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- Foley: I would rather have it that way, too, if it is all the same to you.
- H.M.Jr: It is unanimous. (Laughter.) That is a good one.
- Kuhn: But Ed meant at the House hearings - I think the title wasn't read, and it didn't specify that this was a married man.
- Foley: Somebody might have picked it up.
- H.M.Jr: Edward Foley, Washington's most desirable bachelor says, I should please say "married couples".
- Kuhn: "With two children."
- H.M.Jr: Oh, and with two children.
- White: The rest of us wouldn't think of that.
- Foley: If they ask you if this includes state taxes, it doesn't, because we don't locate that couple anywhere. It is only federal income taxes.
- H.M.Jr: Now we get down to page 13. "The last table I want to submit to you - ",no.
- White: The final table? "Finally I should like to submit to you"?
- Bell: "I should like to submit one more table."
- H.M.Jr: That is right. "I should like to submit one more table to you which is an estimate-"
- White: Or "it is"?
- H.M.Jr: "Which is an estimate of the long-term

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foreign investments of the United Kingdom outside the United State. These figures, most of which were compiled by British economists before the outbreak of the war, are necessarily estimates. Nobody can fix a definite valuation upon such properties as ranches in Australia, railways in Argentina, or oil wells in Mexico.

Most of the investments are in sterling securities; a large part of the Canadian investment is in Canadian dollars, and some of the other investment are in the respective domestic currencies. However, for convenience of presentation, the estimated nominal value of the investments has been converted into sterling.

The market values, where given, are calculated from current market quotations of the securities. Since market quotations are not available for a large part of the investment, no total market value can be calculated."

Okeydoke. Now, the last thing. "The problem before us is not - "

Foley: Those tables are all right. We don't have to re-cast them, do we, Dan?

Bell: No, I suppose the Secretary when he reads them --

Witte: No, those were done the old way.

Bell: Can find himself the totals.

H.M.Jr: Yes. O.K., Dan?

Bell: Yes.

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- H.M.Jr: "The problem before us is not whether the British Empire has resources; of course it has, all over the world. The problem is whether the British have got the dollars they need, or can get the dollars they need to spend in this country."
- "The problem before us is not whether the British --"
- White: This is the first time we have said British Empire. You have always talked about the United Kingdom. I think the problem is not whether the United Kingdom has resources or the British people.
- Bell: The British.
- H.M.Jr: "The problem before us is not whether the British have sufficient resources." What? You don't want to say --
- Kuhn: This is in answer to the table, you see. You have been giving these vast sums invested all over the world, while the impression you create is what --
- H.M.Jr: But isn't it, Ferdie, that the problem is whether the British have sufficient resources?
- Kuhn: It is whether they have enough dollars.
- H.M.Jr: No, whether they have sufficient resources.
- Bell: Whether they have dollar resources.
- Kuhn: Dollar resources.
- Foley: I would rather you said "resources".

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- H.M.Jr: All right.
- Foley: Because when you say "sufficient", that means adaptable.
- White: The emphasis is between resources and dollar resources.
- H.M.Jr: "The problem is not whether the British have the resources; of course it has, all over the world."
- Kuhn: "Of course they have."
- Foley: "They have, all over the world."
- H.M.Jr: "The problem is whether the British have got the dollars they need, or can get the dollars they need to spend in this country." I think that is all right. "If we expect the British to go on getting supplies here --" "if we expect the British to go on getting their supplies here?" Do you mind putting in a "their"?
- "If we expect the British to go on getting their supplies here--and that means if we expect them to go on fighting--some way must be found to provide either the dollars or the supplies themselves. That, gentlemen, is the problem. I am ready now, Mr. Chairman, to answer questions."
- "If we expect the British to go on getting supplies here" -- how about "to continue"?
- White: That next sentence is the one time you are stepping out of the role.
- H.M.Jr: Yes, and I think it is a mistake.

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White: The others have said it. It is obvious.

Bell: You mean about the fighting?

White: Yes.

H.M.Jr: I don't see why. I haven't done it.

White: You were the only witness, but all the rest were stressing that.

Young: I believe you could leave out the last paragraph.

White: Wouldn't you leave it out?

Young: I would, the last paragraph.

H.M.Jr: I would be inclined to leave that out. Do you think I can end on that? "Whether they can get the dollars they need to spend in this country. That, gentlemen, is the problem, and I am now ready to answer questions."

Kuhn: We might say, "that, gentlemen, is the problem which this Bill, to my mind, solves". Or don't you want to link it up with the Bill?

H.M.Jr: Simply say, "that, gentlemen, is the problem as I see it."

Bell: And I would transfer that up to the last paragraph.

White: After "they need to spend in this country", and "that is the problem".

H.M.Jr: Yes, right after - have a separate sentence, so it sticks out. Separate paragraph.

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"That, gentlemen, is the problem as I see it."

Bell: And end right there?

H.M.Jr: Sure. What is the problem? The problem is whether the British have got the dollars they need or whether they can get the dollars they need to spend in this country.

White: Would you want to say, "that, gentlemen, is the financial aspect of the problem"? There are a lot of other problems.

Bell: You say his problem is whether the British have got the dollars they need or can get them. "That, gentlemen, is the problem as I see it."

Foley: He isn't supposed to see the other problems.

White: There are other problems that he sees.

Foley: Well, I know, but he is Secretary of the Treasury. "As I see it", that is all right.

Bell: Well, that concerns the Treasury.

H.M.Jr: Let me just think a minute. This is important. "If we expect the British to go on" and so forth. You see, that last thing - of course, it is perfectly true, but the last time my success was, I gave them the cold facts, and I let the other fellows do the editorializing. This is the first time I step into that field, in the last paragraph.

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- Foley: You are going to have to say it. You are going to have to say it in answer to questions, Mr. Secretary, and I don't see that it makes any difference whether you put a punch line at the end and give the Bill a boost or you wait until they ask you the questions.
- White: Ed, I think it makes a lot of difference. He is coming up to give them the financial situation; he is not going to discuss the political necessity, either inter-national or domestic political necessity of passing this Bill. He is saying that they haven't got enough money to pay more than their commitments.
- Foley: And the first question is, "Are you in favor of this Bill, Mr. Secretary?" "Yes, I am." "Do you think it is better for us to make money available to them, as Senator Taft has proposed in his Bill, or to buy the supplies here and make them available to them?" "I prefer to make supplies available to them rather than go through all of the things that we went through to get the money."
- White: But he is still confining himself to the financial aspect of it. At some point he may want to answer what he regards as policy, but I think it comes better in answer to a question than in a prepared statement. You don't think it would really matter whether or not the Bill passes, do you? I mean, it wouldn't have the slightest significance, because he can say that in response to the questions, and they will know that.
- (The Secretary on White House phone.)
- H.M. Jr: Hello.....

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Thank you.....

Hello.....

Yes.....

Yes.....

I see.....

Now, what do you think? .....

You don't think he will go? .....

O.K.....

Yes.....

Yes.....

What? .....

O.K.....

My father always told us children, "never  
try to force pleasure on anybody." .....

Yes.....

I have seen the show.....

Well, then.....

Yes, it is.....

O.K.....

Thank you.....

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H.M. Jr: General Watson says the President does not wish to commit himself to going to see "Panama Hattie". I won't say whether he will or whether he won't, so somebody has got to let the Greek Minister know that. You (Stenotypist) tell McKay. I might as well do it. It is a nice job.

The President agreed if they would bring it down here during the middle of February that he would go, and they could give a free benefit. He wanted to see the show, and the only way I could dope it out that he could see the show was to let the Greeks get the benefit, and he agreed to it. Now, after two weeks, he changes his mind. I think, in order to save face on this thing - just think it over - I think we had better send word to the manager to kill it up there; because the Greek Minister cabled his government the wonderful thing about the President was going to go and so forth and so on.

Young: Why don't you call New York?

White: Does the President know all that? Maybe he will change his mind again.

H.M. Jr: Oh, he knows all that. We kidded back and forth on this for half an hour last night.

(Discussion off the record.)

H.M. Jr: Now, what about this last paragraph? Should I, or shouldn't I say it?

White: Well, up to this point there isn't a single phrase there in which the opponents or proponents of the Bill could take any issue

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with or could be moved one way or the other. It is a financial explanation of events. In this last paragraph, if it was included as it originally was, there is something of the other character which moves in for the first time, and it leaves them with that feeling, so instead of.....puts it on a somewhat slightly different level. I don't think it is very important, but to the extent that it is important, it does that.

- H.M.Jr: What do you think?
- Bell: I don't think it is very important, but I don't think it adds a lot to it.
- H.M.Jr: If we are going to leave it out, I think I would simply say, "that, gentlemen, is the problem as I see it".
- Bell: I think that is plenty.
- H.M.Jr: You don't think that is any different?
- Bell: You will be asked a lot of things.
- H.M.Jr: I think it is a good job. Supposing you - what is that?
- Kuhn: Mr. Secretary, what do you want done about releasing this? Should it be mimeographed for the press also, as well as for the committee?
- H.M.Jr: Oh yes, and I promised the boys down here that we would give them copies in advance this time, but it is to be held for release

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until we phone them from the Hill that I have started to testify.

Kuhn: That is all right.

H.M.Jr: You tell that to Chick Schwarz. They can have it. I told them they could have it. What I said last night, I said, "Look, gentlemen, this wasn't Treasury figures, this was British government figures, and the next time, as far as I am concerned, I have got enough confidence in you, you can have my figures a half day in advance."

Kuhn: Good.

H.M.Jr: So as soon as the thing is ready, I would give it to them, and tell Chick to hold it until he phones from the Treasury Press Room - from the Hill that I have begun to testify.

Kuhn: And also copies for the members of the committee?

H.M.Jr: Yes.

Foley: You want one of these in front of each member.

H.M.Jr: Now, let me just - let us understand each other. Unless I hear again, I take it it will be 2 o'clock.

Foley: At the earliest.

H.M.Jr: Yes, but there is something on the ticker that said that Hull might go on this afternoon again.

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Foley: I say at the earliest. I mean it will probably be much later. It may not be this afternoon. You may not get on at all. But we will be on call from 2 o'clock on. Just as soon as I find out how Hull is going and how it looks, I will let you know.

H.M.Jr: The point is that if it is 2 o'clock, we will all leave together about a quarter of two. Well, just wait one second until we get this thing now.

White: Do you plan on going up as soon as Hull sees this statement? You can't tell just what question will be the last, can you?

(Mr. Schwarz entered the conference.)

H.M.Jr: Chick, we have just cleared the statement, and what I thought, as soon as it is mimeographed, you can give it to the boys. This is the only thing. I wouldn't want to give it to them a day in advance, because supposing - I mean --

Foley: That is right.

H.M.Jr: Let's find out - when I know that I am going to testify - we don't know yet when I am going to testify. To give it to them a whole day in advance, it is too much to ask for them to hold that.

Schwarz: I won't give it to them over night.

H.M.Jr: When I start up on the Hill, you give it out here, and then you can say to them, "Now look, boys, you can have this thing and when Mr. Morgenthau starts to testify, I will phone you to the Press Room to re-

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lease it." But I don't think I would give it to them until I know definitely I am going to go on.

- Foley: You may not know, Mr. Secretary. You may get called down there, and then the thing may go on and they may get into another lot of questioning, and they may keep Mr. Hull longer, and you will have to wait.
- Schwarz: Well, at least it will be the same day.
- H.M.Jr: Not necessarily.
- Foley: No. I should think you would wait until you start to testify, and then Chick can call back and release it.
- H.M.Jr: I think it is a mistake to let these boys have this thing over night. Somebody is bound to make trouble over it.
- Foley: What I mean is, the fact that he is going down there doesn't mean he is going to testify today. We can't govern those things.
- Schwarz: What material do we have in there? If we have something hot --
- Foley: It is the same stuff.
- Kuhn: We are giving it to them only so that --
- Schwarz: If it is no ammunition to the republicans -- if it is something that they already have --
- H.M.Jr: Well, they know exactly what I am going to say or not say.

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- Schwarz: Well, we will have it mimeographed, and we will know later better what the chances are of your going, and we won't give it to them --
- H.M.Jr: I will tell you what you do, Chick. Think it over, and before you give it to anybody, talk to me again.
- Foley: Look, Chick, we are only doing the reading copy. As soon as it is ready, I will give it to you, and you can take care of the mimeographed. We haven't got anything yet.
- Schwarz: I will get it from you, then?
- Foley: Yes. You take care of the mimeographed, and there is no front sheet on there, for release.
- Schwarz: We will take care of that.

*Proposed by [unclear]  
[unclear] to [unclear]  
in [unclear] of Draft #2,  
which was discussed  
& passed at this meeting.*

*Draft #1*  
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**STATEMENT BY SECRETARY MORGENTHAU  
TO THE SENATE FOREIGN RELATIONS COMMITTEE**

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The Secretary of State has already outlined to you the broad policy behind this Bill. The Secretaries of War and Navy will tell you how this Bill will strengthen the defenses of the United States. I am going to confine myself to the financial facts and figures which have helped to make this Bill necessary.

The financial situation can be summed up in a very few words. The British Government has now committed to about \$1,400,000,000 worth of purchases in this country, most of them to be delivered in 1941. It has enough gold and dollar exchange assets to pay for what it has ordered; but the British just haven't got the dollars, and can't get them, to pay for anything like what they will need from now on. And before they win this war, they are going to need from us a far greater volume of supplies than they have yet ordered.

I have come here today to put this problem before you in detail, and to lay before you all the information in the possession of the Treasury. To save your time, Mr. Chairman, I should like to put on record a number of tables and other hard facts which I have already submitted to the House Foreign Affairs Committee.

The first is a table of the estimated dollar expenditures

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and receipts of the British Empire, including Canada, for the calendar year 1941. This will show you what the British have contracted for, in war materials and other purchases here, and what they can count on, from exports and other sources of dollars, to help in meeting these obligations.

The second is a table showing the available assets of the United Kingdom, in gold, in dollar balances, in privately held American securities and in British-owned properties in this country. These are figures which governments normally keep confidential and closely guarded; but they are being submitted to you with the consent of the British Government, so that you can know what the position is.

The third exhibit, in the form of a letter to the Chairman of the House Foreign Affairs Committee, brings the previous table of assets still further up to date and revises it slightly. In addition, it shows what British assets were at the start of the war, and shows that there is no real discrepancy between our figures and the estimates published recently in the Bulletin of the Federal Reserve Board. I might add that the Federal Reserve experts have worked with us on these figures, and that we are agreed that there is no disagreement between us concerning them. Finally, this third exhibit shows you, in detail, how British gold and dollar exchange assets have evaporated, by more than two billion dollars, between the start of the war and the start of 1941.

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It may interest you, by the way, to know how fast the remaining assets are disappearing, while this Bill is being debated. The British Treasury has just informed us that between December 30 and January 23--last Thursday--British gold and official dollar balances declined by \$76 million and their holdings of United States securities by \$43 million. In other words, in a little over three weeks there has been a net decline in the British dollar assets of \$117 million.

The last table I want to submit to you is an estimate of the long-term foreign investments of the United Kingdom outside the United States. These figures, most of which were made by British economists before the outbreak of war, are necessarily estimates. Nobody can fix a definite valuation upon ranches in Australia or railroads in Argentina or mining properties in Rhodesia, the kind of property which these estimates represent. The problem before us is not whether the British Empire has resources; of course it has, and rich ones, all over the world. The problem is whether the British have got the dollars they need, or can get the dollars they need. I am convinced that they have not got them, and cannot get them with the speed that is required. Sir Edward Fenech, a representative of the British Government, has just arrived in this country to try to sell British-owned properties in this country to get dollars; but in this sort of liquidation there is a limit to what he, or anyone, can do.

If we expect the British to go on getting supplies here--and

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that means if we expect them to go on fighting—some way  
must be found to provide either the dollars or the supplies  
themselves. That, gentlemen, is the problem. I am ready  
now, Mr. Chairman, to answer questions.

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Revised at this  
meeting

Draft # 2  
166

The Secretary of State has already outlined to you the broad policy behind this Bill. The Secretaries of War and Navy will tell you how this Bill will strengthen the defenses of the United States. I am going to confine myself to the financial facts and figures which relate to this Bill.

The British Government is now committed to about \$1,300,000,000 worth of purchases in this country, most of them to be delivered in 1941. It has enough gold and dollar exchange assets to pay for what it has ordered; but the British just haven't got the dollars, and can't get them, to pay for anything like what they will need from now on.

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I have come here today to put this problem before you, and I want to give you all the information in the possession of the Treasury. I should like to put into the record a number of tables and other facts which I have already submitted to the House Foreign Affairs Committee.

The first is a table showing the available assets of the United Kingdom, in gold, in dollar balances, in privately held American securities and in British-owned properties in this country. These are figures which governments normally keep confidential and closely guarded; but they are being submitted to you with the consent of the British Government, so that you can know what their position is.

TABLE I

## Gold and Dollar Exchange Assets of U.K.

	Dec. 31, 1940
	(In Millions)
Gold. . . . .	\$ 292
Official dollar balances. . . . .	54
Private dollar balances	305
Marketable U.S. securities. . . . .	616
Direct and miscellaneous investments in U.S. . . . .	<u>900</u>
	\$ 2,167

From the total British gold and dollar exchange assets of \$2,167 million on December 31, 1940, the British exclude as unavailable \$305 million of private dollar balances regarded as necessary for the conduct of business, \$30 million of gold scattered in different parts of the world, and \$21 million on account of forward exchange contracts. This leaves a total of \$1,811 million in gold and dollar exchange assets which the British regard as available for purchases in this country.

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Now I want to give you a table of the estimated dollar expenditures and receipts of the British Empire, excluding Canada, for the calendar year 1941. This will show you what the British have contracted for, in war materials and other purchases here, and what they can count on, from exports and other sources of dollars, to help in meeting these obligations.

TABLE II

Estimated Dollar Expenditures and Receipts of British Empire, Excluding Canada, from January 1, 1941 to January 1, 1942.

<u>Dollar Expenditures</u>		(In Millions)
A. U.K. payments to be made on total purchases from the U.S.		
1. Sums to be paid during 1941 on orders placed before Jan. 1, 1941. . . . .		\$1,274
(In addition, \$119 million will fall due after Jan. 1, 1942)		
2. Imports from U.S. not purchased through the British Purchasing Commission,--largely on private accounts. . . . .	280	\$1,554

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B. Purchases by Empire countries (excluding U.K. and Canada) from U.S. during 1941		
1. Commodity imports. . . . .	\$ 333	
2. Payments for shipping, tourist expenditure, interest payments, etc. . . . .		5
		<u>338</u>
C. Purchases by Empire Countries, excluding Canada, from areas outside the U.S. requiring gold or dollars		
1. Purchases by Empire countries (chiefly U.K.) from areas outside the U.S. and Canada requiring dollars. . . . .	247	
2. Payments by Empire Countries (chiefly U.K. to Canada and Newfoundland. . . . .		880
		<u>1,127</u>
Total dollar requirements for all transactions.		<u>\$3,019</u>

Dollar Receipts

A. Dollar receipts by U.K. from U.S.		
1. U.K. exports of merchandise to U.S. . . . .	\$ 165	
2. Net balance from U.S. to U.K. on shipping, tourist expenditures, interest payments, etc. . . . .		15
		<u>\$ 180</u>
B. Dollar receipts by Empire countries (excluding Canada)		
1. Commodity exports. . . . .	560	
2. Australian gold exports to U.S.	75	
3. South African exports of gold . . . . .	<u>480</u>	1,115
C. Canadian assistance to U.K.		<u>260</u>
Total dollar receipts by Empire countries, excluding Canada. . . . .		\$1,555

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Total dollar deficit with countries other than Canada during 1941. . . . .	\$ 844	
Total dollar deficit with Canada during 1941. . . . .	<u>580</u>	
Total dollar deficit of British Empire, excluding Canada, during 1941. . . .		1,424
Total receipts and deficit on operations with all countries other than Canada during 1941. . . . .		<u>\$2,019</u>

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Now I want to show you how British gold and dollar exchange assets have declined, by more than two and a quarter billion dollars, between the start of the war and the start of 1941.

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TABLE III

Estimated Gold and Dollar Expenditures and Receipts of  
British Empire, Excluding Canada and Newfoundland, from  
September 1, 1939 to December 31, 1940.  
(Compiled from data furnished by the British Treasury)

(In Millions of U.S. Dollars)

<u>Gold and Dollar Expenditures</u>			
<b>A. Payments to the United States by United Kingdom.</b>			
1. On British Government orders in the United States. . . . .		\$1,380	
Goods delivered. . . . .	\$660		
Advance payments. . . . .	570		
Capital assistance. . . . .	<u>150</u>		
2. For other merchandise imports from the United States. . . . .		705	
3. For shipping, interest, etc. . . . .		<u>197</u>	\$2,282
Shipping disbursements. . . . .	125		
Interest and dividends . . . . .	48		
Miscellaneous (chiefly film royalties). . . . .	<u>24</u>		
<b>B. Payments to the United States by Empire countries, excluding U.K. and Canada</b>			
1. For commodity imports. . . . .		435	
2. For shipping, interest, etc. . . . .		<u>48</u>	483
Interest and dividends. . . . .	\$ 40		
Shipping (net) . . . . .	<u>8</u>		
<b>C. Payments by Empire countries, excluding Canada, to areas outside the U.S. requiring gold or dollars</b>			
1. Payments by Empire countries (chiefly U.K.) to areas outside the U.S. and Canada requiring gold or dollars. . . . .			550

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2. Gold payments by Empire countries to Canada and Newfoundland (net) . . . . .	\$ 225	775
D. Withdrawal of Capital		
1. By American and others, through sale of free sterling to American importers	300	
2. By repayment of outstanding export credits as required by our Neutrality Act	300	
3. By liquidation of forward exchange position in dollars. . . . .	<u>235</u>	735
E. Residual - Miscellaneous items and errors of estimation. . . . .		\$ 71
Total gold and dollar requirements for all transactions. . . . .		<u>4,346</u>

Gold and Dollar Receipts

A. Receipts from United States by United Kingdom			
1. From merchandise exports. . . . .	205		
2. From interest, shipping, etc. . . . .	<u>140</u>	\$ 345	
Interest and dividends. . . . .	\$ 85		
Shipping earnings. . . . .	35		
Remittances from insurance companies. . . . .	<u>20</u>		
B. Receipts from United States by Empire countries, excluding U.K. and Canada			
1. From merchandise exports. . . . .	640		
2. From tourist travel, remittances, etc. (net). . . . .	<u>30</u>		670
C. Dollar receipts by Empire countries, excluding Canada, from areas outside the U.S. . . . .			50

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D. Receipts from sale of gold (new production and dishoarding) . . .	<u>965</u>
Total gold and dollar receipts by Empire countries, excluding Canada. . . . .	\$2,030
Total drain on gold and dollar resources of British Empire, excluding Canada, and Newfoundland, Sept. 1, 1939 to Dec. 31, 1940. . . . .	<u>2,316</u>
Total gold and dollar requirements for all transactions. . . . .	<u>4,346</u>

Supplementary Table

Estimated Expenditures and Receipts of Canada and Newfoundland  
With the Rest of the British Empire from September 1, 1939 to  
December 31, 1940

(In Millions of U.S. Dollars)

A. Payments to Canada and Newfoundland by Empire countries			
1. For purchases from Canada and New- foundland by the United Kingdom	\$795		
2. For purchases from Canada by other Empire countries. . . . .	125		
3. Other payments to Canada by Empire countries. . . . .	<u>10</u>	\$930	
B. Receipts from Canada and Newfoundland by Empire countries			
1. From merchandise exports to Canada and Newfoundland by U.K. . . . .	170		

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2. From merchandise exports to Canada by other Empire countries. . . . .	\$100	
3. From interest and dividends paid by Canada to United Kingdom. . . . .	85	
4. Other U.K. receipts from Canada, principally Canadian Expeditionary Forces. . . . .	<u>20</u>	<u>\$175</u>
British Empire deficit with Canada and Newfoundland on merchandise, interest and dividends, etc. . . . .		555
Canadian assistance to U.K.--repatriation of British-held Canadian securities and increase in sterling balances held by Canada. . .		<u>390</u>
Gold payments by British Empire countries with Canada and Newfoundland Sept. 1, 1939 to Dec. 31, 1940. . . . .		<u>225</u>

One vital factor in this drain of assets was the collapse of France last Summer. The French had at least as much as the British in gold and dollar assets in this country; these resources were available, ~~together~~ with the British, to pay for purchases here in the first nine months of the war. When the French collapse came, last June, the British took over all French contracts in this country, although they

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no longer had the help of French money to pay for them. British liabilities were doubled. They were left to face Germany alone. Their financial resources here were cut in half. The result was that the British began to lose gold and dollar assets twice as fast after June as before; and they have continued to lose them at the faster rate ever since.

