

DIARY

Book 426

July 30 and 31, 1941

- A -

Australia
See War Conditions

Book Page

- B -

Bolivia
See Latin America
Butcher Workmen, International Union of
See Financing, Government: Defense Savings Bonds

- C -

Chautemps, Camille
See War Conditions: France
Cotton
See War Conditions: Price Control

- D -

Defense Savings Bonds
See Financing, Government

- F -

Financing, Government
Defense Savings Bonds:
Sales of savings bonds, first twenty-four days,
June and July - 7/30/41..... 426 32
International Union of Butcher Workmen: Gardner
Jackson tells HMJr they are prepared to buy
\$1,100,000 worth of bonds - 7/31/41..... 245
France
See War Conditions

- H -

Henri-Hays, Gaston
See War Conditions: France

- I -

International Union of Butcher Workmen
See Financing, Government: Defense Savings Bonds

- L -

	Book	Page
Lash, Joseph P. Private life as given by Westbrook Pegler - 7/31/41.....	426	265
Latin America Bolivia: Proposed State Department draft "giving concrete evidence of United States Government's desire to back Bolivia in present situation of Nazi agitation and plotting" - 7/30/41.....		267
a) Bell memorandum concerning - 7/31/41.....		266

- P -

Price Control
See War Conditions

- Q -

Queensland
See War Conditions: Australia

- R -

Revenue Revision Joint returns discussed by FDR, Bell, Sullivan, and Foley - 7/30/41.....		16
a) Possible letter to Doughton and Rayburn; may also comment on excess profits tax		
1) Tentative draft of letter to FDR stating Treasury position - 7/30/41...		83,118,123,137
a) Discussion of FDR's corrections..		108,126
2) FDR's actual letter to Doughton.....		141
a) Doughton's answer.....		146
3) Rayburn-HMJr conversation.....		90
4) Miss Tully gives HMJr background.....		96
5) Doughton-HMJr conversation.....		113
(See also Book <u>427</u> , pages 71 and 83)		

- S -

Socony Vacuum Oil Company
See War Conditions: Japan

- T -

Taxation
See Revenue Revision

- U -

United Kingdom

See War Conditions: Military Planning

Book Page

- W -

War Conditions

Airplanes:

Shipments to the British, by air and sea - Kamarck report
7/30/41..... 426 34

Australia:

Queensland loan: Memorandum addressed to Cochran
from Australian Legation, Washington -
7/30/41..... 42

Exchange market resume' - 7/31/41..... 256

France:

Henri-Haye (Gaston) and Chautemps (Camille):
Wiley memorandum concerning activities -
7/31/41..... 261

Japan:

Socony Vacuum chairman G. S. Walden discusses
petroleum supplies in Japan - 7/31/41..... 258

Military Planning

Report from London transmitted by Halifax -
7/30/41..... 71

War Department bulletin:

Italian chemical warfare - notes on - 7/30/41.. 73

Price Control:

Report of meeting - O'Connell memorandum - 7/30/41.. 11
(See also Book 428, page 162)

a) Discussion of

- 1) Silk
- 2) Automobiles
- 3) Cotton

a) HMJr's resume' of situation for
FDR - 8/1/41: Book 427, page 88

b) Wickard-HMJr conversation -
8/4/41: Book 427, page 300

- 4) Price legislation

July 30, 1941

Files

Mr. Cochran

At 2:15 yesterday afternoon Mr. Brown of Oscar Cox's office telephoned me. He said a policy question had arisen in connection with Lend-Lease operations, namely, as to whether we should permit Great Britain to lend-lease through us 200 training planes manufactured in and to be bought from Canada. In answer to Mr. Brown's inquiry, I told him that there had been some conferences with Canadian officials in the Treasury before and after the Hyde Park conference between the President and the Prime Minister of Canada at which Lend-Lease policy was discussed. It was my recollection that there had been some reference to the particular question which Mr. Brown raised, as well as rather lengthy discussion of the earlier problem as to whether Lend-Lease would cover engines manufactured in the United States and sent to Canada for placing there in airplanes which Great Britain was purchasing directly from Canada. I promised Mr. Brown to look into the matter and let him hear from the Treasury. He asked that this be done yesterday evening or this morning, since the matter was urgent.

After looking over with Miss Chauncey the minutes in her room of a few of the conferences with Canadian officials, we found and took to Acting Secretary Bell the record of the conference held in the Secretary's office on April 18 and attended by Messrs. Clark and Coyne for Canada and the usual Treasury Group. After reading the record on page 9, Mr. Bell telephoned Mr. Brown at 5:15 yesterday evening, with Miss Chauncey and Mr. Cochran present.

Mr. Bell referred to Mr. Brown's inquiry of Mr. Cochran. Mr. Bell told Mr. Brown that when Mr. Clark, Deputy Minister of Finance of Canada, had raised the question with Secretary Morgenthau on April 18, just two days before the Hyde Park meeting, Secretary Morgenthau had expressed the strong hope that the Lend-Lease policy would permit us to lend-lease to Great Britain articles which Canada is in a position to produce beyond her own needs. This would be in addition to the American policy of purchasing for itself such products of Canada's excess capacity. In the conversation which ensued Mr. Bell pointed out to Mr. Brown the dual advantage of such an arrangement, that is, first, the provision of needed supplies to our friends the British, and secondly, the provision of needed dollar exchange to Canada which will postpone the day on which Canada might be obliged to come to the United States directly for Lend-Lease facilities.

HMC:dm;8/1/41

July 30, 1941

File

Mr. Guevara

At one o'clock yesterday Mr. Ferdinand Echa asked that I speak with his friend, Mr. Don Blaisdell in the Department of State, who wanted certain information in regard to Lend-Lease policy. I called Mr. Blaisdell (Branch HQ, Department of State) but did not get communication with him until 2:30 yesterday afternoon. He told me that a cablegram had been received from the American Consul General at Calcutta requesting information in regard to the Lend-Lease arrangement which was understood to have been made to cover Indian purchases in the United States. Mr. Blaisdell was drafting a reply. In our conversation Mr. Blaisdell mentioned a purported agreement between the Treasury, Lord Lense and British officials with respect to India, the details of which I could not confirm. I suggested to Mr. Blaisdell that a copy of the incoming message and of the draft reply be provided to Acting Secretary Bell before the instruction to the Consul General at Calcutta is dispatched. Mr. Blaisdell mentioned that there had been conversations between Mr. Administrator's office in the State Department and Dr. Harry White in the Treasury and Mr. Philip Young in the Lend-Lease office. I told Mr. Blaisdell that Messrs. White and Young were, of course, entirely familiar with the conversations which have been held with the British insofar as those two offices are concerned.

At 10:30 this morning Mr. Administrator telephoned me from the Department of State, referring to Mr. Blaisdell's conversation with me. Mr. Administrator told me that he had drawn up a memorandum on the subject, setting forth certain questions as to American trade policy which might be involved if all Indian purchases on this matter are put under Lend-Lease. He had submitted this memorandum to Assistant Secretary of State Johnson, who had, in turn, asked for certain further details of the arrangement under reference, as well as data with respect to British balances, etc. It was agreed that Mr. Administrator would send me, personally and confidentially, a copy of his memorandum, as well as a copy of Mr. Johnson's note, in order that the Treasury may have full information as to how the State Department officials are thinking, and with the hope that the Treasury will assist in providing information necessary to the preparation of a reply to the American Consul General at Calcutta. Mr. Administrator reminded me that his memorandum is only his personal thought, and requested that this should not be taken as approved State Department policy.

There are attached hereto copies of the memoranda which Mr. Administrator sent me last night.

July 31, 1941
Mr. Administrator sent me

DEPARTMENT OF STATE
Special Assistant to the Secretary

7/30/41

Mr. Cochran:

This is the material I promised
to send you in the light of my telephone con-
versation this morning.

(Signed) Edminster

COPT - dm - 7/31/41

COPY

July 30, 1941

Note

With regard to the attached, I desire to call attention to the following:

1. It was written on the basis of reported facts which, however, may not be wholly accurate or which may have important omissions. Specifically, more information is needed with respect to the points to which Mr. Ashoon calls attention in his appended comments.

2. The observations made in this memorandum are in no way intended to question the need for effective measures of collaboration between Great Britain and the United States for the protection of British dollar balances and, in general, for maintaining the wartime and post-war financial solvency of the British Empire. There are two points in particular that I am emphasizing:

The first is that the particular methods resorted to, as referred to in the attached memorandum, are loaded with "political dynamite", for reasons set forth. If, notwithstanding this, there are no satisfactory alternatives, then it seems obvious that what we are doing should be surrounded with every possible safeguard against the manifest abuses to which this arrangement so readily lends itself. It would be extremely helpful in this connection if I could be advised of any specific steps that are being taken to safeguard our interests.

The second point is that acquiescence by our Government to the type of collaboration herein referred to reinforces and makes imperative the taking of a strong position at this time with respect to exacting explicit assurances from the British that they will collaborate wholeheartedly with this country in the post-war period in support of policies and measures which will eliminate as rapidly as possible British discriminations against American trade. The dangerous attitude taken by Mr. Keynes toward this matter should be ample warning on this score.

Lynn H. Edminster

July 30, 1941

Mr. Edminister:

We need more facts on

- 1) The present status of British balances.
- 2) British dollar obligations.
- 3) The actual arrangements between the United Kingdom and the Dominions referred to.
- 4) Then we can reach an understanding with the British.

Dean Acheson

COPI - 4m - 7/31/41

Memorandum**Comments On The British Plan to Limit Purchases
by The British Dominions (Ex-Impts) From The
United States Chiefly To Lend-Lease Goods**

Information has recently come to hand, and has been verified, that the United Kingdom representatives on the British Supply Council recently informed the representatives of India, Australia, New Zealand and South Africa that, on the suggestion of the American authorities, it had been decided in the future that purchases in the United States by these Dominions and India would be limited to purchases obtainable under the Lend-Lease Act, with the exception that all these Governments combined would be allowed, as a cushion, to spend \$2,500,000 a year in the United States for goods not covered by the Lend-Lease Act, the central objective being the conservation of the dollar resources of the sterling area.

This decision raises questions of serious urgency for our government, as regards both its immediate and long-range implications.

The first and more immediate result will be the heavy blow that will be dealt to American foreign trade interests. American middlemen will presumably be virtually eliminated from our export trade with the Dominions, since practically all orders for American exports will have to be placed directly by the British Supply Council with our

lend-lease authorities. Furthermore, in the absence of new commercial loans by this country to the Dominions, made on the understanding that the proceeds would be used to enhance normal commercial purchases from the United States beyond the present \$2,500,000 limit now authorized for non-lend-lease purchases, there will inevitably be a marked reduction in Dominion purchases of non-defense goods. Discussion of this matter with officials of the Division of Defense Aid Reports indicates that there will be no disposition in that quarter to stretch the Lend-Lease Act to the utmost limits to cover goods not really essential for defense. Hence there will inevitably be a virtual cessation of exports of many types of goods to these Dominions, the deficiency either not being met at all or being met through imports from countries in the sterling area.

An illustration of this last point will be in order. Let us take cash registers. Australia needs them. Having no domestic cash-register industry and being unable to dispense with imports, she must make her wartime purchases from, say, Canada (where there is, in fact, some production). What is the result? American firms lose this business; a new and artificial channel of trade is set up, based upon wartime financial bi-lateralism; and

- 3 -

the deliberate policy of discrimination and canalization of trade which Keynes contends the British must and will follow after the war is on tap, to secure that the wartime canalization is carried over into the post-war period.

The wartime discrimination thus set up against American export trade, with the danger of its continuance and possible intensification after the war, becomes all the more serious in view of the following facts:

Under the present set-up, the net result will be this: that the British will be enabled not only to maintain a minimum reserve of dollar assets but continuously to increase that reserve throughout the war period, via the Lend-Lease Act, and at the expense of American taxpayers. By thus utilizing the bulk of their dollar income to increase dollar assets rather than to pay for imports from the United States, the British will be using the Lend-Lease Act as a means of siphoning into their coffers, once payment has been made for pre-lend-lease purchases of goods from this country, increasingly large holdings of American dollars which they would otherwise be unable to acquire. In effect, the Lend-Lease Act would be utilized in this devious way and to this extent as an instrumentality for securing large "loans" now for post-war purposes and in place of post-war loans, rather

- 4 -

than for the purposes for which the law was enacted.

To permit such use to be made of the Lend-Lease Act comes near to being an abuse of it, and will give the isolationists and the Anglophobes a new handle with which to carry on their poisonous propaganda against effective Anglo-American collaboration. This is true, notwithstanding the broad fact--which the public, however, might not readily understand--that it is emphatically not in our interest that the British Empire should be bankrupt at the close of the war and unable to buy the surplus of our farms and factories which we will so greatly need to export. For it is obvious that the dollar assets acquired by the British--whether in this dubious manner or in any other way--must eventually result in greater purchases of goods and services from the United States than would otherwise take place.

For our government to allow the present situation to stand without further steps to safeguard our legitimate interests would seem unwise in the extreme, for the following reasons:

1. The control measures adopted by the British create a situation which constitutes an abuse of the provisions and purposes of the Lend-Lease Act, with the danger of serious repercussions upon public opinion once the facts become known.

2. While this is being done, British discrimination against American commerce, not only in the Empire but in other countries, such as Argentina, continues; and Mr. Keynes boldly asserts that it will continue perforce after the war on a widespread and wholesale scale. Thus, at the same time that we are taking far-reaching measures at the expense of our taxpayers to maintain British wartime financial solvency and to sustain British war effort in the interest of both countries, we face the prospect of continued British discrimination against our commerce after the war on the plea that the financial position of the Empire will necessitate it. In short, we are to pay twice for the same thing. That is an intolerable situation. To permit the Lend-Lease Act to be exploited in the manner above described, and to take no positive and immediate steps meanwhile to insure against the pursuit by the British of a deliberate and wholesale policy of trade discrimination against us after the war, seems wholly indefensible.

3. Finally, there is the problem of alleviating as far as possible the immediately unfavorable effects of the British control measures herein described upon American foreign trade interests. To what extent these results are to be regarded as unavoidable by-products of the war emergency and to what extent steps can be taken to soften them, are matters that require further consideration.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM J. J. O'Connell, Jr.

July 30, 1941.

For your information

The regular weekly meeting of the Price Administration Committee was held in Mr. Henderson's office this morning at 11 o'clock. The matters of general interest which were the subject of discussion follow:

1. Silk. Representatives of OPACS are discussing the raw silk situation with representatives of the industry. Their primary purpose is to develop the facts with regard to the existing supply of raw silk in this country and the extent to which dislocation of industry and displacement of labor will result from a cessation of the importation of raw silk from Japan. It is too early to know with certainty what the facts are in this regard, but I am advised by OPACS' representatives that the dislocation and displacement of labor will not be anything like as great as interested groups would have us believe. There are several factors which should tend to minimize the dislocation. The mills will be able to some extent to change over to a use of substitutes such as rayon, nylon or cotton. Many of the mills have apparently been experimenting in this regard for sometime as the view has been prevalent in the industry for several years that these synthetic fibres will ultimately almost completely displace raw silk in this country. Admittedly, in the present state of the art, no substitute is available which will be entirely satisfactory from the point of view of the consumer or entirely usable by the mills. However, in this respect a complete cessation of the importation of raw silk merely accelerates a change-over process which has been going on for some years (now about 90 per cent of all raw silk goes into women's hosiery). Another possibility

Secretary Morgenthau,

2.

to minimize the repercussions of cutting off the supply of raw silk is the importation of a type of machine which will process rayons and cotton to a much finer state than can be done by machines presently available in this country. Donald Nelson stated that there are quantities of machines of this type available in Great Britain which are not now being used at all. Another factor which, of course, must not be forgotten, is the possibility of transfer of skilled workers from the silk mills to other types of work. This is difficult to evaluate at this time but it is the fact that bottle-necks in skilled workers are appearing in any number of industries at the present time. The picture I get from OPACS is that with intelligent cooperation the silk industry should be able to meet the problem created by the complete cutting off of silk supplies without any very great hardship either to labor employed in the industry or to its capital. I expect to keep current on the discussions between OPACS and the representatives of the silk industry and to make periodic reports thereon to you, and also to Mr. Foley and to Dr. White.

2. Automobiles. Mr. Henderson announced that he had a meeting yesterday with Mr. Knudsen and Mr. Hillman in connection with the problem of cutting down the manufacture of passenger cars and light trucks for the purpose of conserving scarce materials and for a better utilization of skilled workers for defense. OPACS and QPM have up until now been working very much at cross purposes in this regard, but Mr. Henderson indicated that he thought that as a result of the meeting yesterday the two organizations would be able to come to an agreement between themselves and with the industry as to the number of passenger cars and light trucks that may be produced during the coming year. He stated, however, that the general question as to which organization has the ultimate authority and responsibility in allocating civilian supply remains undetermined, and he was unable to make any definite assertion as to when or how that question will be settled.

Secretary Morgenthau,

3.

It seems to me that the issue is much deeper than merely a struggle between the two organizations for power, inasmuch as on practically all questions the approach of the two agencies is entirely different. As in the case of silk, interested parties tend to over-emphasize the effect on labor and capital of a reduction in civilian production or an allocation to them of smaller supplies of raw materials. For example, both Messrs. Knudsen and Hillman seem to believe that any reduction in production of passenger cars and light trucks will automatically result in an equivalent amount of displacement of labor and of loss to capital. On the other hand, OPACS is inclined to go a little deeper and to analyze the situation *de novo*. As a result of their analysis of the automobile industry OPACS representatives believe that a 50 per cent reduction in the production of passenger cars and light trucks (or even the complete elimination of their production during the next year) can be had without the dire results forecast by OFM. In support of this position they can point to the fact that the industry now has over \$2 billion in defense orders, that the needed production of heavy trucks during the next year will be more than 50 per cent in excess of that produced during the past year (they are already experiencing difficulties in getting steel and other materials needed for truck production), and that defense orders still awaiting allocation which must be shouldered by the automobile industry will give them a scale of operations in terms of dollar volume, in excess of anything ever experienced by the industry. Of course this takes little or no account of distributors and dealers, but most of the OFM argument seems addressed to manufacturers and factory workers.

3. Cotton. The rising price of cotton was the subject of a substantial amount of discussion, largely between Secretary Wickard and Mr. Henderson and members of his staff who have been dealing with the cotton textile people. OPACS staff members pointed out that they are

Secretary Morgenthau,

4.

being caught in a "squeeze" between the cotton textile manufacturers and the cotton people. The recent revision of the price schedule for cotton textiles was made in the light of the then existing price of cotton, although with some leeway. The price of cotton has been steadily advancing ever since and is now above parity. The existing level of textile prices can be maintained only if cotton prices do not advance substantially above parity, and in view of the fact that cotton prices are already above parity and are showing no signs of stopping it will be necessary to revise cotton textile prices upwards again unless something is done about cotton prices.

At a meeting of the Committee held several weeks ago Secretary Wickard stated that he and Mr. Henderson had reached a general understanding that Agriculture would sell Government owned cotton when, as and if the price reached parity. The purpose of this, of course, would be to keep cotton prices from going substantially above parity. Despite the fact that cotton prices have gone above parity Agriculture has not yet sold any, and Secretary Wickard was somewhat hard-put to explain why none has been sold. His apparent reason is fear of what the cotton block in Congress will do to him if he sells any. He stated that he didn't know what they would do, but that they might restrict further his right to sell cotton. His reasoning did not seem to me particularly persuasive, at least in so far as the results of his inactivity are concerned, inasmuch as the Senate tacked a rider on to an Agriculture bill yesterday the effect of which is completely to freeze all Government stocks of cotton. The bill is now in conference and may quite possibly go to the President in that form. Secretary Wickard indicated that he was undecided as to whether to go to the Senators responsible for the amendment and suggest a compromise or whether it would be better to let the bill take its course without any comment from him with the thought that the President might veto the bill if it becomes law.

Secretary Morgenthau,

5.

I ventured the suggestion that there is another alternative which does not seem to have been considered by him or anyone else opposed to the bill. That is that if the bill is a bad bill, and everyone but the cotton block seemed convinced of that, it might be a good time for the Secretary of Agriculture and others in the Administration to speak up and create a little articulate opposition to the bill without waiting for it to be sent to the President for his approval or veto. I am not sure Secretary Wickard thought very highly of my suggestion, although he stated that he has indicated to Senator Barkley that he is not in favor of the bill. It was my point and I believe it to be a valid one, that it might be helpful for the Secretary of Agriculture to take the lead in opposing legislation of this character rather than to sit silently by and expect the President to veto a bill as to which neither he nor any members of his Administration have given any affirmative indication of opposition. As is often the case, the subject was left hanging in the air and Mr. Henderson is to discuss it further with Secretary Wickard with a view to taking it up with the President.

4. Price Legislation. The message on the long-awaited price legislation is to be sent to the Congress today by the President and bills are to be introduced in the Senate and the House today or tomorrow. Mr. Henderson reported that general agreement has been reached with the legislative leaders and with the legislative counsel of both Houses as to the form and content of the bill, and that there is general agreement between his office and the legislative leaders as to the necessity for it. The bill is to be introduced in the Senate by Senator Glass and in the House by Congressman Steagall.

The meeting adjourned at 12.45.

Joseph J. Connell Jr

MEMORANDUM

July 30, 1941.

TO: The Secretary

FROM: Mr. Sullivan

TKS

About 3:15 at the House Ways and Means Committee room in the Capitol, I was advised by Mr. Bell that he, Mr. Foley and I were to be at the White House at 4 o'clock. I returned to the Treasury and neither Mr. Bell nor Mr. Foley could imagine the reason for the summons. Shortly before we left the Treasury we were advised we should come in by the front door.

The President said he had a call from Speaker Rayburn and had discussed with him mandatory joint returns which the President contended should be eliminated from the Bill. He spoke about the number of divorces it would cause, the opposition of the churches, and the united opposition of the women of the country. I advised the President that we had had opposition from members of the Episcopal clergy and the President interrupted to say there had been opposition from all the churches. He added that a Catholic archbishop had seriously protested to him. I advised the President that the original vote on joint tax returns was 16 to 9 in favor of the proposal; that later the sentiment shifted until 13 of the Committee were opposed to the proposal; and that finally what swung the Senate and the Committee back to favorable consideration of the proposal by a vote of 15 to 10 was the letter from Bishop Manning. Someone recalled that Bishop Manning was America's leading Anglophile and spread the word that although England had had mandatory joint returns for twenty-five years, the divorce rate was lower there than anywhere else in the world. The President said, "Well I want this out of the Bill, and for political considerations it must come out of the Bill."

He then stated that in order to make known his opposition to mandatory joint returns he was going to write a letter to Chairman Doughton and then write to the Speaker enclosing a copy of his letter to Chairman Doughton, and he asked Mr. Bell as Acting Secretary to write a letter to him advising him that the Treasury had opposed mandatory joint returns. At this point I interrupted to advise the President

- 2 -

that this was not true, -- that after two weeks of deliberation and just a few minutes before the vote, I had told the Committee that the Secretary had asked me to advise them that he favored mandatory joint returns if there was relief for earned incomes. The President replied that I was playing both ends against the middle and I stated that I was definitely in one corner. Mr. Foley said that he thought we should review the record to see what position the Treasury had taken in the past and he advised the President there had been times when the Treasury had definitely favored mandatory joint tax returns.

He then went on to discuss the unnecessary complications of the income tax and said that he would like to have everybody who earned \$750 pay so much tax, those who earned \$850 pay so much, those who earned \$950 pay so much. "In other words, he said, a separate, distinct amount that everybody would know in advance was due. The trouble today is that too many people are earning money and not contributing to the Government." I then said that what he really wanted was a gross income tax. After a moment's hesitation he said, "That is just it." I then advised him that if he was interested in taking more people on the tax rolls this could be accomplished by lowering personal exemptions, but I was sure he didn't want that. He replied, "Of course I want that. I have been trying to get it for years but nobody will help me do it." I then stated that we had been battling for three months to prevent a lowering of personal exemptions and we had been doing so because I understood that was his position. He then said we did not understand his position. I advised him that it would be possible in the present bill to reduce personal exemptions but that it would not be possible to effect a gross income tax.

He reluctantly agreed to my suggestion and I asked if he wanted the amount by which personal exemptions would have to be reduced to raise the three hundred million we would have on mandatory joint returns. He replied that he did. He then went into a discussion of excess profits, which he intended to open up again. Mr. Pell inquired if the President had any notion that he was going to be able to change excess profits at this session and the President replied, "No, but I am a woodchuck and I keep digging when there is a chance to dig, and since I have to write a letter on one phase of the tax bill I might just as well comment again on excess profits." He then went on to speak of the additional money that would be collected through a change in excess profits. I advised him that the change in excess profits could not be defended on that ground because the present system was capable of raising an increased amount of revenue.

- 3 -

The President then stated that he would like to see a tax which would tax all income above \$100,000 at the rate of 99 1/2 per cent. When Mr. Bell expressed his astonishment the President jokingly said, "Why not? None of us is ever going to make \$100,000 a year. How many people report on that much income?" I replied that I thought about 1100 taxpayers reported income in excess of \$100,000 a year.

He then discussed the form of the letter he desired and he asked that we write stating the opposition on mandatory joint returns and excess profits, omitting from the letter any reference to the position the Treasury had taken on lowering personal exemptions. He stated that he would also like some material on excess profits which would not be included in our letter but enclosed for use in his letter to Chairman Doughton. Mr. Bell said, "This is certainly going to be a bombshell." The President made no comment.

On our return to the Treasury Messrs. Bell, Foley, Kades, Blough and Sullivan worked on the composition of the letter until 6:30 p.m. Mr. Bell phoned the Secretary and advised him of the situation, expressed his anxiety, and urged the Secretary to return. This the Secretary readily agreed to after calling the White House, asking for a postponement so he could have his day in court, and learning that he would have to be here by 9:30 tomorrow morning in order to see the President about this matter. Messrs. Sullivan, Tarleau and Blough went to the dinner being tendered by the members of the House Ways and Means Committee. We returned from this dinner later in the evening and the group worked until about 12:30 a.m.

The next morning, July 31st, Messrs. Bell, Foley and Sullivan met the Secretary at the airport and discussed this matter riding to the office where Messrs. Gaston and Blough joined the group. Mr. O'Donnell furnished us with the estimate that to raise three hundred million dollars additional by lowering personal exemptions the married couples exemption of \$2000 should be reduced to \$1600 and the single persons exemption of \$800 should be reduced to \$650. At 9:30 a.m. the Secretary, Mr. Blough and Mr. Sullivan went to the White House where the Secretary conferred with the President for one-half an hour and Messrs. Blough and Sullivan waited outside. At the conference the President asked the Secretary for some slight changes in the Treasury letter and on our return to the Treasury the Secretary asked Messrs. Blough and Kuhn to make these changes.

July 30, 1941

19

MEMORANDUM FOR THE SECRETARY'S FILES:

A meeting relative to the administration of Executive Order 9833 was held in Mr. Foley's office at 4:30 p.m., July 29, 1941, attended from time to time by the following:

Messrs. Foley (Chairman), Gaston, Cochran, Pehle, B. Bernstein, White, Viner, E. M. Bernstein, Ullman and Timmons for the Treasury; Messrs. Acheson, Luthringer and Miller for State; Messrs. Shea, Rosenwald and Kreeger for Justice.

Mr. Acheson said it would be desirable for him to receive some sort of a record of the decisions taken by the committee. It was agreed that copies of the minutes of the meeting should be sent to Messrs. Acheson and Shea.

Mr. Foley referred to the desirability of keeping the British, Canadian, Australian, and Dutch Governments in touch with the decisions taken with respect to the administration of the freezing control in order that, on the basis of such knowledge, parallel action may be taken by all governments concerned. This is particularly true with respect to the policy to be followed toward Japan.

Mr. Pehle read a telegram received from the Federal Reserve Bank of Dallas, relative to application No. Dallas 423, involving the export of approximately \$1,000,000 worth of cotton to Shanghai, China, by order of Nissho Cotton Co., Osaka, Japan. The telegram stated that Nissho in Osaka is the consignee of such cotton but that the cotton will be delivered to Shanghai and will not be trans-shipped to Japan. Nissho is apparently a Japanese firm in Japan with an agency in China. Mr. Pehle stated that the transfer might conceivably come under the General License No. 58, but that if it did not do so, the General License should not be stretched to include such a transaction. Mr. Acheson remarked at this point that he had talked with Under Secretary of State Welles, who thought that for the next week or so the happiest solution with respect to Japanese trade would be for the Foreign Funds Control to take no action on Japanese applications.

With respect to the several Japanese ships that are now hovering off the Pacific coast, Mr. Welles had told the Japanese Ambassador that specific licenses were necessary to fuel such boats, as put into port. There is, however, Mr. Welles said, no intention on the part of this Government to refuse such licenses at the present time. Mr. Foley interpreted this to mean that ship control

Departure permits would be granted, but that other transactions, especially those involving the freezing control, would be subject to special licenses, application for which would be given consideration. Mr. Bernstein then raised the question whether action was to be withheld on such applications as part of the general delaying program. Mr. Gaston stated that a representative of NYK Line had asked the Collector of Customs at San Francisco whether the Tatuta Maru could come in and depart without hindrance; also, whether she would be permitted to discharge and load cargo. Mr. Gaston had advised the Collector that there had been no change in the policy of the merchant ship control with respect to the granting of permits. The NYK representative had repeatedly inquired of the Collector whether the boat will be permitted to dispose of her cargo and, if the Tatuta Maru discharged her passengers in port, whether she could clear for Japan without discharging cargo. It was pointed out here that the cargo of silk on board would, if the boat put into port, become subject to Export Control. Mr. Pehle called attention to the fact that many American importers have opened letters of credit available to Japanese exporters of the silk on board the Tatuta Maru and that drafts may have already been drawn and paid under such letters of credit. Such American importers would, if the boat were allowed to clear with the cargo of silk still on board, probably subject this Government to strenuous criticism. It was generally agreed that the basic decision involved in this question is whether this Government is to relax the newly-applied economic controls. Mr. Foley remarked that a solution could only be reached by this committee if it is known what Mr. Welles wants done in the premises. Mr. Foley suggested to Mr. Acheson that he mention the matter immediately to Mr. Welles, find out what Mr. Welles had told the Japanese Ambassador, and relate this conversation to this specific case. Mr. Acheson, after a telephone conversation with Mr. Welles, reported that the latter had stated that the Tatuta Maru could come in, take on fuel and supplies and depart. In that conversation, the question of cargo of silk was not mentioned. It had suddenly been remembered, however, and an official of the Japanese Embassy was at that moment waiting to see Mr. Welles. Mr. Welles had indicated to Mr. Acheson that he had not made a final decision with respect to the cargo. It was agreed that Mr. Gaston should inform the Collector of Customs that the whole matter is being discussed between the Japanese Ambassador and Mr. Welles. Later in the meeting, Mr. Acheson reported that Mr. Welles' present inclination was to tell the Japanese that the boat could put in and unload cargo. The cargo would then be subject to license but could be taken out again if the Japanese so wished.

Mr. Cochran read a telegram from Wellington, New Zealand, stating that the New Zealand Government has taken parallel action with our Government and frozen Japanese funds in that Dominion.

Mr. Bernstein read a telegram just received from Mr. Frank Coe, Treasury attache in London. Mr. Coe reported a conference attended by officials of the British Treasury and the Bank of England, and the Chinese Ambassador. The Ambassador was informed at such meeting Chinese Assets in the sterling area had been frozen and that the British Government would look to the Chinese Government for advice as to what accounts should be freed. The British also indicated that they were prepared immediately to free all official accounts of the Chinese Government, certain Chinese banks, and British and American banks in China.

Mr. Bernstein informed the meeting that a conference was being held at that time with the object of coordinating the actions of the Foreign Funds Control, Customs and Merchant Ship Control, with respect to imports from and exports to Japan or Manchuria.

Mr. Bernstein inquired of Mr. Pehle whether any applications had been filed to pay interest on Japanese bonds due August 1. Mr. Pehle reported that no such applications had been filed nor had the Japanese Embassy requested that any diplomatic or governmental accounts be released.

Reference made to the Special Accounts "A" and "B" of the Bank of Indo-China, Saigon. The balances in such accounts as of July 29 were as follows:

A account ---	\$343,000
B account ---	\$120,000

The question whether licenses allowing payments and transfers from such accounts should be revoked obviously raises several delicate problems, inasmuch as these accounts were originally set up to secure for this Government certain necessary strategic materials and that an explicit commitment to allow the free utilization of such accounts has been made. With respect to the possibility that oil will be purchased out of such accounts, Mr. Acheson remarked that the general export license covering oil shipments to the Far East could be revoked if necessary. Mr. Pehle stated that the freezing control license could not, for several reasons, be revoked but that the export control licenses could be, in view of the fact that no commitments with respect thereto had been made.

Mr. Pehle discussed briefly a proposed transaction in which the Brazilian Government would buy with milreis Brazilian bonds held in France and the French Government would use such local currency balances to purchase Brazilian cotton, to be stored in Brazil until the end of the war. Anderson, Clayton and Company is interested in this transaction because their Brazilian affiliate

would presumably sell part of the cotton to be so purchased. The Legal Department is to consider whether Anderson, Clayton and Company can be advised that a license must be obtained for the Brazilian affiliate to sell cotton to the French Government. Mr. Acheson stated that the State Department desires to see such transaction stopped if possible.

Mr. Bernstein read to the meeting a draft of a reply to a letter received from Mr. Noel Hall of the British Embassy relative to the litigating of British claims against the German and Italian debtors, by attaching their assets in the United States. Reply is to be made to the effect that it is believed that in view of all the circumstances there might be some objection to such cases and that it would be premature for this Government to agree to issue appropriate licenses covering payment of such German and Italian assets in settlement of court judgments obtained by British creditors.

Mr. Pehle referred to an application that had been filed in December last by the Chase National Bank to transfer some \$500,000 from the Rumanian National Bank to Russia. At that time the State Department had indicated that it could not give its approval of such transaction. A new application was subsequently filed raising the amount to approximately \$600,000. The Treasury addressed a letter concerning this application to State, to which State replied there had been no change in its previous attitude. It was agreed that if a license is granted the Chase Bank would probably not pay out unless new instructions are obtained. Mr. Acheson stated that the State Department had no objection to approval and it was unanimously agreed that such action should be taken immediately.

Dr. White said that the Socony Vacuum Oil Company had inquired whether to reply to an inquiry from the Japanese Government relative to a shipment of oil from the Netherlands East Indies on a boat arriving there tomorrow. If they are to be requested not to send such shipment, they are anxious that parallel action be taken by British and Dutch firms as well. It was pointed out that such a shipment involves two licenses, one from the Dutch export control and one from the freezing control, as payment for the oil is to be made from a blocked Japanese account in New York. Mr. Acheson has suggested to Mr. Welles that pressure be applied to Japan through the medium of the freezing control licenses. It may be possible to leave outstanding export licenses unrevoked, but to limit types and quantity of merchandise that is to be allowed to be exported to Japan. For example, exports to Japan in an average year, say 1935-1936, might be taken as a standard and exports of high octane-rating gasoline

and lubricating oils be cut to such average amount. Mr. Bernstein suggested that a workable plan might be developed along the lines of limiting to Japan to her needs for a normal, peaceful life, excluding her war needs. It was agreed that the techniques involved can be worked out once the final line of policy is formulated.

Mr. Acheson stated that he had been requested by Export Control to initial an Executive Order to be signed by the President, which would have required that the ultimate consignee of all exports be named. He had not done so in view of the fact that the questions raised by such Order cut across the problems of several departments, including the Treasury. Mr. Pehle said that members of the Treasury Legal Department were developing workable definition of the term "ultimate consignee."

Mr. Shea said that he had recently a note from Mr. Francis Biddle to the effect that certain "Free Frenchmen" in the United States are worried over the filing of TFR-300 reports, for fear that the information contained therein will be disclosed to the Vichy government. Mr. Foley said that this material would obviously be treated as confidential and handled in the same way as any other confidential information received by the department.

