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MEMORIAL

Concerning Manchuria, Mongolia, China.

U. S. A. & the World

Submitted by

GENERAL TANAKA

(The then Premier of Japan)

to

The Japanese Emperor

in
1927

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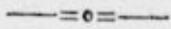
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MEMORIAL

**IN CASE OF A PROLONGED WAR
WITH JAPAN**

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HIGH LIGHTS OF THE MEMORIAL

1. For settling difficulties in Eastern Asia, Japan must adopt a policy of "Blood and Iron."
2. In order to conquer the world, Japan must conquer Europe and Asia; in order to conquer Europe and Asia Japan must conquer China, and in order to conquer China, Japan must first Conquer Manchuria and Mongolia, Japan expects to fulfil the above programme in ten years.
3. Japan regrets that she has signed the Nine-Power Treaty which was intended by England and America to crush her interests in Manchuria, for thereby she agrees that Manchuria and Mongolia are Chinese territory. This has greatly hampered the freedom of Japanese policy in Manchuria.
4. Japan believes wars in near future with U.S.A. and with Russia are inevitable, so in order to get militarily prepared Japan must build the Kirin-Hweining and Changchun-Talaf railways in Manchuria.
5. The South Manchuria Railway Co., act in Manchuria as the Governor-General in Korea. In order to blind the eyes of the world and forestall the disclosure of secrets at present, the Colonial office nominally controls affairs of Formosa, Korea, and Saghalian islands, only, while really it manages affairs of Manchuria.
6. Japan must take strong step, on basis of Twenty-one demands, to secure priority for building railroads, right of timbering and exploiting 19 iron and coal mines in Fentien.
7. Japan should spend yen 1,000,000 from "Secret funds" of Army department in order to send 400 retired officers dis-

guised as teachers and traders, scientists, and Chinese citizens to Mongolia to influence the Mongolian princes to revolt against China.

8. Koreans should be utilized by Japan as vanguard for colonization of and as spearhead for penetration into, Manchuria and Mongolia.

9. Taking advantage of the local disorder in Fengtien, Japan should manipulate the situation so that the Fengtien Bank notes will depreciate to zero, and the Yen will take to its place.

10. Japan must enjoy monopoly of supplies of beans, bean cakes, timber, coal, iron, fur, wool, and all other products of Manchuria and Mongolia and perfect control of transportation so that Chinese influence would be wiped out, and Europe and America, when in need of these supplies, would be at the mercy of Japan.

(From The China Critic)

TANAKA MEMORIAL

*Memorial Presented to the Emperor of Japan on July 25, 1927,
by Premier Tanaka, Outlining the positive
policy in Manchuria.*

(Reprinted from THE CHINA CRITIC Vol. IV No. 39,
Sept. 24, 1931.)

Since the European War, Japan's political as well as economic interests have been in an unsettled condition. This is due to the fact that we have failed to take advantage of our special privileges in Manchuria and Mongolia and fully to realize our acquired rights. But upon my appointment as premier, I was instructed specially to guard our interests in this region and watch for opportunities for further expansion. Such injunctions one cannot take lightly. Ever since I advocated a positive policy towards Manchuria and Mongolia as a common citizen, I have longed for its realization. So in order that we may lay plans for the colonization of the Far East and the development of our new continental empire, a special conference was held from June 27th to July 7th lasting in all eleven days. It was attended by all the civil and military officers connected with Manchuria and Mongolia, whose discussions resulted in the following resolutions. These we respectfully submit to Your Majesty for consideration.

GENERAL CONSIDERATIONS

The term Manchuria and Mongolia includes the provinces Fengtien, Kirin, Heilungkiang and Outer and Inner Mongolia. It extends an area of 74,000 square miles, having a population of 28,000,000 people. The territory is more than three times as large as our own empire not counting Korea and Formosa, but it is inhabited by only one-third as many people. The attractiveness of the land does not arise from the scarcity of population alone: its wealth of forestry, minerals and agricultural products is also unrivalled elsewhere in the world. In

order to exploit these resources for the perpetuation of our national glory, we created especially the South Manchuria Railway Company. The total investment involved in our undertakings in railway, shipping, mining, forestry, steel manufacture, agriculture, and cattle raising as schemes pretending to be mutually beneficial to China and Japan amounts to no less than Yen 440,000,000. It is veritably the largest single investment and the strongest organization of our country. Although nominally the enterprise is under the joint ownership of the government and the people, in reality the government has complete power and authority over it. In so far as the South Manchuria Railway Company is empowered to undertake diplomatic, police, and ordinary administrative functions so that it may carry out our imperialistic policies, the Company forms a peculiar organization which has exactly the same powers as the Governor-General of Korea. This fact alone is sufficient to indicate the immense interests we have in Manchuria and Mongolia. Consequently the policies of the successive administrations since Meiji towards this country are all based on his injunction, elaborating and continuously completing the development of the new continental empire in order to further the advance of our national glory and prosperity for countless generations to come.

Unfortunately, since the European War there have been constant changes in diplomatic as well domestic affairs. The authorities of the Three Eastern Provinces are also awakened and gradually work toward reconstruction and industrial development following our example. Their progress is astonishing. It has affected the spread of our influence in a most serious way, and has put us to so many disadvantages that the dealings with Manchuria and Mongolia of successive governments have resulted in failure. Furthermore, the restriction of the Nine Power Treaty signed at the Washington Conference have reduced our special rights and privileges in Manchuria and Mongolia to such an extent that there is no freedom left for us. The very existence of our country is endangered. Unless these obstacles are removed, our national existence will be in-

secure and our national strength will not increase. Moreover, the resources of wealth are congregated in North Manchuria. If we do not have the right of way there, it is obvious that we shall not be able to tap the riches of this country. Even the resources of South Manchuria which we won by the Russo-Japanese War will also be greatly restricted by the Nine Power Treaty. The result is that while our people cannot migrate into Manchuria as they please, the Chinese are flowing in as a flood. Hordes of them move into the Three Eastern Provinces every year, numbering in the neighbourhood of several millions. They have jeopardized our acquired rights in Manchuria and Mongolia to such an extent that our annual surplus population of eight hundred thousand have no place to seek outlet. In view of this we have to admit our failure in trying to effect a balance between our population and food supply. If we do not devise plans to check the influx of Chinese immigrants immediately, in five years' time the number of Chinese will exceed 6,000,000. Then we shall be confronted with greater difficulties in Manchuria and Mongolia.

It will be recalled that when the Nine Power Treaty which restricted our movements in Manchuria and Mongolia was signed, public opinion was greatly aroused. The late Emperor Taisho called a conference of Yamagata and other high officers of the army and the navy to find a way to counteract this new engagement. I was sent to Europe and America to ascertain secretly the attitude of the important statesmen toward it. They were all agreed that the Nine Power Treaty was initiated by the United States. The other Powers which signed it were willing to see our influence increase in Manchuria and Mongolia in order that we may protect the interests of international trade and investment. This attitude I found out personally from the political leaders of England, France and Italy. The sincerity of these expressions could be depended upon. Unfortunately just as we were ready to carry out our policy and declare void the Nine Power Treaty with the approval of those whom I met on my trip, the Seiyukai cabinet suddenly fell and our policy failed of fruition. It was indeed

a great pity. After I had secretly exchanged views with the Powers regarding the development of Manchuria and Mongolia, I returned by way of Shanghai. At the wharf there a Chinese attempted to take my life. An American woman was hurt, but I escaped by the divine protection of my emperors of the past. It seems that it was by divine will that I should assist Your Majesty to open a new era in the Far East and to develop the new continental empire.

The Three Eastern Provinces are politically the imperfect spot in the Far East. For the sake of self-protection, as well as the protection of others, Japan cannot remove the difficulties in Eastern Asia unless she adopts a policy of "Blood and Iron." But in carrying out this policy we have to face the United States which has been turned against us by China's policy of fighting poison with poison. In the future, if we want to control China, we must first crush the United States just as in the past we had to fight in the Russo-Japanese War. But in order to conquer China we must first conquer Manchuria and Mongolia. In order to conquer the world, we must first conquer China. If we succeed in conquering China, the rest of the Asiatic countries and the South Sea countries will fear us and surrender to us. Then the world will realize that Eastern Asia is ours and will not dare to violate our rights. This is the plan left to us by Emperor Meiji, the success of which is essential to our national existence.

The Nine Power Treaty is entirely an expression of the spirit of commercial rivalry. It was the intention of England and America to crush our influence in China with their power of wealth. The proposed reduction of armaments is nothing but a means to limit our military strength, making it impossible for us to conquer the vast territory of China. On the other hand, China's resources of wealth will be entirely at their disposal. It is merely a scheme by which England and America may defeat our plans. And yet the Minseito made the Nine Power Treaty the important thing and emphasized our *trade* rather than our *rights* in China. This is a mistaken policy—a

policy of national suicide. England can afford to talk about trade relations only because she has India and Australia to supply her with foodstuff and other materials. So can America because South America and Canada are there to supply her her needs. Their spare energy could be entirely devoted to developing trade in China to enrich themselves. But in Japan her food supply and raw materials decrease in proportion to her population. If we merely hope to develop trade, we shall eventually be defeated by England and America, who possess unsurpassable capitalistic power. In the end, we shall get nothing. A more dangerous factor is the fact that the people of China might some day wake up. Even during these years of internal strife, they can still toil patiently, and try to imitate and displace our goods so as to impair the development of our trade. When we remember that the Chinese are our sole customers, we must beware, lest one day when China becomes unified and her industries become prosperous. Americans and Europeans will compete with us: our trade in China will be ruined. Minseito's proposal to uphold the Nine Power Treaty and to adopt the policy of trade towards Manchuria is nothing less than a suicidal policy.

After studying the present conditions and possibilities of our country, our best policy lies in the direction of taking positive steps to secure rights and privileges in Manchuria and Mongolia. These will enable us to develop our trade. This will not only forestall China's own industrial development, but also prevent the penetration of European Powers. This is the best policy possible!

The way to gain actual rights in Manchuria and Mongolia is to use this region as a base and under the pretence of trade and commerce penetrate the rest of China. Armed by the rights already secured we shall seize the resources all over the country. Having China's entire resources at our disposal we shall proceed to conquer India, the Archipelago Asia Minor, Central Asia, and even Europe. But to get control of Manchuria and Mongolia is the first step if the Yamato race wishes to distinguish themselves on Continental Asia. Final success

belongs to the country having food supply; industrial prosperity belongs to the country having food-supply; industrial prosperity belongs to the country having raw materials; the full growth of national strength belongs to the country having extensive territory. If we pursue a positive policy to enlarge our rights in Manchuria and China, all these prerequisites of a powerful nation will constitute no problem. Furthermore, our surplus population of 700,000 each year will also be taken care of. If we want to inaugurate a new policy and secure the permanent prosperity of our empire, a positive policy towards Manchuria and Mongolia is the only way.

MANCHURIA AND MONGOLIA—NOT CHINESE TERRITORY

Historically considered, Manchuria and Mongolia are neither China's territory nor her special possessions. Dr. Yano has made an extensive study of Chinese history and has come to the positive conclusion that Manchuria and Mongolia never were Chinese territory. This fact was announced to the world on the authority of the Imperial University. The accuracy of Dr. Yano's investigations is such that no scholars in China have contested his statement. However, the most unfortunate thing is that in our declaration of war with Russia, our government openly recognized China's sovereignty over these regions and later again at the Washington conference when we signed the Nine Power Treaty. Because of these two miscalculations (on our part) China's sovereignty in Manchuria and Mongolia is established in diplomatic relations, but our interests are seriously injured. In the past, although China speaks of the Republic of five races, yet Thibet, Sinkiang, Mongolia and Manchuria have always remained special areas and the princes are permitted to discharge their customary functions. Therefore in reality the sovereign power over these regions resides with the princes. When any opportunity presents itself, we should make known to the world the actual situation there. We should also wedge our way into Outer and Inner Mongolia in order that we may reform the mainland. So long as the princes there maintain their former administrations, the sover-

eign rights are clearly in their hands. If we want to enter these territories, we may regard them as the ruling power and negotiate with them for rights and privileges. We shall be afforded excellent opportunities and our national influence will increase rapidly.

POSITIVE POLICY IN MANCHURIA

As to the rights in Manchuria, we should take forceful steps on the basis of the Twenty-One Demands and secure the following in order to safe-guard the enjoyment of the rights which we have acquired so far:—

1. After the thirty-year commercial lease terminates, we should be able to extend the term at our wish. Also the right of leasing land for commercial, industrial and agricultural purpose should be recognized.
2. Japanese subjects shall have the right to travel and reside in the eastern part of Mongolia, and engage in commercial and industrial activities. As to their movements, China shall allow them freedom from Chinese law. Furthermore, they must not be subject to illegal taxation and unlawful examination.
3. We must have the right of exploiting the nineteen iron and coal mines in Fengtien and Kirin, as well as the right of timbering.
4. We should have priority for building railroads and option for loans for such purposes in South Manchuria and Eastern Mongolia.
5. The number of Japanese political, financial and military advisers should be increased. Furthermore, we must have priority in furnishing new advisers.
6. The right of stationing our Police over the Koreans (in China).

7. The administration and development of the Kirin-Changchun Railway must be extended to 99 years.
8. Exclusive right of sale of special products—priority of shipping business to Europe and America.
9. Exclusive rights of mining in Heilungkiang.
10. Right to construct Kirin-Hueining and Changchun-Talai Railways.
11. In case money is needed for the redemption of the Chinese Eastern Railway, the Japanese Government must have the first option for making loans to China.
12. Harbour rights at Antung and Yingkow and the right of through transportation.
13. The right of partnership in establishing a Central Bank of the Three Eastern Provinces.
14. Right of Pasturage.

POSITIVE POLICY TOWARDS INNER AND OUTER MONGOLIA

Since Manchuria and Mongolia are still in the hands of the former princes, in the future we must recognize them as the ruling power and give them support. For this reason, the daughter of General Fukushima, Governor of Kwantung, risked her life among the barbarous Mongolian people of Tushiyeh to become adviser to their Prince in order that she might serve the Imperial Government. As the wife of the Prince Ruler is the niece of Manchu Prince Su, the relationship between our Government and the Mongolian Prince became very intimate. The princes of Outer and Inner Mongolia have all shown sincere respect for us, especially after we allured them with special benefits and protection. Now there are 19 Japanese retired military officers in the house of the Tushiyeh. We have acquired already monopoly rights for the purchase of wool, for real estate and for mines. Hereafter we shall send secretly more retired officers to live among them. They should wear

Chinese clothes in order to escape the attention of the Mukden Government. Scattered in the territory of the Prince, they may engage themselves in farming, herding or dealing in wool. As to the other principalities, we can employ the same method as in Tushiyeh. Everywhere we should station our retired military officers to dominate in the Princes' affairs. After a large number of our people have moved into Outer and Inner Mongolia, we shall then buy lands at one-tenth of their worth and begin to cultivate rice where feasible in order to relieve our shortage of food-supply. Where the land is not suitable for rice cultivation, we should develop it for cattle raising and horse breeding in order to replenish our military needs. The rest of the land could be devoted to the manufacture of canned goods which we may export to Europe and America. The fur and leather will also meet our needs. Once the opportunity comes, Outer and Inner Mongolia will be ours outright. While the sovereign rights are not clearly defined and while the Chinese and the Soviet Governments are engaging their attention elsewhere, it is our opportunity quietly to build our influence. Once we have purchased most of the land there, there will be no room for dispute as to whether Mongolia belongs to the Japanese or the Mongolians. Aided by our military prowess, we shall realize our positive policy. In order to carry out this plan, we should appropriate Yen 1,000,000 from the "secret funds" of the Army Department's budget so that four hundred retired officers disguised as teacher and Chinese citizens may be sent into Outer and Inner Mongolia to mix with the people, to gain the confidence of the Mongolian princes, to acquire from them rights for pasturage and mining and to lay the foundation of our national interests for the next hundred years.

ENCOURAGEMENT AND PROTECTION OF KOREAN IMMIGRATION

Since the annexation of Korea, we have had very little trouble. But President Wilson's declaration of the self-determination of races after the European War has been like a divine revelation to the suppressed peoples. The Koreans are no exception. The spirit of unrest has permeated the whole

country. Both because of the freedom they enjoy in Manchuria due to incompetent police system and because of the richness of the country, there are now in the Three Eastern Provinces no less than 1,000,000 Koreans. The unlooked for development is fortunate for our country indeed. From a military and economic standpoint, it has greatly strengthened our influence. From another standpoint, it gives new hope for the administration of Koreans. They will both be the vanguard for the colonization of virgin fields and furnish a link of contact with the Chinese people. On the one hand, we could utilize the naturalized Koreans to purchase land for rice cultivation, on the other, we could extend to them financial aid through the Co-operative Society, the South Manchuria Railway, etc., so that they may serve as the spear-head of our economic penetration. This will give relief to our problem of food supply, as well as open a new field of opportunity for colonization. The Koreans who have become naturalized Chinese are Chinese only in name: they will return to our fold eventually. They are different from those naturalized Japanese in California and South America. They are naturalized as Chinese only for temporary convenience. When their numbers reach two million and a half or more, they can be instigated to military activities whenever there is the necessity, and under the pretence of suppressing the Koreans we could bear them aid. As not all the Koreans are naturalized Chinese, the world will not be able to tell whether it is the Chinese Koreans or the Japanese Koreans who create the trouble. We can always sell dog's meat with a sheep's head as sign-board.

Of course while we could use the Koreans for such purposes, we must beware of the fact that the Chinese could also use them against us. But Manchuria is as much under our jurisdiction as under Chinese jurisdiction. If the Chinese should use Koreans to hamper us, then our opportunity of war against China is at hand. In that event, the most formidable factor is Soviet Russia. If the Chinese should use the "Reds" to influence the Koreans, the thought of our people will change and great peril will befall us. Therefore, the present Cabinet

is taking every precaution against this eventuality. If we want to make use of the Koreans to develop our new continental empire, our protection and regulations for them must be more carefully worked out. We should increase our police force in North Manchuria under the terms of the Mitsuya Treaty so that we may protect the Koreans and give them help in their rapid advance. Furthermore, the Eastern Development Company (Totoku Kaisha) and the South Manchuria Railway Company should follow then to give them financial aid. They should be given especially favourable terms so that through them we may develop Manchuria and Mongolia and monopolize the commercial rights. The influx of Koreans into these territories is of such obvious importance both for economic and military considerations that the Imperial Government cannot afford not to give it encouragement. It will mean new opportunities for our empire. Since the effect of the Lansing-Ishii Agreement is lost after the Washington Conference, we can only recover our interests through the favourable development arising out of the presence of several millions of Koreans in Manchuria. There is no ground in international relations for raising any objection to this procedure.

RAILROADS AND DEVELOPMENT OF OUR NEW CONTINENT

Transportation is the mother of national defence, the assurance of victory and the citadel of economic development. China has only 7,200 to 7,300 miles of railroads, of which three thousand miles are in Manchuria and Mongolia constituting two-fifths of the whole. Considering the size of Manchuria and Mongolia and the abundance of natural products, there should be at least five or six thousand miles more. It is a pity that our railroads are mostly in south Manchuria, which cannot reach the sources of wealth in the northern parts. Moreover, there are too many Chinese inhabitants in South Manchuria to be wholesome for our military and economic plans. If we wish to develop the natural resources and strengthen our national defence, we must build railroads in Northern Manchuria. With the opening of these railroads, we shall be able

to send more people (Japanese) into Northern Manchuria. From this vantage ground we can manipulate political and economic developments in South Manchuria, as well as strengthen our national defence in the interest of peace and order of the Far East. Furthermore, the South Manchuria Railway was built mainly for economic purposes. It lacks encircling lines necessary for military mobilization and transportation. From now on we must take military purposes as our object and build circuit lines to circle the heart of Manchuria and Mongolia in order that we may hamper China's military, political and economic developments there on the one hand, and prevent the penetration of Russian influence on the other. This is the key to our continental policy.

There are two trunk lines in Manchuria and Mongolia. These are the Chinese Eastern Railway and the South Manchuria Railway. As regards the railroad built by Chinese, it will doubtless become very powerful in time, backed by the financial resources of the Kirin Provincial Government. With the combined resources of Fengtien and Heilungkiang Provinces, the Chinese railroads will develop to an extent far superior to our South Manchuria Railway. Strong competition will inevitably result. Fortunately for us, the financial conditions in Fengtien Province are in great disorder, which the authorities cannot improve unless we come to their succor. This is our chance. We should take positive steps until we have reached our goal in railroad development. Moreover, if we manipulate the situation, the Fengtien bank-notes will depreciate to an inconceivable degree. In that event, the bankruptcy of Fengtien will be a matter of time. The development of Manchuria and Mongolia will be out of the question for them. But we still have to reckon with the Chinese Eastern Railway. It forms a T with the South Manchuria Railway. Although this system is in a convenient shape, it is by no means suitable for military purposes. When the Chinese build railroads as feeders of the Chinese Eastern Railway, it is best that they run parallel to it, west and east. But with the South Manchuria Railway as main line, we must have these lines run north and

south. For the benefit of the Chinese themselves, there are also advantages for these lines to run in this direction. Consequently our interest does not necessarily conflict with the Chinese. Now that Russia is losing influence and is powerless to advance in Manchuria and Mongolia, it is certain that the Chinese must act according to our beckoning in the development of railways in the future. Much to our surprise the Fengtien Government recently built two railroads, one from Tahushan to Tungliao and the other from Kirin to Haining both for military purposes. These two railroads affect most seriously our military plans in Manchuria and Mongolia as well as the interest of the South Manchuria Railway. We therefore protested strongly against it.

That these railways were built was due to the fact that our official on the spot as well as the South Manchuria Railway authorities miscalculated the ability of the Fengtien Government and paid no attention to it. Later when we did intervene the railways were already completed. Besides, the Americans have been anxious to make an investment in developing the port of Hulutao through British capitalists. Taking advantage of this situation, the Fengtien Government introduced American and British capital in these railways in order to hold our interest at bay. For the time being we have to wink at it and wait for the opportune moment to deal with China about these two railroads.

Recently, it is rumoured that the Fengtien Government is planning to build a railroad from Tahushan to Harbin via Tung Liao and Fu Yu, so that there may be a direct line between Peking and Harbin without touching either the South Manchuria Railway or the Chinese Eastern Railway. What is more astonishing is that another railway beginning at Mukden passing through Hallung, Kirin, Wuchang terminating at Harbin is also under way. If this plan be realized, then these two lines would encircle the South Manchuria Railway and limit its sphere of activity to a small area. The result is that our economic and political development of Manchuria and

Mongolia will be checked and the plan for curtailing our power provided by the Nine Power Treaty will be carried out. Moreover, the completion of these two railroads will render the South Manchurian Railway completely useless. The latter Company will be confronted with a real crisis. But in view of China's financial conditions today, she cannot undertake these two railroads unless she resorts to foreign loans. And on these two railways the transportation charges will have to be higher than on the South Manchuria Railway. These considerations give us some comfort. But in the event of these two railroads becoming an accomplished fact and the Chinese Government making especially low freight charges in order to compete with the South Manchuria Railway, not only we but the Chinese Eastern Railway will also sustain great losses. Japan and Russia certainly would not allow China to carry out such obstructive measures, especially as the Chinese Eastern Railway depends upon Tsitsihar and Harbin for the bulk for its business. The consequence would be even more serious to both Japanese and Russian interests when the new railways are completed.

Let us now consider more in detail the competitive railways projected in Manchuria and Mongolia.

China contemplates:

1. Suolun-Taonan Railway.
2. Kirin-Harbin Railway.

Soviet Russia proposes:

1. Anta-Potung Railway
2. Mienpo-Wuchang-Potuna Railway.
3. Kirin-Hailin Railway.
4. Mishan-Muling Railway.

The Russian plans are designed to strengthen the Chinese Eastern Railway and thereby to extend its imperialistic schemes. For this reason the railways projected mostly run east and

west. For although the power of Soviet Russia is declining, her ambition in Manchuria and Mongolia has not diminished for a minute. Every step she takes is intended to obstruct our progress and to injure the South Manchuria Railway. We must do our utmost to guard against her influence. We should use the Fengtien Government as a wedge to check her southern advance. By pretending to check the southern advance of Soviet Russia as a first step, we could gradually force our way into North Manchuria and exploit the natural resources there. We shall then be able to prevent the spread of Chinese influence on the south and arrest the advance of Soviet Russia on the north. In our struggle against the political and economic influence of Soviet Russia, we should drive China before us and direct the events from behind. Meanwhile, we should still secretly befriend Russia in order to hamper the growth of Chinese influence. It was largely with this purpose in view, that Baron Goto of Kato's cabinet invited Joffe to our country and advocated the resumption of diplomatic relations with Russia.

Although we have an agreement with the Chinese Eastern Railway concerning transportation rates, according to which 45% go to the Chinese Eastern Railway and 55% to us, yet the Chinese Eastern Railway still grants preferential rates detrimental to the interest of the South Manchuria Railway. Moreover, according to a secret declaration of Soviet Russia, although they have no territorial ambition they cannot help keeping a hand in the Chinese Eastern Railway on account of the fact that north of the Chinese and Russian boundary the severe cold makes a railway useless. Furthermore, as Vladivostok is their only sea-port in the Far East, they cannot give up the Chinese Eastern Railway without losing also their foothold on the Pacific. This makes us feel the more uneasy.

On the other hand, the South Manchuria Railway is not adequate for our purpose. Considering our present needs and future activities, we must control railways in both North and South Manchuria, especially in view of the fact that the re-

sources of North Manchuria and Eastern Mongolia will furnish no room for expansion and material gains. In South Manchuria the Chinese is increasing at such a rate that it will surely damage our interests politically and economically. Under such circumstances, we are compelled to take aggressive steps in North Manchuria in order to assure our future prosperity. But if Soviet Russia's Chinese Eastern Railway should spread across this field our new continental policy is bound to receive a set-back which will result in an inevitable conflict with Soviet Russia in the near future. In that event we shall enact once more our part in the Russo-Japanese War. The Chinese Eastern Railway will become ours as the South Manchuria Railway did last time, and we shall seize Kirin as we once did Dairen. That we should draw swords with Russia again in the fields of Mongolia in order to gain the wealth of North Manchuria seems a necessary step in our program of national aggrandisement. Until this hidden rock is blown up our ship can have no smooth sailing. We should now demand from China the right of building all the important military railroads. When these railroads are completed, we shall pour our forces into North Manchuria as far as we can. When Soviet Russia intervenes, as they must, that is our opportunity for open conflict.

WE SHOULD BUILD THE FOLLOWING RAILWAYS

1. Tungliao-Jehol Railway. This line is 447 miles long and will cost Yen 50,000,000. When it is completed it will be of great value to our development of Inner Mongolia. As a matter of fact, this is the most important of all the railways in the whole undertaking. According to the careful surveys of the War Department, there are in Inner Mongolia large tracts of land suitable for rice cultivation. After proper development there will be room for at least 20 millions of our people. Besides there, is the possibility of turning out 2,000,000 head of cattle which may be transported by railways for food supply and for purposes of exporting to Europe and America. Wool also is a special product. While the sheep in Japan yield only

two catties of wool per head per year, the sheep in Mongolia can yield six catties. The South Manchuria Railway has made many experiments, all of which confirm this fact. Besides, the wool is many times better than that of Australia. Its low cost and high quality combined with its abundance in quantity make Mongolia a potential source of great wealth. When this industry is enhanced by the facilities of railway development, the total production will increase at least ten-fold. We have withheld this knowledge from the rest of the world, lest England and America compete with us for it. Therefore, we must first of all control the transportation and then develop the wool industry. By the time the other countries know about it, it would be already too late to do anything. With this railroad in our hands, we can develop the wool industry not only for our own use, but also for exporting to Europe and America. Furthermore, we can realize our desire of joining hands with Mongolia. This railway is a matter of life and death to our policy in Mongolia. Without it, Japan can have no part in Mongolia's development.

2. Suolun-Taonan Railway. This line is 136 miles long and will cost Yen 10,000,000. Looking into the future of Japan, a war with Russia over the plains of North Manchuria is inevitable. From a military standpoint, this line will not only enable us to threaten Russia's rear but also to curtail its re-inforcements for North Manchuria. From an economic standpoint, this road will place the wealth of the Tao Er Ho Valley within our reach, thereby strengthening the South Manchuria Railway. The princes nearby who are friendly to us can also use this road to extend our influence in order to open up their respective territories. Our hope of working hand in hand with the Mongolian princes, of acquiring land, mines and pasturage, and of developing trade with the natives as preliminary steps for later penetration, all depends upon this railway. Together with Tungliao-Jehol Railway, they will form two supplementary routes into Mongolia. When the industries are fully developed, we shall extend our interests into Outer Mongolia. But the danger of this line is that it might provide facili-

cles for Chinese migration into a new region and spoil our own policy. Look at our experience with the South Manchuria Railway. Hasn't that served the interest of China? The redeeming feature, however, is the fact that the land and mines along this railway are in the possession of Mongolian princes. If we can gain possession of them first, we need have no worries about Chinese migration. Moreover, we can make the princes pass laws discriminating against Chinese immigrants. When life there is made miserable for the Chinese, they naturally will leave for places afar. There are other methods to bar the Chinese. Only if we try hard enough, no Chinese foot-prints will be found on Mongolian territory.

line runs from Changchun to Fuyu and Talai, the section between Changchun and Taonan is about 131 miles and costs approximately Yen 11,000,000. This line is immensely important from an economic standpoint, for the wealth of Manchuria and an easy access to North Manchuria on the one hand, and prejudice the Chinese Eastern Railway to the benefit of the South Manchuria Railway on the other. It runs through the upper valley of the Sungari River where the soil is fertile and agricultural products abound. Further, in the vicinity of Talai there is the Yuehliang Falls which could be harnessed for electric power. That this section of the railway will be a prosperous center for industry and agriculture, is beyond doubt. After the completion of this line, we shall be able to make Talai a base and advance on Siberia through three directions; namely, by ways of Taonan, Anshan and Tsitsihar. The wealth of North Manchuria will then come to our hands. This will also be the first line of advance to Heilungkiang. It will further form a circuit with the railway between Changchun and Taonan, which will serve well for military purposes when we penetrate into Mongolia. Along this whole line the population is sparse and the land is rich and extensive. No fertiliser will be required on the farms for fifty years. A possession of this railway will ensure the possession of all the wealth of North

Manchuria and Mongolia. In this region there is room for at least 30 million people more. When the Tunhua Railway is completed and joins up with the line running to Hueining in Korea, the products will be brought to the door of Osaka and Tokyo by a direct route. In time of war our troops could be despatched to North Manchuria and Mongolia via the Japan Sea without a stop, forestalling all possibilities of Chinese forces entering North Manchuria. Nor could American or Russian submarines enter the Korean Strait. The moment the railways between Kirin and Hueining and between Changchun and Talai are completed, we shall become self-sufficient in food-stuff and raw materials. We shall have no worries in the event of war with any country. Then, in our negotiations about Manchuria and Mongolia, China will be cowed to submission and yield to our wishes. If we want to end the political existence of Manchuria and Mongolia according to the third step of Meiji's plan, the completion of these two railways is the only way. The Changchun-Talai Railway will greatly enhance the value of the South Manchuria Railway, besides developing into a profitable line itself. It is an undertaking of supreme importance in our penetration into this territory.

4. Kirin-Hueining Line. While the Kirin-Tunhua Line is already completed, the Tunhua-Hueining Line is yet to be built. The narrow gauge of 2 ft. 6 inches of the tracks from Hueining to Laotoukow is inadequate for the economic development of the New Continent. Allowing Yen 8,000,000 for widening the tracks in this section and Yen 10,000,000 for completing the section between Laotoukow and Tunhua, the whole undertaking will cost approximately Yen 20,000,000. When this is done, our continental policy will have succeeded. Hitherto, people going to Europe have to pass through either Dairen or Vladivostok. Now they can go on the trunk line directly from Chingchinkang via the Siberian Railway. When we are in control of this great system of transportation, we need make no secret of our designs on Manchuria and Mongolia according to the third step of Meiji's plans. The Yamato Race is then embarked on the journey of world

conquest! According to the last will of Meiji, our first step was to conquer Formosa and the second step to annex Korea. Having completed both of these, the third step is yet to be taken and that is the conquest of Manchuria, Mongolia and China. When this is done, the rest of Asia including the South Sea Islands will be at our feet. That these injunctions have not been carried out even now, is a crime of your humble servants.

