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January 15, 1941
9:35 a.m.

RE AID TO BRITAIN

Present: Mr. Euhn
Mr. White
Mr. Schwarz
Mr. Bell
Mr. Foley
Mrs. Klotz
Mr. Cochran

H.M.Jr: Now, I want to find out, where is the statement now? Has it been mimeographed?

White: This is the one which includes Canada as you wished.

H.M.Jr: Yes. Now, what I want to do is this. Did you (Schwarz) have this thing mimeographed.

Schwarz: Yes.

H.M.Jr: I take it Foley wants to go up on the Hill, to be there now, don't you, Ed?

Foley: All right.

H.M.Jr: I am not going up until later. You can phone me. I am not at all well, and I am going to stay here. I want Harry White to stay and I would like to get a chance to go over some of this stuff with him, but Chick, I want you to look at me. Until I personally tell you to release this thing,

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you don't give it to anybody.

Schwarz: I will stay right with you.

H.M.Jr: No, you go up there.

Schwarz: I will go up now, and wait for you.

H.M.Jr: What is the other one that is there?

Schwarz: There are three. (See attachments 1, 2, and 3.)

H.M.Jr: Have you got them numbered?

White: There are just those two.

H.M.Jr: What is the third one?

White: The third one is a list of the various Empire assets which are not confidential which you may or may not want to refer to.

H.M.Jr: Have you got those mimeographed?

White: Yes, but I doubt whether you want to distribute them.

H.M.Jr: Just so we understand it, Chick, you go up there now so you will be up there, and you can take one of the Negro messengers with you to sit on it, or one of your boys; but if this stuff gets out until I tell you to --

Schwarz: It won't get to anybody.

H.M.Jr: I won't accept any excuses, do you understand?

Schwarz: Right.

White: Does Mr. Feis know that?

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Cochran: At your request I am getting this to Feis. I was just sending it over there to his office.

H.M.Jr: Has it gone?

Cochran: Hawkey is over there. I can stop him.

H.M.Jr: You had better go and tell him until I want the thing released, it is not to be given out.

Cochran: I will stress that.

White: You had better call him right away.

Cochran: I will get Mr. Hull's office directly because Feis is there.

H.M.Jr: Well, just get that word to them, will you?

Cochran: Surely.

H.M.Jr: Then come back.

Schwartz: That means the committee or nobody.

H.M.Jr: Nobody until I give you the word personally. I don't want this to be given to anybody, do you understand, and I won't accept any excuses now.

Schwartz: You won't be given any.

H.M.Jr: All right. It went over this morning to Feis.

White: Just now. He said he had instructions to give it to him. It was about ten minutes ago. The British had a copy last night.

H.M.Jr: That is all right. Well, you (Schwartz) might

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as well get up and don't you (Foley) want to get up on the Hill? I don't want to troop in the whole bunch at once. I will be here, Ed, and you let me know how the thing is going. I mean, supposing - in any case, you give me a call not later than 10:30. Now, where is the place?

Foley: It is the House Ways and Means Committee hearing room, Ways and Means, where we go on taxes. That is the new House Office Building. They moved it from the Foreign Affairs Committee hearing room because it wasn't big enough, and they are holding it in the Ways and Means.

E.W.Jr: I don't know who is going with you, but you can go and Fuhr, you go on up on the Hill and I think it would be useful if you would let Professor Odegarde go with you.

Fuhr: All right.

E.W.Jr: And tell him to listen and if he sees something - now, for instance, he said one thing walking home last night. I tried out this thing on the question of collateral. He said one thing, "Well, if they want collateral, it seems to me that England is offering a sufficient security through the fighting that she is doing now."

Fuhr: Offering us our security as collateral.

E.W.Jr: I mean just - well, she is giving us security through doing our fighting and through the British fleet, but I mean I want him there in case he catches something and he can write it out and give it to Harry White and Harry White will give it to me, but anyway, it is a treat for him. I am doing it largely for that reason, do you see?

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(Mr. Cochran entered the conference.)

H.M.Jr: Did you catch him?

Cochran: I got Mr. Hull's office. They hadn't given it to him yet, and I told Hawkey to wait and give it to Feis personally.

H.M.Jr: Hawkey?

Cochran: Hawkey is my assistant.

H.M.Jr: Give it to Feis?

Cochran: Yes, Feis is in with the Secretary now.

H.M.Jr: What message did you give to Feis?

Cochran: Feis is with the Secretary, and I told him it was not to be shown to anyone except Hull until you released it, until you use it yourself before Congress.

H.M.Jr: That is right, and you told that to Hawkey?

Cochran: No, I told it to Brown who is the Secretary to the Secretary.

H.M.Jr: I see. How many copies are there over there?

Cochran: Just one of each.

H.M.Jr: Well, Hull is entitled to it.

Cochran: Yes. It was understood I should give it to him.

H.M.Jr: That is right. Now, Lanny, are you going up when I go up or what?

Pell: Well, I will leave that to you. I will go

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whenever you want me to.

H.W.Jr: Well, my thought was this. You never know what they are going to ask, you see, and I think that your brain on this balance sheet would be useful to me, so when I begin to go over it, I would like you to listen and you might pick up something. I think if you and White stay here, but be prepared. Have your own man up there and have everything public then and everything. What is his name?

Bell: Heffelfinger.

H.W.Jr: Have him ready and I would like to go over this stuff with you and White.

Bell: All right. You won't go before 10:30?

H.W.Jr: No, but I am going to start working on this right now. Now, does anybody want to tell me anything?

Foley: Do you want John there on the taxes?

H.W.Jr: No. Haven't you got it?

White: We have it, but I thought you might - we have the table but in case you want to call him to give you a rest, let him discuss it. It might give you a few minutes' rest.

H.W.Jr: What, the comparisons?

White: If they call on a comparison, I thought you might say that their debt is very much larger, probably almost as much as ten, but Mr. Sullivan is here who follows that closely, and that might give you several minutes' rest, if you are being pushed.

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H.M.Jr: Yes. Have you got the stuff?

White: Yes.

H.M.Jr: Have you (Foley) got it?

Foley: Harry has got it. He has got the charts. You can submit the charts for the record. It seems to me that no detailed explanation is necessary.

H.M.Jr: No. O.K., gents. You call me in any event.

Foley: I will call you in any event before 10:30.

H.M.Jr: When are you going to go up?

Cochran: Do you need me?

H.M.Jr: I want you on the Hill.

Cochran: When you go up?

H.M.Jr: That will be time enough. I will see you later.

(Mr. Kuhn, Mr. Schwarz, Mr. Foley and Mr. Cochran left the conference.)

H.M.Jr: Have you got a copy of this?

White: No, I will give him one.

Bell: Have you got a prepared statement you are going to read?

H.M.Jr: You are going to hear it now. Nobody could give me a statement that I liked, so I am going to do it my own way. You people could sit both in front of me and make life a little easier.

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Have you (White) got something for Mrs. Klotz?"

White: I was just looking for another copy.

H.M.Jr: Odegard has got an interesting mind. Just to digress a minute, the thing that interests me, he is going to do all of this studying on how to approach the thing, and he says, "Now, Mr. Morgenthau, do you want to do it the way the Armour Company does? They take it and say to their employees, 'Now, you can buy these baby bonds.' Or -" this will interest you - he said, "Now, I am afraid you are not going to agree with me. Would you rather, for instance, go to the unions and have them spread it to the union members and let it come from the bottom up rather than from the employers down," so I said, "There is no choice. The whole purpose of the thing is to get the morale of the people - I am more interested in getting people interested, you see, in this thing rather than have it from the employer down," so he said, "Now let me ask you another one." I am just giving you this. I know I am killing time, but I want to. The other thing, he said, "Which way would you prefer, if a county raises a hundred thousand dollars, present them with an American flag, or would you like to say to them, 'If you raise a hundred thousand dollars, that will pay for a pursuit ship.'"

White: Well, the second.

H.M.Jr: Well, I know, but I am giving it the way he is thinking, you see, so I said, "Well, we can't say honestly that that hundred thousand dollars will go, because we don't know about the bookkeeping; but you can say

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that a hundred thousand dollars will buy a pursuit ship." He said, "That is correct." I just want to give you the kind of thing that he is talking to Bryan and these other fellows and when we finally get something in writing, I want you to sit in, but the fellow is approaching it --

White: A fresh approach.

H.M.Jr: From the way I wanted. In other words, he is just as determined, I mean without my putting - to have the thing come from the grass roots up rather than from the banks down. It is interesting to have a man like that around.

White: I would like to send for another copy of this.

H.M.Jr: That is all right. He says that some of the advertising during the World War was the most God awful stuff you ever saw. He saw a picture of the bombing of the Woolworth Tower, the Woolworth Tower crumbling, and they say unless you buy a bond, this is what is going to happen, what they call fear.

Bell: Yes. Of course, that was made up rather quickly. They didn't have any experience and a lot of it was terrible.

H.M.Jr: When I told a few things to MacLeish last night, he said, "Gee, can I meet that man? I want to meet him. He sounds good to me." So I have arranged that he should see MacLeish. But as Harry put it, it is a fresh viewpoint.

White: He has imagination.

(Discussion off the record.)

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H.V.Jr: Now, this is not my reading copy, I hope.

White: I am sorry, but it is. We can have a larger one made for you.

H.V.Jr: That is what Mrs. Flots is here for. Have you got two more copies?

White: Yes.

H.V.Jr: Give one to Mrs. Flots. "Estimated Dollar Expenditures and Receipts of the British Empire, including Canada." That is wrong, isn't it?

White: It excludes what Canada gets in receipts, but it doesn't exclude what England and the rest of the British Empire has to pay to and from Canada.

H.V.Jr: Say that again, will you please?

White: This excludes what Canada may get or lose. You remember, as I told you, she will probably get about 100 million dollars or more a year but that is not included; but it does include what England, for example, will have to pay to Canada, and this is the only way it can be measured. We tried it in a dozen different ways. It is the only accurate way. It is the receipts of the British Empire without Canada.

H.V.Jr: I don't like to hurt anybody's feelings. Well, I thought they said they wanted Canada in.

White: Well, Canada is in, but not Canada's receipts. Canada is treated like a foreign country, so far as this thing is concerned.