21 7/3/41

1888

EXECUTIVE ORDER

8639

ESTABLISHING THE ECONOMIC DEFENSE BOARD

By virtue of the authority vested in me by the Constitution and statutes of the United States, by virtue of the existence of an unlimited national emergency, and for the purpose of developing and coordinating policies, plans, and programs designed to protect and strengthen the international economic relations of the United States in the interest of national defense, it is hereby ordered as follows:

1. The term "economic defense," whenever used in this Order, means the conduct, in the interest of national defense, of international economic activities including those relating to exports, imports, the acquisition and disposition of materials and commodities from foreign countries including preclusive buying, transactions in foreign exchange and foreign-owned or foreign-controlled property, international investments and extensions of credit, shipping and transportation of goods among countries, the international aspects of patents, international communications pertaining to commerce, and other foreign economic matters.

2. There is hereby established an Economic Defense Board (hereinafter referred to as the "Board"). The Board shall consist of the Vice President of the United States, who shall serve as Chairman, the Secretary of State, the Secretary of the Treasury, the Secretary of War, the Attorney General, the Secretary of the Navy, the Secretary of Agriculture, and the Secretary of Commerce. The Chairman may, with the approval of the President, appoint additional members to the Board. Each member of the Board, other than the Chairman, may designate an alternate from among the officials of his Department, subject to the continuing approval of the Chairman, and such alternate may act for such member in all matters relating to the Board.

3. In furtherance of such policies and objectives as the President may from time to time determine, the Board shall perform the following functions and duties:

- a. Advise the President as to economic defense measures to be taken or functions to be performed which are essential to the effective defense of the Nation.
- b. Coordinate the policies and actions of the several departments and agencies carrying on activities relating to economic defense in order to assure unity and balance in the application of such measures.
- c. Develop integrated economic defense plans and programs for coordinated action by the departments and agencies concerned and use all appropriate means to assure that such plans and programs are carried into effect by such departments and agencies.
- d. Make investigations and advise the President on the relationship of economic defense (as defined in paragraph 1) measures to post-war economic reconstruction and on the steps to be taken to protect the trade position of the United States and to expedite the establishment of sound, peace-time international economic relationships.

- 2 -

3. Review proposed or existing legislation relating to or affecting economic defense and, with the approval of the President, recommend such additional legislation as may be necessary or desirable.
4. The administration of the various activities relating to economic defense shall remain with the several departments and agencies now charged with such duties but such administration shall conform to the policies formulated or approved by the Board.
5. In the study of problems and in the formulation of programs, it shall be the policy of the Board to collaborate with existing departments and agencies which perform functions and activities pertaining to economic defense and to utilize their services and facilities to the maximum. Such departments and agencies shall cooperate with the Board in clearing proposed policies and measures involving economic defense considerations and shall supply such information and data as the Board may require in performing its functions. The Board may arrange for the establishment of committees or groups of advisers, representing two or more departments and agencies as the case may require, to study and develop economic defense plans and programs in respect to particular commodities or services, geographical areas, types of measures that might be exercised, and other related matters.
6. To facilitate unity of action and the maximum use of existing services and facilities, each of the following departments and agencies, in addition to the departments and agencies represented on the Board, shall designate a responsible officer or officers, subject to the approval of the Chairman, to represent the department or agency in its continuing relationships with the Board: The Department of the Post Office, the Interior, and Labor, the Federal Loan Agency, the United States Maritime Commission, the United States Tariff Commission, the Federal Trade Commission, the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission, the National Resources Planning Board, the Defense Communications Board, the Office of Production Management, the Office of Price Administration and Civilian Supply, the Office for Coordination of Commercial and Cultural Relations Between the American Republics, the Permanent Joint Board on Defense, the Administrator of Export Control, the Division of Defense Aid Reports, the Coordinator of Information, and such additional departments and agencies as the Chairman may from time to time determine. The Chairman shall provide for the systematic conduct of business with the foregoing departments and agencies.
7. The Chairman is authorized to make all necessary arrangements, with the advice and assistance of the Board, for discharging and performing the responsibilities and duties required to carry out the functions and authorities set forth in this Order, and to make final decisions when necessary to expedite the work of the Board. He is further authorized, within the limits of such funds as may be allocated to the Board by the President, to employ necessary personnel and make provision for the necessary supplies, facilities, and services. The Chairman may, with the approval of the President, appoint an executive officer.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

July 30, 1941

Regraded Unclassified

HOLD FOR RELEASE

HOLD FOR RELEASE

HOLD FOR RELEASE

CONFIDENTIAL: To be held in STRICT CONFIDENCE and no portion, synopsis, or intimation to be published or given out until the READING of the President's Message has begun in the Senate. Extreme care must therefore be exercised to avoid premature publication.

STEPHEN EARLY
Secretary to the President

TO THE SENATE:

I return herewith, without my approval, S. 1200, a bill "To authorize additional appropriations to provide for the further development of cooperative agricultural extension work."

The basic acts authorizing grants to States and Territories for agricultural extension work set up a formula under which the funds appropriated are largely apportioned among the States and Territories in the proportion which the rural or farm population of the State or Territory bears to our total rural or farm population as determined by the last preceding decennial census.

The 1940 census reveals that important shifts have occurred in farm population since 1930, and, as one consequence, redistribution of Federal funds contributed to the agricultural extension program in accordance with the basic acts would entitle twenty-four States and Puerto Rico to increased shares aggregating approximately \$540,000, while the shares in twenty-four States and Hawaii would be decreased in a total amount of approximately \$555,000.

S. 1200 would authorize annual appropriations of \$555,000 with which to continue at the present level the annual grants to these latter twenty-four States and Hawaii. In effect, the bill renders meaningless the apportionment formula of the basic acts, which was thoughtfully written by Congress, and which must have contemplated the possible necessity of adjustments in apportionments thereunder as shifts in population occur.

If that formula is now considered unsound, it would seem to me that the proper corrective is to replace it with a new and better one, rather than simply make offsetting special appropriations whenever the operation of the formula decreases the shares of one or a group of States and Territories.

The enactment of the Bankhead-Jones Act in 1935 greatly strengthened the participation by the Federal Government in the general agricultural extension program. I do not feel that there is sufficient warrant for further increasing at this time the continuing annual appropriations provided by that Act and earlier related legislation.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

July 31, 1941.

HOLD FOR RELEASE

HOLD FOR RELEASE

HOLD FOR RELEASE

JULY 30, 1941

1385

CONFIDENTIAL: To be held in STRICT CONFIDENCE and no portion, synopsis or intimation to be published or given out until the READING of the President's Message has begun in the Senate or the House of Representatives. Extreme care must therefore be exercised to avoid premature publication.

STEPHEN EARLY
Secretary to the President

TO THE CONGRESS OF THE UNITED STATES:

Inflationary price rises and increases in the cost of living are today threatening to undermine our defense effort. I am, therefore, recommending to the Congress the adoption of measures to deal with this threat.

We are now spending more than \$30,000,000 a day on defense. This rate must and will increase. In June of this year we spent about \$808,000,000 — more than five times the \$158,000,000 we spent in June 1940. Every dollar spent for defense presses against an already limited supply of materials.

This pressure is sharply accentuated by an ever-increasing civilian demand. For the first time in years many of our workers are in the market for the goods they have always wanted. This means more buyers for more products which contain steel and aluminum and other materials needed for defense. Thus a rapidly expanding civilian demand has been added to a vast and insistent demand by the Government.

Those who have money to spend are willing to bid for the goods. The Government must and will satisfy its defense needs. In such a situation, price advances merely determine who gets the scarce materials, without increasing the available supply. We face inflation, unless we act decisively and without delay.

The consequences of inflation are well known. We have seen them before.

Producers, unable to determine what their costs will be, hesitate to enter into defense contracts or otherwise to commit themselves to ventures whose outcome they cannot foresee. The whole production machinery falters.

Speculators anticipating successive price advances, withhold commodities from essential military production.

Costs to the Government increase, and with it the public debt.

Increases in the workers' cost of living, on the one hand, and excessive profits for the manufacturer, on the other, lead to spiraling demands for higher wages. This means friction between employer and employed.

Great profits are reaped by some, while others, with fixed and low incomes, find their living standards drastically reduced and their life-long savings shrunk. The unskilled worker, the white-collar worker, the farmer, the small businessman and the small investor all find that their dollar buys ever less and less.

- 2 -

The burden of defense is thrown haphazardly and inequitably on those with fixed incomes or whose bargaining power is too weak to secure increases in income commensurate with the rise in the cost of living.

And over all hovers the specter of future deflation and depression, to confuse and retard the defense effort and inevitably to aggravate the dangers and difficulties of a return to a normal peacetime basis.

Economic sacrifices there will be and we shall bear them cheerfully. But we are determined that the sacrifice of one shall not be the profit of another. Nothing will sap the morale of this Nation more quickly or ruinously than penalizing its sweat and skill and thrift by the individually undeserved and uncontrollable poverty of inflation.

Our objective, therefore, must be to see that inflation, arising from the abuse of power to increase prices because the supply is limited and the demand inflexible, does not occur during the present emergency.

Today we stand, as we did in the closing months of 1915, at the beginning of an upward sweep of the whole price structure. Then, too, we enjoyed relative stability in prices for almost a year and a half after the outbreak of war abroad. In October 1915, however, prices turned sharply upward. By April 1917 the wholesale price index had jumped 63%; by June 1917, 74%; and by June 1920 it was nearly 140% over the October 1914 mark.

The facts today are frighteningly similar.

The Bureau of Labor Statistics Index of 28 basic commodities, by the end of June, had advanced 50% beyond its August 1939 level. It has increased 24% since January of this year.

Since August 1939 the Bureau of Labor Statistics Index of 900 wholesale prices has advanced 17%. It has increased 10% since January of this year. In the past 60 days wholesale prices have risen more than five times as fast as during the preceding period since the outbreak of the war abroad.

Since August 1939 the Bureau of Labor Statistics Index of the cost-of-living has advanced $5\frac{1}{2}\%$. It has increased $3\frac{1}{2}\%$ since the beginning of this year, and the upward pressure is now intense. In a single month, from the middle of May to the middle of June, the cost-of-living jumped 2%. During the last quarter the increase in the cost-of-living was greater than during any similar period since the World War. But even yet the index does not fully reflect past increases, and only in a few months will it respond to current increases.

In 1915 the upward price movement proceeded unchecked so that when regulation was finally begun it was already too late. Now we have an opportunity to act before disastrous inflation is upon us. The choice is ours to make; but we must act speedily.

For twelve months we have tried to maintain a stable level of prices by enlisting the voluntary cooperation of business, and through informal persuasive control. The effort has been widely supported because far-sighted business leaders realize that their own true interest would be jeopardized by runaway inflation. But the existing authority over prices is indirect and circumscribed, and operates through measures which are not appropriate or applicable in all circumstances. It has further been weakened by those who purport to recognize need for price stabilization yet challenge the existence of any effective power. In some cases, moreover, there has been evasion and bootlegging; in other cases the Office of Price Administration and Civilian Supply has been openly defied.

Faced now with the prospect of inflationary price advances, legislative action can no longer prudently be postponed. Our national safety demands that we take steps at once to extend, clarify and strengthen the authority of the Government to act in the interest of the general welfare.

Regraded Unclassified

Legislation should include authority to establish ceilings for prices and rents, to purchase materials and commodities when necessary, to assure price stability, and to deal more extensively with excesses in the field of installment credit. To be effective, such authority must be flexible and subject to exercise through license or regulations under expeditious and workable administrative procedures. Like other defense legislation, it should expire with the passing of the need, within a limited time after the end of the emergency.

The concept of a price ceiling is already familiar to us as a result of our own World War experience. Prices are not fixed or frozen; an upper limit alone is set. Prices may fluctuate below this limit, but they cannot go above it.

To make ceiling prices effective it will often be necessary, among other things, for the Government to increase the available supply of a commodity by purchases in this country or abroad. In other cases it will be essential to stabilize the market by buying and selling at the exigencies of price may require.

Housing is a commodity of universal use, the supply of which cannot speedily be increased. Despite the steps taken to assure adequate housing for defense, we are already confronted with rent increases ominously reminiscent of those which prevailed during the World War. This is a development that must be arrested before rent profiteering can develop to increase the cost of living and to damage the civilian morale.

Of course there cannot be price stability if labor costs rise abnormally. Labor has far more to gain from price stability than from abnormal wage increases. For these are likely to be illusory, and quickly overtaken by sharp rises in living costs which fall with particular hardship on the least fortunate of our workers and our old people.

There will always be need for wage adjustments from time to time to rectify inequitable situations. But labor as a whole will fare best from a labor policy which recognizes that wages in the defense industries should not substantially exceed the prevailing wage rates in comparable non-defense industries where fair labor policies have been maintained. Already through the efforts of the National Defense Mediation Board and wage stabilization committees wage standards are being established and a measure of wage stability is being brought to particular industries. It is expected that such activities will be continued, extended, and made increasingly effective.

I recognize that the obligation not to seek an excessive profit from the defense emergency rests with equal force on labor and on industry, and that both must assume their responsibilities if we are to avoid inflation.

I also recognize that we may expect the wholehearted and voluntary cooperation of labor only when it has been assured a reasonable and stable income in terms of the things money will buy, and equal restraint or sacrifice on the part of all others who participate in the defense program. This means not only a reasonable stabilization of prices and the cost of living but the effective taxation of excess profits and purchasing power. In this way alone can the Nation be protected from the evil consequences of a chaotic struggle for gains which must prove either illusory or unjust, and which must lead to the disaster of unchecked inflation.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,
July 30, 1941.

Regraded Unclassified

TREASURY DEPARTMENT

WASHINGTON

July 30, 1941

Memorandum for THE SECRETARY

The following report is made of requests received for "Any Bonds Today?" from the experimental mailing of 10,000 cards:

	<u>No. Requests</u>	<u>No. Copies</u>
July 1 - 29	1099	6369
July 30	<u>24</u>	<u>203</u>
Total	1123	6572

GRAVES



TREASURY DEPARTMENT
WASHINGTON

July 30, 1941

Memorandum for THE SECRETARY:

The following report is made of Stamp sales at
"Treasury House":

July 1-28	\$21,050.15
July 29	<u>996.90</u>
Total	\$22,047.05

GRAVES

CONFIDENTIAL

UNITED STATES SAVINGS BONDS

Sales in July Compared with June, 1941
On Basis of Issue Price

First Twenty-four Business Days
(June 1-28, July 1-29)

(Amounts in thousands of dollars)

Item	Sales		Increase or Decrease (-) in July Compared with June	
	July	June	Amount	Percent
	Series E - Post Offices	\$ 47,385	\$ 38,139	\$ 9,246
Series E - Banks	<u>87,997</u>	<u>58,723</u>	<u>29,274</u>	<u>49.9</u>
Series E - Total	135,382	96,862	38,520	39.8
Series F - Banks	24,420	27,530	- 3,110	- 11.3
Series G - Banks	<u>150,636</u>	<u>177,025</u>	- <u>26,389</u>	- <u>14.9</u>
Total	<u>\$310,437</u>	<u>\$301,417</u>	<u>\$ 9,020</u>	<u>3.0%</u>

Office of the Secretary of the Treasury, July 30, 1941.
Division of Research and Statistics.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

Daily Sales - July 1941
On Basis of Issue Price
(In thousands of dollars)

Date	All Bond Sales				Post Office Bond Sales	Bank Bond Sales			
	Total	Series E	Series F	Series G	Series E	Total	Series E	Series F	Series G
July 1941									
1	\$ 9,505	\$ 2,387	\$ 957	\$ 6,160	\$ 595	\$ 8,910	\$ 1,793	\$ 957	\$ 6,160
2	11,612	4,066	845	6,701	1,735	9,877	2,331	845	6,701
3	15,045	4,903	843	9,299	2,077	12,969	2,827	843	9,299
5	22,900	9,589	2,437	10,875	3,191	19,709	6,397	2,437	10,875
7	11,028	6,315	472	4,242	3,908	7,120	2,407	472	4,242
8	11,226	4,867	1,197	5,162	1,346	9,881	3,522	1,197	5,162
9	16,570	6,277	880	9,413	2,229	14,341	4,048	880	9,413
10	11,430	6,018	605	4,808	2,459	8,972	3,559	605	4,808
11	16,311	8,504	1,197	6,610	2,405	13,905	6,098	1,197	6,610
12	12,689	4,482	860	7,347	1,672	11,017	2,810	860	7,347
14	13,435	7,754	1,046	4,636	3,060	10,375	4,693	1,046	4,636
15	10,083	4,754	602	4,728	1,458	8,625	3,296	602	4,728
16	11,994	5,541	808	5,645	1,645	10,349	3,896	808	5,645
17	15,332	6,213	1,189	7,930	1,799	13,533	4,414	1,189	7,930
18	12,404	6,730	836	4,837	2,042	10,362	4,689	836	4,837
19	7,553	4,513	926	2,114	1,505	6,048	3,007	926	2,114
21	14,136	7,105	1,015	6,016	3,060	11,076	4,046	1,015	6,016
22	12,191	3,820	1,208	7,164	1,001	11,191	2,819	1,208	7,164
23	14,677	5,018	1,208	8,451	1,514	13,163	3,505	1,208	8,451
24	11,634	5,382	959	5,293	1,623	10,011	3,759	959	5,293
25	10,589	5,828	904	3,857	1,670	8,919	4,158	904	3,857
26	11,149	4,420	474	6,256	1,303	9,846	3,117	474	6,256
28	15,050	6,986	1,109	6,954	2,983	12,067	4,003	1,109	6,954
29	11,892	3,910	1,844	6,138	1,106	10,787	2,805	1,844	6,138
Total,	\$310,437	\$135,382	\$ 24,420	\$150,636	\$ 47,385	\$263,052	\$ 87,997	\$ 24,420	\$150,636

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

July 30, 1941.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 30, 1941

TO Secretary Morgenthau
FROM Mr. Kamarok
Subject: Airplane Deliveries to the British

Summary

1. A total of 69 planes shipped is reported in the latest statement received. Except for the delivery of 20 Tomahawks to the Middle East, all the planes were shipped to England.

2. The delivery of Curtiss Tomahawks to the Middle East is in a fairly consistent flow. The following are the weekly shipments reported in the last six weeks: 46, 50, 20, 40, 30, 20.

- 2 -

Division of Monetary
ResearchAirplane Shipments to the British
(From February 1 to July 27 by air
January 11 to July 5 by sea)

Table A. - Shipments by Area

	Latest Week	Total Reported To Date
<u>To the United Kingdom</u>		
Light and medium bombers	45	607
Heavy bombers	0	41
Naval patrol bombers	0	72
Pursuit	<u>4</u>	<u>17</u>
Total to United Kingdom	49	737
<u>To the Middle East</u>		
Light and medium bombers	0	150
Pursuit	<u>20</u>	<u>481</u>
Total to Middle East	20	631
<u>To the Far East</u>		
Light and medium bombers	0	6
Naval patrol bombers	0	9
Pursuit	0	145
Trainers	<u>0</u>	<u>55</u>
Total to Far East	0	215
<u>Totals</u>		
Light and medium bombers	45	763
Heavy bombers	0	41
Naval patrol bombers	0	81
Pursuit	24	643
Trainers	<u>0</u>	<u>55</u>
Grand Total	69	1,583

- 3 -

Division of Monetary
Research

Table B. - Shipments by Types

	Latest Week	Total Reported To Date
Bell Airacobra (P-39)	4	8
Boeing B-17	0	21
Brewster Buffalo	0	145
Consolidated Catalina	0	81
Liberator	0	20
Curtiss Tomahawk	20	481
Douglas Boston I	0	1
Boston II	0	72
Boston III	18	107
Glenn Martin Maryland	0	150
Grumman Martlet II	0	9
Lockheed Hudson I	0	1
Hudson III	0	57
Hudson IV	0	18
Hudson V	27	324
North American Harvard II	0	55
United Chesapeake	<u>0</u>	<u>33</u>
Grand Total - All Types	69	1,583

Table C. - Plane Deliveries to the British by Weeks

Week Ended	Light and Medium Bombers	Heavy Bombers	Naval Patrol Bombers	Pursuit	Trainers	Total
Feb. 8 *	22	-	3	-	-	25
Feb. 15 *	39	-	-	100	-	139
Feb. 22 *	35	-	-	27	-	62
Mar. 1 *	7	-	5	25	-	37
Mar. 8 *	16	-	3	10	-	29
Mar. 15 *	26	1	4	-	-	31
Mar. 22 *	17	-	2	22	-	41
Mar. 29 *	25	-	3	18	-	46
Apr. 5 *	21	-	7	73	-	101
Apr. 12 *	21	2	2	27	-	52
Apr. 19 *	20	3	4	5	-	32
Apr. 26 *	23	2	3	-	28	56
May 3 *	61	1	2	15	27	106
May 10 *	36	1	8	10	-	55
May 17 *	61	13	7	19	-	100
May 25 *	30	10	-	25	-	65
June 1 *	28	5	5	21	-	59
June 8 *	37	2	7	-	-	46
June 15 *	26	1	4	20	-	51
June 22 *	28	-	4	52	-	84
June 29 *	45	-	1	50	-	96
July 6 *	19	-	3	20	-	42
July 13 *	34	-	3	48	-	85
July 20 *	41	-	1	32	-	74
July 27 *	45	-	-	24	-	69
	763	41	81	643	55	1,583

* The date given is for shipments by air. Shipments by water start three weeks earlier. That is, the statement reporting the shipment of planes by air for the week ending July 27 would report the shipment of planes by water for the week ending July 5.

July 30, 1942

Mr. Felt

Mr. Cochran

Will you kindly, with the approval of your Far Eastern Division and at Treasury Stabilization Fund expense, send the attached cablegram.

(Init.) H. M. C.

HMC:log-7/30/42

C
O
P
Y

THE UNDER SECRETARY OF THE TREASURY

Washington

July 30, 1941

TO MR. COCHRAN:

I just talked with Mr. Dewey on the telephone in the absence of Sir Frederick from the city, about the attached telegram. He sees no objection to it but hopes that we will confer with him again if we get a reply from Fox to the effect that it is important to proceed immediately to set up the Board.

He also told me that he had received a cable from London advising that the British Government had suggested to the Chinese Government the temporary appointment of Hall-Patch. They have not yet received a reply to this suggestion. He thought that the few days necessary to send our cable and get a reply from Fox would give time to solve their problem also.

The attached cable can, therefore, go out after you and White have initialed it.

(Init.) D.V.R.

Copy:ain 7-30-41

C
O
P
Y

CABLE

AMERICAN EMBASSY, PEKING,

For Fax from Acting Secretary of Treasury.

Reference your cablegram of June 27 sent through Spagent, Shanghai, and your 752 sent through Lockhart June 28.

You were provided with copies of all documents pertinent to American and British Stabilization Agreements with China. Letters apparently referred to are those dated April 25, 1941, exchanged between Secretary of Treasury and Sir Frederick Phillips and containing three points. Additional copies of these letters are being forwarded to you by pouch.

Nothing in such letters prevent the setting up of a four-man Stabilization Board, including the American member, and not including the British member, for the purpose of managing the United States dollar - Chinese Yuan Stabilization Fund. If you think it important to proceed immediately to set up the Board please advise, ~~and instructions to you~~ will be sent promptly.

The words deleted in final message.

The Treasury is informed that Sir Otto Niemeyer will leave London within the next fortnight for Washington. He is expected to discuss Chinese problems with this Government before proceeding to China. It is anticipated that his visit to China will be of only a few month's duration and that he will devote his attention to broad lines of economic and financial policy. It is not expected that he will serve on the Stabilization Board.

BB:hug

Initialed: HMG EB DWE EDW

Copy:lg 7/30/41

July 30, 1941

Dr. Feis

Mr. Cochran

Will you kindly, with the approval of your Far Eastern Division and of Mr. Currie, (who suggested this draft) send a cablegram, at Treasury Stabilization Fund expense, along the following lines:

"American Embassy,

Chungking, China.

For Fox from Acting Secretary of Treasury.

What progress is being made in the rehabilitation of China's internal finance? In this connection we should like to have your comments on the Ambassador's despatch No. 21, of June 10, on China's general economic condition. We assume that such reports are made available to you."

HMC:la-7/30/41

C
O
P
Y

Australian Legation,
Washington, D. C.
July 30th, 1941

Dear Mr. Cochran,

With reference to our telephone conversation today, concerning the State of Queensland Loan, I enclose herewith the original and one copy of an opinion on this subject supplied by Davis Polk Wardwell Gardiner & Reed.

Yours sincerely,

(Signed) A. S. Watt

Mr. Merle Cochran,
Room 279, Treasury Building,
U.S. Department of the Treasury,
Washington, D.C.

Copy:lg 8/1/41

C
O
P
Y

Davis Polk Wardwell Gardiner & Reed
(Stetson Jennings & Russell)
15 Broad Street
New York

July 28, 1941

The Honorable L. R. Macgregor,
Australian Government Trade Commission,
630 Fifth Avenue,
New York City.

Dear Sir:

We understand that the State of Queensland has outstanding approximately \$7,200,000 principal amount of its Twenty-Year 7% Sinking Fund External Loan Gold Bonds dated October 1, 1921, due October 1, 1941. We also understand from you that under the Financial Agreements (Commonwealth Liability) Act of the Commonwealth of Australia, assented to March 12, 1932, the Commonwealth of Australia expressly undertook to pay from time to time to the bondholders principal and interest of certain state obligations and that among such obligations were the State of Queensland Bonds above referred to. An opinion in our files dated April 12, 1932, from Messrs. Blake & Riggall, of Melbourne, states that the aforesaid Act, amongst others, was upheld as valid in 1932 by the High Court of Australia. We assume that there has been no change since then in the text or construction of the Act and that under the law of Australia the obligation of the Commonwealth to the bond-

- 2 -

holders still continues.

You have asked our opinion whether an exchange by the Commonwealth of Australia of its own bonds for the above mentioned State of Queensland Bonds (such exchange to be directly with the present bondholders) would constitute a violation of the United States Neutrality Act of 1939.

The applicable provision of the Neutrality Act of 1939 is Section 7 (Financial Transactions), which reads as follows:

"Sec. 7. (a) Whenever the President shall have issued a proclamation under the authority of section 1 (a), it shall thereafter be unlawful for any person within the United States to purchase, sell, or exchange bonds, securities, or other obligations of the government of any state named in such proclamation, or of any political subdivision of any such state, or of any person acting for or on behalf of the government of any such state, or political subdivision thereof, issued after the date of such proclamation, or to make any loan or extend any credit (other than necessary credits accruing in connection with the transmission of telegraph, cable, wireless and telephone services) to any such government, political subdivision, or person. The provisions of this subsection shall also apply to the sale by any person within the United States to any person in a state named in any such proclamation of any articles or materials listed in a proclamation referred to in or issued under the authority of section 12 (1).

(b) The provisions of this section shall not apply to a renewal or adjustment of such indebtedness as may exist on the date of such proclamation.

(c) Whoever shall knowingly violate any of the provisions of this section or of any regulations issued thereunder shall, upon conviction thereof, be fined not more than \$50,000 or imprisoned for not more than five years, or both. Should the violation be by a corporation, organization, or association, each officer or director thereof participating in the violation shall be liable to the penalty herein prescribed.

- 3 -

(d) Whenever any proclamation issued under the authority of section 1 (a) shall have been revoked with respect to any state the provisions of this section shall thereupon cease to apply with respect to such state, except as to offenses committed prior to such revocation."

In Proclamation No. 2348 of the President of the United States dated September 5, 1939, the President found there existed a state of war between the Commonwealth of Australia and Germany which Proclamation is still in force so that the exchange is prohibited under the provisions of subsection (a) of Section 7 unless the proposed transaction can be excluded under the exception provided in subsection (b). This subsection (b) provides that Section 7 shall not apply to a "renewal or adjustment of such indebtedness" as may exist on the date of the Proclamation. We understand that all the State of Queensland Bonds now outstanding were outstanding on September 5, 1939, so that the only question remaining is whether the above-mentioned exchange of Commonwealth of Australia bonds for the State of Queensland Bonds constitutes a "renewal or adjustment" of the bonded indebtedness represented by the Queensland Bonds.

Whether or not the proposed exchange would constitute such a renewal or adjustment if the Commonwealth of Australia were not itself obligated upon the existing bonds (so that the exchange would be the issuance of indebtedness of the Commonwealth in exchange for cancellation of indebtedness of the

State of Queensland only) we need not now consider since in this case, on the basis above stated, we understand the Commonwealth is itself directly obligated to the holders of the Queensland Bonds and the new bonds of the Commonwealth of Australia would be issued directly to such holders.

We are of the opinion that such exchange of Commonwealth Bonds for Queensland Bonds where the Commonwealth is already liable to the holders of the latter would constitute a "renewal or adjustment" of the indebtedness represented by the State of Queensland Bonds and existing September 5, 1939, and is therefore not prohibited by the provisions of the Neutrality Act of 1939.

While there has been no court decision construing subsection (b) of Section 7 of the Neutrality Act of 1939, our conclusion is we think the same as that indicated by the then Attorney General of the United States in his opinion dated May 5, 1934, discussing the question of the meaning of "renewal or adjustment" of existing indebtedness as those terms are used in the "Johnson Act (Approved April 13, 1934)", which also excepts from its provisions a "renewal or adjustment of existing indebtedness". The pertinent parts of this opinion are as follows:

"(3). What constitutes a renewal of an existing credit?"

Your legal adviser has concluded, in the memorandum transmitted with your letter of April 23, that:

'It would seem that any instrument which would be issued for the purpose of replacing the evidence of any existing indebtedness would constitute a renewal or an adjustment of an existing indebtedness. If new bonds were issued to replace old ones, it would seem that

such a transaction would be permissible. Any instrument given in satisfaction or extension of an existing indebtedness would, it is believed, come within this exception.

In general, I approve this statement, but obviously it will be a question of fact in each case whether or not what is done amounts in good faith to the mere 'renewal * * * of existing indebtedness.'

* * * * *

It is made unlawful, as I have said, 'to purchase or sell the bonds, securities, or other (similar) obligations of any foreign government * * * issued after the passage of this act, or to make any loan to such foreign government * * * except a renewal or adjustment of existing indebtedness.' The word 'renewal' needs no definition by me -- it is frequently used and commonly understood in banking business and commercial transactions -- and the word 'adjustment', relating to accounts or claims, has been used in our statutes since the formation of the government. (See the Act of Sept. 2, 1789, 1 Stat. 65, and the Act of March 3, 1817, 3 Stat. 366.)

It is used, I think, in the sense of compromising or determining how much is to be paid, when and where, upon what terms and the like. Thus an adjustment of an existing indebtedness within the meaning of the act is any lawful arrangement entered into in good faith between the debtor and the creditor which compromises or determines the amount to be paid by the debtor to the creditor and it may include other details of composition or settlement."

While the opinion of the Attorney General is not binding on our courts, it is at the least very persuasive with them, and the Attorney General's views above quoted appear in accord with our opinion as herein set forth.

Very truly yours,

DAVIS POLK WARDWELL GARDINER & REED

EDMac V:MF

Copy:alm: lg 8/1/41

C
o
p
y

48

DEPARTMENT OF STATE
Washington

In reply refer to
EA 840.51 Frozen Credits/2735

July 30, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses six copies of a paraphrase of telegram No. 318, dated July 29, 1941, from the American Embassy at Chungking, China, transmitting a message from Mr. A. Manuel Fox for the Secretary of the Treasury.

Enclosure:

From Embassy, Chungking,
No. 318, July 29, 1941.
(Six copies)

C
O
P
Y

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China, via N.R.

DATE: July 29, 1941, 8 p.m.

NO.: 318

THE FOLLOWING IS FROM FOX FOR THE SECRETARY OF THE TREASURY.
CONFIDENTIAL.

Because of continual air raids, the messages in regard to freezing are slow in arriving. Fox and the Board are handicapped in their observations with respect to the operations of freezing order.

Under my instructions, (?) is proceeding at once to Hong Kong. I would like to send him on to Shanghai unless the Department advises me of a compelling reason for his not going at this particular time. He has been instructed to make a report regularly to Fox of his observations in regard to the working of the freezing orders and also, if necessary, to the Treasury Department.

Plans of organization are being made by the Board. It is necessary that I stay in Chungking. (?) is returning at the earliest opportunity possible. Concern over the freezing of funds of the Chinese Government has been shown by Dr. Kung.

Fortunately, immediately upon the receipt of the press release reports in regard to freezing, I had a long conference with the Minister of Finance. At this conference, I stated that, although

- 2 -

I did not have any definite information, I could assure him that the Government would not be handicapped by the freezing order. During the conference it was evident that the Minister for Foreign Affairs and Dr. Kung had discussed this subject. In order that the misunderstanding might be cleared up, K. P. Chen is seeing the Foreign Minister.

Should it be found necessary, would it be possible for the Department to send competent observers who are familiar with freezing operations so that they could be stationed in Shanghai and Hong Kong?

At five o'clock on Wednesday, I am to meet with General Chiang.

GAUSS

EA:FAK

Copy:lg 7/31/41

KD

PLAIN

Shanghai via N. R.

Dated July 30, 1941

Rec'd. 4:01 a.m., 31st

Secretary of State,
Washington.

976, Thirtieth.

Following from Chefoo.

"Twenty-ninth. No business operations possible with freezing of British and American assets. Chinese and foreign firms unable to obtain Federal Reserve currency pending more definite information about control policy. Roberts".

Sent to the Department. Repeated to Chungking, Peiping. Copy to Tokyo by air mail.

LOCKHART.

NK

KD

PLAIN

Shanghai via N. R.

Dated July 30, 1941

Rec'd. 4:20 a.m., 31st

Secretary of State,
Washington.

981, Thirtieth (SECTION ONE)

Reference my 963, Twenty-ninth quoting notification issued by the Japanese Consul General regarding transactions undertaken by Japanese with foreign nationals.

Following is Domei translation of full text of notices No. 19, 20 and 21 issued by Japanese Consul General:

"Japanese Consul General notice No. 19.

One. The acquirement or disposal of the following, by those parties hereby prescribed by the Japanese Consul General, or by those who transact on behalf of such parties, shall be required to obtain the permission of the Japanese Consul General. (A). Sights regard immovable property; (B). Enterprises, business and funds usable in enterprises or business; (C). Securities valued at more than yen twenty; (D). Foreign and domestic exchange; and (E) Japanese military notes or their equivalent in Chinese currency amounting to more than yen five hundred monthly. (Amounts of more than

-2- #981, Thirtieth (SECTION ONE), from Shanghai.

than yen five hundred per household, including postal money orders which may be used as a means of payment in China); (F). Foreign currencies other than those mentioned in (E); (G). Movable properties other than those mentioned in (C) and (F) and amounting to more than yen one hundred.

"Two. The following, by parties prescribed by the Japanese Consul General or by others who transact for those prescribed by the Japanese Consul General, shall require the permission of the Japanese Consul General, excepting those cases wherein permission already has been obtained in accordance with regulations set forth in the preceding Article One.

LOCKHART.

NK

EJ

PLAIN

Shanghai via N. R.

Dated July 30, 1941

Rec'd 4:25 a.m., 31st

Secretary of State,
Washington.

981, Thirtieth, (SECTION TWO).

A. To make or recover a loan; B. To contract or return a debt; C. To make or withdraw a monetary deposit; D. To accept or to pay a monetary deposit; E. To balance credit and debts; F. To underwrite or accept a debt; G. To acquire or dispose of credits or debts not mentioned in the preceding subarticles..

"Three. The following, by parties prescribed by the Japanese Consul General, or by others who transact for those prescribed by the Japanese Consul General, and regarding prosperity mentioned in articles One, subarticles A C E F G, shall require the permission of the Japanese Consul General, except in those cases wherein permission already has been obtained in accordance with regulations set forth in the preceding article One and Two. A. To make or accept a deposit; B. To accept the return of a deposit; C. To return

any

-2- 981, July 30, 4:25 a.m., from Shanghai

any accepted deposit; D. Lending or borrowing for use; E. Lending or hiring; F. LENDING OR HIRING; F. Lending or borrowing for consumption; G. Subletting or subleasing.

