DIARY

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February 15, 1941

MEMORANDUM FOR THE SECRETARY'S DIARY

On Friday afternoon, February 14, 1941, at 2:30, Merle Cochran brought in Pinsent and Playfair to talk with Bernstein and Foley in regard to raising money against the British stockholdings in Viscose Corporation.

Pinsent said that negotiations had been progressing in New York for more than two weeks whereby Courtald, the British parent of Viscose, the United States subsidiary, would hypothecate with Morgan and Company its stockholdings in Viscose as collateral for a loan which Morgan would make to Courtald. Courtald would then make the dollars available to the British Government in exchange for sterling. Pincent said that the arrangement had hit a snag when lawyers for Morgan and lawyers for Viscose raised the question that the transaction might constitute a violation of the Johnson Act and the Neutrality Act in that Courtald might be charged with acting on behalf of the British Government. Mr. Foley asked Pinsent why the British had not requisitioned the American shares held by Courtald. Pinsent replied that it had been the British policy not to take over the control of American corporations from British corporations.

Foley then suggested that Pinsent obtain a statement of facts from British representatives in New York and submit it to us.

On Saturday morning, February 15, Foley walked home with Secretary Morgenthau and related the incident to him. Foley explained to the Secretary that the transaction raised a question of policy as to whether this Government should insist on the outright sale on the part of the British of the Viscose shares or whether we should facilitate transactions of this character by being instrumental in obtaining for Morgan and Company and Viscose an opinion from the Attorney General to the effect that the transaction did not violate the Neutrality Act or the Johnson Act. Secretary Morgenthau's immediate reaction was that loans of this character smacked of outright violation of the spirit of the two Acts and he would not be a party to it. He said he did not want to be put in the position of explaining to Congress that we were going back on our representations made to the Committees that the British would have to sell all of their holdings in this country. Secretary Morgenthau instructed Foley not to assist the British in the consummation of this arrangement and to tell Pinsent and Playfair that he was grievously disappointed that they should even suggest that dollars be raised in this fashion, and that the Viscose shares should be sold outright as Sir Frederick Phillips had indicated to Secretary Morgenthau that the British were prepared to do with their direct investments in this country.

Notes on Meeting at the Secretary's House, at 9:00 A.M., February 15, 1941, concerning Lend-Lease Appropriation.

Those present at this meeting were, Secretary Morgenthau, Secretary Stimson, Secretary Knox, Secretary Wickard, Under Secretary D. W. Bell, Ed Foley, Oscar Cox, Philip Young, John McCloy, Harold Smith, and Mr. Jump of the Department of Agriculture.

H.M.Jr.: Pending the arrival of the Director of the Budget, I would like to ask Bell to read a memorandum on the form appropriations should take for lend-lease. (Copy of memorandum attached).

Bell: The Sub-Committee met yesterday to discuss the three kinds of appropriations, and the result was that the lump sum idea was favored. This sum would be allocated by the President, subject to questions of strategy and political tactics.

Stimson: What appropriations are included?

Bell: The appropriations prior to the passage of the bill, that is, the $1,300,000,000 as well as additional appropriations to be procured after the passage of the bill.

Knox: What about the funds which are already available, and also the use of RFC funds?

Stimson: Does this mean that we don't get any new appropriation if it is all included in a lump sum for allocation by the President?

Bell: Yes.

Knox: But this appropriation would just be used for lend-lease; does that mean a new purchasing organization would be set up?

Bell: It is my understanding that you won't know what is for United States and what is for Britain until it is made.

Knox: I can just see endless Greek situations coming out of this. When I wake up in the morning, I wonder what Henry wants today.

H.M.,Jr.: Well, you know I didn't start it.

Wickard: But you certainly do know who finished it.

Stimson: When this bill is passed and working, there will be large desires for weapons and we don't know what will go where; that will be true of planes, ammunition, anti-tank guns and all things like that. A division will have to be made between what the Army applies for and what the President applies for. Now realizing that Congress has a keen interest in this, the Committee on Military Affairs would have no way of knowing and might not approve the division of material; it might not even know the aggregate amount.

Knox: Isn't it possible to treat British requirements separately and take it to Congress as a separate requirement? I want to keep it apart from our own Departments, and we all know that the Chinese, the Greeks, and the British all want something.

Stimson: You must remember this probable situation--we may get into the war while the bill is in effect, and, in that event, all our allies will want something. It seems to me that we must have a Board constituted to decide such questions; that is the only real way to do it although it may be determined in part by the form of the actual appropriation.

H.M.,Jr.: That was the idea of setting the appropriation up in alternate forms so that the President could decide.

Stimson: We must think of the whole picture.

H.M.,Jr.: It seems to me we are talking appropriations because they are the first step, not the organization.

Stimson: Is a Board possible under this memorandum?

H.M.,Jr: Oh Yes.

Smith: To us in the Bureau of the Budget this lump sum seems the simplest form for the appropriation to take. The language can be simple and that is very important.

Wickard: It will be impossible to go to Congress every time we need something--the whole thing would bog down.

Stimson: I think you would run into a lot of duplication if you tried to handle all foreign purchasing separately.

H.M.,Jr.: You saw the Purvis memorandum. The President could take the needs as outlined there and add to them the Army and Navy needs, then place the orders for all of them as one order. The stuff would not be divided up until it was made.

McCloy: Our staff is already at work trying to put those needs together. We would like to have one appropriation with at least a 15 per cent switch, that is, 15 per cent could be switched around from one type of equipment, such as ordnance, to another, such as air. I think that there should also be a small contingent fund for anything else. There should be only one program.

H.M.,Jr.: I know that the President is contemplating these orders as one over-all picture.

Knox: He has asked me for a picture of the Navy.

McCloy: Well, after all, Secretary Morgenthau wrote the President the General Watson memorandum.

Wickard: You're caught again.

H.M.,Jr.: Did General Watson just send a copy of his memorandum?

McCloy: Yes, he forwarded a photostat.

Stimson: There is a certain amount of intricate and wearing work in putting together such a program. However, there will be a great deal of saving and economy if it can be handled centrally. The Board should save the President as much as possible. Of course, as time goes on the program will become simpler. I wonder what took the place of this during the last war.

Bell: The Allied Purchasing Commission coordinated the contracts.

Stimson: I would like to know how that was done.

Smith: You raised two points; (1) concerning the planning of the program, which must be done somehow, and (2) with respect to the responsibility of the Army and Navy.

Stimson: We can't take that responsibility without the Board. We don't want to make the ultimate decision.

Smith: On the appropriation process there is a feeling that a large fund allocated to the President would simplify the whole thing. You wouldn't save the President any time by making direct appropriations to the several Departments. I believe in the lump sum idea subject to policy decision by the Board as the best means to obtain flexibility.

Stimson: We want to reduce the amount of work which will have to go to the President, and it should save trouble if the routine things were left in a direct Army appropriation.

Smith: I feel that there is danger in splitting the lend-lease bill into two parts. If you divide it up, you must justify the Army and Navy part in detail, that is, so many guns, tanks, etc., and then when you get into so many bales of cotton and that sort of thing, you may find that you are subject to influences by pressure groups which would like to unload. I think it should be kept general in character even if it is put in the form of Army and Navy appropriations. It should not be marked as part of the lend-lease and mixed up with that. The lump sum is much clearer to put into appropriation language.

H.M.,Jr.: Can I restate my position as I have changed my mind? I think this--as you know, I insisted on telling all there was to tell about British finances. If an appropriation bill is to be prepared to care for the needs of England and given to the Budget on the basis of the Arthur Purvis memorandum, and then to be approved by the President and referred to Congress, I think you should tell them what the money is to be used for. It is a good way for democracy to work. If you do that, then in a year or two there can be no investigation of any lump sums. I like to see the democratic processes work as they are supposed to work.

There is a lot to McCloy's idea of having as much of the appropriation flexible as possible and even to having a contingent fund of a billion or so on top. I suppose that the direct appropriations would run about 75 per cent of the total. Then, after the passage of the appropriation bill, you could have a policy board, like Secretary Stimson suggests, make the necessary decisions.

Knox: I am with you 100 per cent.

McCloy: You must have one program.

H.M.,Jr.: I think so. You can have an Army program and a Navy program and then an additional lump sum for contingencies. Seems to me that this policy board should also make the deal and it could have a sub-committee to cover the necessary ground work.

Smith: I think we are missing the biggest point. After all, you can justify a lump sum in as much detail as you wish before the Committee.

H.M.,Jr.: What committee?

Smith: The Appropriations Committee.

H.M.,Jr.: Oh, that's it--not the Military Affairs or Naval Committee.

Smith: By adopting my point you are avoiding hundreds of types of appropriation language which will get you all snarled up.

Cox: Having the Army and Navy in on it would tend to allay public fears.

Stimson: Even if you justify a lump sum appropriation, it wouldn't be handled in Congress by people acquainted with Army and Navy affairs.

Smith: The Army and Navy would justify it just the same.

McCloy: In the last war they didn't have a lump sum appropriation. You need flexibility for the Army as well as for the British.

H.M.,Jr.: Even if a direct appropriation slowed up the passing of the bill for a week or two, I think it would be worth it.

Knox: So do I.

H.M.,Jr.: I don't think it's a good idea to take the power away from Congress--it's their responsibility and they ought to keep it.

Knox: I can't get out of mind the idea that when we get through we are going to need a unified country more than ever, and that point is carrying a lot of weight in the Senate.

H.M.,Jr.: What I would like to do would be to take one plan to the President rather than two plans.

Knox: What do you think, Harold?

Smith: I don't care much either way as far as the handling is concerned. Actually it depends a lot on strategy factors. Are we fighting a war or are we not? If we are much more detail would be required. I still think that I would give the President at least one alternative.

H.M.,Jr.: I think we are pretty well agreed among ourselves on one plan.

Smith: Well, there was no agreement between us after two hours of discussion last night.

H.M.,Jr.: Seems to me there is pretty good agreement here.

Stimson: I like your fairness of mind, Henry, and I am trying to keep mine the same way.

H.M.,Jr.: May I suggest that plan No. 2 be drawn up for the President, and Secretary Stimson's memorandum included in it as a part. I'll ask for an appointment Monday through Pa Watson.

Wickard: I want it understood that I can talk directly with the British. You can't have so many boards that you can't move.

H.M.,Jr.: Oh, you'll be a member of the board on all agricultural problems.

Stimson: There is no intention of freezing you or anybody else.

H.M.,Jr.: Well, gentlemen, thank you very much for coming.

(Meeting adjourned about 10:10 A.M.)

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APPROPRIATIONS TO CARRY OUT H. R. 1776

The following two alternative methods are presented:

I. A lump sum appropriation to the President available through June 30, 1942 for either (1) new procurement through allocations to War, Navy, Agriculture, etc., or (2) new procurement *and* for reimbursement to War, Navy, etc., for defense articles turned over from its own existing or future stocks.

If a lump sum appropriation is used for new procurement and also for reimbursement it may constitute an overall ceiling until a new appropriation is made. If a lump sum is used only for new procurement under H. R. 1776 the President will also have the additional discretionary power, under the bill as it now stands, to authorize (a) the disposition of $1,300,000,000 worth of defense articles procured out of appropriations made before H. R. 1776 is enacted; and (b) the disposition without dollar limit of any defense articles procured by the War and Navy Departments out of appropriations made to them after H. R. 1776 is enacted.

Provision for plant expansion can be made by increasing the existing appropriations for this purpose.

II. Appropriations to War and Navy Departments, supplementing the various existing appropriations, and in addition a lump sum appropriation to the President for allocation to other departments and agencies as well as to meet unforeseen contingencies of the War and Navy.

From the standpoint of simplicity and flexibility the lump sum method is deemed best. Among other things the lump sum method eliminates the necessity for predetermining the precise type of aid to be given to foreign countries.

However, since other questions of policy and political strategy may be involved the other alternative method is also presented.

Miss Chauncey

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 15, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

The Secretary's stenotypist recorded the conversation which the Secretary had at 10 o'clock yesterday morning with Sir Frederick Phillips, and with Mr. Cochran present. The Secretary had indicated to Sir Frederick the desirability of Sir Edward Peacock being able at the earliest possible date to report some concrete results in his undertaking for the disposal of direct British investments in this country.

At 11 o'clock Mr. Pinsent telephoned me that, following Sir Frederick's visit to the Treasury, a telephone conversation had been had with Sir Edward Peacock in New York. The latter had reported that difficulty had arisen on the legal side of the transaction which Sir Edward had hoped might be consummated at a very early date with respect to the Viscose Company. Since the difficulties set up by the lawyers were likely to block an early transaction, and perhaps make necessary a longer process for the handling of this property Pinsent asked whether the British could not take advantage of the Secretary's offer made to Sir Edward Peacock and avail themselves of the advice of our General Counsel.

I brought this matter to the Secretary's attention at noon and then telephoned Mr. Pinsent that Mr. Foley and I would receive Mr. Pinsent and Mr. Playfair at 2:30 p.m.

At the fixed hour I presented Messrs. Pinsent and Playfair to Mr. Foley; Mr. Bernstein and I remained during the conversation. The British were asked to obtain a memorandum from New York as to the details of the transaction and the difficulties experienced, without any expression of legal opinion. We promised to look into this matter further as soon as such a report might be received.

February 15, 1941

10:55 am

HM,Jr called General Watson's office and asked his secretary to tell the General that the Secretaries of War, Navy, Agriculture, Director of the Budget and HM,Jr would like to see the President the first thing Monday morning to report to him on their meeting this morning on a recommendation as to how the Appropriation Bill to the Lend-Lease Bill should be handled. HM,Jr would like the first appointment on Monday on the President's calendar.

February 15, 1941
11:00 a.m.

Justice Frankfurter: Pretty well. How are you? You've had a vacation.

H.M.Jr: Yes, sir!

F: Glad you did.

H.M.Jr: Are you where you can talk?

F: Yeah.

H.M.Jr: The reason I'm calling you is this: I asked Ferdinand Kuhn to get in touch with you today.

F: He did. Tomorrow he's talking with me.

H.M.Jr: Good. I'm terribly disappointed in your friend, Dean Acheson and I wanted to tell you about it.

F: What's happened?

H.M.Jr: Oh, he's just gone over lock, stock and barrel to the ring over there.

F: (Laughs). That's a great maw over there, isn't it.

H.M.Jr: Yeah, and I'm not the only person who feels that way. They've already sensed it in other quarters and ......

F: Well, he may be temporarily trying to ...... Well, I don't know anything about it.

H.M.Jr: Well, it's on this freeze thing and the whole business and everything else. Ferdi has the - all the details.

F: Well, I'll talk with him.

H.M.Jr: But I'm terribly disappointed. Well, I mean, he's - Feis has stood by his guns as far as I know. That's the interesting thing.

F: In helping - I mean, in cooperating.

H.M.Jr: Yes, he hasn't changed. But Hull evidently turned over the drafting of this thing to Acheson and he's been working with a man over at Justice and when I told Robert Jackson what they had agreed on, namely, selective freezing, where an F.B.I. man will go snooping at each company and then if they think they are a little pro-German then they certify and I'm to go in and freeze that company.

F: Huh.

H.M.Jr: They told our people that Jackson agreed to it. Well, I'd bet anybody 3-to-1 Jackson knows nothing about it, and I called him up and he said he'd be damned if he'd do it. He said he'd have nothing to do with it. He says that's the last thing in the world he wants to do - another witch hunt. Acheson wrote the memorandum on that basis which Hull signed and sent it to the President. It's just unbelievable.

F: Is that where the matter now is?

H.M.Jr: Yeah.

F: Well, Ferdi knows all .....

H.M.Jr: Ferdi knows it inside out.

F: How free am I to have that knowledge after I get it? I mean how free am I to talk to Dean? Let me see what the talk is.

H.M.Jr: As far as I'm concerned, I'm perfectly willing to have him know that I've laid the facts before you.

F: You are.

H.M.Jr: Yes.

F: All right. Have you had a talk with him?

H.M.Jr: No. He goes over there, works on this thing, which is vitally important to us, and he doesn't talk to anybody over here but works with this man - what is his name, used to be in the law school at Buffalo.

F: Shea.

H.M.Jr: Yeah - works it out with Shea and Shea is telling our people that this is what Jackson wants and when Jackson heard about it he really got very angry, very angry. But we wouldn't know that - I mean, Dean has contacted nobody in the Treasury.

F: Really.

H.M.Jr: Yeah.

F: Well, I don't understand that at all. I'm seeing Ferdi tomorrow afternoon and then I'll know all the details and, as I understand it, I'm free to know what I shall know. Is that it?

H.M.Jr: Absolutely.

F: And I'm free to, in talking with him, to let him know that I've talked with you as I have for sometime past on this matter.

H.M.Jr: Yes, because the way I feel is if that's what his attitude is going to be, well then he's no different than all the rest of the gang over there.

F: Yes. Well, I know that one of the things that worried him when he went over there was lest he because of his relations with other people - that he was going to play an independent role and I think that moved him very deeply.

H.M.Jr: Well, what I did was I kept away from him because I didn't want him handicapped by being known as possibly .....

F: Well, that has worried him very much that his friendship for you and a lot of other people - that they might think that he comes in there to be an independent guy. That's an awful place you know, the State Department.

H.M.Jr: That's why I kept away but this - and then the other thing which is so amusing, Berle said, "State Department is a policy shop. We don't want this export control," and they've placed the whole of it in the State Department.

F: Un-huh. Did you say the matter is now before the President?

H.M.Jr: Hull wrote the President a letter yesterday of which he sent me a copy, which Ferdi knows about and has seen. I think he's got a copy of it, and he laid the whole thing before the President. So when I got this, after talking to Bob, he says, "Let's Hull, you and I get together," and I immediately wrote Hull a letter yesterday morning and asked that we get together because Bob and I absolutely will not do it the way Hull has asked that it be done.

F: And the recommendation comes from Shea, you say.

H.M.Jr: No, the recommendation ......

F: Collaboration.

H.M.Jr: Well, it's a collaboration between Shea and Acheson but mostly, we understand, Acheson. Now the gossip is that Acheson got his facts - this is gossip - from Pasvolsky, because Berle and Feis agreed with me that if it was to be done it should be done by freezing on a geographical basis. They agreed to that and Pasvolsky was the only one who didn't. Now along comes a memorandum doing it by selective companies. It would be the damndest witch hunt you ever saw.

F: Yes. Well, if I were Attorney General I wouldn't want to have that responsibility.

H.M.Jr: Well, Bob said he wouldn't touch it and I wouldn't - even if he said he would, I wouldn't carry out the orders. I'd say take the damn thing out of the Treasury. You can imagine the witch hunt, and for Dean to be a part of it, to me it's just unbelievable.

F: Well, I'll find out and then I'll have a talk with you, Henry.

H.M.Jr: Fine.

F: Thanks for calling me.

FEB 15 1941

My dear Mr. McCormack:

Thank you very much for your letter of February 14, 1941.

Ed Foley and Oscar Cox discussed the matter which you raise in your letter yesterday afternoon with Senators George and Byrnes.

It was tentatively decided to execute the idea you have in mind by an amendment on the Floor of the Senate, should a favorable occasion present itself. The amendment would add a sentence at the end of section 3(a)(2), which would read somewhat as follows:

> "Such value shall be determined by the head of each department or agency concerned in accordance with the rules and regulations promulgated under this Act."

In the normal course, regulations to give effect to this and other provisions of the bill would be formulated by an Executive Order signed by the President. The Attorney General has held

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that the Comptroller General has no power to review the discretion of heads of executive departments in matters of this kind. I think this language will take care of the problem satisfactorily.

I appreciate very much your letting me have your views on this matter.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. John W. McCormack,

House of Representatives.

EHFJr:OSC:aja
2/14/41

E.H.F.Jr.

By Messenger 12⁰⁰

JOHN W. McCORMACK
12TH DIST. MASSACHUSETTS

EUGENE T. KINNALY
SECRETARY

Office of the Majority Leader
House of Representatives U. S.
Washington, D. C.

February 14,1941.

Honorable Henry Morgantheau,
The Secretary of the Treasury,
Washington, D.C.

PERSONAL.

Dear Secretary Morgantheau;-

I amsubmittingto you a suggestion made to me by Congressman Wadsworth, and which I have discussed with Speaker Rayburn. I also talked over the telephone with Secretary Hull who suggested that I talk it over with you.

Congressman Wadsworth offered an amendment in the House,whichI include herein. The second part of his amendment is what I call to your attention. "Jim" Wadsworth feels that something of this kind should be put in the bill to protect the President. He feels that unless something of this kind is done that the Comptroller General might take the position that under existing law he must pass upon the value of any "Defense Article" transferred, leased, etc., and that he might set a different value than the President. I can see this point. Wadsworth feels that something along these lines should be made a part of the bill

"That the elements of expense and the amounts in this Act shall be determined, respectively,by the head of each department and agency concerned, under regulations to be approved by the President, which shall be uniform so far as practicable for all departments and agencies."

Such language definitely places the power within the President. I, removes all dount as to the position that the Comptroller General's Office might ta e, or feel constrained to take, under existing law, on reviewing values placed by the President or a department or agency. I think there is something to his suggestion, and I am passing it along to you for your consideration.

Sincerely yours,

John McCormack

under this Act.

way or another from the tyranny of various forms of dictatorship. Through these heroic efforts of men of the past, this great country has become the perfection of what we now call democracy. Is it our contention that America owes nothing to the past and that it can, by declaring its own self-sufficiency and own satisfaction, maintain that it should have no part in shaping the destiny of a future world?

Our whole argument has been waged around the theory of self-preservation. I contend that many of these countries that are now fighting for their lives and have lost their independence and liberty as free men have contributed materially to the advancement of our own country. It is true that we should not engage in the quarrels of any foreign country from the fact that we had no part in the creating of things that brought about these quarrels, and, particularly, had nothing to do with the beginning of this terrible conflict. But I do think America owes to those forces that are fighting for their lives, directly or indirectly, or fighting to preserve the heritage which is ours, our entire moral support and everything we can possibly spare of our material substance in this time of world peril.

I believe that it is possible to gain our objectives without even thinking of or consenting to the sending of a single military soldier across the sea. In conflicts of this kind you cannot determine the outcome by measuring the relative strength of armaments.

There are other very important considerations, namely, the justice of the cause for which men struggle, the inability for any military organization to comprehend and understand what the future might bring. For example, the Italian who looked upon himself as the Napoleon incarnate, who used all the skill and intelligence that he had in order to enter the conflict when he saw the victim almost within the grasp of its pursuer. He bided his time and chose a time when he should join the chase in order to be there to get his part of the hide. Yet, where is he today? The great Napoleon has now lost his African possessions, and all the dream of the expansion of his empire has vanished and he is now under the control of the Nazi dictator—not Napoleon—he is not even playing a good second fiddle.

These are the fortunes of war and no man can tell what the fortunes of war will be tomorrow. So I say, in answer to those who say the democracies cannot win because they are weak, forget these events of past history. If our great country will, in unity, mobilize through its ingenuity, through its combination of labor and industry it can provide the means whereby the democracies can become supreme in the air and rule the waves; and when that day comes this war will be over. It was true in the last war, there was not a shot fired on German soil, but the German Empire fell, and it can and will do it again. It is my opinion that when these oppressed people who have known what liberty was and understand the blessings that come to free men, are aware that this country has thrown its whole moral and part of its economic support on the side of right, there will again be rekindled in the hearts of these men who love liberty the desire for freedom, and a firmer grasp will be taken upon the torch of liberty.

This is not a question of whether or not we like Great Britain, or any other country. It so happens that the struggle now being made by the democracies is expedient, for the preservation of our ideals and in the interest of our own national defense. [Applause.]

(Mr. GEARHART asked and was given permission to revise and extend his own remarks in the RECORD.)

The CHAIRMAN. The question is on the amendment offered by the gentlewoman from Massachusetts [Mrs. ROGERS].

The amendment was rejected.

The Clerk read as follows:

SEC. 8. (a) There is hereby authorized to be appropriated from time to time, out of any money in the Treasury not otherwise appropriated, such amounts as may be necessary to carry out the provisions and accomplish the purposes of this act.

(b) All money and all property which is converted into money received under section 3 from any government shall, with the approval of the Director of the Budget, revert to the respective appropriation or appropriations out of which funds were expended with respect to the defense article or defense information for which such consideration is received, and shall be available for expenditure for the purpose for which such expended funds were appropriated by law, during the fiscal year in which such funds are received and the ensuing fiscal year.

Mr. WADSWORTH. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. WADSWORTH: On page 5, after line 21, insert a new paragraph reading as follows:

"The gross expense to the United States of the exercise of the authority conferred by this act with respect to defense articles and defense information shall not exceed in the aggregate the sum of $7,000,000,000: *Provided*, That the elements of such expense and the amounts constituting such aggregate shall be determined, respectively, by the head of each department and agency concerned, under regulations to be approved by the President, which shall be uniform so far as practicable for all departments and agencies."

Mr. WADSWORTH. Mr. Chairman, a few days ago I urged upon the consideration of the managers of this bill, and it may be recollected that I did so as a friend of the measure, the suggestion that an over-all limitation be placed upon the funds authorized to be appropriated for the carrying out of the purposes of this act. The amendment which I have just offered is intended, if it meets the approval of the Committee, to establish such a limitation.

I may say at the beginning that the establishment of such a limitation is very frequently done. Time after time the Congress has passed acts authorizing the performance of certain functions by Government, the performance of which must depend upon the expenditure of money and in the passage of those acts has stated a maximum amount to be authorized. Under such authorizations the Director of the Budget or the department involved submits estimates for the appropriations thereafter to be made and defends them before the Committee on Appropriations of the House in the first instance. This procedure is known to every Member of the House. There is nothing unusual, in fact, it is the customary procedure and it is the more customary the more important the bill. I think I am justified in making that assertion.

Mr. TABER. Mr. Chairman, will the gentleman yield for a question?

Mr. WADSWORTH. Very briefly; yes.

Mr. TABER. The gentleman does not in any way mean to imply that by fixing the gross limit as he has that the Congress should appropriate anything unless thoroughly justified.

Mr. WADSWORTH. Nothing of the sort. Of course, it is well known to all of us that under a limited authorization the Chief Executive must defend the estimates made to the Congress for the appropriations to come thereafter although those estimates may be smaller in the aggregate than the total of the authorization, and the Committee on Appropriations may decide to appropriate a sum of money smaller than the authorized limit fixed in the original act.

It will be noted, Mr. Chairman, I have used in this amendment the phrase "gross expense to the United States of the exercise of the authority of this act." By the use of that expression it will be seen that this coverage, we will say, of $7,000,000,000, this ceiling, so called, will include in the first instance the value of the goods which have been manufactured already or are now being manufactured as the result of appropriations heretofore made by the Congress.