H.V.Jr: Well, where is she?

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Bell: Down at the bottom there is a deficit.

B.W.Jr: I don't understand it yet.

White: I think it will be clearer if you go through it and then we will go back to the title.

B.W.Jr: "U.S. United Kingdom Payments To Be Made On Total British Purchases From The United States."

(Mr. Cochran returned to conference.)

B.W.Jr: Have you (Cochran) got a copy of this?

Cochran: Yes. I just spoke to Feis in Mr. Hull's office, and he is telling Mr. Hull he has this but he is not letting him take it up to the Hill, even. He is afraid if he had it in his papers, it might get out; so Feis is going to hold onto it and they will phone us if they need - if they press Mr. Hull for any information, but they are not going to use this; and Feis is not even going to give it to him to take up on the Hill.

B.W.Jr: Has Hull started?

Cochran: He was just leaving there. They were just putting some finishing touches on the statement.

White: We have the British order program down.

B.W.Jr: That last thing they gave me marked January 6th or 8th, the thing that Purvis gave me which I gave to the President, is the thing which gives the quantities but not the dollars that they will need, you see. You (McKay) had better find out from Young's office if he has got that up on the Hill with him. He is up there to be useful. If he hasn't got it, somebody

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had better take it up to him.

Now, "United Kingdom Payments To Be Made
On Total Purchases From The United States.

"1- Sums to be paid during 1941 on orders
placed before January 1, 1941, one billion,
274 million. (In addition, \$119 million
will fall due after January 1, 1942.)

"2- Imports from the United States not
purchased through the British Purchasing
Commission, largely on private accounts,
280 million. Total, one billion 554 million.

"B., Purchases By Empire Countries (excluding
U.K. and Canada) from United States during
'41."

Now, where have you defined "Empire Countries"?

White: I didn't think "Empire Countries" need to be
defined, because every time we mention
Empire Countries, we have to exclude Canada
because Canada shouldn't be included.

H.M.Jr: What are they?

White: Australia, India, New Zealand, South Africa,
and the Colonies, Hong Kong.

H.M.Jr: Colonies? What colonies?

White: Hong Kong, British West Africa.

Cochran: It is really all of the British Empire except
Canada.

H.M.Jr: Do you know how many there are? Forty-four?

White: Forty-four? I didn't know there were that
many.

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Cochran: I see, Bermuda and the West Indies?

H.V.Jr: Yes, I think there are 44. I think there are 44 governors, if I am not mistaken, for all these different things.

"1- Commodity imports.

"2- Payments for shipping, tourist expenditures, interest payments, etc.

"C. Purchases by Empire countries, excluding Canada, from areas outside the U.S. requiring gold or dollars."

That is excluding the U.K., what?

White: That is right. If I may have just one word of explanation, maybe it will clear it up. We have to exclude Canada every time we say the British Empire, but beyond that, the first one, A, is what the United Kingdom buys from United States. The second one is what other parts of the Empire buy from United States, and the third is what the whole Empire, always excluding Canada, buys from other countries besides United States.

H.V.Jr: Purchased by the Empire countries, excluding Canada. Outside the United States.

"1-Purchases by Empire countries (chiefly U.K.) from areas outside the United States and Canada requiring dollars, 247 million.

"2-Payments by Empire countries (chiefly U.K.) to Canada and Newfoundland."

I see.

White: That is the one item they wanted to add,

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and it was because of that item that we had to shift around all the --

Bell: Why do they require dollars outside of --

White: Well, they claim they have to pay dollars for Bolivian tin and Paraguayan lead, and they say there are some things they can't buy without paying dollars or gold, and that is what it amounts to. That is not a net figure, because they also get some. That is what they pay cash.

Bell: I say there is a typographical error in (1) under "C", "countries". I don't know whether you want to correct it or not.

White: Oh. It is a little late.

Bell: Yes.

H.M.Sr: Well anyway, "By Empire countries, (chiefly in the United Kingdom to Canada and Newfoundland) 800," so the total dollar requirement for all transactions for the coming year is a little over three billion dollars.

Bell: That is already on the books.

White: What did you say?

Bell: This is what is already in the mill, on the books.

White: Well, this is their estimates of this coming year.

Bell: But the first item is just on contracts, or just on orders already placed?

White: Already in the mill, placed before January 1.

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- E.M.Jr: It is all right, that is just the way I feel. I mean, temporarily.
- White: That is your responsibility. They can place the orders, but they - they know that they can't be placed.
- E.M.Jr: I am tickled because Knudsen may tomorrow go up and say in his testimony, "Well, Mr. Morgenthau said I couldn't place these orders."
- White: And then you can say you are not permitting them to place them because you are not certain that they will have the cash available to pay for them. They may, but you want to --
- E.M.Jr: That is why I think it is all to the good. All right, so far, Dan? Do you see any holes?
- Ball: No. I have got a question when you get down to the bottom.
- E.M.Jr: You see what I am proposing to do, Dan, is to just say a few words. "Now, gentlemen, I have come up here. I take it what you want to know from me is, what is the balance sheet of the United Kingdom as we have it and as the information has been given to us by the British Treasury. Now, for the first time in history I am going to be able to give you this information." I want to kind of show that this is something that has been so secret and everything else, "But I feel that the situation is such that before you gentlemen want to vote or pass on the question of whether or not the United States Government should lend these materials to England, naturally you want to know her financial condition."

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White: It is a momentous occasion for a country at war to inform the public exactly what their foreign exchange assets are.

H.M.Jr: And I am doing this with the knowledge and the approval of the British Government. I mean, they have given me the permission to do this. Don't you think I ought to say that?

White: I think so.

Bell: Yes.

Klotz: Yes.

H.M.Jr: And I mean this is something which has never been done before. It wasn't done during the last war. But before you people take this step, the Administration feels that you are entitled to know the exact situation."

White: That statement is important. Would you want to say that they were a little reluctant but they realized, et cetera.

H.M.Jr: No. Harry, I mustn't do anything to criticize them.

White: Well, that won't be criticism. It would show the importance of the data.

H.M.Jr: Well, I want to say that it was only after careful deliberation.

Cochran: They left it to your discretion, do you want to put that in?

H.M.Jr: No, and this is going to be just as much a surprise - just as much news to their own people as it is going to be to the people

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of the United States, but we feel, at least I do, that the first thing before you gentlemen take any steps at all, you are entitled to know what is the condition of the British present."

White: That is the important statement.

E.W.Jr: And we certainly aren't going to make the mistakes that we made during the last war. You see, Mrs. Roosevelt said something I can't quite paraphrase. She said to me, "Henry, unless you tell these people everything, we are no different than J. P. Morgan was during the last war."

White: Do you think they will understand what you mean by not going to make the same mistakes unless you go on and explain that, because they are liable to think you are referring to the mistake of lending money? You might go into a further explanation.

E.W.Jr: The point that I want to get over, here is something that has been guarded so secretly that nobody knows it. As far as I know, never in the history of the world has one government completely opened its books to another government, but the situation being --

White: She hasn't opened her books.

E.W.Jr: Why haven't they?

White: They have made a statement.

E.W.Jr: Well, it is the information that is in the books.

White: Yes, but we haven't seen it.

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H.M.Jr: Well --

White: I mean protect yourself that way, that is all, that this is information they have given you.

H.M.Jr: But I want to give this a little build-up, see.

Bell: I don't want to disturb your line of thought that you worked out, but I would change the term 'balance sheet' to show them the financial status of the British Government as it relates to the United States dollar, because they were very particular in their cable, as I understand it, that this doesn't mean that they are out of cash internally, and the other thing is that this is not a balance sheet, it is more in the nature of an operating statement, see, call it a financial status.

White: Financial status in relation to the United States dollar.

H.M.Jr: That is a good one. It is the financial status.

Bell: In relation to the dollar only. It is financial status of the British Government as to their dollar position.

White: Yes, that is all right. Status and position.

H.M.Jr: As to their dollar - as to their dollars.
As to their dollar position.

Bell: You could say as to the dollar.

White: As to their dollar position.

Bell: That is all right.

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E.M.Jr: You speak of taking the position in dollars and taking the position in sterling.

Cochran: It is the dollar position.

E.M.Jr: This is the financial status of the British Government as to their dollar position. Or, as to their dollar needs.

White: Dollar assets and needs.

E.M.Jr: Well --

Bell: Position covers the needs and assets.

E.M.Jr: Well, a word won't matter. As to their dollar position.

White: But you are going to say it orally.

E.M.Jr: Well, I am going to have this, but I am going to say it orally.

White: It is not going to be in the printed statement at all?

E.M.Jr: No. Dollar Receipts.

"A. Dollar receipts by U.K. from U.S.

"1- U.K. exports of merchandise to U.S., 195.

"2- Net balance -- these are all estimates, aren't they?

White: These are all their estimates.

E.M.Jr: I will put that down as soon as I get the other sheet. These are all estimates, are they?

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Klebs: It says so on top.

H.W.Jr: Well then, why not say "The financial status"?
Why not say, "Estimated financial status"?

White: Well, I think that is implied when you say
"Financial status."

Pell: Your statement will carry that through,
because this, I take it, will be inserted
in the record.

White: Yes.

H.W.Jr: Any dollar receipts by United Kingdom in
United States.

"1- U.K. exports of merchandise to U.S.

"2- Net balance from U.S. to U.K. on shipping,
tourist expenditures, interest payments, etc.

"E. Dollar receipts by Empire countries
(excluding Canada)

"1- Commodity exports."

White: That is rubber, tin, wool.

H.W.Jr: I see.

"2- Australian gold exports to U.S.

"3- South African exports of gold."

You separated those two for some reason?

White: Well, some comes direct to United States
and the others get to United States eventually,
through Great Britain.

H.W.Jr: Now, "Canadian assistance to U.K." What is
that?

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White: That is in the form of repatriated securities. That is, England expects to pay Canada during the year 260 million dollars in her own securities. She will give back securities which Englishmen had owned. It is just the way she give us back our securities.

H.W.Jr: What happens to the Canadian gold?

White: Well, they say it isn't there, it is Canada's.

H.W.Jr: Yes, but what does Canada do with it?

White: Canada's position with United States, Canada will in her relations with us gain gold. She will have about 200 million dollars more at the end of this year than she has now. She has a favorable balance.