In history the people living in Kirin, Fengtien and part of Heilungkiang, are called Sushan. They are now scattered along the sea coast and in the basins of the Amur and Tumen Rivers. They were known as Kulai, Sushan, Hueibei, Palou, Wotsu, Fuyu, Kitan Pohai and Nuchen at different stages of history. They were of a mixed race. The forefathers of the Manchurian dynasty also began in this vicinity. They gained control of Kirin, first, and then firmly established themselves in China for 300 years. If we want to put into effect our Continental Policy, we have to note this historical fact and proceed to establish ourselves in this region first also. Hence the necessity of the Kirin-Hueining Railway.

Whether the terminus of Kirin-Hueining Line be at Chingchin or Lochin or even Hsiungchi, we are free to decide according to circumstances. From the standpoint of national defence at present, Lochin seems the ideal harbour and terminus. Eventually it will be the best harbour in the world. On the one hand it will ruin Vladivostok, and on the other it will be the center of the wealth of Manchuria and Mongolia. Moreover, Dairen is as yet not our own territory while Manchuria is yet not a part of our empire, it is difficult to develop Dairen. That being the case, we shall be in a precarious situation in time of war. The enemy could blockade the Tsushima and Senchima Straits, and we shall be cut off from the supplies of Manchuria and Mongolia. Not having the resources there at our command we shall be vanquished, especially as England and the United States have worked hand in hand to limit our action in every possible direction. For the sake of self-preservation and of

giving warning to China and the rest of the world, we must fight America some time. The American Asiatic Squadron stationed in the Philippines is but within a stone's throw from Tsushima and Senchima. If they send submarines to these quarters, our supply of food-stuff and raw materials from Manchuria and Mongolia will be cut off entirely. But if the Kirin-Hueining Railway is completed, we shall have a large circuit line through all Manchuria and Korea, and a small circuit line through North Manchuria. We shall have access in all direction gaining freedom for the transportation of soldiers and supplies alike. When our supplies are transported through this line to our ports at Tsuruga and Niigata, enemy submarines will have no way of getting into the Japanese and Korean straits. We are then entirely free from interference. This is what is meant by making the Japanese Sea the center of our national defence. Having secured the free transportation of food and raw materials, we shall have nothing to fear either from the American navy because of its size, or the Chinese or Russian army because of their number. Incidentally, we shall be in a position to suppress the Koreans. Let me reiterate the fact that if we want to carry out the New Continental Policy, we must build this line. Manchuria and Mongolia are the undeveloped countries in the East. Over this territory we shall have to go war with Soviet Russia sooner or later. The battle ground will be Kirin.

When we carry out the third step of Meiji's plans with regard to China, we shall have to do the following things:—

1. Mobilise the army divisions in Fukuoka and Hiroshima, and send them to South Manchuria via Korea. This will prevent the northern advance of Chinese soldiers.
2. Send the army divisions in Nagoya and Kwansei by sea to Chingchin, and thence to North Manchuria via the Kirin Hueining Line.
3. Send the army in Kwantung through Niigata to Chingchin or Lochin, and thence by Kirin-Hueining Line to North Manchuria.

4. Send the army divisions in Hokkaido and Sendai to embark the ship at Aomori and Hakodato, and sail for Vladivostok and thence, via the Siberian Railway, to Harbin. Then they can descend on Fengtien, seize Mongolia and prevent Russian forces from coming South.
5. Finally these divisions in all directions will meet and form themselves in two large armies. On the south, they will keep Shanhaikuan and close it against the northern advance of Chinese forces: on the north, they will defend Tsitsihar against the southern advance of the Russians. In this way we shall have all the resources of Manchuria and Mongolia at our command. Even if the war should be prolonged for ten years, we need have no fear for the lack of supplies.

Let us now analyze once more the Kirin-Hueining Railway from the standpoint of its access from our ports.

First, with Chingchin as starting point:

1. To Vladivostok130 miles
2. To Tsuruga475 miles
3. To Moji500 miles
4. To Nagasaki650 miles
5. To Fusan500 miles

Second, take Tsuruga as the port of entry and compare it with Dairen. In this case we should consider it from the point of view of Osaka an industrial center.

1. From Changchun to Osaka via Lochin, the distance is 406 miles by land and 475 miles by sea. In point of time the route will take 51 hours.
2. From Changchun to Osaka via Dairen and Kobe, the distance is 535 miles by land and 870 miles by sea. If point of time it takes 92 hours.

If Tsouruga instead of Dairen is made the connecting link, there is a saving of 41 hours. Calculated at the rate of 30 miles an hour on land and 12 miles an hour by sea, we can use fast boats and trains and cut the time in half.

Manchuria and Mongolia are the Belgium of the Far East. In the Great War, Belgium was the battlefield. In our wars with Russia and the United States, we must also make Manchuria and Mongolia suffer the ravages. As it is evident that we have to violate the neutrality of these territories, we cannot help building the Kirin-Hueining and Changchun-Talai Railways in order that we may be militarily prepared. In time of war we can easily increase our forces and in time of peace we can migrate thousands upon thousands of people into this region and work on the rice fields. This line offers the key to economic development as well as to military conquests.

In undertaking the Kirin-Hueining Railway, it is necessary to take advantage of the dry season and finish it at one stretch. The mountains it must go through are all granite. The tunneling would need modern and up-to-date machines. As to the sleepers and ballast required, there is an abundance all along the line. Limestone and clay for making tiles and brick are also to be had for the taking. Only rails, cars and locomotives have to be brought in. The cost of construction could therefore be reduced at least thirty per cent and the time required forty per cent.

Now, let us look into the economic interests along this line. According to the careful investigations of our General Staff and the South Manchuria Railway, the total reserve of timber is 200,000,000 tons. If one million ton is fallen and imported to our country each year, it will last two hundred years. This will stop the import of American timber which has been costing us Yen 80,000,000 to Yen 100,000,000 a year. Although our information is reliable we cannot make it known to the world, for if China or Russia learns that we get so much timber from America, they would try to interfere with the construction of

this line. Or else, the United States may buy from the Feng-tien Government all the timber rights on the one hand to protect their own trade with us; on the other, to control the monopoly and incidentally kill our paper industry.

Kirin was known as the "ocean of trees" even in the days of Emperor Chien-Lung. Added to the original forests are the growths in the intervening years since that time. Imagine the vastness of the resources! To transport this timber from Kirin to Osaka via Changchun and Dairen, there is a distance of 1,385 miles. For every cubic foot, we have to spend 34 cents. Because of this high cost of transportation, we cannot compete with the United States. If the Kirin-Hueining Line is completed, the distance is reduced to about 700 miles. We can then ship timber to Osaka at the low rate of 13 cents per cubic foot. We can certainly defeat the timber importation from the United States then. Supposing we calculate the profit at Yen 5.00 per ton timber and supposing there are two billion tons of timber, the construction of the railway will bring to us the easy profit of 10 billion yen. We will bar the import of American timber into our country. Furthermore, the industry of paper manufacture furniture making, and wooden wares which the cheap timber makes possible will add 20 million yen more to our country's annual income.

There is also the Hsinchin coal mine, which has a reserve of 600,000,000 tons of coal. The quality of this coal is superior to that of Fushun coal, easy to excavate and suitable for the extraction of petroleum, agricultural fertilizers and other chemical by-products which we may both use at home and sell in China. There are numerous other advantages which will come to us from the building of the Kirin-Hueining Railway. It is all gain without labour. The coal will supplement the Fushun collieries. With both coal mines in our control, we hold the key to the industries of all China. Speaking of the Hsinchin coal, we shall reap a profit of Yen 5.00 on each ton when it is shipped to Japan. With additional chemical by products, we shall reap a profit of Yen 16.00 from each ton of

coal. Taking an average profit of Yen 15.00 a ton, the total profit will amount to 200 billion yen. All this comes as a by-product from the operation of the Kirin-Hueining Railway. There are, besides, the gold mines along to Mutan River. The acquired rights of the South Manchuria Railway in the gold mines of Chiapikou in the province of Kirin and the timber in its neighbourhood will all be within reach of exploitation once the Kirin-Hueining line is in operation.

In the vicinity of Tunhua the agricultural products, such as oats, wheat, millet and kaoliang, yield an annual output of over a million catties. There are twenty distilleries of wines, thirty oil mills yielding an annual output of about 600,000 catties of oil and 600,000 of bean cakes, besides many places for making vermicelli. All these will depend upon the new railway. The trade along this road may be estimated at 4 million yen a year. The transportation charges of farm products alone will not only defray the running expenses, but also yield a net profit of Yen 200,000 a year. Including the profit from timber, coal and its by-products transported by the railway, we can safely count on a profit of Yen 8,000,000 a year. Besides, there are indirect benefits such as the strengthening of the South Manchuria Railway, the acquisition of rights over forests, mines and trade as well as the migration of large numbers of our people into North Manchuria. Above all, is the shortening of distance between Japan and the resources of wealth in North Manchuria. It only takes three hours from Chingchin to Hueining, three hours from Hueining to Sanfeng and three hours more from Tumen river to Lungchingtsun. In 60 hours we can reach the wealth of North Manchuria. Hence the Kirin-Hueining Railroad alone can enable us to tap the immense wealth of North Manchuria.

4. *Hunchun-Hailin Railway.* This is 173 miles long and costs Yen. 24,000,000. All along this line are thick forests. In order to strengthen the Kirin-Hueining Railway and to exploit the forests and mines in North Manchuria, this line is needed. In order to transfer the prosperity of Vladivostok to Hueining, this line is also urgently needed. The greatest hope for

prosperity, however, is the fact that south of Naining and north of Tunhua there is Lake Chungpo which can be used to generate electric power. With this electric power, we shall have control over the agricultural and industrial undertakings of the whole of Manchuria and Mongolia. No amount of China's agitation can matter in the least to our industrial developments. According to the investigations of the South Manchuria Railway, the water power in the lake can generate at least 800,000 horsepower. With such an enormous quantity of electric power, the industrial conquest of Manchuria and Mongolia can be easily accomplished. In the neighborhood of this immense power plant, there will be phenomenal growth of wealth. We must build this railway quickly, in order to provide facilities for transportation. Lake Hsingkai, which is owned jointly by China and Russia, can also be developed for the generation of electricity. In order that these two countries may not combine to frustrate our plans, we should introduce a resolution in the International Conference of Electrical Engineering to be held in Tokyo this year, to the effect that in the same area of electricity supply there should not be two power plants. Besides, in the vicinity of Niigata and Hailin, the Oju Paper Mill has acquired extensive rights of lumbering. They need the immediate establishment of the power plant at Lake Chingpo and the early completion of the Hunchun-Hailin Railway in order to bring to the factory at home the raw materials growing wild in Mongolia.

Moreover, the reason that the Fengtien-Kirin-Wuchang Railway and the Kirin and Fengtien authorities intend to build the Wuchang Railway and the Kirin-Mukden Railway, with Hulutao or Tientsin as sea-port, is that they want to recover to themselves the wealth of North Manchuria. By building the Hunchun-Hailin Railway we shall not only strengthen the Kirin-Hueining Railway, but also defeat the Chinese scheme and draw the wealth of Manchuria to Chingchin harbour. The transportation charges will be two-thirds less compared with the Chinese line and one-third less compared with the Siberian line. They cannot compete with us. Our victory is a foregone conclusion.

The total trade in Manchuria is seven or eight billion yen a year, all of which is in our hands. The business we do in wool, cotton, soybeans, bean cakes, and iron, forms one-twentieth of the total volume of world trade. And it is steadily increasing. But the Namihaya Machi at Dairen (the wealthiest street in the city) is still in Chinese possession. The sad story goes further. Oil is a basic industry in Manchuria. We control only 6 percent of it. Of the 38 oil mills in Yingkow, there is not one Japanese; of the 20 oil mills in Antung there is only one Japanese and of the 82 or 83 oil mills in Dairen there are only seven owned by Japanese. This is by no means an optimistic outlook for us. In order to recover the lost ground, we must first of all develop transportation. Then, by securing a monopoly on both finished products and raw materials, we shall be able to gain the upper-hand eventually. Furthermore, we ought to assist our people in oil business by extending to them financial credit, so that the oil industry of the Chinese will be forced out of the market. There are many Chinese on Kawaguchi Machi in Osaka who are dealers of our manufactured goods in Mongolia and Manchuria. They are strong competitors of our own business men in China. Our people are greatly handicapped because of their high standard of living which compels them to figure at a higher percentage of profit. On the other hand, the Chinese also have their disadvantages. The goods that they get are of an inferior quality, but the price that they pay is at least 10 percent higher than what our own people pay. Besides, they are also obliged to pay Yen 2.70 more than our people for every ton of goods transported, and yet they can undersell our merchants in Manchuria. It clearly shows the inability of our own people. When one thinks of it, it is really pathetic. The Chinese is single-handed, receiving no assistance from the government. But the Japanese in Manchuria has every protection from the government and long term credit as a low rate of interest. Still there are innumerable cases of failures. Hereafter, we should organize a cooperative exporting house to China. The steamship lines and the South Manchuria Railway should give it special discounts, and the government in Kwangtung should

extend to it financial credit at a very low rate of interest. Then we can hope to beat the Chinese merchants and recover our trade rights, so that we may develop the special products of Manchuria and send them to all parts of the world.

The first step in gaining financial and commercial control of Manchuria and Mongolia lies in the monopoly sale of their products. We must have the rights of monopoly for the sale of Manchurian and Mongolian products before we can carry out our continental policy and prevent the invasion of American capital as well as the influence of the Chinese traders.

Although the products of Manchuria and Mongolia may go through any of the three ports, Dairen, Yingkow and Antung, nevertheless Dairen holds the key to the situation. Every year 7,200 ships pass through this port with a total tonnage of 11,565,000 tons. This represents 70 percent of the total trade of Manchuria and Mongolia. Fifteen navigation routes radiate out from it with definite sailing schedule. Most of it is costal sailing. We have in our grasp the entire transportation system of Manchuria and Mongolia. The monopoly sale of Manchuria's special products will eventually come into our hands. When that come true, we can develop our oceanic transportation in order to defeat both Yingkow and Antung. Then the large quantities of beans which the central and southern parts of China consume, will depend upon us entirely. Moreover, the Chinese are an oil eating people. In time of war, we can cut off their oil-supply and the life of the whole country will become miserable. Bean-cakes are important as fertilizers for the cultivation of rice. If we have control of the source of supply as well as the means of transportation, we shall be able to increase our production of rice by means of a cheap supply of bean-cakes and the fertilizers manufactured as a by-product at the Fushun coal mines. In this way, we shall have the agricultural work of all China dependent upon us. In case of war, we can put an embargo on bean-cakes as well as the mineral fertilizers and forbid their exportation to Central and South China. Then China's production of food-stuff will be greatly reduced. This

is one way of building up our continental empire which we must not overlook. We should remember that Europe and America also need large quantities of beans and bean-cakes. When we have monopoly of the supplies and full control of transportation, both on land and sea, the countries which have need of the special products of Manchuria and Mongolia, will have to seek our good-will. In order to gain trade monopoly in Manchuria and Mongolia, we must have control of the complete transportation system. Only then can we have the Chinese merchants under our thumb.

However, the Chinese are adepts in learning our tricks and beating us at our own game. We have yet found no way by which we can compete successfully with them in oil-making and sail-boat transportation. After building up the new system of transportation, our policy should be two-fold. On the one hand, wreck the sail-boat trade by means of heavy investment in our own system. On the other hand, encourage our men to learn all they can from the Chinese about sail-boat business. Another thing we should be careful about is teaching the Chinese our industrial methods. In the past we have established factories in Manchuria and Mongolia, and carried on industries near the source of raw materials. This gave to the Chinese the opportunity of learning our secrets and establishing competitive factories of their own. Hereafter, we should ship the raw materials back home and do the manufacturing there, and then ship the finished products for sale in China and other countries. In this way we shall gain in three ways: (1) provide work for our unemployed at home, (2) prevent the influx of Chinese into Manchuria and Mongolia, and (3) make it impossible for the Chinese to imitate our new industrial methods. Then iron of Penhsihu and Anshan and the coal of Fushun should also be sent home to be turned into finished products.

For all these considerations, the development of ocean transportation becomes the more necessary. The Dairen Kisen Kaisha Company should be enlarged, and our government should extend to it loans at low interest through the South Manchuria

Railway Company. By next year, we should complete 50,000 tons of new ships for oceanic transportation. That will be sufficient to dominate over the traffic of the East. For on the hand, we have the South Manchuria Railway for land transportation; on the other hand, we control the large quantities of products in Manchuria and Mongolia waiting to be transported. The success of this enlarged activities in oceanic transportation with Dairen as centre is assured by the iron laws of economics.

GOLD STANDARD CURRENCY NECESSARY

Although Manchuria and Mongolia are within our field of activities, yet the legal tender there is still silver. It often conflicts with our gold basis and works to our disadvantage. That our people have failed to prosper as they should in these places, is due to the existence of silver monetary system there. The Chinese have persistently upheld the silver basis, and therefore have made it impossible for us firmly to establish our colonization plans on a firm economic foundation. We have suffered from it the following disadvantages:

1. The money that we bring into Manchuria is of gold standard. When we use it either for daily livelihood or for industry and trade, it has to be exchanged into Chinese silver dollars. The fluctuation of exchange is not infrequently as much as 20 percent, resulting in serious loss to our people. Speculation becomes a regular business and investing money becomes a matter of gambling. When one plans an investment of two hundred thousand yen, one may suddenly find that his capital has been reduced to one hundred fifty or one hundred sixty thousand dollars due to the drop in exchange. The creditor would then have to call in the loan and business failures have often resulted.

2. The Chinese businessmen use silver money throughout and are free from the effects of exchange fluctuations. Therefore their "junk" trade is prosperous. Although they have no scientific knowledge of exchange value of gold and silver, they always gain in the transaction. They have a natural gift for

it, we suffer the more. And we lose in spite of our control of transtation and special backing of banking houses. Because of the handicap of monetary system, people in Central and South China always buy beans and bean-cakes from their own people. We have no chance against them. In consequence, we cannot conquer the whole of China.

3. With 'the' silver standard in existence, the Chinese Government can increase their notes to counteract our gold notes. Consequently, our banks will fail to carry out the mission of extending our country's influence.

4. If the gold standard is adopted, we can issue gold notes freely. With the credit of the gold notes, we can acquire rights in real property and natural resources and defeat the credit of the Chinese silver notes. — The Chinese will be unable to compete with us; and the currency of the whole of Manchuria and Mongolia will be in our control.

5. The Government Bank of the Three Eastern Provinces, the Bank of Communications, the Frontier Development Bank and the General Credit & Finance Corporation have in circulation silver notes amounting to 38,000,000 dollars. Their reserve funds in the form of buildings and goods are estimated at 1,350,000 dollars. It is natural that the Chinese notes should depreciate. It is only by acts of the Government that these notes are still in circulation. Until we have entirely discredited the Chinese silver notes, we will never place our gold notes in their proper place in Manchuria and Mongolia, much less obtain the monopoly in currency and finance of these two countries. With the depreciated and inconvertible silver notes, the government of the Three Eastern Provinces buys all kinds of products, thus threatening our vested interests. When they sell these products, they demand gold from us which they keep for the purpose of wrecking our financial interests including our trade rights in special products. For these reasons, our gold notes are having a harder time and a gold standard for currency becomes the more urgently necessary.

In view of the above-mentioned considerations, we must overthrow Manchuria's inconvertible silver notes and divest the government of its purchasing power. Then we can extend the use of our gold notes in the hope of dominating the economic and financial activities of Manchuria and Mongolia. Furthermore, we can compel the authorities of the Three Eastern Provinces to employ Japanese financial advisers to help us gain supremacy in financial matters. When the Chinese notes are overthrown, our gold notes will take their place.

THE NECESSITY OF CHANGING THE ORGANIZATION OF THE SOUTH MANCHURIA RAILWAY

The South Manchuria Railway Company functions in Manchuria as the Governor-General of Korea did there before the annexation. In order to build up our new Continental Empire, we must change the organization of that Company so as to break away from the present difficulties. The functions of this Company are varied and important. Every change of Cabinet involves a change of the administration of the South Manchuria Railway, and conversely every activity of the South Manchuria Railway also has important consequences on the Cabinet. This is because the South Manchuria Railway is semi-governmental, with final authority resting in the Cabinet. For this reason, the Powers invariably look upon this railway as a purely political organ rather than a business enterprise. Whenever a new move is made for the development of Manchuria and Mongolia, the Powers would invoke the Nine Power Treaty to thwart the plans of the South Manchuria Railway. This has greatly damaged the interests of our empire.

Considered from the point of view of domestic administration, the South Manchuria Railway is subject to a quadruple control. There are the Governor of Kwantung, the Chief Executive of Dairen, the Consul-General at Mukden, besides the President of the South Manchuria Railway itself. These four officers must meet and exchange views at Dairen before anything is undertaken. What is discussed in the meeting held in

camera often leaks out to the Chinese authorities of the Three Eastern Provinces. They in turn would try to obstruct any forward movements of the South authorization, it again has to run the gauntlet at the Departments of Foreign Affairs, of Railways, of Finance and of Army. If these ministers do not agree, the matter is dropped. Therefore, although the present prime minister realizes his own incompetence, he has nevertheless taken concurrently the port-folio of foreign affairs, so that our movements in Manchuria may be kept confidential and the execution of our plans may be swift and decisive. On account of these reasons, the South Manchuria Railway should be radically re-organized. All appurtenant enterprises which are profit-making should be made independent companies under the wings of the South Manchuria Railway, so that we may take determined steps on the conquest of Manchuria and Mongolia. On the other hand, Chinese, Europeans and Americans should be invited to invest money in the South Manchuria Railway on the condition that we have a plurality of its stocks. In that event the control of the Company is in our hands, and our mission from the empire can be discharged more vigorously. In short, by inviting international participation in the South Manchuria Railway, we can blind the eyes of the world. Having achieved that, we can push our advance in Manchuria and Mongolia at our will, free ourselves from the restraint of the Nine Power Treaty and strengthen our activities in that country with foreign capital.

The important appurtenant enterprises of the South Manchuria Railway are:—

1. *Iron and Steel*

Iron and steel are closely connected with national development. Every country today attaches great importance to it. But because of the lack of ores, we have found no solution to this problem. Hitherto we have had to import steel from the Yangtze Valley and the Malay Peninsula. But according to a secret survey of our General Staff, a wealth of iron mines are found in many places in Manchuria and Mongolia. A conser-

vative estimate of the reserve is 10 billion tons. At first when there was a lack of technique, the Anshan Iron and Steel Works was involved in an annual loss of Yen 3,000,000. Later, new methods were discovered, and the technique developed so that during 1926 the loss was only Yen 150,000 and a year later there was a profit of Yen 800,000. If the furnace is improved, we ought to earn at least Yen 4,000,000 a year. The quality of the ore at Penhsihu is excellent. By amalgamating it with the Anshan Iron Works, we shall have the comfort of being self-sufficient in iron and steel.

The iron deposits in Manchuria and Mongolia are estimated at 1,200,000,000 tons; and coal deposits, 2,500,000,000 tons. This coal ought to be sufficient for smelting the iron ores. With such large amounts of iron and coal at our disposal, we ought to be self-sufficient for at least seventy years. At the rate of \$100.00 profit on each ton of steel, for 350,000,000 tons of steel we shall have a profit of Yen 35,000,000,000. This is a tremendous asset to our economic resources. We shall save the expense of Yen 120,000,000 which we pay for the importation of steel every year. When we can have sufficient iron and steel for our own industries, we shall have acquired the secret for becoming the leading nation in the world. Thus strengthened, we can conquer both the East and the West. In order to attain this goal, the iron works must be separated from the South Manchuria Railway. Such unified control will keep China from preventing us to become self-sufficient in iron and steel.

2. *Petroleum*

Another important commodity which we lack is petroleum. It is also essential to the existence of a nation. Fortunately, there lie in the Fushun Coal Mine 5,200,000,000 tons of shale oil, from every hundred catties of which six catties of crude oil may be extracted. By means of American Machinery, every hundred catties will yield nine catties of refined oil good for motor cars and battleships. At present, Japan imports from foreign countries 700,000 tons of mineral oils every year valued at Yen 60,000,000. These figures are on the increase. As there are 50 billion tons of shale in the Fushun Mines, the yield

calculated at five percent would be 250,000,000 tons; at nine percent, 450,000,000 tons of oil. Taking an average of the two, the yield would be 350,000,000 tons, and assuming the value of the oil to be fifteen yen a ton, the oil shale contained in the Fushun Mine would bring us Yen 2,250,000,000. This will be a great industrial revolution for us. From the standpoint of national defence and national wealth, petroleum is a great factor. Having the iron and petroleum of Manchuria, our army and navy will become impregnable walls of defence. That Manchuria and Mongolia are the heart and liver of our empire, is a truthful saying. For the sake of our empire, we should be congratulated.

AGRICULTURAL FERTILIZER—AMONIA SULPHATE AND OTHER PRODUCTS

Agricultural fertilizer is a great necessity for the production of foodstuff. Chemical fertilizers depend upon the ammonia sulphate extracted from coal. The Fushun coal yields especially good results. At present, our total consumption of ammonia sulphate is 500,000 tons. Of this, only half is manufactured at home, using the coal from the Kailan or the Fushun Mining Companies. The remaining half is imported from abroad at the cost of Yen 35,000,000 a year. With our agricultural work daily increasing and in view of the development of our new empire in Manchuria and Mongolia, we shall easily need 1,000,000 tons of ammonia sulphate every year during the next ten years. From the soot gathered from the burning of Fushun coal connected with the manufacture of steel, we could produce large quantities of ammonia sulphate. If the yield is put at 300,000 tons a year, we shall add an annual income of more than Yen 40,000,000. In fifty years, this will mount up to Yen 2,000,000,000. This money could be used for the improvement of our agriculture. If there is any surplus, we can buy bean-cakes with it and then invade the farms all over China and in the South Sea Islands. In order to accomplish this, we must separate this enterprise from the South Manchuria Railway. We shall then be able to control the fertilizers of the Far East.

SODA AND SODA ASH

We import 100,000 tons of Soda Ash at the cost of more than Yen 10,000,000 a year. Both soda and soda ash are valuable materials for military and industrial purposes. Soda is derived from nothing more than salt and coal, both of which are cheap and abundant in Manchuria and Mongolia. If we go into this manufacture, we can supply not only ourselves but can also sell it to China with a view to controlling its industrial products. We ought to gain from it a profit of at least Yen 15,000,000 a year. We can also supply our own military and chemical needs. Again this industry must be separated from the South Manchuria Railway.

MAGNESIUM AND ALUMINIUM

According to the independent surveys of the South Manchuria Railway Company and Dr. Honta of Tohoku University, magnesite and aluminium is a very promising business (in Manchuria). Magnesite is found in the surroundings of Tashichiao, and aluminium in the vicinity of Yentai. The deposit is one of the largest in the world. A ton of magnesite is worth Yen 2,000 and a ton of aluminium is worth about Yen 1,700. An estimate of the deposits of both minerals in Manchuria is Yen 750,000,000. These substances are especially useful for making aeroplanes, mess kits in the army, hospital apparatus and vessels, and other important industries. The United States alone has extensive deposits of these substances. The output of our country is one ton a year! Such materials are becoming more useful every day, but the supply is insufficient. Its price is growing high, as if never reaching a limit. The deposits in our territory of Manchuria and Mongolia, are nothing less than a God-given gift. The metal is really precious, being indispensable to both our industry and national defence. It also should be made in independent business, separate from the South Manchuria Railway. Its manufacture should be in Japan, so as to keep the Fengtien Government from imitating it on the one hand and to avoid the watchful eyes of the British and American capitalists on the other. After we

have gained control of it in the Three Eastern Provinces, we may harness the water power of the Yalu River to work on these metal ores. In view of the development of aircraft, in the future all the world will come to us for the materials necessary for aeronautics.

If all the enterprises mentioned above are made independent undertakings, they would make rapid progress and bring us at least a profit of 60 billion yen a year. The industrial development in South Manchuria means much to our national defence and economical progress. It will help us to build the foundation of an industrial empire. As to the cultural undertakings such as hospitals, schools and philanthropic institutions, they are our signal towers in the advance into Manchuria and Mongolia. They are the institutions for spreading our national prestige and power. More specifically, they are the baits for rights and privileges. Let us separate all these from the South Manchuria Railway in order that we may redouble our efforts and advance into North Manchuria to reclaim the sources of great wealth there.

When these important undertakings become independent and are free to develop without the interference of our officials, they will naturally become channels of national prosperity. On the wings of economic development, we could make rapid advance without either arousing the suspicion of the Powers or the anti-Japanese activities of the people of the Three Eastern Provinces. Such hidden methods would enable us to build the New Continent Empire with ease and efficiency.

The foreign loans for the South Manchuria Railway must be confined to those railroads already completed. Other railways built by us but nominally under Chinese control, can either be amalgamated with the completed lines or made independent according to the desire of the investing nations. The slogan of "Equal Opportunity" helps us to get foreign loans as well as to dispel suspicion of our designs in North Manchuria. At any rate, we shall need foreign capital to develop our continental empire. When the South Manchuria Railway is open

to foreign investments, the powers will be glad to lend more to us and China can do nothing to block it. This is an excellent way to further our plans in Manchuria. We should lose no time in doing it. As to the wealth concentrated in the northern part of Manchuria and Mongolia, we should be likewise. The two new railways from Kirin to Hueining and from Changchun to Talai, as well as the lumber and mining interests, should also be managed as separate institutions.

The South Manchuria Railway will also be greatly enriched by our exploits in North Manchuria. Already Chinese immigrants are pouring into South Manchuria in large numbers. Their position will become stronger every day. As the right of renting land in the interior is not yet secured, our immigrants are gradually losing ground. Even if our government's backing will maintain our people there, they cannot compete with the Chinese due to the latter's low standard of living. Our only chance now is to defeat the Chinese by heavy capitalization. This again necessitates the use of foreign loans. This is so, especially because the riches of North Manchuria are even not accessible to the Chinese immigrants. We must seize the present opportunity, and hasten the progress of immigration by our own people and take possession of all rights there so as to shut out the Chinese. But in order to encourage immigration, rapid transportation is essential. This will both afford facilities to our people and bring the natural resources there to the world market. Moreover, both Russia and ourselves have been increasing armaments. On account of geographical positions, we have conflicting interests. If we want to obtain the wealth of North Manchuria and to build up the New Continent according to the will of Emperor Meiji, we must rush our people into North Manchuria first and seek to break the friendship between Russia and China. In this way, we can enjoy the wealth of North Manchuria and hold at bay both Russia and China. In case of war, our immigrants in North Manchuria will combine with our forces in South Manchuria, and at one stroke settle the problem forever. In case this is not possible, they can still maintain their own in North Manchuria and supply the rest of

us with food-stuff and raw materials. As the interests of North Manchuria and our country are so wrapped up, we should march directly into North Manchuria and pursue our settled policy.

THE NECESSITY OF ESTABLISHING A COLONIAL DEPARTMENT

Our exploitation of Manchuria takes a variety of forms. Often those in authority take such different views that even the most profitable undertaking for our country cannot be carried out. Because of the lack of speed, our secrets are often exposed and are made propaganda materials by the Mukden government much to the detriment of our country in international relations. Whenever a new undertaking is projected in Manchuria and Mongolia, it will become the subject of discussion of tens of meetings and conferences in Dairen. Not only the approval of the four-headed government there is necessary, but also the sanction of the cabinet at home has to be secured before anything can be carried out. Because of all these obstacles, any undertaking will take months and months before any definite results are seen. In the process it is possible for the Chinese to employ Japanese adventurers to steal our secrets so that before a project is launched it is often reported to the Chinese and in turn it becomes common property of the world. We are suddenly brought under the check of world opinion, and more than once we have incurred hardship in putting into practice our policy toward Manchuria and Mongolia. Furthermore, the opposition party has also made capital out of what they find in these regions in order to attack the government. All these have many serious have with our diplomatic relations. Henceforth, we must change our practice in order to proceed adroitly. The centre of control must be in Tokyo. That will (1) insure secrecy, (2) stop China from knowing before-hand our plans, (3) avoid the suspicion of the powers before a thing is done, (4) unify the multiple control in Manchuria and (5) bring the government agencies in Manchuria and Mongolia in close touch with the central government so as to deal with China with undivided power. For these reasons we should follow the original plan for absorbing Korea laid down by Ito and Katsura

and establish a Colonial Department, the special function of which is to look after the expansion in Manchuria and Mongolia. The administration of Formosa, Korea and Saghalien Island may be its nominal function, but our expansion in Manchuria and Mongolia is its real purpose. This will blind the eyes of the world on the one hand and forestall the disclosure of secrets on the other.

