Ballantyne is what, former Secretary-General?

H.M.Jr: There are two different fellows. I mean Arthur Ballantyne who used to be Undersecretary of the Treasury. He is a very good attorney. He is the attorney for the English. I think that would be the way, to have Arthur Ballantyne take a look.

All right, gentlemen, thank you.

No. 3224

Rio de Janeiro, July 1, 1940

Subject: Request for Release of Funds belonging
to Belgian Ambassador to Brazil.

ORIGINAL AND THREE COPIES BY AIRMAIL - CONFIRMATION COPY
BY STEAMER

The Honorable

The Secretary of State,
Washington, D. C.

Sir:

With reference to my despatch No. 3133 of June 10, regarding the request of the Belgian Ambassador to Brazil for the release of blocked funds in his account with the Banque Belge pour l'Etranger, 67 Wall Street, New York, I have the honor to transmit a copy of a further communication from the Belgian Ambassador in which he requests that blanket permission be arranged, if possible, for the transfer of his blocked funds.

The Belgian Ambassador has been informed that his request is being forwarded to Washington for consideration by the appropriate authorities. I am of course aware that compliance with the Belgian Ambassador's latest request may not be practicable.

Respectfully yours,

For the Ambassador:

Enclosure (1)
Copy of communication from
Belgian Ambassador
File No. 701 RH:AM

Randolph Harrison Jr.,
Second Secretary of Embassy

C O P Y

Enclosure No. 1 to despatch 3224
from the American Ambassador at
Rio de Janeiro regarding request
for release of funds belonging to
Belgian Ambassador to Brasil.

Ambassade de Belgique

Rio de Janeiro, June 1940

My dear Colleague:

Referring to your kind letters of the 11th and 25th of this month, I hasten to thank you for your obliging and prompt intervention resulting in the concession of the necessary authorizations for the transfer to Rio de Janeiro of a sum of \$1,000 by the debit of my account in New York.

I had, in effect, in the meantime, been advised of this disposition.

Would it be an abuse of your kindness to request you, as I had suggested in my letter of June 5, to ask that the State Department authorize once for all the unblocking of my assets in dollars in the Banque Belge pour l'Etranger (Overseas) at New York? If this were accomplished, my bankers would not be compelled to apply for the appropriate license each time I draw upon them, which procedure involves a loss of time and inconvenience that I wish to avoid as far as possible.

Thanking you sincerely in advance for your trouble, I hope you will accept, my dear colleague, the assurances of my highest consideration.

(s) Maurice Cuvelier

His Excellency
Mr. Jefferson Caffery
Ambassador of the United States of America
Rio de Janeiro.

TRANSLATION

2.

credits at low interest rates, 75 million francs each to the Confederation and to the cantonal governments - 150 millions in all. At the outbreak of war full recourse was taken to these facilities.

The war finance program, as finally enacted, provided for the writing-off of the 150 million franc credits already given. In addition, 250 million francs were transferred from the Fund to the Confederation to cover extraordinary deficit expenditures, while the cantons received another 75 million francs. Thus a total of 475 million francs was made available for current public expenditures. Although this did not represent the entire profit of the devaluation, the National Bank took the opportunity of dissolving the Fund and combining it with the rest of the balance sheet. At the beginning of the transaction, which was consummated on May 31, the Fund was augmented by about 100 million francs to 633 million by raising the valuation of the National Bank's gold stock from 4639.13 to 4869.8 francs per fine kilogram, thereby bringing it closer in line with the current depreciation of the Swiss currency.* After the deduction of the 475 million francs received by the Confederation and the cantons, the remaining 158 million francs were reflected on the statement of May 31 under "Other Liabilities." The Confederation's share of 250 million francs in "new" money was utilized in partial repayment of central bank credits to the state, which had been greatly increased as the result of the mobilizations. The 75 million francs received by the cantons are said to have been largely left on deposit with the National Bank, although little net change occurred in the total of reported

* The Swiss franc has been quoted recently in New York at \$0.2242, showing a depreciation of 31.4 per cent from its pre-devaluation parity. The price at which gold is now booked corresponds to a depreciation of 29.3 per cent, as against 25.8 per cent prior to May 31.

- 3 -

sight deposits. On the asset side of the statement, the dissolution of the Equalization Fund was reflected in large increases under "Gold", "Foreign Exchange," and "Other Assets."

The principal changes influenced by these measures, as shown in the statements of May 23 and May 31, are as follows:

(In millions of Swiss francs)

	<u>May 23</u>	<u>May 31</u>	<u>Change</u>
<u>Assets:</u>			
Gold	1,982	2,168	+ 186
Foreign Exchange	247	361	+ 114
Government Bills	287	66	- 221
"Other Assets"	26	126	+ 100
<u>Liabilities:</u>			
Sight deposits	565	565	nil
Exchange Equalization Fund	533	nil	- 533
"Other Liabilities"	72	232	+ 160

HEB:EC

COPY

CONFIDENTIAL

July 1, 1940

To: The Secretary
From: Mr. Young

SMITH & WESSON SUB-MACHINE GUNS

The British Purchasing Commission has received instructions to order 20,000 9 mm sub-machine guns from Smith & Wesson. This company now has a contract with the Swedish Government for the delivery of 2,000 machine guns on July 18th. The Swedish contract provides for cancellation if the guns are intended for use against the Allies, or if the State Department refuses an export license.