This war is now costing Great Britain more than fifty million dollars a day, or almost two thirds of her national income. The British are raising about forty per cent of this cost by taxing their people at home. To give you an idea of what the British people are doing to pay for the war, you may be interested in the following table comparing British and United States taxes at the present time:

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Comparison of British and United States Taxes

1. Personal income tax. A married couple with two children would pay the following taxes in Great Britain and the United States under present laws:

Income	British tax	U.S. tax
\$ 1,500	\$ 43	-
2,500	311	-
5,000	1,196	\$ 75
10,000	3,451	440
20,000	9,426	2,143
50,000	32,401	13,741
100,000	76,276	42,948

2. Corperation income tax rates

British	U.S.
42½%	24%

3. Excess profits tax. The British excess profits tax is 100 percent of profits in excess of base period earnings for certain years 1935-1937. The United States excess profits tax ranges from 25 to 50 percent of earnings in excess of the average base period earnings for 1936-39, or 8 percent of invested capital, whichever exemption is higher.

4. Purchase tax. The British impose a purchase tax of 33-1/3 percent on the wholesale value of certain luxuries and 16-2/3 percent on certain goods in common use, exempting food.

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5. Excise taxes. The British impose excise taxes on several commodities at substantially higher rates than the United States. Examples are given below:

	British	U.S.
Spirits, domestic, per U.S. proof gallon	\$15.60	\$ 3.00
Beer, domestic, per bbl. of 31 U.S. Gallons	11.16	6.00
Cigarettes, per thousand, weighing 3 lbs.	11.70	3.25
Tea, Empire, per lb.	10¢	-
Coffee, full duty per lb.	2.8¢	-

The last table I want to submit to you is an estimate of the long-term foreign investments of the United Kingdom outside the United States. These figures, most of which were compiled by British economists before the outbreak of war, are necessarily estimates. Nobody can fix a definite valuation upon such properties as ranches in Australia, railways in Argentina or oil wells in Mexico.

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Most of the investments are in sterling securities; a large part of the Canadian investment is in Canadian dollars, and some of the other investments are in the respective domestic currencies. However, for convenience of presentation, the estimated nominal value of the investments has been converted into sterling.

The market values, where given, are calculated from current market quotations of the securities. Since market quotations are not available for a large part of the investment, no total market value can be calculated:

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**Estimated Long-Term Foreign Investments of the United Kingdom Outside the United States**

(Million Pounds)					
		<u>Government</u>	<u>Railways</u>	<u>Other</u>	<u>Total</u>
<u>In British Empire</u>					
Canada	Nominal 75 Market (70)		187	219	481
Australia	Nominal 425 Market (410)		3	75	5-5
New Zealand	Nominal 131 (125)		1	14	146
India	Nominal 300 Market (250)		$\frac{1}{1}$	250 250	550 498
Malaya	Nominal 6			78	84
Other	Nominal _____		_____	_____	_____
<b>Total in British</b>	<b>Nominal 1,125</b>		<b>191</b>	<b>886</b>	<b>2233</b>
<u>In Latin America</u>					
Argentina	Nominal 45 Market (32)		263 (52)	83	390
Brazil	Nominal 75 Market (14)		38 (5)	47 (22)	160 (41)
Chile	Nominal 20 (2)		20 (5)	65	105
Uruguay	Nominal 18 Market (8)		14 (1)	18 (12)	48 (21)

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		<u>Government</u>	<u>Railways</u>	<u>Other</u>	<u>Total</u>
Mexico	Nominal Market	88 (1)	90 (1)	44	173
Peru	Nominal Market	6 (1)	1/	23 (4)	29 (5)
Cuba	Nominal Market	2 (2)	25 (1)	(2)	28
Venezuela	Nominal Market	Nil	8 0.2	18 (17)	26 (17)
Colombia, Ecuador Bolivia, Paraguay, Central America	Nominal				50
International	Nominal	—	—	—	—
Total in Latin America	Nominal	204	451	317	1002
<u>In Asia</u>					
China	Nominal				200
Japan	Nominal				50
Netherlands East Indies	Nominal				50
Philippines	Nominal				8
Total Asia					308
<u>In Europe</u>	Nominal				250
In Other Areas	2/ Nominal				75
Total U.K. Investments outside United States - Nominal Value					3868

1/ Not shown separately.

2/ Mainly Iran, Egypt, Iraq and Portuguese East Africa.

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The problem before us is not whether the British Empire has resources; of course it has, all over the world. The problem is whether the British have got the dollars they need, or can get the dollars they need to spend in this country.

If we expect the British to go on getting supplies here--and that means if we expect them to go on fighting--some way must be found to provide either the dollars or the supplies themselves. That, gentlemen, is the problem. I am ready now, Mr. Chairman, to answer questions.

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Draft # 3 and final,  
after revisions made at

January 27, 1941

meeting in Wagon Office  
1/27/41 at 10 am

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The Secretary of State has already outlined to you the broad policy behind this Bill. The Secretaries of War and Navy will tell you how this Bill will strengthen the defenses of the United States. I am going to confine myself to the financial facts and figures which relate to this Bill.

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

Reading copy of the Secretary's statement before the Senate Foreign Relations Committee on the Aid-to-Britain Bill.  
He appeared at 10 a.m. on 1/28'41

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I appreciate the opportunity of being invited to come here today to discuss this problem with you fully. I should like to put into the record a number of tables and other facts which I have already submitted to the House Foreign Affairs Committee.

The first table shows available assets of the United Kingdom, in gold, in dollar balances, in American securities and in British-owned properties in this country. These are figures which governments normally keep confidential and closely guarded; but they are being submitted to you with the consent of the British Government.

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TABLE I  
Gold and Dollar Exchange Assets of U.K.

	Dec. 31, 1940
	(In Millions)
Gold . . . . .	\$ 292
Official dollar balances . . . . .	54
Private dollar balances . . . . .	305
Marketable U.S. securities . . . . .	616
Direct and miscellaneous investments in U.S. . . . .	290
	<u>\$ 2,167</u>

From the total British gold and dollar exchange assets of \$2,167 million on December 31, 1940, the British exclude as unavailable \$305 million of private dollar balances regarded as necessary for the conduct of business, \$30 million of gold scattered in different parts of the world, and \$21 million on account of forward exchange contracts. This leaves a total of \$1,811 million in gold and dollar exchange assets which the British

- 4 -

regard as available for purchases in this country.

I should like to present next to you a table of the estimated dollar expenditures and receipts of the British Empire, excluding Canada and Newfoundland, for the calendar year 1941. This will show what the British owe on outstanding contracts to American manufacturers for war materials and other purchases here, and what they can count on from exports and other sources of dollars, to help in meeting these obligations.

TABLE II

Estimated Dollar Expenditures and Receipts of  
British Empire, Excluding Canada and Newfoundland,  
from January 1, 1941 to January 1, 1942.

<u>Dollar Expenditures</u>		(In Millions)
A. U.K. payments to be made on total purchases from the U.S.		
1. Sums to be paid during 1941 on orders placed before Jan. 1, 1941 . . . . .		\$ 1,274
(In addition, \$119 million will fall due after Jan. 1, 1942)		
2. Imports from U.S. not purchased through the British Purchasing Commission,--largely on private accounts . . . . .	<u>280</u>	<u>\$1,554</u>

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B. Purchases by Empire countries (excluding U.K., Canada and Newfoundland) from U.S. during 1941		
1. Commodity imports . . . . .	\$	333
2. Payments for shipping, tourist expenditure, interest payments, etc. . . . .		<u>5</u>
		338
C. Purchases by Empire countries, excluding Canada and Newfoundland, from areas outside the U.S. requiring gold or dollars		
1. Purchases by Empire countries (chiefly U.K.) from areas outside the U.S., Canada and Newfoundland requiring dollars . . . . .		247
2. Payments by Empire countries (chiefly U.K. to Canada and Newfoundland) . . . . .		<del>50</del>
		1,187
Total dollar requirements for all transactions. . . . .		<u>63,019</u>

Dollar Receipts

A. Dollar receipts by U.K. from U.S.		
1. U.K. exports of merchandise to U.S. . . . .	\$	165
2. Net balance from U.S. to U.K. on shipping, tourist expenditures, interest payments, etc. . .		<u>15</u>
		180
B. Dollar receipts by Empire countries (excluding Canada and Newfoundland)		
1. Commodity exports. . . . .	540	
2. Australian gold exports to U.S.	75	
3. South African exports of gold	<u>521</u>	1,115
C. Canadian assistance to U.K.		<u>240</u>
Total dollar receipts by Empire countries, excluding Canada and Newfoundland		1,355

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Total dollar deficit with countries other than Canada and Newfoundland during 1941 . . . . .	\$ 844
Total dollar deficit with Canada and Newfoundland during 1941 . . . . .	<u>520</u>
Total dollar deficit of British Empire, excluding Canada and Newfoundland, during 1941 . . . . .	<u>1,404</u>
Total receipts and deficit on operations with all countries other than Canada and Newfoundland during 1941 . . . . .	\$ <u>3,010</u>

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Next may I explain how British gold and dollar exchange assets have declined by more than two and a quarter billion dollars during the first sixteen months of their war.

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TABLE III

Estimated Gold and Dollar Expenditures and Receipts  
of British Empire, Excluding Canada and Newfoundland,  
from September 1, 1939 to December 31, 1940.  
(Compiled by the Treasury Department, the  
Department of Commerce and the Federal Reserve  
Board from data furnished by the British Treasury)

(In Millions of U.S. Dollars)

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Gold and Dollar Expenditures

<b>A. Payments to the United States by United Kingdom.</b>		
1. On British Government orders in the United States		
Goods delivered . . . . .	\$600	
Advance payments . . . . .	570	
Capital assistance . . . . .	<u>150</u>	
		\$1,360
2. For other merchandise imports from the United States . . . . .		705
3. For shipping, interest, etc.		
Shipping disbursements . . . . .	125	
Interest and dividends . . . . .	48	
Miscellaneous (chiefly film royalties) . . . . .	<u>24</u>	
		<u>197</u>
		\$ 2,262
<b>B. Payments to the United States by Empire countries, excluding U.K. and Canada and Newfoundland</b>		
1. For commodity imports . . . . .		435
2. For shipping, interest, etc.		
Interest and dividends . . . . .	40	
Shipping (net) . . . . .	<u>5</u>	
		<u>48</u>
		483
<b>C. Payments by Empire countries, excluding Canada, and Newfoundland, to areas out- side the U.S. requiring gold or dollars</b>		
1. Payments by Empire countries (chiefly U.K.) to areas outside the U.S. and Canada and Newfound- land requiring gold or dollars		550

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2. Gold payments by Empire countries to Canada and Newfoundland (net) . . . . .	\$ 225	775
<b>D. Withdrawal of Capital</b>		
1. By American and others, through sale of free sterling to American importers	300	
2. By repayment of outstanding export credits as required by our Neutrality Act . . . . .	200	
3. By liquidation of forward exchange position in dollars . . . . .	<u>275</u>	775
<b>E. Residual - Miscellaneous items and errors of estimation. . . . .</b>		<u>\$ 71</u>
<b>Total gold and dollar requirements for all transactions . . . . .</b>		<u><u>1,346</u></u>

Gold and Dollar Receipts

<b>A. Receipts from United States by United Kingdom</b>		
1. From merchandise exports. . . . .	205	
2. From interest, shipping, etc.		
Interest and dividends. . . . .	\$ 85	
Shipping earnings. . . . .	35	
Remittances from insurance companies . . . . .	<u>20</u>	<u>140</u>
		<u>\$ 345</u>
<b>B. Receipts from United States by Empire countries, excluding U.K. and Canada</b>		
1. From merchandise exports. . . . .	640	
2. From tourist travel, remittances, etc. (net). . . . .	<u>30</u>	670
<b>C. Dollar receipts by Empire countries, ex- cluding Canada, from areas outside the U. S. . . . .</b>		50

D. Receipts from sale of gold (new production and dishoarding) . . . . .	<u>965</u>
Total gold and dollar receipts by Empire countries, excluding Canada. . . . .	32,030
Total drain on gold and dollar resources of British Empire, excluding Canada, and Newfoundland, Sept. 1, 1939 to Dec. 31, 1940. . . . .	<u>2,516</u>
Total gold and dollar requirements for all transactions. . . . .	<u>4,516</u>

Supplementary Table

Estimated Expenditures and Receipts of Canada and Newfoundland  
With the Rest of the British Empire from September 1, 1939 to  
December 31, 1940

(In Millions of U.S. Dollars)

A. Payments to Canada and Newfoundland by Empire countries			
1. For purchases from Canada and New- foundland by the United Kingdom. . . . .	\$795		
2. For purchases from Canada by other Empire countries . . . . .	125		
3. Other payments to Canada by Empire countries . . . . .	10	<u>930</u>	
B. Receipts from Canada and Newfoundland by Empire countries			
1. From merchandise exports to Canada and Newfoundland by U.K. . . . .	170		

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2. From merchandise exports to Canada by other Empire countries. . . . .	\$100	
3. From interest and dividends paid by Canada to United Kingdom . . . . .	85	
4. Other U.K. receipts from Canada, principally Canadian Expeditionary Forces . . . . .	<u>20</u>	<u>\$275</u>
British Empire deficit with Canada and Newfoundland on merchandise, interest and dividends, etc. . . . .		555
Canadian assistance to U.K.—repatriation of British-held Canadian securities and increase in sterling balances held by Canada . . . .		<u>350</u>
Gold payments by British Empire countries with Canada and Newfoundland Sept. 1, 1939 to Dec. 31, 1940. . . . .		<u>225</u>

One vital factor in this drain of assets was the collapse of France last Summer. The French had at least as much as the British in gold and dollar assets in this country; these resources were available, together with the British, to pay for purchases here in the first nine months of the war. When the French collapse came, last June, the British took over all French contracts in this country, although they

no longer had the help of French money to pay for them. British liabilities were doubled. They were left to face Germany alone. The result was that the British began to lose gold and dollar assets twice as fast after June as before.

This war is now costing the British Government more than 12 million pounds sterling every day, or approximately 60 per cent of the national income, and this expenditure is steadily mounting. The British are raising about 40 per cent of this cost by taxing their people. To give you some idea of what the British people are doing to pay for the war, you may be interested in the following table comparing British and United States taxes at the present time:

Comparison of British and United States Taxes

1. Personal income tax. A married couple with two children would pay the following taxes in Great Britain and the United States under present laws:

Income	British tax	U.S. tax
\$ 1,500	\$ 45	-
2,500	31	-
5,000	1,196	\$ 75
10,000	3,451	440
20,000	6,426	2,143
50,000	32,401	13,741
100,000	76,276	42,948

2. Corporation income tax rates

British	U.S.
42 1/2%	24%

3. Excess profits tax. The British excess profits tax is 100 percent of profits in excess of base period earnings for certain years 1935-1937. The United States excess profits tax ranges from 25 to 50 percent of earnings in excess of the average base period earnings for 1936-39, or 8 percent of invested capital, whichever exemption is higher.

4. Purchase tax. The British impose a purchase tax of 33-1/3 percent on the wholesale value of certain luxuries and 16-2/3 percent on certain goods in common use, exempting food.

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5. Excise taxes. The British impose excise taxes on several commodities at substantially higher rates than the United States. Examples are given below:

	BRITISH	U.S.
Spirits, domestic, per U.S. proof gallon	\$15.60	\$5.00
Beer, domestic, per bbl. of 31 U.S. Gallons	11.16	6.00
Cigarettes, per thousand weighing 5 lbs.	11.70	5.25
Tea, Empire, per lb.	10¢	
Coffee, full duty per lb.	2.8¢	=

I should like to submit one more table to you which is an estimate of the long-term foreign investments of the United Kingdom outside the United States. These figures, most of which are based upon studies made by British economists before the outbreak of war, are necessarily estimates. Nobody can fix a definite valuation upon such properties as ranches in Australia, railways in Argentina or oil wells in Mexico.

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Most of the investments are in sterling securities; a large part of the Canadian investment is in Canadian dollars, and some of the other investments are in the respective domestic currencies. However, for convenience of presentation, the estimated nominal value of the investments has been converted into sterling.

The market values, where given, are calculated from current market quotations of the securities. Since market quotations are not available for a large part of the investment, no total market value can be calculated;

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Estimated Long-Term Foreign Investments of the United Kingdom Outside the United States

		(Million Pounds)			
		<u>Government</u>	<u>Railways</u>	<u>Other</u>	<u>Total</u>
<u>In British Empire</u>					
Canada	Nominal Market	75 (70)	187	219	481
Australia	Nominal Market	425 (410)	3	75	503
New Zealand	Nominal	131 (125)	1	14	146
India	Nominal Market	300 (250)	1/	250	550
British Africa	Nominal	188	1/	250	438
Malaya	Nominal	6		78	84
Other	Nominal				31
Total in British Empire	Nominal	1125	191	586	2238
<u>In Latin America</u>					
Argentina	Nominal Market	45 (32)	263 (52)	85	390
Brazil	Nominal Market	75 (6)	38 (5)	47 (22)	160 (33)
Chile	Nominal	20 (2)	20 (5)	65	105
Uruguay	Nominal Market	18 (8)	14 (1)	10 (12)	42 (21)

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		<u>Government</u>	<u>Railways</u>	<u>Other</u>	<u>Total</u>
Mexico	Nominal Market	38 (1)	90 (1)	44	173
Peru	Nominal Market	6 (1)	1/	23 (4)	29 (5)
Cuba	Nominal Market	2 (2)	25 (1)	2	28
Venezuela	Nominal Market	Nil	3 0.2	18 (17)	20 (17)
Colombia, Ecuador Bolivia, Paraguay, Central America	Nominal				50
International	Nominal	—	—	—	6
Total in Latin America	Nominal	204	453	292	1002
<u>In Asia</u>					
China	Nominal				200
Japan	Nominal				50
Netherlands East Indies	Nominal				50
Philippines	Nominal				8
Total Asia					308
<u>In Europe</u>	Nominal				250
In Other Areas	2/ Nominal				75
Total U.K. Investments outside United States - Nominal Value					368

1/ Not shown separately.

2/ Mainly Iran, Egypt, Iraq and Portuguese East Africa.

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The problem before us is not whether the British have resources; of course they have, all over the world. The problem is whether the British have got the dollars they need, or can get the dollars they need to spend in this country.

That, gentlemen, is the problem as I see it.

Statement of Secretary Morgenthau  
Before the Senate Committee  
On Foreign Relations

January 25, 1941.

The Secretary of State has already outlined to you the broad policy behind this Bill. The Secretaries of War and Navy will tell you how this Bill will strengthen the defenses of the United States. I am going to confine myself to the financial facts and figures which relate to this Bill.

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

I appreciate the opportunity of being invited to come here today to discuss this problem with you fully. I should like to put into the record a number of tables and other facts which I have already submitted to the House Foreign Affairs Committee.

The first table shows available assets of the United Kingdom, in gold, in dollar balances, in American securities and in British-owned properties in this country. These are figures which governments normally keep confidential and closely guarded; but they are being submitted to you with the consent of the British Government.

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TABLE I

## Gold and Dollar Exchange Assets of U.K.

	Dec. 31, 1940 (In Millions)
Gold .....	\$ 292
Official dollar balances.....	54
Private dollar balances .....	305
Marketable U.S. securities .....	616
Direct and miscellaneous investments in U. S.	900
	\$ 2,167

From the total British gold and dollar exchange assets of \$2,167 million on December 31, 1940, the British exclude as unavailable \$305 million of private dollar balances regarded as necessary for the conduct of business, \$30 million of gold scattered in different parts of the world, and \$21 million on account of forward exchange contracts. This leaves a total of \$1,611 million in gold and dollar exchange assets which the British regard as available for purchases in this country.

I should like to present next to you a table of the estimated dollar expenditures and receipts of the British Empire, excluding Canada and Newfoundland, for the calendar year 1941. This will show what the British owe on outstanding contracts to American manufacturers for war materials and other purchases here, and what they can count on from exports and other sources of dollars, to help in meeting these obligations.

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TABLE II

Estimated Dollar Expenditures and Receipts of British Empire,  
Excluding Canada and Newfoundland, from January 1, 1941 to  
January 1, 1942.