In other words, it will include in the $7,000,000,000 the $1,300,000,000 limitation already set in that limited field through the amendment originally offered by the gentleman from New York [Mr. TABER], and for which a substitute was adopted. It will include also all expenditures to be made as the result of appropriations hereafter to be made under this act. Goods now in process will be covered, and goods hereafter to be made will be covered. Moreover, it will include expenditures which may result from commitments and obligations entered into by the President prior to the expiration of our 2-year period but which cannot be filled or matured at that time. So when we use the phrase "gross expense" we cover the entire program, starting with the enactment of this bill, retroactive to some extent, and continuing on to the end of the authorized period of expenditure and the maturing of obligations; in other words, until 1946. I may only express a judgment upon this matter, but in all probability the expenditures will be much the heavier in the first 2½ years and at the end of 2½ years we shall have a chance under the terms of this act——

[Here the gavel fell.]

Mr. McCORMACK. Mr. Chairman, I ask unanimous consent that the time of the gentleman from New York may be extended for 5 additional minutes.

The CHAIRMAN. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

To Miss Chauncey

DATE February 15, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£12,000
Purchased from commercial concerns	£11,000

Open market sterling moved from 4.03 at the opening to 4.03-1/4 at the close. Transactions of the reporting banks were as follows:

Sold to commercial concerns	-0-
Purchased from commercial concerns	£ 4,000

Continuing its improvement, the yuan advanced to 5-5/8¢ in Shanghai this morning, up 1/8¢.

Closing quotations for the other currencies were:

Canadian dollar	16-3/8% discount
Swiss franc (commercial)	.2323-1/2
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2363
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	6-15/16% discount

We purchased $500,000 in gold from the earmarked account of the Central Bank of Chile.

No new gold engagements were reported.

The Federal Reserve Bank's report of February 11, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled $113,170,000, an increase of $8,524,000 since February 5. Most of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on February 11:

		February 11	Change From Feb. 5
Liabilities:	Deposits for Japan & Manchuria..	$65,316,000	+ $8,751,000
	Deposits for China..............	37,182,000	- 848,000
" :	U.S. Treas. bills, comm. paper, etc.	27,463,000	- 1,127,000
Claims :	Loans............................	$61,997,000	+ 5,333,000
" :	Other - mainly Jap. import bills	13,296,000	+ 1,228,000

The last three categories refer mainly to Japanese banks in Japan and Manchuria. Most of the $8,751,000 rise in deposits of such banks was accounted for by the $5,333,000 increase in the Agency's loans, plus the $1,127,000 reduction in the U. S. Treasury bills, etc. which the Agency holds for Japanese banks.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 15, 1941.

For Mrs Chauncey

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transaction in the account of the Central Corporation of Banking Companies, Budapest, maintained with the Guaranty Trust Company of New York.

Date	Amount Debited	Paid To
February 14	$25,000	Guaranty Trust Company of New York for account of the Union Bank of Switzerland, Zurich

H.M.Jr.

Table 1

AIRPLANE ENGINES

Disposition of Engines Inspected by the British Empire 1/

Week ended February 4, 1941

Engine company and type of engine	Week ended February 4, 1941: Inspected engines on hand January 28	Week ended February 4, 1941: Engines inspected during week	Week ended February 4, 1941: Total inspected engines to be accounted for	Exports during week: Separate engines	Exports during week: Engines in airframes: Number of engines	Exports during week: Engines in airframes: Airframe company and type of airframe involved	Inspected engines on hand February 4	Total to date: Engines inspected to February 4	Exports to February 4: Total	Exports to February 4: Separate engines 2/	Exports to February 4: Engines in airframes
Allison Engineering Co.											
V 1710-C15..........1000 h.p.	303	96	399	-	18	Curtiss Hawk 81A pursuit	381	1,060	679	64	615
V 1710-E4...........1150 h.p.	1	-	1	-	-		1	1	-	-	-
Total Allison.................	304	96	400	-	18		382	1,061	679	64	615
Jacobs Aircraft Engine Co.											
L-4MB...................225 h.p.	-	-	-	-	-		-	42	42	42	-
L-6MB...................330 h.p.	154	-	154	-	-		154	154	-	-	-
Total Jacobs..................	154	-	154	-	-		154	196	42	42	-
Lycoming Division of Aviation Manufacturing Co.											
R 680-E3..............300 h.p.	-	-	-	-	-		-	3	3	3	-
Menasco Manufacturing Co.											
D 4....................125 h.p.	-	-	-	-	-		-	46	46	46	-
Pratt & Whitney Aircraft											
R 985-SB2.............450 h.p.	37	3	40	-	-		40	44	4	2	2
R 1340-S1H1-G.........600 h.p.	-	-	-	-	-		-	50	50	50	-
R 1340-S3H1...........600 h.p.	249	15	264	-	-		264	1,069	805	2	803
R 1535-SB4-G..........825 h.p.	46	5	51	-	-		51	803	752	752	-
R 1690-S1E3-G.........875 h.p.	4	-	4	-	4	Lockheed Lodestar transport	-	4	4	-	4
R 1830-S0-G..........1050 h.p.	-	-	-	-	-		-	3	3	3	-
R 1830-SC3-G.(3:2)...1050 h.p.	18	-	18	-	-		18	290	272	30	242
R 1830-SC3-G (16:9)..1050 h.p.	209	25	234	-	32	Martin bomber	202	488	286	214	72
R 1830-S1C3-G (16:9).1200 h.p.	167	16	183	-	-		183	196	13	3	10
R 1830-S2............1200 h.p.	-	-	-	-	-		-	14	14	-	14
R 1830-S3C4-G........1200 h.p.	639	57	696	16	-		680	1,900	1,220	944	276
R 2800-S1A4-G.(5:2)..1850 h.p.	-	-	-	-	-		-	2	2	2	-
Total Pratt & Whitney.........	1,369	121	1,490	16	36		1,438	4,863	3,425	2,002	1,423
Warner Aircraft Corp.											
165-D..................165 h.p.	-	11	11	11	-		-	36	36	36	-
Wright Aeronautical Corp.											
R 760-E1..............300 h.p.	-	-	-	-	-		-	2	2	2	-
R 975-E3..............450 h.p.	49	-	49	-	-		49	168	119	-	119
GR 1820-102A.........1100 h.p.	47	-	47	-	-		47	835	788	-	788
GR 1820-105A.........1100 h.p.	76	1	77	-	44	Brewster 339 pursuit	33	136	103	-	103
GR 1820-205A.........1200 h.p.	170	-	170	1	-		169	672	503	68	435
GR 2600-A5B..........1600 h.p.	1,186	99	1,285	88	-		1,197	1,822	625	479	146
Total Wright..................	1,528	100	1,628	89	44		1,495	3,635	2,140	549	1,591
TOTAL ALL COMPANIES...........	3,355	328	3,683	116	98		3,469	9,840	6,371	2,742	3,629

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

Source: British Air Commission.

Prepared February 15, 1941.

1/ Excludes spare parts but includes spare complete engines; excludes secondhand engines.
2/ Includes spare engines for engines exported in airframes.

Table II

AIRPLANE ENGINES

Status of Inspected Engines of the British Empire on Hand in the United States

As of February 4, 1941

Engine company and type of engine	Airframe company and type of airframe involved		Total inspected engines on hand	Engines awaiting export	Engines at engine factory: Total	Engines at engine factory: Assigned as separate engines for export	Engines at engine factory: Assigned to airframes	Engines at airframe factory (or enroute thereto): Total	Engines at airframe factory: Estimated two months supply	Engines at airframe factory: Excess engines on hand	Engines at airframe factory: Deficiency in engines on hand	Reason for excess engines
Allison Engineering Co.												
V 1710-C15..............1000 h.p.	Curtiss	Hawk 81-A pursuit	373	80	96	96	-	197	187	10	-	
	Lockheed	322 2-engine pursuit	8	-	-	-	-	8	3	5	-	
V 1710-E4...............1150 h.p.	Bell	P-39 airacobra pursuit	1	-	-	-	-	1	25	-	24	
Total Allison....................			382	80	96	96	-	206	215	15	24	
Jacobs Aircraft Engine Co.												
L-6MB....................330 h.p.	Cessna	T-50 2-engine trainer	154	-	34	-	34	120	100	20	-	
Pratt & Whitney Aircraft												
R 985-SB2................450 h.p.	Grumman	G-21A amphibian bomber	40	-	3	-	3	37	-	37	-	
R 1340-S3H1..............600 h.p.	North American	NA 66 trainer	264	42	112	-	112	110	294	-	184	
R 1535-SB4-G.............825 h.p.	Vought-Sikorsky	V-156 dive bomber	51	-	5	-	5	46	15	31	-	Airframe deliveries 1 month late
R 1830-S03-G (3:2).......1050 h.p.	Lockheed	414-08 2-engine reconnaissance bomber	18	-	-	-	-	18	-	18	-	
R 1830-S03-G (16:9).....1050 h.p.	Martin	167F 2-engine bomber	202	92	25	25	-	85	202	-	117	
R 1830-S1C3-G...........1200 h.p.	Consolidated	PBY	183	10	63	14	49	110	69	41	-	
R 1830-S3C4-G...........1200 h.p.	Lockheed	414-13 2-engine reconnaissance bomber	493	-	-	-	-	493	336	157	-	Airframe deliveries 3 months late
	Grumman	Navy fighter	120	-	-	-	-	120	24	96	-	
	Consolidated	LB-30 4-engine bomber	28	-	-	-	-	28	77	-	49	Airframe deliveries 2 months late
	Separate engines		39	-	39	39	-	-	-	-	-	
Total Pratt & Whitney............			1,438	144	247	78	169	1,047	1,017	380	350	
Wright Aeronautical Corp.												
R 975-E3.................450 h.p.	North American	NA 64 trainer	49	49	-	-	-	-	-	-	-	
GR 1820-102A............1100 h.p.	Lockheed	B14 2-engine reconnaissance bomber	47	-	-	-	-	47	-	47	-	Represents spares for completed airframe contract
GR 1820-205A............1200 h.p.	Lockheed	414-56 2-engine reconnaissance bomber	162	63	94	-	94	5	125	-	120	
	Grumman	Navy fighter	7	-	7	7	-	-	-	-	-	
GR 2600-A5B.............1600 h.p.	Vultee	72 dive bomber	136	-	-	-	-	136	5	130	-	Airframe deliveries 4 months late
	Martin	187 2-engine reconnaissance bomber	32	-	-	-	-	32	7	25	-	
	Boeing	Douglas DB-7B 2-engine bomber	30	-	-	-	-	30	2	28	-	
	Brewster	340 dive bomber	48	-	-	-	-	48	-	48	-	Airframe deliveries 5 months late
	Douglas	DB7 2-engine bomber	322	60	-	-	-	262	74	188	-	
	Separate engines		629	368	261	261	-	-	-	-	-	Airframe deliveries 1 month late
GR 1820-105A............1100 h.p.	Brewster	339 pursuit	33	12	19	-	19	2	76	-	34	
Total Wright......................			1,495	552	381	268	113	562	290	466	154	
Subtotal: engines in airframes...			2,801	408	458	142	316	1,935	1,502	881	528	
Subtotal: separate engines.......			668	368	300	300	-	-	-	-	-	
TOTAL ALL ENGINES................			3,469	776	758	442	316	1,935	1,502	881	528	

Office of the Secretary of the Treasury, Division of Research and Statistics. Source: British Air Commission. Prepared February 15, 1941.

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	Lockheed	322 2-engine pursuit	8	-	-	-	-	8	3	5	-	
V 1710-E4..............1150 h.p.	Bell	P-39 airacobra pursuit	1	-	-	-	-	1	25	-	24	
Total Allison....................			382	80	96	96	-	206	215	15	24	
Jacobs Aircraft Engine Co.												
L-6MB....................330 h.p.	Cessna	T-50 2-engine trainer	154	-	34	-	34	120	100	20	-	
Pratt & Whitney Aircraft												
R 985-SB2................450 h.p.	Grumman	G-21A amphibian bomber	40	-	3	-	3	37	-	37	-	
R 1340-S3H1..............600 h.p.	North American	NA 66 trainer	264	42	112	-	112	110	294	-	184	
R 1535-SB4-G.............825 h.p.	Vought-Sikorsky	V-156 dive bomber	51	-	5	-	5	46	15	31	-	Airframe deliveries 1 month late
R 1830-SC3-G (3:2)......1050 h.p.	Lockheed	414-08 2-engine reconnaissance bomber	18	-	-	-	-	18	-	18	-	
R 1830-SC3-G (16:9).....1050 h.p.	Martin	167F 2-engine bomber	202	92	25	25	-	85	202	-	117	
R 1830-S1C3-G...........1200 h.p.	Consolidated	PBY	183	10	63	14	49	110	69	41	-	
R 1830-S3C4-G...........1200 h.p.	Lockheed	414-13 2-engine reconnaissance bomber	493	-	-	-	-	493	336	157	-	Airframe deliveries 3 months late
	Grumman	Navy fighter	120	-	-	-	-	120	24	96	-	
	Consolidated	LB-30 4-engine bomber	28	-	-	-	-	28	77	-	49	Airframe deliveries 2 months late
	Separate engines		39	-	39	39	-	-	-	-	-	
Total Pratt & Whitney............			1,438	144	247	78	169	1,047	1,017	380	350	
Wright Aeronautical Corp.												
R 975-E3.................450 h.p.	North American	NA 64 trainer	49	49	-	-	-	-	-	-	-	
GR 1820-102A............1100 h.p.	Lockheed	B14 2-engine reconnaissance bomber	47	-	-	-	-	47	-	47	-	Represents spares for completed airframe contract
GR 1820-205A............1200 h.p.	Lockheed	414-56 2-engine reconnaissance bomber	162	63	94	-	94	5	125	-	120	
	Grumman	Navy fighter	7	-	7	7	-	-	-	-	-	
GR 2600-A5B.............1500 h.p.	Vultee	72 dive bomber	136	-	-	-	-	136	6	130	-	Airframe deliveries 4 months late
	Martin	187 2-engine reconnaissance bomber	32	-	-	-	-	32	7	25	-	
	Boeing	Douglas DB-7B 2-engine bomber	30	-	-	-	-	30	2	28	-	
	Brewster	340 dive bomber	48	-	-	-	-	48	-	48	-	Airframe deliveries 5 months late
	Douglas	DB7 2-engine bomber	322	60	-	-	-	262	74	188	-	
	Separate engines		629	368	261	261	-	-	-	-	-	Airframe deliveries 1 month late
GR 1820-105A............1100 h.p.	Brewster	339 pursuit	33	12	19	-	19	2	36	-	34	
Total Wright.....................			1,495	552	381	268	113	562	2[illegible]0	466	154	
Subtotal: engines in airframes...			2,801	408	458	142	316	1,935	1,512	881	528	
Subtotal: separate engines.......			668	368	300	300	-	-	-	-	-	
TOTAL ALL ENGINES................			3,469	776	758	442	316	1,935	1,512	881	528	

Office of the Secretary of the Treasury, Division of Research and Statistics.   Source: British Air Commission.   Prepared February 15, 1941.

Chauncey

February 15, 1941

CONFIDENTIAL

Dear Mr. Knoke:

Permit me to acknowledge, on behalf of the Secretary, the receipt of your letter of February 13, 1941, enclosing your compilation for the week ended February 5, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank and the means by which these expenditures were financed.

Yours faithfully,

H. Merle Cochran
Technical Assistant to the Secretary

L. W. Knoke, Esquire,
Vice President,
Federal Reserve Bank of New York,
New York, New York.

HMC:kma
2/15/41

2 for Secy's files

FEDERAL RESERVE BANK
OF NEW YORK

February 13, 1941.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. Merle Cochran

I am enclosing herewith our compilation for the week ended February 5, 1941, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

L. W. Knoke,
Vice President.

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

Enclosure

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended **Feb. 5, 1941.**

Strictly Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT) DEBITS: Total Debits	Gov't Expenditures(a)	Other Debits	CREDITS: Total Credits	Proceeds of Sales of Gold	Proceeds of Sales of Securities (Est.) (b)	Other Credits (incl. adj'ts)	Net Incr. (+) or Decr. (-) in Balance	BANK OF FRANCE DEBITS: Total Debits	Gov't Expenditures(c)	Other Debits	CREDITS: Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
1939															
Aug. 31 - Sept.27	94.3	3.6	90.7	207.8	165.4	33.6	-11.2(d)	+113.5	19.4	6.0	13.4	11.3	-	11.3	- 8.1
Sept.28 - Nov. 1	106.7	5.8	100.9	142.0	3.2	52.6	86.2(e)	+ 35.3	88.6	51.8	105.4	76.2	35.0	41.2	- 12.4
Nov. 2 - 29	191.7	8.9	182.8	105.6	57.8	25.0	23.0	- 85.9	78.6			82.9	55.1	27.8	+ 4.3
Nov. 30 - Jan. 3	97.7	8.7	89.0	75.2	50.6	14.2	10.4	- 22.5	86.8	28.1	58.7	109.2	93.9	15.3	+ 22.4
1940															
Jan. 4 - 31	54.8	16.8	38.0	42.4	20.6	17.8	5.0(f)	- 11.4	61.5	31.5	30.0	55.9	50.1	5.8	- 5.6
Feb. 1 - 28	124.2	15.4	108.8	108.3	56.7	17.9	33.7	- 15.9	72.7	32.8	39.9	71.5	54.8	16.7	- 1.2
Feb. 29 - Apr. 3	115.5	14.5	101.0	94.0	60.9	21.5	11.6(g)	- 21.5	99.6	35.9	63.7	105.0	75.4	29.6	+ 5.4
Apr. 4 - May 1	113.4	26.1	87.3	86.4	46.8	13.4	26.2(h)	- 27.0	84.8	29.4	55.4	78.7	60.7	18.0	- 6.1
May 2 - 29	100.9	28.6	72.3	126.2	93.2	7.1	25.9	+ 25.3	101.4	57.0	44.4	145.4	126.2	19.2	+ 44.0
May 30 - July 3	283.2	145.3	137.9	319.3	301.3	5.1	12.9	+ 36.1	156.7(i)	127.3(i)	29.4	345.1(i)	335.6	9.5(i)	+188.4
July 5 - 31	249.7	156.7	93.0	225.0	212.2	2.0	10.8	- 24.7	7.3	6.3	1.0	3.2	3.0	0.2	- 4.1
Aug. 1 - 28	261.1	180.2	80.9	294.8	267.4	1.0	26.4(j)	+ 33.7	8.9	0.5	8.4	10.9	10.4	0.5	+ 2.0
First year of war	1795.2	608.6	1,187.6	1,828.2	1,356.1	211.2	250.9	+ 35.0	866.3	416.6	449.7	1095.3	900.2	195.1	+229.0
Aug. 29 - Oct. 2	316.8	244.3	72.5	308.9	271.5	6.0	31.4(k)	- 7.9	8.6	4.4	4.2	1.3	-	1.3	- 7.3
Oct. 3 - 30	196.7	167.8	28.9	198.5	160.5	6.0	32.0(l)	+ 1.8	0.5	0.3	0.2	0.5	-	0.5	-
Oct. 31 - Nov. 27	**241.0**	**201.1**	**39.9**	**259.5**	**210.0**	**18.0**	**31.5(m)**	**+ 18.5**	**0.8**	**0.1**	**0.7**	**0.7**	**-**	**0.7**	**- 0.1**
Nov. 28 - Dec. 31	**234.6**	**206.8**	**27.8**	**198.0**	**111.4**	**26.0**	**60.6(n)**	**- 36.6**	**2.1**	**-**	**2.1**	**0.6**	**-**	**0.6**	**- 1.5**
Jan. 2 - 29	**197.4**	**162.7**	**34.7**	**259.9**	**176.2**	**52.0**	**31.7(o)**	**+ 62.5**	**1.7**	**-**	**1.7**	**0.5**	**-**	**0.5**	**- 1.2**
WEEK ENDED															
Jan. 15	**56.9**	**49.9**	**7.0**	**163.8**	**143.6**	**14.0**	**6.2**	**+106.9**	**0.8**	**-**	**0.8**	**0.2**	**-**	**0.2**	**- 0.6**
22	**37.8**	**31.9**	**5.9**	**28.6**	**5.8**	**12.0**	**10.8**	**- 9.2**	**0.5**	**-**	**0.5**	**-**	**-**	**-**	**- 0.5**
29	**41.8**	**37.0**	**4.8**	**19.6**	**1.0**	**12.0**	**6.6**	**- 22.2**	**0.4**	**-**	**0.4**	**0.1**	**-**	**0.1**	**- 0.3**
Feb. 5	**46.5**	**40.7**	**5.8**	**23.2**	**-**	**10.0**	**13.2(p)**	**- 23.3**	**0.1**	**-**	**0.1**	**-**	**-**	**-**	**- 0.1**

Average Weekly Expenditures Since Outbreak of War
France (through June 19) $19.6 million
England (through June 19) 27.6 million
England (since June 19) **56.6** million

Transfers from British Purchasing Commission to Bank of Canada for French Account
Week ended **Feb. 5** $ **2.3** million
Cumulation from July 6 **128.2** million

(See footnotes on reverse side)

(a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
(b) Through June 19, these figures represent total sales of American securities in Second District reported for account of the United Kingdom. (Proceeds of these sales, however, may not have been credited to the Bank of England's account in all cases.) Beginning with the week ended June 26, the figures represent transfers from the Bank of Montreal, New York Agency, which is custodian for requisitioned American securities held in this country. The transfers apparently reflect proceeds of official security sales, including those handled through private deals. From June 17 to July 19, transactions in securities payable in specified foreign currencies, including dollars, by United Kingdom residents were prohibited.
(c) Includes payments for account of French Air Commission and French Purchasing Commission.
(d) Includes adjustment for (b) above.
(e) About $85 million transferred from accounts of British authorized banks with New York banks.
(f) About $11 million transferred from accounts of British authorized banks with New York banks.
(g) About $8 million transferred from accounts of British authorized banks with New York banks.
(h) About $10 million transferred from accounts of British authorized banks with New York banks.
(i) Adjusted to eliminate the effect of $20 million paid out on June 25 and returned the following day.
(j) About $2 million transferred from accounts of British authorized banks with New York banks.
(k) About $2 million transferred from accounts of British authorized banks with New York banks.
(l) About $4 million transferred from accounts of British authorized banks with New York banks.

(m) About $6 million transferred from accounts of British authorized banks with New York banks.
(n) About $32 million transferred from accounts of British authorized banks with New York banks.
(o) About $2 million transferred from accounts of British authorized banks with New York banks.
(p) About $7 million transferred from accounts of British authorized banks with New York banks and $1.7 million transferred from account of Commonwealth Bank of Australia.

Strictly Confidential

Week Ended Feb. 5, 1941

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

PERIOD	BANK OF CANADA									COMMONWEALTH BANK OF AUSTRALIA						
	DEBITS			CREDITS						DEBITS			CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C For Own A/C	Transfers from Official British A/C For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
1939																
Aug. 31 - Sept. 27	17.5	0.6	16.9	21.8	15.1	0.8	-	5.9	+ 4.3	-	-	-	-	-	-	-
Sept. 28 - Nov. 1	9.6	0.3	9.3	16.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	-	-	-	-
Nov. 2 - 29	9.9	0.7	9.2	14.4	13.3	-	-	1.1	+ 4.5	-	-	-	1.9	1.9	-	+ 1.9
Nov. 30 - Jan. 3	30.0	-	30.0	22.6	13.3	3.0	-	6.5	- 7.2	2.5	-	2.5	5.8	5.8	-	+ 3.3
1940																
Jan. 4 - 31	23.5	-	23.5	25.7	21.1	-	-	4.6	+ 2.2	5.2	0.3	4.9	3.3	3.0	0.3	- 1.9
Feb. 1 - 28	23.1	-	23.1	17.0	16.1	-	-	0.9	- 6.1	3.3	0.1	3.2	2.4	2.2	0.2	- 0.9
Feb. 29 - Apr. 3	42.3	-	42.3	29.5	29.3	-	-	0.2	- 12.8	3.0	0.3	2.7	2.2	1.6	0.6	- 0.8
Apr. 4 - May 1	38.2	-	23.2	42.9	24.8	15.0	-	3.1	+ 4.7	2.3	-	2.3	2.0	1.8	0.2	- 0.3
May 2 - 29	37.9	15.0	37.9	50.2	50.0	-	-	0.2	+ 12.3	1.2	0.2	1.0	2.6	1.7	0.9	+ 1.4
May 30 - July 3	44.1	-	44.1	72.5	72.2	-	-	0.3	+ 28.4	2.3	-	2.3	5.9	4.4	1.5	+ 3.6
July 4 - 31	28.2	-	28.2	117.6	96.3	-	19.2	2.1	+ 89.4	4.6	-	4.6	5.0	4.2	0.8	+ 0.4
Aug. 1 - 28	18.7	-	18.7	73.6	53.9	-	19.5	0.2	+ 54.9	6.8	3.0	3.8	5.0	3.4	1.6	- 1.8
First year of war	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
Aug. 29 - Oct. 2	44.3	-	44.3	43.9	16.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	8.0	6.7	1.3	- 0.7
Oct. 3 - 30	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2
Oct. 31 - Nov. 27	35.2	-	35.2	69.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.5	2.1	1.5	+ 0.5
Nov. 28 - Dec. 31	48.0	-	48.0	60.6	42.5	-	13.7	4.4	+ 12.6	4.8	-	4.8	6.8	4.8	2.0	+ 2.0
War period through Dec.	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Jan. 2 - 29	33.7	-	33.7	33.9	16.9	-	15.0	2.0	+ 0.2	4.8	-	4.8	6.8	5.1	1.7	+ 2.0
Jan. 30 - Feb. 26																
Feb. 27 - Apr. 2																
WEEK ENDED:																
Jan. 15	9.0	-	9.0	1.8	1.8	-	-	-	- 7.2	2.8	-	2.8	0.4	-	0.4	- 2.4
22	9.0	-	9.0	9.7	4.5	-	4.8	0.4	+ 0.7	0.2	-	0.2	5.4	5.1	0.3	+ 5.2
29	13.9	-	13.9	15.4	5.2	-	10.2	-	+ 1.5	0.9	-	0.9	0.9	-	0.9	-
Feb. 5	8.4	-	8.4	7.1	4.6	-	2.3	0.2	- 1.3	2.6	1.7	0.9	2.2	0.6	1.6	- 0.4

Weekly Average of Total Debits Since Outbreak of War
Through Feb. 5 $6.9 million

C
O
P
Y

METROPOLITAN LIFE INSURANCE COMPANY

New York City

February 15th, 1941

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

My dear Mr. Morgenthau:

I have your letter concerning Mr. Gale F. Johnston. I have been away from the office for a couple of days, holding business meetings with our Field Force, and am just now hastening to reply.