Bell: Even in spite of her war purchases in '41?

White: Yes. I have her sheet if they ask for it. I didn't want to bring it up.

H.W.Jr: You had better not. But she has?

White: Yes. That is one of the reasons why they may not like to include it. But they have a surplus of United States dollars to be received by Canada during 1941, 198 million dollars.

H.W.Jr: Harry, just remember this, we don't have the permission of the Canadian Treasury to release their figures. Wait a minute, just a second, take it easy now, so therefore if I have to stall I can simply say, "Gentlemen, I am not prepared, but in a week I can come back again if you want me to, to give the Canadian position."

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White: That is a good way to do it. Then you won't have to tell them you haven't got permission to give it.

H.M.Jr: Oh no. Check, Dan?

Bell: Yes, it is very good.

White: But I think you could say, Mr. Secretary, if they do ask, that they are not in the same position as England. They don't owe us - give them a general idea what it is.

H.M.Jr: I can say this. "I have simply been assured by Mr. Clark, representing the Canadian Treasury, that as far as they are concerned for this year, they are all right."

White: They are in a different position. They are all right.

Bell: They can take care of their requirements up to September.

White: For next year?

H.M.Jr: For this year. That is what he said.

White: And then you can give them the exact data.

H.M.Jr: And then if they say, "Well, why doesn't Canada help England more?" "Well, they are buying back their securities as fast as they can."

White: They are buying back --

H.M.Jr: I can say that is a matter between Canada and England, and I am not prepared to talk about it.

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White: I think so, because there may be some doubt as to whether she is buying them back so fast.

H.M.Jr: They tell me yesterday, just to digress a minute - you were here, Dan - that the night before last this syndicate offered 80,000 shares of Montgomery Ward at three o'clock at the price it closed at the market, and inside of a few minutes the whole thing was sold.

White: They probably could have done that any time.

H.M.Jr: And this man of Dominick & Dominick, "You know, Mr. Morgenstern, it is the easiest thing I ever saw and none of us can explain it. We can't understand why a group will buy 80,000 shares of Montgomery Ward at the market's close, one minute after market closed, but they won't buy it one minute before," so I said, "Well, maybe there is something wrong with the New York Stock Exchange if they don't want to buy it." And I thought Schenker would fall out of his chair with laughter. He loved it. He thought it was marvelous.

White: I told Sir Frederick over the phone because he raised the question again about Lever Brothers and I told him what our information was and he said he was surprised, he didn't know it. He didn't say it wasn't so, he just said he was surprised.

H.M.Jr: Yes.

White: I think you are up to "C", Dollar Receipts.

H.M.Jr: "C. Canadian assistance to U.K. 260. Total dollar receipts by Empire countries excluding Canada, one billion 155 million. Total deficit to countries other than Canada during '41, 844."

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That means - total dollars to other countries.
Does that mean other countries in the Empire?

White: No, we are now talking of the whole empire.
Countries other than Canada.

H.W.Jr: Does that mean the whole world?

White: Yes.

Bell: Including the United States?

White: Every country.

H.W.Jr: And then the total dollar deficit with
Canada, 620. They want to make that stick
out, do they?

Bell: That is the difference between the sale of
securities, 260 and the 880, see. It shows
right up in England.

H.W.Jr: Where is the 880?

White: On the expenditure side.

Bell: The last item.

White: Payments by Canada.

H.W.Jr: Total deficit of the British Empire, one
billion, 460. Gee whiz, they raised that
on me, didn't they? Now, before we go on,
do you want to say anything, Dan?

Bell: Mine relates to the next statement. We show
a deficit of one billion 464, and I take it
that what you are trying to show here is that
the British can't place any more orders because
they have just got enough liquid assets in the
billion 775 to take care of the one billion 464.

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- H.V.Jr: No, put it the other way around, if you don't mind. What I am trying to show with all the power that I have got in me, is that they have got enough money to pay for the orders they have already placed.
- Gall: That is right. But no new orders. Now, where we go from here --
- H.V.Jr: That is the point.
- Gall: In other words, the point they will raise, Mr. Secretary, they are all right, they have got plenty of money to meet their deficit and they have got 300 million dollars left over from these statements without explanation.
- H.V.Jr: That is right. But I am willing to say, "But these figures, the direct investments, 900 million, I don't know how much they can cash in on them. It is going to take time and - but the point is, gentlemen, that if they were able to get a hundred cents on the dollar, of which I have grave doubts, they have got enough money to finance themselves to the end of the year."
- White: And they have to have some working balance.
- H.V.Jr: But what I have been trying to show you is that the reason we need this bill is that these requirements that they want - new orders that they need so desperately to continue fighting, they haven't got the money."
- White: That is right.
- H.V.Jr: They just haven't got the money.
- Cochran: There has already been a retardation in the placing, hasn't there?

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H.V.Jr: Oh yes.

White: I have something on that that I would like to give you after that, but I called Sir Frederick about that billion dollars.

H.V.Jr: The direct investments"

White: Direct. I said, "You must have a figure." He wanted to make it lower, and we finally compromised on the 900 million, because you had used it before; and I said it wasn't far from what Jones or others might use, and we made it about. He would have preferred to say "not to exceed," because he thinks it will be closer to six or 700, so the only difficulty between this and what we would have liked is, they have direct investments, of about 900; and he would have liked to say "not to exceed," but I think he is understating.

H.V.Jr: Say, that 406 has shrunk since yesterday. Wasn't it more than that?"

White: Well, we were including some gold that we won't get here since January, 1945, so we decided we had better have it as of January 1 and exclude that.

H.V.Jr: "The British Government has 38 million dollars of gold scattered in various parts of the world. Most of this gold, however, is in areas from which it cannot be shipped quickly or safely to the United States.

"British banks, private persons and corporations have balances in the United States of 306 million. The British Government feels that these balances are at the minimum level necessary for the continued conduct of business, and are therefore not available for use by the British Government."

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I think it is all right.

Bell: You say the gold is not included, Harry, which will come in January?

White: No. That gold is included in their regular receipts during the year.

Bell: The 205?

White: No, not the 205. That is the assets on which they will have to meet that deficit.

Bell: The exports from South Africa newly mined?

White: Yes.

Bell: That is an estimate of the mines. That isn't available immediately either. It is over the year. In that statement there, you were worrying about an estimate. If you wanted to - the other one, the financial status. You could say as nearly as estimated, "As nearly as we can estimate at this time."

White: It is the British Government that has estimated most of it - not the orders, but the other. You can say, "As nearly as can be estimated, this figure of American securities reported by British as of January 5, 516 million dollars, that does not include 140 million dollars of various types of securities which they are not certain can be marketed easily. In fact, they don't think they could be marketed easily. These are Australian dollar securities."

H.V.Jr: Say that again.

White: There is 140 million dollars --

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E.M.Jr: In the \$16"

White: In addition to the \$16. There is 140 million dollars which has been frequently mentioned here.

E.M.Jr: That is what kind of securities?

White: Well, it is Australian and New Zealand and dollar securities, or optional dollar. They doubtless have some value.

E.M.Jr: Where are the properties located?

White: They are loans of other countries - the investments are not in the United States. They are loans that have been floated in dollar securities.

E.M.Jr: Well, if --

White: There is a little bit more velvet is all.

E.M.Jr: What do they call Australia?

White: Commonwealth of Australia.

E.M.Jr: If they wanted to borrow 10 million dollars, they might have borrowed it in New York.

White: That is right and floated a dollar loan. Some of them are optional. Now, they do have some market value, so that in case --

Ball: Well, that isn't the kind of a --

Cochran: I think it is more.

Ball: That is not the kind of an obligation you are talking about.

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White: They floated an Australian loan in dollars.

Bell: I take it that Australia may have borrowed, say, from Belgium, in Belgian francs, and there is a provision in the bond that the Belgians, the holders, can get American dollars.

White: That is optional. There are a lot of them and all together they make 140 million.

H.M.Jr: I think when I get through, I have got to say this, "Now look, gentlemen, this is a rough estimate. I may be off 50 or a hundred million dollars, or I may be off 200 million dollars, but this is as good - you have got the best that I can give you."

White: And you got it from the British Government.

H.M.Jr: "And I got it from the British Government."

White: They accept the responsibility for these things.

H.M.Jr: "I got this from the British Government. I may be off a couple of hundred million dollars, but at least I am giving you the best that I have got; and if, while the bill is in the progress of going through Congress I get any additional information, I will furnish it to you promptly."

White: Or if you want any information that we can get.

H.M.Jr: See?

Bell: They may come back with the question, "Well, have you checked these figures and do you feel them fairly reliable?"

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White: They are very apt to ask you that question.
Now --

H.M.Jr: I know how to answer that.

White: It is a difficult question.

H.M.Jr: I can answer that. "I want to say that in my dealings with the British Government during the past seven years, at no time have they ever wilfully misled me."

White: "As far as I know."

H.M.Jr: Well, I mean --

Bell: No, he can't say that.

Cochran: You have no evidence of ever being misled.

H.M.Jr: I am going to say, "In my dealings with the British Treasury, I have been entirely satisfied and I have never known an instance where --"

White: That is right, "You have never known an instance where they have given you misinformation."

H.M.Jr: "And I have no reason to believe that this information they have given me isn't correct within the realms of human margin of error."

Bell: That is not unusual in this kind of statements.

H.M.Jr: And I will say, "After all, you gentlemen have got to remember that they are being bombed daily" and can I say - they have never said it, you know - "You know the British Treasury is -" is it 11 Downing Street? Do you know it has been completely destroyed?

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White: No, I didn't know that.

H.W.Jr: All their records and everything.

Bell: Is that right?

H.W.Jr: Sure, he told me this when he came here. He said to me, "You know, Mr. Morgenthau, you asked me for these things. Well," he said, "the British Treasury is no more."

Cochran: You see, it faces on Whitehall, Harry. It is just around the corner from No. 10 Downing.

White: It would be very interesting if you could say that.

(Unrecorded telephone conversation with Mr. Foley.)

White: The President wrote part of Hull's statement.

H.W.Jr: He did?

White: Some preliminary portion, I don't know how much.

H.W.Jr: Well: Where did you get that from?