According to the British Purchasing Commission, Smith & Wesson is suspicious of the ultimate destination of these guns and would have no objection if an export license were refused. Although the Commission is anxious to get these guns, it has made no effort as yet to make a deal with the Swedish Government on this matter.

REQUEST FOR CANADA, IRELAND, AND CASABLANCA

Attached is a list of the articles requested together with the answer of the War Department as to availability. The War Department states that 28,500 surplus Mafield rifles can be made available to the Allies for such distribution as the Commission may direct between Canada and Casablanca. Further, 20,000 may be made available to the Irish Free State. Some of the other items requested can be released.

- 2 -

REQUEST FOR SMALL ARMS AND FIELD GUN AMMUNITION

The British Purchasing Commission has made arrangements to keep certain special machine tools for small arms ammunition production in this country. Further, the Commission is signing a contract with Remington Arms for expansion of small arms ammunition output. The result will be to increase small arms ammunition production of Winchester immediately leading up to an additional million rounds per day by October 1st, and by a further million rounds per day by January 1, 1941. In addition, output of Remington Arms will be increased by 1,500,000 rounds per day, production starting at the end of September, 1940, and reaching its peak by the end of March, 1941.

In view of these efforts to increase United States production, the British Purchasing Commission hopes to obtain immediate release of small arms ammunition from Army stocks. Major Smith, and General Moore have informed me that despite the foregoing no additional amounts of small arms ammunition can be released. You will recall that on June 6th the War Department released 30 million rounds and contracted to release 4 million rounds in June and 4 million rounds in July, and then an additional 10 million rounds per month from August through December; a total of 58 million rounds.

The British Purchasing Commission is also contemplating additional orders to increase the production of field gun ammunition. Because of this, further release of current stocks is desired. The same situation, however, applies here as in the case of the small arms ammunition.

FY:bj

CONFIDENTIALFOR YOUR INFORMATION

June 28, 1940

To: The Secretary

From: Mr. Young

Attached herewith is a copy of the request received at 12:05 P.M. today from the Anglo-French Purchasing Board, tabulated as follows:

Canadian Requirements

Hire Requirements

Casablanca Requirements

I gave Major Smith two copies of the foregoing at 12:50 P.M., one for his personal use, and one to be turned over to General Watson. Two additional copies are being transmitted to Admiral Spear and Colonel Burns, respectively, through the Liaison Committee this afternoon at Major Smith's request.

FI:bj

CANADIAN REQUIREMENTS

I have received the most urgent request from Canada to ask your co-operation in obtaining the following stocks of war equipment of which they are badly in need. In view of the desirability of having the North American situation well protected, I hope that consideration will be given to this.

1. 250,000 Lee Enfield rifles, with as much ammunition as can be supplied
2. 100 preferably British pattern 75 m.m. field guns
3. 100,000 rounds of high explosive shells for above 75 m.m. field guns
4. 600 Lewis machine guns for land service, with complementary ammunition
5. 200 Vickers machine guns for land service, with complementary ammunition
6. 500 Thompson sub-machine guns
7. 1,000,000 rounds of .45 calibre ammunition for above

A.B.P.

June 28, 1940

IRE REQUIREMENTS

- | | | |
|----|--------|---|
| 1. | 24 | 75 m.m. field guns |
| 2. | 72,000 | rounds of shells for above |
| 3. | 20,000 | Lee Enfield rifles with
complementary quantities of
ammunition for same |

A.B.P.

June 28, 1940

CASABLANCA REQUIREMENTS

1. 10,000 Lee Enfield rifles with 500 cartridges each.....
2. 20 Anti-tank guns with 500 rounds per gun
3. 200 small calibre anti-aircraft guns with 2,000 rounds per gun.
4. 50 Anti-aircraft guns, medium calibre, with 1,000 rounds per gun.
5. 100 modern tanks with complementary ammunition
6. 470 French 75 m.m. guns

A.B.P.

June 28, 1940

Handwritten notes:
Munitions
not all
have been
7/1/40
D.G.

SMALL ARMS AMMUNITION

The following special steps have been arranged by the British Purchasing Commission with the British Government in order to increase the output of .30 calibre or .303 small arms ammunition in the United States.

A. The United Kingdom has had on order for some six months special machine tools for small arms ammunition production. This machinery will now be largely retained on this side of the water with the following effects:

1. By the use of a relatively small amount of the machinery, in combination with the United States Arsenal machinery, the Winchester Cartridge Company will immediately start to increase its production and by October 1st this will involve an additional million rounds per day.
2. By the use of the balance of the United Kingdom tools another Winchester Cartridge Company unit will be put into operation by October 1st, working up to full production of one million rounds per day by January 1st next.