<u>Dollar Expenditures</u>		
		(In Millions)
A.	U.K. payments to be made on total purchases from the U.S.	
1.	Sums to be paid during 1941 on orders placed before Jan. 1, 1941 . . . . .	\$1,274
	(In addition, \$119 million will fall due after Jan. 1, 1942)	
2.	Imports from U.S. not purchased through the British Purchasing Commission, -- largely on private accounts. . . . .	280
		\$1,554
B.	Purchases by Empire countries (excluding U.K., Canada and Newfoundland) from U.S. during 1941.	
1.	Commodity imports. . . . .	\$ 333
2.	Payments for shipping, tourist expenditures, interest payments, etc. . . . .	5
		338
C.	Purchases by Empire countries, excluding Canada and Newfoundland, from areas outside the U.S. requiring gold or dollars	
1.	Purchases by Empire countries (chiefly U.K.) from areas outside the U.S., Canada and Newfoundland requiring dollars. . . . .	247
2.	Payments by Empire countries (chiefly U.K.) to Canada and Newfoundland . . . . .	880
		1,127
	Total dollar requirements for all transactions . . . . .	<u>\$3,019</u>
 <u>Dollar Receipts</u> 		
A.	Dollar receipts by U.K. from U.S.	
1.	U.K. exports of merchandise to U.S. . . . .	\$ 165
2.	Net balance from U.S. to U.K. on shipping, tourist expenditures, interest payments, etc. . . . .	15
		180
B.	Dollar receipts by Empire countries (excluding Canada and Newfoundland)	
1.	Commodity exports. . . . .	560
2.	Australian gold exports to U.S. . . . .	75
3.	South African exports of gold . . . . .	480
		1,115
C.	Canadian assistance to U.K.	<u>260</u>
	Total dollar receipts by Empire countries, excluding Canada and Newfoundland . . . . .	\$1,555

Total dollar deficit with countries other than Canada and Newfoundland during 1941 . . . . .	\$ 844
Total dollar deficit with Canada and Newfoundland during 1941 . . . . .	<u>620</u>
Total dollar deficit of British Empire, excluding Canada and Newfoundland, during 1941 . . . . .	\$1,464
Total receipts and deficit on operations with all countries other than Canada and Newfoundland during 1941 . . . . .	<u>\$3,019</u>

Next may I explain how British gold and dollar exchange assets have declined by more than two and a quarter billion dollars during the first sixteen months of their war.

TABLE III

Estimated Gold and Dollar Expenditures and Receipts of British Empire, Excluding Canada and Newfoundland, from September 1, 1939 to December 31, 1940.

(Compiled by the Treasury Department, the Department of Commerce and the Federal Reserve Board from data furnished by the British Treasury)

(In Millions of U.S. Dollars)

Gold and Dollar Expenditures

A. Payments to the United States by United Kingdom.	
1. On British Government orders in the U.S.	
Goods delivered . . . . .	\$660
Advance payments . . . . .	570
Capital assistance . . . . .	<u>150</u>
	\$1,380
2. For other merchandise imports from the U.S..	705
3. For shipping, interest, etc.	
Shipping disbursements . . . . .	125
Interest and dividends . . . . .	48
Miscellaneous (chiefly film royalties) . . . . .	<u>24</u>
	197
	\$2,282
B. Payments to the U.S. by Empire countries, excluding U.K. and Canada and Newfoundland	
1. For commodity imports . . . . .	435
2. For shipping, interest, etc.	
Interest and dividends . . . . .	40
Shipping (net) . . . . .	<u>8</u>
	48
	483
C. Payments by Empire countries, excluding Canada and Newfoundland, to areas outside the U.S. requiring gold or dollars.	
1. Payments by Empire countries (chiefly U.K.) to areas outside the U.S. and Canada and Newfoundland requiring gold or dollars	550

2. Gold payments by Empire countries to Canada and Newfoundland (net) . . .	<u>\$225</u>	775
D. Withdrawal of Capital		
1. By Americans and others, through sale of free sterling to American importers		300
2. By repayment of outstanding export credits as required by our Neutrality Act . . . . .		200
3. By liquidation of forward exchange position in dollars . . . . .	<u>235</u>	735
E. Residual - miscellaneous items and errors of estimation . . . . .		<u>71</u>
Total gold and dollar requirements for all transactions . . . . .		<u><u>4,346</u></u>

Gold and Dollar Receipts

A. Receipts from United States by United Kingdom		
1. From merchandise exports . . . . .	205	
2. From interest, shipping, etc.		
Interest and dividends . . . \$	85	
Shipping earnings . . . . .	35	
Remittances from insurance companies	<u>20</u>	<u>140</u>
		\$ <u>345</u>
B. Receipts from United States by Empire countries, excluding U. K. and Canada		
1. From merchandise exports . . . . .	640	
2. From tourist travel, remittances, etc. (net) . . . . .	<u>30</u>	670
C. Dollar receipts by Empire countries, excluding Canada, from areas outside the U. S. . . . .		
		50
D. Receipts from sale of gold (new production and disharding) . . . . .		
		<u>965</u>
Total gold and dollar receipts by Empire countries, excluding Canada . . . . .		\$2,030
Total drain on gold and dollar resources of British Empire, excluding Canada, and Newfoundland, Sept. 1, 1939 to Dec. 31, 1940 . . . . .		
		<u>2,316</u>
Total gold and dollar requirements for all transactions . . . . .		<u><u>4,346</u></u>

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## Supplementary Table.

Estimated Expenditures and Receipts of Canada and Newfoundland  
With the Rest of the British Empire from September 1, 1939 to  
December 31, 1940

(In Millions of U. S. Dollars)

A. Payments to Canada and Newfoundland by Empire countries		
1. For purchases from Canada and Newfoundland by the United Kingdom . . . . .	\$795	
2. For purchases from Canada by other Empire countries . . . . .	125	
3. Other payments to Canada by Empire countries . . . . .	<u>10</u>	\$930
B. Receipts from Canada and Newfoundland by Empire countries		
1. From merchandise exports to Canada and Newfoundland by U. K. . . . .	170	
2. From merchandise exports to Canada by other Empire countries . . . . .	100	
3. From interest and dividends paid by Canada to United Kingdom . . . . .	85	
4. Other U. K. receipts from Canada, principally Canadian Expeditionary Forces . . . . .	<u>20</u>	\$375
British Empire deficit with Canada and Newfoundland on merchandise, interest and dividends, etc. . . . .		555
Canadian assistance to U. K. -- repatriation of British-held Canadian securities and increase in sterling balances held by Canada . . . . .		<u>330</u>
Gold payments by British Empire countries with Canada and Newfoundland Sept. 1, 1939 to Dec. 31, 1940 . . . . .		<u>225</u>

One vital factor in this drain of assets was the collapse of France last Summer. The French had at least as much as the British in gold and dollar assets in this country; these resources were available, together with the British, to pay for purchases here in the first nine months of the war. When the French collapse came, last June, the British took over all French contracts in this country, although they no longer had the help of French money to pay for them. British liabilities were doubled. They were left to face Germany alone. The result was that the British began to lose gold and dollar assets twice as fast after June as before.

This war is now costing the British Government more than 12 million pounds sterling every day, or approximately 60 per cent of the national income, and this expenditure is steadily mounting. The British are raising about 40 per cent of this cost by taxing their people. To give you some idea of what the British people are doing to pay for the war, you may be interested in the following table comparing British and United States taxes at the present time:

Comparison of British and United States Taxes

1. Personal income tax. A married couple with two children would pay the following taxes in Great Britain and the United States under present laws:

Income	: British : tax	: U.S. : tax
1,500	\$ 43	-
2,500	311	-
5,000	1,196	75
10,000	3,451	440
20,000	9,426	2,143
50,000	32,401	13,741
100,000	76,276	42,948

- 8 -

2. Corporation income tax rates

British	U. S.
42 $\frac{1}{2}$ %	24%

3. Excess profits tax. The British excess profits tax is 100 percent of profits in excess of base period earnings for certain years 1935-1937. The United States excess profits tax ranges from 25 to 50 percent of earnings in excess of the average base period earnings for 1936-39, or 8 percent of invested capital, whichever exemption is higher.

4. Purchase tax. The British impose a purchase tax of 33-1/3 percent on the wholesale value of certain luxuries and 16-2/3 percent on certain goods in common use, exempting food.

5. Excise taxes. The British impose excise taxes on several commodities at substantially higher rates than the United States. Examples are given below:

	British	U.S.
Spirits, domestic, per U.S. proof gallon	\$15.60	\$3.00
Beer, domestic, per bbl. of 31 U.S. Gallons	11.16	6.00
Cigarettes, per thousand, weighing 3 lbs.	11.70	3.25
Tea, Empire, per lb.	10¢	-
Coffee, full duty per lb.	2.8¢	-

I should like to submit one more table to you which is an estimate of the long-term foreign investments of the United Kingdom outside the United States. These figures, most of which are based upon studies made by British economists before the outbreak of war, are necessarily estimates. Nobody can fix a definite valuation upon such properties as ranches in Australia, railways in Argentina or oil wells in Mexico.

Most of the investments are in sterling securities; a large part of the Canadian investment is in Canadian dollars, and some of the other investments are in the respective domestic currencies. However, for convenience of presentation, the estimated nominal value of the investments has been converted into sterling.

The market values, where given, are calculated from current market quotations of the securities. Since market quotations are not available for a large part of the investment, no total market value can be calculated:

Estimated Long-Term Foreign Investments of the United Kingdom  
Outside the United States

		(Million Pounds)			
		<u>Government</u>	<u>Railways</u>	<u>Other</u>	<u>Total</u>
<u>In British Empire</u>					
Canada	Nominal 75 Market (70)		187	219	481
Australia	Nominal 425 Market (410)		3	75	503
New Zealand	Nominal 131 (125)		1	14	146
India	Nominal 300 Market (250)		1/	250	550
British Africa	Nominal 188		1/	250	438
Malaya	Nominal 6			78	84
Other	Nominal _____		_____	_____	31
Total in British	Nominal 1,125		191	886	2,233

1/ Not shown separately.

		<u>Government</u>	<u>Railways</u>	<u>Other</u>	<u>Total</u>
<u>In Latin America.</u>					
Argentina	Nominal	45	263	83	390
	Market	(32)	(52)		
Brazil	Nominal	75	38	47	160
	Market	(6)	(5)	(22)	(33)
Chile	Nominal	20	20	65	105
		(2)	(5)		
Uruguay	Nominal	18	14	10	42
	Market	(8)	(1)	(12)	(21)
Mexico	Nominal	38	90	44	173
	Market	(1)	(1)		
Peru	Nominal	6	1/	23	28
	Market	(1)		(4)	(5)
Cuba	Nominal	2	25	2;	28
	Market	(2)	(1)		
Venezuela *	Nominal	Nil	3	18	20
	Market		0.2	(17)	(17)
Colombia, Ecuador Bolivia, Paraguay, Central America Nominal					50
International	Nominal	—	—	—	6
Total in Latin America	Nominal	204	453	292	1002
<u>In Asia</u>					
China	Nominal				200
Japan	Nominal				50
Netherlands East Indies	Nominal				50
Philippines	Nominal				8
Total Asia					308
<u>In Europe</u>	Nominal				250
In Other Areas 2/	Nominal				75
Total U.K. Investments outside United States - Nominal Value					3868

1/ Not shown separately.

2/ Mainly Iran, Egypt, Iraq and Portuguese East Africa.

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The problem before us is not whether the British have resources; of course they have, all over the world. The problem is whether the British have got the dollars they need, or can get the dollars they need to spend in this country.

That, gentlemen, is the problem as I see it.

January 27, 1941.  
9:28 a.m.

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H.M.Jr: Hello.

Operator: Justice Frankfurter.

H.M.Jr: Hello.

Felix Hello, Henry, I'm sorry I didn't get your message  
Frankfurter: until after you had left.

H.M.Jr: Oh. What message?

F: That you had called yesterday.

H.M.Jr: Yesterday - well I got the most peculiar message  
from you. I got a message from the White House  
that you were coming over to see me and I called  
back to make sure that you wouldn't go to all that  
trouble because all I wanted to do was to talk to  
you.

F: (Laughter)

H.M.Jr: But the White House insisted that you were on the  
way over to my house.

F: Well it's - they must have gotten the wires crossed  
- not I.

H.M.Jr: Right.

F: I had no such intentions.

H.M.Jr: What?

F: I had no such intentions.

H.M.Jr: Well -

F: Maybe that was a hangover from Saturday.

H.M.Jr: Possibly. What I called you up for was to tell  
you that the things on the bill were going much  
much better.

F: They were?

H.M.Jr: I was on it all day yesterday and we met with Hull  
at my suggestion at his place but nothing happened  
from across the street.

F: Nothing did?

F: You got him all smoothed out did you?

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H.M.Jr: Who?

F: Hull.

H.M.Jr: Well, I don't know.

F: At all events he -

H.M.Jr: We met in his office so he -

F: He sat at the head of the table.

H.M.Jr: That's right. And we got four amendments which were satisfactory to George and Rayburn and the rest of them and to Hull and, I think, to the President. I gave them to him last night at seven.

F: Well, that's swell.

H.M.Jr: And, so the thing is moving much much better.

F: Your colleague at the War Office whom I saw is - he spent a good part of the day on his news statement which is going to be - he's going to say something not new but different and more reenforcing. Between you and me I suggested to him that he could take advantage of his position; that he isn't a New Dealer and that he isn't a, as it were, an old pal of the President and perhaps he could say something on this dictatorial power business.

H.M.Jr: Very good.

F: Which he is going to do, needless to say.

H.M.Jr: Very good.

F: You can forget all this.

H.M.Jr: Yeh, surely.

F: But, gee he's a swell fellah!

H.M.Jr: Yeh. Stimson.

F: Stimson.

H.M.Jr: Oh sure.

F: Nothing small in his ?

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H.M.Jr: No, no.

F: He doesn't -

H.M.Jr: No, no. Well, I thought you'd like to know that things for the moment seem to be going much better.

F: Well, that's swell. That's awfully good.

H.M.Jr: And, the most - I think the most important thing - I'm simply amazed at Senator George.

F: He's all right is he?

H.M.Jr: Oh he's wonderful!

F: Hmm.

H.M.Jr: He's better than anybody on the House side. He'll say, "Well, now look if this bill is to give the President certain discretions I don't want to turn his hands". (I mean "tie his hands".)

F: Hmm.

H.M.Jr: See? I mean statements like that.

F: Well, that's swell and it's good that he was on the outs now?

H.M.Jr: Oh yeh.

F: Very good.

H.M.Jr: Good. But I mean time and again something would come up to limit the President's power and he'd be the one to say no.

F: Hmm.

H.M.Jr: And I thought that on the power end he'd be the most difficult person.

F: Well, that makes it particularly good for Stimson to take the line that he will.

H.M.Jr: But I couldn't ask to have a man more cooperative than George and seemingly thoroughly broad minded on it.

F: Hmm. Hmm.

F: In other words, he really knows what the issue is and cares about it.

H.M.Jr: Cares about it and doesn't want through some sly way -

F: To get square.

H.M.Jr: Right.

F: Well, he's in my heart of hearts I've felt that fellah is much better than Pittman would be.

H.M.Jr: Oh, yes. Pittman would - was, well I mean he'd make up his mind and nobody could ever talk to him.

F: Yes, and then you didn't always have his mind, did you?

H.M.Jr: No, and you might just as well make this a silver issue or something like that.

F: Yes, yes, yes.

H.M.Jr: So this man, from my little experience, is far superior to Pittman.

F: Well, he's a solid fellah. You know he's a - He's well-tempered steel, Henry.

H.M.Jr: That's right.

F: Well-tempered steel.

H.M.Jr: I think we're very fortunate.

F: Well, you just keep on. Well I simply repeat. I'll give you an encore on what I said Saturday. You go on doing the same thing.

H.M.Jr: Thank you.

F: Thanks for calling, Henry.

H.M.Jr: Bye.

1/27/41

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Draft discussed with HM, Jr at 10 a.m.

January 27, 1941

The Secretary of State has already outlined to you the broad policy behind this Bill. The Secretaries of War and Navy will tell you how this Bill will strengthen the defenses of the United States. I am going to confine myself to the financial facts and figures which relate to this Bill.

The British Government is now committed to about \$1,800,000,000 worth of purchases in this country, most of them to be delivered in 1941. It has enough gold and dollar exchange assets to pay for what it has ordered; but the British just haven't got the dollars, ~~and can't~~ ~~get them~~, to pay for anything like what they will need from now on.

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I have come here today to put this problem before you, and I want to give you all the information in the possession of the Treasury. I should like to put into the record a number of tables and other facts which I have already submitted to the House Foreign Affairs Committee.

The first is a table showing the available assets of the United Kingdom, in gold, in dollar balances, in privately held American securities and in British-owned properties in this country. These are figures which governments normally keep confidential and closely guarded; but they are being submitted to you with the consent of the British Government, ~~so that you can know what their position is.~~

TABLE I

Gold and Dollar Exchange Assets of U.K.

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	Dec. 31, 1940 (In Millions)
Gold. . . . .	\$ 292
Official dollar balances. . . . .	54
Private dollar balances	305
Marketable U.S. securities. . . . .	616
Direct and miscellaneous investments in U.S. . . . .	<u>900</u>
	\$ 2,167

---

From the total British gold and dollar exchange assets of \$2,167 million on December 31, 1940, the British exclude as unavailable \$305 million of private dollar balances regarded as necessary for the conduct of business, \$30 million of gold scattered in different parts of the world, and \$21 million on account of forward exchange contracts. This leaves a total of \$1,811 million in gold and dollar exchange assets which the British regard as available for purchases in this country.

- 4 -

Now I want to give you a table of the estimated dollar expenditures and receipts of the British Empire, excluding Canada, for the calendar year 1941. This will show you what the British have contracted for, in war materials and other purchases here, and what they can count on, from exports and other sources of dollars, to help in meeting these obligations.

TABLE II

Estimated Dollar Expenditures and Receipts of British Empire, Excluding Canada, from January 1, 1941 to January 1, 1942.

<u>Dollar Expenditures</u>		(In Millions)
A.	U.K. payments to be made on total purchases from the U.S.	
1.	Sums to be paid during 1941 on orders placed before Jan. 1, 1941. . . . .	\$1,274
	(In addition, \$119 million will fall due after Jan. 1, 1942)	
2.	Imports from U.S. not purchased through the British Purchasing Commission,--largely on private accounts. . . . .	<u>280</u> \$1,554

- 5 -

B.	Purchases by Empire countries (excluding U.K. and Canada) from U.S. during 1941		
1.	Commodity imports . . . . .	\$ 333	
2.	Payments for shipping, tourist expenditure, interest payments, etc. . . . .	<u>5</u>	338
C.	Purchases by Empire Countries, excluding Canada, from areas outside the U.S. requiring gold or dollars		
1.	Purchases by Empire countries (chiefly U.K.) from areas outside the U.S. and Canada requiring dollars . . . . .	247	
2.	Payments by Empire Countries (chiefly U.K. to Canada and Newfoundland. . . . .	<u>880</u>	<u>1,127</u>
	Total dollar requirements for all transactions.		<u><u>\$3,019</u></u>

Dollar Receipts

A.	Dollar receipts by U.K. from U.S.		
1.	U.K. exports of merchandise to U.S. . . . .	\$ 165	
2.	Net balance from U.S. to U.K. on shipping, tourist expenditures, interest payments, etc. . . . .	<u>15</u>	\$ 180
B.	Dollar receipts by Empire countries (excluding Canada)		
1.	Commodity exports . . . . .	560	
2.	Australian gold exports to U.S. . . . .	75	
3.	South African exports of gold . . . . .	<u>480</u>	<u>1,115</u>
C.	Canadian assistance to U.K. . . . .		<u>260</u>
	Total dollar receipts by Empire countries, excluding Canada. . . . .		\$1,555

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Total dollar deficit with countries other than Canada during 1941. . . . .	\$ 844
Total dollar deficit with Canada during 1941. . . . .	<u>620</u>
Total dollar deficit of British Empire, excluding Canada, during 1941. . . . .	1,464
Total receipts and deficit on operations with all countries other than Canada during 1941. . . . .	<u>\$3,019</u>

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Now I want to show you how British gold and dollar exchange assets have declined, by more than two and a quarter billion dollars, between the start of the war and the start of 1941.

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TABLE III

Estimated Gold and Dollar Expenditures and Receipts of  
British Empire, Excluding Canada and Newfoundland, from  
September 1, 1939 to December 31, 1940.  
(Compiled from data furnished by the British Treasury)

(In Millions of U.S. Dollars)

Gold and Dollar Expenditures

A. Payments to the United States by United Kingdom.			
1.	On British Government orders in the United States. . . . .		\$1,380
	Goods delivered. . . . .	\$680	
	Advance payments. . . . .	570	
	Capital assistance. . . . .	150	
2.	For other merchandise imports from the United States. . . . .		705
3.	For shipping, interest, etc. . . . .		197
	Shipping disbursements. . . . .	125	
	Interest and dividends . . . . .	48	
	Miscellaneous (chiefly film royalties). . . . .	24	
B. Payments to the United States by Empire countries, excluding U.K. and Canada			
1.	For commodity imports. . . . .		435
2.	For shipping, interest, etc. . . . .		48
	Interest and dividends. . . . .	\$ 40	
	Shipping (net) . . . . .	8	
C. Payments by Empire countries, excluding Canada, to areas outside the U.S. requiring gold or dollars			
1.	Payments by Empire countries (chiefly U.K.) to areas outside the U.S. and Canada requiring gold or dollars. . . . .		550

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2. Gold payments by Empire countries to Canada and Newfoundland (net) . . . . .	\$ 225	775
D. Withdrawal of Capital		
1. By American and others, through sale of free sterling to American importers	300	
2. By repayment of outstanding export credits as required by our Neutrality Act	200	
3. By liquidation of forward exchange position in dollars. . . . .	<u>235</u>	735
E. Residual - Miscellaneous items and errors of estimation. . . . .	\$ 71	
Total gold and dollar requirements for all transactions. . . . .		<u>4,346</u>

Gold and Dollar Receipts

A. Receipts from United States by United Kingdom		
1. From merchandise exports. . . . .	205	
2. From interest, shipping, etc. . . . .	<u>140</u>	\$ 345
Interest and dividends. . . . .	\$ 85	
Shipping earnings. . . . .	35	
Remittances from insurance companies. . . . .	20	
B. Receipts from United States by Empire countries, excluding U.K. and Canada		
1. From merchandise exports. . . . .	640	
2. From tourist travel, remittances, etc. (net). . . . .	<u>30</u>	670
C. Dollar receipts by Empire countries, excluding Canada, from areas outside the U.S. . . . .		50

- 9 -

D. Receipts from sale of gold (new production and disharding) . . .	965
Total gold and dollar receipts by Empire countries, excluding Canada. . . . .	\$2,030
Total drain on gold and dollar resources of British Empire, excluding Canada, and Newfoundland, Sept. 1, 1939 to Dec. 31, 1940. . . . .	<u>2,316</u>
Total gold and dollar requirements for all transactions. . . . .	<u>4,346</u>

Supplementary Table

Estimated Expenditures and Receipts of Canada and Newfoundland  
With the Rest of the British Empire from September 1, 1939 to  
December 31, 1940

(In Millions of U.S. Dollars)

A. Payments to Canada and Newfoundland by Empire countries		
1. For purchases from Canada and New- foundland by the United Kingdom	\$795	
2. For purchases from Canada by other Empire countries. . . . .	125	
3. Other payments to Canada by Empire countries. . . . .	<u>10</u>	\$930
B. Receipts from Canada and Newfoundland by Empire countries		
1. From merchandise exports to Canada and Newfoundland by U.K. . . . .	170	

- 10 -

2. From merchandise exports to Canada by other Empire countries. . . . .	\$100	
3. From interest and dividends paid by Canada to United Kingdom. . . . .	85	
4. Other U.K. receipts from Canada, principally Canadian Expeditionary Forces. . . . .	<u>20</u>	<u>\$375</u>
British Empire deficit with Canada and Newfoundland on merchandise, interest and dividends, etc. . . . .		555
Canadian assistance to U.K.--repatriation of British-held Canadian securities and increase in sterling balances held by Canada. . .		<u>330</u>
Gold payments by British Empire countries with Canada and Newfoundland Sept. 1, 1939 to Dec. 31, 1940. . . . .		<u>225</u>

One vital factor in this drain of assets was the collapse of France last Summer. The French had at least as much as the British in gold and dollar assets in this country; these resources were available, together with the British, to pay for purchases here in the first nine months of the war. When the French collapse came, last June, the British took over all French contracts in this country, although they

- 11 -

no longer had the help of French money to pay for them.