We are, of course, desirous of cooperating in any request from the Government and we shall be pleased to release Mr. Johnston from his important duties with our Company for a period of "a few months" as requested by you. I have just telephoned Mr. Johnston at St. Louis and have informed him that I am writing you accordingly.

I have no idea who brought Mr. Johnston's name to your attention in this connection but, whoever it was, is deserving of real thanks at your hands. In addition to being an outstanding citizen of St. Louis and active in community matters, Mr. Johnston is one of the exceptionally fine men in our Metropolitan family and he will surely give a good account of himself in the important work you propose to assign to him.

With kind personal regards, I am

Cordially yours,

(s) Leroy A. Lincoln
President

FEB 13 1941

My dear Mr. Lincoln:

In connection with a program now being developed for the promotion of the sale of Treasury securities to the public, it would be very helpful for us to have the services of your Mr. Gale F. Johnston. If he could be made available, we feel that he would be of great value in assisting in the organization of the campaign which we have in mind. It would be much appreciated if you could find it possible to lend him to us for a few months for the purpose indicated.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

HNG/mff

Secretary of the Treasury.

Mr. Leroy A. Lincoln,
President, Metropolitan Life
Insurance Co.,
1 Madison Avenue,
New York City.

BRITISH EMBASSY,

Washington, D. C.

February 15th, 1941.

Dear Merle,

You may remember that in Phillips's letter to you of the 10th January he put the value of the 250,000,000 pounds of Australian wool to be stored in the United States at something between $130,000,000 and $150,000,000. Although, as we understand, the purchase of this wool by the United States Government is not likely to be proceeded with for the present, I thought I should let you know for purposes of record that we now find that the above figure for the value of this wool is too high, and that the figure should in fact be something between $85,000,000 and $120,000,000. The reason for the large difference between the minimum and maximum figures is that the grades of wool to be shipped have not yet been selected, but it seems possible that the actual value may be somewhat nearer the upper limit than the lower limit. I am also not clear at present whether the new figures for value are based on f.o.b. prices in Australia or c.i.f. prices. As I understand that the United Government under the storage agreement is to pay for the cost of shipment of the wool from Australia to the United States, the correct basis of the valuation, in the event of the purchase of the wool by the United States Government, would of course be the Australian f.o.b. prices.

Yours ever,

(Signed) Jerry Pinsent

Mr. H. Merle Cochran,
United States Treasury,
Washington, D. C.

Copy:emk

BRITISH EMBASSY,
WASHINGTON, D.C.

<u>Personal and Secret</u> February 15th, 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary

Very sincerely yours,

Halifax

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

Telegram Received from London
dated February 14th, 1941.

1. Reference to convoy attacked east of Azores, now known that at least three ships totalling 14,590 tons two being British and one Greek are sunk. Survivors state that at least four ships were undamaged. Reported that raider was "Admiral Scheer" or Hipper class cruiser.

2. German "Uckermark"still afloat, attempt being made to tow her into harbour. One other Italian ship about 5000 tons was also captured on the 11th.

3. On the thirteenth two east coast convoys bombed but no damage reported.

4. One British ship (1900 tons) bombed and damaged off the east coast.

5. British tanker (10,516 tons) torpedoed and reported on fire and sinking in the north-west approaches.

6. Italian Somaliland. A cruiser bombed without damage off Brava. There was no reply to her fire from the shore batteries at Kismayu, the town being apparently evacuated. Scuttled merchant ship was lying in harbour.

7. R. A. F. No day operations other than curtailed routine reconnaissances were undertaken yesterday owing to adverse weather conditions. Night of 13th/14th. No bomber command operations took place.

Albania. Four tons of bombs dropped on enemy camp at Elbasan.

8. German Air Force. Daylight 13th. Little activity

Two/

Two bombers and one fighter intercepted and damaged during attack on Dover balloon barrage.

9. Night 13th/14th. Thirty enemy aircraft crossed the coast, aerodromes in east Anglia apparently being their objective.

10. Aircraft casualties in operations over and from the British Isles.

German 3 damaged.

British nil.

RESTRICTED

G-2/2657-220
No. 317

M.I.D., W.D.
February 15, 1941
12:00 M.

SITUATION REPORT

I. Western Theater of War.

Air: German. Fairly heavy attacks on the night of the 14th-15th in the London area. Considerable activity against shipping.

British. Normal operations on the night of the 14th-15th over western Germany, focussing over the Ruhr.

II. Greek Theater of War.

Ground: Strong local Greek attacks which may indicate resumption of a coordinated offensive, but which cannot as yet be indentified as such.

Air: No information available.

III. Mediterranean and African Theaters of War.

Ground: In Italian Somaliland the British forces which captured Afmadu are advancing southward on the port of Chisimaio. British naval units are demonstrating along the coast.

British progress in Eritrea appears held up.

Otherwise no change in the situation.

Air: The Italians claim effective aerial reaction against the British naval forces off Italian Somaliland.

German attacks on British units in Libya continued.

Malta was again attacked on the night of the 14th-15th.

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

RESTRICTED

Paraphrase of Code Radiogram
Received at the War Department
at 9:17, February 16, 1941.

London, filed 15:00, February 16, 1941.

1. On Saturday, February 15, planes of the British Coastal Command engaged in the usual patrols and one Bomber Command plane attacked an occupied French port. During the preceding night Coastal Command planes attacked occupied French and Belgian ports with unobserved results. During the same night planes of the Bomber Command started a number of fires at the inland German port of Duisburg and attacked a Gelsenkirchen oil refinery. Airfields in Holland and in the Ruhr Valley were the targets of lone British raiders but the success of these missions could not be determined. British aircraft losses as a result of these operations were one fighter plane during the day and one bomber during the night.

2. During the night of February 15-16 an 8-hour alert went into effect in London at eight o'clock in the evening. However, only a small number of bombs were released over London by German planes that passed over apparently bound for other points. Other German air activities during this night consisted of an attack against Gloucester, another against Aberdeen, a third along the coast of Norfolk and two others against Liverpool. German planes based on the Channel Islands carried out the first attack on the latter place. Two German bombing planes were destroyed during this night. During the preceding day German planes were fairly active over England. Continuous German

patrols were operated along the east coast of Britain and over the English Channel and the Strait of Dover. Raids were carried out against Norfolk and Suffolk and small cities in eastern Scotland were machine gunned and bombed by lone German raiders. German aircraft casualties during daylight hours were three planes.

3. British planes based in Aden, the Sudan, Greece and Kenya cooperated with land forces in their respective sectors. Three Italian planes were destroyed by British fighter planes and bombers in the Sudan theater. All Italian airfields on the Isle of Rhodes and in the Dodecanese Islands were severely and successfully attacked by British bombers based in Egypt. Reports circulating in London indicate that some damage was inflicted on Italian railroad facilities by the British parachute troops that landed there.

4. Axis fighter planes were on patrol duty in the Malta area and two attacks with bombs and mines were made against harbors, dock facilities, and airfields on the Island. These raids resulted in some damage. In addition, barracks at the Libyan city of Bengazi were dive bombed by one Axis plane.

SCANLON

Distribution:
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
G-3

February 16, 1941

Spoke to Arthur Purvis at 6:30 today and told him that I had heard that Edward Peacock's lawyers had been in to see Foley yesterday, and I was very much disturbed to learn that they are proposing to get a loan through J. P. Morgan and not to actually make a sale. I said that I thought that was a very poor way to proceed.

Purvis said that he had been in touch with Peacock since I spoke to him about it a couple of days ago, and it was simply a device with which to raise some money quickly, but they found that in using this device, they couldn't raise the money any more quickly than if they made a real sale. I said that I never could explain such a thing to the Congress and I thought it was a great mistake. Purvis kept insisting that it was simply a device and not a plan, but I still questioned it, and he said, "Well, you'll have to take my word for it." He said he was working very hard with Peacock and pushing him to get through a sale as promptly as possible.

February 16, 1941

Secretary Stimson called me at five minutes past seven, and wanted to know about the meeting for Monday, as he is anxious to go away Tuesday for a week's vacation.

He told me that he had sent the President a copy of his memorandum which outlined the setup to handle the Lend-Lease Bill after it has passed. I told him that I had not been in communication with the President to indicate how I thought the Appropriations Bill should be handled.

February 17, 1941
9:30 A.M.

GROUP MEETING

Present: Mr. Gaston
Mr. Young
Mr. Pehle
Mr. Sullivan
Mr. Foley
Mr. Thompson
Mr. White
Mr. Haas
Mr. Bell
Mr. Cochran
Mr. Schwarz

H.M.Jr: I cut out of this morning's paper, John Sullivan, this report by Professor Lutz of Princeton, and I wish you would get a copy of it. I would like to read it. I think it would be a good thing to invite him down here, for you to invite him down here and have a talk with him.

Sullivan: All right, sir.

H.M.Jr: Did you see it in the paper?

Sullivan: No, I did not.

H.M.Jr: Well, this is kind of in two pieces. I am sorry I tore it. I think if anybody has any ideas - I can't do it this week, because

I have just booked myself up solid on financing.

Chick, I have got the report from Graves on your division.

Schwarz: Yes, sir.

H.M.Jr: And it is an excellent report. I compliment you.

Schwarz; Thank you.

H.M.Jr: I don't know whether you have seen it or not.

Schwarz: I haven't seen it, but I would be interested.

(Mr. Foley entered the conference.)

H.M.Jr: If you would please not let anybody else see it, if I could have your word on it.

Schwarz: Surely.

H.M.Jr: Is there any reason why he can't see it?

Graves: No, no; he ought to see it.

H.M.Jr: I would like your word on it.

Schwarz: Thank you.

H.M.Jr: One of the men that he compliments the most, I never knew existed.

Schwarz: It shows how mysterious we are sometimes.

H.M.Jr:- Lampman. I never met him. I never met Schooler.

Schwarz: I will bring them in when there is an opportunity.

H.M.Jr: Herbert?

Gaston: I haven't anything of importance. I had a letter from Sherman Minton over at the White House the other day telling us to investigate a man to replace a collector of internal revenue at Pittsburgh. It is the first entrance of Sherman Minton in to the political picture. I have referred it back to Mr. Flynn.

H.M.Jr: Where does he and - what is that other young fellow's name?

Gaston: Jimmy Rowe?

H.M.Jr: Yes. Where does one begin and the other stop?

Gaston: So far as I know, neither of them is supposed to be in that picture now that Ed Flynn is down here, although he is away on vacation now at Palm Springs, California.

H.M.Jr: Well, it isn't too much for you yet, is it?

Gaston: Oh, no, not yet. We can stall on this for quite a while.

H.M.Jr: Anything else?

Gaston: No, I haven't got anything else.

H.M.Jr: Coast Guard still intact?

Gaston: Yes. I don't know whether you want to revive consideration of this question of the Italian and German ships. I don't think so. The situation is still as it was. They brought it up to me the other day, and I said unless something new occurred to make it more menacing or more disturbing, that we had better go right ahead on the previous orders that we had.

H.M.Jr: That is all?

Gaston: That is all.

H.M.Jr: Edward?

Foley: Here is the outline of the appropriations program under H.R. 1776.

H.M.Jr: Have you seen it?

Foley: Cox worked it up with the people over in the Budget.

H.M.Jr: I will give Dan a copy.

Well, we will read this - we have a tentative appointment for 11:30, and I can only take one person. I think the person to take is Dan. So if you will be posted. Will you, Dan?

Bell: It looks all right to me.

Foley: Cox indicated that after they got back to the Budget, Smith again said that the other way was preferable, and he probably is going to submit a minority report orally.

H.M.Jr: I am sure he is. I counted on that.

Foley: He didn't participate in the drafting of this thing. One of his people did it.

H.M.Jr: I was counting on that, because Secretary Stimson called up and was nervous about it and wanted to know, and I told him that I am sure that Smith will report afterward.

Foley: I will show you the memorandum to Irey on that

Viscose transaction.

H.M.Jr: Well, I have sent word - I called up Purvis and told him it was just out of the question, that they couldn't put a deal like that through, and I told the President what I had done about it yesterday; and he said I was absolutely right, absolutely right.

Foley: Harry and Bernie and I are going over to Dean Acheson's office at a quarter after ten. I think it would be a good idea if Pehle could come along also.

H.M.Jr: Why not? It gives him something to do.

(Laughter.)

Foley: That will make it four against four.

H.M.Jr: All right. Is that fair?

Foley: Well, I don't know whether it is fair to the State Department.

H.M.Jr: O.K. John?

Sullivan: Mr. Doughton is still talking about that vacancy on the Processing Tax Board of Review, and I assume that I can state to him that after you get through with the financing and have time, you will be glad to discuss it.

H.M.Jr: This week. I am through Monday. Ferdie, you might in confidence see our friend Ed Wright after this meeting. He is pretty good.

Sullivan: I have got to see Doughton this morning, and the House will concur in the Senate's amendments to the Public Debt Act, and they are introducing --

(Telephone conversation with Secretary Stimson follows.)

February 17, 1941
9:40 a.m.

H.M.Jr:	Hello.
Operator:	Secretary Stimson.
H.M.Jr:	Hello.
Henry L. Stimson:	Hello.
H.M.Jr:	Henry talking. I broached that subject last night - the personal one.
S:	Yes.
H.M.Jr:	And the President thought it was an excellent idea and an excellent time.
S:	Well, I'm very glad to hear that. You were very kind.
H.M.Jr:	He unhesitatingly thought it was good.
S:	Well, did he give you any light on when we are going to meet on this ......
H.M.Jr:	No, I simply told him that if he would see us, it was going to be a unanimous report so I thought he'd be more apt to see us on that basis.
S:	(Laughs). Well, will it be today?
H.M.Jr:	Well, what happened - it's set for 11:30 if he approves.
S:	Oh, I see. But he hasn't turned you down?
H.M.Jr:	Oh, no. He does his appointments somewhere around 10 o'clock and then .....
S:	I see, so somewhere between 10:00 and 11:30 I'll get word to come over.
H.M.Jr:	Well, your agent will let us know.
S:	All right. Well, I'm very much obliged to you, Henry. That relieves me very much.
HMJr.	That was easy.
S:	Thank you.

H.M.Jr: I always refer to General Watson as Stimson's agent, and he says, "Now don't get sarcastic;" and I said, "Well, was he? Isn't he in the army?" "Well, he is no agent of mine. He lets me know about an 11:00 appointment at five minutes past 11:00. He is no agent of mine."

Sullivan: Am I to go to St. Louis?

H.M.Jr: Yes. When is it?

Sullivan: I believe it is Friday.

H.M.Jr: Don't you want to go?

Sullivan: Sure, I am willing to go and take a crack at them, but I saw the letter you wrote to La Guardia suggesting that I go, and I hadn't seen that he had taken the suggestion.

H.M.Jr: That is here. I have had no answer.

Sullivan: Knox is going to speak out there too.

H.M.Jr: That will be company for you.

Sullivan: I think he is going to fly out Thursday, and I might fly out with him.

H.M.Jr: All right. Anything else? Just as soon as we get this financing thing over, I am going into taxes up to here. (Indicating neck.)

Sullivan: I had a talk with Senator George this morning. He is home in bed ill. It sounded like a pretty bad cold.

H.M.Jr: Merle, would you drop over to the State Department sometime between now and lunch and take a look at the Balkan despatches and the Far

East despatches?

Cochran: Yes, sir.

H.M.Jr: Will you, please?

Cochran: Surely.

(Secretary on White House phone.)

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

Yes.....

Yes.....

Wonderful.....

I would rather you would.....

Is Harry going to eat with us?.....

You say I am expected for lunch?.....

Harry having lunch too?.....

Well, I'll be damned.....

H.M. Jr. signing off.....

O.K.....

Good-bye.....

H.M.Jr: Twelve-thirty, and I should call the others. I said "no."

Bell: Five minutes of one.

H.M.Jr: Lunch with the President and Hopkins. Hopkins, incidentally, looks wonderful. He has got regular Yorkshire pink cheeks.

Cochran: When do you want me to report to you?

H.M.Jr: Oh, after lunch.

Cochran: All right, I will go between 12:00 and 1:00.

H.M.Jr: Yes. I will say now I will see you at 3:00.

Cochran: All right, sir.

H.M.Jr: The Balkans and the Far East.

Cochran: Yes, sir. I had nothing this morning except Zoltowski, the Polish financial counselor, telephoned from New York Saturday saying he is writing a letter asking your intervention in behalf of a man named Roman, who used to be Minister of Commerce in Poland. His property is going to be taken over by the Germans. I told him that I didn't know that you could do anything. He has already written Bullitt and Biddle and has the Embassy taking it up with the State Department.

H.M.Jr: I suggest you all read Frank Waldrop's article on this particular Pole who is here and there trying to get him out of the country. What is his name? He is a doctor. He didn't have it entirely straight. It is very interesting.

White: Rajchman.

H.M.Jr: He has got to leave the country, and his two friends, Mowrer and Harry White, are trying to move heaven and earth to keep him from getting out of the country. I won't tease you, Harry. Edgar Mowrer and Benjamin Cohen are the two men. Read it.

Schwarz: It will be in the Times-Herald.

H.M.Jr: I don't know how he missed you.

White: It is the understanding we have.

H.M.Jr: Very interesting.

Cochran: Lacour-Gayet was phoning again on that matter of helping get refugees out of France. I think it is still a State Department matter.

H.M.Jr: We are still way beyond a 24-hour basis on the $10,000,000 of gold for Africa.

Cochran: That is all I have.

Schwarz: I telephoned Gregory this morning with what came up in connection with his story of yesterday. He said that he had been saving that material that he got, a good bit of it, when he was up in New York talking to bond dealers. He said he also talked to members of the Committee before which we asked an appropriation, and he talked to about three or four people in the Treasury and that he used annual reports for 1917 and '18 to get the background.

H.M.Jr: I was glad to read it. I found out what we were doing. That was Gregory in the Tribune.

Bell: I didn't see it.

H.M.Jr: I thought it was a little previous. It was perfectly good.

Schwarz: He also said that he got some from Ted Goldsmith. He got some help from him.

Bell: From who?

Schwarz: Ted Goldsmith. (Laughter.)

Gaston: Then he did see somebody in the Treasury.

Bell: I will have to read the article.

H.M.Jr: Read the article and you too, Kuhn.

Schwarz: I compared it this morning with Goldsmith's letter, and Goldsmith doesn't have the same stuff in his letter.

H.M.Jr: If you want to find out what we are doing down to the last ten cent postage stamp, it is very interesting. It is very favorable and very nice to me and all that, but I was just sort of amused that he had such a good pipeline.

Schwarz: Well, they get around.

Kuhn: Is this in yesterday's Tribune or today's?

H.M.Jr: Yesterday's.

Schwarz ; He does the Sunday column.

H.M.Jr: If anybody wants to know what the program is, I suggest you read Nick Gregory in yesterday's Tribune.

Schwarz: I will be asked today whether it is all right or not.

H.M.Jr: It is all right.

Schwarz: At the request of Mr. Houghteling with the approval of Mr. Graves, they deferred announcing his appointment. He was - he didn't want us to announce it quite that way. You may be asked this afternoon, however. I have had one query asking was he coming over here, and nobody knows yet.

H.M.Jr: My wife asked me the same question, and I said, "He succeeded Judge Hoyt." He is doing the same work that Choate and Hoyt did.

Gaston: Work?

(Laughter.)

H.M.Jr: Yes. Ask Harold. Ask H.B. Harold. Harold says that is right. You know what H.B. stands for?

Graves: Half back?

H.M.Jr: No, ask Harold. Isn't he going to --

Graves: Yes, he is all right. He is very serious and intelligent about his approach to this thing and very industrious.

Gaston: I remember Choate but not Hoyt.

H.M.Jr: He has already dug up one thing, that we don't begin to cover every retail outlet each year. We don't collect our $25 stamps. If he does nothing else, if he gets that thing through and gets it back so we cover every retail liquor outlet once a year, he would pay for his salary.

Graves: Many times over.

H.M.Jr: Harold was very suspicious, but he came back and was man enough to say he thought he was all right. I didn't know. It was a chance. All right?

Schwarz: All right.

Pehle: Riefler called Friday from Princeton and asked me to see Jacklin, who is the treasurer of the League of Nations. He is over here temporarily. He came in Saturday, and he was troubled about the possibility that if we froze Swiss funds we would freeze the League of Nation's funds, and I told him that we had mechanical devices for giving them pretty complete freedom.

H.M.Jr: Can't you put the League of Nations and the Vatican in the same category?

Pehle: Sure you can.

(Laughter.)

Pehle: He wanted to know whether he could get some assurances as to how he would be treated, and I told him maybe he had better talk to State Department.

H.M.Jr: It is worth one good dinner.

Foley: We haven't been up there to lunch yet.

Pehle: He didn't want to talk to the State Department. He said he had just talked to British Treasury officials and they said, "Stay away from the State Department."

(Laughter.)

H.M.Jr: Who told him that?

Pehle: He just said British Treasury officials, and he had seen Sir Frederick, I think, so I don't know just who it was, but --

(Laughter.)

I got the feeling that the point was that --

White: We got it.

Pehle: He was afraid if he went over to the State

Department the State would use it as another argument against freezing somehow. He said he was going to Canada, and he gave me the impression that if Canada promised him complete freedom of his funds, he might move them up there.

H.M.Jr: Good.

Pehle: I think that wouldn't --

H.M.Jr: Tell him to take a look at Haiti, also.

Pehle: He is operating out of Canada. That is all I have.

H.M.Jr: Philip?

Young: Mr. Van den Brock, the head of the Netherlands Purchasing Commission --

H.M.Jr: Yes, I have given him an appointment.

Young: You have? And I think Mr. Zimmerman ought to come with him, who is the fellow who has been running the show during his absence in London. Is that for today?

H.M.Jr: No, tomorrow. How about the Greeks? Are you going to let them know about their planes?

Young: I haven't said anything about it or done anything about it.

H.M.Jr: Well, I would do it today.

Young: Ask the Minister to come in?

H.M.Jr: Well, why don't you call up Frank Knox's office and find out what he has done about it first?

Young: Sure.

H.M.Jr: Just to check.

Young: Right. Then I will check with you again before I do anything on it.

H.M.Jr: No, that is all right, go ahead. You have got to work the thing out to see that he really gets them now.

Young: Right. That is all.

H.M.Jr: George, I know you have still got that thing. Hang onto it. Tell Stephens I want to see you.

Haas: All right. Allison was particularly late today, but that table has the figure. I marked it in. It is 66.

H.M.Jr: Could you find out what the Allison engine - what number they are, whether they are D or E, the ones that are going to the Army now? I would be interested in the new ones for the Army. What ones are they that the Army is getting. From now on, if the English are still getting the - what is the first one they turned out?

Haas: C. Are they still getting C, and what would that new one that the Army is getting be.

Young: It is the E.

H.M.Jr: I would like to know.

Young: George and I have a new table here on the engines, the status of British engines, those in transit and awaiting shipment and export and so on. I would like to take a minute sometime to explain it to you, and we are getting a similar table on frames which will match it. I think you will find the figures quite interesting, because they show a picture that has never been shown before of just what the situation is.

H.M.Jr: Well, I can see you gentlemen at 11:30. What are you doing at 11:30?

Young: Seeing you.

H.M.Jr: Fair enough. Haas and Young. We can clean up the other stuff from Leon Henderson's shop at that time, too.

Haas:- That is all.

H.M.Jr: Ferdie?

Kuhn: I have nothing.

H.M.Jr: Harry?

White: In re-examining the value of the large British direct investments here on the first batch, which includes possibly a third, our estimates are running about 10 per cent higher than those of the Department of Commerce, largely because theirs were made four years ago, so that it is interesting at least to know they are not lower than the Department of Commerce.

H.M.Jr: You mean higher than the 900 million?

White: Yes, it will be, if the remainder of them remain the same, of course. The large companies show somewhat higher in book value than theirs do.

H.M.Jr: Anything else?

White: We would - Louchheim, with whom we are working in the S.E.C. on these evaluations, would - thinks that it would be very helpful if he had your permission to go to the New York State Insurance Commission to get information and data on the British insurance companies.

H.M.Jr: Go ahead.

White: Is that all right with you?

H.M.Jr: Go ahead. We have got to put a lot of pressure on these boys on the direct investments. I don't like the way they are acting at all.

White: There was a comment in the British paper, Financial News, that just came in in which the leading article spoke of the danger to British interests of being forced to sell Courtauld and other items indicating a very definite displeasure at being forced to part with their direct investments, but that is natural. Possibly you remember that the New York bankers, many of them, were a little bit concerned over the proposed Inter-American Bank.

H.M.Jr: Yes.

White: They came down and had a meeting and they raised their objections. Their objections were explained away, and then an additional suggestion was made by them with the end result that they have gone along, and they are going to support it when it comes before Congress.

You might be interested also in the wind-up of the several months' dispute between Argentina and the State Department on the Most Favored Nation treatment. They came to some sort of a compromise in which Argentina agreed to let them know ahead of time if any discriminatory treatment was being practiced. We have got a rather detailed study which shows that Germany has acquired an awful lot of gold and foreign exchange in the last year or two. We think that she has got almost three quarters of a billion dollars.

H.M.Jr: Good. That gives her that much more interest in gold.

White: Well, you will notice that her comments on gold which were so prevalent a year ago, about getting along without it, have almost ceased.

H.M.Jr: Anything else?

White: That is all.

H.M.Jr: Harold? How is Odegarde?

Graves: Mr. Kuhn and I talked with him Saturday morning.

Kuhn: Saturday, yes.

Graves: He was out of bed but quite obviously not able to get out of his house. As I understood, he intends, if he is well enough, to be down here Wednesday.

H.M.Jr: Good. Well, if you gentlemen want to see me, let Stephens know, will you? I am going to be very tight on appointments all week except financing. Dan?

Bell: The Social Security Act as amended in 1939 sets up a Trust Fund Board to handle the Old Age Fund, and it is required to render a report on the first day of the session of Congress. We are a little late on it. We had some difficulty in getting agreement with the Social

Security Board, but now we have that agreement. It is here for you to sign.

I read over the minutes of that meeting we had of March 10, 1938, of which Ransom wants a copy. I see nothing in it which he couldn't have except the argument or the explanation that Crowley gave for his helping Glass draw that bill. You remember he drew it.

H.M.Jr: May I make a suggestion?

