

DIARY

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January 28 and 29, 1941

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January 28, 1941.
4:49 p.m.

✓
1

H.M.Jr: Hello.

Operator: Secretary Ickes.

H.M.Jr: Hello.

Harold
Ickes: Hello, Henry.

H.M.Jr: Harold, my apologies for not calling but I've
been on the hill all day.

I: Well, when I want to talk to you, you haven't
any business being on the hill.

H.M.Jr: You're right.

I: Yeh. Say I'm debating this lease-lend bill
with Phillip LaFollette - Town Hall of the Air -
Thursday night.

H.M.Jr: Oh yes.

I: Let me read you six lines here.

H.M.Jr: Please do.

I: "Do not be misled by the propaganda of the
appeasers that the British can pay cash for their
armaments; they can not. They can scrape together
in this country approximately three billion dollars
and virtually every cent of this has already been
obligated. This means that, on its own account,
Britain can place no further orders in this country.
But British war needs are mounting steadily."

H.M.Jr: That's right.

I: That's right. All right, I thought I ought to
help educate the people for you if I could.

H.M.Jr: Well.

I: All right, Henry.

H.M.Jr: More power to you!

I: All right. Good bye.

H.M.Jr: Good bye.

A ✓

Treasury Department
Division of Monetary Research

Date January 28 1941

To: Mr. White

From: Mr. Ullmann

Export Control - Shipments to Japan

Six months since President's Proclamation

(July 26, 1940 - January 25, 1941)

1. Gasoline: 3.4 million barrels - - about 86% high octane and licensed.
(Total 1939 shipments: 1.2 million bbl.)
2. Crude Petroleum: 6.2 million barrels - - about half high octane crude and licensed.
(Total 1939 shipments: 16 million bbl.)
3. Lubricating oil: 693,000 barrels
(Total 1939 shipments: 500,000 bbl.)
4. Gas oil and fuel oil: 3 million barrels
(Total 1939 shipments: 9 million bbl.)

MR. WHITE
Branch 2058 - Room 208

Treasury Department
Division of Monetary Research

✓
B

Date..... January 28 19 41

To: Mr. White
From: Mr. Ullmann

Export Control - Shipments to Japan

Week ending January 25

- 1. Gasoline: 25,000 barrels (relatively small compared to recent shipments).
- 2. Crude: 4,000 barrels (small)
- 3. Gas and Fuel Oil: 98,000 barrels
- 4. Lubricating Oil: 11,000 barrels
- 5. Scrap: none

MR. WHITE
Branch 2058 - Room 208

1/28/41

Secretary's Testimony before Senate Committee on
Foreign Relations on Senate 275 (Lease-Lend Bill).

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 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.

- 2 -

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.	616
securities	616
Direct and miscellaneous	900
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 \$1,811 million in gold and dollar exchange assets which the British

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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	280
		<u>\$1,554</u>

- 5 -

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		<u>880</u>
		1,127
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.		<u>15</u>
		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		<u>480</u>
		1,115
C. Canadian assistance to U.K.		<u>260</u>
Total dollar receipts by Empire countries, excluding Canada and Newfoundland		1,555

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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>620</u>
Total dollar deficit of British Empire, excluding Canada and Newfoundland, during 1941	<u>1,464</u>
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.

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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)

<u>Gold and Dollar Expenditures</u>		
A. Payments to the United States by United Kingdom.		
1.	On British Government orders in the United States	
	Goods delivered	\$660
	Advance payments	570
	Capital assistance	<u>150</u>
		1,380
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>
		\$ 2,282
B. Payments to the United States 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>
		<u>48</u>
		483
C. Payments by Empire countries, excluding Canada and Newfoundland, to areas out- side the U.S. requiring gold or dollars		
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
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.		\$ <u>71</u>
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.		
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

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D. Receipts from sale of gold (new production and dishoarding)	<u>905</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>\$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

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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. The result was that the British began to lose gold and dollar assets twice as fast after June 28 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

2. Corporation 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¢	=

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	151 (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	886	2233
<u>In Latin America</u>					
Argentina	Nominal Market	45 (32)	263 (52)	83	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)	28 (5)
Cuba	Nominal Market	2 (2)	25 (1)	2	28
Venezuela	Nominal Market	N11	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					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 28, 1941

Carbon copy of Secretary's reading copy of his testimony before Senate Foreign Relations Committee which was prepared for his appearance following Secretary Hull on January 27th, but postponed to Jan. 28.

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.

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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
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Total dollar requirements for all transactions.		<u>\$3,019</u>

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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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1.	On British Government orders in the United States		
	Goods delivered	\$660	
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	Capital assistance	<u>150</u>	
			\$1,380
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>	
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B. Payments to the United States by Empire countries, excluding U.K. and Canada and Newfoundland			
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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
D. Withdrawal of Capital			
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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>73</u>
Total gold and dollar requirements for all transactions			<u>\$ 546</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, ex- cluding 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.	\$2,050
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	

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>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

- 11 -

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	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. Corporation 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.

- 15 -

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.

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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	886	2233
<u>In Latin America</u>					
Argentina	Nominal Market	45 (32)	263 (52)	83	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)

- 18 -

		<u>Government</u>	<u>Railways</u>	<u>Other</u>	<u>Total</u>
Mexico	Nominal	38	90	44	172
	Market	(1)	(1)		
Peru	Nominal	8	1/	28	36
	Market	(1)		(4)	(5)
Cuba	Nominal	2	25	2	29
	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 ^{g/} Nominal					75
Total U.K. Investments outside United States - Nominal Value					3669

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.

23-28

Statement of Secretary Morgenthau
Before the Senate Committee
On Foreign Relations

January 28, 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.

- 2 -

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 \$1,811 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.		260
	Total dollar receipts by Empire countries, excluding Canada and Newfoundland		\$1,555

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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>620</u>
Total dollar deficit of British Empire, excluding Canada and Newfoundland, during 1941	<u>\$1,464</u>
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)	
<u>Gold and Dollar Expenditures</u>	
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>
	<u>197</u>
	\$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>
	<u>48</u>
	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

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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 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><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)

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2. For purchases from Canada by other Empire countries	125	
3. Other payments to Canada by Empire countries	<u>10</u>	\$930
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Canadian assistance to U. K. -- repatriation of British-held Canadian securities and increase in sterling balances held by Canada		<u>330</u>
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Cigarettes, per thousand, weighing 3 lbs.	11.70	3.25
Tea, Empire, per lb.	10¢	-
Coffee, full duty per lb.	2.8¢	-

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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>					
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	Market	(70)			
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	Market	(410)			
New Zealand	Nominal	131	1	14	146
		(125)			
India	Nominal	300	<u>1/</u>	250	550
	Market	(250)			
British Africa	Nominal	188	<u>1/</u>	250	438
Malaya	Nominal	6		78	84
Other	Nominal	—	—	—	<u>31</u>
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 Market	45 (32)	263 (52)	83	390
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Uruguay	Nominal Market	18 (8)	14 (1)	10 (12)	42 (21)
Mexico	Nominal Market	38 (1)	90 (1)	44	173
Peru	Nominal Market	6 (1)	1/	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	—	—	—	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.

Testimony - Sen. For. Rel. Com - Secy. Morgenthau

SECRETARY MORGENTHAU TOLD THE SENATE FOREIGN RELATIONS COMMITTEE
TODAY THAT THE "BRITISH JUST HAVEN'T GOT THE DOLLARS" TO MEET THEIR WAR
PURCHASES IN THIS COUNTRY AFTER THE END OF THE CURRENT YEAR.

1/28--5B1024A

ADD MORGENTHAU

MORGENTHAU APPEARED BEFORE THE COMMITTEE IN SUPPORT OF THE
 ADMINISTRATION'S ALL-OUT BRITISH AID BILL. HIS TESTIMONY WAS LARGELY
 A REPETITION OF WHAT HE PREVIOUSLY HAD TOLD THE HOUSE FOREIGN
 AFFAIRS COMMITTEE. HE POINTED OUT THAT BRITISH COMMITMENTS HERE
NOW AMOUNT TO \$1,400,000,000 (B) COMPARED TO \$1,511,000,000 IN "GOLD
AND DOLLAR EXCHANGE ASSETS WHICH THE BRITISH REGARD AS AVAILABLE
FOR PURCHASES IN THIS COUNTRY."

MORGENTHAU SAID THAT THE WAR IS COSTING THE BRITISH GOVERNMENT MORE
THAN 12,000,000 POUNDS (\$45,000,000) A DAY, APPROXIMATELY 60 PER CENT
OF THE NATIONAL INCOME.

1/28--R1035A

Brit. Coast

HOD MORCENTHAU

HE TOLD THE COMMITTEE THAT THE COLLAPSE OF FRANCE LAST JUNE CAUSED BRITISH GOLD AND DOLLAR ASSETS TO DWINDLE TWICE AS FAST AS PREVIOUSLY.

HE POINTED OUT THAT BESIDES TAKING OVER FRENCH COMMITMENTS IN THIS COUNTRY--THEREBY DOUBLING THEIR LIABILITIES--THE BRITISH LOST THE USE OF FRENCH ASSETS, WHICH WERE "AT LEAST AS MUCH" AS THE BRITISH THEMSELVES HAD.

collapse of France

"THE FRENCH HAD AT LEAST AS MUCH AS THE BRITISH IN GOLD AND DOLLAR ASSETS IN THIS COUNTRY," MORCENTHAU SAID. "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."

AS A RESULT OF THIS DRAM, MORCENTHAU SAID, BRITISH DAILY EXPENDITURES HAVE RISEN ^{BY} AT THE 12,000,000 POUND MARK AND ARE "STEADILY MOUNTING."

British Expenditures

1/28--21045A 20-0

ADD MORGENTHAU

TREASURY GENERAL COUNSEL EDWARD H. FOLEY, STABILIZATION FUND DIRECTOR
HERLE COCHRAN, MONETARY RESEARCH DIRECTOR HARRY D. WHITE AND PHILIP
YOUNG, A MEMBER OF THE FOREIGN PURCHASES COORDINATING COMMITTEE, SAY
MINID MORGENTHAU AS HE TESTIFIED.

SENATOR VANDENBERG LED OFF THE QUESTIONING BY OBSERVING THAT HE WANTED
TO "EXPLORE" THE BRITISH ASSET FIGURES BUT DID NOT WANT TO ARGUE THE
QUESTION OF WHETHER THE BRITISH SHOULD BE GIVEN CREDIT.

See.

MORGENTHAU TOLD VANDENBERG THAT HIS NEW RECAPITULATION OF BRITISH
ASSETS SHOWED A TOTAL OF \$36,000,000 MORE THAN WAS REPRESENTED IN FIGURES
HE PRESENTED LAST WEEK TO THE HOUSE FOREIGN AFFAIRS COMMITTEE. THE NEW
FIGURE, HE EXPLAINED, IS BASED ON LATER INFORMATION FROM BRITISH
SOURCES.

Vandenberg

1/25--R1103A 20-0

ADD MORGENTHAU

VANDENBERG ASKED WHY CANADIAN ASSETS HAD BEEN EXCLUDED FROM THE
BRITISH EMPIRE BALANCE SHEETS.

"THE CANADIAN GOVERNMENT HAS NOT RAISED THE QUESTION OF WHETHER
WEY CAN OR CANNOT MAKE ADDITIONAL PURCHASES HERE SO I SAN NO PURPOSE
IN MAKING PUBLIC THEIR DOLLAR PURCHASES HERE," MORGENTHAU REPLIED.

THE TREASURY SECRETARY REPLIED THAT THE INITIATIVE FOR THE SEPARATION
CAME FROM THE BRITISH GOVERNMENT, AND THAT THE MOTIVE WAS "BOTH
POLITICAL AND FINANCIAL" RESULTING FROM RELATIONSHIP BETWEEN THE BRITISH
AND CANADIAN GOVERNMENT.

VANDENBERG ASKED IF INCLUSION OF CANADIAN ASSETS WOULD

IMPROVE THE BRITISH FINANCIAL PICTURE.

"I DON'T THINK THE PICTURE WOULD BE IMPROVED ANY IF YOU CONSIDER
THE FACT THAT (1) CANADA ALREADY HAS A LARGE BUYING PROGRAM IN THE
UNITED STATES AND (2) CANADA IS ALREADY ASSISTING THE BRITISH PURCHASING
PROGRAM THROUGH THE REPATRIATION OF SECURITIES."

1/28--R1107A

ADD MORGENTHAU

MORGENTHAU TOLD THE COMMITTEE THAT HE HAS ABANDONED HOPE THAT GREAT
BRITAIN EVER WILL PAY HER WORLD WAR DEBT TO THE U.S.

1/28--R1124A

Vanderberg

Canadian Govt War Debt

MR MORGENTHAU

"ARE YOU PREPARED TO WRITE THOSE (BENT) MEN FOR NEEDS?" SENATOR VANDENBERG ASKED.

"ANY TIME," MORGENTHAU REPLIED. "I DID SO SOME TIME AGO, MENTALLY."
MORGENTHAU SUBMITTED A BRITISH "BALANCE SHEET" TO THE COMMITTEE,
SHOWING TOTAL BRITISH DOLLAR ASSETS AS COMPILED BY HIS ASSISTANTS AND
OFFICIALS OF THE BRITISH TREASURY. HE SAID THAT THE BRITISH JUST
HAVEN'T GOT THE DOLLARS" TO PAY FOR PURCHASES AFTER THE CURRENT YEAR.

But, Balances

1/28--R1133A

MR MORGENTHAU

MORGENTHAU SAID HE WAS UNABLE TO SAY HOW MUCH MONEY WOULD HAVE TO
BE EXPENDED UNDER THE BRITISH AID PROGRAM, AND HE ADDED THAT IT WOULD
BE FUTILE TO ATTEMPT TO GIVE ESTIMATES.

VANDENBERG ASKED IF THE PROPOSED INCREASE OF THE U.S. DEBT LIMIT
FROM \$49,000,000,000 TO \$65,000,000,000 WILL COVER THE SPENDING
UNDER THE AID-TO-BRITAIN PROGRAM.

Vandenberg - Debt Limit

"THAT WILL TAKE CARE OF THE SITUATION, AS FAR AS WE CAN SEE IT
TODAY, UNTIL JUNE 30, 1943, THE END OF THE NEXT FISCAL YEAR," MORGENTHAU
REPLIED. "WE MISSED THE MARK LAST YEAR."

VANDENBERG DEMANDED TO KNOW "WHAT THE PRESIDENT CAN DO UNDER THIS
BILL THAT HE CAN'T DO NOW."

AFTER CONFERRING WITH SEVERAL OF THE AIDES WHO ACCOMPANIED HIM TO THE HEARING, NORCEN THAU SAID:

"THE CHIEF POWER HE WOULD GET WOULD MAKE IT POSSIBLE FOR HIM TO TAKE AVAILABLE MUNITIONS OF WAR TO NATIONS WHICH NEED THEM AND HAVEN'T THE DOLLARS TO PAY FOR THEM."

NORCEN THAU REVEALED FOR THE FIRST TIME THAT "FROZEN" FRENCH ASSETS IN THIS COUNTRY AMOUNT TO \$1,593,000,000. THE FRENCH HOLDINGS WERE ORDERED SEQUESTERED BY PRESIDENT ROOSEVELT AFTER THE FALL OF FRANCE.

1/28 11:57

French Assets

ADD NORCEN THAU

VAN DENBERG CONCLUDED HIS QUESTIONING OF NORCEN THAU AFTER BRINGING OUT THAT THE ADMINISTRATION BILL, WHILE DESIGNED PRIMARILY TO LEND AND LEASE MATERIALS TO GREAT BRITAIN, DOES NOT REQUIRE REPAYMENT.

THE MICHIGAN SENATOR ASKED WHETHER THE PURPOSE OF THE BILL COULD NOT BE ACCOMPLISHED BY A SIMPLE AMENDMENT TO THE JOHNSON AND NEUTRALITY ACTS. NORCEN THAU ASKED TREASURY GENERAL COUNSEL FOLEY TO REPLY TO THE QUESTION.

Van den Berg Concludes

FOLLY SAID THAT HERE EXTENSION OF DOLLAR CREDITS FOR PURCHASES OF
WAR MATERIALS HERE WOULD "MEAN THAT IT WOULD BE MONTHS AND MONTHS
BEFORE THE MATERIALS ORDERED WOULD BE COMING OFF THE ASSEMBLY LINE."
THE MEASURE NOW BEFORE CONGRESS AUTHORIZES THE PRESIDENT TO MAKE
AVAILABLE MATERIALS ALREADY ON HAND IF HE DEEMS IT NECESSARY, HE ADDED.

Foley

1/28--R1135A
 DD NORCENWAW

NOT "ONE DIME" OF GRATUITOUS ASSISTANCE IS BEING GIVEN THE BRITISH
 GOVERNMENT BY THE AMERICAN GOVERNMENT AT THE PRESENT TIME, NORCENWAW
 ADDED.

"EVERYTHING IS BEING PAID FOR," HE SAID.

SENATOR CAPPER INQUIRED IF BRITAIN COULD GAIN POSSESSION OF
PRODUCTS INVOLVED IN THIS NATION'S \$17,500,000,000 DEFENSE
PROGRAM.

"I DON'T THINK SO," THE SECRETARY SAID FIRMLY.

SENATOR ELBERT D. THOMAS OBJECTED TO A PROVISION IN THE BILL WHICH HE
SAID WOULD ENABLE THE ARMY AND NAVY TO RETAIN POSSESSION OF FUNDS
RECEIVED FROM THE SALE OF MATERIAL TO OTHER COUNTRIES, RATHER THAN
TURNING THEM OVER TO THE TREASURY.

1/28--R12W

Sen. Capper
Sen. Elbert Thomas

DD NORCENHAU

NORCENHAU DISCLOSED THAT DEFENSE PRODUCTION CHIEF WILLIAM S. KNUDSEN IS SEEKING WAYS TO PLACE A NEW BRITISH ORDER FOR 2,000 WARPLANES, FOR WHICH PRODUCTION CAPACITY IS AVAILABLE IMMEDIATELY AND FOR WHICH THE BRITISH HAVE NO FUNDS TO PAY.

EXPLAINING THAT BRITISH PURCHASING HAD PRACTICALLY CEASED IN DECEMBER BECAUSE OF LACK OF DOLLAR ASSETS, NORCENHAU REVEALED THAT KNUDSEN HAD TELEPHONED HIM YESTERDAY ASKING WHETHER SOMETHING COULD BE DONE TO MAKE IT POSSIBLE FOR THE BRITISH TO ORDER SOME 2,000 PLANES.

NORCENHAU SAID THAT HE ASKED KNUDSEN WHETHER PRODUCTION FACILITIES WERE AVAILABLE AND KNUDSEN SAID THEY WERE.

'/28--R1206P

Knudsen - Plane Order

DD NORCENHAU

NORCENHAU ADDED THAT "STRANGELY ENOUGH" SOME AIRPLANE MANUFACTURERS WILL BEGIN TO RUN OUT OF ORDERS IN APRIL IF THE BRITISH DO NOT GIVE THEM ADDITIONAL ORDERS RIGHT AWAY.

SENATOR LAFOLLETTE, REFERRING TO THE LAC IN THE U.S. PROCUREMENT OF PLANES FOR ITS OWN ARMY AND NAVY DESPITE APPROPRIATIONS AND CONTRACT AUTHORIZATIONS TOTTALING BILLIONS, ASKED WHY THERE WOULD BE PRODUCTION FACILITIES COMING AVAILABLE WHICH WOULD NOT BE PREINTENDED FOR PRODUCTION FOR THE U.S.

MORCENYAU REPLIED THAT THE PLANTS IN QUESTION WERE TOOLED FOR "SO-CALLED BRITISH TYPE PLANES" WHICH THE U.S. ARMY AND NAVY AIRFORCES DID NOT DESIRE. HE SAID THESE PLANTS HAD BEEN "TOOLED UP" ON FUNDS SUPPLIED BY THE BRITISH AND FRENCH GOVERNMENTS.

1/28--E1210P 20-0

DD MORCENYAU

MORCENYAU DECLINED TO DISCUSS THE BROAD PRINCIPLES AND IMPLICATIONS OF THE LEGISLATION. HE SUGGESTED THAT SECRETARY HULL BE INTERROGATED ON THAT SUBJECT.

"YES, BUT HE DID NOT CARE TO DISCUSS IT WHEN HE WAS BEFORE US YESTERDAY," SENATOR LAFOLLETTE SHOT BACK. "WHEN HE WAS BEFORE THE HOUSE COMMITTEE HE CALLED IT A TREASURY BILL."

MORCENYAU REPLIED THAT HE WOULD BE MORE THAN ANXIOUS TO PLACE HIS KNOWLEDGE OF FISCAL MATTERS BEFORE THE COMMITTEE, BUT DID NOT "FEEL QUALIFIED TO DISCUSS OTHER ASPECTS OF THE BILL."

Sen. LaFollette

Board aspects

SENATOR WILSON W. JOHNSON SAID HE WANTED TO ASCERTAIN WHO WROTE THE BILL AND MORGENTHAU REPEATEDLY TOLD HIM THAT THE MEASURE IS "THE PRODUCT OF MANY MINDS." IT SPRANG INTO BEING, HE SAID, AFTER CONFERENCE ATTENDED BY MAJORITY LEADER BARKLEY, SPEAKER HAYDEN, EDWARD H. FOLEY, TREASURY COUNSEL, ERKEN H. HACKWORTH, LEGAL ADVISER TO THE STATE DEPARTMENT, MIDDLETON BEAMAN, HOUSE LEGISLATIVE COUNSEL, AND SENATE AND HOUSE LEADERS.

Spencer Stewart

"THE IMPRESSION THAT THE TREASURY WROTE THE BILL IS INCORRECT," MORGENTHAU INSISTED.

1/28--R1232P 20-0

ADD MORGENTHAU

IN REPLY TO QUESTIONS BY SENATOR MURRAY, MORGENTHAU SAID THE U.S. "NOT ONLY HAS NOT GIVEN ANY AID TO GREAT BRITAIN, BUT IN SOME INSTANCES WE HAVE MADE IT EXTREMELY DIFFICULT FOR THEM TO MAKE PURCHASES." HE CITED THE BRITISH EXPENDITURES FOR TOOLING AND RESEARCH.

MURRAY REMARKED THAT U.S. MANUFACTURERS HAD MADE LARGE PROFITS ON THE BRITISH ORDERS.

"NOT LARGE PROFITS," MORGENTHAU SAID, "BUT GOOD PROFITS."

"THEN INSTEAD OF THIS COUNTRY AIDING BRITAIN, BRITAIN SO FAR HAS BEEN AIDING THE UNITED STATES TO PREPARE ITS OWN DEFENSES," MURRAY REMARKED.

SENATOR PEPPER ASKED WHETHER "IN DOLLARS AND CENTS" IT WOULD BE CHEAPER FOR THE U.S. TO AID ENGLAND IN DEFEATING THE AXIS POWERS OR TO SPEND LARGE SUMS FOR U.S. ARMAMENT FOR POSSIBLE EVENTUAL WAR WITH THE AXIS POWERS.

"WE'D SAVE MONEY BY MAKING AVAILABLE TO ENGLAND OR ANY OTHER COUNTRY WHICH IS ATTACKED THE IMPLEMENTS OF WAR TO FIGHT ON THEIR OWN GROUND RATHER THAN WAITING UNTIL WE ARE LEFT IN THIS HEMISPHERE TO FIGHT ALONE," MORGENTHAU REPLIED.

1/25--R1243P 20-0
ADD MORGENTHAU

MORGENTHAU SAID GREAT BRITAIN, GREECE AND CHINA CANNOT CONTINUE TO FIGHT IF THE WAR AID BILL IS NOT PASSED.

1/25--R1243P

ADD MORGENTHAU

"CONGRESS MUST WEIGH VERY SERIOUSLY THE QUESTION OF WHETHER IT WANTS GREAT BRITAIN, GREECE AND CHINA TO CONTINUE TO FIGHT," MORGENTHAU TOLD THE COMMITTEE.

"IF THIS BILL DOESN'T PASS, THEY CANNOT CONTINUE TO FIGHT."

SENATOR NYE ASKED WHETHER THE BRITISH GOVERNMENT HAD "SAID AS MUCH."

"NOT IN SO MANY WORDS, BUT THAT'S THE SITUATION," MORGENTHAU REPLIED.

1/25--R1246P

DD MORGENTHAU

WYE ASKED MORGENTHAU TO FURNISH THE COMMITTEE, IN SECRET SESSION, A LIST OF BRITISH SECURITY HOLDINGS IN THE U.S., BUT CHAIRMAN GEORGE SAID HE THOUGHT IT WAS "INADVISABLE" TO PUBLICIZE SUCH A ROSTER. AN INQUIRY ABOUT AN INDIVIDUAL OR A COMPANY, HOWEVER, COULD BE ANSWERED WITHOUT CAUSING INJURY, HE SAID.

THE LIST IS OF "TREMENDOUS MONETARY VALUE," MORGENTHAU SAID, AND IS KEPT FOR SAFE-KEEPING IN HIS OWN PRIVATE SAFE IN THE TREASURY DEPARTMENT.

WYE INDICATED HE WILL REPEAL HIS REQUEST IN AN EXECUTIVE SESSION.

THE INFORMATION IN THE LIST, HE INDICATED, IS NEEDED IN ORDER TO OBTAIN AN ACCURATE UNDERSTANDING OF BRITAIN'S REAL FINANCIAL POSITION.

WHEN THE COMMITTEE RECESSED AT 12:35 P.M. UNTIL 2 P.M., MORGENTHAU STILL WAS BEING QUESTIONED BY WYE. SENATOR TAFT, WHO IS NOT A MEMBER OF THE COMMITTEE, SAT AT WYE'S ELBOW, HANDING HIM WRITTEN QUESTIONS.

1/28--21254P 1720-0
DD MORGENTHAU

WYE PUT THIS DIRECT QUESTION TO MORGENTHAU: "HOW ESSENTIAL DO YOU REGARD THIS PROPOSED LEGISLATION IN REFERENCE TO BRITAIN'S ABILITY TO CARRY OUT"

"I AM CONVINCED THAT THEY DO NOT HAVE DOLLAR ASSETS AND THOSE WHICH THEY HAVE DISCLOSED TO ME," MORGENTHAU REPLIED.

Sen. Nye

"LACKING A FORMULA BY WHICH GREAT BRITAIN CAN CONTINUE TO BUY SUPPLIES
HERE, I THINK THEY'LL JUST HAVE TO STOP FIGHTING. THAT'S ALL. X X X
"I AM CONVINCED THAT IF CONGRESS DOESN'T ACT ON THIS BILL, THERE'S
NOTHING FOR BRITAIN TO DO BUT QUIT FIGHTING.

"THE DECISION RESTS IN THE HANDS OF YOU GENTLEMEN."

1/28--2244P
ADD MORGENTHAU

NYE ASKED MORGENTHAU WHETHER THE TREASURY PLANNED AN INDEPENDENT STUDY
TO CHECK THE ACCURACY OF THE BRITISH "BALANCE SHEET" AND TO DETERMINE
FOR ITSELF WHETHER BRITAIN COULD PAY FOR ADDITIONAL ARMS HERE.

MORGENTHAU SAID THAT HE HAD NO REASON TO DOUBT THE ACCURACY OF THE
FIGURES GIVEN HIM BY THE BRITISH GOVERNMENT, ADDING THAT IN HIS DEALINGS
WITH THE BRITISH IN THE LAST SEVEN YEARS HE "HAD NEVER KNOWN THEM TO
WILLFULLY MAKE A MISTAKE."

TURNING TO THE QUESTION OF SECURITY FOR U.S. LOANS, NYE ASKED
WHETHER SIR FREDERICK PHILLIPS, BRITISH TREASURY REPRESENTATIVE HERE,
HAD TALKED ABOUT TRANSFERRING BRITISH POSSESSIONS OR ISLANDS TO THE
U.S. IN PAYMENT FOR PERMANENT LOANS.

"NOT TO ME," MORGENTHAU SAID.

1/28--2254P 17-20-0

See in file

ADD MORGENTHAU

"IF ENGLAND SOLD EVERY DOLLAR OF HER INVESTMENTS IN THE UNITED STATES, AND AMERICAN INVESTORS WERE WILLING TO BUY THEM, THE SUM RAISED WOULD PAY ONLY FOR ORDERS ALREADY PLACED," MORGENTHAU SAID.

ON SEVERAL OCCASIONS HE EMPHASIZED HIS BELIEF THAT BRITISH SPOKESMEN TOLD THE TRUTH WHEN THEY ADVISED HIM THAT THEIR NATION WAS REACHING THE END OF ITS FINANCIAL ROPE.

WYE ASKED MORGENTHAU IF THERE WAS ANY HOPE OF REIMBURSEMENT LATER FOR THE AID TO BE EXTENDED.

"I'D RATHER NOT COMMENT ON THAT," THE WITNESS SAID.

/26--R302P 303P 1720-0

ADD MORGENTHAU

SENATOR MIRAN W. JOHNSON ASKED MORGENTHAU WHY THE U.S. SHOULD NOT GIVE EVERYTHING IT HAS TO BRITAIN, IF HER SUCCESS IS VITAL TO AMERICA.

MORGENTHAU PATIENTLY REITERATED THAT HE IS A "FINANCE OFFICER," AND MERELY WANTS CONGRESS TO HAVE ACCURATE INFORMATION ON WHICH TO BASE ITS ACTION.

"WITH ONE HAND YOU TOSS THE JOHNSON ACT OUT OF THE WINDOW AND WITH THE OTHER YOU TOSS THE NEUTRALITY ACT OUT OF THE WINDOW," JOHNSON SNAPPED.

"I DON'T THINK IT TOSSES THE JOHNSON ACT OUT OF THE WINDOW," MORGENTHAU PROTESTED.

Nye

Sen. Johnson

"OH YES IT DOES," JOHNSON INTERRUPTED. "THE JOHNSON ACT WAS AN ADMINISTRATION MEASURE, PASSED WITH ADMINISTRATION SUPPORT AND ITS GOING TO BE TOSSED OUT OF THE WINDOW."

MORGENTHAU SAID THE ADMINISTRATION HAS BEEN "FRANK AND OPEN" ABOUT THE ENTIRE SITUATION.

1/26--R410P CARTER

DD MORGENTHAU

SENATOR CARTER CLASS TOLD THE COMMITTEE THAT HE WAS IN FAVOR OF AIDING GREAT BRITAIN TO THE FULLEST EXTENT "EVEN IF IT PROVOKES A CHALLENGE OF WAR FROM GERMANY AND I'M FURTHER IN FAVOR OF ACCEPTING THE CHALLENGE AS SOON AS IT'S MADE."

Sen. Carter

CLASS' OUTBURST CAME AFTER SENATOR NIRAN JOHNSON HAD SAID HIS ONE GOAL WAS TO KEEP AMERICA OUT OF WAR, AND HAD REFERRED TO CLASS AS THE ONLY MAN HE KNEW WHO FRANKLY ADVOCATED A DECLARATION OF WAR AGAINST GERMANY.

1/26--R412P

ADD MORGENTHAU.

UNDERSECRETARY OF TREASURY BELL, SUMMONED FOR QUESTIONING BY SENATOR BENNETT C. CLARK, SAID THE APPROXIMATE SERVICE CHARGE ON THE TOTAL FOREIGN WAR DEBT OF \$10,140,000,000 IN 1920 RANGED BETWEEN \$6,500,000,000 AND \$7,000,000,000 IN THE PAST 20 YEARS.

BELL AND OTHER TREASURY AIDES SAID MR. ROOSEVELT COULD NOT ENGAGE IN UNLIMITED SPENDING BECAUSE THE EXTENT OF AID TO OTHER NATIONS CAN BE CONTROLLED THROUGH CONGRESSIONAL APPROPRIATIONS, THE PRESIDENT, THEY SAID, COULD NOT ENTER INTO CONTRACTS UNLESS THE MONEY HAS BEEN ADVANCED BY CONGRESS.

1/28--W0530P C45TA

Undersecretary Bell

January 28, 1941

D. W. Bell

Secretary Morgenthau

Don't forget to put a paragraph in my statement for the Ways and Means Committee on economy. Something along these lines - that I think every non-defense appropriation should be examined with a magnifying glass to make sure that they need it.

✓
January 28, 1941

Mr. Thompson

Secretary Morgenthau

I want Harry White to go away on the 31st and stay away until a week from the following Monday. See if you can't think of some place to send him - Cuba or some place like that. I don't know whether the Virgin Islands, Puerto Rico or the Panama Canal need any inspection. I want Harry to have a trip at the Government's expense.

January 28, 1941

Mr. Young
Secretary Morgenthau

If we don't hear from Arthur Purvis by Thursday morning regarding the 1,960 planes, I want to take up on Thursday with Purvis the possible suggestion that they discard the so-called English type and place orders with us for American types. However, I want to see what happens to the suggestion we made to them in my office on Monday as to what kind of a come-back he has because I believe he is going to take it up with Lord Halifax. I am willing to wait until Thursday morning.

69

The Secretary asked Mr. Haas to phone Mr. ~~Haas~~ and say the Secretary is terribly sorry, but he is going away and cannot be of any assistance to him.

1/30/41

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE JANUARY 28, 1941.

TO Secretary Mergenthau
FROM Mr. Haas

In accordance with your request I telephoned Mr. Ham and he explained the extreme difficulty they are having controlling prices in some of the metal markets. He mentioned in particular aluminum scrap and zinc scrap.

Taking zinc as an illustration, he said that through the efforts of Mr. Henderson's office the producers of virgin zinc have maintained a price of \$7.50, whereas because of the extreme demand for zinc, scrap zinc upon which they have no control at present is selling for \$10.50. He pointed out that new capacity, which would relieve the situation somewhat, would not come into production until sometime in June.

Mr. Ham was confident that a price situation of this kind should be handled by a system of priorities, rationing the output of the industry. He said that additional legislation would be required to grant power to the President to ration such products for civilian as well as for military uses. He spoke to Attorney General Jackson about the legislation and also raised with him the question as to who should be responsible for the priority or rationing policy. He said that Mr. Jackson suggested that he discuss the matter with you as he thought you had discussed this matter with the President at one time.

Mr. Ham said his study of the British procedure and organization for rationing clearly indicated that responsibility should be placed in the hands of one agency. He said the British experience also indicated that the best results were obtained when it was in the hands of civil service employees rather than in the hands of businessmen.

He would like to know that he had your help and backing in getting a priorities and rationing organization set up, presumably under Mr. Henderson or somewhere where the work would be conducted to their satisfaction. He considers this problem of the most vital importance in the control of prices and feels that it is very urgent. As there is to be a meeting of the Defense Commission tomorrow morning at 11 o'clock, Mr. Ham had hoped to see you, along with Mr. Ginsberg (Mr. Henderson's legal adviser in the Defense Commission), sometime this afternoon, if only for ten minutes. He said he was greatly in need of your help.

Mr. Ham said that Mr. Henderson is in Florida and may be away for a month or more.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern, Switzerland

DATE: January 28, 1941, 10 a.m.

NO.: 16

CONFIDENTIAL.

The following is submitted as of possible interest in connection with telegram of January 21, No. 13 from the Department.

The Bank for International Settlements has refused requests by Japan, Sweden, Rumania, and others, for guarantee of their dollar balances.

Equal distribution between New York, London and Paris was made of the gold stock of the National Bank of Belgium. Paris gold had been removed to Dakar for safe-keeping, under the Bank of France's control, before Germany invaded Paris. A request was recently made of the National ~~Rix~~ Bank of Belgium by the German authorities that it instruct the Bank of France to transfer the gold held at Dakar to Berlin to be held by the Reichsbank, assurances being given that the gold would be safe and would be held for the Bank of France's account. This request was refused by the Belgian National Bank. Therefore on December 19, 1940, the German authorities issued a decree under which the German Commisar at the National Bank of Belgium was given power to take any action on the Bank's behalf which would

RECEIVED
TREASURY DEPARTMENT
- 2 -

would be binding on the Bank if the German military
authorities in Belgium should countersign his orders.

The Legation does not have any subsequent details.

HARRISON.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy

DATE: January 28, 1941, 3 p.m.

NO.: 115

Reference is made to telegram of January 18, 8 p.m., No. 53 from the Department.

Since strict orders were issued by Bouthillier that the subject of Belgian gold is not to be discussed at all, it is extremely difficult to get any accurate information about its transfer to the German authorities. A high official in the Finance Ministry confirms, however, that approximately 8,000,000,000 French francs of Belgian gold were sent to Dakar in the spring of 1940. Roughly two-thirds of this amount still remains in "depots in French West Africa", according to this official. Part of the remainder has already been delivered to the German authorities, and part is in North Africa awaiting delivery to them. This official asserted that the French are employing "slow down" tactics in deliveries of the gold, and they hope they can drag the matter out as long as possible. Reference, telegram of January 2, 10 p.m., no. 9 from the Embassy.

An official of the Bank of France has told the Embassy that the Ministry of Finance has written a letter to the Bank in which it is stated that the Bank of France is relieved of all responsibility in connection with surrendering the gold belonging to Belgium. According to this same informant, the French authorities had turned down a proposal put forth by the

- 2 -

the German authorities that the gold be transported from North Africa in German planes.

LEAHY.

EA:LWW

75 ✓
STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

*See memo from Mr
Kend of Fla to Haas
1/29*

DATE January 28, 1941

*See Long's note
of conversation with
Seely w/ released 1/30*

TO Secretary Morgenthau

FROM Mr. Haas
[Signature]

I am attaching to this memorandum three exhibits covering the activities of Thomas D. Campbell of Hardin, Montana:

- (1) A short biography taken from "Who's Who in America".
- (2) A table prepared by Mr. Irely at our request summarizing the data on Mr. Campbell's personal income tax returns from 1933 to 1937. To this table we have attached a short discussion of the principal items therein.
- (3) A summary of Mr. Campbell's activities prepared by Governor Black of the Farm Credit Administration at our request.

Attachments

CAMPBELL, Thomas Donald, agricultural engineer; born Grand Forks, N. D., Feb. 19, 1882; son of Thomas and Almira Cathrine (Richards) Campbell; A.B., University of North Dakota, 1903, M.E., 1904, LL.D., 1929; post-graduate study, Cornell University, 1904-05; D.E., University of Southern Calif., 1929; married Bess McBride Bull, of Grand Forks, N.D., Oct. 3, 1906; children--Thomas D. (deceased), Elizabeth Ann, Jean, Cathrine. Engaged in farming since 1898; president and chief engineer since 1922 of Campbell Farming Corporation, operated 95,000 acres of land in Montana and raising wheat and flax. Special investigator of available farm lands on Indian reservations for U.S. Department of the Interior, World War. Special adviser and consulting engineer for Russian Government, 1929, to assist in forming plans covering operation of 10 million acres in Russia. Member, American Society of Mechanical Engineers, American Society of Agricultural Engineers, American Institute of Consulting Engineers, American Association of Engineers, Society of American Mil. Engineers, Delta Tau Delta, Republican. Presbyterian. Mason (Shrine). Clubs: University (Los Angeles); Twilight, Valley Hunt (Pasadena); Union League (Chicago); Racquet (Washington). Author: Russia, Market or Menace. Inventor of Campbell Grain Dryer; developer of Campbell windrow method of harvesting and threshing grain and furrow dammers on grain drills for conserving moisture. Home: Hardin, Montana, and Pasadena, California.

Mr. Campbell's principal source of income in the years 1933-1937 -- the only years for which income tax returns are immediately available -- appears to have come from dividends received on stocks owned by his wife. Most of these dividends were derived from an investment in the shares of the Cream of Wheat Corporation, the president of which is Daniel Bull of Minneapolis. (Mrs. Campbell's maiden name was Bess McBride Bull). Mr. Campbell's salary of \$3,000 per year from the Campbell Farming Corporation appears to have been mainly for the purpose of covering expenses personally incurred in conducting the corporation's business. The corporation has lost money for many years and carries an accumulated deficit of \$1,000,000 on its books.

Between 1933 and 1937 Mr. Campbell appears to have traded in grain contracts in his personal capacity, but these transactions were not conducted at a profit. In 1936 the Campbell Farming Corporation also appears to have traded in grain contracts, but on purchases of \$124,000 the corporation appears to have lost \$3,000.

Mr. Campbell appears to have made several investments in oil and ranch properties, but these investments were written off as losses. A partnership return for an enterprise known as "Thomas D. Campbell Ranches" was filed in Wilmington, Delaware, in 1937, under the name of "Campbell-Raskob Partnership". Operations during that year were conducted at a loss.

The attached table shows the details of Mr. Campbell's income for the years 1933 to 1937 as reported on his income tax returns. For the year 1933 dividends amounting to \$45,000 on stocks owned by Mrs. Campbell are not included because separate income tax returns were filed by the Campbells in that year. Joint returns were filed in 1934 and subsequently, however, to permit investment and other losses to be deducted from gross income.

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Thomas D. Campbell and wife,
Hardin, Montana, and Pasadena, Calif.

	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
Incomes:					
Salaries*	\$ 2,775.14	\$	\$ 3,849.56	\$ 339.48	\$ 1,508.49
Interest, bank deposits, etc.		6,840.88	6,038.96	5,454.36	4,616.41
Capital gain or loss				-1,312.29	-1,165.64
Dividends**		35,188.82	40,767.70	40,091.30	41,571.42
Rents		66.50	237.03	155.47	278.75
Net profit from business				236.95	
Income or loss from partnership, etc.					-6,784.48
Income from fiduciaries					1,540.43
<hr/>					
Total income	\$ 2,775.14	\$42,096.20	\$50,893.25	\$44,965.27	\$41,565.38
Deductions:					
Contributions	\$	\$ 1,555.00	\$2,751.50	\$ 1,921.00	\$ 2,222.30
Interest paid	304.98	2,657.89	2,054.97	3,914.95	992.02
Taxes	276.94	1,415.35	1,510.37	2,222.07	1,961.49
Losses (mining, oil & wheat) etc.		13,288.79	14,608.44		511.55
Bad debts		2,200.00	427.30	2,889.90	250.00
Other deductions authorized by law	14,508.35	2,328.01		4,724.30	659.53
<hr/>					
Total deductions	\$15,090.27	\$23,445.04	\$21,352.58	\$15,672.22	\$ 6,596.69
Net income	\$ None	\$18,651.16	\$29,540.67	\$29,293.05	\$34,968.69
Total tax	None	\$ 765.62	\$ 2,333.23	\$ 3,421.90	\$ 4,727.95

*1933 salary received from Standard Oil Co. of Calif. 1935-1937, incl. from Campbell Farming Corp.

** Dividends from Cream of Wheat Corp. - 1934 \$32,725., 1935 \$37,882.50, 1936 \$37,282.50, 1937 not listed.

Note: The 1938 and 1939 returns are in field for examination by agents.

Exhibit 3

THOMAS D. CAMPBELL

Summary

Engineer: Graduate Montana Agricultural College; post-graduate Cornell.

Operated for a time his father's 4,000 acre farm near Hardin, Montana. In 1906, had charge of large farming interests of J. S. Torrance, West Coast financier.

Requested by Food Administration to do large scale farming to produce wheat. Formed Montana Farming Corporation, backed by J. P. Morgan, James Stillman, Francis H. Sisson, Charles H. Sabin, and Charles D. Norton, all directors.

Following war bought out the corporation and formed the Campbell Farming Corporation. It owned and leased about 95,000 acres, much of which was Indian land.

Said to have made money first 8 years. 1930 first year to lose money. Difficulties in getting financed.

Strong supporter of Farm Board.

AAA put bottom under price of wheat; said to find financing easier since then.

Strong supporter of present Administration and particularly AAA.

Long advocate of restriction of acreage.

For McNary-Haugen Bill; against debenture plan; for maintaining tariffs.

Familiar with Presidents Wilson, Harding, Coolidge, and Hoover.

John J. Raskob a business associate since 1928.

Now has 7,000 acres under lease in New Mexico - mostly rented for pasture.

Advisor to Russia in its collective farming efforts. Friendly with Stalin. Early predicted Russia would not continue long its original collectivism programs. Apparently his work was highly approved by Russian Government.

Thomas D. Campbell, of Hardin, Montana, is probably the best known advocate of mechanized agriculture who has practiced what he preached. His operations, however, always have been on a grand scale, such as the 95,000 acres of the Campbell Farming Corporation where he uses modern machinery in a thoroughly organized way, reducing the cost of production per bushel and per manpower. He is perhaps equally as well known as the expert hired by the Russian Government to advise it in its effort to farm millions of acres collectively.

Mr. Campbell is a man of unbounded energy, big, impetuous, and has the ability to talk with amazing rapidity. He has had the ear and been the intimate of many Government officials and financiers. These include Presidents Wilson, Harding, Coolidge, and Hoover and their Department of Agriculture secretaries, Secretary Franklin D. Lane, Andre' Tardieu, the Montana Congressional Delegation, Senator Hatch, Alex Logge, James C. Stone, Secretary Wallace, J. P. Morgan, James Stillman, Francis H. Sisson, Charles H. Sabin, Charles D. Norton, J. S. Torrence, and John Backob.

Mr. Campbell, born near Grand Forks, North Dakota, now nearly 60 years of age, is the son of a Scottish farmer. He witnessed the beginning of the mechanization of agriculture in the grain country, his father introduced the first steam plow and steam threshing machine in that section of the plains. At 17 Mr. Campbell took charge of the family's 4,000 acres, meanwhile continuing his education at the University of North Dakota, 3 miles from his home. At that institution he received an A.B. in 1903 and in 1904 he obtained a degree in engineering. He took a post-graduate course at Cornell University the following year. He was married in 1906 to Bess McBride Bull. At about that time he became operator of all of the properties owned by J. S. Torrence, a West Coast capitalist.

The World War catapulted Campbell into national prominence. He is said to have come to Washington to obtain a commission in the Engineering Corps, but Franklin D. Lane, then Secretary of Interior, Herbert Hoover, then Food Commissioner, and Andre' Tardieu, who was the French High Commissioner to the United States, decided his services would be more valuable if he raised wheat. It was first proposed that Mr. Campbell go to Algiers to do the job, but it was finally decided it could be done more quickly in this country on Government land. After an inspection trip with Frank A. Thackery, of the Department of Agriculture, Mr. Campbell chose 125,000 acres on four Indian reservations in Montana.