British liabilities were doubled. They were left to

face Germany alone. (~~Their financial resources here~~

~~were cut in half.~~ The result was that the British began

to lose gold and dollar assets twice as fast after June

as before; and ~~they have continued to lose them at the~~

~~faster rate ever since.~~

This war is now costing Great Britain more than fifty million dollars a day, or almost two thirds of her national income. The British are raising about forty per cent of this cost by taxing their people at home. To give you an idea of what the British people are doing to pay for the war, you may be interested in the following table comparing British and United States taxes at the present time:

- 12 -

Comparison of British and United States Taxes

1. Personal income tax. A married couple with two children would pay the following taxes in Great Britain and the United States under present laws:

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British	U.S.
42 $\frac{1}{2}$ %	24%

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4. Purchase tax. The British impose a purchase tax of 33-1/3 percent on the wholesale value of certain luxuries and 16-2/3 percent on certain goods in common use, exempting food.

- 13 -

5. Excise taxes. The British impose excise taxes on several commodities at substantially higher rates than the United States. Examples are given below:

	: British :	U.S.
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Beer, domestic, per bbl. of 31 U.S. Gallons	11.16	6.00
Cigarettes, per thousand, weighing 3 lbs.	11.70	3.25
Tea, Empire, per lb.	10¢	-
Coffee, full duty per lb.	2.8¢	-

The last table I want to submit to you is an estimate of the long-term foreign investments of the United Kingdom outside the United States. These figures, most of which were compiled by British economists before the outbreak of war, are necessarily estimates. Nobody can fix a definite valuation upon such properties as ranches in Australia, railways in Argentina or oil wells in Mexico.

- 14 -

Most of the investments are in sterling securities; a large part of the Canadian investment is in Canadian dollars, and some of the other investments are in the respective domestic currencies. However, for convenience of presentation, the estimated nominal value of the investments has been converted into sterling.

The market values, where given, are calculated from current market quotations of the securities. Since market quotations are not available for a large part of the investment, no total market value can be calculated:

- 15 -

Estimated Long-Term Foreign Investments of the United  
Kingdom Outside the United States

(Million Pounds)					
		<u>Government</u>	<u>Railways</u>	<u>Other</u>	<u>Total</u>
<u>In British Empire</u>					
Canada	Nominal	75	187	219	481
	Market	(70)			
Australia	Nominal	425	3	75	5-5
	Market	(410)			
New Zealand	Nominal	131	1	14	146
		(125)			
India	Nominal	300	$\frac{1}{1}$	250	550
	Market	(250)	$\frac{1}{1}$	250	438
Malaya	Nominal	6		78	84
Other	Nominal	—	—	—	—
Total in British		Nominal 1,125	191	886	2233
<u>In Latin America</u>					
Argentina	Nominal	45	263	83	390
	Market	(32)	(52)		
Brazil	Nominal	75	38	47	160
	Market	(14)	(5)	(22)	(41)
Chile	Nominal	20	20	65	105
		(2)	(5)		
Uruguay	Nominal	18	14	10	42
	Market	(8)	(1)	(12)	(21)

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		<u>Government</u>	<u>Railways</u>	<u>Other</u>	<u>Total</u>
Mexico	Nominal Market	38 (1)	90 ( 1)	44	173
Peru	Nominal Market	6 (1)	<u>1</u> / 25	23 (4)	28 (5)
Cuba	Nominal Market	2 (2)	25 ( 1)	(2)	28
Venezuela	Nominal Market	Nil	3 0.2	18 (17)	20 (17)
Colombia, Ecuador Bolivia, Paraguay, Central America	Nominal				50
International	Nominal	—	—	—	—
Total in Latin America	Nominal	204	451	317	1002
<u>In Asia</u>					
China	Nominal				200
Japan	Nominal				50
Netherlands East Indies	Nominal				50
Philippines	Nominal				<u>8</u>
Total Asia					308
<u>In Europe</u>	Nominal				250
In Other Areas <u>2</u> / Total U.K. Investments outside United States - Nominal Value	Nominal				<u>75</u> 3868

1/  
2/ Not shown separately.

2/  
2/ Mainly Iran, Egypt, Iraq and Portuguese East Africa.

- 17 -

The problem before us is not whether the British Empire has resources; of course it has, all over the world. The problem is whether the British have got the dollars they need, or can get the dollars they need to spend in this country.

If we expect the British to go on getting supplies here--and that means if we expect them to go on fighting--some way must be found to provide either the dollars or the supplies themselves. That, gentlemen, is the problem. I am ready now, Mr. Chairman, to answer questions.

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## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern, Switzerland

DATE: January 27, 1941, 11 a.m.

NO.: 15

The Legation refers to telegram of January 21, No. 13 from the Department.

The following information has been obtained from McKittrick:

No regular business in dollar securities is done by the Bank for International Settlements for the account of its clients. The B.I.S. received for safekeeping during 1940 only a small block of Argentine dollar bonds, and it still holds these bonds. The Bank carries in New York about ten million dollars in ninety day paper for its own account, but does no other business in dollar securities.

The Bank has, during the past two months, transferred back to New York about \$1,000,000 which had previously been brought to Switzerland for investment, but for which the investment possibilities did not materialize. Regular monthly transfers to New York are made by the Bank of nearly \$2,000 constituting interest received in Swiss francs on European investments. It receives other payments of interest directly in dollars. Regular purchases and sales of gold are made by the Bank against dollars, a license for each transaction being secured from the United States Treasury Department. Deposits with the B.I.S. are held

by

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by certain central banks, which deposits involve rather infrequent receipt and return of substantial amounts. The Central Corporation Banking Companies of Budapest transferred to the Hungarian National Bank \$725,000 in the Bank's books in November. A credit of \$1,050,000 was recently granted by the B.I.S. to the Banco Central El Salvador, secured by gold which was deposited in New York with the Federal Reserve Bank.

The foregoing account covers the dollar operations of the B.I.S. since the first of November, other than the purchase and collection of the 90-day paper which was mentioned above, and a variety of transactions of less importance, such as the receipt and payment of interest on deposits, commissions received in connection with bond issues of Germany and Austria, cable charges and freight, insurance and handling charges in connection with shipments of bullion, et cetera.

All operations of the Bank for International Settlements in American markets since the twenty-sixth of June have been subject to license by the Treasury, but authorization has been granted to the New York Federal Reserve to carry out routine transactions without reference to the Treasury. Special license is still required for operations in gold and for any unusual transactions. The B.I.S. transacts with  
the

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the New York Federal Reserve all current business with the exception of the purchase of 90-day paper. Although McKittrick is ready to send extracts of the account for the past month or two if you desire, he suggests that at the New York Federal Reserve the same information is available, and he would be glad if this source could be used; there would also be less delay in such procedure.

As to the 500 kilos of gold at Rio, transferred ~~through~~ to the B.I.S. last week by the Bank of France, it is being held by the B.I.S. subject to instructions from the Bank of France. The origin of this bullion is not known to the B.I.S., which has not yet received ~~the~~ details as to marks and weights; however, the B.I.S. understands that the Bank of Brazil forwarded the gold.

McKittrick said that he is anxious to cooperate with us, and he would be grateful for any information which you can give him as to doubts or misgivings that may be entertained in Washington about the B.I.S.'s policies or activities. In all transactions, it is the B.I.S.'s policy not to do anything that would either increase the financial resources of any belligerent country or its institutions, or to increase the availability of such resources by any transaction which its client could not use directly. You are requested to refer to cable no. 292 of June 26, 1940 from McKittrick <sup>has</sup> to the New York Federal Reserve, which was communicated to the Treasury Department.

EA:LWW

HARRISON.

January 27, 1941  
2:12 p.m.

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H.M.Jr: Jesse.

Jesse

Jones: What's the interest rate today?

H.M.Jr: It's going up, thanks to your friend Marriner.

J: Huh?

H.M.Jr: Thanks to your friend Marriner.

J: Yeh.

H.M.Jr: Do you know if I wanted to borrow five years' money last week I would have had to pay one percent?

J: You would, huh?

H.M.Jr: Yes sir. And this last issue - we've had the narrowest squeeze we've ever had - we priced it the same and everything else. But it was four times over-subscribed but it's just selling at  $3 \frac{4}{32}$  over par.

J: Only four times?

H.M.Jr: Well, four - a little over four times.

J: I see.

H.M.Jr: With 23 percent allotment.

J: How much of that six -

H.M.Jr: Well, let's see, the six hundred -

J: Six hundred million.

H.M.Jr: There was about - we got about - well, the allotment was 23 percent.

J: I see.

H.M.Jr: And there's nothing the matter; there's just as much money there - but

J: Why certainly.

H.M.Jr: But the people are nervous, they don't know what's going to do next.

J: Yeh.

H.M.Jr: You know there's no more money being borrowed.

J: Not a bit and it's piling up all the time.

H.M.Jr: All the time and this thing

J: - was bad medicine. I was talking to Dan this morning about some of our little matters.

H.M.Jr: Yes.

J: I think soon as you want to do it you can - we're going to be owing a good deal of money.

H.M.Jr: Yes.

J: So you can -

H.M.Jr: Well Dan didn't have a chance but I hope if I get any luck with my bill then we'd like to borrow five hundred million for you.

J: Yes.

H.M.Jr: See?

J: I see.

H.M.Jr: But if we have no luck with our bill we'll just have to go ahead and do it anyway.

J: That's right.

H.M.Jr: If that's all right with you.

J: Yes.

H.M.Jr: But I've been holding back and I'm using that as an argument.

J: Yeh.

H.M.Jr: So, do you mind sitting tight for two or three weeks more?

J: No, perfectly all right, perfectly all right.

H.M.Jr: And - but I told these people and when I go up Wednesday to testify I'm going to say there's nothing the matter; there's plenty of money but you can't try to regulate it artificially - anymore than you can stop a river from going down hill.

J: That's right.

H.M.Jr: And we've got to pay more money and so do all the other agencies. But if I went ahead and borrowed now for you it would kind of - little bit spoil my story.

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- J: Yeh, Well, it's all right, anytime.
- H.M.Jr: Swell.
- J: I called particularly I wanted to speak to you about Sandlin. I spoke to Preston -
- H.M.Jr: Yeh.
- J: And asked him if he had any objection about speaking to you and he said he certainly did not.
- H.M.Jr: Good.
- J: He's an awful good man. He's the best man down there in that field.
- H.M.Jr: Well I'm glad to hear it. Sam Rayburn and Tom Connally both have called me up so it seems to be unanimous now.
- J: Well, he's the best man in that section of the country.
- H.M.Jr: And you think he'd be pleasing to everybody then?
- J: Oh, I'm sure it would. I know the bankers would like it very much.
- H.M.Jr: Well, Jesse, I'm glad to get it.
- J: O.K. Thank you.
- H.M.Jr: Thank you.

January 27, 1941  
2:15 p.m.

RE DEBT LIMIT

Present: Mr. Haas  
Mr. Kuhn  
Mr. White  
Mr. Sullivan  
Mr. Bell  
Mr. Foley

H.M.Jr: Has George indicated in any way what his feelings are toward me?

Foley: No, he hasn't, but I gathered that he felt very friendly toward you and the Treasury, didn't you, Ferdie?

Kuhn: Particularly because of what he said about Vandenberg, which showed that he was feeling friendly and wanted to show it.

H.M.Jr: Well, I thought we would start in. Hello, George.

Haas: Yes.

Bell: Do you want Gaston on this? I sent him a copy. I didn't know whether he had any comments to make.

H.M.Jr: Well, Herbert has got so much.

Bell: I just sent him a copy for his comments. I haven't gotten them back.

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H.M.Jr: You have not gotten them back?

Bell: No. I sent it to him Saturday.

H.M.Jr: I don't think so.

Bell: He has got too much. I will get them.

H.M.Jr: I will ask him. No, I mean, Herbert has got more than he can take care of right now. He has been doing this sort of thing now for me for years, and I am trying to make life a little easier for him. I hope Herbert is getting so he feels better. It will make things easier for Herbert and for me.

You (Bell) didn't write this, did you?

Bell: Yes, I wrote this and then sent it around earlier in the game to Ed and Sullivan and Ferdie and then corrected it according to their suggestions. I guess Ed's boys saw it. This is the result of a number of changes.

H.M.Jr: Instead of "I told you," we can say, "I pointed out." Who is going to correct this, now? Are you going to carry this one, Dan?

Bell: Yes.

H.M.Jr: You are carrying this?

Bell: I will.

H.M.Jr: All right. I pointed out. Do you get, Ferdie, a little bit - whenever I get these things, anything like that, that I am telling the committee or wherever I seem to be laying

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down the law that I always duck it. Do you notice this? You never know when somebody will say, "Oh, you are telling us." What? O.K. on the first page.

Bell: I suppose - some of them have suggestions. They got this Saturday to work on over the weekend.

H.M.Jr: Any suggestions on the first page?

Sullivan: Yes, in the first line it should be the "First Revenue Act of 1940."

Haas: Check, I have that too.

Bell: Then let's strike out "first appeared." Let's strike that out first.

Sullivan: "When I appeared before you last spring at the time the revenue bill of 1940 was under consideration, the National Defense program then before Congress was less than \$4,000,000,000. I told you that on the basis of that program, the balance of the borrowing authority under the general debt limitation of \$45,000,000,000 would be completely exhausted and the working balance of the Treasury would be dangerously depleted early in the calendar year 1941. In view of this situation, Congress provided in the first Revenue Act of 1940 for the issuance of not more than \$4,000,000,000 of short-term obligations to raise funds to finance the National Defense Expenditures."

H.M.Jr: Are you fellows through with your technical corrections?

Sullivan: "The same Act provided additional taxes, most of which were intended to be used to retire within five years any defense obligations

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issued under this authority. As I reported to you, the provisions of the bill then pending before your Committee were sufficient to meet the situation as it existed at that time."

H.M. Jr: Now, what do you mean, "The provisions of the bill then pending before your Committee"?

Bell: That is the first Revenue Act which provided the new taxes and the four billion dollars of National Defense Notes. You told them in view of what was before them at that time, that that would sufficiently take care of the situation.

H.M. Jr: "The balance of borrowing authority on January 1, 1941, was \$887,000,000 under the general limitation, and \$2,764,000,000 under the National Defense limitation. These combined balances provide the Treasury with borrowing authority sufficient only for the next three months."

O.K. Anybody want to say anything?

(Mr. White left the conference for a phone call.)

Haas: I have got one minor correction. Near the bottom where it starts the sentence, "In view of this enlarged program," I would change the sentence to, "I do not believe that it would be advisable to finance this large program to be issued." The way it is now, there is a slight intimation that it was all right to finance this previously all to short-term obligation.

Bell: That is what he said, that that was the whole theory of the last bill, wasn't it?

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It was all right.

- Haas: Well, why repeat it again? I would just throw it out for what it is worth.
- Bell: What we are trying to do is to explain to the committee the difference between what we are now asking for and what we asked for last spring.
- Sullivan: Why we are changing our position.
- Bell: Why we are changing our position, and Jerry Cooper says that is very important.
- Haas: Oh, that is all right.
- Bell: But we can work that out.
- Haas: Yes.
- H.M.Jr: All right?
- Bell: Yes.
- H.M.Jr: "I am therefore appearing before you today in support of H. R. -- "
- Sullivan: 2653.
- H.M.Jr: "which provides for elimination of the partition in the debt limit, raises the debt limit to \$65,000,000,000, provides greater flexibility in our financing operations, and provides that the income from all future issues of Government securities, both direct and indirect, be subject to all Federal taxes."
- Sullivan: I don't like "both direct and indirect." That means to cover agencies, doesn't it?
- Foley: Guaranteed obligations are indirect. Indirect are --

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Bell: Guaranteed.

Foley: Regular obligations.

(Mr. White returned to conference.)

H.M.Jr:

How is Ernest? *(Mr. Hemingway, the author)*

White:

He is all right. He said he couldn't come today because no planes are running, but he will be glad to look at anything later on when he comes through; and he will stop. I thought we might send him some of the stuff on the malarial situation.

H.M.Jr:

Sure, send it to him. The other thing he might look into, I wish he would look into the traffic situation on the Irawadi River, why they don't use it more, you see.

Foley:

That is what Chen did.

H.M.Jr:

Yes, but I don't know whether he got anywhere. Why don't they use that more?

Foley:

He went down there to look at it himself, and he got malaria down there. That is where he got his sickness.

H.M.Jr:

The reason is that the railway from Rangoon up to Lashio, wherever it goes, is owned by the State of Burma, and they don't like to use the river boats because there is too much competition and I understand there are two thousand ton boats who can go up within 150 miles of the back door of China and they could handle the bulk of the freight; but there is some graft or some situation there which keeps them from using it, and they could use a mass of this freight up the river. Those boats, they say, are two thousand tons, and they go up within 150

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miles of the back door, and there is a road that runs from the head of the navigable waters right into China. There is something funny, why they don't do it. Malaria is not the answer. It is political, graft. All right, Dan?

Bell: I think the debt limit raise ought to be first in that clause, which raises the debt limit to 65 billion, and provides for the elimination, and so forth.

H.M.Jr: This isn't like that thing this morning where every word had to be looked at.

"Because of rapid changes in world conditions, our contemplated National Defense program, according to the 1942 Budget just submitted, has now been increased until it aggregates approximately \$28,500,000,000 in appropriations, contract authorizations, and recommendations."

Now, what do you mean, "recommendations"?

Bell: That means the estimates included in the Budget, which are not yet either appropriations or contract authorizations. That is what they call them. It is what the President called them in his Budget statement.

Sullivan: I asked the same question. I wonder if it wouldn't be well to say "Budget recommendations" and save another question.

Bell: I was trying to avoid another question.

H.M.Jr: As long as I know what the answer is.

"The estimated expenditure programs included in this Budget would result --" Well, Dan, I would like to just make a note, to explain what that 28 and a half billion is.

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- Bell: I can have it to you just as it is in the Budget. I haven't the breakdown by authorizations.
- H.M.Jr: Just the way it is in the Budget. Then I can study it, you see.
- "The estimated expenditure program included in this Budget will result in combined deficits for the fiscal years 1941 and 1942 of more than \$15,000,000,000."
- That is if they put through the measure.
- Bell: That is right.
- Sullivan: That is also exclusive of any aid to Britain.
- Kuhn: You mentioned that somewhere.
- Haas: Nine one year and six another.
- H.M.Jr: "In view of this enlarge program, I do not believe that it would be advisable to undertake to finance it through the issuance of short-term securities and their retirement out of earmarked taxes within a specified period as contemplated in the first Revenue Act of 1940."
- White: Would you want to make a slight change here?
- H.M.Jr: I am going to read through the whole thing. I am not going to do words now.
- White: Well, it is more than words, it is policy.
- H.M.Jr: Well, what is it?
- White: Well, will we have another chance at it?

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H.M.Jr:

Let me read it once. I haven't seen this. Let me read this thing. This isn't the last chance. I mean, it is my first reading.

"Moreover, short-term securities would for the most part be purchased by banks resulting in a further inflation of deposits. It is highly desirable to avoid such inflation as much as possible and to some extent this can be accomplished by issuing long-term obligations attractive to permanent investors outside of the banking system. It seems clear, therefore, that the provisions of law authorizing the issuance of \$4,000,000,000 of short-term public debt obligations and their retirement within five years out of earmarked taxes should be repealed."

I don't think that all that argument is conclusive as to why the four billion should be repealed, Dan.

Bell: Not strong enough?

H.M.Jr: Well, it doesn't sell it to me.

Bell: All right. We will put in something different, then.

H.M.Jr: Incidentally, Walter Stewart will be here at nine o'clock tomorrow just to help on this, just to do this. I have asked him to come down.

Bell: Good.

H.M.Jr: "The deficit figures just given also clearly indicate that the general debt limitation of \$45,000,000,000 must be increased."

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That, if you don't mind my saying it - I mean, it is the whole thing and then it kind of peters out and you sort of say out of the side of your mouth, "Oh yes, and by the way we are going to have to increase it 45 billion."

Bell: Well, that is in line with what the President said, no recommendation and it is Congress' problem. I had in there, "I strongly recommend," but they took it out and put it this way.

H.M.Jr: All right. I don't like it.

Bell: Well, I like it the other way better, too.

H.M.Jr: "It would appear advisable to increase this limit to an amount sufficient to enable the Treasury to meet all of its financing requirements for the next two fiscal years ending June 30, 1942. I believe that the amount fixed in the bill before you is ample for this purpose."

Bell: That isn't a recommendation. It is just an agreement to something that Congress has done.

H.M.Jr: "This brings me to another matter of vital importance in connection with the financing of the National Defense program, and that is the tax exemption features of the debt obligations issued by the Federal Government and its agencies."

I told you I didn't like that.

"I told you last year that if it were within my power, I would issue National Defense series obligations subject to all Federal taxes. The discretionary authority of the Treasury

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to issue securities subject to all Federal is confined to Treasury notes with a maturity of from one to five years. As to all other types of Government securities, the law itself definitely fixes the exemptions from taxation, and there is no discretionary authority in any executive office --"

Bell: Officer.

H.M.Jr: ".....officer of the Government to vary these exemptions. Ordinarily the Treasury would have raised in December, 1940, a substantial amount of additional cash and it would have carried out its usual program of refunding, three months in advance, the obligations aggregating \$1,220,000,000 that mature on March 15, 1941. The money market at that time afforded the Treasury an excellent opportunity to refund the large maturities and raise the additional cash needed largely through the sale of long-term bonds."

Now, I would say here, "However, after consultation with the leaders in the Senate and the House."

Bell: Well, I didn't know how much you could put this decision on them.

H.M.Jr: Well, I did have it.

Bell: You see, what I tried to say here is you made up your own mind and then consulted them, and they thought it was all right.