"Four. The provisions of articles one two and three shall not be applicable to the following cases: A. Receiving of payment as public taxes or rates; B. Receiving of salaries, allowances, or the like by employees or other workers of those who have been prescribed by the Japanese Consul General.

"The above is so notified: by Tateki Horiuchi Japanese Consul General in Shanghai July 28, 1941."

LOCKHART

HTM

EJ

PLAIN

Shanghai via N. R.

Dated July 30, 1941

Rec'd 7:30 a. m., 31st

Secretary of State,
Washington.

981, thirtieth, (section three)

Japanese Consul General's number twenty warn
"in relation to notice number nineteen 'control of
transactions by Japanese with foreign nationals'
dated July 28, 1941, the following is prescribed:
"United States nationals, including citizens of
United States territories and the Philippine Common-
wealth, United States corporations, United States
controlled corporations and residents in territories
of the United States.

The above is so notified by Tetski Soriuchi
Japanese Consul General in Shanghai July 28, 1941.

Japanese Consul General's notice number twenty-
one supplement and amendment to notice number twenty
July 28, 1941.

One. A. United States of America.

B. All territories and possessions of the
United States of America.

C

-2- 981, July 30, 7:30 a.m., from Shanghai

C. Philippine Commonwealth.

D. Canada.

E. The United Kingdom of Great Britain and Northern Ireland.

Two. A. All designated countries and their administrative districts or those under the similar category.

B. Legal persons other than those in the countries designated in A.

C. Legal. Actually coming under notice B.

D. Branch offices and other offices of legal persons located in the designated countries.

(Notice: this rule applies only to legal persons other than the designated countries or to those owned by the designated countries. And)

E. Persons holding citizenship of designated countries and those who have their domicile in the designated countries.

End of message . Sent to the Department. Repeated to Chungking, Peiping. By airmail to Tokyo.

LOCKHART

RR

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Chafoo, China.

DATE: July 30, 1941, 11 p.m.

NO. : 12.

Reference is made to telegram no. 9 which I sent on the 29th day of July, 1941 at 11 p.m.

Although no business activities are allowed, police guards have been withdrawn from all American and British business premises, with the exception of oil companies.

Chinese bankers have resumed limited trading operations in exchange on Shanghai, purchasing Shanghai orders from American and British firms (?), and paying therefor Federal Reserve Bank currency. The Hong Kong and Shanghai Bank is not (repeat not) purchasing foreign exchange and only small amounts for living expenses will be paid against Federal Reserve Bank currency accounts.

Travel of all Americans and British has been stopped by the authorities of Japan. Ten American missionaries and school children scheduled to sail on August third for Shanghai by coastal steamer and to sail for the United States on the SS PRESIDENT COOLIDGE are unable to proceed.

Mail for Americans and British, including consulates, is still being held, and only a few business telegrams have been released by the censor.

KPL

EA:VCL

RECEIVED
JUL 31 1941RECEIVED
JUL 31 1941

TEM

GRAY

Tokyo

Dated July 30, 1941

Rec'd 9:30 a.m.

Secretary of State,
Washington.

RUSH

1130, July 30, 9 p.m.

The chief of the Foreign Exchange Bureau of the Ministry of Finance advised a member of my staff that the Japanese Government has made no provision for extending any special banking privileges to this Embassy or American Consulates in Japan for official or personal money requirements. He stated that the Japanese Government would extend precisely the same treatment to the American Embassy and Consulates and their personnel that the American Government is extending or is prepared to extend to the Japanese Embassy and Consulates and their personnel in the United States, but that no information with regard to the latter point has as yet been received.

I would appreciate the Department sending me urgently information regarding the treatment of Japanese officials

-2- 1130, July 30, 9 p.m. from Tokyo.

officials and their accounts in the United States.

He also stated that a general license is to be granted the National City Bank of New York on July 31.

Sent to the Department only.

GREW

WSB

DEPARTMENT OF STATE

WASHINGTON

July 30, 1941

P Y

In reply refer to
EA

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses six copies of a paraphrase of telegram No. 963, dated July 30, 1941, from the American Embassy at Rio de Janeiro, Brazil, in regard to a request which the Director of Exchange of the Bank of Brazil has received from the Yokohama Specie Bank, decision of which must be made tomorrow.

Enclosure:

From Embassy, Rio de Janeiro,
No. 963, July 30, 1941.

COPY:lap-7/30/41

C
O
P
Y

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil

DATE: July 30, 1941, 1 p.m.

NO.: 963

The Director of Exchange of the Bank of Brazil has asked whether the Department has any objection to the following request which he has received from the Yokohama Specie Bank, and on which he must decide tomorrow.

The request of the Yokohama Specie Bank concerns the liquidation of the Japanese dollar credits with the Bank of Brazil:

1. Transfer \$1,000,000 to Banco da Provincia, Buenos Aires;
2. Transfer \$1,000,000 to the Banco da Chile in Santiago;
3. \$815,000 should be allocated for payment of drafts of the Yokohama Specie Bank on New York banks for products of Brazil which have already been shipped to Japan and for which exchange has been closed;
4. \$300,000 should be allocated to guarantee payment of thirty percent of official exchange which Japanese interests owe to the Bank of Brazil;
5. The balance of \$1,800,000 should be purchased by the Bank of Brazil which should credit the milreis proceeds for Brazilian products to be shipped to Japan in the future. The Director of Exchange says that the Japanese dollar balances would be fully liquidated by these operations.

CAFFERY

EA:FL:PAK

Copy:lg 7/31/41

LET

GRAY

Rio de Janeiro

Dated July 30, 1941

Rec'd. 2:45 p.m.

Secretary of State,
Washington.

971, July 30, 5 p.m.

D. Duarte Atalaya, Portuguese citizen, Director of Copacabana Palace Casino here, has \$30,000 on deposit in Chemical Bank and Trust Company, New York, for payment of contract with Eddie Duchins orchestra for 10 weeks at \$3,000 weekly. The bank has informed him the fund is blocked by executive order 8785. He has already given Duchin four checks of \$3,000 each.

Duarte is well regarded and is friendly to the United States. I recommend release of fund. STCOR

CAFFERY

JRL

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Panamá, Panama.

DATE: July 30, 1941, 7 p.m.

NO.: 181

The authorities of Panama may be informed that the Department of State will not interpose objections or obstacles to the Panamanian Government's requisitioning of the Santa Helena even though this ship is now in a port of the United States.

The Department recommends the following procedure as regards the question of whether the United States would render assistance to Panama in resisting any claims which might be made because of the requisitioning of the Santa Helena:

first) That the payment of a fair compensation accompany the requisitioning.

second) That the Government of Panama confer with the United States Government to determine what the amount of this compensation should be.

third) That the United States Government purchase the ship, if the Panamanian Government so desires, and that it be allowed to remain for the present time under Panamanian registry, and that Panama be reimbursed for all expenses incident to the requisitioning, such expenses having previously been determined.

Assurances have been given by the Maritime Commission that it will give its full cooperation in meeting any problems brought about by this action.

In connection

-2-

In connection with Government requisitioning of vessels not in the home waters of the requisitioning country, it can be said precedents exist.

WELLES
Acting
DA

619.852/38

RA:JOC
IN:VAW:JDC

EA:VGL
(moe)

ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED
DATE 08-15-82 BY SP-6 BJS/MS

18W 28B SA BM IS 12

18EY20BA DEBVA/MS/MS
RECEIVED

PARAPHRASE OF TELEGRAM SENT

TO : American Embassy, Rio de Janeiro.

DATE: July 30, 1941, 11 p.m.

NO. : 603.

TRIPLE PRIORITY

This is in reference to telegram no. 963 which you sent on the 30th of July, 1941, at 1 p.m.

Your telegram has been the subject of discussion between the Department and Treasury. You are requested to inform the Director of Exchange of the Bank of Brazil that the information received concerning the proposed transactions of the Yokohama Specie Bank is appreciated by this Government.

As regards transactions nos. 1 and 2 the Director of Exchange should be informed that the Bank of Brazil should point out to its correspondent bank in the United States which is ordered to make the payment that the transfer is for the account of the Yokohama Specie Bank and that applications for the necessary licenses should be filed.

Treasury has no objections to the transfers described in transactions no. 3 and no. 4. The Bank of Brazil should be so advised.

Before reaching a conclusion on transaction no. 5 the Director of Exchange should be informed that the Treasury Department and the Department of State would like to receive information concerning the views of the Bank of Brazil and the Brazilian Finance Ministry, especially how important

they

~~2~~

they feel the final conclusion of the transaction to be from Brazil's point of view.

WELLES, Acting
(DA)

A-A;DA;NCL;SS

RECEIVED
1941 AUG 4 10 00

KA:VBL

1941 AUG 4 10 00

TO THE SECRETARY
TECHNICAL ASSISTANT
MAY 19 1941

C
O
P
YDEPARTMENT OF STATE
WASHINGTONIn reply refer to
EA 840.51 Frozen Credits/2703

July 30, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses six copies of a paraphrase of telegram No. 90, dated July 28, 1941, from the American Consulate General at Batavia, Java, concerning the freezing of Japanese assets by the Government of the Netherlands Indies.

Enclosure:

From Consulate General,
Batavia, No. 90, July 28,
1941. (Six copies.)

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Batavia, Java

DATE: July 28, 1941, 2 p.m.

NO. : 90

1. The Government of the Netherlands Indies, after remaining in conference all day yesterday and nearly all last night, reached a decision with regard to the freezing of assets owned by the Japanese. Van Nook sent for me and gave me the following information as soon as this decision had been reached.

2. All foreign exchange transactions between Japan and the Netherlands Indies are suspended temporarily, beginning today.

3. Exports of everything from the Netherlands Indies to the following countries are subject to special permits: (1) Indochina; (2) the Japanese Empire; (3) Manchukuo China.

4. Payment to and receipt of money from Japanese subjects cannot be made by the Banks unless they have special permits from the Director of Economic Affairs to perform such services.

5. Money and goods traffic with Japan are frozen as a result of these measures. This is not intended to place any obstacles in the way of domestic operations of Japanese concerns in the Netherlands Indies, according to Van Nook.

6. I was then informed by Van Nook that the new export restrictions promulgated by the Government of Japan

-2-

on July 7, 1941 caused imports from Japan practically to cease by July 20 even though the Netherlands buyers in Japan were required to take delivery of and pay for the goods when delivery was made in Japan to the warehouses.

Then the Japanese Government refused to grant export permits. However, they offered to buy back such goods at eighty percent of the price which had been paid for them; payment would be made only in yen then.

In view of Japan's actions in this respect (described above) this Government, prior to July 25, took steps to ensure that the Japanese guilder balances in this country be retained so that they might be used to counterbalance losses of Netherlands in Japan. Moreover, the agreement between the Yokohama Specie Bank and the Java Bank has been suspended; yen quotations can no longer be made.

The Foreign Exchange Control Office is at present holding about eighteen million Netherlands Indies guilders which represent the favorable trade balance of Japan. Private bank accounts and investments are not included in this amount.

This message was repeated to Tokyo.

This is the end of the message.

FOOTE

EA:PAK

840.51 Frozen Credits/2703

Copy:bj:7-31-41

BRITISH EMBASSY,
WASHINGTON, D.C.

PERSONAL AND
SECRET

July 30th, 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,

Stalder

The Honourable

Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

TELEGRAM RECEIVED FROM LONDON

DATED JULY 22ND, 1941.NAVAL.

On the 24th floating dock towed by two tugs and escorted by one destroyer and two torpedo boats was hit with two torpedoes off Cape Spartivento (Italy).

2. 28th Italian cruiser, Emanuele Filiberto class, hit with two torpedoes from submarine 30 miles west of Trapani.

3. ROYAL AIR FORCE.

28th bad weather curtailed operations from United Kingdom and trawler off Dieppe set on fire by British fighter. Night of the 28th/29th the Royal Air Force operations confined to mine-laying in enemy waters. One aircraft missing.

4. Benghazi again bombed night of 26th/27th.

5. In enemy air attack on Port Said night of 26th/27th most bombs fell outside the harbour and four large bombs dropped east of El Kantara. No damage.

6. MILITARY. RUSSIA.

Only appreciable change is in Baltic area Ukraine and was where enemy thrust probably aims at encircling Odessa and perhaps Nikolaev. Germans apparently mastering the situation west of Smolensk. Finnish advance on Petrosavodsk making progress. German drive on Leningrad still apparently halted.

7. TUNIS.

27th enemy aircraft damaged lighting system. Three half-hearted Italian patrols attempting raids were repulsed. Our casualties nil.

CONFIDENTIAL

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, July 30, 1941

TENTATIVE LESSONS BULLETIN
No. 138
G-2/2657-235

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-M.

NOTES ON ITALIAN CHEMICAL WARFARESOURCE

These notes are based upon information compiled by the British War Office in March, 1941.

CONTENTS

1. ORGANIZATION
 - a. General
 - b. The Chemical Regiment
 - c. The GHQ Mixed Chemical Group
2. WAR GASES
3. WEAPONS AND EQUIPMENT
 - a. General
 - b. Defense Equipment

CONFIDENTIAL

CONFIDENTIALNOTES ON ITALIAN CHEMICAL WARFARE1. ORGANIZATIONa. General

It must be realized that in many branches of the Italian Army, theory and practice are far apart, and in no case is this more apparent than in the organization of chemical troops. The organization set out below is largely based on theory, as revealed in Italian military publications and in reports recently received, but it may be found that the full theoretical establishment has not been reached.

Chemical warfare in all its forms is the responsibility of the Military Chemical Service, which serves the Navy and the Air Force, as well as the Army. Its organization is as follows:

- (1) A directorate at the Ministry of War;
- (2) A chemical regiment;
- (3) Experimental centers;
- (4) GHQ Mixed Chemical Group.

b. The Chemical Regiment

The chemical regiment, commanded in peace by a colonel, consisted of the following:

Headquarters;
 One chemical battalion composed of three chemical companies;
 One mixed battalion composed of

Two chemical companies,
 One company of cadet complement officers,
 One company of NCO pupils;

One flame-throwing battalion composed of two companies;
 One depot.

Since 1938, the chemical regiment has assumed the functions of a central training school for chemical troops. In war, the regiment, or parts of it, would probably operate as GHQ or army troops, and it might provide the GHQ "Nebu" Chemical Battalion.

*The significance of the term "Nebu" is not clear. Apparently it is used to describe a light truck carrying gas equipment; but judging from the types of gases and equipment with which the "Nebu" battalion is issued, it seems unsafe to assume that the word is an abbreviation of Nebbiogena, or in any other way is particularly connected with smoke. G-2

CONFIDENTIAL

CONFIDENTIALc. The GHQ Mixed Chemical Group

Functions of the GHQ Mixed Chemical Group are not clear. It probably contains a "Nebu" battalion and chemical and flame-throwing battalions and mortar groups. Its theoretical war time organization may be as follows:

- (1) Headquarters at GHQ - in theory there should be one mixed chemical group for the GHQ on every front;
- (2) "Nebu" chemical battalion;
- (3) Headquarters chemical battalion;
- (4) Headquarters flame-throwing battalion;
- (5) Headquarters mortar group.

The "Nebu" battalion does not appear to have existed in peace, but it may be formed in war from the chemical regiment. The battalion consists of two heavy companies and one light company. The heavy companies have the following stocks of chemical warfare agents:

- 20 tons of chloropicrin;
- 4 tons of D.A. - diphenylchlorarsine;
- 6 tons of C.N. - tear gas;
- 12 $\frac{1}{2}$ tons of H.A. - phenyldichlorarsine, a mixed blister gas and toxic smoke.

The remainder of the equipment consists of:

- Technical equipment and protective clothing for handling gases;
- 32 sets of spraying apparatus for producing cloud;
- 16 sets of spraying apparatus for use in light trucks;
- Meteorological equipment.

The light company has the following stock of generators:

- 3 tons of 2 kilogram D.A. generators;
- 1 ton of 5 kilogram D.A. generators;
- 3 tons of 2 kilogram tear gas generators;
- 1 ton of 5 kilogram tear gas generators.

The function of this battalion could be either that of an offensive unit under GHQ command, or that of a depot for issuing and charging chemical weapons. Since neither mustard nor lewisite is issued to the unit, the battalion's use as a depot seem less probable, and the spraying apparatus of the heavy companies support the view that it is an offensive unit.

The chemical battalion, flame-throwing battalion, and mortar group form part of the mixed chemical group and have their headquarters at GHQ. The chemical and flame-throwing battalions provide

CONFIDENTIAL

CONFIDENTIAL

companies, and the mortar group provides batteries, on a scale of one for each army corps. Whereas in peace each army corps possessed a mixed chemical company composed of chemical, smoke, mortar, and flame-throwing sections, in war each corps possesses one chemical company, one flame-throwing company, and one mortar battery. Presumably, these units can be sub-allotted to divisions as required.

The corps chemical company may have two platoons; it is issued smoke apparatus and stores for contamination and decontamination. The following are the chief items of its equipment:

- 6 tons of H.S. - mustard gas - in drums;
- 6 tons of bleach;
- 9 tons of smoke liquid - probably C.S.A. - chlorosulphonic acid;
- 200 chemical mines filled with mustard gas;
- Apparatus for spraying smoke liquid, mustard gas, and bleach from trucks;
- 1,000 two-kilogram smoke generators.

The corps flame-throwing company has three platoons, each consisting of three squadrons of six sections each. There are two equipments - knapsack flame throwers, model 35 - per section, or 108 per company. Four tons of liquid are carried in the company, a sufficient supply to refill each flame thrower three times.

The corps mortar battery, which may have four 81-mm. mortars, carries ten sets of protective clothing, and 200 rounds of chemical and 50 rounds of ordinary ammunition for each mortar.

The Alpine divisional chemical company - one platoon in peace - has four platoons with a total strength of five officers, eleven NCO's and 212 men. It carries $11\frac{1}{2}$ tons of H.S. and 900 chemical mines, a larger stock than the chemical company ordinarily has. Its transport consists of four cars and twenty trucks.

Each of the three fast-moving - Celeri - divisions has one chemical platoon in peace time. It is not known whether or not additional chemical platoons are assigned in the war time organization.

These are all of the offensive gas units thought to exist in the Italian Army, though there are also antigas and decontamination units, and smoke screen companies.

2. WAR GASES

A report recently received confirms information concerning the use of gas by the Italians in the Abyssinian War. It states

CONFIDENTIAL

CONFIDENTIAL

that the only gas used by the army was D.A. in 105-mm. artillery shells, and that the effects were above expectations. It also says that 4,336 mustard gas bombs and 540 D.A. bombs were dropped by aircraft, but it does not mention the use of spray from aircraft, which verifies advices from another source that this form of attack was not used at all.

An undated report, evidently after 1937, states that the production capacity for war gases in Italy had then considerably increased. At that time the daily production of mustard had been raised from three to 18 tons daily, of chloropicrin from zero to at least four tons, of D.A. from 1 1/2 tons to 2 1/2 tons of a purer product, and of smoke producing liquid from three to about 20 tons. As these quantities are within limits set out in a recent reliable British report on Italian capacity for production of war chemicals, there is no reason to doubt their accuracy.

A further report states that in November, 1937, orders were given directing the formation of a chemical warfare depot for Libya. The depot, which was to be in two sections, one at Tripoli and the other at Benghazi, was to be provided with the following materials:

- 50 tons of mustard gas mixture;
- 25,000 small bombs filled with mustard gas;
- 25,000 double bombs filled with D.A.;
- A quantity of artillery shell filled with mustard gas and D.A.

It has been reported that 25 drums of mustard gas, approximately five tons, were discovered in recently dug caves at Bardia. Samples from this batch have been analysed and found to consist of very good quality mustard gas, with a melting point of 12.5°C. The gas was probably made by the thiodiglycol process and distilled before storage. It had obviously not been stored for long in Libya, and there can be no doubt that it is a remnant from the Abyssinian campaign.

Since the total quantity discovered at Bardia was too small to suggest offensive chemical warfare intentions, it was thought that that cache had been intended merely for research and experimental purposes. However, the capture of a further and considerably larger dump of chemical warfare material at Benina, near Benghazi, has somewhat altered this idea. The dump there contained the following:

- 96 drums of blister gas, probably mustard gas;
- 36 empty drums, which had contained blister gas;
- 93 drums of chloresulphonic acid, or smoke liquid;

CONFIDENTIAL

CONFIDENTIAL

100 drums of liquid, probably a flame-thrower mixture;
 3,030 lachrymatory generators;
 165 toxic smoke generators.

A great many drums of blister gas had been dumped in Benghazi harbor, and gas shells and gas bombs had been stored outside the city. From 100 to 200 of the drums have already been located, but the shells and bombs are believed to have been shipped away.

These quantities are far greater than would be required for experimental purposes, and it is probable that further stocks will be discovered. Until the full disposition is known, it is impossible to assess the scale of chemical warfare attacks which the Italians could have launched.

3. WEAPONS AND EQUIPMENTa. General

In an undated report, written subsequent to 1937, it was stated that mustard bombs of the C-500 type, which explode from 200 to 300 meters above the ground, had not given satisfactory results because of the irregular action of their fuses.

It was said further, that very satisfactory aerial ground contamination had been obtained by dropping bombs of the Spezzoni type. The Spezzoni bombs weigh about three pounds and contain one and two-fifths grams of D.A. in two and nine-tenths grams of explosive; the Boppio or double Spezzoni weigh about six pounds, and contain three and three-tenths grams of D.A. in six and seven-tenths grams of explosive; the Furetto, which weighs 25 kilograms, is a C.W. generator, and contains ten kilograms of C.W.

The agents and weapons used by chemical warfare troops are of the usual well known types. It is interesting to note that the artillery uses smoke shells of two types, one filled with white phosphorus and the other with a smoke mixture, probably oleum and sulphur trioxide. Tear gas shells are filled with a mixture of 20% C.W. in 80% chloropicrin, and lethal shells contain either mustard gas, phosgene, or D.A. Air bombs include the C-500 time bomb filled with mustard, the C-100P, C-40P, and C-15P filled with D.A. in high explosive, the small Spezzoni bomb, and the Furetto, as well as Irroratore bombs* for smoke liquid and mustard products.

b. Defense Equipment

A list of the authorized issue of antigas equipment besides

*Smoke curtain installation. G-8

CONFIDENTIAL

CONFIDENTIAL

showing the personal issue of a respirator to every individual, shows issues to various types of units. The materials consist of dry bleach, liver of sulphur, formalin, potassium permanganate, soda, antigas suits and gloves. The one notable point about the list is the very small issue of dry bleach, only 300 pounds per infantry battalion, or equivalent unit of other arms, which may be a confirmation of prior indications that supplies of bleach may be limited by the chlorine situation. It is possible that this is the reason why Italian antigas instructions lay emphasis on using sand, gravel, sawdust, leaves, dry gas, etc., for decontamination of ground.

CONFIDENTIAL

RESTRICTED

G-2/2657-220; No. 454 M.I.D., W.D. 12:00 M., July 30, 1941

SITUATION REPORTI. Eastern Theater.

Ground: No further information has been received from the Finnish or Leningrad front.

Fighting continues in the area to the north of Vitebsk centering around the towns of Velikiyeluki and Wovorshew. The major battle between Smolensk and Vyasma continues without a decision having as yet been reached.

In the southern Ukraine, Axis troops have advanced about twenty miles east of Balta.

Air: No change in the general situation.

II. Western Theater.

Air: Limited activity on both sides.

III. Mediterranean Theater.

No important ground or aerial activity. Normal harassing air raids continued.

RESTRICTED

SECRET

By authority A. G. of S., G-

Date AUG 2 1941

Initials

Paragraphs of Code Chablogon
Received at the War Department
at 13:53, July 30, 1941.

Cairo, filed 13:36, July 29, 1941.

The following recommendations are made:

1. That in the construction plans for temporary housing, to be used in the theater of operations, the amount of glass should be reduced to a minimum, because of personnel and the necessity for black out. The use of air-conditioning to provide smokeless heat and light-tight ventilation must be considered.
2. That a system of military police be initiated to provide an adequate guard over wrecked airplanes, within one hour after falling behind our lines. A great deal of very valuable information regarding Free French and German and Italian equipment has been lost to the British because of the looting of these airplanes.
3. That there be at least one 5 ton mobile crane, six trailers and about two hundred men with trucks and motorcycles, to form six mobile working parties, as a salvage unit for wrecked planes. Each combat group should be assigned one of these units and the trailers of the 6 mobile parties should be able to transport one completely disassembled airplane of the type assigned to the group. The unit should also be able to make repairs on large airplanes while in the field.
4. Pursuit squadrons should be increased to thirty airplanes so that eighteen will always be available for each mission. The allotment of airplanes in bombardment and attack squadrons should be increased proportionately so that twelve airplanes may be available for each mission.

SECRET

100-111111-100

SECRET

5. That there should be attached to each division, two pursuit squadrons and two attack aviation squadrons.

6. That experiments be undertaken to determine the value of using minor's type head lamps by airplane crews for night operations.

7. That an area into which troops are to be moved, be photographed, so that advantage may be taken of the existing ground forms in the advance and dispersal of such troops.

FELING

Distribution:

State Department
 Assistant Chief of Staff, G-2
 War Plans Division
 Office of Naval Intelligence
 G. H. C.
 Chief of the Army Air Forces
 Under Secretary of War
 Secretary of Treasury
 Deputy Chief of Staff
 Air Corps
 Assistant Chief of Staff, G-3

SECRET

+



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

July 30, 1941

My dear Mr. President:

There are attached tentative draft of a letter from the Treasury to you, draft of a paragraph to go in your letter to Chairman Doughton, and a memorandum of the examples of corporations escaping excess profits taxes. We will continue to work on this tonight and will have a finished letter tomorrow morning when the Secretary sees you.

Faithfully yours,

subBree

The President,

The White House.

This went to President 9.30 P.M.

84
original with
Pre's papers

DRAFT

July 30, 1941

My dear Mr. President:

You have asked me to indicate the position taken by the Treasury Department during the consideration of the present tax bill with regard to mandatory joint returns and the excess profits tax provision.

1. Mandatory joint tax returns. The Treasury indicated to the Ways and Means Committee its ^{conditional} approval of mandatory joint tax returns ^{the condition being that} ~~but only if~~ substantial relief is granted to earned ^{of both husband and wife} income. No relief is afforded by the provisions of this bill from the resulting increased tax in those cases where husband or wife contributes through his or her labor to the family income.

2. Excess profits tax. The Treasury has consistently taken the position that the excess profits tax should apply to profits in excess of a reasonable return on invested capital regardless of whether those profits are also greater than the profits of the preceding base period years. The pending bill exempts from the excess profits tax an amount of profit equal to the average profits of the base period years notwithstanding the fact that such profits may have been excessive.

~~Failure to apply the excess profits taxation to profits in excess of a reasonable return on invested capital is unfortunate~~

- 2 -

~~Some of the reasons for the Treasury's position are:~~

Some of the reasons for the Treasury's position are:

(a) The highly prosperous, well established corporation which has been making 30, 40, 50 per cent or more on its invested capital has a greater ability to pay taxes than a corporation which has been earning only 3, 4, or 5 per cent on its invested capital, even though the dollar incomes of the two companies are the same. Congress has established the principle of taxation in accordance with ability to pay in respect of individual incomes. The Treasury advocates the application of this principle to corporations as well as ^{if} individuals. Taxation of corporations in accordance with ability to pay calls for higher taxes on the profits of those corporations which have the higher rates of return.

(b) The corporation which has been making high returns in the base period years is given a competitive advantage over newly organized concerns or concerns which have been struggling to establish themselves. The latter corporations are limited to a much smaller rate of return free of excess profits tax than are the former. The effect is to confirm monopolies and to protect well established prosperous businesses against competition.

(c) If we are to expect all classes of society, including laborers and farmers, to accept the sacrifices of the emergency period and not to press for every possible dollar of advantage,

- 3 -

they must be convinced that burdens are being distributed according to ability to bear them and that no one is making unreasonably large profits. The imposition and enforcement of a true excess profits tax will help to prevent inflation.

Faithfully yours,

Acting Secretary of the Treasury

DRAFT OF PARAGRAPH TO GO IN THE PRESIDENT'S LETTER

The elimination of the provision for mandatory joint tax returns from the present bill would result in a loss of revenue of approximately \$ each year. In order to restore this loss of revenue through a reduction in the personal exemption it would be necessary to reduce the exemption of a married couple from the present \$2,000 to \$1,600 and that of a single person from the present \$800 to \$650, if no other changes are made in the bill.

In view of the additional number of returns which would be filed as a result of lowering these exemptions, taxpayers should be afforded the opportunity of filing a simple return with the local postmaster, who could be authorized by law to administer the necessary oath.

July 30, 1941.

C
O
P
Y

EXAMPLES OF CORPORATIONS ESCAPING
EXCESS PROFITS TAXES

The way in which the present law and the Committee's tentative plan leave exempt large amounts of excess profits is illustrated by the following actual examples.

A. After paying all taxes an automobile company made during the base period years of 1936 through 1939 approximately 25 per cent. Practically all (95 per cent) of this amount can be earned and yet be free from excess profits tax under the present law and under the Committee plan. In 1940 the earnings of this concern, after the payment of taxes, will be approximately 26 per cent of its invested capital, under the present law.

B. The earnings of a manufacturer of tractors with nearly \$50 million of invested capital averaged, after all taxes, approximately 18 per cent of invested capital during 1936-1939, which amount will be free of excess profits tax under the present law and the Committee's tentative plan.

C. Similarly a company which has practically a monopoly on one of the important Defense materials had earnings after taxes during the base period years averaging approximately 19 per cent of its 1940 invested capital, which it can continue to earn free of excess profits tax.

D. A large manufacturer of beverages can continue to earn

C
O
P
Y

89

- 2 -

free of excess profits tax over 25 per cent of its 1940 reported equity capital.

Thus, large amounts of the kind of profits which are commonly defined as excess profits and were taxed as such under the 1918 Act are free from excess profits tax under the present law and the Committee plan.

July 30, 1941

July 31, 1941
8:44 a.m.

Speaker
Rayburn:

Hello.

HMJr:

Well, I left Malone, New York, this morning at five-thirty.

R:

Yes.

HMJr:

I think I'm down to see the President at nine-thirty, follow in your footsteps.

R:

(Laughs.)

HMJr:

What have you been up to, you rascal?

R:

Well, I just - well, all I went down there and told the President was this. I think this thing's got family and political implications in it and everything like that. It's a damn dangerous thing.

HMJr:

Yeah.

R:

And all the married women and all the working women and all the Catholic priests and the Episcopalians.....

HMJr:

Yeah.

R:

.....they're all out against this thing.

HMJr:

I see.

R:

And I think it's going to raise hell if its put into the law; and if we knock it out now, there won't be a damn thing to it in the Senate. They'll never take it up over there. They'll go searching some place else and get the money.

HMJr:

Well now, last time I talked to you about taxes in November, you gave me good advice and I followed it.

R:

Yeah.

- 2 -

HMJr: Now.....

R: Well, I don't know it was his suggestion about making a suggestion to you about writing him a letter. I - my approach was in that he felt like making a statement himself or Steve making a statement. See?

HMJr: Yeah.

R: And he thought it better be dropped out and got somewhere else. And then he said, "Well, let's do it this way. I'll suggest that Henry write me a letter and then I'll transmit that to Bob Doughton with a letter."

Now, I don't know whether that's the way to do it or not, but that was his suggestion.

HMJr: Well, you remember last time whether he wanted to do that, I spoke to you and you said that he just had to see Doughton and Cooper first, and I told him that and he did it.

R: Yeah.

HMJr: Now, if he drops a letter into the lap of these fellows at noon today, what's going to happen?

R: Well, it may raise a little hell.

HMJr: What?

R: It might raise a little hell.

HMJr: Yeah. I hear that Doughton made a regular torch speech yesterday on this thing.

R: I didn't hear him. I was on the Chair, of course, and I had to be away.

HMJr: Yeah.

R: Made what kind of a speech?

- 3 -

HMJr: Well, I mean, you know - carrying the torch, they say.

R: Oh yeah.

HMJr: He was all.....

R: Yeah.

HMJr: Well.....

R: Well, you talk it over with him and see.....

HMJr: I.....

R: It's perfectly satisfactory to me now any way he does it. I just - I.....

HMJr: You just wanted him to.....

R: I just wanted him to know what I thought about it, politically and otherwise.

HMJr: You want it knocked out, huh?

R: I certainly do.

HMJr: Do you care what the substitute is?

R: No. I don't care whether there is any or not in the House bill. Let it go to the Senate. The Senate will never take this up. They can find it on lowering the base and they can find it on a little bit more excess profits on some of these guys that aren't paying much.

HMJr: I see.

R: That's the way I feel about it.

HMJr: Uh huh. Well.....

R: Well, you - now I tell you.....

HMJr: Yeah.

- 4 -

R: I just told him that

HMJr: Yeah.

R: He feels the same way I do about it - about this community thing.

HMJr: Then why the hell didn't he say so a long time ago that the boys could.....

R: God damned if I know where the thing - he raised the question - he said something about it last Monday morning.

HMJr: Yeah.

R: And I said nothing at the time - well, I might have said a little something and then I was sitting in here talking to a fellow the other night - great friend of mine - ex-member of Congress - and I called him up and went down there and he said, yes, he'd agree to that all over.

But now if he doesn't want to bombshell it or anything like that, why all right with me, but the only thing I can do is to make a statement and I made it. Then he said the - about the best way to do was to make an inquiry of you.

HMJr: Yeah.

R: And here's what Milton West just carried around there that - and he's got a case

joint returners have got enough to make them mad because Treasury, you know, indicated very strongly that they weren't going to recommend this at this time, and they didn't even have a hearing.

HMJr: Who's that?

R: This fellow didn't bring anybody here that was opposed to this.

- 5 -

HMJr: I see.

R: And because you either said somebody feels that there wasn't going to be advocated as far as this bill is concerned that probably would be taken up later.

HMJr: No. I'll tell you exactly what we did, Sam. About right at the end there, we said that the Treasury favored this provided there were exemptions for women who worked for a living, and that's all we did say.

R: Uh huh. Well, anyhow, they - Milton West and those fellows claim there's a plain indication that the committee wasn't going to take it up at all and they told their folks not to come.....

HMJr: Yeah.

R:and then when they got through with the hearings and went in Executive Session, why they socked them with this thing.

HMJr: Yeah. Well, I think that this justification - while they were voting and everything else, we just said the Treasury took no position.

R: Yeah.

HMJr: You see?

R: Oh sure.

HMJr: And then at the end they were kind of crowding us to say something, so right at the end.....

R: Well, you took no position. They didn't say that, that you took any position during the consideration of the amendments and so forth.

HMJr: Well, we didn't.

R: Yeah.

HMJr: And we stayed on the sidelines.

- 6 -

R: Yeah.

HMJr: But - well, I just wanted to know how the ground lay. I knew you'd tell me and.....

R: Well, that's exactly how it was. I went down there to talk to the President. I thought he ought to say something about it. I think it's a bad.....

HMJr: Well, I wish to hell - this has been in the papers for months, and I think it's just going to kill poor old Bob Doughton.

R: Well, don't do it that way then.

HMJr: And.....

R: You can call him and tell him he's sending him a letter or something.

HMJr: Well, if you could somehow soften the blow.

R: What?

HMJr: I say if the President could somehow soften.....

R: Sure, sure. I think you're right.

HMJr: Okay, Sam.....

R: You're a hundred percent right on that.

HMJr: I may want to see you later.

R: Oh, I get it.

HMJr: Thank you.

August 1, 1941
9:13 a.m.

HMJr: Hello.

Grace
Tully: Good morning, sir.

HMJr: How are you?

T: As I don't write notes to married men,
I thought I'd telephone you, by gosh.

HMJr: Oh, you're careful, huh?

T: (Laughs)

HMJr: What?

T: Yes, sir.

HMJr: I hope you haven't learned from experience.

T: No, not - not very serious.

HMJr: (Laughs)

T: (Laughs) Look, I - on the Doughton thing,
do you want to get the background of what
happened?

HMJr: Yes, because he's calling me every five
minutes.

T: Well, he said he was going to have a conference
with you this morning, he told me.