White: Berle.

Bell: Wrote whom?

White: The President contributed part of the statement.

Cochran: They were still revising there when I talked to them both times.

H.W.Jr: I suppose for me to go up this way is just unheard of, but I am not going to get cold feet at this time.

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White: Oh, I think that this is indeed the best way. Particularly after his prepared statement. I don't see what you could add. This is the important information. The minute the Press gets this, they will disappear and come back later.

H.M.Jr: Now, have you got your South American stuff?

White: Yes.

H.M.Jr: Where is that?

White: I would like to take up something with you before that, if I may.

H.M.Jr: The President of the United States calls me up at 20 minutes to eleven to tell me what to say. He calls me up and said, "I just wanted to kid you." And then he proceeds to tell me what to say. I don't know if I understood what he said, but he said, "Now, don't be too definite" and so forth and so on and be sure of what Mr. Hull says and if they offer any islands as security, remember that they had better pay us to take the islands." I says, "Don't worry about that. I know how you feel about the islands." Well anyway, I can't --

(Unrecorded telephone conversation with Mr. Foley.)

H.M.Jr: Anyway, I told the President what I proposed to do about my statements, and everything

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else, and he said, "That is all right."

White: Mr. Secretary, Mr. Bloom is going to ask you some questions which we planted with him, and I have got to have time in the car to tell you what they are. I don't know if you can do it right now.

H.W.Jr: No, do it in the car.

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

(in Millions of U. S. Dollars)

Dollar Expenditures

A. U.S. payments to be made on total purchases from the U. S.		
1. Sums to be paid during 1941 on orders placed before Jan. 1, 1941.	\$1,274	
(In addition, \$119 million will fall due after Jan. 1, 1942)		
2. Imports from U. S. not purchased through the British Purchasing Commission, — largely on private accounts.	280	\$1,554
B. Purchases by Empire countries (excluding U.K. and Canada) from U.S. during 1941		
1. Commodity imports.	333	
2. Payments for shipping, tourist expenditure, interest payments, etc.	5	338
C. Purchases by Empire Countries, excluding Canada, from areas outside the U.S. requiring gold or dollars		
1. Purchases by Empire countries (chiefly U.K.) from areas outside the U.S. and Canada requiring dollars.	247	
2. Payments by Empire Countries (chiefly U.K. to Canada and Newfoundland.	380	1,127
Total dollar requirements for all transactions.		<u>\$3,019</u>

Dollar Receipts

A. Dollar receipts by U.K. from U.S.		
1. U.K. exports of merchandise to U.S.	\$ 169	
2. Net balance from U.S. to U.K. on shipping, tourist expenditures, interest payments, etc.	15	\$ 180
B. Dollar receipts by Empire countries (excluding Canada)		
1. Commodity exports	560	
2. Australian gold exports to U.S.	75	
3. South African exports of gold	480	1,115
C. Canadian assistance to U.K.		260
Total dollar receipts by Empire countries, excluding Canada.		<u>\$1,555</u>
Total dollar deficit with countries other than Canada during 1941	544	
Total dollar deficit with Canada during 1941	680	
Total dollar deficit of British Empire, excluding Canada, during 1941		<u>1,464</u>
Total receipts and deficit on operations with all countries other than Canada during 1941		<u>\$3,019</u>

CONFIDENTIALUNITED KINGDOM'S AVAILABLE DOLLAR EXCHANGE ASSETS
ON JANUARY 1, 1941

(In Millions)

Gold in U. S. or en route	\$ 205
Official dollar balances	54
American securities -- reported by British as of January 6	<u>616</u>
Total liquid assets.. . . .	875
Direct and other investments about	<u>900</u>
Total dollar exchange assets	\$ 1,775

The British Government has \$33 million of gold scattered in various parts of the world. Most of this gold, however, is in areas from which it cannot be shipped quickly or safely to the United States.

British banks, private persons and corporations have balances in the United States of \$305 million. The British Government feels that these balances are at the minimum level necessary for the continued conduct of business and are therefore not available for use by the British Government.

Treasury Department,
Division of Monetary Research.

January 14, 1941.

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

The following estimates are based on a number of studies, most of which were made by British economists before the outbreak of war.

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

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

Even where estimates of market value have been made, they have only a limited significance, for the future market or collateral value will depend on the rapidity with which the securities are liquidated, on the general course of the war, and on many other unpredictable factors. Of course, the figures of nominal value are of even more limited significance.

(Million Pounds)

		<u>Government</u>	<u>Railways</u>	<u>Other</u>	<u>Total</u>
<u>In British Empire</u>					
Canada	Nominal Market	75 (70)	187	219	481
Australia	Nominal Market	425 (410)	3	75	503
New Zealand	Nominal	131 (125)	1	14	146
India	Nominal Market	300 (250)	1/	250	550
British Africa	Nominal	188	1/	250	438
Malaya	Nominal	6		78	84
Other	Nominal	—	—	—	31
Total in British Empire	Nominal	1,125	191	886	2233

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(Million Pounds)

		<u>Government</u>	<u>Railways</u>	<u>Other</u>	<u>Total</u>
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In Latin America

Argentina	Nominal Market	45 (32)	263 (52)	83	390
Brazil	Nominal Market	75 (14)	38 (5)	47 (22)	160 (41)
Chile	Nominal	20 (2)	20 (5)	65	105
Uruguay	Nominal Market	18 (8)	14 (1)	10 (12)	42 (21)
Mexico	Nominal Market	38 (1)	90 (1)	44	173
Peru	Nominal Market	6 (2)	1/ 25 (1)	23 (4)	28 (5)
Cuba	Nominal Market	2 (2)	25 (1)	(2)	28
Venezuela	Nominal Market	Nil	3 0.2	18 (17)	20 (17)
Colombia, Ecuador Bolivia, Paraguay, Central America	Nominal				50
International	Nominal	—	—	—	6
Total in Latin America	Nominal	204	451	317	1002

In Asia

China	Nominal				200
Japan	Nominal				50
Netherlands East Indies	Nominal				50
Philippines	Nominal				8
Total Asia					308

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<u>In Europe</u>	Nominal	250
In Other Areas <u>2/</u>	Nominal	<u>75</u>
Total U.K. Investments outside United States - Nominal Value		3868

1/ Not shown separately.

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

Treasury Department,
Division of Monetary Research.

January 14, 1941.

COPY

COMPARISON OF BRITISH TAX RATES UNDER THE
1938 AND PRESENT FINANCE ACTS1. Personal income tax rates and exemptions

(a) <u>Exemptions</u>	<u>1938</u>	<u>Present</u>
Single person	£ 100	£ 100
Married person	180	170
Each child	60	50
(b) <u>Earned income credit</u>	20% (Maximum £ 300)	16-2/3% (Maximum £ 250)
(c) <u>Normal or standard rates</u>		
On first £ 135, 1938 Act and first £ 165, present Act	8-1/3%	25%
On balance	25%	42 1/2%
(d) <u>Surtax rates</u>		
First bracket £ 2,000 to £ 2,500	5 1/2%	10%
Maximum	41 1/4% (On over £ 50,000)	47 1/2% (On over £ 20,000)
(e) Amount of normal and surtax for married couple, three children		

Income	Tax		Percent Increase
	1938	Present	
	Act		
£	£	£	
2,000	343	579	68.8%
4,000	1,065	1,698	59.4
10,000	4,062	5,985	47.3
20,000	9,975	14,548	45.8
100,000	63,875	86,548	35.5

2. Corporation income tax rates

<u>1938</u>	<u>Present</u>
25%	42 1/2%

3. Excess profits tax

No excess profits tax was in effect under the Finance Act of 1938. There was, however, a National Defense Contribution equal to 5 percent of profits in the case of corporations and 4 percent in the case of individuals and partnerships. The Finance (No. 2) Act of 1939 enacted an excess profits tax at the rate of 60 percent. This has been increased to 100 percent of profits in excess of base period earnings for certain years 1935-1937.

4. Purchase tax

Under the Finance (No. 2) Act of August 22, 1940 the British imposed a purchase tax of 33-1/3 percent on the wholesale value of certain luxuries and 16-2/3 percent on certain goods in common use, exempting food.

5. Excise taxes

	:	:	:
	: 1938	: Present	: Percent Increase
Spirits, domestic, per Imperial proof gallon	£3,12s, 6d	£4,17s, 6d	34.5%
Beer, domestic, per bbl. of 36 Imperial gallons	£1, 4s	£4, 1s	237.5
Cigarettes, per thousand weighing 3 lbs.	£1, 8s, 6d	£2, 18s, 6d	105.3
Tea, Empire, per lb.	6d	6d	-
Coffee, per cwt.	14s	14s	-

Well, gentlemen, there is the story. To understand it fully, we must also remember what is happening to British resources at home. The British, with one-third our population, are spending at a rate of \$12,000,000 a day on this war. They are spending sixty percent of their national income for war purposes. Their annual rate of expenditure is between four and five billion pounds — an amount that would be between forty-eight and sixty billion dollars a year if we, with three times their population, were putting forth the same effort.

Of this colossal expenditure the British are meeting over one and one-fourth billion pounds, or about one-third of their annual burden, out of taxation. The normal income tax rate in Great Britain today is 42.5 percent, compared with about 4.4 percent for us. A married man in England with two children, earning \$1,600 a year, pays \$65 a year in income tax; a married man with two children, earning \$10,000 a year, pays \$3,450 a year to his Government. A standard brand of cigarettes in England costs thirty cents a pack today, all of the increase in price having been due to taxation. A purchase tax of 33-1/3 is added to the wholesale price of all luxury goods, and of 16-2/3 on many other commodities. I could go on, but I think I have made my point. What I wanted you to remember is that the British people are not only dodging the bombs and fighting for their existence, but that they are also making a stupendous effort to pay for this war by themselves.