H.M.Jr: Did you say that?

Bell: Yes.

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- H.M.Jr: "However, after consultation with the leaders in the Senate and the House, it seemed to me highly desirable that the Treasury make no further offers of long-term tax-exempt securities until the Congress had had an opportunity to consider the question again in the light of the huge defense financing program before us. I decided, therefore, to defer our refunding program and to meet our immediate cash requirements through the sale of short-term notes, the income from which is subject to all Federal taxes, in order to give this Congress an opportunity to consider the question of eliminating tax-exemptions from Federal securities."
- White: Are they liable to ask you at this point could you have refunded those issues and saved money with the interest rates lower, and if your answer to that is yes --
- H.M.Jr: Well, my answer is "How the hell did I know that the Federal Reserve System was coming out with that blast on the first of January? How did I know that Winthrop Aldrich was going to take them all into camp?" Are you satisfied?
- Bell: That is a good answer.
- White: It would be a good answer if you would make it, but I doubt whether you will make it.
- H.M.Jr: I will bet you another bottle of champagne that I will make it, leaving out Winthrop Aldrich; but I will certainly say, "How did I know?" Maybe the Federal Reserve knew because they sold about 75 million dollars worth of bonds before they made the statement, which is true. Isn't that right?

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- Bell: Yes.
- White: I didn't know that.
- H.M.Jr: Sure they did, and the boy that got into the Chase National Bank stock, one of these days I am going to find out who bought that stock, too. Am I not right? Just before that they sold about 75 million, didn't they?
- Bell: Somewhere in that neighborhood. They sold quite a few bonds.
- H.M.Jr: Give me the figure, how much during the month of December did they sell? I want to know. The trouble is Harris, he is so damn innocent and he trusts everybody.
- White: The way it implies here is, you felt it was an excellent opportunity at that time.
- H.M.Jr: I did.
- White: Then you were afraid it might not be repeated. Then you didn't anticipate they were going to make that statement, but you thought --
- H.M.Jr: What I am trying to say is that I deferred my refunding and raising of my large cash through the issuance of bonds, because I wanted to give Congress an opportunity to eliminate the tax feature.
- White: I should be inclined to say just that.
- Haas: Everything was favorable but just one thing.
- H.M.Jr: You fellows can hash that out. I wouldn't say, "I believe." I would say, "The program explained to them met with their hearty approval." I would leave off, "I believe."

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Bell: I think it did, but I didn't know how far you wanted to go.

H.M.Jr: Pat Harrison said a couple of times it was the best meeting he ever had had.

Bell: "The program explained to them met with their hearty approval"

H.M.Jr: Yes. Now, I would like you to say something here, Dan, that Jesse called me, not only for the Treasury, but we have got to borrow for the EFC.

Bell: I have got that in the last paragraph.

H.M.Jr: Could you repeat that and put it in there?

Bell: Yes. There is a repetition on this very thing.

H.M.Jr: That is all right. The New York Tribune gave us a left handed compliment. He is glad we saw the light and so forth, today, as a result of this bill. He read the bill and he liked it. The name was Sanders. He is financial editor of the Tribune. He writes Monday morning.

Do I speak of myself, as to give the Secretary control over the amount of savings bonds? Or would I say to give me, or give the Treasury?

White: Treasury, I should think. Either the Secretary of the Treasury or the Treasury.

Bell: I think that is all right.

H.M.Jr: Then I would say to give the Treasury.

Bell: To give the Treasury?

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H.M.Jr: Yes. Somebody open that last window, please. It is a little stuffy in here.

Foley: There are two of them there.

H.M.Jr: Yes.

Bell: Yes.

H.M.Jr: Now, you know Odegarde is coming in with a statement.

Bell: So Ferdie just told me.

Kuhn: He will be in tomorrow morning, and he is going to talk to Milton about it in the morning.

H.M.Jr: Good.

Kuhn: At breakfast.

Bell: He might go over the whole statement.

H.M.Jr: Oh, I am anxious to have him do it.

Kuhn: You wanted about 500 words on the savings business, the campaign?

H.M.Jr: Well, not to exceed that.

Kuhn: Yes.

H.M.Jr: I think this is a very good statement, Dan, I think it is very workmanlike. Now, what do you want to do, go into your office and have a wrangle with these fellows?

Bell: If they are willing. Did you notice the last paragraph where RFC was mentioned?

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H.M.Jr: Yes.

Just before you fellows go, I have here this thing which I thought I was going to get Saturday, a letter from the President on - gentlemen, that is boiled down plenty, isn't it - have you seen this?

Bell: I haven't seen this last draft, have I?

White: A copy was sent around this morning. There was no change except in two paragraphs.

H.M.Jr: Well, circulate it and I won't bother you fellows with it until this is done. When this is done, I will bother you with this letter. How is that?

Bell: All right.

H.M.Jr: Did you get my blast on my record about getting together on the stocks?

Bell: I sure did.

White: It was very funny. Are you sneaking now of Swiss securities?

H.M.Jr: Did you (Bell) see the memo?

Bell: Yes.

H.M.Jr: Did you see it?

White: Yes, I saw it. "a have a man following it and he has his instructions to keep me informed and he does keep me informed and he did send me a memorandum Friday saying that the Swiss - I had it on my desk.

H.M.Jr: Who told Papa? It didn't get to Papa.

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- White: Well, we just didn't have an opportunity. There are a lot of things like that that we don't know whether to bother you about, and this is what we started to do.
- R.S.Jr: I don't know where it belongs, Harry, I don't know just where it belongs.
- White: well, it unquestionably belongs with us because we have been following it.
- Bill: I thought it belonged to Merle. He used to feed you a lot of memoranda every evening and you said to him one day, "Don't give me any more until I tell you to." Ordinarily you would have gotten this in this group.
- Wes: Harry's shop puts it together.
- White: We put it together.
- R.S.Jr: Where I differ is a little bit with Merle - I have had this discussion with him. Let me explain a little bit more. You see, this is what happened. Wednesday or Thursday night late, Merle sends me a memorandum, "Gilford thinks that the market is a little soggy, they can't take any more securities," and I get it late at night and I think it over and this is Wednesday night and watching it and having checked it, I sense it too. So I tell him to stop for a couple of days.
- Now, then Friday or Saturday, somebody said something and I said, "Take a look and see what the Swiss are doing." Nobody told me a thing. Just a stab. And by golly if all week they haven't been the heaviest sellers. Merle says they can do this, but I don't think - maybe I am wrong - that Merle has got time enough or the training that he can

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sense when is a good time and when is a bad time for the British to sell. It gets down to a question of market sense, you see, and that is the thing and I just wondered if these English figures which I have shown to nobody, you see - if anybody is to blame, I am not to blame for what they do each day - whether somebody should be there to help Merle or whether it should be Purcell or something, Dan. I wanted to explain it more to you. Do you see what I mean?

Fell: Yes.

H.M.Jr: Now, the SEC are worried because they wrote me a letter which I told them to bring to your attention about depressing the market, and I would like to sit down and talk this over with Jerome Frank because I think it is important enough that the very best man that the Government can have should be hired to do nothing but just watch this thing on an hourly basis the way we used to. I used to watch it and when I was in Farm Credit, I watched wheat; and I don't think Merle has got the time or the training.

Fell: I don't think Merle can watch the market. Whatever he would get on the market would have to come from SEC.

H.M.Jr: And the thing that is going through my mind, if Jerome Frank - because he is worried, he has written me, "Say all right, if you would let me have everything, if you haven't" - and of course, up to now, in this room, Jerome has told me he didn't want it because he couldn't guarantee to keep it secret.

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He said, "Don't let me have it." He says, "I can't guarantee to you I will keep it secret."

White: Well, we have been collecting the figures but we certainly are not qualified to follow the market, and I don't think it is Treasury business.

H.M.Jr: Harry, it is Treasury business to advise Mr. Gifford.

White: Well, it may be Treasury business to advise him, but if so the Treasury ought to get it from the SEC.

H.M.Jr: That is the whole point of my story. That is the point of my story. I think it is SEC business, but up to now Jerome Frank hasn't been willing to take it.

White: It may be SEC responsibility to give them the red light, tell them when to stop. Beyond that, I think they ought to go carefully merely in protection of the American markets, but I doubt whether they can go further than that.

H.M.Jr: I am just illustrating this thing. One of these days, somebody, Martin Dies or somebody, is going to get hold of this whole business in Foreign Funds. Friday or Saturday I got two cables, one describing how they are taking - the Germans are taking their money out of safe deposit boxes and taking it to their hotels in New York, and then comes a cable from Vichy signed by Leahy, how they have given them until the 31st of January and they are going to forcibly open safety deposit boxes in occupied France, the Germans are, and break into the lock boxes, and here we are mealy-mouthed and afraid to just - to freeze

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funds, and while we are standing around here, these fellows are taking satchel fulls and sending them down to South America or their hotel room or someplace.

Foley:

Well, while we are on that, there is an editorial in the Tribune this morning saying that these feeble efforts of the Treasury and these other agencies to coordinate these matters in connection with economic defence ought to be brought to a head and there ought to be set up in the Office of Production Management an economic control agency that would handle all of these things.

Now, that editorial is geared to the proposal of Colonel Maxwell to take all of this stuff out of the Treasury. I only want to say this, that with the State Department the way it is, we have got to be awfully careful that they don't stick that Executive Order setting up everything and taking away our freeze control and our powers away from us and giving it to the Office of Production Management, that they don't stick that in front of the President and the President sign it.

White:

I think the whole fight ought to be reopened.

Foley:

By God, that is where the State Department is liable to go despite us.

White:

I think it ought to be reopened and refought from where we started with the original order which the President almost signed. Instead of giving in as much as we have, I think we ought to begin from there.

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- Foley: I don't agree that we ought to start now, and fight it all over again. I think it is just as well to let the thing simmer a bit, but I do think, Harry, that there ought to be a caveat thrown up so that that damn order doesn't get signed while we are fooling around with our own order.
- White: That order was always misinterpreted. It very definitely left control of the policy in an inner Cabinet committee in which the State Department could have been chairman.
- Foley: No, no, Harry, it is even better than that. They have got absolute veto power. They don't have to be chairman.
- White: Originally. The way it was originally, there wasn't any necessity to recede from it one iota, because we weren't taking away from their power.
- Foley: We haven't receded from it, and the order we have now is just as good as the original order. There is danger that this Maxwell order may get signed, and this editorial in the Tribune today is a tip-off on where that thing may go and I think the State Department is spiteful enough to throw its weight that way just to keep us from getting that additional power.
- White: But I don't think it is a question of them. I think they are vulnerable when the situation is brought out in its proper light.
- Foley: Did you see the editorial, Mr. Secretary?
- H.M.Jr: No. O.K., gents.
- Bell: On this Swiss, there isn't anything we can do about it?

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- H.M.Jr: No, but I thought you could get a little meeting and when we catch our breath, we will have Jerome Frank come over and talk to us; but I wanted to explain to you.
- Bell: I got your memorandum.
- H.M.Jr: O.K. But I don't agree with you - I don't think we have anybody in the Treasury who has good enough market sense.
- Bell: No, not when it comes to making decisions as to when you should stop and begin.
- H.M.Jr: With all undue modesty, with the exception of myself, and I haven't got the time.

Draft

When I first appeared before you last spring at the time the revenue bill of 1940 was under consideration, the National Defense program then before Congress was less than \$4,000,000,000. I told you that on the basis of that program the balance of the borrowing authority under the general debt limitation of \$45,000,000,000 would be completely exhausted and the working balance of the Treasury would be dangerously depleted early in the calendar year 1941. In view of this situation, Congress provided in the first Revenue Act of 1940 for the issuance of not more than \$4,000,000,000 of short-term obligations to raise funds to finance the National Defense Expenditures.

The same Act provided additional taxes, most of which were intended to be used to retire within five years any defense obligations issued under this authority. As I reported to you, the provisions of the bill then pending before your Committee were sufficient to meet the situation as it existed at that time.

The balance of borrowing authority on January 1, 1941, was \$887,000,000 under the general limitation, and \$2,764,000,000 under the National Defense limitation. These combined balances provide the Treasury with borrowing authority sufficient only for the next three months.

- 3 -

I am therefore appearing before you today in support of H. R. \_\_\_\_\_, which provides for the elimination of the partition in the debt limit, raises the debt limit to \$65,000,000,000, provides greater flexibility in our financing operations, and provides that the income from all future issues of Government securities, both direct and indirect, be subject to all Federal taxes.

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Because of rapid changes in world conditions, our contemplated National Defense program, according to the 1942 Budget just submitted, has now been increased until it aggregates approximately \$28,500,000,000 in appropriations, contract authorizations, and recommendations. The estimated expenditure programs included in this Budget will result in combined deficits for the fiscal years 1941 and 1942, of more than \$15,000,000,000. In view of this enlarged program, I do not believe that it would be advisable to undertake to finance it through the issuance of short-term securities and their retirement out of earmarked taxes within a specified period as contemplated in the first Revenue Act of 1940.

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Moreover, short-term securities would for the most part be purchased by banks resulting in a further inflation of deposits. It is highly desirable to avoid such inflation as much as possible and to some extent this can be accomplished by issuing long-term obligations attractive to permanent investors outside of the banking system. It seems clear, therefore, that the provisions of law authorizing the issuance of \$4,000,000,000 of short-term public debt obligations and their retirement within five years out of earmarked taxes should be repealed. The deficit figures just given also clearly indicate that the general debt limitation of \$45,000,000,000 must be increased.

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It would appear advisable to increase this limit to an amount sufficient to enable the Treasury to meet all of its financing requirements for the next two fiscal years ending June 30, 1942. I believe that the amount fixed in the bill before you is ample for this purpose.

This brings me to another matter of vital importance in connection with the financing of the National Defense program, and that is the tax exemption features of the debt obligations issued by the Federal Government and its agencies.

I told you last year that if it were within my power, I would issue National Defense series obligations subject to all Federal taxes.

The discretionary authority of the Treasury to issue securities subject to all Federal taxes is confined to Treasury notes with a maturity of from one to five years. As to all other types of Government securities, the law itself definitely fixes the exemptions from taxation and there is no discretionary authority in any executive office of the Government to vary these exemptions.

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Ordinarily, the Treasury would have raised in December 1940 a substantial amount of additional cash and it would have carried out its usual program of refunding, three months in advance, the obligations aggregating \$1,220,000,000 that mature on March 15, 1941. The money market at that time afforded the Treasury an excellent opportunity to refund the large maturities and raise the additional cash needed largely through the sale of long-term bonds.

- 9 -

However, anticipating that the Congress would consider the question of tax exemptions in this session, it seemed to me highly desirable that the Treasury make no further offers of long-term tax-exempt securities until the Congress had had an opportunity to consider the question again in the light of the huge defense financing program before us. I decided, therefore, to defer our refunding program and to meet our immediate cash requirements through the sale of short-term notes, the income from which is subject to all Federal taxes, in order to give this Congress an opportunity to consider the question of eliminating tax-exemptions from Federal securities.

I conferred with some members of both the Ways and Means Committee of the House and the Finance Committee of the Senate and explained to them what I had in mind and that in taking these steps it was my hope that Congress would promptly enact legislation which would provide that the income from all future issues of securities of the Federal Government or any of its agencies be made subject to all Federal taxes. I believe that the program explained to them met with their hearty approval. I am sure this Committee appreciates the importance of prompt action in this connection so that the Treasury can take steps to refund the large March 15 maturities in advance of that date.

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Section 2 of H. R. \_\_\_\_\_ amends section 21 of the Second Liberty Bond Act, as amended, so as to limit the face amount of public debt obligations issued under the authority of that Act to an amount not to exceed in the aggregate \$65,000,000,000 outstanding at any one time. This amendment as written will repeal section 21(b) of that Act which authorizes the issuance of \$4,000,000,000 face amount of National Defense notes. As previously explained, this increased limitation will amply cover the Treasury's present anticipated financing requirements for the current and ensuing fiscal years.

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Section 3 amends section 22 of the Second Liberty Bond Act so as to broaden the authority under which United States Savings Bonds are issued, in order, first, that the Treasury may issue such bonds with maturities up to twenty years; second, that it may issue Treasury savings certificates with maturities up to ten years, and, third, to give the Secretary control over the amount of new issues of Savings Bonds and of certificates which may be held at any one time by any one person. In addition, this section would authorize the Secretary to issue stamps or provide other means to evidence payments for Savings Bonds and savings certificates, and to provide for the exchange of savings certificates for Savings Bonds.

This would permit the Secretary of the Treasury to carry on a program somewhat similar to the war savings and Treasury savings certificates programs during the World War, programs which provided means for popular participation in the financing of that War through saving small amounts, and at the same time were very effective in raising substantial amounts of funds directly from the investing public. There is ample evidence of a real desire on the part of the American people to do their part and the Treasury is most anxious to reach any individual who desires to invest his savings, however small, with the Government for the purpose of helping to finance the defense program.

In this connection, the Treasury intends to offer Government securities of a character which should facilitate and encourage thrift and savings. It is my hope that a substantial part of the defense program for which we have to borrow funds can be financed out of the real savings of the people.

The present law fixes the maximum of Savings Bonds which an individual may acquire in any one year at \$10,000 face amount. There is no authority in the Treasury to increase or decrease this amount to meet changing conditions. This section proposes to give the Secretary of the Treasury the authority to fix the amounts which may be held by any person at any one time. I believe that such flexibility is most desirable.

Section 4 of the proposed bill provides that all obligations issued after its effective date by the Treasury or any agency or instrumentality of the United States, shall, as to both principal and interest or other gain, be subject to all taxes now or hereafter imposed by the United States. As you know, every administration for the past twenty years has recommended the complete elimination of tax-exempt securities. The bill now before you proposes that the United States Government actually take the first step to eliminate this undesirable feature from our financing by providing that all future Government securities, whether issued by the Treasury under the authority of the Second Liberty Bond Act,

or by any corporation, instrumentality, or other agency of the United States under authority of any other act of Congress, shall be subject to all Federal taxes. Under this bill, the owners of these securities would pay Federal income taxes on income from that source and thus help finance the present National Defense or any future program of the Federal Government.

Section 5 of the proposed bill terminates certain obsolete authority to issue debt obligations which the Treasury does not need and which, therefore, might as well be repealed and eliminated from the statute books. The debt limitation fixed by Section 21, as amended by this bill, will then be all inclusive.

It also repeals section 301 of Title III of the first Revenue Act of 1940, which sets up a special fund to consist of earmarked taxes for the retirement of any obligations issued under the National Defense debt limitation of \$4,000,000,000. As previously pointed out, this section constitutes an undesirable restriction on public debt financing at a time when the greatest freedom of action is essential. I urge its elimination.

Section 6 contains the usual saving clause to protect the rights of the holders of any obligations now outstanding and already issued under the authority of the laws affected by this bill.

I am sure the members of this Committee appreciate that it will soon be necessary for the Treasury to raise additional funds for its own account and also for the Reconstruction Finance Corporation to meet expenditures under the enlarged National Defense program now under way and that prompt passage of this measure will greatly facilitate the handling of our problems.

January 27, 1941

MEMORANDUM FOR THE SECRETARY'S DIARY

On Thursday, January 23, at 3:30 p.m., Secretary Morgenthau and Ed Foley attended a meeting of the Subcommittee of the Senate Committee on Foreign Relations called by Chairman George, in the Committee Room in the Capitol. Others present were Secretaries Hull, Stimson and Knox, Senators George, Harrison, Connally, Johnson and La Follette.

Senator George announced that the purpose of the meeting was to discuss arrangements and procedures for the Hearings before the full Committee on the Lease-Lend Bill which were to commence on Monday, January 27, at 10:00 a.m., in the Democratic Caucus Room in the Senate Office Building. He suggested that Secretary Hull be the first witness, to be followed by Secretary Morgenthau.

Senator George said that since the Senate Hearings were following so closely on the heels of the House Hearings, no new formal statements were necessary and that the witnesses present themselves for questioning. However, he thought time would be saved by having each witness send down twenty or twenty-five copies of his formal statement to the House Committee so the Senate Committee members would have an opportunity to

- 2 -

peruse the statements prior to the opening of the Hearings on Monday. Secretary Morgenthau pointed out that he had submitted no formal statement to the House. Senator George said under those circumstances it would not be necessary for him to send anything but be prepared to present his financial tables and data to the full Committee when he appears.

Secretary Knox said that it was necessary for him to be in Chicago on Wednesday and Thursday. There was a discussion as to whether Secretary Knox would appear ahead of Secretary Stimson on Tuesday so that he might keep his engagements, or appear after he returned on Friday. Senator George said he would leave it tentatively for Secretaries Kull and Morgenthau to appear on Monday and Knox and Stimson on Tuesday. However, Senator George said if there were delays it would be possible for Secretary Knox to keep his Chicago engagement and appear when he returned.

Senator Harrison asked if Secretary Jones had been called in the House. When he was told that Secretary Jones had not appeared as a witness before the House Committee, he made no further suggestion.

Senator George said he might want daily attendance of someone from each Department to sit as a consultant or adviser.

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It was agreed that someone satisfactory to Senator George would be designated from each Department.

Senator George asked Mr. Foley if he would have a radio address of about twenty to twenty-two minutes length prepared for him on the Bill. The Senator said he wanted to have a brief explanation of the Bill, a discussion of its constitutionality, and a general summary of the policy and the aims to be achieved by the Bill. Mr. Foley promised Senator George that such a speech would be prepared and be put in his hands early Monday morning.

The meeting broke up at 4:15 p.m.

*9-14-76*

January 27, 1941  
3:38 p.m.

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H.M.Jr: That's me.

Sam  
Rayburn: 8:30

H.M.Jr: Oh-o-o!

R: That was confirmed and, by the way (close that door) we left off all of the Foreign Affairs Committee on the Republican side but Martin and McNary are going. I think that's for better.

H.M.Jr: Oh that's swell.

R: That's all right. 8:30.

H.M.Jr: But I am wanted am I?

R: Well, I expect you. I don't know whether the boss does or not but I expect you.

H.M.Jr: Well, you're my boss on this.

R: (Laughter) All right, Henry.

H.M.Jr: And can I bring my man Foley?

R: I think that would be a good idea.

H.M.Jr: Don't you think so?

R: Yes, indeed.

H.M.Jr: He's been helpful.

R: Yes. But I'm not going to bring this drafting service because they're a little bit too far away, you know.

H.M.Jr: Yeh. You know I first used to think that having Sam Rayburn for Speaker full of pep and vigor was good; I'm beginning to have my doubts.

R: What's the matter?

H.M.Jr: Too much energy.

R: No (laughter) not that.

H.M.Jr: What?

R: No, not that. I'm the laziest man in this town.

- 2 -

H.M.Jr: Too much energy - too much drive.

R: I'm the laziest man in this town. Well, I'll see you.

H.M.Jr: I'm going to call you from now on my slave driver.