Money for this activity was not forthcoming from Washington, and he is said to have convinced J. P. Morgan, after 2 hours' talk, that he should finance him to the extent of \$2,000,000. The result was the formation of the Montana Farming Corporation. It was backed by Messrs. Morgan, Stillman, Sisson, Sabin, Norton and perhaps others - all mentioned were on the board of directors. After the war, Mr. Campbell bought them out,

changed the name of the company to the Campbell Farming Corporation, re-leased 95,000 acres from the Government and let the other go. It is said that for 3 years he made money and that in 1930 he lost money for the first time.

In 1929, Mr. Campbell was appointed special adviser and consulting engineer to the Russian Government, to assist in formulating plans covering the operation of 10,000,000 acres in Russia. He made several trips to that country and is reported to have had much to do with the organization of the efforts put forth to farm large areas collectively, advising in the training of the personnel to operate the machinery and the plans for growing and harvesting a vast area of land. The Russian Government reputedly thought very well of Mr. Campbell's efforts, and it used him in its propaganda to put over its first 5-year plan. It is said he was offered 1,000,000 acres for his own use and profit if he would consent to stay in Russia and personally operate the farm as a sort of demonstration as to how it should be done. He apparently was very close to Stalin and discussed with him at length his plans for collective mechanical farming. By 1931, it is said that the Soviet State farms had grown to almost 15 million acres and the individual peasant farmer had been replaced on some 42,000,000 acres by "collectives." Mr. Campbell is reported as having brought to the United States millions of dollars of orders for farm machinery. His writings reflect a good deal of faith in the Soviet Government, and in 1931, concerning the situation that obtained at that time, he said:

"I don't advocate recognition of Russia by the government. I advocate trade with Russia. It's too big to be ignored. If you're afraid of Communism, well, I'll tell you this: I don't think Communism will last twelve years longer. They are changing already. General education will prove the end of Communism, I think. Why, there are already more distinctions of class among the Communists in Russia than there are among us democrats in the United States. When I go to Moscow I joke with them about that. I tell them that I am a farmer and that when I visit New York I eat with bankers. They don't understand that. A Russian farmer from the sticks would have a hell of a time trying to get in to see an official of one of the state banks in Moscow. I told them that when I was over there, and they admitted it."

Mr. Campbell apparently was on very intimate terms with Federal Farm Board officials, and excerpts from correspondence and newspaper clippings attached hereto reflect his thoughts on a number of policies. They will also show that Mr. Campbell has frequently been in print as an advocate of the AAA and the limitation of acreage.

Lewis Swift is said to be among those who backed Mr. Campbell in the 20's.

After the "Supreme Court decision" Mr. Campbell is said to have been very intimate with Mr. Wallace. Campbell has always been close to the Montana Congressional delegation, is friendly with Senator Hatch, close to Senators O'Connor and Murray. Probably not nearly so friendly with Senator Wheeler.

John J. Raskob and Mr. Campbell apparently had been in business together in one way or another since 1928; they together are supposed to own the Campbell Farms in Montana with Hardin as headquarters. In 1937, Raskob and Campbell were reported as planning to develop a 286,000-acre tract which they had acquired on the Rio Grande between La Joya and Belen at a cost of less than \$1 per acre, mostly tax sale land. Mr. Dodd, however, says Mr. Campbell recently told him that he and Raskob owned or controlled about 7,000 acres. It is not yet well stocked but water holes have been developed. Part of the area is now being rented for pasture. Most of the land is tax-title or distress land.

At one time or another in the last several years it appears that Mr. Campbell has had difficulty in financing his operations and the wheat market has not always been in his favor. Since the AAA put a bottom under the wheat market, it is believed that Mr. Campbell finds it much easier to finance himself. It is said that much of his financing is being done by a bank in Chicago, although this has not been checked.

It is said that at one time he was delinquent on the amount due the Department of Interior on Indian land rented from it. The sum given was \$60,000.

Mr. Campbell seems to have the ability to handle his help without trouble, and he is reported to pay good wages.

A letter from Henry J. and Charles Aaron, Chicago lawyers, to Stanley Reed, general counsel of the Federal Farm Board, inquires about the amount of the Government's lien on crops produced by the Campbell Farms on land leased from the Government, being an effort to ascertain if there would be any equity in the wheat for other creditors. The inquiry said: "We represent several banks who have a substantial claim against the Campbell Farming Corporation and Thomas D. Campbell individually, in the aggregate amount of \$100,000, and we have received information that a shipment of about 150 cars of wheat was made from the farm of the Campbell Farming Corporation with the bill of lading in the name of Mr. Hyde (secretary), consigned to the Government at Minneapolis."

Thomas D. Campbell - Excerpts

"I think the Federal Farm Board, under the leadership of Mr. Legge, will contribute more towards the solution of the farm problem than has been done for many years, although I feel that 75 percent of our farm problems could have been solved at any time during the last 7 years with our present laws."

Mr. Campbell was very friendly with Alex Legge and frequently telegraphed or wrote him his ideas concerning actions that the Board should take.

Mr. Campbell was also very friendly with Julius Barnes, and felt that the farmer did not understand him.

Although Mr. Campbell was friendly with the Board and its activities in general, he was more or less a public critic of it. For instance, in a full-page article in the New York Times for October 19, 1930, he said: "It has not been able to fulfill the expectations of its supporters and friends." During that year when there was a short corn crop, he advocated using wheat as a supplemental feed.

Frequently in his talks and writings he urged a better understanding between the farmer and the businessman. The burden of many of his speeches is to the effect that business is not unfriendly to agriculture.

He applauded the action of the Federal Farm Board and the Secretary of Agriculture in regulating the grain futures market, and, judging from telegrams sent to the Board, he personally was interested in seeing higher prices for wheat.

He told Alex Legge that he should get the right man to head the \$20,000,000 Grain Marketing Corporation and that he should be authorized to pay somebody \$100,000 a year in salary, if necessary.

"There are but two types of successful farming in the United States today: namely, the small farm on which the farmer and his family do all the work and there is no payroll; and the large farm operated on an industrial basis with economical units, skilled workmen, high wages, and scientific business management."

"Less than 20 percent of our population will be on farms in another 20 years."

At times the Farm Board apparently urged Mr. Campbell to give publicity to certain of his ideas pertaining to the markets.

Mr. Campbell was pleased to see James C. Stone appointed to succeed Mr. Legge.

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Mr. Campbell advocated in print and to Mr. Legge and Secretary Hyde that regulations of boards of trade should be changed so that short sellers would be required to deliver merchantable or a milling quality of grain on future contract, or else be penalized the same way the farmer is for failure to do so. He said, "All daily elevator cards are based on the price of the nearest future, which is always 10 cents to 30 cents less than the cash price. In other words, the farmer sells on a future and delivers on a cash basis. This also can be corrected with our present laws and regulations."

On August 28, 1930, Mr. Campbell wrote to Mr. Legge, "All the farmer needs to be prosperous is to be given the same advantage of the tariff which industry enjoys and which labor enjoyed through restricted immigration. It is evident that the farmer must reduce his production in order to get advantage of our tariff, but such reduction will be of no use if we still permit a rebate of 40 cents a bushel on Canadian wheat milled in bond. On the other hand, there is no reason why the farmer should not have tariff protection on our domestic consumption and sell his surplus at any price - the same as other industries do."

In his public writings Mr. Campbell frequently advocated a flexible tariff.

He was a frequent advocate of placing a tax on foreign Governments' activities in hedging grain in this country. At one time or another he discussed the subject with President Coolidge, Secretary Jardine and President Hoover. This subject was brought to the front when Russia was short selling large quantities of wheat on the Chicago market.

Mr. Campbell was one of the early advocates of McNary-Haugenism. In 1928, he advocated development of waterways, suggesting shipment of grain from the Northwest to New Orleans for distribution East or West - East to Europe, or West through the Panama Canal.

He said agriculture should be represented on all national boards, especially farm loan banks, intermediate credit banks, and interstate commerce commissions. "Industry, which represents one-third of our total railway tonnage, surely has a right to representation, but he must not be a farmer who fails to appreciate service."

In August 1929, Mr. Campbell wrote Mr. Legge urging the Board to hold wheat off the market and directed him to look for storage facilities. He indicated that the borrowers controlled the storage facilities and advocated the establishment of a cooperative marketing organization to be nurtured by the Federal Farm Board. The Board apparently believed there was plenty of public warehouse space. In a succeeding letter Mr. Campbell says: "I have supported the Administration. I have been friendly to the Board of Trade, I favor big business and I know that

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I have contributed something towards the election of the Republican party last fall. No party, however, can flagrantly violate its promises to the people and completely ignore a situation when it has the authority and the resources to act."

On August 7, 1929, Mr. Campbell, writing to Chairman Legge, said: "Well informed men, including such experts as Mr. Catten, feel positive wheat will go to \$2 in Chicago before Christmas. Nevertheless, my bankers sold 16 cars of the finest wheat ever shipped into Minneapolis during the panic yesterday at a price to net us \$1.02. This is the experience of 85 percent of all farmers in the United States, and is an intolerably reprehensible condition, as some provision whereby the farmers could hold their grain would eliminate it."

A letter from Mr. Campbell to President Hoover in June 1928 congratulated him on the appointment of Mr. Legge. He also said: "Your attitude on the Farm Bill from the beginning has been in strict accordance with your previous statements, and every farmer should be grateful for the fact that you had the strength and courage to oppose the debenture plan."

In 1932, Mr. Campbell advocated invoking the flexible provision of the tariff act to raise the duty on jute and sisal so as to increase the domestic price and stimulate the use of cotton as a substitute.

In a signed article in the Washington Star in 1933, Mr. Campbell advocated fixed prices for grain and other raw products, provided they were fixed high enough to enable the average producer to make a profit. He advocated the use of the processing tax to adjust the price on domestic agricultural products to a higher level than such products would command abroad. He predicted the new Agricultural Adjustment Act would do more for agriculture than any other legislation.

Clippings indicate that Mr. Campbell frequently backed up in print the activities of the AAA. For many years prior to 1933, he advocated acreage reduction. At one time he harvested as many as 45,000 acres of wheat, and under the AAA allotment it was 22,500 acres. The heavy cut was supposed to be caused for the reason that the acreage allotment was based on acreage for 3 years preceding the introduction of the processing tax - years in which he "public spiritedly" and "voluntarily" cut his own acreage so he could be practicing what he preached.

Newspapers in several instances tried to make it appear that Mr. Campbell had benefited unduly from the AAA Act, because he leased a large acreage of wheat land from the Indians, paying them from 75 cents to \$1.50 per acre although he collected a large payment. Mr. N. E. Dodd, Western Administrator of the AAA, feels that the figures quoted are inaccurate and do not reflect the situation. In other words, Mr. Campbell is said not to have gotten any

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undue advantage as the result of his leasing of Indian land. In April 1936, Secretary Ickles pointed to Mr. Campbell as a sharecropper who paid the Indians only 15 percent of his earnings on their land.

It is said that Mr. Campbell advocated a small payment to the small farmer, perhaps as provided in the AAA, but maintained that acreage allotment is fundamental in any plan for handling the wheat situation.

Writing in The Magazine of Business in June 1928, Mr. Campbell said:

"The relationship of government to farming is very important. Many plans and suggestions have been offered to Congress, many ideas proposed, all of which have been rejected, much to the disappointment of the farmer. He feels that all other industries, as well as labor, have been rather well provided for by our tariff and restricted immigration. Banking and financial interests have been well stabilized through our Federal Reserve System, created by the Federal Reserve Act, and by the McFadden Banking Act. The necessity of a fair return for transportation has been recognized by the Transportation Act of 1920 which works through the Interstate Commerce Commission. Industry has been well safeguarded by our unprecedented tariff, and labor enjoys many advantages through restricted immigration. Public utility corporations are allowed a fair return on their investment."

* * * * *

"If the tariff is lowered, the manufacturer and the laborer will suffer. If railway rates be lowered, wages will be reduced and service impaired. If the Federal Reserve System and the McFadden Banking Act be repealed, credit will suffer and panic will stare us in the face. Business confidence will disappear and industrial depression will follow. If cooperative marketing is advocated or government control and price-fixing suggested, all commission merchants and city organizations will loudly protest and the cry of special privilege will be raised. If the farmers endeavor to help themselves, or demand the same advantages as other industry enjoys, their efforts are - in certain quarters, at least - decried as socialism, unsound paternalism, or radicalism.

"All of these questions are debatable and I am not advocating or denying them. It does seem, however, that several things can be accomplished with our present laws and regulations which will solve many of the farmer's problems without the need for any new legislation or the appropriation of large funds from the national treasury.

"We have farmed for many years and know that the following suggestions will greatly relieve the present condition.

"Give the farmer the same protection through our tariff as other industries enjoy, and the advantages which labor has through restricted immigration. I feel that it would be a serious mistake to reduce our tariff on manufactured goods or to reduce wages, but

it is only fair, as long as the farmer pays his share of this industrial and labor protection, that our flexible tariff be adjusted to give him similar advantage on his products.

"For instance: We have a tariff of 42 cents a bushel on wheat - certainly high enough for anyone - but most wheat imported is milled in bond and 40 cents a bushel is rebated. That is one reason why inland flour mills have so much difficulty in succeeding in making money.

"Economists, free traders, manufacturers, and bankers interested in these mills, all say that this grain would all go to Europe from Canadian mills if we did not grind it, and as a result a reduction in rebate would make no difference. This would be true if we produced enough hard spring wheat, high in protein, similar to what we import from Canada; but we do not. A reduction of this rebate would have the effect of increasing the prices of our Dark Hard Northern spring wheat. And it is the first law of merchandising that if the better goods are increased in price, the other grades will increase accordingly or in proper proportion."

Mr. Campbell says of himself in Who's Who for 1940:

"* * * Mem. Am. Soc. M.E., Am. Soc. Agrl. Engrs., Am. Assn. Engrs., Soc. Am. Mil. Engrs., Am. Inst. of Consulting Engrs., Delta Tau Delta. Republican. Presbyn. Mason (Shrine). Clubs: University (Los Angeles); Twilight, Valley Hunt (Pasadena); Union League (Chicago); Racquet (Washington). Author: Russia, Market or Menace. Inventor of Campbell Grain Dryer; developer of Campbell windrow method of harvesting and threshing grain and furrow dammers on grain drills for conserving moisture. Home: Hardin, Mont., and Pasadena, Calif."

Who's Who frequently reprints statements year after year without referring them to the people involved. This report lists Mr. Campbell as a Republican. People who are very close to him say he has supported the present Administration consistently since 1933.

(Reprinted from *Mechanical Engineering* for October, 1928)

The American Farm Problem

The Present Unsatisfactory Economic Status of the American Farmer, and How It May Be Improved Through Tariff Adjustments, the Development of Inland Waterways, Better Grain Grading, and the Application of Engineering and Industrial Methods to Agriculture

By THOMAS D. CAMPBELL,¹ HARDIN, MONT.

THE condition of agriculture is the greatest economic problem before our country today. All other industries have had unprecedented prosperity and all employees have had unparalleled pay checks. Industry has been buying from itself for the past five years until its workers have hypothecated their

wages and pay checks for fifteen to thirty months, chiefly by installment buying, to the extent of five to six billion dollars per year. Meanwhile the purchasing power of the farmer has diminished nine billion dollars in eight years. The workers in industry, particularly their wives, are beginning to realize that they have assumed large future commitments and are curtailing their purchases. It is easy to see how a great industrial depression could soon develop if payrolls were reduced or eliminated. Vacuum cleaners, radio outfits, electric washers, automobiles, and many other necessities would be returned to the manufacturer because the monthly installments could not be met.

Business men, manufacturers, and other thinkers realize this condition and know that it is very necessary that the farmer become a purchaser again if we are going to maintain our national prosperity. It is a recognized fact that we cannot have continuous national prosperity without agricultural success.

There has always been a farm problem. The Pharaohs had it when they were building their pyramids in the valley of the Nile. The Greeks had it, the Carthaginians had it, and there was no more serious time in all of Roman history than when the farmers revolted after the second Macedonian war. The land question then was what the wage question is now to our more complex industrial society. The rift between the rich and the poor went on widening. Cheap grain was shipped in from other provinces and undersold the Italian farmer. The small farmer had no escape; formerly the mainstay of Italian society

in peace and war alike, he drifted from the soil to form a degenerate town rabble, which listened to agitators and unscrupulous politicians who told him that the government owed him a living. Conditions became so serious that about the time of Augustus Caesar the Roman Government, seeking to appease the people, put an established price on grain, but history tells us that this did not solve the problem.

The Russian revolution was made possible because of the desire of the Russian peasants to own their land.

England has always had her agrarian discontent, and now we have it as the biggest and most important economic problem in our country today.

There were many good and sufficient causes for the Non-Partisan League in North Dakota. It is impossible to stampede 600,000 people into a revolt against conditions in three months, as the election of 1917 in North Dakota showed, without some injustice back of it all. It takes years of wrong or unfair practices, either fancied or otherwise, to move people into such a political revolt, and the fear now is that we may have a national Non-Partisan League if our business men and our statesmen do not give their time and attention to our own agricultural problem, for no one will

THE engineer, particularly the mechanical and construction type of engineer, is going to be a big factor in the solution of the agricultural problem. He is going to do for agriculture what he has done for industry. Industry long ago accepted the advice and reports of the engineer, and recently has not only accepted his advice but has adopted him. Twenty-five years ago, when many of us were being graduated from college, the engineer was consulted and sometimes called in at directors' meetings—to be dismissed immediately afterward. Now he is invariably a member of the Board—very often the vice-president, as well as chief engineer, and there are many instances in which the chief engineer has become the president or general manager. Business men and the owners of capital are beginning to realize that the modern engineer is a good executive as well as a technically trained man.

Farming will soon be recognized as a dignified business. People will give it the classification to which it belongs, and it will attract the smart, ambitious young man. The biggest industrial opportunity in the United States today is in agriculture, and the broadest field for the technical man is in agricultural engineering.

deny that we have such a problem.

It is not an easy problem to solve, as it involves our entire national life, economic and social. It has many aspects, and no one suggestion will cure. The average tenant or farmer has little hope or enthusiasm. His children leave the farms as soon as they are educated or feel their obligations to their parents have been fulfilled. No woman in any other industry puts in as many hours of toil as the farmer's wife.

Few realize the magnitude of the agricultural industry and its relationship to all business. Farming as an industry is greater than all our other industries combined, and over fifty per cent of our export business consists of products manufactured from raw farm products. How important a factor this it will be seen

¹ President, Campbell Farming Corporation. Mem. A.S.M.E. Address delivered at banquet, A.S.M.E. Summer Meeting, St. Paul-Minneapolis, August 27 to 30, 1928.

very low cost. I do not favor a reduction of railway rates as the item of service is a great part of the cost, and in order to get this service, rates must be in accordance. There can be, however, an adjustment of rates without any resultant reduction to the transportation companies. For instance, any one knows that the movement of a car of cattle two thousand miles to market is more hazardous and expensive than that of a car of wheat, and the value at present prices is five times as much. Still it costs twice as much to get a car of wheat to market as it does a car of livestock.

Railway companies have always been friendly to agriculture. It is to their best interest to be so. Our transportation facilities are now overtaxed and will continue to be. The one great relief for this congestion without discrimination against any railway line will be the development of our inland waterways. All big railway systems in the United States either cross the Mississippi and Missouri or reach them. Grain and other commodities from the Northwest can be delivered at New Orleans for distribution east or west—east to Europe or west through the Panama Canal. Such an improvement would at the same time solve to a great extent our flood problem, and the entire Northwest would profit by it. Grain is transported in Canada for approximately one-half what it costs the farmer in the United States for the same distance. Sometimes you hear the remark that the railways in Canada are government-owned and that is why it is possible, but the Canadian Pacific is not government-owned. It transports the greatest bulk of Canadian wheat, and its earnings are comparable to those of any railway in the United States.

BOARDS OF TRADE AND GRAIN GRADING

Many farmers are of the opinion that boards of trade are unfriendly toward them and try to depress the price. This is not so, but there are of course members of boards of trade who manufacture a finished product from the raw farm product, and they very naturally buy that commodity as cheaply as they can and oppose any legislation which will increase the price. They are, however, a very small percentage of the membership.

The established rate for selling grain on the boards of trade is very low, about 1 1/4 cents per bushel, and is the cheapest part in a farmer's operation. Most commission houses will get for the seller in better grades, reinspection, better markets, and better prices a sum equal to several times the selling cost.

Practically all grain purchased by line elevator companies, terminal elevators, and millers is "hedged." This means that a bushel is sold short on the market for every bushel purchased. Bankers require this in order to keep the account balanced. A part of this hedging is done during the time the farmer is marketing his grain, and often when the speculator is selling short. The farmer is selling also, so we have practically the sale of four bushels of grain for every one produced, not including speculation. A great portion of Canada's crop is purchased in Canada, delivered to England and Europe, and sold short in the United States. There is no duty on short sales, and we have to absorb all of this European hedging pressure each year without any duty protection. This is a subject which is worthy of considerable thought.

The Government should establish grades representing the highest grade, and buyers should not be permitted to trade in grades having more value. To illustrate: All terminal buyers in the Northwest trade in four grades—namely, choice, extra choice, fancy, extra fancy—higher than Dark Northern Spring, the highest grade recognized by the Department of Agriculture and the highest grade which can be put on a storage ticket. These four grades vary in value from five to thirty cents more than Dark Northern Spring. This causes a loss to all farmers

in the spring-wheat area estimated at an average of 15 cents a bushel if they sell in less than our lots, and most wheat is sold in less than car lots. The farmer will take a storage ticket for his wheat. It may be extra fancy. The ticket by law cannot read better than Dark Northern Spring. The next day, next week, or next month the farmer sells his wheat and presents his ticket. He is paid the card price for Dark Northern Spring, while his wheat may be worth 35 cents more. This can be changed very easily and should be done, as the use of higher grades is only a subterfuge to buy cheaper.

Some attention should be paid to the regulation discounts, etc., which apply to grain which can be delivered on future contracts, as the future price determines the daily price card, governing the purchase of all grains. This grading of grain alone will go a long way toward solving the spring-wheat grower's problem.

FARM REPRESENTATION

Agriculture should be represented on all national boards, especially farm loan banks, intermediate credit banks, and interstate commerce commissions. An industry which represents one-third of our total railway tonnage surely has a right to representation, but he must not be a farmer who fails to appreciate service. Moving the major portion of a crop of approximately 800,000,000 bushels of wheat each year, together with our other farm products, in approximately three months, requires an investment in cars, motive power, and organizations scarcely realized by most people.

INDUSTRIALIZATION

The foregoing suggestions are all big factors in the solution of the present farm problem, but more effective and positive still will be the application of engineering and industrial methods. There are but two types of successful farming in the United States today under present economic conditions: namely, the small farm on which the farmer and his family do all the work and there is no payroll; and the large farm operated on an industrial basis with economical units, skilled workmen, high wages, and scientific business management. All other industry has increased its output per man many times. The economical unit is well established. What chance has the farm to engage skilled men when they can earn several times as much in the city? What inducement is there for the farmer boy with brains to remain on the land when he can be more prosperous in the city and where capital will finance his ideas? The farmer is like every other manufacturer who has foreign competition or a surplus. He must either reduce his costs, get tariff protection, or limit his production. We have too many people on the land now. Less than 20 per cent of our population will be on the farms in another twenty years. This farm population will drift to the city to meet our ever-growing industrial demands.

The farmer is trying to compete in an unorganized way with the thoroughly trained and organized purchasers of his products. He needs the support of the business man and the Government until he can better organize his production and marketing. He is not entitled to any special privilege nor extra consideration, but the same recognition, the same protection, and the same advantages that other industries enjoy through our national laws and regulations will give him unprecedented prosperity.

The engineer, particularly the mechanical and construction type of engineer, is going to be a big factor in the solution of the agricultural problem. He is going to do for agriculture what he has done for industry. Industry long ago accepted the advice and reports of the engineer, and recently has not only accepted his advice but has adopted him. Twenty-five years ago, when many of us were being graduated from college, the engineer was consulted and sometimes called in at directors' meetings—to be

dismissed immediately afterward. Now he is invariably a member of the board—very often the vice-president, as well as chief engineer, and there are many instances in which the chief engineer has become the president or general manager. Business men and the owners of capital are beginning to realize that the modern engineer is a good executive as well as a technically trained man.

Farming will soon be recognized as a dignified business. People will give it the classification to which it belongs, and it will attract the smart, ambitious young men. The biggest industrial opportunity in the United States today is in agriculture, and the broadest field for the technical man is in agricultural engineering.

Operating a 95,000-Acre Wheat Farm

Thomas D. Campbell, of Montana, Employing Engineering Methods and Ingenious Combinations of Power-Driven Machines on a Tremendous Scale, Operates With Skilled Men on an Industrial Basis



FIG. 1. MAP SHOWING LOCATION AND ARRANGEMENT OF THE 95,000 ACRES OF THE CAMPBELL FARMING CORPORATION

"THE great industrial opportunity today is in agriculture." Thomas D. Campbell has proved the truth of this historic statement on the 95,000 acres of the Campbell Farming Corporation. By the intensive use of modern machinery, operated by thoroughly organized, highly skilled, and well-paid men, he has shown that producing wheat and hay at a profit does not depend on receiving the highest prices in a fluctuating market for these commodities. His operation is conducted on the same basis as that of any other great industry. He has used engineering skill and judgment to build his own farming industry, and he looks to engineering and industrial principles to play a large part in the solution of the American agricultural problem.

As the son of a farmer, Campbell's young dreams were of reducing the drudgery of farm work and of bringing vast acreages to fruitful harvest by the employment of great units of mechanical power. He therefore studied mechanical engineering, later being graduated from the University of North Dakota and then taking post-graduate work at Cornell. His vision of machinery in large-scale farming was realized during the war when he was drafted to grow wheat for the allied armies on 7000 acres of the Crow Indian Reservation in southern Montana. He was successful in this venture, and after the war organized the Campbell Farming Corporation which operates 95,000 acres near the scene of his first success.



FIG. 2. FIFTEEN TRACTORS DRAWING 80 DISK PLOWS



Fig. 3



Fig. 4



Fig. 5



Fig. 6

FIGS. 2-6. HARVESTING METHODS NOW BECOMING USUAL
(Fig. 2, Reaping; Fig. 4, Stacked Wheat; Fig. 3, Threshing; Fig. 6, The Threshing Crew.)

ager for the economical operation of his unit. His daily report, reproduced in Fig. 13, brings out all the important facts regarding his day's work. Each farm has its own quota of men, machinery, spare parts, and repair trucks for emergency repairs, and is camped and provisioned as a unit. The field operations of plowing, seeding, etc. are under the supervision of separate foremen who report to the farm manager.

HAULING GRAIN FROM THE FIELD

On a 95,000-acre farm, the hauling of the grain from the field to the shipping point offers an excellent opportunity for engineering analysis. The wagon train shown in Fig. 14 cut the cost from one cent per bushel per mile to one-quarter cent per bushel per mile. With it two men transport 2400 bushels weighing 72 tons at a speed of three miles per hour. A further cut to one-eighth cent is expected from a new scheme using a heavy truck

with four rear driving wheels which will draw two trailers and handle 1000 bushels or 30 tons at from ten to twelve miles per hour.

Does It Pay?

Does large-scale farming pay? Many farmers not familiar with machinery are skeptical. However, here are some interesting figures. With an investment in machinery of \$10 per acre in crop, the labor cost per acre for plowing is 27 cents; for seeding, 7 cents; and for harvesting and threshing, 40 cents. The total operating costs for this farm per year, including labor, operating expense, and overhead, will average about \$8 per acre. The average yield for wheat in dry farming of this kind may be about 12.5 bushels per acre and for flax about 7 bushels. A simple computation inserting the prices paid for wheat and flax at the elevator tells the story.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 28, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£91,000
Purchased from commercial concerns	£14,000

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

Sold to commercial concerns	£15,000
Purchased from commercial concerns	£10,000

The Swiss franc-dollar exchange situation was further clarified by a cable which the Federal Reserve Bank of New York received from the Swiss National Bank today. The latter stated that it was buying free dollars from sellers domiciled in Switzerland at a fixed rate equivalent to .2320-3/16 per Swiss franc, and buying free dollars from abroad at the same rate if the Swiss franc equivalent was used for commercial payments in Switzerland. On the basis of quotations received from Swiss commercial banks this morning, New York banks continued to offer Swiss francs for strictly commercial use at .2327, unchanged from last night's final quotation. This rate prevailed until late afternoon; the closing quotation was .2376.

We understand that there is also a market in New York for Swiss francs against a non-commercial demand, wherein very small transactions have been consummated in the neighborhood of .2370. Dealings in this category apparently involve the transfer of ownership of Swiss franc balances between non-Swiss interests. The fact that New York banks held less than \$100,000 worth of available Swiss franc balances on January 23 suggests that non-commercial trading in Swiss francs will not reach sizable proportions.

Closing quotations for the other currencies were:

Canadian dollar	17-1/4% discount
Swedish krona	.2387
Reichsmark	.4005
Lira	.0505
Portuguese escudo	.0401-1/2
Argentine peso (free)	.2375
Brasilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	7-3/4% discount
Chinese yuan	.05-9/16

We sold \$23,500,000 in gold to the National Bank of Switzerland, which was added to its carmarked account.

No new gold engagements were reported.

The Bombay gold price again declined 2¢ to the equivalent of \$33.98. Silver was priced at the equivalent of 44.81¢, up 1/16¢.

The prices fixed in London for spot and forward silver both declined 1/16d, to 23-1/4d and 23-3/16d respectively. The dollar equivalents were 42.21¢ and 42.10¢.

Hendy and Herman'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 three purchases of silver totaling 400,000 ounces under the Silver Purchase Act. Of this amount, 250,000 ounces represented a sale from inventory and the remaining 150,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 75,000 ounces from the Bank of Canada under our regular monthly agreement. So far this month, we have bought 475,000 ounces from that source, as compared with the agreed monthly limit of 1,200,000 ounces.

The report of January 22 received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$8,282,000, a decrease of \$594,000 in the short position. Net changes were as follows:

Country	Short Position January 15	Short Position January 22	Change in Short Position*
England**	\$ 322,000	\$ 53,000	- \$269,000
Europe	3,397,000	3,291,000	- 106,000
Canada	409,000 (Long)	563,000 (Long)	- 154,000
Latin America	234,000	243,000	+ 9,000
Japan	4,281,000	4,339,000	+ 58,000
Other Asia	1,061,000	922,000	- 139,000
All others	10,000 (Long)	3,000 (Long)	+ 7,000
	<u>\$8,876,000</u>	<u>\$8,282,000</u>	<u>- \$594,000</u>

*Plus sign (+) indicates increase in short position, or decrease in long position.
Minus sign (-) indicates decrease in short position, or increase in long position.

**Combined position in registered and open market sterling.


CONFIDENTIAL

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE January 28, 1941

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: Current Developments in the High-grade Security Markets

- (1) The prices of Treasury bonds are now below their levels at the bottom of the break which occurred during the first week of January. Notes are slightly above their lows of that time (Charts I and II).
- (2) At the close on the first day of trading, the new Defense note was quoted "when-issued" at 100-3/32 bid. This is the lowest price on the first day of trading on a new Treasury issue since September 1937. The new note is out of line with the market (Chart III). The explanation for this does not appear to lie either in the note's taxable status or in the possible impairment of its "rights value", but rather in the extreme thinness of the market since the beginning of the year.
- (3) Weekly reporting member banks continue to absorb the whole increase in the privately held marketable supply of Government securities. Since the end of September 1940 the privately held marketable supply has increased by about \$900 millions, more than one-fourth of which reflects sales by the Federal Reserve Banks. During the same period, holdings of weekly reporting banks increased by about \$950 millions (Chart IV). Thus weekly reporting banks have absorbed all the newly issued Governments plus those sold by the Reserve Banks.
- (4) High-grade corporate bonds have suffered only a small net price decline since the first of the year. Municipals have declined more markedly. The market for new issues has been quite thin since the beginning of 1941.

Secretary Morgenthau - 2

I. United States Government Securities

The sharp decline in the prices of Treasury securities, following the official indication given after the close of the market on December 30 that the Federal Reserve System would presently issue an important statement, was followed by a moderate recovery lasting from January 9 through January 13. Since then prices of Treasury bonds have drifted generally downward. Treasury notes, on the other hand, are slightly above their low prices of January 8. The price swings since December 30 are shown, by maturity classes, in Chart I and in the following table:

	Average price change		
	December 30: - January 8:	January 8 - 13	January 13 - 27
	(Decimals are thirty-seconds)		
<u>Notes</u>			
1 to 3 years	- .06	+.02	.00
3 to 5 years	- .13	+.05	-.04
<u>Bonds</u>			
5 to 15 years to call	-1.15	+.14	-.15
15 years and over to call	-2.04	+.19	-.30

The average yield of long-term Treasury bonds, which moves inversely to prices, has increased 16 basis points on balance from its record low level of 1.86 percent on December 30 (Chart II).

II. The New Defense Note

At the close last Friday, the first day of trading, the bid price of the new 3/4 percent Defense note was 100-3/32 on a "when-issued" basis. This is the lowest price on a new Treasury issue on the first day of trading since September 1937, when each of the two issues of a two-way note offering closed their first day of trading at the same price. The

Secretary Morgenthau - 3

price on the new Defense note was equivalent to a yield of .72 percent. Since Friday the price of the new note has risen only $1/32$.

It is difficult to discover an explanation for this behavior of the new note. It may be seen from Chart III, which shows the yields of all outstanding Treasury notes selling on a positive yield basis, that the new note is considerably out of line with outstanding notes, even after allowance for differences in tax-exemption status. The spread between the taxable Defense note and the tax-exempt Treasury note due the same date is 28 basis points. This is more than twice as large as the spread between the yield of the Defense note issued in December and the estimated yield basis of a tax-exempt note of the same maturity, as indicated by the curve on the chart. It is also half again as great as the whole amount of the normal tax rate to which the interest on the notes would be subjected if held by taxable corporations. (The 24 percent corporation tax rate applied to a $3/4$ percent coupon amounts to 18 basis points.)*

It does not seem likely that the value attached to the tax-exemption privilege exceeds the normal corporation tax rate or that it increases with shorter maturities. Banks are the chief purchasers of short-term securities. They are now, for the most part, not in a taxable position. (In 1938, the latest year for which figures are available, \$50 billions of total assets were held by banks which paid no normal corporation income tax, as compared with \$20 billions of total assets held by banks which did.) If banks not now in a taxable position were to buy tax-exempt securities against a possible future need for tax exemption, they would be more likely to seek relatively long issues for this purpose, for their tax status is more uncertain in the more distant future than in the near future.

* The "tax-equivalent" yield of the tax-exempt 1 percent Treasury note due on September 15, 1944 is .68 percent, or only 4 basis points less than the full yield of the new taxable issue due on the same date. Logically, of course, this comparison is irrelevant, since it is based upon a tax (that upon the 1 percent coupon of the tax-exempt note) which is in fact never paid, rather than upon the tax (that on the $3/4$ percent coupon on the taxable note) which might be paid, but it may well be that it has, nevertheless, influenced many purchasers in their evaluation of the new note.

Secretary Morgenthau - 4

Although it is not known at this time whether Defense notes will carry exchange "rights" at maturity, H. R. 2653 introduced last Friday would place them on a parity with all other Treasury notes in this respect. Thus it hardly seems likely that the low price of the new issue reflects impaired "rights value" to any material extent.

The probability is that the erratic behavior of the new note is not due primarily either to its taxability or to its impaired "rights" value, but is merely a reflection of the extreme thinness of the market which has prevailed since the Federal Reserve statement. This statement, by raising anticipations of an entirely new level of prices and yields, appears to have given the market a "shock" which makes the quoted prices of the outstanding issues unreliable as a guide to the prices at which new securities can be placed. It is probable, therefore, that the new issue would have caused a like "break through" of the existing price and yield structure whatever had been its maturity or tax characteristics.

III. Bank Holdings of Government Securities

The trend of weekly reporting member bank holdings of Government securities -- which has enabled that group of banks for some time past to account for the whole increase in the privately held marketable supply -- is still continuing. Since the end of September 1940 the privately held marketable supply of Government securities has increased by about \$900 millions. During the same period Government security holdings of weekly reporting member banks have increased by about \$950 millions (Chart IV).

This increase is particularly interesting in that sales of Governments by the Federal Reserve Open Market Account were responsible for more than one-fourth of the increase in the privately held marketable supply. Thus weekly reporting banks absorbed not only the whole amount of new issues but all of the securities sold by the Federal Reserve Banks.

Chart IV also indicates the extent to which new issues have found their way into the hands of banks in leading cities. Thus the sharp drop of the note curve and the sharp rise in

Secretary Morgenthau - 5

the bond curve early in October reflect the refunding of the December notes into 13-15 year bonds. It will be seen that the bonds were acquired in the first instance principally by banks outside of New York City; but that these banks have since sold bonds on balance, while New York banks have steadily gained in bond holdings since the end of October.

Similarly it may be seen that New York banks continued to add to their Treasury note holdings after the initial increase due to the issuance of the Defense note in December. Banks outside New York City, on the other hand, show a slight decline in note holdings since the December financing.

The sharp drop in total Government holdings of all weekly reporting banks at the end of 1940 is due almost entirely to a decline in Treasury bill holdings, and probably represents acquisition of bills by individuals and non-financial corporations in States where intangible personal property is assessed as of December 31 or January 1.

IV. Other Domestic High-grade Securities

High-grade corporate bond prices show only a small net decline from their level at the end of December (Chart II). Municipals have lost considerably more ground than corporates since the beginning of the year. The Dow-Jones average yield of twenty 20-year municipal bonds, moving inversely to prices, has increased 16 basis points from its record low of 2.09 percent on December 28.

Although new bond offerings to the public in the New York market have averaged about \$65 millions a week for the past four weeks, the market does not appear to be as receptive to new issues as it was two or three months ago. Several new issues are reported to have moved slowly. Among these were a \$46 millions offering of 2-3/4 percent, 40-year bonds of the Illinois Bell Telephone Company (rated Aaa by Moody's) offered to yield 2.61 percent to maturity, and a \$28 millions offering of 3-1/4 percent 20-year bonds of the Jones and Laughlin Steel Corporation (rated Baa) offered at par. Both of these issues sold off about 2 points with the removal of price restrictions by the respective syndicates. At the end of last week 14 out of 24 recent corporate issues listed in the Wall Street Journal were quoted below their offering prices.

Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES
 Points Plotted Represent the Difference from April 6, 1940 Price of Each Maturity Class

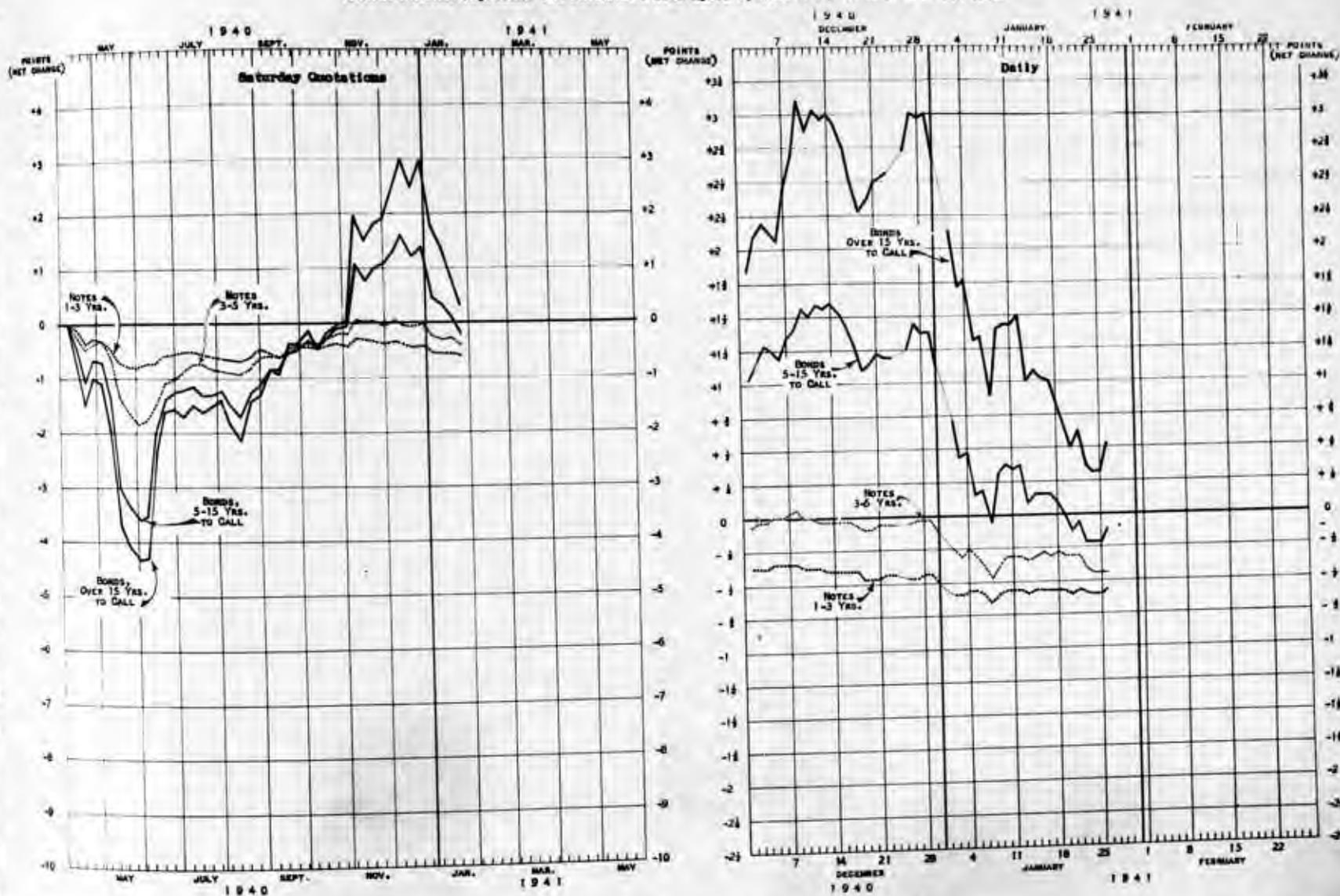
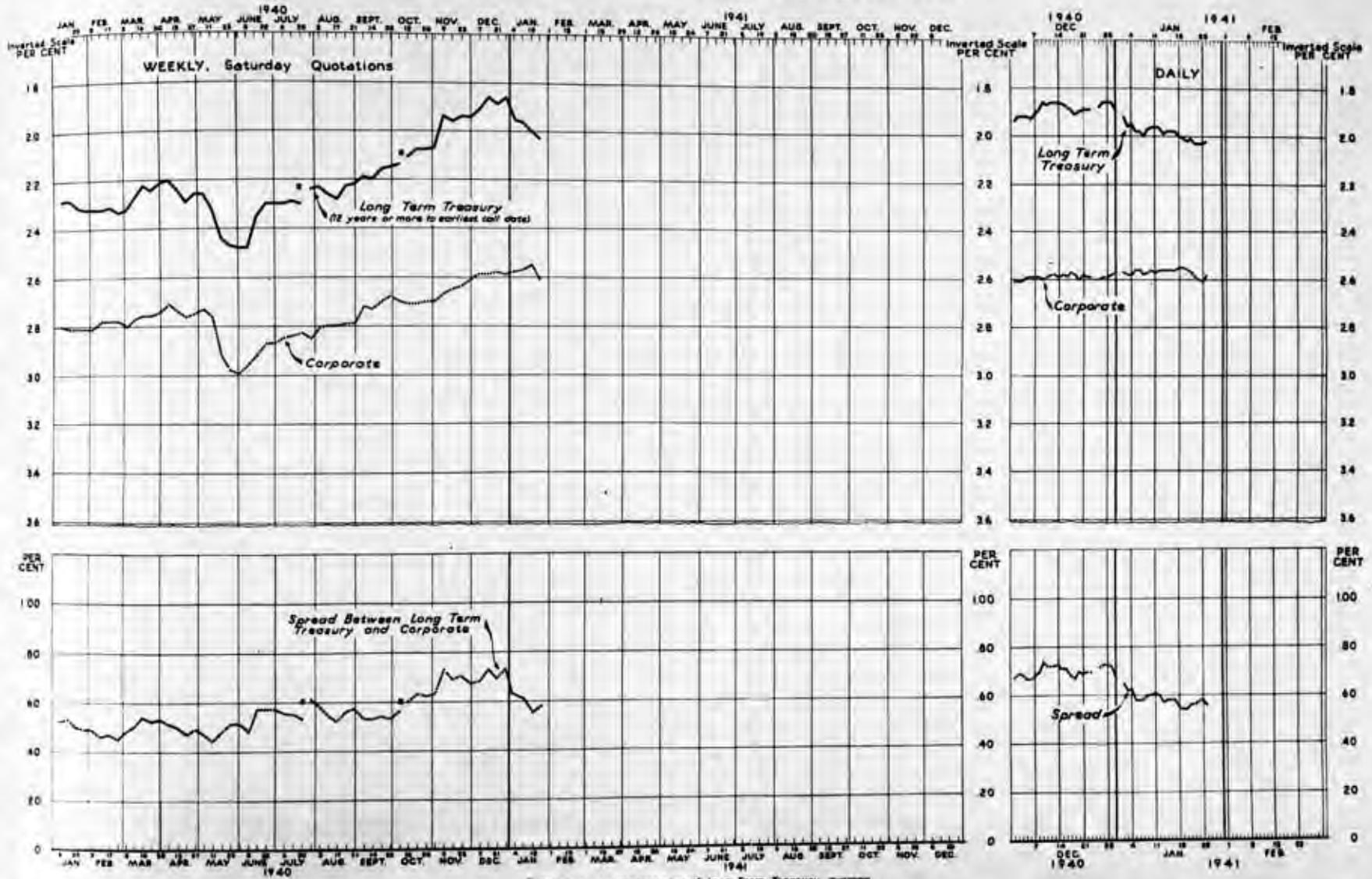