British Expenditures since the War
(in billions of pounds)

Sept. 3, 1939 through Aug. 31, 1940	2.62
Sept. 1, 1940 through Dec. 31, 1940	1.39
Total expenditure since the war	4.00

Expenditures in	At the annual rate of approximately
June, 1940	L 3.5
October, 1940	4.0
December, 1940	4.5

Budget Estimate 1940-41
(July, 1940)

Expenditure	L 3,467 million
Revenue	1,360 "
Loans	2,107 "

British Government Debt as of November 30, 1940
(in billions of pounds)

Gross Debt	L 10.62
Funded Debt	8.18
Floating Debt	2.44

Growth of British Government Debt
(in billions of pounds)

March 31, 1936	7.80
" 1937	7.80
" 1938	8.03
" 1939	8.16
" 1940	8.94
November 30, 1940	10.62

**Estimated revenues of Great Britain for the
fiscal year ending March 31, 1941 ^{1/}**

	: Estimate for 1940-41 : (millions of dollars ^{2/})
Ordinary Revenue:	
 Inland Revenue	
Income tax	\$ 1,872
Surtax	332
Estate duties	344
Stamps	76
National Defense Contribution)	
Excess profits tax) ^{1/}	280
Other inland revenue duties	<u>4</u>
 Total inland revenue	\$ 2,908
 Customs and Excise	
Customs	1,141.6
Excise	765.6
 Total customs and excise	\$ 1,907.2
Motor vehicle duties	140
 Total receipts for taxes	\$ 4,955.2

Treasury Department, Division of Tax Research

- ^{1/} The estimates do not include any revenue from the Purchase Tax. The Inland Revenue figure is based on Excess Profits Tax at 60 percent rate; the rate of Excess Profits Tax was raised by the Finance Act of 1940 to 100 percent, but the resulting additional yield will not be received by the Exchequer, except to a very minor degree, until 1941-42.
- ^{2/} Pound converted at \$4.00.

Source: Financial Statement (1940-41), Supplementary Financial Statement (1940-41).

January 15, 1941
11:45 a.m.

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H.M.Jr: Hello.

Operator: Stimson.

Henry L.
Stimson: Hello, Henry.

H.M.Jr: Harry, I got your request that you wanted to know about a statement. I have no statement but this is what I'm going to say.

S: Well, someone else has asked for me. I didn't know it but I'm very glad to hear what you're going to say.

H.M.Jr: Well, I have before me what I call the financial status of the British Government as to their dollar position, and they authorized me at 7:00 o'clock last night that I could use it. Now I'm simply reading from that.

S: You're reading from that?

H.M.Jr: From that. It's actually their position as to their needs for the rest of this year and —

S: It's a what-do-you-call-it - balance sheet?

H.M.Jr: Well, I just call it their financial status

S: Of the British Empire.

H.M.Jr: Yes, as it relates to their dollar position.

S: Relating to dollar position.

H.M.Jr: And it shows what their deficit is and that they have resources sufficient to cover those for the balance of this year. But my whole discussion will be in relation to this and I have nothing prepared other than these sheets of paper which relate purely to figures, you see.

S: Yes, I see. Well, now I'm saying as I

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start out that I assume - here are the words - my language, I was just finishing my paper. *In what I have to say upon this bill I propose to confine myself as far as possible to the matters which have come under my observation as Secretary of War. In respect to the wider aspects of world conditions which the bill is designed to meet, I assume that you gentlemen have been fully advised by the Secretary of State; and in respect to the financial questions of credit, security and international exchange which may be involved in the transactions proposed by the bill - covered by the bill - I assume that you have been advised by the Secretary of the Treasury.* You see?

H.W.Jr: Well, that's right.

S: So I'm not going to go into those questions. I'm going in to show the need of this concentration of authority of the competing various purchasing commissions and in the interests of the United States, and in the interest of speed particularly.

H.W.Jr: Well, there'll be no conflict because as I say I'm going to keep purely on the financial.

S: Yes, I see. Well, I'm keeping purely on the mechanics of production and procurement.

H.W.Jr: O. K.

S: All right.

H.W.Jr: I wish you luck.

S: Same to you. When do you go on?

H.W.Jr: After Hull, whenever that is. I'm going up there now in about five minutes.

S: Yes, I see. He went on at 10:00 didn't he?

H.W.Jr: Yes, but they say he was late getting started.

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S: I see. You'll be through probably this morning, won't you?

H.M.Jr: I will if they put me on.

S: Yes. Well, they've called for me at 2:00 o'clock.

H.M.Jr: But my own guess is that they'll not get through with Hull this morning.

S: Oh, you think he's going to take the full morning probably.

H.M. Jr: That's my guess, but we'll know.

S: I know. They're having it in the Ways and Means Room are they?

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

S: I think so, yes.

H.M.Jr: I don't know. My secretary has it.

S: Apparently Sol just missed the chance of having a first-rate, full, 3-ring circus.

H.M.Jr: O. K. Well, I'll be seeing you later.

S: All right.

H.M.Jr: Thank you.

S: Thank you.

January 15, 1941

Copy of the questions to be asked the Secretary at the Hearing before the Foreign Affairs Committee this morning on the "Lend-Lease Bill (Aid to Britain).

1. Does England have money to pay American manufacturers for the orders that she has already placed?
2. Does England have any more orders she wants to place?
3. Did the French collapse cut down the money that the allies had planned to use for American war orders?
4. How much is the war costing England a day?
5. How is England raising this money?
6. How does the English tax burden compare with ours?
7. Has England increased her tax rates to help pay for the war?
8. How does it happen that the British Empire has so little ready cash left?
9. Supposing England is no longer able to get military supplies in this country, how long do you think she will be able to continue fighting?

Treasury Department
Division of Monetary Research

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Date 1-15-41 19

To: Mrs. Flots

The Secretary and I have a wager (a bottle of Argentine wine) as to the number of questions that appear in the appended document that he will be asked during the course of the hearings in both the House and the Senate.

I stated that he would be asked at least 50 of the enclosed, and he is betting me that he will not.

MR. WHITE
Branch 2058 - Room 210

**POSSIBLE QUESTIONS THAT MIGHT BE ASKED OF
THE SECRETARY DURING THE
HEARINGS**

**A. What are the foreign exchange assets of Great Britain,
the British possessions and British Allies?**

1. How much cash does England have now? How much gold does she have?
2. Does that include the cash and gold of the British Empire?
3. How much gold does the British Empire produce a year? What happens to all the British gold production?
4. How much cash and gold have Britain's Allies? Why can't England borrow some of it?
5. Isn't some of the French gold in British territory and can't England use it?
6. Doesn't England have other assets besides cash and gold?
7. How about British holdings of United States securities and plants in this country?
8. What about Canadian and other Empire holdings of United States securities?
9. What is the value of British foreign investments outside the United States and particularly in the Western Hemisphere?
10. How much cash, gold and other foreign assets has England used up already?
11. Does England have any other valuable assets? What about her rubber, tin, wool, etc.? What about possessions in the Western Hemisphere?

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A. What is the probable magnitude of the aid to Britain and other countries which we may extend under the Lend-Lease Bill?

1. How much is Britain currently buying in this country?
2. How much of this is she in a position to pay for from her own resources?
3. Have you any idea how much England will want to buy in the United States on credit during the next year?
4. Is Britain now unable to place any orders because of lack of funds?
5. Under the Lend-Lease Bill, will England pay for non-armorament purchases herself? Is England able to pay for all her purchases other than armoraments?
6. Do you intend to lend England the money to buy farm supplies as well as armoraments?
7. Are loans going to be made only to England or to the Dominions and Allies as well?
8. Why can't Canada produce more of England's needs? Why doesn't England borrow more from Canada so that she will have to borrow less from us?
9. How does England pay for her purchases from Canada?
10. Are Canadian purchases in this country going to be handled in the same way as British purchases?

C. What is the likelihood of our being paid back and how will it be done?

1. Have the British proposed any method of repayment?
2. Do you anticipate that they will pay us back in the same kind of goods that we lend them?
3. How do you propose that they will pay back the garden hose that they have used -- the shells that are exploded, the planes that are wrecked, and the guns that are worn out?

4. After all, Mr. Secretary, isn't this going to be an outright gift? Why not give it to them?
5. Will we want repayment in kind after the war considering that our own armament industry will be so big?
6. If England pays us back in goods, what is the United States Government going to do with the goods?
 - (a) Will any of those goods be competitive with our own output?
 - (b) How will England be able to buy the things she will need after the war if she gives us the important part of her export?
7. Will the goods they pay us back in have to pay import duties? Who will pay the import duties?
8. If England can pay us in goods which we want, why can't she sell us the goods we want and pay in money?
9. Are there loans going to bear any interest?
10. How many years are they going to be given to pay it back?
11. Supposing England loses, what chance have we then of being paid back?
12. If England is so exhausted at the end of the war that she cannot pay, are we going to wipe it off as a total loss?
13. Why do you think England is a good credit risk if she hasn't paid back her last war debt?
14. How much does England owe us from the last war?
15. How much did England ever pay us on that she borrowed in the last war?
16. Supposing England goes socialist, what assurance do you have that they will pay back any of those debts?

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17. Won't England need more funds after the war for reconstruction? Who is going to lend them to her?
18. Should you lend them on the basis of their future gold production?

1. What will be the effects of our considering the possibility of British and other foreign currencies as assets? What are our major financial and economic considerations?

1. Where is the U. S. going to get the money to lend to England or to pay for British needs?
2. Will all the economic involved in this deal be added to our own deficit?
3. How much do you think this program is going to increase the debt?
4. If this program goes through, will a \$20 billion debt limit be adequate?
5. What will this program do to the interest rates which the Treasury has to pay?
6. What will it do to currency movement?
7. Didn't you say last year that we could stand a \$20 billion debt but you weren't sure we could stand more? Now about \$75 billion debt?
8. If the deficit on our domestic defense is going to amount to \$20 billion a year and if we add another \$5 billion or \$10 billion for British defense, doesn't that mean inflation?
9. How are you going to prevent inflation?
10. Are you going to agreement relating taxes to pay for the goods we sell England?