Bell: I would just cut that out.

H.M.Jr: No, he will have to come to your office and see it. I don't want it to leave the building, Dan.

Bell: It is nothing but just a matter of procedure.

H.M.Jr: I know, but I don't like these things floating all over Washington. I never know where they are.

Bell: O.K. I will let him come over.

Thompson: Mr. McReynolds is working on the Ballinger case. I have been pressing him pretty hard. He is having a little difficulty finding a place at the same grade in salary, but he has definitely promised to work it out.

H.M.Jr: What did we hear from the Department of Agriculture?

Thompson: We can get Ted Wilson, not on a reimbursement basis, but on a direct transfer. They can't spare him. They are losing their assistant director.

H.M.Jr: You can get him? Get him.

Thompson: We can get him, yes.

H.M.Jr: Couldn't I see him with you and have a talk with him?

Thompson: Yes. I was wondering if you would rather wait until we get Ballinger placed.

H.M.Jr: No. I would like to see what this man looks like, so if you will tell Stephens I would like to see - what is his name?

Thompson: Wilson.

H.M.Jr: I would like to see Wilson with you. I would like to see him. It is a question of today or tomorrow, because I am going to go into these other meetings, and I won't have any time. Please.

All right, gentlemen.

DEPARTMENT OF STATE

WASHINGTON

February 17, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a strictly confidential memorandum dated January 24, 1941, received without covering communication from Mr. Donald R. Heath, First Secretary, American Embassy, Berlin, concerning Germany's food supply.

Enclosure:

Memorandum from
Embassy, Berlin.

COPY

EMBASSY

Berlin, January 24, 1941.

AIR MAIL

Strictly Confidential

MEMORANDUM

For Treasury from Heath and for the Department's information.

Shortly after the outbreak of the war I had a conversation with the head of the research section of the newly formed National Defense Council who, while avoiding detailed comment on the economic problems confronting Germany, did state very categorically, and I believe sincerely, that Germany would be able to maintain her initial scale of rations without diminution for a period of two years. After that time, if the war continued, various factors would cause a gradual reduction in rations, among them; presumable shortage of agricultural labor, transportation difficulties, fuel shortage, difficulty of replacement of agricultural machinery and lack of phosphatic fertilizers. Similar predictions were privately uttered by other informed contacts.

I now learn from what I believe to be a reliable source that at a recent conference on the food situation the Secretary of State of the Ministry of Food and Agriculture announced that it would probably be necessary by next summer (in other words some two or three months before the end of the first two years of the war) to reduce the meat ration and possibly the fat ration as well. My informant asked that this information be not telegraphed or in any way reported unless it could be done in the most confidential manner.

Donald R. Heath,
First Secretary of the Embassy

Approved:

Leland Morris
Charge d'Affaires ad interim

DRH/jp

A true copy of
the signed original.

February 17, 1941
10:41 a.m.

Justice Frankfurter: Henry, this is Felix.

H.M.Jr: Hello, Felix.

F: I'd like to have a leisurely talk with you before very long, preferably tomorrow. When do you go to your shop in the morning - tomorrow?

H.M.Jr: Oh, I leave the house usually at 8:15 or 8:30.

F: Oh, God! Would you pick me up and we could have a talk then?

H.M.Jr: Surely. Surely.

F: It's something that I'd like to have a talk - not for five minutes over the phone.

H.M.Jr: No. Well, now is that ......

F: I spent a good deal of time on your damn job. (Laughs).

H.M.Jr: (Laughs).

F: I mean not on your job but on your commission and it's all really - I mean really it's going to be all right.

H.M.Jr: You think so.

F: Yes, but what I'm concerned with is to give you a little bit of the background of the situation.

H.M.Jr: Should I be at your house at 8:45 tomorrow? How would that be?

F: That would be - that would give me fifteen minutes more in bed. That's a good place for a judge.

H.M.Jr: Well, I'll be at your house tomorrow morning at 8:45.

F: Or I'll give you a cup of tea in late afternoon at my house. What would you prefer?

H.M.Jr: Today?

F: No, tomorrow - well, I'll give it to you today. Sure. How about that?

H.M.Jr: Well, what time do you get home?

F: Well, what time do you get home and I'll bargain with you.

H.M.Jr: I'm not terribly good in the late afternoon.

F: You'd prefer it in the morning, wouldn't you?

H.M.Jr: I'm not awfully good late afternoons.

F: You'd prefer it in the morning, wouldn't you?

H.M.Jr: Well, you've got me at my best.

F: All right. Well, you pick me up at 8:45 tomorrow.

H.M.Jr: Right.

F: Thanks very much. In the meantime you know that the thing is going forward with a good procedure, I think.

H.M.Jr: Well, our boys I think are over there now.

F: That's what I'm saying.

H.M.Jr: I haven't talked to Kuhn - I haven't had a chance, so I don't know.

F: Well, I've spent a good deal of time on it and I just want you to be - well, what shall I say - in a relaxed frame of mind.

H.M.Jr: Well, I'm relaxed. There are two things that bother me equally. One is the accomplishment of what we were trying to go after and the other was my disappointment in .....

F: Well, that's what I'm most concerned with and that's what I want to talk to you about.

H.M.Jr: Well, that ......

F: That's more important than the immediate problem.

H.M.Jr: Yes. If Dean Acheson isn't going to be what you think he is, the sooner I know it the better.

F: Well, - (laughs) - you assume he's going to be what you thought he was going to be.

H.M.Jr: Wonderful.

F: All right.

H.M.Jr: May I thank you for all your time and trouble?

F: No, you may not but I'll see you in the morning.

H.M.Jr: But it's really important.

F: It's more important than you think.

H.M.Jr: Well, I'm ever so much obliged.

F: Fine.

H.M.Jr: Thank you.

February 17, 1941
11:46 a.m

H.M.Jr: Hello.

Operator: Mr. Lovett.

Robert Lovett: Hello, Mr. Secretary.

H.M.Jr: Good morning.

L: Good morning, sir.

H.M.Jr: Lovett, are you coming to see me tomorrow?

L: 10:15, sir.

H.M.Jr: Yes. Now, I've got another thing if you could have it. I know I've asked for a lot but if you can get it - I wonder if you could bring with you a list of any Army planes which are finished, completely finished, but have no engines, if that condition exists.

L: Well, now, Mr. Secretary, I'm afraid you may get confusing information on that type of statistics because we would have a plane that is in the GHQ air force for example down in Panama that has no engines in it because the engines are being overhauled.

H.M.Jr: I don't mean that; I mean at the factory - new.

L: You mean on the planes at the factory.

H.M.Jr: I mean Army factories - well, like the case of ......

L: B-17.

H.M.Jr: Yeah.

L: All right, sir.

H.M.Jr: I mean, are there any more cases like the B-17's where for instance in that case you were flying them out and had to send the engines back to get more.

L: Yes. Well, I can get that for you very easily, sir, but I don't believe that's fully responsive to, perhaps, what's in your mind because I can say this, that we can get very much more accelerated air frame production if for example we had the engines that - the R-2800's of the Pratt-Whitney which are going to the British. In other words, the Martin B-26 bombers are held up not because of air frames but because there are no engines for them.

H.M.Jr: Which engine do they take?

L: They take the Pratt-Whitney 2800's. We are getting engines now from them; we are getting planes from them this month, but Martin tells us that he could double the production by April 1st if he could get engines.

H.M.Jr: How much horse power is that?

L: That's approximately 2,000 horse.

H.M.Jr: No. Well, the English can't help you on that because they haven't got any.

L: Well, they are beginning to come out now.

H.M.Jr: Well ......

L: So the problem in other words is that there are certain types of air frames that we could accelerate production on if we could get engine deliveries.

H.M.Jr: Well, you're a little ahead of me. All I want to know is there anything like the case of the Boeings where you actually are short of engines and the planes are lying around without engines in them.

L: The airframes without engines.

H.M.Jr: Yeah.

L: I can give that to you easily.

H.M.Jr: That's all, just are there air frames completed, under canvas somewhere, lacking engines.

L: Yes, sir. Only for the Army, because I know of some for other takers that are in that fix.

H.M.Jr: Well, Navy?

L: I think the Navy is O.K. on engines.

H.M.Jr: Well, I'm only interested in the Army and Navy.

L: All right.

H.M.Jr: Who did you have in mind?

L: Well, there were some British planes completed out at Glendale, Burbank, that did not have engines a couple of weeks ago. In other words, the air frames are coming through faster than the engines.

H.M.Jr: You'd better check that; I question that.

L: All right. Bob Gross told me on the phone, I think it was about two weeks ago.

H.M.Jr: Yeah. Well, you might check that.

L: Well, I won't bother with them, sir, because ......

H.M.Jr: No, don't bother with them because I've got their tables here before me and what I had in mind was if you people have got - the Army and Navy have got planes sitting around completed without engines, maybe I could be a little helpful. That's what I was thinking about. See?

L: Fine. Yes, sir.

H.M.Jr: I mean on a temporary basis. That's what I was thinking about. If the English have anything like that, they can get that to us.

L: All right. That'll be helpful.

H.M.Jr: Yeah.

L: I'll have that ready for you tomorrow.

H.M.Jr: Thank you.

February 17, 1941
12:17 p.m.

Congressman McKeough: Yes, Mr. Secretary.

H.M.Jr: How are you?

McK; Fine, thank you.

H.M.Jr: Mr. McKeough, I just want to tell you I'm working on the Marx Brothers case.

McK: Thanks very much, sir.

H.M.Jr: I just wanted to let you know.

McK: Well, that's very thoughtful of you.

H.M.Jr: Do you know when it's coming up for trial?

McK: Well, the situation with relation to the trial briefly is this: they were scheduled two weeks ago today - tomorrow. Then Monday, two weeks ago today, I appealed to Mr. McGuire, because of my inability to get to Mr. Jackson, and after pleading my heart out he finally stated that I could have a week.

H.M.Jr: I see.

McK: And in the meanwhile that I was to ask Mr. Marx to come to Washington and meet with Mr. Wenchel on Thursday a week ago, which I did. Then Mr. Wenchel, as I understand it, called the Justice Department. To whom he spoke personally I don't know - oh, I think I do. It was Mr. Clark, and he asked Mr. Clark to give some additional time and that they were due a week ago tomorrow for trial. He indicated, incidentally, when he discussed that phase with me that Mr. Clark was somewhat piqued that he asked for the additional time.

H.M.Jr: I see.

McK: Then that leaves it, as I see it, waiting final decision from you - that is, the Treasury Department.

H.M.Jr: Yeah.

McK: And I know of no date certain that has been set. I'm sure that that might be confirmed by discussing it with Mr. Wenchel.

H.M.Jr: We'll do that.

McK: May I ask again, Mr. Secretary, in the event that no favorable decision is reached by you, that you be good enough to let me again see you before final decision?

H.M.Jr: That's a fair request. Yes.

McK: Thanks a million.

H.M.Jr: O. K.

McK: Thank you, sir. Good-bye.

THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

file 2/17.

February 18, 1941

CONFERENCE AT THE WHITE HOUSE, 12:30 P. M., FEBRUARY 17, 1941

Those present besides the President were: Secretaries Morgenthau, Stimson, Knox, and Wickard; Director of the Budget Smith, Messrs. Harry Hopkins and Bell.

The President discussed for a few moments Harry Hopkins' trip to London. He said he had practically lived with British officials and had come back with first-hand information; he had talked with Harry the night before until 2 A. M. and they had not finished yet. One important thing which we had overlooked was the coming need for food supplies. He thought that was something which should be looked into immediately by the Secretary of Agriculture.

The President said that he had talked with the Congressional leaders that morning about the total requirements under the Lend-Lease Bill. He asked them how the Congress would feel about his submission of estimates, whether they would like to have a total at once, say 3 or $4,000,000,000 in cash and 3 or $4,000,000,000 in contract authorizations or whether they would like to have it divided into several submissions. They were unanimous in recommending that it be divided and that the amounts required be submitted from time to time, including just enough cash and contract authorizations to come within the capacity of the country to produce the articles.

Secretary Stimson commented that this was important and he said that as we all knew, they have been working through Mr. Jones in the RFC in order to build up the capacity of the country and to keep that capacity producing in the interim while the Lend-Lease Bill has been pending.

At this point the Secretary handed the President the memorandum which had been prepared in the Bureau of the Budget as a result of the conference held at his house on Saturday morning. He told the President that this was a memorandum of procedure which the four Cabinet officers present had agreed upon, but he was not so sure that his Director of the Budget was happy about it. He was there and could speak for himself.

The President then read the first paragraphs of this memorandum, which are a summary of I and II detailed procedure and said it was all right with him but he was not quite sure it would be all right on the Hill. He asked about percentage of flexibility and whether or not ten per cent would be sufficient. The Secretary said fifteen per cent had been suggested at the conference held at his house on Saturday. He personally was not able to say what that percentage should be. Mr. Smith stated that obviously some percentage would have to be worked out as it was necessary to have flexibility in operating the program.

The President then asked as to what proportion would the funds be split between I and II, and just as a rough guess, someone suggested that it might be $3,000,000,000 cash and contract authorizations to the War and Navy, and $1,000,000,000 cash and contract authorizations as a lump sum which would take care of all the Departments, including Agriculture, Maritime Commission, etc. The exact figures would have to wait on the breakdown of the British program and its integration with the present National Defense program. The War and Navy Departments are now working on that.

Mr. Smith then made his point, that while he was willing to go along on this program, he still was of the opinion that it was not the best method of procedure. He had discussed it at some length with the members of his own staff and they, with all of their background and experience, felt that it was wrong to split up this program among the many items of appropriations on the books of the War and Navy Departments. He said that he thought there was a great chance of losing budgetary control by the Budget Bureau and accounting control by the Treasury over the appropriation procedures. He was quite certain it was not as simple as had been outlined and before we were through, we would have to go back to Congress many times to get authority for additional flexibility.

The President said that he agreed with Mr. Smith in general but he was quite certain that the Congress would not give him a lump sum appropriation as large as we will need to carry out the provisions of the Lend-Lease Bill. He thought it would be better to handle it in the manner outlined in the memorandum, then as the materials or articles come off the manufacturing line it then be determined which were to go to the British and which were to form a permanent part of our National defense. He then asked me if I did not think this the best way to account for them and at that time have an account with the British to which these articles would be charged. I said that that was the only way to handle the matter under this proposed procedure, but I wanted to point out it should be understood that the only way the Treasury can handle the expenditures under this whole program is in the first instance charge them to our National defense so that each day when our Daily Statement is published it will show a large National defense expenditure, part of which will be for the account of the British and which will not be determined until weeks or possibly months later. As the documents are signed leasing or loaning these articles and materials to the British and those documents are filed in the Treasury, that is the first opportunity the Treasury will have to charge the British and credit our own National defense expenditures, and by that process reduce our previously published National defense expenditures. The one objection to this is that the expenditures in the first instance will be made, say in 1941, and the credits for the British may be made in 1942. In other words, you will have credits against 1942 expenditures for an adjustment of 1941 expenditures. While this is not the best thing, it is the only practical way that we can work it out without a great accounting organization.

There was some discussion as to the drafting of the bill but it was concluded that there was no necessity for this as the regular budgetary procedure would be followed. The War and Navy Departments would submit their estimates to the Director of the Budget who would prepare the necessary documents for the President to submit to the Congress, which would be referred to the appropriation committee and on which that committee would hold hearings in the usual way.

DWB

APPROPRIATIONS TO CARRY OUT H.R. 1776

It is recommended that the following method be used to obtain the appropriations to carry out H.R. 1776:

I. The War and Navy Departments should request funds for their own and foreign future needs for military and naval equipment.

II. A separate request should be made for a lump sum to the President for allocation to the appropriate agencies to take care of:

(a) Procurement of merchant ships, agricultural products, strategic and critical materials, etc.

(b) Unanticipated needs including those of War and Navy.

I.

A major part of the foreign need is of a military and naval character of the same general categories as are provided in existing appropriations for War and Navy and thus provision to meet the foreign need simply requires expansion of those appropriations. To afford some flexibility provision should be made for a percentage of interchangeability between appropriations within each department. The planning and production of planes, ships, guns and other articles would be melded and a separation could be given to the Appropriations Committees of the approximate dollar amount of the equipment for United States and foreign needs in justification of the request for appropriations. The allocation of equipment need be made only at the time of disposition. We could thus retain for use equipment which had become more essential to our own defense than to that of a foreign country because such a country had been defeated, or for other reasons.

By augmenting Army and Navy appropriations in the foregoing manner, the amount of the lump sum appropriation requested would be proportionately less. This would be more in keeping with the present method of securing funds for military and naval purposes and might be less subject to criticism than a request for one over-all lump sum.

II.

The lump sum would be desirable to cover the articles for which the need is not clearly known at this time and to provide for their procurement through those agencies best equipped to do the job. The lump sum will also be useful to meet sudden expansions of needs for military and naval equipment beyond those provided under the additional appropriations for those purposes and any percentage of interchangeability which it may be feasible to secure. It might also be required to take care of our own or foreign needs resulting from some major disaster.

February 17, 1941

Hopkins told me that what the English want after the Bill passes are 50 more PBY flying boats, 90 long distance bombers, and 30 destroyers (10 a month), and all the merchant shipping that we can spare. All this is over and above everything else that they are getting now. They want the above as soon as the Bill passes, plus experienced crews to fly them. They are useless to them without the crews.

I told Hopkins the plan was for a four-man board, Hull, Stimson, Knox and myself, to decide how everything should be distributed. At first he didn't like it, and then he suggested himself as secretary to the board, and I said, "Swell." He said that he expects to devote the next two or three months entirely to promptly getting material for the English.

77-B

February 17, 1941

The President said at lunch today that Hopkins was sent to England to find out what the needs of the English were for the next five months. One of the most interesting things the President said was, "I have just got to see Churchill myself in order to explain things to him."

TELEGRAM

77-C

The White House
Washington

February 17, 1941.

Hon. Winston Churchill

We must implement Lend-Lease Bill at once with very large appropriations which must result in very substantial increases in taxes here. There is no adequate understanding in this country relative to the increases in taxes in England due to the war and the fact that Britain is making real financial sacrifices. You will understand that this attitude is not that of our Government but represents a lack of understanding on the part of the general public. Is it possible for you to arrange in some appropriate manner for a statement to be made in England at an early date indicating the great increase in your tax levies and any other financial sacrifices which the British people are making because of the war

HOPKINS

February 17, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Wendell Willkie made a very fine talk before a National Press Club luncheon today. Answers to questions occupied more than half the time and he was very able and frank in dealing with them. He made an excellent impression. Kurt Sell of the German News Agency was present in the gallery where I sat.

Willkie said that before he made the trip some business men who talked to him said they had seen reports that the British system after the war would be completely socialistic and they questioned whether we wanted to support England to achieve such a result. He made a particular point of seeking the answer to that question. He said he was convinced after talking to all the leaders, particularly the labor and radical leaders, in and out of the Government that the system of free enterprise would endure in England after the war but that the fight to enlarge the opportunities of the common man would go on after the war and that many inequalities would be corrected.

He said the most essential thing was to keep the shipping "lung" open so that England could continue to breathe. For that purpose they needed most (1) destroyers, (2) bomber planes, (3) ships. He said the "highest authority" in this country had confirmed his belief that we could furnish additional destroyers. He added: "If that isn't plain enough, ask me some more questions."

H.G.

February 17, 1941

Files

Mr. Cochran

Mr. Jones of the Far Eastern Division of the Department of State telephoned me at 3:15 this afternoon to inquire as to the present status of our negotiations with the Chinese in regard to our stabilization arrangement. When I told Mr. Jones that no progress had been made the past few days, he indicated that the State Department was very eager to have this matter cleared. I told him that we hoped to get at it this week.

HMC:dm:2.18.41

February 17, 1941
3:53 p.m.

H.M.Jr: Hello, Dean.

Dean Acheson: I wanted to call you and thank you for letting those lads come over here this morning and talk with us.

H.M.Jr: Good. I haven't seen them yet, Dean. I just came back from the White House, so I don't know what happened. I'm at a disadvantage.

A: Well, not a great deal happened and it wasn't because anything happened that I wanted to call you up, but simply to say that I think that it's the way to go about it to have a talk and talk quite a lot.

H.M.Jr: I think so.

A: We talked this morning. After a little while I think - you know there are some clashes of personality and they begin to wear a little thin after a couple of hours and people get fairly sharp with one another.

H.M.Jr: Yes.

A: I think we talked as long this morning as it was good to do at one clip. What I should like to do is to renew it again after everybody has cooled off a good bit, not with the idea that our discussions will affect this particular decision; I suppose that will be worked out by you and Mr. Hull and the President, but I think whatever happens it is very desirable that our people over here and your people - your fellows - should just work along without too much - we all tend to get a little pride of position, you know.

H.M.Jr: Well, the only regret I have is that these meetings didn't take place before Mr. Hull put it down in black and white in the form of a memorandum to the President.

A: Well, I think it is too bad perhaps that that has happened.

H.M.Jr: Because I doubt whether he'll want to recede from that position.

A: Oh, well, I think if we can find out what it's all about we'll understand one another a lot better and I don't know - I don't understand the situation well enough ....

H.M.Jr: Even after two hours?

A: (Laughs). No, I don't.

H.M.Jr: Well, anyway I'm glad to have talked to you and I'm going to see my boys later on and get a report.

A: Well, I thought that maybe I could get one or another of our fellows, either Pasvolsky or Feis, and perhaps come over tomorrow.

H.M.Jr: And see our people.

A: Yeah, and start from where we left off.

H.M.Jr: Good.

A: What we were working on this morning is just what we want to accomplish and how we accomplish it, to try to put a balance sheet on this thing, and I'd like to go on with that.

H.M.Jr: Fine. I'm sure you'll find they do too.

A: Uh-huh.

H.M.Jr: Thank you, Dean.

A: All right.

February 17, 1941
4:32 p.m.

H.M.Jr: Hello.

Robert Jackson: Henry?

H.M.Jr: Yes, Bob.

J: There is an item on the ticker which the State Department has just called to my attention that the first of 26 long-range bombers built for Britain by Consolidated Aircraft is expected to take off later this week non-stop flight to England. The plane will be commanded by Wing Commander David John Waghorn of the R.A.F. when it leaves. Waghorn will be accompanied by four other crew members and possibly one or two passengers, it was said. Now they've been rather careful to observe the Neutrality Act by taking those things into Canada and I wondered what had happened, if you knew, that changes this. They are pretty plainly in conflict with the Neutrality Act.

H.M.Jr: Oh, really. Well, Bob, I don't know. I was surprised at all the publicity. It seemed to me most unfortunate but I'll - are you watching this yourself?

J: Yes, I just don't see how - in the first place I think it's dangerous from the viewpoint of public sentiment and this debate. I think it's a rather plain violation and in the second place I don't see how we can clear it.

H.M.Jr: Well, would it be all right if they stopped at Jamaica.

J: Well, I don't think that would help them any.....

H.M.Jr: Bermuda?

J: ..... because it's a belligerent ship the minute that they take it over and it's sailing over our territory without any permit from the Secretary of State.

H.M.Jr: Well, they've been permitting machines to go every day to Canada.

J: Well, they go to Canada under our crews, as I understand it.

H.M.Jr: Oh, that's the thing.

J: Our crew makes delivery in Canada, then the Royal Air Force take off from Canada. It isn't a belligerent ship until the R.A.F. take it over.

H.M.Jr: Oh, you'd be satisfied if our crew would deliver it either to Canada or to Jamaica?

J: Well, I don't know any reason why Jamaica would be different than Canada.

H.M.Jr: The reason I say Jamaica is that it's the Southern route and I know they've got a fine airport there, but it's been cleared that they can take them to Canada.

J: Yes, but this is a departure from the method they've been pursuing. We sent the destroyers to Canada, if you recall, and made delivery there.

H.M.Jr: I see.

J: What I was wondering was if somebody has given them some approval of this method. Of course, maybe they are just simply announcing this to throw the other people off the track.

H.M.Jr: I don't know but I'll find out damn quick. I've just sent for Ed Foley and Phil Young and I'll put them on it. How long will you be at your office?

J: Well, I'll be here a little bit yet.

H.M.Jr: Will you be there for ten minutes?

J: Yes, yes.

H.M.Jr: I'll have an answer for you within ten minutes. I'll call them up myself and I'll have an answer for you in ten minutes. I'll call you back.

J: Well, you can tell them that we don't see any way that we can stand by and see that done in the present state of affairs.

H.M.Jr: O. K.

J: O. K. Thank you.

February 17, 1941
4:39 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

Arthur Purvis: Hello.

H.M.Jr: Hello, Arthur. As usual, you've got me into awful hot water.

P: Oh, my. As usual?

H.M.Jr: Well, yes.

P: How?

H.M.Jr: Well, the Attorney General is terribly excited and so is the State Department about this announcement on the ticker that a Consolidated Aircraft bomber is flying with an English crew directly to England and of course they call me up and think I know all about it and that I've given permission.

P: Yes. I don't even know if it's one of ours; I haven't seen the ticker. Let me find ......

H.M.Jr: Well, there has been all this stupid publicity about the 26 bombers leaving San Diego - it's been in every paper.

P: Yes. I wonder where that comes from?

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

P: Let me ring up Morris and find out straight away.

H.M.Jr: And then would you please call up Philip Young? The Attorney General is sitting in his office.

P: Really worried about this.

H.M.Jr: Yes, and they want to get out a denial tonight.

P: Quite right.

H.M.Jr: Now an American crew can take this bomber either to Canada or I suggested Jamaica if you want to go the Southern route.

P: Yes.

H.M.Jr: The way they have right along.

P: But did it claim that there is an English crew aboard her?

H.M.Jr: That's what the ticker said - an English crew, it mentions them by name.

P: Really. Would the difficulty be that they had also flown it over - I mean, did an English crew fly it across the continent?

H.M.Jr: God, I don't know, but he says it is absolutely un-neutral for an English crew to fly a fighting ship from the United States directly to England.

P: Correct. I mean, that doesn't require a lot of imagination, does it? Let me find out immediately what has gone wrong, if anything.

H.M.Jr: And the whole thing - I mean, all of this publicity at this time with the bill up this week. To me it is just unbelievably stupid.

P: I can't believe that we have anything to do with the publicity, but I'll find out.

H.M.Jr: And would you mind telling Philip Young?

P: Immediately, Henry. I'll go right at it now.

H.M.Jr: Thank you.

February 17, 1941

Memorandum

I would like to know from Chick Schwarz as to where Gregory of the New York Tribune got all of his information from for the article which he wrote on the financial page of the Sunday paper. Please let me know Monday.