Chart II
 COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY
 AND AVERAGE OF HIGH GRADE CORPORATE BONDS



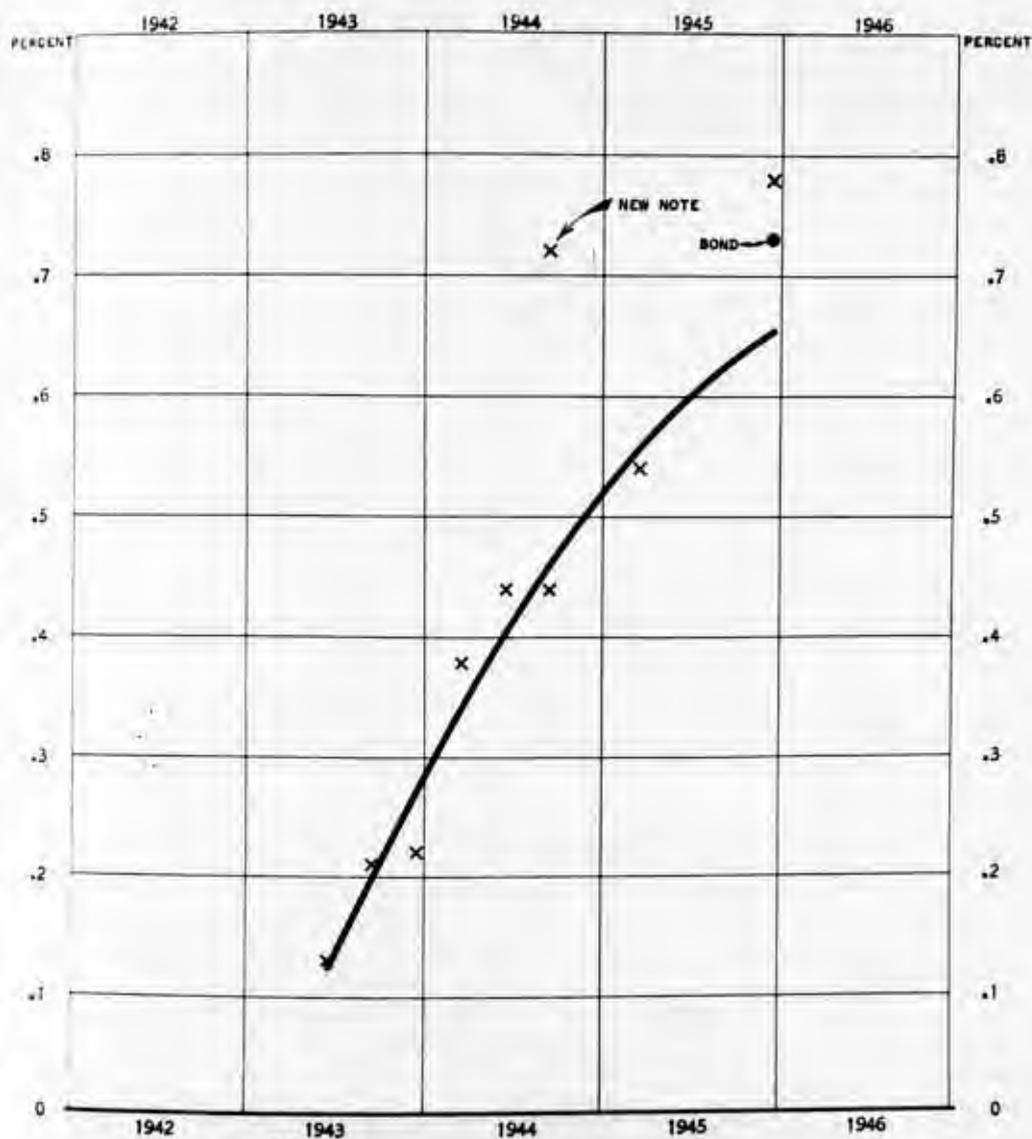
* Change in composition of Long Term Treasury average

Office of the Secretary of the Treasury
 Bureau of Economic Warfare

Chart III

**YIELD OF TREASURY NOTES AND
2½% TREASURY BOND OF DEC. 15, 1945**

Based on Closing Bid Prices, Jan. 27, 1946



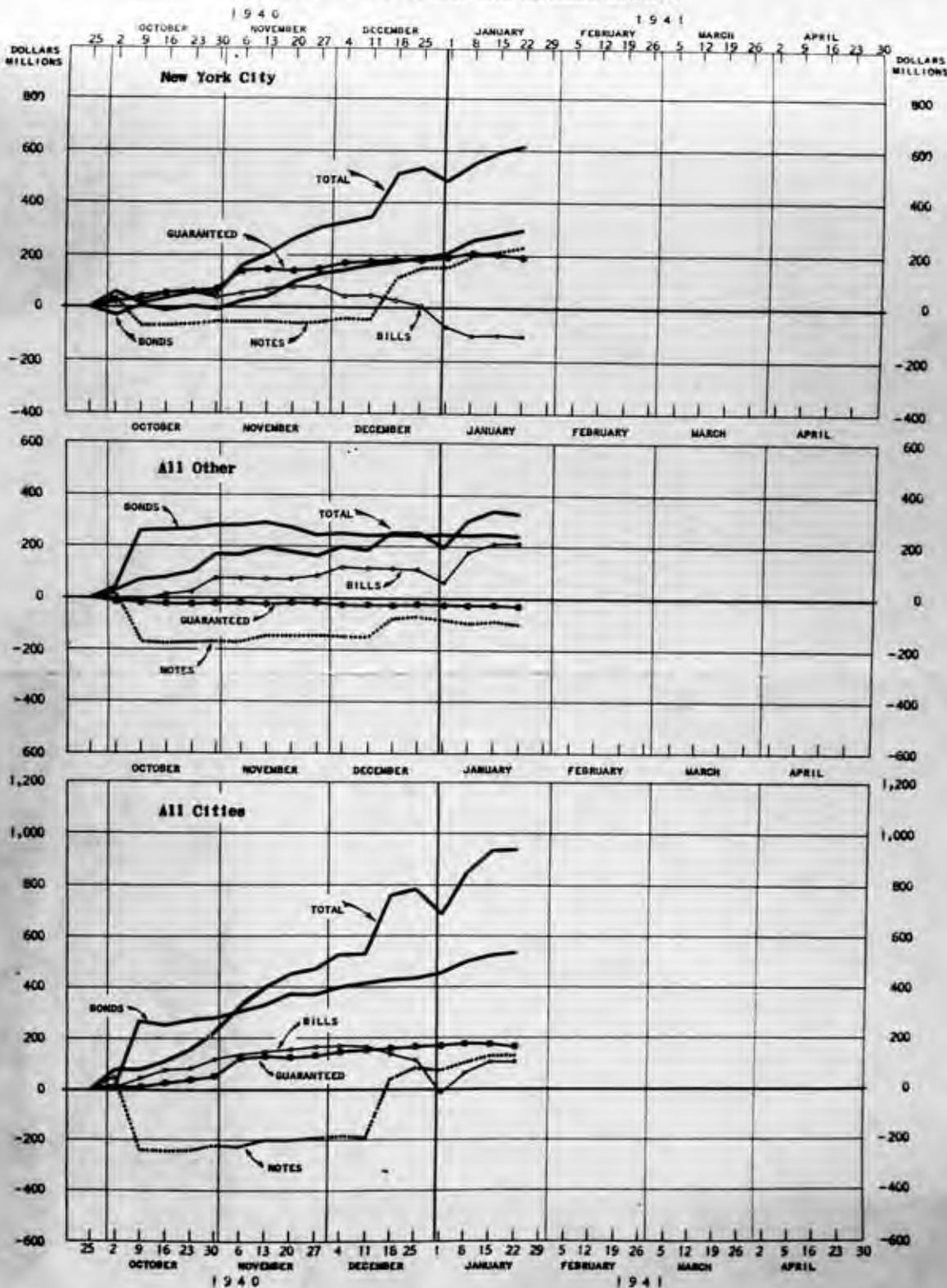
LEGEND

- × Defense note (taxable)
- × Treasury note (fully tax-exempt)
- Fixed maturity bond (partially tax-exempt)

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

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U.S. GOVERNMENT SECURITY HOLDINGS, WEEKLY REPORTING MEMBER BANKS
 Cumulative Net Change from September 25, 1940



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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE January 28, 1941

TO Secretary Morgenthau
FROM Mr. Wiley

Under date of January 23 FBI reported that an anonymous communication was addressed to Stephen Early, as follows:

"An Italian whose name is Count Cicogna succeeds in getting informations in some Federal Department in Washington, particularly in the office of the Secretary of the Treasury, and he reports to the Italian Library (D'Annunzio) and to the Italian Consul."

This apparently refers to Count Gian Luca Cicogna who has just been made Assistant Military Attache to the Italian Embassy. He is said to be married to an American woman, nee Browning, who is reputedly very wealthy. They have been living in Ogden, Utah but Count Cicogna, I am told, spent some time in New York last year connected in some way with the Atlas Corporation.

Wiley

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE January 28, 1941

TO Secretary Morgenthau

FROM Mr. Klaus

FBI reports:

January 16. An account concerning the German merchant vessel ARAUCA, moored at Port Everglades, Florida; this ship can leave on full steam within an hour. One of its crew has taken a position with the German Embassy at Washington and another was admitted to the United States on January 26, 1940, as a student at Rensselaer Polytech. An official of the Coca Cola Corporation in Atlanta donated \$200 in November 1940 for distribution among the crew members; FBI is investigating the identity of the official. (We have had prior reports concerning suspicious relations between Coca Cola and the Nazis.)

January 24. On December 31, 1940, National City Bank received \$80,000 in United States bank notes, contained in four envelopes sent via South America, air mail, from Berlin, from the Reichsbank and credited to the Skandinaviska Banken, Stockholm; the notes seem to have been in denominations of \$1,000 and \$100.

January 24. At our request (made as result of information from the Federal Reserve Bank) FBI has begun an investigation of a \$100,000 cash withdrawal on January 16, 1941, at the Lawyers Trust Company, New York City, by a Mexican called Rodrigo.

January 27. It appears (oral report) that Rodrigs deposited a million dollars and withdrew \$800,000, largely in \$1,000 bills, since January 16th.

S.C.

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TENTATIVE LESSONS BULLETIN
No. 83
G-2/2657-235

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, January 28, 1941

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.05 (9-19-40) M-B-H.

EXPLOIT OF A GERMAN RECONNAISSANCE DETACHMENT
IN FRANCE

SOURCE

The account contained in this bulletin was given to a group of American official observers in November, 1940, by a German junior officer who participated in the action described as commander of a platoon of 88-mm. antiaircraft guns.

According to one observer, the narrative is "considered reliable."

There is no objection to publication of Section 1, the account itself, in service journals, but Section 2, the comment of an observer, is classified Restricted.

CONTENTS

1. NARRATIVE
2. COMMENT BY OBSERVER

RESTRICTED

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS1. NARRATIVE

"Soon after we crossed the Seine, my platoon, consisting of two 88-mm. antiaircraft guns and twenty men, was attached to a reconnaissance detachment composed of motorized infantry, antitank troops, and pioneers.

"The major in command of this detachment was ordered by the division commander to proceed at once to Nantes and to seize the bridges over the Loire, which were located near the city. I was astounded at such an order. Nantes was 250 kilometers - about 155 miles - from our position. I didn't know the location of the French troops at the time, but I feared the worst.

"We began to march at daylight. At first we were rather cautious about entering towns, crossing bridges, and passing through defiles of any kind, but after a while, when nothing happened, we became rather reckless and didn't stop to make detailed reconnaissances. When we passed through towns, civilians would wave their hands, smile, and shout "Vive l'Angleterre." Apparently they thought we were British. We waved and smiled back at them.

"We reported our position directly to division headquarters every hour by radio.

"Upon arrival at Nantes, I discovered that my map was of very little help to me in getting through the town and locating a bridge that the major had instructed me to guard with my platoon.

"Near the entrance to the town I saw two French officers standing on the sidewalk, each carrying a riding crop and smoking a cigarette. I dismounted from my car and asked them the nearest way to the main bridge over the Loire. They looked amazed. Finally one of them said he was afraid he couldn't answer that question. I then told them that they were my prisoners and that I didn't have any time to talk. I asked one of them to get into the car and the other to stand on the running board and show us the nearest route to the bridge. To my surprise, they did this without any further argument.

"Upon arriving at the bridge, we found it intact and guarded by two French riflemen. I drove up to them in the car and dismounted. The guards, like the officers, looked dumbfounded at first. Then, after recognizing my German uniform and seeing my motorcyclemen approaching, they threw aside their rifles and raised their hands. Thus the bridge came into our possession, and the two officers and two soldiers were our prisoners.

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

"The major soon arrived and instructed me to put my guns into position and to guard the bridge. At the same time I was to watch him while he crossed the bridge in order to determine what was beyond the crest of a hill on the other side.

"As soon as the major arrived at the top of the hill, he began to wave his arms. I jumped into my car and drove up to him. He pointed down the road, and immediately I saw a long motorized column approaching Nantes from the south. It was moving slowly, and apparently it had no advance guard or protection of any kind.

"I knew we were outnumbered, and I wondered what the major was going to do. My twenty men at the guns and at the bridge were the only German troops immediately available. As far as we knew, the only reinforcements for our reconnaissance detachment were about 200 kilometers - 125 miles - away. The major, after thinking over the situation, walked the short distance down the hill to the road and waited for the column to arrive.

"I remained and observed. I could see that the Frenchmen were fully armed and equipped. The leading sidecar motorcycles had machine guns mounted on them.

"The major stood in the middle of the road and halted the leading vehicle. When he asked for the column commander, an elderly French colonel wearing World War decorations immediately dismounted and slowly approached the major on foot. The major told the colonel that he and his column were now prisoners, and added, 'I am the commander of a bridge guard detachment of the Second German Army. The Second Army has occupied Nantes, and it is useless for you to resist.'

"The French colonel, after remaining silent for a moment, shrugged his shoulders, said 'Very well,' drew his saber, and handed it to the major. The major told him to keep his saber, but to have his men dismount, pile their arms at the side of the road, and line up in close order formation. The order was complied with.

"We had learned in the meantime that this was a motorized infantry regiment consisting of 2,700 men. We wondered how they were to be handled and what was to be done with them.

"The major ordered me to take ten men from my detachment and to conduct the prisoners to an empty barracks in town. We were apprehensive every step of the way to the barracks—and

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

even after we arrived there—for fear the Frenchmen would learn that there were no other Germans in town, but nothing happened.

"The remainder of our division did not arrive in Nantes until two days later. Meanwhile, we had the problem of feeding the prisoners and our own troops as well.

"The major was given the Knight's Cross of the Iron Cross for this feat, and I received the Iron Cross, First Class, for my part in the operation."

RESTRICTED2. COMMENT BY OBSERVER

The German officer seemed reluctant to answer questions concerning dates and additional details of this operation. According to their official communiques, the Germans arrived at Nantes on June 20—three days after Marshal Pétain's appeal to the French Army to lay down its arms—and one day before initial armistice negotiations. This fact possibly accounts for the apparent recklessness of the German commander in giving a reconnaissance detachment an objective 155 miles into enemy territory. It may also account for the lack of resistance encountered by the detachment and for the ease with which it captured French personnel and materiel.

It seems rather inconsistent, however, for a French motorized regiment to have been marching north towards the advancing Germans at this time unless it had the mission of delaying or resisting the advance. In any case, it is difficult to understand why the French column did not take proper security measures. If it had done so, the German reconnaissance detachment could have been annihilated, or the French column could have at least avoided capture.

The German officer's narrative indicates that his division commander had sufficient information to enable him to make an accurate estimate of the situation. In answer to a question, the officer stated that he believed his division commander was constantly informed by radio reports as to the location of all patrols and reconnaissance detachments sent out ahead of the division.

In this and other conversations, it has been repeatedly emphasized that German reconnaissance groups operating at a considerable distance ahead of the main body were often mistaken for

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British troops by Allied civilians and even by Allied military personnel. This fact indicates inadequate dissemination of information concerning the identity of both Allied and hostile troops and materiel. German officers state that mistaken identity frequently prevented the annihilation of such groups and enabled them to carry out their missions successfully.

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Paraphrase of Code Radiogram
Received at the War Department
at 8:18, January 28, 1941.

London, filed January 28, 1941.

1. On Monday, January 27, planes of the British Coastal Command dropped land mines on a French coastal city from an altitude of 2,000 feet and dive bombed two German vessels off the Danish coast. On this day only one British bomber was dispatched and, while German aircraft was damaged by it, it did not succeed in locating its target. During the preceding night an explosion was caused and fires were started in the industrial area of Hanover by a small number of planes of the Bomber Command.

2. While London had one alert in the early morning hours of January 28 no German air operations were reported during the preceding night. During daylight hours of January 27 German planes were on reconnaissance missions over the Firth of Forth and engaged in small scale attacks on Newcastle-upon-Tyne and the Thames Estuary. British fighter planes were up but were unable to intercept the attackers although antiaircraft units shot down one Junkers bomber. On the night of January 28-29, 20 individuals of the military service were killed by two land mines dropped by the Germans on a South Wales airfield. These mines had no effect on operations at the field.

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3. In the Agordat and Barentu areas of Eritrea motor transport concentrations and bridges were bombed by British aircraft based in the Sudan. Asseb, in southern Eritrea, was attacked by British bombers from Aden. In the Derna-Mechili area of Libya the Royal Air Force cooperated with ground forces and also attacked airfields at Mersa and Barce. Axis air casualties in this theater were six destroyed and two damaged. Italian forces on public roads were machine gunned by British planes in Kenya.

4. The damaged British aircraft carrier ILLUSTRIOUS while being escorted from Malta to Alexandria, Egypt, was dive bombed by 18 German planes and attacked by 12 other bombers from high altitudes. Five of the attacking planes were shot down and no damage was inflicted either on the ILLUSTRIOUS or on any ship in her escort.

5. A British vessel in the Thames Estuary was hit in an attack on January 28 and had to be beached. A merchant vessel of Swedish registry was burned during the same raid. Six destroyers have arrived in England from across the Atlantic. Four are new Canadian vessels and the others are destroyers transferred from the United States. It is indicated by reconnaissance that a German heavy cruiser of the 10,000-ton Admiral Hipper class is preparing to leave Brest.

SCANLON

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
C-2

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G-2/2657-220
No. 302

M.I.D., W.D.
January 28, 1941.
12:00 M.

SITUATION REPORTI. Western Theater of War.1. Air Force Operations.

Bad weather prevented aerial operations in this theater during the night of January 27.

II. Greek Theater of War.

Local actions reported.

III. African and Mediterranean Theaters of War.1. Ground:

Libya. Fighting is reported east and south of Derna.

Eritrea. The British report they are closing in on the enemy holding positions about Agordat and Barentu.

Ethiopia and Italian Somaliland. Successful operations are reported by the British.

2. Air:

Naples. Italian communique admits bombing of Naples and environs on the night of the 27th. Claims only slight damage.

Libya. Italian Air Force bombed and machine-gunned British armored vehicles and infantry at Derna.

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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January 28, 1941
8:30 p.m.

RE DEBT LIMIT

Present: Mr. Bell
Mr. Sullivan
Mr. Foley
Mr. Haas
Mr. Schwarz
Mr. Odegard
Mr. Stewart
Mr. Kuhn

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

Schwarz: I was just going to tell you the final editions
of the English papers look pretty good.

(Mr. Kuhn entered the conference.)

H.M.Jr: They took me for a ride on your figures today,
Mr. Sullivan. If you had been there, you could
have defended them.

Sullivan: I would have been delighted to have done it.

H.M.Jr: We won't get started on that now.

Bell: On the tax figures?

H.M.Jr: Yes.

Kuhn: Well, they simply were upset because there was
no state tax in there. That was it, wasn't it?

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- H.M.Jr: Well, and the fact that they weren't fair, as they put it, state income taxes and state excise taxes.
- Kuhn: But there is also a local tax in England which takes the form of a property tax, but it is very heavy.
- H.M.Jr: Well, we have it in New York.
- Schwarz: When you brought out the local tax, they subsidized, the local tax in England.
- H.M.Jr: Anyway, we won't go into that. Go ahead, Dan. It went all right on the whole.
- Kuhn: You bet.
- Bell: "When I appeared before you last spring at the time the first revenue bill of 1940 was under consideration, the National Defense program then before Congress was less than \$4,000,000,000. I pointed out 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 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 such 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. But since that time the situation has undergone a radical change.

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"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. I am therefore appearing before you today in support of H. R. 2658, which raises the debt limit of \$65,000,000,000, provides for the elimination of the partition in the debt limit, 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.

"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. I do not believe that it would be advisable to undertake to finance this enlarged program 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. Moreover, short-term securities would for the most part be purchased by banks resulting in a further increase of deposits. It is highly desirable to avoid further increases of deposits as far as possible and to some extent this can be accomplished by issuing obligations attractive to permanent investors outside of the banking system. In such times it is imperative that the Government borrow as much as possible from real savers rather than from banks. It seems clear,

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therefore, that in order to make it possible for the Treasury to pursue this objective, 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. 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."

- Foley: Dan, does that follow "In such times it is imperative that the Government borrow as much as possible from real savers" and "It seems clear, therefore, in order to make this possible--"?
- Bell: Where is that?
- Foley: That that ought to be repealed. I mean, that seems to jump there, doesn't it?
- Sullivan: Well, the four billion, those short term notes, were borrowed from banks.
- Haas: Those were all short term. That is the argument.
- Bell: The four billion will all go to the banks so it ought to be repealed, and we ought to get bond authority.
- Sullivan: A billion of that has already been issued.
- Foley: Yes, I can understand that, but I didn't think

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the thing followed very well. I thought it sort of jumped in my mind when you went over it.

Bell: No, I think that is all right. It is in order for the Treasury to follow this objective - we want that short-term financing repealed and we want other financing provisions so that we can appeal to the real savers. That is what was intended.

Kuhn: You mean that if, after short-term public debt obligations, you had something to show that those are usually taken up by banks?

Foley: Yes, that is right, to get back into what you had before, you see.

Bell: That is this sentence at the bottom of the previous page. "Short-term securities would for the most part be purchased by banks resulting in a further increase of deposits. It is highly desirable to avoid further increases of deposits as far as possible and to some extent this can be accomplished by issuing obligations attractive to permanent investors outside of the banking system."

Foley: I think that covers it there, if you say, "In the issuance of four billion dollars of short-term public debt obligations, which are normally taken up by the banks."

Schwarz: Maybe we had better repeat that?

Foley: Yes.

Bell: Let's see now, "public debt obligations and their retirement." You want to strike out "and their retirement"?

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That makes it a little long.

- Foley: All right, "which are normally taken up by the banks should be repealed."
- Bell: And strike out about the retirement?
- Foley: Yes.
- Bell: O.K.
- Sullivan: Well, wait a minute. It is the earmarking of taxes you also want to repeal, Ed.
- Bell: Yes, but here we are just--
- Foley: He is saying that because they are short-term. They are taken by the banks and they wouldn't reach these real savers that you want to reach.
- H.M.Jr: Could we come back to that? Because I don't know how long I am going to last, so we won't argue about words.
- Foley: O.K. I am sorry.
- H.M.Jr: No, put a question mark there and let's come back to it, see.
- Foley: O.K.
- H.M.Jr: Because I am not - I am going to take what Ed gives me tomorrow morning unless there is some sentence I don't like as a whole.
- Bell: "The deficit figures just given also clearly indicate that the general debt limitation of \$45,000,000,000 must be increased. 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

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next two fiscal years ending June 30, 1942. I believe that the amount fixed in the bill before you is ample for this purpose.

"The bill proposed to amend the Second Liberty Bond Act, as amended, so as to limit the face amount of that 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."

Would it read smoother to you if we had that "as amended" out? I don't think it is important in the statement.

"This provision 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."

H.M.Jr:

Dan, I testified today that to the best of my knowledge as I saw the situation today, even though the Lease-Lend Bill passes, based on the production capacity of this country that this increase to 65 billion would amply take care of anything that we could spend between now and June 30, 1942.

Bell:

I think it will.

H.M.Jr:

Are you and I together?

Bell:

Yes.

H.M.Jr:

O.K.

Bell:

"The proposed bill terminates certain obsolete

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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 this bill will then be all inclusive. It also repeals certain provisions 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."

H.M.Jr:

Don't you repeat yourself there?

Bell:

A little bit. You see, the first part is general, and here you are telling about the bill.

H.M.Jr:

I see. Do you think that is necessary?

Bell:

Well, we thought that it didn't hurt anything.

H.M.Jr:

Drives it home?

Bell:

Yes.

"Tax-exemption.

"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 feature of the debt obligations issued by the Federal Government and its agencies. I said 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

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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 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 5, 1941. 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 the Treasury made subject to all Federal taxes, pending the decision of this Congress on the question of eliminating tax-exemptions from all future issues of Federal securities. I conferred with both the leaders of the Ways and Means Committee of the House and the Finance Committee of the Senate."

The question raised here is you had one member of the Ways and Means and you telephoned Doughton, I believe, and Rayburn was the Speaker.

H.M. Jr:

Just skip it.

Foley:

Why don't you say, "I conferred with members of the Senate Finance Committee and the House Ways and Means Committee, and you get the plural

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up ahead of the Senate Committee, which is true, and then it follows afterwards about the House Committee, and it isn't so obvious.

- Bell: I was wondering if it would be, "I conferred with some members of the House and Senate"? What do you think?
- Schwarz: Members of Congress.
- Foley: You can say, "I conferred with members of the Finance Committee and the House Ways and Means Committee who were in town at that time."
- Bell: You don't think you would insult them by putting the Finance Committee first?
- H.M.Jr: Yes, you would. I think just "some members of the House and Senate."
- Bell: Yes, or just "some members of Congress." No, "some members of the House and Senate." That is all right.
- Foley: Well, you could say, "members of the two committees who were in town."
- H.M.Jr: No.
- Foley: Congress was not in session.
- H.M.Jr: Ed, really--
- Odegarde: The use of the term is perfectly grammatical as it is.
- H.M.Jr: I know, but Doughton was so sensitive about not being in town.
- Bell: He will probably ask the Secretary, "Well, just who did you confer with?"

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...Jr:

I think I should say, "some members of the House and Senate."

Call:

"...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. 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.

"The proposed bill also 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.

"It is particularly appropriate that this step should be initiated in connection with the financing of the National Defense program. I have just dwelt on the fact that all should be called upon to share in this task. This makes

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it urgent, from an equitable point of view, that no subscribers to any given class of securities should receive preferential treatment. This is impossible if some of the securities are issued with tax-exemption privileges which are worth nothing to the poorest class of subscribers, and which are worth a great deal to those in the very high income brackets."

H.M.Jr: That is now?

Bell: Yes, that is George Haas'.

"Such preferential treatment to this latter class is compatible with the democratic financing of the defense program and should be removed."

H.M.Jr: That is very good. What with George saving Leon Henderson's life and doing this, he is getting to be quite a fellow, isn't he. (Laughter)

Did Ham get in touch with you?

Haas: Yes. Did you get the note?

H.M.Jr: No, I didn't read anything when I came back. Should I read it?

Haas: Well, he thinks it is very urgent.

H.M.Jr: Do you?

Haas: I don't know, they seemed to be in trouble. Henderson is out of town.

H.M.Jr: Sure, Henderson left town and told me to hold the fort. Are they encroaching?

Haas: No, he wants to call on you for assistance. He needs it awfully bad.

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H.M.Jr: So do I.

Haas: I mean, that is the whole problem.

H.M.Jr: Well, if we get through, maybe he can. Got to do it before 11 tomorrow. How the hell am I going to do it between now and 11 tomorrow?

Haas: I think all he wants to know is if you would help do it.

H.M.Jr: How would I help him?

Haas: I suppose in getting the Administration to set up a system of rationing that they want to do. He thinks it is the only effective way of handling some of these price situations.

H.M.Jr: Not between now and 11.

Bell: "Economy in Non-defense Expenditures.
"At this time our whole economy and effort should be concentrated on national defense. One step which the Government should take is economy in Federal expenditures. I believe, therefore, that all magnifying glass--"

H.M.Jr: I like that.

Bell: "...to make certain that no more is granted than is absolutely essential in the existing circumstances."

H.M.Jr: No more what is granted?

Bell: More funds.

H.M.Jr: Better put it in.

Bell: "I also believe that the State and local govern-

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ments should be asked to contribute to national defense by eliminating from their budgets all non-essential items, particularly new construction during this period of emergency."

Some of them thought we might be stepping into something there.

H.M.Jr: I think it is all right.

Schwarz: It will get a headline.

H.M.Jr: That is what we are after.

Foley: Do you want to say that, "No more public construction"?

Sullivan: I raise that question, too.

H.M.Jr: Sure. A headline a day keeps the doctor away.

Bell: That very definitely ought to be curtailed if we are running short of plant capacity in other directions.

Sullivan: We haven't used up the unemployed yet, have we?

Bell: Well, they have got 17 million dollars in the budget next year. We ought to pretty near use them up.

Foley: I don't know whether that is the right thing to say.

Bell: Is the President going to see this?

H.M.Jr: No.

Foley: It is all right to curtail our own non-defense expenditures, but to recommend that the state and local governments do the same thing is

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getting a little out of our field, isn't it?

H.M.Jr: Don't we always?

Foley: We get criticized for it, too. That is why we are always in trouble. (Laughter)

H.M.Jr: Don't you like it?

Foley: Sure, it is all right.

H.M.Jr: Old Ed is getting a little sensitive. I kept saying all the time, "That man Foley is shaking his head again."

Schwarz: Everybody at the press table was asking which one is Foley.

Foley: That guy shaking his head. That fellow with the shakes up there. (Laughter)

Bell: Well, I kind of like that.

Haas: There is a technical question involved in it, that the Secretary is talking to this Committee and they have nothing to do with that.

Bell: Well, you could say, "It would be a good thing if the state and local governments would contribute to national defense by limiting, and so forth."

Schwarz: I also believe--

Bell: How about saying, "It would be a good thing if the state and local governments would contribute to national defense by eliminating from their budgets all non-essential items"? I don't get much enthusiasm, do I?

Kuhn: I am with you, Dan.

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- Schwarz: It would also help?
- H.M.Jr: I will tell you, Dan, there is just this thing. I think this thing of the state and local government expenditures or contributions toward national defense is a subject almost in itself. We kind of throw it in here as a - I think we - if and when they admit there is a shortage of steel and that kind of stuff, I think somebody is going to have to say something about it, but I just wondered if one sentence, without going into a lot of explanation, would do. Paying my respects to state and local governments and their expenditures.
- Foley: I am just thinking of eliminating the exemptions on the state issues. They say first we can't issue any more obligations that are exempt from taxes, and now they tell us that we can't have any more public works while this program is going on.
- Bell: What they ought to do is cut down their expenses and cut down taxes during this period.
- Foley: I know, but we are a little paternal, aren't we, in telling them that?
- Bell: That is what we ought to be. That is what we are here for. Don't you think those tunnels up in New York ought to be cut out.
- Foley: It is certainly right to do it if we don't have funds.
- H.M.Jr: It is all right to do it in a non-election year, though. (Laughter) I would take it out. There is one thing here. Make certain that no more is granted--
- Bell: No more funds are granted.

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H.M.Jr: Oh, you put that in. O.K.

Bell: "Savings bonds and savings certificates."

H.M.Jr: Is this new?

Bell: No, this is new still. This is some of Professor Odegarde's stuff.

H.M.Jr: I haven't seen this.

Bell: You have seen some of it.

"In view of the enlarged program facing the Treasury, it is desirable to have greater flexibility in the types of securities which may be offered to meet the requirements of various classes of investors. Therefore, this bill further amends the Second Liberty Bond Act so as to broaden the authority under which United States Savings bonds are issued and to provide for a new class of security to be called 'Treasury savings certificates.' The statutory limit on the term for which Savings Bonds may be issued would continue to be twenty years, as at the present, while a limitation of ten years would be placed on the Treasury savings certificates."

H.M.Jr: Excuse me, does everybody agree that is what we are going to call them, "Treasury savings certificate"?

Bell: In the bill they are called "Treasury savings certificate."

Foley: I think so. I have got the bill here.

H.M.Jr: It is all right with me. I just wondered.

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- Kuhn: You can call them anything later, can't you?
Give them a nickname?
- Foley: "Savings certificates."
- Stewart: Not "Treasury savings certificates", just
"Savings certificates"?
- Bell: Well, we would put that on. Other bonds in the
Liberty Bond Act, we called them Treasury bonds.
- Foley: Use "Savings bonds" and use "Treasury savings
certificates."
- H.M.Jr: O.K.
- Bell: "It would also provide that both classes of
securities may be issued on an interest-bearing
basis, on a discount basis, or on a combination
interest-bearing and discount basis, and that
the Treasury may fix by regulation the amount
of Savings Bonds and savings certificates which
may be held by any one person at any one time.
- "In addition, the Treasury would be authorized
to issue stamps or provide other means to evi-
dence payments for Savings Bonds and savings
certificates, and to provide for the exchange
of savings certificates for Savings Bonds."
- H.M.Jr: Did Marriner and Sophia approve this?
- Bell: Marriner did. Marriner wrote a long letter
that under the broad authority of the act he
was sorry he didn't get a chance to see the
bill before it was introduced, and the only
thing he hoped was that sentence - do you
remember in the first draft? I expected you
would miss it. When it said the market was
so variable in December that it afforded the
Treasury an excellent opportunity, and so

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forth, and I said, "Don't worry we had taken it out before you got to it."

H.M.Jr: And he didn't see the bill before it was introduced?

Bell: He is sorry that he didn't see the bill because he thinks it is important that you have broad enough authority to make special deals with insurance companies and other people of that type, and I told him I thought we already had that authority, but I wasn't certain that you would use it.

H.M.Jr: I would be pretty hard pressed before I would use it.

Bell: I told him we already had that authority. His counsel didn't think we had.

H.M.Jr: How about my counsel?

Bell: He thinks we have got authority. I am speaking for him. I haven't asked him.

Foley: He is telling me, he is not asking me. Well, he told Bennett Clark that he agreed with me when Bennett said he would rather have his opinion than mine, so it is O.K., I will take it.

Bell: We work together. (Laughter)

"This would permit the Treasury to carry on a program somewhat similar to the war savings and Treasury savings certificates program during the World War, programs which provided means for popular participation in the financing of the War through saving small amounts, and at the same time were effective in raising

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substantial amounts of funds directly from the investing public."

- H.M.Jr: Through savings small bonds? Go ahead. If that is satisfactory to everybody else, it is all right.
- Bell: Through small amounts saved.
- Sullivan: Through small savings.
- Bell: That probably would be better, wouldn't it?
- Schwarz: Do you have to bring in the War there?
- Bell: "And at the same time were effective in raising substantial amounts of funds directly from the investing public." You mean leave out all that?
- Schwarz: By using 1917 or something like that. I am thinking of somebody hopping on the war analogy.
- Bell: Do you want to leave out World War?
- H.M.Jr: Doesn't bother me. Does it bother you, Odegarde?
- Odegarde: No.
- Bell: "In this connection, the Treasury wishes to be able to offer Government securities of a character which should facilitate and encourage thrift and savings. We 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.
- "One of the most important services the American people can render at this time is to cooperate in supplying the means for national defense. We ought to make it possible for workers and

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farmers no less than bankers and business men to contribute to the financial needs of the Government, not only through their taxes but through their savings as well."

This is new.

H.M.Jr: Just one second, please. O.K.

Bell: "I am therefore asking for authority to issue securities on such terms and in such denominations as will enlist support from the largest possible number of subscribers. There is no reason why a substantial part of the savings made possible by the current increase in employment should not be conserved by investment in United States Government securities. The small investor who puts his savings in Government securities will in this way contribute not only to national defense but also to his own individual security."

H.M.Jr: Just to digress a minute, this Mrs. Maloney was down from the New York Tribune. She, all Sunday evening, was trying to fill me up. She has some plan where, over the normal wage, the factory should pay a difference, as she put it, between, say, eight dollars a day that a man might get and the \$25 a day, the difference be paid in Government bonds which would not be cashable until the emergency was over.

Haas: That is similar to Douglas Brown's.

Bell: Douglas Brown has got some plan along that line. At least he wants to talk a lot about it and work it in some way.

H.M.Jr: Who is he?

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Schwarz: Princeton.

H.M.Jr: Oh, yes.

Bell: Thinking of some form of dismissal wage in the end. It is very good.

Maas: I think there is something in it. It makes an easy way to--

H.M.Jr: Hasn't Douglas got another initial?

Kuhn: J. Douglas Brown.

Bell: "There exists in the country today an overwhelming desire on the part of nearly every man, woman, and child to make some direct and tangible contribution to the national defense. Somehow we ought to give them a sense of personal participation beyond that which comes from doing their daily job faithfully and well."

H.M.Jr: Why say, "Somehow"? Why not leave that out?

Bell: That is all right.

H.M.Jr: How about that?

Bell: "We ought to give them a sense of--"

H.M.Jr: Odegarde? I take it, it is yours.

Odegarde: I am not particularly--

H.M.Jr: Do you think it is an improvement?

Odegarde: I thought of it in terms of means, that is somehow, by some means, we ought to. It doesn't add anything to it to say, "Somehow."

Bell: I think "We ought to--"

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H.M.Jr: I think "We ought to" is just a little more positive.

Sullivan: Yes.

H.M.Jr: "We ought to."

Sullivan: Right, and "This is how we are doing it", not "Somehow we are doing it", "This is how we are going to do it."

H.M.Jr: Is it agreeable to you to leave out "Somehow."

Bell: All right, cross it out. "We ought to give them."

"Every day letters come to me, as I am sure they do to others, from people who, regardless of partisan affiliation or economic position, ask, 'What can I do to help?' Our plan to offer securities in varying denominations at a fair rate of interest in an attempt to answer this question. I can think of no other single way in which so many people can become partners of their Government in facing this emergency."

I am not sure, Walter, that this next change ought to go in. We had it, "It is the purpose of the Treasury to raise money for national defense by methods which strengthen the national morale", and Walter put in, "Under the provisions of the present bill, the Treasury could raise money for national defense by methods which strengthen the national morale." I am not sure we couldn't do it without the bill.

H.M.Jr: I like this sentence, "It is the purpose of the Treasury to raise money for national defense by methods which strengthen the national morale."

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I don't get the significance of the rest of it.

Foley: Well, I think that is implied anyway, because we are appearing in support of the bill.

H.M. Jr: If we don't need it, I want to go over this last part because this is all new to me, but I like that last sentence. I want to go over the last part once more. Just finish reading it.

Bell: It didn't seem to me, Walter, it tied in with the 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."

H.M. Jr: Well, I don't know but what Chick is right. When I read this thing here, "This would permit the Treasury to carry on a program somewhat similar to the war savings and Treasury savings certificates program during the World War, programs which provided means for popular participation in the financing of the War." Now, there is three wars.

Schwarz: It was just a reaction.

H.M. Jr: And all day today I tried to keep mentioning that I didn't want this country to go to war.

Kuhn: You wanted '18 and '19 in there instead of World War?

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Schwarz: Yes.

Sullivan: You can take out the last one easily enough.
"Which provided for popular financing through small savings."

Haas: You could cut the whole business out.

Odegarde: You could cut out that intervening sentence,
"would permit the Treasury to carry on a program which provides means for popular participation."

H.M.Jr: What is that?

Odegarde: Drop out three of the wars by going from the top line, "which would permit the Treasury to carry on a program," and then drop down--

Bell: "Which would provide--"

Odegarde: "...means for popular participation--"

Bell: "...means for popular participation--"

Odegarde: "...through small savings."

Bell: "...through small savings."

H.M.Jr: I think that will be good.

Bell: "And which will at the same time be effective," or do you want to leave that out?

Odegarde: "And at the same time would be effective--"

Bell: "...in raising substantial amounts of funds directly from the investing public."

H.M.Jr: Read it once more, Dan.

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- Hell: "This would permit the Treasury to carry on a program which would provide means for popular participation through small savings and at the same time would be effective in raising substantial amounts of funds directly from the investing public."
- H.M.Jr: I like it. That is a big improvement on it. What do you think, John?
- Sullivan: Yes, I am in favor of that change.
- H.M.Jr: All right. That is all right now. Now, that sentence, "Not only through their taxes." That doesn't just - it is the taxes that they pay, isn't it? Is that clear, "Not only through their taxes"?
- Kuhn: Tax payments, you mean?
- H.M.Jr: Something, yes.
- Seley: Tax contributions?
- H.M.Jr: Something. I just don't think it is all right the way it is.
- Hell: "Make it possible for them to contribute not only through their taxes but their savings as well."
- H.M.Jr: Do you think it is all right?
- Sullivan: I think tax payments would be an improvement.
- H.M.Jr: It would help me a little bit in reading it.
- Sullivan: Yes, I think it would, sir.
- Hell: Would it improve it if you said, "Not only in paying taxes but by investing their savings

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as well"?

- Sullivan: Not quite as smooth, I don't think, Dan.
- Bell: O.K., tax payments, is it?
- Sullivan: I think so.
- H.M.Jr: "Possible number of subscribers" or "possible number of people"?
- Odegarde: "Subscribers", anyway, isn't it?
- Bell: They are subscribers.
- H.M.Jr: Is that what they are?
- Bell: It wouldn't read smoother if you took out possible, would it?
- H.M.Jr: I don't care. Are they subscribers? I suppose so. It is all right. Well, you have got two "possibles" there. "Largest possible number" and then "they made possible." Let's cut out one of those "possibles."
- Kuhn: "The largest number."
- H.M.Jr: Let's cut out the word "possible."
- Bell: Yes.
- H.M.Jr: Instead of saying, "There is no reason why," why not put it in the positive side, "There is every reason why"?
- Odegarde: Yes, I think that is an improvement.
- H.M.Jr: How about that, "There is every reason why"? What? What do you think, gents?

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- Foley: O.K.
- H.M.Jr: What? "There is every reason why a substantial part of - substantial part of the savings made possible" and so forth. Do you think that is all right?
- Kuhn: "Should be considered."
- H.M.Jr: "There is every reason why."
- Kuhn: Much, much better.
- H.M.Jr: "The small investor puts his savings in Government securities" and so forth. Now, if you want to say this, "Every day letters come to me, as I am sure they do to others" - I would like to leave out, "regardless of partisan affiliation." I don't like that. I would like to leave out "regardless of partisan affiliation or economic position." How about that, Amherst? I am looking at two fellows.
- Odegarde: It is all right. Some one might ask you, though, if all these letters are from Democrats and people on WPA.
- H.M.Jr: Well, they might say - but I don't think they would think in terms of Democrats or Republicans, and I don't like to put it in their minds.
- Sullivan: I think you are right, sir.
- H.M.Jr: You know who the minority leader is of this committee? Your Congressman from up there. Treadway.
- Odegarde: Oh.
- H.M.Jr: And he never thinks of partisanship. I think if we just leave that out. "Every day letters come

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to me, as I am sure they do to others, from people who ask, "What can I do to help?" I think that is better. What do you think, gents?

Bell: I wonder if we need to put in that "as I am sure they do to others."

H.M. Jr: I don't think you need that, either. "Every day letters come to me from people." Let's leave out "as I am sure they do to others." Do I get those letters?

Bell: Yes, you get a lot of them.

Haas: I was just going to ask.

Kuhn: A 12 year old boy wrote to you about it.

H.M. Jr: You (Schwarz) have got two and you (Kuhn) have got one, O.K.

Bell: We really get a lot of letters from people who helped in the last campaign and want to help this time.

Foley: Helped in what campaign? There is only one I can remember.

Bell: The old politician.

Sullivan: And they wouldn't be writing to Dan now, would they? (Laughter)

Odegarde: Ed, you are thinking of a campaign on the capital seas.

Sullivan: I would suggest changing the next sentence. "Our plan to offer securities suitable to requirements of various classes of investors."

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I think "within the means of all classes of investors" more clearly conveys what you intend to say.

- H.M.Jr: I think that is a good one.
- Sullivan: "Within the means of all classes of investors."
- H.M.Jr: That is good.
- Haas: That isn't quite, because you can get any denomination of almost any type of securities. this other thing is - they have different investment requirements.
- Sullivan: Well, you don't talk about an investment suitable to the requirements of somebody who can only save about \$10 a week.
- Odegarde: You mean just saying, "In various denominations"?
- Haas: Well, it is more than that.
- Sullivan: I know.
- Bell: We struck out that, Professor Odegarde, "various denominations at a fair rate of interest." We were afraid that would haunt us a little.
- H.M.Jr: Well, I don't care, you can fix it up.
- Bell: "Offer securities within the means of all classes of investors."
- Haas: That is too simple a statement. One could buy a 25 dollar bond and one a so and so, and you are issuing up these different types of savings bonds, for example. Some have a discount basis and some with coupon. That is to meet an investment requirement.

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Sullivan: That is right.

Bell: This other is more nearly correct, "suitable to the requirements."

Kuhn: "More attractive to all classes of investors."

Sullivan: Yes, that carries both of them. That is good, Ferd.

H.M.Jr: What is it now?

Kuhn: "Securities attractive to all classes of investors."

Bell: Very good.

H.M.Jr: Now this next sentence, I think, is a little clumsy. "I can think of no other single way in which so many people can become partners of their Government in facing this emergency." I wish somebody would improve that.

Kuhn: I like that sentence very much.

H.M.Jr: You do?

Kuhn: Yes, sir.

H.M.Jr: Is that so?

Kuhn: Yes.

H.M.Jr: Want to make something of it. (Laughter)

Kuhn: I think it sounds swell toward the end of your statement.

Bell: We have got a lot of partners paying taxes.

Kuhn: It sounds like Winston Churchill when he says, "So many owed, so much to so few." Do you

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remember?

Foley: About the air corps?