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11. Do you propose to change your tax program if this bill goes through so as to get more taxes?
12. What taxes would you recommend be increased?
13. How much of our Armament Plant Expansion has England financed?
14. Since we are having difficulties filling our own orders for planes, tanks, etc., how are we going to fill additional British orders for the same things?
15. What would happen to the Security Market if England tried to unload all her U. S. securities instead of purchasing on credits extended by the U. S. Government?
16. Could England get a fair price for her investments here at a forced sale?
17. Couldn't the R. F. C. take these securities over and hold them for awhile?
18. Wouldn't it be better to have England leave her securities and investments as collateral against a loan than to try to sell them now?
19. Are you going to require the British to put up all their U. S. securities or securities in other countries as collateral for the loan?
20. Are you going to take a mortgage on her future production of rubber, tin, gold and other raw materials?
21. Wouldn't it be better for this country to take securities and investments which the British have rather than gold?
22. Is there any reason why we shouldn't take over her Argentine securities?
23. How many securities have the British sold already?
24. Won't we really be financing England's war?
25. Won't American soldiers follow American dollars?
26. Will this bill be in keeping with the spirit of the Johnson Act?

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27. If this loan is made in kind, on loan, will we still keep account of it in terms of money? If you do, Mr. Secretary, how do you propose to follow the President's instructions to get rid of the silly dollar sign?
28. Isn't this the beginning of barter trade?
29. Why not use the Stabilization Fund to supply money for British purchases?

3. Are the British doing all that can to pay for their needs without borrowing from us?

1. How much is the United Kingdom spending in the present war?
2. How much have Canada and the other Dominions spent in this war?
3. How does it compare with what Britain and her Dominions spent in the last war?
4. How much of England's national income is being spent on the war? How much of more will be during the next fiscal year?
5. If the British are really serious about using their own resources to finance this war, why do they not call us their Western Hemisphere possessions?
6. Is England increasing her own taxation to pay for the war?
7. How does the British tax burden compare with ours?
8. What is England's budget deficit for the present fiscal year?
9. What is the British public debt and how much has it increased during the war?
10. Does England have inflation now?
11. Will our aid to England avoid inflation in England?
12. Are all the British Dominions selling their domestic and foreign exchange reserves available for the war effort?

13. Are Britain's other Allies using their assets?
14. How about the dollars which English individuals and businesses have in this country? Why can't they be used?
15. Is England going to sell all her American securities before the lend-lease plan goes into operation?
16. Is she going to sell all her branch plants in the U. S. before the lend-lease plan goes into operation?
17. Why haven't they sold their securities and branch plants more readily?

What steps are being taken to make sure that the bill will be administered efficiently and with a minimum cost to the United States?

1. Is there any financial reason why the powers granted under the lend-lease bill should not be limited to 2 years?
2. Is there any financial reason why a limit should not be set on the amount of credit extended under the lend-lease bill?
3. If England is going to be permitted to buy non-war goods, as well as armaments, what limit is going to be set on such non-war purchases?
4. Who will determine the priority of American and English needs?
5. Will all the British Empire be able to buy whatever goods they want under this bill?
6. What steps are being taken to make sure that prices are kept reasonable?
7. If we are willing to lend goods and money to England, will they continue to export to us all the goods they can, or will they use their exports for dumping in other countries in competition with American exports?
8. Are we going to finance England's purchases in Latin America as well as in the United States?
9. What assurance is there that England will get all she can from her own Empire?

January 15, 1941

The material contained in this mimeographed attachment was the only prepared material the Secretary had when he appeared before House Foreign Affairs Committee to testify on H.R. 1776 (Lend-Lease Bill). He had typewritten copies of pages 1 and 2 with him but left them with the Chairman.

Estimated Dollar Expenditures and Receipts of British Empire,
Excluding Canada, from January 1, 1941 to January 1, 1942.
(In Millions of U. S. Dollars)

Dollar Expenditures

A. U. S. payments to be made on total purchases from the U. S.		
1. Sums to be paid during 1941 on orders placed before Jan. 1, 1941.	\$1,274	
(In addition, \$119 million will fall due after Jan. 1, 1942)		
2. Imports from U. S. not purchased through the British Purchasing Commission, — largely on private accounts.	280	\$1,554
B. Purchases by Empire countries (excluding U.K. and Canada) from U. S. during 1941		
1. Commodity imports.	333	
2. Payments for shipping, tourist expenditure, interest payments, etc.	5	338
C. Purchases by Empire Countries, excluding Canada, from areas outside the U.S. requiring gold or dollars		
1. Purchases by Empire countries (chiefly U.K.) from areas outside the U.S. and Canada requiring dollars.	247	
2. Payments by Empire Countries (chiefly U.K. to Canada and Newfoundland).	860	1,127
Total dollar requirements for all transactions.		<u>\$3,019</u>

Dollar Receipts

A. Dollar receipts by U.K. from U.S.		
1. U.K. exports of merchandise to U.S. . .	\$ 145	
2. Net balance from U. S. to U.K. on shipping, tourist expenditures, interest payments, etc.	15	\$ 180
B. Dollar receipts by Empire countries (excluding Canada)		
1. Commodity exports	560	
2. Australian gold exports to U.S.	75	
3. South African exports of gold	480	1,115
C. Canadian assistance to U.K.		260
Total dollar receipts by Empire countries, excluding Canada		\$1,555
Total dollar deficit with countries other than Canada during 1941.	644	
Total dollar deficit with Canada during 1941	620	
Total dollar deficit of British Empire, excluding Canada, during 1941.		<u>1,464</u>
Total receipts and deficit on operations with all countries other than Canada during 1941.		<u>\$3,019</u>

CONFIDENTIALUNITED KINGDOM'S AVAILABLE DOLLAR EXCHANGE ASSETS
OF JANUARY 1, 1941

(In Millions)

Gold in U. S. or en route	\$ 205
Official dollar balances	54
American securities — reported by British as of January 6	<u>616</u>
Total liquid assets	875
Direct and other investments	about <u>900</u>
Total dollar exchange assets	\$ 1,775

The British Government has \$33 million of gold scattered in various parts of the world. Most of this gold, however, is in areas from which it cannot be shipped quickly or safely to the United States.

British banks, private persons and corporations have balances in the United States of \$305 million. The British Government feels that these balances are at the minimum level necessary for the continued conduct of business and are therefore not available for use by the British Government.

Treasury Department,
Division of Monetary Research.

January 14, 1941.

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

The following estimates are based on a number of studies, most of which were made by British economists before the outbreak of war.

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

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

Even where estimates of market value have been made, they have only a limited significance, for the future market or collateral value will depend on the rapidity with which the securities are liquidated, on the general course of the war, and on many other unpredictable factors. Of course, the figures of nominal value are of even more limited significance.

(Million Pounds)

		<u>Government</u>	<u>Railways</u>	<u>Other</u>	<u>Total</u>
<u>In British Empire</u>					
Canada	Nominal Market	75 (77)	187	219	481
Australia	Nominal Market	435 (417)	3	75	503
New Zealand	Nominal	131 (128)	1	14	146
India	Nominal MARKET	300 (290)	1/	250	550
British Africa	Nominal	168	1/	250	438
Malaya	Nominal	6		78	84
Other	Nominal	—	—	—	31
Total in British Empire	Nominal	1,125	151	586	2233

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(Million Pounds)

		<u>Government</u>	<u>Railways</u>	<u>Other</u>	<u>Total</u>
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In Latin America

Argentina	Nominal Market	45 (32)	263 (52)	83	390
Brazil	Nominal Market	75 (14)	38 (5)	47 (22)	160 (41)
Chile	Nominal	20 (2)	20 (5)	65	105
Uruguay	Nominal Market	18 (8)	14 (1)	10 (12)	42 (21)
Mexico	Nominal Market	38 (1)	90 (1)	44	173
Peru	Nominal Market	6 (2)	1/ 25 (1)	23 (4)	28 (5)
Cuba	Nominal Market	2 (2)	25 (1)	(2)	28
Venezuela	Nominal Market	N11	3 0.2	18 (17)	20 (17)
Colombia, Ecuador Bolivia, Paraguay, Central America	Nominal				50
International	Nominal	—	—	—	6
Total in Latin America	Nominal	204	451	317	1002

In Asia

China	Nominal				200
Japan	Nominal				50
Netherlands East Indies	Nominal				50
Philippines	Nominal				8
Total Asia					308

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In Europe	Nominal	250
In Other Areas	<u>2/</u> Nominal	<u>75</u>
Total U.K. Investments outside United States - Nominal Value		3868

1/ Not shown separately.

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

Treasury Department,
Division of Monetary Research.

January 14, 1941.

Sey. Morgenthau's Testimony

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ABO LOAN LEASE HEARING

SECRETARY MORGENTHAU SUBMITTED A STATEMENT OF ESTIMATED DOLLAR EXPENDITURES AND RECEIPTS OF THE BRITISH EMPIRE IN 1941 INDICATING IT WOULD BE SHORT BY \$1,464,000,000 OF THE AMOUNT NEEDED DURING THE YEAR.

1/15--25351P
ABO LOAN LEASE HEARING

AS MORGENTHAU TOOK THE STAND HIS AIDES GAVE OUT A STATEMENT SHOWING THE ESTIMATED DOLLAR EXPENDITURES AND RECEIPTS OF THE BRITISH EMPIRE, EXCLUSIVE OF CANADA, WHICH INDICATED THAT \$3,919,000,000 WOULD BE NEEDED TO PAY FOR ORDERS IN THIS COUNTRY DURING THE CALENDAR YEAR, OF WHICH \$1,464,000,000 WAS LISTED AS THE "TOTAL DOLLAR DEFICIT OF THE BRITISH EMPIRE, EXCLUDING CANADA, DURING 1941."

THIS WAS FOLLOWED BY A STATEMENT MARKED "CONFIDENTIAL" WHICH SHOWED THAT THE UNITED KINGDOM'S AVAILABLE DOLLAR EXCHANGE ASSETS ON JAN. 1, 1941, AMOUNTED TO \$1,775,000,000.

THE ASSETS WERE BROKEN DOWN AS FOLLOWS:

"GOLD IN THE U. S. OR EN ROUTE--\$205,000,000.

"OFFICIAL DOLLAR BALANCES--\$54,000,000.

"AMERICAN SECURITIES--REPORTED BY BRITISH AS OF JAN. 6--\$416,000,000.

"(TOTAL LIQUID ASSETS \$675,000,000.)

"DIRECT AND OTHER INVESTMENTS. . . . ABOUT --\$500,000,000.

"TOTAL DOLLAR EXCHANGE ASSETS--\$1,775,000,000.