It is my personal conviction that the fact that the absorption of Korea could not be effected during the administration of Ito, is due to the lack of a special office for control. Therefore, there were always differences of opinion and secret policies were impossible. Such a state of affairs played into the hand of international obstruction and Korean opposition. Then a number of propagandists went to Europe and America as well as Korea itself, declaring that we firmly respected the independence of Korea and had no designs on an inch of Korean territory. The result of their work was the recovery of international confidence. After that, a colonial department was established under the pretence of Formosa, Then we seized the opportunity and the object was gained! It goes to prove that in order to undertake colonization and immigration, a special office for it is absolutely necessary. Moreover, the creation of a new empire in Mongolia and Manchuria is of utmost importance to the existence of Japan. It is necessary to have a special colonial office in order that the politics in that vast territory may be controlled from Tokyo. The officers in the field should only take orders: they should not interfere with the execution of policies where they please. This will insure secrecy; and the opposition nation have no chance of getting into the secrets of our colonial activities. Then our movements regarding Mongolia and Manchuria will be beyond that reach of international public opinion, and we shall be free from interferences.

As to the subsidiary enterprises of the South Manchuria Railway such as the Development Company, the Land Company, and the Trust Company, the power of supervision and planning should also be in the colonial office. They should all be under united control, in order that they may all help in the genera

policy of expansion in Mongolia and Manchuria of the Imperial Government and complete the creation of the new empire.

TALING RIVER VALLEY OF PEKING-MUKDEN RAILWAY

The Taling River Valley is a wide area sparsely populated but infested with bandits. Many Koreans have made investments here, especially in rice fields. Judging from its resources, this region is bound to be prosperous. It will also be an advantageous foothold for us if we want to expand into the Jehol region. We should give full protection to our Korean subjects here and wait for an opportunity to secure from China the right of colonization so that our immigrants may live here and act as our vanguards to Jehol and Mongolia. In case of warfare, this valley will be a strategic point to quarter large armies of soldiers. We shall then not only check the Chinese soldiers from advancing north but also hold the key to the immense wealth of South Manchuria. When Koreans come into this region we should finance them through our Trust and other financial organs with a view to gaining for these organs the actual ownership while the Koreans may satisfy themselves with the wealth of herds at the disposal of our country. This same must reside with the Koreans. It is a convenient way of securing rights from the Chinese government. Henceforth the trust companies and financial organs should give them full backing when our own and Korean subjects wish to gain land ownership. If they need money to buy farms from the Chinese, the right of farming only. Ostensibly the ownership of land, we shall gain control of the better rice fields which we may give to our own emigrants. They shall displace the Koreans who in turn may go on opening new fields, to deliver to the convenient use of our own people. This is the policy with respect to the colonization of rice fields and bean farms. As to the policy for herd farming, the Development Company should be especially entrusted gradually to expand, eventually placing all the financial organs should also come to their aid. Unnoticed, the company may also take care of horse breeding and select the best out of Mongolia for the use of our national defence.

PRECAUTION AGAINST CHINESE MIGRATION

Recently the internal disturbances in China have driven large hordes of immigrants into Mongolia and Manchuria, thereby threatening the advance of our migration. For the sake of our activities in this field we should not fail to take precautions. The fact that the Chinese government welcomes this migration and does nothing to hold back the tide oppresses our policy even the more seriously. A noted American sinologue has made the statement that the Mukden authorities are carrying out such effective government that all people are moving into their territory. Therefore, the influx of immigrants is looked upon as a mark of effective government of Mukden authorities. We, of course, are concerned. Unless we put a stop to it, in less than ten years our own policy of emigration will prove an instrument for China to crush us with. Politically we must use police force to check this tendency as much as possible and economically our financiers should drive the Chinese out with low wages. Furthermore, we must develop and expand electric power to displace human labor. This will keep out Chinese immigrants as well as monopolize the control of motor force as a first step toward controlling the industrial development of this vast region.

HOSPITALS AND SCHOOLS

Hospitals and Schools in Manchuria must be independent of the South Manchuria Railway. For the people have often considered these as institutions of imperialism and refuse to have anything to do with them. When these are separated and made independent institutions we shall be able to make the people realize our goodness so that they will feel thankful to us... But in establishing schools emphasis should be laid on normal schools for men and women. Through these in educational work we may build up a substantial good-will among the people towards Japan. This is our first principle of cultural structure.

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PSF *man*
Account
(52)

May 20, 1937

Dear Mr. Secretary:

I am enclosing a copy of a joint letter from the Secretary of War and the Secretary of the Navy under date of October twenty-second, 1936, which together with its two enclosures, is self-explanatory.

I believe that some practical solution to the problem presented by the War and the Navy Departments can be worked out through cooperation between the Departments of State, Treasury, Justice, Labor, Interior and, of course, War and Navy.

The Secretary of War has been designated by me Chairman of a Committee to consist of the Secretaries of State, Treasury, Labor, Navy and War Departments, as well as the Attorney General, to study this problem.

The information transmitted herewith is of a secret nature and must be so regarded. This is sent to you because of the interest of the Governor of Hawaii.

Very sincerely yours,

The Honorable
Secretary of Interior
Washington, D. C.

Same letter to:

Secretary of State
Secretary of Treasury
Attorney General
Secretary of Labor

May 20, 1937

Dear Mr. Secretary:

With reference to the joint letter which you and the Secretary of Navy sent to me, I believe that some practical solution to the problem presented can be worked out through cooperation between the Departments of State, Treasury, Justice, Labor, Interior and, of course, War and Navy.

I am designating you as Chairman of a Committee to consist of the Secretaries of State, Treasury, Labor, Navy and War Departments, as well as the Attorney General, to study this problem.

The information transmitted herewith is of a secret nature and must be so regarded.

Very sincerely yours,

The Honorable
Secretary of War
Washington, D. C.

May 20, 1937

Dear Mr. Secretary:

With reference to the joint letter which you and the Secretary of War sent to me, I believe that some practical solution to the problem presented can be worked out through cooperation between the Departments of State, Treasury, Justice, Labor, Interior and, of course, War and Navy.

The Secretary of War has been designated by me Chairman of a Committee to consist of the Secretaries of State, Treasury, Labor, Navy and War Departments, as well as the Attorney General, to study this problem.

The information transmitted herewith is of a secret nature and must be so regarded.

Very sincerely yours,

The Honorable
Secretary of Navy
Washington, D. C.

Mar-1937

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WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF

WAR PLANS DIVISION,
WASHINGTON, D. C.

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LOD D. 100.3 (9/27/58)

Date- 7-29-70

April 20 , 1937.

Signature- *[Handwritten Signature]*

MEMORANDUM FOR THE PRESIDENT:

1. The attached joint letter from the Secretaries of War and the Navy answers certain questions propounded by you in your memorandum to the Chief of Naval Operations, dated August 10, 1936, on Japanese espionage in Hawaii.

2. This joint letter, together with its enclosures, indicates clearly that many activities of Japanese Naval personnel visiting the Islands of Hawaii are in violation of the "Espionage Act", and of customs and immigration laws. The letter concludes with recommendations that certain proposed legislation be given high priority in your legislative program, and that the joint letter, together with its enclosures, be brought to the attention of other interested departments of the Government. Legislation similar to that proposed is now under consideration by the Congress or interdepartmental committees.

3. It is suggested that a copy of the attached joint letter and its enclosures be transmitted to the Departments of State, Treasury, Justice, and Labor, and to the Department of the Interior for the consideration of the Governor of the Territory of Hawaii, by memorandum substantially as follows:

"Herewith copy of a joint letter from the Secretaries of War and the Navy, dated October 22, 1936, which, together with its two enclosures, is self-explanatory.

"Certain of the information contained in the above-mentioned correspondence is of interest to your Department. I believe that some practical

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solution to the problem presented by the War and Navy Departments can be worked out through co-operation between all the Executive Departments concerned."

"The information transmitted herewith is of a secret nature, and I wish it so regarded."

Samuel A. Woodring
Secretary of War.

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DDO WIL 5200.9 (9/27/58)

Date- 7-29-78

Signature- JWB

-2-

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*file Army 36
Colonel Watson
Keep this secret
& speak to me
about it
JWC*

WAR AND NAVY DEPARTMENTS
WASHINGTON

J.B. No. 304.
(Serial No. 593).

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DOD DIR. 5200.9 (9/27/58)

October 22, 1936.

The President,
The White House.

Date- 7-29-70

Dear Mr. President:

Signature- JWC

With reference to the enclosed report by the Local Joint Planning Committee, Hawaii, subject: "Activities of Japanese Naval and Civil Personnel in Hawaii", which has heretofore been referred to you informally by the Chief of Naval Operations, and upon which you requested certain information by memorandum, dated August 10, 1936, to the Chief of Naval Operations, your attention is respectfully invited to the letter from the Acting Secretary of War to you, dated August 29, 1936, covering your comments on matters in which the War Department is primarily interested.

With reference to paragraph 1 of your memorandum, the Local Joint Planning Committee, Hawaii, made no specific recommendations in this particular report.

With reference to paragraph 2 of your memorandum, lists of suspects are maintained by those responsible for military intelligence and such suspects will normally be the first interned in the event of trouble.

With reference to the concluding sentence of your memorandum, The Joint Board has for years suspected espionage activities on the part of the indicated nation in the Pacific. Desirable as it may seem to terminate definitely and completely these activities, which are inimical to our national defense, The Joint Board has realized that such an objective would be impracticable. It would involve either the designation of the important strategical islands of the Hawaiian Group as military or naval reservations and an increase in the local garrison in order to police effectively these areas, or the closing of the important Hawaiian commercial ports to the commerce of the world. Either one or both of the foregoing solutions to the problem are considered too drastic and accordingly are not recommended. The Joint Board, however, has consistently advocated reasonable and effective solutions to specific related problems. The following recent instances of War and/or Navy Department efforts to curtail espionage primarily in the Pacific are cited:

Executive Orders No. 7404 and 7405 dated July 1, 1936 and July 6, 1936, respectively, amend the civil service rules so as to permit the Secretaries of War and Navy to employ civil service personnel outside the continental limits of the United States (except the Canal Zone and

Alaska) upon satisfactory completion of a non-competitive civil service examination. Under authority of these Executive Orders, it is expected that vacancies occurring hereafter in military or naval civil service positions in Hawaii will be filled by selected citizens of unquestionable loyalty rather than by citizens generally of alien extraction whose loyalty may be questionable.

During the 74th Congress, the War and/or Navy Departments advocated the enactment of the following bills pertinent in the premises:

a. S. 1815 or H.R. 5705, identical bills "to require certain documents of vessels not wholly owned by citizens of the United States and navigated in the Territorial waters of the United States, its Territories or its possessions, to regulate vessels engaged in the fisheries, and for other purposes." By the enactment of this legislation, it is expected to gain more effective control over alien-owned and alien-operated fishing boats operating in our territorial waters and thereby eliminate many hazards to our national defense.

b. S. 4495 (Section 3 only) - A bill "To amend certain of the navigation laws of the United States to remove inconsistencies and inequalities therein, and for other purposes." Should the amendment proposed in Section 3 of this bill be enacted, it is believed that the effect will be to force all vessels engaged in the fisheries to be owned in whole by citizens of the United States.

c. S. 92 or H.R. 3436, identical bills, "To prohibit the making of photographs, sketches, or maps of vital military and naval defensive installations and equipment, and for other purposes." By the enactment of this legislation, it is expected to control more effectively the activities of free lance motion picture and still picture operators in vital military and naval installations, where the intent of the photographer is not necessarily so flagrant as that contemplated under Section 1, Public No. 24, 65th Congress, "Espionage Act."

d. None of the above mentioned bills, however, was passed by the Congress - and it is accordingly recommended that similar legislation be given high priority on the President's legislative program in the next Congress.

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The Joint Board is of the further opinion that the Departments of State and Justice would be interested in the attached papers particularly from the viewpoint of foreign policy and proceeding against the violators of the "Espionage Act," Public No. 24 - 65th Congress and/or the Revised Laws of Hawaii, which the Judge Advocate General of the Navy is of the opinion (copy inclosed) have been violated by certain activities described in the report of the Local Joint Planning Committee, Hawaii; that the Departments of the Treasury and Labor would be interested particularly from the viewpoint of implied violations of the customs and immigration laws; and the Department of Commerce in connection with the recommended legislation.

The Secretaries of War and Navy deem the curbing of espionage activities in the Hawaiian area to be of the highest importance to the interests of national defense. They, therefore, urge that the other departments of the Government concerned be enjoined to give this matter their attention, in cooperation with the War and Navy Departments.

Respectfully yours,

Harry H. Woodring
Secretary of War.

Leander B. Swann
Secretary of the Navy.

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Op-12A-CTB

(SC)A805

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Date- 7-29-70

Signature- *WJG*

September 18, 1936.

~~SECRET~~

From: The Judge Advocate General.
 To: The Secretary of the Navy.
 Subject: Activities of Japanese naval and civil personnel in Hawaii.
 Reference: (a) Letter from the Secretary of the Navy to the Judge Advocate General, August 28, 1936, Op-12A-CTB (SC)A8-5 SECRET, inclosing report of Local Joint Planning Committee-Hawaii, May 25, 1936, and papers attached thereto.

Inclosure: Reference (a).

1. In reference an opinion is requested as to whether or not certain of the subject activities indicate violations of existing laws of the United States for which the perpetrators could be prosecuted. It is further requested that in arriving at an opinion on the above subject it should be assumed that (1) the Hawaiian area involved is of such strategical character that its defense is deemed of first importance, and (2) that evidence is available supporting the allegation that detailed information, sketches or photographs are being gathered or made.

2. An examination of the report of the Local Joint Planning Committee of Hawaii and the annexes thereto indicate that some of the activities complained of on the part of the Japanese aliens and residents constitute violations of either the Espionage Act of the United States (U.S. Code, Title 50, Sections 31, 32, 34 and 35), or chapters 267, 294, 295 and 297 of the Revised Laws of Hawaii, 1925, or both. In this connection particular reference is made to the incident in February, 1936, at the Royal Hawaiian Hotel when six Japanese sailors from a tanker ascended the tower of the hotel and were observed taking pictures of the harbor and nearby fortifications with a large camera, and the incident of the visit of the Japanese tanker Ondo to Hilo in April, 1936, when the crew thereof not only took measurements of the Hilo dock but made detailed photographic studies of its fixtures. The other incident to which reference should be made is that reported by Mrs. Kanakenui, of Kamuela, Hawaii, of a number of Japanese who on April 19, 1936, entered a new house in that vicinity and took bearings on surrounding points of interest.

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100-2800-9 (9/27/58)

Date: 7-29-70

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Signature: *[Handwritten Signature]*

6. In order to determine whether or not any of the activities referred to in reference come within the purview of the Espionage Act, attention is invited to the following provisions thereof:

(a) Any person who, for the purpose of obtaining information respecting the national defense with intent or reason to believe that such information is to be used to the injury of the United States, or to the advantage of any foreign nation "goes upon, enters, flies over, or otherwise obtains information concerning any vessel, aircraft, work of defense, navy yard, naval station, submarine base, coaling station, fort, battery, torpedo station, dockyard, canal, railroad, arsenal, camp, factory, mine, telegraph, telephone, wireless, or signal station, building, office, or other place connected with the national defense, owned or constructed, or in progress of construction by the United States or under the control of the United States, or of any of its officers or agents, or within the exclusive jurisdiction of the United States, or any place in which any vessel, aircraft, arms, munitions, or other materials or instruments for use in time of war are being made, prepared, repaired, or stored, under any contract or agreement with the United States, or with any person on behalf of the United States, or otherwise on behalf of the United States, or any prohibited place * * *;"

(b) Any person who, for this same purpose and with this same intent or reason to believe, copies, takes, makes, or obtains, or attempts, or induces or aids another to copy, take, make or obtain, any sketch, photograph, photographic negative, blueprint, plan, map, model, instrument, appliance, document, writing, "or note of anything connected with the national defense;" and

(c) Any person who, for like purposes aforesaid, "receives or obtains or agrees or attempts or induces or aids another to receive or obtain from any person, or from any source whatever, any document, writing, code book, signal book, sketch, photograph, photographic negative, blueprint, plan, map, model, instrument, appliance, or note, of anything connected with the national defense, knowing or having

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reason to believe, at the time he receives or obtains, or agrees or attempts or induces or aids another to receive or obtain it, that it has been or will be obtained, taken, made or disposed of by any person contrary to the provisions of this title; * * * shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than two years or both." (U.S.C., Title 50, Section 31.)

7. In addition to the foregoing this Act further provides that any person who, with intent or reason to believe that it is to be used to the injury of the United States or to the advantage of a foreign nation "communicates, delivers, or transmits, or attempts to, or aids or induces another to, communicate, deliver, or transmit, to any foreign government, or to any faction or party or military or naval force within a foreign country, * * * or to any representative, office, agent, employee, subject, or citizen thereof, either directly or indirectly, any document, writing, code book, signal book, sketch, photograph, photographic negative, blue print, plan, map, model, note, instrument, appliance, or information relating to the national defense, shall be punished by imprisonment for not more than twenty years: * * *." (U.S.C., Title 50, Section 32.)

8. Another section of this same Act provides that if two or more persons conspire to violate the provisions of Section 32 or 33 of this title, and one or more of such persons does any act to effect the object of the conspiracy, each of the parties to such conspiracy shall be punished by imprisonment for not more than twenty years. And if they conspire to violate the provisions of any section of the Act and do any act to effect the object of the conspiracy they shall each be punished by imprisonment for two years. (U.S.C., Title 50, Section 34.)

9. It will be noted from the foregoing that the Espionage Act is very broad and comprehensive. It not only covers all cases where individuals go upon or fly over any navy yard or naval station for the purpose of obtaining information respecting the national defense with the intent that the information so obtained is to be used to the injury of the United States, but it also prohibits them from making

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any sketch, photograph, photographic negative, blue print, writing or note of anything connected with the national defense for this purpose. In fact the various provisions of this Act are so comprehensive that it is practically impossible to explain them except in the exact language of the Act.

10. Having in mind the instructions contained in reference that (1) the Hawaiian area involved is of such strategical character that its defense is deemed of first importance, and (2) that evidence is available supporting the allegation that detailed information, sketches or photographs are being gathered or made, it is the opinion of this office that the provisions of the Espionage Act are sufficiently comprehensive to cover such cases and that the perpetrators of the incident in the tower of the Royal Hawaiian Hotel, as well as the incident reported by Mrs. Kanakanui, are subject to prosecution under the provisions of the Espionage Act, provided they may be found within the jurisdiction of the United States and returned to the jurisdiction of the District Court of Hawaii.

11. Acting under the authority conferred upon it by Congress the Legislature of the Territory of Hawaii is empowered to enact legislation not inconsistent with the constitution and laws of the United States applicable to the Territory of Hawaii. (U.S.C., Title 48, Section 562). In the exercise of this power the Legislature of the Territory of Hawaii has created the crime of syndicalism, which it defines as a doctrine advocating crime, sabotage, violence or other unlawful methods of terrorism as a means of accomplishing industrial or political ends. Under this law any person who by word of mouth, or writing, advocates or teaches the duty, necessity or propriety of crime, sabotage, violence or other unlawful methods of terrorism as a means of accomplishing industrial or political ends, or who prints, publishes, edits, issues or knowingly circulates, sells, distributes or publicly displays any book, paper, document or written matter in any form, containing or advocating, advising or teaching this doctrine or helps to organize, or becomes a member of or voluntarily assembles with any society, group or assemblage of persons formed to teach or advocate this doctrine is guilty of a felony and punishable by imprisonment for not more than

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ten years or by a fine of not more than five thousand dollars or both. (Section 4357, Revised Laws of Hawaii, 1925.)

12. The assembling of individuals together for the purpose of advocating syndicalism is also made a felony which is punishable by imprisonment for not more than ten years or by a fine of not more than five thousand dollars or both. Even the use of a building for this purpose is made a misdemeanor and the owner or those charged with the care and upkeep of such building who wilfully and knowingly permit its use for such purpose are punishable by imprisonment for not more than one year or by a fine of not more than five hundred dollars or both. (Section 4358, 4359, Revised Laws of Hawaii, 1925.)

13. The Legislature of Hawaii has also made it a misdemeanor for any group of persons to organize, form, or maintain any secret association for any purpose whatever, unless they have obtained a license from the Governor for this purpose. Any violation of this license subjects it to being revoked by the Governor. Any secret association formed without a license constitutes a misdemeanor and upon the conviction of the individuals who form it they shall be punished by imprisonment not to exceed three months or by a fine not to exceed one hundred dollars or by both. The owner of the building who permits an unlicensed secret association to assemble within such building is also guilty of a misdemeanor and subject to imprisonment not to exceed six months, or by a fine not to exceed two hundred dollars or by both. (Sections 4515-4521, Revised Laws of Hawaii, 1925.)

14. In addition to the foregoing the Legislature of the Territory of Hawaii has provided that any individuals who associate themselves together with others within the limits of the Territory as a military company or organization for military purposes or to give or receive military instruction, other than those belonging to the regularly organized military and naval forces of the United States, or of the Territory, without the written permission of the Governor, which he may at any time revoke, shall be guilty of a misdemeanor and upon conviction thereof shall be fined not less than one hundred dollars nor more than five hundred dollars, or imprisoned for a term not to exceed six months, or both, (Section 4523, Revised Laws of Hawaii, 1925.)

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15. In this connection attention is specifically invited to Section 4527 of the Revised Laws of Hawaii, 1925, which provides that any person (a) who shall at any time or place within the Territory use any language in the presence or hearing of another of or concerning the government of the United States of America, or of and concerning the army, navy, or marine corps of the United States, which language shall be contemptuous or disloyal to the United States of America, or abusive in its character or calculated to bring into disrepute or contempt the United States of America, the army, navy or marine corps of the United States of America, or (b) who shall commit any act or use any language of such disloyal nature as shall be reasonably calculated to cause a breach of the peace, or who shall use such contemptuous or disloyal language of or concerning any flag, standard, color or ensign of the United States of America, or concerning the uniform of the army, navy, or marine corps of the United States of America, or (c) who shall either individually, jointly with another or others, or as part of a general propaganda make or publish or circulate any book, pamphlet, picture, paper, letter, writing, print or other publication calculated to bring into disrepute or contempt the United States of America, the army, navy, or marine corps of the United States of America, or any flag, standard, color or ensign of the United States of America, or (d) who shall publicly or privately mutilate, deface, defile, insult or tramp upon any flag, standard, color or ensign of the United States of America, or any representative thereof, "shall be guilty of a felony and shall be punished by a fine of not less than one hundred dollars nor more than one thousand dollars, or by imprisonment at hard labor for not less than one year nor more than ten years, or by both fine and imprisonment."

16. The foregoing analysis of the Acts of the Legislature of Hawaii on the subject of syndicalism, unlicensed secret associations, unauthorized military organizations, and disloyalty, discloses that, while these laws cover a field entirely apart from that covered by the Espionage Act, they supplement it most effectively and present a further avenue of approach to the problems submitted in reference. Under this set up an incident or a situation

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occurring in the Territory of Hawaii may constitute an offense under both the Espionage Act and the Territorial Acts above analyzed. Where this condition exists all that remains to be done is to enforce that Act which would be most likely to mete out an appropriate punishment.

17. To aid in the effective administration of the laws enacted by the Legislature of Hawaii, Congress has created a complete judicial system for the Territory vesting the judicial power thereof in one supreme court, circuit courts, and in such inferior courts as the Legislature may from time to time establish. (U.S.C., Title 48, Section 631.) The justices of the supreme court and the judges of the circuit courts of Hawaii are appointed by the President of the United States, by and with the advice and consent of the Senate, and may be removed by him. (U.S.C., Title 48, Sections 632-633). As the judges of the District Court of Hawaii are also appointed by the President, by and with the advice and consent of the Senate, and may be removed by him, both the territorial and the district judges are indirectly under the jurisdiction of the President of the United States to such an extent that if they fail to perform their judicial duties in connection with the enforcement of the laws above referred to they are immediately subject to removal by him.

18. In this connection it should also be remarked that the Governor of the Territory of Hawaii, in whom all executive territorial functions are lodged, is also appointed by the President, by and with the advice and consent of the Senate, for a term of four years and until his successor has been appointed and qualified, unless sooner removed by the President. (U.S.C., Title 48, Section 531.) As herein before noted the District Attorney for the District Court of Hawaii and the United States Marshal for that district are also appointed by the President of the United States and subject to removal by him. Under these circumstances the Federal Government of the United States should not experience any extraordinary difficulty in securing a most effective administration of the Espionage Act and the Acts of the Legislature of the Territory of Hawaii, above referred to. Assuming that a situation now exists in the Territory of Hawaii such as is described in reference, this office is of the opinion such situation is directly dependant on the quality or effectiveness of the administration and execution of the National and Territorial laws applicable to these problems.

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19. On the general question of the administration of the laws above analyzed and the prosecution of cases arising thereunder, attention is invited to certain provisions of the Treaty of Commerce and Navigation entered into between the United States and Japan in 1911 (37 Stat. 1504), which have a direct bearing thereon. In Article I of this Treaty liberty is conferred upon subjects of Japan "to enter, travel and reside in the territories" of the United States to "carry on trade, wholesale and retail, to own or lease and occupy houses, manufactories, warehouses and shops, to employ agents of their choice, to lease land for residential and commercial purposes, and generally to do anything incident to or necessary for trade upon the same terms as native citizens" of the United States subject to the laws and regulations established in such territories. Under this Article subjects of Japan may not be compelled, under any pretext whatever, to pay any charges or taxes other or higher than those that are or may be paid by citizens of the United States.

20. The subjects of Japan shall receive in the territories of the United States "the most constant protection and security for their persons and property, and shall enjoy in this respect the same rights and privileges as are or may be granted to native citizens" of the United States, on such Japanese submitting themselves to the conditions imposed upon such citizens. While in the territory of the United States the subjects of Japan shall be exempt from compulsory military service, either on land or sea, in the regular forces, or in the national guard, or in the militia, and from all contributions imposed in lieu of personal service, and from all forced loans or military exactions or contributions. (Article I)

21. Under Article II of this Treaty the dwellings, warehouses, manufactories and shops of the subjects of Japan in the territories of the United States, and all premises pertaining thereto used for purposes of residence or commerce by the Japanese, shall be respected. "It shall not be allowable to proceed to make a domiciliary visit to, or a search of, any such buildings and premises, or to examine or inspect books, papers or accounts, except under the conditions and with the forms prescribed by the laws, ordinances and regulations for nationals" of the United States.

22. There shall be reciprocal freedom of commerce and navigation between the territories of the United States and Japan. The subjects of Japan "equally with the citi-

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be deemed to be vessels of Japan. (Article X)

27. Japanese vessels charged with performance of regular scheduled postal service, whether belonging to the State or subsidized by it for the purpose, shall enjoy in the ports and territories of the United States the same facilities, privileges and immunities as are granted to like vessels by the United States of the most favored nation permitted to perform regular scheduled postal service. (Article XII)
The coasting trade, however, of the United States, is excepted from the provisions of this Treaty. (Article XIII) Except as otherwise expressly provided in this Treaty, however, it is required that in all that concerns commerce and navigation, any privilege, favor or immunity which either contracting party has actually granted to the citizens or subjects of any other State shall be extended to the subjects of Japan gratuitously, if the concession in favor of the other State shall have been gratuitous, and on the same or equivalent conditions, if the concession shall have been conditional. (Article XIV)

28. In accepting this Treaty the Japanese Ambassador in Washington, D.C., stated that he had been duly authorized by his Government to declare that the Japanese Government is fully prepared to maintain with equal effectiveness the limitation and control which it has for the past three years exercised in regulating the emigration of laborers to the United States. With this exception the Treaty of Commerce and Navigation entered into between the United States and Japan in 1911 continues in full force and effect at the present time.

29. There is one provision above noted in connection with Article IV of this Treaty which should be emphasized which is that the liberty granted to the Japanese freely to come with their ships and cargoes to all places, ports and rivers in the territories of the United States which are or may hereafter be open to foreign commerce is "subject always to the laws" of the United States. In other words the liberty granted by this treaty to subjects of Japan in the United States does not authorize them to violate either the Espionage Act or the territorial laws relating to syndicalism, illegal secret associations, illegal organizations for military purposes, or disloyalty. However, in the administration of these laws and prosecutions thereunder care should be taken to see that these treaty provisions are not

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violated and that the rights of the Japanese secured there-
by invaded. This should not be permitted to impede or ob-
struct in any way the administration of the laws nor prevent
the prosecution of any or all Japanese who are found to have
violated these laws, or to be violating them either at this
time or at any future time.

30. It is perfectly obvious, however, that so
long as this treaty is in force certain drastic measures
cannot legally be adopted, such as prohibiting all Japanese
vessels from touching all ports in the Territory of Hawaii
unless the vessels of all other foreign countries are pro-
hibited from touching at these ports. Likewise, subjects
of Japan who are now in this Territory or who may hereafter
desire to enter it for the purpose of carrying on pursuits
of commerce and navigation may not be prevented from so
doing unless their presence is otherwise shown to be un-
desirable, as in the case where they have been found to be
plotting against the sovereignty of the United States, or
their presence is inimical to the peace and good order of
the community.

31. The following activities of the Japanese
naval and civilian personnel in the Territory of Hawaii,
with particular reference to the Island of Hawaii, are noted
in reference and the annexes attached thereto:

- (A) Visit of Japanese ships.
 - (1) Japanese Naval Training Squadron for
1935, Honolulu, June 15-19, 1935.
 - (2) Visit of a number of naval oil tankers
to Honolulu between June 14, 1935, and
May 24, 1936, both dates inclusive.
 - (3) Visit of Mercantile training vessels
at the Island of Hawaii between
August 20, 1935, and June 18, 1936,
both dates inclusive.
- (B) Conduct of personnel of visiting Japanese
vessels while on shore.
 - (1) Incident at Royal Hawaiian Hotel.
 - (2) Conveying to local Japanese, both alien
and native, the greatness of Japan, her
virility, and her absolute superiority

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- over all other countries, through lectures, moving pictures, and exhibitions.
- (C) Conduct of civilian personnel on the occasion of visits of Japanese vessels.
 - (D) Visit of the Japanese navy oil tanker Ondo at Hilo, Island of Hawaii, April 16-19, 1936.

32. An examination of the circumstances surrounding the visits of the Japanese ships to the Hawaiian Islands enumerated under (A) does not indicate that any of these visits were made for the purposes of commerce and trade, as covered by the United States - Japanese Treaty of 1911, above outlined. Unless the visits of these vessels come under the provisions of this Treaty they may very properly be made a subject of diplomatic representations by the United States to the Japanese Government for the purpose of restricting such visits in the future to occurrences of necessity.

33. The conduct of the personnel of Japanese vessels while on shore in the Hawaiian Islands, with particular reference to (B) (1) and (2), appears to be reprehensible. The incident in the tower of the Royal Hawaiian Hotel, as reported in reference, is apparently a violation of the Espionage Act and it also appears that those incidents enumerated under (B) (2) violate one or more of the provisions of the laws of the Territory of Hawaii, above analyzed. It appears that the necessary administrative precautions could be taken by the Territorial Government to prevent the recurrence of such incidents in the future or to apprehend and prosecute the perpetrators thereof under the appropriate provisions of law.

34. The conduct of some of the civilian population on the Hawaiian Islands in connection with these visits by Japanese vessels, as reported in reference and the annexes thereto, indicates that the members of these groups are violating either the Espionage Act or the laws of the Territory of Hawaii concerning syndicalism, illegal secret associations, illegal organizations for military purposes and disloyalty, or both the Federal and Territorial laws. The importance which these visiting Japanese vessels attach to the Island of Hawaii and the fact that the Japanese oil tanker Teurumi went out of her way to scout the Midway Island indicate that their purpose is inimical to the national defense of the United States.

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35. The conduct of the personnel of the Japanese Navy tanker Ondo on the occasion of her recent visit to the Port of Hilo, Island of Hawaii, April 16-19, 1936, appears to have been such a display of contempt for the sovereignty of the United States as to require special consideration. The acts of making drafts, and taking photographs and measurements of the docks at Hilo are reprehensible. The members of the crew in taking ashore packages without clearing through Customs obviously violated the Revenue Laws of the United States. The taking of ranges and the making of sketches of the area of Waimea by the crew of the Ondo, as reported in annexes (1) and (2), are clearly violations of the Espionage Act.

36. Other matters reported in reference and the annexes thereto indicate that a thorough investigation into all phases of these activities, especially those occurring on the Island of Hawaii would be appropriate. The visit of the Japanese Navy oil tanker Ondo at the port of Hilo, in April, 1936, could be brought to the attention of the Department of State, with a request that this matter be investigated further by that Department to the end that it may be made the basis of diplomatic representations to the Japanese Government, pointing out that such visits are objectionable to this Government and that in the future they will not be permitted, except under such circumstances as Japanese men-of-war are permitted to visit American ports.