H. Morgenthau, Jr.

see 9:30 on 2/17 when Mr Schwarz reported to the Secy

Copy to Mr. Schwarz.

NEW YORK Herald Tribune

Financial Washington

By Nicholas P. Gregory

WASHINGTON, Feb. 18.—When Congress approves H. R. 2959, the bill to increase the debt limit to $65,000,000,000 and give the Treasury powers to finance the multi-billion-dollar defense program, Henry Morgenthau jr., Secretary of the Treasury, will launch the second war financing which this country has undertaken in one year short of a quarter century.

The organization for the distribution of defense securities is virtually completed and the Treasury has ambitious plans to make every citizen conscious of his duties to arm the country. Although the defense bond division will not be as elaborate as that employed by the late William Gibbs McAdoo, Secretary of the Treasury in the first World War, it will be designed to be efficient.

Mr. Morgenthau and his aids are anxious to avoid high pressure tactics in selling the citizens the bonds and savings stamps, but a drive will be put on which will miss no tricks. From an historical standpoint conditions are different now from what they were in 1917, when the government launched one of the most vigorous bond-selling campaigns in the history of the country.

* * *

In 1917 and 1918 the average American was "green" about investments. He had to be educated, and the campaign undertaken by Mr. McAdoo was the forerunner of the speculative wave which seized the country later. This was true in the sense that Americans finally became conscious of what securities were, markets, discounts, etc. True, some in the early days clipped their coupons from their bonds and threw them away, while as late as 1929 some shareholders did not know what to do with their rights when opulent corporations were either cutting "melons" or expanding their capitalizations.

Another difference is this: In the last war savings were not as great as they are at present. Now deposits in savings banks are at record figures. Typical of the arguments offered by the Treasury in 1917-'18 to induce patriotic Americans to invest in the first Liberty Loan floated on May 14, 1917, was the following: "The men and women of large and moderate means owe a greater duty, because they have a larger margin of income, to cut off self-indulgences, to deny themselves useless and needless luxuries, to make sacrifices of comforts, pleasures, and conveniences that will effect genuine economies and set an example to the nation. Every dollar saved represents actual supplies saved and made available for heroic soldiers and suffering civilians in Europe and America."

The first Liberty Loan issue consisted of a $2,000,000,000 3½ per cent installment. It was distributed as follows: The twelve Federal Reserve Banks were used as the central agency in each of the twelve Federal Reserve districts for receiving subscriptions, for taking care of the details of allotment of subscriptions, the handling of payments after allotment and the delivery of the bonds. Subscriptions totaled 4,000,000, and of this number 3,960,000, or 99 per cent, subscribed in amounts ranging from $50 to $10,000, while the number of individual subscribers in $5,000,000 and over was twenty-one, their subscriptions aggregating $188,789,000. Mr. McAdoo was gratified by the reception. The issue drew subscriptions of $3,035,226,850, or 52 per cent more than the amount offered.

* * *

At present the Treasury will utilize some of the ideas developed during the first World War and borrow from its experience gained in operating the office which distributes the "baby bonds." Although Mr. Morgenthau's plans are not final, they are as follows: A bond expert will be employed to head the division distributing the defense bonds. He will be responsible to Daniel W. Bell, Under Secretary of the Treasury.

Regional organizations will be set-up with a salaried official for each group. How many of these organizations will be created has not been decided, but it is expected there will be more than thirty. Mr. Morgenthau will seek an appropriation from the Bureau of the Budget to put on an advertising campaign.

It was decided that the citizens groups which participated with the distribution of the Liberty Bonds were sometimes overzealous in filling their "quotas" and created embarrassment. For example, if a citizen of any of the central powers did not buy enough bonds (the amount was usually determined by the subgroups in their community), he was bound to be morally chastised by pointing the finger of scorn either as unpatriotic, a spy or a saboteur. This created considerable racial feeling among the various peoples.

The Treasury believes that the quota system might be dispensed with in that it may never be used publicly as a gauge of what state, city, municipality, or town should subscribe to the defense securities. Each regional director will attempt to take advantage of community spirit through artwork, literature, speeches and use of the radio.

The bonds and the savings stamps will be sold at postoffices, schools and department stores, but in every effort, high pressure tactics will be avoided. Advertisers will be asked to contribute some of their space to bring attention to the savings bonds and stamps.

* * *

Preliminary plans of the Treasury call for the issuance of savings stamps in the denominations of 10 cents, 25 cents, 50 cents and $1. It may issue a $5 stamp for those who save faster. These stamps will be convertible into bonds with a $25 denomination. The bonds will be issued at $18.75, redeemable in ten years at $25. A buyer of stamps will be able to redeem them at their face value at any time. However, an investor in a defense bond will not be able to sell his holdings in the market. He will be given the privilege of redeeming them at the Treasury, or any fiscal agent designated by the authorities.

A bond will allow for joint ownership, i. e., husband and wife, and one beneficiary. The savings stamps and the bonds will be sold to so-called small investors and a limit will be placed on the amount any one investor may subscribe for. For institutional investors, such as banks, life-insurance companies,

(Continued on page 13, column 1)

Financial Washington

(Continued from page eleven)

trusts, etc., another type of security will be issued for subscription.

As in the last war, the Treasury will make every effort to distribute defense bonds as widely as possible. This policy stems from a desire by Mr. Morgenthau to make every citizen conscious of his contribution to the national defense program. One of the major differences of the two periods under review is that in the last war the Liberty Bonds were not fully taxable as to Federal levies, while under H. R. 2959 they will be taxable.

In the last war the government issued certificates of indebtedness as a stopgap to long-term financing. At present it is doubtful that the government will resort to this medium of obtaining necessary funds.

* * *

Life Insurance

Gerhard Gesell, of the Securities and Exchange Commission, will make a strong statement for some form of Federal regulation of life insurance when he appears before the temporary national economic committee Feb. 24. Other government departments are expected to offer their suggestions. The T. N. E. C. two-day open meeting will be the climactic point in the S. E. C. investigation of life insurance and may become the forerunner of Congressional action in the future.

* * *

Another department in the government which has taken more than a passing interest in the subject of insurance is the Treasury. John L. Sullivan, Assistant Secretary in charge of taxes, is now engaged in drawing a tax bill. The bill will provide for some plan of taxation designed to get more out of the life-insurance companies. During the S. E. C. hearings it was pointed out that in 1937 the life companies paid only an infinitesimal part of their income in taxes, compared with other industries.

February 17, 1941

TO: MR. YOUNG

FROM: THE SECRETARY

Dear Phil:

Please keep out of this mess on the Greek planes.

The President of the United States gave a signed order to the Secretary of the Navy and I want it to rest as between the Secretary of the Navy and the President of the United States and I don't want to get in on it in any form or manner and please advise anybody who calls you up that that is my attitude, including Admiral Towers.

H. M., Jr.

CONFIDENTIAL TO KEEP YOU POSTED

February 17, 1941

To: The Secretary

From: Mr. Young

Re: Planes for Greece

In accordance with your request at the staff meeting this morning, I got a complete story on the latest Greek plane developments from Admiral Towers. The story may be summarized as follows:

Late Friday afternoon, Secretary Knox called Admiral Towers and showed him the chit directing that Greece should receive fifteen old and fifteen new Grumman planes now and another fifteen new Grumman's by the middle of March. Admiral Towers pointed out to Secretary Knox that this would require a certificate from Admiral Stark stating that these planes were not essential to the National defense.

Admiral Towers went to see Admiral Stark and the latter said that he could not give such a certificate as the Navy has a top priority on 1221 planes in order to fulfil its defense requirements and the Grumman's represent item No. 1 on this priority list. Admiral Stark authorized Admiral Towers to tell Secretary Knox that a certificate could not be issued.

Admiral Towers saw Secretary Knox on Saturday morning just prior to a meeting with the Greek Minister and laid the whole case before him. Admiral Towers was present at the meeting between Secretary Knox and the Greek Minister and at that time went over the case again showing how badly the Navy needed them.

In response to a direct question by the Greek Minister, Secretary Knox said that the planes would be made available to the Greeks by this Government. Evidently, the Greek Minister immediately cabled Athens and advised the State Department. In response to a call from Wallace Murray, Admiral Towers asked Murray to go easy and to keep it quiet for the time being because Towers felt very strongly that the transfer of these planes at this time would do great damage to the lend-lease bill.

Admiral Towers emphasized this point again and again inasmuch as Admiral Stark would have to make a certificate to Congress if the planes were transferred. Towers said he had also discussed the situation with Forrestal and Stark and that both agreed and thought the transfer of the planes would have very serious effect on the lend-lease bill if transferred at this time. It is the contention of Admiral Towers that inasmuch as some of these planes won't be ready until March 25th, that the deal should be delayed until the passage of the lend-lease bill.

As a result of Admiral Towers' conversations with Admiral Stark and Mr. Forrestal, a conference was held this morning at the Navy Department at which Knox, Stark, and Forrestal were present. As yet there are no reports on the result of this meeting. Admiral Towers asked me to present to you his point of view as outlined above.

F.Y.

OFFICE OF THE SECRETARY OF THE NAVY

Greeks short of
money to pay
for projectiles (6 lb)
Paid for 2.000
we released 10.000
York Safe & Lock Co
Contractor

Handed me by
Frank Knox
1.00 oclock Sunday Feb. 17

February 17, 1941

Lt. Stephens

Secretary Morgenthau

I want to make an appointment with Robert Lovett, Assistant to Secretary Stimson ,either Monday or Tuesday. He called me Saturday and I would like to see him.

Also put down Wednesday noon for lunch Mrs. Morgenthau and Mrs. Herrick.

February 17, 1941

Ferdinand Kuhn

Secretary Morgenthau

I wonder if the English couldn't find some way of getting out more publicity about the financial and economic sacrifices which they are making. I think it would be very helpful if they could. I wish you would think about this and discuss it with me.

February 17, 1941

D. W. Bell

Secretary Morgenthau

Please put Chairman Frank of the SEC on notice that we are confidentially thinking of doing a big run on refunding between February 25th, 26th and 27th, and I would prefer not to have any large private financing on those dates.

February 17, 1941

D. W. Bell

Secretary Morgenthau

I wish you would talk to me about putting a magnifying glass on expenditures for the Department of Agriculture, CCC, NYA, and all public works. I also want you to consider sending some men into the field to see actually what they are doing. Please talk to me about this at the earliest opportunity.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 17, 1941

TO Lt. Stephens

FROM Secretary Morgenthau

Monday I wish to call up Senator Barkley and Senator Harrison and Senator Brown of Michigan, and thank them for having passed the $65,000,000,000 debt limit bill.

Letters sent to
these two men
on 2/18/41 -

Debt Limit Bill to White House

THE HOUSE APPROVED MINOR SENATE AMENDMENTS TO LEGISLATION

INCREASING THE DEBT LIMIT TO $65,000,000,000 AND SENT THE

MEASURE TO PRESIDENT ROOSEVELT.

2/17--R1259P

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 17, 1941

TO Mr. Morgenthau

FROM W. H. Hadley

TREASURY BILL OFFERING

	Aver. on 1st 100 mil. recd. NY & Chi.	Aver. 1st 100 mil. NY & Chi. last wk.	Aver. price for country last wk.	Total tenders recd. NY & Chi.
91-day bills	0.008	0.0008	100.-	$198,008,000

THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE
FEDERAL RESERVE BUILDING
WASHINGTON, D. C.

February 17, 1941

To: Mr. George C. Haas, Director,
Research and Statistics,
Treasury Department.

From: Mr. J. E. Hamm JEH

The following, I think, will interest you in the light of our recent conversations. It is from the United States News for February 21, page 31:

> "OPM is considering request for new legislation authorizing rationing of materials to nondefense industries and to defense subcontractors. Planned is central control of all prior ratings and establishment of 'master schedules' in Washington."

February 17, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Perhaps the question of the transfer of the Coast Guard is not entirely foreclosed. Maybe you will get another chance to be heard.

I am still convinced that it would be a serious mistake to transfer the Coast Guard to the Navy unless and until we are actually at war or know that we are about to get into war.

The Navy's insistence will not be met simply by offering a certain number of cutters to them. What I think we could offer in the last extremity is to make any ships, any number of men and any other facilities of the Coast Guard available to the Navy at any time on demand if the purpose is defense preparation. This would mean that if they wished to use a dozen cutters for maneuvers for a limited time, they could have them, or if they wished to make a test in any given area of mobilizing small craft, shore stations, and even light houses, in a defense game, they could be turned over to them temporarily for that purpose. Subject to these interruptions the Coast Guard could continue to carry out its civil functions in a normal way. Coast Guard units and equipment can always be made available to the Navy on orders of the President and in fact we have been giving them everything they have asked. I think that for them to take over the routine administration of the Coast Guard under peace-time conditions would merely embarrass and handicap them in licking their organization into shape. They can have the benefit of the men and equipment, so far as they would be useful to them for the purpose of defense preparation, without the embarrassment of being responsible for the civilian functions.

It seems to me pretty plain that the formal transfer of the Coast Guard (to no good purpose as I see it) would create a very bad public impression.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 17, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	No. of Shares Sold	$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	$ Proceeds of Bonds Sold
February 10	50,822	1,437,420	455,500	456,182
11	14,948	360,323	186,000	181,651
12	H o l	i d a y		
13	16,846-1/2	311,753	394,000	424,861
14	3,765	192,609	137,000	137,876
15	1,903	100,890	29,000	31,582
	88,284-1/2	2,402,995	1,201,500	1,232,152
Sales from February 22, 1940 to February 8, 1941	5,211,751	158,975,861	15,753,800	14,850,759
TOTAL FEBRUARY 22,1940 TO FEBRUARY 15, 1941	5,300,035-1/2	161,378,856	16,955,300	16,082,911

Miss Poate reported sales of non-vested securities for the week ending February 8 totaled $600,000.

H. M. C.

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

Week ended February 15, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
...ROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	--	--	--	168,986 Bbls.
Crude -				
Blended or California High Octane Crude*	85,000 Bbls.	--	--	--
All Other Crude	62,044 Bbls.	--	--	60,000 Bbls.
Gasoline -				
Gasoline A**	--	--	--	--
Gasoline B*	84,019 Bbls.	--	--	112,408 Bbls.
All Other Gasoline	--	--	--	--
...ricating Oil -				
Aviation Lubricating Oil***	7,863 Bbls.	--	--	--
All Other Lubricating Oil	129,794 Bbls.	--	--	--
...etraethyl Lead***	--	--	--	--
Boosters#, such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	--	--	61,687 Bbls.
...AP IRON AND SCRAP STEEL				
...umber 1 Heavy Melting Scrap	--	--	--	2,120 Tons
...l1 Other Scrap	--	--	--	11,759 Tons

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

February 17, 1941.

...rce: Office of Merchant Ship Control, Treasury Department.

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

Aviation Gasoline.

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

February 17, 1941

Dear Jim:

Thank you for your memorandum of February 14th, listing blocks of stock recently offered for sale, including those for British account.

I was interested in having this information.

Yours sincerely,

Henry

Mr. James V. Forrestal,
Under Secretary of the Navy.

February 17, 1941

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Yours sincerely,

Henry

Mr. James V. Forrestal,
Under Secretary of the Navy.

H. M. Jr.

February 14, 1941

Dear Mr. Forrestal:

The following blocks of stock have been recently offered for sale. Those for "British a/c" have been marked "F".

Some of the recent offerings, such as "Molybdenum Corp., Pacific Gas & Electric and S. H. Kress Co., have not been very successful, particularly the "Kress Co." which was offered at 26, with the account now closed is selling at 22 3/4, the unsold balance at the termination of the account is not known, although it is rumored that approximately 75,000 shares were unsold.

Approx. Amount	Stock	Offered By	Offering Price	Approx. Total Spread	Dealer Concession
25,461 shs.	United Fruit Co. – F	Lee-Higginson Corp.	68	2 (1/8 Management) (5/8 Underwriting)	1 1/4
15,000 shs.	Plymouth Oil Co. – F	Allen & Co.	16 3/8	(not available)	.40 cents
21,857 shs.	Lone Star Cement Corp. F	"Company bought direct from British"	38 3/8 (purchase price)	-	-
92,700 shs.	S.O. of Kentucky –	Harriman Ripley & Co., Inc.	19 5/8	Management Fee (.40 cents Underwriting)	.75 cents
6,000 shs.	General American Transportation –	Blyth & Co.,Inc.	55	1 1/4	1.
20,000 shs.	Molybdenum Corp. –	Eastman Dillon & Co. Shs. * (5,000 bought at 7.35) (5,000 " at 7.10) (5,000 " at 7.15)	7 3/4	*	.40 cents
20,000 shs.	E. I. DuPont de Nemours	Smith, Barney & Co.	148	4 (1/2 Management) (1 Underwriting)	2 1/2
5,000 shs.	Western Auto Supply Co.	Merrill Lynch, E. A. Pierce & Cassatt	25	1 1/2	(sold at retail)
40,000 shs.	Arkansas Natural Gas Co. – 6% Preferred –	Allen & Co.	8	(not available)	.40 cents
100,000 shs.	Pacific Gas & Electric –	Bonbright & Co.,Inc. Lazard Freres & Co.Inc.	28 1/4	1 3/8 (.12 1/2 Management) (.40 Underwriting)	.85 cents
250,000 shs.	S. H. Kress Co. –	Lehman Brothers Goldman Sachs & Co.	26	1.85 (.20 Management) (.65 Underwriting)	1.

A. F. Teale

A. F. Teale

DEPARTMENT OF STATE
WASHINGTON

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and has the honor to transmit the enclosed strictly confidential communication for his information.

DCA

PARAPHRASE of telegram from LONDON, no. [illegible], dated
February 17, 1941

STRICTLY CONFIDENTIAL

Secretary of State,

Washington.

In the discussions between the Agricultural Attaché and Food Ministry officials advantage has been taken of Dr. Parran's visit to carry these discussions further. Dr. Parran has been encouraged by Mr. Hopkins to look into the food situation, particularly whether the present and prospective diet is adequate to maintain civilian morale and industrial production.

No material change has taken place in the position outlined in the Embassy's telegram dated January 31, no. 367, though air and submarine attacks against shipping have been intensified according to latest reports, except that the Agricultural Attaché and Dr. Parran concur in the opinion that the necessity for a major reorientation in British policy regarding sources and character of foodstuffs imports, i.e. toward greater reliance upon short hauls and more concentrated and nutritionally necessary foodstuffs is beginning to be envisaged by both British food and shipping officials.

For purposes of a thorough discussion of the British food position and the possibilities of American help as

well

well as questions of machinery and procedure the Food Ministry is considering, it has been indicated, the sending of a small delegation to the United States. With respect to questions of machinery and procedure Food Ministry officials at present are inclined to believe that Ministry representation in Washington could best handle longer term arrangements, and that current day-to-day developments might perhaps best be handled in London, and An across-the-table discussion of the many intricate aspects of the problem is considered necessary, however, before any definite decisions on machinery are made.

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The food and nutrition situations have been discussed with the Ministers of Food and Shipping, experts in the Ministry of Food, the Australian High Commissioner, persons dealing with such problems in local areas, and informed doctors, by Dr. Parran, who found the greatest shortages to be in fats, milk products, and meats. The supply of dried fruits is about twenty percent below normal and the supply of citrus fruits and apples much reduced and expensive. It is estimated that this year the milk supply will be reduced by twenty percent, cheese supply by fifty percent. Egg production, it is anticipated, will be sharply reduced and by the end of the year imports of eggs are expected to almost vanish. Margarine largely replaces

replaces butter which is scarce and subject to a two-ounce ration. The total weekly ration of fat is eight ounces. Only diabetics are allowed special rations. Children and nursing mothers may now procure some extra milk but its general rationing is anticipated. There is no shortage of cabbages, carrots or potatoes, but no imported vegetables are available.

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OUR

Parran is convinced that the most important defense need this year will be food. He was told by Lord Woolton that "Our people will stand up to bombing but not empty bellies". The Chief Medical Inspector of Factories stated that the lack of meat and cheese has caused much grumbling among the workers in the heavy industries and that the great problem was the proper feeding of workers. Further data with respect to specific nutritional deficiencies in the present rationed diet are being assembled by Dr. Parran.

Cross expressed to Dr. Parran the Worker's anxiety that representatives of the United States Maritime Commission be sent to London to discuss supply routes without delay.

DCA:GMK:NF
2/19/41

STRICTLY CONFIDENTIAL

PARAPHRASE of telegram from LONDON, no. 596, dated February 17, 1941

STRICTLY CONFIDENTIAL

Secretary of State,

Washington.

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For purposes of a thorough discussion of the British food position and the possibilities of American help as well

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SECTION FOUR

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DCA:GHK:MT
2/19/41

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Feb. 17, 1941.

TO Mr. White

FROM Mr. Southard

Subject: Report on the current experience of American companies with properties in Axis territory, made on instructions from Under Secretary Bell.

1. General Conclusion: In the preparation of this report I interviewed senior executives in 21 corporations in New York City which currently have majority or important minority interests in factories, refineries, public utilities and stores in Germany, Italy, Occupied Europe, Japan and Occupied China. These executives generally agreed that in Germany, Italy, and Japan, their access to and control over properties has not materially changed since the beginning of the war, but that their situation in Occupied Europe has become difficult and that Japanese policy in Occupied China is freezing them out. As to foreign exchange treatment, remittances from Germany for interest, dividends, and sale of properties are in general freer than before the war, but virtually no funds can be brought out of Italy and remittances either cannot be made or are very small from Occupied Europe. There is evidence that hitherto fairly regular remittances from Japan are coming to an end.

2. Experience in the individual areas:

(a) Germany: As to access to properties and control over production and sales. There has been no material change since the war began. There was already close governmental supervision over all American-owned factories and refineries whose production could contribute to the war. This supervision has continued and has been facilitated by the fact that the staffs were already entirely, or almost entirely, German Nationals. The few remaining Americans have in most instances been withdrawn but the original staffs are otherwise in charge. American ownership of the properties has been respected but the head offices have not been receiving adequate information from their subsidiaries.

As to Interest and dividends. American companies are currently getting interest and dividends out of Germany more freely than before the war. These remittances are being made by means of the complicated, pre-war mechanism of the dividend mark and mark-funding bonds at 10 - 12¢ per mark. This is an improvement over the

3 - 4¢ rate of last July but is only about half of the 23¢ rate at which most of the investments were originally made in Germany. It is generally agreed that the Germans are using their dollars freely. Some American companies are receiving payment from the Germans on commercial account in the form of South American currencies.

As to sale of properties. Germany has recently bought back American interests in several large German corporations and is negotiating for further such purchases. In addition, many companies have had tentative German offers for the purchase of their German factories. Some of these purchases have been made at surprisingly high prices. The motives behind this policy, which is a further indication of Germany's relatively free use of dollar exchange, can only be guessed. It may reflect a fear of freezing of German funds, a desire to eliminate ties with American corporations, or mere optimism concerning the outcome of the war and future lack of need for dollar exchange.

(b) Italy: So far as access to properties and control over production and sales are concerned, the experience of American companies has been identical with that in Germany. American ownership has been respected and the original staffs -- already almost entirely Italian Nationals -- are in charge. But the operations of the factories are under strict government control and the American head offices are receiving very inadequate information from their Italian subsidiaries. As to foreign exchange treatment, it was almost unanimously agreed that neither interest nor dividends can be remitted from Italy and that the Italian Government will not even permit the conversion of blocked marks into lire for the purpose of financing the operations of American-owned Italian subsidiaries. In contrast with the German situation, there is no evidence that the Italians are buying back American-owned properties.

(c) In Occupied Europe: Commonly, but not invariably, a German commissar has been placed in American plants in this area. German interference has been greatest in Belgium and France and least in Denmark and Norway. In some cases -- for example, petroleum refineries -- the commissar actually operates the plant, although American ownership is at least nominally respected and there has been no open confiscation. In other cases the commissar is inactive or does nothing more than to act as liaison with the German authorities, in some instances preventing the plant from being stripped of equipment. American head offices are getting exceedingly inadequate information concerning their properties in Occupied Europe. Some of them know that the output is being taken by the Germans in return for local currencies or occupation marks. As to foreign exchange treatment, only small amounts of money are currently coming out of this area in dollars. Many American companies foresaw the likelihood of exchange difficulties and had their subsidiaries incur bank loans prior to the occupation in order to remit in dollars. These companies have little or nothing blocked at present, but others have considerable amounts tied up in the occupied area.

(d) Japan and Occupied China: American companies in this area are being gradually frozen out by the Japanese policy of monopoly and exclusion. But the head offices are receiving adequate information and have normal access to their properties. Until recently remittances into dollars from this area were apparently sufficient to avoid large blocked funds. Information is inadequate, however, and there is some evidence that the exchange situation is growing worse. For example, companies reported that within the last few months previously regular remittances had not been made.

3. The executives interviewed were not in agreement, and many were uncertain, as to the effects on their companies of extending the freezing policy to include other countries in Europe and Asia.

(a) The financial enterprises were in general opposed to an extension of freezing, fearing that it might be extended to South America and that it may injure the position of the United States as a financial center. One big bank, however, would welcome the freezing of Swiss and Swedish accounts on the ground that they are being actively used by the Germans.

Of 11 non-financial corporations expressing an opinion, only 1 was clearly opposed to an extension of freezing and the others were uncertain as to the effects on their companies, but were somewhat fearful that Germany might retaliate by confiscating their properties. They were not much concerned over the probability that Germany would immediately stop all interest and dividend payments.

Most of the executives wondered whether Axis assets in the United States are large enough to provide an adequate security for American assets in Axis territory.

The response of the executives during interviews was almost invariably cordial and it appeared to me that a further explanation to them of the scope and intent of any extension of the freezing policy could easily win their interest.

February 10, 1941.

Mr. White

Mr. Southard

Subject: Current Experience of American Companies with Subsidiaries or Affiliates in Axis Territory.

1. Access to properties; control over production and sales.

(a) In Germany and Italy: In general, it appears that American ownership in properties in these two countries has been respected, although one company (Standard Oil of New Jersey) reported to the State Department that its small Italian oil-producing company (but not its refinery) had been expropriated. Most of the American-owned companies were staffed entirely or almost entirely with Germans and Italians, and while in many instances the two or three American executives have been withdrawn the pre-war staff is otherwise still managing the properties. Wherever the production is keyed into the military effort, there is close Government supervision which extends to control of the production program. Information in the form of financial and operations reports from either Germany or Italy--but particularly from Germany--are inadequate and in many instances virtually non-existent. Some American companies have had only word-of-mouth information concerning their properties in the two countries.