1/15--25351P

A THIRD STATEMENT SUBMITTED BY MORGENTHAU LISTED ESTIMATED LONG-TERM FOREIGN INVESTMENTS OF THE UNITED KINGDOM OUTSIDE THE UNITED STATES AT 3,868,000,000 POUNDS STERLING.

1/15--BS405P 20-0

ADD LOAN LEASE HEARING

IN RESPONSE TO A QUESTION WHETHER BRITAIN WAS IN A POSITION TO PAY FOR ITS PURCHASES, MORGENTHAU SAID:

"THIS FINANCIAL PICTURE WHICH I'VE GIVEN YOU I'M SATISFIED WILL PAY THIS YEAR FOR WHAT ALREADY HAS BEEN BOUGHT. WHEN IT COMES TO FINDING THE DOLLARS TO PAY FOR ANYTHING LIKE WHAT THEY MAY NEED, THEY JUST HAVEN'T GOT IT."

1/15--BS412P

ADD LOAN LEASE HEARING.

IN THE "CONFIDENTIAL" STATEMENT OF THE UNITED KINGDOM'S AVAILABLE DOLLAR EXCHANGE ASSETS ON JAN. 1, 1941, IT WAS STATED:

"THE BRITISH GOVERNMENT HAS \$33 MILLION OF GOLD SCATTERED IN VARIOUS PARTS OF THE WORLD. MOST OF THIS GOLD, HOWEVER, IS IN AREAS FROM WHICH IT CANNOT BE SHIPPED QUICKLY OR SAFELY TO THE UNITED STATES.

"BRITISH BANKS, PRIVATE PERSONS AND CORPORATIONS HAVE BALANCES IN THE UNITED STATES OF \$305,000,000. THE BRITISH GOVERNMENT FEELS THAT THESE BALANCES ARE AT THE MINIMUM LEVEL NECESSARY FOR THE CONTINUED CONDUCT OF BUSINESS AND ARE THEREFORE NOT AVAILABLE FOR USE BY THE BRITISH GOVERNMENT."

A NOTATION REVEALED THAT THE FIGURES WERE FROM THE TREASURY'S DIVISION OF MONETARY RESEARCH.

1/15--WD422P C45TE19B

AND LOAN LEASE HEARING.

IN SUBMITTING THE LIST OF BRITISH ASSETS IN OTHER NATIONS, INCLUDING SOUTH AMERICA, MORGENTHAU EMPHASIZED THAT THEY WERE IN STERLING, NOT DOLLAR BALANCE, AND THAT THEIR LIQUID VALUE WOULD DEPEND UPON WORLD CONDITIONS AT THE TIME THEY WERE CONVERTED TO DOLLARS, AND THE RATE AT WHICH THEY WERE SOLD.

HE WAS ASKED IF THE FRENCH HAD ANY COMMITMENTS HERE THAT THE BRITISH COULD TAKE OVER. MORGENTHAU ANSWERED THAT LAST JULY 1, SHORTLY AFTER FRANCE FELL, THE BRITISH TOOK OVER THE EXISTING FRENCH CONTRACTS.

"I MIGHT POINT OUT," HE SAID, "THAT AT THAT TIME FRANCE HAD DOLLAR BALANCES HERE THAT WERE ABOUT TWICE WHAT THE ENGLISH HAD."

HE TOLD REP. HAMILTON FISH THAT THE BRITISH HAD PAID OUT AND TAKEN DELIVERY BY JAN. 1 ON \$1,337,000,000 OF MATERIAL. FISH WANTED TO KNOW HOW MUCH DOLLAR BALANCES AND SECURITIES INCLUDING GOLD THE BRITISH MIGHT HAVE IN LONDON OR OTHER PARTS OF ENGLAND, THAT MIGHT BE "TRANSFERRED HERE FOR CREDIT."

"I HAVE LISTED HERE EVERYTHING THAT THE UNITED KINGDOM HAS," MORGENTHAU SAID.

"I AM ADVISED BY A STATEMENT OF THE FEDERAL RESERVE BOARD THAT BRITAIN HAS HERE SOMETHING OVER \$7,000,000,000," FISH SAID. HE REFERRED TO THE LAST REPORT OF THE BOARD.

MORGENTHAU ANSWERED THAT THIS INCLUDED CENTRAL GOLD RESERVES OF THE DOMINIONS AMOUNTING TO \$2,735,000,000, ALSO DOLLAR BALANCES OF THE DOMINIONS AMOUNTING TO SEVERAL BILLION.

"THESE FIGURES, AS FAR AS I KNOW, ARE NOT IN CONFLICT," HE SAID, POINTING OUT THAT THE RESERVE BOARD FIGURES WERE BASED ON INFORMATION AVAILABLE LAST AUGUST BEFORE THE "BATTLE OF BRITAIN" BEGAN. "I HAVE NO REASON TO BELIEVE THAT THESE FIGURES I HAVE GIVEN YOU ARE NOT ACCURATE," MORGENTHAU SAID.

1/15--00443P CASTER

AND LOAN LEASE HEARING.

FISH ASKED MORGENTHAU WHETHER THE BILL WOULD GIVE THE PRESIDENT POWER TO SEIZE FOREIGN SHIPS IN OUR PORTS AND GIVE THEM TO ANOTHER COUNTRY.

"NO," SAID MORGENTHAU.

FISH ASKED WHETHER IT CONFERRED POWER TO ORDER THE CONVOY OF SHIPS.

"MY INTERPRETATION IS THAT IT DOESN'T GIVE HIM ANY POWER HE DOESN'T HAVE," MORGENTHAU REPLIED.

"DOES IT AUTHORIZE HIM TO GIVE AWAY ANY PART OF THE NAVY?"

IN REPLY MORGENTHAU READ FISH THE LANGUAGE OF THE BILL AUTHORIZING THE SALE, LOAN, OR "TRANSFER" OF DEFENSE ARTICLES. HE ALSO READ THE SECTION WHICH DESCRIBES THE TERMS AND CONDITIONS FOR SUCH ACTION, REQUIRING A DIRECT OR INDIRECT BENEFIT TO THE UNITED STATES.

"I WOULD NOT SAY HE COULD GIVE THEM AWAY," MORGENTHAU SAID.

"DOES THIS BILL CANCEL THE JOHNSON ACT?" FISH ASKED.

"IN THE TREASURY," SAID MORGENTHAU, "WE FEEL IT DOES NOT."

"DOES IT CANCEL THE NEUTRALITY ACT?"

"IT DOES ALTER IT, YES, AS FAR AS THE CREDIT PROVISIONS ARE CONCERNED."

WHEN FISH REFERRED TO THE AUTHORITY TO REFIT AND OUTFIT BELLIGERENT SHIPS, MORGENTHAU SAID THERE WAS "NOTHING IN THE NEUTRALITY ACT IN REGARD TO REFITTING A SHIP SO I DON'T SEE THAT THIS CHANGES THAT."

"WOULD YOU OBJECT TO THE PLACING IN THE BILL OF A CEILING AS TO THE AMOUNT--SAY \$2,000,000?" FISH ASKED.

"I THINK THAT IS A MATTER FOR THE COMMITTEE TO DECIDE," MORGENTHAU SAID. "I THINK THE SITUATION CHANGES SO RAPIDLY THAT NOBODY I'VE COME IN CONTACT WITH CAN SAY WHAT THE CEILING SHOULD BE, NOT ONLY AS TO OUR OWN DEFENSE BUT AS TO OTHER COUNTRIES."

"DON'T YOU REALIZE," ASKED FISH, "THAT IT DOES NOT PUT ANY LIMIT ON PUTTING INTO THE HANDS OF ONE MAN POWER TO SPEND UNLIMITED FUNDS?"
 "SOMEBODY WILL HAVE TO APPEAR BEFORE THE APPROPRIATIONS COMMITTEE,"
 MORGENTHAU REPLIED. "NO FIGURE IS MENTIONED IN THE BILL BECAUSE IT DOES NOT CARRY AN APPROPRIATION."

ADD LOAN LEASE HEARING. 1/15--00457P CASTER

REP. CHARLES EATON ASKED MORGENTHAU TO CITE THE "COMPELLING REASONS FOR THIS PARTICULAR BILL AT THIS PARTICULAR TIME."

MORGENTHAU CITED THE BRITISH FINANCIAL POSITION. "THEY NEED VAST ARMAMENT IN THIS COUNTRY," HE SAID. "THIS IS THE ONLY PLACE THEY CAN GET THEM. THEY HAVEN'T GOT THE DOLLAR EXCHANGE TO PAY FOR THEM."

HE SAID THE BRITISH, GIVEN TO THE END OF THE YEAR, WOULD BE IN A POSITION TO PAY FOR ALL ORDERS THEY HAVE PLACED.

"WE'VE BEEN HEARING A GREAT HURRAH ABOUT GIVING THINGS TO BRITAIN," EATON SAID, "AND UP TO NOW WE'VE BEEN MAKING HER PAY THROUGH THE NOSE, HAVEN'T WE?"

MORGENTHAU SAID THE ENGLISH HAD BEEN FORCED TO PAY CASH FOR EVERYTHING.

"SO, IF BRITAIN IS OUR FIRST LINE OF DEFENSE, WE HAVEN'T COVERED OURSELVES WITH ANY PARTICULAR GLORY," EATON SAID.

"I AGREE WITH YOU," THE SECRETARY REPLIED.

TINKHAM ASKED WHY BRITAIN SHOULDN'T SELL SOME OF ITS LISTED SECURITIES.

MORGENTHAU REPLIED HE WAS NOT ATTEMPTING AND HAD NO AUTHORITY TO SAY "WHAT BRITAIN SHOULD OR SHOULD NOT DO" BUT ONLY WAS GIVING THE COMMITTEE THE FINANCIAL PICTURE OF THE BRITISH EMPIRE.

CASTER

1/15--00505P

ADD LOAN LEASE HEARING.

TINKHAM ASKED IF MORGENTHAU WOULD AGREE TO AMENDMENTS REQUIRING THE BRITISH TO PUT UP GOLD "TO SECURE THE AMERICAN TAXPAYER."

"I AM VERY SORRY TO SAY I HAVEN'T THE SAME CONFIDENCE IN THE PRESIDENT YOU HAVE," TINKHAM SAID.