37. It is not believed that any additional statutory authority is necessary to permit a proper handling of such activities as have been reported in reference, nor is any additional legislation recommended. This situation might well be brought to the attention of the President of the United States to the end that he may, through the proper departments of Government, communicate with the Governor of the Territory of Hawaii and the Federal and Territorial officials appointed by him in that Territory, directing them to investigate and to take such measures as may be necessary to bring to justice all violators of either the Espionage Act or the laws of the Territory of Hawaii.

38. Summarizing, this office is of the opinion that existing laws are sufficient in general to protect the

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interests of the United States, and that action depends primarily on proof as to fact and on a disposition to act.

G. J. ROWCLIFF

APPROVED September 18, 1936.

Claude A. Swanson

Secretary of the Navy.

WAR DEPARTMENT
OFFICE OF THE SECRETARY
MEMORANDUM

Mr. President - -
Will send you
at intervals all
latest reports -

AMH.N.

~~CONFIDENTIAL~~

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DW
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Received at the War Department

August 3, 1937.

3:45 A.M.

From: Manila.

To: The Adjutant General.

Tientsin quiet Japanese has taken over police control of 1st special area. 2,000 Japanese troops reported arrived here by railroad yesterday. No confirmation obtainable here of persistent rumor northward movement of troops Central Government along Tientsin-Pukow line.

MCANDREW-HOLBROOK.

Received AGO 9:38 August 3, 1937.
Received Misc. Div. 9:40 A.M. August 3, 1937.

AG 380.3 (8-3-37) (Misc.)

ACW

War Department, A.G.O., August 3, 1937.--To:G-2.
BY SPECIAL MESSENGER 9:50 A.M.

COPY TO: Chief of Staff.
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Date- 7-29-70

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COPY OF RADIO RECEIVED AT THE WAR DEPT. 8-3-37, 3:50am.

(RECD AGO MISC DIV 9:40am)

AG 380.3 (8-3-37)(Misc.)

From MANILA -- To The Adjutant General:

Tientsin quiet. 40 Japanese planes in air early today seem to have gone south. Japanese now taking over police control of 1st special area with consequent excitement among Chinese police of this area.

MCANDREWS - HOLBROOK

AG 380.3 (8-3-37)(Misc.)

War Department, AGO, Aug. 3, 1937

ACW/mh

- To: G-2, BY SPECIAL MESSENGER
9:50am

Copy made in AGO for Chief of Staff.

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AG 380.3 (9/27/58)

Date- 7-29-70

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WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON, D. C.

Dear Steve: ^{24 Aug '37}
Here is the
radio which was sent
last night.

The correction suggested by
you is in the final
paragraph.

Hope is is as you
desire. ²⁵

Gray.

Douglas MacArthur

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON, D. C.

PSF: War Dept
(1)

August 24, 1937.

CORRECTED COPY.

SECRET
MEMORANDUM FOR THE ADJUTANT GENERAL:

Please send the following radiogram, in double code,
to General MacArthur:

Number 92.
Sent in "Secret"
Code, 7:10 PM,
8-24-37 -(MWW)

Re your forty-seven WTJ the decision to recall you
for duty in the United States was reached only after full
consideration of the many aspects of continuing upon your
present duties an officer of your high rank and prestige.
That decision cannot be considered as in any sense a
disciplinary action or as implying any criticism of the
conduct of your duties. On the contrary because of your
outstanding record and comparative youth the Commander-in-
Chief feels that the very qualities which make you of great
value to the Commonwealth of the Philippines call for your
continued close contact with the armed forces here at home.
This is especially true because of existing world conditions.

In view of your absence in the United States the
order for your relief will be modified so as to prescribe
your return on the transport leaving Manila at the end of
February unless world conditions make it necessary for you to
return sooner, and to avoid the possibility of any unfavorable
interpretation this order will be issued in the near future.

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Date- 2-18-59

Signature-

Carl S. Spicer

CORRECTED COPY.

The President requests that you express his appreciation to President Quezon and High Commissioner McNutt for their radio and endorsement of you giving them the gist of this radio, which will acquaint Mr. Quezon and Mr. McNutt with the fact that their views have been received and that the foregoing covers the decision of our President.

CRAIG.

SECRET

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON, D. C.

Dear Steve:-

Completes to ^{finish the} take the
file I left with you

Very
Main Gray

24. Aug. 37

MC/MY

~~SECRET~~

August 24, 1937.

MEMORANDUM FOR THE ADJUTANT GENERAL:

Please send the following radiogram, in double code,
to General MacArthur:

Re your forty-seven WTJ the decision to recall you
for duty in the United States was reached only after full
consideration of the many aspects of continuing upon your
present duties an officer of your high rank and prestige.
That decision cannot be considered as in any sense a
disciplinary action or as implying any criticism of the
conduct of your duties. On the contrary because of your
outstanding record and comparative youth the Commander-in-
Chief feels that the very qualities which make you of great
value to the Commonwealth of the Philippines call for your
continued close contact with the armed forces here at home.
This is especially true because of existing world conditions.

In view of your absence in the United States the
order for your relief will be modified so as to prescribe
your return on the transport leaving Manila at the end of
February unless world conditions make it necessary for you to
return sooner, and to avoid the possibility of any unfavorable
interpretation this order will be issued in the near future.

The President requests that you express his appreciation to President Quezon for his radio and endorsement of you giving him the gist of this radio, which will acquaint Mr. Quezon with the fact that his views have been received and that the foregoing covers the decision of our President.

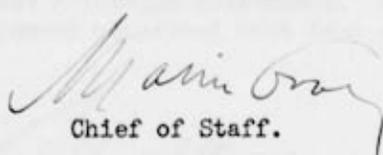
CRAIG

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON, D. C.

August 3, 1937

MEMORANDUM for Honorable Stephen Early,
Secretary to the President:

1. Herewith are the opinions of the Judge Advocate General on specific questions brought up in our conversation yesterday, and also excerpts from the records covering the general subject of officers of the United States Army on duty with the Commonwealth Government.
2. The copies of letters herewith, formally signed by The Adjutant General and by order of the Secretary of War, were written in General MacArthur's office and he sent them to The Adjutant General for signature. These letters cover the alleged attitude of the President upon the request of the President of the Commonwealth Government in the detail of the officer in question and cover the granting to him of almost unlimited authority.
3. All this happened before I became Chief of Staff and while Mr. Dern was Secretary of War, and owing to the illness and absence of Mr. Dern, the Chief of Staff as the Acting Secretary of War handled the matter with practically no records except those given, which were left in the War Department.
4. Since the present incumbent has been the Military Adviser to the Commonwealth, there has been nothing that I know of which has happened which would be open to military objection or censure, but there might be a difference of opinion as to some of the views expressed by the present incumbent as to Commonwealth defense. Consequently, there is no military basis on which any action could be taken. Of course if the President desires withdrawal, the War Department will issue the necessary instructions, but in this connection I must again reiterate my opinion that the object which the President has in view of withdrawal will not be accomplished, as the present incumbent will either retire or resign and continue in his present capacity.


Chief of Staff.

encls.

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WAR DEPARTMENT
OFFICE OF THE JUDGE ADVOCATE GENERAL
WASHINGTON

August 3, 1937

MEMORANDUM for General Craig:-

1. May the incumbent be replaced by another Army officer without the request of the government concerned for such other officer?

Answer: If the incumbent was detailed following a specific request for him by name, the answer is "No".

If the incumbent was detailed following a general request, the answer is "Yes" - subject to the qualification that an expressed unwillingness by the government concerned to accept the replacement would be tantamount to a withdrawal of the original request.

Of course, the President may at any time relieve the incumbent, and there is nothing in the law requiring replacement.

The law in question is the act of May 19, 1926, as amended by the act of May 14, 1935 (44 Stat. 565, as amended by 49 Stat. 218, USC 10:540 /Supp/).

Note - To preserve secrecy I have made no search of the files for the original request for the incumbent.

2. If the incumbent should retire from the American Army can he draw retired pay in addition to emoluments from the government concerned?

Answer: Yes. There is no objection on legal grounds. If, however, the President of the United States should decide that performance of the duty under the government concerned is not in the best interests of the American Army or Government the President could by regulation prohibit any retired officer from serving in any capacity either the government concerned or any government other than the United States.

3. If incumbent resigns from the American Army can he continue to serve the government concerned in his present capacity without the consent of the President of the United States?

Answer: Yes. He becomes a civilian, recovering his freedom of action. He would not expatriate himself by continuing to serve the government concerned for, until 1946 that government is not a foreign government. Moreover, until 1946 every officer of the government concerned must take an oath of allegiance to the United States.

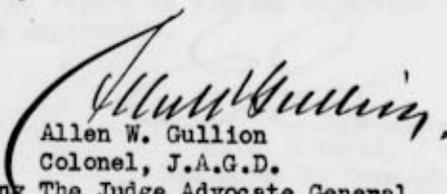
Franklin D. Roosevelt Library

DECLASSIFIED

DOD DIR. 5200.9 (9/27/58)

Date- 2-18-59

Signature- *Carl S. Spicer*


Allen W. Gullion
Colonel, J.A.G.D.
Acting The Judge Advocate General.

~~SECRET~~

ETC

WAR DEPARTMENT

THE ADJUTANT GENERAL'S OFFICE

IN REPLY
REFER TO AG 093.5 Phil.Is.(8-3-37)

WASHINGTON

August 3, 1937.

MEMORANDUM for the Chief of Staff:

Subject: U.S. Army Officers on Duty with Commonwealth of Philippine Islands.

1. According to the records of this office the following is a summary of the incidents leading to the appointment of General MacArthur as Military and Naval Adviser to the Commonwealth of the Philippine Islands.

a. The Honorable Manuel Quezon, President of the Philippine Senate on November 19, 1934 requested the Secretary of War to furnish assistance to the new Commonwealth Government as was done in the cases of the Latin-American countries. The War Department requested that the Act of May 19, 1926, "An Act to authorize the President to detail officers and enlisted men of the United States Army, Navy, and Marine Corps to assist the governments of the Latin-American Republics in military and naval matters," be amended so as to include the Commonwealth of the Philippine Islands. The amendment was passed by Congress and approved by the President on May 14, 1935.

b. Paragraph 2, Special Orders, No. 220, War Department, September 18, 1935, detailed General Douglas MacArthur to assist the Commonwealth of the Philippine Islands in Military and Naval affairs. Attached are copies of instructions to General MacArthur and the Commanding General, Philippine Department.

c. The following named officers were ordered to report to General MacArthur for duty and to accompany him to the Philippine Islands:

Lieutenant Colonel Dwight D. Eisenhower, Infantry,
Lieutenant Colonel James B. Ord, Infantry,
Major Howard J. Hutter, Medical Corps,
Captain Thomas J. Davis, Adjutant General's Department.

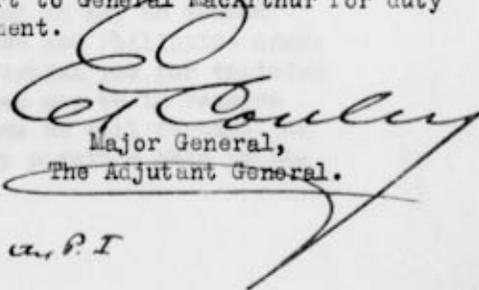
Captains Lucius D. Clay and Hugh J. Casey, Corps of Engineers, are now under orders to the Philippine Department to report to the Military Adviser for duty. Seven enlisted men were also directed to report to General MacArthur for duty and to accompany him to the Philippine Department.

Incls.

1-Copy Let. 9-18-35 to Gen. MacArthur

2-Copy let. 9-18-35 to C.G., P. Dept.

3-Ent. Copy from Report on Naval Defense in the P. I.


Major General,
The Adjutant General.

September 18, 1935.

~~CONFIDENTIAL~~

General Douglas MacArthur,
Chief of Staff, United States Army,
Washington, D.C.

Franklin D. Roosevelt Library

DECLASSIFIED

DOD DIR. 5200.9 (9/27/58)

Date- 2-18-59

Signature- Carl L. Spicer

My dear General MacArthur:

At the request of the Government of the Commonwealth of the Philippine Islands the President of the United States, in his discretion that the public interest renders such a course advisable, details you to assist the government of the Commonwealth of the Philippine Islands in military and naval matters. You will act as the Military Adviser of the Commonwealth Government in the establishment and development of a system of National Defense. You will take with you to assist you such officers and such enlisted men as you deem advisable. You will confer and advise with the President of the Commonwealth Government under such conditions and arrangements as may be mutually determined and authorized. You and your assistants are authorized to accept from the Commonwealth Government the military offices and ranks and the compensation and emoluments thereunto appertaining which have been proposed by the President-elect of the Commonwealth Government on behalf of the Commonwealth Government and which are hereby approved by the Secretary of War. You are authorized to negotiate such changes in said offices and ranks and said compensation and emoluments as may be mutually agreed upon at any time by you and the Commonwealth Government. Any such changes are hereby approved by the Secretary of War.

You will take station at Manila and will establish headquarters at the Santa Lucia Barracks or at such other place as may be deemed advisable by you. You are authorized to call upon the Commanding General, Philippine Department to vacate such buildings for this purpose as you may direct. You are also authorized to call upon the Department Commander to furnish you any additional officers or enlisted men as may be required by you. He will also furnish you with any help or assistance you may desire in the general overhead and maintenance of your headquarters. You are also authorized to call upon him for such service from his command as may be deemed advisable by you in training the cadres for the new Philippine Army. You are also authorized to call upon him to furnish you for training purposes on memorandum receipt such material as may be in reserve in the Philippine Department. In general terms he will furnish you every reasonable assistance and give you every possible help in the

accomplishment of the mission of establishing an adequate native national defense for the Commonwealth.

You are hereby given the greatest latitude and general authority in carrying out this important mission. In all cases not specifically covered you will use your own judgment and are empowered to call upon the Department Commander for whatever assistance you may require. Your mission must be accomplished - ways and means are largely left to you.

You will in addition carry out the verbal orders given you by the President of the United States and the Secretary of War and such other confidential directions as may be transmitted to you from time to time.

The limitation of time on foreign service is waved in your case and that of the officers and enlisted men at your headquarters. It is expected that your term of service will be at least seven years and probably much longer. Those under your immediate command will be relieved when you so request. Your status will be that of command duty. That of the other officers at your headquarters service with troops.

You are authorized to confer directly with the Secretary of War, the Chief of Staff or the Deputy Chief of Staff on matters appertaining to the accomplishment of your mission.

You and your assistants will proceed to Manila without delay. You will travel by rail to San Francisco and take such American commercial steamer there as will take you by way of Japan and China so as to enable you to carry out the secret instructions appertaining thereto given by the Secretary of War.

You will stand relieved from duty on the General Staff and as Chief of Staff on December 15th, 1935.

By order of the Secretary of War:

E. T. Conley,
Brigadier General,
Acting, The Adjutant General.

September 18, 1935.

Instructions.

CONFIDENTIAL

The Commanding General,
Philippine Department.

1. The President of the United States, upon the request of the President-elect of the Commonwealth Government, has detailed General Douglas MacArthur as Military Adviser to the Commonwealth of the Philippine Islands to assist that government in military and naval affairs and in the establishment and development of a system of National Defense. He will establish his headquarters at the Santa Lucia Barracks or at such other place as may be deemed advisable by him. You will cause to be vacated such buildings for this purpose as he may require. You will furnish him with any help or assistance he may desire in the general overhead and maintenance of his headquarters. You will detail to him any additional officers or enlisted men he may require. You will make available such service from your command as may be desired by him in training cadres for the new Philippine Army. You will furnish him for training purposes on memorandum receipt, such material as he may require and which may be in reserve in the Philippine Department. In general you will furnish every reasonable assistance and give every possible help in the accomplishment of the mission of establishing an adequate native national defense for the Commonwealth.

2. General MacArthur has been given the greatest latitude and general authority to carry out his all important mission. In all cases not specifically covered he has been empowered to use his own judgment and call upon you for whatever assistance he may require. You will co-operate and co-ordinate with him to the maximum degree to the end that there will be no friction or handicap in the successful accomplishment of the desired objective. It is of the gravest importance to the United States that there be no failure and successful accomplishment as far as your powers are concerned is hereby made the most important peace-time mission of your command.

By order of the Secretary of War:

DECLASSIFIED
DOD DIR. 5200.9 (9/27/59)

Date- 9-18-57

E. T. Conley,
Brigadier General, signature- *Carl J. Spivey*
Acting The Adjutant General.

EXTRACT COPY

REPORT ON NATIONAL DEFENSE
IN THE PHILIPPINES

By

Maj. Gen. Douglas MacArthur

Military Adviser to the President of the Philippines

* * * *

This letter met with sympathetic consideration in Washington and resulted in the enactment of the desired legislation. Thereafter, upon mutual agreement between President Roosevelt and President-elect Quezon, I was detailed to the post of Military Adviser to the Commonwealth, the appointment to become effective upon the inauguration of the new government and upon my relief as Chief of Staff of the American Army. I immediately selected several officers of the American Army to serve as my assistants and with them began the development of a defense plan applicable to Philippine requirements.

* * * *

This report submitted by letter of April 27, 1936.

ADDRESS REPLY TO
CHIEF OF ENGINEERS, U. S. ARMY
WASHINGTON, D. C.

REFER TO FILE NO. _____

P.S.F. ✓
WAR DEPARTMENT

OFFICE OF THE CHIEF OF ENGINEERS
WASHINGTON

September 18, 1937.

The President,
The White House.

P.F.
Dear Mr. President:

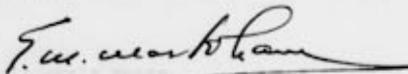
Respecting your purpose to appoint me to the Maritime Commission upon the advent of the next vacancy, as expressed at my visit to Hyde Park on Monday last, I am sending, enclosed, as you directed, a form of Joint Resolution, and carrying letters, for your signature, to the Speaker of the House, and the Chairman of the Senate Committee on Commerce.

I am quite certain that I can block out report covering my assignment in Hawaii by the time Congress convenes, and can complete it promptly at any time thereafter. I shall thus be available to return to Washington immediately upon notification of your wishes in the matter.

Avoiding undue repetition, I trust it is not inappropriate to express once more my very deep appreciation of your commitment to me of the appointment in concern, and my complete confidence of returning to you, and to the public, effective service.

And in approaching the expiration of my four years of duty as Chief of Engineers, I cannot withhold a further brief expression of appreciation of your always generous and encouraging kindness and cordiality.

Sincerely,



E. M. Markham
Major General,
Chief of Engineers.

Encls.

DRAFT

January , 1938.

Honorable William B. Bankhead,
Speaker of the House of Representatives,
Washington, D. C.

My dear Mr. Bankhead:

At my suggestion, Colonel Edward M. Markham, Corps of Engineers, has remained on the active list of the Army since the expiration of his term of office as Chief of Engineers.

It is my desire and purpose that the Government shall continue to have the benefit of the services of Colonel Markham, whose abilities and qualifications should be available for more important duties than those normally exercised by a Colonel on the active list. I therefore recommend that legislation be enacted authorizing the appointment of Colonel Markham as a member of the Maritime Commission, for which he is peculiarly well fitted by his background and talents. To the end described, I am sending you the enclosed draft of a Joint Resolution, which, favorably acted upon by Congress, will accomplish the purpose in view.

Very sincerely yours,

FRANKLIN D. ROOSEVELT.

Encl.

75TH CONGRESS
2ND SESSION

H. J. RES. ____

IN THE HOUSE OF REPRESENTATIVES

JANUARY __, 1938

Mr. _____ introduced the following joint resolution;
which was referred to the Committee on Merchant Marine and
Fisheries.

JOINT RESOLUTION

Authorizing the appointment of Colonel Edward M. Markham, Corps
of Engineers, United States Army, as a member of the United
States Maritime Commission.

Resolved by the Senate and House of Representatives of
the United States of America in Congress assembled, That the
President is hereby authorized to appoint Colonel Edward M.
Markham, Corps of Engineers, United States Army, to any
present or future vacancy in the membership of the United
States Maritime Commission; and acceptance of such office by
Colonel Markham shall not affect his status as an officer of
the Army on the active list: Provided, That Colonel Markham,
while serving as a member of said Commission, shall not draw
any pay as an officer of the Army, but shall receive only the
salary to which he is entitled as a member of the Commission.

DRAFT

January , 1938.

Honorable Royal S. Copeland,
Chairman, Senate Committee on Commerce,
Washington, D. C.

My dear Senator Copeland:

At my suggestion, Colonel Edward M. Markham, Corps of Engineers, has remained on the active list of the Army since the expiration of his term of office as Chief of Engineers.

It is my desire and purpose that the Government shall continue to have the benefit of the services of Colonel Markham, whose abilities and qualifications should be available for more important duties than those normally exercised by a Colonel on the active list. I therefore recommend that legislation be enacted authorizing the appointment of Colonel Markham as a member of the Maritime Commission, for which he is peculiarly well fitted by his background and talents. To the end described, I am sending you the enclosed draft of a Joint Resolution, which, favorably acted upon by Congress, will accomplish the purpose in view.

Very sincerely yours,

FRANKLIN D. ROOSEVELT.

Encl.

75TH CONGRESS
2ND SESSION

S. J. RES. ____

IN THE SENATE OF THE UNITED STATES

JANUARY __, 1938

Mr. _____ introduced the following joint resolution;
which was read twice and referred to the Committee on
Commerce.

JOINT RESOLUTION

Authorizing the appointment of Colonel Edward M. Markham, Corps
of Engineers, United States Army, as a member of the United
States Maritime Commission.

Resolved by the Senate and House of Representatives of
the United States of America in Congress assembled, That the
President is hereby authorized to appoint Colonel Edward M.
Markham, Corps of Engineers, United States Army, to any
present or future vacancy in the membership of the United
States Maritime Commission; and acceptance of such office by
Colonel Markham shall not affect his status as an officer of
the Army on the active list: Provided, That Colonel Markham,
while serving as a member of said Commission, shall not draw
any pay as an officer of the Army, but shall receive only the
salary to which he is entitled as a member of the Commission.

War Dept. Form - 1-37
PSF

October 23, 1937

The President,
The White House.

In re: Creation of an "Advisory Board for
Industrial Mobilization".

Dear Mr. President:

After much study and attention to the plans for the mobilization of the industrial resources of the nation as authorized by the National Defense Act, I am of the firm opinion that it is highly advisable that our plans be dispassionately reviewed by a competent group of civilian authorities.

To this end I suggest for your consideration the creation of such an organization (1) to examine our plans; (2) to determine whether they are sound, practical, adequate and in accord with American principles; and (3) to make recommendations of measures to improve the readiness of the economic structure of the nation to assume the burdens of national defense. In accord with this suggestion, I enclose herewith:

"A Suggested Procedure for the Creation of an Advisory Board to the Assistant Secretary of War on Industrial Mobilization", - which embodies the following:

1. "Outline" of proposed Procedure
2. Proposed "Executive Order"
3. Suggestions for Membership
4. Outline of Letter of Invitation
5. Proposed Letter from you to the Members
6. Outline of Proposed Oral Directive of Assistant Secretary of War

The President
Page Two
October 23, 1937

7. Suggestions as to method of Reimbursement

I realize that this may not be an opportune or desirable moment for any announcement, in that jingoes might give such announcement an unfair and unwarranted interpretation of preparation for immediate war.

At your convenience I should like to discuss the matter with you.

Faithfully yours,

A SUGGESTED PROCEDURE
FOR THE
CREATION OF AN ADVISORY BOARD TO THE ASSISTANT
SECRETARY OF WAR ON INDUSTRIAL MOBILIZATION

OUTLINE
OF
PROCEDURE

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Y

1937.

OUTLINE OF PROCEDURE

1. In the preparation of the attached drafts of the directive and letters necessary for the organization of the Advisory Board for the Mobilization of Industry, the methods of creation of the War Department Special Committee on Army Air Corps, July, 1934; the War Industries Board; the President's Aircraft Board of September, 1925; and a number of the boards and councils of the present administration were carefully examined with a view to determining the best procedure.

2. The following plan is suggested:

- a. Executive Order creating the Advisory Board for Industrial Mobilization.
- b. Selection of Board membership. (A tentative list is inclosed.)
- c. Letter of inquiry from The Assistant Secretary of War to the selected members asking whether or not they will be willing to serve on the Board.
- d. Upon signification by the Board Member that he will serve, letter of appointment from the President.
- e. At the first meeting of the Board, directive and orientation talk by The Assistant Secretary of War.

3. A discussion of methods of payment is included. It will be noted that the Executive Order in a, above, is not included under alternative reimbursement program.

EXECUTIVE
ORDER

EXECUTIVE ORDER

Creation of The Advisory Board for Industrial Mobilization.

WHEREAS, the most effective means of insuring peace is to be prepared against war, and

WHEREAS, the successful prosecution of modern warfare, should the defense of the nation require it, is directly dependent upon the ability of the nation to produce the requisite munitions and supplies, and

WHEREAS, under Section 5a of the National Defense Act The Assistant Secretary of War, under the direction of the Secretary of War, is charged specifically with the assurance of adequate provision for the mobilization of material and industrial organizations essential to war-time needs, and

WHEREAS, the War and Navy Departments, in accordance with the provisions of the National Defense Act, have, in September, 1936, completed the Industrial Mobilization Plan, and

WHEREAS, the burden of producing munitions of war will fall upon private industry and the people, and the hardships incident thereto reach every citizen of the nation,

NOW THEREFORE, it is highly advisable that plans for the mobilization of the industrial resources of the nation be dispassionately reviewed by an authoritative group of civilians and accordingly there is hereby created an organization that shall be known as the ADVISORY BOARD FOR INDUSTRIAL MOBILIZATION, which shall examine the plans for the

mobilization of material resources prepared under the National Defense Act and shall determine whether they are sound, practical, adequate and in accord with American principles and shall make recommendations of measures that will improve the readiness of the economic structure of the nation to assume the burdens of the national defense.

Such rules and regulations as may be necessary to execute the purposes of the Board created shall be outlined by The Assistant Secretary of War.

The members of the Board shall be compensated for their services and expenses as prescribed by the President.

The facilities of the War Department will be made available to the Board in the prosecution of its functions.

For the purposes of this Order the sum of ten thousand dollars (\$10,000) is hereby allocated to the Advisory Board for Industrial Mobilization from the appropriation authorized by

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE

1937.

PERSONNEL SUGGESTED FOR MEMBERSHIP
ON
"ADVISORY BOARD FOR INDUSTRIAL MOBILIZATION"

1. "Elder Statesmen" with experience gained in the World War. (Three to be selected):

	<u>Age</u>
Bernard M. Baruch, Chairman, War Industries Board, 1918.	67
Benedict Crowell, Assistant Secretary of War and Director of Munitions in World War.	68
Frank A. Scott, Former President, now Chairman of Board, Warner and Swasey Co., Cleveland, Ohio; Chairman, General Munitions Board and of War Industries Board, 1917.	64
General James G. Harbord, Chairman of Board, Radio Corp. of America; Chief, Service of Supply A.E.F., 1918.	71
Walter S. Gifford, President, American Tel. and Tel. Co.; Council of National Defense, 1916-18.	52

2. Men qualified to pass upon the effect of the plan on the economic activities of the nation. (Two to be selected):

Harold G. Moulton, Economist, President of Brookings Institution since organization in 1928.	53
Virgil D. Jordan, Economist, National Industrial Conference Board, 1920-29; President, National Industrial Conference Board since 1932.	45

3. Industrialists qualified to examine the plans with reference to their effectiveness in industry. (Three to be selected):

	<u>Age</u>
Kenneth R. Kingsbury, President, Standard Oil of California.	61
Donaldson Brown, Vice President, General Motors.	52
William F. Barrett, Vice President, Union Carbide and Carbon Corp.	51
William G. Marshall, Vice President, Westinghouse Electric and Manufacturing Co.	49
Lewis H. Brown, President, Johns-Manville Corp.	43
Edward R. Stettinius, Jr., Chairman, Finance Committee, U. S. Steel Corp.	37
Andrew W. Robertson, Chairman Board, Westinghouse Electric and Manufacturing Co.	57
Calvin Verity, Executive Vice President, American Rolling Mills.	48

4. Members to consider the plans from the viewpoint of labor. (Four to be selected):

- Edward McGrady.
- 1 Representative from A.F.L.
- 1 Representative from C.I.O.
- 1 Representative from Railway Brotherhoods.

5. Members to review the plans from the standpoint of the civilian population. (Three to be selected; of group in parentheses, one only to be selected):

Colonel Leonard P. Ayres, Director of Statistics, War Industries Board, Priorities Board, Council of National Defense, and Allies Purchasing Commission in World War. Chief Statistical Officer, U.S. Army and A.E.F., as Colonel, G.S. Vice President, Cleveland Trust Co.	<u>50</u> 58
James O. Adler, Vice President, New York Times.	45
(Harry Emerson Fosdick, Rector, Riverside Church.)	58
(Rabbi Stephen S. Wise, Free Synagogue, New York.)	63
(Bishop James Edward Freeman, Bishop of Washington, D.C.)	71
(Mgr. Joseph M. Corrigan, Rector, Catholic University.)	58

INVITATION
TO
SERVE
ON
BOARD

Dear Mr. _____:

Will you please examine the inclosed Executive Order.

As you see, a board is being organized to report upon the soundness and feasibility of our plans for the mobilization of industry in the unfortunate event of war.

As Assistant Secretary of War, I am charged by the National Defense Act with the assurance of adequate provision for the mobilization of materiel and industrial organizations essential to war-time needs. In the prosecution of this duty I am forcibly impressed with the burden which war, if such should be forced upon us, will place on the entire industrial structure and the people of the nation. War is no longer simply a battle between armed forces in the field—it is a struggle in which each side strives to bring to bear against the enemy the coordinated power of every individual and every material resource at its command. The conflict extends from the soldier in the most forward line to the humblest citizen in the remotest hamlet in the rear.

Accordingly, since the burden of war must fall so drastically upon the people and private industry of the nation, it seems highly advisable to obtain a nonmilitary review of the plans which have been made for the mobilization of industry to determine whether they are sound, adequate, and in accord with American principles. Our aim in

creating the Board, therefore, is to organize a group of qualified representatives of industry, labor, and of social and humanitarian interests, to scrutinize as authoritative civilians the Industrial War Plans of the military establishment.

The President has asked me to inquire if you will consent to serve on this Board. The final appointment, should you acquiesce, will, of course, come from the President.

Unfortunately, our appropriation does not permit us to compensate you in a manner at all commensurate with the value of your services. These services must be, therefore, to a large extent voluntary, although all your expenses will be covered.

It is expected to call the first meeting of the Board on or about _____ and it is believed that thorough examination of all of the elements of the Industrial Mobilization Plans can be effected in several sittings of the Board, with intervening recesses for examination and analysis.

Will you kindly let me know at your earliest convenience whether you will be able to serve on the Board?

As the organization is still in the formative state, it is requested that you consider this letter as confidential.

Sincerely yours,

LOUIS JOHNSON,
The Assistant Secretary of War.

Incl.

PRESIDENT'S
LETTER
TO
MEMBERS

My dear Mr. _____:

Inclosed is a copy of the Executive Order creating the Advisory Board for Industrial Mobilization with which you are already familiar. I request that you serve as a Member of this Board and I would like you to meet at _____ on _____. I feel that your efforts will be exceptionally valuable in assuring that Plans for the Mobilization of the Nation's Industry in event of war are sound and practical.

Very sincerely,

FRANKLIN D. ROOSEVELT.

ORAL
DIRECTIVE
OF
ASSISTANT
SECRETARY

ORAL DIRECTIVE

To be given by The Assistant Secretary of War at the first meeting of the Advisory Board for Industrial Mobilization.

Gentlemen:

I am going to read from the National Defense Act.

"Sec. 5a. Hereafter, in addition to such other duties as may be assigned him by the Secretary of War, the Assistant Secretary of War, under the direction of the Secretary of War, shall be charged with supervision of the procurement of all military supplies and other business of the War Department pertaining thereto and the assurance of adequate provision for the mobilization of matériel and industrial organizations essential to war-time needs."

In accordance with this mandate the Planning Branch of my office has, since its organization in 1921, devoted every effort to the preparation of sound and adequate plans for the mobilization of the industrial resources of the nation and the minimization of hardship and social and economic distress in event of war. Coordination with the Navy has been secured by means of the Army and Navy Munitions Board and the joint efforts of the War and Navy Departments have resulted in the Industrial Mobilization Plan of 1936, which lays down the basic principles and policies for the mobilization of industrial resources of the nation in event of war.

In accord with these basic principles, specific plans have been made for the procurement of military supplies and for each of the elements of the industrial mobilization program—commodities, power, fuel, transportation, etc.

I am going to read from the introduction to the Industrial Mobilization Plan, Paragraph 1, Page VII.