HMJr: Yes.

T: What happened was, he called last night and
he wanted to talk to the General, and the
General was gone and Steve was not there;
so I talked with him.

HMJr: Yeah.

T: And he said that he wants me to tell the

- 2 -

President that he had had his letter.....

HMJr: Yeah.

T:and with the - your letter, et cetera, and I said, "Yes, sir." And he said, "Well now, we - it's too late to do anything about two of those things....."

HMJr: Yeah.

T: "...and the bill is all ready to come out and under the rules we operate under, we couldn't include them anyway."

HMJr: Yeah.

T: And so I told the President that, and he said, "Well now, I don't know about this," and what I was trying to get out of him was whether he was going to release it or not.

HMJr: Yeah.

T: And so I said, he said, "Well, I don't know about this letter, et cetera." And I said, "Well, I tell you, Mr. Congressman, there are some people have copies of that letter."

HMJr: Yeah.

T: And he said, "Oh, who?"

HMJr: Yeah.

T: And I said, "Oh, well I know a few."

HMJr: Yeah.

T: I said, "The Speaker and Congressman Cooper and Senator George and there's a couple of others I don't remember."

HMJr: Yeah.

T: And there aren't any others at all, but if

- 3 -

he thought somebody on the outside besides the Congress had it, he might let it go before they did.

HMJr: Yeah.

T: And I said, "It's just a possibility that it might come out....."

HMJr: Yeah. Well, my.....

T: ".....since there are so many copies around."

HMJr:my hunch when I called you that he wouldn't let it out.

T: Well, I gathered very definitely he didn't want to.

HMJr: No. It was correct.

T: Yes. Oh, yes.

HMJr: Now, the thing that he's shunning for me to come this morning is.....

T: Yes.

HMJr:he wants me to tell them what to do with the letter.

T: Well, the President wants it out.

HMJr: Well, then it's perfectly safe for me to tell him to give it out.

T: Well, I tell you what the President now means - he doesn't seem to want to - he could give it out himself. He said, "Well -" Oh, I know what he asked me. That's how we got on the subject - "Did the White House release this letter?"

HMJr: Yeah.

T: And I said, "No, sir. We don't release letters addressed to you."

- 4 -

HMJr: Yeah.

T: In other words, it's up to you to release it.

HMJr: Yeah.

T: And then he came back and he said, "Well, I'm going to talk to Secretary Morgenthau. I'm going to have a conference with Secretary Morgenthau in the morning."

HMJr: Yeah.

T: And then I thought, well, maybe he's going to take it up then. But I tell you what - I told the President I got the very definite feeling, as you did, that he was going to bury it if he could.

HMJr: Yeah.

T: And he said, "Well, remind me to talk to Sam Rayburn tonight" - of course he had a copy.....

HMJr: Yeah.

T: ".....and in some way get it out."

HMJr: I.....

T: So I think the President did talk to Sam Rayburn, and perhaps Rayburn got ahold of Doughton last night and he may say that he's giving it out, I don't know what happened after that conversation.

HMJr: Well, would it do any harm for me to call up Sam?

T: No, if the President actually did.....

HMJr: Well.....

T: I haven't checked on that, but I can do that through my board. If the President spoke to him last night, it was about that.

- 5 -

HMJr: Oh, I see.

T: And then I'm sure that's what he told him.

HMJr: Right.

T: So do you want me to check that?

HMJr: Do you mind?

T: No.

HMJr: All right.

T: Then if you want to, you could call Sam Rayburn.

HMJr: That's right.

T: All right. Grand, Mr. Secretary.

HMJr: Do you want me to hold on?

T: Yeah. Will you flash your - will you flash my operator there?

HMJr: Yeah.

Operator: Yes, sir.

HMJr: Miss Tully wants her operator.

Operator: All right.
Hello.

HMJr: Yes.

Operator: I have Mr. Kelly here for you.

HMJr: Well, keep off. I'm waiting for Miss Tully.

Operator: All right, sir.

HMJr: She wants to talk to the White House, then speak to me again.

- 6 -

Operator: All right.

HMJr: Hello. Hello.

Operator: Did the White House Operator come in?

HMJr: No. Do they want me? She said she'd talk to me again.

Hello.

Operator: Yes.

HMJr: I'll hang up now. I'll wait till Miss Tully calls.

Operator: All right, I'll ring you back.

July 31, 1941
9:20 a.m.

HMJr: Hello. Bob?

Robert
Patterson: Henry?

HMJr: How are you?

P: I'm fine. How are you?

HMJr: Good. Bob, I tried to get Mr. Stimson,
but he's not available. What is the
situation on your bill about the draftees?
Where does it stand in Congress?

P: It is on the Floor of the Senate. You
mean the one year limit?

HMJr: Yes.

P: It's on the Floor of the Senate, and has
been approved by both Senate and House
Military Affairs Committees and is now in
debate in the Senate.

HMJr: It has not passed the House?

P: Not passed either.

HMJr: Is there any.....

P: A Congressman was just in and told me that
it would receive quite a hot fight on the
House.

HMJr: A hot fight?

P: From the Republicans. He said the Republicans
in the House Military Affairs Committee voted
almost solid against it. The vote was fifteen
to seven, which was pretty much a party vote.

HMJr: Bob, is there any particular significance in
August 1? I mean, if you don't get your bill
up?

P: No. No. That was a date selected, and it merely

- 2 -

meant based, that's all.

HMJr: Oh, I mean when.....

P: There isn't any - nothing will happen on August 1.

HMJr: Well, when will it - supposing Congress doesn't move. When do you have to begin to let the first draftees out?

P: About - the first draftees about November.

HMJr: Oh, not till November?

P: No. And the first National Guard in September.

HMJr: In September.

P: Yes.

HMJr: Well, when.....

P: National Guard in September.

HMJr: Well, why has everybody been saying you had to get the bill passed by August 1?

P: Well, they've got to know where they stand, Henry. You take, they've got National Guard fellows out in Hawaii.

HMJr: Yeah.

P: Well now, you've got to arrange for transports to go out there and bring them back.

HMJr: I see.

P: And new troops to go and take their place.

HMJr: Yeah.

P: It's just the uncertainty of it.....

HMJr: I see.

- 3 -

P:which is damaging to the morale and so on.

HMJr: I see.

P: There is no significance in the very day August 1.

HMJr: Well, that's what I wanted to find out.

P: No. They - I think General Marshall said August 1 just as a convenient day - quick - he meant we must have speed in this.

HMJr: How do you stand in the House on your bill?

P: On that bill?

HMJr: Yeah.

P: Well, I had thought that it was going to have clear sailing.

HMJr: I see.

P: McCormack and Rayburn got off poorly at first, you know.

HMJr: Yeah.

P: But they're all right now and they're going to make a good speech, I understand.

HMJr: I see.

P: I think that - I think we're all right in the main. The only trouble will be the Republican votes which - of course, Jim Wadsworth will carry probably twenty or thirty Republican votes for the bill.

HMJr: Yeah.

P: But otherwise, they're just hopeless.

HMJr: Okay.

- 4 -

P: All right.

HMJr: Thank you.

P: How are you?

HMJr: I'm fine. I just got in.

P: Where you been?

HMJr: I've been up at Malone. I left there at four-thirty this morning.

P: Malone, New York?

HMJr: Yeah.

P: What, fishing?

HMJr: Yeah.

P: Yeah. Good country.

HMJr: Yes. It's nice country.

P: All right. I hope to see you soon.

HMJr: Yes. That's mutual.

P: I called you up last Sunday up in Fishkill, but no answer.

HMJr: We were up at Malone.

P: Yeah. Well, I only called up to ask you to come down, but that was all.

HMJr: Oh.

P: To see a good county.

HMJr: Do it again.

P: All right, I will.

HMJr: All right.

P: Good-bye.

July 31, 1941
10:37 a.m.

Frank
Knox: Hello.

HMJr: Frank?

K: Yes, Henry.

HMJr: How are you?

K: Fine.

HMJr: Could I give you a little Treasury chow for lunch?

K: I've got a luncheon at the Willard, with all the Public Relations officers from all over the country coming in.

HMJr: Oh, I'm sorry.

K: So I'm going to be tied up. Sorry, Henry.

HMJr: Okay.

K: How about you coming down and having dinner with me on the Sequoia tonight?

HMJr: Well, I've got a couple of people that I invited for tonight. That's my trouble.

K: Who are they? Somebody I could entertain with you?

HMJr: A couple - they're Treasury boys, that's who they were. I mean, I've invited Foley and White, but I can put them off.

K: Well, why don't you do that. I'm free tonight and.....

HMJr: All right.

K:if you can get free, we'll have a nice, quiet dinner, just the two of us.

- 2 -

HMJr: I'd love to do that.

K: All right, then. We'll say come down there then about six-thirty?

HMJr: All right. I'll postpone them.....

K: All right, fine. Do that.

HMJr:and be down at your place about six-thirty.

K: Down at the Navy Yard, you know.

HMJr: I know.

K: Yeah. All right.

HMJr: I'd like to do that.

K: All right. Fine, Henry.

HMJr: Thank you.

K: Good-bye.

HMJr: Good-bye.

July 31, 1941
10:45 a.m.

RE EXCESS PROFITS TAX

Present: Mr. Brown
Mr. Kuhn
Mr. Sullivan
Mr. Foley
Mr. Blough
Mr. Bell

H.M.Jr: This part here, part two, in his own handwriting which I want back - you two men make notes (Mr. Kuhn and Mr. Blough). He has corrected number one. He says, "The Treasury indicated to the Ways and Means Committee its conditional approval of mandatory joint tax returns, the conditions being that substantial relief is simultaneously granted to earned income of both husband and wife."

He thinks that that is bad.

Now, on the excess profits on paragraph two, he said, "Try and simplify it and make it English," and what he means is this: "The Treasury has consistently taken the position that the excess profits tax should apply to profits in excess of reasonable returns on invested capital regardless of whether those profits also exceed the profits of the base period years." He says, "Nobody that doesn't sit on the Committee knows what base period years is."

- 2 -

Blough: '36 to '39.

H.M.Jr: Well, he said, "Spell it out," just like I said - if you are talking about parity payments, no one knows what parity payments are, but he wants that part spelled out so that the man who doesn't sit on the Committee and the man on the street knows what you are talking about, you see.

He made one other correction here. Now, that is all. I will give you this. He has written a letter in which he says that he - that inasmuch as the Treasury's position is this in regard to this joint return business, the Committee has not taken our suggestion, you see, and therefore he is opposed to it as it is in the bill. It is all right. He is playing ball with us. You can't ask for anything fairer, as long as he has made up his mind. Then he is going to say about - that he talked with Doughton about excess profits, and they haven't followed his advice and our advice on that and therefore the companies are getting away and making profits in times like this when they shouldn't and then he says, "Third and last, I did not - " this is his letter to Doughton. I haven't seen it. It wasn't written. He says, "I have not discussed with you the question of lowering exemptions, but I feel that every man would be glad to make a contribution, a direct contribution toward national defense." Now he says, "You fellows can't understand simple arithmetic," and he says, "By dropping the thing from eight hundred to seven fifty -" then he is going to double it for the married man to fifteen hundred. He says, "After all, the married man, it oughtn't to cost him more than twice as much as for a single man to live." He would like seven fifty and fifteen hundred, but he is leaving us entirely out of the picture.

- 3 -

He is saying to Doughton, "I did not discuss this with you before." He is playing one hundred and one percent with the Treasury. You can't ask for anything better than that. He is determined. There is no use arguing with him. This is what he wants. He has changed since last night, you see. He is only against this joint return business because they haven't followed the Treasury's position.

Have you (Mr. Kuhn) been in on this?

Kuhn:

No.

H.M.Jr:

Now, in order not to waste any time, because he is going to call me, and I am not going to be - you two men (Mr. Kuhn and Mr. Blough) go and take this copy, which I would like to have back, and in this case - who is going to do the typing?

Blough:

I can have it done in my office.

H.M.Jr:

All right. There is the whole business.

Bell:

You see there were two drafts. I am afraid he got the wrong one.

H.M.Jr:

Here is my draft. I will put "H.M.Jr." on this.
He is in a grand humor.

Bell:

He didn't read this one.

H.M.Jr:

He said send you all his love and he is sorry he can't see you, and he said, "All right - " what?

Bell:

This letter was much improved over the one he had.

H.M.Jr:

He won't care. He wants it improved. The

- 4 -

Treasury letter?

Bell: Our letter that you had was much improved.

H.M.Jr: That is all right. The two of you go to work and make it - listen, so the newspaper reader can understand what it is all about. Just as soon as you are ready, the two of you come back and the jury of Bell, Foley, and Sullivan and Morgenthau will be waiting, but please hurry.

I am glad to have seen you. Oh, and the President wants a poem. I will tell you about it. I promised to have it read next week. It is a thing called "Islanders." Send for it. It was written in 1900.

Kuhn: You don't know by whom, do you?

H.M.Jr: He didn't know, but I have got the quotations. It is a British book, "The Islanders."

He is in a wonderful mood. The fellow is the President of the United States and he wants to do it this way.

Foley: He is determined all right, there is no doubt about that.

Bell: Yes, I guess you found that out, that he was determined.

H.M.Jr: And he is absolutely playing fair with us in the sense that he isn't coming out point blank. He is simply saying he is opposed to the thing because the Congress didn't follow us. (Laughter) He is saying in his letter that he didn't discuss the other proposal with Doughton.

Foley: That is right. He says we don't have to put it in our letter to him.

- 5 -

H.M.Jr: No.

Foley: And our letter to him is consistent with the position we have taken and all we are doing is reporting what we have said on the two matters before the Committee.

H.M.Jr: Are you going to use the example? I think we are in a perfect position. Now, Doughton wants to talk to me.

Foley: He isn't going to call him?

H.M.Jr: Oh, no, he is on the wire.

Foley: No, the President. He isn't going to talk to Doughton?

H.M.Jr: I don't know what I am going to say.

Bell: He knows you are in town, and he knows you came back for a purpose.

Foley: How does he know?

H.M.Jr: The newspapers had it.

July 31, 1941
10:55 a.m.

HMJr: Hello.

Robert
Doughton: Hello, Henry.

HMJr: How are you?

D: This is your honorable, obedient, obstreperous
servant.

HMJr: Well, the same to you. Ditto.

D: Thank you. How are you feeling?

HMJr: Well, I feel all right. I had a week's
rest and I feel like a new man.

D: Well, that's fine. I know you deserve it -
I know you were entitled to it, and I'm glad
you got it and got the benefit of it.

HMJr: Yeah.

D: We down here have so little to do we never
need any rest, you know.

HMJr: I know, you're hard working fellows.

D: We need more work.

HMJr: You need more work?

D: Yeah. (Laughs) Yeah.

What I called you about - I know you'll
pardon me - about the situation with respect
to this provision of bill 1011, the section
dealing with mandatory joint returns.

HMJr: Yes.

D: Now, you, of course, have kept up with and
know that we had agreed to modify our rule
so as to give them a separate vote in the
committee on that section.

- 2 -

HMJr: Yeah.

D: And that'll come up Monday.

HMJr: I see.

D: Now you - when you - Sullivan came down finally and made a statement presenting the views of the Treasury.....

HMJr: Yeah.

D:you gave us an endorsement with a condition.

HMJr: That's right.

D: And your condition was not approved by the committee. You know that.

HMJr: Sullivan so reported.

D: What's that?

HMJr: Sullivan reported that.

D: Yeah. Now, I was wondering what was the position of the Treasury as the matter now stands. We're going to have a devil of a fight on that.

HMJr: Well, we haven't changed any.

D: You haven't changed any?

HMJr: No.

D: You're still for it?

HMJr: With the condition.

D: Well, the condition's not in it.

HMJr: Well.....

D: And we can't get any members. Now what

- 3 -

about the position on taking care of it in the Senate? I just wanted to know.....

HMJr:

Oh.

D:

.....whether or not we were going to get any help from you people as it now stands.

HMJr:

Well, you're asking me a pretty important question and I'll have to think it over.

D:

Well, that's - you see, here's the situation. If you put that out, we're three hundred and twenty-nine million dollars short.

HMJr:

Yeah.

D:

And I don't know whether it will go through the Senate. Of course, in my opinion, I don't know of any other way that we could agree on. Of course, we couldn't get out, because if it was re-referred to the committee, why there we'd be maybe a week trying to agree on something, I think it'll go there that much short. I don't see any chance at all to make it up in the House. I don't know what they'd do in the Senate. It's what they did do whether or not we'd ever agree to it, you know.

HMJr:

Well.....

D:

If we could keep it in there, it would simplify our situation if we'd raise three and a half billion dollars which would build out the margin a little more - keep that in there.

HMJr:

Yeah.

D:

And, of course, I can't advise you about your position.

HMJr:

Yeah.

- 4 -

D: But we're picking a desperate fight trying to give him three and a half billion dollars, and we think we can get the three hundred and twenty-nine million there easier and less burden and less injustice to anybody than any other place under the sun we can get it. That's our conviction - not only our opinion, but our conviction. And I wish you'd think it over; and if you can give us some help, we'd greatly appreciate it.

HMJr: Well, I'll think it over; and if I can be of any help, I'll call you. But, I'm afraid I'm not going to be of any help.

D: Uh huh.

HMJr: But, let me think it over.

D: All right. Well, if you don't, why it'll be construed that you aren't against it; but that's your responsibility. That's not for me to suggest what you do about it.

HMJr: Well, I appreciate your courtesy and friendship in calling, and.....

D: Yes.

HMJr:and don't forget, no matter what happens, I'm your friend.

D: Well, I'll be your friend forever; there's no question about that. No separating our friendship. We may not just agree about some detailed legislation. We're trying - we're both striving for the same goal.....

HMJr: Yeah.

D:and our friendship is unbreakable.

HMJr: Yeah. Well, that's the way I feel, Bob.

- 5 -

D: All right. Thank you, Henry.

HMJr: Good-bye.

C
O
P
Y

July 31, 1941

My dear Mr. President:

You have asked me to indicate the position taken by the Treasury Department during the consideration of the present tax bill with regard to (1) the mandatory joint tax returns provision, and (2) the excess profits tax provision.

1. Mandatory joint tax returns. The Treasury indicated to the Ways and Means Committee, that it would approve the provision for mandatory joint tax returns if substantial relief was granted to earned income. No substantial relief is afforded by the provisions of the pending bill from the resulting increased tax in those cases where husband and wife contribute through their labor to the family income. Therefore, in this important respect the pending bill is inconsistent with the Treasury's suggestion.

2. Excess profits tax. The Treasury has consistently adhered to the position that the excess profits tax should apply to profits in excess of a reasonable return on invested capital. In general, the pending bill exempts from the excess profits tax an amount of profit equal to 95 per cent of the average profits of the base period notwithstanding the fact that such profits may be in excess of a reasonable return.

(This draft went to the Secretary 7/31/41 morning--using it, with pencilled corrections,--final was typed.) This draft prepared by Messrs. Bell, Foley, Blough, Sullivan and Kades.

- 2 -

Some of the reasons for the Treasury's position are:

(a) The highly prosperous, well established corporation which has been making 30, 40, 50 per cent or more on its invested capital has a greater ability to pay taxes than a corporation which has been earning only 3, 4, or 5 per cent on its invested capital, even though the dollar incomes of the two companies are the same. Congress has established the principle of taxation in accordance with ability to pay so far as individual income, estate and gift taxes are concerned. The Treasury advocates the application of this principle also to corporation taxes. Taxation of corporations in accordance with ability to pay calls for higher taxes on the profits of those corporations which have the higher rates of return on invested capital.

(b) The corporation which has been making a high rate of return in the base period is given, by the existing law, a competitive advantage over newly organized concerns or those struggling to establish themselves. The former corporations are given a much greater rate of return free of excess profits tax than are the latter. The effect is to confirm monopolies and to protect well established prosperous businesses against competition.

- 3 -

(c) If we are to avoid those conditions which lead to inflationary price rises, all must make sacrifices during this emergency, and none should be allowed to take advantage of the situation. With this in mind we should endeavor to distribute burdens according to the ability to bear them and we should prevent unreasonably large profits.

Faithfully yours,

The President,

The White House.

DRAFT OF PARAGRAPH TO GO IN THE PRESIDENT'S LETTER

The elimination of the provision for mandatory joint tax returns from the present bill would result in an annual loss of revenue of approximately \$300 million. In order to restore this loss of revenue through a reduction in the personal exemption it would be necessary to reduce the exemption of a married couple from the present \$2,000 to \$1,600 and that of a single person from the present \$800 to \$650 if no other changes are made in the bill.

In view of the additional number of returns which would be filed as a result of lowering these exemptions, taxpayers with small incomes and simple returns might be afforded the opportunity of filing their returns with the local postmaster, who could be authorized by law to administer the required oath.

July 31, 1941

EXAMPLES OF CORPORATIONS ESCAPING

EXCESS PROFITS TAXES

132

The way in which the present law and the Committee's tentative plan leave exempt large amounts of excess profits is illustrated by the following actual examples.

A. After paying all taxes an automobile company made during the base period years of 1936 through 1939 approximately 25 per cent. Practically all (95 per cent) of this amount can be earned and yet be free from excess profits tax under the present law and under the Committee plan. In 1940 the earnings of this concern, after the payment of taxes, will be approximately 26 per cent of its invested capital, under the present law.

B. The earnings of a manufacturer of tractors with nearly \$50 million of invested capital averaged, after all taxes, approximately 16 per cent of invested capital during 1936-1939, which amount will be free of excess profits tax under the present law and the Committee's tentative plan.

C. Similarly a company which has practically a monopoly on one of the important Defense materials had earnings after taxes during the base period years averaging approximately 19 per cent of its 1940 invested capital, which it can continue to earn free of excess profits tax.

D. A large manufacturer of beverages can continue to earn free of excess profits tax over 25 per cent of its 1940 reported equity capital.

Thus, large amounts of the kind of profits which are commonly defined as excess profits and were taxed as such under the 1918 Act are free from excess profits tax under the present law and the Committee plan.

July 31, 1941

My dear Mr. President:

You have asked me to indicate the position taken by the Treasury Department during the consideration of the present tax bill with regard to (1) the mandatory joint tax returns provision, and (2) the excess profits tax provision.

1. Mandatory joint tax returns. The Treasury indicated to the Ways and Means Committee its conditional approval of mandatory joint tax returns, the condition being that substantial relief is simultaneously granted to earned income of both husband and wife. No substantial relief is afforded by the provisions of the pending bill from the resulting increased tax in those cases where husband and wife contribute through their labor to the family income. Therefore, in this important respect the pending bill is inconsistent with the Treasury's suggestion.

2. Excess profits tax. The Treasury has consistently adhered to the position that the excess profits tax should apply to profits in excess of a reasonable return on invested capital. Many corporations between 1936 and 1939 (the base period) earned average profits far in excess of a reasonable normal return. Nevertheless, the pending bill exempts all such

7/31 final — revised (by Kuhn & Blough)
from the 8130 memo. Secy took to
White House at 2 P.M.

FILE COPY

- 2 -

earnings from excess profits taxation unless they are more than 95 percent of the average profits earned in the 1936 to 1939 period. Therefore, in another important respect the pending bill is inconsistent with the Treasury's clearly announced purpose.

Some of the reasons for the Treasury's position are:

(a) The highly prosperous, well established corporation which has been making 30, 40, 50 percent or more on its invested capital has a greater ability to pay taxes than a corporation which has been earning only 3, 4, or 5 percent on its invested capital, even though the dollar income of the two companies are the same. Congress has established the principle of taxation in accordance with ability to pay so far as individual income, estate and gift taxes are concerned. The Treasury advocates the application of this principle to corporations as well as to individuals. Taxation of corporations in accordance with ability to pay calls for higher taxes on the profits of those corporations which have the higher rates of return on invested capital.

(b) The corporation which has been making a high rate of return in the period from 1936 to 1939 is given, by the existing law, a competitive advantage over newly organized concerns or those struggling to establish themselves. The

FILE COPY

- 3 -

older corporations which have been earning high profits are given a much greater rate of return free of excess profits tax than are their newer competitors. The effect is to confirm monopolies and to protect well established prosperous businesses against competition.

(c) If we are to expect all classes of society, including laborers and farmers, to accept the sacrifices of the emergency period and not to press for every possible dollar of advantage, they must be convinced that burdens are being distributed according to ability to bear them and that no one is making unreasonably large profits. The imposition and enforcement of a true excess profits tax will thus help to prevent inflation.

Faithfully yours,

Secretary of the Treasury

The President

The White House

FILE COPY

July 31, 1941
11:45 a.m.

RE EXCESS PROFITS TAX

Present: Mr. Bell
Mr. Foley
Mr. Sullivan
Mr. Blough
Mr. Kuhn

H.M.Jr: Should I read this?

Kuhn: It is all the same except - it is all the same,
Roy, isn't it, from there down?

Blough: Well, we went back --

Foley: Base period, where is that?

Kuhn: We changed the base period at the end of page
two.

Bell: Why shouldn't we put in parentheses, "after
thirty-nine", the base period, from thirty-
six to thirty-nine?

H.M.Jr: Where is that, Dan?

Bell: At the bottom of page one.

H.M.Jr: You would say what?

Bell: "Many corporations", the preceding sentence,
"between 1936 and 1939", and then in parentheses,
"base period".

- 2 -

H.M.Jr: I think that would be good if we had time to do it over. Why can't I just put this in in ink?

Bell: What is your deadline?

H.M.Jr: In brackets?

Blough: In parentheses, yes.

H.M.Jr: The 1936 to 1939 --

Bell: Parentheses, the base period.

H.M.Jr: Now, if we have time, we can do that one page over. I don't know what is the matter with the ink?

Bell: It is all right.

Blough: If there is no more than that, I should think it would be all right.

Bell: The chances are he won't send the original anyway. He will send a copy.

H.M.Jr: What else is there? I just want to read this over. "Not to press for every possible dollar of advantage".

Kuhn: That was in the part the President approved.

Blough: We went back from the second paragraph to the first one. I think it was eliminated as stronger than the President would take, and he took it, so we thought we would go back to it.

H.M.Jr: You kind of throw that in as an after thought, "will help to prevent inflation".

- 3 -

Kuhn: "Would thus help to prevent inflation."

Bell: That is what bothered us last night. Two things bothered us. One was the last sentence. We re-wrote that whole sentence. He approved that, you think?

Blough: He didn't change it.

H.M.Jr: I like that farmers business but I just question that last sentence.

Supposing we put the last sentence at the beginning of C.

Well, "excess profits is going to prevent inflation," that alone --

Bell: Going to help, that is what we had in there.

Kuhn: Isn't that the real argument for a true excess profits tax now, that it will induce labor and farmers to accept whatever limitations you want to put on them?

H.M.Jr: Then if you do, I would put the sentence up at the beginning of this paragraph. What?

Sullivan: I like it where it is, sir. I hadn't seen this before.

H.M.Jr: No. You haven't seen it?

Sullivan: No, I mean this new draft.

H.M.Jr: There is nothing new about this, is there?

Bell: Yes.

Sullivan: This last sentence.

Bell: This was the first draft last night that Foley drew up.

- 4 -

- H.M.Jr: But these boys didn't throw that sentence in, did they?
- Kuhn: Only the word "thus".
- Bell: John didn't see the draft last night. When he got back it was entirely different.
- Blough: That last paragraph, except for the word "thus" is the paragraph that went to the President and which he read.
- H.M.Jr: All except the last paragraph?
- Blough: Except the word "thus".
- H.M.Jr: Well, I would personally like to see that sentence up at the beginning of (c).
- Bell: I am afraid there will be some criticism on the farmers because I don't think there is any inclination to ask or expect the laborers and farmers to go along.
- H.M.Jr: I am glad to see it.
- Kuhn: Dan, the President said so in his message yesterday.
- Bell: But we have allowed a lot of wage increases, and allowed them to run wild, and the farmers only now have passed a bill that they can't sell surplus crops.
- H.M.Jr: Will you make it a (d) and make it a separate paragraph?
- Blough: That is the heart of (c), Mr. Secretary.
- H.M.Jr: Do you agree to that?

- 5 -

Kuhn: Yes, I think that sentence about inflation is your whip at the end of the letter which gives a bigger justification for what you are doing.

H.M.Jr: All right. They are all inflation minded around here. Now what we do is, I will keep this bird in hand. Now, you can do this base period thing over. Good. Now, where is the examples and all that? He gave me everything back, you see.

Blough: Right here, sir. Here is the - what went to the President last night, and here is his handwriting. That includes the examples.

H.M.Jr: This went to the President last night?

Blough: Yes.

Bell: Does that include the examples, Roy, did you say?

Blough: Yes. In addition, you have another sheet typed.

H.M.Jr: This is dated the thirtieth, so that is clear enough, isn't it? What time did this go to the President?

Bell: Nine thirty, wasn't it?

Foley: About nine thirty.

Bell: Nine fifteen or nine thirty, something like that.

Blough: This went to the Secretary this morning.

H.M.Jr: Now, what else?

Blough: That is all that went to him.

- 6 -

H.M.Jr: Couldn't I have an extra set of examples?

Bell: That, you mean, "oy, that is the way it went to him?"

Blough: Yes. Here is a carbon copy. We had an original copy, but we will do that over.

H.M.Jr: What is that?

Blough: This is a set of examples.

H.M.Jr: What you can do, I will try to find out when he is going to want to see me, before lunch or after lunch.

(Secretary on White House phone.)

I hear if you want to get to the President in "Look" you have got to know the voice. Have you seen that?.....

You have got to know the business.....

Is Grace busy, the voice that knows him

Grace, according to "Look" it says that Miss LeHand doesn't go out nights. Does that apply to you, too? (Laughter)

Well, I just wanted to know where I

No, it talks about Miss LeHand, but it doesn't say anything about you. All right

Yes

No

I saw the President this morning

- 7 -

I got left up - left up there at five twenty-five this morning. I got up at four, just as you were going to bed.....

And he said that you were to type that thing this morning and he said when he had that I was to come over with a re-draft of the one that we had done.....

Well, what I wondered was if he wouldn't want to see me right after lunch, or does he rest.....

Well, would you mind finding out and letting me.....

Just before lunch.....

Right, and you let me know. Thank you.....

H.M.Jr:

She gave it to him just a little while ago and he said he wanted to see me. He didn't say when, but she will now ask him.

Well, there we are. I will keep this on my desk, and as long as you have got it typed I think it would be nice to sort of keep this set together, you see, and I will have them both like this. You get busy, you see, giving me the complete set to take to him.

Bell:

Do you want the letter we gave you this morning, the one that went to the White House, for your files?

H.M.Jr:

For the files, yes. I will say to the President, "Here is what we gave you last night, here is the re-draft, and here is the complete," you see.

Blough:

Then you want another ribbon run so that you will also have the complete set of those papers?

- 8 -

H.M.Jr: That is right.

Blough: And do you wish also - well, you will wish that for the files, but for now this is all you want?

H.M.Jr: For now goodbye.

Bell: When do you want the first sheet re-written?

H.M.Jr: Now. But I am keeping it here. Blough will do it from the copy.

July 31, 1941

My dear Mr. President:

You have asked me to indicate the position taken by the Treasury Department during the consideration of the present tax bill with regard to (1) the mandatory joint tax returns provision, and (2) the excess profits tax provision.

1. Mandatory joint tax returns. The Treasury indicated to the Ways and Means Committee its conditional approval of mandatory joint tax returns, the condition being that substantial relief is simultaneously granted to earned income of both husband and wife. No substantial relief is afforded by the provisions of the pending bill from the resulting increased tax in those cases where husband and wife contribute through their labor to the family income. Therefore, in this important respect the pending bill is inconsistent with the Treasury's suggestion.

2. Excess profits tax. The Treasury has consistently adhered to the position that the excess profits tax should apply to profits in excess of a reasonable return on invested capital. Many corporations between 1936 and 1939 earned average profits far in excess of a reasonable normal return. Nevertheless, the pending bill exempts all such

- 2 -

earnings from excess profits taxation unless they are more than 95 percent of the average profits earned in the 1936 to 1939 period. Therefore, in another important respect the pending bill is inconsistent with the Treasury's clearly announced purpose.

Some of the reasons for the Treasury's position are:

(a) The highly prosperous, well established corporation which has been making 30, 40, 50 percent or more on its invested capital has a greater ability to pay taxes than a corporation which has been earning only 3, 4, or 5 percent on its invested capital, even though the dollar income of the two companies are the same. Congress has established the principle of taxation in accordance with ability to pay so far as individual income, estate and gift taxes are concerned. The Treasury advocates the application of this principle to corporations as well as to individuals. Taxation of corporations in accordance with ability to pay calls for higher taxes on the profits of those corporations which have the higher rates of return on invested capital.

(b) The corporation which has been making a high rate of return in the period from 1936 to 1939 is given, by the existing law, a competitive advantage over newly organized concerns or those struggling to establish themselves. The

- 3 -

older corporations which have been earning high profits are given a much greater rate of return free of excess profits tax than are their newer competitors. The effect is to confirm monopolies and to protect well established prosperous businesses against competition.

(c) If we are to expect all classes of society, including laborers and farmers, to accept the sacrifices of the emergency period and not to press for every possible dollar of advantage, they must be convinced that burdens are being distributed according to ability to bear them and that no one is making unreasonably large profits. The imposition and enforcement of a true excess profits tax will thus help to prevent inflation.

Faithfully yours,

Secretary of the Treasury

The President

The White House

July 31, 1941

The President gave this to me, when I saw him for the second time today at 2 o'clock. I was there for half an hour. He read me his letter he is sending to Congress. He is making a few changes. I thought it was a very good letter.

July 31, 1941

C
O
P
Y

My dear Mr. President:

You have asked me to indicate the position taken by the Treasury Department during the consideration of the present tax bill with regard to (1) the mandatory joint tax returns provision, and (2) the excess profits tax provision.

1. Mandatory joint tax returns. The Treasury indicated to the Ways and Means Committee its conditional approval of mandatory joint tax returns, the condition being that substantial relief is simultaneously granted to earned income of both husband and wife. No substantial relief is afforded by the provisions of the pending bill from the resulting increased tax in those cases where husband and wife contribute through their labor to the family income. Therefore, in this important respect the pending bill is inconsistent with the Treasury's suggestion.

2. Excess profits tax. The Treasury has consistently adhered to the position that the excess profits tax should apply to profits in excess of a reasonable return on invested capital. Many corporations between 1936 and 1939 (the base period) earned average profits far in excess of a reasonable normal return. Nevertheless, the pending bill exempts all such

Final draft-used at 2 PM-7/31/41

- 2 -

earnings from excess profits taxation unless they are more than 95 percent of the average profits earned in the 1936 to 1939 period. Therefore, in another important respect the pending bill is inconsistent with the Treasury's clearly announced purpose.

Some of the reasons for the Treasury's position are:

(a) The highly prosperous, well established corporation which has been making 30, 40, 50 percent or more on its invested capital has a greater ability to pay taxes than a corporation which has been earning only 3, 4, or 5 percent on its invested capital, even though the dollar incomes of the two companies are the same. Congress has established the principle of taxation in accordance with ability to pay so far as individual income, estate and gift taxes are concerned. The Treasury advocates the application of this principle to corporations as well as to individuals. Taxation of corporations in accordance with ability to pay calls for higher taxes on the profits of those corporations which have the higher rates of return on invested capital.

(b) The corporation which has been making a high rate of return in the period from 1936 to 1939 is given, by the existing law, a competitive advantage over newly organized concerns or those struggling to establish themselves. The

- 3 -

older corporations which have been earning high profits are given a much greater rate of return free of excess profits tax than are their newer competitors. The effect is to confirm monopolies and to protect well established prosperous businesses against competition.

(c) If we are to expect all classes of society, including laborers and farmers, to accept the sacrifices of the emergency period and not to press for every possible dollar of advantage, they must be convinced that burdens are being distributed according to ability to bear them and that no one is making unreasonably large profits. The imposition and enforcement of a true excess profits tax will thus help to prevent inflation.

Faithfully yours,

Secretary of the Treasury

The President

The White House

see reply of 8/2/41

July 31, 1941.