(b) In Occupied Europe: Generally speaking, the degree of German interference with American plants in the occupied countries appears to be greatest in Belgium and France and least in Denmark and Norway. No instances were found in which American properties had been actually occupied by the Germans except that they are using part of the National City Bank building in Paris. It has been the common, but not universal, experience that a German commissar or "conservator" is placed in the plants. In some cases--for example, the Texaco refinery in France--a German is in effective charge of production. In others the operations are in the hands of the original staff with only a minimum of German supervision. Several companies report that the German commissar has apparently prevented equipment from being taken out of the factories and in one case (the Belgian and French factories of International General Electric) an associated, but not controlled, German company has allocated enough non-military orders to keep the plants going, and consequently to justify their retention of their machinery.

Few American companies are getting adequate information concerning the condition, operations, and financial results of their subsidiaries in Occupied Europe, although reports from Denmark and Norway are fairly regular. In the case of Holland, some companies are getting reasonably full reports whereas others find that only the most guarded information is being sent out. One company (Socony-Vacuum) can communicate with its Belgian subsidiary only via its German company. Among the companies consulted, the only instance of expropriation was that of the Standard Oil of New Jersey pipeline taken over by the Roumanian Government. This was reported to the State Department.

The American branch banks in France and Belgium have moved most of their cash, securities, and custody accounts into unoccupied France; and are gradually liquidating; but the safe deposit boxes of their customers are still in occupied territory and can be opened only under German supervision. The balance sheet of the National City Bank in France, for example, totals $7.5 million (in dollars, sterling, and francs), of which $5.4 million are in dollars in New York and are consequently blocked in the United States. This bank's accounts receivable in French francs are rapidly being liquidated. The custody accounts in vaults in unoccupied territory have thus far not been requisitioned by either Berlin or Vichy. But the Chase National Bank reports that the custody accounts of its customers in the occupied zone can be settled only under the supervision of a German official, in the course of which all gold and foreign securities are placed in a separate account, which is then left in the Bank. The National City Bank's safe deposit boxes in Paris cannot be opened by the users except in the presence of a German official.

(c) In Japan and Occupied China: American companies are receiving full information from their Japanese subsidiaries and affiliates. In no instance has there been interference with their free access to their properties or records but the expansion of Japanese activity and the tendency toward Japanese monopoly has so restricted the sphere of activity for any foreign company as to counsel retrenchment and gradual withdrawal. Companies such as International General Electric which have only minority interests in long-established Japanese companies naturally do not face the same problem; but have apparently been sufficiently uneasy over Japanese developments to have stopped advancing money to the affiliates and to have begun reducing their investments.

2. Remittance of interest and dividends.

(a) From Germany: While some American companies are not getting anything out of Germany, the majority of those interviewed are converting as much, and in many cases more, into dollars than they were before the war began.

(1) In a few cases, interest in dollars has been paid on dollar loans made to German subsidiaries. For example, the Woolworth Company has regularly received dollars through Dillon Read on such a loan and at least one company has received interest at the 40¢ mark rate.

(2) In most instances, however, the remittances of both interest and dividends have been made through the customary pre-war channels of the dividend mark and the mark funding bond via the Konversionskasse. Prior to last July, the rate on the dividend mark had been from 3 to 4¢ and at that rate most companies preferred not to convert their blocked funds. For example, the Socony-Vacuum Corporation had its German subsidiary loan the July, 1940, dividend to its Austrian Company for expansion purposes. But by November, the dividend mark had appreciated to 11¢ or better and since then many companies have been actively withdrawing interest and dividends from Germany (for instance, Socony-Vacuum reversed the above-mentioned loan and sold the funds in the form of dividend marks at 11¢). There is still a market for the mark funding bonds but with the proviso that the bonds must be delivered to the Konversionskasse or the Golddiskontbank in Germany. Some companies (for example, Woolworth) are reluctant to entrust the marked funding bonds which they have in this country to the existing mail service to Berlin.

(3) One company which, prior to the war, was getting commercial accounts out of Germany in the form of Colombian pesos and Venezuelan bolivars, was recently made a similar offer by the Germans but with the proviso that half of the amount involved should be placed to German account in dollars in New York. This proposal was refused by the company which is still hopeful that it might be able to withdraw $300,000 worth of its blocked commercial credits in Germany in the form of Colombian pesos without assisting Germany to convert its pesos into dollars.

It appears then that the movement of funds out of Germany is occurring on a fairly large scale through customary channels. But it is also evident that many companies still have considerable sums blocked in Germany and that some of them are actually not aware of the fact that conversion into dollars is possible at a rate as good as 11¢ or 12¢ per mark.

(b) From Italy: It is the almost unanimous report of the companies interviewed that the Italian foreign exchange situation is very tight and that virtually no funds - either interest or dividends - are being converted into dollars.

(c) From Occupied Europe: The foreign exchange situation with reference to remittances on interest and dividend account in the countries occupied by Germany is clearly chaotic and in consequence the experience of American companies is not uniform. A number of companies, foreseeing the danger of invasion, or at least of freezing, directed their subsidiaries to anticipate earnings by borrowing from banks and remitting dollars. In consequence, a considerable number of the companies interviewed do not have any funds blocked. Others, however, do. Dollars in small amounts are being received from Denmark and from Norway; but from Belgium, occupied France, and Holland, little or nothing is being received. One company (Union Carbide and Carbon) has large and increasing amounts of blocked Norwegian kroner representing German payments for its output of ferro alloys. It anticipates using these kroner to conserve the properties and support the workers during the anticipated shutdown.

(d) From Japan and Occupied China: Of seven companies consulted which are operating in this area, all have been able to convert into dollars, amounts due on commercial, interest, and dividend account. However, International General Electric reported that November interest and dividends were not received from its Japanese affiliate and believes the exchange permits were not granted. Moreover, indirect reports were received that other American companies have considerable sums blocked in yen. Further information is needed in order to determine more accurately the exchange treatment being accorded American companies in this area.

3. Sale of properties:

There is considerable evidence that Germany is currently repatriating the securities owned in German enterprises by American corporations. Of ten American companies on which data were obtained, eight have had German offers in some form for the purchase of their interest in German enterprises. Two of these corporations -- International General Electric and E. I. du Pont de Nemours -- have made one or more sales and have received dollars in settlement.

The International General Electric sales and current negotiations are worth special mention. Late in 1940 the corporation's $10 million holding in Siemens and Halske bonds were sold to a New York dealer for $11 million and were destroyed by him on instructions from the Golddiskontbank. In December, the corporation sold its minority interest in Siemens and Halske shares for $693,000, or about 65 percent of the price paid for them in 1929. This sale was based on the Berlin quotation for the shares, with the reichsmarks converted to dollars at 9.2 cents. At the present time (January-February, 1941) the same brokers, operating for German account, want to buy the International General Electric holdings in A.E.G. (German General Electric) and in Osram (the great German lamp factory). Neither of these offers are yet good enough to be accepted; the offer for the A.E.G. shares would return only 24 percent of the original investment.

It appears, therefore, that Germany has sufficient dollar exchange available to continue during the war its pre-war policy of repatriating American-owned German securities. Moreover, in contrast with the exceedingly low prices received by the Americans in the pre-war period, the Germans have recently paid as much as 110 percent of par for the desired securities.

The motives behind this current purchase of American interests in German corporations are not known and can only be guessed at.

(a) The Germans may anticipate the freezing of their dollar funds and hence may prefer to use their dollars to buy back properties, thus reducing American claims on Germany in any post-war settlement. This fear of freezing may explain why the American and Foreign Power Corporation was recently asked by the Germans to pay an unmatured debt ahead of time. Certainly Germany is not interested in selling its own direct investments abroad: the International General Electric Company was not able to buy certain German interests in Mexico and Argentina.

(b) The Germans may simply be optimistic about winning the war, do not need dollar exchange for more pressing purposes, and believe they may be able to buy properties now at good prices.

(c) Possibly the Golddiskontbank, party to all known purchases of American interests in German enterprises, is able to make a reichsmark profit by reselling the shares to German corporations.

(d) The policy may reflect a German desire to eliminate the influence of powerful American corporations in great German enterprises. This view may be confirmed by the fact that the only completed transactions known are those involving International General Electric and Du Pont.

4. There is no unanimity of opinion among the corporation executives interviewed as to the effects -- immediate and remote -- on their companies of an extension of the freezing policy to include other countries in Europe or Asia.

Of five financial enterprises, the executives of three were clearly opposed to an extension of freezing. The Guaranty Trust Company fears freezing might be extended to South America, believes the position of the United States as a financial center would be adversely affected, and sees no other useful purpose served by freezing than to prevent the use of funds for subversive activities. The Chemical Bank thinks some of its customers would be harmed by further freezing, but concedes that Germany could not retaliate beyond stopping the remaining interest and dividend payments. The American Express Company is afraid that Germany might retaliate by refusing to allow any more refugees to leave. On the other hand, the National City Bank is hopeful that United States control over foreign assets in this country might ultimately make it possible to swap its Paris building for some property here; and the Chase National Bank, while fearful of the effect of general freezing on its depositors and clients in South America and China, would welcome the freezing of Swiss and Swedish assets because it is at present impossible to determine which transactions are German.

Of eleven non-financial corporations with properties in Axis territory, only one was clearly opposed to an extension of freezing. This company -- Standard Vacuum -- is of the opinion that if Japanese dollar assets are frozen Japan may use that action to justify insistence on guilder payments for East Indian oil. Three of the eleven companies favor an extension of freezing to cover at least German and Italian dollar assets, believing that our bargaining position would be improved and that the treatment would be no more severe than that accorded us by Germany and Italy for some years.

One of these companies urges that there be compulsory registration of all foreign assets in the United States to prevent evasion of freezing orders.

The majority of corporation executives interviewed were clearly uncertain as to the effects of an extension of freezing to cover Axis assets. The reasons for their uncertainty may be summarized thus:

(a) They are not sure that Axis assets in the United States are large enough to provide an adequate "security" for American assets in Axis territory.

(b) They believe a general freezing of, e.g., all European assets in the United States would be desirable, but they are somewhat fearful of the consequences of picking out certain non-invaded countries for freezing.

(c) They generally do not believe Germany would retaliate by confiscating their properties, but they are not sure and are consequently somewhat fearful. Most of them do not seem much concerned over the probability that Germany would immediately stop all interest and dividend payments.

FAS:icn
2/10/41

mmg 2/13/41

COPY

List of Company Officials Interviewed in New York City in Preparation of Memorandum on the Experience of American Companies in Axis Territory

Frank K. Houston, President,
Joseph A. Bauer, in charge of Foreign Department.
Chemical Bank & Trust Company.

Mr. Archie Lochhead, President,
Universal Trading Corporation.

Mr. R. F. Loree, Vice President,
Mr. Herman Brock,
Guaranty Trust Company.

Mr. O. S. Rentschler, President,
National City Bank of New York.

Mr. H. Donald Campbell, President,
Mr. Stearn, Head, Foreign Department,
Chase National Bank of the City of New York.

Mr. S. R. Inch, President,
Electric Bond and Share Co.

Mr. Calder, President,
American and Foreign Power Company.

Mr. Jay Crane, Treasurer,
Standard Oil Company (New Jersey).

Mr. K. E. Stockton, Vice President,
International Telephone and Telegraph Corporation.

Mr. E. P. Small, President,
American Express Company.

Mr. W. S. S. Rodgers, President,
Mr. W. H. Borie, Foreign Sales,
Mr. S. H. Kuhn, Assistant Manager of French Company,
The Texas Corporation.

Mr. Robert C. Stanley, Chairman and President,
International Nickel Co. of Canada.

Mr. J. A. Brown, President,
Mr. H. F. Sheets, Vice President in Charge of Foreign Operations,
Mr. John F. Seal, Assistant Treasurer,
Socony-Vacuum Oil Company, Inc.

Mr. E. T. Singer, Treasurer,
Mr. A. B. May, in Charge of Chinese Operations,
Mr. K. F. Coe, in Charge of Japanese Operations,
Standard-Vacuum Corporation.

Mr. R. W. White, Treasurer,
Union Carbide and Carbon Corporation.

Mr. Graham K. Howard, Head of Export Division,
Mr. Jenkins,
General Motors Export Corporation.

Mr. Clark H. Minor, President,
International General Electric.

Mr. W. Gibson Carey, Jr., President,
Yale and Towne Manufacturing Company.

Mr. Cosgrove, in Charge of European Operations,
American Radiator & Standard Sanitary Corporation.

Mr. Deyoe, President,
Mr. Paul Hofer, Treasurer,
F. W. Woolworth Company.

Mr. J. G. Phillips,
International Business Machines Corporation.

FAS:mmg
2/10/41

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Feb. 17, 1941.

TO Mr. White

FROM Mr. Ullmann

Subject: Petroleum Situation in Japan

1. In the last six months we estimate Japan has increased its stocks of petroleum products by about one month's supply, and now, according to our estimate, has on hand about eleven or twelve months' supply.

2. Its sources of supply in the past six months have been:

From the United States:	13.3 million bbls.
From the Netherland East Indies (estimated)	5.0 " "
From Japanese production (estimated)	2.0 " "
Total new supply	20.3 million bbls.
Estimated Japanese consumption (6 mos.)	17.5 " "
Total-6 mos. increase in stocks	2.8 " "

3. Japanese stocks at the time of the President's Proclamation (July 26, 1940) placing petroleum under export control, were estimated to be between 30-32 million barrels.

   Present stocks would, therefore, approximate 33 to 35 million barrels.

4. Light refined products have comprised an increasing proportion of Japan's imports.

   In 1939 her imports of gasoline from the United States amounted to 1.2 million barrels, or 4 percent of all petroleum imports from this country. In contrast, her imports of gasoline from the U. S. in the last six months were 3.4 million barrels, or almost 26 percent of our shipments of all petroleum products to Japan. In quantity, our recent shipments of gasoline represent a six-times increase over 1939.

   Similarly, our shipments of lubricating oil (which is supposed to be relatively difficult to produce) also increased. In 1939, lubricating oil amounted to less than 2 percent of our petroleum exports to Japan; in the last six months, the product accounted for over 5 percent of our shipments.

It is understood that about 40 percent of the new Japanese-Netherland East Indies contract is to be filled with refined products.

5. Our shipments of crude oil, gas oil, and fuel oil have declined from 1939 levels. However, Japan is getting increased quantities of these products from the Netherland East Indies, whose exports to Japan rose from 2.3 million barrels of petroleum products in 1939 to an annual rate of 10 million barrels currently.

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Treasury Department
Division of Monetary Research

Date February 18, 1941

: Mr. White

: Mr. Ullmann

Export Control - Shipments to Japan

Week ending Feb. 15, 1941

Lubricating Oil: 138,000 barrels (including 8000 bbls. of aviation lube) - almost one-third of total 1939 shipments.

Gasoline: 84,000 barrels - - all high octane and licensed.

Crude: 147,000 barrels - - about 60% high octane and licensed.

Fuel and gas oil: none

Scrap: none.

MR. WHITE
Branch 2058 - Room 208

STRICTLY CONFIDENTIAL 130

ALLISON ENGINEERING COMPANY

Shipments of Airplane Engines

	Actual shipments	Estimated shipments on existing orders
1940		
January	10	
May 24 - June 22	28	
June 23 - July 20	43	
July 21 - Aug. 17	47	
Aug. 18 - Sept. 14	140	
Sept. 15 - Oct. 12	263	
Oct. 13 - Nov. 9	233	
Nov. 10 - Dec. 7	154	
Dec. 8 - Jan. 4	228	
1941		
January 5 - 11	85	
January 12 - 18	43	
January 19 - 25	33	
January 26 - February 1	32	
February 2 - 8	86	
February 9 - 15	66	
February 16 - 28		248
March		400
April		473
May		500
June		500
July		475
August		550
September		625
October		750
November		800
December		800
1942		
January		455
February		277
March		225
April		225
May		207
June		66

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

February 17, 1941.

STRICTLY CONFIDENTIAL

ALLISON SHIPMENTS

	Dec. 29: Jan. 4	Jan. 5-11	Jan. 12-18	Jan. 19-25	Jan. 26: Feb. 1	Feb. 2-8	Feb. 9-15	Total Dec.29-Feb.15
British	8	83	41	33	31	60	31	287
Army	4	2	2	-	1	26	35	70
Total	12	85	43	33	32	86	66	357

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

February 17, 1941.

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STRICTLY CONFIDENTIAL

Allison Shipments to the U. S. Army

June 9, 1940 to February 15, 1941

Engine model	June 9-Jan.4	Jan. 5-18	Jan. 19 Feb. 1	Feb. 2-15	Total
C	269			57	326
E	20	4	1	3	28
F	11			1	12
Big engine (2,000 h.p.)	7				7
Total	307	4	1	61	373

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

February 17, 1941

February 17, 1941

My dear Mr. President:

Before Leon Henderson left on his vacation, he asked that I see his two principal assistants, Mr. Hamm, who is an economist, and Mr. Ginsberg, who is his attorney, in case they needed guidance.

Last week, these two gentlemen had lunch with me and brought to my attention the question of the rationing of civilian demand for various strategic commodities. I asked them to work out the case of zinc, which they did with the assistance of Mr. George Haas, of my office. I had not realized until they brought this matter to my attention how important the rationing of the civilian demand for strategic materials is.

I am enclosing a chart which clearly outlines the problem. I am also enclosing a draft of proposed legislation prepared by Mr. Henderson's office. After reading these documents, I would appreciate suggestions from you as to how to guide these two gentlemen during Mr. Henderson's absence.

I am sending a complete copy of this correspondence to the Attorney General.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Copy of ltr. and enclosures to Atty. Gen. Jackson

Copy of ltr. to Leon Henderson with photostatic copy of enclosures.

By Messenger 9⁴⁰ on 2-18

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By Messenger

February 17, 1941

Dear Bob:

I am enclosing herewith a copy of my correspondence with the President.

Any suggestions that you have to make would be appreciated by me.

Yours sincerely,

Henry

Honorable Robert H. Jackson,
The Attorney General.

Encs.
Copy of ltr. to President
Photostatic copy of
attachments to ltr. to
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By Messenger

STRICTLY CONFIDENTIAL

THE NEED FOR POWER TO RATION CIVILIAN DEMAND IN ORDER TO MAINTAIN PRICE STABILITY

A Specific Example

ZINC, SUPPLY AND DEMAND IN THE FIRST HALF OF 1941

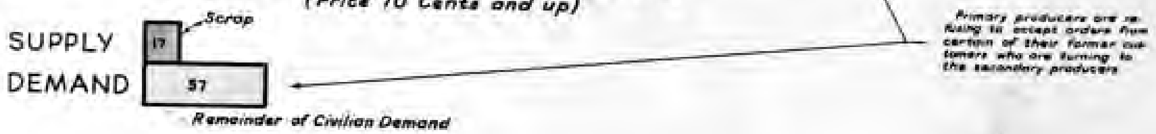
(FIGURES IN THOUSANDS OF SHORT TONS)

The total picture appears as follows:

But this breaks down into two parts:

1. RATIONED MARKET - VIRGIN METAL
(Price 7.25 Cents)

2. COMPETITIVE MARKET - SCRAP METAL
(Price 10 Cents and up)



1. The essential problem is to restore a balance either by increasing supply -- this cannot be done during the next six months -- or by reducing or otherwise controlling demand.

2. 40,000 tons of demand can be eliminated in any one of three ways:

(a) Let price go up until 40,000 tons of demand turns to substitutes.

(b) Fix the price (we think we can do it) but leave the crucial power of deciding who gets zinc and who does not to the secondary producers.

Query: are they in a position to decide how zinc can best be used in the national public interest? (Are the primary producers, who are now rationing all zinc not taken for military purposes, in any better position?)

(c) Fix the price and grant the rationing power to a Government agency.

This is obviously the only desirable course. Rationing is a governmental power which must be exercised in the public, not the private interest.

3. This means, in the first place, that legislation is necessary authorizing the President to ration supplies in the event of shortage. Priority for Army and Navy orders may be required under Section 2(a) of Public No. 671, but there is no similar legal authority to control and ration the residual supply for civilian purposes.

4. <u>This power to determine the growth and survival of American industry is tremendous. It is unquestionably the most far-reaching authority which the Government will require during the defense program.</u>

5. Where should this power be lodged? English experience indicates that military priorities and civilian rationing should be administered by a single agency. This would suggest that the rationing power should be delegated to OPM and Stettinius. English experience also indicates very definitely that these controls should not be lodged with business groups -- their function is to advise, not to control. <u>It is questionable whether OPM and the military-business group who at present control military priorities have the breadth of economic and social vision necessary to a proper administration of a separate and equally important program of civilian rationing which will so intimately touch the morale and economic welfare of every person in this country.</u>

STRICTLY CONFIDENTIAL

February 13, 1941

MEMORANDUM TO SECRETARY MORGENTHAU

From: David Ginsburg

Subject: Emergency Priorities and Rationing Act of 1941

Herewith annexed is a draft bill and an accompanying explanatory memorandum. The bill does two things:

(a) It enlarges and clarifies the existing power over military priorities -- the existing power has been delegated to OPM;

(b) It confers a new power -- the power to ration the residual supply among competing civilian interests.

This is done by way of delegation of authority to the President. Where the new power should be lodged is his decision.

The bill is in draft form. Before any action is taken I should appreciate the opportunity to revise and clarify certain provisions which we have included for purposes of discussion. Legal memoranda in support of the constitutional validity of the bill are also enclosed.

STRICTLY CONFIDENTIAL

...t of
...uary 29, 1941

A BILL

To Expedite Production and Delivery of Material
Necessary for National Defense and for Other Purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That

(a) by reason of the existing national emergency in the interest of national defense of insuring the free flow of commerce, of removing burdens and obstructions thereto, it is essential to control and adjust the activities of persons engaged in the production and distribution of materials in such a manner as to give the requirements of national defense primary consideration and to provide for an equitable distribution of materials, in which shortages exist, to the civilian population.

(b) It is hereby declared to be the policy of the United States, in accordance with which policy all of the provisions of this Act shall be interpreted, to provide means for the prompt, orderly and coordinated mobilization of the resources of the nation in order to insure that primary consideration will be given the requirements of national defense and in order to provide for the equitable distribution of materials among the civilian population where shortages are caused by action taken in the interest of national defense.

Section 2. Whenever, during the existence of the national emergency declared by the President on September 8, 1939, the President finds it to be in the interest of national defense, he is authorized :

(a) To require that delivery of materials by any person, pursuant to any public contract, shall take precedence over any other delivery by such person, to such extent and under such terms and conditions as the President may prescribe, and to place a compulsory order with any person for any materials, at a price determined by the President to be reasonable, and under such terms and conditions as the President may prescribe, which materials are of the nature and kind capable of being produced by such person or which such person owns or has in stock, and to require that delivery of such materials by such person pursuant to such order shall take precedence over any other delivery by such person;

(b) to require that delivery of materials by any person, pursuant to any foreign contract, shall take precedence over any other delivery by such person, to such extent and under such terms and conditions as the President may prescribe;

(c) to require that delivery of materials by any person pursuant to any subcontract which is related to a public contract, a foreign contract or a compulsory order, shall take precedence over any other delivery by such person, to such extent and upon such terms and conditions as the President may prescribe;

(d) to establish a rule of priority prescribing the sequence in which contracts, private and otherwise, for materials shall be filled by any person;

(e) to fix maximum and/or minimum production quotas of materials for any person, requiring such person not to exceed such maximum quotas in the production of materials and/or requiring such person to fill such minimum quotas in the production of materials if such person owns, has in stock, or is capable of producing such materials.

Section 3. The President is hereby authorized to sell, under such terms and conditions as he may prescribe, any materials acquired pursuant to a compulsory order issued in accordance with this Act, Section 9 of the Selective Training and Service Act of 1940 or Section 120 of The National Defense Act (U.S.C., 1934 edition, title 50, sec. 80) to any person, or to any local or foreign government, if such sale is deemed by the President to be in the interest of national defense. Any moneys received by the President as the proceeds of any such sale shall be deposited to the credit of that appropriation out of which was paid the cost of such materials, and the same shall be available during the fiscal year in which funds are received and the ensuing fiscal year, for the purpose for which such expended funds were appropriated.

Section 4. In the event that any person shall fail to comply in whole or in part with a compulsory order placed, a rule of priority established, or a quota fixed, pursuant to this Act, or with a preference or priority requirement directed pursuant to this Act or Section 2(a) of the Act of June 28, 1940, which failures to comply are hereinafter referred to as "violations", the President is hereby authorized to take immediate possession of the plant of such person and to operate the same, or to take possession for use by the United States of any materials covered by such compulsory order.

Provided, That nothing herein shall be deemed to render inapplicable existing state or federal laws concerning the health, safety, security and employment standards of the employees in such plant. Any person who shall commit any violation shall be guilty of a felony and upon conviction thereof shall be punished by a fine not exceeding $50,000 or by imprisonment of not more than three years or by both such fine and imprisonment.

Compensation to be paid by the United States to any person as rental for the use of the plant of such person or for any materials so taken shall be fair and just.

Section 5 (a). The President may investigate any facts, conditions, practices, or matters, the investigation of which he deems necessary or appropriate to determine whether any person has engaged in or is about to engage in any violation of this Act, or to aid in the administration of this Act, or in obtaining information to serve as the basis for recommending further legislation concerning the matters to which this Act relates.

(b) The provisions of section 18, (c), (d), and (e), of the Act of August 26, 1935 (U.S.C., 1934 edition, supplement V, title 15, sec. 79r, (c), (d), and (e) relating to attendance of witnesses and the production of books, papers and documents) shall be applicable to such investigations in the same manner and to the same extent as in the case of investigations by the Securities and Exchange Commission under said provisions.

Section 6. Whenever it shall appear to the President that any person is engaged in or is about to engage in any acts or practices which constitute or will constitute a violation of this Act, he may bring an action in the name of the United States in the proper district court of the United States, in the proper Philippine court of first instance or in the proper United States court of any Territory or other place subject to the jurisdiction of the United States, to enjoin or restrain such acts or practices, and upon a proper showing a permanent or temporary injunction or decree or restraining order shall be granted without bond.

*Section 7 (a). Except as provided for in subsections (c), (d) and (e) of this section, the district courts of the

*The provisions for judicial review contained in this section are tentative and should be examined carefully in the light of pertinent authorities.

United States, the courts of first instance of the Philippine Islands, and the United States courts of any Territory or other place subject to the jurisdiction of the United States, shall have exclusive jurisdiction of violations of this Act and shall have jurisdiction, for cause shown, and subject to the provisions of section 17 (relating to notice to opposite party) of the Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes", approved October 15, 1914, as amended (U.S.C. 1934, title 28, sec. 381) to restrain such violations.