"Complicated weapons and machines are used up rapidly in war. Armies and navies must not only be well supplied initially but maintenance must be adequate and continuous. Thus, the success of a modern fighting force is directly and immediately dependent upon the ability of the nation's resources to satisfy promptly its requirements in munitions. In addition, throughout the duration of the war the nation must continue to provide all the material things upon which the health and well-being of its population depend. War is no longer simply a battle between armed forces in the field--it is a struggle in which each side strives to bring to bear against the enemy the coordinated power of every individual and every material resource at its command. The conflict extends from the soldier in the most forward line to the humblest citizen in the remotest hamlet in the rear."

It is for this reason that this Board has been created. It is felt, since the burden of war will reach every individual in the nation, that the opinion of a nonmilitary body should be obtained to assure us that the plans will be effective and that they are in accord with social, humanitarian and industrial principles, as well as with American tradition.

The following approach to the problem is suggested:

1.
 - a. Examination of the 1936 Mobilization Plan.
 - b. Examination of each of the subsidiary plans prepared thereunder.
 - c. Examination of the agencies for coordination by the Army and Navy.
2. Answers to the following specific questions:
 - a. Are the basic policies set forth in the Industrial Mobilization Plan sound? If not, why not?

- b. Are the organizations created in the plan adequate?
- c. Are the methods for the utilization and coordination of the industrial war effort practical?
- d. Are the essential needs of the civilian population sufficiently cared for?
- e. Is there adequate provision for transition from peace to war?
- f. Is the allocation system sound?
- g. Is there sufficient coordination between the Army and the Navy?
- h. Are the plans and proposals set forth in accord with the principles of Americanism?
- i. Will the plans work?

3. Such recommendation as the Board may see fit to make as to measures which would improve the ability of the nation's industrial and social structures to assume the burdens of the national defense.

METHODS
OF
REIM-
BURSEMENT

DISCUSSION OF METHODS OF REIMBURSEMENT OF ADVISORY BOARD FOR
INDUSTRIAL MOBILIZATION

The services and expenses of members of the Advisory Board for Industrial Mobilization may be reimbursed by either of two methods:

1. By allocation of emergency funds under control of the President. Routine is as follows, -

a. Secretary will make request to the President for allocation from emergency funds.

b. This request is turned over to the Bureau of the Budget which prepares a directive to itself for the President's signature authorizing allocation.

Note: It should be noted that, normally, under Executive Order 7298, February 18, 1936, the Executive Order creating the Advisory Board for Industrial Mobilization would be cleared by the Bureau of the Budget and the Attorney General before submission to the President. Under such conditions clearance of allocation of funds by the Bureau of the Budget would be automatic. In the present instance, should the Executive Order be taken up directly with the President, the opinion of the Bureau of the Budget as to practicability of obtaining necessary money from Emergency funds will be rendered at b. above.

c. Bureau of the Budget submits this directive to the Treasury, which issues warrant sending same through the Comptroller General for countersignature.

d. Accounts Division of the Treasury submits warrant and allocation number to the Chief of Finance, who may then make payment upon voucher from Chairman or Recorder of the Board.

2. By employing members as expert advisers to the Secretary of War, reimbursing them from current Army appropriations.

e. Under this method no Executive Order creating a board or council may be issued. Each member will receive a letter of appointment from the Secretary of War, which letter is filed with payroll signed by Chairman or Recorder.

f. The Adjutant General instructs the branches to allocate pro rata sums from their appropriations.

g. Branches then set up an allotment for this amount with the Chief of Finance who will make payment on voucher from Chairman or Recorder of the Board.

The majority of the members of the Board should be content to serve with reimbursement of their expenses. Certain members may, however, require additional payment. No additional procedure is required in such event. Voucher from Chairman of the Board will specify amount to be paid each member.

~~CONFIDENTIAL~~

WAR DEPARTMENT
NAVY DEPARTMENT

*file
PSF: War Dept*

November 11, 1937.

The President,

The White House.

Dear Mr. President:

With reference to your memorandum of October 21, 1937, relating to Coastal Frontier Defense Joint Air Exercises, the following exercises are planned for F.Y. 1938, and, subject to availability of funds, for the F.Y. 1939:

<u>Exercise</u>	<u>Location</u>	<u>Date</u>	<u>Forces</u>
No. 3	Off Chesapeake Capes	May, 1938) Units of the U.S. Fleet,) Naval District Forces,
(NOTE: No. 4 held on West Coast in August, 1937.)			
No. 5	East Coast	4th Qtr. F.Y. 1939) Units of the G.H.Q.
No. 6	West Coast	3rd Qtr. F.Y. 1939) Air Force.

In addition to the foregoing, U. S. Fleet Landing Exercise No. 4 will be held from January to March, 1938 in the vicinity of Culebra Island, P. R. The Training Detachment, U. S. Fleet, the East Coast Contingent, Fleet Marine Force, and an Army contingent of 500 officers and men will participate. Subject to availability of funds, a similar exercise (No. 5) is planned for the F.Y. 1939.

Minor joint exercises, arranged and carried out by the commanders concerned, are encouraged. Such an exercise was held in April, 1937, in the Hawaiian area by the Commander-in-Chief, U. S. Fleet, and the Commanding General, Hawaiian Department. The proposed location of Fleet Problem XX in the vicinity of the Canal in the F.Y. 1939 may make feasible a similar exercise in the Panama area.

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DOD DIR. 5200.9 (9/27/58)

Date- 2-18-59

Signature-

Carl S. Spicer

Harry H. Woodring
Secretary of War.

Claude A. Swanson
Secretary of the Navy.

~~CONFIDENTIAL~~

ALL COMMUNICATIONS SHOULD BE ACCOMPANIED BY CARBON COPY AND ADDRESSED TO

TO INSURE PROMPT ATTENTION
IN REPLYING REFER TO

No.

ATTENTION OF

WAR DEPARTMENT
OFFICE OF THE CHIEF OF ORDNANCE
WASHINGTON

December 15, 1937

MEMORANDUM FOR: The Chief of Staff.

1. The following shows the present status of the design and development of high priority items of equipment.

Antiaircraft

A 37-mm. Browning automatic gun (3000 f/s) and mount will be tested at the Aberdeen Proving Ground during the week of December 20, 1937.

A 37-mm. automatic gun (3000 f/s) of Ordnance design using the same mount as the Browning gun will be tested during the same period.

Two new 37-mm. automatic guns (Browning 3000 f/s) with a higher cyclic rate of fire (minimum 100 rds. per minute) are in process of manufacture by Colt's Patent Fire Arms Corporation, with delivery scheduled about August 1, 1938.

Prices and delivery dates are being obtained on 37-mm. Rheinmetall and 40-mm. Bofors A.A. guns and mounts. Information will be available shortly.

Aircraft

Six 37-mm. automatic guns (Browning 2000 f/s) have been ordered from the Colt's Patent Fire Arms Company with delivery expected about July 1, 1938. These guns will fill the requirements of the Air Corps, as expressed in their letter of recent date.

One 37-mm. automatic gun (Browning 3000 f/s), and one 37-mm. automatic gun (3000 f/s) of Ordnance design, same as under "Antiaircraft" above, will be tested the week of December 20, 1937.

In addition to the above one .9-in. automatic gun is being manufactured at Rock Island Arsenal with delivery expected by February 15, 1938, and one 1.1-in. automatic gun is being prepared for manufacture at the Watervliet Arsenal.

Designs are also being drawn up in the Ordnance Office for a .9-in. gun of the blowback type.

The following guns have been ordered from abroad: Four 23-mm. Madsen type (not yet delivered but expected shortly), two 20-mm. Rheinmetall guns, delivered at the Aberdeen Proving Ground, one 20-mm. Hispano-Suiza gun, not yet delivered.

Design studies of 75-mm. AAA gun are being made in the Ordnance Office.

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Antitank

Two 37-mm. antitank guns and carriages (2600 f/s - 1.85 projectile) will be ready for test on February 15, 1938.

The following antitank guns have been purchased abroad and are now at Aberdeen Proving Ground: One 37-mm. Rheinmetall antitank gun and mount; one 25-mm. Hotchkiss automatic gun and mount; one 20-mm. Solothurn automatic gun.

Tank Armament

The new medium tank is to be equipped with at least one 37-mm. antitank gun. In addition, it will mount six cal. .30 machine guns.

Tanks

The new medium tank for the Infantry has nearly completed its shop test at the Rock Island Arsenal and will be delivered to the Aberdeen Proving Ground about February 1, 1938.

105-mm. Howitzer

This equipment is practically completed at Rock Island Arsenal and will be delivered to the Aberdeen Proving Ground for test January 15, 1938.



W. H. TSCHAPPAT
Major General,
Chief of Ordnance

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PSF, Wa
PSF-1938-
[Handwritten signature]

December 29, 1937, Franklin D. Roosevelt Library

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DOD DIR. 5200.9 (9/27/88)

Date- 2-18-59

Signature- *Carl J. Spica*

Mr. Bernard M. Baruch,
597 Madison Avenue,
New York City.

My dear Mr. Baruch:

I need not state that the subject matter of your letter of December 24, 1937, has for months given me deep concern. Your continued interest in this work, your clear grasp of its problems, and particularly your offer to help, are encouraging indeed.

Before answering your questions, let me point out that my answers are based upon the new Protective Mobilization Plan recently prepared by the War Department. This plan has been made as a result of War Department studies of the industrial capacity of the nation to produce munitions and, with such industrial limitations in mind, has provided for the minimum force considered adequate for national security. The needs of this minimum force for munitions must be supplied either from stocks on hand or from new production. This new production must come almost entirely from private industry. For many years the War Department has been preparing procurement plans solely for the purpose of reducing the time that industry would need to get into quantity production on munitions. There is an irreducible minimum of time necessary, however, for industry to adapt itself to the manufacture of new and noncommercial items of munitions. This minimum gap of time must be bridged over by a physical reserve of munitions on hand at the time of an emergency.

To answer your specific questions:

1. The problem of ammunition supply is fairly satisfactory. With some important limitations, the minimum ammunition requirements of the Protective Mobilization Plan can be met. Much renovation will be required, much powder replacement is needed, and mechanical antiaircraft fuzes are necessary. Deterioration of ammunition has been severe, but not in excess of that estimated. Some replacement has already been effected.
2. Our guns, though of World War manufacture, are in generally good condition, requiring only overhaul to make them ready for action. The carriages may be high speeded in a reasonable time by the use of adapters with pneumatic tires. The modern carriage with high elevation and wide traverse cannot be supplied for many months, but high speeded carriages will serve. Procurement plans for new production have been prepared but many months will elapse before quantity production can be secured.

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3. Your understanding that the capacity of this country for smokeless powder is now 40,000 pounds per day and that a minimum of six months would be required to obtain quantity production is correct. The procurement of a reserve of special machinery, such as hydraulic presses, would materially lessen the time to secure quantity production. Greater current production would also help.

4. The requirements of the protective force for rifles and machine guns must necessarily be supplied from existing stocks plus new production. New production possibilities for these items are not at all promising. Severe shortages will occur in antiaircraft and antitank guns, in semiautomatic shoulder rifles, and in cal. .50 machine guns. A reserve of special machinery would materially improve this serious situation.

5. There is no existing supply of dies, jigs and fixtures for munitions production outside of the small stocks at the operating arsenals, and a limited quantity remaining from the World War.

6. With regard to production of items for the Navy, the Navy Department prepares its own plans, but the Army and Navy Munitions Board is so allocating production facilities as to minimize conflicts and competition between the two services.

With reference to the statement in your letter - "and so on ad infinitum" - it may be said that the above are only some of our difficult problems.

In reply to your question: "What can be done about it?" the answer is - MONEY AND LEGAL AUTHORITY FOR:

a. Augmentation of war reserves for finished munitions -- approximately \$500,000,000.

An appropriation of approximately one-half billion dollars to eliminate the shortages in stocks of critical finished items of the war reserves which should be on hand on M-Day to equip and maintain the first 1,000,000 men mobilized under the new War Department Protective Mobilization Plan.

It would require approximately an additional half billion dollars to provide a war reserve of all approved standard items essential to the combat efficiency of these same 1,000,000 men.

The figure of 1,000,000 men has a political significance, since for years it has had congressional approval as a basis for the retention of war reserves.

b. Gages, jigs, fixtures, punches, dies and preparation of production plans -- approximately \$25,000,000.

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As to ~~the~~ These funds would provide vitally necessary inspection pages and, when legal authority is obtained, by contract with important allocated firms, - ~~as necessary for war and no one speaks with greater authority.~~

- (1) Analysis, from a production viewpoint, of drawings and specifications furnished by the Government.
- (2) Development of production plans.
- (3) Determination of requirements for special aids to manufacture, preparation of drawings for same, and determination of sources for supply.
- (4) Actual acquisition by the Government of a limited stock of these manufacturing aids to insure prompt initiation of production at the plants involved, in an emergency.

c. Special machinery for war production -- approximately \$28,000,000.

This would provide a nucleus of the special machinery for the manufacture of such items as smokeless powder, high explosives, small arms ammunition, cal. .50 machine guns, centrifugally cast and cold worked cannon, and gas masks, and thus reduce the time to get into quantity production.

d. Machine tools to modernize and round out equipment at existing Government establishments -- approximately \$25,000,000.

These machine tools are needed to replace old and obsolete equipment and their installation will materially expedite important early production.

e. War reserve of strategic materials -- approximately \$22,000,000.

This includes only the Army requirements for manganese, chrome, tin, and tungsten for two years of war.

f. Authority for placing educational orders by negotiation without competition.

If the funds specified in a are made available, the funds specified in b, c, d, and e can be reduced. It is obvious that a, b, c, d, and e are interrelated.

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MADE IN U.S.A.

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As to what you can do to help, you of course already see the answer. No one in the country is more familiar with the problems of obtaining the supplies necessary for war and no one speaks with greater authority.

Cordially yours,

LOUIS JOHNSON

LOUIS JOHNSON,
The Assistant Secretary of War.

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Private and confidential

COPY

BERNARD M. BARUCH
597 Madison Avenue
New York

December 24, 1937.

Hon. Louis Johnson,
Assistant Secretary of War,
Washington, D. C.

My dear Mr. Secretary:

Something has been lying very heavily on my heart since my last visit with you. What would be the answers to the following questions?

1. What is the condition of our ammunition?
2. What is the condition of our guns? I presume the metal is all right, but how about the carriages? What facilities have we for making modern big guns and what facilities have we for getting quantity production in them and in shells?
3. I am given to understand that the total capacity in this country is about 40,000 pounds of powder per day and that it would take six months to increase that capacity. This is a condition that should not exist.
4. What capacity have we for making small guns, including machine and anti-aircraft guns in quantity?
5. What is our position in regard to dies, jigs, fixtures and designs?
6. How about the production of things for the Navy?
And so on ad infinitum.

I think I can guess at the answers to some of these questions and no doubt they give you sleepless nights.

What can be done about it and what can I do to help?

I hear questions about these things and the circle of questioners is widening.

With kindest regards, I am

Sincerely yours

Bernard M. Baruch

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DOD DIR. 5200.9 (2/21/88)

WAR DEPARTMENT

OFFICE OF THE ASSISTANT SECRETARY

WASHINGTON, D. C.

Date- 2-18-54

Signature, 1937.

[December]

Carl J. Spica

MEMORANDUM FOR THE PRESIDENT.

Subject: Advisory Board for Industrial Mobilization.

1. In response to your memorandum of November 26, 1937, I find that statutory authority establishing the Council of National Defense still exists, and I have, therefore, investigated the possibility of reviving the activities of this Council to perform temporarily the functions proposed in my previous memorandum for an Advisory Board for Industrial Mobilization. I advise against such action, for the following reasons:

a. As you remember, the Council of National Defense consists of the Secretaries of War, Navy, Interior, Agriculture, Commerce and Labor. Two of these six, viz., the Secretaries of War and Navy, have already considered and approved the plans in question, while the departments of State and Treasury, although charged with important war responsibilities, are not, under the law, represented on the Council.

b. In the original concept, it had been my feeling that no individual connected with the Government should be associated on a board of the character suggested. I believe that a group of civilians, nationally known and of sufficient ability and prestige to give weight to their advice, is to be preferred to any organization of government officers. Since the stress of war will fall so heavily on all of the people, it is believed that representatives chosen directly from the people should analyze and evaluate the plans.

c. Under the law an Advisory Commission to the Council of National Defense is authorized which might function in the capacity proposed for the Advisory Board for Industrial Mobilization, though no direct appropriation is available for expenses. However, in the National Defense Act of 1920 (Section 5a) the responsibilities originally placed in the Council of National Defense have been specifically charged to The Assistant Secretary of War, who has actively performed them since that time. It would seem advisable, therefore, to continue this procedure rather than to revive an agency which has been dormant for seventeen years, to perform functions which will duplicate those of The Assistant Secretary of War.

2. The Industrial Mobilization Plan provides for the immediate establishment in time of war of a War Resources Administration which would perform functions similar to those of the War Industries Board in the World War. The membership of the proposed Advisory Board for Industrial Mobilization closely parallels a typical membership of a War Resources Administration and thus would permit comment on the plans by the individuals who might be called upon to participate actively in such an organization in war.

LOUIS JOHNSON,
The Assistant Secretary of War.

PSF
War

75TH CONGRESS
1ST SESSION

S. 25 →

same as
H.R. 6704

[Report No. 480]

IN THE SENATE OF THE UNITED STATES

JANUARY 6, 1937

Mr. SHEPPARD introduced the following bill; which was read twice and referred to the Committee on Military Affairs

MAY 6, 1937

Reported by Mr. SHEPPARD, with amendments, and referred to the Committee on Finance

[Omit the part struck through]

A BILL

To prevent profiteering in time of war and to equalize the burdens of war and thus provide for the national defense, and promote peace.

1 *Be it enacted by the Senate and House of Representa-*
 2 *tives of the United States of America in Congress assembled,*
 3 That whenever Congress shall declare war ~~or the existence~~
 4 ~~of an emergency due to the imminence of war,~~ the President
 5 is hereby authorized to determine and publicly proclaim it
 6 to be unlawful to buy, sell, or otherwise contract for any
 7 article or thing enumerated in such proclamation, or proc-
 8 lamations, at a higher rate, rent, price, commission, com-
 9 pensation, or reward than was in effect at a date determined
 10 and set forth in such proclamation or proclamations.

1 SEC. 2. Whenever in the sole discretion of the Presi-
2 dent he shall determine that any maximum price, rent, rate,
3 commission, compensation, or reward previously proclaimed
4 shall be adjusted either upward or downward, he is hereby
5 authorized to make and publicly proclaim such adjustment,
6 and such adjustment shall have the full force and effect under
7 this statute of such price, rent, rate, commission, compen-
8 sation, or reward before such adjustment.

9 SEC. 3. That in the event of war, ~~or of a national emer-~~
10 ~~gency~~ declared by Congress to exist, which in the judgment
11 of the President demands the immediate increase of the
12 military establishment, the President be, and he is hereby,
13 authorized to draft into the military service of the United
14 States such members of the unorganized militia between the
15 ages of twenty-one and thirty-one as he may deem necessary,
16 subject to such conditions, exemptions, rules, and regulations,
17 as the President may prescribe and publicly proclaim. Like-
18 wise, during such time of war ~~or national emergency~~ de-
19 clared by Congress, the President shall have power to deter-
20 mine and publicly proclaim from time to time the material
21 resources, industrial organizations, and public services over
22 which Government control, including requisitioning materials
23 for use or resale by the Government, shall then be necessary
24 and such control shall be exercised by him through agencies
25 then existing or which he may then create for such purposes.

1 SEC. 4. During the period of any war ~~or emergency~~
2 declared by Congress the President is hereby authorized,
3 when in his opinion the successful prosecution of war renders
4 it advisable, to require, under such rules and regulations as he
5 may establish, the registration of all or any class of persons
6 engaged in the management or control of any industrial or
7 manufacturing establishment designated by him. There²
8 upon, at his option, such persons registered pursuant to the
9 provisions of this section may be brought into the service of
10 the Government as civilians for the duration of the war under
11 such rules and regulations as the President may prescribe.

12 SEC. 5. During the period of any war ~~or emergency~~
13 declared by Congress the President is authorized to deter-
14 mine, and by public proclamation, or proclamations, an-
15 nounce what classes of public service, real property, or
16 right, or of dealers, exporters, importers, manufacturers, or
17 producers, of any article or commodity shall be required to
18 operate under licenses, to fix the conditions of such licenses,
19 and to grant licenses under such conditions. After such
20 determination and proclamation by the President, it shall be
21 unlawful for any such determined classes to engage in
22 business without such license.

23 SEC. 6. During the period of any war ~~or emergency~~
24 declared by Congress the President is authorized to deter-
25 mine and publicly proclaim the order or priority in which

1 any manufacturer, dealer, producer, exporter, importer, or
2 public service in the United States shall fill orders, or trans-
3 port anything or furnish power, and after such determination
4 and proclamation it shall be unlawful for any such manufac-
5 turer, dealer, producer, exporter, importer, or public service
6 to fill such orders in any other order of priority.

7 SEC. 7. That during the period of any war ~~or emergency~~
8 declared by Congress the President is empowered to create
9 such agencies, boards, or commissions, including the employ-
10 ment of necessary personnel, and to designate agents or
11 agencies to exercise such portion of his powers as he may
12 deem necessary and proper to accomplish the purpose of this
13 Act. Likewise, at such time, he shall have power to make
14 such rearrangements of Executive agencies, and of bureaus
15 and divisions thereof, and to transfer such duties, powers, and
16 personnel as he may deem necessary for the proper conduct
17 of war, ~~or for the meeting of such national emergency.~~

18 SEC. 8. That any person, firm, or corporation violating
19 any of the provisions of this Act, or violating any publicly
20 proclaimed orders, rules, or regulations made by the Presi-
21 dent for executing the powers contained in this Act, is hereby
22 declared to be guilty of a misdemeanor and shall be liable to
23 indictment and trial therefor, and upon conviction thereof
24 shall be sentenced to pay a fine, not exceeding \$100,000, or

1 to serve in prison, not exceeding one year, or both, at the
2 discretion of the court.

3 SEC. 9. That upon the declaration of war, and during
4 the period of such emergency, there shall be imposed a tax
5 of 95 per centum of all income above the previous three-
6 year average, with proper adjustments for capital expendi-
7 tures for war purposes by existing or new industries.

75TH CONGRESS }
1ST SESSION }

S. 25

[Report No. 480]

A BILL

To prevent profiteering in time of war and to equalize the burdens of war and thus provide for the national defense, and promote peace.

By Mr. SHEPPARD

JANUARY 6, 1937

Read twice and referred to the Committee on Military Affairs

MAY 6, 1937

Reported with amendments and referred to the Committee on Finance

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TO PREVENT PROFITEERING IN TIME OF WAR AND TO
EQUALIZE THE BURDENS OF WAR AND THUS PROVIDE
FOR THE NATIONAL DEFENSE, AND PROMOTE PEACE

MAY 12, 1937.—Committed to the Committee of the Whole House on the
state of the Union and ordered to be printed

Mr. HILL of Alabama, from the Committee on Military Affairs,
submitted the following

REPORT

[To accompany H. R. 6704]

The Committee on Military Affairs, to whom was referred the bill (H. R. 6704) to prevent profiteering in time of war and to equalize the burdens of war and thus provide for the national defense, and promote peace and for other purposes, having considered the same, report favorably thereon with the recommendation that the bill do pass.

SPONSORED BY THE AMERICAN LEGION AND WORLD WAR VETERANS

The bill is sponsored by the American Legion with its 11,000 posts, which is the great organization of the veterans of the World War.

When the veterans came back home they learned that while they had left behind them many of their comrades sleeping in France beneath the white crosses, row upon row, and while many thousands of their comrades were confined to hospitals or asylums shattered and blasted in mind and body, many people who never even smelled gun powder had profited and profited tremendously during the war. The veterans learned that while they were fighting some twenty-two thousand individuals at home stepped from the shadow of financial obscurity into the millionaire class, that hundreds of persons already millionaires saw their fortunes mount higher and higher, that other thousands entered the luxury class, and that nearly every person at home at work, and there was a job for everybody who wanted one, made more in one hour than the man at the battle front received per day. The veterans found upon their return the great shadow of the deflation period stretching across the land, closing factories, mills, stores and business houses, and bankrupting the farmers. They found that the war had cost the country and its unborn children at least

50% more than it should have cost. They found that even as George Washington had bitterly complained in the days of the Revolution of people who "would build their greatness upon their country's ruin" many people had built their greatness upon the sacrifices, the heartaches and the sufferings of the World War. The veterans, through their organization, The American Legion, declared that if this Nation ever had to go to war again there should be no such profiteering, but that there should be equal burdens and equal sacrifices for all.

BRIEF HISTORY OF EFFORTS TO SECURE LEGISLATION

At the request of the American Legion there was introduced in Congress in 1922 the Capper-Johnson Bill, seeking to enact legislation to the desired end. Both, Senator Arthur Capper of Kansas and Representative Royal C. Johnson of South Dakota, worked diligently in an effort to secure favorable action on the bill. The bill, however, was so far reaching, and there were so many other matters pressing upon Congress at the time that it never received favorable consideration. At the same time, the late Representative John J. McSwain of South Carolina introduced a joint resolution providing for the creation of a special Federal commission to study the whole subject and to recommend legislation. Through the years the American Legion sought to secure favorable action in the matter and finally in 1931 the McSwain Resolution, then known as the Wainwright-Snell Resolution, was passed, and the so-called War Policies Commission was established. The extensive hearings before the Commission particularly the testimony of Mr. Bernard M. Baruch focused attention on the subject and provided information which laid much of the groundwork for the bill H. R. 6704. During the last Congress the House of Representatives by the overwhelming vote of 368 to 15 passed a bill sponsored by the American Legion and introduced by Representative McSwain, the then Chairman of the Committee on Military Affairs of the House. The bill as it passed the House was in principle and in substance the same as the bill H. R. 6704. It is the feeling of your Committee, however, that the bill H. R. 6704 in its provision as to taxation and in a number of minor ways is infinitely stronger and better than the bill passed by the House last Congress. Permit us to say here, that too much honor and credit cannot be given to the late gentleman from South Carolina, Mr. McSwain, who for years labored and wrought in an effort to bring about legislation on the subject. The bill H. R. 6704 is more nearly his bill than that of any member of the present Congress. The passage of the bill would be a monument to his untiring efforts and his devoted work.

DIFFICULTIES OF WORKING OUT A PLAN

All men will agree that a plan to mobilize effectively the resources of the Nation for war which shall eliminate war-time profiteering, prevent war-time inflation and equalize war-time burdens is devoutly to be desired. The difficulties come and the differences of opinion arise over just what the plan should be and how the plan should be written into the law of the land. Even casual thought on the subject will readily suggest the many problems that necessarily arise in an effort to effectively mobilize the many and varied resources of a

nation as great and complex in its industrial life and in its population as is ours. One way that quickly suggested itself in the beginning to the proponents of the idea was to have the Government through conscription take over everything. The more study and thought that has been given to this plan, the less desirable the plan has seemed and the more its original advocates have chilled to it. In the first place, such a plan would mean that upon a declaration of war there would be a complete disruption and dislocation of the entire industrial and economic life of the Nation because of the Government's taking over and attempting to operate everything. Such a fundamental and revolutionary change of our whole industrial and economic life might bring about such an upheaval as would mean the loss of the war for us. As Woodrow Wilson said at the beginning of the World War, "In the sense in which we have been wont to think of armies there are no armies in this struggle there are entire nations armed". In the second place, such a plan would virtually mean the communizing or sovietizing of American life and once this step was taken, even though the war were won, how could the eggs ever be unscrambled, and our Nation returned to the American system? Your Committee, therefore, definitely eschewed any such plan.

THE PLAN

The Committee after weeks of devoted work proceeded to adopt a plan that would neither militarize industry nor American life on the one hand nor industrialize the Army on the other hand, a plan that would hold prices to a normal basis, eliminate profiteering and prevent inflation, that would mean the elimination of waste, loss and unnecessary accumulation through frantic competition by procurement agencies, a plan for the rationing and allocation of shortage items, in order that more necessitous uses might have priority with avoidance of undue hardships to the civilian population, a plan of conservation by which is meant standardization of types and designs, elimination of any but necessitous uses, prevention of hoarding and accumulation, postponement of deferrable uses, thus increasing supply by sharply curtailing demand.

We provide a plan whereby the management runs industry and the Government runs the management, having in mind the words of Woodrow Wilson when he said, "The highest and the best form of efficiency is the spontaneous cooperation of a free people". To carry out the plan the bill gives to the President the authority to put a ceiling over prices, beyond which they may not rise. Prices are not fixed but may fluctuate as they see fit beneath the ceiling. The ceiling is placed by selecting prices at a previous date or dates determined by the President, and the President is given authority to adjust when necessary by public proclamation the ceiling on any particular article or thing. Back in 1780 in the days of the Revolution the State of New York enacted a law by which the profits of manufacturers, wages of mechanics and laborers, and prices of a long list of commodities were fixed at a figure "not to exceed twenty fold of the prices paid in 1774"—the latter date was taken as reflecting the normal operation of the law of supply and demand, and the twenty fold as measuring the debasement of the continental currency. This was an attempt to check inflation after it had occurred. The plan of your Committee is

basically the same, except that we now propose to check inflation before it occurs.

The bill gives to the President such control over the material resources, industrial organizations, public services, and security or commodity exchanges as he shall determine and publicly proclaim from time to time to be necessary. The President is also authorized under such rules and regulations as he may establish to require the registration of any or all individuals engaged in the management or control of any industrial establishment designated by him. Such individuals may be required to enter into the service of the Government as civilians for the duration of the war under such rules and regulations as the President may prescribe. The President is authorized from time to time to determine and to publicly proclaim what classes of public service, real and personal property or rights or interest therein, and what classes of owners, dealers, exporters, importers, manufacturers, or producers of any article or commodity shall be required to operate under licenses, to fix the conditions of such licenses and to grant licenses under such conditions. Newspapers, periodicals, and books, however, are specifically exempted from this provision of the bill so that there may be no interference with the freedom of the press. The President is authorized to determine and publicly proclaim the order or priority in which orders shall be filled, or articles, services or things transported or delivered. The President is given authority to create agencies and boards, to make temporary transfer of existing agencies and boards, and to employ the necessary personnel for the administration of the Act.

THE PROVISION AS TO TAXATION

Consideration of the subject will reveal that even though a ceiling is placed over prices and the other provisions in the bill for controlling and licensing are carried out, there may yet be some profiteering due to the fact that some producers can produce more cheaply than others and due to the further fact that war means increased production in many industries, and this means increased profits.

As a back-stop and catch-all to prevent profiteering the Committee proposes that in time of war there shall be in effect a system of taxation, which, without preventing a fair normal return to labor, management, and invested capital, such return to be fixed by Congress, shall absorb all surplus profits above such return, and the bill directs the Secretary of the Treasury to cause a continuing study to be made from year to year, to be the basis for such a system of taxation which the bill requires the Secretary of the Treasury to transmit to Congress within thirty days after the declaration of the war.

The question naturally arises why the system of taxation should not now be written into the law. In the first place, the Committee has no jurisdiction over the writing of tax bills as this is a matter under the jurisdiction of the Ways and Means Committee. In the second place, your Committee after considerable consultation with tax experts, and after careful consideration of the matter, is of the opinion that it will be practically impossible to write at this time a wise and effective tax bill for some unknown and uncertain date in the future. No one at this time can know what the tax structure of the country will be, what the best sources of revenue will be, what

the needs of the war will be or many of the other factors which must enter into the writing of a wise and effective tax system.

THE PRESIDENT'S COMMITTEE REPORT

Mr. Bernard M. Baruch was by appointment of President Wilson the Chairman of the War Industries Board during the World War, and in that position he undoubtedly acquired a background and a knowledge of the industrial, financial and economic life of America at war, greater than that possessed by any other living American. This was doubtless the reason for his appointment some two and a half years ago by President Roosevelt as Chairman of the Committee to prepare a plan for the effective mobilization of the Nation for war which should eliminate war-time profiteering, prevent war-time inflation and equalize war-time burdens. Mr. Baruch was of indispensable help to the Committee in the preparation of the plan embodied in H. R. 6704. His first-hand experience during the World War, his comprehensive and unerring grasp of the whole situation, and his unselfish and devoted efforts to bring about legislation made possible the plan. Speaking of the plan and the benefits the country would achieve under it he said:

(1) "It would pass from a peace to a war status with a minimum of confusion, waste and loss.

(2) "It would mobilize war supplies almost as quickly as it could mobilize men.

(3) "It would reduce the cost of war by 50% and I believe by an even greater figure.

(4) "It would eliminate war profits and inflation.