My dear Bob:-

Because of some uncertainties which seem to have developed in regard to the position of the Treasury Department in regard to some provisions in the Tax Bill as reported out by the Ways and Means Committee, I asked the Treasury Department for a clarifying letter, and I think it is only fair to send this to you. I enclose a copy of Secretary Morgenthau's letter to me and also an appendix showing examples of corporations which would largely escape excess profits taxes under the bill.

I am sure that I make it clear that the Treasury Department does not approve of mandatory joint tax returns except on the condition of granting substantial relief to earned income of the husband and wife. In this I heartily concur. But the Committee draft leaves out the proviso altogether.

You and Jere Cooper have talked over the problem of the excess profits tax in its relationship to the omission in the bill of application of this tax to certain types of corporations. These corporations may be making 20 or 30 or 50% on their equity capital. It is my definite opinion that they ought to contribute to the cost of our great defense program far more heavily this year than last year or the year before. But just because they happened to have made equally large profits in recent years, they are called on to contribute no more to the national defense under the proposed bill than they did before. That seems to me clearly a discrimination in their favor.

There is one other subject which I did not have a chance to talk with you about. It relates to lowering the exemptions in the lower brackets. I know that very few tax experts agree with me but I still think that some way ought to be found by which the exemption of a single person should be reduced to \$750.00, with a provision for a straight simple payment of some small contribution to the national tax income through some simple agency and on some simple form.

-2-

In the same way I think that the married exemption should be reduced to \$1,500.00, again with a simple method of paying the tax through a simple agency and on a simple form.

Further, I am convinced that the overwhelming majority of our citizens want to contribute something directly to our defense and that most of them would rather do it with their eyes open than do it through a general sales tax or through a multiplication of what we have known as "nuisance taxes". In other words, most Americans who are in the lowest income brackets are willing and proud to chip in directly even if their individual contributions are very small in terms of dollars. After all, the majority of all Americans are in these lowest brackets.

One other thought. Perhaps your Committee will think it worthwhile to study the filing of low income returns through the machinery of the Post Offices. This will undoubtedly save a good deal of the cost of collection under the present system. These simple returns could be sworn to before the local Postmaster who, of course, would have to be authorized to administer the necessary oath.

Very sincerely yours,

Honorable Robert L. Doughton,
Chairman, Ways and Means Committee,
House of Representatives,
Washington, D. C.

THE SECRETARY OF THE TREASURY
WASHINGTON

July 31, 1941

My dear Mr. President:

You have asked me to indicate the position taken by the Treasury Department during the consideration of the present tax bill with regard to (1) the mandatory joint tax returns provision, and (2) the excess profits tax provision.

1. Mandatory joint tax returns. The Treasury indicated to the Ways and Means Committee its conditional approval of mandatory joint tax returns, the condition being that substantial relief is simultaneously granted to earned income of both husband and wife. No substantial relief is afforded by the provisions of the pending bill from the resulting increased tax in those cases where husband and wife contribute through their labor to the family income. Therefore, in this important respect the pending bill is inconsistent with the Treasury's suggestion.

2. Excess Profits Tax. The Treasury has consistently adhered to the position that the excess profits tax should apply to profits in excess of a reasonable return on invested capital. Many corporations between 1936 and 1939 (the base period) earned average profits far in excess of a reasonable normal return. Nevertheless, the pending bill exempts all such earnings from excess profits taxation unless they are more than 95 percent of the average profits earned in the 1936 to 1939 period. Therefore, in another important respect the pending bill is inconsistent with the Treasury's clearly announced purpose.

Some of the reasons for the Treasury's position are:

(a) The highly prosperous, well established corporation which has been making 30, 40, 50 percent or more on its invested capital has a greater ability to pay taxes than a corporation which has been earning only 3, 4, or 5 percent on its invested capital, even though the dollar incomes of the two companies are the same. Congress has established the principle of taxation in accordance with ability to pay so far as individual income, estate and gift taxes are concerned. The Treasury advocates the application of this principle to corporations as well as to individuals. Taxation of corporations in accordance with ability to pay calls for higher taxes on the profits of those corporations which have the higher rates of return on invested capital.

- 2 -

(b) The corporation which has been making a high rate of return in the period from 1936 to 1939 is given, by the existing law, a competitive advantage over newly organized concerns or those struggling to establish themselves. The older corporations which have been earning high profits are given a much greater rate of return free of excess profits tax than are their newer competitors. The effect is to confirm monopolies and to protect well established prosperous businesses against competition.

(c) If we are to expect all classes of society, including laborers and farmers, to accept the sacrifices of the emergency period and not to press for every possible dollar of advantage, they must be convinced that burdens are being distributed according to ability to bear them and that no one is making unreasonably large profits. The imposition and enforcement of a true excess profits tax will thus help to prevent inflation.

Faithfully yours,

s/ Henry Morgenthau, Jr.

Secretary of the Treasury

The President

The White House

EXAMPLES OF CORPORATIONS ESCAPING

EXCESS PROFITS TAXES

The way in which the present law and the Committee's tentative plan leave exempt large amounts of excess profits is illustrated by the following actual examples.

A. After paying all taxes an automobile company made during the base period years of 1936 through 1939 approximately 25 per cent. Practically all (95 percent) of this amount can be earned and yet be free from excess profits tax under the present law and under the Committee plan. In 1940 the earnings of this concern, after the payment of taxes, will be approximately 26 percent of its invested capital, under the present law.

B. The earnings of a manufacturer of tractors with nearly \$50 million of invested capital averaged, after all taxes, approximately 18 percent of invested capital during 1936-1939, which amount will be free of excess profits tax under the present law and the Committee's tentative plan.

C. Similarly a company which has practically a monopoly on one of the important Defense materials had earnings after taxes during the base period years averaging approximately 19 percent of its 1940 invested capital, which it can continue to earn free of excess profits tax.

D. A large manufacturer of beverages can continue to earn free of excess profits tax over 25 percent of its 1940 reported equity capital.

Thus, large amounts of the kind of profits which are commonly defined as excess profits and were taxed as such under the 1918 Act are free from excess profits tax under the present law and the Committee plan.

July 30, 1941

HOUSE OF REPRESENTATIVES

WASHINGTON, D. C.

August 2, 1941

My dear Mr. President:

I was very greatly surprised to receive your letter of July 31, criticizing certain features of the pending tax bill, which our Committee has recently reported to the House after more than three months of most careful deliberation and study. The matters discussed in your letter have all received our most careful consideration.

After receiving your letter, I called a meeting of the Committee for ten o'clock this morning and at that time I laid before it the contents of your letter. Each of the three items mentioned by you were again discussed. Then, by decisive majorities the Committee voted to reaffirm the action previously taken with respect to each of them and instructed me to so advise you with the reasons therefor.

As to mandatory joint returns, we are pleased to learn that you, as well as the Treasury, approve of it in principle. Our whole desire was to place the family upon an equitable basis from a tax standpoint and remove the admitted evil of tax avoidance. The existing law permits a rank discrimination in levying different taxes upon two married couples enjoying equal incomes, merely because in one case the income belonged wholly to one spouse and in the other, to both. This has been recognized by the Treasury as an evil for many years and mandatory joint returns have been suggested by the Treasury on many occasions, without qualification, to remedy this situation.

While the Treasury gave belated approval to mandatory joint returns in the pending bill, such approval was qualified upon the condition that we continue this inequitable feature of existing law as to earned income. After careful consideration of the Treasury qualification, the Committee was unable to see any logic in favoring a family in which both spouses earned the income, as against a family where one spouse earned the entire amount for the support of the family. That was the controlling reason why the Committee almost unanimously rejected the Treasury qualification. It was against extending special earned income relief to a family in which both spouses contributed to the income. I would be surprised if anyone would be in favor of penalizing the family in which the husband is the sole bread-winner in favor of the family where the wife also draws a salary. Yet this is exactly what the Treasury qualification would have accomplished if we had permitted it to be incorporated in our bill. The mandatory joint return proposal of the pending bill will not only remove the inequities and close some of the most glaring income tax loopholes of existing law which are especially pronounced in the community property states, but it will also result in the Government securing additional revenue of more than \$300,000,000, which in our judgment could not be raised from any other source with so little burden or hardship.

Referring to the excess profits tax proposal of your letter, our Committee recognized that there are differences of opinion as to the proper base for measuring excess profits. This question was thoroughly discussed before the excess profits tax was enacted last year by the Committee on Ways and Means, the Committee on Finance, and the Congress. It was again fully discussed this year, when the Treasury urged the same proposal, which the Congress had decisively rejected in 1940, and extensive hearings were again held on this subject. Following the hearings, our Committee again refused to adopt this proposal of the Treasury. As a result of your recent conference with Mr. Cooper and myself, I again brought the matter before the Committee. After carefully reviewing the subject in the light of our discussion with you, which was fully reported by us to our colleagues, the Committee again overwhelmingly rejected the Treasury proposal.

While a corporation's return on invested capital may seem large in some instances, and this is especially true in the case of a business, which has grown from a humble beginning, it does not follow that such a corporation has realized excess profits. The difficulty is that experience has shown that invested capital is not a proper base for measuring excess profits in many cases. Our studies and the overwhelming testimony of witnesses before our Committee has convinced us of the undesirability and inequity of measuring excess profits by the sole standard of invested capital. The experience of this method in the last World War and its abandonment by foreign countries show that it does not determine the excessiveness of profits even reasonably well.

The major objections to this form of taxation are set forth on pages 23 and 24 of our Committee Report.

I feel that no one would be inclined to favor the corporation which had retained its earnings over a long period of time, as against the corporation which distributed its earnings and thereby permitted the Government to secure the individual normal and surtaxes on such earnings. Or to favor the company which by chance was incorporated in a year of high values, as compared with a company organized in a year of low values. Or to conclude that the present shareholders of a corporation have realized an excess profit on what the original shareholders paid for their stock. Or not to give recognition to factors of personal efficiency as well as capital in determining the measure of excess profits. Yet it was demonstrated to our Committee that not only these but other inequities existed under a straight invested capital method, which would prevent such an excess profits tax from operating fairly on the basis of ability to pay. To punish the small corporation in favor of the heavy or overcapitalized corporations would punish conservative corporation finance and reward stock-watering. It would put a penalty on brains, energy and enterprise, and confirm old ventures in their monopolies.

Our Committee believes that the excess profits tax plan in the pending bill is the fairest which could be devised. Under the existing law, the excess profits tax was estimated to yield for the calendar year 1941, the amount of \$1,085,400,000. An additional amount of \$1,198,300,000 is estimated from this source under the bill, making a total yield of \$2,284,700,000 from the excess profits tax. When it is considered that this is the first year in which the defense program has been in full operation, it is believed that we have provided a very effective excess profits tax for preventing the retention of unreasonable profits from the defense program. In fact, if we had followed the original recommendations of the Treasury, we would have secured only \$400,000,000 additional revenue from the excess profits tax, and if we had followed their revised proposal, we would have secured only \$716,800,000 from the excess profits tax.

In regard to personal exemptions, there were several members of the Committee, including myself, who were inclined to look with favor on broadening the tax base by reducing the personal exemptions allowed single and married persons. However, the Treasury representatives in their appearance before our Committee were strenuously opposed to any reduction in personal exemptions, citing the rising cost of living and the burden of hidden taxes on persons in the low income groups to justify their view. Undoubtedly, this position of the Treasury had some influence upon our action. I am surprised to learn that your views are antagonistic to those expressed so emphatically by the Treasury as the representative of the administration. The Committee at times found it impossible during the course of its hearings to reconcile the testimony of different officials representing the administration.

With respect to that part of your letter relating to hidden taxes, the Committee bill more nearly conforms to the views expressed by you than the recommendation made by the Treasury Department to our Committee.

The Treasury recommended that the Committee levy \$1,248,900,000 from this source. The bill, as reported by our Committee recommends only \$860,100,000 be collected from excises and other miscellaneous sources, and \$160,800,000 of that amount can in no way be termed or classed as a hidden tax.

I submit to you, Mr. President, the record of our Committee, as well as that of myself, for the past eight years as evidence of our desire to cooperate with you and the representatives of your administration to the fullest extent consistent with the proper discharge of our solemn obligations.

Nothing in this letter is intended as a defense of or an apology for the action, which we have taken, but only as an explanation, so that you and the Country may understand some of the reasons for our conclusions.

With great respect, I am

Sincerely yours,

R. L. Doughton.

The President,

The White House.

I N F O R M A T I O N D I G E S T

THE PRESIDENT

President Roosevelt, by Executive Order, established an Economic Defense Board consisting of Vice President Wallace, as Chairman, the Secretary of State, Secretary of the Treasury, Secretary of War, the Attorney General, Secretary of the Navy, Secretary of Agriculture, Secretary of Commerce, and such additional members as the Chairman, with the approval of the President, shall appoint.

The President said the Board shall be concerned with "the conduct, in the interest of national defense, of international economic activities including those relating to exports, imports, the acquisition and disposition of materials and commodities from foreign countries including preclusive buying, transactions in foreign exchange and foreign-owned or foreign-controlled property, international investments and extensions of credit, shipping and transportation of goods among countries, the international aspects of patents, international communications pertaining to commerce, and other foreign economic matters." The Board shall perform the following duties and functions:

(A) Advise the President as to economic defense measures to be taken or functions to be performed which are essential to the effective defense of the Nation; (B) Coordinate the policies and actions of the several departments and agencies carrying on activities relating to economic defense...; (C) Develop integrated economic defense plans and programs for coordinate action by the departments and agencies concerned...; (D) Make investigations and advise the President on the relationship of economic defense...measures to post-war economic reconstruction and on the steps to be taken to protect the trade position of the United States and to expedite the establishment of sound, peace-time international economic relationships; (E) Review proposed or existing legislation relating to or affecting economic defense and... recommend such additional legislation as may be necessary or desirable."

The Order states "The administration of the various activities relating to economic defense shall remain with the several departments and agencies now charged with such duties but such administration shall conform to the policies formulated or approved by the Board." In addition to the departments and agencies represented on the Board, the following shall designate officers "to represent the department or agency in its continuing relationships with the Board...to facilitate unity of action and the maximum use of existing services and facilities":

The Departments of the Post Office, Interior, and Labor, the Federal Loan Agency, the Maritime Commission, the Tariff Commission, Federal Trade Commission, Board of Governors of the Federal Reserve System, Securities and Exchange Commission, National Resources Planning Board, Defense Communications Board, OPM, OPACS, Office for Coordination of Commercial and Cultural Relations Between the American Republics, Permanent Joint Board on Defense, the Administrator of Export Control, Division of Defense Aid Reports, the Coordinator of Information, and such additional agencies as the Chairman may determine.

8/1'41

Miss Chauncey

150

This is the letter which the President approved as the policy to be followed in connection with exports and imports from Japan.

Mr. Acheson made copy of this available to Mr. Foley and I have given copy to you; Bell; White and Bernstein.

McGuire
STRICTLY CONFIDENTIAL

MR. FOLEY

THE UNDER SECRETARY OF STATE
WASHINGTON

151

July 31, 1941.

My dear Mr. President:

A few applications to license exports from the United States to Japan have been made under the Japanese freezing order. A few inquiries have been made regarding imports from Japan. For the time being, the Foreign Funds Control Committee is holding these applications without action. It seems desirable that the Committee and also the export control authorities be given instructions as to the policy which you desire it to follow. I submit for your consideration the following statement of policy.

1. Exports to Japan. Many categories of exports are already forbidden by the export control regulations. It is recommended that the Foreign Funds Control Committee deny all applications for:

All articles the exportation of which is now prohibited by the existing export controls and such of the following products (or grades or types) as are not already prohibited by those controls:

Wood

The President,

The White House.

-2-

Wood pulp;
Metals and manufactures;
Machinery and vehicles;
Rubber and manufactures;

Chemicals and related products except certain products such as some pharmaceutical preparations, et cetera, to be specified after further study.

The above list includes all commodities in which there is any substantial trade except cotton and petroleum products (the latter being dealt with below). In none of the items in the list is there any large export at present. Raw cotton exports have averaged about \$600,000 per month in the first six months of 1941 as against slightly over \$4,000,000 per month average in 1938.

It is recommended also that action similar to that outlined above be taken at once by the export control administration, so that its action may conform to action taken under the freezing order.

2. Imports from Japan. It is recommended that no licenses be granted for importation of silk or silk products. The military authorities inform me that they have no need for further silk imports. Should that situation alter, policy can be changed immediately to meet such an altered situation.

It

-3-

It is also recommended that purchase of gold from Japan be discontinued.

It is doubtful whether application will be made for any substantial imports from Japan other than silk. Should such applications be made, it is recommended that they be acted upon depending upon the estimated need for the products involved in the United States. Proceeds from such imports, if any, can be made available for the payment of such exports as are permitted.

3. Petroleum Products. It is recommended that action here issue from the export control authorities on the basis of national defense needs. The action recommended is the issuance of appropriate directives and the revocation of outstanding specific and general licenses to prohibit the exportation, except to the British Empire, the Western Hemisphere and to nations resisting aggression, of

Gasoline above a specified quality and beyond a specified quantity (normal 1935-36 amount);

Lubricating oils above a specified quality and beyond a specified quantity (normal 1935-36 amount);

Other petroleum products above a specified quality and beyond a specified amount (normal 1935-36 amount).

(Specifications to be such as will preclude shipment of gasoline or oils capable of use for aviation gasoline and the high grade raw stocks suitable for their manufacture.)

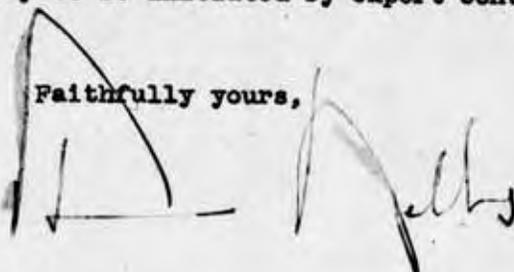
The

-4-

The Foreign Funds Control Committee will continue to hold without action applications relating to petroleum exports from the United States and subsequently grant licenses under the freezing order only in accordance with the policy to be initiated by export control.

Believe me

Faithfully yours,

A handwritten signature in dark ink, appearing to read "R. Nelson". The signature is written in a cursive style with a large, sweeping initial "R" and a long, horizontal stroke extending to the right.

July 31, 1941
10:30 a.m.

RE AID TO BRITAIN
(Conference held in Mr. Bell's office)

Present: Mr. Kades
Mr. Brown
Mr. Cochran
Miss Kistler
Mr. Chance
Mr. Childs
Mr. Keyes
Mr. White
Mr. Bewley
Mr. Archer
Mr. Robinson
Mr. Hicks

MR. BELL: I thought possibly we might have a meeting the first of the week with the Secretary. Maybe we had better discuss for a moment the agenda of that meeting.

One would be payment for U.S. purchases of raw materials from sterling area in advance of shipment. I would like to have you gentlemen comment on this agenda and add anything to it for discussion that you can.

Bewley: I don't know whether the Secretary would be in a position to say much about that.

White: Well, we have got a little. You remember, this was in the memorandum you left with us last week. We have explored the matter a

- 2 -

little with the head of the Metal Reserve and the others, and Mr. Clayton would be very glad to sit down with you gentlemen and to re-examine the situation and see what can be done with mica and other things.

He is a little bit dubious about the rubber because they are doing, they think, as much as they can, but they are not sure, and they are willing to re-examine it.

Now, with respect to wool, which we can lump in to that, although it is a separate item, he thinks that there might well be a probability - a possibility of their making some substantial advances against cotton which you have here --

Bewley: Wool.

White: Excuse me. That is, it wouldn't be a purchase but for your purpose it might be equally satisfactory. I don't know that the terms are set, but he would be prepared to discuss that.

Now, he seemed to think that you had only about - he was speaking offhand, but he thought it was only about twenty-five million. It was our impression it was something closer to forty million, either there or on the water. Now, maybe you can find out approximately before you see him what it is, and it would be - it might be helpful if you could see him before the meeting with the Secretary. He said if you would call him up he would be very glad to go over the matter with you.

Bewley: Where is he?

White: He is in the Department of Commerce. You have never done business with him?

- 3 -

Bell: At Fifteenth and H.

White: Suppose I make an appointment for you with him and call you up, just the first time. At that time you will discuss both the possibility of extending purchases f.o.b. and the possibility of getting some form of a loan on the wool that is here and maybe that would make a fairly substantial amount.

Bell: Proposal to Lend-Lease Caribbean sugar.

White: Well, that is another item which was left here, and I take it that Mr. Brown might want to discuss that further. Have you given that consideration?

Brown: Yes, sir, we have, and we have talked to the Department of Agriculture about it, and I understand Mr. Wheeler has talked to the Bureau representatives in the Food Commission, and it was pointed out to them that sugar is a very touchy item in our economy. It might be a wise thing if any requisition for Caribbean sugar would be held in the banks until after this appropriation bill.

White: Well, I can see where sugar is a touchy subject when it comes to a question of lowering duties, but we are importers of sugar.

Brown: That is perfectly true, sir, but --

White: And I can't quite see why Agriculture is concerned with the problem from their angle. I can definitely see why your group might be. That is, it might be a question of establishing a new --

(Mr. Bell and the reporter were called to the Secretary's office).

- 4 -

Childs: Another item we have been leaning very heavily upon is the capital facilities which you (Robinson) will report on this morning. Are you getting stuck again?

Robinson: Just getting bogged down.

White: Which one is that?

Childs: Capital facilities.

Kistler: The fifty-two million, is that the one?

White: No, this twenty-one of plants taken over, twenty-one and twenty-two and--

Childs: That is the one that is bogged.

Kistler: Fifty-two.

White: Why is it bogged now?

Robinson: I think the difficulty at the moment is that the Defense Plant Corporation can't work out any arrangements with the War Department for a take-out. That is what I gathered at the Defense Plant Corporation this morning. The difficulty is that Mr. Jones and his people are not sure that they will take an agreement by the Army to take out defense plants when, as, and if they get appropriations. They may be wanting the Army to agree to take out some of it, at least out of existing appropriations which the Army say they haven't got it. That is as nearly as I can arrive at it. Apparently the other difficulty is that - I think the other difficulty is that nobody in the Army - the same thing Mr. Brown mentioned, they are not pushing it.

Childs: It was really Army and not Defense Plant then?

- 5 -

Robinson: I think the Defense Plant is going as fast as they can subject to whether Mr. Jones will be willing to accept this contingent take-out.

White: That applies to the item of fifty-two, does it?

Robinson: That is right. That group of eleven. It may be all lumped together.

White: Eleven items totalling fifty-two.

Robinson: They total about seventy-eight or seventy-nine, but we put down fifty-two as being the probable coverage value.

White: That is fifty-two left, with the understanding twenty-one has already been provided and twenty-two is about to be provided.

Childs: That is machine guns.

White: No, eight is machine guns.

Robinson: I think that your item--

White: You see, it was ninety-five altogether. There is twenty-one which was provided, and then the break-down we have here is that twenty-two was about to be provided and fifty-two was likely to be provided.

Robinson: Well, the fifty-two that is likely to be provided is a net figure, I believe, after taking out probable deductions, the actual cost being somewhere around seventy-five.

White: Then the twenty-two is really part of the fifty-two?

Robinson: No.

- 6 -

Childs: The twenty-two is machine guns, isn't it?

Robinson: I think so. I don't know what that is because we have got--

Kistler: Twenty-one is the twenty-six minus five.

Robinson: Yes.

Childs: Twenty-one is Tennessee.

Kistler: What about New Jersey powder?

Childs: That is fifty-two.

White: Then you think the twenty-two is machine guns?

Robinson: That is right. It has come back.

White: Then twenty-two is machine guns, and it is proper to say it is about to be provided.

Robinson: That is right.

White: Then the item you are now speaking of is the fifty-two million which is bogged down, and you say it depends on Jones or on the Army?

Robinson: I think it depends on Jones and the Army getting together.

White: Well, if Jones is financing it, why should the Army be concerned?

Robinson: Because Jones is only financing it - this is all indirect from what they tell me - but he is only financing it provided he can get a proper agreement from the Army to take them out of Army appropriations when they get it. Maybe he won't take it on such a contingency but only on the contingency that part of it they will agree to take out.

- 7 -

White: I see, and that is why they are reluctant to come together.

Robinson: Yes.

Kades: Of course, I think that is understandable on the part of the War Department. Why should there - their position is, why should they have to bail out the Defense Plant Corporation. They have got funds.

Childs: The Defense Plant Corporation does this as a matter of habit, I understand.

Kades: But it seems the War Department is reasonable.

White: Which means that the other is not quite as reasonable.

Kades: Yes.

White: Then it is a question of working on Jones.

Kades: I think so.

Brown: I didn't understand the Defense Plant Corporation finances any plants without a commitment.

Kades: That is right, which seems to be some reason for it.

Brown: They are a financing agency rather than one actually buying plants to keep.

Kades: That is the way it has been set up, but you would never guess that from looking at the statute.

White: They have so interpreted the statute, but the statute is susceptible of other interpretations?

Kades: No, it is merely a policy by Jones.

- 8 -

White: Which seems to be contrary to the statute?

Kades: Sure, but it is his policy and it seems to me the War Department has cooperated with it a long way in the past in being willing to bail him out.

White: Who is it that you talk with that --

Kades: Jones.

White: Jones himself?

Kades: On this one.

White: Well, then we will so report that to the Secretary and see what happens.

Kistler: Mr. White, going through the rest of these figures, did someone say forty-one million of the contract subsequent to March 11 is uncertain?

Childs: Most uncertain of the lot, I think.

White: Sometime earlier, Mr. Brown, did you say you would ascertain part of that forty-one?

Brown: The list I had included some for airplane training in private schools, but Miss Kistler tells me that - there was a revised list later which we do not have.

White: So that forty-one then is all right.

Kistler: We checked yesterday and the forty-one is a correct figure.

White: Then what about the thirty?
(Mr. Bell returned to the conference).

Bell: That is definitely settled, is it?

White: So their suggestion is to postpone this until

- 9 -

after the appropriation.

Bell: Then it ought to come off the agenda for Monday.

White: I thought it was something you might want to report on.

Bell: O.K.

White: Now we are discussing this question and to summarize briefly what Mr. Brown had to report, it was that they now are a little bit more hopeful about some portion of the items which they had considered originally. They are hopeful now of about forty-five million on tanks and forty million on airplanes. They think they might be able to take it out. But the Army is reluctant to do so without a directive from the President, and they are going to request the President for a directive.

Bell: That is about in line with your conversation with McCloy.

Brown: Yes, I checked that again this morning.

White: And we were just--

Kades: We were talking about that Defense Plant, the capital facilities.

White: Yes, and there is this other point. This item of fifty-two million dollars which remains on possible take-out of plant facilities has simmered down to a question between Jones and the Army. Jones doesn't want to finance those plants unless the Army will buy them back from him out of their appropriation. The Army is reluctant to allocate any of their appropriations for such a purpose. Mr. Kades suggested that that policy which Mr. Jones

- 10 -

has decided upon of not acquiring plants unless they are going to be repurchased is his own policy which he has established which seems to be contrary to the intent of the act under which he is operating.

Bell: With a definite commitment from the Army on the plants that he has taken over.

Kades: He gets a regular contract from the Army as though it were an outside organization.

Bell: He did that with the Tennessee powder and all those other things?

Kades: That is the general policy, is to get a firm commitment. In fact, he requires that the Army place orders in the amount of two-fifths, I think. Originally it was three-fifths, and it was later reduced to two-fifths of the amount that he is advancing for the construction of the plant so that he is sure of getting two fifths back; and, if there are any orders later placed, he is sure of getting whatever additional orders are placed back. Now, in so far as these plants are concerned, he is applying the same standard, and I suppose the War Department is reluctant to go along with the feeling here that the War Department probably was being stubborn about it, but it seems to me they are justified in being stubborn.

When Congress makes an appropriation to the War Department for the acquisition of capital facilities, it doesn't intend the War Department to use that appropriation to reimburse the Defense Plant Corporation's expenditures, but that is the policy that has been established.

White: But Jones doesn't want--

- 11 -

- Kades: They did do that very thing because Jesse was holding the bag before Congress ever appropriated the money for the plant facilities, and they did it with the understanding that he would be reimbursed when he got the - when the War Department got the money.
- Bell: He is a banker and that is all.
- Kades: But the Defense Plant Corporation isn't the RFC. He is treating the Defense Plant Corporation as though it were a banking organization rather than an organization to construct and lease plants.
- Bell: Well, they are one and the same organization.
- Kades: He could have done everything that he is doing without powers - without the Defense Plant Corporation, and I think when they created the Defense Plant Corporation it was thought that he was going to acquire capital facilities. The Government was going to own armament plants and lease them to private concerns to operate for the benefit of the War and Navy Departments.
- White: He takes the position that he doesn't want to acquire any plants if the War Department won't pay him back for them.
- Kades: That is right.
- White: He may take that position on the grounds that if the War Department doesn't want it, then they are of no use to him, but that would seem to be contrary to the view that the War Department is merely taking the position that it doesn't want to use funds which are appropriated to it, that the plants may be perfectly desirable for America to have, but that is no reason why they should take it out of their appropriation.

- 12 -

- Kades: Because they don't want the plants.
- White: If they don't want the plants, why should they be built, on grounds of general emergency and so forth, which is where the Defense Plant Corporation steps in and says, "We will take the rap. Congress has given us that function."
- Robinson: Of course the War Department has to certify before Jones will agree to any of these things that these plants are necessary for the national defense, which, in effect, leaves the Army holding the bag on the thing because they have said, "We need them," and the Defense Plant says, "If you need them, you can take them over."
- White: And the Army says, "Well, but we don't want to use our appropriated funds. We have got other purposes for them."
- Bell: Are you using the full capacity of these facilities?
- Childs: No question about it.
- Kades: I was simply saying I thought the War Department's position was not unreasonable because of the general feeling that it was the War Department being unreasonable. It seems to me there is something to be said on both sides.
- Childs: So far as that part is concerned, these orders we have will be running out from time to time and undoubtedly will be replaced in many cases, if not all, by Lend-Lease orders.
- Bell: So it will have to go through the War Department then.
- Childs: Yes.

- 13 -

White: To digress for a second, the Secretary sent back a message - he has been away and just returned, and he wants to send his regards to all those in this meeting. Well, is there anything further you want to add to that?

Childs: No, just the idea which I expressed first. If you are going to put this up to the Secretary, I think it would be better to get this ironed out in the meantime.

White: Can we do that right here? Do you have the information?

Bewley: I don't know quite what the figures and prospects are.

Childs: I wanted to get them and then balance them off against Purvis' needs, you see, the way we do with Brown.

White: Would you have that ready on a single sheet if possible, what the specific situation is, if you could get that to us as soon as you get it completed.

Childs: All right.

Bell: They ought to add to this title too that facilities item.

Kistler: Defense plant.

Bell: And facilities.

Kades: Isn't some of the appropriation appropriated to expedite production, including the facilities used, to bail out the Defense Plant Corporation?

Brown: I don't know.

- 14 -

Kades: It would be interesting if we could get the figures on the amount of the appropriation made to facilitate increased production. You are familiar with that appropriation which was made in the War Department of so many million dollars to facilitate increased production, including the acquisition of facilities. How much of that is earmarked to bail out the Defense Plant Corporation?

White: Well, we wouldn't know.

Kades: Well, that would be in Accounts and Deposits, wouldn't it?

Bell: No.

Kades: Because that would --

Bell: Not if --

Kades: That would show the picture.

Bell: If that authority is given to the Secretary of War and Secretary of Navy, it wouldn't be upstairs at all. It would be in a lump sum appropriation, and they would do it on their own books, but if the President had it allocated, then we would get it.

Kades: The Bureau of the Budget would know, wouldn't it?

Bell: Yes.

White: Couldn't we find out from somebody?

Bell: Yes, just ask Lee Martin. All right?

Transfers of Lend-Lease goods to commercial distributors.

- 15 -

- White: Well, you are going to have a meeting on that. That came up in another connection.
- Bell: We are having a meeting this afternoon with Cox and Philip Young and Mack on that.
- Bewley: My preliminary impression is if he had any points it would be on the one, two, three, four, and five on page two.
- Bell: Have you got a copy of that draft letter?
- Bewley: Yes. It was sent to Mr. P₁₁rvis.
- Bell: I see. We haven't got the draft here, have we? We have a copy, but it is in the office getting typed or duplicated. What page - here is one.
- Bewley: Two. My preliminary impression is that it might be if one or two of these one, two, or three, or four, or five might possibly give rise to some difficulties. I don't know what the details are at the present stage.
- Childs: It is a primary operation.
- Bewley: It is just a question whether Number four, for instance - the extent which the Government has exercised its authority over purchasers and the price of - just points of that sort.
- Brown: I think what was intended by that is more or less what kind of regulatory statutes should be adopted.
- Bewley: Yes, it was. I don't imagine there is anything really between us. It is rather a question of putting it into words.
- White: I understand there is some discussion of this also going forward right now in London.

- 16 -

Bell: It has been sent over there, has it? Or you mean just the matter?

White: Just the matter, not this particular draft.

Bewley: Oh, yes, I see.

Childs: Thompson and Keynes, you remember, have gone back now.

Kades: I understand in connection with that distributing thing that some conversations had been proceeding between the Federal Surplus Commodities Corporation and the Food Commission, and I wondered whether those resulted in any kind of a memorandum or --

Bewley: About methods of distribution?

Kades: Yes.

Bewley: I didn't know that. I know that this letter is being considered. I didn't hear about the meeting.

Kades: If you mention a few of the names I could remember them.

Bewley: Huttendon is one.

Kades: Yes. I just thought that some memorandum or some determination had been arrived at which might be useful to us.

Bell: You mean on distribution?

Kades: I just heard about it in an unofficial way, and it may not be true.

White: You mean with Milo Perkins?

Kades: Yes. I thought it might be helpful here, but this is pure rumor.

- 17 -

- Bewley: I am completely ignorant of any memorandum of the sort.
- Childs: This is generally the lines we have been following heretofore, fortunately, and does follow instructions which we have ourselves issued to the Commission, so very closely that there is no substantial difference. We are not going to have to be revolutionizing the thing.
- Archer: Can anything be done to unfreeze that position, because we are in the unfortunate position that there is a lot of shipping becoming available in August and valuable time is being lost in Procurement on these things in the time of getting that stuff aboard the ships.
- Bell: That is what we are trying to do this afternoon.
- Archer: I would be very grateful if something could be done.
- Chance: These particular cases of the agricultural implements and timber?
- Archer: Yes, and a number of others that have gone in since those.
- White: I should like to return for a moment to the sugar thing to clear up what I think is possibly a misunderstanding of the Canadian-American agreement. There was some mention in your memorandum that you felt that part of that sugar which goes to Canada might be under that hundred million dollar allocation of funds. I think if you will read your own memorandum that accompanies it, which is a description of the Hyde Park arrangement, that it would be very doubtful whether that was intended to apply to that category of goods at all.

- 18 -

What it referred to was that the hundred million dollars might be expended on goods going from the United States to Canada for materials entering items shipped to Britain when the material was not identified. I don't think you would include sugar under that category at all. In other words, it intended to apply to items which were either such small parts or which through the processing lose their identity, but which was known that it went to the U.K., whereas that sugar that would be going from Cuba to U.K., if some such arrangement were made, would not be of that character at all.

Bewley: But there were two classes in the Hyde Park agreement, as I understand it. There were first, the identified blocks and then there were a hundred millions of unidentifiable stuff which does go to the U.K., but which you can't find out what they are, and as I understand it, they were not to be brought under Lend-Lease, but a hundred millions dollars of other stuff used in Canada was to be substituted for it.

Kistler: That is correct.

White: Yes, what Canada would have to buy from us for her own war effort - well, whether it would apply to foodstuffs is what I am raising. I thought it would apply to her own armaments, and so forth. I thought that was the interpretation. But if you are correctly assuming that it would apply to anything that she buys from us --

Bewley: I thought it was intended to apply to defense articles, and I thought sugar was a defense article.

White: I see. Well, maybe. Then that can be discussed later.