R: (Laughter) All right. All right, bye.

H.M.Jr: I'll be there.

January 27, 1941  
3:50 p.m

H.M.Jr: Hello.

Wm. S. Knudsen; This is Bill.

H.M.Jr: This is Henry.

K: Say, maybe I'm getting a little bit too anxious to get some of this stuff started.

H.M.Jr: Yes.

K: There are 1956 British planes on that list. See?

H.M.Jr: Yeah.

K: Can you produce the funds for them?

H.M.Jr: Well, I haven't got it in my vest pocket, Bill, but I'd be glad to take a look.

K: Uh-huh.

H.M.Jr: 1956.

K: Supposing I give them to you over the phone here.

H.M.Jr: All right, shoot.

K: Lockheed Hudson - 600  
Lockheed 37 720  
Martin - Baltimore - 276  
Vultee dive bomber - 360

Total 1,956

H.M.Jr: Total of planes, 1956. Well, what type of planes are these?

K: They're British.

H.M.Jr: Uh-huh.

- 2 -

K: See?  
You know, we're working with Jones, and then McCloy and Jones and I .....

H.M.Jr: Well, now, Bill let me ask you this. Remember there was a footnote on that list - \$300 million for plant expansion. Do these 1956 need any additional plants?

K: No, sir.

H.M.Jr: They do not.

K: No, sir.

H.M.Jr: I see. In other words they go with existing plants.

K: Correct.

H.M.Jr: Un-huh. Well, you're putting up something hard to me Bill.

K: (Laughs). Well, I thought if I could get them on order I could get the motors on order. See? We fiddle around and talk and the first thing you know we're going to run out of soap. (Laughs). Not only out of dough but out of soap.

H.M.Jr: What do you mean by that?

K: I mean if I don't get these things in order and get the materials going, see, away back, then they are liable to some day miss the boat. See?

H.M.Jr: I see.

K: So if I can get this 1956 - they're British planes and I can't get the Americans to buy them, see?

H.M.Jr: Yeah.

K: But if I could let the British place them, see?

H.M.Jr: And you don't need any additional capacity?

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K: No, there are not any plants connected with these.

H.M.Jr: I see. Well, I've done more difficult things than that.

K: (Laughs). Well, I thought I'd put it up to you, see.

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

K: If it can't be done, it can't be done and then I wait.

H.M.Jr: Well, coming from you I'll do the best I can.

K: Thank you, sir.

H.M.Jr: Thank you, Bill.

January 27, 1941  
4:20 p.m.

RE BRITISH PURCHASING PROGRAM

Present: Mr. Young  
Mr. Purvis

Purvis: What delivery is there?

H.M.Jr: It doesn't say anything about delivery.  
He goes right along here. As I said,  
"Are these English type," and he said, "Yes."

Young: That is right. They are on this list.

H.M.Jr: The English type. Are they on that list?

Young: Yes.

Purvis: One hundred 79 million.

Young: They are listed here in detail, the same  
figures exactly.

Purvis: That means that it is a question of getting  
the money by the sale of the property  
facilities to Jesse Jones. We have been  
trying to get Jones to accept a letter of  
intention on the part of our Government to  
see it through, but so far I understood up  
to this morning that he has definitely  
said no. I had intended to ring him up and  
ask him whether I could come along and see  
him, but McCloy told me that.

- 2 -

E.N.Jr: Well, let me throw this back in your lap, and you might talk it over with Sir Frederick Phillips.

Durvis: Yes. That is exactly what Halifax is worrying about. He said to me last night that he was asked to send a cable not later than 24 hours after he saw me about British types, and I told him the United States type log jam had been broken very largely at the moment.

H.V.Jr: Oh, was he interested himself in that?

Durvis: I was rather amazed, but evidently just because he was coming. The last thing Churchill said, "Don't get British types."

E.N.Jr: You see, the other thing, Knudsen said if you could do this thing - he said something about getting going on the engines, you see.

Durvis: Yes. Of course, it is exactly what we want to place. It is purely a financial question.

E.N.Jr: Well, I am passing it on to you, and if you fellows have got any bright ideas, here I am.

Durvis: Yes. You haven't any spare cash you could let us have, Mr. Secretary? It is a mere 175 million. I know you told me that you only could let us have 25 cents a week, but it is not much more. Is there any chance at all of any other way of suggesting?

E.N.Jr: I don't know. You have got a fertile brain. See what you can do. I am receptive.

Durvis: Couldn't possibly - I mean, sterling doesn't interest you, I suppose?

- 3 -

H.M. Jr: No.

Young: Isn't that cute? (Laughter)

H.M. Jr: But the French gold is in Canada.

Purvis: What about the Belgians?

H.M. Jr: Here is the thought which I have had. It has been cooking. I will supply the germ of an idea. You people who can earmark mentally - wait a minute, if you can do it once, why couldn't you borrow from the Bank of Canada against the French gold, and the title would still stay with the French?

Purvis: Yes.

H.M. Jr: See? It is still there. You would just borrow it.

Purvis: That is a beautiful mental job.

H.M. Jr: Well, I never would have gone through the gyrations of --

Purvis: We started this thought.

H.M. Jr: You went me a hundredfold better. You mentally earmarked some gold in - French gold in South Africa and when you mentally earmark, that is a new one; but supposing you wanted to borrow against the French gold and borrow it from the Bank of Canada?

Purvis: Yes. The British Government would mentally earmark that as security for the Bank of Canada and the Bank of Canada would be in physical possession.

- 4 -

- H.M.Jr: Yes. What is the matter with that?
- Purvis: I must say it is a good principle. Once started, there should be no difficulty.
- H.M.Jr: This is a much sounder one. I mean, the gold is there with the Bank of Canada and you say, "We want to borrow." That is the way you do it. "We want to borrow from the Bank of Canada 179 million dollars." Isn't that what this thing came to?
- Purvis: That is right.
- H.M.Jr: And we are going to put up the French gold as collateral, which we are mentally earmarking that we owe them. (Laughter)
- Young: Earmarking in the ground in South Africa?
- H.M.Jr: No, here is the French gold in Canada, and after the war, "Of course, we will pay you back and repatriate the French gold." It is no more crazy than what you did before.
- Purvis: No.
- H.M.Jr: It is no more crazy.
- Purvis: I wonder whether we could do that with the Belgian gold, which might be cleverer, because there won't be the danger of repercussions.
- H.M.Jr: That is right, and how much does that amount to?
- Purvis: I think there is some 400 million that we have got somewhere.
- H.M.Jr: Well, here is a clean cut thing that you need.

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You need 1960 planes, and here is Knudsen saying he wants the order.

Purvis: And here is Halifax saying he has got to cable today and will I tell him what to cable back to Churchill.

H.M.Jr: Is it worth stopping in for?

Purvis: Of course.

H.M.Jr: I think your suggestion about the Belgian gold is right because I think that the squawk would be less.

Purvis: I think so. After all, the other has a German implication, and the Belgian thing, we are allies, and we are in the position where we are denuded --

Young: I don't see why the Belgians or the Dutch don't place the order and let the War Council of the allies take the product.

H.M.Jr: Let the Belgian --

Young: Let the Belgians or the Dutch place the order. They have got the money. The Allied War Council in London can allocate the use of the planes. What is the use of having an Allied War Council?

H.M.Jr: I don't know, what use is it?

Young: They just sit around and fight, as far as I can find out.

Purvis: It is the germ of an idea. Anyway, let's pursue it with everything there is here; and the fact that Halifax has to cable back to Churchill what I think about it would be

- 6 -

a good opening tonight with Halifax. God help him.

H.M.Jr: Are you seeing him tonight again?

Purvis: No, but I shall see him on this. He asked me particularly to get him something that he could cable. He wanted to cable last night, but I didn't know what he was to say.

H.M.Jr: Here is the answer. Here is Knudsen ready to place the order for 1960 planes if you fellows can tell me where the money is.

Purvis: and they are just exactly the number of planes we wanted to get.

H.M.Jr: He has copied the list, you see.

Purvis: Let me go at it and see what happens.

H.M.Jr: I will not only not retard you, I will accelerate you. (Laughter)

Purvis: You won't need to. Goodbye.

January 27, 1941

Mr. Haas

Secretary Morgenthau

Read the financial story today by George Wanders on Page 19 of the New York Tribune. I see he refers to a special article by a Dr. Palyi who evidently has written a critical article about financing. I wish you would get everything about Dr. Palyi, and if it looks good and he has constructive criticisms to make, possibly we can use him as a consultant. See if he is the kind of person that I would be glad to have come into the Treasury. Please move fast on this. Before you do anything else, check with Sir Frederick Phillips about Dr. Palyi and see what he knows about his background, and how he stands on the Germans - is he Pro or Anti-Nazi?

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Treasury Department  
Division of Research and Statistics

Date Jan. 28, 1941 1940

Miss Chauncey

From: E. Kailey

Attached memo was sent to the Secretary last evening through Lieut. Stephens. Lieut. Stephens returned it to us a few minutes later with a note saying "The Secretary says 'drop it'."

The memorandum is sent to you for your files.

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE JANUARY 27, 1941.

TO Secretary Morgenthau  
FROM Mr. Hase *MA*

In accordance with your note of this morning concerning Dr. Palyi, I telephoned Sir Frederick Phillips and he said he would find out what he could about him immediately.

This afternoon Mr. Pinsent, Financial Counsellor of the British Embassy, called and said he had been unable to find out what Dr. Palyi's present connections were and he did not know whether Dr. Palyi had any contact with the "enemy". However he said he knew him in Berlin and he was not of high character. I asked him to particularize on that and he said Dr. Palyi was the type of individual who was a "climber" and would be open to anything which might bring him fame or money. Mr. Pinsent would advise against having anything to do with him.

Mr. Pinsent mentioned that Dr. Viner probably knows him and is more familiar with his present activities. I think Dr. Palyi was a professor at the University of Chicago at one time and he may still be there.

In view of the report which I have received from the British Embassy I assume you do not wish me to make any further investigation unless I hear from you to the contrary.

January 27, 1941

Messrs. Bell, Cochran, White and Hass

Secretary Morgenthau

Saturday, January 25th, I sent a memorandum to Marie Cochran asking him to get me some information on foreign selling, other than English, during last week, and I had a hunch that possibly the Swiss were selling securities in our market. I find that since January 21st they have been selling quite heavily.

It seems to me that somewhere in the Treasury organization somebody ought to watch these reports of foreign selling which come into the Treasury every day, and when something unusual happens, like heavy selling on the part of the Swiss, the Treasury hadn't ought to wait until I have a hunch. Somebody should be here to bring this to my attention at once.

I don't know who receives these reports every day on foreign selling, but I want Mr. Bell to call a meeting of this group and give me a report. Besides this information, I get a report each day as to how much the English have sold. Up to now, this has been guarded very carefully, but if a trustworthy person could be designated who would watch all foreign selling, and then if there is something unusual, bring it to my attention at once and not wait for five days, it would be very helpful to me in conducting my business.

I understand that some of this information goes to SEC, and what they do with it I don't know, but it is unbelievable to me that between the Treasury and the SEC, with all the information at our disposal, everybody waits until the Secretary of the Treasury has a hunch before anybody does anything about it. Furthermore, here this information is at our disposal, and we see these funds being turned into cash on a rumor that we are going to freeze all funds, and still we sit here and do nothing about it.

On the conference which Bell calls, Herbert Gaston, John Wiley and Pehle should sit in.

January 27, 1941

Mr. Haas

Secretary Morgenthau

I wish you would talk to me about your organization, and whether or not it needs strengthening in the government finance section. Now that we are facing such a tremendous borrowing program, I am wondering if you don't want to bring in some other people to assist you, but I will go over the whole situation with you. I would like to discuss it in the presence of Dan Bell and get his advice as well.

Copy to D.W. Bell .

Note:

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As per instructions of Mrs. Klotz,  
a photostat of this was turned over  
to Dr. White today.

R. McH

Jan. 27/41

ORDER ON ADDITIONAL RESEARCH FUNCTIONS OF THE  
DIVISION OF MONETARY RESEARCH

The Division of Monetary Research is hereby assigned the function of conducting the research on economic aspects of foreign funds control and to prepare and analyze statistical reports on foreign funds control and foreign exchange control for the aid of the Secretary, the Committee of Foreign Funds Control and the Administrator of Foreign Funds Control.

Funds adequate for the purpose of carrying out these functions shall be made available out of funds of the Foreign Funds Control.

This Order is effective immediately.

*al. l. m. h.*

CONFIDENTIALACTION REQUIRED

January 27, 1941

To: The Secretary

From: Mr. Young

Re: 100 Chinese P-40 Planes.

The Intercontinent Corporation has an exclusive contract with Curtiss-Wright to sell and service Curtiss planes in China. It is Intercontinent which operates The Central Aircraft Factory just across from the Burma frontier, and which is probably the only adequate facility for erecting and maintaining the P-40's in China. Curtiss is bound by its contract to pay Intercontinent a fee on the 100 P-40's regardless of services performed by Intercontinent.

In my conversations with Universal, with Curtiss-Wright, and with Intercontinent, I have taken the stand that as this was a Government arranged transaction there was no reason why Intercontinent should receive any selling commission over and above the price of the planes. The price charged for the planes by Curtiss-Wright is the same price charged the British.

If Intercontinent is to do the job in China of receiving the planes, transporting them into China, erecting and maintaining them, it is justifiable that the Chinese Government should pay for those services. Intercontinent has agreed that it should not charge a selling commission, but it has also taken the stand that it cannot give a breakdown of the services which it will perform in China and that, therefore, a flat rate of 10 per cent will have to be charged. It makes no difference to Intercontinent whether its fee is paid by the Chinese over and above the British price or comes out of the Curtiss-Wright profit.

Intercontinent has also taken the stand that it should receive this 10 per cent fee whether or not it performs any services in China. I suggested that Intercontinent waive its contract with

- 2 -

Curtiss-Wright and make a separate deal with the Chinese Government for actual services rendered in China. This, Intercontinent refused to do on the grounds that it was legally entitled to a fee under the Curtiss contract and due to the fact that it would have great difficulty in collecting the money any other way. There will be nothing to stop Intercontinent from collecting its fee under the contract and then charging the Chinese Government again in China.

Curtiss-Wright has been very cooperative in moving the planes to Weehawken for shipment, but, of course, it has not gone so far as to offer to sacrifice any profit for the purpose of satisfying Intercontinent. Both Curtiss and Universal feel that Intercontinent should not get any fee except for services rendered.

At this point we can either back out of the deal and let the three of them fight it out between themselves or we can insist that Intercontinent justify the fee which it proposes to charge. I am afraid that if it is left to itself the shipment of the planes will be held up on February 3rd or else the Chinese will be getting gypped. As this transaction was only made possible by the United States Government, it could be insisted that neither Curtiss nor Intercontinent take any profit.

Another possibility would be for Intercontinent to render its services on a cost basis plus a fixed fee. In any event, we have either got to determine the price, at least informally, or else back out of the picture.

T.P.

**STRICTLY CONFIDENTIAL**
**ALLISON ENGINEERING COMPANY**  
**Deliveries of Airplane Engines**

	: Actual : deliveries	: Estimated deliveries : on existing orders
<u>940</u>		
January.....	10	
May 1 - June 1.....	15	
June 2 - 29.....	31	
June 30 - July 27.....	50	
July 28 - August 31.....	91	
September 1 - 28.....	221	
September 29 - October 5.....	49	
October 6 - 12.....	73	
October 13 - 19.....	61	
October 20 - 26.....	48	
October 27 - November 2.....	80	
November 3 - 9.....	44	
November 10 - 16.....	49	
November 17 - 23.....	19	
November 24 - 30.....	56	
December 1 - 7.....	30	
December 8 - 14.....	86	
December 15 - 21.....	78	
December 22 - 28.....	52	
December 29 - January 4.....	12	
<u>941</u>		
January 5 - 11.....	85	
January 12 - 18.....	43	
January 19 - 25.....	33*	
January 26 - 31.....		179
February.....		356
March.....		400
April.....		450
May.....		460
June.....		460
July.....		475
August.....		550
September.....		625
October.....		750
November.....		800
December.....		800
<u>942</u>		
January.....		455
February.....		277
March.....		225
April.....		225
May.....		207
June.....		66

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

January 27, 1941.

 On January 25, 35 additional engines had finished tests and  
 were awaiting delivery to the British.

**RICTLY CONFIDENTIAL**

**ALLISON SHIPMENTS**

	: Nov. : :24-30:	Dec. : :1-7 :	Dec. : :8-14:	Dec. : :15-21:	Dec. : :22-28:	Dec. 29: :Jan. 4:	Jan. : :5-11:	Jan. : :12-18:	Jan. : :19-25:	Total
British	53	29	82	60	46	8	83	41	33*	435
Army	3	1	4	18	6	4	2	2	-	40
Total	56	30	86	78	52	12	85	43	33*	475

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

January 27, 1941.

\*On January 25, 35 additional engines had finished tests and were awaiting delivery to the British.

JAN 27 1941

Dear Mr. Sanford:

On behalf of the President and Mr. Marvin H. McIntyre, may I thank you for your letters of December 28, 1940, concerning the creation of a new source for rifle production.

It is my understanding that your proposals have already been placed in the hands of the War Department.

With respect to the delivery of Lee Enfield rifles to the British, this situation has already been thoroughly studied by both the War Department and the British Purchasing Commission.

Sincerely,

(Signed) H. Morganthau, Jr.

Secretary of the Treasury

Mr. F. T. Sanford, President,  
National Arms Corporation,  
111 Broadway,  
New York, New York.

Copy to Marvin H. McIntyre ✓  
and file rec'd from him ret'd. (by Messenger 5:00)

FY:bj  
1/27/41

*F.T.*

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FY:bj  
1/27/41

306

THE WHITE HOUSE  
WASHINGTON

December 31, 1940

MEMORANDUM FOR  
SECRETARY MORGENTHAU

As per our telephone conversation.

*M. H. M.*

M. H. McINTYRE  
Secretary to the President

Enclosures

*Phil Young  
prepare and  
AM*

(COPY)

307

THE WHITE HOUSE  
Washington

December 30, 1940

MEMO FOR MAG

This should be taken up with  
the Treasury Department by Mr.  
Purvis.

F.D.R.

NATIONAL ARMS CORPORATION  
111 BROADWAY  
NEW YORK, U. S. A.

December 28 1940

Mr. Marvin H. McIntyre  
The White House  
Washington, D. C.

My dear Mr. McIntyre:

As a British subject, long resident in the United States, I have been closely cooperating with representatives of the British Government in their war program, particularly in relation to small arms. There is an urgent need for more rifles and we have made a proposal to the War Department to release Lee-Enfield rifles on an exchange basis as set forth in the enclosed letters.

Up to the present time the Government apparently has not been willing to sell these rifles to the British Government. The exchange proposal is made to meet the objection to a cash sale and at the same time to create a new source for large scale semi-automatic rifle production without cash investment on the part of the United States Government.

If the Government can and will release the rifles as indicated, Great Britain will receive vital arms now at this critical time.

We propose to transfer the rifles to the British, if they are released to us, at the same price as established by the War Department i.e. \$12.50 each, plus an agreed percentage for the purchase of certain additional machine tools, to build new models of the Pedersen rifle and for expenses involved.

We believe these suggestions should be placed before the President personally and we send them to you to ask if you will kindly present them to the President at the earliest possible moment.

Should the President desire to discuss this proposal personally with us we will respond promptly to his request.

Very truly yours

*W. V. Vandenberg*  
President

FTS/CD

7 148

NATIONAL ARMS CORPORATION  
111 BROADWAY  
NEW YORK, U. S. A.  
December 28, 1940

Hon. Franklin D. Roosevelt, President  
The White House  
Washington, D. C.

My dear Mr. President:

The enclosed proposal has been placed in the hands of the Ordnance Department and as it relates to our Defense Program we feel that you should be promptly informed.

The rifle involved in this proposal designated M2, embodies all the advantages of the Garand rifle with none of its disadvantages. It is designed for mass production which is vitally necessary if our forces are to be adequately equipped during the next two years with efficient semi-automatic rifles. This M2 rifle can be produced in quantities of 5000 per day if desired.

Our proposal has two prime objectives:

First: To provide a procedure to deliver to the British Government immediately 1,000,000 Lee Enfield Rifles now in U. S. Government arsenals. In accord with your recently announced program to give full aid to Great Britain without requiring the U. S. Government to accept cash from the British, we will accept these rifles in exchange for new M2 semi-automatic rifles. The title to Lee Enfield rifles would then be promptly transferred to the British. Our War Department would receive from us new highly efficient semi-automatic rifles in exchange.

Second: To create a large independent source for semi-automatic rifle production that is vitally necessary to produce enough semi-automatic rifles to equip our armies. Present production facilities for the Garand (M1) will require years to deliver an adequate supply of rifles.

We are prepared to proceed immediately with the carrying out of this exchange program upon authority from the proper officials without a dollar of investment by the U. S. Government.

Very truly yours,

*J. W. Sanford*  
President

fts/vs

NATIONAL ARMS CORPORATION  
111 BROADWAY  
NEW YORK, U. S. A.

December 19th, 1940

C. M. Wasson, Major General  
Chief of Ordnance  
Munitions Building  
Washington, D. C.

Dear Sir:

This is a proposal to manufacture semi-automatic rifles for the United States Government.

Our production program will supplement production of the M1 (Garand) rifle thus providing a complete independent source for large scale rifle manufacture which is highly desirable in our present defense program.

The rifle in question, which may be designated M2, is similar in type to the M1 - but it is production designed throughout, permitting mass production at less cost than is possible with the M1, and with a delivery schedule relatively much more favorable than present production of the M1. A brief description of the M2 rifle is attached. Complete drawings and details are available for thorough inspection.

The M2 was designed and developed by John D. Pedersen one of the ablest professional gun designers in the country.

The Proposal:

To deliver to the Ordnance Department M2 Rifles as follows:

- (1) New models incorporating the most improved features of the magazine system and "en bloc" clip and the gas operated rotating breech bolt using 30. Cal. cartridges. These models to be completed within six months of the authorization to proceed.

-2-

- (2) Upon approval of models by the proper authorities of the U. S. Government we will solicit orders for deliveries as follows:

The first 125,000 at \$100.00 each deliveries to begin within eight months after receipt of order.

Within 15 months after receipt of order deliveries to be made at the rate of 1,000 per day. Within 18 months after receipt of order, 125,000 will have been delivered.

- (3) At any time during the delivery of the original order for 125,000 rifles, the production can be increased to 5,000 rifles per day or more in 12 months from the date of an additional order and at prices to be negotiated at the time. Such increase is predicated upon adequate volume of orders to warrant the additional equipment required.

The above delivery dates are based upon the rifle design and model as approved, and are contingent upon deliveries to us of certain additional machine tools also suitable priorities in tool work, after receipt of the original order for 125,000 rifles.