(5) "It would preserve its credit and its economic prestige throughout the world.

(6) "Its war effort would be conducted with less interference with normal economic processes and the lives of the civil population than has ever been the experience of any nation in the history of the world.

(7) "It would conserve its resources and preserve the morale of its people to such an extent that it would be able to outlive any antagonist in a long-drawn struggle.

(8) "It could pass from a war status back to a peace status with a minimum of the prostrating economic aftermath that has hitherto been the invariable experience of every ex-belligerent in a great war.

(9) "The efficiency of the combined military and economic machine that could be derived from these policies would constitute this nation an instrument for war effective beyond the imagination of any military expert even of this advanced date—powerful beyond the possibilities of any antagonist and perhaps of any combination of antagonists.

(10) "Considering the obvious fact that the military aspirations of this nation will never disturb the peace of the world, the mere acceptance of (and deliberate provision for) the kind of organization here suggested, would go very far toward keeping the peace of the world."

WHAT THE BILL DOES NOT DO

There is absolutely nothing in the bill that would in any shape, fashion, or form draft or force any person to work in any factory, workshop, or industry, or on any farm. The bill does not draft any person into the military or naval forces. There is nothing in the bill that would in any way interfere with the freedom of the press. The bill does not become effective until the Congress of the United States shall have declared war. It does not cost anything or authorize any appropriation.

POWER IN HANDS OF THE PRESIDENT

The bill does vest great power in the hands of the President of the United States, but if profiteering is to be eliminated, war time inflation prevented and war-time burdens equalized the power to effect these results must be in the hands of someone and surely the President is the proper person. He is the Commander in Chief of the Army and the Navy, and in time of war has the power to mobilize armies and to send human beings to their death in battle. Why should he not have the power to say to the selfish and the avaricious, "Thou shalt not profiteer from the misery and suffering of your fellow men"? Furthermore, in time of war it is absolutely essential that full authority and control over materials, services, and supplies required to support the Army and maintain the Navy be placed in the hands of the Chief Executive, who is the constitutional head of the defense forces. Such concentration of power in the hands of the Chief Executive has always proved necessary in the wars of the past.

CONSTITUTIONALITY OF THE BILL

If anyone has any doubt as to the power of the Congress to enact legislation such as H. R. 6704, we believe such doubt will be readily dispelled by the reading of the decisions in the following cases:

United States v. McIntosh 283 U. S. 205, 222;

United States v. McFarland (C. C. A., 1926), 15F (2d) 823;

Moore & Tierney (Inc.) v. Roxford Knitting Co. (D. C. 1918), 250 Fed. 278; certiorari denied (1919), 253 U. S. 498.

THE RIGHT TO COMMANDEER UNDER EXISTING LAW

In connection with H. R. 6704 it might be of interest to review existing law as to the right to commandeer, Sec. 120, National Defense Act:

PROVISIONS OF NATIONAL DEFENSE ACT OF JUNE 3, 1916

SEC. 120. PURCHASE OR PROCUREMENT OF MILITARY SUPPLIES IN TIME OF ACTUAL OR IMMINENT WAR.—The President, in time of war or when war is imminent, is empowered, through the head of any department of the Government, in addition to the present authorized methods of purchase or procurement, to place an order with any individual, firm, association, company, corporation, or organized manufacturing industry for such product or material as may be required, and which is of the nature and kind usually produced or capable of being produced by such individual, firm, company, association, corporation, or organized manufacturing industry.

Compliance with all such orders for products or material shall be obligatory on any individual, firm, association, company, corporation, or organized manufacturing industry or the responsible head or heads thereof and shall take precedence over all other orders and contracts theretofore placed with such individual firm, company, association, corporation, or organized manufacturing industry, and any individual, firm, association, company, corporation, or organized manufacturing industry or the responsible head or heads thereof owning or operating any plant equipped for the manufacture of arms or ammunition or parts of ammunition, or any necessary supplies or equipment for the Army, and any individual, firm, association, company, corporation, or organized manufacturing industry or the responsible head or heads thereof owning or operating any manufacturing plant, which, in the opinion of the Secretary of War shall be capable of being readily transformed into a plant for the manufacture of arms or ammunition, or parts thereof, or other necessary supplies or equipment, who shall refuse to give to the United States such preference in the matter of the execution of orders, or who shall refuse to manufacture the kind, quantity, or quality of arms

or ammunition, or the parts thereof, or any necessary supplies or equipment, as ordered by the Secretary of War, or who shall refuse to furnish such arms, ammunition, or parts of ammunition, or other supplies or equipment, at a reasonable price as determined by the Secretary of War, then, and in either such case, the President, through the head of any department of the Government, in addition to the present authorized methods of purchase or procurement herein provided for, is hereby authorized to take immediate possession of any such plant or plants, and through the Ordnance Department of the United States Army to manufacture therein in time of war, or when war shall be imminent, such product or material as may be required, and any individual, firm, company, association, or corporation, or organized manufacturing industry, or the responsible head or heads thereof, failing to comply with the provisions of this section shall be deemed guilty of a felony, and upon conviction shall be punished by imprisonment for not more than 3 years and by a fine not exceeding \$50,000.

The compensation to be paid to any individual, firm, company, association, corporation, or organized manufacturing industry for its products or material, or as rental for use of any manufacturing plant while used by the United States, shall be fair and just.

The Secretary of War shall also make, or cause to be made, a complete list of all privately owned plants in the United States equipped to manufacture arms or ammunition, or the component parts thereof. He shall obtain full and complete information regarding the kind of arms or ammunition, or the component parts thereof, manufactured or that can be manufactured by each such plant, the equipment in each plant, and the maximum capacity thereof. He shall also prepare, or cause to be prepared, a list of privately owned manufacturing plants in the United States capable of being readily transformed into ammunition factories, where the capacity of the plant is sufficient to warrant transforming such plant or plants into ammunition factories in time of war or when war shall be imminent; and as to all such plants the Secretary of War shall obtain full and complete information as to the equipment of each such plant, and he shall prepare comprehensive plans for transforming such plant into an ammunition factory, or a factory in which to manufacture such parts of ammunition as in the opinion of the Secretary of War such plant is best adapted.

The President is hereby authorized, in his discretion, to appoint a Board on Mobilization of Industries Essential for Military Preparedness, nonpartisan in character; and to take all necessary steps to provide for such clerical assistance as he may deem necessary to organize and coordinate the work hereinbefore described.

COURT DECISIONS.—Under this section, the President, as Commander in Chief of the Army and Navy, has the constitutional power in wartime, in cases of immediate and pressing exigency, to appropriate private property to public uses, the Government being bound to make just compensation therefor. *United States v. McFarland* (C. C. A., 1926), 15 F. (2d) 823.

This section imposes a duty on a manufacturer to comply with an order of the United States for war supplies, although such order may prevent him carrying out earlier contracts with private persons. *Moore & Tierney (Inc.) v. Roxford Knitting Co.* (D. C., 1918), 250 Fed. 278; certiorari denied (1919), 253 U. S. 493.

NECESSITY FOR LEGISLATION AT THIS TIME

It is important that legislation on this subject be enacted at this time for two reasons:

In the first place, the legislation can now be enacted much more calmly and thoughtfully than it could possibly be enacted during war time with all its hysteria and haste.

In the second place, if we wait until war is declared to enact legislation and prices in the meantime begin to skyrocket and get all out of hand, economic conditions become distraught, and inflation begins, it will be much more difficult, if not impossible, to secure the ends sought by the legislation than if the legislation can be put into effect immediately upon declaration of war.

BILL PROMOTES PEACE

The bill is not a militaristic movement, but distinctly a peace measure. It serves notice on every citizen in the land that the full power of the Government will be used to prevent profiteering and that

no citizen can expect to profit from any war in which we might be engaged. In this way the bill kills any incentive that anyone might have to do anything that might encourage, provoke or lead to war. We foresee only peace for our country and all that we ask is that our country shall live in peace, in friendship and in cooperation with all the other nations, but the passage of the bill would bring to the attention of other nations the fact that if we were again forced into war our whole economic, industrial and financial life would be effectively and efficiently mobilized for the protection of our country. We ask passage of this bill as one more important step to the great goal of peace.



The bill is not a legislative measure, but a declaration of principle. It serves notice on every citizen in the land that the power of the government will be used to prevent profiteering and that in the event of a war the government will be prepared to take any necessary steps to prevent profiteering. The bill is not a legislative measure, but a declaration of principle. It serves notice on every citizen in the land that the power of the government will be used to prevent profiteering and that in the event of a war the government will be prepared to take any necessary steps to prevent profiteering.

PROHIBITION OF PROFITEERING AT THIS TIME

It is important that legislation on this subject be enacted at this time for two reasons. In the first place, the legislation can now be enacted much more easily and expeditiously than it could possibly be enacted during war time with all its haste and haste. In the second place, if we wait until war is declared to enact legislation and prohibitions in the meantime begin to skyrocket and all our national economic conditions become distorted and inflationary, it will be much more difficult, if not impossible, to secure the ends sought by the legislation than if the legislation can be put into effect immediately upon declaration of war.

BILL PROMOTES PEACE

The bill is not a legislative measure, but a declaration of principle. It serves notice on every citizen in the land that the power of the government will be used to prevent profiteering and that in the event of a war the government will be prepared to take any necessary steps to prevent profiteering.

PREVENTION OF PROFITEERING IN
TIME OF WAR

REPORT

OF THE

COMMITTEE ON MILITARY AFFAIRS

ON

S. 25

A BILL TO PREVENT PROFITEERING IN TIME OF WAR
AND TO EQUALIZE THE BURDENS OF WAR AND
THUS PROVIDE FOR THE NATIONAL
DEFENSE, AND PROMOTE
PEACE

TOGETHER WITH THE

MINORITY VIEWS OF MR. NYE AND MR. LUNDEEN



MAY 6, 1937.—Ordered to be printed

UNITED STATES
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BSF
War

PREVENTION OF PROFITEERING IN TIME OF WAR

MAY 6, 1937.—Ordered to be printed

Mr. SHEPPARD, from the Committee on Military Affairs, submitted the following

REPORT

[To accompany S. 25]

The Committee on Military Affairs, to whom was referred the bill (S. 25) to prevent profiteering in time of war and to equalize the burdens of war and thus provide for the national defense, and promote peace, having considered the same except as to section 9, which deals with the question of taxation, a matter properly within the jurisdiction of the Senate Finance Committee, report favorably on the remaining sections of the bill as presented to the House and Senate by the American Legion with amendments proposed by the Senate Military Affairs Committee eliminating all references to prewar emergencies, and with the further recommendation that before action by the Senate the bill be referred to the Senate Finance Committee for consideration of section 9, and for such other consideration as the Senate Finance Committee may deem advisable. This is in accordance with the understanding governing the consideration of a measure with similar purposes during the last Congress.

Amendments eliminating all references to prewar emergencies in the sections of the bill preceding section 9 are specifically as follows:

Page 1, line 3, following the word "war" strike out all down through and including the word "war," in line 4.

Page 2, line 9, following the word "war" strike out the following "or of a national emergency".

Page 2, line 18, following the word "war" strike out the words "or national emergency".

Page 3, line 1, following the word "war" strike out the words "or emergency".

Page 3, line 12, following the word "war" strike out the words "or emergency".

Page 3, line 23, following the word "war" strike out the words "or emergency".

Page 4, line 7, following the word "war" strike out the words "or emergency".

Page 4, line 17, following the word "war" strike out the following "or for the meeting of such national emergency".

This legislation is sponsored by the American Legion. In a brochure prepared by the American Legion and distributed by the Legion's national headquarters, the following appears regarding this bill:

UNIVERSAL SERVICE—WHAT IS IT?

The universal service legislation sponsored by the American Legion primarily is intended to promote peace by removing the profit motive as a cause of war. It serves, however, two other vital purposes; if war should come again it would equalize the burden of war by bringing into the service of the Nation capital, industry, and manpower, with special privilege and profit for none; and it would strengthen the national defense by providing for instantaneous mobilization of industry on an orderly, efficient, and economical basis for wartime service.

At the outset it should be thoroughly understood that the law sought by the American Legion will not become effective until war has been declared, or during a national emergency preceding such declaration, by the Congress of the United States; and it would cease to operate when peace had been restored. Thus, it would cause not the slightest interference with business or industry in time of peace, as will be demonstrated later. Equally important is the fact that though it would not cost a dime, experts have asserted it would be equivalent to a standing army of a million men from the standpoint of national defense.

The American Legion, with a membership of approximately a million men, has full faith and confidence in the honesty and loyalty of the American people. Our membership is drawn from every walk of life. In our posts, now numbering in excess of 11,000, will be found bankers, brokers, doctors, and lawyers; industrialists, manufacturers, storekeepers, and vendors; engineers, machinists, mechanics, and common laborers; in short, it may truly be said that the membership of the American Legion is an outstanding cross-section of American life. So it follows as a matter of course that when we speak of removing the profit motive as a cause of war we do not imply dishonesty or disloyalty to the great mass of our people, whether their vocation be that of banker, industrialist, businessman, or workman.

We of this generation know, both from experience and history, however, that every war in which this country has engaged has been accompanied by inflation and profiteering which literally has broken the economic back of the Nation after the conflict has concluded. We know that because industrial preparedness did not even keep pace with military and naval preparedness, meager as the latter always have been, there has been untold waste of lives, resources, and money. We know that if we had been prepared, some of our wars either might have been averted altogether or at least considerably shortened.

Ours is a Nation of 130,000,000 people. We of the Legion believe that no finer or more honest citizens ever lived, but it would be childish to claim that among us are not some who "would build their greatness upon their country's ruin." Pure selfishness, however, is not the only psychology which enters into the question of the profit motive as a cause for war. When the drums beat and the guns begin to flash, human reasoning leaves the bounds of normalcy and men no longer respond to the steady judgment which would protect them in other times; hysteria spreads like a destroying contagion.

If a general war should break out in Europe, it is safe to predict that every man and woman in this country would stand firmly against America entering that conflict on the military front; but there is another front that is equally as dangerous, it is the back road into the military front. It is the economic front. There would be a tremendous demand for supplies of every character and kind, with the price no object. Before such a lure, even the most stringent neutrality laws would prove difficult to enforce. Without realizing the overwhelming risk, we might well find ourselves rushing in through that economic front almost before we knew it.

The American Legion believes that a universal service act will serve as a powerful deterrent to that danger. When we put a law on the statute books unequivocally providing that in time of war there shall be equal service for all—

less chance of some persons taking chances, whether their intentions be good or bad; there would be few, if any, who would care to run the risk of carrying buckets of gasoline through the fire lines. A law taking the profits out of war will act as a powerful national sedative to prevent rash acts in a moment of hysteria which might draw us into a war not of our making.

Thus the American Legion believes that a universal service act, as sponsored by our organization, would become the most potent instrumentality for peace yet devised. It would remove entirely the profit motive as a source of propaganda for war and it would furnish vital support to our neutrality laws by placing a firm brake upon those who would be tempted to trade with warring nations in a manner which could jeopardize the peace of America; it would serve notice on the reckless that wartime trade will prove an expensive business if it is carried to the extent of leading us into war.

Now let us consider this question of taking the profits out of war from the economic standpoint.

The American people will give no just cause for any nation to make war upon us, and certainly we shall not seek war with anyone. Our whole foreign policy is expressed in our desire to be good friends and good neighbors to all, conducting our trade peaceably and lawfully. We harbor no national prejudice, we do not hate; we nurse no spirit of revenge; we do not dream of empire or covet anything which others may have; and our armed strength is pointed solely toward the needs of actual defense. Yet, we know that a nation thus peacefully inclined may not escape war.

The American Legion does not want war, we shall bend our efforts to prevent it. The American Legion knows what war means, every member having served in the armed forces during the fighting days of the World War—between April 6, 1917, and November 11, 1918; only those who served honorably during that period may wear the blue and gold emblem of our organization. So when we speak against war, when we seek to spare our children and generations yet to come from another baptism of blood, we speak and act with the voice and knowledge of experience.

Pledged thus to serve the cause of peace, we make yet another pledge—that if war should come again, in spite of all our efforts to prevent it, our country and our people shall not be visited again by the scandal of inflation and profiteering which has marked previous wars, has led the Government into unnecessary debt, and has plunged us all into the abyss of economic chaos and disaster. The universal service bill we sponsor will prevent repetition of these un-American conditions, if we must fight again, by placing a ceiling at peace-time levels over prices; and above that ceiling prices shall not be permitted to rise by force of law.

Let's review, very briefly, what occurred during the World War.

We well remember that immediately after our country entered that conflict the Congress passed a law empowering the Government to bring into its service, by force of law, the manpower of the country to protect the honor, prestige, and life of our common Government. It was right and proper that such a law should have been passed, the constitutionality of such an act having previously been upheld by the Supreme Court of the United States. The man in the armed service received \$1 per day for his period of training in the United States and \$1.10 per day for overseas service. And no protest was made about that. But while the man with the gun was sweating in the training camp or shedding his blood overseas, what about those who held bomb-proof jobs back home—in shipyards, munition factories, behind polished desks in executives' offices, and all of those other places that had to be filled to keep the fighting man supplied with the tools and necessities of his temporary occupation?

While we had a law to draft men for service at the front, the service of dollars and materials and supplies back home was on the volunteer basis. The average price level of all commodities during the World War rose to nearly two and a half times the average peace-time level. Rents, food, clothing, war materials—everything, went skyrocketing to the mad heights of war-time boom, and with them, of course, went wages and salaries for every class of worker from president of industry down to charwoman. Even departments of the Government bid against each other for materials and labor.

And during that period, some 22,000 individuals stepped from the shadow of financial obscurity into the class of millionaires, hundreds of persons already millionaires saw their fortunes mount higher and higher, other thousands entered the luxury class, and the man who stayed home to work in the factory, separated by the breadth of the Atlantic Ocean from the nearest enemy machine gun, made more in 1 hour than the man at the front received per day. And all the while, the boys who wore the uniform were dying under the crashing barrage, in the entangle-

ments of the barbed wire, before the spitting machine guns, or in the agonizing shroud of the gas attack.

The American Legion has no quarrel with the profit system; indeed, we would not destroy profits even in time of war. But, we do say, and we emphasize the point, that excessive profits in time of war should not and must not be permitted: Reasonable profits at peace-time levels, yes. Profiteering, no. In the legislation we have presented to Congress, we do not seek vengeance for that which has been done and cannot be undone; we seek only to protect our country, and our children and their children, against such conditions in the future, to safeguard their peace so long as it may be had with honor, and if they may not be spared the horrors of war, then to make the burden an equal one upon all.

Although not generally known, it is a fact that 40 percent of the money raised and disbursed by our Government during the period of the World War was obtained through taxation. If we, therefore, bring this fact together with the previously stated fact that price levels were inflated to two and a half times their peace-time level, we arrive at a significant conclusion. If peace-time levels had been maintained, as our universal service bill provides, literally the entire cost of the war would have been financed by taxes, the \$20,000,000,000 debt that was piled up by the sale of Government bonds would have been eliminated, and our country and our people could have been spared the economic collapse that followed the war-time inflation and profiteering.

The law that is now sought by the American Legion, in the opinion of economists and those who held high office during the World War, would reduce the cost of war by at least 50 percent, would preserve the country's credit, would conserve the national resources, would prevent profiteering, would hold interference with the economic life of the civilian population to a minimum, and would permit the Nation to pass from a peace to a war basis, and at the conclusion of the war back to a peace status, with a minimum of confusion, waste, loss, and economic dislocation.

We now come to the effect of universal service as a medium for strengthening the national defense, which can be discussed but briefly here.

To the average person the term "national defense" means soldiers and battle-ships and fighting planes, but it has a far deeper meaning in these times. Modern war is something more than the mere impact of men; we learned that during the World War. In time of war the Nation is fighting for its very life, and every resource and every effort must be thrown into the struggle to bring victory with the least possible loss of lives and resources. The Nation must have not only men and ships and airplanes, but it must have a quick and steady source of supplies both for the fighting forces and the civilian population. This means industrial mobilization.

Until recent years the United States has lagged behind other nations in the matter of national defense. At last we are building toward the minimum needs of defense from a military and naval standpoint. This will not suffice, however, unless we have industrial preparedness at the same time. This does not mean military supervision of our industries or the regimentation of our factories in time of peace; it does not mean the slightest disturbance to industry or business or finance as long as peace is maintained.

Industrial preparedness means the setting up of a plan, and authorization for the President of the United States to put that plan into effect by force of law when war is declared, or in time of emergency preceding a declaration of war. Under this plan the President would be authorized to bring into the service of the country, in time of war, capital, industry, resources, services, and manpower, with special privileges or profit for none; and to use them for the national defense and common welfare during the period of the war emergency.

When war comes we must have an Army, Navy, and air corps to protect us on land, at sea, and in the air. Our combat forces must be supplied with guns, ships, airplanes, ammunition, shoes, clothing, and the hundreds of other things which are vital to a fighting force in modern war. Similarly our civilian population, which becomes literally a vast service of supplies behind the lines, must be properly housed, well fed, adequately clothed, and provided with all of the customary comforts that are possible. And for combatants and noncombatants alike, these things must be obtained at reasonable prices if we are to avoid the mistakes of the past which have plunged the country into debt and economic disaster following war.

In America we have a vast industrial power, as potent a fighting force as any army or navy. If we have a law which will put this tremendous power into instantaneous operation for war service, it is doubtful that any nation will dare attack us; and if one should, we would be prepared to meet and stop its force

quickly, efficiently, and economically. Bernard M. Baruch, chairman of the War Industries Board, has declared that such a law "will be more of a protection to this country than a standing army of a million men." If we had been thus ready to fight, it is questionable whether we would have been forced into the World War.

Gen. John J. Pershing, commander in chief of the American Expeditionary Forces writing a foreword to an article by Mr. Baruch, in the American Legion Monthly, pointed out that (although the United States entered the World War on Apr. 6, 1917), it was not until the spring of 1918 that "the flow of troops and of supplies to France was encouraging." Continuing, the commanding general of the American forces at the front added this significant statement: "There was evidence of a lack of authority and of proper organization at home with the attendant results of confusion and unsatisfactory progress."

Can any one fail to believe that if there had not been this lack of proper organization "with the attendant results of confusion and unsatisfactory progress" the World War would have been terminated considerably before it did end, that thousands of American boys would have been saved from death and injury, that vast amounts of resources would have been saved, and that the cost would have been reduced greatly? The German army made its supreme thrust toward Paris during the months we were preparing amid confusion, seeking a conclusive victory before we could make ready. Be it ever said to the glory of American manhood that our Army stopped that drive through sheer valor. But at what a cost?

Official statistics about the equipping of the American Expeditionary Forces are enlightening. When war was declared, the United States had sufficient light artillery to equip an army of 500,000 men and shortly found itself confronted with the problem of preparing to equip nearly 5,000,000 men. American factories produced 20,000,000 rounds of complete artillery ammunition and we had to buy 10,000,000 rounds from the French and British. Of the 3,500 pieces of artillery we had in France, only 500 were made in America; we used on the firing lines 2,250 pieces of artillery, of which 100 were made in America. Of 2,698 airplanes sent to the zone of the advance for American aviators, 667, or less than 25 percent, were of American manufacture.

When the American industrial machine finally was organized on a war basis, it functioned with a degree of skill and efficiency and power that no force on earth could have defeated. But that was approximately a year after we had declared war. And it requires little imagination to estimate what would have happened to us if we had not been fortunate in having allies who were prepared to furnish the equipment we needed for immediate use. We may not be so fortunate again, and what happened in 1917 and 1918 need not happen again; through the American Legion's universal service plan we can prepare industrially without interfering with the peacetime operations of industry and without cost.

To attain these objects—all of them—the American Legion caused to have introduced through its friends an identical bill in the Senate and the House of Representatives of the United States Congress. In the Senate, this bill was given the original number S. 25, and was introduced by Senator Morris Sheppard, of Texas, chairman of the Senate Military Affairs Committee. In the House, it was given the original number H. R. 1954, and was introduced by Representative Lister Hill, of Alabama, chairman of the House Committee on Military Affairs. The complete text of this bill, as originally introduced, will be found on page 21 of this brochure. For the convenience of readers, however, its provisions are summarized as follows:

Upon the declaration of war, or of a national emergency due to the imminence of war, the President of the United States is authorized to determine and publicly proclaim and limit prices—to put a ceiling over prices beyond which they may not rise; the President is given authority to adjust these prices, when necessary, by public proclamation; to draft manpower between the ages of 21 and 31, subject to such conditions, exemptions, rules and regulations as the President may prescribe; and to take into the military service, as civilians, any persons engaged in the management or control of industrial or manufacturing establishments designated by the President.

The bill also proposes to license those classes determined by the President as necessary for the successful prosecution of war; fix priorities of the filling of orders by any manufacturer, dealer, producer, exporter, importer, or public service in the United States, and to grant the President the power to create agencies, boards and commissions, and to employ the necessary personnel—all of these things in time of war.

The bill proposes a severe taxing provision to recapture incomes derived from

provision calls for a tax of 95 percent of all income above the previous 8-year average, with proper adjustments for capital expenditures for war purposes by existing or new industries.

SOME PERTINENT QUESTIONS ANSWERED

In considering legislation of such far-reaching importance and effect, it is natural that a number of questions about it will come to mind. While no attempt is made here to anticipate all of the questions which may arise, some of the more important ones are answered below.

WILL THIS LAW DESTROY ALL PROFIT IN TIME OF WAR?

No, it will not and should not.

The term, "to take the profit out of war", applies to excessive wartime profits; in other words, to profiteering. The purpose of the American Legion in sponsoring this legislation is to promote peace first, and if peace may not be had, then to increase the ability of the Government to defend itself in war and save the country from unreasonable price rises with war as the excuse. To eliminate the profit system entirely would be as great a mistake as to permit another era of inflation and profiteering. Let prices be held, by force of law, to reasonable peacetime levels; let all serve on an equal basis, and we shall accomplish at one stroke all of the benefits of universal service. Business and industry must have profits to survive and to render the vital assistance our country must have in time of war. The American Legion does not strike at legitimate profits; it seeks only to prevent illegitimate war profits.

WILL THIS LAW REDUCE THE WORKINGMAN TO A DOLLAR-A-DAY BASIS?

No; it will not and should not.

Those who are opposed to this legislation created that bugaboo to scare the American workingman and alienate his support. He has been told that under such a law every workingman in the country would be put in a uniform, subjected to military discipline, and paid a dollar a day for his work. This is untrue. The Legion's bill does not provide for the conscription of labor. While it is true that wages soared during the World War, it must be remembered that price levels were inflated first. If rents, food, clothing, and the other necessities of life are held to normal, the patriotic workingman will be content to hold wages to normal. If there should be a selfish few who would attempt to profiteer in wages, they would be restrained by force of law. The civilian status of the workingman in time of war, however, would not be disturbed.

IS SUCH A LAW CONSTITUTIONAL?

Yes; we are confident it is.

The Supreme Court of the United States in several cases has unequivocally sustained the power of Congress to bring into the Nation's service by selective-service draft the "human instrumentalities," either men or women, that Congress may declare to be essential for the common defense.

The Constitution reserved many powers of sovereignty to the several States, but in the interest of the general welfare and common defense the war-making power was vested solely with the Federal Government, which represents all of the people of all of the States. The Constitution conferred upon the central government not only the power to declare and carry on war, but the power also to "raise armies" and "provide a navy", and the power to "support armies" and to "maintain a navy."

These words certainly imply something more than merely enlisting men in the Army and building ships for the Navy. If the Government can only "raise" an army and then depend wholly upon volunteer means of supporting it when it is in the field, that army could be totally paralyzed by the failure of those back home to volunteer the necessary support. If Congress, therefore, can reach out with sovereign power and take the human instrumentalities that are necessary for the common defense in time of war, it is inescapable logic that it can reach out with the same power and take the resources that are necessary to support and equip it. And it is to be remembered that the law sponsored by the American Legion does not deny just and proper compensation for the supplies and resources thus used; it only protects the Government and the people against being compelled to pay unjust and improper compensation.

WHY DOES THE BILL VEST POWER IN THE PRESIDENT?

As stated earlier in this brochure, the primary purpose of the American Legion's universal service bill is to promote peace. In time of war, however, it would serve as a powerful support to the common defense. The President of the United States is the commander in chief of the Army and Navy; in war it is essential that full authority and control over the materials, services, and supplies required to support the Army and maintain the Navy be placed in the hands of the Executive who is the constitutional head of the defense forces.

This is not a new practice. In the World War, the President of the United States was given full power to obtain and provide whatever was necessary for the armed forces; the same authority would be granted in a future war. Valuable time would be lost, however, while the necessary legislation was being prepared, debated, and enacted. This law provides for such authority in war-time as a standing national policy, to become operative only upon the arrival of war or a pre-war emergency. It will permit the government to put all of the necessary machinery for defense into operation instantly, and to prepare a long-range program in advance, thus avoiding dangerous delay at a most critical period of the Nation's struggle for existence.

OTHER QUESTIONS

There are a number of other questions about this legislation which can be anticipated. The more vital ones, however, are answered above; in the interest of a thorough understanding, it was felt that they should be considered specifically. Information that is necessary to supply answers to other questions will be found elsewhere in this brochure.

BRIEF HISTORY OF THE UNIVERSAL SERVICE FIGHT

The American Legion has been fighting actively for a Universal Service Act since 1921. The Legion originated the plan in this country, carried it to Congress 15 years ago, and worked for it virtually alone until now, when the prospect is excellent that an adequate law will be enacted by Congress and approved by the President. In the last 2 or 3 years, as a result of continued effort in the educational and legislative field, the Legion has succeeded in bringing to its support the tremendous force of public opinion, governmental leaders, and other organizations. We welcome this support with open arms; in the enactment of such an important and beneficial law, there will be glory enough for all.

The principle of universal service probably had its origin in the American Expeditionary Forces during the World War. Something over 1,390,000 American soldiers were fighting in France. As the months passed and these men found themselves constantly supplied with guns and airplanes and ammunition of French and British make, they sensed that "something" was wrong with America's vast industrial structure back home. They did not know what it was, they had no time to think of it then; the big job, the only job, was to get the war won. But they had plenty of time to reflect and remember when peace came and, at last, they were returned to their civilian status.

And when they came back home they learned something else, something that stung deeply as they remembered gallant comrades they had left in France, sleeping away time beneath white crosses row on row, and the many thousands more who were confined to hospitals or asylums, shattered and blasted in mind and body. They learned about the inflation and profiteering that flourished back home while they fought and suffered at the front; and they saw the dread shadow of the deflation period stretching across the land, closing factories, mills, stores, and business houses.

When the American Legion was organized early in 1919, it had two big jobs to accomplish first; it had to obtain adequate hospitalization for the wounded, and jobs for the able-bodied returned soldiers, sailors, and marines. Once these immediate duties were done, the Legion turned its attention energetically to the question of universal service. There had been much discussion at post meetings and in department conventions, so when the question formally came up at the national convention in Kansas City in 1921, the Legion was prepared to put machinery into operation to make the principle a reality.

Realizing the vast import of the subject, the convention determined to have an exhaustive study made by a committee of competent experts before proposing a definite plan. The committee appointed for this purpose consisted of the fol-

lowing: Col. D. John Markey, chairman; Col. George E. Leach; Maj. Gen. Hanson E. Ely, commandant of the Army War College at the time; Maj. Gen. Edward L. Logan; Col. Arthur F. Crosby; Brig. Gen. John McA. Palmer, aide-de-camp to General Pershing; and Col. Oswald McNeese.

During the next year, this committee made an exhaustive study of the question. It interviewed many of the best qualified economic and military experts in the country; it studied the experience of France and England in the World War, and even of Germany; it reviewed all of the wartime legislation enacted by our own Congress; and it examined many specially prepared briefs and articles touching upon the subject. As a result, it was well qualified to render its report when the Legion's next national convention met at New Orleans, in 1922.

The committee recommended the enactment of legislation which, except for minor changes to meet the results of further studies, is the same plan the American Legion is pressing toward enactment in the present session of Congress. The New Orleans convention unanimously adopted the report and recommendation of the committee and when Congress convened in December 1922 there was introduced the legislation which became known as the Capper-Johnson bill, in honor of its authors, Senator Arthur Capper of Kansas and Representative Royal C. Johnson of South Dakota, a Legionnaire. Simultaneously, Representative John J. McSwain of South Carolina (now deceased), also a Legionnaire, introduced a House joint resolution providing for the creation of a special Federal commission to study the subject and recommend the form the legislation should take.