- 19 -

- Bewley: Anyhow, that is --
- White: Yes, for the moment it is gone.
- Bewley: But this point of Mr. Archer's, you say you are going to discuss that this afternoon?
- Bell: We are going to talk with Young and Cox this afternoon on the matter.
- Base costs in Iceland. Anything new on that?
- Brown: Well, we tried to get the Chief of Naval Operations to ask the President for an allocation of two million four out of his emergency fund to take care of that item. The Chief of Naval Operations says he doesn't want to do it. However, it seems to us that that is an item which would come under the Lease-Lend. Assuming that you have got room for it in your - you would rather have gotten something else and that we can probably take care of it. Whether we do it --
- Childs: As a Lend-Lease item.
- White: Then that is a decision --
- Brown: The Chief of Naval Operations says that the facilities which are being constructed in Iceland are very much greater than we can ever want, and that they are primarily designed for you, and that therefore he doesn't want to use his funds for that.
- We can Lease-Lend them all right if the British want to.
- Bell: Is that something that is being done, or is that money that has already been spent?

- 20 -

- Brown: Well, the British had sent a check to the Navy for two million four which is still being held, and our thought was to see if we couldn't give it back to them.
- Childs: That was only part of the over-all cost. That was labor.
- Brown: Well, we have already given you ten million five of Lend-Lease funds.
- Childs: The two million four is the only item in question?
- Brown: That is right.
- White: And that is a decision which they will have to make?
- Brown: If they want to put in a requisition for that, we don't see why we can't take care of it.
- Kistler: Wasn't that requisitioned once?
- Brown: It was turned down before the occupation of Iceland on a policy question.
- White: Then you might have an answer to that either one way or the other before the meeting, so if you don't want to include it --
- Childs: Yes, I hope to answer it.
- Bell: We have got on this agenda, the deferment of payments due France. We will have to do some more work on that. We may be able to discuss it a little later.
- Requisition progress during the week. Anything on that?
- White: Do you have any of the requisitions?

- 21 -

- Keyss: I have some sheets to submit here.
- Bell: Before we go into the requisitions, have you gentlemen anything to suggest for this next meeting with the Secretary in addition to what we have?
- Bewley: I can't think of anything. I was going to suggest the payments to France, but you say you have it on there.
- Bell: Yes, but we have to do some work on it over the week-end.
- Childs: It all depends on certain developments.
- Bell: Give us a ring Monday morning as to whether you have anything additional to go on the agenda.
- Cochran: Mr. Bewley, I have already taken up the question of the French ships which you mentioned to me.
- Bewley: Oh, yes. That isn't necessary to bring up now.
- Kades: May I ask one question before we go into the requisitions?
- Bell: Sure.
- Kades: In connection with the transfers of Lend-Lease goods for commercial distributors, your question, Mr. Archer, related to the Lend-Lease Administration, as I understand it, and not to the Procurement Division, is that correct? I mean, we haven't any requisitions, have we, which haven't --
- Archer: They were sent down to the Treasury Procurement Division for distribution on them and then

- 22 -

they were sent back to the Lend-Lease administration because some of them were questions of policy. They wouldn't proceed to procure them.

Kades: Without a clearance from Lend-Lease?

Archer: That is the whole point.

Chance: We were notified of their being turned back but the discussions would proceed to see if it was possible to find a way out.

Archer: The whole point is that the shipping is becoming available in August and it is very necessary to get the goods for them.

Kades: And they were put through in the groove which we understood it was the way --

Archer: As we understand it, and it was substantially this detail on here.

Chance: Just this other point of agricultural implements, that they have got to be got there for the fall work.

Bell: That is right.

Chance: Otherwise they are not much good until spring.

Bell: That is right. We will see if we can get a decision on that. As a matter of interest, are there a lot more ships available in August than you first anticipated?

Archer: Yes.

Bell: Or are you replacing some other material?

Archer: No, the - a large tonnage is becoming available through Maritime Commission taking over a lot of these French and Italian and Danish ships, which had been interned in U.S. ports.

- 23 -

Bell: The reason I asked, the Secretary of Agriculture told me the other day that you had increased your requests for agricultural products from about a hundred thousand tons to three hundred thousand tons..

Archer: About two or three hundred thousand tons of shipping have become available.

Bell: I see.

Archer: Which we didn't know about until just a week or so ago.

Chance: There has also --

Bell: That is good news.

Chance: There is also at least temporarily a rather more favorable situation in the matter of handling them.

Bell: I see. Yes, the sinkings have gone down in the last few months.

Chance: It is an improving picture, but it is still grave.

Archer: And you can work your docks eighteen hours of the day, almost. You can get a quicker turnaround. When winter comes around we shall have to slow up, because there will be less daylight.

Bell: You make hay while the sun shines.

Chance: Hitler has apparently got all his bombers bombing the Russians.

Bell: That is pretty good news. If he can't bomb two fronts at once, he must be either short of planes or men.

Chance: They are spread out so greatly.

- 24 -

- Bell: Yes. All right, do you want to go over these now?
- I don't think we ought to go over them unless there is some question.
- Bewley: There are two I would like to ask about to make sure. They are on page two. They are the only two big ones. The first one is the ferrying. There is two million eight hundred thousand dollars which was suggested for that. The position, as I understand it, is that you were going to provide us dollars for these ferries as far as you could, but the decision was that you could only do so properly for American plants and not for British plants.
- Brown: That is right, and anything connected with American plants like personnel, maintenance, supplies, and so forth.
- Bewley: I can take that as a definite decision? You do draw the line on that?
- Brown: You see, under the statute we have got to have a defense article.
- Bewley: I see.
- Brown: The way the statute is set up, it has got to come through our Government.
- Bell: Is this two million eight --
- Brown: We can give you the freight on something bought here.
- Bewley: Two million eight is the cost of ferrying British planes, and the rest is the cost of ferrying American planes.
- Brown: That is right.

- 25 -

White: Wasn't there some question that that might be - if they wanted to transfer the title to that it could be regarded as American planes? Does that apply in this too?

Brown: No.

White: That related merely to the taxes?

Childs: We were talking about transfer of title for flying out of California. That matter has since been adjusted.

Bell: You mean you are not going to transfer title?

Childs: No, that was to avoid sales tax, you see.

Bell: You might use it for this too.

Childs: Sure, it would be fine for this if a gratuity came to it, but the company decided that they would be taxable.

Chance: Who decided?

Childs: All the companies. Still, if we could work out a system of transferring title in California it could be transferred back later.

Brown: We were considerably reluctant to go as far as we did on the California situation because our desire here is not to stretch these things unless we have to, naturally, because of the fact that we want to be able to say that in every respect we have only done exactly what the Lend-Lease says we could do, and in connection with the California proposition, we have the question of transporting them via the South Atlantic route to Brazil, and also we were going to keep some for our Army training. There were a whole lot of reasons that

- 26 -

we can justify pretty well, and in addition there was a very large amount involved, but I think we would be very reluctant just to have a transfer of title of British planes, not even made in this country, and which never would get to this country, just for the purpose of providing a few million dollars cost of ferrying.

White: You say they weren't made here?

Brown: They are talking about British planes not ever produced here.

Bewley: I am not questioning this. I only raised the point because I wasn't clear what the position was.

Bell: I don't understand that.

Brown: We have put up a - facilities for ferrying aircraft from Takoradi to Khartoum, and we are prepared to pay the expenses of establishing the ferry and ferrying any Lend-Lease planes which are being sent by that route, but it is also proposed that that route will be used to carry British personnel, passengers, and also to ferry British built planes.

White: Where are they built, Canada?

Keyes: No, I think they are built in this country, Bob.

Brown: They are?

Childs: They are British contract planes in this country, must be, because they come across the South Atlantic first. They are not going to take anything out of the U.K. up there. It would be simply taking the same planes we are talking about from California.

- 27 -

- Brown: Are these to be ferried by the Army Ferry Command?
- Childs: Yes. You see, you get the training in them just the same.
- Brown: Then maybe we can work out something on that. I didn't understand that was the kind of planes they were.
- Childs: Yes, I am pretty sure of it.
- Bell: Maybe you can reconsider that and get something out of it.
- White: And you want to withdraw this and reconsider it?
- Bewley: What about the following one? I just want to get it clear in my own head what could be brought under Lend-Lease and what couldn't.
- Brown: On that, those are the payments for - made for the medical attention and transportation of RAF students.
- Bewley: British students?
- Brown: Yes. We are Lend-Leasing you the planes to do the training and their maintenance and tuition, all of which we have classified as a defense article or information pertaining to a defense article, which comes under the statute. However, when it comes to their pay and transportation facilities for themselves, we would be hardly justified in doing that.
- Bewley: Yes. I just saw that you said dollars, possibly.
- Brown: If there was any substantial item of goggles or flying suits or something like that, we could consider those defense articles.

- 28 -

Bell: O.K.? What else?

Bewley: I have nothing else.

Bell: Any others? What else?

Childs: We have nothing else, have we?

Bewley: I think there is nothing else.

Bell: Then we will hope to have a meeting next week with the Secretary.

AGENDA FOR MEETING WITH SECRETARY
MORGENTHAU (POSSIBLY MONDAY)

1. DEFERMENT OF PAYMENTS DUE FRANCE.
2. PAYMENT FOR U.S. PURCHASES OF RAW MATERIALS FROM STERLING AREA IN ADVANCE OF SHIPMENT.
3. PROPOSAL TO LEASE-LEND CARIBBEAN SUGAR.
4. TRANSFER OF CERTAIN LARGE BRITISH CONTRACTS TO THE ARMY - SIR FREDERICK PHILLIPS AND MR. COX.
5. TRANSFERS OF LEND-LEASE GOODS TO COMMERCIAL DISTRIBUTORS.
6. BASE COSTS IN ICELAND - MR. COX
7. REQUISITION PROGRESS DURING WEEK - MR. BROWN AND MR. KEYES.

C
O
P
Y

184

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
OFFICE MEMORANDUM

To: Mr. Daniel Bell
From: W. G. Brown
Subject:

Date: July 31, 1941

Attached are three copies of the revised
form of suggested letters to Mr. Purvis discussed
at this afternoon's conference.

OFFICE FOR EMERGENCY MANAGEMENT
DIVISION OF DEFENSE AID REPORTS
WASHINGTON, D. C.

August 1, 1941

Dear Mr. Purvis:

Section 4 of the Lend-Lease Act requires the consent of the President to any retransfers of lend-lease articles by His Majesty's Government. Distribution through commercial channels in the United Kingdom and in other parts of the Empire of necessity involves a re-transfer and Presidential consent.

Before granting such consent, it has been the President's policy in the administration of the Lend-Lease Act to require assurances that:

- (a) The articles to be distributed commercially, and those into which they are incorporated, are essential to the British war effort.
- (b) The commercial channels of distribution to be used are the most effective and economical means of assuring the efficient use of the articles or their prompt delivery to the places where they are needed, and
- (c) No profiteering by commercial distributors of the articles will be permitted.

- 2 -

Since the nature of distribution and ultimate destination of the various articles to be commercially distributed either in their original or in an advanced form naturally varies widely with a particular article, it is impossible for any blanket consent to retransfer to be given and each case must be determined on its own facts. The following, however, are suggested as items of information which would assist the President in determining whether the three basic criteria set forth above have been met.

- (1) Destination of articles - in original and advanced form, e. g. United Kingdom, Dominions, colonies, etc.
- (2) Intended use of articles and those into which they are to be incorporated, e. g., military, civilian, etc.
- (3) Method of distribution to be adopted, showing the channels through which the materials pass to the user.
- (4) The status of the distributors, i. e. whether they are acting as agents of the distributing Government or as principals purchasing to re-sell to consumers.
- (5) The extent to which Government supervision is exercised over distributors to insure that the prices and fees charged by them will be limited to a minimum reasonable remuneration for services actually performed.
- (6) Details of distribution, e. g., will the recipient Government sell the articles to a manufacturer, or will it deliver them to him gratis for incorporation in a completed article.

- 3 -

More detailed information will be expected in case of distributions in the Dominions and other parts of the Empire than in the United Kingdom in view of the strict controls known to be in force in the United Kingdom.

The foregoing are suggestions only and are not intended to be all-inclusive, as the necessity for further and different information will undoubtedly become apparent in particular cases. I am confident that most cases will fall into more or less standardized patterns, so that a method of presenting the necessary information can be worked out which will avoid useless repetition and complication of requisitions.

Very truly yours,

J. H. BURNS
Major General, U. S. Army,
Executive Officer

Hon. Arthur B. Purvis,
Chairman, British Supply Council
in North America,
Willard Hotel,
Washington, D. C.

Copy:dtg:8-2-41

July 31, 1941

Dear Mr. Purvis:

In view of current public discussions of British export policy and its relation to the administration of the Lend-Lease Act, it seems timely to set forth in concrete form certain of the principles which have guided this Division in the administration of the Lend-Lease Act and will continue to do so in the future.

As you know, it has been the policy of this Division from the outset to limit the aid rendered under the Lend-Lease Act to that which is essential to the maintenance of the war effort and to refuse consent under Section 4 of the Act to the use of Lend-Lease articles for re-export in commercial trade. To execute this policy we have required a stipulation in the requisitions that Lend-Lease articles which might be available for such export be used in the United Kingdom or in other parts of the Empire for needs essential to the maintenance of the war effort.

We appreciate that Great Britain must continue exports in order to obtain imports. However, this Division has urged and will continue to urge upon His Majesty's Government the importance of Great Britain's making every effort to concentrate her exports in the field of traditional articles, such as Scotch Whiskey, fine textiles, etc., and other similar articles, and cutting down exportation of articles similar to those being provided through Lend-Lease funds to the irreducible minimum necessary to supply or obtain materials essential to the war effort.

I would appreciate your confirming that the foregoing conforms to your understanding of the basis upon which Lend-Lease articles are being provided and receiving your assurance that every effort will be made to carry out the foregoing policy to the fullest extent.

Sincerely yours,

J. H. Burnas
Major General, U. S. Army
Executive Officer

Arthur B. Purvis, Esq.
Chairman, British Supply
Council in North America
Willard Hotel
Washington, D. C.

DEPARTMENT OF STATE

Washington

July 31, 1941.

My dear Mr. Secretary:

I enclose the first section of telegram no. 3310 of July 31 from London, containing a personal and strictly confidential message for you from Ambassador Winant. The remaining sections of the telegram have not yet been received.

Sincerely yours,

(Signed) Herbert Feis
Adviser on International
Economic Affairs

Enclosure:

No. 3310 of July 31
from London, sec. 1.

The Honorable

Henry Morgenthau, jr.,

Secretary of the Treasury.

C
O
P
Y

190

GRAY

London

Dated July 31, 1941

Rec'd 7:35 a.m.

Secretary of State,
Washington.

3310, July 31, noon (SECTION ONE)

PERSONAL AND STRICTLY CONFIDENTIAL FOR THE
ACTING SECRETARY FOR THE SECRETARY OF THE TREASURY

In Mr. Hopkins' message to me 2483, July 9, and in Secretary Morgenthau's message to Coe 2657, July 18, in which I was asked to collaborate and also in a section of Secretary Wickard's message 2761, July 24, inquiries were made as to the distribution of articles under the Lend-Lease Bill. I have made replies to these messages in my messages 3189 July 24; 3251, July 28; and 3278, July 29, to the Secretary of the Treasury and also in my message 3229, July 26, to the Secretary of Agriculture.

Mr. Hopkins asked me to follow this matter up for him as he did not have time to press the importance of the issue himself. Since there seems to be no agreement in principle, I asked the Chancellor of the Exchequer for a statement as I explained in my

- 2 -

message 3251, June 28.

The statement handed to me this evening by the Chancellor is as follows:

"One. All materials which we obtain under the Lend-Lease Act are required for the prosecution of the war effort. This principle governs all questions of the distribution and use of such goods and His Majesty's Government have taken and will continue to take action to see that these goods are not in any case diverted to the furtherance of private interests.

WINANT

WSB

Copy:dtg:7-31--41

TO THE PROSECUTOR
GENERAL
WASHINGTON, D. C.

BY THE ATTORNEY GENERAL
JULY 31 1941

RECEIVED
JULY 31 1941

C
O
P
Y

TEM

GRAY

London

Dated July 31, 1941

Rec'd 10:45 a.m.

Secretary of State,

Washington.

3310, July 31, noon. (SECTION TWO)

export policy.

Two. No lend-lease materials sent to this country have been used for export.

Three. For some time past exports from the United Kingdom have been more and more confined to those essentials (1) for the supply of vital requirements of overseas countries, particularly in the sterling Empire; (1.1) for the acquisition of foreign exchange particularly in the Western Hemisphere. His Majesty's Government will not adapt the policy summarized below:

(1) In the future no materials on which the use is being restricted in the United States on the grounds of short supply and of which we obtain supplies from the United States either by payment or on lend-lease terms will be used in exports with the exception of the following special cases:

(A) Material

-2- 3310, July 31, noon. (SECTION TWO) from London.

(A) Material which is needed overseas in connection with supplies essential to the war effort for ourselves and our allies, and which cannot be obtained from the United States. This would enable us (i) to export supplies essential to the war effort to countries within the Empire and to our allies, and (i.i.) to export such articles as tinplate for canning to Portugal and the Argentine for our food requirements, if such tinplate could not be supplied by the United States of America.

(B) Small quantities of such materials needed as minor though essential components of exports which otherwise are composed of materials not in short supply in the United States.

(C) Repair parts for British machinery and plant now in use, and machinery sea plant needed to complete installations now under construction so long as they have already been contracted for.

Steps will be taken forthwith to prevent the execution of existing contracts for the export (except to Empire and allied territories) of such goods which do not come within the exceptions referred to in (A), (B) and (C) above. (i.a.) Materials which
are not

- 3 -

are not in short supply in the United States but which we obtain on lend-lease terms will not be used for export in quantities greater than those which we ourselves produce or buy from any source.

Distribution in the United Kingdom cancelleries lend-lease goods.

Four. The general principle followed in this matter is that the remuneration received by the distributors, whatever the method of distribution, is controlled and will be no more than a fair return for the services rendered in the work of distribution. The arrangements rigorously exclude any opportunity for a speculative profit by private interests from dealing in lend-lease goods. In most cases lend-lease supplies will be distributed through organizations acting as agents of His Majesty's Government in the strict sense of the term and not as principals. Where, for strong practical reasons, this cannot be done a full explanation will be supplied to the United States administration and their concurrence sought before hand in any alternative arrangements proposed. The justification for retaining existing

- 4 -

channels of distribution operating under strict government control is that the creation of elaborate new organizations in their place would inevitably result in less of efficiency and the wasteful use of manpower, and retard the war effort.

WINANT

PEG

Copy:8-1-41

C
O
P
Y

KD

GRAY

London

Dated July 31, 1941

Rec'd. 9:32 a.m.

Secretary of State,
Washington.

3310, July 31, noon (SECTION THREE)

Five. Food is a special case. Only some five or six percent of the total British food supply will come from the United States and without great practical complications it would be impossible to have a separate system for the distribution of lend-leased food. Food distribution is carried out in the United Kingdom by wholesalers to whom the Government sells food as principals. In fact the Ministry of Food has established a close control over all district margins so that neither the wholesalers nor the retailers receive any greater remuneration than is adequate to cover the cost of the services performed. No food obtained on lend-lease terms is or will be sold at uncontrolled prices. Thus, the general arrangements as regards the issue of lend-leased food fit into His Majesty's Government's policy of stabilizing the whole price level of foodstuffs, a policy to which the Government contributes pounds

- 2 -

one hundred millions a year.

Six. In some cases direct free distribution is practicable and will be adopted. For example, some milk products (including lend-leased supplies from the United States) are distributed direct and free of charge to children and others in need through schools, clinics and hospitals. The distribution is undertaken by state agencies and the cost of the distribution is borne by the Government."

The statement handed me by the Chancellor should be read in connection with the public announcement made in the House by the Prime Minister in his address of Tuesday (see message 3278, July 29).

Coe is preparing, with the cooperation of British Treasury officials an exact description of the methods of distribution of all articles under the lend-lease bill which will be forwarded on completion.

I would appreciate your informing the President on this matter as I understand from Mr. Hopkins that he is interested in this situation. It would also be helpful if you would let General Burns have copies of this entire correspondence for his own information and for Mr. Hopkins on his return.

I explained to the Chancellor that I was forwarding this statement to you. An early answer would be greatly appreciated. (END OF MESSAGE)

WINAET.

PEG

Copy:lg 8/1/41

C
O
P
Y

198

Department of State
Adviser on
International Economic Affairs

July 31, 1941.

To: Mr. Cochran

From: Mr. Feis

With regard to your request for the confidential report mentioned by Ambassador Winant in his telegram to Secretary Morgenthau, I enclose a confidential report dated July 8, 1941 which was submitted by the Acting Agricultural Attache, London. I believe this might be the report to which the Ambassador referred. Since this is our only record copy, will you please return it when you have read it?

/s/ Herbert Feis

COPY:mew 8/2/41

C
O
P
Y

198

Department of State
Adviser on
International Economic Affairs

July 31, 1941.

To: Mr. Cochran

From: Mr. Fels

With regard to your request for the confidential report mentioned by Ambassador Winant in his telegram to Secretary Morgenthau, I enclose a confidential report dated July 8, 1941 which was submitted by the Acting Agricultural Attache, London. I believe this might be the report to which the Ambassador referred. Since this is our only record copy, will you please return it when you have read it?

/s/ Herbert Fels

COPY:mew 8/2/41

C
O
P
Y

VOLUNTARY REPORT NO. 341

(For Department of Agriculture)

CONFIDENTIAL - NOT FOR PUBLICATIONBRITISH RATIONING PROBLEMS
AND
FOOD SHIPMENTS UNDER LEASE-LEND

From:

Alton T. Murray,
Acting Agricultural Attache.

American Embassy, London, England.

Date of Completion: July 8, 1941.

Date of Mailing: July 8, 1941.

- 1 -

BRITISH RATIONING PROBLEMS
AND FOOD SHIPMENTS UNDER LEASE-LEND

British Food Rationing Problems

During the past six months the British food situation has deteriorated. Qualified only by some mild variations in the stock position of the miscellaneous commodities composing the aggregate food supply, the deterioration has been progressive.

Co-extensive with the diminution of supplies of individual foods, the Ministry of Food has extended the scope of the food rationing. More foods were added to the list of those subject to the coupon system, some further restrictions were placed upon commodities already rationed, and further reductions were made in the allocations of Government-controlled foods to retailers.

Currently, the sole purpose of rationing is to share food supplies equitably. Earlier in the war, food rationing served an additional purpose: to implement the Government's policy of reducing the standard of living. No such views are entertained in official circles now. On the contrary, the Ministry's efforts are directed toward raising the standard of living (insofar as food is concerned) up to some as yet unspecified level compatible with the needs of a maximum war effort.

Despite the general movement toward subjecting more foods to official rationing restrictions, a very large number of foods are as yet not officially rationed. This situation is the fountain-head for many distribution difficulties. Obviously the mere fact that one set of foods is restricted diverts consumption to unrationed foods. To some extent, therefore, the general principle of fair distribution of food is defeated.

Retailers have long since devised informal rationing systems of their own, limiting quantities customers may obtain at one time or during a given period. Nevertheless, informal rationing is not altogether satisfactory. In the first place, in the nature of things, retailers are not in the position to enforce absolute impartiality. Favored customers develop and business tends to function on an "under-the-counter" basis. Secondly, retailers have no sure method of determining the amount of their unofficial ration. By merely noting a diminution in stocks of some particular product on their shelves, retailers may decide to restrict customers henceforth to a fraction of the quantity given to shoppers earlier in the week, establishing thereby a premium upon customers getting

there first. Moreover, the mere fact that quantities obtainable are dependent upon such uncertain factors leads the public to hoard food suspected of becoming short in the near future. One of the visible results of this situation is the practice of shoppers forming in line to purchase some particular product under suspicion of disappearing from the market. Under such conditions shopping takes on almost professional attributes. Many housewives visit a large number of shops in order to track down some product unobtainable locally. To combat this practice, retailers frequently specify certain products can be purchased by customers registered for officially rationed foods only. Unfortunately, this restriction is not a complete answer since few grocers are in a position to assure customers that an assortment of products to meet general household requirements will at all times be available.

The control of food prices is intimately connected with food rationing. Maximum retail prices are now officially specified for most foods and for a large number prices are controlled through all stages of distribution. Generally speaking, of course, it is far simpler from an administrative standpoint to apply price controls than devise means to ration the physical distribution of food.

Maximum retail price control is no solution to the equitable distribution of food at a fair price. Unfortunately, a considerable section of the public believes it is. Indeed the illusion that equitable distribution of food may be established by price controls has been substantially fostered by a naive public. If any confirmation of this statement is necessary, one has merely to witness the reaction to the introduction of price controls to some seasonal fruit or vegetable. The pattern is about as follows:-

1. Small supplies appear in the markets.
2. Prices are extremely high and few can afford to buy.
3. Under public pressure the Ministry of Food introduces maximum price controls at substantially lower levels.
4. Supplies "disappear" from the market when more people can afford it.
5. The Ministry of Food is blamed for creating shortages, or the trade is accused of unfair practices.

The inadequacy of price control without physical control by rationing is, of course, also generally apparent among many hundreds of food items which have long since been subject to fixed retail

- 3 -

prices. The Ministry of Food's announcement of the introduction of price control to any unrationed food is in effect merely a warning to the public to buy as quickly as possible and as much of the food as circumstances permit.

Inequality of income overshadows the food rationing system. Obviously, so long as a large proportion of all British wage earners have an income insufficient to maintain themselves and their dependants upon an adequate diet, there is little hope of rationing food in the absolute sense. The fact that a considerable section of the population, therefore, do not have the money to buy their rations provides a serious leak in the rationing system since it leads to the establishment of a "black market" which is most difficult to stop. When registered customers do not take up their rations, shopkeepers and their employees are in a position to sell extra quantities to favored customers for a special consideration.

A miscellaneous assortment of unrationed foods also find their way into the "black market" in varying degrees, largely for the same reason. Foods in short supply, for which the Ministry of Food has established maximum prices, are particularly susceptible. Retailers conducting part of their business on an "under-the-counter" basis in effect constitute a "black market". Maximum prices are not exceeded in all cases, but supplies of these foods are conveniently discovered only for favored customers.

The foregoing comments are confined, of course, to some of the sub rosa aspects of the inequality of consumer income as it relates to food rationing. The inequities of food distribution have almost official recognition, however, since it is quite possible to live on a fairly opulent scale in the more expensive hotels, restaurants and health resorts in sharp contrast to the bread-potatoes-and occasional protein diet of the poorest consumers.

It would seem apparent that a more satisfactory distribution of food could be obtained by rationing more foods, if not all foods. The short answer as to why a more comprehensive rationing policy has not been adopted is that the Ministry of Food does not know how to go about it. A large number of miscellaneous foods, which vary as to quality, quantity, type of preparation, flavor, seasonality, and many other factors, cannot be rationed under the present rationing methods for administrative reasons. As the Minister of Food said recently in Parliament: "I have reached the end of the commodities I can ration on this basis (conventional methods now in use) with the exception of bread, which I hope I never shall have to ration, and milk, which I believe I shall ration, whether I have to by force of necessity or not." At the same time the Minister announced the determination to deal with the problem of unrationed

- 4 -

foods by wider extension of food control. A new system of rationing was to be introduced of an experimental nature admittedly "full of administrative pitfalls". Among other commodities eggs were to be rationed under the new system.

When the new egg rationing system was introduced, the Minister was immediately revealed as a prophet of some stature. The "administrative pitfalls" presumably were all too apparent to the general public, and a storm of criticism arose. Some immediate changes were announced, although the scheme is still undergoing repairs.

Pending the time when the Ministry of Food discovers some method or methods to ration foods more generally, it may be assumed that the difficulties indicated above will continue. This assumption carries considerable significance as it relates to the prospective shipments of foods obtained from the United States under the Lend-Lease Act.

Rationing Problems arising from American

Food Shipments

From about the fall of France until the enactment of the Lend-Lease Act, the food policy of the Ministry of Food has been largely predicated upon (1) the supply of food available from domestic agriculture, (2) the possibility of obtaining supplies from (a) the Dominions and (b) the Plate, and (3) failing the foregoing sources, the United States, if and when the Treasury released dollar exchange. In other words, as much food as possible should be obtained from domestic sources supplemented by purchases from the Dominions and the Argentine, as shipping conditions permitted. The United States was, therefore, almost out of the picture.

This arrangement is significant from the standpoint of rationing problems, since it emphasized the sources with which Britain normally maintained trade relations before the war. Moreover, the Ministry was able to deal with a comparatively small list of foods fairly standardised and available in considerable volume which tended to minimize distribution problems. Furthermore, the trade was familiar with the physical handling of the commodities, an important point in war time when trained personnel are reduced to a minimum.

Since the passage of the Lend-Lease Act, the position of the United States as a potential supplier to the United Kingdom has risen to at least next importance to domestic agriculture. Presumably, the United States will eventually become the chief overseas food supplier, while shipments from more distant sources will decline.

Nevertheless, the United States may not be able, for at least a considerable time, to substitute adequate or similar products heretofore obtained from more distant sources. This situation complicates British rationing problems. For example, for a considerable time United States meat shipments have been confined largely to pork products because exportable surpluses of other meats cannot be made available readily.

Before the war, the United States had a considerable trade with the United Kingdom in pork products. Apart from ham and lard, however, the trade consisted of miscellaneous specialty pork products which played a small part in the meat diet of British consumers in general. The mere restoration of the pre-war trade, therefore, would contribute very little toward improving the British food situation.

Meat is rationed by value (1s.2d. per person per week) in order to take into account the various cuts of fresh meat. The system works fairly well since consumers are well acquainted with traditional cuts. If whole hog carcasses arrived, of course the rationing problem would be simplified since present methods could probably be adapted. On the other hand, assorted varieties of canned pork, especially if the volume were small, would create rationing difficulties. Should it be impossible to include pork in the present meat ration, the products could only be added to the miscellaneous unrationed foods which have caused the Ministry such grief. However, if a sufficient volume of standardized canned pork products were available, supplementary meat rationing system could be introduced.

The difficulties experienced by the Ministry of Food arising from importing some badly needed oranges further illustrate the problems occurring when foods are imported which cannot be rationed under existing methods. Until comparatively recently, citrus fruits had been practically nonexistent. The Ministry, however, bought a small quantity of Spanish oranges (about three small cargoes). With the arrival of the oranges, well heralded by unfortunate newspaper publicity, the Ministry found it had a distribution problem of major proportions on its hands. On a strictly arithmetic basis consumers would receive a fraction of a single orange. To make matters worse, the fruit were not uniform in quality. The Ministry, however, allocated the fruit among dealers largely on the basis of their pre-war volume of sales. An extremely keen demand for the oranges caused many retailers to distribute them largely on an "under-the-counter" basis. Considerable public dissatisfaction arose and charges were made that favoritism had been shown in distributing the fruit. Eventually the Minister had to defend himself in Parliament against accusations that his organization had "muddled" the whole matter.

- 6 -

A few small orange shipments subsequently arrived of which the Minister tactfully preferred to confine allocations to "heavily bombed" areas. Obviously, such distribution methods are no adequate solution. The corollary to the distribution of unrationed foods, particularly those in keen demand, is, unfortunately, that it is perfectly obvious to the general public that no absolutely fair distribution can be made. Consequently, suspicions are aroused that distribution is intolerably unfair.

In regard to the specific problem encountered in the orange distribution example, it appears quite likely that a reasonably satisfactory rationing system could be devised provided that (1) a fair volume of uniform quality fruit was available (say, one-quarter the pre-war volume) and (2) there was some assurance that the fruit could be available regularly (even for a limited period).

Some rationing problems will arise, and in fact have arisen, from dissimilarity of domestic products and United States products. American bacon, for example, is a different product from the standpoint of quality, cut, and amount of fat from the English product. The question arises as to how to distribute the less desirable American products in conjunction with domestic supplies. To consumers receiving only three or four slices of bacon per week under the present ration, it makes a considerable difference whether English, American or Canadian bacon is obtainable.

To some extent the problem may solve itself with English bacon supplies declining under the slaughter program, but here again is a case for maintaining a uniform quality of American bacon (also as nearly similar to the English product as possible) and in a volume at least sufficient to maintain existing rationing methods.

Recapitulation

The British are not concerned with a food shortage in the aggregate sense. They are seriously pinched, however, by the volume of food which can be distributed under the rationing system. In other words, the amount of food the individual consumer can obtain is limited by the volume of products which lend themselves to the present means of distribution.

If American aid in supplying food is to be effective, therefore, it must confine its food shipments to commodities which can go "on the ration". On the other hand, shipments of American food of a miscellaneous character may actually do more harm than good. Such shipments will contribute to the inequities in food distribution unfortunately already in existence and create more administrative problems for the Ministry of Food.

- 7 -

The optimum conditions for rationing food under the British system are about as follows:-

1. An adequate volume, so that there is some assurance that everybody can get at least some of the product.
2. A fairly regular flow of supplies, so that a definite ration may be fixed.
3. As uniform quality as possible of products with which the public is familiar.

ATM: EWH
820

COPY: new 8/4/41

July 31, 1941
3:13 p.m.

HMJr: Hello.

Operator: Senator Walsh.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Senator
Walsh: Hello, Mr. Secretary.

HMJr: How are you?

W: Very well, thank you. How are you?

HMJr: I'm very well, Senator. I wondered if either this afternoon or the first thing tomorrow morning I could come up by myself and see you?

W: Well, let me drop around and see you.

HMJr: Oh.....

W: I'll drop in at your office. What time do you get there?

HMJr: Oh, early.

W: Nine o'clock. How's that? Quarter past nine?

HMJr: Yes. I'm here at eight-thirty.

W: Well, I'll be there, at nine o'clock.

HMJr: Nine o'clock.

W: I'd be glad to.

HMJr: I'd love to come up and see you.

W: No, that's not necessary, Mr. Secretary.

- 2 -

HMJr: About nine.
W: Fine.
HMJr: I'll look forward.
W: Fine.
HMJr: Thank you.

July 31, 1941
3:15 p.m.

GROUP MEETING

Present: Mr. Bell
Mr. Sullivan
Mr. Viner
Mr. Cochran
Mr. Thompson
Mr. Gaston
Mr. Odegard
Mr. Foley
Mr. Blough
Mr. Schwarz
Mr. White
Mr. Kuhn
Miss Chauncey
Mr. Graves

H.M.Jr: Harry White's prescription, how to keep cool.
Read the July 8 New Republic, "The Mirage of
Production".

White: How to keep cool in your feet and hot under
your collar.

H.M.Jr: And straight.

Norman, you look as though you had had a little
golf.

Thompson: I stole some time and played golf.

H.M.Jr: Good for you. Getting sense in your old age?

- 2 -

Thompson: I really enjoyed it. It was awfully hot.

H.M.Jr: What did they do, get you back this morning?

Thompson: Yes.

H.M.Jr: Tough luck. What do you know, anything?

Thompson: No, I find everything all right in my shop.

H.M.Jr: Dan, next to Norman, you look pale.

Bell: Really?

H.M.Jr: Yes. You had better get sensible like Norman.

Bell: He looks disgustingly healthy.

The State Department is rather anxious to send a note this evening to the Bolivian Government to show that they are behind the President's statement in connection with this Nazi uprising in Bolivia, and they want to include in that statement a paragraph along these lines: "The Government of the United States is prepared to consider the practicability of measures which may be suggested for cooperation with the Government of Bolivia in the stabilization of the Bolivian currency, and the appropriate authorities of the Government of the United States are undertaking studies with a view to formulation of specific suggestions" --

H.M.Jr: How many initials are there on it?

Bell: "Which may be made by the Bolivian authorities." None. But what I would like to know is if you are willing for us to work on a paragraph.

H.M.Jr: Give me a half dozen initials and I will O.K. it.

- 3 -

Bell: I think I can get the O.K. of the policy, but not of the paragraph.

H.M.Jr: Just give me half a dozen initials. You have got enough talent around here. I don't give a damn.

Bell: I will get the initials. You tell me whether you will go along.

H.M.Jr: If there are enough initials on it, I will go along.