(b) Any prosecution or suit under this Act may be brought by the United States in the district wherein the defendant is found or is an inhabitant or transacts business, and process in such cases may be served in any other district of which the defendant is an inhabitant or wherever the defendant may be found. Judgments and decrees so rendered shall be subject to review as provided in sections 128 and 240 of the Judicial Code, as amended (U.S.C. 1934 edition, title 28, secs. 225 and 347), and in section 7 of the Act of February 13, 1925, as amended, (U.S.C. 1934 edition, title 28, sec. 349).

(c) Whenever an order for preference or priority or a compulsory order under section 2(a), (b), (c), and (d) or an order fixing maximum or minimum production quotas under section 2(e) is issued, the person to whom such order is directed, and no other person, may obtain review thereof by filing a petition to set aside or enjoin such order in the District Court of the United States for the District of Columbia. A copy of such petition shall forthwith be served upon the President or upon the person or agency duly authorized to administer the statutory provision upon which the order in question was based, or upon the person or agency duly designated to receive such service. No such petition may be filed unless the person filing such petition shall have, within ten days after such order was issued, requested in writing the agency or person issuing such order to reconsider said order, and unless such petition is filed within thirty days after a ruling has been made on said request. The filing or pendency of such a petition shall not operate as a stay of such order. No order, injunction, or stay, restraining, suspending, or postponing the enforcement, operation or execution of such an order shall be entered by the District Court of the United States for the District of Columbia or by any other court, unless the Attorney General of the United States, or the person or agency administering the statutory provision under which the order was issued, requests such order, injunction or stay.

(d) Any party aggrieved by any final order, judgment, or decree of the District Court of the United States for the District of Columbia may obtain a review of such order, judgment or decree in the United States Court of Appeals for the District of Columbia by filing in such court within sixty days after the entry of such order, judgment or decree a petition, praying that such order, judgment or decree be modified or set aside in whole or in part. A copy of such petition shall be forthwith served upon the President or upon the person or agency duly authorized to administer the statutory provision pursuant to which the order in question was issued or the person duly designated to receive said service. Provided, That where the party aggrieved by any final order, judgment, or decree of the United States District Court for the District of Columbia, is the United States, or any officer or agency thereof, such order, judgment, or decree may be reviewed by the Supreme Court of the United States upon application for certiorari made within 60 days after the entry of such order, judgment or decree of the Judicial Code. The judgment and decree of the said Court of Appeals affirming, modifying, or setting aside in whole or in part any such order of the District Court of the United States for the District of Columbia shall be final, subject to review by the Supreme Court of the United States upon application for certiorari by the party aggrieved by such judgment or decree made within 60 days after the entry thereof.

(e) After an order, judgment or decree to the effect that an order under section 2(a), (b), (c), (d) or (e) hereof, is invalid, becomes final and non-appealable, the party against whom such an order was issued may, in accordance with sections 41 (20)and 250, Title 28 of the United States Code, bring a suit against the United States for damages which have resulted directly from compliance with such invalid order up to the time that said decree became final and non-appealable. Where a compulsory order is held invalid, such damages shall include the fair and just compensation for the material delivered or taken by the Government and for the use of the plant, possession of which has been taken by the Government: Provided, That if a person who is entitled to bring suit under this subsection is also entitled to sue under subsection (f) of this section, he must elect to sue under one or other of the subsections, and the institution of suit under one such subsection shall constitute a bar to suit under the other subsection. A final order, judgment or decree entered by the United States District Court for the District of Columbia or the United States Court of Appeals for the District of Columbia shall become, for the purpose of this section, a final and non-appealable order, judgment or decree when no petition for review has been filed within the period prescribed by subsection (c) of this section, or when certiorari has not been applied for within the period prescribed by subsection (c) of this section, or when a petition for certiorari has been denied, or when a petition for certiorari has been granted, and a final order, judgment, or decree has been entered by the Supreme Court.

(f) Whenever the President shall place a compulsory order with any person for any materials or whenever the President shall, for use of the United States, take possession of any materials or of the plant of any person in accordance with section 4 hereof, the owner of such materials or such plant shall be paid as compensation for such materials or for the use of such plant, such sum as the President shall determine to be fair and just. If any such owner is unwilling to accept as full and complete compensation for such materials or for use of such plant, the sum so determined by the President, such owner shall be paid 50 percent of said sum and shall be entitled to sue the United States for such additional sum as, when added to the sum already received by such owner, such owner may consider fair and just compensation for such materials or such use of his plant, in the manner provided by sections 41 (20) and 250, Title 28, of the Code of Laws of the United States of America: Provided, That no person shall be entitled to bring such suit unless he shall, within ten days after he has been notified of the price fixed for materials or for the use of a plant, notify in writing the person or agency fixing such price that he deems such price unjust and request reconsideration thereof. Provided further, That in determining, for the purpose of this Act, fair and just compensation for any materials, domestic market price or export price need not be followed when such prices are not fair and just because of conditions resulting from governmental activities related to national defense.

Section 8. The President shall have authority from time to time to make, amend, and rescind such rules and regulations as may be necessary or appropriate to carry out the provisions of this Act; to utilize such Federal officers and employees and, with consent of the appropriate local government, such officers and employees of any local government, as he may find necessary to assist in the administration of this Act; to delegate to such agency or agencies as he may designate or create, or to such officer, officers, employee or employees, as he may designate, any powers conferred upon him by this Act, by section 2(a) of the Act of June 28, 1940, or by ection 9 of the Selective Training and Service Act of 1940; to appoint, without regard to the provisions of the civil service laws but subject to the Classification Act of 1923 as amended, such attorneys and experts and to appoint such other employees with regard to existing laws applicable to the employment and compensation of officers and employees of the United States, as he may from time to time find necessary for the administration of this Act.

Section 9. For the purpose of administering this Act, it is hereby authorized to be appropriated for the fiscal year ending June 30, 1941, the sum of   dollars, and it is hereby authorized to be appropriated for each subsequent year thereafter a sum sufficient to carry out the purposes of this Act.

Section 10 (a). As used in this Act:

(1) The term "person" includes one or more individuals, partnerships, associations, corporations, business trusts, and any business organization, and any trustee, and any receiver or trustee in bankruptcy.

(2) The term "public contract" includes any contract entered into by any executive department, independent establishment, or other agency or instrumentality of the United States, the District of Columbia, or any corporation all of the stock of which is owned by or on behalf of the United States, and any contract entered into by any local government.

(3) The term "local government" includes the government of any state, county, town, township, or municipality, and any agency or political subdivision thereof.

(4) The term "foreign government" includes any agency, commission, or representative of any foreign government.

(5) The term "foreign contract" includes any contract entered into by any foreign government.

(6) The term "production" and the term "produces" each includes manufacturing, processing, fabricating, mining, furnishing, packing, assembling, and handling or working on in any other manner.

(7) The term "subcontracts" includes (a) contracts for materials between persons who have obligations under public contracts, foreign contracts, or compulsory orders and any other person; (b) contracts for related materials between such other persons and any suppliers; (c) contracts for related materials at any stage of production which directly or indirectly enter into or contribute to the production of materials ultimately to be delivered pursuant to a public contract, foreign contract, or compulsory order.

(8) The terms "sale" or "sell" each includes exchange, lease, rent, bail and lend.

(9) The term "materials" includes materials, articles, supplies, and equipment, floating and otherwise, and ships, plant facilities, tools, equipment, or any part thereof, and services of any kind, except personal or professional services.

(10) The term "plant" includes a factory or establishment that produces materials, or any part thereof, and all patent rights, licensing rights, contract rights, purchase rights, and similar rights necessary or appropriate, or helpful to the operation of any plant.

(b) As used in subsection (a) of this section, the terms "include" and "includes" shall not be deemed to exclude other things otherwise within the meaning of the term or terms defined.

(c) This Act shall be applicable in the several States and Territories, and the insular possessions of the United States, including the Philippine Islands, the Canal Zone, and the District of Columbia.

Section 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 provision to other persons or circumstances shall not be affected thereby.

Section 12. This Act may be cited as the "Emergency Priorities and Rationing Act of 1941".

STRICTLY CONFIDENTIAL

January 31, 1941

MEMORANDUM

FROM: Legal Section, Price Stabilization Division

SUBJECT: Draft Provisions for Judicial Review in Proposed Priorities Bill

Section 7(c), (d), and (e) of the proposed bill set forth a draft of provisions for judicial review of priority, quota, and compulsory orders, issued pursuant to the authority granted by section 2(a), (b), (c), (d), and (e) of the proposed bill. These provisions, which have been drafted without an adequate examination of the applicable legal authorities, are designed merely to serve as a basis for discussion.

It may facilitate that discussion briefly to summarize the draft provisions and to indicate the problems which they raise.

1. Who may obtain judicial review. - Only the person to [illegible] order has been directed.

2. Procedural prerequisites for judicial review.

(a) No petition for review may be filed unless [illegible] or person issuing the order in question shall, within [illegible] after the issuance of the order, have been requested to [illegible] the order.

(b) A petition for review must be filed within [illegible] after a ruling has been made on the request to reconsider

3. Venue and jurisdiction. - Such petition shall be filed within the District Court of the United States for the District of Columbia.

4. Stay of orders.

(a) The filing or pendency of a petition shall not operate as a stay of the challenged order.

(b) No order, injunction, or stay, restraining the enforcement or operation of an order shall be entered by any court at any stage of the proceedings unless the Attorney General of the United States, or the agency charged with responsibility for administering a statutory provision upon which such order was based, requests such restraining action.

5. Appellate review of decisions of the District Court

(a) The person to whom the order in question was issued or the government may appeal from a final order or judgment of the District Court by filing a petition for review in the United States Court of Appeals for the District of Columbia within sixty days after the entry of the order by the District Court of the United States.

(b) However, where the United States is aggrieved by any final decree or order of the District Court it may seek review by application for *certiorari* made within sixty days after the entry of the order of the District Court.

(c) The final decision of the Court of Appeals is subject to review by the Supreme Court upon application for certiorari by the party aggrieved by such judgment or decree, made within sixty days after the entry thereof.

6. Provision for compensation for damages resulting from compliance with an invalid order pending adjudication of its invalidity. After a decision that a priority, a quota or a compulsory order is invalid becomes final and non-appealable (as defined in the bill), the person to whom the order was directed may sue in the Court of Claims or the federal district courts, for damages resulting from compliance with the order up to the time it was held to be invalid.

With respect to review of compulsory orders issued under section 2(a) of the proposed bill, the following additional provisions for review of compensation are made.

If any owner is unwilling to accept as full and complete compensation for materials and the plants commandeered the compensation which the government has fixed, such owner shall, within ten days after the fixing of the price, request the person or the agency administering section 2(a) to reconsider the price fixed. If after the disposition of that request, the price fixed is still unsatisfactory, the owner shall be paid 50% thereof and shall be entitled to sue the United States in the Court of Claims for such additional sum which, when added to the sum he has received, the owner considers will be fair and just compensation for the materials, or for the plant commandeered. It is provided that, in determining fair and just compensation, the domestic market price or the export price need not be followed if such prices are found not fair and just because of conditions resulting from governmental activities relating to the national defense.

It is also provided with respect to compulsory orders, that an election must be made between the remedy for damages incurred by complying with an order subsequently held to be invalid and the remedy for fair compensation which may be invoked by a person who, although admitting the validity of the compulsory order, challenges the fairness of the price it fixes.

Passing for the moment, the question whether persons other than those to whom priority and cognate orders are directed should be entitled to judicial review of such orders, the foregoing provisions present the following questions:

1. Whether a requirement should be imposed by statute that any or all of the administrative orders should be preceded by an administrative hearing. This question is particularly acute in connection with orders fixing maximum quotas since such orders may result in great hardship. No requirement of administrative hearings has been imposed. Thus the President, by virtue of the rule making power, could require or dispense with hearings depending upon the

dictates of the interestsof national defense.

2. Whether the provision that review may be had only in the District of Columbia would impose undue hardship on persons distant from the District. On the assumption that appeals will be infrequent and that any necessity for the Priorities Division to fight appeals all over the country might unduly hamper effective administration, the District Court has been made the exclusive forum for review.

3. Whether the provision for compensation for damages resulting from compliance with an invalid order pending adjudication of its invalidity, is necessary or desirable. The statute operates to require compliance with priority quota and compulsory orders, at the risk of heavy penalties, until and unless there is a final and non-appealable adjudication of invalidity of such orders. The desirability of immediate compliance with such orders is self-evident. Because of persons to whom orders are directed, must immediately comply, or risk extremely severe penalties, it was thought desirable as a matter of policy, and necessary as a matter of constitutionality, to make some provision for compensation for damages resulting from compliance with orders subsequently held to be invalid. It is recognized that it will be extremely difficult to compute such compensation. Nevertheless, it was felt that such a provision would be sufficient to meet the objections stemming from the doctrine of

ex parte Young, since it permits the argument that a person may subject the orders to a judicial test without running the risk of either severe penalties or irreparable monetary loss. Moreover, such a provision may enable the courts in a proper case to prevent onerous burdens which should be spread over the entire community from falling upon a single individual or enterprise.

A basic question raised by the draft of provisions for judicial review is whether contractors whose contracts are subordinated by priority, quota, or compulsory orders should be given an opportunity to challenge the validity of such orders. Provision for such an opportunity might perhaps be justified on the following grounds:

1. Such a contractor has a practical interest in the validity of such orders as great as the interest of the person to whom such orders are directed.

2. A requirement for prompt judicial review might be coupled with a provision that such review should be the only means of attacking such orders and that such orders could not be attacked collaterally in breach of contract suits brought by private individuals. Such a provision might be desirable as a means of assuring industry that damage suits would not be the penalty of cooperation with government policies. However, there is no compelling need to give industry such assurance in this way. The doctrine of impossibility would, in many cases, constitute an adequate defense.

Moreover, the cooperation of industry has apparently been forthcoming. Finally, contractors may themselves secure such assurance by obtaining waivers from their customers.

3. Contractors whose rights are subordinated by priority, quota, and mandatory orders, may have a constitutional right to be heard with respect to the validity of such orders. This question has not been examined by this office.

Opposed to a provision for judicial review at the instance of the deferred contractor are the following considerations:

1. It would considerably enlarge the class entitled to review and might constitute an invitation to judicial tests and their accompanying drain of administrative resources.

2. Since the penalties of the statute are applicable only to those to whom orders are issued, the implications of ex parte Young would not require judicial review for subordinated contractors.

3. It is difficult to conceive precisely what the scope of the judicial inquiry would be. It would seem that the courts would be foreclosed from considering whether the particular order was consistent with national defense, or whether there was alternative action more conducive to national defense. It would seem therefore, that judicial inquiry would be confined to the question of whether the order in question was constitutional and authorized by statute.

Once the constitutionality of the statute was established, there would seem to be slight possibility that an order might be successfully challenged on the grounds that it was beyond the statutory quthority. This is true because of the extremely comprehensive powers conferred by the proposed statute.1/

It should also be observed that any provision for judicial review would require provisions for adequate notice of administrative or executive action. In view of the many contractors who might be affected by a single preference order and of the decentralized character of the present priority assignments by local contracting officers, it is doubtful whether a practicable method of giving the necessary notice could be adopted. The Federal Register is, of course, a possibility. Moreover, it may be that priority orders would be confidential in character and that a public and widespread disclosure of such orders and the identity of the contractors affected thereby might be unwise. In this connection, however, it should be observed that at present those to whom priority orders are assigned generally make copies of such orders and use such copies to justify the deferment of other contracts in accordance with those orders.

Some of the problems raised in connection with judicial review of the orders authorized by the proposed bill are similar to problems raised in connection with eminent domain proceedings. Accordingly, it is suggested that the Lands Division of the Department

1/ Possibilities of such challenge would, of course, be increased by any Congressional modification limiting the scope of the statute.

of Justice be consulted. Moreover, in view of the fact that the Claims Division of the Department of Justice would probably be called upon to defend suits, it too should be consulted.

STRICTLY CONFIDENTIAL

January 30, 1941.

MEMORANDUM

RE: Explanation of Draft Legislation

Section 1

Section 1 contains a Congressional finding that industrial adjustments are necessary to insure that the requirements of the defense program will be satisfied and a declaration that it is the policy of Congress to adjust the activities of producers so that the needs of national defense will be given primary consideration.

This section, while not essential, is designed to assist in support of the bill's constitutionality should litigation be instituted.

Section 2

The powers conferred by Section 2 are limited to the emergency declared by the President on September 8, 1939, and none of these powers can be exercised unless the President finds such action to be in the interest of national defense.

Section 2(a).

This provision authorizes the President, to require priority for deliveries pursuant to any public contract [1] at

[1] Public contracts are defined to include contracts of any federal agency and any state or local agency.

the expense of other deliveries and to place compulsory orders and require priority for deliveries thereunder. But compulsory orders may be placed with a person only for materials which such person <u>is capable of producing or has in stock</u>. Reasonable prices are to be fixed by the President for materials covered by a compulsory order.

<u>Remarks</u>

Authority to require priority for all government contracts is necessary as is also authority to place compulsory orders. Section 2(a) of the Act of June 28, 1940 empowers the President to demand priority only for Army and Navy contracts. Section 9 of the Selective Training and Service Act of 1940 authorizes the President to issue compulsory orders but such power may be exercised only through the War and Navy Departments. Under this section of the draft bill, the President, or any agency to whom he might delegate his power could require priority for any federal or local contract and issue a compulsory order for any materials. 2/ The power to issue compulsory orders is not unlimited. Such an order can cover only materials which the person is capable of producing or has in stock. This language follows Section 9 except that this provision would clearly apply to dealers. Under Section 9 it is not clear whether dealers are covered.

2/ Materials are defined to include services other than personal or professional services.

Section 2(b)

This provision authorizes the President to require priority for deliveries pursuant to foreign contracts, i.e., contracts executed by any foreign government or foreign commission.

Remarks

Authority to require priorities for contracts of the British, Chinese, South American Republics and other approved foreign governments does not exist under existing legislation. The need for such powers is self-evident.

Section 2(c)

This provision authorizes the President to require priority for deliveries pursuant to any subcontract (including all subcontracts and supply contracts) related to a public contract, a foreign contract or a compulsory order.

Remarks

With respect to subcontracts related to Army and Navy prime contracts, this power exists by virtue of Section 2(a) of the Act of June 28, 1940 and/or Section 9 of the Selective Training and Service Act of 1940. This conclusion, however, is not free from serious doubt and Section 2(c) of the bill clarifies this point and extends this authority to subcontracts related to other public contracts and foreign contracts. To exercise priorities effectively for government departments other than the Army and Navy and for foreign governments, this power is vital.

Section 2(d)

This provision authorizes the President to prescribe the order in which civilian contracts shall be filled. It is applicable to all private contracts.

Remarks:

During the World War control over the order of deliveries pursuant to private contracts was effected indirectly - through control of the transportation system. Not only would such indirection be cumbersome today but it is wholly possible that it would not be effective. For no authority exists to exercise priorities over the trucking system or merchant marine. In addition, shortages in transportation by rail may not be so acute during the present emergency.

Section 2(e)

This provision authorizes the President to fix maximum and minimum production quotas.

Remarks:

This subsection is designed to permit the direction of production into channels required by national defense, the imposition of a requirement that a producer increase production if he is capable of so doing, or that he decrease production. Control over productive capacity was essential and was exercised during the World War. But this control was again exerted by indirection. For the reasons given above, such control is not desirable. Hence a specific provision is contained in the draft bill.

In connection with the powers contained in Section 2 of the bill it should be observed that an effective priorities system requires:

(a) Control over the sequence in which contracts are filled.

(b) Power to determine and allocate output regardless of the contractual relationship between the producer and the user.

This section authorizes the President to establish directly the order in which all contracts shall be filled, and to determine what material, to the extent of existing potential capacity, should be produced. The bill does not authorize the President to require the diversion of material from one potential user to another in the absence of contractual relationships between the producer and the desired user. In such a situation, the President may achieve this objective indirectly by placing a compulsory order on behalf of the government and then reselling to the desired user, if such action is in the interests of national defense. It was deemed inexpedient to authorize such diversions directly in view of the desirability of having the government establish fair and just prices in such cases.

In this connection it should be observed that the definition of the word "materials" is broad enough to permit the diversion of equipment, e.g., a machine tool, from one person who is using such equipment for the production of a non-essential product, e.g., pianos, to another person who will use the equipment in the production of an essential product, e.g., aircraft.

The price to be paid for such equipment, however, must be reasonable as determined by the President. Moreover, the diversion would have to be in the interest of national defense. Thus, safeguards have been inserted for the protection of private persons.

Section 3

This section authorizes the President to sell, lease, rent or bail any materials acquired in accordance with a compulsory order placed pursuant to this bill, the commandeering section of the Selective Service Act of 1940 or Section 120 of the National Defense Act. Such sales may be made to any person or any local or foreign government and the proceeds shall be deposited to the appropriation charged with the purchase.

Remarks

Inasmuch as the power to dispose of government property is vested by the constitution in the Congress, and as no general authority to dispose of property has been granted to the executive branch, this provision is necessary. By means of the threat of issuing compulsory orders, coupled with the power to dispose of any materials so acquired, it is felt that the President would be able indirectly to direct and to allocate the productive capacity of any manufacturer to designated users regardless of the contractual relationship between such manufacturer and the user. But if this power to dispose of materials is not granted to the President, the right to compel compliance with allocation orders would be incomplete.

Section 4

This section authorizes the President to commandeer, on a rental basis, the plant, factory or productive establishment of any person who refuses to comply with a priority requirement, quota or compulsory order. Similarly, where a compulsory order covering materials on hand is not complied with, the President may take possession of such materials. Additional sanctions are provided for in that a person who is guilty of noncompliance may be fined up to $50,000 and/or imprisoned for not more than three years.

In case the commandeering sanction is invoked, the owner of the plant or materials shall be paid a fair and just rental or price and the Government in operating the plant shall comply with all local and federal health, safety, security and employment standards.

Remarks

Section 9 of the Draft Act and Section 120 of the Defense Act contain almost identical provisions and may be relied on as precedents to support the inclusion of such a provision in the bill. The need for stringent penalties is self-evident.

Section 5

This section confers investigatory powers on the President. He is authorized to investigate any facts, conditions, practices or matters which he deems necessary or appropriate to determine whether the bill has been violated or to obtain information to serve as the basis for recommending further legislation.

Remarks

Power to investigate the books and records of any person subject to the bill is necessary primarily as a club to secure complete data with respect to productive capacity and other matters and to determine whether the bill is being complied with. Almost identical power has been conferred on the executive branch by Congress in the past. This provision would create no new precedents.

Section 6

This section authorizes the President to obtain injunctive relief whenever he finds that any person is engaging in activities which constitute or will constitute a violation of this bill.

Remarks

This form of relief will probably be more expeditious than would the invocation of the commandeering and criminal sanctions. Furthermore, it is less drastic and provides a more democratic method for dealing with recalcitrant producers. Injunctive relief is available for the enforcement of priority orders issued pursuant to Section 2(a) of the Act of June 28, 1940 and has long been recognized as a proper method of enforcing statutory commands.

Section 7

A separate memorandum concerning the question of judicial review with which this section deals has been prepared and is attached hereto.

Section 8

This section authorizes the President to promulgate necessary rules and regulations, to delegate his powers to any federal agency, state, or other local agency. In addition he is empowered to appoint, subject to the civil service laws, employees and officers and, without regard to such laws, lawyers and experts.

Remarks

Similar provisions are found in other statutes.

Section 9

This section authorizes annual appropriations for the administration of the bill.

Remarks:

This provision has been inserted in order to comply with a parliamentary rule of the House and thus assure expeditious consideration of a proposed appropriation should the bill be enacted into law.

Section 10

This section defines certain terms used in the bill.

Section 11

This section provides that if any part of the bill is declared to be unconstitutional, the other provisions will still remain.

Remarks:

This is the usual separability clause found in many recent acts of Congress.

Section 12

This section contains the short title of the Bill: ""Emergency Priorities and Rationing Act of 1941".

STRICTLY CONFIDENTIAL

January 22, 1941

MEMORANDUM

Re: Constitutionality of the Proposed Statutory Provisions Delegating Priority and Related Powers to the President

The memorandum which follows is designed to serve as the basis for a brief (if one becomes necessary) in support of the constitutionality of the provisions delegating authority to the President which are contained in a proposed priority statute.[1]

The Delegation in Question and the Requirement of an Effective Priorities System

It is a commonplace that modern war is a war of factories in which effective organization of the national economy is a prerequisite for victory. The present defense emergency, no less imperatively than war itself, demands such organization. To achieve it, a coordinated priority and procurement system is indispensable. A priorities system resolves conflicting demands for materials, equipment and services in accordance with the paramount needs of national security. Thus, the Industrial Mobilization Plan, revision of 1939, states (at p. 3):

1/ "To Expedite Production and Delivery of Materials Necessary for National Defense and for Other Purposes" - Prepared by the Legal Staff, Price Stabilization Division.

"A priority may be defined as the means whereby precedence is established in the procurement program after considering all urgent and essential needs of the Nation. The right of government to institute drastic priority action has long been recognized, but it underwent rapid development during the World War. Priority soon became the most direct, powerful, and therefore the most important means of directing the flow of resources into desired channels of production. It assured equitable distribution of materials and services according to national requirements." (Italics added)

An effective priority system requires not merely power to control the sequence in which contracts are filled but also the power to prescribe the uses to which productive facilities should be put and the power to allocate output without regard to the existence of contractual relationships between the supplier and the user. It requires also a mechanism by which needed materials and equipment can promptly and directly diverted from less essential to more essential uses. The proposed bill (hereinafter sometimes called "the bill") is designed to afford the legal basis for the establishment of an effective priorities system.

The experience of the United States during the last war demonstrates that such a system requires prompt adjustment to swiftly changing facts, the application of expert techniques to a variety of situations, and the handling of complex details. Priority and procurement regulation, in short, must be sufficiently flexible to permit a synchronized, coordinated marshalling of industrial resources. The bill delegates broad authority to the President because only such delegation will insure this necessary flexibility and coordination of priority and procurement policies.