B. Apart from the use of any United Kingdom machine tool orders already on hand, the British Purchasing Commission are just signing a contract which will cover an expansion in small arms ammunition output by the Remington Arms Company amounting to 1,500,000 per day, production starting at the end of September 1940 and coming into full force by the end of March 1941. This large increase in output has been obtained by the British Purchasing Commission putting up the necessary funds to enable the Remington Arms Company to recondition its old machinery and plant.

2.

It is hoped, in view of the efforts that are being made to build up United States manufacturing potential for small arms ammunition - and we are not stopping at the above - that consideration will be given to the release of a large quantity of present stocks in the hands of the United States Administration.

Entirely apart from the increase in United States potential for small arms ammunition noted above, large orders have been placed for the building up of United States output of

1. revolver and pistol ammunition,
2. Colts Browning machine gun ammunition.

A considerable amount of capital assistance has been involved. The building up of additional output is in contemplation at this time.

A.B.P.

RECEIVED

JUL 1 1940

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FIELD GUN AMMUNITION

Up to the present, the only orders actually placed for production in the United States of 75 m.m. empty shells is one for 500,000, deliveries beginning in August at a monthly production rate of 150,000. At the present time we are contemplating additional orders which would give a production of 200,000 monthly within three months, rising to 2,000,000 monthly within nine to twelve months. A capital assistance to the amount of \$5,000,000 would be involved in such a programme.

Orders have already been placed in the United States which will result in a few months in deliveries of 27,500 per month of 6-inch Howitzer empty shells and 30,000 monthly of 9.2-inch Howitzer empty shells.

A.B.P.

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JUL 1 1940

July 1, 1940

Regraded Unclassified

CONFIDENTIAL

July 1, 1940

To: The Secretary

From: Mr. Young

SMITH & WESSON SUB-MACHINE GUNS

The British Purchasing Commission has received instructions to order 20,000 9 mm sub-machine guns from Smith & Wesson. This company now has a contract with the Swedish Government for the delivery of 2,000 machine guns on July 18th. The Swedish contract provides for cancellation if the guns are intended for use against the Allies, or if the State Department refuses an export license.

DK
According to the British Purchasing Commission, Smith & Wesson is suspicious of the ultimate destination of these guns and would have no objection if an export license were refused. Although the Commission is anxious to get these guns, it has made no effort as yet to make a deal with the Swedish Government on this matter.

REQUEST FOR CANADA, IRELAND, AND CASABLANCA

Canada
DK
Attached is a list of the articles requested together with the answer of the War Department as to availability. The War Department states that 28,500 surplus Enfield rifles can be made available to the Allies for such distribution as the Commission may direct between Canada and Casablanca. Further, 20,000 may be made available to the Irish Free State. None of the other items requested can be released.

- 2 -

REQUEST FOR SMALL ARMS AND FIELD GUN AMMUNITION

The British Purchasing Commission has made arrangements to keep certain special machine tools for small arms ammunition production in this country. Further, the Commission is signing a contract with Remington Arms for expansion of small arms ammunition output. The result will be to increase small arms ammunition production of Winchester immediately leading up to an additional million rounds per day by October 1st, and by a further million rounds per day by January 1, 1941. In addition, output of Remington Arms will be increased by 1,500,000 rounds per day, production starting at the end of September, 1940, and reaching its peak by the end of March, 1941.

In view of these efforts to increase United States production, the British Purchasing Commission hopes to obtain immediate release of small arms ammunition from Army stocks. Major Smith and General Moore have informed me that despite the foregoing no additional amounts of small arms ammunition can be released. You will recall that on June 6th the War Department released 30 million rounds and contracted to release 4 million rounds in June and 4 million rounds in July, and then an additional 10 million rounds per month from August through December; a total of 58 million rounds.

The British Purchasing Commission is also contemplating additional orders to increase the production of field gun ammunition. Because of this, further release of current stocks is desired. The same situation, however, applies here as in the case of the small arms ammunition.

Amadeo
AK

PK

ALLISON ENGINEERING COMPANY
Deliveries of Airplane Engines

	: Actual : deliveries :	: Estimated deliveries on : existing orders
<u>1940</u>		
January.....	10	
May 1 - 23.....	10	
May 24 - June 1.....	5	
June 2 - 8.....	4	
June 9 - 15.....	8	
June 16 - 22.....	11	
✓ June 23 - 30.....	8	
July.....		156
August.....		160
September.....		310
October.....		351
November.....		331
December.....		332
<u>1941</u>		
January.....		362
February.....		416
March.....		416
April.....		414
May.....		408
June.....		437
July.....		320
August.....		294
September.....		431
October.....		45
November.....		45
December.....		45
<u>1942</u>		
January.....		25
February.....		21

Office of the Secretary of the Treasury,
Division of Research and Statistics.

July 1, 1940.