Sullivan: The RAF. It had a good ring to it.

W.C. Jr.: I see. "I can think of no other single way in which so many people can become partners of their Government." All right, you have downed me. I am not fair meat tonight.

Sullivan: National unity rather than national morale, isn't it? I don't know, it doesn't make any difference.

Bell: We had to have some morale in this statement today.

W.C. Jr.: I would like this last sentence to be a separate paragraph. I would like it to stick out, unless it is bad construction.

Dearden: It is never bad construction.

W.C. Jr.: I like it to stick out, "I think it is the purpose of the Treasury - " that is kind of a platform. I like that. Now, did I go over this last thing?

Bell: This was in before.

W.C. Jr.: Well, hell, Bell - hell's bells. We have told them 28 billion dollars at the beginning, and then we end on this. I don't think this is - I would like to end right here.

Bell: That is what we called a snapper.

W.C. Jr.: What?

Bell: That last.

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- H.M. Jr: That isn't a snapper, I take it. No. I like that paragraph, that last sentence. I would end right there.
- Schwarz: I like it, too.
- H.M. Jr: How about it, gentlemen, "It is the purpose of the Treasury to raise money" and so forth?
- Kuhn: You can say what is in the last paragraph, "Appealing for speed during the questioning."
- H.M. Jr: Well, another thing about that, they might say, "Well, now, let's see. This is the 27th of January. Why the hell weren't you and Sullivan up here long ago?" (Laughter)
- Sullivan: It will be all right if they include you.
- H.M. Jr: They are going to say, "Sully, why weren't you up here a long time ago?"
- Bell: We have got something, you know. We say, "I am sure this Committee appreciates the importance of prompt action in this connection so the Treasury can take steps to refund the large - "
- H.M. Jr: I know you do.
- Bell: You remember the other night you said, "We ought to put something in about RFC." Of course that is no more important than Treasury borrowing. The most important thing you have got is the refunding of it March 15.
- H.M. Jr: Personally, I don't like to end on that last note. I like to end on this other note.
- Bell: It is out.

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H.M.Jr: O.K. Now, do you want to go back to Foley at the beginning where he was upset?

Foley: I am not upset.

H.M.Jr: Well, you argue with him (Bell). I am going to take Stewart in the other room. Do you (Stewart) want to come in here for a minute?

Stewart: Yes.

(The Secretary and Mr. Stewart left the conference.)

Kuhn: There is nothing in here about the kind of campaign that this will bring, that is, no coercion, no intimidation, no high pressure stuff. All that can wait until some later statement, can't it?

Bell: It was in there.

Kuhn: But we don't really need to tell Congress now what kind of promotion campaign we are going to run.

Schwarz: That is up to the Treasury. That is a technical financial--

Odegarde: It might put ideas in their head.

Haas: You cover that at the end, about the morale.

Kuhn: The only thing that covers it is where you say "democratic financing."

Haas: That is right.

Kuhn: That is the only descriptive note about the whole thing.

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- Sullivan: What you are thinking of, Ferde, is the whole speech in and of itself, isn't it?
- Kuhn: That is right. I think it is good to keep it separate. I knew it was in originally, and I wondered.
- Sullivan: It is germane, but it isn't significant in this particular discussion.
- Kuhn: I think I agree with you.
- Schwarz: You are asking them for legislation and not for guidance as to procedure.
- Kuhn: Don't give away your--
- Odegarde: Of course, the question may come up, and you can meet it if it comes up.
- Kuhn: What if they ask questions about it?
- Sullivan: Oh, we will--
- Odegarde: Someone asks, "Are you going to repeat the War savings stamps?"
- Schwarz: We have no such intent.
- Kuhn: Or the Liberty Loan?
- Odegarde: We have studied those and profited by their experience.
- Kuhn: Yes, I think that is good.
- Foley: Dan, I really believe that whole sentence can come out.
- Sullivan: Which one is that?

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Foley: At the bottom of page three.

Bell: "It seems clear, therefore, that in order to make it possible for the Treasury to pursue this objective, the provisions of law authorized in the issuance of four billion dollars of short-term public debt obligations which would normally be taken by the banks should be repealed."

Foley: And you talk about increasing the debt limit.

Maas: Well, that is--

Foley: Well, I know, but look, George, you go right over on the next page.

Maas: And say that again?

Foley: Sure.

"The bill proposes to amend 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 provision 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."

How many times are you going to repeal it?

Maas: That is another one.

Bell: What we had was his oral statement and then a discussion of the provisions.

Maas: Then they were combined together.

Foley: Then you get down there again. "It also repeals

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certain provisions of the first Revenue Act of '40, 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."

Sullivan: That ought to keep it repealed.

Foley: That ought to take care of it, three times in two pages.

Sullivan: I didn't sense that it was a triple repetition.

Odegarde: I knew it had been repeated, but I thought maybe you wanted it.

Foley: It is, isn't it?

Sullivan: Yes, of course it is.

Bell: Well, you see what we had at the beginning was a general statement of what was before the Treasury, and then we went into discussing the provisions of the bill, and today when we shifted it all around we got the provisions of the bill in with the general discussion.

Haas: Merged it in some places, and there is still some duplications. This is one spot, I think.

Bell: Then I think maybe the whole thing should come out down to and including the 45 billion.

Foley: Yes.

Bell: You could say, "It would appear advisable to increase the general debt limitation to an amount sufficient to enable the Treasury to meet all its financing."

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- Haas: Well, maybe you could leave it there, Ed, and cut it out over in one of these other places, because right there it follows that argument. It makes the purpose of that argument--
- Foley: I know, but you are talking about the proposed bill here in the next two pages.
- Bell: Yes, the first is more general.
- Schwarz: Just before that you say, "It is highly desirable," and then you say, "It is imperative."
- Haas: Oh, you have got it another time, four times.
- Schwarz: Do you think we will get it repealed?
- Haas: If we don't, it won't be because he didn't mention it. Do you see there, Dan? "Issued short term things as specified in the contemplated - first Revenue Act of '40."
- Bell: He can say, "I do not believe it would be advisable to undertake it."
- Haas: Dan, I think you can cut that whole business off, right to the bottom of the page.
- Kuhn: Well, the one sentence--
- Bell: I think right there, "In such times," that can come out, and I think "The deficit figures indicate that the general limitation of 45 billion must be increased," that could come out.
- Haas: Are you going to cut out that sentence beginning with "In such times"?
- Bell: Yes.

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(The Secretary and Mr. Stewart reentered the conference.)

- H.M. Jr: I thought you were going to cut out "It seems clear."
- Bell: Oh, yes, you are right.
- Kuhn: This is a statement of general principle saying that in times like this it is not only desirable, but it is highly imperative.
- H.M. Jr: Well, I am counting on somebody for a reading copy tomorrow.
- Schwarz: We will get it.
- H.M. Jr: There is a car outside, I think a Buick, transportation.

D R A F T

When I appeared before you last spring at the time the first revenue bill of 1940 was under consideration, the National Defense program then before Congress was less than \$4,000,000,000. I pointed out 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 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 such 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. But since that time the situation has undergone a radical change.

Debt Limitation

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. I am therefore appearing before you today in support of H. R. 2653, which raises the debt limit of \$65,000,000,000, provides for the elimination of the partition in the debt limit, 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.

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. I do not believe that it would be advisable to undertake to finance this enlarged program through the issuance of short-term securities and their retirement out of earmarked taxes

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within a specified period as contemplated in the first Revenue Act of 1940. Moreover, short-term securities would for the most part be purchased by banks resulting in a further increase of deposits. It is highly desirable to avoid further increases of deposits as far as possible and to some extent this can be accomplished by issuing obligations attractive to permanent investors outside of the banking system. In such times it is imperative that the Government borrow as much as possible from real savers rather than from banks. It seems clear, therefore, that in order to make it possible for the Treasury to pursue this objective, 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. 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.

The bill proposes to amend 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 provision 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.

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 this bill will then be all inclusive. It also repeals certain provisions 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.

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Tax-exemption

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 feature of the debt obligations issued by the Federal Government and its agencies. I said 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 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 5, 1941. 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 the Treasury made subject to all Federal taxes, pending the decision of this Congress on the question of eliminating tax-exemptions from all future issues of 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. 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

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Treasury can take steps to refund the large March 15 maturities in advance of that date.

The proposed bill also 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.

It is particularly appropriate that this step should be initiated in connection with the financing of the National Defense program. I have just dwelt on the fact that all should be called upon to share in this task. This makes it urgent, from an equitable point of view, that no subscribers to any given class of securities should receive preferential treatment. This is impossible if some of the securities are issued with tax-exemption privileges which are worth nothing to the poorest class of subscribers, and which are worth a great deal to those in the very high income brackets. Such preferential treatment to this latter class is compatible with the democratic financing of the defense program and should be removed.

Economy in Non-defense Expenditures

At this time our whole economy and effort should be concentrated on national defense. One step which the Government should take is economy in Federal expenditures. I believe, therefore, that all non-defense expenditures should be reexamined with a magnifying glass to make certain that no more is granted than is absolutely essential in the existing circumstances. I also believe that the State and local governments should be asked to contribute to national defense by eliminating from their budgets all non-essential items, particularly new construction during this period of emergency.

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Savings Bonds and Savings Certificates

In view of the enlarged program facing the Treasury, it is desirable to have greater flexibility in the types of securities which may be offered to meet the requirements of various classes of investors. Therefore, this bill further amends the Second Liberty Bond Act so as to broaden the authority under which United States Savings bonds are issued and to provide for a new class of security to be called "Treasury savings certificates." The statutory limit on the term for which Savings Bonds may be issued would continue to be twenty years, as at the present, while a limitation of ten years would be placed on the Treasury savings certificates. It would also provide that both classes of securities may be issued on an interest-bearing basis, on a discount basis, or on a combination interest-bearing and discount basis, and that the Treasury may fix by regulation the amount of Savings Bonds and savings certificates which may be held by any one person at any one time.

In addition, the Treasury would be authorized 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 Treasury to carry on a program somewhat similar to the war savings and Treasury savings certificates program during the World War, programs which provided means for popular participation in the financing of the War through saving small amounts, and at the same time were effective in raising substantial amounts of funds directly from the investing public. In this connection, the Treasury wishes to be able to offer Government securities of a character which should facilitate and encourage thrift and savings. We 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.

One of the most important services the American people can render at this time is to cooperate in supplying the means for national defense. We ought to make it possible for workers and farmers no less than bankers and business men to contribute to the financial needs of the Government, not only through their

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taxes but through their savings as well. I am therefore asking for authority to issue securities on such terms and in such denominations as will enlist support from the largest possible number of subscribers. There is no reason why a substantial part of the savings made possible by the current increase in employment should not be conserved by investment in United States Government securities. The small investor who puts his savings in Government securities will in this way contribute not only to national defense but also to his own individual security.

There exists in the country today an overwhelming desire on the part of nearly every man, woman, and child to make some direct and tangible contribution to the national defense. Somehow we ought to give them a sense of personal participation beyond that which comes from doing their daily job faithfully and well. Every day letters come to me, as I am sure they do to others, from people who, regardless of partisan affiliation or economic position, ask, "What can I do to help?" Our plan to offer securities in varying denominations at a fair rate of interest is an attempt to answer this question. I can think of no other single way in which so many people can become partners of their Government in facing this emergency.

It is the purpose of the Treasury to raise money for national defense by methods which strengthen the national morale.

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.

Statement of Secretary Morgenthau before the Committee
On Ways and Means of the House of Representatives,
Wednesday, January 29, 1941.

When I appeared before you last spring at the time the first revenue bill of 1940 was under consideration, the National Defense program then before Congress amounted to less than \$4,000,000,000. I pointed out 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 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 defense obligations. The same Act provided additional taxes, most of which were intended to be used to retire within five years any such obligations issued under that authority. I stated that the provisions of the bill then pending before your Committee were sufficient to meet the situation as it existed at that time. But since then the situation has undergone a radical change.

Debt Limitation

The balance of the borrowing authority on January 1, 1941, was \$387,000,000 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 four months, and even in that period we would be greatly restricted in our financing operations.

I am therefore appearing before you today in support of H. R. 2653, which raises the debt limit to \$65,000,000,000, provides for the elimination of the present partition in the debt limit, provides greater flexibility in our financing operations, and provides that the income from all future issues of Federal securities, both direct and indirect, be subject to all Federal taxes.

Our contemplated National Defense program has now been increased until it aggregates approximately \$28,500,000,000 in appropriations, contract authorizations, and recommendations, according to the 1942 Budget, just submitted. 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. I do not believe that it would be advisable to undertake to finance this enlarged program 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. Moreover, short-term securities would for the most part be purchased by commercial banks, thereby causing a further increase of deposits. It is highly desirable to avoid further increases of deposits as far as possible and to some extent this can be accomplished by issuing obligations attractive to permanent investors outside of the banking system. In times such as these, it is imperative that the Government borrow as much as possible from real savers rather than from banks.

The bill proposes to amend the Second Liberty Bond Act 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

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\$65,000,000,000 outstanding at any one time. This provision 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. This increased limitation will amply cover the Treasury's present anticipated financing requirements for the current and ensuing fiscal years.

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 future borrowing authority fixed by this bill will then be all-inclusive. It also repeals certain provisions 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.

Tax Exemption

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 feature of the debt obligations of the Federal Government and its agencies. I said last year that if it were within my power, I would issue National Defense notes 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 officer of the Government to vary these exemptions.

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Ordinarily, the Treasury would have raised in December of 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. 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 the Treasury made subject to all Federal taxes, pending the decision of this Congress on the question of eliminating tax-exemptions from all future issues of Federal securities. I conferred with some members of the House and 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. The program explained to them met with their hearty approval.

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.

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It is particularly appropriate that this step should be initiated in connection with the financing of the National Defense program. In financing this program all should be called upon to share in this task. This makes it urgent, from an equitable point of view, that no subscribers to any given class of securities should receive preferential treatment. This is impossible if some of the securities are issued with tax-exemption privileges which are worth nothing to the poorest class of subscribers, and which are worth a great deal to those in the very high income brackets. Such preferential treatment to this latter class is incompatible with democratic financing of the defense program and should be removed.

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.

Economy in Non-defense Expenditures

At this time our whole economy and effort should be concentrated on national defense. One step which the Government should take is economy in Federal expenditures. I believe, therefore, that all Federal non-defense expenditures should be reexamined with a magnifying glass to make certain that no more funds are granted than are absolutely essential in the existing circumstances.

Savings Bonds and Savings Certificates

In view of the enlarged program facing the Treasury, it is desirable to have greater flexibility in the types of securities which may be offered to meet the requirements of various classes of investors. Therefore, this bill further amends the Second Liberty Bond Act so as to

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broaden the authority under which United States Savings Bonds are issued and to provide for a new class of security to be called "Treasury savings certificates." The statutory limit on the term for which Savings Bonds may be issued would continue to be twenty years, as at the present, while a limitation of ten years would be placed on the Treasury savings certificates. It would also provide that both classes of securities may be issued on an interest-bearing basis, on a discount basis, or on a combination interest-bearing and discount basis, and that the Treasury may fix by regulation the amount of Savings Bonds and savings certificates which may be held by any one person at any one time.

In addition, the Treasury would be authorized 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 Treasury to carry on a program encouraging more popular participation in the financing. In this connection, the Treasury wishes to be able to offer securities of a character which should facilitate and promote thrift and savings. We 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.

One of the most important services the American people can render at this time is to cooperate in supplying the means for national defense. We ought to make it possible for workers and farmers no less than bankers and business men to contribute to the financial needs of the Government, not only through their tax payments but through their savings as well.

- 7 -

The bill therefore provides authority to issue securities on such terms and in such denominations as will enlist support from the largest number of subscribers. There is every reason why a substantial part of the savings made possible by the current increase in employment should be conserved by investment in United States Government securities. The small investor who puts his savings in Government securities will in this way contribute not only to national defense but also to his own individual security.

There exists in the country today an overwhelming desire on the part of nearly every man, woman, and child to make some direct and tangible contribution to the national defense. We ought to give them a sense of personal participation beyond that which comes from doing their daily job faithfully and well. Every day letters come to me from people who ask, "What can I do to help?" Our plan to offer securities attractive to all classes of investors is an attempt to answer this question. I can think of no other single way in which so many people can become partners of their Government in facing this emergency.

It is the purpose of the Treasury to raise money for national defense by methods which strengthen the national morale.

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Testimony of Seely
before House Ways
and Means Committee
on January 29, 1941,
on Debt Limit.
(H.R. 2653)

When I appeared before you last spring at the time the first revenue bill of 1940 was under consideration, the National Defense program then before Congress amounted to less than \$4,000,000,000. I pointed out 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 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 defense obligations.

- 2 -

The same Act provided additional taxes, most of which were intended to be used to retire within five years any such obligations issued under that authority. I stated that the provisions of the bill then pending before your Committee were sufficient to meet the situation as it existed at that time. But since then the situation has undergone a radical change.

Debt Limitation

The balance of the borrowing authority on January 1, 1941, was \$887,000,000 under the general limitation, and \$2,764,000,000 under the National Defense limitation.

- 3 -

These combined balances provide the Treasury with borrowing authority sufficient only for the next four months, and even in that period we would be greatly restricted in our financing operations.

I am therefore appearing before you today in support of H. R. 2653, which raises the debt limit to \$65,000,000,000, provides for the elimination of the present partition in the debt limit, provides greater flexibility in our financing operations, and provides that the income from all future issues of Federal securities, both direct and indirect, be subject to all Federal taxes.

- 4 -

Our contemplated National Defense program has now been increased until it aggregates approximately \$28,500,000,000 in appropriations, contract authorizations, and recommendations, according to the 1942 Budget, just submitted. 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. I do not believe that it would be advisable to undertake to finance this enlarged program 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.

- 5 -

Moreover, short-term securities would for the most part be purchased by commercial banks, thereby causing a further increase of deposits. It is highly desirable to avoid further increases of deposits as far as possible and to some extent this can be accomplished by issuing obligations attractive to permanent investors outside of the banking system. In times such as these, it is imperative that the Government borrow as much as possible from real savers rather than from banks.

- 6 -

The bill proposes to amend the Second Liberty Bond Act 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 provision 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. This increased limitation will amply cover the Treasury's present anticipated financing requirements for the current and ensuing fiscal years.

- 7 -

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 future borrowing authority fixed by this bill will then be all-inclusive. It also repeals certain provisions 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.

- 8 -

Tax Exemption

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 feature of the debt obligations of the Federal Government and its agencies. I said last year that if it were within my power, I would issue National Defense notes 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.

- 9 -

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 officer of the Government to vary these exemptions.

Ordinarily, the Treasury would have raised in December of 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.

- 10 -

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 the Treasury made subject to all Federal taxes, pending the decision of this Congress on the question of eliminating tax-exemptions from all future issues of Federal securities.

- 11 -

I conferred with some members of the House and 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. The program explained to them met with their hearty approval.

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.

- 12 -

It is particularly appropriate that this step should be initiated in connection with the financing of the National Defense program. In financing this program all should be called upon to share in this task. This makes it urgent, from an equitable point of view, that no subscribers to any given class of securities should receive preferential treatment. This is impossible if some of the securities are issued with tax-exemption privileges which are worth nothing to the poorest class of subscribers, and which are worth a great deal to those in the very high income brackets. Such preferential treatment to this latter class is incompatible with democratic financing of the defense program and should be removed.

- 13 -

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.

Economy in Non-defense Expenditures

At this time our whole economy and effort should be concentrated on national defense. One step which the Government should take is economy in Federal expenditures. I believe, therefore, that all Federal non-defense expenditures should be reexamined with a magnifying glass to make certain that no more funds are granted than are absolutely essential in the existing circumstances.

- 14 -

Savings Bonds and Savings Certificates

In view of the enlarged program facing the Treasury, it is desirable to have greater flexibility in the types of securities which may be offered to meet the requirements of various classes of investors. Therefore, this bill further amends the Second Liberty Bond Act so as to broaden the authority under which United States Savings Bonds are issued and to provide for a new class of security to be called "Treasury savings certificates." The statutory limit on the term for which Savings Bonds may be issued would continue to be twenty years, as at the present, while a limitation of ten years would be placed on the Treasury savings certificates.

- 15 -

It would also provide that both classes of securities may be issued on an interest-bearing basis, on a discount basis, or on a combination interest-bearing and discount basis, and that the Treasury may fix by regulation the amount of Savings Bonds and savings certificates which may be held by any one person at any one time.

In addition, the Treasury would be authorized 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 Treasury to carry on a program encouraging more popular participation in the financing.

- 16 -

In this connection, the Treasury wishes to be able to offer securities of a character which should facilitate and promote thrift and savings. We 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.

One of the most important services the American people can render at this time is to cooperate in supplying the means for national defense. We ought to make it possible for workers and farmers no less than bankers and business men to contribute to the financial needs of the Government, not only through their tax payments but through their savings as well.

- 17 -

The bill therefore provides authority to issue securities on such terms and in such denominations as will enlist support from the largest number of subscribers. There is every reason why a substantial part of the savings made possible by the current increase in employment should be conserved by investment in United States Government securities. The small investor who puts his savings in Government securities will in this way contribute not only to national defense but also to his own individual security.

There exists in the country today an overwhelming desire on the part of nearly every man, woman, and child to make some direct and tangible contribution to the national defense.

- 18 -

We ought to give them a sense of personal participation beyond that which comes from doing their daily job faithfully and well. Every day letters come to me from people who ask, "What can I do to help?" Our plan to offer securities attractive to all classes of investors is an attempt to answer this question. I can think of no other single way in which so many people can become partners of their Government in facing this emergency.

It is the purpose of the Treasury to raise money for national defense by methods which strengthen the national morale.

-ooOoo-

Dear Henry:

You may be interested if not
fully in agreement - but I leave it with
you anyway, with my compliments,

An Address

G. L. H.

by

GEORGE L. HARRISON

at Luncheon of

THE BOND CLUB OF NEW YORK

NEW YORK CITY

JANUARY 29, 1941

Mr. President, Honored Guests, Members of the Bond Club:

I am grateful indeed for the opportunity to be with you again, even if only for the brief space of a luncheon time. For the past month I have been experiencing the ordeal of an initiation into a new job in a field that is new to me. So it is good to be downtown again in a more familiar atmosphere, with more familiar problems.

I come to you now not to tell you anything about the insurance business, in which I am still a neophyte; not to tell you anything about the bond business, in which you are much more expert than I; nor to speak for the Federal Reserve Bank, with which I am no longer connected. Rather my purpose is simply to make a few personal observations about the present and future position of the private investment market.

May I, therefore, first outline some of the objectives of Federal Reserve policy in recent years, as I see them, with particular reference to their impact on the capital market?

As you know, the traditional central bank practice is to adopt a "firm money" policy—a policy of restraint—whenever

there appears danger of over-expansion and inflationary developments, and to adopt an "easy money" policy,— a relaxation of restraint and the promotion of an ample supply of available funds at low rates—in periods of business recession and deflation.

Pursuing that general practice the Federal Reserve System, after the collapse of the speculative boom in 1929, changed from a policy of restraint to an "easy money" policy, which was pursued with increasing vigor as the depression progressed. Immediately following the break in the stock market in October of that year, the Federal Reserve Bank of New York alone bought \$120,000,000 of government securities, and the rate of discount was reduced from 6% in October, 1929, to $1\frac{1}{4}\%$ in May, 1931. More securities were acquired in 1930 and 1931. Then, in the spring of 1932, the System bought \$1,000,000,000 of securities, and in 1933, after the banking crisis, \$600,000,000 additional were purchased. At the conclusion of the open market purchases in 1933, member banks held approximately \$800,000,000 of excess reserves. At that time that was an unprecedented amount which seemed more than ample to enable the banks of the country to provide whatever amount of credit might be required to finance business recovery.

Since then, excess reserves have risen to nearly \$7,000,000,000

due primarily to the tremendous inflow of gold and silver during the past eight years. The effect of all this has been to depress money rates to unprecedentedly low levels. As was stated in the report of the Federal Reserve System to the Congress, which was released for publication on January 1, 1941, "some rates are well below the reasonable requirements of an easy money policy, and are raising serious, long-term problems for the future well-being of our charitable and educational institutions, for the holders of insurance policies, and savings bank accounts, and for the national economy as a whole."

These low rates have persisted in spite of the fact that the Treasury has borrowed approximately \$30,000,000,000 of new money to finance its requirements during the last ten years.

It might be asked how an easy money policy was supposed to stimulate a recovery through the medium of the capital markets. You no doubt know the answer but, in theory, easy money or idle money in the banks should have the following results:

First—A decline in open market money rates—initially in short-term rates extending gradually to yields on long-term bonds of the highest grades, first governments and then other high-grade bonds.

Second—As yields on high-grade bonds reach levels unattractive to investors, a diversion of investment interest to medium-grade bonds and stocks, because of the more attractive yield obtainable on such securities.

Third—A refunding of high interest rate obligations into lower interest rate obligations.

Fourth—Because of attractive rates available to borrowers, a revival of investment of new capital in industries for improvement and expansion, thus promoting business recovery.

Some of the developments in this chain occurred as expected. Yields on high-grade bonds have gone far below any levels that had been contemplated and much refunding of corporation indebtedness has been done to take advantage of the progressive decline in interest rates. But the amount of new capital supplied to industry through the flotation of new securities has been relatively small. Hesitant and intermittent recovery in business occurred in the 1930s, it is true, but it attained real vigor only in the minor boom of late 1936 and early 1937, and again since the outbreak of war, especially since the inauguration of our program of defense.

So, the program of "easy money" to stimulate private

investment cannot be said to have been wholly successful. Why was this so and what part did government deficit spending play in that program?

In its early stages the expansion of government spending was referred to as "pump priming." It was supposed that by this method consumer spending would be stimulated and that the demand for additional consumer goods would lead to increased business spending for industrial plants and equipment which, in turn, would stimulate business recovery and reduce unemployment. But until the great activity of the defense program developed, the transition from government spending to business spending did not develop except to a limited amount. Instead of tapering off when business recovery appeared to be progressing, government spending was maintained at high levels. That is one of the difficulties in choosing the path of deficit spending, instead of private investment, as a means of recovery. It lacks flexibility in that it is usually too slow in beginning and too slow in stopping; or else it may fall off so rapidly as to be unsettling to our whole economy. No one can fairly question that deficit financing and spending by the government provides a necessary and proper outlet for idle bank funds in a period of temporary depression when private spending does not result in maintaining production and employment. But there is an important differ-

ence, on the one hand, between temporary deficit financing that is intended to induce private investment, and, on the other hand, deficit financing that is intended to take the place of private investment on the theory that our economy has now matured and that private investment has neither the opportunity nor the will to revive. The former I think necessary and desirable on political, social and economic grounds; the latter I believe to be unnecessary and undesirable on any ground.

In my opinion, we need not conclude that the original program of "easy money" was based upon a false premise or that it was foreordained to failure. There were unforeseeable developments and conditions in recent years that operated to prevent its complete success.

These developments and conditions affected, on the one hand, the ability and inclination of investors to provide new capital for private enterprise; on the other hand, they affected the inclination of business management to assume the risk of employing additional capital for expansion and improvements. Some of the more important of these developments and conditions may be mentioned briefly.

First, as to the ability and inclination of investors to provide new capital for private enterprise. The great reduction during the past decade in the gross incomes of the wealthy, plus

the heavily increased rates of taxation on such incomes, has tended to eliminate a large source of risk or equity capital. Furthermore, the raising of both income and estate taxes has encouraged the investment of large estates in tax-exempt securities, thereby further depleting the amounts available for undertakings involving risk.

These conditions apply only in lesser degree to incomes of intermediate size. The proposals to impose still heavier taxation on such incomes is a further potential deterrent to the investment of savings in securities that involve any appreciable degree of risk.

As to smaller incomes, there has been a substantial diversion of savings from such incomes into government channels through social security and unemployment insurance taxes, and through the investment in government securities of large portions of the savings of investors which have been deposited with insurance companies and savings banks, as well as commercial banks.

A further deterrent to investment in private enterprise was a widely prevalent impression that business was in the "dog house." Partly because of this impression and probably more largely because of the unfavorable record of corporation profits during the past decade, the incentive to make so-called business-man's investments was greatly checked. In no year since 1930

for which figures are available, has the number of corporations reporting any net profit been appreciably above 40 per cent of the total number of corporations. It is true that some companies, especially those in rapidly developing industries, have been able to make larger profits than ever before but their experience is not typical. It has been computed that in no year of the 1930s has the rate of net profit on total invested corporation capital been much in excess of the yield obtainable on government securities, despite the writing down of much capital in depression years.

Second, as to the inclination of business management to assume the risk of employing additional capital. Here, the increased taxes of corporations have had an important effect, tending, as they do, to diminish the opportunity for profit and causing, therefore, greater hesitancy on the part of business management to enlarge facilities. Corporation tax rates are now much higher than ever before, not excluding the World War year of 1918. Total taxes paid to the Federal government, together with State and local taxes, have exceeded net profits of all corporations, after taxes, in every year since 1929. In the nine years ending with 1938, all corporations paid a total of about \$30,000,000,000 of taxes, Federal, State and local, while their net profits (after deducting losses), reported to the Bureau of Internal Revenue, amounted to not much over \$1,500,000,000.

In addition to these general conditions affecting all business, there have, of course, been specific conditions affecting particular industries which, in the past, have been important fields for the investment of savings. The outstanding example is the group of industries known as public utilities, including railroads, as well as electric, gas and traction companies.

Finally, and this thought applies perhaps to both investors and business management, for a number of years there was no doubt a very real feeling of discouragement and a lack of confidence which appeared to have pervaded large areas of business, as well as the investing public, due not only to conditions already mentioned, but also to the fact that many people felt, rightly or wrongly, that government policies were going to make it impossible for capital to earn a living wage.

But, in this connection, it should be remembered that while recovery was slow and hesitant, the depression of the early 1930s was without precedent in its severity. Consequently, recovery had a long way to go and the process of recuperation was perhaps unavoidably protracted and difficult. This in itself should make us slow to put the full blame for all of our disappointments on any one of these conditions—either on a tendency toward maturity of our economy or on the lack of confidence as to the future of business.

In all these circumstances it is not surprising that the capital market has not been called upon in recent years to raise large sums of new capital for private enterprise. Many of the conditions discussed above still prevail. Some, in fact, such as heavy taxation, will necessarily be accentuated by the demands of the defense program. Furthermore, it is not impossible that to prevent a future price inflation growing out of the huge demands of the defense program and British war purchases, some action may have to be taken to absorb a part of the present surplus of bank reserves. In fact, the special report of the Federal Reserve System, previously mentioned, recommended certain definite means for absorbing excess reserves in case it should become necessary. And along with this recommendation, the lend-lease bill implies the possibility of a diminishing inflow of gold. These measures, if adopted, should at least tend to check the downward trend in interest rates, if not to reverse it. If reversed, large scale funding operations to reduce interest charges may then be curtailed, and these operations have been the mainstay of the investment banking business in recent years.

In view of all this, must we necessarily conclude that investment banking is threatened with extinction? To my mind that conclusion is not warranted, although, frankly, my primary

concern is not so much with the success or failure of that business, as such, as it is with the protection of private enterprise, which I still believe is the essential basis of our American economy. But private enterprise depends upon private investment, and private investment presupposes that we must have some machinery for bringing together borrowers and investors, both big and little.

This is all the more important now that the energies of the whole nation, industrial and financial, are being devoted to the successful prosecution of the program of defense. In the financing of that program, private capital must do its part if we wish to lighten the already heavy burden upon the government. That program, quite properly, relies, in the first instance, upon established industrial concerns, and it would seem equally important, in the interest of national defense itself, that those concerns should obtain much of the funds required to finance expansion of plant or equipment, either through the capital market or through established banking channels.

This presupposes an active, fair, and experienced machinery for negotiating, issuing, and selling securities. For that reason, if for no other, I seriously question the wisdom of undertaking any experiment, certainly at this time, such as the proposed plan for the compulsory competitive bidding of certain classes of

public utility securities. Such an undertaking, especially if extended in scope, would, I believe, risk material curtailment of the existing machinery of the capital market without any assurance whatsoever that securities so issued would be better securities for investors. Personally, I would much prefer the continuation of negotiated sales, where the investor has an experienced representative to protect his interests in drawing the contract and where security as well as price will be an important influence. At the very least, a borrower should be free to choose to negotiate a sale, if he thinks it desirable in the circumstances of his own case.

I also believe that the practice of privately placing securities should be considered from a broad-gauged, long-range point of view rather than from the immediate advantage to buyer and seller that might result in individual cases. It is a practice which has grown up out of the tedium and expense incident to registration in a period of very easy money when large investors avidly compete for an easy means of employing large blocks of idle funds. Possibly no one investor can alter the practice in fairness to its own beneficiaries—I am not sure. But I do feel that the public interest will be better served, in the long run, if the practice were substantially restricted, leaving to the established machinery of the capital market both the capacity

and the continuing responsibility of caring for the needs of large and small borrowers, as well as large and small investors, in both good times and hard times.

To keep our productive and distributive facilities going full speed will require large amounts of capital. How is it to be supplied? Unless we are to risk an unhealthy expansion of bank credit, much of it must, of course, come out of the accumulated savings from national income, whatever channel is employed. If those savings are to be taken by the government by taxation or borrowing and if the financing of industry is then to be done entirely by the government, we will be resorting, at least temporarily, to a form of state socialism which is wholly contrary to all of our traditional concepts and which is not demanded even by the extreme exigencies of the present situation. But if we want, as I presume we all want, to preserve our system of private enterprise, we must make sure that the bulk of the savings of individuals and business is reinvested in business and that appropriate machinery is available for that purpose.

It is becoming more and more apparent that we do not have as wide a margin of efficient productive capacity as was first thought. Large amounts of capital will still be required either for expansion or adaptation of present equipment if output is to be increased as fast as it should be to meet defense requirements

in addition to civilian needs. Otherwise, curtailment of civilian consumption will be essential to avoid so-called bottle-necks or price inflation. An increasing demand for capital has already been reflected recently in the revival of security financing and it is likely that the trend will continue as the defense program progresses.

The need for a substantial flow of private capital into productive employment probably will not end with the defense program. Another major problem will have to be faced at the end of the war and after the completion of our defense program. Much of the current expansion of plant and equipment is of specialized types designed for the manufacture of war materials, which, unfortunately, will be of little use in the production of goods for civilian consumption. That being so, peacetime requirements may have to be met by the enlargement or readaptation of present facilities to peace needs. Certainly, the present diversion of productive activities to defense needs, together with heavy taxation to help pay for it, may well leave a large latent consumer demand at the end of the war. In addition to these potential post-war demands for domestic purposes, there will likely be a substantial foreign demand for both credit and goods if, as I hope and expect, the democratic system is preserved.

Of course, we may later find that the volume of idle savings may not be as great as world needs. Vast amounts of capital are being destroyed or consumed in non-productive channels. Considerable sums of the country's accumulated savings have already been absorbed in financing government requirements. Furthermore, there are some who still feel that as the country has matured, opportunities for private investment have lessened or may shortly disappear. In some degree they may be right though I, personally, do not question that new opportunities in the form of new inventions and new industries will arise in the future as they have in the past. Our national genius has too much momentum to become static overnight. But even if we must assume that there are long range changes in progress which are tending to decrease new investment, as was the case in England in the decade preceding the outbreak of the war, nevertheless, as was also true in England, we shall probably find that as new investment wanes, the slack in the national income will be taken up by replacement and modernization. To the extent that replacement and modernization are financed out of current earnings of industry, your business in the investment banking field will, of course, have to suffer.

But, for the various reasons I have enumerated, I believe that during this emergency, and after the emergency is past, we shall have continuing need for private capital and for the maintenance

of a capital market mechanism by which borrowers and investors may be brought together. If that mechanism is to run smoothly and effectively, it will require not only a sympathetic and constructive attitude on the part of the government, but, even more than that, it will require an increasing effort on the part of the market itself to lose no opportunity to improve its own mechanism in order that as conditions change it may do a better job both for the borrower and for the investing public. That abuses in the past have invited government intervention is not, I think, a reason to despair. The government has, no doubt, done much to arouse a keener consciousness on the part of the investment bankers, as a whole, of their greater responsibilities. Some of you may feel that the government has gone too far and that some relaxation of its supervision may now be more appropriate than further regulation. That may be true. But I venture the hope that the tremendous unified effort that the nation is now making for defense in the utilization of its resources in industry, capital and man-power, will impress upon all of us, in and out of government, the vital importance of tolerance, mutual understanding and co-operation in order that each of us may give the maximum of strength and ability to the great task before us.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 29, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Lacour-Gayet, Financial Advisor to the French Embassy, called me at 3:20 this afternoon from New York. He stated that his Ambassador has on last Monday discussed with Under Secretary of State Welles the question of emigrants coming from France to the United States. Lacour-Gayet said that Under Secretary Welles had at that time been told by the French Ambassador that it was desired that Mr. Lacour-Gayet present the same question personally to Secretary Morgenthau. Lacour-Gayet now desires to know whether the Secretary could receive him personally on Friday for this purpose. I told Lacour-Gayet that I would take up this subject immediately with the Secretary, but I was not at all sure it would be possible considering the Secretary's program. Mr. Lacour-Gayet felt that the Secretary would have a keen interest in the proposition, and is anxious to submit it to him. If this is not feasible, Lacour-Gayet will come later to see Mr. Bell and myself.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 29, 1941.

TO Secretary Morgenthau
 FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transaction in the account of the National Bank of Hungary, Budapest, maintained with the National City Bank, New York.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
January 29	\$120,000	Federal Reserve Bank of New York for account of Sveriges Riksbank, Stock- holm



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 29, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Arno Konder, Counselor of the Brazilian Embassy, called on me at 12 noon today. He said that Foreign Minister Aranha of Brazil desired to be confidentially informed of the recently consummated Stabilization arrangement between the United States and Argentina. I gave the Counselor copies of the press release which was issued on December 27, 1940, after the agreement under reference was signed.

Mr. Konder thanked me for this, but said that he was anxious to provide full details of the agreement confidentially to his Ambassador for the Minister for Foreign Affairs. I told the Counselor that it had been agreed by the two parties to the arrangement that no details would be given out beyond those set forth in the communique. In the circumstances I was not free to disclose any further information. Notwithstanding the Secretary's close friendship with Minister Aranha, I doubted whether Mr. Morgenthau would approve of any disclosure of facts which might possibly be considered as a violation of our confidence with the Argentine Delegation. I promised, however, to speak to the Secretary upon this point and to communicate later with Mr. Konder.



TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Friday, December 27, 1940.

Press Service
No. 23-5

The following joint statement is made by the Secretary of the Treasury, the Argentine Ambassador and the General Manager of the Central Bank of Argentina:

As another practical proof that the Good Neighbor policy is a living force among American Republics, the United States and Argentina have completed a stabilization arrangement by which \$50,000,000 of the United States Stabilization Fund is set aside to promote stability between the United States dollar and the Argentine peso.

The agreement provides, under conditions acceptable to both parties, for the purchase of Argentine pesos with dollars, and for the exchange of information and of views bearing on the proper functioning of such a program.

This is a cooperative arrangement between old and good friends. It has been discussed and formulated in this spirit by representatives of the Argentine Government and the Central Bank of Argentina, and by the officials of the United States Treasury. The monetary authorities of the two countries expect to hold further discussions in the same friendly spirit during the coming year; and it is hoped that these conversations will enable both countries to reap the greatest possible benefit from the workings of the present agreement.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

PERSONAL and STRICTLY CONFIDENTIAL

DATE January 29, 1941

TO Secretary Morgenthau
FROM Mr. Wiley

State Department has finally set up an Intelligence Division to cover subversive activities. It is headed by Mr. George Gordon, American Minister to The Netherlands, who is assisted by David Williamson and Fletcher Warren, foreign service officers. In addition, a member of each geographical division of the State Department is to be assigned to this new unit.

As I understand the functions of this division, its primary purpose will be that of establishing close liaison with the State Department's geographical divisions, FBI, MID, ONI, the Treasury Department, the Rockefeller Committee, and other agencies of the Government. I was told that the division will be very glad to make available to the Treasury all information which may be received from the field or other sources which might present interest.

Mr. Gordon's division is not to be an investigative unit and will, I was told, dispose of no special funds. I understand it was set up on the direct initiative of Mr. Sumner Welles, against considerable opposition from certain of the geographical divisions.

Copy to Mr. Gaston.

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January 29, 1941

SECRETARY MORGENTHAU:

Has this been brought to
your attention?

JCW
JCW

FROM: JOHN C. WILEY

*Chu
u*

V.T. 1004/6/41

Dresdner Bank, Berlin has requested Isteambi
to credit 77,100 dollars to Seong account at Skandinaviska
Stockholm without mentioning Dresdner's name and to in-
struct Stockholm that amount must be credited to Reichsbank.

January 21st, 1941.

CONFIDENTIAL

REC'D JAN 2/25/41

1879

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE January 29, 1941

TO Secretary Morgenthau

FROM Mr. Klaus

FBI reports:

On Saturday, January 25, I was told orally by FBI that the Italians had so far depleted their accounts in the United States that the Italian Vice Consul in Philadelphia was unable to receive funds to perform the routine work of his office and was compelled to rely on his personal funds. (This would indicate that the Italians are not using their large balances in New York City for the support of the diplomatic service.)

January 25. On December 27, 1940, the German Embassy purchased with \$1,000 bills from the Riggs Bank in Washington, D.C., drafts for their Consulates General in San Francisco (\$8,000) and in New York (\$7,500) and their Legation in Mexico (\$1,000) and to "Ernest Laessing" of Mexico City. On January 3 they repeated this program, sending a draft of \$2,850 to the Consulate General in New York; \$300 to the Legation in Panama City, and \$492.35 to the Bacardi Rum Company. (This would indicate that the Germans are now doing their business in cash and must have large amounts of currency in the Embassy vaults.)

15.

C O P Y

ROYAL NETHERLANDS LEGATION

Washington, D. C., January 29, 1941

Dear Mr. Cochran:

I send you herewith the draft of a circular to be addressed by the Netherlands Minister to the Consular Officers of the Netherlands in the United States.

I believe this document contains all the information on the subject of registration of Netherlands Government securities that will be of interest to your Department.

You would oblige me by addressing any comment you may have to offer to the Commercial Counselor at this Legation - Mr. B. Kleijn Molekamp.

Yours sincerely,

(Signed) A. Philips
Adviser to the Treasury Department of
the Royal Netherlands Government

Mr. H. Merle Cochran, Technical Assistant
to the Secretary of the Treasury,
United States Treasury Department,
Washington, D. C.

dm

C O P Y

D R A F T

CONFIDENTIAL

The Netherlands Minister at Washington has the honor to inform the Consular Officers of the Netherlands in the United States that a notice will be released for publication on the 1st of February in various newspapers in this country, the contents of which are given in the enclosure of this letter.

If the Consular Officers are approached for information in connection with this notice, they are requested to suggest to the applicant that he communicate with one of the Consulates General of the Netherlands at New York, San Francisco or Chicago.

Attention is drawn to the fact that the registration in question only applies to securities held in allied and neutral countries. If therefore information is requested concerning securities which do not fall within the above-stated category there is no need to direct applicants to an office of registration.

In order to be considered for registration, the securities will have to be produced at one of the registering offices and their owner will have to fill out and sign a form in triplicate showing inter alia his nationality (or, in the case of a company, the nationality of the managers, directors and shareholders, as far as possible, and in which country the company has its domicile), where he resided on and since May 15, 1940, and where the securities were held on and since that date. The form also contains a declaration by the owner of the securities that the interest, if paid, will not benefit in any way the enemy or a party (whether an individual, a firm or a legal body) in enemy or enemy occupied or controlled territory, nor

- 2 -

a national or a resident of a country with which diplomatic relations have been severed. The bonds themselves will not be stamped or otherwise defaced.

A registration fee of \$0.50 per fl. 1000,- will be charged, with a minimum of \$1.00.