At first, there was distinct apathy toward the legislation, not only in Congress but elsewhere. It was something new and, consequently, it was misunderstood. Some groups were afraid it was "socialistic"; the pacifists branded it as militarism for no better reason than that it originated with men who had served during the war; they were foolish enough to believe that men who had lived in mud and filth in the trenches, facing violent death momentarily for months, and who had seen comrades beside them blown into eternity, could ever again want more war. The House Military Affairs Committee failed to hold hearings on the universal service bill; although the House Judiciary Committee did have hearings on the McSwain resolution, it failed to report the measure to the House.

The Legion had anticipated these conditions, however, and it was prepared to meet them; it knew from the beginning that a long period of education would have to ensue before action could be had. Indeed, the Legion desired that a record should be built up, not only as a means of properly informing the public, but also as a source of accurate information for the Nation in the event of another war. So, undaunted, the Legion again had the legislation introduced simultaneously in the Senate and the House in December 1923. This time some progress was made. The House Military Affairs Committee held hearings on both the Johnson bill and the McSwain resolution. Although it failed to report the bill, it favorably reported the McSwain resolution. Congress adjourned, however, without further action being taken.

The legislation held over until the next session, in 1924, but as this was a "short session" no action was taken. Another advance was marked in 1925, however, when the Legion again had the legislation introduced and this time the Senate Military Affairs Committee held hearings on the Capper bill (which was the same as the Johnson bill). By this time, Senators were beginning to become sympathetic toward the question, but again Congress adjourned without definite action.

In this same year, however, a most important gain was made, when Secretary of War Dwight W. Davis, in his annual report to the President (Dec. 6, 1925), gave public support to universal legislation in the following language:

"That drastic control over all the essential elements of industry is necessary in war was proved in this country and all others engaged in the World War. This control, to be effective, must be exercised promptly. That our resources may be used to support our combatant forces and supply the essential needs of our civil population, authoritative priorities must be enforced. It is vital that there be a control over prices that affect the cost of war materials and especially over prices that affect the living expenses of our people who must produce supplies required in war.

"A law, in broad language, should grant to the President the essential authority to control industry and stabilize prices. Bill H. R. 13201, Sixty-seventh Congress, fourth session, proposes that control be exercised over manpower and industry. The principles embodied in this bill should be enacted into law, effective in the event of a major war. With such a law on the statute books, the detailed plans on which the War Department has been working may be carried to completion."

Through 1926, the legislation continued to gain support, although there remained strong opposition from influential sources due to lack of understanding. Some labor groups opposed it on the theory that its enactment might lead to the conscription of labor in peacetime industrial controversies, a theory entirely without foundation. By 1927, however, it became apparent that a majority in the Senate and House favored legislation designed to accomplish the end sought by the Legion, and to give impetus to the education campaign, at the instance of the national legislative committee, authorization was obtained to seek legislation providing for a commission such as had been proposed originally in the McSwain resolution.

Party prestige was dropped by Legionnaires in Congress in their efforts to obtain effective results, and accordingly Representative McSwain, who was a member of the then minority party, voluntarily stepped aside and permitted the necessary resolution to be introduced by Representative Wainwright in the House. Senator David A. Reed of Pennsylvania introduced a similar resolution in the Senate. The Louisville national convention approved this course of action and in 1928 the Legion focused its efforts upon obtaining passage of the resolution. The resolution was passed by Congress, received executive approval, and in 1930 there came into being the War Policies Commission.

Hearings were begun by the Commission in 1931, and in 1932 the Commission reported its findings to President Hoover. The report substantiated the position taken by the American Legion and legislation was introduced in the Senate and House in support of the findings of the Commission. The country, however, was in the throes of the depression, and Congress, straining to handle the economic emergency, adjourned without taking action on universal service. The Hindenburg line of opposition, however, was crumbling and the Legion moved swiftly on toward a victorious conclusion.

We caused additional legislation to be introduced in 1933, and in 1934 came an advance which was destined to solidify public opinion definitely in favor of universal service. It was the adoption of the Nye-Vandenburg resolution which created a special Senate committee to investigate war profits, review the findings of the War Policies Commission, inquire into the desirability of creating a government monopoly in the manufacture of munitions, and conduct inquiries into other proposals to take the profit out of war.

The committee was appointed and became known as the Munitions Investigating Committee. For a whole year the country was rocked by the findings of this committee, which mercilessly brought into the spotlight of public opinion the facts about profiteering and inflation during the World War. It is a significant fact that the preamble to the resolution creating the committee specifically gave credit to the American Legion by declaring the step was taken "in response to the long-standing demands of American war veterans speaking through the American Legion for legislation to take the profit out of war."

Thus, as a result of the sincere and continuous efforts of the American Legion, the year 1935 found both Congress and the public ready for definite action; the apathy that had existed for so many years was replaced by a Nation-wide clamor for the kind of legislation the Legion had sought since 1922. The press of the Nation, both in their editorial and news columns, demanded immediate action; war clouds were descending upon Europe and the need for speed was apparent to everyone. And the press gave unstinted praise to the patient, efficient, and valiant fight the American Legion had waged single-handed for many years.

In 1935, the House of Representatives, by the amazing vote of 368 to 15, adopted a bill sponsored by the American Legion and introduced by Representative McSwain, who was then chairman of the House Military Affairs Committee, his party having assumed control of Congress. The bill provided for putting a ceiling over prices, the capture of excessive profits, and control of all resources—all in time of war. One provision requested by the Legion, the power for drafting manpower, was eliminated from the bill, but we were ready to request its reinstatement in the Senate.

In this form, the bill was sent to the Senate and referred first to the Munitions Investigating Committee. On May 3, that committee reported to the Senate a bill containing 218 pages, as compared with the compact bill adopted by the House. Title I of the committee bill pertained entirely to taxes and this was referred to the Senate Finance Committee; titles II and III were referred to the Senate Military Affairs Committee, where they were reduced to simpler language. The Military Affairs Committee reported its sections to the Senate on June 14, 1935; but it was June 10, 1936, before the Finance Committee could report, and the bill failed to reach a Senate vote before adjournment.

The Cleveland national convention of the Legion, in the fall of 1936, reiterating the stand we had taken for 15 years, unanimously adopted the following resolution:

"Whereas the existing international situation is again threatening the peace of the world to such an extent that it behooves this representative gathering of American citizens to take cognizance thereof; and

"Whereas the American Legion has continuously, since its organization, advocated a Universal Service Act, providing for the draft of capital, industry, and manpower, as well as men to fight, in the event of a national emergency or actual war; and

"Whereas notwithstanding these years of continuous efforts by the American Legion on behalf of this principle, the only favorable action to date has been the passage of a bill by the House of Representatives of the Congress embodying, in part, the recommendations of the American Legion; and

"Whereas the American Legion feels that the enactment of this principle into law will be the most effective contribution to the promotion and preservation of peace; therefore be it

Resolved, That the eighteenth national convention of the American Legion demands that the principle of universal service be presented to the forthcoming session of the Congress as a major point in the legislative program of this organization to the end that immediate action may be had thereon, so that the principle of 'equal service for all, special profits and privileges for none' may be enacted by the Congress and approved by the President in advance of any national emergency or war."

Now the American Legion has the question of universal service before Congress again. During the months since the adjournment of the last session, public demand for enactment has increased, and the prospects for final victory are regarded as excellent. If the road to success has seemed long, and sometimes disheartening, there has been reason and some degree of excuse for past delay. The best interests of the country were served by educating the people to the real need for this legislation before making it a law, and we have established a record which will furnish valuable information to those who will administer the law in the future if it ever becomes necessary to invoke its provisions in time of war. Every Legionnaire will hope that the law itself will prevent war, but if our prayer for peace is to be unanswered, then this legislation will become a double-edged sword, enabling the country to defend itself with greater certainty of a swifter victory and a minimum of human suffering.

PROFITEERING LONG CONDEMNED

It would be a mistake to imagine that wartime profiteering is an evil developed by this generation; it has stained our national shield of justice and patriotism in every conflict we have fought since and including the days of the American Revolution; it will continue to weaken our national defense and build up unnecessary debt until we take the steps to stamp it out by force of law.

While it is probably true that profiteering and inflation flourished on a grander scale in the World War, we may learn from reading the following facts, obtained from official sources, that it plagued George Washington when his valiant Colonial Army was battling to establish our democracy; that it plagued the Nation during the Civil War, and we know from experience what happened in the Spanish-American and World Wars.

The scandal of profiteering reached such heights in 1778 that on December 12 of that year the immortal Washington wrote the following letter to a patriot in one of the States:

"It gives me very sincere pleasure to find that there is likely to be a coalition of the Whigs in your State (a few only excepted) and that the assembly of it are so well disposed to second your endeavors in bringing those murderers of our cause—the monopolizers, forestallers, and engrossers—to condign punishment. It is much to be lamented that each State, long ere this, has not hunted them down as the pests of society and the greatest enemies we have to the happiness of America. I would to God that one of the most atrocious in each State was hung in gibbets upon a gallows five times as high as the one prepared by Haman. No punishment, in my opinion, is too great for the man who can 'build his greatness upon his country's ruin.' "

It requires no stretch of the imagination to understand how severe conditions must have been to have called forth from George Washington such strong words. When the Revolutionary War was concluded victoriously for the cause of freedom, there was some public discussion about the subject of profiteering, but no steps were taken to prevent repetition in the future. That is understandable when

you consider the overwhelming task that confronted the framers of our Government in those days. The notes of James Madison on the Constitutional Convention show that one representative "expressed his dissatisfaction lest the new Congress should compel payment to the blood-suckers who had speculated on the distresses of others." Beyond this, however, nothing of moment was noted.

The scandal of profiteering reared its head on a large scale during the Civil War. Conditions were such as to cause a committee of the House of Representatives to make an investigation, and in its report to Congress the committee, among other things, had this to say:

"The system of public plunder which pervaded * * * was inaugurated at the very beginning and followed up with untiring zeal; the public welfare was entirely overlooked, and as effectually ignored as if the war was gotten up to enable a mammoth scheme of speculation at the expense of the people to be carried out."

To this, a member of the committee added:

"Such robbery, fraud, extravagance, speculation as have been developed * * * can hardly be conceived of. There has been an organized system of pillage. * * * I fear things have run on so far there is no remedy. * * * The credit of the government is ruined. * * * Everybody knows there has been such an extent of swindling that payment ought not to be made. * * * I am utterly discouraged and disheartened."

Again there was investigation, considerable talk, but no action. The same thing was true of the postwar period of 1917-18, and we do not have to go that far back for facts; disclosures brought out by the Senate Munitions Committee, which are fresh in the mind of all, will suffice. Thus, following each war, there has been academic discussion about the scandals of profiteering and inflation, but there never has been decisive action. This, too, is understandable. A people who have just emerged from a war are in no mood to consider laws, no matter how beneficial they may be, looking to future wars. The people are weary of war and their principal desire is to turn their thoughts to reconstruction and peace.

This, in itself, is one of the soundest arguments in support of the American Legion's request that we act now to protect the country and the people in a future war. More than 18 years have slipped into the record of time since the Armistice ended the World War, as far as fighting is concerned, on November 11, 1918; and well we know from bitter experience what war-time profiteering and inflation can do to us years after the fighting has ceased. And now other nations give signs of moving toward another titanic conflict. We shall do everything that can be done with honor to keep out of that fight, but we cannot be sure that our efforts to maintain peace will prove effective. We know that universal service will prove a mighty buttress in that effort, and we know also that if war must come, it will at the same time protect us against the mistakes that have been so costly in the past. The time to act, therefore, is now.

LEADERS FAVOR UNIVERSAL SERVICE

The need for this legislation is recognized by national leaders and those who mould public opinion. It has the endorsement of the national commander of the American Legion and past national commanders; of three Presidents of the United States since the World War; of Mr. Baruch, chairman of the War Industries Board during the World War; of the War Department; of the press; and others too numerous to mention. It is impossible to quote here all of those who have spoken publicly in favor of the immediate enactment of a universal service law, so a very few have been selected as representative of the whole, as follows:

Harry W. Colmery, national commander of the American Legion: "When this policy is written upon the statute books of our nation, we shall have taken a long step toward maintaining the peace all of us cherish and would keep. But we cannot, we must not, shut our ears to the voice of experience; and the voice of experience tells us that what has happened in the past, in your time and mine, can happen again unless we take steps now, before the terrors of war are sounded anew, to prevent it. When war becomes a matter of equal sacrifice for all, with special privilege for none, there will be less propaganda for war, less taking of chances for purposes of profit, and a more united will for peace."

Ray Murphy, immediate past national commander: "The bonus fight is ended. Another fight looms; the fight to write into law a universal service act. * * * If those who have opposed the bonus will join us in this fight they need fear no

more bonuses. If all the material resources of America and all the man power of America are made available to the Nation's defense in time of war, with special privilege and profit for none; if the economic discriminations which prevailed as between men in the World War are thus eliminated, neither the soldier nor the Congress will feel that a bonus to the soldier is needed or justified."

President Roosevelt: "I have much sympathy for the argument that some who remained at home in civilian employ enjoyed special privilege and unwarranted remuneration. That is true—bitterly true—a recurrence of that type of profiteering can and must be prevented in any future war. I invite the Congress and the veterans with the great masses of the American population to * * * root a recurrence of such injustice out of American life. * * *

President Coolidge: "Undoubtedly one of the most important provisions in the preparation for national defense is a proper and sound selective service act. Such a law ought to give authority for a very broad mobilization of all the resources of the country, both persons and materials. * * * There is little defense which can be made of a system which puts some men in the ranks on a very small pay and leaves others undisturbed to reap very large profits. * * * In the advent of war, power should be lodged somewhere for the stabilization of prices as far as that might be possible in justice to the country and its defenders."

President Harding: "There is something inherently wrong, something out of accord with the ideals of representative democracy, when one portion of our citizenship turns its activities to private gain amid defensive war while another is fighting, sacrificing, or dying for national preservation. Out of * * * universal service will come a new unity of spirit and purpose, a new confidence and consecration, which would make our defense impregnable, our triumph assured. Then we should have little or no disorganization of our economic, industrial, and commercial systems at home, no staggering war debts, no swollen fortunes to flout the sacrifices of our soldiers, no excuse for sedition, no pitiable slackerism, no outrage of treason."

General Pershing: "* * * In time of peace we should formulate a definite and detailed plan for such mobilization and by periodical revision keep that plan up to date. * * * Profits to individuals should be cut as low as they can be cut without interfering with the flow of supplies in wartime. No one should be permitted to enrich himself by taking advantage of the necessities of the Government in wartime."

Bernard M. Baruch: "Wars are no longer dynastic. They are entirely economic in their origin. Such wars are never won. They are only and always lost both by the victor and vanquished alike. We can make a start toward preventing war; toward minimizing the loss of a war on the industrial front after the fighting is over on the military front. This can be done by, as far as possible, eliminating the profit that war brings and by paying as we fight, as far as may be, by increased taxes. But in eliminating profits, we must be careful not to eliminate our actual war defenses."

Maj. Gen. Hanson E. Ely, long-time commandant of the War Army College: "When you go to the lives of men and the success or failure of war, there comes the question of time, which in war is much more valuable than money. If such a bill is enacted in peacetime, so that all plans can be made, so that when Congress declares that war is imminent or war exists, the President is given those powers to exert through those agencies which he may need, we will undoubtedly profit in any future war."

It can be stated definitely that the press of every State in the country has come out unequivocally in support of the American Legion plan for universal service. Of hundreds of editorials received at national headquarters in the past year, only one has criticised the Legion's stand, and this was due to the writer of the editorial misinterpreting the intent of the law. He seemed to believe that it provided for the elimination of all profit in time of war; he overlooked the true fact, that the bill would eliminate only war profits, excessive profits above peacetime normal. A brochure the size of this one could be filled entirely by quoting only excerpts from the favorable editorials that have been received at headquarters.

CONCLUSION

The whole story about universal service—the full arguments in its favor, details of the American Legion's fight for its accomplishment, presentation of excerpts from the statements of all of those who have come out publicly in support of it, and similar data—would fill a volume many times as thick as this one. The sole purpose of this brochure is to present a brief outline so that those who are carrying the fight in what we believe to be the final phase of our effort, will

have vital facts and an accurate knowledge of the American Legion's plan. We are now at a vital stage; we can win this important victory for America and the American people. Write or wire your Senators and Congressman to support and vote for the American Legion bill.

The first eight sections of the bill amended as recommended by the Senate Military Affairs Committee will read as follows:

That whenever Congress shall declare war the President is hereby authorized to determine and publicly proclaim it to be unlawful to buy, sell, or otherwise contract for any article or thing enumerated in such proclamation, or proclamations, at a higher rate, rent, price, commission, compensation, or reward than was in effect at a date determined and set forth in such proclamation or proclamations.

SEC. 2. Whenever in the sole discretion of the President he shall determine that any maximum price, rent, rate, commission, compensation, or reward previously proclaimed shall be adjusted either upward or downward, he is hereby authorized to make and publicly proclaim such adjustment, and such adjustment shall have the full force and effect under this statute of such price, rent, rate, commission, compensation, or reward before such adjustment.

SEC. 3. That in the event of war declared by Congress to exist, which in the judgment of the President demands the immediate increase of the military establishment, the President be, and he is hereby, authorized to draft into the military service of the United States such members of the unorganized militia between the ages of twenty-one and thirty-one as he may deem necessary, subject to such conditions, exemptions, rules, and regulations, as the President may prescribe and publicly proclaim. Likewise, during such time of war declared by Congress, the President shall have power to determine and publicly proclaim from time to time the material resources, industrial organizations, and public services over which Government control, including requisitioning materials for use or resale by the Government, shall then be necessary and such control shall be exercised by him through agencies then existing or which he may then create for such purpose.

SEC. 4. During the period of any war declared by Congress the President is hereby authorized, when in his opinion the successful prosecution of war renders it advisable, to require, under such rules and regulations as he may establish, the registration of all or any class of persons engaged in the management or control of any industrial or manufacturing establishment designated by him. Thereupon, at his option, such persons registered pursuant to the provisions of this section may be brought into the service of the Government as civilians for the duration of the war under such rules and regulations as the President may prescribe.

SEC. 5. During the period of any war declared by Congress the President is authorized to determine, and by public proclamation, or proclamations, announce what classes of public service, real property, or right, or of dealers, exporters, importers, manufacturers, or producers, of any article or commodity shall be required to operate under licenses, to fix the conditions of such licenses, and to grant licenses under such conditions. After such determination and proclamation by the President, it shall be unlawful for any such determined classes to engage in business without such license.

SEC. 6. During the period of any war declared by Congress the President is authorized to determine and publicly proclaim the order or priority in which any manufacturer, dealer, producer, exporter, importer, or public service in the United States shall fill orders, or transport anything or furnish power, and after such determination and proclamation it shall be unlawful for any such manufacturer, dealer, producer, exporter, importer, or public service to fill such orders in any other order of priority.

SEC. 7. That during the period of any war declared by Congress the President is empowered to create such agencies, boards, or commissions, including the employment of necessary personnel, and to designate agents or agencies to exercise such portion of his powers as he may deem necessary and proper to accomplish the purpose of this Act. Likewise, at such time, he shall have power to make such rearrangements of Executive agencies, and of bureaus and divisions thereof, and to transfer such duties, powers, and personnel as he may deem necessary for the proper conduct of war, or for the meeting of such national emergency.

SEC. 8. That any person, firm, or corporation violating any of the provisions of this Act, or violating any publicly proclaimed orders, rules, or regulations made

to be guilty of a misdemeanor and shall be liable to indictment and trial therefor, and upon conviction thereof shall be sentenced to pay a fine, not exceeding \$100,000, or to serve in prison, not exceeding one year, or both, at the discretion of the court.

Report of the War Department on S. 25 follows:

MARCH 10, 1937.

HON. MORRIS SHEPPARD,

Chairman, Committee on Military Affairs, United States Senate.

DEAR SENATOR SHEPPARD: You have referred to me for comment a copy of S. 25, Seventy-fifth Congress, introduced by you on January 6, 1937, and entitled "A bill to prevent profiteering in time of war and to equalize the burdens of war and thus provide for the national defense, and promote peace."

The bill as a whole is favorably considered by the War Department. The broad control measures provided form the basis of the recently revised Industrial Mobilization Plan of the War and Navy Departments to launch an orderly procurement program of munitions and carry it promptly forward when an emergency is faced. In the interest of national defense, it is considered desirable that a basic law delegating these controls within the authority of the President be enacted in time of peace. Such action in time of peace will tend to insure prompt execution in time of an emergency, and, moreover, will give war procurement planning a sound basis of legal authority. In this connection it may be stated that one of the efforts in this planning is to initially distribute the war production load to such an extent that the regular peacetime vocations of industry may continue to the extent possible under the circumstances. In order to provide this production distribution, and to effect this desired result, the control measures carried in this bill should be immediately available to the President if and when a war emergency is at hand.

Sections 1 and 2 of the bill contain price-control measures. The War Department has heretofore proposed and endorsed wartime price control. The wording of section 1 leaves uncertainty as to whether or not control of wages and salaries for personal services is authorized therein. In measures previously proposed by the War Department there has been advanced the premise that all elements of the Nation should be treated alike in war legislation, and it is felt that, if the control of prices in general is provided, the control of wages should be included. Any effective price control must, of necessity, include all elements entering into cost. Therefore, it is suggested that the word "service" be included with "article or thing" in line 7, page 1.

The enactment of an inflexible plan of price control would, in the opinion of the War Department, be highly inadvisable. The proposals in sections 1 and 2 of the proposed bill are excellent in that they will permit the President to apply the price-control structure in successive segments or panels for groups of materials or commodities rather than as one all-embracing imposition of a price ceiling. The administrative difficulties that would be entailed by the latter procedure would be insurmountable, and the price-control activity would soon become discredited through failure of enforcement. The flexible provisions provided in this bill would enable the problem to be met through successive steps as the necessity arose and the administrative machinery had been constructed to make the legislation effective.

That portion of section 3 providing for a military draft of the unorganized militia in the discretion of the President, subject to such conditions, rules, and exemptions as he may impose, is favorably considered. In the interest of clarity it is believed the words "and naval" should be added after the word "military" in line 12, page 2, and "or naval" added after the word "military" in line 13, page 2.

The further provisions of section 3, for needed governmental controls, through the President, of the material resources and industrial organization of the Nation, form the foundation upon which industrial mobilization in time of an emergency is built. Immediate authority will then exist to set up and function a wartime civilian agency, similar to the War Industries Board, to guide the industrial effort of the Nation in support of the armed forces and to protect insofar as possible the peacetime pursuits of the Nation. Security and commodity exchanges should be specifically included within such control. Procurement planning, to date, has emphasized the fact that certain war matériel production must be given initial preference by industry; certain raw materials and commodities must be nationally controlled; certain regulations affecting conservation and prevention of waste may be necessary; transportation, power, and fuel must be supervised.

Department endorses the principle that war should not be an excuse nor an opportunity for undue or excessive profits and maintains that the controls herein discussed, concentrated in one or more agencies responsible directly to the President, will be of material assistance in limiting profit as well as in the coordination of the industrial effort. It may be further stated that this provision is not considered to be in conflict with section 120 of the National Defense Act, which permits the President, in time of war, or when war is imminent, to place compulsory orders with industry for required products or material.

Section 4, giving the President the optional authority to require persons engaged in industrial management to register and to be brought into the service of the Government as civilians, is favored by the War Department as a compulsory adjunct to the industrial controls provided for in the preceding section just discussed. While it is expected that industry and the managements thereof will cooperate with the Government in any war effort in which the security of the Nation may be imperiled, occasion may arise when the exercise of the arbitrary authority conferred by this section may be necessary.

Section 5 provides for the control of designated business activities through licenses. Similar control was exercised in a number of instances during the World War by authority of a series of statutes. License control is an administrative measure necessary to put into effective operation the controls provided for in this bill. It appears that "owners" should be included with "dealers, exporters", etc.

Section 6 provides the priority controls necessary to bring the national assets to the national needs. Through priority, acting under the controls covered in section 3, the needs of the Nation will be filled in the order of essentiality. Priority is one of the basic industrial controls to render effective industrial support to the Nation in time of war.

Section 7 authorizes the President to create new and to rearrange existing agencies to carry into effect the provisions of this act. It is not deemed advisable to limit the authority over existing agencies to those of strictly executive functions. Other agencies may be in existence at the time, having certain administrative responsibilities relating to procurement of military supplies, and for this reason it is recommended that, if any such do exist, the same authority be extended over those functions. It is also recommended that the President be given authority to suspend, during the period of the emergency, the whole or part of any law or laws of the United States relating to the procurement of supplies for the Military and Naval Establishments when, in his opinion, such laws impede such procurement activities.

No comment seems warranted as to penal provisions, section 8.

Section 9 imposes an excess-profits tax to be effective during the period of war. The War Department refrains from commenting on this section, believing that other agencies of the Government are better qualified and have more direct responsibilities in connection with taxation measures. It is desired to emphasize, however, that any tax measure adopted must not remove the incentive to produce, and thus threaten the more vital activity of securing the munitions required in war.

Attention is invited to some rather peculiar results which might come from the operation of this section as now written. Assuming that this section applies to every person, soldiers as well as civilians, regardless of the amount of his income during the 3 years next preceding the declaration of war, then officers and soldiers of the Regular Army promoted during the previous 3 years would receive a decrease in pay during the emergency, and officers, non-commissioned officers, and privates promoted to higher grades during the emergency would have to refund practically all of the amount representing increase in pay due to such promotion. Similarly, it is possible that the average income of many of the soldiers drafted for the emergency, with respect to the 3 years next preceding, same principle would apply to the pay of some emergency officers regardless of rank. If this section is not intended to apply as above indicated, it is suggested that it be amended so as clearly to be inapplicable.

It appears advisable to add two additional sections to the bill—one, suspending during the effectiveness of the proposed bill all acts or parts of acts conflicting or inconsistent with the provisions thereof; and another section providing that the whole act shall not become invalid in the event any provision thereof shall be nullified.

To make effective the changes discussed above, and other small changes in phraseology to insure uniformity, the following specific amendments are recommended:

Section 1. Change line 7, page 1, to read: "article, service, or thing enumerated in such proclamation, or proc-."

Section 3. Change line 10, page 2, to read as follows: "ency due to the imminence of war, declared by Congress to exist, which in the judgment."

Change lines 12 and 13, page 2, to read as follows: "Military and Naval Establishments, the President be, and he is hereby, authorized to draft into the military or naval service of the United."

Change line 21, page 2, to read as follows: "resources, industrial organizations, public services, and security or commodity exchanges over."

Section 4. Change lines 1 and 2, page 3, to read as follows:

"SEC. 4. During the period of any war or national emergency due to the imminence of war, declared by Congress to exist, the President is hereby authorized."

Section 5. Change lines 12 and 13, page 3, to read as follows:

"SEC. 5. During the period of any war or national emergency due to the imminence of war, declared by Congress to exist, the President is authorized to deter."

Change line 16, page 3, to read as follows: "right, or of owners, dealers, exporters, importers, manufacturers, or."

Change lines 21 and 22, page 3, to read as follows: "unlawful for any such determined classes to operate without such license."

Section 6. Change lines 23 and 24, page 3, to read as follows:

"SEC. 6. During the period of any war or national emergency due to the imminence of war, declared by Congress to exist, the President is authorized to deter-"

Change line 1, page 4, to read as follows: "any owner, manufacturer, dealer, producer, exporter, importer, or."

Change line 4, page 4, to read as follows: "and proclamation it shall be unlawful for any such owner, manufac-"

Section 7. Change line 14, page 4, to read as follows: "such rearrangements of executive agencies, or any other agency having administrative responsibilities relating to procurement, and of bureaus."

Change line 17, page 4, to read as follows: "of war, or for the meeting of such national emergency; and, likewise, he is authorized to suspend by proclamation the whole or part of any law or laws of the United States relating to the procurement of supplies for the Military and Naval Establishments when in his opinion such laws impede such procurement activities."

Section 10. Add a section 10, to read as follows:

"SEC. 10. All acts or parts of acts conflicting or inconsistent with the provisions of this act are to the extent of such conflict or inconsistency suspended during the effectiveness of this act."

Section 11. Add a section 11, to read as follows:

"SEC. 11. If any provision of this act, or the application thereof to any person or circumstances, is held invalid, the remainder of the act, and the application of such provisions to other persons or circumstances, shall not be affected thereby."

It is requested that Col. C. T. Harris, Jr., United States Army, be permitted to appear before your committee, as the War Department representative, in support of the recommendations submitted herein.

This report was submitted to the Bureau of the Budget, which advised that there would be no objection by that office to its submission to Congress, it being understood that no commitment would thereby be made with respect to the relation of the proposed legislation to the program of the President.

Sincerely yours,

HARRY H. WOODRING,
Secretary of War.

Report of the Navy Department on S. 25 follows:

DEPARTMENT OF THE NAVY,
OFFICE OF THE SECRETARY,
Washington, March 11, 1937.

MY DEAR MR. CHAIRMAN: The bill (S. 25) to prevent profiteering in time of war and to equalize the burdens of war and thus provide for the national defense, and promote peace, was referred to the Navy Department by your committee with a request for views relative to this measure.

The purpose of the bill S. 25 is to place in the hands of the President, whenever Congress shall declare a war or the existence of an emergency due to the imminence of war, the power to fix prices, control prices, place the selective-service law in effect, draft the management of industrial concerns, license the

operation of industries, direct priority of production and revise the executive agencies of the Government as necessary. It also includes a penalty and a tax provision.

This bill, if enacted into law, would go far toward strengthening the hand of the President in any national emergency and greatly assist in the orderly mobilization of the industrial forces of the country in the support of the armed services, insure that the interests of the civilian population are properly taken care of, and make the transition from peace to war and back again far easier, avoiding many of the tragic economic and social consequences of the last war.

It is believed that the following amendments will strengthen the bill and bring it even more closely into accord with the policies enunciated in the industrial-mobilization plan revised 1936, approved by the Secretary of the Navy, September 9, 1936:

Section 1, page 1, line 7: Insert the word "service" after "article".

This change is suggested in view of the fact that it is impossible to fix the prices of commodities without at the same time fixing the cost of services.

Section 3, page 2, line 12: Insert the words "and naval" after the word "military".

Section 3, page 2, line 13: Insert the words "or naval" after the word "military".

These changes are suggested in order to prevent any possible misunderstanding as to the inclusion of the Naval Establishment in the bill. The use of the term "military" alone in the National Defense Act led to some confusion which was cleared up, to some extent, by the administrative definition but modern dictionaries continue to apply the term solely to the Army.

Section 5, page 3, line 16, after "of", insert "owners".

Section 6, page 4, line 1, after "any" insert "owner".

Section 6, page 4, line 4, after the word "such", insert the word "owner".

These changes are suggested as it is believed that these insertions more clearly express the actual intent.

Section 7, line 14, insert after "agencies", the words "or any other agencies having administrative responsibilities relating to procurement."

This change is suggested in view of the fact that the General Accounting Office is included under the legislative functions of the Federal Government and not under the executive agencies and is one of the offices which must be controlled by the President in time of national emergency.

Section 7, line 17, after "emergency", change the period to a comma and add "and likewise he is authorized to suspend by proclamation the whole or part of any law or laws of the United States relating to the procurement of supplies for the Military and Naval Establishments when, in his opinion, such laws impede such procurement activities."

The current difficulties being experienced by all of the procurement agencies of the National Government due to the restrictive provisions of the Walsh-Healey Act (49 Stat. 2036) as regards the employment of labor, and the Vinson-Trammell Act (48 Stat. 505), as amended by the act of June 25, 1936 (49 Stat. 1926), restricting the profits of Government contractors seem to indicate the necessity for the removal of these restrictions to insure the smooth operation of the Government procurement services in time of national emergency.

Section 3, page 2, line 21, eliminate "and" and add after "public services" the words "and security and commodity exchanges."

Tax provisions in any measure come solely within the purview of Congress, and, therefore, the only comment offered on section 9 is quoted from exhibit 1 of the first day's hearings before a subcommittee of the Committee on Military Affairs, United States Senate, Seventy-fourth Congress, first session, on H. R. 5529, May 25 and 31, 1935, "That the tax provisions must not be of such a nature as to hinder the procurement of munitions when the necessity for their manufacture arises."

It is considered that the following corrections will tend to bring the various sections more closely into accord in their phraseology:

Section 3, page 2, line 10, after "ency", add "due to the imminence of war."

Section 4, page 3, line 1, after "or", add "national"; and after "emergency", add "due to the imminence of war."

It should be noted that this provision is permissive and not mandatory.

Section 5, page 3, line 12: After "or" add "national" and after "emergency" add "due to the imminence of war".

Section 5, page 3, line 13: After "Congress" add "to exist".

Make same changes in line 23, section 6.

Section 5, page 3, line 21: Substitute the word "operate" for the phrase "engage in business".

Section 7, page 4, line 1: After "or" add "national" and after "emergency" add "due to the imminence of war".