**PAYMENT:**

Cash advances with order of 30% of the total purchase price -- balance at stated periods to be determined.

In lieu of cash payments we will accept in full payment for the 125,000 rifles originally ordered - 1,000,000 Lee Enfield Rifles ( U. S. Military Rifles Model 1917) now obsolescent in the hands of the War Department - provided the said 1,000,000 rifles with bayonet, scabbard and sling constituting a rifle unit, are released immediately for transfer to British interests.

As a figure has been established by the War Department of \$12.50 for each rifle unit, we will agree to deposit in escrow as a guarantee of performance and

-5-

delivery of satisfactory models for testing, the sum of \$12,500,000., when 1,000,000 Lee Enfield Rifles ( U. S. Military Rifles Model 1917) have been delivered to us. When the M2 models have been delivered, tested, and approved certain percentages of this amount shall be released from escrow from time to time to the National Arms Corporation, all to be set forth in formal contract between the Government of the United States and the National Arms Corporation.

The executive organization of the National Arms Corporation is to be headed by Mr. John E. Otterson, former President of Winchester Repeating Arms Co.

The engineering activities of the Corporation will be in charge of Mr. John D. Pedersen former head of Engineering and Design of the Remington Arms Corporation.

Description of plant, equipment and available facilities will be furnished in detail upon request.

Yours very truly,

NATIONAL ARMS CORPORATION

*J. J. Sanford*  
President

fta/vs

January 27, 1941

Dear General Miles:

I have been receiving from you, up to January 23rd, weekly reports of British, Allied and neutral shipping losses.

I shall not need this information in the future as I am getting it from the Navy Department.

With my thanks for your kindness,

Yours sincerely,

(Signed) H. Morgenthau, Jr.

General Sherman Miles,  
Acting Asst. Chief of Staff, G-2,  
War Department,  
Washington, D. C.

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WAR DEPARTMENT  
 WAR DEPARTMENT GENERAL STAFF  
 MILITARY INTELLIGENCE DIVISION G-2  
 WASHINGTON  
 I.B. 11

G-2/2267-115

January 23, 1941

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

Subject: British, Allied and Neutral  
 War Shipping Losses.

The following is a tabulation of British, Allied  
 and neutral shipping losses for the week of January 12, 1941:

	<u>Number</u>	<u>Gross Tons</u>
British	9	30,226
Allied	0	0
Neutral	0	0
TOTAL	9	30,226

*Sherman Miles*  
 SHERMAN MILES,  
 Brigadier General, U. S. Army,  
 Acting Assistant Chief of Staff, G-2.

fk

Thank General Miles  
 and say I will not  
 need this information  
 longer as I am getting it  
 from the Navy. H. P.

G-2/2267-115

I.B. 11

January 23, 1941

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SHERMAN MILES,  
Brigadier General, U. S. Army,  
Acting Assistant Chief of Staff, G-2.

fk

EXPORTS OF PETROLEUM PRODUCTS, SCRAP IRON AND SCRAP STEEL  
FROM THE UNITED STATES TO JAPAN, RUSSIA, SPAIN, AND GREAT BRITAIN  
AS SHOWN BY DEPARTURE PERMITS GRANTED

Week ended January 25, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
<b>PETROLEUM PRODUCTS</b>				
Gasoline and Gas Oil (including Diesel Oil)	98,200 Bbls.	16,500 Bbls.	41,000 Bbls.	117,809 Bbls.
Crude -				
Blended or California High Octane Crude*	--	--	--	--
All Other Crude	3,780 Bbls.	--	--	--
Gasoline -				
Gasoline A**	--	--	--	--
Gasoline B*	25,238 Bbls.	--	--	--
All Other Gasoline	--	--	--	--
Lubricating Oil -				
Aviation Lubricating Oil***	--	--	--	90,243 Bbls.
All Other Lubricating Oil	11,087 Bbls.	55,000 Bbls.	6,000 Bbls.	323 Bbls.
Diethyl Lead***	--	--	--	--
Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	--	--	--
<b>SCRAP IRON AND SCRAP STEEL</b>				
Number 1 Heavy Melting Scrap	--	--	--	6,030 Tons
All Other Scrap	--	--	--	21,077 Tons

Source: Office of the Secretary of the Treasury, Division of Research and Statistics.

January 27, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

Any material from which by commercial distillation there can be separated more than 3 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.

Aviation Gasoline.

As defined in the President's regulations of July 26, 1940.

Jan. 27, 1941

Prepared by Mr. Kuhn and Mr. Foley for Senator George to deliver over the National Radio Forum program of the Washington Evening Star, 10:30 p.m., January 27, 1941.

I speak to you tonight as the new chairman of the Senate Foreign Relations Committee, but I think I can claim to be an old hand, with almost nineteen years of Senate experience, at judging the thoughts and the wishes of average Americans. Sometimes it is not easy to judge what the majority of our people want. There is every sign, however, that the present policy of our Government is supported with as much unanimity and understanding as any rational person could expect. The American people have made their wishes clear, overwhelmingly clear. They have shown that they want to rush all possible material help to England, so that the oceans can be held in friendly hands, so that war can be held away from our shores, and so that we may gain time to build for ourselves an impregnable defense on every front.

I mention those deeply-felt purposes of the American people because I think they have been obscured in the public debate over the so-called Lend-Lease Bill now before Congress. There is nothing mysterious about this legislation. Its clear intent and its certain effect are to do what the American people want done. It proposes to do these things simply, sensibly and efficiently. It is, in my opinion, a good bill and represents a sound policy. It is also my considered view that the bill is fully authorized by the Constitution, and that it is in complete accord with established principles of international law.

- 2 -

I need not tell you that the bill has been subjected to criticism by certain persons, and, in order that you may be in a position to evaluate that criticism better, I want to explain to you exactly what the bill is designed to accomplish. I want also to show you that the bill and its purposes are in full accord with our constitutional and international practices since the foundation of our Government.

I sincerely believe that the enactment into law of the Lend-Lease Bill is the most effective step open to us today to prevent the involvement of the United States in the wars now being waged in Europe, Asia and Africa. The Lend-Lease Bill seeks to insure us against involvement in those wars by authorizing the Executive to give material aid to those friendly nations whose continued independent existence is necessary for our vital defense.

Thus, the bill authorizes the President to manufacture in our government arsenals and navy yard, as well as in privately owned factories, weapons and war materials for those nations whose defense the President deems vital to the defense of the United States. It also authorizes him to sell, lease, lend, or otherwise dispose of weapons to such countries. We all recognize that a nation engaged in warfare of the modern kind often requires facilities for repairing and testing and outfitting its own weapons of defense, such as a battleship. Thus, it may be that a warship is injured on

- 3 -

the high seas, far from her home port. Unless she can be repaired and again placed in service, she may be a total loss so far as her usefulness in the war is concerned. This bill authorizes the President to assist nations, in whose defense we ourselves have a defense interest, by permitting the repair of such vessels and other defense articles in the United States.

The bill will materially expedite the flow of military assistance to Great Britain. It is important at this time to eliminate any friction or confusion in the procurement and production of weapons for ourselves and for the democracies. This bill aids in the accomplishment of that purpose by giving to the President power to funnel our own orders and those of Great Britain through one agency. We want to place the President in the position where he has authority to run the aid to Britain and the national defense program on an efficient and business-like basis.

I do not mean to say the bill contains no limitations on the broad powers which it gives to our Commander-in-Chief. There are limitations. Thus, for example, the Lend-Lease Bill provides that when war materials or defense information are made available to a foreign government that foreign government must undertake that it will not transfer such articles or information to any other foreign power without the consent of the President of the United States.

Furthermore, the Congress of the United States has no intention of abdicating by passing this bill. Ours is historically

- 4 -

a government of checks and balances. While the Constitution makes provision for the exercise of vast powers by the Executive, it also wisely provides for methods of checking those powers by the Congress if they should be the subject of abuse. The Congress is desirous that information regarding what defense articles and defense information is exported under the authority of this bill should be gathered together in one place, and provision is made in the bill for that. Furthermore, the exercise of many of the powers granted under this bill will require funds, and the Congress reserves for itself its constitutional authority to grant funds. This bill makes no appropriation.

The other provisions of this bill are largely administrative, and I doubt that even the most ardent critics of the bill have any objection to them. I should mention, however, that the bill does empower the Secretaries of War and Navy to purchase and acquire arms, ammunition, and implements of war in foreign countries whose defense the President deems vital to our defense. If the Dutch have tin which would be of importance to us militarily, I take it that we are all agreed that the Executive branch of the Government should have the widest powers to buy it.

I realize, as every responsible legislator does, that in the give and take of debate and hearings, new points of view and new considerations are brought out. That, I might add, is how a democratic

- 5 -

government functions. I should be the last to say that debate and consideration cannot bring forth need for some amendments to this bill. We must be tolerant, and we must consider all points of view. You may rest assured that if an improvement in the bill is suggested in the course of the debates or hearings, it will be incorporated.

It has already been suggested that an amendment be added so as to make it clear that the bill does not authorize the use of American vessels to convoy ships to Great Britain. It has also been suggested that Congress place some limitation on the time during which the Executive may exercise the powers granted to it in the Lend-Lease Bill. Some students of the bill in Congress feel that provision should be made for periodical reports by the Executive to the Congress, in which the Executive would explain and report what it has done pursuant to the bill. Those are constructive suggestions and I promise you that they will receive the most earnest consideration of the Foreign Relations Committee. At the same time we must be careful to guard against emasculating amendments that would scuttle the bill and block the achievement of its great purposes.

Among those who have been most vocal in their opposition to this bill are those who purportedly base their opposition on constitutional grounds. No one could be more jealous of the Constitution than I am. Nevertheless, I am fully convinced that this bill is entirely authorized by the Constitution. In Article II, section 2,

- 6 -

of the Constitution, it is, of course, specifically provided that the President shall be the Commander-in-Chief of the Army and Navy. As long ago as 1799, the great John Marshall stated that the President is the sole organ of the nation in its external relations and its sole representative with foreign nations. The provisions of the bill which I have been discussing with you are obviously connected with both our foreign relations and with the functions of the Commander-in-Chief of the Army and Navy. The Constitution provides in Article I, section 8, that the Congress shall have power to make all laws which shall be necessary and proper for carrying into execution all powers vested by the Constitution in any officer of the United States. This bill, therefore, is certainly concerned with a field in which Congress may legislate.

But there has been some talk that this bill involves an unconstitutional delegation of power. In 1936, the Supreme Court of the United States had before it the Curtiss-Wright Corporation case. The opinion for the Court was written by the Honorable Mr. Justice Sutherland. Even the opponents of this bill would acknowledge that Mr. Justice Sutherland was a strict constructionist where the Constitution was involved. But in the Curtiss-Wright case, the Court specifically held that where the external relations of the United States are concerned, the ordinary rules concerning valid delegation of power do not apply. Let me read to you from the opinion of the Court -

- 7 -

" \* \* \* if, in the maintenance of our international relations, embarrassment—perhaps serious embarrassment—is to be avoided and success for our aims achieved, congressional legislation which is to be made effective through negotiation and inquiry within the international field must often accord to the President a degree of discretion and freedom from statutory restriction which would not be admissible were domestic affairs alone involved." And I might call the attention of some of those critics who base their objection on constitutional grounds to the Joint Resolution of June 15, 1940, the so-called Pittman Resolution, which authorized military and naval aid to our sister American republics. That Joint Resolution gives the President the power, in his discretion, to do many of the same things covered by the present bill. The present bill limits the President's discretion by requiring his actions to be in the interests of the national defense and by requiring that the country assisted be one whose defense is vital to the defense of the United States. May I emphasize that the Pittman Resolution passed the Senate of the United States on May 28 without even a record vote. And one opponent of the present bill in the House of Representatives objected to the Pittman Resolution, although voting for it, on the ground that the Pittman Resolution did not go far enough. So much for the constitutional aspects.

- 5 -

The Lend-Lease Bill has also been attacked on the ground that it authorizes violation of international law. The Supreme Court has said, of course, that the law of nations is part of our law, and I should never recommend for enactment a bill which I thought violated the law of nations. But it is a strange law of nations that does not permit a nation to defend itself. I believe that most of those who oppose this bill on the grounds of international law have not given the matter sufficient investigation. It has been said, for example, that the Lend-Lease Bill violates the Thirteenth Hague Convention of 1907 on the Rights and Duties of Neutral Powers in Naval War. Those critics, apparently, have overlooked Article 26 of that Convention, which specifically provides that the Convention does not apply unless all the belligerents are parties to the Convention. At least four of the belligerents in the present war in Europe never ratified the Thirteenth Hague Convention.

It is a fundamental rule of international and domestic law that both parties must obey the same rules. If one country violates the basic laws it cannot claim with unclean hands that another country should follow less basic laws, to its own destruction.

Furthermore, Germany and Italy were solemnly bound with the United States to observe the terms of the Kellogg-Briand Peace Pact.

- 9 -

In becoming parties to the Kellogg-Briand Peace Pact, Germany and Italy pledged themselves to renounce war as an instrument of national policy in their relations with the other signatories. Poland and Greece were signatories. So also were Norway, Belgium, and The Netherlands. So was the United States. Can it be denied that Germany and Italy have violated the Kellogg-Briand Peace Pact? It is the considered opinion of the best international law authorities that the violation of the Kellogg-Briand Peace Pact by one signatory gives to all the other signatories the power to:

"(a) Refuse to admit the exercise by the State violating the Pact of belligerent rights, such as visit and search, or blockade, etc.;

"(b) Decline to observe towards the State violating the Pact the duties prescribed by International Law, apart from the Pact, for a neutral in relation to a belligerent;

"(c) Supply the State attacked with financial or material assistance, including munitions of war;

"(d) Assist with armed forces the State attacked."

These, I might remind you, are the interpretations of the Kellogg-Briand Pact made by a conference of the world's foremost international lawyers which met in Budapest in 1934.

I think we may safely say, therefore, that the actions permitted to be taken by the Lend-Lease Bill will in no way violate international law if exercised against the Axis powers.

- 10 -

We have a clearly formulated policy of national defense and the conduct of international relations, and that policy is plainly based upon the interest and welfare of the United States. But national defense and national self interest, to my mind, demand far more than just keeping this country or this hemisphere safe from actual military invasion. I am not much afraid of military invasion in the near future, nor do I believe for one moment that the people of these free United States will permit the other kind of invasion -- the invasion of hateful ideas spread by the agents of foreign tyrannies. The most direct danger that faces us as Americans is the danger that other countries as free as our own may not survive. The most direct danger is that those free countries may be swallowed up by the forces of darkness, and that we shall be left alone and friendless in a world ruled by the powers of evil. If Great Britain and other free countries should go down, for lack of the help that we can give, there would be created in our country such economic and social tensions, as well as such military peril, that our lives and our children's lives as free men might well become impossible. We have it in our power to see that the other free countries do not go down. We have it in our power to send them material support, in such overwhelming strength, that they will survive and win. This Bill, I firmly believe, provides the key to the kind of future which we want for ourselves. We can turn the key without departing from the traditional American form of government, without abrogating any provision of the Constitution or any principle of international law, and without becoming involved in

- 11 -

any inevitable war. This is our opportunity, one of the greatest that has come to us in our history as a nation. I devoutly hope that the Congress and the American people will seize the opportunity to safeguard America's future by the speedy enactment of this Bill.

January 27, 1941

My dear Cordell:

On January 8th you asked me to give you over the week-end to study the Executive Order which would freeze all foreign funds. I gladly consented to do this.

I am really terribly worried that we have not frozen German, Italian and Swiss funds. At your convenience, I would like very much to have a heart-to-heart talk with you on this subject, and see if we can not arrive at a meeting of minds as to what course to pursue in these most difficult times.

Yours sincerely,

*Henry*

Honorable Cordell Hull,  
Secretary of State,  
Washington, D.C.

*Envelope marked  
Confidential*

By Messenger 505



THE SECRETARY OF STATE  
WASHINGTON

January 27, 1941

Dear Henry:

Thank you very much for your letter of January twenty-fourth enclosing a copy of your letter to the President regarding the purchase of Russian machine tools.

I am very glad to have it and especially to learn that my associates here have been able effectively to cooperate with the Liaison Committee.

Sincerely yours,

A large, elegant handwritten signature in cursive script, reading "Cordell Hull".

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE January 27, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

## CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£36,000
Purchased from commercial concerns	£12,000

The Federal Reserve Bank of New York sold £10,000 in registered sterling to a non-reporting bank.

Open market sterling remained at 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 8,000
Purchased from commercial concerns	£11,000

The Canadian dollar, which recovered on Saturday from Friday's low of 17-1/2% discount, had a weaker tendency today. As against Saturday's closing discount of 16-5/8%, today's final rate was 17-1/8%.

Trading in Swiss francs was at a virtual standstill after several Swiss banks cabled New York banks this morning that they would supply Swiss francs against dollars at rates between .2321-1/2 and .2325 provided the Swiss francs were used for strictly commercial purposes. On that basis, the New York banks offered Swiss francs at rates ranging from .2340 at the opening to .2327 at the close, but little business was reported.

Two other European currencies, the Swedish krona and Portuguese escudo, displayed strength in today's market, although very few dealings were recorded. The krona, which has remained in the neighborhood of .2386 for some time, rose to .2390 by mid-afternoon, and closed at .2389. The escudo advanced to .0402 at the close, as compared with the former prevailing rate of .0400-1/2. It is possible that the New York banks raised their quotations for these units in the belief that foreign holders of dollars, unable to convert to Swiss francs unless for commercial usage, would become buyers of other currencies.

Closing quotations for the other currencies were:

Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2375
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	7-3/4% discount
Chinese yuan	.05-1/2

There were no gold transactions consummated by us today.

-2-

No new gold engagements were reported.

The Federal Reserve Bank's report of January 22, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$116,260,000, an increase of \$12,840,000 since January 15. Most of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on January 22:

	<u>January 22</u>	<u>Change from January 15</u>
Liabilities: Deposits for Japan & Manchuria....	\$67,663,000	+ \$12,833,000
Deposits for China.....	37,046,000	+ 67,000
" : U.S. Treas. bills, comm. paper, etc.	30,631,000	- 852,000
Claims : Loans.....	\$47,526,000	+ \$ 9,796,000
" : Other - mainly Jap. import bills..	18,913,000	+ 3,547,000

The last three categories refer mainly to Japanese banks in Japan and Manchuria. It will be observed that the \$12,833,000 increase in deposits of such banks was accompanied by a substantial rise in the Yokohama agency's loans.

The Bombay gold price was 2¢ lower at the equivalent of \$34.00. Silver was priced at the equivalent of 44.76¢, off 1/8¢.

In London, the prices fixed for spot and forward silver were both 1/16d higher, at 23-5/16d and 23-1/4d respectively. The dollar equivalents were 42.33¢ and 42.21¢.

Mundy 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 four purchases of silver totaling 475,000 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces represented a sale from inventory, and the remaining 275,000 ounces consisted of new production from foreign countries, for forward delivery.

*J. M. S.*

CONFIDENTIAL

*Lucy has seen*

**FEDERAL RESERVE BANK  
OF NEW YORK**

January 27, 1941.

Dear Mr. Secretary:

At the request of Under Secretary Bell, I am writing you to explain what appear to me to be the principal reasons for the manner in which the market reacted to the current offering of National Defense notes, both in respect to the volume of subscriptions received and to the market price.

First, let me enter a disclaimer. The reception of the note was the resultant of all of the various forces existing in the investment market over the whole country. In times such as these, certainly, it is impossible to tell in advance exactly what this resultant will be, and even in retrospect not all of the factors can be ascertained. My best judgment, based on a study of the available factors and on reports from the market, is that the principal reasons for the decline in volume of subscriptions, and the initial disappointing price quotations were the result of the following:

1. Because of the general condition of the market and the action in the market of the December issue of National Defense Notes, it had been expected that subscriptions to the new issue would be smaller, and allotments larger, than for the previous issue. This expectation appears to have fed on itself, causing the subscribers to pare their subscriptions further than had been contemplated, on the day of the offering.
2. This was especially true of those groups of subscribers which may be said to have a speculative interest, rather than an investment interest in an offering of this type. A note of this rate and maturity was known to have a relatively limited investment market - primarily in the larger banks of the country. Those who were subscribing to sell, therefore, cut down their subscriptions substantially and seem to have wanted to sell out quickly at any price above par.
3. The larger banks, which in considerable part are the final holders of such notes, on the other hand, in this sort of a market and with the uncertainties surrounding future government financing and the course of interest rates, would not push up the market, reaching for notes, of course.
4. A special factor may have influenced the action of such buyers as savings banks and insurance companies in so far

as they do not buy for a quick turn, namely, the expectation that some special kind of government securities which are particularly fitted to their needs will be part of the government's major financing program.

5. Finally, and covering in all of the above, the uncertainty which exists as to future monetary and fiscal policies in relation to the known magnitude of the problems involved.

To my mind, the situation becomes clearer if reviewed in the light of the events of the past few months, which I trust you will permit me to do. Going back only to last Autumn, there was at that time a very substantial potential demand for investments. Primarily, this was the result of the continuous refunding of securities and loans at steadily declining rates which, in the absence of any substantial increase in the demand for bank loans, necessitated larger purchases of securities in order to meet earning requirements. The fact that investors could not afford to dispose of income producing assets also accounted for the limited supply of securities in the market. Even though many investors remained out of the market, either expecting a rise in interest rates owing to the large amount of financing necessary to cover the large appropriations by Congress and the inevitable huge deficit of the Government or awaiting the results of the National election, there were some who did not feel justified in deferring purchases and the demand from this source was in excess of the supply.

The reelection of the Administration in November was regarded by many as an assurance of the continuation of low interest rates and this was immediately reflected in buyers entering the market. Substantial widespread buying at that time was augmented as a result of your statement, on the second day following election, that you would request Congress to eliminate the tax-exemption privilege appertaining to Federal and other securities. During this period there was an abrupt rise in Government security prices although sales from the System Account tended to prevent a disorderly market. Notwithstanding the sharp rise in prices, the market, for the most part, remained thin and the upward trend in prices was accentuated later by your decision to postpone the refunding of the March 15, 1941 maturities, and to confine new financing to short-term issues under existing National Defense legislation pending further action by Congress. The high peak of the market was reached on December 12, and after temporarily declining nearly reached the peak again on December 30 since when, with the exception of a few rallies, prices have drifted lower in a thin market, giving up a large part of the gains made since election. Although some reaction to the sharp rise in prices since election might naturally have been expected for technical reasons, the decline seems to have been more closely related to other factors of a more fundamental nature.