Registration will not automatically entitle the holder to payment of interest. Registration takes place in order to provide the statistical information needed by the Netherlands Government to decide whether it will be possible to resume interest payments.

dm

DRAFT

REGISTRATION OF NETHERLANDS GOVERNMENT SECURITIES

The Netherlands Government has issued a Decree to the effect that payment of interest and redemption on the outstanding debt of the Kingdom has been suspended. (It will be recalled that there are no Dollar bonds of the Netherlands outstanding; the entire debt is stipulated in Guilders). However, the Government will consider the possibility of resuming interest payment to bona fide bondholders as soon as data are available concerning the amounts held on and since May 15, 1940, in countries outside the territory controlled by Germany and her allies. To this end, facilities for registering bonds and other obligations of the Kingdom of the Netherlands will be available during the month of February 1941. Holders in the continental U.S.A. of such claims should get in touch with the Consulate General of the Netherlands either in New York, San Francisco or Chicago.

dm

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 29, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Stocks sold outside National Exchanges in Blocks of 1,000 shares and upwards
January 7 to January 24, 1941Gifford Reports:Forrestal Reports:

Standard Oil Co. of California	1,000 - Jan. 7	
	3,000 - Jan. 9	-
Mueller Brass Co. Com.	13,000 - Jan. 7	
	1,900 - Jan. 21	-
Socony-Vacuum Oil Co. Inc.	1,000 - Jan. 8	
	2,000 - Jan. 11	
	100,000 - Jan. 17	100,000
General Electric Co. Com	1,500 - Jan. 8	
	4,500 - Jan. 8	
	5,000 - Jan. 9	-
Chase National Bank of the City of N.Y.	1,000 - Jan. 8	
	2,000 - Jan. 8	
	1,000 - Jan. 9	
	1,000 - Jan. 10	-
Buffalo, Niagara & Eastern Power Corp. \$1.60 Pfd.	2,500 - Jan. 8	
	2,000 - Jan. 10	
	4,000 - Jan. 14	
	18,906 - Jan. 15	-
Air Reduction Co. Com.	3,600 - Jan. 8	-
Finken-Detroit Axle Co. Com.	4,700 - Jan. 9	-
Purity Bakeries Corp. Com.	10,000 - Jan. 9	10,000
Phillips Petroleum Co.	1,500 - Jan. 9	
	7,800 - Jan. 20	-
Pacific Gas & Electric Co. 6% 1st Pfd.	2,000 - Jan. 9	
" " "	2,000 - Jan. 10	
" " " Com.	46,891 - Jan. 10	46,891
" " " 6% 1st Pfd.	1,000 - Jan. 20	
" " "	7,533 - Jan. 20	

- 2 -

Sifford Reports:Forrestal Reports:

North American Co. Com.	72,945 - Jan. 9	172,945
	100,000 - Jan. 9	
Johns-Manville Corp. Com.	1,000 - Jan. 9	-
International Harvester Co. Com.	2,000 - Jan. 9	-
General Refractories Co. Com.	2,500 - Jan. 9	-
Crane Co. Com.	25,000 - Jan. 9	
	4,807 - Jan. 13	-
Chrysler Corp. Com.	1,500 - Jan. 9	-
Celotex Corp. Com.	31,528 - Jan. 9	-
American Gas & Electric Com.	1,000 - Jan. 9	
	1,000 - Jan. 14	
	5,000 - Jan. 14	
	1,100 - Jan. 16	-
Wesson Oil & Snowdrift	6,900 - Jan. 10	7,000
Walgreen Co. Com.	4,000 - Jan. 10	-
Union Carbide & Carbon Corp.	1,250 - Jan. 10	-
Continental Can Co. Com.	1,000 - Jan. 10	-
Commercial Credit Co. Com.	27,000 - Jan. 10	-
Bankers Trust Co. N.Y.	1,000 - Jan. 10	-
American Cyanamid Co. Com "B"	5,000 - Jan. 10	
	7,993 - Jan. 11	12,900
United Shoe Machine Corp. Com.	1,000 - Jan. 13	-
Montgomery Ward & Co. Inc. Com.	79,243 - Jan. 13	80,000
Marshall Field & Co. Com.	2,000 - Jan. 13	-
General Motors Corp. Com.	8,000 - Jan. 13	-
Continental Gas & Electric Corp. 7% Pr.Pfd.	2,402 - Jan. 13	-

- 3 -

Gifford Reports:

Consolidated Edison Co. of N.Y. Inc. Com.	1,200 - Jan. 13
Union Pacific R. R. Co. Com.	42,534 - Jan. 14
Deere & Co. Com.	10,000 - Jan. 13
Sears Roebuck & Co.	10,000 - Jan. 14 2,500 - Jan. 17
H. L. Green Co. Inc. Com.	13,825 - Jan. 14
Crown Zellerbach Corp. \$5. Cum. Conv. Pfd.	2,747 - Jan. 14
Boston Edison Co.	2,000 - Jan. 14
Southeastern Power & Light Co. 6% Debs. "A"	14,800 - Jan. 15 362,000 - Jan. 15
First National Stores Inc. Com.	1,000 - Jan. 15
Lone Star Cement Corp. Com.	21,657 - Jan. 16
Chesapeake & Ohio Ry. Co. Gen. Mtg. 4-1/2%	5,000 - Jan. 17
Union Oil Co. of Calif.	1,750 - Jan. 17
U. S. Rubber Co. Com.	20,460 - Jan. 18
Pacific Lighting Corp. Com.	3,808 - Jan. 20
United Fruit Co.	1,500 - Jan. 20 25,461 - Jan. 23
Swift & Co. Com.	6,000 - Jan. 20
Republic Steel Corp. Com.	8,000 - Jan. 20
American Fork & Hoe Co. Com.	5,000 - Jan. 20 2,831 - Jan. 21 2,500 - Jan. 22
U. S. Treas. 3% 9/15/55-51	50,000 - Jan. 21
U. S. Treas. 3-3/8% June 15, 1947-43	1,000,000 - Jan. 21
Wayne Pump Co.	11,300 - Jan. 21
United Gas Corp. \$7. Cum. Pfd.	10,000 - Jan. 21

Forrestal Reports:

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42,534
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13,825
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-
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11,300
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- 4 -

Gifford Reports:

Radio Corp. of America Com.	5,000 - Jan. 21
	3,000 - Jan. 22
General American Transportation Corp. Com.	1,300 - Jan. 21
Atchison, Topeka & Santa Fe Ry. Co. 5% Pfd.	2,500 - Jan. 21
American Radiator & Standard Sanitary Corp. Com.	218,557 - Jan. 22
Lehman Corp.	2,300 - Jan. 23
American Rolling Mill Co. Com.	2,000 - Jan. 23
Blue Ridge Corp. \$3 Cum. Conv. Pfd.	23,397 - Jan. 24
Fairbanks, Morse & Co.	-
Bell Tel. Co. of Can.	-
Collinger Consolidated Gold Mines	-
Bathurst Pw & Paper Ltd. Class A	-

Forrestal Reports:

-
-
-
218,000
-
-
-
9,000
30,000
39,000
21,000

NAVY DEPARTMENT
OFFICE OF THE UNDER SECRETARY

202

Date 2 1944

From: The Under Secretary.

To:

The Secretary of the Navy

The Assistant Secretary

Admiral Stark

Rear Admiral Nimitz

Rear Admiral Robinson

Rear Admiral Furlong

Rear Admiral Towers

Rear Admiral Moreell

Rear Admiral Spear

Rear Admiral Woodson

Rear Admiral Anderson

Mr. ~~XXXXXXXXXX~~ WISE

Commander Gingrich

Sec. Morgenthau

For information

For comment or recommendation

For preparation of reply

Please send me (data for reply)

Please see me in regard to this

Please consult with

Please return

January 22, 1941

Mr. Forrester:

Since my memo of January 7th, the following blocks of stock have been offered for sale. I have marked with a red "F" those that I believe are for British s/w.

Shares Amount	Stock	Offered By	Offering Price	Approx. Total Spread	Dealer Concession
1,000	Fairbanks, Morse & Co. F.	Lesard Freres & Co.	45 1/2	(not available)	\$1
20,000	Well Tel. Co. of Can. F.	Domain Sec. Corp. and Group (In Canada)	156 (Canada)	3 1/2	1 1/2
40,000	North American Co. F.	Union Sec. Corp (For s/w Tri-Continental Group)	17	3/4 (1/8 management)	5/8
1,945	North American Co. F.	(100,000 shs. sold to Blue Hidge Corp at 174 3/4) Balance 72,945 shs. divided between Smith, Barney & Co. and Hlyth & Co., Inc., for retail)	17	1	1/4 to Dealers outside of New York City.
10,891	Pacific Gas & Electric Co. F.	Hlyth & Co., Inc.	28 5/8	\$1.15	.70 cents
7,000	Wesson Oil & Snowdrift F.	Shearson Hamill & Co.	21	.55 cents	(sold at retail)
40,000	Montgomery Ward & Co. F.	Domnick & Domnick Lehman Brothers	79	1 5/8	7/8 (off'd to their own dealer correspondents)
1,534	Union Pacific R.R. F.	Kuhn, Loeb & Co.	84	1 7/8 (1/8 management) (1/2 underwriting)	1 1/4
12,900	American Cyanamid "B" F.	Laurence M. Marks & Co.	36 1/8	1 1/2	5/8
13,829	H. L. Green & Co. F.	Hayden, Stone & Co.	33 7/8	1 1/4	1
10,000	Purity Bakeries F.	Spencer Trask & Co.	11 1/2	.50 cents	(sold at retail)
40,000	Stand. Oil of N.J. F.	Dillon, Read & Co.	34 1/2	\$1.66 (.16 management) (1/2 underwriting)	\$1
40,000	Brunswick Balke Collender F.	Lehman Brothers Goldman, Sachs & Co.	22 3/4	2 1/2	1
100,000	Sonny-Vacuum F.	Lee Higginson Corp. Spencer Trask & Co.	9	.50 cents	.30 cents
10,000	Raymond Concrete Pile F.	W.E. Rutton & Co. Kidder, Peabody & Co.	16 7/8	1 1/4	-
30,000	Hollinger Consolidated Gold Mines F.	(Bought from "British Hold- ings" for distribution in Canada)		(not available)	(not available)
2,100	Great Northern Paper F.	Smith Barney & Co. and Associates	42	2 (.25 cents MANAGEMENT .50 cents Unid.)	1 1/4
21,000	Bathurst Pw & Paper Ltd. Class A F.	Nesbitt, Thomson & Co. Montreal	13 (Canada)	(not available)	
20,000	Public Nat'l Bk & Tr. Co. F.	Warthain & Co.	32	(not available)	1
12,000	Wm. Wrigley & Co. F.	Glore, Forgan & Co.	77 1/2	2 1/2	1 1/2
5,800	Novadel-Agene Corp. F.	Hlyth & Co., Inc.	29	1 1/2	1
45,000	F.W. Woolworth & Co. F.	Allen & Co.	32 3/8	(not available)	1
11,400	Wayne Pump Co. F.	(Stone & Webster and Bisgott Shields & Company Graham, Parsons & Co. Henry Herrsan & Co.)	19	3/4	(sold at retail)
214,000	American Redist. & Stand. Seditory F.	Warthain & Co.	4 5/4		.30 cents

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Zurich, Switzerland

DATE: January 29, 1941, noon

NO.: 66

The following is strictly confidential:

I am told by my British colleague that a bank contact of his here in Zurich informed him that his institution very recently had negotiated a transaction involving one million Swiss francs, which covered a shipment to Russia from General Motors in the United States, which shipment ultimately was delivered to the Skoda Works. The nature of the goods delivered was not learned by my informant.

STEWART.

EA:LWW



CLEVELAND METROPOLITAN HOUSING AUTHORITY

HOUSING CENTER
WEST HALL DRIVE
CLEVELAND OHIO

LESLIE A. BOHR, DIRECTOR

January 24, 1944

Dear Daddy,

I am enclosing a copy of the
"Cleveland News" article on your
testimony yesterday. I think you
did a swell job and deserve all the
credit you seem to be getting.

Love

Henry

Original clipping
is in file of description

MORGENTHAU PINS BRITISH FATE ON LEASE-LEND BILL

Marshall Says U.S. Help Can Beat Nazis

Army Chief Predicts
Hitler Will Attempt
Invasion in Spring

WASHINGTON (AP) —
Treasury Secretary Morgenthau bluntly told the Senate foreign relations committee today that Great Britain, Greece and China "can't continue to fight" unless Congress enacts the administration's British-aid bill.

"If this bill doesn't pass Congress," he said, "they can't continue to fight. The decision rests with Congress whether Great Britain, China and Greece are to continue to fight."

Meanwhile, General George C. Marshall, Army chief of staff, expressed belief that Great Britain could defeat Germany with the aid which the United States would give under the lease-lend measure. He gave this view at a press conference a short time after Secretary Morgenthau appeared before the committee.

Testifying that the British had exhausted their ~~other~~ ~~exchange~~ for buying war supplies, Morgenthau said British orders for 2,000 fighting planes were being held up for lack of cash.

Has "Charged Off" War Debt

He asserted, too, during questioning, that "mentally" he had charged off "some time ago" Britain's multi-billion dollar war debt to the United States.

Morgenthau said Britain had placed before the Treasury the "cold, hard facts" that they were running out of money to pay for additional orders. He said it was up to Congress to decide quickly what should be done.

At the other end of the Capitol, the House foreign affairs committee tentatively closed its hearings on the bill with private testimony from Marshall and General George H. Brett, acting Army Air Corps chief.

Agree on Four Changes

After a meeting of Democratic members of the House committee, Chairman Bloom announced tentative agreement on four amendments to the bill, including one prohibiting the use of United States vessels as convoys.

The other proposed changes would limit the life of the powers granted President Roosevelt to two years; require the president to report to Congress all operations under the law and require him to consult with the chief of staff of the Army and the chief of naval operations prior to taking any action under the authority granted him by the bill.

Urging speedy approval of the administration's British-aid bill, Morgenthau said its necessity was demonstrated by a telephone conversation yesterday with William S. Knudsen, director of the Office of Production Management.

Wants Something Done

Knudsen called him, the witness said, and asked if something couldn't be done by which Britain could get 2,000 planes which they want, but for which they can't place orders. There is plant capacity for the orders, Knudsen explained, if the credit can be arranged. Some plants have been tooling up for months to take care of British and French orders but they may become idle after April, unless credit is extended, because they cannot turn

Turn to Page Five

Tuesday, January 22, 1941

Morgenthau Pins British Fate on Lease-Lend Bill

Continued From Page 1

out the type of planes wanted by the American Army and Navy.

Morgenthau made his statement about Britain's debt from the last war in response to a question by Senator Vandenberg (R-Mich.).

Specific figures were not mentioned but Treasury records show that the net amount owed by Britain on the principal of World War borrowings is \$4,138,000,000. Unpaid interest brings the total to \$5,728,810,000.

The British-aid bill would authorize President Roosevelt to make war materials available to Britain without immediate payment and, in effect, leave an accounting to a post-war settlement.

Morgenthau said the British now have available only \$1,811,000,000 in gold and dollar exchange assets for war supply purchases. As against this, he testified, the British owe American manufacturers \$1,400,000,000 on orders they already have placed in this country.

Calls British "Good Risk"

When asked by Senator Nye (R-N. D.) whether he considered Britain a "good loan risk," Morgenthau replied: "Yes, I do."

"Do you think so in the light of our experience with the 1917-18 war loan?" Nye inquired.

"I'm not thinking of it in terms of dollars or terms of being repaid in dollars," Morgenthau replied. "I'm thinking of it in terms of whether it is a good risk to give them the materials they need so that they can keep fighting and

give us the time we desperately need to prepare."

Morgenthau replied "Yes" when Senator Connally (D-Tex.) asked whether the British have paid for all war materials to date with "hard cash" and that "not a dime" of American money had been supplied to Britain.

"Simply Pay From Us"

"As a matter of fact," Connally added, "the United States is not aiding Britain at all. The British simply buy from our manufacturers who make a profit on the orders."

"That's correct," Morgenthau said. "That's the idea some folks have of all possible aid to Britain," Connally remarked.

Morgenthau's testimony came after a White House conference last night at which President Roosevelt reportedly told Republican and Democratic legislative leaders that while the bill would authorize him to "do anything under the sun," he had no intention of doing more under it than was deemed necessary by his Army and Navy advisers.

Nights Spring Invasion

In his interview, General Marshall told reporters that all indications were that Hitler would probably make an all out attempt to invade England this spring.

"Do you believe that Great Britain with the aid of the United States could whip Germany?" Marshall was asked.

"Yes," he replied. "Do you think she could defeat Germany with all aid except manpower?"

"I think so," Marshall replied. "That certainly is our hope."

Without American aid, he declared, Britain's situation would be extremely hazardous.

"I think it's a serious situation—one of the most critical periods in the history of the world."

January 29, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Mr. Cairns advises me that Secretary Knox made a formal request for an opinion from the Attorney General as to whether the President has authority to order an immediate transfer of the Coast Guard to the Navy. Townsend asked Cairns to prepare a memorandum. There seems no doubt that the authority exists.

Section 1 of Title 14, U.S.C., reads in part as follows:

"The Coast Guard shall constitute a part of the military forces of the United States and shall operate under the Treasury Department in time of peace and operate as a part of the Navy, subject to the orders of the Secretary of the Navy, in time of war or when the President shall so direct."

Cairns, however, is looking up the legislative history. An interesting feature of the law is that appropriations for the Coast Guard have to come through the Treasury Department except in time of war notwithstanding that the Coast Guard may be operating under the Navy by direction of the President. The law reads:

"When subject to the Secretary of the Navy in time of war the expenses of the Coast Guard shall be paid by the Navy Department."



January 29, 1941.

MEMORANDUM

TO: Secretary Magenthien
FROM: Mr. Gaston

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FIFTY ONE MADISON AVENUE
NEW YORK

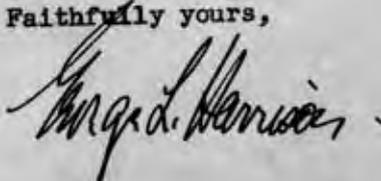
January 29, 1941.

Dear Henry:

Just after receiving your gracious and welcome note of January 6, I had to go away for ten days to attend my first insurance convention. On my return I found that your note had been misplaced with the mail that had accumulated in the meantime. So, I hope you will please understand and forgive this long delay in thanking you for it and for the good wishes which it brought to me.

It was not easy for me to leave the Federal Reserve System after so many years, and I know that I shall miss it and my associations with you more than I dare to contemplate. However, I hope that some day when I am in Washington and when the great pressure of work under which you are now laboring, will have let up somewhat, you will let me call on you. In the meantime, please accept my thanks and my best wishes.

Faithfully yours,



Hon. Henry Morgenthau, Jr.,
The Secretary of the Treasury,
Treasury Department,
Washington, D. C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 29, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Playfair of the British Treasury Delegation talked with me by telephone yesterday noon and came over to see me yesterday evening. In both conversations he mentioned that Great Britain was being obliged to release more gold to Canada than had been immediately anticipated.

Playfair again brought up the question of interim assistance for the British. He stated that if the Lend-Lease Bill should become effective by March 1 it would find the British on that date with only about \$45,000,000 of gold or foreign exchange on hand. A fortnight ago we calculated the balance at the end of February as nil. This increase to \$45,000,000 is approximately the amount of the revision of the gold holdings of Great Britain as made after our first table was submitted and prior to the hearing before the Senate Committee. I gained the impression that the British might desire to approach the Secretary on this subject yet this week. Playfair stated that orders placed since the new stringency arose had amounted to approximately \$130,000,000 to date.

Playfair stated that a message had been received from London to the effect that about \$1,500,000 of silver was required for coinage and industrial purposes. Silver to this amount will be received from India in April, but because of the urgency of the need for coinage and industrial purposes inquiry was made as to whether the silver might be obtained elsewhere. I told Playfair that the Treasury could not sell any of its stock at current prices. The British could procure the desired silver through market transactions to be handled by banks and dealers in New York. Furthermore, I explained our arrangement with Canada and suggested that this Dominion might provide the necessary silver. Playfair pointed out that dollars would have to be paid for the silver coming from either of these two sources and that he would regret to see his Government expend dollars for this purpose at this time, especially considering that the Empire itself is producing silver, which can be obtained against sterling. I told him that we did not have any sterling abroad which we could swap for silver in India to help in the British emergency.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

January 29, 1941.

TO Secretary Morgenthau
FROM Mr. Kuhn

Joe Alsop would like very much to see you tomorrow to bring himself up to date on economic defense. He has the impression that the situation has changed materially since he last discussed it with you.

F.K.
—

Capital Parade

By Joseph Alsop And Robert Kintner

ONLY TWO or three weeks ago there was a good prospect of our putting our massive economic power behind Britain's effort at economic warfare. An excellent economic defense plan had been launched, and seemed to have plain sailing ahead. Indeed, the President had virtually agreed to sign the necessary Executive order. But then, at the last moment, the plan was caught in one of those governmental eddies, all too common in Washington, where hapless projects are tossed endlessly to and fro in the cross-currents of the bureaucracy.

The disagreement was chiefly between the Treasury and State Department, with Commerce and other agencies playing subsidiary parts. It arose more than is usual from honest difference of opinion, less from petty conflicts of ambition. But whatever the reason, the plan now seems destined to revolve in its eddy until it is finally knocked to pieces, like a rudderless ship in a whirlpool.

DURING RECENT months several departments and agencies have interested themselves in the economic defense problem. Six weeks or so ago a memorandum proposing action, said to have originated with Leon Henderson, was sent the President from the Defense Commission. Even before that, a special projects division was set up in the office of the Administrator of Export Control, to study the problem under the guidance of former Assistant Secretary of the Treasury Thomas Hines. At the Commerce Department, ever since his appointment as Under Secretary, Wayne Chatfield Taylor has been considering a scheme to combine economic defense and preparations for post-war economic reconstruction.

Finally, at the Treasury, where interest in economic defense first awakened in Washington, a complete plan and Executive order to implement it were drawn up towards the end of December.

As it happens, most of the powers needed for economic defense are already lodged in the Treasury. Through the stabilization fund, it controls world money markets. Its freezing and balance-blocking power permit it to control foreign assets in this country. The germ of shipping control vests in the Coast Guard's power to grant or withhold port clearances. And its banking connections make it easy for the Treasury to mobilize the influence of American firms abroad. Only export control, exercised by the office of the administrator under the White House, and the important control arising from purchases of strategic materials, not in the RFC, are not under the Treasury roof.

THE TREASURY plan called for addition of export control to the other Treasury powers, formation of a general staff within the Treasury to apply the several controls, and appointment of an interdepartmental committee to direct this general staff. It contemplated several bold changes in Government policy, such as general freezing of the American assets of all foreign nations, and extension of export controls to make them more damaging to the Axis. The plan, presented to the President by Secretary Henry Morgenthau, Jr., was promptly objected to by the State Department. State Department officials naturally feared such aggressive action might upset our relations with Japan and Russia.

Attorney General Robert H. Jackson was thereupon called in, and on his advice the plan and order were redrafted, to give full power to veto or modify any proposed move to Secretary of State Cordell Hull, as chairman of the interdepartmental directing committee. This it was thought, nullified the policy objections to the plan. On the understanding that something like an agreement had been reached, the President declared he would sign the Execu-

tive order on January 3. Preparations for active economic defense were actually started at the Treasury.

Then on January 3 Secretary Hull asked for more time to consider the draft order. Time, very properly, was granted. And time has prolonged itself, and new objections have been raised, until the prospect of a decision has almost vanished.

VARIOUS REASONS are given for the delay. Assistant Secretary of State Adolph A. Berle, Jr., who has advised Secretary Hull on the subject, is extremely doubtful whether the right organization has been hit upon. He particularly questions whether the Treasury, already burdened with responsibility, should receive such a large accession. Other State Department officials are not satisfied with the veto power conferred on Secretary Hull.

THE WASTE of time has had some pretty unpleasant results. The Germans and Italians, fearing a freezing order, have removed every dollar they could liquidate from this country to South America, where the dollars will inevitably be used against us, although proposed and backed in both Treasury and State Departments, even a selective freezing order, applying only to German, Italian and Swiss assets, has not been agreed to. Yet the waste of time, being irreparable, should cause less present concern than the continued disagreement. As has been stated, the disagreement is for once reasonably honest and disinterested. It is not accompanied by the usual sordid hickering. But however unusual in manner and matter, the disagreement is likely to have the usual effect—one of those preservation of the bureaucratic status quo, hurting no one's feelings, but rendering the Government administratively impotent.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 29, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Playfair of the British Treasury Delegation telephoned me this forenoon. Since Secretary Morgenthau had, according to the press, mentioned in his testimony before the Senate Foreign Relations Committee yesterday the fact that the British representative who was coming to the United States to take charge of the disposal of direct British investments in this country was detained at Lisbon, it was felt by the British that this gave clearance and a reason for the early release of a communique by the British Government in regard to Sir Edward Peacock's nomination to this post and his departure. I agreed that there was no reason why the communique should not now be issued. Playfair called me back around noon to tell me that a notice on this subject would appear in tomorrow morning's London papers. I gave this information at once to Mr. Kuhn. I told Mr. Kuhn that I thought this should be a British release and that no further statement was required by Secretary Morgenthau.



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 29, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

I have learned in strictest confidence from our British friends that the gold which we learned a few days ago had been deposited with the Bank of Brazil for French account, and amounting to 500 kilograms, had reached Rio de Janeiro between December 6 and 11, after having been transported from Casablanca on the S.S. Katiola. It is understood that this gold will be used to pay from Brazil for oil to be purchased in Venezuela and shipped to Dakar. This gold is held in the name of the B.I.S. at Rio de Janeiro. The next to the last paragraph of cablegram No. 15 from the American Legation at Bern explains the transaction insofar as the B.I.S. is concerned. I have given the foregoing information to Dr. Feis in the Department of State since we had consulted on the subject before he despatched the cablegram to the Legation at Bern asking for an investigation of this matter with the B.I.S.



PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Argentina (Madrid)

DATE: January 29, 5 p.m.

NO: 77

British Ambassador informs me that 50,000 tons of wheat from Argentina which his government is preparing to furnish Spain will be paid for from available Spanish funds but that any amount beyond that must be met through credits to be voted by Parliament. Spanish Government has sent 70 vessels to Buenos Aires and probably anticipates getting more wheat.

Representative of the Minister of Industry and Commerce has told the Embassy that the Spanish Government is discussing with the Argentine Government the purchase of 500,000 tons of wheat to be paid for by certain securities available to Spain and by credits to be accorded by Argentina.

COPY:aja

JAN 29 1941

Dear Mr. Hoffman:

In connection with reports I am receiving bi-weekly from the airplane and airplane engine industry, I should like to secure certain information regarding unfilled orders, new orders, and deliveries of airplane engines for your company. I am enclosing a table which has been prepared for your company from various data available at the War Department showing the number of airplane engines on order on January 15, 1941. Will you please revise this table in accordance with the procedure outlined below.

Bring forward to February 1 the estimated deliveries of the unfilled orders by (1) inserting new orders received during the period January 19 through February 1 in their proper place, combining new orders with orders now shown on the table where the type of airplane engine and class of purchaser are the same, and using a new line for any type of airplane engine not already included in the schedule, and (2) indicating any revisions that have been made in the estimated delivery dates of the remaining orders now shown on the schedule. After these revisions have been made, the schedule should show estimated deliveries of all orders unfilled on February 1, including new orders received during the period. When deliveries start, of course, a further adjustment of the figures to reflect such deliveries would have to be made.

Data should include spare parts. If any spare parts are included in the contract, please show the percentage these bear to the total order in the column at the extreme right of the table.

Please forward the revised table, together with a statement of new orders received and deliveries made in the period January 19 through February 1, to Mr. George C. Nease, Director of Research and Statistics, Treasury Department, Washington, D. C., whom I have asked to arrange to obtain from you such subsequent figures as are necessary to bring the information up to date. I shall appreciate it if you will send your reply by air mail special delivery so that it will reach him on Monday, February 5.

Sincerely,

(Signed) H. Mangumhan, Jr.

Mr. Paul B. Hoffman, President,
Studebaker Corporation,
635 South Main Street,
South Bend, Indiana.

Enclosure



FILE COPY

*See this memorandum to
Hadley to go to Chicago 1/24*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 29, 1941

TO Secretary Morgenthau

FROM W. H. Hadley

GOVERNMENT SECURITY MARKET

AS VIEWED FROM THE CHICAGO AREA

In talking to representatives of the Federal Reserve Bank of Chicago and five largest commercial banks there, I asked the following questions:

1. What is the general attitude toward the government security market in this area?
2. What has been the reaction to recent Treasury offerings?
3. What type of securities are the banks and customers looking for?
4. What type of security would you propose which would attract individual investors and exclude banks?

I. Attitude Toward Government Security Market

The general impression of the market is that it is rather thin and tending toward lower levels. The general opinion is that there are more forces pushing the market down than tending to raise it. One of the forces which practically all the commercial bank men mentioned was the uncertainty as to whether Eccles' proposals will be approved or not. This uncertainty applies especially to the smaller country banks where they hesitate to make further investments not knowing whether their excess reserves will be available for investments or will be completely eliminated. The next sixty days in the European picture to them appears critical and adds further to their hesitancy to make commitments. The prospect of a heavy Treasury financing program has also tended to keep buyers out of the market until they can get

a broader perspective of what the Treasury financing program will be, and this is coupled with the question of when will the tax exemption feature be removed from Treasury bonds.

As to the taxability of new issues, there was no complete agreement. Some felt that completely taxable issues will result in higher interest rates for new bonds than would appear on first glance because more and more banks are getting into a position where their taxable income is becoming an important factor. Heretofore taxable securities meant little or nothing to the banks. The general feeling is that a lower level of security prices would be much healthier because large Treasury offerings at high levels may have a tendency to knock the market down and, above all, the Treasury must guard against unsuccessful issues at the start of such a huge program as is planned. They seem to feel that the rise from November to the first of the year was rather artificial and a level somewhere around the pre-election prices would give a steadier market.

II. Reaction to Recent Treasury Offerings

For the most part, the defense notes did not appear to be attractive to the banks in this area because they neither give a high return which the small banks are looking for nor the type of liquidity which the large banks seem to desire. Feeling was that the greater percentage of the first issue bought in this area found its way into the New York banks where they estimate 75% are now held. On the December issue, the New York banks gave buying support to the note whereas on the one just offered the New York banks did not hold an umbrella over the new issue and appear to be picking it up less aggressively. The impression was that the market can only take so much of this type of issue in a given period and that this second offering had a tendency to load up the market with a note issue. Customer subscriptions to the last offering were considerably lower and the small banks were practically out of

the picture. These smaller banks appear to be waiting for lower levels in order to reinvest funds obtained from sales of their longer bonds which they unloaded in the Fall of 1939 and the Spring of 1940. A lot of the subscribers that stayed out of the last defense note because of relatively low price appeared to be "free riders" and from this angle the subscription list is much more healthy than it has been for some time. A high percentage of the subscribers appear to be those who will hold on to the notes. However, this conflicts to some extent with the opinion that a high proportion of these notes will be re-sold to the New York banks. One factor which tends to make the defense notes less attractive to the banks is the uncertainty as to whether these issues will be exchangeable for new offerings at maturity. As the law reads now they are not. Some of them felt that because bank loans are tending higher, commitments for governments by banks aren't going to be as large in the future as they have been in the past. Some mentioned that they took and would take any defense issue offered whether they planned to hold them or not because they wanted to do their share on the defense program.

III. Type of Securities Banks and Customers are Looking For

The larger banks in this area are not in agreement as to the type of securities they desire for their own portfolio. Some tend to the short term and some to the longer terms. However, there was complete unanimity of opinion that the country banks want the higher coupon issues which for future issues means long term bonds. These smaller banks have to earn a higher rate on their investments because their costs and interest payments to depositors are proportionately higher than the big banks. The larger banks are split between the long term issues and bonds of about 10 years or less, depending upon individual investment policy. They all talked in terms of higher coupon rates than have been offered on previous issues. In part this appeared to be wishful thinking but there was also the general feeling that the market is

going lower and therefore higher rates will have to be paid. Most of them felt that it was absolutely necessary that the Treasury be sure to make issues so attractive that there will be no question of their falling below par. There was general agreement that poor offering at the start of such a heavy program would cost much more in the long run than what at the time of offering might appear to be an issue that looks too attractive.

IV. Treasury Offerings Designed for Individual and Buyers Other Than Banks

Feeling was that since banks can always under-bid other investors because of heavy cash resources and lower earning requirements, securities designed to go to individuals should be designed definitely to exclude possibilities of banks taking these issues. The general feeling was that some type of offering similar to the baby bonds but with the elimination of the demand liability feature would be most satisfactory. The experience and education of the public that has come from these baby bonds should not be thrown away on some entirely different type of offering. Just what a new offering would be, opinions vary, although they seem to feel that, excluding our active participation in the war, the only real incentive for the individual to buy would come from an attractive coupon rate, perhaps as much as 3%. They felt that simplicity should be the feature of the issue and that a really patriotic motive was rather nebulous unless we were active participants in the war. They felt you can always sell any type of issue if the return is attractive and that most individuals think of 3% as such a rate.

Although this 3% rate may seem out of line with what we have been offering, the taxability of future issues coupled with what they feel is a tendency toward lower levels, may make such a rate necessary. Above all, they agreed that the demand aspect of the baby bonds is a danger which should be circumvented by any new offering to the public but they do not feel it wise to upset the baby

bond program as it stands now. If an offering without this demand liability feature should be made of securities to the public, they propose an increase in the limit which any one buyer could take to a much higher figure than now exists for the baby bonds. They felt that the largest source of funds from non-banking investors would come from insurance companies and trust funds and that individuals as such would not be as great a factor as might be thought. Some felt that the cost on very small units such as savings stamps would more than offset the inflow of money from this part of the investing spectrum.

January 29, 1941

H.M.Jr:

Lord Halifax called and made an excellent impression. He is very simple and very direct, and very badly dressed. I believe he is hard of hearing, and I didn't know that he only had one arm. He wanted to thank me for all I had done.

I told him I was very glad to see that England was putting pressure on us to help along the economic line. He said he had taken this up with Sumner Welles and left a memorandum with him, and Sumner Welles stalled him by saying that possibly they could hold all the ships at the Panama Canal and examine them there, but I gathered that Welles must have told him he would have to get the other South American countries to agree to this, and he wondered if that was at all feasible; and I said I doubted it very much.

I cited the case of oil in Central and South America and then I got on to the question of freezing funds, and I said that I was going to be undiplomatic, but that what I was going to say to him now or in the future, I never would say that I hoped he would do something that the President wanted, but that if they could put pressure on the State Department, and particularly on Mr. Hull, to let us go ahead and freeze all funds that I didn't know anything that we could do right now which would be more helpful.

- 2 -

He thanked me very much and assured me that he would be discreet, and I think he will, at least I might as well test him and find out; and if he breaks my confidence this time, he will never get another chance.

I asked him whether he didn't think that they had a better chance of winning now that they no longer had France as an ally, and he first stuck at the question; but then he said there were a lot of Englishmen who felt that their chances of winning were greater without France than with it, and then he said something very interesting, "And at the peace table, the role will be easier without France, because we hope it will only be the United States and ourselves dealing on the one side as against out enemies." He didn't put it just that way, but that is what he meant; but he did say, "United States and ourselves without France."

He asked me how I liked Sir Frederick Phillips, and I told him I got along very well with him; and he said he was interested, because he said Phillips did have a habit of being rude to certain people, and I said he had never been rude to me. He said, "As long as he gets along with you, that is all that counts." And then after I said I liked him, he let me know that he also thought highly of him. I put in an extra good word for Purvis, and a pat on the back for Pinsent.

January 29, 1941

Arthur Purvis called to tell me that he had quite a discussion with Sir Frederick Phillips about getting the money to buy 1960 English type planes; that it seemed out of the question to use the French gold in Canada, for political reasons. As to the Belgian gold, they might be able to borrow it provided they could get the money, say, from the sale of wool or tin or rubber, to pay back in 60 days, but it presented a very serious situation and the Belgians might yell their heads off about it.

I told him he should forget it for the time being and save the French and Belgian gold for some great crisis. My suggestion to him was that he should go over and see Bill Knudsen this morning and say "We need 1960 planes. What American prototype have you got that can do this particular job that we need, such as dive bombers or reconnaissance work, etc." and see if Knudsen can't suggest an American type plane. He said he thought that was an excellent, practical suggestion and said he was sure that the Americans had a type plane for every need with one possible exception and he would see if Knudsen would not be willing to manufacture a plane to fit this type inasmuch as the Americans had no plane already along these lines.

I then mentioned to him that I was worried about the size of the English orders that were coming through and asked him to study this situation and he said he would. He said that he had also been surprised and it had been largely steel and machine tools and that he only learned about it on his return from England.

January 29, 1941

Memorandum

I would like to have an exact copy of what General Marshall said yesterday as the accounts in today's papers are so sketchy. I also would like to know under what circumstances and where he said it.

Copy to Mr. Schwarz

1-29-47 ✓

FROM: MR. SCHWARZ'S OFFICE

The Secretary

TO: _____

General Marshall reports that he has no transcript of his press conference in his office yesterday. The conference, he said, was one that had been long-deferred and turned out to be unfortunately timed because it followed so soon after his executive session testimony before the Foreign Affairs Committee. He was perturbed by this morning's stories because he repeatedly told the reporters that he did not like to comment publicly on pending legislation. They wormed his opinions from him as background and then some used them as if they were statements made before the Committee.

Co

January 29, 1941

Mr. Foley
Secretary Morgenthau

In my testimony yesterday where I said I never heard of Barron's Weekly, I would kill it because that was an incorrect statement.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 29, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£50,000
Purchased from commercial concerns	£34,000

The Federal Reserve Bank of New York sold £57,000 in registered sterling to two non-reporting banks.

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

Sold to commercial concerns	£1,000
Purchased from commercial concerns	£2,000

Until late afternoon, Swiss francs available for commercial use were offered at .2326, unchanged from yesterday's close. The final quotation was .2325. The New York banks reported that little non-commercial business had been transacted in Swiss francs, and that the only rate recorded was .2345 bid for a moderate amount.

Closing quotations for the other currencies were:

Canadian dollar	17-1/4% discount
Swedish krona	.2386
Reichsmark	.4000
Lira	.0505
Portuguese escudo	.0401-1/2
Argentine peso (free)	.2375
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	7-11/16% discount
Chinese yuan	.05-9/16

There were no gold transactions consummated by us today.

No new gold engagements were reported.

The New York banks stated that the Bombay bullion markets were closed today and no metal prices were received from India.

-2-

In London, a price of $23\frac{3}{16}$ d was fixed for both spot and forward silver, representing a decline of $1/16$ d in the spot quotation and no change in the forward. The dollar equivalent of $23\frac{3}{16}$ d is 42.10¢.

Handy and Harman's settlement price for foreign silver was unchanged at $34\frac{3}{4}$ ¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢.

We made one purchase of silver amounting to 250,000 ounces under the Silver Purchase Act, representing a sale from inventory.



CONFIDENTIAL

Hand made memo of 1/28
 Mac Morgan's note of
 conversation with
 Reid 1/30/41

January 29, 1941

Mr. George Haas, Director
 Division of Research and Statistics
 Room 259
 Treasury Department
 Washington, D. C.

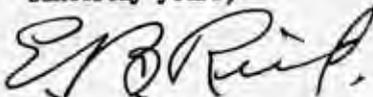
Dear George:

Still further inquiry concerning Mr. Thomas Campbell reveals that apparently he is about the only man who ever took Mr. Morgan to a cleaning. It is said he did just that in the wheat dicker at the time of the last war. Mr. Campbell also is credited by his friends with the ability to sell a man the Brooklyn Bridge every morning before breakfast, and make him like it.

Senator Murray says Mr. Campbell was on President Roosevelt's side of the argument during the last campaign and that he made a speech in California but it is doubted if he did the President any good for it was about what the Administration had done for the big farmers.

I am told there has been a movement lately to try to make Mr. Campbell Secretary of Agriculture, but that has perhaps been self-generated and apparently did not take to amount to much. A New Mexican Senator is said to have been somewhat busy. Mr. Campbell's latest ranching efforts are located in New Mexico, as you will recall.

Sincerely yours,



E. B. Reid
 Director of Information & Extension

BRITISH EMBASSY,
WASHINGTON, D. C.

Personal and Secret

January 29th, 1941.

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 received from London
dated January 27th, 1941.

- Naval. Photographic reconnaissance of Brest on the morning of January 26th showed dock being flooded and therefore German cruiser may be intending to put to sea.
2. 2 ex-American destroyers and 4 others of the Royal Canadian Navy have arrived in home waters.
 3. Mediterranean. During the passage of the *Illustrious* to Alexandria, enemy aircraft (words undecypherable) failed to locate her but escorting cruiser forces were attacked by 12 high level and 18 dive-bombers on the evening of January 24th, when about 130 miles north of Benghazi. In spite of many near misses, no damage was sustained by our ships; 4 or 5 aircraft believed to have been damaged.
 4. Attacks on shipping. The afternoon of January 26th East Coast convoys were bombed in the Thames Estuary. One British ship (1600 tons) was hit and beached and Swedish vessel (2000 tons) was set on fire. 2 enemy aircraft destroyed by escort vessels.
 5. 1 enemy aircraft was shot down by a trawler, the crew of 4 taken prisoners.
 6. Military Libya. Our troops are now in position 10 miles southeast of Terns with forward elements overlooking the town.
 7. Bulgaria The thaw continues and the roads open in the plains. Mountain passes believed also open.
 8. Royal Air Force. Night of January 26th/27th, 17 heavy bombers were sent to attack industrial targets at Hanover. Reports not yet received.

-2-

9. Erythrea. January 25th, 5 Gauntlets dive-bombed enemy motor transports near Barentu with considerable effect.
10. Albania. January 25th, medium bombers scored direct hits on military targets near El Basan.
11. Malta Night of January 25th/26th an Italian seaplane disabled cruising round alighted off the island; the crew of 4 taken prisoner.
12. German Air Force. January 26th. Enemy activity slight, although shipping attacked in the Thames Estuary and off Norfolk coast. Night of January 26th/27th. Only one enemy aircraft came over.
13. Aircraft Casualties. In operations over and from British Isles. Enemy: Destroyed, 3 aircraft. British: nil
14. Home Security, Night of January 25th/26th. Now reported 2 parachute mines also some high explosive and incendiary bombs dropped at a south Wales aerodrome. Damage slight and operations not affected but 20 military personnel killed.

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Paraphrase of Code Radiogram
Received at the War Department
at 9:03, January 29, 1941

London, filed January 29, 1941.

1. On Tuesday, January 28, reconnaissance flights over the coast of France and the usual patrols were operated by the British Coastal Command. Adverse weather prevented activities of the Bomber Command on this day and during the preceding night. There has been no report of British air losses.

2. During the night of January 28-29 German raiders were over the Bristol Channel but their activities were primarily limited to the laying of mines. On January 28 German planes were on reconnaissance missions over the east coast of Scotland and over a great many airfields of the Royal Air Force. During the same day minor attacks were made on Essex, Heston, Kent, Portsmouth and the suburbs of London. No information has been reported concerning German air losses.

3. The Italians have abandoned the airfields at Mechili and Derna in Libya. Fourteen unserviceable Italian planes were left behind at the Derna field. Italian forces at fortified points in Derna, however, are continuing their resistance. The Royal Air Force machine gunned Italian motor transport units retreating from Mechili and bombed the airfield at Apollonia.

4. The Royal Air Force was active in other Middle Eastern theaters. The Aisais station on the Djibouti-Addis Ababa railroad in Ethiopia was attacked by British bombers based in Aden. An

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Italian supply base at Kibson, Albania, was bombed by British planes from Greece. The British have successfully attacked five railroad stations in the Dusan area. Malta-based British bombers heavily attacked the central railway station, the marshalling yards and the Capodichino airbase in Naples with great success. The airfields at Comiso and Catania, on Sicily, were also successfully bombed.

5. The airfield at Luqa, Malta, and the town of Diff in Kaysa on the Italian-Somali frontier were bombed by Axis planes.

6. According to the British Military Intelligence, Bulgarian communications systems are being constantly improved and other preparations are being made to assist the movement of German troops through this country. There are no new indications that preparations are being made for the transfer of German forces into Spain. While there is no evidence that there are enough German forces in Italy to launch an attack on Malta, it is believed that some Germans are guarding airfields in Sicily and southern Italy. As yet no German units in Italy have been identified and the reports of the strength of German forces in this area are conflicting.

7. The water situation in Tobruk is now back to normal. In this area 150,000 gallons of gasoline were captured by the British.

8. It is maintained by the British that they are now able to explode all German mines planted in British harbors.

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9. It is claimed by the Greeks that three Italian vessels have been torpedoed and sunk by a Greek U-boat.

SCANLON

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps - 2
0-3

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RESTRICTED

G-2/2657-220
No. 303

M.I.D., W.D.
January 29, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.1. Air Force Operations.

Unfavorable weather prevented R.A.F. action.

German High Command communiques claimed successful attacks on military objectives in London and southern England. One 4,600-ton ship was sunk and two others damaged.

II. Greek Theater of War.

1. Air. An Italian communique stated that Italian planes had intensively bombed military objectives at Salonika and the Salonika-Athens railroad.

2. Ground. Local operations reported.

III. African and Mediterranean Theaters of War.1. Air:

Ethiopia and Italian Somaliland. British patrols are active, with no special change in the situation.

2. Ground:

Libya. The British are concentrating their forces in the Derna area.

Eritrea. British operations are progressing satisfactorily.

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.

RESTRICTED

January 29, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Fritz Sternberg, whose writings in the New Republic you have noticed, came in to see me today with a letter of introduction from Bruce Bliven. After some conversation with him I turned him over to Coe of Harry White's staff. Dr. Sternberg will be in Washington for several days and is staying at the Hotel Annapolis. He was an economist and writer in Germany up to 1933 and left there at the time of Hitler's accession to power. He lived six years in France and England, during which time he devoted increasing attention to the development of the German war machine and the general problem of military economics. He came to the United States in 1939. His book "Germany and the Lightning War" published about the time of the Munich crisis, has attracted a great deal of attention. He called my attention to the fact that the conclusions in his latest book "Fivefold Aid to Britain" closely parallel the conclusions of the Purvis report, as reported this morning by Alsop and Kintner. I am attaching a copy of "Fivefold Aid to Britain," which he left with me.



Capital Parade

By Joseph Alsop And Robert Kintner

Purvis Schedule Gathers Dust

THE PRESIDENT and William S. Knudsen now have on their desks the first consolidated schedule of British war needs ever prepared. To meet these needs, our industrial plant must undergo immense additional expansions, because the British have no cash, the schedule has simply been gathering dust since it was brought to this country four weeks ago by Arthur Purvis, chief of the British purchasing mission. It will continue to gather dust until the lease-lend bill is passed.

Furthermore, if letting contracts for the new expansions is put off much longer, the entire British war plan will have to be recalculated, and another year may be added to the war. The British propose to take the offensive in the spring of 1942, and (2) on this country to supply their deficiencies in war materials as listed in the Purvis schedule. Defense production experts believe the deficiencies can be supplied on time—but only if the tremendous task of building the required new facilities is started within the next 30 to 60 days.

SUCH ARE the hard facts of a situation which has been almost universally misrepresented. Even among supporters of aid to Britain, many assume the lease-lend bill can safely be debated indefinitely, since "there's nothing we can do in the next few months." The assumption is doubly incorrect, for the crucial reason above stated, and also because the bill permits solution of the increasingly serious shipping problem without repeal of the neutrality act or use of American convoys.

The Purvis schedule is unquestionably the most significant single document yet produced by the war. It was obtained with difficulty. As long ago as last September, officials of the defense commission and British purchasing mission were enough to grasp the tragic inadequacy of our scope of preparation, began to realize that Britain must succinctly list her needs to have them fully met by this country. At that time, of course, American policy was immobilized by the election. It was not until rather late in the fall

that Purvis flew to England, to persuade the British Cabinet to communicate to our Government a complete war plan and war material balance sheet.