Bell: That doesn't answer my question. (Laughter)

H.M.Jr: I want six initials, and you can start with Miss Chauncey. (Laughter)

All right. What else have you got?

Bell: Well, can I work it out with the State Department?

H.M.Jr: Yes, work it out.

Bell: That is all I want to know.

H.M.Jr: How is the fishing down in Bolivia?

Bell: Indeed I don't know.

H.M.Jr: I just came back to sign these blankety-blank commissions and then I can go back and go fishing. What else?

Bell: At one of the last meetings with the British, you made some statement about profiteering in connection with the sale of Lend-Lease goods in Great Britain, and I think the statement you made was that there should be no profit anywhere along the line.

- 4 -

H.M.Jr: On material that we bought.

Bell: On material that they buy from us under Lend-Lease.

H.M.Jr: That is right.

Bell: Well now, that is holding up a number of requisitions until some policy is worked out and there has been drafted --

H.M.Jr: Don't hold up any requisitions.

Bell: A letter over in the Lend-Lease office and sent over for our approval which we have just gone over and we think it is a good letter.

H.M.Jr: From us?

Bell: No, it isn't from us, it is from General Burns to Purvis, and we think that the policy, first, whether or not the commodities can be legally bought and whether or not as a matter of policy they should be bought under Lend-Lease, is a matter for General Burns and the President to decide.

H.M.Jr: That is right.

Bell: As to whether or not the commodities or articles can be spared is a matter for the President to decide through the OPM.

H.M.Jr: Check again.

Bell: And that when Mr. Mack gets the requisitions with those indications on there that everything is otherwise clear, that he has nothing to do but go ahead and purchase them, and that he shouldn't raise any questions about profits and anything else.

- 5 -

H.M.Jr: But I raised that question.

Bell: I know you did, but because you raised it, you are holding up a lot of requisitions, and we think that --

H.M.Jr: Well, I didn't say hold up the requisitions. I haven't heard, for instance, from Coe yet.

Cochran: We have the wires in now, three cablegrams from Coe.

Viner: But Procurement is holding them up because somebody who was doing the distributing gets a commission or a fee, and they are interpreting it as not profiteering, but they are looking for a profit, which is a term that covers the ordinary cost of distribution.

Bell: That is right.

Viner: And Procurement is holding up these shipments because some private distributing agency in England is getting a commission or a fee. The fee may be less than their cost and yet Procurement would hold it up.

Bell: Mr. Keynes made the statement at our last meeting that the British Government was paying out annually over a hundred million pounds in this distribution system, that that was a subsidy to the distributors.

H.M.Jr: Well, until I have got time to look at it - there you are, right there, Graves. You tell Cliff Mack go right ahead today until I get a chance to look at it.

Graves: Right.

H.M.Jr: Clear things up until I have time to take a look at it.

- 6 -

Graves: Yes, sir.

Bell: Go ahead on the requisitions he has got?

H.M.Jr: Sure, clear everything today until I get time to look at it.

Bell: You ought to have a meeting the first of the week, Monday or Tuesday, with the British, at which time this might come up.

H.M.Jr: Well, I have got to first decide before that which are good songs to go on the next radio program. That has got to come first, so in the meantime don't hold up any requisitions. Then I have got to read Harry White's New Republic. I have got a lot of stuff to do.

Bell: In the meantime, the machinery is stopped.

H.M.Jr: In the meantime, it is going. A green light, Harold. Tonight. Nothing is stopped.

Bell: We have got a couple of letters to go to Purvis and he is leaving.

H.M.Jr: He can clear the stuff two minutes after this fellow leaves here. Two minutes after Harold Graves leaves here the letters are cleared.

Bell: But these letters are not cleared.

Cochran: Could we continue to clear those until we do get the letters straightened out?

H.M.Jr: Clear what?

Cochran: There will be some more of these requisitions, about ten or fifteen a day.

H.M.Jr: Clear them every day.

- 7 -

Viner: They are holding up sixty requisitions on that item.

H.M.Jr: I hope I never live to see the day that I am called the neck of the bottle. What do you say, Viner?

Viner: I didn't say anything. On sober second thought, I didn't say a word. (Laughter)

White: It is a funny name for sober.

H.M.Jr: Harry's neck is better. What else, Dan?

Bell: Can you have a meeting the first of the week with the British?

H.M.Jr: Sure. Wednesday, three o'clock.

Bell: It is a little late.

H.M.Jr: Tuesday at three o'clock?

Bell: Tuesday would be better.

H.M.Jr: Sold.

Bell: All right.

H.M.Jr: In the meantime, the stuff goes through every day. What else?

Bell: That is all.

H.M.Jr: It is all clear at the White House on the tax letters. It was a damn good letter, too. The President was very much pleased with our letter. He didn't change anything, but fixed his up a little.

About tomorrow again, I think you might go up on the Hill as long as you put on your armor, John.

- 8 -

Sullivan: This letter gets mailed out just before you and he leave tomorrow?

Bell: There has been a lot of arranging done this week.

White: You will deliver it by hand.

H.M.Jr: As you set your foot on the plane, Frank Knox's plane to leave town, we deliver the letter.

Sullivan: Are those orders?

H.M.Jr: Yes.

Sullivan: I already have the invitation.

H.M.Jr: You had better go. You will need the strength next week. I am going down the river with him tonight.

Sullivan: In course of duty. (Laughter)

Foley: Cited for bravery.

H.M.Jr: Anything else, Dan?

Bell: That is all.

H.M.Jr: The President was very complimentary on the Treasury letter, and so am I. Certainly there is nothing we have got to apologize for on that.

Bell: Our letter is all right. I don't know what he said in his.

H.M.Jr: He not only didn't say anything to weaken it, but he strengthened our letter, because the part on lowering taxes, lowering the bases, I mean, he says that he didn't discuss it, you see, so it leaves us all right.

- 9 -

- Sullivan: He never mentioned that at all?
- H.M.Jr: He says, "I never discussed this with you and Jere before. I am bringing this to your attention for the first time."
- Bell: He isn't mentioning what the Treasury has said about it?
- H.M.Jr: No, but before that he keeps referring to the Treasury letter.
- Bell: That is all right.
- H.M.Jr: Then he switches. It is three different things he is talking about. One is excess profits, two is joint returns, and three lowering the base. Now, the first two refer to the Treasury letter. Then he goes on to the third and says, "I have never discussed this before," and he doesn't refer to the Treasury letter, so it is obvious that it is his own stuff.
- Gaston: In the letters to Doughton?
- H.M.Jr: To Doughton. Needless to say, everybody be careful not to say anything until it is on the ticker.
- Bell: What are we to say after that?
- H.M.Jr: Well, Sullivan holds a press conference and explains it the way Foley did the other night on explaining the other thing.
- Schwarz: You will get your picture in Time Magazine.
- Sullivan: There is a complete answer..
- H.M.Jr: Don't you think a vacation for me is good? From now on I work one day a week. Harry?

- 10 -

White: The machinery is going forward on getting daily reports of exports of those three countries. I already have some, but I will keep them until --

H.M.Jr: What about Professor Hall? Who is contacting Professor Hall and who does he see? Do you know Professor Hall?

Viner: Noel Hall?

H.M.Jr: Yes.

Viner: I have never met him.

H.M.Jr: Who is bringing him into the picture?

White: I will get in touch with him and have him meet Foley.

H.M.Jr: May I remind you again in two weeks?

White: If he is in town I will get him right away.

H.M.Jr: Wonderful. What else, Harry?

White: You asked --

H.M.Jr: It is asinine not to use a man with his information. He has got more information about Germany than anybody else in the world, and here he is sitting in Washington and as far as I know, nobody uses him. And he has the rank of Minister.

White: You asked us to get in touch with the Standard Oil, Walden of the Dutch East Indies. He is down here and here, I think, is a rather interesting statement. His name is Walden. The other chap was away on vacation and he took his place, but he was thoroughly cognizant of what is going on there. There have

- 11 -

been no shipments of oil to Japan. We are keeping daily shipments and so on in the last few days. We have a memorandum, if you are interested, on the impact of prohibition of silk on our economy. I can merely say briefly that the various agencies agree that there would be no harm in stopping all imports of silk, but I will make the memorandum available.

Sullivan: Could I have a copy of that, Harry?

White: Right.

Foley: The barrage is just beginning to come, Harry, because on the ticker today a couple of mills have been closed and another mill is going to be closed, and they are going to throw eight hundred or five hundred additional employees out of work.

White: Well, that doesn't check with the data which is available.

Foley: And those labor organizations are going to be descending on us, and I think we had better be equipped with all the data and material and information --

H.M.Jr: I ought to send somebody up to Gotham Hosiery and find out why they closed.

White: I have got a man who knows a good deal about textile manufacture, from whom we could get a lot of information if you want to send him around to examine the hosiery. (Laughter)

Bell: Where is it?

Foley: You don't want to know yourself, do you, Harry?

White: I will survey the field after he deletes the rayon users. (Laughter)

- 12 -

H.M.Jr: Well, Harry, I really think it would be worthwhile sending somebody up to Philadelphia. The story I saw was about Gotham. Philadelphia is the hosiery center. That is where they make them.

White: Well, I think somebody from George's shop ought to go up.

H.M.Jr: Where is George?

Bell: He stayed away this week. He wasn't feeling so well.

White: But I will be glad to send somebody.

H.M.Jr: No, if it is George - ask somebody, will you, Dan, from George's shop to go, will you?

Bell: Yes, sir.

H.M.Jr: The sooner the better.

Foley: And before he goes, Dan, you might have him talk to Joe O'Connell and Harry's man, who have attended some meetings with Henderson and OPM and some of the other agencies.

Bell: All right.

H.M.Jr: Will you?

White: I think what we might do is send one man to Philadelphia and one to the New Jersey area, which is a big textile center, and see how their reports are reconciled.

H.M.Jr: Let somebody be on the spot Monday morning.

Bell: I will do that.

- 18 -

H.M.Jr: And they might, before they go, also see Lubin and see whether Lubin has any suggestions.

Sullivan: On the Hill they are talking about a tax on silk.

Gaston: Harry, you were speaking about a daily report on oil shipments to Japan. You are familiar with that report, aren't you, that George gets out that shows daily all shipments of oil to Japan?

White: I am not familiar with it. We get this from our shipping control downstairs.

Gaston: There is such a report that George is getting out daily that we have been getting out for some months. Copies go around to different --

H.M.Jr: I don't get them.

Gaston: I think you said it wasn't - I think some time ago you said you didn't want them any more. There is a daily report --

H.M.Jr: I get a weekly one.

Gaston: Well, this is the daily on which the weekly is based. It gives the name of the ship and the amount of oil and so on.

White: Well, I think we get that from the same place George gets it, which is from our shipping control. I didn't know he was getting it.

H.M.Jr: Get together with George.

Gaston: Shipping control? What is that?

White: There is a shipping control office downstairs.

Gaston: The Merchant Shipping Control office is not in the Coast Guard. It isn't here.

- 14 -

H.M.Jr: It used to be here. Anyway, it is Coast Guard.

White: Our man said he gets it from a downstairs office.

Gaston: The only point is that there is no use duplicating it.

Viner: Harry, that is the White House across the street.

White: You mean we are on top of the White House in many ways? (Laughter)

H.M.Jr: What else have you got, Harry?

White: That is all.

H.M.Jr: Wonderful. Chick?

Schwarz: If you are not having a meeting in the morning I would like to check - will I take you or you and Dan tomorrow across the street for a picture?

H.M.Jr: The word I got was Dan and me.

Bell: I thought it would just be you and the President.

H.M.Jr: The word I got was Dan and me.

Chauncey: I got that message from General Watson and I told Mr. Bell about it.

H.M.Jr: A quarter of one with Dan and me, and the President feeds me at one o'clock.

Schwarz: I will check on that.

Chauncey: Mr. Bell has the check.

Bell: Yes, sir, and the bonds.

- 15 -

H.M.Jr: All right. We will have Barry Wood come down and sing a song.

Schwarz: "Any Notes Today"?

H.M.Jr: Yes. Anything else?

Schwarz: That is all.

H.M.Jr: Harold?

Graves: While you were away we received addressed to you a very cordial letter from the Secretary of the Interior, acceding to our request for an indefinite extension on this Treasury House.

H.M.Jr: I see that you are pleasantly disappointed by your figures of July exceeding May. I think you ought to be ashamed of yourself.

Graves: I am. On the basis of our cash deposits, the sales of all three bonds through yesterday were nine hundred ninety-two million.

H.M.Jr: Nine hundred how much?

Graves: Nine ninety-two, and I think it is almost certain that today, the thirty-first, we will go over the billion.

H.M.Jr: Why not let's have a little something for --

Viner: Press release.

H.M.Jr: To take over and let the President give it tomorrow when he signs.

Graves: Mr. Kuhn, I think, has a statement ready now. We won't know until about noon tomorrow.

H.M.Jr: Well --

- 16 -

Kuhn: We can take a chance.

Graves: If that will be too late.

Bell: Harold, you could include stamps.

Graves: No, you can't include stamps, because in the first place we don't know stamps, and in the second place, stamps duplicate on the bonds.

H.M.Jr: Well, if worst comes to worst, Dan can shove some of Saturday's in to Friday's. He has done that before. (Laughter) In the good old days when Mellon was here.

Bell: The President used to accuse me of having an extra pocket.

Graves: I think no doubt, without any fudging, we will have it --

H.M.Jr: Oh, Dan can fudge the figures.

Viner: He might make a mistake in addition.

Bell: That is right.

White: Jake can always give you that.

Bell: It might go the other way, Jake.

Viner: That is subtraction.

H.M.Jr: Anyway, we will take it over and see if we can't get the President to give it.

Graves: What time do you need it for that?

H.M.Jr: A quarter of one.

Kuhn: A little statement for the President to make rather than for you?

- 17 -

H.M.Jr: If he will do it.

Kuhn: If he won't, then will you do it tomorrow?

H.M.Jr: Yes.

White: I had occasion to see a long letter that had Mr. Graves' signature to Mr. Studebaker describing their campaign and the purpose of it. I must say it was very excellent. I don't know who wrote it. It was an excellent job.

H.M.Jr: Harold, will you stand up and take a bow? He can't be a hundred per cent nice. He says it was a letter but he doesn't know who wrote it.

Graves: As a matter of fact, that letter was done, as I understand, by George Forte Milton and Peter Odegard, and it was, I thought, a very excellent statement of our program in so far as it affects the educational institutions, but I decline to take a bow, because all I did to it was sign it.

H.M.Jr: Would you mind asking Mr. White what the hell he is doing putting his nose into Studebaker's shop? Why can't he come and see your letters in your room?

White: It was Studebaker's foot in my shop, not mine in his.

H.M.Jr: What else, Harold?

Graves: I have nothing else to bring up here.

H.M.Jr: I thought if we had a few minutes you and Peter and Ferdie might stay behind and we will chew the fat a little bit.

- 18 -

Odegard: I have some people waiting in my office and I will come back.

H.M.Jr: All right.
(Mr. Odegard left the conference).
Dr. Viner, will you be here tomorrow?

Viner: Yes.

H.M.Jr: We will get together. Right after the nine thirty meeting?

Viner: Yes.

H.M.Jr: Miss Chauncey, put Dr. Viner down, please. Did they treat you all right?

Viner: Oh, yes, I had a nice vacation.

H.M.Jr: Did you get my message about looking into this whole business?

Viner: No.

H.M.Jr: Do you sit in on this meeting on --

Foley: Yes.

H.M.Jr: You do?

White: He not only sits but participates.

Viner: No.

Foley: Yes. (Laughter)

H.M.Jr: All right. Well, I personally - I mean, I think everything that I heard is grand

- 19 -

in the matter of operations, but I am not convinced or sold yet that people like Noel Hall, and all these people are all tied in, and that everything is locked up tight, all the loopholes for stuff that gets to Germany is tied up in South America.

White: Why don't you tell the Secretary about the suggestion of yours for this coordinating committee with them, which is part of this picture?

Foley: That is what I started to tell him, and you shut me off. (Laughter)

White: Do you remember what I shut you off with?

Well, go on.

Foley: Yes.

H.M.Jr: I am so glad he is feeling well.

Go on, do some more, Harry.

- 20 -

Foley: We made the suggestion to Dean Acheson that he organize a coordinating committee over in the State Department so that the other governments that have machinery similar to ours to handle the Far Eastern situation operate in concert. In other words, Australians, Canadians, and the other dominions, Great Britain.

Viner: Dutch East Indies.

Foley: Dutch East Indies ought to - I mean, they want to cooperate and they don't have much interchange of information among themselves. They will give the United States the information, but Canada won't give it to Australia and Australia won't give it to Great Britain, and I suggested to Dean that he draw those groups together and he keep them informed as to what we are doing here so that if we grant a license, then they grant the license. If we shut down on a particular commodity, they shut down too, so that we have a united front and we have the most effective control, if possible.

H.M.Jr: And I hope from time to time you will tell Mr. Wallace about it.

Foley: Yes, we will let him know once a week.

H.M.Jr: I think it is swell.

Were you through, Jake?

Viner: Yes.

H.M.Jr: Ferdie?

Kuhn: Nothing.

H.M.Jr: What is that, Merle, some --

- 21 -

Cochran: I have all of those.

H.M.Jr: Will you send them up to the house?

Cochran: All right, fine. This is a copy of the message that went to Casa Blanca (July 24, 1941). Mr. Welles initialed that personally the other night.

H.M.Jr: Oh, yes.

Cochran: And I wrote Mrs. Lehman and sent her a copy.

H.M.Jr: Can you send a copy to Mrs. Morgenthau at Hopewell Junction?

Cochran: I gave one to Mrs. Klotz. I thought Mrs. McHugh sent it.

H.M.Jr: Mrs. Klotz wasn't here Monday.

Chauncey: No, this was Friday before she left.

H.M.Jr: You haven't heard?

Cochran: No.

H.M.Jr: Thank you.

Cochran: Here is the plaque. That is a sample of what they are giving the crews of those three destroyers. They wanted to know whether you approved that finish before they go on with the others.

H.M.Jr: Yes.

Now, if I am not mistaken, I think Captain Beardall is the President's Naval Aide.

Cochran: Yes. We have two of those now.

- 22 -

H.M.Jr: That is perfect.

Cochran: Then I will get the other two finished. I will send these messages to the house.

H.M.Jr: If you please. Everything else all right?

Cochran: We have one also from Turkey. You remember we sent an inquiry out there about taking over French properties and so on.

H.M.Jr: Yes.

Cochran: I will send you that.

H.M.Jr: What sort of report did you get over the week-end on your Mrs?

Cochran: Very good. We went up to New York for two days.

H.M.Jr: You got a good report?

Cochran: Very good, thank you.

Sullivan: "Skeeter" Johnson is being retained as Clerk of the Senate Finance Committee. "Skeeter" Johnson, who was Clerk of the Senate Finance Committee under Pat Harrison is being retained. They think he is about the only one in the staff who is being retained, and he called right after lunch. Senator George expects the bill will be over there by next Wednesday, and he would like to spend Wednesday and Thursday in executive session with Beaman and O'Brien and Stam and myself and just explain the bill, not arguing any of the merits of it, to the members of the Committee. And then go ahead either Friday the eighth or Monday the eleventh with you, starting public hearings.

H.M.Jr: When?

- 23 -

Sullivan: Either Friday the eighth or Monday the eleventh. He intimated that he thought that the eleventh would be preferable, and I didn't commit myself.

H.M.Jr: That would be perfect, because I am planning to leave on the fifteenth again, you see.

Sullivan: Well, I think in view of certain delays that may occur, I had better tell him that the eighth would be a little bit too soon.

H.M.Jr: No, I would tell him the eighth and then let him postpone it. Say I am ready the eighth.

Sullivan: Well, they will announce it right off.

H.M.Jr: Well, so much the better. It will go over anyway, but--

Sullivan: I don't think it will.

Bell: What is the matter with the eighth?

Sullivan: Well, I am not so sure that this thing is going to get out of the House.

Bell: Then it will be postponed.

Sullivan: Then in that event it would be postponed.

Foley: But it won't be the Secretary's fault.

H.M.Jr: I would tell them I will be ready the eighth.

Sullivan: The eighth or which ever date they prefer?

H.M.Jr: No, I am ready the eighth.

Sullivan: You are ready the eighth?

H.M.Jr: Yes.

- 24 -

Sullivan: All right. He asked me to get your preference.

H.M.Jr: I will be ready any time from the eighth on.

Sullivan: Right. All right, I will--

H.M.Jr: Now, with that in mind, I would like Roy Blough and Ferdie to go to drafting at once.

Sullivan: Roy has already started on that.

H.M.Jr: And then as soon as we - I would like to have something Monday, you see, and if you have anything before Dr. Viner goes, give him something so he can take it, and then he can telephone back his criticisms, you see, but I would like very much to use that memorandum that--

Sullivan: The first part.

H.M.Jr: That we prepared for the President.

Sullivan: That is very good.

H.M.Jr: Bringing it up to date simply in view of what the President has said and Henderson and so forth. I think that is about as good as anything. I haven't read it, but Eccles sent me this morning his article which is going to appear in the August Fortune on, I gather, taxes. Has anybody seen it?

White: For correction before he sends it or merely for information?

H.M.Jr: No, no, it is all printed. I said it was Eccles. (Laughter) I won't read it. Why don't you give it to those people? It came in this morning, and I said to send it to the house. Did I give it to you?

- 25 -

Chauncey: No.

H.M.Jr: It must have been Bob McHugh. He is the only other person I have seen. I won't read it over the week-end.

Chauncey: Give it to who?

H.M.Jr: Blough.

Sullivan: Among your fan mail was a declaration of the second war between the states. "Much opposed to joint income tax returns. In fact, refuse to pay that way. Great majority of Kentucky women are with me."

Bell: Women are women. (Laughter)

H.M.Jr: Ask George Haas' experts who investigate the silk industry, et al., to go down to Kentucky on it. Maybe White will want that job.

White: Not Kentucky.

Viner: That isn't an industry, it is an institution.

Sullivan: That is all sir.

H.M.Jr: I am going to call Senator George to congratulate him.

Sullivan: Fine. You are not going to call Doughton?

H.M.Jr: No.

Sullivan: Good.

H.M.Jr: I will take the leaf out of Sullivan's book. I will gradually pick up a little New Hampshire politics. All right.

Foley: Before you went away Gordon Rentschler came in

- 26 -

to see you and mentioned the Silesian-American Corporation, a matter that came up before the policy group on Saturday afternoon. After a good deal of Saturday afternoon--

H.M.Jr: When?

Foley: Last Saturday afternoon.

H.M.Jr: Were you there?

Foley: I was there. After a good deal of consideration and debate back and forth, it was the unanimous decision of the three Departments that the license not be granted, and we put it out. We expected to have a good deal of pressure, and we did have some pressure. Averill Harriman is interested and a fellow by the name of Wolfe who represented the Anaconda Kellys. He tried to get through to the President on the matter Saturday night.

H.M.Jr: I have heard of the New Hampshire Sullivans, but not the Anaconda Kellys.

Sullivan: I am kind of suspicious. This is the high bracket for that tribe.

Gaston: You never heard of Kelly, the King of Montana?

H.M.Jr: No.

Foley: He got hold of Steve Early, and Steve put him in touch with Herbert. They were quite--

H.M.Jr: Steve?

Foley: Early. He tried to get through to the President.

Gaston: He just tried to get to the President and was

- 27 -

referred to Early, and Early said, "Well, talk to Gaston about it," and he did.

Foley: Colonel Donovan got hold of me on Sunday morning, and he wanted to send out a memorandum which he did and --

H.M.Jr: In which capacity?

Foley: Well, he said that you had told him that he might bother me from time to time, and he wasn't going to take over until Tuesday in his new capacity, and therefore he felt that he could call me up and send out a memorandum, so I called him back after I got the memorandum and I told him that we had turned the thing sown and there wasn't anything that could be done about it.

H.M.Jr: He is doing this as an attorney?

Foley: Yes.

H.M.Jr: It is the damndest thing I ever heard of. I told him he could bother you as working for President Roosevelt. I am surprised that he should twist a thing like that.

Foley: He said, "These fellows are going to put out a statement," and I said, "We are going to put out a statement also. We will be on the ticker before the market opens Monday morning." So then he talked about Wiley and some of the other things in connection with this new set-up, but I thought you ought to know that there was a good deal of commotion because we did turn them down.

H.M.Jr: There was one thing which I am not satisfied on that Rentschler mentioned, and I want that run down to the bottom. Did you get the message?

- 28 -

Foley: Yes, and Mr. Secretary, the reason that that was held up is just because of the number of applications in the New York office.

H.M.Jr: That isn't what I mean.

Foley: That Jewish organization?

H.M.Jr: No.

Foley: Oh.

H.M.Jr: What I am talking about is that Rentschler told me that the go-between was Lazard Freres working through a Swiss corporation.

Foley: That is right.

H.M.Jr: Now, what I want to know--

Foley: That is right. I just got your memorandum on that a few minutes before I came in here.

H.M.Jr: Just wait a minute, Ed. I happen to know that a lot of that went on during the last war and the man who is handling it, he mentioned it, is this former German banker.

Bell: Jeidels.

H.M.Jr: What I want to know is, and I don't have to be knocked over the head twice, is how many other deals has Jeidels got on, and I wouldn't hesitate, on the part of the United States Government, to send for Mr. Jeidels and say, "Now, here is this deal. How many more have you got on? We would like to know.

Cochran: We had correspondence yesterday with the British on Jeidels.

H.M.Jr: You see, I never forget these things.

- 29 -

- Viner: Mr. Secretary, if anything develops on Jeidels, talk to me. I have got some - I know him, and I know something about him.
- H.M.Jr: I would like to know it right after this meeting.
- Bell: Jeidels came to see me late last week on this very case at the suggestion of Johnny Hanes, and I offered to turn him over to Foley, and he said, "No, I just want to put in a word for the thing," and I passed him on to Foley.
- Foley: I cleared with Dan our action before we announced that we had rejected the application, and Dan said, "O.K."
- Bell: That is right.
- H.M.Jr: Now let me tell you something. The former Undersecretary of the Treasury used to be the last one under Mills.
- Bell: Ballantyne?
- H.M.Jr: Arthur Ballantyne. That was Lazard Freres' pipeline into this Treasury.
- Now, they never could have one as long as I was here, and the Lazard Freres in London - well, I won't go into the whole story, but they have always got their pipelines with the Government, and this is the only time they have never been able to have a pipeline into the Treasury. Along comes Jeidels. He comes down here and he gets just like that with Johnny Hanes. I warned Johnny.
- Viner: Johnny Hanes? General Wood. That is what I know.
- H.M.Jr: Johnny Hanes and General Wood?

- 30 -

- Viner: No, Jeidels.
- H.M. Jr: That I didn't know. But I know this Lazard Freres crowd, so when he dropped the word "Lazard Freres," I wanted to find out about it. I don't see why we don't send for Jeidels. I don't think he has got his citizenship papers. Simply send for him and say, "What other deals have you got?"
- Gaston: Do you want to have a little look into him and see what there is down town on him?
- H.M. Jr: I sent a message through I wanted Lazard Freres.
- Chauncey: That went through this morning.
- Foley: Jake, we didn't - every one of us felt that this Swiss Banking Corporation for which Lazard Freres was acting as agent in this country was fronting for a German interest. We didn't have the proof. You can't know those things definitely with documents, but we all had the same impression, and we turned it down. It is very funny that - I mean they have got the property. The American interests haven't had anything to do with the property, don't know what is going on in the property, haven't been near the mines, so that the Germans can't get any more control, but it is like all these other deals that are coming along. The I. T. and T. deal, the Standard Oil in Hungary and the Standard Oil in Germany, all of these properties now the Germans want to buy and we have turned down all of them so far because there is no need of determining a policy in so far as our property there and their property here until an over-all policy can be established.
- H.M. Jr: Now, I want to make this suggestion, that we

- 31 -

consider sending a group which is comparable to the group we sent to the Philippines to Switzerland. I think it is far more important. And one to Sweden. I think it is far more important that they go to Sweden and Switzerland than it is that they do to the other place. I would like - because the State Department wouldn't go along with me on Sweden and Switzerland that you had to prove your story before you acted, the burden of proof, but only after. But I would like that committee when you meet - you meet at four o'clock don't you.

Foley: Yes.

H.M.Jr: I suggest that we send comparable experts immediately to Sweden and to Switzerland.

Bell: There will be a handicap that they wouldn't get cooperation in those countries.

Foley: The problem will be different in so far as Sweden and Switzerland are concerned.

H.M.Jr: Now, look. You have got this Swiss Corporation with two or three million dollars right here in New York, and I am sure that - well, look, supposing it costs us twenty-five thousand dollars to each place. That would be a top figure, wouldn't it, for one year?

Bell: I suppose so.

H.M.Jr: You might catch - you might lose fifty thousand and you might catch--

Foley: Five hundred million.

H.M.Jr: Yes.

White: I think you might insure their cooperation by

- 32 -

the fact that you control whether or not they shall have these general licenses, so under normal circumstances you might have difficulty getting their cooperation, but under the present circumstances I think they would be eager to cooperate because if they don't cooperate there might be a cancellation of the general license.

- Foley: That is right. We would put them on a special license basis. Both countries are operating that way.
- H.M.Jr: When I heard Jeidels, Lazard Freres - here is Bob Brant, a member of Lazard Freres of London, controlling the food purchases in this country for England. I think it stinks.
- Cochran: In a cablegram today Fox is asking for observers on freezing at Shanghai and Hongkong.
- H.M.Jr: God, I--
- White: That is even more important, I think.
- H.M.Jr: I would spend the money liberally.
- Foley: I think you are right. Of course the problems in so far as Honolulu, Manila, and Fox are concerned, are operating problems. The problems in Sweden and Switzerland are problems of observation and detection, and you require a different kind of personnel, but you have to have people who are familiar with our controls.
- H.M.Jr: I wouldn't keep any man out too long. I would keep him out and let him get the experience and send him back and send somebody else. We will train these fellows.
- Cochran: I have a message today, and I will send it along with these other things tonight.

- 33 -

H.M.Jr: All right?

Foley: Yes.

H.M.Jr: But that kind of stuff - was there something else about Jeidels you wanted to tell me?

Viner: I can tell it here. Jeidels was invited to talk to a small group, of which General Wood is chairman, in Chicago, and I was there at that meeting, and it was an argument that democracy was through and finished and that Hitler really had the right idea but had made certain mistakes, gone too far in certain directions, and General Wood was saying, "You are right. You are right." And I protested a little, and then the meeting broke up, and I walked over to his hotel with him, and I told him, "You are not doing a Service to the United States by talking like that in this country, Mr. Jeidels." Now, I think I have a record on that, because I think the meeting was one in which there was a secretary that I know--

H.M.Jr: I would like to know, and I would like to know whether he is an American citizen. You say Johnny Hanes got into this?

Bell: Johnny Hanes called me up and said he knew this fellow, and he was all right and wondered if I would see him. I said, "Sure, I will see him if he has got business with the Treasury." He came in and this was the story he told me about this company, and I said, "All I can do is pass it on to the people who are handling it, and I am sure they will give it every consideration."

Then Saturday Ed called me up and asked me if I was interested in the case, because of this conference I had, and I said, "No, go

- 34 -

ahead and do what they thought was right."

- Viner: I would like to add this item that just the other day the Financial Attache of the Hungarian Embassy came in to see me and told me that on that deal that so far has not been approved--
- H.M.Jr: The Hungarian has not?
- Viner: He said he and his Minister hoped we would disapprove it, and it is their impression in the Embassy here that while they can't tell you that, that everybody in Hungary hopes you disapprove it because they think it is being done under coercion.
- Foley: You see, Mr. Secretary, up until the time Germany picked up gold and picked up foreign exchange in Holland and Belgium and these other countries, she wasn't interested in buying any of these properties in Germany. She had the benefit of the use of those properties. Now she has got some gold and some exchange, and she is coming around and the same deals appear in each one of these.
- H.M.Jr: She has got a billion dollars of gold that she picked up at Casa Blanca, the French and Polish and Belgian gold.
- Foley: Ane she is trying to buy out American interests in German concerns.
- Gaston: To alienate them no matter what happens in the war.
- Foley: That is right, no matter what the result of the war may be.
- Viner: And she doesn't care what price she pays, so

- 35 -

that these people who owned the property are being offered much more than the book value now.

Foley: This Silesian thing was much more than it was worth because the bonds were no good and they were running up an exchange on the anticipation we would grant the license and this money would be made available to this Swiss banking group to be used to pay off these bonds here in order that the equity in the German properties would be repatriated in Germany. And that is the only value that the darned bonds had.

H.M.Jr: Talk to me sometime about publicity on that, will you. I have got some ideas.

Foley: Yes.

H.M.Jr: O.K.?

Foley: Yes.

H.M.Jr: Want to go to your meeting?

Foley: Yes.

Viner: On that--

H.M.Jr: Wait a minute.

Viner: Talk to Miller. You know, "You Can't Deal With Hitler." Douglas Miller. If you want the history on that, get the lines from him. He knows those details. He is still in the State Department, isn't he?

White: No, he was, but he is no longer. He is a free-lance now.

Viner: Oh, yes, Rockefeller Foundation.

- 36 -

White: Merle said he was mixed up in some exchange problems.

Gaston: I had some other things I have been working on with him that are pretty bad in that investigative set up.

H.M. Jr: Really.

Gaston: I would like to get them straightened out, but this looks a little worse than the rest of them.

H.M. Jr: Oh!

Thank you all.

July 31, 1941
4:15 p.m.

Gardner
Jackson: Yes.

HMJr: Hello.

J: How are you?

HMJr: I'm fine. How are you?

J: All right, thank you. I have this query.

HMJr: Please.

J: A friend of mine, representing the International Union of Butcher Workmen, which are the meat cutters and the packing house fellows.....

HMJr: Yeah.

J:A. F. of L. - they're anxious to plunk down a million and a hundred thousand on Defense Bonds.

HMJr: Yeah.

J: They want to beat the top figure that is now existing, which I think is Amalgamated.

HMJr: Yeah.

J: They want to extract the most good for your campaign and the labor movement in the process.

HMJr: Yes.

J: They asked me whether I could possibly talk with you and maybe get them a chance to have five minutes with you if that was advisable or not. What do you think?

HMJr: Well, I'll tell you what I'd like to do, just so to keep my organization line straight.....

J: Yeah.

- 2 -

HMJr: What's-his-name handles these labor things for me.

J: Houghteling.

HMJr: Houghteling, yes.

J: Well now, I'll tell you what they did. They went to the man whom Houghteling took on.....

HMJr: Yeah.

J:who is a friend of mine - old Gil Hyatt.

HMJr: Yeah.

J: They went to him.....

HMJr: Yeah.

J:and he just wanted to be sure that everything of the most nature could be extracted out of this for the campaign.....

HMJr: Well, Gardner, unless there's something I don't know about, I'd love to have you bring them in. But just let me check through Houghteling's office.

J: Okay.

HMJr: And either I or Houghteling will give you a ring in the morning.

J: Okay.

HMJr: How's that?

J: That's fine.

HMJr: Thank you so much. Sounds good.

J: Yes, it is.

HMJr: Are those the same people who put on that swell art exhibit up at New York?

- 3 -

J: They're the ones.
HMJr: Well, they're good people.
J: You bet.
HMJr: All right, Gardner.
J: Okay.
HMJr: Take care of yourself.
J: Thanks.
HMJr: Good-bye.

July 31, 1941
4:39 p.m.

HMJr: Hello.

Operator: Senator George.

HMJr: Hello.

Senator George: Hello.

HMJr: Henry Morgenthau speaking.

G: Yes, Henry. This is Walter George.

HMJr: Walt, I just wanted to tell you I was delighted to read that you accepted the Chairmanship of the Finance Committee and to tell you that.....

G: Well, Henry, I don't know. Of course, there's more work involved and I'm - I'm not as strong as I used to be.....

HMJr: Yeah.

G:but I want to talk with you because I want to work with you. We have to work together on this thing.....

HMJr: I know.

G:and ain't any use of having contrary theories about things, because what we've got to do is get the best program we can. You and I both know that.

HMJr: Yeah.