Section 7, page 4, line 2: After "Congress" add "to exist".

This uses the same phraseology employed in line 18.

It appears advisable to add the following usual legislative provisions to this bill:

SEC. 10. All Acts or parts of Act conflicting or inconsistent with the provisions of this Act are to the extent of such conflict or inconsistency suspended during the effectiveness of this Act.

SEC. 11. If any provision of this act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

The bill S. 25, if enacted into law as drawn, does not involve any expenditure of funds.

There is enclosed a draft of the bill S. 25 with the changes recommended above added thereto and indicated through the use of the Ramseyer Rule.

The Navy Department recommends that the bill (S. 25) be enacted, if amended as recommended in the accompanying draft.

Sincerely yours,

CLAUDE A. SWANSON.

The CHAIRMAN, COMMITTEE ON MILITARY AFFAIRS,
United States Senate, Washington, D. C.

A BILL To prevent profiteering in time of war and to equalize the burdens of war and thus provide for the national defense, and promote peace

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That whenever Congress shall declare war or the existence of an emergency due to the imminence of war, the President is hereby authorized to determine and publicly proclaim it to be unlawful to buy, sell, or otherwise contract for any article, service, or thing enumerated in such proclamation, or proclamations, at a higher rate, rent, price, commission, compensation, or reward than was in effect at a date determined and set forth in such proclamation or proclamations.

SEC. 2. Whenever in the sole discretion of the President he shall determine that any maximum price, rent, rate, commission, compensation, or reward previously proclaimed shall be adjusted either upward or downward, he is hereby authorized to make and publicly proclaim such adjustment, and such adjustment shall have the full force and effect under this statute of such price, rent, rate, commission, compensation, or reward before such adjustment.

SEC. 3. That in the event of war, or of a national emergency due to the imminence of war declared by Congress to exist, which in the judgment of the President demands the immediate increase of the Military and Naval Establishments the President be, and he is hereby, authorized to draft into the military or naval service of the United States such members of the unorganized militia between the ages of 21 and 31 as he may deem necessary, subject to such conditions, exemptions, rules, and regulations, as the President may prescribe and publicly proclaim. Likewise, during such time of war or national emergency declared by Congress, the President shall have power to determine and publicly proclaim from time to time the material resources, industrial organizations, public services, and security and commodity exchanges over which Government control, including requisitioning materials for use or resale by the Government, shall then be necessary and such control shall be exercised by him through agencies then existing or which he may then create for such purposes.

SEC. 4. During the period of any war or national emergency due to the imminence of war declared by Congress, the President is hereby authorized, when in his opinion the successful prosecution of war renders it advisable, to require, under such rules and regulations as he may establish, the registration of all or any class of persons engaged in the management or control of any industrial or manufacturing establishment designated by him. Thereupon, at his option, such persons registered pursuant to the provisions of this section may be brought into the service of the Government as civilians for the duration of the war under such rules and regulations as the President may prescribe.

SEC. 5. During the period of any war or national emergency due to the imminence of war declared by Congress to exist the President is authorized to determine, and by public proclamation, or proclamations, announce what classes

of public service, real property, or right, or of owners, dealers, exporters, importers, manufacturers, or producers, of any article or commodity shall be required to operate under licenses, to fix the conditions of such licenses, and to grant licenses under such conditions. After such determination and proclamation by the President, it shall be unlawful for any such determined classes to operate without such license.

SEC. 6. During the period of any war or national emergency due to the imminence of war declared by Congress to exist the President is authorized to determine and publicly proclaim the order or priority in which any owner, manufacturer, dealer, producer, exporter, importer, or public service in the United States shall fill orders, or transport anything or furnish power, and after such determination and proclamation it shall be unlawful for any such owner, manufacturer, dealer, producer, exporter, importer, or public service to fill such orders in any other order of priority.

SEC. 7. That during the period of any war or national emergency due to the imminence of war declared by Congress to exist the President is empowered to create such agencies, boards, or commissions, including the employment of necessary personnel, and to designate agents or agencies to exercise such portion of his powers as he may deem necessary and proper to accomplish the purpose of this act. Likewise, at such time, he shall have power to make such rearrangements of executive agencies, or any other agencies having administrative responsibilities relating to procurement and of bureaus and divisions thereof, and to transfer such duties, powers, and personnel as he may deem necessary for the proper conduct of war, or for the meeting of such national emergency, and likewise he is authorized to suspend by proclamation the whole or part of any law or laws of the United States relating to the procurement of supplies for the Military and Naval Establishments when, in his opinion, such laws impede such procurement activities.

SEC. 8. That any person, firm, or corporation violating any of the provisions of this act, or violating any publicly proclaimed orders, rules, or regulations made by the President for executing the powers contained in this act, is hereby declared to be guilty of a misdemeanor and shall be liable to indictment and trial therefor, and upon conviction thereof shall be sentenced to pay a fine, not exceeding \$100,000, or to serve in prison, not exceeding 1 year, or both, at the discretion of the court.

SEC. 9. That upon the declaration of war, and during the period of such emergency, there shall be imposed a tax of 95 percent of all income above the previous 3-year average, with proper adjustments for capital expenditures for war purposes by existing or new industries.

SEC. 10. All acts or parts of acts conflicting or inconsistent with the provisions of this act or to the extent of such conflict or inconsistency suspended during the effectiveness of this act.

SEC. 11. If any provision of this act, or the application thereof to any person or circumstances, is held invalid, the remainder of the act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

MINORITY VIEWS OF MR. NYE AND MR. LUNDEEN

Since there is today such large public insistence that the United States be prepared to resist involvement in another foreign war, that the burdens of war shall be shared by soldier, labor, and capital alike, that profit from war be absolutely removed, it is unfortunate that this bill, S. 25, is understood in some quarters to be a war-profits and universal-draft bill. It is neither.

PUTS PROFIT IN WAR

Indeed, it can fairly be said that this bill puts profit in war, not out, in a way that will later be discussed in this report.

NOT A UNIVERSAL DRAFT

As to its right to title as a universal-conscription measure it should be pointed out that the bill, however seriously it may seem to want to accomplish the result, leaves capital and property quite free of any such draft as human lives are subjected to under the same bill.

There can be no plan worthy of the name of "universal conscription" which is not accompanied by stringent wartime tax rates and a constitutional amendment assuring the right of Government to take property and capital as it takes and uses human lives counted necessary to the winning of a war. S. 25 does neither.

SOMETHING FOR EVERYBODY

This bill represents a very peculiar kind of bargain. It offers something for every shade of believer in what ought to be done in time of war.

MORE PROFIT IN WARTIME

Those who want this Nation to stay out of foreign wars are given something: A provision that industry shall make only a little more in wartime than in peacetime. The idea seems to be that cutting down the great war-profit incentive even a little will make any industrial hotheads cooler.

On the other hand, those who want this Nation to engage in foreign wars are given something: A provision that, in advance of any war, the Nation will commit itself to the proposition of drafting 2 to 3 million men, obviously not for defense of this Nation from attack, but for use abroad. No responsible Army or Navy official has stated that we need such a force to repel invasion. This is definitely a draft of service overseas.

Again, those who want the Government to be able to control capital in wartime are given something: Language which, on paper,

gives the Government the power, on paper, to do to industry whatever it wants to do.

On the other hand, those industrialists who may not want the Government to exercise any such control, have the pleasant realization that the bill is not coupled with any constitutional amendments authorizing Congress either to fix prices or take property.

FIX COMPENSATION FOR LABOR

Again, those who think labor is getting too large a share of the national income are given something: They get a provision that "compensation" for all civilian work shall be fixed by the Government even as it is today in Italy and Germany.

On the other hand, labor is given the assurance of a representative of the War Department that there will be no attempt to draft labor formally.

PRICES TO BE FIXED—NOT PROFITS

Again, those who are interested in preventing the high cost of living in wartime from inflicting injury on the recipients of the very modest Government allowance to soldiers' families get something. A provision that prices will be fixed.

On the other hand, all the low-cost industrial companies in the country get something: The assurance that nothing will be done to stand in the way of getting the fullest production possible with the result that, exactly as in the first World War, the prices will be high enough to make profits for the high-cost companies and fortunes for the low-cost companies.

DICTATORSHIP AND PRESS CONTROL

Again, those who believe that the President always knows best, get something: Complete abdication of power by Congress over practically all phases of our political life, allowing even the regimentation by the Army of the Comptroller General.¹ This abdication has been sufficiently clear for the conservative Chicago Tribune and New York Herald Tribune to call the bill undisguised dictatorship.

On the other hand, those who don't like either the Chicago Tribune or New York Herald Tribune get something: The suppression of the slightly critical press in wartime through absolute control of priorities of shipment of paper, ink, and machinery.

BUILD FOR GREATER MILITARISM

Again, those who believe in militarism receive something: The prospect of providing in peacetime an officer class, like that in pre-war Germany, large enough to command the 2 to 3 million men who will walk to arms upon the declaration of war, all eager for promotion and pay and extension of the draft age downward to 18 and up to 40, and eager for action, and as determined as munitions manufacturers that every unit should have supplies long in advance of war, and all the rest of the things which characterized pre war German militarism.

¹ Colonel Harris' testimony on S. 25, Senate Military Affairs Committee, p. 144.

On the other hand, those who do not believe in militarism or that a great conscript army is now needed for defense of this Nation (in addition to the present Regular Army and the National Guard) get something: The phrase in the preamble which says that the purpose of the bill is "to promote peace."

EQUALIZE BURDENS WITHOUT BURDENING

Again, those who think property should always have more adequate protection than human life, and especially in wartime, get something: The provision that if a man makes 5 million a year in peacetime (after taxes) and increases his gross income by 5 million more in wartime, he shall be allowed to keep \$5,250,000 (after taxes) in wartime.

On the other hand, those who do not think property should receive more protection than human life, but should instead be placed on a par with human life, get something, too. They receive some very noble language in the preamble that the intent of this bill is "to equalize the burdens of war."

TAKES HUMAN LIVES—PROMISES TO TAKE PROPERTY

This bill represents a bargain with a little in it, either in the form of word or deed, to please everyone, except, perhaps, those who are to be killed on foreign fields in the next war. Perhaps we do not expect to hear very much from them. Perhaps all bills in Congress are more or less bargains; but very few are bargains between life and property, as this one is, between life and death, and are consequently not of equal importance with this one.

The essential bargain of this bill is the assumption that men will allow themselves to be drafted to die overseas if they but have the assurance that the war will not be utilized as an opportunity for profit and self-enrichment by the same men and corporations who used it in that way during the last war, but, that to the contrary, the burdens of war are really equalized.

Does this bill enable us to face the parents in our States and give them the assurance that when their sons are sent abroad to take their chances of dying they can rest assured that the other elements in the country are going to be called upon to sacrifice equally with themselves?

The answer is clearly, "No." None of us can say to the parents or to the young men that anybody else will be called upon to sacrifice, under this bill, to compare with them. They will give their lives while, under this bill, the rich become richer.

ABANDON DEMOCRACY TO SAVE IT

Does this bill enable us to face the young men in our States and give them the assurance that when they go abroad to make the world safe for democracy again, we will under this bill, be able to retain democracy in this Nation, at least? The answer is clearly, "No." Whether it will be a socialistic dictatorship set up under this bill, as is feared by the Chicago Tribune (which says that it opens the doors for the commissars), or whether it will be a Fascist, authoritarian, big-business-plus-Army-machine dictatorship, as the liberal and labor papers fear, no one can say now. It depends on whether we have a

President who has socialistic leanings or a President who has ideas of treating the people tough in the interests of property. The one thing we can say to them is that democracy will be suspended over here "for the duration." Nor is there any time limit on the duration.

This bill, then, does not equalize the burdens of war. Perhaps no bill can fully equalize them. If no bill can do so, let us at least strike out of the preamble the claim that we can do so—the words "to equalize the burdens of war" and substitute the language used in the 1936 Annual Report of the War Department concerning similar control measures; namely, to "help the country to pass promptly and smoothly to a war footing."

MORE PROFIT IN WAR

Another question raised by this bill is this: Does this bill prevent the profit seekers from doing their best to make war profits, and in the course of that activity to influence our Nation's entry into a foreign war, involving the transport of American boys to foreign fields?

The answer must be that this bill does not prevent that, even though it contains the fine-sounding provision of a 95 percent tax on income above the average enjoyed during the 3 years preceding our entry into war. Had this provision been in effect during the 2 years we were in the World War it would have collected no tax from our great war industries like the du Pont Corporation. The fact of our geographical advantage makes it almost inevitable that the experiences of the wars of 1812 and 1914 will repeat themselves to the extent that no other nation will seem even a remote danger to our safety or interests until it has demonstrated superiority in the course of foreign war or begins to interfere with our war commerce with the other belligerents. A period of several years of foreign war might elapse before our entry into it. The result of this may well be a pre-war increase in our shipments of metals, war materials, and food, at high prices, to the belligerents, or, as at present, to the arming nations, the belligerents-to-be. The result is, in either case, high profits before our entry into war.

BILL ENCOURAGES WAR TRADE

The question is, Does this bill really put any check on the war interests of the industries engaging in this traffic? One cannot see how it will do so. This bill, as it stands, puts every business on guard that unless it makes all the profits it can in the pre-war period it will be penalized in the war years. It will have to pay more taxes than its competitor which has been engaging in the trade with the belligerents and making high war profits prior to our entry.

One comment occasionally made on the neutrality proposals was that they did not change the 1914-17 situation in which we were the natural sellers to England. The fact that England has the naval power to keep Germany off the seas is something we cannot legislate about. But this bill legislates an obligation on to every American company to deal as frantically and heavily with the future belligerents as it can, in order to avoid the unequal taxation (95 percent of profits above 3-year pre-war average) which will fall on it compared to its competitors if it fails to sell to the belligerents before our entry into a war.

WAR BUSINESS MEANS WAR OR PANIC

Again, it is held doubtful if any legislation to take the profits out of war will do much to discourage our entry into a war if and when the alternative is panic. Secretary Lansing and Secretary McAdoo both pointed out in 1915 that we had to go on selling to England even by using our own money to pay ourselves, or face a panic. So the loan embargo of that day broke down. Ambassador Page pointed out that probably the only way we could save our war-made markets was by going to war. If we base our economic life on foreign sales we are lost. Businessmen will be faced, in the course of a foreign war, with the alternative of shutting up shop completely (as soon as foreign cash has run out) or of approving such other steps as may get us in—at which time they will be saved from disaster by a flood of United States Government orders. While no one wants war, when that alternative is presented we will not find the industries of the Nation protesting against war. Some profit is always better than no profit. Five percent more than the 3-year pre-war average is a fortune compared to taking a loss resulting from the early close of a foreign war and discontinuance of war purchases.

Dealing only in economic terms—the terms which this bill attempts to use to discourage war spirit—the bill cannot accomplish the desired results.

COMPARISON OF SACRIFICES UNDER BILL

The third question is: Is capital called upon to sacrifice sufficiently to warrant calling upon labor to sacrifice so greatly as is proposed in this bill?

All statutes standing in the way of wartime procurement are to go. I take it this may mean the National Labor Relations Board Act and State minimum wage and hours laws. The War Department representative has told us frankly that even the Comptroller General is to be regimented. Under a really determined Executive every labor union in the Nation could be broken up, exactly as Hitler has done.

Even as the bill stands, without the addition suggested by Mr. Baruch and the War Department for further language specifically fixing wages, wages can and will be fixed under this bill. The President is allowed to fix "compensation." That certainly means wages. The Walsh-Healey Act is specifically slated to go, according to the War Department. Doubtless the Vinson Act attempting to hold down naval shipbuilding profits to 11 percent will be another victim of the war.

Is capital called upon to sacrifice as much as labor under this bill? There is no evidence of it. The equivalent of depriving labor of unions, of the right to collective bargaining, would be to deprive capital of the right to a fair return for its services—which is not remotely attempted in this bill. Practically every witness has pointed out that capital must have what it wants or the successful conduct of the war will be slowed down and jeopardized.

INDUSTRY DOES NOT OBJECT

It is significant that no witnesses representing capital or industry have appeared in opposition to this bill. The only one with prominent financial or industrial connections who appeared, was strongly in favor of the bill. In this connection the Philadelphia Record has remarked:

It is notable that none of the political spokesmen for business, big or little, has launched a vigorous campaign against this bill, which is supposed to be such a body blow to the predatory elements in business.

Can the complacency of these interests mean that they know the bill is not aimed at them but at liberal and labor groups which might feel its heel in time of "national emergency"?

CAUSE OF LABOR THREATENED

In return for a bill under which the du Pont Co. could have more than its pre-war profit, labor may be deprived of almost all of its hard-won rights. It does not seem to be quite a fair bargain, even though it might explain why there has not been the slightest protest against this bill from big business interests.

We are given War Department assurances that no draft of labor is intended, and these should be noted with proper attention and in the light of the War Department's own plans for industrial mobilization. At the same time Mr. Baruch's statement that the work-starve-or-fight arrangement could be expanded enormously may make a formal draft of labor simply a matter of name.

What happens to labor depends somewhat on the strength of labor and somewhat on the President, who is made the wartime dictator under this bill. But what happens to capital does not depend upon the President. Capital and industry are among the things most needed in war and hardest to replace—far harder to replace than soldiers—and they can be expected to name their own terms pretty thoroughly, as they did during the last war.

Mr. A. F. Whitney, president of the Brotherhood of Railroad Trainmen, has spoken emphatically of the interest of labor in this bill. In a prepared statement on the subject he said:

I regard the principles of the Sheppard-Hill bill as inimical not only to organized labor but to the fundamental principles of freedom and democracy. It threatens this Nation with the odious principles of fascism under an excuse of war emergencies. To lay the basis for such a military dictatorship, as is proposed by the Sheppard-Hill bill, is to make war more inviting to war lords, and consequently more impending. All lovers of peace should oppose this bill. Particularly should organized labor fight this threatening legislation, as labor undoubtedly would suffer most from the enactment of such legislation.

CAPITAL ABSOLUTELY NOT DRAFTED

It must be thoroughly understood that there is not the remotest idea of drafting capital under this bill. The mistaken idea that this was being done has doubtless secured some support for the bill, in error.

The Senate Munitions Committee made a significant finding in connection with the possibility of really forcing capital into line (Rept. 944, pt. 2, p. 3):

This question has been raised before at various times. It was raised during the war by industrial groups, in an endeavor to weaken any attempt by the

¹ Editorial "Beware of the Phony War Bill", Philadelphia Record, Apr. 7, 1937.

Government to fix low prices. It was raised again in the creation of the War Policies Commission of 1930. In fact, one of the chief duties laid upon that Commission was to consider the necessity of amending the Constitution. It was raised again in 1934 when this committee was created and charged with the duty of reviewing the findings of the War Policies Commission.

The committee now undertakes to discharge this duty. On the basis of a careful review of the World War experience with price fixing, based on the study of all the minutes of all the governmental bodies involved in that price fixing, together with studies and analyses of large groups of profit figures and income-tax returns, the committee finds that in order to prevent widespread profiteering in a national war emergency several amendments to the Constitution will probably be necessary.

The committee takes into consideration the serious objections to these amendments. It realizes the possibility that the adoption of such amendments may create other situations far worse than the situation of profiteering in a national emergency. It simply states its findings, based on the evidence in this report and in Report No. 577, that if the sole purpose under consideration is the avoidance of profiteering, the following amendments to the National Constitution must be made:

1. The first of these amendments should permit the commandeering of plant, goods, and industrial equipment for public use in time of war without the determination of "fair compensation" in the present way through review by the courts which results in payment at the highest possible price levels. This is not an amendment to abolish the payment of fair compensation, but to allow for the determination of fair compensation according to the directions of Congress rather than of the courts. (See pp. 111-116.)

2. The second of these amendments should make certain the power of Congress to tax for war-profits control on such bases of investment or fixed capital assets as it finds to be fair and just regardless of the possible inequality among taxpayers of such bases and without the elaborate procedure which may be unavoidable under existing law. Without this amendment the tax bases proposed in H. R. 5529 may be successfully attacked by those bent upon securing larger profits than it permits. (See p. 8, note 3; p. 26, notes 70 and 72 and see pp. 19-20).

3. The third of these amendments should permit Congress to tax the interest of tax-exempt securities during a national emergency. (See p. 52.)

These three amendments would give to the Government the necessary power to fix prices and pay the costs of a war through taxation. The other possible effects of these amendments are considered later.

The Munitions Committee doubted, however, whether such amendments even if passed would give the Government more than a paper power. It pointed out (Rept. 944, pt. 2, pp. 4-6):

While the Government would, with the passage of H. R. 5529 and the adoption of these three amendments, have full and adequate power to control the economic forces of the Nation in the carrying on of a war, it is still open to question whether these powers would be so used by the officials of the Government as to eliminate all profiteering. There are two reasons for believing that these powers would not be so used.

1. The main interest during wartime of all concerned with the conduct of the war is not that of saving money, but of securing production as rapidly and as fully as possible. Lowered prices, higher taxes, avoidance of inflation are all secondary interests. As Mr. Charles Hayden told the Price Fixing Committee in May 1918: "Our Allies are crying for copper; representatives of foreign governments are telling me as an individual: 'What do we care about a cent or more in price? What we want is the stuff.'"

The moment an industry threatens that lowered prices will slow down its production, or that high taxes will make it impossible for it to secure working capital, the Government will yield as it yielded in the last war. In January 1918 the War Industries Board approved a large contract with the Hercules Powder Co. at a price which it thought too high for the reason that "it was either necessary to pay the 70 cents per pound or go without the powder."

The apparent alternative of commandeering industry is in fact not an available alternative. If the owners of industry are compensated to their own satisfaction and surrender their enterprises and the benefits of their operating experience to the Government, as in the case of the railroads during the World War, the cost is as great as the cost of meeting industry's demands for its services. On the other hand, if any significant part of industry were to be arbitrarily confiscated

against the wishes of the majority of the business community, the chaotic condition resulting from the great social and political animosity which would be aroused thereby would definitely retard the production which is of paramount necessity for the prosecution of a modern war.

During the World War the copper industry simply refused to produce at even the liberal prices first proposed by the Government. (See p. 95 et seq.) The steel industry similarly refused to fill Government orders until prices had been stabilized at levels satisfactory to the industry. (See p. 100 et seq.) Judge Gary, representing the steel industry, told the Price Fixing Committee that "manufacturers must have reasonable profits in order to do their duty." The du Pont Co. refused to build a great powder plant which it alone was qualified to build until it was assured of what it considered sufficient profits. (See p. 107 et seq.) Mr. Pierre du Pont wrote that "we cannot assent to allowing our own patriotism to interfere with our duties as trustees."

The Government is more at the mercy of such a strike by capital or management than at the mercy of a strike by labor. The War Department bills, which have been prepared for adoption upon the outbreak of a war, provide in effect that labor can be drafted and that men must either work or fight. It will be entirely within the power of the Government, under these bills, to require men to work where they are told and to select any leaders of a labor strike and draft them into the military service the moment any strike is threatened. With these powers, and with a whole labor pool to draw on in the form of the conscript army, there is no question that the Army can break any labor strike. As pointed out above, it is in no similar situation in regard to a strike by capital or management.

There is also another factor which makes a strike by capital or management harder for the Government to handle than a strike by labor. The latter is open and advertised. All the force of patriotic public opinion can be brought to bear to stop it. The former is neither open nor advertised. It was not until the hearings of this committee, some 17 or 18 years after the event, that the strikes of certain of our industrial companies in connection with wartime price fixing became known.

2. While this incapacity of the Government to take over or to dispense with the function of any industry is the main reason for the expectation that even complete theoretical authority and power will never be invoked, there is another subsidiary reason. The administration of prices and procurement is inevitably put into the hands of people who have been industrially trained and who are sympathetic to private industry's demands.

During the last war the interests of the administrative officials were definitely close to the interest of the regulated industries. (See pp. 13-83.) Mr. Brookings told the nickel industry: "We are not in an attitude of envying you your profits; we are more in the attitude of justifying them if we can. That is the way we approach these things." The experience of such men must be used by the Government and yet their attitude toward the contentions of industry is inevitably favorable. Such men will not use theoretically full powers to eliminate profiteering even if they have them.

With these two considerations in mind the committee makes the following findings with respect to wartime taxation and price control as means of equalizing the burdens of war and of removing the profits from war:

1. It must be recognized that war inevitably involves waste and increased living costs. The increase of costs due to the shift of production from peacetime to war purposes, to the use of untrained labor to replace men drafted into the army, to the high risks of wartime production in many industries, and to the necessity for rapid production and delivery, requires an increase in some prices in wartime whatever form of price control is exercised. The interrelation of our industries will spread the effect of these increases throughout our economy. This means that no arbitrary plan of keeping all prices at a given level is practicable and no individual prices must be fixed by governmental agencies. (See pp. 117-126.)

2. The necessity that the governmental price-control agencies must largely rely upon industry for their information as to costs, capacity, production needs, and other fundamental information, and the fact that the personnel of these agencies must be largely made up of men who have been industrially trained and who are sympathetic to private industry's contentions, when added to the critical importance of increasing industrial output in wartime, prevent the fixing of prices below such a level of profitability as the bulk of the producers in any industry agree is fair. (See pp. 73-83 and pp. 55 and 62-63.)

3. The fact that costs are in the last analysis matters of opinion and are not susceptible of scientific determination, and the gigantic nature of the administrative task involved in enforcing any price provisions opposed by a substantial

portion of industry make it impossible to eliminate war profits by price control except to the extent that industry agrees to accept a limitation of its profit-making potentialities. (See pp. 84-91 and pp. 92-94.)

4. There are large profits and there is inequality in peacetime. The strain and stress of war is not conducive to the adoption of fundamental reforms which cannot secure acceptance even in time of peace. We must guard against a blind belief that all profiteering can be ended by proposals for wartime taxes and industrial control.

5. Severe wartime taxation insures the subjecting of the administrative officials responsible for its operation to heavy direct and indirect pressure for the alleviation of tax burdens, it increases resistance to tax collection, and if it reaches a level which the majority of businessmen feel is confiscatory, will discourage or prevent the volume of production so essential to the successful prosecution of a major war and thus defeat its own ends. (See pp. 37-43 and pp. 10-12.)

6. Because of the difficulties of determining in any exact manner the costs of all business and hence the profits from business and because of the impossibility of closing all loopholes in legislation designed to apply uniformly to our immense and complicated business and industrial structure, income taxation cannot eliminate all war profits. (See pp. 27-34, 84-91, 44-52, and 25-26.)

The Munitions Committee saw some objection to two of these amendments.

PROFITEERING GOES ON

This bill is a bad bargain for the boys who will, under it, be sent abroad. They get no real assurance that profiteering is abolished or that democracy is saved in the very country which proposes, in this bill, to send an army overseas, supposedly again to save the world for democracy.

It is a bad bargain for labor unionism. Unionism takes the risk of death.

Under certain types of Presidents this might even, although barely conceivable, be a bad bargain for capital. At present, of the three groups, capital stands to lose least.

What alternative can be proposed? The Munitions Committee was confronted with the dilemma which is not solved in this bill.

It said in H. R. 5529, Seventy-fourth Congress (as reported out from the Munitions Committee) and several of the members of the committee repeated it in S. 1331, Seventy-fifth Congress, that if the economic interest in war trade is to be discouraged, then capital should have only enough to live on—4½ percent—and individuals should not have over \$10,000 after taxes. That is the essence of that bill. After such a bill is passed then there will be time enough to pass a draft of men. But that part of the bargain should be made first or simultaneously; it will probably not be made at all.

If Congress is not willing to underwrite the draft of capital through taxation, then it should not take the responsibility for drafting men for death, except in case of invasion or actual attack. And in the event of invasion no draft would be necessary, so great would be the response of our people to a strict defense of their country.

DEFER DRAFT OF MEN

In the face of this dilemma the Munitions Committee proposed to defer a decision on the draft of men for service outside continental America to the people, in a referendum in 1938. If the people then expressed a willingness to have the boys be drafted to serve outside the two Americas then Congress could do what it saw fit about imposing limitations on capital and labor. If the people did not see fit

to vote for the draft of boys for service outside the two Americas, then Congress was under no obligation to make any claims that it was attempting to, or could, draft capital during another war.

The committee recommended (Rept. 944, pt. 4, p. 5):

Recommendation (4). The committee recommends, in view of the seriousness of the possible effect of such wartime controls that the Nation and Congress consider the draft bill, with all its implications of control over labor, prior to the moment of emergency. Congress is now considering a bill which allows all taxpayers to know their status prior to any such emergency and is planning that, if possible, any war emergency shall be met with the minimum of inflation or other harm to the economic structure of the Nation and with a maximum of taxation on profits.

It appears to the committee equally just and proper that all citizens should know before the event of an emergency their status in regard to their lives and the conditions of their employment.

It will be very difficult in wartime, even through the high taxation recommended by the committee in H. R. 5529 (as reported from the committee), to put capital on a level with men drafted for front-line service.

The draft of men for the trenches will not, under the War Department plans, be lifted until 6 months after such time as the President chooses to declare an end to the emergency. The draft of labor, under one name or another, will continue for the same length of time. During all this period there will be censorship of the press.

In view of the growth of dictatorships in the world using labor under military control, it is very important that the people weigh the grave dangers to our democracy involved in the draft of manpower and labor under the conditions proposed. The price of a war may be actual operating dictatorship, under military control, in this country. Possibly, under certain circumstances, that price will not be too high for the people to desire to pay it.

But in this matter the committee suggests that Congress consider putting a limitation upon its own powers, and submit a national referendum at the election in 1938 on the military draft of men for service outside continental America.

The matter is certainly of sufficient importance to warrant Congress in asking the consent of the Nation before imposing the type of draft indicated to be part of the War Department plans.

This is a sound proposal. S. 25 could be made far more acceptable if section 3, covering the draft of men, should carry an amendment along the following lines:

Provided, however, That this section shall be considered severable and separate from the rest of the act, and shall not become effective until a majority of citizens of the United States voting in a referendum held by direction of Congress before the year 1939, shall have signified their assent to the draft of American citizens for military and naval service overseas, outside of continental America, except that such referendum need not be held in the event of actual invasion of the United States or its territorial possessions before the date of that referendum.

If the bill comes to the Senate from the House with the draft of men in it, amendments along the lines indicated in this minority report will assuredly be offered.

VIEWS OF VETERANS OF FOREIGN WARS

There is difference of opinion on the war profit and wartime control legislation pending at the present time among the service organizations. The American Legion through its spokesmen before the committee strongly advocates S. 25. On the other hand the Veterans of Foreign Wars more largely favors the bill of the Senate Munitions Committee which was approved by the Senate Military Affairs Committee at the last session and reintroduced in the present session as S. 1331. Testifying before the committee, Millard W. Rice, legislative representative of the Veterans of Foreign Wars, said:

The other bill (S. 1331) contains specific provisions as to finance control, revolving funds, loans to industries or essential manufacturing plants, and the precise methods by which to make repayments, as well as limitations as to the capital adjustments which can be made. Most important of all, the other bill (S. 1331) provides for steeply graduated income taxes, excise-profits taxes, inheritance taxes, etc. This bill contains only a brief provision to the effect that 95 percent of all income above the previous 3-year average shall be imposed, providing that there shall be proper adjustments for capital expenditures for war purposes by existing or new industries, but no specific tests or rules, by which to ascertain what a proper adjustment might be, are set up, and therefore that might be subject to a great deal of abuse by wartime pressure, whereas, if methods of adjustments were specifically provided for, as in S. 1331, there would be less likelihood of such abuses.

Moreover, a tax of 95 percent of all income above the previous 3-year average would not seem to be entirely desirable or equitable for several different reasons. First, there might be those industries which, because of the imminence of war, had a high profit during the 3 years immediately preceding war and therefore would be able to retain a higher rate of profit as compared with capital invested than would other industries which had not had such high profits during that time. On the other hand, there would be industries which had very little profit during the preceding three years, where, because of the fact that war had come, a great deal of initiative might have been developed resulting in large profits; that individual industry would be penalized comparatively as to the taxes which it had to pay, by reason of the fact that it had very little profit during the 3 years preceding war. Existing big industries would be guaranteed an extra advantage.

This 95 percent provision is not sufficiently flexible to allow for the development of private initiative which is needed during war, as in peace, and the carefully worked out provisions of the graduated taxes provided in S. 1331 would certainly be more equitable and effective. Those taxes are worked out in such way practically as to provide that there shall be no extra profit derived by reason of war, and that the taxes shall be increased to take care of all of the expense of conducting a war during the time it is on.

This committee developed and reported out the provisions of the bill as now incorporated in S. 1331 somewhat more than a year ago, and it would therefore seem to us that this committee should take advantage of its previous studies and labors in that respect by amending this bill to include all of the provisions it had previously worked out in that respect.

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