THE PRESIDENT has been demanding a balance sheet of our defense program for the last six months. So many statistical obstacles have had to be surmounted that the President is still waiting, although he will get what he wants before long. The same sort of obstacles stood in Purvis' way in London. Yet he managed to dig and persuade the necessary figures and information out of the services and supply departments in a comparatively short time. The schedule was finished in December, and Purvis immediately flew back to this country.

To prepare the schedule it was necessary to compute Britain's war materials on hand, the quantities of new materials called for by the British war plan, the materials expected to be produced in Britain and the Empire, and finally the deficiencies to be supplied here. As the result plainly discloses Britain's strategy, the schedule's exact figures are naturally the most closely guarded military secrets communicated by Purvis only to the President, and by the President only to three or four of the most responsible men in the Government.

TWO THINGS about the schedule are known, however. First, it is based on the expectation that Britain will survive the terrible time immediately ahead, will gather strength next winter, and with arms from the United States will undertake a great offensive in the spring of 1942. This expectation is understood to have been impressively documented, and particularly with respect to the possibility of an effective offensive. Second, however, the quantities of arms asked for from this country are almost astronomical. Even William S. Knudsen, ordinarily so phlegmatic, was nearly shaken when he saw how many more planes and ships were wanted. And although he and his production experts think they can do the job in time, a prompt and grim concentration of

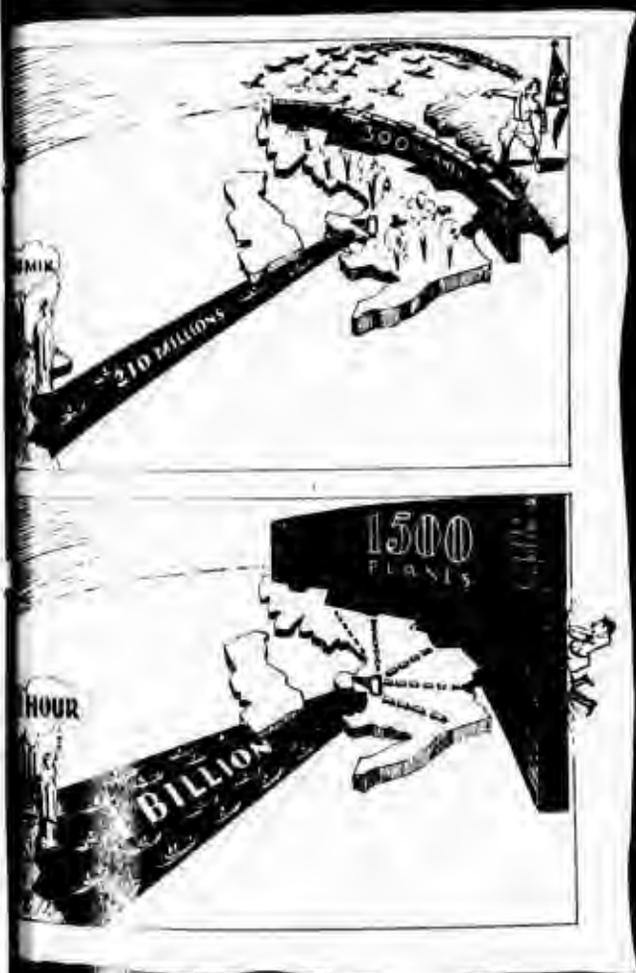
masses of national effort are now urgently necessary in Britain.

If the policy of aiding Britain makes anything, its purpose is to get the British through the winter and summer. On the contrary, its purpose is to assist the British to rig the world, for good and ill, of the universal threat of the new year. If this is to be accomplished the United States must begin to take the long view, ceasing its nagging to the British war plan and withdrawing both foolish delay and false underestimation of the task at hand.

THE MAGNITUDE of that task is clearly set down in the Purvis schedule which also gives evidence that the task is not impossible. It will be done, the experts calculate, if we convert only 25 per cent of our productive facilities to war uses. As Germany for years and Britain for months have devoted much more than 50 per cent of their production to war uses, we should not boggle at the attendant sacrifices.

Sacrifices will be needed, however, as long as some system of financing the British war effort remains to be approved. For the last two months the British have been unable to place even the most urgent orders in this country. Planning the expansion called for in the Purvis schedule has had to wait, while British and American officials searched for a way out to finance contracts that should have been placed in November. Only in the last week has the RFC approved a scheme by which money will be put up on the basis of "we'll take the goods if you don't," and this scheme is only to apply to absolutely vital orders. Some notion of the extent of the expansions yet to be planned may be gained from the fact that the surge of our aircraft capacity will have to shoot upward, past the mark of 3,000 planes a month now set for the spring of 1942, to a new mark of 4,500. In short, time is immeasurably precious, and the waste of so much as a day is folly.

FIVEFOLD AID TO BRITAIN



**-TO SAVE
HER
AND KEEP
US
OUT OF
WAR**

by
**FRITZ
STERNBERG**

AUTHOR OF
"GERMANY AND THE
LIGHTNING WAR"

JOHN DAY COMPANY

NEW YORK

A NOTE ON THE STATISTICS IN THIS BOOK

This discussion is not primarily a work of research and the statistics on which it is based are not of prime importance. By far the most significant feature of it is the way in which statistics are used, compared, and interpreted to draw conclusions concerning the course that America is to follow in the immediate future. Since nevertheless the argument is based on statistics, some of which may be surprising to the reader, it should be stated that every statistical figure cited by Dr. Sternberg is and has been available to any researcher who takes the trouble to seek it out.

About nine-tenths of the statistics cited are from sources of one of the following kinds:

1. Official statistics of the German, British, American, French, Belgian, and other governments.
2. Published statements by officials of these governments.
3. The terms of the Franco-German armistice.
4. Reports in publications of the highest repute in the respective countries, such as the *New York Times*, the *New York Herald Tribune*, *Iron Age*, the *London Economist*, the *Deutsche Volkswirt*, the *Vierteljahr für Konjunkturforschung*, and the monthly statistical summary of the Dresdner Bank.

In a few cases, it has been necessary to use authoritative estimates in the absence of any official figures. In other cases, it has been necessary, in the absence of up-to-date official figures, to use pre-war statistics modified in accordance with published reports on current conditions.

Dr. Sternberg is recognized in Europe, England, and the United States as an authority on military economics and war potentials. He is the author of several books published in German and in English; has contributed to the *Army Quarterly*, the *Royal Air Force Quarterly*, and the *Economist*, in England; to the *Infantry Journal*, the *American Mercury*, *Asia*, the *New Republic*, the *Nation*, and other American magazines, and has done research for *Fortune*.

Fivefold Aid
To Britain

**FIVEFOLD AID
TO BRITAIN**

Fivefold Aid To Britain

To Save Her and Keep Us Out of War

FRITZ STERNBERG

Author of Germany and the Lightning War

With Charts and Drawings by Harry Roth

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INTRODUCTION

Defeat Still Threatens Britain

AT the time of the publication of this little book, it is January, 1941. The second World War is almost a year and a half old. Outwardly, at least, the course it has taken thus far has been completely erratic. It commenced with Hitler's Blitzkrieg against Poland, after which, late in 1939, and early in 1940, the German Fuehrer ordered the suspension of military operations for months. But behind this "Sitzkrieg," behind this "phony war," Hitler continued Germany's gigantic armament program. Despite many years of intensive armament production in times of "peace," Germany kept on arming twice as heavily as Great Britain and France together.

The lull in military operations was shattered with dramatic suddenness when Germany invaded Denmark and Norway and then turned to the Western offensive which wound up in the lightning war, followed by lightning victories, in the Netherlands, in Belgium—and finally in France.

The war has changed the face of the earth. It has left France a shambles. Hitler has become the unchallenged master of Continental Europe.

Germany's land army of today has no equal on the European continent.

The Battle of France was followed by what started out as the first phase of the Battle of Britain. The American people, dismayed by France's rapid collapse, feared that Hitler might be in London by the fall of 1940. But thus far the Battle of Britain has failed to bring a decision. Americans breathed somewhat easier when Hitler's schedule failed to materialize. The long-dreaded invasion of the British Isles did not come off on time.

And now, the American people perceive the possibility of an ultimate British victory. The argument most frequently advanced runs something like this:

Hitler's Germany was armed to the teeth when it embarked upon this war. A further increase of its armament production is well-nigh impossible. On the very summit of its military might, Germany has been unable to defeat Great Britain. Now time is about to turn against Hitler. Prior to the war, and during its first phase, under the late Neville Chamberlain, Britain failed to arm on a scale consistent with its needs and resources. With Winston Churchill at No. 10 Downing Street, and with the labor leaders in his coalition Cabinet, all British production is now being shifted to war purposes at a steadily increasing rate. Britain has been pursuing this course for only a short time. It is certainly calculated to improve Britain's position from within. In the end, it is bound to change the military balance in Britain's favor. Increasing American support will tend still further to rob Hitler of his former chances

of victory. There is, indeed, wide agreement that the chances of an ultimate British victory are constantly becoming brighter.

Certain signs seem to confirm this optimism.

During the early stages of the intensified air raids, in August and early in September, German sources insisted that the German *Luftwaffe* had complete control over the English Channel and London. Facts, however, show that this was mere German propaganda.

The air raids are causing considerable damage in England. But the daylight raids of which the Germans were so boastful have failed dismally and become the exception rather than the rule. During the day, at least, the Royal Air Force retains supremacy in the air over the Channel and London, in fact, over the whole of England.

Not has the Royal Air Force confined its activities to the defense of Britain. It plunged into offensive operations carrying out nightly raids upon widely scattered German objectives with systematic regularity. Recent weeks show an increase rather than a letup in Britain's carefully planned air offensive against the Reich, the occupied territories, and especially the Channel ports.

When in September, 1940—as Mr. Churchill pointed out later—the Germans attempted to carry out an invasion of the British Isles, they were effectively checked by the Royal Air Force, even before the troop contingents assigned to this difficult task could embark.

Since early in October, such ambitious attempts at invasion seem to have been postponed. The interim has been utilized by Britain to increase its military strength at home.

One of the more serious repercussions of the French disaster was that the British Expeditionary Force, withdrawing from Dunkirk, lost all its heavy arms equipment. Consequently, there were no well-equipped divisions in England during those days of acute danger which followed in the wake of France's final collapse. But in the meantime Britain has gained a precious breathing spell to re-equip what was left of the BEF, and also to produce weapons for the additional millions that are being trained. Ever since Dunkirk, British armament production has been working full blast.

Despite the fact that Germany today possesses better bases for its furious naval war against British merchant shipping, which is suffering gradually increasing losses, the British Isles are still able to provide food and raw materials from overseas, from the Empire possessions as well as from the United States and Latin America. On the other hand, the Royal Navy is still effectively maintaining the blockade against Germany and that part of the Continent now controlled by the Nazis. Half of Germany's normal imports are affected by this warch and ward on the seaborn seas.

The United States, which was delivering but little up to the time of France's

disaster, owing to the small volume of orders placed here by the Chamberlain Government, is now sending increasing supplies to England compared to the first months of 1940. Since then, for instance, plane deliveries to Britain have increased almost tenfold. American armament production is growing. According to the famous statement made by President Roosevelt, Britain is to receive 50 per cent of America's total armament production.

Thus everything appears to be in the best of order and to justify a state of optimism.

In the summer of 1940, Americans seriously discussed the possibility of Hitler's triumphant entry into London. They pondered the possibility that he might, in the course of the ensuing six months, use the combined German, English, French, Italian, and Japanese fleets to attack and, possibly, to conquer the United States.

Now the opinion prevails that—*somewhere*—the British will ultimately win. Some think that this may take a long time; others that it will occur in a relatively short time. It may happen in 1941, or perhaps not until 1943 or 1944. But in past wars, England has always won at the end; and even today, an ultimate British victory is certain, since its military strength is increasing steadily and more rapidly than that of the Third Reich.

Such optimistic views are based on supposed facts; and what is even more important, they correspond to the feeling and mood of the American masses. Millions of Americans desire a British victory, but they are reluctant to change their daily life even slightly in the interest of such a victory. When they are told that the danger to Britain has passed, that the situation is bound to improve, that Britain will win, ending all danger to the United States, they are well satisfied. The slogan that really describes the American attitude is not, "All aid to Britain short of war," but rather, "All aid to Britain short of a change in our daily lives."

This complacent optimism cannot by the greatest stretch of the imagination be considered justified. Even more than that: we perceive in it extreme dangers for the future of the American nation. It is simply not true that the danger to Britain has passed. Even though no invasion may be attempted during the winter months, the danger may steadily increase, and become greater by next spring than it was in the fall of 1940.

In the chapters of this book we shall try to prove the following theses:

(1) It is not true that Hitler's Germany is in no position to increase its armament production. On the contrary, it is well capable of doubling its armament production, if need be, for the final struggle against England. This can be attained:

a) by concentrating all production on those arms which are designed to play a decisive role in the final Battle of Britain;

b) by organizing the national economy of the conquered territories and harnessing them to the greater German war economy.

(2) Britain's present armament production is, of course, far greater today than it was early in the war. However, the danger remains that the *acceleration* of Britain's armament production will continue to lag behind the acceleration of that of Germany, which is now in a position to commandeer and control the resources and reserves of Continental Europe. Presumably, Britain by itself will not be able to defeat Hitler's Germany, and is, on the contrary, still threatened with imminent defeat, if left to its own resources.

(3) American help, and American help alone, can save Britain. American aid to Britain, if maintained at its present level—indeed, even if slowly increased from its present utterly inadequate rate—will never accomplish this salvation. American support in a steadily and considerably increasing amount is needed to save Britain.

(4) American aid, if it is to fill Britain's requirements, should equal the entire British production as of today. With such support forthcoming in the near future, Hitler's victory may become improbable, and even impossible. Britain will then remain the only free country in an enslaved Europe.

To win the war and free the subjugated nations from Nazi serfdom, Britain needs American aid to exceed its total production.

(5) If Britain obtains such support as quickly as possible, then, and only then, may we hope that the United States will remain at peace.

A tenfold increase in American aid to Britain is not a step nearer to war but, on the contrary, the decisive step which will keep America out of the European war.

Increase deliveries tenfold in the shortest possible space of time—and the United States will be saved from war!

Fritz Sternberg

New York City
January, 1941

FIVEFOLD AID
TO BRITAIN

Hitler Organizes All Europe against Britain

In the winter of 1939-40, when the second World War, instead of developing into large-scale military operations, settled down to what British jokesters called a "Sitzkrieg" and certain American observers a "phony war," it was widely assumed that Germany's armament effort had attained its peak at the very outset of the war. German military strength in the spring of 1940 was not expected to exceed its highest mark reached in the fall of 1939.

British and French armaments, on the other hand, were growing, though slowly and gradually; thus it was generally accepted that the position of the Allied Powers would improve by the spring of 1940 in contrast to their military strength at the beginning of the war.

Hitler's lightning wars and victories in the spring and summer of 1940 brought a rude awakening, since they threw light upon two facts.

On the one side, they revealed the immense quantities of war materials the Nazis had been storing ever since their seizure of power in 1933. On the other, they demonstrated that Hitler's armament program had by no means been suspended at the end of the Polish campaign, nor during the interval that followed it up to the Western offensive. Now the overwhelming majority of Germany's armed forces was thrown against the enemy in the West, while its war-material production was ceaselessly increased to peak capacity in all the territories then controlled by the Nazis.

Immediately after completing the conquest of Poland, the Nazis went to work and organized the entire national economy of the vanquished country, incorporating everything from Polish coal mines to agriculture into the greater German war economy. In addition, Germany, throughout the winter of 1939 and 1940, steadily continued to increase its production of arms, which was already working in high gear.

Despite the preponderant war economy which existed in Germany even prior to the war, certain peacetime industries—such as residential construction and the manufacture of automobiles—had been retained in the Third Reich. Now they too had to give way before a still further increase in war-material production.

Thus, during the winter of 1939-40, the German Army and armament production forged still further ahead of those of Great Britain and France.

During that winter of apparent German inaction, Hitler still managed to drain his 100 million Germans, Czechs, and Poles of twice as much in armaments as the Chamberlains and Daladiers squeezed out of Britain and France together. This increased production, added to the enormous stocks stored in advance, became the basis upon which the Battle of France was drawn up and brought to a successful con-

clusion. With its aid Hitler advanced to the position of master of Continental Europe.

In a way the struggle of Britain today is only a repeat performance on a larger scale of a spectacle witnessed once before. Again, military operations appear to have been suspended for the winter, millions of German soldiers are kept in apparent idleness. Again the war is confined to a few military and diplomatic sideshows, more intensified and widespread than those in the winter of 1939-40, but limited to secondary theaters of war. Neither German U-boats raiding Britain's merchant shipping, nor the air attacks of the *Luftwaffe* and the Royal Air Force will be able to decide the ultimate outcome of the war by themselves. The Mediterranean has become an important battlefield. It may well usher in the decisive phase of the war—but the war will not be decided in the Mediterranean alone.

Once again, neutral observers everywhere indulge in the belief that Britain will be able to accumulate sufficient strength during this winter to embark upon next spring's intensified warfare much better prepared than it was in the fall.

Again they tend to misjudge Hitler's actual position and overlook the important fact that during the winter of 1940-41 he still *can*, and indeed *will*, mobilize immense new reserves—both Germany's own and those obtained in the conquered and occupied territories.

It would be a fatal error to believe that Germany reached the highest attainable peak of its military efficiency in its war against Great Britain during the summer and fall of 1940. On the contrary, it is still capable of greatly intensifying the prosecution of the war. Most of Germany's reserve strength has long left the blueprint stage and is now rapidly being translated into realities.

THE REALIGNMENT OF THE GERMAN ARMY

Let us first survey the present status of the German Army and its equipment. Early in this war, in the spring and summer of 1940, Germany's Army and armament production were not primarily prepared for the war against England. They were both geared to a continental war on land, for the campaigns against Poland and France, for the gigantic struggle that was designed to bring about German domination of Continental Europe.

The overwhelming part of the German Army was fully trained, and the major part of German industry was geared to the immediate task. And the campaign aimed at German predominance in Europe brought amazing success. The immense striking power of the German Army stood its test well. Unlike the first World War, when Germany had to fight for four long years, the new German Army now required but four weeks to vanquish France.

Both the Polish campaign and the Western offensive revealed the Nazi High Command as a past master of *co-ordinating* the various arms and services. It was amazingly successful in bringing about the closest possible co-operation between the

Luftwaffe and the *Panzer* divisions, infantry and artillery. Aside from the overwhelming superiority of Germany's up-to-date arms equipment, this brilliant co-ordination was the key to the secret of Nazi victories.

The German High Command itself was trained for this war in long years of military tradition. Beyond that, it was the first to learn the military lesson that this war is, to an ever-increasing degree, an industrial war. It was also quick to realize that tanks and planes, properly employed for all they are worth, provide modern armies with new offensive possibilities.

All these discoveries and realizations were extremely valuable and useful in the war on land, *i. e.*, in the Polish campaign and the Battle of France. This does not mean, however, that they are necessarily valid for the impending Battle of Britain as well. The invasion of the British Isles certainly requires the most precise and meticulous co-ordination of the various arms, but this particular kind of co-ordination has not even been tested as yet.

First of all, it requires the co-ordination of the German Navy and the *Luftwaffe*, motorized and mechanized landing divisions, parachute troops, and so forth. It requires the development of new landing methods on effectively defended enemy shores. This, in turn, necessitates the retraining of important contingents of the German Army especially for this task.

This reorganization and retraining of the German Army for its new and greater assignment commenced in July and August 1940, immediately in the wake of France's collapse. But it was merely a beginning! From June 25, the date of the French Armistice, to the middle of September, when the invasion was allegedly scheduled, only a comparatively short space of time was left to the Germans—some 85 days.

The heroic action of the Royal Air Force, showering thousands of tons of bombs on all the so-called invasion ports along the Continental coastline of almost 2,000 miles, prevented the Nazis from continuing their landing experiments on a large scale. But the mere postponement of the invasion by no means indicates that Germany has now finally abandoned all attempts at invasion at some future date.

On November 6, 1940, Prime Minister Churchill told the House of Commons: "I agree with those who think the invasion danger has for the time been diminished. But do not let us make the mistake of assuming it has passed away, or it may not recur in acuter form."

England reckons that attempts at invasion may well be resumed when conditions in Germany are more favorable for Germany than they were in September, 1940. In the spring, weather conditions are favorable over longer periods of time and the retraining of large contingents of the German Army for the specific requirements of the Battle of Britain will have been concluded.

Since the collapse of France, the German Army has not been called upon to carry out large-scale military operations. This does not mean, however, that it is

idly wasting precious hours. It is continually kept in action, being trained and re-trained for the gigantic task it will have to perform in the course of the all-out Battle of Britain. It is quite safe to take it for granted that by the spring and summer of 1941, it will be much better prepared for this immense task than it was in the fall of 1940.

Moreover, it will be far better equipped for this particular task than it was but six months before.

The Battle of France took only a comparatively short time. Despite the tremendous consumption on each day of battle, the sum total of war material used was not particularly large, quite aside from the fact that it was partly made up for by the immense quantities of enemy stores which fell into German hands both in Belgium and France.

For the time being, the German Army has no equal on the European Continent. Temporarily, at least, it is confronted with no exacting tasks; its present consumption of war material is hardly worth mentioning; its present need for arms and munitions places but a light burden on Germany's armament production, even smaller than during the preparations for the huge and furious Western offensive.

THE RISE IN AIRCRAFT PRODUCTION

Consequently, German armament industry is now better able than ever before to concentrate on the production of those arms which are to play a decisive role in the invasion of the British Isles. Primarily, these are warplanes of various sizes and designations.

Of course, German aircraft production was considerable even before it exceeded the combined production of Britain, France, and the United States.

But it would be a grave fallacy to suppose that German aircraft production actually reached its peak during the summer of 1940. The reduction in war-material needs for the land army now enables Germany to increase its production of warplanes.

The sheer fact that Germany is able to hold down the damage done to its vital aviation industry by incessant British bombings, indirectly aids German aircraft production. While German heavy industries, for instance, are frequently tied down to certain regions, such as the coal deposits of the Ruhr, the aviation industry is not bound by such limitations. Actually, German aircraft factories are now being moved to an increasing extent to regions in Greater Germany which are beyond the range of British bombing planes.

Were Germany compelled to conduct a large-scale land war involving a considerable consumption of *all* sorts of war materials, the High Command would have to continue diversifying war material production and man power. But today the Germany Army already possesses all the tanks, guns, machine guns, and munitions

it needs for the time being, and so Germany is in a position to restrict the production of all these war materials. Thus its industrial production gains an undreamed of elasticity, and Germany is now able to concentrate the bulk of this production on material required for the Battle of Britain.

In so far as the production of aircraft is concerned, an increase is not only potentially possible, but is now actually apparent, both in Greater Germany and in the occupied territories. All aircraft factories in these regions have been put to work, and their production facilities are being exploited to the utmost.

We caution most emphatically against the common practice of speaking only of the progress made in British and American aircraft production, while disregarding further advances in German production, which is far from being stationary; the tremendous dynamic power of German military developments has made itself felt in this field too.

We must compare the growing production of Great Britain and the United States not with *old* German figures, but with the number of planes *now* being produced in Germany and with those which will be turned out during the winter months. Undoubtedly, there will be a considerable further increase. British superiority in the air will never be accomplished by a mere increase in British production and American deliveries. It might be achieved, however, if and when the *tempo* of British production and American supplies surpasses the tempo of German production. But more of this later.

Of course, the Battle of Britain is not waged by the *Luftwaffe* alone. Participating in it are scores of Nazi U-boats and individual raiders which manage to outwit the British blockade and escape to the high seas. The increased offensive power of German naval warfare has already been manifested in the gradual increase of British shipping losses.

It cannot be doubted that the Third Reich will, during this winter, make further progress in this branch of warfare. German naval units now have a dual task to perform: They represent an effective weapon aimed at Britain's vital merchant shipping, and they are slated to play an important role in any attempt to invade the British Isles. For these reasons Germany is now doing everything in its power to accelerate its naval shipbuilding. The Nazis seem to be refraining from building capital ships, which are not expected to be of decisive value in the Battle of Britain. Instead, they are building destroyers, torpedo boats, submarines, small auxiliary craft, and the fast, so-called E-boats, or mosquito boats, whose construction can be completed within a comparatively short space of time. All available facilities are now fully utilized to build them at a forced speed, not only in Germany's own shipbuilding yards, but also in those of the conquered and occupied territories, from the Arctic Circle down to the Bay of Biscay.

GERMANY ORGANIZES HEAVY INDUSTRY IN THE OCCUPIED PROVINCES

The extent of Germany's military preparations for the Battle of Britain can best be gauged by the fact that it now utilizes the productive capacity of the conquered and occupied territories in addition to the whole economic system of Germany proper.

In September, 1940, when the menace of an imminent invasion seemed to be most acute, the French Armistice was less than three months old. By then Germany's Economic General Staff was just about to *begin* the inclusion of the total economic reserves of the conquered territories into Germany's own huge war economy. Their immediate task was to repair the widespread damage wrought by the lightning war. By now, however, they are well advanced in their work. In the course of this winter, all German organizational activities will arrive to strengthen Germany's war-material production by adding to it the rehabilitated production of the occupied territories.

Naturally, the Blitzkrieg caused enormous suffering and devastation as long as it lasted. But we should never overlook this fundamental fact: the decisive Battle of France was concluded in as many weeks as the first World War required years; considerable areas of France and the Low Countries were but indirectly affected by the actual fighting and the destruction that followed in its wake. Nor must we forget that this time, in striking contrast to the first World War, an Economic General Staff was functioning in Germany long before the outbreak of hostilities, systematically and methodically organizing German economy for the war to come, and subordinating everyone and everything to the one supreme aim: the efficient prosecution of the war with ultimate victory to be achieved in the decisive Battle of Britain.

On November 10, 1940, the *New York Times* carried the following dispatch: "The economic and financial situation in occupied territories at the beginning of winter is characterized as progressive adjustment of their economies to conditions prevailing in the Reich, according to information available here. . . . Production, planning, and marketing regulations along the Reich's highly developed pattern are the order of the day in all occupied countries. *Heavy industries in Belgium, Luxembourg, and France gradually are reaching production figures of the period preceding occupation.*" (Italics by the author.)

Prior to the outbreak of hostilities, the combined British and French economic systems, at full exploitation of their productive reserves, were somewhat superior in that of Germany. France's rapid collapse was partly due to the Western Powers' fatal impotence to translate in time their productive forces into military forces.

GERMAN PRODUCTION TWICE AS GREAT AS BRITISH!

Of course, France's defeat has further changed the situation in Germany's favor!

If even at the very outset of the war, Germany's economic system was superior to that of Britain, this superiority has today greatly increased.

Germany's present economic organism, incorporating the economies of the conquered countries, is at least twice the size of Britain's. The balance has turned in Germany's favor particularly in those branches of industrial production which play a decisive role in war economy, such as iron, steel, and iron ore, the most essential of all raw materials required for the production of steel.

Let us now compare in a few striking figures the German and English levels of production. We have drawn them up in charts and diagrams to make the comparison as graphic as possible.

Even at the early stages of the war, German steel production by far exceeded the corresponding production both in Great Britain and its Empire. Germany then produced 25 million tons, while Britain's total steel production amounted to only 17 million tons. (See Figure 1)



Figure 1.

However, German steel production early in the war suffered from at least one serious bottleneck. It depended on foreign countries for its supply of ore and alloys. Most of the Reich's peacetime imports of iron ore came from French, Swedish, and Spanish mines, a considerable portion of which were now cut off by the efficient British blockade.

Germany's invasion of Scandinavia and the victory in the West served to eliminate this bottleneck almost completely, and at the same time greatly increased the production of steel at the disposal of Hitler. The combined capacity for the production of steel in Germany and the occupied territories now amounts to 42 million tons, against 17 million tons still produced by the British.

At the same time, Germany's supply of iron ore ceased to worry the Nazi Economic General Staff, for the British blockade is no longer able to prevent Germany from importing the iron ore it requires. (See Figure 2)

GERMAN STEEL PRODUCTION AND IRON ORE SITUATION

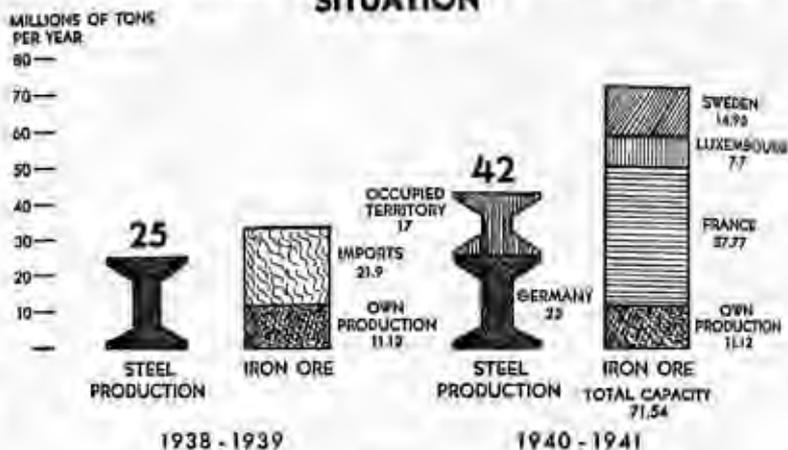


Figure 2.

Of course, it will not do to accept all these figures at their full face value. When this book goes to press, not all the damage in war-torn Continental Europe will have been fully repaired. France's heavy industries have not as yet been fully incorporated into the greater German war economy. But every day until next spring will undoubtedly bring further German progress in this direction. Even though the present volume of steel production in the occupied territories may show a decline of about 20 per cent, (some 3.4 million tons under the prewar level of 17 million, leaving 13.6 million tons available to Germany), the Reich's own production of 25 million tons plus 13.6 million tons produced in the occupied territories still represents a total of 38.6 million tons of steel, more than twice the quantity produced by the whole of the British Empire.

Next to iron, steel, and iron ore, coal is the most important raw material needed by practically all industries. Let us now see how the coal situation has changed in Germany's favor since the collapse of France. (See Figure 3)

The chart is not meant to suggest that all the coal production of the occupied territories can now simply be added to Germany's own output. A considerable portion must be reserved for their own essential civilian requirements, such as the heat-

COAL PRODUCTION

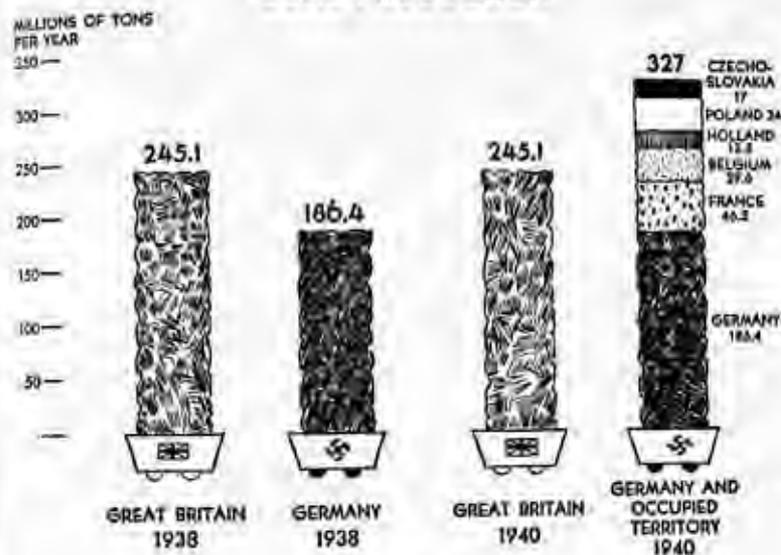


Figure 3.

ing of houses, etc. Preceding their occupation, the total coal imports of these countries were in excess of the sum total of German coal exports.

On the other hand, Germany's present ability to commandeer the immense coal production of the Reich, Poland, France, and other occupied territories provides the German Economic General Staff with a tremendous elastic reserve to play with. The Nazis, moreover, now have a new trump card in their hands if they want to put strong pressure on those forces in the occupied territories which are still reluctant to co-operate with their new overlords.

One of the most vital raw materials required by the aircraft industry is aluminum. German production was considerable, and the Reich, accordingly, was com-

pelled to import huge quantities of bauxite, the raw material that goes into the making of aluminum. While previously the importation of bauxite was among the more serious problems of Nazi war economy, today all its needs are more than sufficiently secured and covered. (See Figure 4)

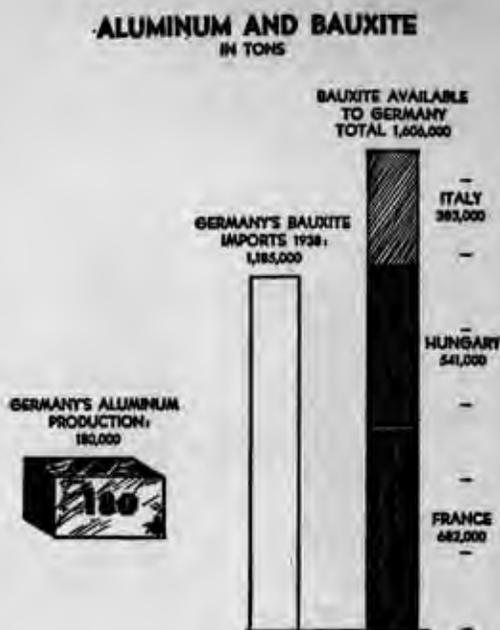


Figure 4.

The conquest of Continental Europe served to improve to an almost staggering extent the productive capacity of Germany's heavy industries. Her aviation industry has at its disposal Europe's best-developed machine-tool industry, and now possesses aluminum, its essential raw material, in abundance.

Nevertheless, Germany has failed to find in the vanquished lands certain metals which are also lacking in Germany proper, or which are available only in insufficient quantities. Thus the Third Reich still is short of copper, manganese, nickel, tungsten, and chromium. But one of the foremost tasks of the Nazi Economic General Staff was to accumulate in advance considerable reserve stocks of all these vital metals. At any rate, we must always bear in mind that for its present air, sea, and probable invasion war against England, the Reich needs far less in the way of raw materials than it required for the supply of its huge land armies fighting for four years in the first World War. Germany is now mainly interested in sustaining the armament program

until the spring and summer of 1941, when the decisive Battle of Britain will be fought.

GERMANY'S OIL SITUATION

The raw material most urgently needed for the operation of planes and warships, and thus for the Battle of Britain, is oil. Early in this war, Germany's oil supply was by far the most serious problem of its war economy. By now, however, the oil situation has also changed in Germany's favor; and this on two grounds.

First, the prosecution of the war and, with it, the consumption of oil underwent a decisive change. Just now, Germany is not conducting any large-scale military operations on land in Continental Europe. Its present consumption of oil is largely confined to what the *Luftwaffe* is using, and to the limited consumption of its Navy; later, during an invasion of the British Isles, tanks and motorized units will also require considerable quantities of oil.

Germany's present consumption of oil cannot be considered large. The prewar estimates of experts, according to which 12 to 15 million tons of oil would be required per year by a first-rate belligerent power, do not correspond to realities, since all these estimates proceeded from the supposition that a combined land, sea, and air war would be fought on an immense scale.

Since the Battle of Britain is not likely to compel Germany to employ an army of four million troops, annual oil consumption is certain to remain far below the 12-million-ton mark. An additional saving has been made by throttling private consumption of oil both in the Reich and the European territories, conquered or otherwise, now controlled by the Nazis.

While Germany's actual consumption of oil since the collapse of France is considerably less than was anticipated, its supply is better assured, due to the occupation of Rumania's rich oil wells.

How big was Germany's peacetime consumption of oil? Dr. Rudolf Eicke,¹ a director of the *Reichsbank*, reported that in the last prewar year, Germany's natural and synthetic oil production amounted to 2.7 million tons, while 4.4 million tons were imported from abroad. In 1937, total German consumption amounted to 5.15 million tons of which 1.85 million tons were produced at home.

It is safe to say that, in 1938, not all of the available 7.1 million tons was actually consumed; a considerable quantity was stored to be drawn upon in whatever emergency might arise. While the campaigns in the west and east have naturally drained Germany's oil reserves, the consumption was partially compensated for by considerable stores which fell into Nazi hands in the conquered territories.

Today, Germany is the undoubted master of all Rumanian oil production. In

¹ "Why Foreign Trade?" *Verlag für Sozialpolitik, Wirtschaft und Statistik*, Paul Schmidt, Berlin. The fifth edition appeared in 1939, shortly before the outbreak of the war.

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1936, this production totaled 8.7 million tons, but slumped to 6.7 million tons in 1938. This gradual decline of production continued right up to the Nazi occupation of that country: nevertheless, it remained at approximately 6.2 million tons per year. Let us now compare German imports with Rumania's output. (See Figure 5)



Figure 5.

As revealed by this diagram, Rumanian production exceeded Germany's total imports of oil during the last prewar year. Still, it would be wrong simply to compare Rumanian production with German imports, since it is utterly impossible that the former will ever go exclusively to the Third Reich.

Germany is waging this war in partnership with Italy, whose oil difficulties are both greater and more acute than those of Germany. Unlike Germany, Italy has no coal surpluses at its disposal. Italy is even compelled to import almost all the coal it needs from abroad, mainly from Germany.

Consequently, Italy has no synthetic oil production worth mentioning. Its peacetime consumption of oil amounted to just over 3 million tons per year, of which less than half a million tons were produced in Italy, chiefly in Albanian wells. Of course, the Albanian production is seriously impaired by the trend of the Italo-Greek war.

Prior to entering the war, Italy imported annually more than half a million tons of oil from Rumania. Since it is now cut off from its normal overseas sources of oil supplies, its imports from Rumania are bound to increase if it desires to continue the war on European and African battlefields.

Aside from Italy's increasing requirements, Rumania's own as well as Hungary's needs must be taken into consideration. Rumania's oil exports to Germany are estimated to have reached 1.4 million tons in 1940. Owing to the circumstances men-

tioned above, they will hardly go beyond 2.5 million tons in 1941, despite the Nazi occupation of the oil-producing regions around Ploesti.

The Third Reich is hardly likely to encounter great difficulties in its attempts to invade Britain next spring or summer, so far as oil is concerned, though German oil production has suffered considerably from RAF raids. Of course, this may become very much more acute—and it is one of the contributing factors which may induce Hitler to start his land army marching on Suez, not merely for the possession of the Suez Canal, but also for the oil fields of Iraq and Iran, as Mr. Churchill predicted in one of his reports to Commons.

In so far as iron, steel, iron ore, coal, and its whole industrial structure are concerned, Germany, with the annexed resources of Continental Europe now at its disposal, will be approximately twice as strong as Great Britain.

Under the Chamberlains and Daladiers, Germany was able to arm at twice as great a rate as England and France together. So it may be said today that, even though Churchill is now transforming Britain's economic system so as to satisfy the requirements of total war, the Nazis in Germany proper as well as in conquered Continental Europe will be able to obtain at least twice as much of practically everything as Churchill will ever be able to get out of Britain and the Empire.

Not only were the confiscated arms of the dissolved Czech army assigned to the German Army, but the Skoda armament works of Czechoslovakia were put to work and now continue the manufacture of arms and ammunition. All the captured stores, weapons, and ammunition of the French, Belgian, and Netherlands armies were placed at the disposal of the German Army, and Hitler, in his speech of November 9, announced that the Schneider-Creuzot works of France, the Fokker aircraft factories in the Netherlands, the Belgian and French heavy industries, the Danish and Norwegian shipbuilding yards will be utilized to capacity to produce for the German Army in its preparations for the Battle of Britain. Hitler thus has mobilized the whole of Continental Europe for his gargantuan struggle with Great Britain.

GERMANY'S MILITARY BUDGET

This is clearly reflected in all German production figures, as well as in the curve of the German budget both before and during the war. It has become a truism that, prior to the outbreak of the second World War, the Third Reich employed its immense terror apparatus to force millions of Germans into the exclusive service of a war economy. Even during the years preceding the outbreak of hostilities about half of the German production was either directly or indirectly working for war.

In a significant speech shortly before the outbreak of the war, Hitler revealed that about 90 billion marks had been devoted to Germany's rearmament since his advent to power. In an article, published in the third week of this war, on September 22, 1939, and entitled "Germany's Industrial Military Preparedness," the German

Institute of Business Research, basing its conclusions on Hitler's figure of 90 billion marks spent on armaments, stated:

"Over the same period, calculated on a purchasing power parity basis, Britain's armament expenditures amounted to 25 billion marks, those of France to 15 billion marks."

Viewed in the light of the Battle of France, it may be accepted as a fact that Germany's production of war materials was, as stated in the Institute's survey, more than twice as much as Britain's and France's together.

Germany's army of millions now lacks a large-scale theater of war. Thus one might have been justified in assuming that German war expenditures would be sharply reduced after the signing of the Armistice with France. According to our analysis of present-day German production, the exact opposite is the case.

Norwithstanding the Franco-German Armistice, both German armament expenditures and the whole German budget show further increases. Taxation and the rate of public borrowing are also increasing in Germany. During the first complete year of the war, official German figures revealed an increase in the public debt of 29 billion marks.² But while the monthly average of new borrowing was but 2.1 billion marks during the first six months of the war, recent months show a monthly average increase to 2.8 billion marks. All in all, it may be said that a German budget which amounted to about 4 billion marks per month during the early stages of the war, has now increased to no less than 5 billion marks.

These figures are identical with those arrived at by the London *Economist*. On October 26, 1940, the *Economist* wrote:

"Expenditure during the *Blitzkrieg*, it can be calculated, has been a little over five billion marks (exclusive of miscellaneous revenue), or at the rate of 60 billion marks a year, which is equivalent to about £4,000,000,000."

Yet even these figures are not conclusive, since they merely reveal Greater Germany's war expenditures. The "contributions" extorted from the conquered and occupied territories must be added.

Since the signing of the Franco-German Armistice, France has been compelled to pay 20 million marks per day into the German treasury. These 20 million marks are now converted at the compulsory rate of exchange of 20 francs to the mark. This means that France is obliged to pay 400 million francs every day, or 12 billion francs per month. This is equivalent to about 300 million dollars.

Aside from these 300 million dollars extorted from France every month, Belgium and the Netherlands, Norway and Denmark are also forced to raise immense sums to cover the costs of German armies of occupation. These "contributions" may well exceed 100 million dollars per month.

By way of summary, we may say: Germany embarked on the second World War

² *New York Times*, October 28, 1940.

with a budget which appropriated about 4 billion marks per month to cover all expenditures. Of this sum total, approximately 3 billion marks went toward strictly military expenditures, while the rest was used to cover the State's other expenses. If, following a rate suggested by the London *Economist*, the pound sterling is converted at 15, and the dollar at 3, marks, Germany's military expenditures amounted to one billion dollars per month.

In the meantime Hitler's Germany conquered Continental Europe. This conquest completed, the Nazis proceeded to bolster their own war economy by including in, and adjusting to, their greater war economy the entire economic systems of the conquered and occupied territories. While early in the war Germany's military expenditures did not exceed 1 billion dollars per month, today the sum total devoted to military expenditures in Germany proper and the conquered territories is well up in the vicinity of 2 billion dollars per month.

From the winter of 1939-40, to the winter of 1940-41, the Third Reich has well-nigh doubled its military expenditures.

Thus Germany entered the new phase of the Battle for Britain with a completely integrated production system of Greater Germany, with an attempt to include the regional economies of the subjugated countries in this greater economic system, and with a gigantic military budget that has once more been doubled since the winter of 1939-40.

In an article entitled "Germany's Economic Mobilization," published in April, 1939, more than a year before Hitler's invasion of the Netherlands, and almost two years before the publication of this little book, in the *Army Quarterly*, Britain's foremost military review, I summed up my survey as follows:

"Germany's economic mobilization for war is being carried on at the highest possible speed, and up to the present the industrial mobilization of the Western Powers has reached nothing analogous in proportion. In the matter of economic mobilization for war National Socialist Germany will in all probability retain the lead and enjoy an advantage down to the outbreak of hostilities. The great problem of the Western Powers now is to keep that advantage within such bounds that it cannot prove sufficient to give National Socialist Germany a decisive surprise success right at the beginning of the war, and to insure that their own first line of defense holds out long enough to permit the mobilization of the Western Powers and the United States."

This goal has not been reached by the Western Powers.

France, their first line of defense, is now a shambles.

Britain and the United States, indeed the whole world, today are facing the same burning problem.

Thus I reiterate the concluding sentences of my article of April, 1939, with only a few appropriate changes:

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"In the matter of economic mobilization for war National Socialist Germany will in all probability retain the lead and enjoy an advantage. The great problem of the United States and England now is to keep that advantage within such bounds that it cannot prove sufficient to give National Socialist Germany a decisive surprise success in the second year of the war and to insure that their own first line of defense holds out long enough to permit the mobilization of the industry of the United States."

II

Britain by Itself Cannot Defeat Hitler

THIS is not the place to describe how Britain underrated Germany's rearmament. Instead of going into such "historical" details, we shall confine ourselves to a more immediate comparison between the German and English military budgets. In this connection it is well to repeat that Germany, even prior to the war, devoted about half of its entire production system to armament.

Let us now see the development of British and German armament expenditures during the war. At the outbreak of hostilities, the English budget contained provisions for expenditures at the following annual rates:¹

	Million Pounds
Four months, September to December, 1939.....	1,991
Three months, January to March, 1940.....	2,592
Three months, April to June, 1940.....	2,700
Three months, July to September, 1940.....	3,746

In October and November, the total English budget amounted to more than 4 billion pounds.²

To arrive at the net sums showing strictly military expenditures, either early in the war or in its recent months, we must deduct 700 million pounds annually spent on the British Government's civilian requirements. Thus at the outset of the war, net military expenditures amounted to about 1.3 billion pounds, while today they total 3.3 billion pounds and are still rapidly increasing. This means that in a little over one year, military expenditures were increased two-and-a-half-fold, while the whole budget was but doubled.

The Empire's expenditures for military purposes connected with the war effort may be estimated at 200 million dollars.³

¹ *London Economist*, October 5, 1940.