Since the turn of the year developments in Washington have caused investors to give serious thought to the financial problems which face this country for national defense. The principal events that brought about this situation were the Federal Reserve System's report to Congress, and the more definite announcements of the huge amount of Treasury financing necessary for

1/27/42.

national defense and the refunding of maturing securities. Both factors have resulted in a good deal of uncertainty among investors as to the monetary and fiscal policies under which the National Defense program will be carried out. Although the Federal Reserve System's report to Congress resulted in some selling, which had a disproportionate effect on prices, its principal effect, so far, appears to have been an accentuation of the tendency of investors to stand aside. At least equally as important in this respect, however, has been the apparent unwillingness of investors to enter the market pending clarification of the manner in which Defense financing in the market is to be handled.

Our contacts with investors, both directly and through the dealers, clearly indicate that on all sides people wish to do their share in the financing of the National Defense program, and that largely, they expect such financing to be done at low interest rates, although not so low as in the past few months. However, in addition to the over-all program, they would like to be advised more specifically as to what portion of the deficit will be financed with special issues, savings securities and market securities, whether offerings of market securities will come in rapid succession, and whether some fixed level of rates for defense financing is in mind. Moreover, the insurance companies and savings banks have been led to believe by news items that some kind of a long-term security might be offered to them which would be suitable for their requirements at better than existing market rates and in greater volume than by subscription to public offerings. Consequently, and with some supply of corporate securities recently available, such institutions have been content to stay on the sidelines with respect to Government securities, until the Treasury's deficit financing plans were better known.

The foregoing will, I trust, help to explain the reasons for the general lack of demand in the market since the beginning of the year for outstanding issues of Government securities and for the new issue of Defense notes. One important exception to this situation has been on the part of a few large banks, mainly in New York City, which, not including the current issue of Defense notes, have increased their holdings of direct and guaranteed obligations by \$145 million since the beginning of the year. Although these purchases consisted mainly of short-term obligations, they undoubtedly were somewhat of a restraining influence on the recent decline in prices. Another point which seems worthy of mention is that, generally, banks outside of the large cities, owing to the nature of their deposits, are not interested in holding the lower interest-bearing securities. It is generally believed in the market that a large part of the Defense notes issued last December have drifted back to New York, although a few cases have been reported of country banks subscribing to and holding the Defense notes for patriotic reasons.

With investors either on the sidelines or cautiously feeling their way along, pending clarification of the country's future monetary and fiscal policies, it was generally expected in the market that the reception for the new issue of Defense notes would be less enthusiastic than for the issue last December. That the curtailment of subscriptions was general, although with significant variations, is reflected in the attached statement showing a comparison, by groups, of the subscriptions received in this district to the two

1/27/41.

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issues of Defense notes. With respect to the market price for the new issue, on January 23, the day on which the terms of the new issue were announced, the market estimated that the new Defense notes should sell at a premium somewhere between  $3/8$ s and  $5/8$ s of a point. However, as the day progressed these estimates were revised downward as reports were received in the market, directly from subscribers that, in many cases, subscriptions were either being entered for smaller amounts than usual or not being entered at all owing to the possibilities of a small market premium. By the close of the day, market estimates for the premium were lowered to around  $1/8$  to  $1/4$  of 1% and this figure was further lowered before the opening of the market the next morning when allotments to be made on a substantial amount of subscriptions reached the market for sale. Initial market quotations were 100.2 bid, 100.4 asked, and since then the new notes have sold as high as 100.6. Buying interest has been concentrated in several large banks. The fairness of the pricing of the note is evidenced, I think, by the willingness of some of the large banks and dealers to purchase substantial amounts of the new note in addition to the allotments they expected on their subscriptions. I should not be surprised if the new note takes its place close to the estimates unless and until there is some change in the general level of prices and interest rates.

You may have noticed that there have been reports in the press that increased pressure against the practice of "free-riding" was partially responsible for the decline in subscriptions. Our attempts to eradicate this speculative practice have become more successful with the amplification last summer of the required certification. As you know, the leading dealers have cooperated in this effort, believing that the elimination of dealing in subscriptions prior to the closing of the books was in the interest of all concerned. This, I understand, has been your position as well as ours for some years. The informal organization of dealers, which recently was enlarged to include all investment houses with whom dealing in Treasury securities is a principal concern, were fully back of this effort in this issue, with the result that many free-riders did not enter subscriptions.

Faithfully yours,

*Robert G. Rouse*  
Robert G. Rouse,  
Vice President.

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

Enc.

TABLE VII NUMBER OF SUBSCRIPTIONS RECEIVED TO CURRENT OFFERING OF 3/4% TREASURY NOTES SERIES D-1944 COMPARED WITH OFFERING OF 3/4% TREASURY NOTES SERIES B-1945 DATED DECEMBER 18, 1940

Group No. 1				
Trust Companies		Number of	Percentage	Amount
on their own account		Items	Decline	Subscribed
December offering		641		\$906,510,800
January "		555		717,840,700
	Decrease	86	13.4%	188,630,100
Group No. 2				
and Brokers				
December offering		228		217,566,000
January "		133		159,515,000
	Decrease	95	41.6	58,051,000
Group No. 3				
Individuals				
December offering		288		65,747,200
January "		105		22,054,500
	Decrease	183	63.5	43,692,700
Group No. 4				
Business Banks				
December offering		113		240,683,000
January "		92		143,377,000
	Decrease	21	18.6	97,306,000
Group No. 5				
Insurance Companies				
December offering		54		281,120,000
January "		26		104,380,000
	Decrease	28	51.8	176,740,000
Group No. 6				
Financial and investment corps.				
(including personal holding companies)				
December offering		52		97,885,000
January "		16		40,500,000
	Decrease	36	69.2	57,385,000
Group No. 7				
Corporations organized for profit,				
(their funds separately classified)				
December offering		63		126,345,500
January "		36		46,330,000
	Decrease	27	42.9	80,015,500
Group No. 8				
Trust Accounts				
December offering		192		52,342,800
January "		61		11,455,900
	Decrease	131	68.2	40,886,900
Group No. 9				
All Others				
December offering		74		65,171,000
January "		50		45,076,000
	Decrease	24	32.4	20,095,000

RECAPITULATION OF CHANGES

Group No. 1 - Decrease	Number of Items	Amount Subscribed
" " 2 - "	86	\$188,630,100
" " 3 - "	95	58,051,000
" " 4 - "	183	43,692,700
" " 5 - "	21	97,306,000
" " 6 - "	28	176,740,000
" " 7 - "	36	57,385,000
" " 8 - "	27	80,015,500
" " 9 - "	131	40,886,900
" " 9 - "	24	20,095,000
Total	631	\$762,803,200

February 3, 1941

Dear Bob:

Just before the Secretary left for a week's vacation he asked me to answer your letter of January 27, 1941, and to thank you for the very full report on the recent financing. He appreciates the trouble you have taken to prepare these data.

Sincerely yours,

S/ DAN

Mr. Robert Rouse,  
Vice President,  
Federal Reserve Bank,  
New York, N. Y.

DWB:ELM

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE January 27, 1941

TO Mr. Morgenthau

FROM W. H. Hadley

TREASURY BILL OFFERING

	<u>Aver. on 1st 100 mil. recd. NY &amp; Chi.</u>	<u>Aver. 1st 100 mil. NY &amp; Chi. last wk.</u>	<u>Aver. price for country last wk.</u>	<u>Total tenders recd. NY &amp; Chi.</u>
91-day bills	100.	100.002	100.+	\$211,527,000



January 27, 1941

1/27/41

Mr. Mc Cloy called and said he had it on authoritative source that Senator Vandenberg would cross-examine the Secretary. One senator has been designated to each Secretary. Senator Vandenberg has been working for 3 days on an analysis of the British figures. He will especially concentrate on the discrepancies between Treasury - Federal Reserve - Commerce figures on British balances. It will be a comprehensive hearing. Mc Cloy says he heard this from the "horse's mouth".

## DEPARTMENT OF STATE

Washington

In reply refer to  
EA 840.51 Frozen Credits/1217

January 27, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and referring to the Treasury Department's letter of January 4, 1941, concerning the transfer of funds from French Government accounts to the account of the Banco Central de la Republica Argentina for payment to various Argentine firms for meat and wool products shipped to France, encloses herewith 5 copies of telegram no. 75 from the American Embassy, Buenos Aires, Argentina, dated January 25, 1941.

## Enclosures:

5 copies, no. 75  
of January 25 from  
Buenos Aires.

Copied: aja

JR

GRAY

Buenos Aires

Dated January 25, 1941

Rec'd 11:12 a.m.

Secretary of State

Washington.

75, January 25, noon.

Reference Department's instruction 581, January 11.

Full report sent air mail yesterday. There is no doubt in the opinion of the Embassy as to validity and authenticity of these accounts and release of funds is recommended to enable payment.

ARMOUR

WSB

Copied: aja

TO THE SECRETARY  
DEPARTMENT OF STATE  
WASHINGTON, D.C.

JAN 25 1941

RECEIVED  
DEPARTMENT OF STATE

PARAPHRASE OF TELEGRAM FROM CALCUTTA,  
DATED JANUARY 27, 10 A. M., 1941.

Referring to the telegram from the Department dated November 28, 8 p. m., concerning holders of dollar bank balances, it is understood that the administration of the regulations has progressed without causing hardship and without discrimination. Americans permanently domiciled in India are in theory not exempted from the regulations but thus far no such cases have arisen.

845.5151/138

Copy:alm

TO THE DIRECTOR  
1500 P. O. BOX 1000  
WASHINGTON, D. C.

RECEIVED 11 20

THE DIRECTOR  
RECEIVED

No. 36.

His Majesty's Ambassador presents his compliments to the Secretary of State and in confirmation of a telephone message given to Mr. Stewart of the Division of European Affairs on January 24th, has the honour to inform Mr. Hull that the Belgian Congo has been included in the sterling area by a Treasury order effective January 24th.

BRITISH EMBASSY,

WASHINGTON, D. C.

January 27th, 1941.

mg

COPY

This is a copy Mr. Foley took to the 8:30 p.m. meeting at the White House on 1/27/41 when the President held a meeting with the Congressional leaders to discuss amendments. The amendments typed on here are copies of those sent to Mr. Foley by John O'Brien of the House Legislative Counsel. Mr. Foley accompanied the Secretary to the meeting.

77TH CONGRESS  
1ST SESSION

# H. R. 1776

## IN THE HOUSE OF REPRESENTATIVES

JANUARY 10, 1941

Mr. McCORMACK introduced the following bill; which was referred to the Committee on Foreign Affairs

## A BILL

Further to promote the defense of the United States, and for other purposes.

1     *Be it enacted by the Senate and House of Representa-*  
2     *tives of the United States of America in Congress assembled,*  
3     That this Act may be cited as "An Act to Promote the  
4     Defense of the United States".

5     SEC. 2. As used in this Act—

6     (a) The term "defense article" means—

7         (1) Any weapon, munition, aircraft, vessel, or  
8     boat;

9         (2) Any machinery, facility, tool, material, or  
10     supply necessary for the manufacture, production, proc-

1 testing, repair, servicing, or operation of any article  
2 described in this subsection;

3 (3) Any component material or part of or equip-  
4 ment for any article described in this subsection;

5 (4) Any other commodity or article for defense.  
6 Such term "defense article" includes any article described  
7 in this subsection: Manufactured or procured pursuant to  
8 to section 3, or to which the United States or any foreign  
9 government has or hereafter acquires title, possession, or  
10 control.

11 (b) The term "defense information" means any plan,  
12 specification, design, prototype, or information pertaining to  
13 any defense article.

14 Sec. 3. (a) Notwithstanding the provisions of any  
15 other law, the President may, from time to time, when he  
16 deems it in the interest of national defense, authorize the  
17 Secretary of War, the Secretary of the Navy, or the head  
18 of any other department or agency of the Government—

19 (1) To manufacture in arsenals, factories, and ship-  
20 yards under their jurisdiction, or otherwise procure, any  
21 defense article for the government of any country whose  
22 defense the President deems vital to the defense of the  
23 United States.

24 (2) To sell, transfer, exchange, lease, lend, or

1 otherwise dispose of, to any such government any defense

2 article, but no defense article not manufactured or procured under  
3 paragraph (1) shall in any way be disposed of under this paragraph, except after such

4 (3) To test, inspect, prove, repair, outfit, recondi- consultation  
5 tion, or otherwise to place in good working order any Chief of  
6 defense article for any such government. Staff of the  
7 Army or the  
8 Chief of  
9 Naval Oper-  
10 ations of  
11 the Navy as  
12 the Presi-  
13 dent may  
14 prescribe.

15 (4) To communicate to any such government any  
16 defense information, pertaining to any defense article  
17 furnished to such government under paragraph (2) of  
18 this subsection.

19 (5) To release for export any defense article to  
20 any such government.

21 (b) The terms and conditions upon which any such  
22 foreign government receives any aid authorized under sub-  
23 section (a) shall be those which the President deems  
24 satisfactory, and the benefit to the United States may be  
25 payment or repayment in kind or property, or any other

26 direct or indirect benefit which the President deems  
27 satisfactory. (c) Neither the President nor the head of any department  
28 or agency shall, after June 30, 1943, exercise any of  
29 the powers conferred by or pursuant to subsection (a), except to carry out a contract

30 or agree-  
31 ment with  
32 such a  
33 government  
34 made before  
35 July 1, 1943.  
36 (d) Nothing  
37 in this Act  
38 shall be  
39 construed to  
40 authorize  
41 or to per-  
42 mit the

43 authorization of conveying vessels by naval vessels of the United States.

1 or permit its use by anyone not an officer, employee, or  
2 agent of such foreign government.

3       SEC. 5. <sup>(a)</sup>The Secretary of War, the Secretary of the  
4 Navy, or the head of any other department or agency of  
5 the Government involved shall, when any such defense arti-  
6 cle or defense information is exported immediately inform  
7 the department or agency designated by the President to  
8 administer section 6 of the Act of July 2, 1940 (54 Stat.  
9 714), of the quantities, character, value, terms of disposi-

10 tion, and destination of the article and information so  
11 exported. <sup>(b)</sup>The President from time to time, but not less frequently  
12 than once every ninety days, shall transmit to the Congress  
13 a report of operations under this Act except such information as he deems it not com-

14 patible with the public interest to disclose. Reports provided for  
15 under this subsection shall be transmitted to the Secretary of the  
16 Senate or the Clerk of the House of Representatives, the case may  
17 be, if the Senate or the House of Representatives, the case may  
18 be, is not in session.

19       SEC. 6. (a) There is hereby authorized to be appro-  
20 priated from time to time, out of any money in the Treasury  
21 not otherwise appropriated, such amounts as may be neces-  
22 sary to carry out the provisions and accomplish the purposes  
23 of this Act.  
24       (b) All money and all property which is converted  
into money received under section 3 from any government  
shall, with the approval of the Director of the Budget,  
revert to the respective appropriation or appropriations out  
of which funds were expended with respect to the defense  
article or defense information for which such consideration  
is received, and shall be available for expenditure for the  
purpose for which such expended funds were appropriated

1 by law, during the fiscal year in which such funds are  
2 received and the ensuing fiscal year.

3       SEC. 7. The Secretary of War, the Secretary of the  
4 Navy, and the head of the department or agency shall in all  
5 contracts or agreements for the disposition of any defense  
6 article or defense information fully protect the rights of all  
7 citizens of the United States who have patent rights in and  
8 to any such article or information which is hereby authorized  
9 to be disposed of and the payments collected for royalties on  
10 such patents shall be paid to the owners and holders of such  
11 patents.

12       SEC. 8. The Secretaries of War and of the Navy are  
13 hereby authorized to purchase or otherwise acquire arms,  
14 ammunition, and implements of war produced within the  
15 jurisdiction of any country to which section 3 is applicable,  
16 whenever the President deems such purchase or acquisition  
17 to be necessary in the interests of the defense of the United  
18 States.

19       SEC. 9. The President may, from time to time, promul-  
20 gate such rules and regulations as may be necessary and  
21 proper to carry out any of the provisions of this Act; and he  
22 may exercise any power or authority conferred on him by  
23 this Act through such department, agency, or officer as he  
24 shall direct.

THE CONGRESS  
1st Session

**H.R. 1776**

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**A BILL**

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Further to promote the defense of the United States, and for other purposes.

By Mr. McCORMACK

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JANUARY 10, 1941

Referred to the Committee on Foreign Affairs

BRITISH EMBASSY,  
WASHINGTON, D. C.

Personal and Secret

January 27th, 1941.

Dear Mr. Secretary,

I enclose herein for your  
personal and secret information copies  
of the two latest reports received from  
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*A. C. C.*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram received from London  
dated January 25th, 1941

1. Nineteen ships out of convoy of 28 have arrived in the United Kingdom from Sierra Leone remaining three were sunk or damaged by air attack. Cargoes mostly foodstuffs.
2. Westbound convoy of 36 ships has cleared western approaches.
3. Italian submarine previously reported at Las Palmas left there early a.m. January 23rd.
4. British merchant ship on passage to Durban reported being bombed a.m. January 24th 300 miles east of the Seyshelles.
5. Reference paragraph 6 of operational No. 24. Two ships of 1900 and 3800 tons are reported salvageable, but there is no trace of the others.
6. Military. Libya. Forward detachments of our armoured troops are 36 miles south of Bomba and surrounding Mekili. Enemy rearguard is being engaged astride Bomba-Derna road ten miles south east of Derna.
7. Royal Air Force. Eritrea. Fighters of the South African Air Force shot down one Italian bomber and damaged two others over Keru on January 23rd.
8. Home front. Night of January 24 - 25th. Six Beauforts dropped 3 land mines and several bombs at submarine base of Lorient. Accurate observation is not possible.
9. German Air Force. January 24th. Coastal reconnaissance by single aircraft only. Night of January 24 - 25th. No enemy activity.

Telegram from London dated  
January 26th, 1941.

1. Naval. His Majesty's ship "Illustrious" at Alexandria p.m. of January 25th. Two British cruisers - part of a covering force - were attacked by German aircraft. 80 bombers W.G. of Stavanger January 24th without damage.
2. A British ship (1100 tons) was sunk by mine in Thames Estuary January 24th. Nineteen survivors out of 22.
3. Military The garrison of Sirabub is estimated at 1000 Italian and 700 Libyans. They are suffering from bad water and food shortage.
4. Kenya. In several areas our patrols are now well into enemy territory.
5. Royal Air Force. January 25th and night of January 25th/26th. No operations of importance.
6. Mediterranean On night of January 23rd/24th our aircraft dropped 2½ tons of bombs on Maritza aerodrome.
7. Libya. On January 24th three enemy landing grounds in Bengasi area were attacked at one of which two grounded aircraft were damaged.
8. Eritrea. On January 24th our bombers attacked Bishia railhead hitting station, railway tracks and motor transport. Our fighters attacked a train on the railway and army co-operation aircraft bombed Uam hangar and machine gunned trenches. One enemy aircraft was probably damaged, another destroyed on the ground and a third damaged on the ground.
9. German Air Force. January 25th. Activity negligible and confined to single aircraft.

- 2 -

10. Night of January 25th/26th. Only 13  
enemy aircraft operating. Some minelaying suspected.

BRITISH EMBASSY,  
WASHINGTON, D. C.  
January 27th, 1941.

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,

*Halifax*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London of the

25th January, 1941.

1. Nineteen ships out of convoy of 22 have arrived in the United Kingdom from Sierra Leone remaining three were sunk or damaged by air attack. Cargoes mostly foodstuffs.

2. Westbound convoy of 36 ships has cleared western approaches.

3. Italian submarine previously reported at Las Palmas left there early a.m. January 23rd.

4. British merchant ship on passage to Durban reported being bombed a.m. January 24th 300 miles east of the Seychelles.

5. Reference paragraph 6 of telegram of January 24. Two ships of 1,900 and 3,800 tons are reported salvagable, but there is no trace of the others.

6. Military.

Libya. Forward detachments of our armoured troops are 35 miles south of Bomba and surrounding Mekili. Enemy rearguard is being engaged astride Bomba-Derna road ten miles south east of Derna.

7. Royal Air Force.

Eritrea.

Fighters of the South African Air Force shot down one Italian bomber and damaged 2 others over Keru on January 23rd.

8. Home Front.

Night of January 24th/25th. Six Beauforts dropped 3 land mines and several bombs at submarine base of Lorient. Accurate observation is not possible.

/ 9.

- 2 -

9. German Air Force.

January 24th. Coastal reconnaissance by  
single aircraft only. Night of January 24th/25th.  
No enemy activity.

RESTRICTED

G-2/2657-220  
No. 301

M.I.D., W.D.  
January 27, 1941  
12:00 M.

SITUATION REPORT

I. Western Theater of War.

1. Air Force Operations.

Unimportant bombing raids over England and Germany. Germans continued attacking British shipping claiming several ships sunk.

II. Greek Theater of War.

1. Ground. Restricted operations by the Greeks.

2. Air. Bulsa attacked by Royal Air Force and front objectives and Salonika bombed by Italians.

III. African and Mediterranean Theaters of War.

1. Ground:

Libya. British in contact with Italians east and south of Derna.

Eritrea. Bisha has been captured by the British, who are moving on Agaradat.

Ethiopia and Italian Somaliland. British operations of light forces continue.

2. Air: Libya. Royal Air Force bombed landing fields.

3. Naval. Claim made that two other British cruisers were crippled in January 10 raid and are now being repaired at Alexandria.

Note: This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

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Paraphrase of Code Radiogram  
Received at the War Department  
at 8:33, January 27, 1941

London, filed 14:15, January 27, 1941.

1. On Sunday, January 26, planes of the British Coastal Command attacked a German cargo vessel off the coast of Norway. On the same day and during the preceding night the Bomber Command engaged in no activities.
2. German air operations over England were limited to raids on merchant ships in the Thames Estuary and the North Sea and to reconnaissances along the coast line. British naval anti-aircraft fire brought down three of the German attackers and there was no loss of ships by the British.
3. Fighter and bomber planes of the Royal Air Force in the Middle East cooperated with ground forces and attacked motor transport convoys, troop concentrations and Italian airfields.
4. British troops from Kenya have penetrated into Somalia in the vicinity of El Yibo (7) and are well across the frontier of Italian Somaliland. British forces from the Anglo-Egyptian Sudan have pushed forward in Eritrea beyond Agordat and Biscia and are approaching Omdur.
5. On January 26 the British at Walta probably destroyed the one German dive bomber that attacked targets on the island. During the preceding night an Italian seaplane was captured when it landed near Walta after having been lost.

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6. The damaged British aircraft carrier ILLUSTRIOUS which was in harbor at Malta has now arrived in Alexandria.

7. The War Office still has no confirmation of the press reports of rioting in Milan.

8. A cargo vessel bound for Durban, Natal, was bombed 300 miles east of the Seychelle Islands in the Indian Ocean. (G-2 note: probably bombed by planes from a German raider in this vicinity.) German aircraft attacked a convoy of 22 British merchant vessels en route to England from Sierra Leone carrying a cargo of foodstuffs and succeeded in sinking three of the vessels. A British vessel struck a mine in the Thames Estuary and sank.

SCANLON

**Distribution:**

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