The bill authorizes the President, during the existence of the national emergency declared by the President on September 8, 1939, to take the following action when he finds it to be in the interest of national defense:

(a) To require priority for delivery of materials under any public contract[2/] at the expense of other deliveries (Section 2(a));

(b) To place a compulsory order with any person for materials and to require priority for deliveries under such order. The price for such materials is to be fixed by the President (id) and to be subject to judicial review;

(c) To require priority for deliveries under foreign contracts, i.e., contracts executed by any foreign government or foreign purchasing commission. (Section 2(b));

(d) To require priority for deliveries pursuant to any subcontract (including all subcontracts and supply contracts at any stage of production) which is related to a public contract, a foreign contract, or a compulsory order. (Section 2(c));

(e) To prescribe the sequence in which contracts, private and otherwise, shall be filled. (Section 2(d));

(f) To prescribe the kind or kinds of materials which are to be produced and to fix maximum and/or minimum production quotas to the extent of the existing potential capacity. (Section 2(e));

2/ "Public contracts" are defined in Section 11(a) 2 to include contracts of any federal agency, and any state or local governmental agency.

(g) To sell, lend, or rent any materials acquired in accordance with a compulsory order placed pursuant to the bill, Section 9 of the Selective Service Act of 1940, or Section 120 of the National Defense Act, to any person or to any local or foreign government, if such action is deemed to be in the interest of national defense. (Section 3).

Provision is made for adequate judicial review of the exercise of the President's power to issue compulsory orders, priority orders, or quota orders. See Section 7, (c), (d) and (e).

I

The statute meets the requirements for valid delegation generally applicable to legislation.

A long line of cases has sustained the delegation of authority to be exercised by administrative or executive agencies in accordance with broad standards established by Congress. See cases cited *infra* pp. 6-7. And standards controlling executive or administrative action no more, and often less, definite or restrictive than those involved here have been upheld. The recent decisions of the Supreme Court (United States v. Rock Royal Cooperative, 59 Sup. Ct. 993; H. P. Hood & Sons v. United States, 59 Sup. Ct. 1019) which sustained the validity of the Agricultural Marketing Act of 1937 are particularly pertinent. The declared policy of that Act, which was applicable to eight enumerated commodities, was:

> "(1) Through the exercise of the powers conferred upon the Secretary of Agriculture under this chapter, to establish and maintain such orderly marketing conditions for agricultural commodities in interstate commerce as will establish prices to farmers at a level that will give agricultural commodities a purchasing power with respect to articles that

farmers buy, equivalent to the purchasing power of agricultural commodities in the base period. The base period in the case of all agricultural commodities except tobacco and potatoes shall be the prewar period, August 1909–July 1914. In the case of tobacco and potatoes, the base period shall be the postwar period, August 1919–July 1929; and, in the case of all commodities for which the base period is the pre-war period, August 1909 to July 1914, will also reflect current interest payments per acre on farm indebtedness secured by real estate and tax payments per acre on farm real estate, as contrasted with such interest payments and tax payments during the base period.

"(2) To protect the interest of the consumer by (a) approaching the level of prices which it is declared to be the policy of Congress to establish in subsection (1) of this section by gradual correction of the current level at as rapid a rate as the Secretary of Agriculture deems to be in the public interest and feasible in view of the current consumptive demand in domestic and foreign markets, and (b) authorizing no action under this title which has for its purpose the maintenance of prices to farmers above the level which it is declared to be the policy of Congress to establish in subsection (1) of this section."
7 U. S. C. Sec. 601 (Supp. V)

The Secretary of Agriculture, in order to accomplish the declared policy, was authorized to determine which of the commodities named were to be regulated; to issue, after notice and hearing, one or more of a variety of orders, specifying the geographical area to which the order would be applicable and the period during which it would be operative. He had also, as is disclosed by the declaration of policy quoted above, authorized to balance, according to his view of public interest, the desirability of a price raising policy against a consumer protection policy. The delegation there involved, as the dissent of Mr. Justice Roberts makes abundantly clear (H. P. Hood & Sons v. United States, supra, at pp. 1027-1029), was sweeping in character.

The Court, nevertheless, rejected the contention that the standards controlling the exercise of the delegated powers were so ill-defined as to render the statute invalid and presented the following summary of the pertinent cases (United States v. Rock Royal Corp., supra, at p. 1013):

> "From the earliest days the Congress has been compelled to leave to the administrative officers of the Government authority to determine facts which were to put legislation into effect and the details of regulations which would implement the more general enactments. It is well settled, therefore, that it is no argument against the constitutionality of an act to say that it delegates broad powers to executives to determine the details of any legislative scheme. This necessary authority has never been denied. In dealing with legislation involving questions of economic adjustment, each enactment must be considered to determine whether it states the purpose which the Congress seeks to accomplish and the standards by which that purpose is to be worked out with sufficient exactness to enable those affected to understand those limits. Within these tests the Congress needs specify only so far as is reasonably practicable. The present Act, we believe, satisfies these tests."

The proposed statute meets all of the requirements for valid delegation affirmed in the Rock Royal case. It "states (with sufficient exactness) the purpose which the Congress (would seek) to accomplish," viz, "the prompt, orderly, coordinated mobilization of the resources of the nation in order to insure that the requirements of national defense will be met and to provide for the equitable distribution of materials among the civilian population." Moreover, it states clearly the standard according to which this purpose should be achieved, viz, "national defense." Finally, in view of the fact that an effective priority system, as has been indicated, requires the application of expert techniques to swiftly changing facts and complex detail, the proposed statute has been as specific as is "reasonably practicable."

The principles of the Rock Royal case are, of course, not new. Broad standards have been upheld in an array of cases which afford impressive support for the constitutionality of broad delegation such as that involved in the Agricultural Marketing Act and that in the proposed priority statute. Mahler v. Eby, 264 U. S. 32, 40-41 (undesirable residents); New York Central Securities Co. v. United States, 287 U. S. 12, 24-25 (public interest); Federal Radio Commission v. Nelson Bond & Mortgage Co., 289 U. S. 266, 285 (public convenience, interest or necessity); Frischer & Co. v. Elting, 60 F (2d) 711 (C. C. A. 2d, 1932) cert. den., 287 U. S. 649 (unfair methods of competition and unfair acts, the effect or tendency of which is to destroy or substantially injure an industry); Federal Trade Commission v. Klesner, 280 U. S. 19, (public interest). Electric Bond and Share Co. v. Securities and Exchange Commission, 303 U. S. 419, (necessary or appropriate public interest or for the protection of investors or consumer); McMann v. Engel, 16 Fed. Sup. 446 (S.D. N.Y. aff'd, 87 F (2d) 377, C.C.A. 2d), cert. den., 301 U. S. 384 (public interest); see also Sunshine Coal Co. v. Adkins, 310 U. S. 381, 397-399.

In view of the foregoing authorities, there is no room for the contention that the proposed delegation is invalid.

Panama Refining Co. v. Ryan, 293 U. S. 388; Shechter Poultry Corporation v. U. S. 295 U. S., are not applicable here. The delegation involved in those cases was invalidated because no declaration of policy or standard of action was laid down for the guidance of the President. See Panama Refining Co. v. Ryan, supra, at pp 414 et seq; United States v. Goldsmith, 91 Fed. 983, 985 (C.C.A. 2d, 1937). Such a standard is, as has been clearly demonstrated above, defined by the proposed statute with sufficient definiteness to be well within constitutional limitations applicable to congressional delegation of power.

II

Where legislation ~~directly~~ affects foreign relations or national defense, the standards governing the exercise of the delegated authority may be broader than is generally the case.

Even if the proposed statute did not meet the requirements for valid delegation generally applicable to legislation, it would not be unconstitutional. It is submitted that standards governing the exercise of delegated authority by the President may, when foreign relations or a national defense emergency is involved, be broader than is generally the case and that the proposed statute clearly meets the requirements for valid delegation in the context of a defense emergency.

In United States v. Curtiss-Wright Corp., 299 U. S. 304, the Supreme Court sustained a joint resolution conferring upon the President the authority to prohibit the sale of munitions to the countries engaged in the Chaco conflict or to impose conditions upon such sale, if the President found that such action would promote the reestablishment of peace. In the course of its opinion, the Court announced the doctrine that delegation even though it might be invalid because too broad if it dealt with purely internal affairs, could be valid where "its exclusive aim was to afford a remedy for a hurtful condition within foreign territory." The Court predicated this doctrine on the following considerations:

(1) The federal power over international relations did not depend upon affirmative grants in the Constitution but was the necessary concomitant of sovereignty. (See p. 318). (2) In the realm of international affairs, "with its important, complicated, delicate and manifold problems, the President has a very delicate, plenary and exclusive power... as the sole organ of the federal government... (See p. 320)." (3) Narrow restrictions on the President's action in that field are unwise because "the form of the President's action - or, indeed, whether he shall act

at all - may well depend, ... upon the nature of the confidential information which he has or may thereafter receive, or upon the effect which his action may have upon our foreign relations." (pp. 320-321).

Delegation in connection with internal regulation designed to effectuate the defense program falls within the doctrine of the Curtis-Wright case. Such regulation is so enmeshed with, and affected by, international relations that it must be considered a part thereof. Such regulation, moreover, is prompted by the same purpose which has generated much of the regulation in the field of international affairs, viz., the desire to prevent this country's involvement in war. In this connection, it is significant that the historic practice, going as far back as 1794, of conferring wide authority upon the President to impose and revoke embargoes has been designed to avoid involvement in war. And it was this practice that the Court emphasized (at pp. 322-328) in announcing the doctrine of the Curtiss-Wright case. Surely, there can be no serious question that defense regulation, which is so intimately connected with international relations and which springs from the same basic purpose, falls within the doctrine of that case.

But even if an unreal division be made between international affairs and internal defense regulation, it is clear that every reason for sustaining broader standards in the field of international affairs applies to defense regulation. Thus, as the Supreme Court expressly recognized in the Curtiss-Wright case (at p. 318) (1) the power to declare and wage war, like the power over international relations, is a "necessary concomitant of nationality" and would exist even if it had not affirmatively been conferred by the Constitution; (2) The President, as Commander-in-Chief, is the representative of the nation in the exercise of the war power. The power to wage war includes the power to prepare for war; and when war is being waged in every part of the world, except the Western Hemisphere and threatens to involve this country, no distinction in the President's status can be made when peacetime preparation rather than wartime action is involved. There is the same inherent and compelling necessity to delegate broad authority to the President so as to permit both prompt adjustment to swiftly changing, and often confidential, facts 3/ and effective coordination of complex detail. Mr. Charles Evans Hughes, now Chief Justice, in a speech before the American Bar Association 1917, gave classic expression to the special need for executive and administrative flexibility in wartime:

> "Congress cannot be permitted to abandon to others its proper legislative functions; but in time of war, when legislation must be adapted to many situations of the utmost complexity, which must be dealt with effectively and promptly, there is special need for flexibility and for every resource of practicality; and, of course, whether the limits of permissible delegation are in any case overstepped always remains a judicial question. We thus not only find these great war powers conferred upon the Congress and the President, respectively, but also a vast increase of administrative authority through legislative action springing from the necessities of war."

These observations are not less pertinent when industrial mobilization for a defense emergency rather than war is involved. (4) A long line of legislative precedent affords overwhelming support to delegation pursuant to the war power which confers broad authority to the President. See e.g.,

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3/ It is clear that the grant of priority must be geared to military plans, which are often confidential, and foreign developments, which also are often confidential.

Section 120 of National Defense Act, 50 U.S.C. Sec. 80 (1916); Emergency Shipping Fund Act, 40 Stat. 101 (1917); Naval Appropriation Act, 59 Stat. 556, (1916); Food and Fuel Act, 40 Stat. 276, (1917); Trading With the Enemy Act, 40 Stat. 411, (1917).

Moreover, the Supreme Court itself has already indicated that broad standards may be established when authority delegated to the President impinges on his activities as Commander-in-Chief. Thus United States v. Chemical Foundation, 272 U. S. 1, involved the Trading With the Enemy Act which required the public sale of seized alien patents unless the President, stating the reasons therefor, should "in the public interest determine otherwise." The United States brought suit to set aside certain patent sales made to it by the Chemical Foundation on the ground, among others, that the statutory provision for determining whether there should be a private sale involved an unconstitutional delegation of legislative power. The Court rejected that contention and stated (at p. 12):

> "It was not necessary for Congress to ascertain the facts of or to deal with each case. The Act went as far as was reasonably practicable under the circumstances existing. It was peculiarly within the province of the Commander in Chief to know the facts and to determine what disposition should be made of enemy properties in order effectively to carry on the war." (Italics added)

See also Selective Draft Law cases, 245 U. S. 366 ; McKinley v. United States, 249 U. S. 397.

In view of the foregoing, it is clear that the proposed delegation falls within the doctrine of the Curtiss-Wright case, and would, accordingly, be valid even though it did not meet the requirements applicable to legislation not directly related to foreign affairs and the war power.[1/] Moreover, even assuming the inapplicability of that doctrine and that the delegation in question

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1/ It should be observed that it is doubtful that the ill-defined doctrine of the Curtiss-Wright case has any historical basis. Accordingly, not reliance should not be placed on that doctrine.

must be tested by all of the constitutional requirements generally applicable to legislation, there is, as we have demonstrated above, no question that the proposed delegation is constitutional.

For Miss Chauncey

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 17, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£47,000
Purchased from commercial concerns	£21,000

Open market sterling was steady all day at 4.03-1/4. There were no transactions by the reporting banks in this type sterling.

The Canadian dollar improved to 14-7/8% discount after opening at 16-1/4% discount. The higher rate was due to a small demand by tourists going to Canada for winter sports.

In Shanghai the Chinese yuan and sterling both appreciated against the dollar. The Chinese yuan was quoted at 5-11/16¢, up 1/16¢ and sterling was $3.93-1/2, up 4-1/2¢. In Hongkong sterling moved up 1¢ to 3.91¢.

Closing quotations for the other currencies were as follows:

Swiss franc (commercial)	.2323-1/2
Swedish krona	.2385-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	6-15/16% discount

There were no purchases or sales of gold consummated by us today.

No new gold engagements were reported.

In London the price of silver was unchanged at 23-1/4d for both spot and forward deliveries. The dollar equivalent of these prices is 42.21¢.

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

We made two purchases of silver amounting to 100,000 ounces under the Silver Purchase Act. This silver consisted of new production from foreign countries for forward delivery.

We also purchased 150,000 ounces of silver from the Bank of Canada under our regular monthly agreement. During February we have purchased a total of 200,000 ounces as compared with the agreed monthly limit of 1,200,000 ounces.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE FEB 17 1941

TO Secretary Morgenthau

FROM Mr. Foley

In accordance with the request contained in Mr. Thompson's memorandum of December 26, 1939, there is attached a summary report of studies or projects carried on in the Office of the General Counsel for the month of January, 1941.

Attachment

5.14.76

SUMMARY REPORT ON STUDIES OR PROJECTS IN THE OFFICE OF THE GENERAL COUNSEL - JANUARY 1941

The following matters received attention in the Office of the Chief Counsel for the Bureau of Internal Revenue:

1. Bill (S. 4269, 76th Cong., 3rd Sess.) to extend old age and survivors insurance. Consideration was given to a bill introduced by Senator Wagner to extend old age and survivors insurance protection to approximately ten million additional persons and unemployment compensation protection to about five million additional persons.

2. Filing of Philippine tax returns in Honolulu instead of Baltimore. Consideration was given to recommending legislation whereby persons who have their principal place of business in the Philippines shall file their income tax returns in Honolulu rather than in Baltimore.

3. Question whether living quarters, etc., furnished by Hawaiian sugar plantations constitute wages. Consideration was given to an interesting question arising in the case of Hawaiian sugar plantations which involves the question of whether living quarters, fuel, water, etc., furnished by the plantations to their employees constitute wages, and their value.

The above matters were handled under the supervision of G. E. Adams, Head, Legislation and Regulations Division.

The following was the subject of special study conducted under the supervision of Assistant General Counsel Cairns:

4. Cases and interpretations of statute forbidding land holdings

of more than 500 acres in Puerto Rico. The study, prepared by Mr. Du Bois, was a discussion of the history, effectiveness, enforcement, and judicial interpretation of the so-called "500-Acre Law", section 3 of Joint Resolution No. 23 of May 1, 1900, 31 Stat. 716 (U.S.C. title 48, sec. 752), which restricts the number of acres of land that may be held by a corporation in Puerto Rico. Consideration was given to the efforts of the Puerto Rican legislature since 1935 to enforce the law and to the economic advisability of the law.

The following matters received attention in the Legislative Section under the direction of Assistant General Counsel Bernard:

CONTINUATION OF PROJECTS

5. Bill to relieve the hospitals from double taxation under Harrison Narcotic Act (for description see original report, item 9). This bill, prepared by Miss McDuff, together with subsequent material submitted in support of particular phases of the bill, is still receiving consideration by the Bureau of the Budget.

6. Fidelity bond bill (formerly identified as "Bond Survey) (for description see original report, item 10). Due to the interest of about ten other agencies in this bill, which was prepared by Mr. Spingarn, the Bureau of the Budget has not yet been able to give it the usual clearance.

7. Federal depositary system (for description see original report, item 6). Mr. Reeves has completed his work on a draft of this bill,

and it is now in the Under Secretary's office awaiting the determination of several policy questions raised by the Office of the Comptroller of the Currency.

8. Acting administrators bill (for description see June report, item 33). Miss McDuff is continuing her study of the necessity and feasibility of general legislation to provide for acting bureau or division chiefs in the absence of a chief.

9. Law Committee of Defense Communications Board (for description see November report, item 23). Mr. Spingarn is continuing his work with the Law Committee, as the Treasury representative, on drafts of legislation to authorize complete control by the Government of radio and wire communication facilities in time of war or impending war.

10. Codification of Public Debt laws (for description see December report, item 14). Mr. Koken is continuing his work on this project.

The following matters were worked on under the direction of Assistant General Counsel Bernstein:

11. Foreign Funds Control. Further work was done on the matter of drafting licenses and other documents incident to the various extension proposals of the freezing control. Numerous conferences were held and Messrs. Tiebout and Davis from the New York Federal spent a number of days working with this office in the development of a number of measures that may be necessary. Messrs. Bernstein, Luxford, DuBois and Sutton worked on this matter.

12. Proposed Executive Order. A number of further drafts of the proposed Executive Order consolidating the various economic defense measures have been prepared, including a revision of the membership of the Economic Defense Board, which has been restyled the Civilian Economic Defense Committee. The inclusion of a new title relative to the functions of the Attorney General on defense production, restrictions arising out of foreign and domestic control; vesting in the Secretary of State veto power with respect to those portions of the order administered by the Secretary of the Treasury; limiting the scope of the foreign control to continental Europe, except Russia, Greece, Turkey and the Vatican. We have participated in a considerable number of conferences at the Department of Justice and at the State Department attended by representatives of the Department of Justice, the State Department, and Leon Henderson and David Ginsberg of the SEC, discussing the various drafts of the Executive Order relating to economic defense. Messrs. Bernstein, Luxford and DuBois worked on this matter.

13. Argentine Agreement. We have worked with the State Department and the Federal Reserve Bank of New York on the question of the evidence to be furnished by the Argentines relative to the authority of Argentina and the Central Bank to enter into the agreement. We drafted suggested forms of the decree to be issued by the Argentine Government and the statute to be passed by the legislature. This matter is still being taken up by the State Department with the

Argentine representatives. Mr. Bernstein and Mr. Sutton worked on this matter.

14. Chinese Agreement. We prepared a redraft of the stabilization agreement which has been submitted to the Chinese. We are still waiting to hear from the British and Chinese on the arrangement. Mr. Bernstein worked on this matter.

15. Belgian Decree. We received a letter from the State Department enclosing a note from the Belgian Ambassador relating to various Belgian decrees affecting rights of Belgian banks and other officials to deal with property in this country. The letters and note were sent to the various Federal Reserve Banks, and a pamphlet containing such information has been printed by the Federal Reserve Bank of New York for general distribution to interested parties. Mr. Bernstein worked on this matter.

16. Federal Reserve Board legislation. This office discussed with Messrs. Wyatt and Williams of the Federal Reserve Board the proposed changes to be made in the bill relating to government and foreign central bank deposits in banks in this country. We advised the Federal Reserve Board of our approval of the new draft of the bill and have written a report to the Senate Banking and Currency Committee to the same effect. Mr. Bernstein worked on this matter.

17. Gold from South Africa. This office worked with Mr. Cochran on the agreement and other arrangements relative to the shipment of gold

from South Africa on the American battleship. Mr. Bernstein worked on this matter.

18. Inter-American Bank. Mr. Bernstein attended meetings at the State Department of the various agencies that worked on the Inter-American bank and discussed the attitude of the private banks and some of the suggestions made by them.

19. Z. & F. Assets Realization Corporation v. Cordell Hull. On January 6, 1941, the Supreme Court decided that the petitioners could not contest the payment by the Secretary of the Treasury of the sabotage awards. This office participated in conferences with the Department of Justice relating to the payment of such awards. Considerable work was done in connection with the awards paid since January 10, and in regard to certain small awards to members of five underwriters groups. Miss Hodel worked on these matters.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 17, 1941

TO Secretary Morgenthau

FROM Mr. Haas

Employment under the Work Projects Administration declined further to 1,892,000 persons during the week ended February 5, 1941, a decrease of 3,000 from the preceding week.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending 1940-41	Number of Workers (In thousands)
July 3	1,608
July 10	1,620
July 17	1,659
July 24	1,690
July 31	1,701
August 7	1,709
August 14	1,708
August 21	1,698
August 28	1,691
September 4	1,690
September 11	1,687
September 18	1,689
September 25	1,704
October 2	1,747
October 9	1,762
October 16	1,768
October 23	1,776
October 30	1,779
November 6	1,783
November 13	1,785
November 20	1,806
November 27	1,820
December 4	1,832
December 11	1,855
December 18	1,872
December 25	1,878
January 1	1,880
January 8	1,887
January 15	1,893
January 22	1,896
January 29	1,895
February 5	1,892

Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1938	
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
September	1,704
October	1,779
November	1,820
December	1,878
1941	
January	1,895

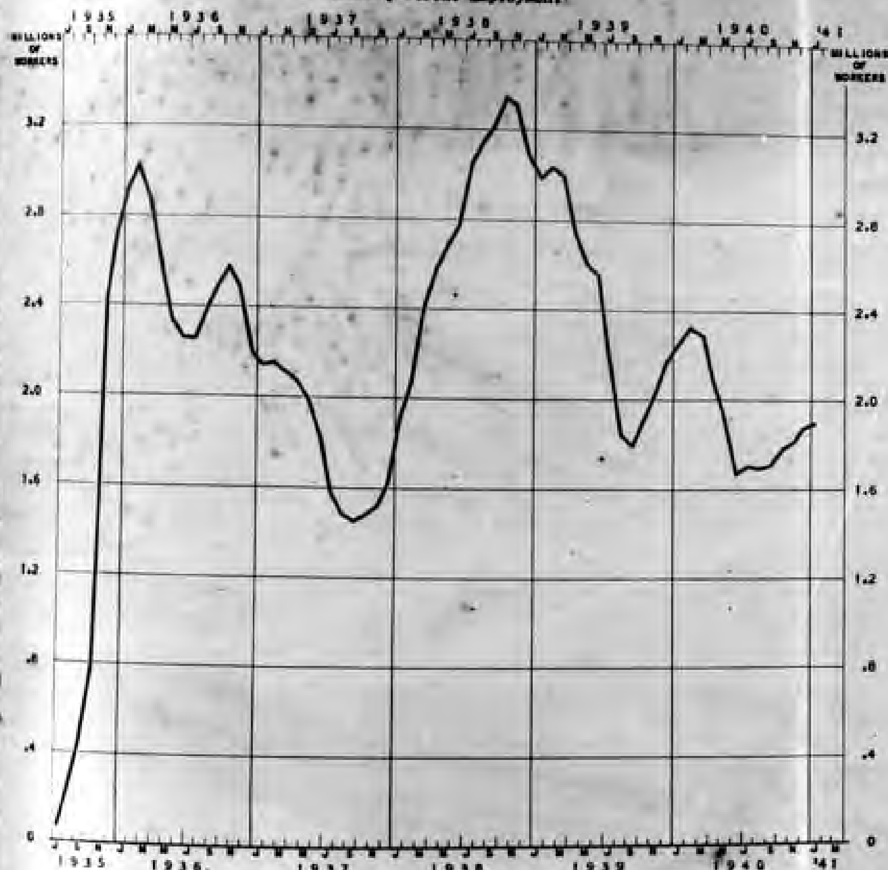
Source: Work Projects Administration

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

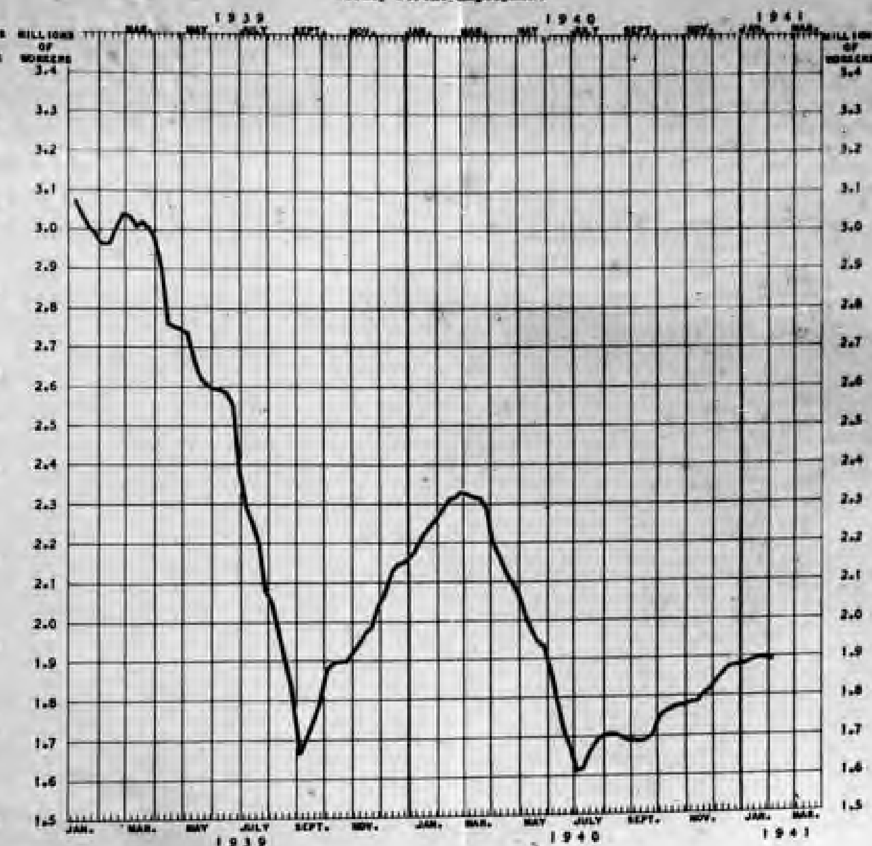
They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

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

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