² "Describing this as the most costly war the world has ever known, Sir Kingsley Wood, Chancellor of the Exchequer, said today that Britain's average daily war expenditures had risen from 5.3 million pounds for the first year to 9.1 million pounds for the first seventy-seven days of the second year." (*New York Times*, November 26, 1940.) A daily expenditure of 9.1 million pounds equals 3,321.5 billion pounds per year. If we add 700 million pounds, representing civilian expenditures, we arrive at four billion pounds, the sum total of the British budget.

³ Canada's present military expenditures amount to about 85 million dollars per month. On November 21, 1940, the *New York Times* wrote:

"Finance Minister J. L. Halsey today gave notice that the next war loan would be floated next Summer. He announced that war expenditures had now reached the rate of one billion dollars a year and were steadily increasing. This amounts to one-fifth of Canada's national income."

Of Australia's military expenditures the *New York Times* reported on November 21: "The budget introduced by Treasurer A. W. Fadden in the House of Representatives today imposes taxation on an unprecedented scale and, with State taxes, will devote 20 per cent of Australia's national income to the war effort. . . . War expenditure for 1939-40 was 55 million pounds Australian

In Figure 6 we compare British military expenditures with those of Germany. (See also the figures in Chapter I.) To facilitate a further comparison with American military expenditures, all values have been computed in dollars, basing our calculations on these rates of exchange, also suggested by the London *Economist*: The domestic purchasing power of one British pound is set at 15 marks and 5 dollars respectively, while that of the dollar is set at 3 marks.

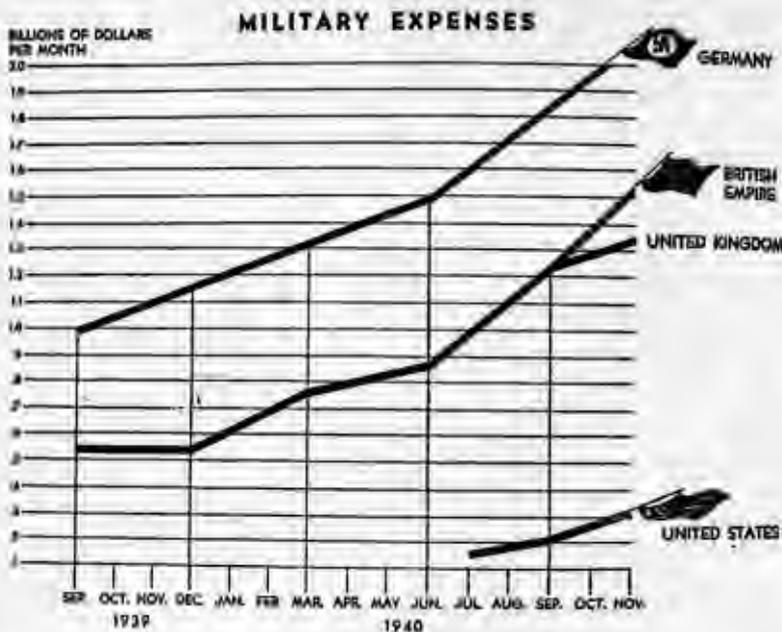


Figure 6.

In addition to British and German military expenditures, the chart also shows those of the United States. These latter amounted to about 200 million dollars per month from July to September, and increased to 280 million dollars by October.

This chart shows, first, that when Britain embarked upon the war its military

(the Australian pound closed Wednesday at 89.25). For the coming year it is estimated at 156 million pounds.

The purchasing power of the Australian pound at home may be somewhat above its official rate of exchange of 55.5, just as the domestic purchasing power of the English pound is higher than its rate of exchange. The total sum of about 320 million expended by the Empire on the war effort may still be considerably increased.

expenditures were a little over one half of Germany's corresponding expenditures, despite the immense Nazi advantage of advance war preparations and accumulated stocks and reserves. Second, it shows that even in June, 1940, British military expenditures were below the German expenditures in the early stages of this war, *i.e.*, one billion dollars per month. Since then, Britain's expenditures have shown a rapid increase, overtaking Germany's *early* rate of expenditure. However, Germany's expenditures were also increased in the meantime. Thus today British military expenditures are still below those of Germany, especially if we consider the contributions of the conquered territories, which were gradually added to the sum total of the latter.

An analysis of the British budget compared with the budget of Germany tends to confirm our conclusions drawn from a comprehensive survey of German production after the subjugation of Continental Europe. Even if Britain's economy runs full blast, it will at best be able to produce as much as Germany is now turning out *alone*, without the conquered territories.

Despite extreme efforts in the next six months, Britain by itself remains incapable of accomplishing two things forced upon it by the emergency. First, it will not be able to exceed the immense advantage which Germany gained by organizing half of its industrial system into armament production many years in advance of the war and by subordinating its whole national economy to the production of armaments. Second, Britain by itself is incapable of creating an armament production corresponding to that of Germany plus its conquered territories.

On October 9, 1940, Churchill told the House of Commons: "No one ever pretended that we should overtake the Germans with their long lead in the first year of the war. We must give ourselves a chance. Perhaps it would be possible to make a more satisfactory statement on this subject at this time next year. But do not forget, the results of the enemy will also be substantially increased by the exploitation of the wealth and the plants and to some extent of the skilled labor of the captured countries."

BRITAIN'S ARMAMENTS LAG FAR BEHIND GERMANY'S

How far Britain's military power still lags behind the immense armed strength of Germany is clearly demonstrated by this single fact: Without the protection of the English Channel, Great Britain would long ago have succumbed to German invasion. Britain's land army, even in co-operation with the Royal Air Force, is still no match for its German opponent. Britain's survival is due to the protective barrier of the English Channel which has enabled the Royal Navy, together with the RAF, to frustrate all German attempts at invasion.

In the fall of 1940, Britain's insular situation, its Royal Navy and Air Force, combined to prevent Germany from making effective use of its much greater war

potential. It has also deprived the German Army of a field of operations worthy of its strength. Germany's huge land army (and the German Army is still essentially a land army), has been left without a theater of war since the collapse of France.

Prior to the war, during its first phases and today, at the time of writing this book, Britain's production within the framework of its war effort lagged far behind Germany's production. Compared with Germany's total war effort, it is still inferior. But the barrier of the sea has, up to now, prevented a clash between Germany's and Britain's land armies.

Consequently, Hitler found himself compelled to look for new battlefields on which to attack Britain and its Empire when his large-scale air attacks failed to bring about a quick decision.

Instead of moving westward, which would have been the logical move to end the war as quickly as possible, he decided upon a penetration of the Balkans. His troops were ordered to occupy Rumania. The ultimate goal of this penetration was not merely Rumanian oil; it was the establishment of advanced bases to bolster an impending campaign for Suez as well as the Mosul oil fields of Iraq, *i. e.*, a campaign against the British lifeline. Hitler also concluded a pact with Japan, designed to back up that country in a projected attack on British positions in Asia and to encourage all Japanese moves of expansion, if only to prevent the U. S. Fleet from sailing into the Atlantic while potential danger looms in the Pacific.

An attempt was made to bring the Soviet Union closer into the Axis for the total war against the British Empire. Hitler, moreover, now utilizes all the ports and naval bases of the conquered territories for the prosecution of a large-scale submarine and air war, to impede the shipping of war material, raw material, and food to the British Isles. His intensified air raids against British industrial centers are designed to reduce Britain's own war-material production, its own industrial supply—and it cannot be denied that he has been successful up to a certain point.

Now master of Continental Europe, Hitler is trying to turn the tables on Britain and organize a deadly blockade to starve it into unconditional surrender.

What can Britain's answer be to this threat, and, in fact, what is its answer? In the face of German military might, Britain is still on the defensive. For the time being, all its successes are within this defensive sphere. It succeeded in foiling a German invasion and thus managed to upset Hitler's timetable. This is particularly significant, since Hitler hoped to wind up the Battle of Britain prior to the outcome of the American Presidential election.

Meanwhile, Britain proceeded to convert itself into a veritable arsenal for the supply of its steadily increasing forces. Britain succeeded in salvaging most of the divisions of the original expeditionary force from the disaster in Flanders, but most of their equipment was left behind. The first task was to provide new equipment for the rescued divisions. From week to week additional contingents were

drafted into the growing British Army, and now British factories must work day and night to turn out the equipment for the new troops. Under the circumstances we must point out with particular emphasis that all these tasks have taxed British production to a limit beyond which a further increase of production is hardly feasible.

It is well within the realm of immediate possibilities that British war-material production will decline rather than increase, especially under the impact of Germany's prolonged air attacks.

BRITAIN'S DEFENSIVE CHANCES

On the other hand, Britain is on the offensive in three fields. First and foremost comes the Royal Air Force. Britain, however, is well aware of the established military fact that an air force alone is incapable of defeating the enemy. It may gradually weaken the German war potential to a considerable degree—but the road to such success is a long one, and it can be traveled only after Britain succeeds in obtaining superiority in the air. But the Royal Air Force cannot conquer Germany or defeat the German Army alone.

Britain is on the offensive with her Royal Navy. This Navy, operating in the seven seas, utterly confounded all military calculations drawn up after the collapse of France. Then armchair strategists resorted to the obvious formula of adding up the aggregate tonnage of the German, Italian, and French navies, and, remembering that part of the British Fleet was based on faraway Singapore, they arrived at a figure which revealed a numerical superiority of the totalitarian fleets over their British adversary.

If nothing else, the German Navy was fatally weakened during its Scandinavian foray; a few determined blows sufficed to paralyze the French Navy; the Italian Navy has been considerably damaged, and its fighting efficiency almost fatally impaired by Admiral Sir Andrew Cunningham's masterful strategy in the Mediterranean and the Red Sea.

However, even this superior Royal Navy cannot defeat the Third Reich and its Army by itself.

Britain's third offensive weapon is the blockade. In the wake of Hitler's triumphs in the west, the Royal Navy extended its blockade to include practically the whole of Continental Europe. Of course, the efficiency of this British blockade means a considerable weakening of the German war effort. Scores of raw materials vital for warfare are lacking in Europe, and, though considerable reserves were accumulated in advance, despite frantic attempts at autarchy, they cannot be procured in the quantities now required. The longer the war drags on, the more injurious the lack of these raw materials will become, the more serious will be the Continent's food difficulties.

However, Britain knows well that the blockade alone cannot win the war,

just as it proved incapable of bringing about a final decision in the last war. Then the blockade was aimed at Hohenzollern Germany, which failed to prepare its economic system for a protracted campaign and which for many years was forced to conduct a war on two fronts with millions of its troops permanently engaged in battle. Even then, after four years of fierce fighting, the blockade alone failed to decide the war. The Allied victory of 1918 was the result of a series of factors, such as the decisive defeat of German troops in France and the realization within the German High Command that America's entry into the war was bound to improve the Allied strength from month to month.

Germany's present position, in so far as the immediate future is concerned, is far more advantageous. For many years before the outbreak of the war the Economic General Staff prepared Germany for a prolonged war. The Reich's raw material and food economy were fully and effectively organized. The conquest and the plundering of the subjugated territories of Europe prevented a deterioration in Germany's food supplies or in the feeding of the Germany Army and armament workers.

On October 12, 1940, the London *Economist* wrote:

"Most guesses about the state of morale in wartime Germany are just guesses and after a year's experience of the problems of war economy we can no longer glibly write off the enemy's stringent rationing of food and other necessities as a proof of weakness. Food shortage does indeed undermine morale—and health—more than any other single factor, but measures to eke out existing supplies and provide against shortage in the future may be a source of encouragement. It is, in fact, not rationing that will break German morale, but the actual lack of food, and that is not likely yet, though the existence of so wide and so complicated a system of rationing will scarcely be emollient to public temper if the strain of war continues and increases.

... The German workman is neither well fed nor well clad, but he is not hungry or ragged yet. It may indeed prove that another winter or, still more surely, two further winters, will bring out the most dangerous consequences of this ascetic system in the shape of ill-health and sickness. But at present German supplies are bolstered by the loot from the conquered countries, where severe rationing has been introduced. . . . In sum, then, Germany is in no danger of grave scarcity in the near future, and the Reich's complete system of rationing has been a great aid in conserving supplies and building up stocks." (Italics by the author)

It is imperative, moreover, to take into careful consideration the radically changed character of warfare since the first World War in its obvious influence on Germany's total supplies. In 1914-18, Germany was forced to conduct a long and exhaustive war with a huge land army over a period of four years. Today, the immediate task of its land army is practically concluded after but a few weeks of actual fighting. Even though these six weeks of large-scale military operations did consume considerable supplies, Germany gained absolute control of Continental Europe.

This places it in a position where it is able to free itself of many hardships and shift them to the more than a hundred million enslaved peoples.

For the Battle of Britain, Germany does not need an army of millions. In striking contrast to the first World War, thousands of German soldiers drafted from agricultural occupations may be returned to the land for its efficient cultivation. War-material consumption, moreover, is trifling in comparison with the needs of an army of millions actually engaged in fighting a modern industrial war to the end.

Thus the blockade is but one of several weapons available to Britain—despite its increasing expediency and efficiency. It is a contributing factor to victory effective only in conjunction with other factors.

The Royal Navy is also Britain's most effective defense weapon. But, just as the Navy was unable to defeat the German Army in 1914-18, it will again fail to accomplish this feat in the present campaign.

Next to the Royal Navy, the Royal Air Force is Britain's best defensive arm. Simultaneously, it is rapidly developing into a dreaded offensive weapon against Germany. But its effectiveness is still rather limited. Britain's land army is still in the formative stage and by far inferior to its German counterpart.

With the blockade capable merely of weakening the enemy, Great Britain is in no position to defeat Germany even if it throws into the battle its three-cornered offensive arms.

What Britain can do now, and what it is actually doing, is a clever utilization of the pause during this winter to prepare everything at its disposal to avert a complete defeat in the spring. Britain is now facing a dual task: it must build up its own forces and continue to weaken Hitler's Germany so that an invasion can be frustrated and, consequently, its own defeat can be averted. Behind these defensive efforts Britain also prepares for the later stages of this war—a carefully planned, long-range program, to bring about ultimate victory over Nazi Germany.

But let us here repeat with all the emphasis we can command: *Britain by itself cannot achieve this ultimate victory.* On the contrary, left to itself, Britain is still threatened by conquest and collapse. Only lavish American aid can provide the certainty of Britain's escaping defeat. The probability of an eventual British victory can be provided by increasing this American aid to really grandiose proportions.

Thus, in this second World War, the United States now occupies an all-important, all-decisive key position to cast the deciding vote for victory or defeat.

III

America's Aid to Britain Is Less Than Occupied Europe's Tribute to Hitler

THE United States of America is the leading industrial power in the world. Its production in all the important branches of peacetime industry is not only far greater than that of Germany, but even exceeds the aggregate production of Germany plus all its conquered and occupied territories. The pooled production system of the British Empire and the United States is superior to the industrial capacity of any combination of countries Adolf Hitler will ever be able to organize.

However, the bitter lesson cannot be driven home often enough: *Productive capacity is not* the decisive factor in this war. Only *actual production* can turn the scale—and the mere potential ability to produce huge quantities of war materials is a far cry from actual production.

In their sheer ability to produce all sorts of war materials, Britain and France were far superior to their German opponent. Yet by the time they settled down to mobilize all their reserves to produce sufficient war materials to bring about an actual superiority over Hitler's Germany, France was already vanquished. Even the fall of France could have been adequately counteracted by America's material support, since America's and Britain's combined ability to produce war materials is still superior to the corresponding capacity of aggrandized Nazi Germany.

But the fate of the world will depend on their faculty to translate in time this potential economic superiority into military realities. It is dependent on America's will and ability to convert its immense peacetime production into war-material production in time—making the bulk of this redoubled output available to Britain as quickly as possible. And in this connection a critical fact must first of all be established.

Thus far, we have no assurance that American aid to Britain will be extensive enough and fast enough to prevent complete British defeat and German victory.

The American public has perhaps begun to realize that, despite all the conspicuous growth of American supplies, the present volume and rate of deliveries are still inadequate. But the public does not realize how very far from adequate they are. Americans must be warned not to make the mistake of comparing the volume of present supplies with the sum total of deliveries that went to Britain in Chamberlain's time, preceding Hitler's Western offensive. If present supplies are compared with deliveries but a year or even six months ago, we are likely to be misled by a pretty picture of America's steadily increasing aid. Everything seems to be function-

ing so well. Early in 1940, the monthly average of warplanes sent to England was but 21. By June, their number increased to 97; by August, to 278; by October, to 281; further increases are promised during the months to come.

In line with this steady and relatively considerable increase of plane deliveries, general American exports sent to Britain show a similar growth. During the year that preceded the outbreak of the second World War, American exports to Great Britain totaled 497 million dollars, or 41.4 million dollars per month. In the first war year, they increased to 780 million dollars, or 65 million dollars per month. While in May, 1940, exports amounted to 49.4 million dollars, they increased to 123 million dollars by August. Over such a short period, they increased by 150 per cent.

Similar increases were noted in the supply of steel, the most essential raw material for the efficient prosecution of a modern war. In the first year of the war, the British Empire received less than 2.5 million tons of steel, or a monthly average of only 200,000 tons. But by August, 1940, the export of steel reached the record mark of 596,000 tons, and almost 720,000 tons if we include Canada.

Accepting these figures at their face value, everything might seem to be in fairly good order. The fatal error inherent in such superficial comparisons is the complacent belief that Hitler remained idle while all these supplies were going to Britain. On the contrary, he was busier than ever. He had in the meantime conquered the whole of Continental Europe and he is now engaged in organizing the total national economy of those unhappy countries for inclusion in the greater war economy of his Third Reich. To present a true picture, the gradually increasing American supplies must be compared with the actual gains of Nazi Germany.

Such a comparison reveals an extremely delicate state of affairs the dangerous potentialities of which cannot be overrated.

AMERICAN STEEL EXPORTS

In the first chapter of this book, we presented the exact figures of German steel production including that of the conquered territories. We showed that in so far as iron ore, steel's basic raw material, is concerned, the Reich has succeeded in eliminating all previous import difficulties. Now we compare Germany's domestic steel production plus her gains in Europe with the quantities exported from the United States to Britain. Granting that England will receive throughout the year quantities equal to the record supply of August, 1940, we have the situation shown in Figure 7.

What is the message of this chart? Hitler is in the midst of organizing the heavy industries of the conquered territories for the war against Britain. Even now considerable progress has been made toward the final realization of this project. It would be too much to expect a complete German success in the face of formidable difficulties. But the report to the *New York Times* cited in the first chapter reveals that a major portion of the heavy industries in the conquered lands is already working full blast.

FIVEFOLD AID TO BRITAIN

At the outset of the war, Germany's steel production by far exceeded the output of the British Empire. Up to date all the American supplies of steel going to Britain, computed at the rate of the record export of August, 1940, have only resulted in

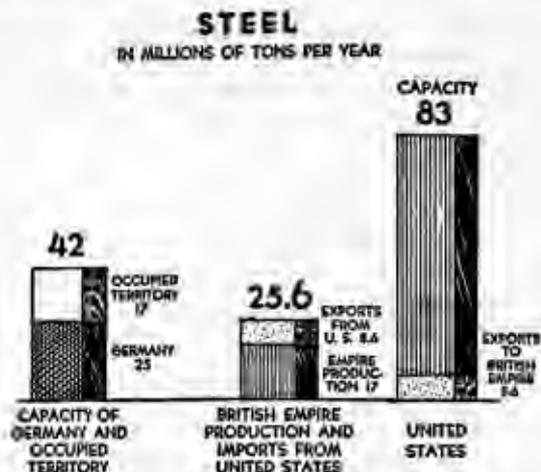


Figure 7.

raising British production plus American supplies to the level at which Germany stood prior to the conquest of Continental Europe.

The gains Hitler secured for his war economy in the conquered territories are far greater than the steel supplies now being shipped from this country to the whole British Empire.

From September 1, 1939, to August 31, 1940, the United States shipped 2.4 million tons to the United Kingdom. But the steel production of Luxembourg, only one of the conquered countries, totaled 2.51 million tons. Thus its steel production alone exceeds the entire American steel exports to Britain and Canada.

TOTAL AMERICAN EXPORTS TO THE BRITISH EMPIRE

The objection may be raised that such comparisons are valid only in so far as steel is concerned. But this is not the case. Unfortunately, they are equally valid for the total of American supplies to Britain. The utter inadequacy of these supplies can best be expressed in figures revealing the sum total of American exports to England

BRITAIN HELPED LESS THAN HITLER

and the Empire, particularly Canada, since all Canadian imports are for the benefit of the British war effort.

During the months of August and September, 1940, the United Kingdom, Canada, and the rest of the Empire received goods and raw materials valued at 420 million dollars, or 210 million dollars per month.

The Franco-German Armistice was signed in the Forest of Compiègne on June 25. Ever since, France has been paying the costs of the German army of occupation at the rate of 20 million marks per day, which, figuring the mark at 20 francs, comes to 400 million francs a day—12 billion francs, or 300 million dollars every month. Germany received this sum every month throughout the fall and winter, it is still being paid. France is unlikely to be able to continue such large-scale unpaid deliveries indefinitely. But we are not here concerned with the exigencies of the future. What we now must do is to bring France's present payments that are swelling German war economy to bear upon the important new state of the war in which the Third Reich is concentrating everything it has on the Battle of Britain. Therefore, it is of particular interest to compare American exports to the British Empire with the sums Hitler is now extorting from France and the occupied regions (See Figure 8.)



Figure 8.

The chart reveals that Hitler's receipts from France exceed by about 90 million dollars per month the sum total of American exports going to the British Empire. In addition, however, his looting of the Netherlands, Belgium, Luxembourg,

¹ In October, 1940, the exports to England amounted to 107 million dollars, to Canada, 76.7, and to the whole Empire, approximately 210 million dollars. In November the amounts remained about the same.

Norway, Denmark, Poland, and Rumania also swelled the stores and reserves on which the Nazi war economy is based by at least 100 million dollars more.

Unfortunately, no signs can be detected to indicate a basic change of the situation in the immediate future. According to a Washington dispatch of the Associated Press on September 17, 1940, "foreign-trade experts estimated that another year of war abroad would push United States exports up to a 450-million-dollars-a-month volume next summer, or double that of the period before hostilities started in Europe. . . . Effect of the British blockade on the foreign trade situation was shown in the estimate by these experts that of the probable 450 million dollars exports to all nations next June, the British Empire would take 315 million dollars."

Even at this figure of goods and raw materials valued at 315 million dollars a month, the British Empire would thus receive approximately the equivalent of what Germany now extracts from France, without the rest of the conquered territories.

When Hitler embarked upon this war, he was at a tremendous advantage in the possession of accumulated arms and munitions. In fourteen months of fighting, he captured the armament stores, raw-material reserves, and natural resources of eight countries, including Rumania.

This is his first advantage in the Battle of Britain.

Germany's highly developed industrial system alone is capable of producing more than Britain's own production apparatus.

This is his second advantage.

Unhappily, these immense advantages have as yet in no way been counter-balanced by American supplies. Until now, American exports have remained far below the sum total of the supplies Hitler has managed to get out of the conquered and occupied territories.

AMERICAN PLANE EXPORTS

And how about planes?

Here, too, we must most emphatically caution against slipping into a mood of overoptimism. Of course, we have no figures with regard to the exact output of German or British aviation factories. These are the war's most profound secrets. But we know that due to the magnificent showing of the Royal Air Force, a plane on the one side does not mean a corresponding plane on the other, since Britain's fighting Spitfires and Hurricanes, as well as some American designs, are superior to their German counterparts.

But it would be foolish to prepare a balance sheet by simply adding American plane deliveries to Britain's doubtlessly increasing aircraft production—and then indulge in the belief that Britain is bound to attain superiority in the air in due course.

There is no evidence to support such a conclusion.

We have shown that Germany's armament production underwent a basic re-organization after the collapse of France. Today, it is primarily producing for the particular needs of the Battle of Britain, while previously it catered to the diversified requirements of the German land army. Consequently, throughout the winter, Germany's aircraft production will be accelerated on two grounds: first, by concentrating a considerable portion of all production facilities on the manufacture of war-planes, and second, by putting to work all aircraft factories in the conquered countries, particularly in France and the Netherlands.

The same Hitler who succeeds in draining the occupied territories of twice as much steel as the United States exports to the British Empire, will similarly manage to put into high gear the aircraft industries of those countries.

We know the number of planes produced by France in the first World War. We also know the number it could now produce were its manufacturing capacities fully utilized. It is too low an estimate rather than too high a one, if we now assess the number of fighter planes which the aircraft industries of the conquered territories can contribute to Hitler's campaign against England at 500 units per month.

Figure 9 shows American plane deliveries to Britain on the one side, and the

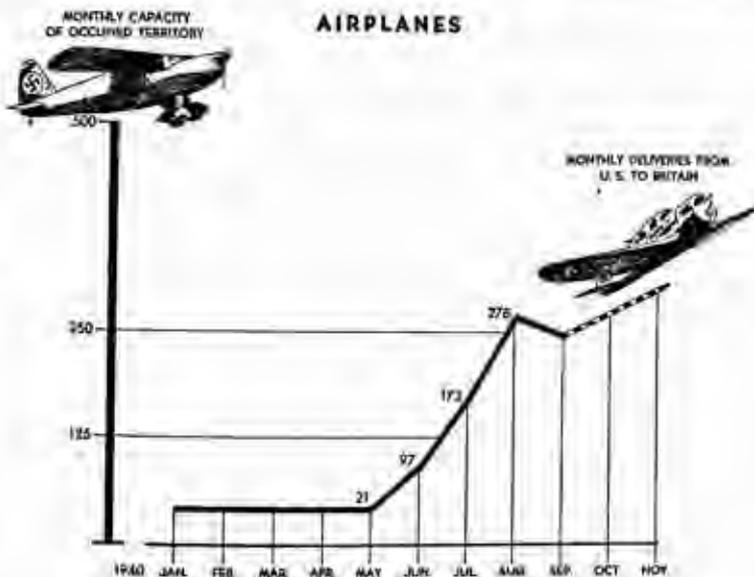


Figure 9.

FIVEFOLD AID TO BRITAIN

productive capacity of the aircraft industries in the conquered territories on the other.

Even before the war entered its decisive stage, Hitler possessed an enormous numerical superiority in warplanes. Nevertheless, he has never ceased to expand his aircraft industry and to increase the output of planes in Germany proper. Thus German production by itself still exceeds British production. These are important advantages, indeed, and the mere fact that American deliveries have so far failed to alleviate the British shortage of aircraft, tends to increase the odds in Germany's favor.

If plane deliveries to Britain increase at no more than their present rate, as it is generally assumed (the *New York Times* quoted British sources as expecting that Britain will receive 600 American planes per month by June, 1941),³ Britain will obtain from the United States only as many planes as Germany is now getting from the conquered countries alone.

In other words, an English superiority in the air by 1941 is practically out of the question: Germany remains the master of the air.

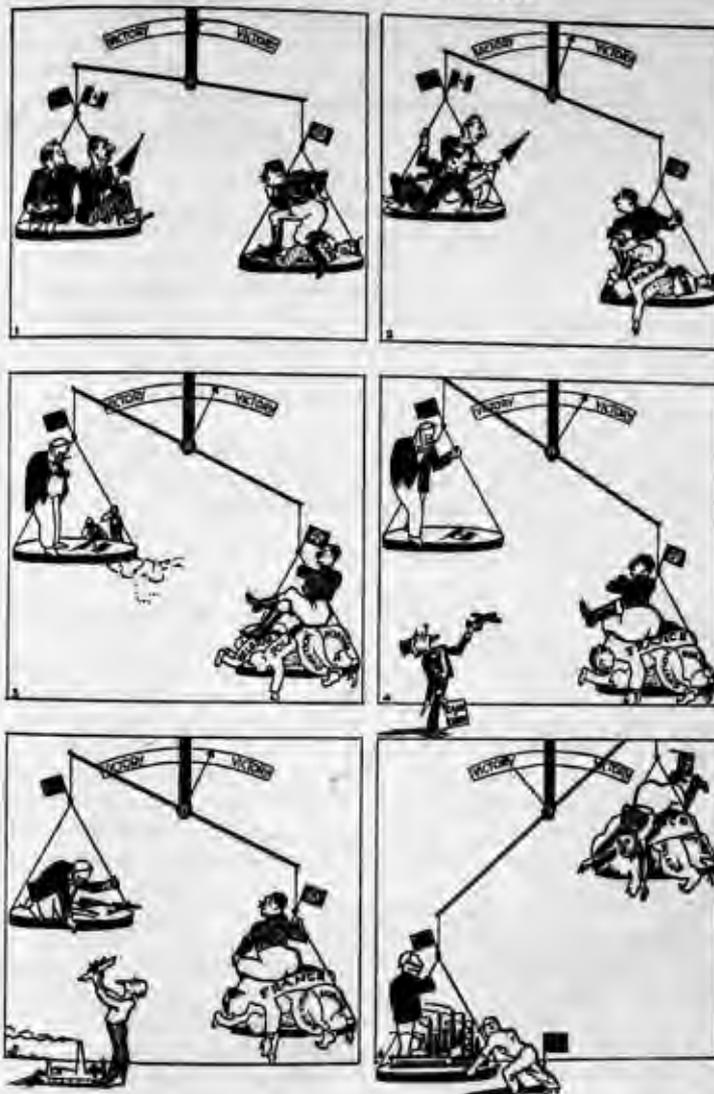
This is our conclusion: If American aid to Britain continues to linger on its present comparatively low level, or increases but gradually and slowly in all branches of exports, the United Kingdom will remain in a state of extreme danger. Hitler may yet succeed in bringing about the total collapse of Britain in the course of the perilous year 1941.

How can this be prevented? That is shown in the last panel of the drawing "The Balance of War." More concretely, it is shown in the next chapter.

³ The *New York Times* reported on October 31, 1940:

"Shipments of aircraft to Great Britain in September totaled about 250 units, British sources said today in commenting on reports that only 136 had been sent. October shipments are expected to be about the same as September's, with expectations of about 300 planes in November. By June, these sources said, not fewer than 600 a month will be shipped."

THE BALANCE OF WAR



IV

Britain Needs 2.5 Million Tons of Steel, 1,500 Planes, One Billion Dollars in Goods from Us Monthly

THE idea that Britain is America's first line of defense has taken hold of the minds of the American people. Yet if this formulation is to be made into a living reality, the United States will have to take on two interrelated tasks.

First, America will have to increase and speed up its aid to Britain during the months of this winter of 1940-41 so that this most momentous of all possible Hitler conquests can be averted and the heart of the British Empire preserved as a bulwark against Nazism, which has its malignant hand set against the American continent. As long as Britain is free and strong to defend itself, a German onslaught against the United States is automatically foiled.

Second, this aid to Britain must be expanded to an extent which will enable Britain to overtake German armament production. Only American support on such a large scale provides the possibility of ultimate British victory.

BRITAIN NEEDS WAR AND MERCHANT SHIPS

What is it that England needs—and what can America supply? Basically, the existing discrepancy between German and British armament production must be reduced. Just now, with Hitler working feverishly to subordinate the industrial system of the conquered territories to Greater Germany's war economy and, simultaneously, inflicting the greatest possible damage on Britain's industries, this discrepancy threatens to increase in Germany's favor. This must be prevented, and the United States has three means for preventing it.

England is in the process of being converted into a single gigantic arsenal. Of course, any intensification of British armament production at home, as well as the training of the British Army; any attempt to increase Britain's war potential to its full capacity represents a step toward catching up, at least part way, with Germany's present military superiority.

By now, Britain is an arsenal in all but name—and yet, in many decisive respects it still differs from the arsenal that is Nazi Germany.

Germany and Continental Europe, now controlled and administered by the Nazis, are cut off from overseas by the efficient British blockade. Thus Germany is compelled not merely to manufacture its arms and munitions, but also to provide its population with foodstuffs and essential consumer goods.

Britain, on the other side, still has free access to overseas resources, despite the

unrestricted submarine and air war now conducted against its merchant shipping. As long as Britain succeeds in keeping the sea lanes open and maintaining sufficient tonnage plying between British ports and overseas markets, it will remain in a position to import a considerable part of those goods which the Third Reich is forced to manufacture and produce within its own borders. It is not merely a question of Britain's ability to do so, Britain *must* pursue such a course.

Almost three fourths of all the food supplies required by Britain are imported from overseas. It would be a foolish undertaking to impair Britain's industrial efficiency in the midst of this all-out industrial war by withdrawing workers from the factories and assigning them to agriculture in an attempt to feed half of the population from Britain's own soil.

In addition to 75 per cent of its food supplies, Britain also imports raw materials vital in war. All the oil it needs comes from abroad. Even in peacetime, a considerable part of the iron ore for British steel production was imported. As long as Britain's vital foreign trade functions, millions of British workers are free to manufacture arms and munitions.

If the sea lanes are kept open and Britain's shipping losses continue at a comparatively low rate, and if at the same time all available tonnage is fully utilized to carry goods to Britain, then—and only then—will Britain be able to exploit its manpower and the full efficiency of its industrial system, to increase its armament production, and to complete the establishment of its Army. The distance which now separates British production from its German enemy will then gradually diminish.

We must always bear in mind that Britain stands or falls with its imports. Aside from arms and munitions, those ships bring foodstuffs and raw materials as well, thus relieving Britain of the necessity of producing them on the spot with its limited facilities.

American aid can do much to alleviate Britain's plight in this field. First of all, the United States could introduce a series of measures to increase the security of sea lanes on England's behalf. The exchange of 50 overage destroyers for naval and air bases in the Western Hemisphere was an important step in this very direction.

However, the barter failed to prevent the alarming increase in Britain's shipping losses. It would be necessary to investigate whether America could place at Britain's disposal more destroyers and other naval units without impairing its own national defense.

According to a dispatch from the London Bureau of the *New York Herald Tribune*,¹ the late Lord Lothian brought back a memorandum, believed to have been discussed with President Roosevelt, announcing the British Government's desire to buy, lease, or borrow from the United States three battleships, six cruisers, and a hundred destroyers.

¹ *New York Herald Tribune*, November 26, 1940.

Germany is now steadily intensifying its efforts to send its own U-boats and Italian submarines against Britain's merchant shipping, utilizing all the available ports along the endless Atlantic coastline. Britain is short of small naval units, urgently needed to escort the convoys now seriously threatened by the unrestricted submarine warfare.

Just as every American destroyer sent to Britain helps to maintain the flow of imports which, in turn, are the arteries of British defense, every destroyer and warship bolsters Britain's ability to resist and repel Hitler's attempts at invasion.

Experience shows that considerable time elapses between the decision to give Britain destroyers and their actual delivery, with further time required to train the crews for these foreign warships. Yet immediate delivery is imperative if they are to arrive in time for the decisive phase of the Battle of Britain in the spring of 1941.

In addition to its own tonnage, Britain now has at its disposal the greater part of the merchant fleets still flying the flags of countries conquered and subjugated by Hitler. But it is a grave fallacy to believe that the total tonnage now available to Britain meets all present and future needs.

Even prior to the war, the bulk of these foreign ships was at Britain's disposal for the transport of its foreign trade. Even more important is the fact that Germany's conquest of Continental Europe caused a considerable lengthening of the trade routes now negotiated by British shipping. The convoy system also prevents a full and efficient utilization of the available tonnage. When traveling in convoy, faster boats are compelled to adjust their speed to slower vessels, and thus their actual capacity diminishes, since they are en route longer than normally required. All this happens at a time when Britain must utilize its manpower both for its new Army and armament production while simultaneously facing the necessity of increasing the quantity of its imports to the greatest possible extent.

Consequently, Britain is now confronted with the immediate task of enlarging its merchant fleet by all available means. Normally, the annual capacity of British merchant shipbuilding yards is estimated at two million tons, but today it is far below this figure.

Ronald E. Cross, Minister of Shipping, revealed in Commons that a very large part of Britain's domestic shipbuilding capacity had to be given over to naval construction, and that many yards are engaged in repair work instead of building merchant ships.¹

What can the United States do?

The merchant marine of the United States is idle, its ships are laid up, wasting precious hours in ports. The Neutrality Act prohibits the shipment of goods to belligerent countries on American vessels. A change in these provisions is bound to lead to unpleasant consequences, to say the least, since American ships carrying war

¹ *New York Herald Tribune*, November 27, 1940.

materials to Britain are almost certain to be attacked by Nazi submarines or raiders.

Still, the solution is quite simple. Today, and not when Britain's lack of cargo ships assumes disastrous proportions, American vessels should be sold to British firms. Moreover, the building of ships for Britain should begin at once in American yards, which should also be used to repair and recondition damaged British ships.

"Great Britain has arranged for the building and acquisition of merchant ships in the United States to offset losses that have been, or may be, suffered in the submarine campaign waged by Germany and Italy, shipbuilding circles reported today. The program calls for the building of 120 freighters in this country at a cost of about 100 million dollars, these sources said. Early deliveries on the first ships have been guaranteed, and the entire program is to be completed in a short time, it was asserted."²

It is an open question whether the existing shipbuilding facilities in the United States suffice for this new construction. According to a dispatch in the *Herald Tribune* of December 6, 1940:

"The British Government has decided to build its own ship assembly yards and construct prefabricated freighters on a mass-production basis from parts made at factories throughout the United States and shipped to the two assembly points, one on the east coast and one on the west coast, it was learned from government officials tonight.

"The British Shipping Mission, which has been in the United States for nearly two months, has returned to New York to complete the final details and sign the last contracts before announcing the plan. The assembly plants will be similar in many respects to the Hog Island shipyard, which the American government constructed and ran during the World War.

"According to British estimates, the first ships should be completed within ten months, or perhaps even sooner. However, shipping circles are less optimistic and suggest that, considering the difficulties, the first ships may not be finished and delivered to the British before a year."

Each additional ton available to Britain increases its imports. In turn, an increase of imports releases men, raw materials, and production facilities within Great Britain for the British Army and military production.

However, Britain's own production will never suffice to overtake Germany's advantage. Britain now needs American aid insofar as weapons and munitions are concerned. In the beginning, aside from certain limited plane deliveries, American aid consisted in placing at Britain's disposal arms from existing American stocks, left-overs from the first World War. Thus, for instance, in June, 1940,³ the United States delivered to the British surplus stocks of 80,000 Hotchkiss and Lewis machine

² Frank L. Kluckhohn in the *New York Times*, November 5, 1940.

³ In an article by Ferdinand Eberle, Jr., in the *New York Times*, September 22, 1940.

guns, 500,000 Lee-Enfield rifles and several million rounds of ammunition. There are more such stocks kept in American arsenals which could be made available to Britain. According to Ferdinand Kuhn, another 250,000 of the Lee-Enfield rifles could be supplied.

On the whole, however, only new production and not the depletion of old stocks can mean a real and efficient support.

Let us now sum up the three forms of aid which Britain needs from the United States.

First of all, it needs all the warships America can spare without weakening its own national defense; in addition, idle American merchant ships must be transferred to British registry, and new cargo vessels must be built here as quickly as possible. An extension of the 300-mile neutrality zone, patrolled by American naval vessels, would further implement the security of Britain's vital sea lanes and free more British ships to escort convoys through the most perilous passages.

Second, Britain needs additional supplies from America's reserve stocks—everything from machine guns to flying fortresses.

AN HOUR A DAY KEEPS HITLER AWAY

Third, and this is the decisive need, American deliveries of newly produced arms, ammunition, war materials, as well as essential raw materials must increase to a really considerable extent. However, the prerequisite for such aid is the immediate organization of America's own armament production to a far greater speed than has been done thus far.

After his re-election, President Roosevelt proclaimed a new policy according to which all America's future war production will be equally distributed between the United States and Great Britain. In his press conference of November 9, the President announced that "deliveries of airplanes and war materials needed both by Great Britain and the United States shall be divided, generally, on a 50-50 basis."

This by itself represented a considerable improvement over previous practices.

However, even this improvement in the ratio of division could be of value only if the volume of the goods to be divided, *i. e.*, the total volume of American armament production, further increased both steadily and rapidly. A 50-per-cent share in America's armament production may mean much, if the country has already completed the shift to the primary production of armaments. Such a shift was executed by Germany long before the outbreak of the war.

If the United States succeeds in liquidating unemployment while at the same time fully utilizing its industrial capacity, the national income, or the volume and value of production, will amount to between 90 and 100 billion dollars per year, as against the 74 to 75 billions for 1940. If America's fully utilized industrial capacity were to be transformed into producing war materials on the German scale, the arma-

ment production of the United States would amount to no less than 50 billion dollars per year.

With Britain getting half of it, 25 billion dollars' worth of armaments, ammunition and essential raw materials per year, or *about a billion dollars per month*, would go to bolster our first line of defense.

Such American aid to Britain would lead to a British victory.

But today we are still very far from shifting half of America's industrial capacity to the production of armaments. From July to September, 1940, American military expenditures totaled about 200 million dollars per month,¹ while they increased to 280 million dollars by October. At this rate, annual production will total from 2.5 to 3.5 billion dollars. The deliveries to Britain were valued at 100 to 120 million dollars, those to the Empire a little over 200 million dollars. These figures alone reveal that not even a 100-per-cent share in America's present armament production will suffice to provide Britain with positive protection against defeat. Only a tremendous increase in America's armament production within the shortest possible space of time will avert a British defeat.

We shall draw up a picture of this dangerous situation as simply and as clearly as possible. Britain, America's first line of defense, already devotes about half of its production to the manufacture of armaments. This means that every man, woman, and child works 4 hours a day producing armaments, while another 4 hours are spent on manufacturing other commodities. At a full utilization of her industrial capacity, American production would amount to 90-100 billion dollars per year. Working 8 hours per day, each hour would produce about 12 billion dollars per year.

Today, American armament production (280 million dollars), and exports to Britain (210 million dollars) amount to about 500 million dollars per month, or 6 billion dollars per year, representing one sixteenth of the total American production at a full utilization of industrial capacity. Thus, America spends but 30 minutes out of the full 8 hours of a work day on the production of armaments, *i. e.*, 15 minutes for its own, and 15 minutes for British needs.

In Nazi Germany, however, every day 4 out of 8 working hours are devoted to the production of armaments. The German Economic General Staff now sees to it that the population of the conquered territories also works 4 hours every day for the same purpose. The Britain of Winston Churchill also devotes 4 hours daily to armament production.

Let us repeat: Britain is America's first line of defense against Hitler aggression. With Germany and Britain both devoting 4 full hours per day to the manufacture of

¹ In an article entitled "The Work in Finance," Edward H. Collins wrote in the *New York Herald Tribune* of October 7, 1940:

"The National Defense Advisory Commission last week announced that orders amounting to 1.3 billion dollars had been placed, or about 10 per cent of the present national income (until a credit for some years). Actual defense expenditures for the last three months are small when placed beside some figures on orders, but they have totaled nearly 6 billion dollars. They have been showing a steady month-to-month increase, with the total for September 215 million dollars, against 199 million dollars two months earlier."

armaments and the production of essential raw materials, no further proof is needed for the statement that an American armament production of only 30 minutes a day, of which 15 minutes are spent on aiding Britain, is farally inadequate to satisfy all the requirements of this streamlined war of factories.

With America working but 15 minutes for Britain's needs, the danger of invasion and subsequent defeat remains like a dark cloud overhanging Britain, and an ultimate British victory appears well-nigh impossible.

In order to avert defeat, England requires, not 15 minutes', but a full hour's work every day in the United States, just as the United States needs a full hour's work for its own defense.

This is made plain in Figures 10 and 11. (See opposite page.)

One hour of American labor corresponds to production valued at 12 billion dollars per year. Such a volume would soon enable Britain to equalize her armament production with that of Germany.

To attain this balance, Britain requires American support at least as great in volume as its own production. Were Britain able to double its industrial output by obtaining an equal volume of support from the United States, Hitler would certainly fail to vanquish it.

American aid to equal Britain's own production—this may not be sufficiently concrete for some of us.

Let us, therefore, demonstrate the extent of such support, using the same group of three examples by which we explained the insufficiency of American support. Again, let us start with steel.

In an article, written for the *Infantry Journal* of Washington,⁶ I wrote that the "secret [of the first World War] was the history of iron and steel production." In fact, iron and steel production provides the key to the secret of the first World War, as well as of the present war. Immediately, at the outset of the last war, the troops of Hohenzollern Germany invaded France and occupied its heavy industrial regions. Consequently, the ratio of steel production was 24 for the Central Powers to 13 for the Allies.⁷ It was the steel production of the United States which tipped the scale in favor of the Western Powers.

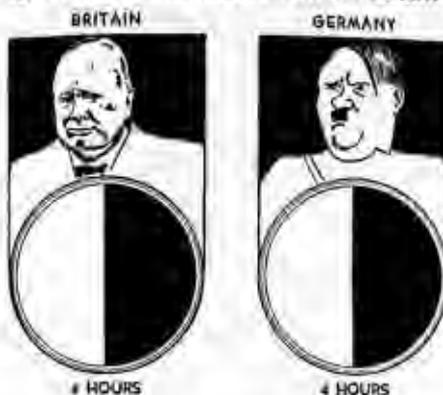
Indisputable facts and figures presented on the pages of this book reveal that Hitler's present position is even more favorable.

At home and in its Empire, England produces 17 million tons of steel, while Germany produces 42 million tons at home and in the conquered territories. Accordingly, Britain needs American steel in sufficient quantities to equal and overtake the total German production. It needs, not the 8 million-odd tons per year which it is now actually getting at the rate of the August exports, but a full 30 million tons.

⁶ "Iron and Steel," by Fritz Biering, *the Infantry Journal*, November-December, 1939.

⁷ *Ibid.*, page 523.

DAILY WORKING HOURS FOR ARMAMENT



UNITED STATES



Figure 10.

DAILY WORKING HOURS NEEDED IN U. S. FOR VICTORY



Figure 11.

Is the American steel industry able to satisfy this immense requirement? It can be emphatically stated that it is!

Figure 12 on page 54 shows the capacity of the American steel industry and the deliveries that have been made to Britain up to now; it shows, further, the volume of American steel exports necessary for a British victory.