G: And work it out.

HMJr: Well.....

G: I'm at your command any time, and I told Skeeter Johnson to confer with the Department today and say that I thought that we would begin Wednesday with an informal

- 2 -

Executive hearing just by - from the experts.....

HMJr: Yeah.

G:and from the draftsmen.....

HMJr: Yeah.

G:to analyze just what has been done by the House bill.

HMJr: Yeah.

G: And you all could appear Friday, or, if you preferred, you could go over to Monday.

HMJr: Well, I - I'll be ready any time from Friday on.

G: Well, leave that with you.

HMJr: At your convenience.

G: But I'll keep in touch with you.

HMJr: And, I just want to let you know that anything I can do to make your job easy, is what I'd like to do.

G: Well, it's highly important that every effort be made to have a program that we can all get along with, even if it isn't all that anybody wants.

HMJr: Well, I.....

G: And you and I know that you are not going to get anything that anybody wants in taxes now.

HMJr: That's right.

G: Because if we did, we wouldn't get much of a tax act at all.

HMJr: Well, all I can ask is any time there's any misunderstanding, you give me a ring, and

- 3 -

I'll come up and see you.

G: Well, I'll certainly confer with you.

HMJr: Don't let the sun set on any misunderstanding.

G: Oh no. There'll be no misunderstanding; and even if we have honest differences, I think there's some way to harmonize those differences in the interests of the country; and we just have to do that, because it's quite impossible for anybody to have a program that involves now as much as - money as we have to have.....

HMJr: Yeah.

G:that was going to meet everybody's views. I know that, and you do, too.

HMJr: Well, thank you; and I'm here and I'm at your service.

G: All right, Henry. Thank you very much.

HMJr: Yes.

G: Thank you very much.

TREASURY DEPARTMENT

WASHINGTON

July 31, 1941

Memorandum for THE SECRETARY:

The following report is made of Stamp sales
at "Treasury House":

July 1-29	\$22,047.05
July 30	<u>447.70</u>
Total	\$22,494.75

GRAVES

TREASURY DEPARTMENT

WASHINGTON

July 31, 1941

Kell

Memorandum for THE SECRETARY

The following report is made of requests received for "Any Bonds Today?" from the experimental mailing of 10,000 cards:

	<u>No. Requests</u>	<u>No. Copies</u>
July 1 - 29	1123	6572
July 30	<u>10</u>	<u>130</u>
Total	1133	6702

GRAVES

JUL 31 1941

Dear Eleanor:

We are going to take care of Mrs. Maize as soon as we establish the Los Angeles headquarters of the Defense Savings Staff, which I hope will be within the next few weeks.

Affectionately,**(Signed) Henry**

**Mrs. Franklin D. Roosevelt,
The White House.**

HNG/mff

By Messenger

12:15
12/31/41

cc - Mr. Thompson together with copy
of incoming letter.

*(See original
returned by
Mrs. R. and
filed under
date of 8/12/41)*

G.D.S.

JUL 31 1941

Dear Eleanor:

We are going to take care of Mrs. Halden as soon as we establish the Los Angeles headquarters of the Defense Savings Staff, which I hope will be within the next few weeks.

Affectionately,

(Signed) Henry

Mrs. Franklin D. Roosevelt,
The White House.

HHC/mff

By Messenger

12:15
7/31/41

cc - Mr. Thompson together with copy
of incoming letter.

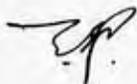
THE WHITE HOUSE
WASHINGTON

July 25, 1941.

Dear Henry:

I have just heard from
Helen Gahagan what has been suggested
in reference to Eleanor Wilson McAdoo.
If such a thing is possible, I shall
be deeply grateful as she has been on
my mind.

Affectionately,



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE July 31, 1941.

TO Secretary Morgenthau
 FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£60,000
Purchased from commercial concerns	£ 1,000

The Federal Reserve Bank of New York purchased £26,000 in registered sterling from the New York agency of the Swiss Bank Corporation.

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

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

The Canadian dollar has had a firm tendency this week. Today's closing discount was 11-1/4%, as compared with 11-5/8% on July 26.

There has also been some improvement in the Cuban peso quotation. Today's discount was 1-1/16%, as compared with 1-5/16% a week ago.

In New York, closing quotations for the foreign currencies listed below were as follows:

Argentine peso (free)	.2380
Brazilian milreis (free)	.0505
Uruguayan peso (free)	.4380
Colombian peso	.5800
Mexican peso	.2070

In Shanghai, the yuan declined 1/16¢ to 5-3/16¢. Sterling in that center again moved upward to 4.02-1/2, a gain of 1-1/2¢.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, spot and forward silver were again fixed at 23-1/2d, equivalent to 42.67¢.

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

- 2 -

We made one purchase of silver amounting to 50,000 ounces under the Silver Purchase Act. This silver represented new production from various foreign countries, and was bought for forward delivery.

During the month of July, our purchases of silver under the Silver Purchase Act amounted to 4,365,500 ounces, the sources of which were as follows:

<u>Type of Silver</u>	<u>Ounces</u>
New production	
1. From various countries	2,565,500
2. From Canada under agreement	1,200,000
Inventory silver	<u>600,000</u>
Total	4,365,500



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 31, 1941

TO Mr. White

FROM Mr. Ullmann

Subject: Interview with Mr. G. S. Walden (Socony-Vacuum).

At the July 28 meeting in your office, Mr. G. S. Walden, Chairman of the Board of Socony-Vacuum Company, made the following interesting comments:

1. His company estimates that Japan has stocks of approximately 35 million barrels of petroleum products, or a year's supply. He claims that this estimate is made after a detailed and thorough study. (A completely independent Treasury estimate places present Japanese stocks at 34.5 million barrels.)
2. The Netherlands East Indies has established the detailed machinery to destroy the islands' refineries, pipe-lines, storage tanks and to block up the wells (with concrete). He says that all this destruction can be completed in a four-hour period. The destruction plans call for pumping wet concrete into the wells, using the same pipes by which oil is now extracted.

He thinks the Japanese would gain almost nothing by an invasion of the Indies.

3. He feels that the Netherlands Government is prepared to stop any "appeasement." However, it is also prepared to grant oil export licenses, if this Government and the British decide to follow a policy of allowing oil to Japan.
4. His company is willing to discontinue sales of oil to Japan, provided that competing companies follow a similar policy.
5. His company was approached in New York by the U. S. representative of Mitsui. The latter said that if Japan could only get "some oil" from U. S. companies, Mitsui might be able to deter the Japanese Government from an invasion of the Netherlands East Indies.

Walden had pointed out to the Mitsui man that the whole world, including the U. S. east coast, was now on oil rations; and that the Japanese

- 2 -

should be willing to curtail its oil imports—especially in view of its large stocks. The Mitsui representative agreed to this line of reasoning, and said they would be content if they would receive "some" oil—even though the quantities be at substantially lower levels.

July 31 - 1941

TO:

SECRETARY MORGENTHAU

260

The Colonel telephoned me Sunday, saying he wanted to see me and would be in Washington Tuesday and telephone me then. So far I have heard nothing from him, but suppose he will turn up sooner or later.

John

FROM: JOHN C. WILEY

Confidential

July 31, 1941

MEMORANDUM FOR THE SECRETARY:

In re: Your inquiry regarding
Henri Haye and Camille
Chautemps.

I have collected a great deal of material on both Henri Haye and Chautemps from a number of different sources. There are many sidelights and interesting bits of gossip, but the essence is:-

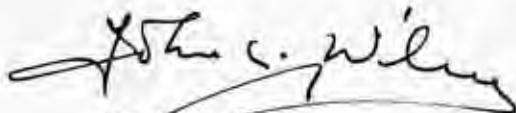
The French Ambassador, Henri Haye, according to all reports, is completely committed to the "collaborationist" policies of Darlan and Laval. His chief collaborator in the Embassy is M. Brousse, who is described as dangerous and most objectionable. Colonel Bertrand-Vigne, also of the Embassy, works closely with them, but is said to be activated by conviction rather than malice. Henri Haye's reports to Marshal Petain and the Vichy Government are said completely to distort the American picture. Lindbergh, Wheeler and other isolationists are played up, labor troubles are exaggerated, and the national defense effort is derided. It is alleged that the Ambassador is giving a free hand to Brousse (who is described as "worse even than Henri Haye") in running the Embassy, the Ambassador being much preoccupied with his personal affairs -- one of which is said to be with Mme. Georges Picot, wife of the Counselor.

It appears that nothing really definite is known with regard to Chautemps' activities, if any. Plevin suspects he may be behind a quiet movement in the United States to discredit De Gaulle as a "Fascist". Plevin has, however, nothing to substantiate the suspicion except a conviction that the Petain regime would not be giving Chautemps large sums of money for nothing. (Herve Alphanand states that he receives \$2,000 a month.) In general, however, the impression is that Chautemps is chiefly engrossed in his domestic affairs, his young wife and infant child, and is biding his time.

- 2 -

Chautemps and Hays are supposed to be at swords' points. Henri Hays has allegedly made repeated, determined but unsuccessful efforts to have Vichy recall his rival. The Chautemps, in private conversations, do everything possible to discredit the Ambassador and to suggest that he should be sent back to France as persona non grata, along with Brousse and Bertrand-Vigne. Perhaps Chautemps believes that, should Picot be left as Charge d'Affaires, he, Chautemps, could play an important role in this country.

My impression of Chautemps' situation is that he is here as a "pay-off" for his part in the conclusion of the armistice and facilitating Petain's advent to power. He probably knows a lot and Petain may be somewhat frightened of him.



John G. Wiley.

C
O
P
Y

Department of State

DIVISION OF THE AMERICAN REPUBLICS

July 31, 1941

Dear Mr. Bernstein:

Herewith the draft of the note Collado and I handed Turbay yesterday afternoon for his presentation to us.

With kindest regards,

Sincerely yours,

(Signed) Jim Wright

Copy:lg 7/31/41

C
O
P
YDRAFT OF NOTE COLOMBIAN AMBASSADOR WOULD
ADDRESS TO THE SECRETARY OF STATE

His Excellency
The Secretary of State,
Washington, D. C.

Sir:

In continuation of conversations held with representatives of the Departments of State and Treasury concerning a stabilization loan to Colombia, I now have the honor to confirm the following:

The issuance of import licenses or exchange approvals will be kept commensurate with exchange availabilities to avoid unpaid backlogs and retroactive exchange decrees or regulations detrimental to the United States will not be promulgated. Colombia will seek to avoid undue delay in the payment of legitimate United States exchange requirements and recognizing that the stabilization loan and credits from other United States governmental agencies have important stabilizing influence on Colombian exchange, funds so procured will not be diverted to countries whose interests are inimical to those of the United States or to those of Colombia, and there will be consultation on this point when there might be a difference of views.

I take this opportunity to renew to Your Excellency the assurances of my highest consideration.

Copy:lg 7/31/41

The Washington Post

July 31, 1941.

Fair Enough

By Westbrook Pegler

Private Life Of Joseph Lash

AS SOME may remember, Mrs. Franklin D. Roosevelt, recently entertained at the summer home of the President of the United



PEGLER

States on Campobello Island something called the Summer Student Leadership Institute. Among those prominently present along with Justice Felix Frankfurter of the United States Supreme Court and dear old Dr. William Allen Nelson, president emeritus of Smith College, was a veteran member of the younger generation and career man of the youth business, Joseph Lash. The frequent presence of Mr. Lash in the White House surely may be taken as evidence that Mrs. Roosevelt regards him as a pretty nice sample of and for American youth and his presence at the Student Leadership Institute at Campobello seems equally indicative that she regards him as one who is equipped, intellectually and morally, for leadership among American students.

With this preamble, let us now cast aside the bigoted record of the Dies Committee which discovered Mrs. Roosevelt's young friend often in the company of Communist youth. Let us consider something else in order to obtain a fair impression.

Let us frisk the files of Liberty Magazine and the Communist publication, The New Masses, to the autumn of 1939.

IN THE issue of The New Masses dated September 3, 1935, the lead story is a charming expression of an American daughter's devotion, titled "My Father is a Liar!"

by Nancy Bedford-Jones
the time was 17.

ing the very

posed

Miss Bedford-Jones declared that this was a pen name adopted for this special occasion by her father, H. Bedford-Jones, a professional auctioneer. Nancy said Shaw's article in Liberty was a pack of lies about her, although her name was not mentioned and she was not otherwise identified.

The Liberty article created an impression that young communist agents infested American college campuses and mixed politics with something which we in the writing trade and the movies have agreed to describe as romance. Mr. Shaw, whoever he may have been, alleged that young girls

were seduced not only from the political and religious faith of their parents but from their chastity as well, wherein he was anticipating the revelations set down by the backlist Comrade Benjamin Gitlow, late boss-Communist of the United States of America, in his book entitled "I Confess."

MISS Nancy Bedford-Jones exclaimed, in effect, "That's my pop!" And bore into him to the exulting applause of the Communists in the pages of The New Masses. Incidentally, lest it be said that The New Masses, like Mrs. Roosevelt's model youth, Mr. Lash, was not communistic, note should be made of the fact that the paper listed as its Business Manager William Browder, the brother of Earl Browder. Earl Browder succeeded Gitlow as chief of the Communist Party here, but is now in prison for fraud.

"The author of these slanderous lies is my father, H. Bedford-Jones," was the way this lively example of American youth saluted her daddy. "Why did my father write these cold-blooded lies about his daughter?" She then demanded and proceeded to tell you why, according to her view of the matter. Her view

was that he was a dirty old liar who was slandering American youth and the editor's blurb said Nancy had been "forced by her father's lies to denounce him."

SOON AFTER, on November 28, 1935, The Daily Worker, Moscowite house organ, which does not go in very heavily for marriage stuff outside the party circle, reported that Nancy had married in Yuma, Ariz., none other than Joseph P. Lash, whom we now discover sometimes in the White House and then again at Campobello as a guest of Mrs. Roosevelt in something called a Student Leadership Institute.

The worker's marriage notice mentioned Miss Nancy's father as "a Red-baiting pulp magazine writer," and said the marriage "culminated a friendship which grew out of their participation in student antiwar and anti-Fascist activities."

MR. LASH is still a youth after a dozen years in the business, still employed and hustling, first with one youth or student council, service or institute, then with another, and he is still in there, or thereabouts, with his paleness, Mrs. Franklin D. Roose-

vett, when the pictures are being taken.

The institute at Campobello, of course, would have no wish to conceal from the youth of the American campus, or the parents of that youth, this pretty little story from the political and love-life of one whom Mrs. Roosevelt entertains as a candidate for student leadership.

C
O
P
Y

The Under Secretary of The Treasury
Washington

July 31, 1941

MEMORANDUM FOR THE FILES:

I advised Mr. Hooker of Mr. Collado's office in the State Department today that the Treasury apparently is not much concerned with the first five paragraphs of the Bolivian memorandum transmitted with Mr. Collado's memorandum of July 30, 1941. I told him that we in the Treasury felt that the first sentence of this suggested paragraph was sufficient to cover the situation. We have no objection if the State Department wants to keep in the last sentence, but we do not see that it adds very much to the paragraph. I read to him over the telephone the following revised paragraph to take the place of his suggested paragraph six.

"The Government of the United States is prepared to consider the practicability of measures which may be suggested for cooperation with the Government of Bolivia in the stabilization of the Bolivian currency in its relation to the dollar. The appropriate authorities of the Government of the United States are also undertaking studies with a view to the formulation of suggestions in the monetary field to be jointly considered with any corresponding suggestions which may be made by the Bolivian authorities."

Later Mr. Hooker called me back to say that the State Department was in agreement with the Treasury's suggestion that only the first sentence of the revised paragraph six be included in the statement to be given to the Bolivian Government with the addition of the last "United States" before the word "dollar" at the end of that sentence. The rest of the paragraph is to be eliminated.

DWB

COPY:mew 8/1/41

Department of State
Division of the American Republics
Memorandum

July 30, 1941

Mr. Bell:

The Department is most anxious to send a note to the Bolivian Government which will give some concrete evidence of the desire of the Government to back up the President's statement that the United States is fully behind Bolivia in its present critical situation of Nazi agitation and plotting. It is proposing to hand the Bolivian Minister tomorrow the attached memorandum regarding several forms of technical and financial cooperation. This has been fully cleared with Mr. Jesse Jones.

The Department would like to add to this memorandum a most general statement regarding stabilization or monetary cooperation. I have taken this up before with Messrs. White and Southard. The Department would like to say something as follows:

"6. The Government of the United States is prepared to consider the practicability of measures which may be suggested for cooperation with the Government of Bolivia in the stabilization of the Bolivian currency, and the appropriate authorities of the Government of the United States are undertaking studies with a view to the formulation of specific suggestions to supplement corresponding suggestions which may be made by the Bolivian authorities."

As I have indicated, the Department must hand the memorandum to the Bolivian Minister by tomorrow evening. I should be very pleased to discuss this matter further with you tomorrow morning in person or by phone.

E. G. Collado

COPY:mew 8/1/41

DRAFTMEMORANDUM

1. The Department of State has been considering with other agencies of the Government of the United States measures which might appropriately be included in a long-term plan of collaboration to foster continued mutually beneficial economic relations between the United States and Bolivia and to develop the national economy and national resources of Bolivia.

2. It is believed that the basis of such a plan must be in the development of communications—largely of highways, but perhaps including certain railway facilities. The report of the United States Army engineers who studied the Vila Vila-Santa Cruz railway project does not support the construction of such a railway, but suggests as an alternative consideration of the construction of a highway joining the two points. It is believed that a decision regarding a long-term program for the development of communications in Bolivia can best be taken after a general survey by competent engineers. The Bolivian Government has recently inquired concerning the possibility of a general survey by highway experts, and there is attached a memorandum outlining the studies which the appropriate officials of this Government believe may be practicable at this time. The Government

- 2 -

of the United States is prepared to detail qualified experts to Bolivia under the provisions of Public No. 63 (76th Congress) to carry out this survey work.

3. The development of communications should encourage an expansion and diversification of agricultural production in Bolivia, involving both an increased degree of self-sufficiency and perhaps the development of certain tropical products for export. It is believed that this development might be advantageously speeded up and assisted by a comprehensive survey of the several potentially important agricultural regions of Bolivia. The Government of the United States is prepared at the request of the Bolivian Government to detail competent agricultural experts to carry out such a survey in cooperation with the Bolivian authorities.

4. It has been suggested that it may be feasible and desirable to stimulate production of tin, tungsten and certain other minerals in Bolivia of small miners by assisting them in improving their methods, providing them with appropriate machinery, and possibly erecting a reduction plant for the treatment of low-grade tin ores. Such possibilities of course would require careful study, and the Government of the United States would be glad

- 3 -

to consider any request that may be made by the Government of Bolivia for the services of a qualified expert.

5. The Government of the United States is prepared to cooperate in giving effect to the recommendations arising out of thorough technical and economic surveys of Bolivian communications needs and agricultural and mineral potentialities by the extension of financial and technical assistance in appropriate manner and amounts for the execution of individual projects which are considered desirable, useful, and practicable by both the Bolivian and United States Governments.

RA:Collado:GRS
CMS 7/30/41

COPY:new 8/1/41

C
O
P
Y

271

DEPARTMENT OF STATE
Washington

In reply refer to
EA 840.51 Frozen Credits/2723

July 31, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses six copies of a paraphrase of telegram No. 3275, dated July 29, 1941, 6 p.m., from the American Embassy at London, in regard to the British Treasury's impression with respect to the effects of the freezing order in Japan.

Enclosure:

From Embassy, London,
No. 3275, July 29, 1941.
(Six copies.)

C
O
P
Y

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London

DATE: July 29, 1941, 6 p.m.

NO. : 3275

FOR THE TREASURY DEPARTMENT -- STRICTLY CONFIDENTIAL

Reference is made to the Embassy's telegram No. 3274, dated July 29, 1941. This telegram dealt with the comment of the British press in regard to the effects of the freezing order in Japan.

Waley of the British Treasury informed Coe today that the British Treasury's first impression, which it had received from its representatives in Washington, was that the freezing control would be very severely applied. However, he said that there was some confusion in regard to the cabled report that the United States was granting a general license for commercial transactions. To Waley, this step seemed to indicate that trade with occupied China would be permitted and, too, that the American control was to be much less restrictive than had been contemplated. However, he had not received the text of the general license as yet.

According to Waley, the work required to bring Hong Kong into the sterling area had not been completed in time. He also said that this step would probably be taken on July 30.

WINANT

EA:PAK

Copy:bj:7-31-41

RECEIVED
 JUL 31 1941
 DEPT. OF THE TREASURY

AI 01 PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Chungking, China, via N.R.

DATE: July 31, 1941, 7 p.m.

NO.: 172

THE FOLLOWING IS FROM THE ACTING SECRETARY OF THE
 TREASURY FOR FOX.

The Treasury Department would appreciate it if you would inform it of the progress which is being made in regard to the rehabilitation of internal finance in China. It is assumed that you have access to the report which pertain to the general economic conditions in China; such as the Ambassador's despatch No. 21. The Treasury Department would appreciate receiving your comments in regard to the despatch of the Ambassador. (No. 21.)

WELLES, ACTING
 (MCM)

FE:JMJ:MBW FE

EA:PAK

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Chungking, China, via H.K.

DATE: July 31, 1941, 8 p.m.

NO.: 175

THE FOLLOWING IS FROM THE ACTING SECRETARY OF THE
TREASURY FOR FOX,

It is requested that you refer to your telegram of
June 27 which was sent through Spagent, Shanghai. Also
refer to your telegram of June 28, No. 753, which was
sent through Lockhart.

Apparently, the letters which you referred to are
those which were exchanged between the Secretary of the
Treasury and Sir Frederick Phillips and which contained
three points. The letters were under date of April 25,
1941. You were provided with all of the documents which
were pertinent to the Stabilization Agreements between
the United States Government and the British Government
and China. However, additional copies of the letters in
question are being sent to you by pouch.

Nothing in the letters in question would prevent the
establishment of a Stabilization Board of four men to
manage the U.S. dollar-Chinese Yuan Stabilization Fund--
the four men on this Board includes the American member
but does not include the British member. It is requested
that you advise the Department immediately should you
consider it important that steps be taken to set up the
Board without delay.

Within

-2-

Within the next two weeks, according to information which has been received by the Treasury Department, Sir Otto Niemeier will leave the British capital for Washington. It is expected that he will discuss various Chinese problems with the U.S. Government before he continues his trip to China.

Sir Niemeier's stay in China is expected to be for only a few months. He is not expected to become a member of the Stabilization Board. It is expected that broad policy questions of a financial and economic nature will occupy most of his attention while he is in China.

WELLES, ACTING
(MNH)

FE:JMJ:MBW FE

EA:PAK

10/10/52
10/10/52
21 OCT 12
RECEIVED
U.S. DEPARTMENT OF THE TREASURY

DES

PLAIN

HONG KONG VIA N.R.

Dated July 31, 1941

Rec'd 6 p.m.

Secretary of State,
Washington.

282, July 31, 10 a.m.

Hong Kong Government has frozen certain Chinese assets effective July 30th. Copy of order forwarded by airmail. Colonial Secretary has issued public statement to the effect that action was in common with similar orders throughout British Empire, made at the request of the Chinese Government, and does not prohibit the making or acceptance of payments in Hong Kong to or from persons in Hong Kong.

Sent to the Department, repeated to Chungking,
Peiping.

BRUINS

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Shanghai.

DATE: July 31, 1941, 1 p.m.

NO. : 987.

First: One of the results of the freezing order was to bring to Shanghai, much earlier than was anticipated, an expert system such as that which has been used for about two years in North China. This system seriously retarded trade between non-Axis countries and North China and it will have the same result in Shanghai. By imposing the same restrictions in Shanghai a monopoly on many commodities which favors Japan is created just as in North China. It is feared that such restrictions may also be used in the case of American vessels desiring to obtain supplies and stores during their stay here. American shipping companies are concerned about this and they are also concerned about possible interference with the picking up of cargoes which have already been booked and cleared through the customs. Virtually all items of vital importance, with the exception of raw silk embroideries, cotton piece goods and cotton yarn, sausage casings and bristles, are already included in the list of items which require export licenses. It is certain that there will be delays and irritation similar to those which occurred in North China because the establishing of a committee to administer the system of export permits is tedious.

Second:

-5-

Second: The economic position of Shanghai has perhaps never before been so profoundly affected as it was when the freezing order was issued. Although the shock is gradually wearing off, many people look to the future with grave forebodings because they believe that rigid restrictions will further reduce the already greatly curtailed shipping facilities available, seriously handicap export trade, prevent the importation of needed raw materials to meet manufacturing demand, thus contributing to unemployment and resulting in diversion of a previously profitable commerce between China and the United States away from American into Japanese hands. The pessimism prevalent in business circles has recently become slightly relaxed as a result of reports that the freezing rules will be administered more liberally than was at first anticipated. At least (week-, month-) more will be required before the full effect of the restrictions on the port can be reasonably estimated.

Third: Notwithstanding persistent press reports from Washington and London that one of the retaliatory measures which the Japanese intend to employ would be that of taking over the International Settlement, there have been no outward indications of such a Japanese intention at the present time. The spreading of such rumors does great harm and creates needless uneasiness among the Chinese.

This

-3-

This telegram is being sent to the Department and repeated to Peiping and Chungking. The code text is being sent to Tokyo by air mail.

LOCKHART

NPC

EA:NB:VCL

TO THE DIRECTOR
TECHNICAL SERVICE
OFFICE OF THE

20 MAR 1948

RECEIVED
TECHNICAL SERVICE

PM

PLAIN

280

Peiping via NR.

Dated July 31, 1941.

Rec'd 11:50 p.m.

Secretary of State,
Washington.

194, July Thirty-first.

It was announced here today that enforcement of the retaliatory freezing measures mentioned in the Embassy's 189, July 29, 5 p.m., will be entrusted to a new group of persons known as the "Central Special Assets Commission" composed of North China representatives of the Japanese Army, the Japanese Embassy, the China Affairs Board, the Japanese Ministry of Finance and the Federal Reserve Bank. The head office of the Commission will be in Peiping; branches will be established at other places in North China under supervision of the special affairs section of the Japanese Army.

Other local developments resulting from the retaliatory measures which came into force July 28 include the freezing of substantial American deposits held by Chinese and Japanese banks, the suspension of
foreign

-2- #194, July 31, 1941, from Peiping via NR.

281

foreign exchange transactions for American citizens, and the impounding of American travelers baggage at the railway station in Peiping.

This office made inquiry of the Japanese Embassy yesterday in regard to the impounding of baggage.

Part of the baggage was released this morning.

Sent to the Department, repeated to Chungking, Shanghai, Tientsin.

Copy airmailed to Tokyo.

BUTRICK.

KLP

TEM

Foochow via H. R.

Dated July 31, 1941

Rec'd 10 a.m., August 1.

Secretary of State,

Washington.

July 31, 4 p.m.

Referring to my telegram of July 29, 6 p.m. Japanese authorities in Foochow today told the British Consul no further withdrawals may be made from the local Hong Kong and Shanghai Bank, in which many Americans have deposits, except under Japanese permits and subject to regulations which they have informed me will be made known in a few days. Chinese police have been stationed at the bank's gates. On the request of the British Consul the bank has suspended operations.

Japanese are visiting British and American properties for the alleged purpose of making an inventory which was ordered begun on or before July 25.

Sent to Peiping, repeated to the Department and Chungking.

RICE

NPL

ehi copy
8-5-41

PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Consulate, Rangoon, Burma.
DATE: July 31, 1941, 6 p.m.

First: Chinese assets in Burma have been frozen today by the Government of Burma. However, the object is not to interfere with the operations of the Chinese Government and with legitimate trade with unoccupied China. The Reserve Bank of India is issuing instructions to release from the effect of the Order certain accounts belonging to persons and firms in those sections of China not affected by the control or occupation of Japan. It may be added that the order does not affect transactions carried out by Chinese residents of Burma on their private accounts.

Second: During the last two days Japanese ships have arrived at this port for the purpose of loading rice which had already been purchased. One of these is the boat that turned back last Friday night at the entrance to the river. An official statement indicates that shipments of rice which had been purchased and paid for prior to the date of the freezing order will be allowed. However, no licenses for rice contracted for but unpaid will be granted. So far during 1941 shipments to Japan of Burmese rice have been valued at approximately 41,000,000 rupees (more than \$12,000,000 in United States currency). Payment has not been made for about 20,000 tons of outstanding Japanese orders.

RMH

NA:VGL

RECEIVED
 BRADY

C
O
P
Y

284

DEPARTMENT OF STATE
Washington

In reply refer to
EA 840.51 Frozen Credits/2728

July 31, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith copies of the paraphrase of telegram no. 1120, dated July 29, 1941, from the American Embassy at Tokyo concerning export and import trade between the Japanese Empire and Malaya and the bearing of the Executive Order No. 8389, as amended, thereon.

Enclosure:

Paraphrase of no. 1120
from Tokyo,
July 29, 1941.

C
O
P
Y

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Tokyo, Japan.

DATE: July 29, 1941, 8 p.m.

NO. : 1120

According to a request made by the American Consul General at Singapore there is transmitted the following telegram, dated the 28th day of July at 5 p.m.

"Refer to my telegram no. 180 dated the 27th day of July at 1 p.m.

"I have been informed by the Foreign Exchange Controller that all export and import trade between the Japanese Empire and Malaya, subject to barter arrangements made in cooperation with the United States Government, will be eliminated because of the Executive Order freezing Japanese assets.

"Further, he said that this would apply to exports of iron ore which had not yet been paid (at a fixed rate of exchange) before the 26th day of July. The Government is at present considering the problem of permitting the exportation of iron ore for which payment had been made prior to July 26. Shipments of tin and rubber to Japan will not be approved regardless of the date on which payments were made.

"It is my understanding that residents of Japan who are leaving Malaya will not be permitted to withdraw amounts exceeding the equivalent of \$100 in currency of the Straits settlements."

This telegram was also sent to Tokyo.

EDA
EA:VCL

Copy:dtg:8-1-41

GREEN

PARAPHRASE OF TELEGRAM RECEIVED**FROM: American Consulate General, Singapore, Straits Settlements****DATE: July 31, 1941, 2 p.m.****NO.: 188****STRICTLY CONFIDENTIAL.**

The freezing of assets here has been taken much more seriously by the Japanese than by the British.

It is assumed by the Japanese that the exportation of iron ore would be stopped automatically. The Japanese are planning to close the two largest iron mines, according to reports. London has advised the local authorities that it was not intended to stop the movement of iron ore at this time. However, if the Japanese continued aggression in other areas, this economic weapon was to be used at a later date.

It is the inclination of the authorities here to believe that it is most desirable to withhold for a period of several weeks any information that is indicative of any less drastic administration of the freezing order. It is believed that disclosure of any tendency to relax strictures would diminish seriously the deterrent effect of this economic measure upon the Japanese.

PAYTON**KAIPAK****540, 51 Frozen Credits/2794**

Paraphrase of telegram from Rio de Janeiro, July 21, 1941,
6:15 p.m.

Arrangements have been made by the Bank of Brazil with the Yokohama Specie Bank not to transfer the money to Argentina and Chile. The Bank of Brazil has placed the dollars in a special account where they will remain until further notice. The \$1,800,000 has been purchased today by the Bank of Brazil, which has credited the account of the Yokohama Specie Bank in the Bank of Brazil with the milreis proceeds. The Director of the Bank of Brazil is of the opinion that the milreis credited to the account of the Yokohama Specie Bank will be used to pay for future exports from Brazil. This, of course, appeals to the Brazilian Government. The Director has promised to keep me informed of the use of these funds.

RA:JSH:LM - 8/1/41

C
O
P
Y

DEPARTMENT OF STATE

WASHINGTON

In reply refer to
EA 840.51 Frozen Credits/2752

July 31, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses six copies of a paraphrase of telegram No. 149, dated July 29, 1941, 11 a.m., from the American Consulate at Godthaab, Greenland, concerning the dollar accounts in the United States of citizens of Greenland.

Enclosure:

From Consulate,
Godthaab, No. 149,
July 29, 1941. (6.)

mb - Copy

C
O
P
Y

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Godthaab, Greenland

DATE: July 29, 1941, 11 a.m.

NO. 149

Governor Brun, in recent conversations with representatives of Ivigtut Union, agreed to the opening of personal American dollars accounts in the U.S. by the miners. It is understood that these accounts will, of course, be blocked in accordance with the regulations of the Treasury.

The Consulate has been requested by the Governor to inform the Government of the United States in regard to the following: The Greenland Administration fully supports the applications for licenses to permit the transfer of funds from the Administration account to personal accounts in New York banks to be opened by the individual miners; such applications are understood to be at present pending with the Treasury Department.

PENFIELD

EA:PAK

mb - Copy

G-2/2657-220; No. 455 RESTRICTED
M. I. D., W. D. 12:00 M., July 31, 1941

SITUATION REPORT

I. Eastern Theater.

Ground: No important changes in front lines. The great battle in the Vyasma area continues. There is strong German pressure to the south of Leningrad.

Air: No change in the general situation. British carrier-based aviation made a raid on Kirkenes, Norway, and Petsamo, Finland, losing a large proportion of the planes employed.

II. Western Theater.

Air: German - Exceedingly light activity.

British - Reduced scale night operations against the Rhineland and Boulogne.

III. Mediterranean Theater.

No important ground or air activity.

RESTRICTED

3. Aircraft Losses Reported.

a. British losses. One bomber was unreported from the raid on St. Nazaire during the night of July 27-28. One Hurricane and pilot were lost on July 27.

b. Axis losses. During the day of July 27th 1 Me-109 was shot down and 3 Me-109's were probably destroyed. One unidentified aircraft and one He-111 were shot down by British night fighters during the night of July 27-28.

The report to the effect that the Rumanian oil fields at Ploesti had been bombed by the Soviet Naval Air Force from the Crimea has now been confirmed, according to a statement from the Air Ministry.

During the last three days and nights there has been no report of an attack by the German Air Force on shipping in British home waters.

LEE

Distribution:

State Department
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence (2)
G. H. Q.
✓ Secretary of Treasury ✓
Chief of the Army Air Forces
Assistant Secretary of War for Air

CONFIDENTIAL

292

Transmittal of Code Sublogram
Received at the War Department
at 6:45, July 31, 1941.

London, filed 12:14, July 31, 1941.

1. British Air Activity over the Continent.

2. Day of July 30. A convoy west of Falcom was attacked by 6 Blenheims. Three motor vessels, totaling 3000 tons were damaged. South of Heligoland another motor vessel of 1500 tons was attacked and damaged by 6 Blenheims. Seven Blenheims are missing out of 13 dispatched to attack shipping. No activity was reported by the aircraft on this mission.

A total of 207 fighter aircraft were dispatched as follows: shipping protection 176, 96 on interception missions, 17 carrying out special missions, with 18 on offensive missions. No casualties were sustained from these operations.

3. Night of July 30. 115 bombers dispatched to Cologne to bomb railway yards and industrial centers. On this mission there were seven Halifax and five Stirlings, all of which returned safely. Twelve bombers were sent to bomb warehouses at Boulogne, of which 5 crashed in the United Kingdom and 3 are unreported. The majority of the aircraft were able to land at the group airbases despite the fact that fog was encountered over their home bases.

2. German Air Activity over Britain.

1. Day of July 30. 15 reconnaissance and 5 long range bombers.

2. Night of July 30. 5 fighters, 10 long range bombers and 15 mine laying planes.

3. Aircraft Losses Reported.

CONFIDENTIAL

INFORMATION COPY

2. British losses. Ev. of July 30. 7 Blenheim missing. Night of July 30, 3 bombers crashed and 3 were unreported.

1. Axis losses. 3 destroyed at Hama.

4. British Air Activity. Other Matters.

2. Mediterranean Theater. Night of July 30. The airbase and seaplane base at Hama was attacked by 6 Bomfighters from Malta. In this attack seven aircraft were damaged and 3 were destroyed.

LEE

Distribution:

State Department
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence
G. H. Q.
Chief of the Army Air Forces
Secretary of Treasury
Air Corps

-2-

CONFIDENTIAL