Britain needs steel, both in its raw form and manufactured into goods.* If American supplies can be tripled, England's own and the Empire's production added to America's increased supplies will exceed German production, both from its own

STEEL FOR VICTORY

IN MILLIONS OF TONS

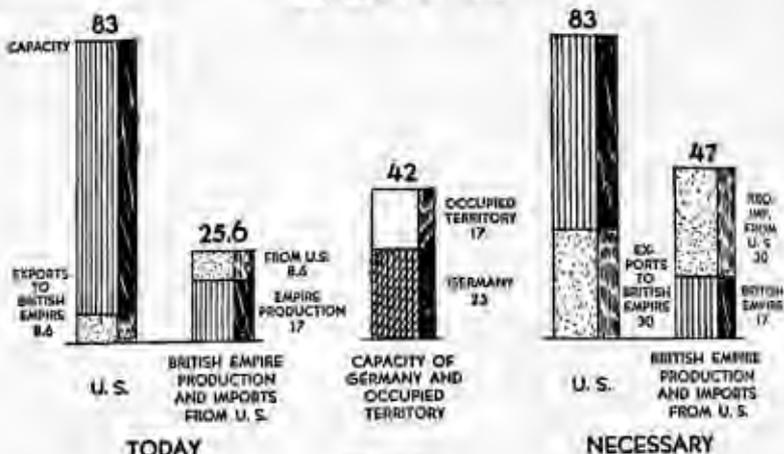


Figure 12.

furnaces and from the conquered territories. Thus this German advantage could be counteracted.

Aside from steel, Britain needs an endless variety of industrial products, machines, raw materials, to double its industrial capacity for the benefit of its armaments.

America has 95 per cent of all that Britain needs.

The figures of its trade with Britain reveal what the United States now actually supplies. We hope we have succeeded in proving beyond the shadow of a doubt that present American exports are falling far short of Britain's real needs in this hour of emergency.

Without being obliged to pay cash or to pay at all, Hitler now extracts goods valued at 400 to 500 million dollars from the conquered territories while Britain's

* Of course, steel could be supplied both as raw steel and as manufactured, or finished goods. Every ton of steel reaching Britain in its manufactured form, particularly if made into weapons and munitions, improves Britain's fighting efficiency.

industrial system, on the other hand, is inferior to that of Germany proper, even without the occupied countries. To make up for this deficiency, Britain needs American exports at least twice as great as the sum total of Hitler's gains from the conquered countries.

Germany cannot defeat Britain if British imports from the United States amount to

ONE BILLION DOLLARS PER MONTH

(instead of the 210 million dollars now going to the whole Empire, or the 315 million dollars planned for next year.

At first sight, this one billion dollars may seem abnormally large.

One may object that the delivery of goods to this amount will prove impossible. In reality, however, it is far from impossible. It seems abnormally large only in comparison with the sum total of exports now going to the Empire. It is large if compared with total American exports now sent to all parts of the world, expected to amount to 5.4 billion dollars during the current year. What we are calling for are exports to Britain alone, (which today receives about two thirds of the total), at twice the estimated total of the current year.

Nevertheless, it is quite possible to reach such a volume. After the conclusion of the first World War, American exports exceeded 600 million dollars a month, and in certain months the exports amounted to more than 700 million dollars. At the full utilization of its industrial capacity and at full employment, America's annual production will amount to 100 billion dollars. And 12 billion dollars' worth of goods sent to the British Empire represents but 12 per cent of the total. Britain's peacetime foreign trade represented a greater percentage of its total production. A corresponding increase in America's foreign trade, with the overwhelming portion of its exports going to Britain, is by no means impossible.

But this requires certain sacrifices right here in America. It requires that the American public take stock of itself and become conscious of the fact that the world, including the United States, is passing through an epoch of world revolution. As soon as the seriousness of the hour is fully realized here and all appropriate steps are taken to meet its demands, America can and will export one billion dollars' worth of goods a month to the British Empire. The gist of our proposal is incorporated in Figure 13 on page 56.

Most distinct of all British needs is an immediate increase of American plane production for the benefit of Britain. Today, Germany is still far superior to Britain in so far as the number of planes at its disposal is concerned. This discrepancy between the German and British air fleets must be cut, even though that alone does not mean English superiority in the air. With but 300 planes going to Britain per month, Germany's initial advantage will not be eliminated, especially if we keep in mind

FIVEFOLD AID TO BRITAIN

that Germany is just about to incorporate the aircraft industries of the conquered territories into its own highly developed plant.

On November 10, 1940, Edwin L. James, writing in the *New York Times*, said: "Hitler was probably in possession of information that this country is shipping 200



to 300 planes a month to Britain. Of course, if those shipments do not greatly increase, and rapidly, it will result that there was some foundation to his boasts. With the plane factories outside of Germany now in his hands, *Hitler can increase his production by greater numbers than the United States is now sending across the Atlantic.*" (Italics by the author.)

Even aside from the planes Hitler is now getting out of the conquered territories, his own production must be taken into consideration. Calculations about future deliveries to England⁷ proceed from the assumption that Germany's aircraft production is two and a half times greater than that of Britain, to which must be added Germany's initial numerical superiority in the form of the accumulated planes with

⁷ According to a Washington dispatch of the *New York Herald Tribune* of November 10, 1940: "The obligation already assumed and others in prospect, one representative of a leading manufacturer estimated, mean that the American aircraft industry is being expected to increase its production capacity twice as fast as Germany did under a dictatorship and five times as fast as Great Britain has been able to do." The *United Press* reports from London, (*New York Times*, December 15): "German airplane production was reported here today to be increasing. Information ascribed to the intelligence service of a neutral power said that production is 3,500 planes a month, including a few light bombers with two engines and six machine guns."

"Although our sources see through the estimate was not high, they admitted that the German output remained higher than that of Britain. It seemed unlikely that British production could be increased appreciably with the German *Air Force* harnessing British industrial energy."

BRITAIN'S MONTHLY NEEDS FROM U.S.

which it entered the war. To attain a balance in the air, Great Britain now needs from the United States

AT LEAST 1,500 PLANES PER MONTH.

Once this figure is reached, German air superiority will be broken, German air supremacy over Britain will be made impossible, and a decisive step will have been taken to avert the possibility of a British defeat. (See Figure 14.)



This chart, like the other illustrations, is designed to show in a striking manner the length of the road still to be covered until American aid to Britain, even though steadily increasing, reaches the volume necessary to thwart with *absolute certainty* a Hitler victory over Britain. The chart suggests the actual requirements that must still be met.

THE IMPORTANCE OF THE TIME ELEMENT

However, it cannot show the immense importance of the time element. It will avail but little if American supplies increase to the extent suggested above *only*

after, let us say, one year, by which time Hitler may have succeeded in carrying out his invasion and administering the final blow.

It is imperative, and the significance of this urgency cannot be sufficiently emphasized, that American aid to Britain be doubled and even trebled during these winter months. The Germans convincingly demonstrated the overwhelming importance of the time element in their campaign against France. Even before that they publicly stated their opinion of the supreme importance of the time element with regard to all aspects of war.

An article, entitled "Military Preparation," published in the *Manual of Modern Military Science*, maintains:

"Only one conclusion can be drawn . . . to prepare the shift in peacetime as systematically as possible. If the supply of war material is not equal to the demand, then military mobilization itself will be retarded; the length of time needed for economic mobilization will play just as important a role as the speed of military mobilization."¹⁰

On page 16 of the book, *Industrial Mobilization*, published by the German Institute of Business Research, we read:

"The shortening of the period necessary for war production to reach its peak is so important that some authorities consider this to be the only task which industrial mobilization has to perform."

These quotations should suffice. They are clear enough. Germany's victory over France was an even more obvious demonstration to the world of the importance of industrial mobilization executed in time. Everything must be done to prevent Britain from lagging behind Germany in this gigantic race in which Hitler is now mobilizing the resources of Continental Europe for the final showdown with Britain.

AMERICAN AID AFFECTS THE SITUATION IN THE OCCUPIED TERRITORIES

The importance of the time element is overwhelming, not merely because British military production directly depends on the tempo of American supplies, but because it may have repercussions on Hitler's ability to strengthen Germany's war economy by utilizing the resources and production facilities of the conquered and occupied territories.

This point requires a comprehensive explanation.

We have presented a few figures to show how Germany's war potential may be improved by adjusting the economic systems of the conquered territories to the greater Nazi war economy. But such *potential* and *actual* increases are by no means identical.

We may disregard the fact that the war, no matter how short and lightninglike it was, wrought considerable havoc in the territories actually affected by military

¹⁰ *Wissenschaften*, in *Handbuch der wissenschaftlichen Weltanschauung*, vol. 1, p. 739, Berlin and Leipzig, 1910.

operations. The damage will be repaired at a comparatively rapid rate, if it has not been already repaired.

However, it will take time to adjust the economic systems of the conquered territories to the greater German war economy. This requires a certain period of time even within Germany. The Nazi war economy was not created overnight; it was built up, moreover, during a period of so-called "peace," unimpeded by British air attacks, for example.

Even in the event that *all* strata of the population in the conquered territories were willing to co-operate with the Nazis, the co-ordination of their productive power at the rate of exploitation now practiced within Germany will certainly take time.

Such a spirit of unconditional co-operation is by no means evident. For instance, an editorial in the *Deutsche Volkswirt*¹¹, entitled "Reconstruction of the Occupied Territories," writes of Belgium:

"In view of the barrage of enemy propaganda, they [the inhabitants] were pleasantly surprised by the correct behavior of the German troops, and of the mildness and philanthropy [sic] of the German authorities. There was a spontaneous willingness to co-operate. However, no sooner was the pattern of everyday life restored to normal when it became obvious that the change was only on the surface. Many upper-class leaders lulled themselves into the illusion that they could continue their life where the war had interrupted it. It was like being in the house of a wealthy merchant on the day after his bankruptcy. Kitchen and larder were still stocked, the servants were not yet discharged, life was still pleasant. Those who were prejudiced against Germany were merry once more, indulging in the hope that they would be able to evade co-operation."

The editorial writer of the *Deutsche Volkswirt* then advises these members of the leading class that they will be able to save part of their properties only if and when they demonstrate their willingness to co-operate with the Nazis.

"If the propertied classes in those countries draw up an honest balance sheet," he writes, "they will realize that they will be able to salvage some part of their estates only if they place all their remaining assets in the service of reconstruction instead of anxiously trying to protect them."

The German General Staff expects more than passive co-operation. It demands active co-operation. Thus the *Deutsche Volkswirt* writes:

"Above all, this means that they must now strive day and night to adjust their regional economy to the realities of the New Europe." But what are the "realities of the New Europe"? The *Volkswirt* gives the frank answer:

"Beyond that, the German authorities expect to receive all available support *to end the war as quickly as possible.*" (Italics by the *Deutsche Volkswirt*)

¹¹ Vol. 14, No. 46.

These passages reveal that thus far neither the German High Command nor its Economic General Staff have been able to count even on the limited co-operation of Belgium's propertied classes. They also reveal the determination of those authorities in introducing measures they deem necessary to take advantage of the time element in organizing the occupied territories for the race against British and American armament.

This is the situation in Belgium.

It is well known that the Germans failed in their attempts to set up in Norway and the Netherlands servile puppet governments that would have any support among the population.

The situation in France is equally well known. The see-saw struggle within that country goes on unabated between circles favoring total co-operation with the Axis powers and those remaining more or less loyal to Britain. This is accompanied by a distinctly perceptible political apathy in the rank and file of the population, still staggered by the extent of the defeat and tormented by worry for its daily bread, the futile search for work, apprehension over the uncertain fate of sons, husbands, fathers, and brothers, now kept in German prison camps.

Throughout this winter Germany is likely to make an immense effort to wheedle or coerce the inhabitants into active co-operation in the interest of organizing the economic systems of the conquered territories for the final struggle with Britain.

It is well to bear in mind that its conquests have provided Germany with immense power that can be ruthlessly exploited. Germany is now in a position to apply to the population of these countries whatever pressure appears necessary. Germany has won and holds power—factors that are extremely effective. Of course, Britain has not yet been defeated, but neither has it succeeded in scoring spectacular victories. It is the Nazis that have been victorious. This is fully realized by the people of the conquered territories, and thus the German Army is rightly basking in the spotlight of its victories. It has no equal on the European Continent.

Since Germany requires only a comparatively small army for the Battle of Britain, the Nazis have been able to keep adequate garrisons in all the occupied territories to frustrate brewing rebellions; indeed, to make the very idea of such revolts appear like an act of insanity.

With their centralized might, with the State's power over economy, the Nazis in every one of the occupied countries play off those sections of the propertied classes willing to co-operate with them against those who refuse to do so. The hold-outs may lose their properties; worse than that, they may be dragged into concentration camps or even executed. To the compliant, the Nazis promise, if not the return of their former wealth, at least continued profits on a limited scale. Today the Nazis control and regulate the feeding of the population in the greater part of Continental Europe, which is another instrument of might to impose their will on revolting or

revolting elements. To carry out this policy of intimidation, the Germans have an efficient machinery: first, the Army, plus the Gestapo, plus the centralized power of the State; second, the monopoly of influencing public opinion through their control of press, radio, motion pictures, etc.

What defenses have the subjugated peoples against these tactics? First of all, they may categorically refuse to acknowledge National Socialism as a political and economic system of power. Unquestionably such an attitude of rejection is widespread throughout subjugated Europe. But this negative attitude alone accomplishes little. Even within Germany a majority still rejects National Socialism; yet terror and the Gestapo have proved sufficient to force even this majority to co-operate. Of course rejection of Nazism is sharper and more vigorous in the subjugated countries, where it is aggravated by national sentiments. But in the face of the immense executive power of the Nazis, this negative attitude and passive resistance by themselves will never serve to retard the German war economy.

The peoples of the conquered territories must be made conscious of the fact that Hitler's regime will not last forever, that it will soon be eliminated. *They must be imbued with a fanatical faith in ultimate British victory.*

The mere fact that Britain succeeded in repelling all Nazi attacks, that Hitler failed to arrive in London by October, 1940, has had its effect and has contributed to the secretly cherished faith in a British victory. The morale of Germany's civilian masses will certainly be influenced by the fact that British bombing raids against German military objectives remain a permanent fixture of this second World War.

But the mere fact that Britain is still holding out, that it continues to be able to repel German air attacks, is by no means accepted as a British victory. Aside from continued air raids, from certain offensive forays of the British Mediterranean Fleet, and operations in Africa, the hundreds of millions of peoples in countries controlled by Germany still find the Nazis maintaining the initiative, now as before. As things stand today, they are convinced that Britain alone cannot win. It may win with the help of the United States. These self-same millions of subjugated peoples doubt, however, that America's aid to Britain is fast and extensive enough gradually to tip the scale in Britain's favor and to prevent a Hitler victory over Britain.

War potentials are concrete factors. They are made up of figures representing planes, tanks, machine guns, artillery, warships, submarines, trained soldiers, iron, steel, iron ore, and thousands of other items.

But war potentials contain factors beyond these concrete items.

Especially in the case of subjugated peoples in conquered territories, they also embrace political and psychological factors.

In this respect the tremendously complex character of the war once more becomes evident.

If the support of the United States is to be increased both in extent and scope, if and when supplies reach Britain in the amounts stipulated in this chapter, the immense dynamic force of American Democracy will be convincingly manifested to the whole world, and millions of subjugated people will gain new hope that the balance of the war is turning, this time in favor of Great Britain.

Only in such an event will the contribution of the conquered countries to Germany's war potential fail to materialize. Only in such an event will the German plan be foiled.

Then American help may assume the character of an avalanche.

It will, of course, directly strengthen the hand of Britain; on the other side, it will weaken Hitler's Germany, since the expected co-operation of the conquered countries will diminish, or slow down in scale and scope. It may be an avalanche, since it will undoubtedly influence the attitude of those countries which are still neutral.

AMERICAN AID AFFECTS THE ATTITUDE OF THE SOVIET UNION

This is a distinct possibility in so far as the Soviet Union is concerned. Those who figured that, if only on ideological grounds, the Soviet Union would fight with the Allies, have all proved to be wrong. Russia never even contemplated such a contingency; on the contrary, it was ready to share the Polish booty with Hitler.

But all those who now go to the other extreme and believe that the Soviets, again on ideological grounds, as a totalitarian state, will join the Axis, are bound to be equally wrong in their conclusions. Obviously the Soviet Union's primary aim is to stay out of the war, at least until such time as the German Army has been exhausted by campaigns on other battlefields.

Frederick the Great once said that God is always on the sides of the stronger battalions. Stalin too seems eager to base his policy on this precept. One factor may have a decisive influence on Russia's future policy, and that is the strength of Britain's defensive and offensive power. Every step designed to strengthen Britain's military might, making it strong enough to avert defeat by a Germany that now controls the greater part of Continental Europe—every such step will contribute to changing Russia's aloofness into a benevolent neutrality toward Great Britain and, thus indirectly, toward the United States as well.

Here too practically everything depends on the volume and speed of American aid to Britain. An old Latin proverb says: *his dat qui cito dat*. So far as this war is concerned, this may be translated as: He who gives quickly—gives tenfold.

We have Britain on the one side, Germany on the other.

We now have Britain with American aid, while on the other side Germany is organizing the reserves and resources of millions of subjugated peoples in the conquered territories. Russia and Turkey, two important factors, are still neutral. A

fivefold increase in American aid, if given quickly, may have a tenfold effect if it prevents Hitler from organizing the reserves of conquered countries whose populations, encouraged by America's interest in Britain's war effort, refuse to co-operate with him; and if, consequently, it serves to stiffen the Russian and Turkish attitudes toward Germany.

Three- to fivefold help to Britain within the months just ahead—this is the command of the hour, this may save Britain from defeat and collapse! Five- to tenfold deliveries would practically guarantee an ultimate British victory!

The United States is fortunate in not being hampered in such an acceleration by one of the barriers to an acceleration of British production: namely, German bombing raids. American factories may be considered to be that section of Britain's armament industry which is not exposed to such raids.

It is well known that Britain is far more exposed to air raids than Germany, for four reasons. First, it has fewer planes than Germany; second, the British planes must fly over longer distances to reach their targets, carry more fuel and a smaller bomb load; third, England's industries are concentrated while German industries are scattered; fourth, even if the Royal Air Force destroys German industry to the same extent as the damage done to British industry by the *Luftwaffe*, the ratio will show a disastrous deterioration to Britain's disadvantage. Hitler now has control of twice as great an industrial network as Great Britain; therefore the British must destroy twice as much in Germany as the damage wrought by the *Luftwaffe*, to impart German production to the extent British production is now being weakened by the Nazi raids.

The latest phase of Germany's aerial Blitzkrieg against Britain's industrial centers reveals the enormous importance of American aid to Britain. From Britain's point of view, America is a production center beyond the range of German bombers. If we said before that Britain needs American aid to equal its own production, we should now add that our yardstick is British production at its fullest capacity, undisturbed and undamaged by Nazi raids.

Is it possible to organize such immense aid within so short a time, even if we all agree to do it in principle?

Is it possible to shift America's peacetime production to war production in so short a space of time? Is it possible to get, practically overnight, about 12 per cent of the total American production, at full utilization of potential productive capacity, to the British Empire?

I am sure many an observer will declare this impossible. Looking at America, still enjoying the blessings of peace, they will say that this is going too far and asking too much! They will refer to other democracies which failed to carry out such a gigantic transformation of their production while they were at peace.

This is quite true.

No democratic nation has hitherto succeeded in carrying out a program on such a scale in peacetime—a program of the kind that we here demand.

But none of them had the hope of gaining so much in return.

If America at peace succeeds in shifting its production instantly to turn out all the things we have shown Britain needs, it will not only have achieved a gigantic feat, it will have won a priceless treasure for itself.

It will have saved peace for America!

V

Only Fivefold Aid to Britain Can Keep America at Peace

THE overwhelming majority of the American people have declared themselves in favor of giving all aid to Britain short of war. But it is imperative to realize that only very great increase and acceleration in American aid to Britain will enable the United States to stay out of war.

When America exchanged fifty overage destroyers for British naval and air bases in the Western Hemisphere, certain observers expressed apprehension that this step had pushed the United States a long way forward on the road leading to ultimate involvement in war.

What a misreading of the true facts!

In recent years, the totalitarian states have frequently demonstrated with characteristic realism that the distinction between war and peace, as it existed in former years, no longer holds good. *De jure*, Japan is still not at war with China. *De facto*, their war is in its fourth year.

Hitler's decision to declare war on the United States does not depend on the amount and quality of war materials supplied to Britain. It merely depends on his own judgment as to whether he may improve Germany's political and military position with such a declaration of war.

Unless he has something to gain by going to war against the United States, he will certainly refrain from doing so. At the time the fifty destroyers were handed over, he does not seem to have perceived any possible gain in a declaration of war. So the German press received orders to minimize the portent of this barter. German newspapers, echoed by the Italian press, were loud in their prediction that the American destroyers would arrive too late to influence the outcome of the war.

They did not arrive too late; today, they represent an important factor in the protection of British convoys against constant raids by Nazi U-boats. Yet despite this deal, the United States remained at peace. Thus it may be said that this country's peace will be preserved even though its aid to Britain may increase five- or tenfold, since Hitler can gain nothing by going to war against the United States. On the contrary, he must expect that a declaration of war would increase both volume and speed of American deliveries to Britain, since the United States, once actually involved in the war, would certainly harness its entire economic system as well as its immense resources to the production of war materials. In view of the fact that the United States is not directly menaced so long as Britain is holding the first line

of defense, even a war could hardly change the race between further aid to Britain and the requirements of America's own national defense. The reverse is true.

A five- or tenfold increase of all supplies going to Britain, together with a speed-up of deliveries, is the safest guarantee that the United States will not be drawn into the war. The implications are readily grasped. Let us assume that deliveries will continue to rise at but a slow rate. The quantities extorted by Hitler both from Germany and its conquered territories will continue to exceed American supplies going to Britain. We know that Hitler has armed and trained his Army for this war many years in advance. If aid to Britain is insufficient, this Army may succeed in invading and defeating Britain. Once an invasion is successfully concluded, Hitler will be the master, not only of Europe, but also of Africa and, in alliance with Japan, of Asia.

WITH BRITAIN DEFEATED, WAR MENACES AMERICA

The United States will then be left without allies, alone in the world.

England will lack the strength to continue the war from Canada and the other Dominions. The Royal Navy will hardly be able to maintain a blockade of the whole of Europe, since such a blockade would place immense burdens on it and cause tremendous suffering in the British Isles. It is well to remember that no country in the world is more dependent on food imports than the United Kingdom.

Great Britain alone imports more grain than the rest of Europe taken together.

After the collapse of France the so-called Vichy Government came into being. Certain elements in it are quite willing to turn France's badly dislocated economic forces into an armory to serve German needs. And, if this Vichy Government still embraces certain elements that make attempts at resisting German pressure, it is only because the great majority of the French people continue to count upon a British victory.

With Hitler firmly entrenched in Britain, all the resistance now displayed by some members of the Vichy Government will promptly collapse. This would mean the virtual end of all British hopes, since it cannot be expected that the United States will ever send an expeditionary force to Europe to save Britain from Nazi slavery.

Thus Britain is more than merely America's first line of defense! Were he able to remove the staunch British obstacle from his path, Hitler would organize his immense European resources, including those of the United Kingdom, for a campaign against the United States.

This would mean the decisive step toward world dominion. The war against the United States would be the final phase.

If Britain falls, it is bound to follow.

Hitler's struggle for European hegemony has already shown that a totalitarian

state of his brand cannot coexist with democratic states. This is equally true in a world-wide sense: if the United States remains a powerful free democracy, it will sooner or later be drawn into a war against Hitler's Germany, dominating three continents. The United States will have to enter the war alone, without an advanced first line of defense, without the support of the Royal Navy, without powerful allies, at the time when the U. S. Fleet is still far from adequate for the protection of two oceans.

If Hitler ever succeeds in vanquishing Britain, the United States will be threatened by war: American peace can be preserved only as long as Britain remains a free country, undefeated.

But what does the word "undefeated" imply? It is by no means enough for Britain to continue to repel German attacks. Britain itself must attack and take the initiative. On November 5, 1940, Churchill told Commons that Britain must gradually move to offensive operations to avoid a disastrous stalemate.

Again tongues are busy, declaring that peace can be restored by giving Europe to Hitler, in which case he would permit Britain to keep its Empire.

Such talk only shows how short human memory can be, how poorly learned the lessons history teaches.

The very existence of National Socialism is threatened if it is compelled to keep peace and order, or if democracies remain in existence. With Germany astride Europe and Britain retaining its Empire, Hitler would simply continue in "peacetime" what he is today doing in wartime, while heavily attacked by British bombers, he would arm and prepare the whole of Continental Europe for the final showdown against the British Empire.

Is there really anybody who, after all the experience with Hitler, still believes that he would disarm and demobilize if he accepted such terms in a peace treaty with England?

Who is to supervise disarmament within the Third Reich? So long as Hitler remains undefeated, no power on earth will have the power to control whether disarmament is actually carried out. And with no powerful control in sight to check on the fulfillment of his pledges, Hitler will go on breaking one promise after another, abandoning this "peace" at the first opportunity to attack England with forces better armed than ever. No, peace with Hitler is only possible on his terms, with Nazi domination of the world duly recognized, or his Army must be defeated before a really permanent peace can be made with Germany.

Such a victory over Hitler's Germany will only be feasible if and when Britain arrives at a position where it can do more than merely repel Nazi air attacks. It must be strong enough to seize the initiative, to move to the offensive.

To bring about this decisive increase in British strength, American aid must increase five- to tenfold. Thus it is obvious that such an aid would be no step taking

the United States nearer to war; on the contrary, it is the only solution to keep America out of the war.

It has been said a thousand times that valuable conclusions should be drawn from the lessons so forcefully taught by the European war. One of the first lessons should be the rejection of a strategy based on pure defense—the strategy so fatefully represented by the Maginot Line.

The Royal Air Force has already gone over to offensive action. But however efficient the RAF may be, it will never suffice for victory, just as the *Luftwaffe*, strong and powerful though it is, will never by itself be able to defeat Britain. Britain needs a well-organized, well-equipped, well-led Army for the offensive to come. Insofar as the equipment of this Army is concerned, Britain depends on American aid. A real offensive strategy can be developed in England only when American aid to Britain increases tenfold.

QUESTIONS OF FINANCE ARE SECONDARY

All considerations of finance are bound to fade away in view of this one supreme task. Several attempts have been made to establish the actual extent of British assets in this country, and to find out how long Britain will be in a position to pay cash for all her war material purchases in the United States.

Of course, it is the volume of purchase that will determine the length of this time.

If, on the basis of our stipulations, supplies were to increase to a rate of one billion dollars per month, the available and quickly liquidated British assets would soon become exhausted. The United States, however, would commit a fatal error if it were to permit the exhaustion of British assets here to mean the final and irrevocable termination of American deliveries.

It would be equally fatal if American aid to Britain were to be curtailed during the extremely dangerous and vital months now just ahead, in order to preserve British assets and prevent their rapid exhaustion.

Let us now face the facts and their possible consequences. England counts on and prepares for a long war. In one of his speeches, Churchill has drawn up the picture of a war that will drag on into 1943 and even 1944.

Now let us assume that American supplies continue at a level not exceeding 200 million dollars per month and, consequently, England is invaded, since this sum will by no means enable Britain to satisfy all the requirements of a defense against a German military machine fed by the combined resources of Continental Europe.

In such an event, the American people will find themselves compelled to spend five to ten times more on their own armament than the fictitious sum "saved" by insistence on cash payments for all supplies going to Britain.

Throughout the years Hitler has demonstrated to the world what armament

production means in today's industrial wars. Throughout those years the German people, living in the shadow of the Gestapo terror, donated half of their income and production to armament.

Under Churchill, and somewhat belatedly, England is doing likewise today.

With Britain vanquished, the United States would be left alone to face the alliance of totalitarian states, compelled to spend at least as much as Hitler had forced on his own people, since it would of necessity strive to overtake the German advantage. This, however, would mean that half of the American national income, and half of the American production must go toward armament. At full employment, the American national income amounts to about 100 billion dollars. On the German scale, the United States would then spend an annual 50 billion dollars on armament. *It would have to spend the sum without assistance of any kind, for there would be no Britain left to refund all or part of it in cash.*

By withholding credits from Britain and insisting on the cash clause, the United States would fatally weaken its own first line of defense. Such short-sighted action would enormously increase America's own risk of becoming involved in a war that would certainly swallow up 50 billion dollars per year, *i. e.*, ten times the sum Britain's support now would cost, even were the cash clause eliminated.

Prudent people insure their houses against the hazards of fire. They pay a relatively small premium, since usually only few of the insured houses burn down throughout the years. If a man refuses to insure his house, he may say that the chances of his house burning down in his lifetime are slight.

A five- to tenfold increase in the supplies going from here to Britain strongly resembles a fire insurance premium. Support to Britain in the form of war and other material is to keep the United States from being caught in the fires of war. But in contrast to the real fire insurance, this fire is sure to envelop America if these supplies, this premium, is not quickly and fully paid to Britain. Thus America here pays a premium in the conviction that otherwise it would have to spend twenty times on repairing the damage.

Increased aid to Britain and elimination of the cash clause for this very purpose are often argued *pro* and *con*, on the ground that they constitute a demonstration of sympathy for Britain, and that their scope and volume will depend on the fervor of the existing undercurrent of sympathy, on how far the country is willing to go. In this connection it must be emphatically stated that an acceleration and a five- to tenfold increase in supplies to Britain are matters that should be entirely independent of personal sympathies or antipathies in Anglo-American relations. It is America's own interests that now dictate the sending of increased supplies at an accelerated pace, to spare America the sacrifice in blood, to save it ten times the sum spent on supplies to Britain and to prevent America's own national defense expenditures from being wasted on futile, unproductive armaments.

WAR PRODUCTION MUST BE MULTIPLIED IN PEACETIME

The present war, as has often been said, is a war of factories—an industrial war. It is now up to the American people to draw the logical conclusions from this undeniable fact. Merely to say that this is a war of factories is by no means enough. *It should be added that it is a war of factories that have been geared to war production.*

Hitler so geared his factories years in advance, in times of peace, long before France and Britain realized the importance of this shift. It is this that has given him his superiority during the first year of the war, leading to the defeat of France and making him master of Europe. The old strategy, now modernized to fit the requirements of industrial war, is to gain the superiority in battle at the right moment. The Germans possessed this superiority in the Battle of France, a clear-cut superiority in all the weapons of modern industrial war—of tanks, airplanes, and all the rest. They possessed it, since neither France nor Britain transferred their production (which together exceeded that of Germany), *in time* and to a *sufficient* extent to the production of armaments and other war materials.

Now Hitler is at war with Great Britain. Germany by itself is far superior to Britain. Combined Anglo-American production, however, is far greater than that of Germany even if it commands the whole of Continental Europe. The question in this phase of the war is similar to that posed by the Battle of France, just as it was the main strategic question in the wars of past centuries: Will Hitler be able to concentrate all his superior military forces for his war against Britain? Will he retain superiority in war-material production throughout the war?

The conclusive answer to all these questions now rests with the United States.

British war-material production has almost reached its peak. Even if we add the slowly growing American supply, it is still far inferior to the productive capacity at Hitler's disposal. Thus Hitler's strategic superiority again threatens in the decisive Battle of Britain, and now it is the United States that fails to realize the vital importance of the time element, since it has but inadequately geared its industrial system to the production of war materials.

If the United States is anxious to spare its own people the terrors of war, it has but one means, to develop the greatest possible war-material production at the quickest possible pace while the country is still at peace. It is essential that today, in times of peace, everything must be subordinated to this one supreme aim. Here is the test of American democracy. The European democracies have flunked this test. France had to pay for its inadequate preparations with the loss of its freedom. England is now paying off by being involved in a struggle for life or death.

History places the United States in a more favorable position. The American people have followed and are still following events in Europe. Thus, in this hour of great emergency, they have a greater experience and still have time to organize the transfer of their production while America is at peace. America, moreover, has the

added advantage of possessing the world's foremost industrial system. The United States has just started to draw the conclusions from the latest events. Thus far, however, the enormous dynamics of the war abroad, in which the German Army vanquished Denmark in one day, the Netherlands in five, Poland in eighteen, France in forty-three days, have not been matched by equal dynamics in the United States.

Americans still believe, as did the British too long, that material production for a war against Hitler can be organized while business is going on as usual.

Britain has outgrown this belief and by now knows that this is impossible. Churchill was well aware of it long ago. Britain is today fully convinced of this fact, so much so that the totalitarian press now asks with apprehension whether there are 47 million Churchills in England.

In the United States, however, the same firm conviction is by no means widespread. Of course supplies are sent to Britain, deliveries are rising from month to month, causing an optimistic mood among the people of the United States whenever the curve is on the up-grade.

But this occasional optimism merely serves to obscure the far more gigantic task of grim reality, *i. e.*, the task of making England, with American aid, so strong that its war potential will overtake that of Germany.

Americans are closing their eyes, hiding their heads in the sand. Even though it has been recognized that we are in the midst of a world revolution, that not only Europe but the whole world, including America, is at a turning point in history, they try to continue business as usual.

The policy of "too little and too late" caused France's downfall and drove England to the edge of the abyss. "Too little and too late" was the cancer of Chamberlain's whole policy in which everything was "so little and so late" that today Britain needs, not one, but 47 million Churchills to make up for past failures. Why should America take on itself the onus of history which may record that this nation, in its own hour of extreme emergency, consisted of 130 million Chamberlains?

America must provide England with sufficient war materials to make it superior to Germany. It must do so, not tomorrow or the day after tomorrow, but *today!*

THE PEOPLE MUST OVERCOME ALL OBSTACLES

Such a course is now encountering enormous resistance. That resistance is primarily based on the fact that the people of a democracy can, in peacetime, be moved only with immense difficulties to increase their war-material production at the expense of depriving themselves of many commodities for their own personal life. Hitler, with his machinery of terror, concentration camps, and secret police, could impose such a sacrifice on his own subjects.

England was compelled to do it under duress when the danger became visible to everyone in all its immense implications. When the overwhelming majority of the

British Expeditionary Force was rescued from Dunkirk, even though practically all its equipment was left behind, when England was left to stand its ground practically unarmed and without allies, it was then that history hammered into every Englishman's and English family's mind the necessity for shifting everything, but really everything, to the production of war materials.

The tragic cataclysm of Dunkirk made the full danger actually visible to every Englishman. This graphic visibility does not yet exist here in the United States.

America is at peace. The two oceans prevent the American people from "seeing" the war in the literal sense of the word. They only hear and read about it. This, however, is by no means sufficient to convince the American people of the absolute and imperative necessity of a tenfold increase in aid to Britain, to make such aid appear as the most urgent, vital necessity for America's own survival.

In this respect, further help is required:

The American people should be graphically shown the real stake in history. There should be a motion picture to show Americans how Hitler gets his iron ore from Sweden, his oil from Rumania, his aluminum from Hungary and Yugoslavia, livestock from Denmark and the Netherlands, iron and steel from France, Luxembourg, and Belgium, part of his arms from Czechoslovakia.

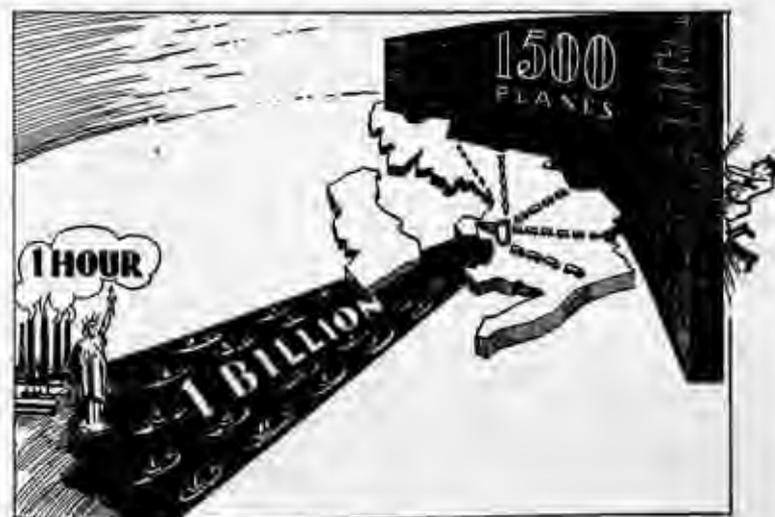
This should be the one side of the picture. The other should show how arms and war materials, raw materials and foodstuffs flow from America to Britain. The motion picture should further show how much Britain received at the outset of the war, what it is receiving today and how much more it must receive to equalize all that Hitler is extorting from the conquered countries and their subjugated peoples. Again and again such films and, in addition, the press should hammer into American minds that Britain needs at once 1,500 planes, 2.5 million tons of steel in its raw form or manufactured into arms, a total export volume of one billion dollars per month. Such is the rampart we must build against Hitler. (See page 73.)

If cargo boats plying between Atlantic ports will carry these quantities to England for one full year, the danger to America will diminish, if not vanish. America will be spared the necessity of sending its sons to war. Every week, and from week to week, the American people should be shown how much is actually delivered and how far we still are from the goal. This should create a movement of the people to become the motive power, insisting on moving toward the goal, overcoming all resistance.

Of course, there are many real difficulties.

It is by no means an easy task to shift a productive apparatus established for peaceful purposes so quickly and comprehensively. However, the American people should know that the resistance can be overcome. Anyone speaking of this resistance should be asked: If the Nazis were at the Panama Canal, organizing air and naval bases from which to conduct raids against the United States, would the increase in

THE RAMPARTS WE BUILD



our production to 1,500 to 2,000 planes a month, the increase in the production of tanks, guns, machine guns, rifles, munitions, take as long as we are now told by our experts?

Everyone knows that it would not!

What immediate danger is now accomplishing in Great Britain, what Hitler was able to accomplish by terror, concentration camps, and the Gestapo, the people of the American democracy must accomplish on a voluntary basis, of their own free will.

The American people should give no credence to those experts who assure them that an increase of war-material production must take so much time. If America is to be saved from war, the time required to reach peak production must be considerably cut.

Even under Churchill, certain circles in Britain maintained that a further acceleration of production was no longer possible. To this, the London *Economist* answered on June 29, 1940, four days after France had concluded the armistice: "In every vital matter of war organization, in home defense, production, labor, and finance alike, Ministers should ask themselves one question, and one only. Could Hitler do it? If Hitler could, then they can. The mood of the people now is such, that they, unlike Hitler, can do it without the aid of any Gestapo or concentration camps. Go to it, Mr. Morrison has urged the nation. The nation is now echoing back to the Government itself the Government's own appeal. Go to it—and let nobody stand in the way."

This has been done in Britain; here it has not yet been done. In September and October, 1940, only about 250 planes were sent to Britain per month. The American people must ask themselves: Is this necessary? Would Hitler send an ally no more than 250 planes per month? Hitler would certainly send more. What Hitler can do with terror and concentration camps, the American people must do of their own free will; they must accomplish even more. The country must stay out of war; peace can be saved for this country and its sons. But more than ever before in history, peace can be saved only if we work for it, if all energies are bent to this one aim:

PEACE FOR THE UNITED STATES MUST BE ORGANIZED

America's womanhood is for peace. They dread to see their husbands, sons, brothers, and fathers going to war. Thousands of antiwar resolutions are passed by them! Yet they must be told, just as pacifists must be told: we are all united in our desire for peace.

But let us not forget that the preservation of peace does not depend on whether we desire it or not, even though the overwhelming majority of the American people may desire it.

We do not want an offensive war, and it may be said with certainty that we will

not conduct one. But let us assume that we will have to defend ourselves if Hitler conquers England. It is the Nazis and not we who have brought down this second World War upon us!

If we are for peace, our desire, resolutions at mass meetings, our letters to Senators and Representatives will not help us to preserve it. Words won't do—but *acts* may! We must act—not tomorrow or next month—but throughout the difficult period ahead of us until Britain achieves victory and Hitler is defeated.

America's peace will not fall into our laps as a gift from heaven.

It must be organized in constant, hard, enduring work.

All women, pacifists, the millions of young men who now enter the new American Army should know that America's peace can be preserved only if Britain remains a free land of free men, undefeated, if American help reaches England in sufficient volume and fast enough to prevent a Hitler victory. An increase in deliveries demands more than mere words, resolutions, and pathetic speeches in mass meetings. It calls for a decisive change in the American life. This has not yet come to pass.

Is there any further proof required for our assertion?

On October 26, the London *Economist* contained this item:

"On October 19, the Ministry of Transport announced that the manufacture of cars for civilian use in this country has ceased."

The reasons are quite clear. Britain needs every ton of steel for armaments, for the Army. It needs the factories which have heretofore manufactured automobiles, it needs the raw materials which went into their manufacture, it needs the workers who have built them.

On the other side of the picture, America reports that William Knudsen approached leading automobile manufacturers with the suggestion not to bring out new models in 1942. A reduction in the 1941 volume of automobile production has not even been discussed thus far. On the contrary, the newspapers point out that, in October and November, 1940, American automobile production has reached an almost unprecedented peak of one million cars. *As long as the United States is turning out 1,000,000 cars a month, England, America's first line of defense, is threatened with defeat.*

We have spoken of the necessity to double, treble, and increase tenfold American aid to Britain. We have spoken of the necessity that America must work a full hour a day for Britain instead of fifteen minutes. One hour of daily work for Britain's armament means that the ephemeral slogan of Britain being America's first line of defense has effectively been translated into action; it means a realization of the seriousness of the hour, with the United States, together with the rest of the world, caught right in the middle of a world revolution; it means the realization of the fact that in this second World War history has placed the decision into the hands of the United States.

This must be hammered into the minds of all American women and pacifists:

FIVEFOLD AID TO BRITAIN

If you desire peace, then *demand* that three, five, ten times more war material should be sent to Britain. If you desire peace, start a sweeping movement so strong that nobody shall be able to prevent deliveries from being sent to America's first line of defense immediately at three times the present rate, and ten times later. Build a wall of such strength that Hitler will be unable to climb over it—or even fly over it.

If America is to be spared the terrors of war, Britain must win. If Britain is to win, it must obtain all decisive weapons in considerable quantities, not only in 1942 but as soon as possible.

If the United States succeeds in this gigantic task which has been realized by Britain only in the midst of its struggle for survival, if America succeeds today, then and only then will America remain at peace.

More than that: it will then be the decisive factor among the forces that will create a new order in the world after the collapse of the totalitarian states.

FIVEFOLD AID TO BRITAIN

-To Save Her and Keep Us Out of War

by FRITZ STERNBERG

Author of *Germany and the Lightning War*, etc.

FRITZ STERNBERG states here what is believed to be the very first estimate made by anyone of the *amount* of aid "short of war" which the United States must send to England if England is to achieve victory against Germany—or, in truth, if England is to avoid defeat. Following are his major conclusions:

England needs a volume of military aid from the United States equal to the whole of England's own present military production;

She needs from us a monthly volume of exports worth \$1,000,000,000, or five times what we are now shipping to the entire British Empire;

She needs 1500 airplanes from us monthly, instead of two to three hundred;

She needs steel from us at the annual rate of 30,000,000 tons, instead of the present rate of 8,600,000 tons;

Americans must work for Britain on an average of one hour per day, instead of the present fifteen minutes.

A large majority of Americans now are agreed that British victory in the war with Germany is essential to the future well-being of the United States. Virtually every newspaper, every magazine of opinion, every news commentator in the press and on the air, is voicing the need, and many of them in recent weeks have begun seriously to raise the

(Continued inside back cover)

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(Continued from back cover)

question whether the amount of help which America has been providing to Britain so far is sufficient.

But what can be the measure of sufficiency? The measure which Dr. Sternberg presents here, with conclusions that are so startling as perhaps to shock many readers, is a simple one. The volume of military products which the United States must send to England is to be determined not by the volume which the United States *believes she can spare* out of what she *believes* she can manufacture (fifty per cent, according to the President's "rule of thumb"), but by Britain's need. And Britain's need is measured by the difference between her own military output at capacity production and the military output of Germany.

This sounds self-evident, but the enormous requirements that follow from it have apparently been recognized by no one up to now. The key to an understanding of them is the recognition of the part being played in Germany's armament by the conquered countries of Europe. The production facilities of Luxembourg, Poland, Czechoslovakia, Denmark, Norway, Holland, Belgium, and France, are at Hitler's command. His huge army, far from being "idle" since the Battle of France, actually has been engaged in forcing these production facilities to produce. Far from having given up the invasion of the British Isles, Hitler is spending the winter of 1940-41 in feverish activity similar to that of last winter, when many Americans were deluded into thinking the war was "phony"; he is piling up immense resources for the new kind of warfare the invasion will require, and by spring may be ready and able to overwhelm England unless England in the meantime can match the production of Greater Germany.

England has reached, it is believed, the absolute peak of production of which she is capable by herself. At that peak, she can produce no more, probably less, than can be produced within the *former* boundaries of Germany. Thus every ton of steel, every airplane that Hitler commandeers from the conquered countries is for him a margin of victory over England. It follows that if America desires British victory, America must provide England with a volume of matériel greater than that which Hitler is squeezing from conquered Europe.

At present the United States is exporting to England less than Germany is receiving *from France alone*; total American exports to England are so far below Germany's receipts from all the conquered countries that the task of equalizing them might seem to many virtually impossible. But the truth is that at present the United States is barely tapping her own resources to aid England. She can give much, much more help. But as Dr. Sternberg says, it will be necessary to understand that what we are giving now is not "all aid short of war," but "all aid short of changing our mode of life." The requirements Dr. Sternberg sets forth are those which he believes are necessary to give Britain a winning margin over the production of Germany plus conquered Europe. To meet them means great sacrifices in America — and there is scarcely an individual in America who can say that he has *sacrificed* anything yet for England. But to meet them is also the only way to save England, says Dr. Sternberg, and at the same time it is the way to keep America out of war. For in dispatching huge quantities of arms to England, and vastly expanding our own arms production capacity, we shall be raising a giant rampart which no foreign invader can surmount.