"IF YOU WILL PARDON MY SAYING SO," MORGENTHAU SAID, "YOU ARE PROBABLY IN THE MINORITY."

REP. ROGER W. CHIPERFIELD WANTED TO KNOW THE FULL EXTENT OF FINANCIAL COMMITMENT INVOLVED IN THE BILL. MORGENTHAU SAID HE WAS NOT PREPARED TO SAY HOW MUCH MONEY WOULD BE REQUIRED TO CARRY OUT THE POLICY INVOLVED IN THE BILL.

REP. JOHN H. VOYTS TOLD MORGENTHAU HE WAS "FRANKLY AMAZED" AT THE SMALLNESS OF BRITISH RESOURCES. MORGENTHAU SAID HE HAD INCLUDED IN HIS FIGURES "EVERYTHING THE BRITISH GOVERNMENT CAN LAY ITS HANDS ON" TO PAY FOR WAR SUPPLIES.

MORGENTHAU ADMITTED THAT THE BILL WOULD MODIFY THE DEBT LIMIT "TO THE EXTENT THAT THE PRESIDENT WILL HAVE TO BORROW FOR OUR OWN DEFENSE" AND TO CARRY OUT THE BILL. HE EXPLAINED HOWEVER THAT "IF YOU PASS THIS BILL AS IT IS WRITTEN THE DEBT LIMIT WILL STAY JUST WHERE IT IS."

1/15--W0523P CASTER

REP. JOHN H. VOYTS, AFTER HEARING SECRETARY MORGENTHAU PRESENT A PICTURE OF GREAT BRITAIN'S INABILITY TO PAY FOR FURTHER PURCHASES HERE, DUBBED THE ARMS MEASURE THE "LEB-LOSE" BILL.

HE SAID HIS 12-YEAR-OLD SON HAD COINED THE PHRASE.

1/15--W0524P

AND LOAN-LEASE HEARING.

IN RESPONSE TO QUESTIONS BY HUNDT, THE SECRETARY SAID "THERE IS VIRTUALLY NO GOLD LEFT IN ENGLAND EXCEPT AS IT BELONGS TO OTHER COUNTRIES." HE SAID WHATEVER WAS LEFT WAS "INCLUDED IN" TWO ITEMS -- \$205,000,000 GOLD IN THE U. S. ON ENROUTE, AND \$33,000,000 GOLD "SCATTERED IN VARIOUS PARTS OF THE WORLD."

"I DON'T BLAME YOU FOR ASKING THE QUESTION," MORGENTHAU SAID. "THE FIGURE IS ALMOST UNBELIEVABLY LOW."

HUNDT ASKED IF A "CEILING" OR LIMIT TO THE AUTHORIZATION SHOULD BE WRITTEN INTO THE BILL.

MORGENTHAU SAID HE HAD LEARNED "NOT TO ATTEMPT TO ADVISE A LEGISLATOR ABOUT HIS BUSINESS," AND THAT WAS FOR CONGRESS TO DETERMINE.

ASKED BY REP. BARTEL J. JONKMAN WHETHER THE BILL CARRIED THE IMPLIED POWER TO DELIVER DEFENSE ARTICLES IN AMERICAN SHIPS, MORGENTHAU SAID:

"MY COUNSEL SAYS NO."

JONKMAN ASKED HIM WHETHER THERE WAS NOT IMPLIED POWER TO "SELL, EXCHANGE OR TRANSFER" ANYTHING PRODUCED WITH THE \$17,000,000,000 ALREADY APPROPRIATED FOR NATIONAL DEFENSE.

AFTER CONSULTATION WITH HIS AIDES MORGENTHAU REPLIED:

"IN THE TREASURY DEPARTMENT'S OPINION THE ANSWER IS YES."

"INCLUDING WARSHIP?" ASKED JONKMAN.

"THAT'S OUR OPINION," MORGENTHAU SAID. "OTHER DEPARTMENTS MAY DIFFER WITH US."

FISH ASKED IF THE STABILIZATION FUND HAD BEEN USED TO EXTEND CREDITS TO BELLIGERENTS. IT HAS NOT BEEN USED, MORGENTHAU SAID, WITH THE EXCEPTION OF LOANS TO ARGENTINA AND CHINA. THESE LOANS WERE NEGOTIATED ONLY AFTER THE MATTER WAS TAKEN UP WITH THE HOUSE AND SENATE BANKING AND CURRENCY COMMITTEES AND "THEY GAVE US A VOTE OF CONFIDENCE."

FISH ANNOUNCED THAT THE FOLLOWING PERSONS HAVE ACCEPTED HIS INVITATION TO TESTIFY JAN. 21 AND 22:

WENDELL WILLKIE, JOSEPH KENNEDY, HANFORD MACHIDER, NORMAN THOMAS, WILLIAM J. GRACE, CHAIRMAN, CITIZENS KEEP AMERICA OUT OF WAR COMMITTEE, CHICAGO; GERALD L. K. SMITH, NATIONAL CHAIRMAN OF THE COMMITTEE OF ONE MILLION, DETROIT; VERNE MARSHALL, CHAIRMAN OF THE NO FOREIGN WARS COMMITTEE; AND HUGH S. JOHNSON.

ADD LOAN-LEASE HEARING.

1/15--W0602P CASTER

IN RESPONSE TO A QUESTION FROM BLOOM, MORGENTHAU SAID THE WAR IS COSTING BRITAIN 12 MILLION POUNDS A DAY, OF WHICH ABOUT FIVE MILLION, OR ABOUT 40 PER CENT, IS RAISED THROUGH TAXES AND THE REMAINDER BY BORROWING.

WHEN BLOOM ASKED FOR A COMPARISON OF BRITISH AND AMERICAN TAXES, MORGENTHAU SAID "THIS IS GOING TO BE A SHOCK TO SOME OF YOU." HE READ OFF A COMPARATIVE LIST OF FIGURES SHOWING THAT IN ENGLAND A MAN WITH A \$5,000 INCOME WOULD PAY \$1,496 IN TAXES COMPARED TO \$75 IN THE UNITED STATES, AND SO ON UP TO THE MAN WITH A \$100,000 INCOME WHO IN ENGLAND WOULD PAY \$76,000 AND IN THE U. S. \$43,000.

1/15--W0605P CASTER

COMMENT ON SECRETARY MORGENTHAU

WJSV

6:00

January 15, 1941.

Bob Trout:

Secretary's financial statement was that Great Britain has not nearly enough dollars to pay for anything like they might need. Great Britain will be nearly a billion and one half short of that amount.

Edwin C. Hill:

No comment in regard to Secretary Morgenthau. All comment was in regard to Secretary Hull's speech.

10:30

News

Secretary Morgenthau's testimony on Britain's financial set-up disclosed the following findings:

That Britain will be able to pay cash for three billion dollars' worth of war material ordered BUT when it comes to finding the dollars for anything like what they may need, they just haven't got it. Morgenthau's statement also shows that the United States is the only country where Britain can get enough war material to continue fighting.

. . .

Great Britain faces a financial dilemma which only President Roosevelt's lend bill can prevent.

-ooOoo-

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-ooOoo-

Paul Sullivan, 6:30 P.M., WJSV

Secretary Morgenthau, too, is in favor of passage of the bill to aid Britain. On the basis of the financial statement he submitted, he said that Britain would pay for everything bought, but that she does not have enough dollars. She simply does not have enough for big-scale purchases. Secretary Morgenthau said Great Britain already had paid out \$1,337,000,000 for United States supplies. She is paying out or will pay out, he said, another sum of \$1,393,000,000. He also said that Great Britain has in the United States gold balances, securities and investments amounting to \$1,775,000,000, also that the United States is in favor of helping Great Britain.

John Kennedy, WJAL, 9:30 P.M.

Secretary Morgenthau reported today that Great Britain is about broke, and are going to do the same as the people in the book of Oliver Twist, ask for more. At least 50 percent of their War Debt is paid but France and Germany passed the debt up entirely.

WJSV, 8:55 P.M.

Secretary Morgenthau stated today that he was satisfied that Britain could pay for the planes and supplies she already has ordered, but that when it comes to paying with dollars, Britain does not have them. He submitted a balance sheet of British assets.

January 15, 1941

Fulton Lewis, Jr., WEL. 7:00 P.M.

There was no malice in what Mr. Hull said today in support of the President's program. He made it rather clear that he considers that circumstances and events make it necessary to go into a program of this kind at this time, a program which involves a revolutionary departure from American tradition of the past. But Mr. Hull said today that the situation is unlike any we have ever faced in the past; therefore, it requires more drastic action than we have ever taken in the past.

He said the only reason Germany has been unable to cross the English Channel and invade the islands is because those waters are still under control of the British Navy and that we must have complete control of the high seas at all times. According to Mr. Hull, if we lose control, Germany may be able to make a direct attack on the Western Hemisphere.

For a Secretary of State, Mr. Hull used some very blunt and simple language today. He left the soft gloves of diplomatic language in his desk at the State Department today. He read his six and one-half page statement and naturally it had been carefully edited in advance and been approved by the White House. He went into the historical background of the present war and he named names--he called Germany, Germany, Italy, Italy and Japan, Japan. He said this Government has tried, on numerous occasions, to convince Japan that the only wise course for it to follow was the course of fair treatment with equal rights to all nations involved. He said Japan had, time after time, disregarded the rights of the United States and other Governments in the Far East, and the official Japanese Government had openly declared its intention was the exclusive domination of the Far East. The next step he said was Italy's seizure of Ethiopia and Albania. He said the Hitler Government had steadily followed a course of making promises and breaking them. He said her course was to make even greater demands the moment earlier demands have been met. He said there is no hope of a peace understanding because there is no hope of a guarantee or way of getting one, that the Axis powers will live up to the agreement they make.

He said that this legislation to aid Britain is absolutely necessary; he knows of no other legislation that will accomplish these objectives and he considered this bill to be necessary itself. Mrs. Edith Rogers asked Hull if he objected to the committee calling in former Ambassadors Wilson, Bullitt and Kennedy. He said the decision is in their hands, if they wish to testify, and the only restriction would be that they could not divulge diplomatic, confidential information. Otherwise they could say what they wanted to say.

There has been a rather peculiar situation developing in the Foreign Affairs Committee. It seems that the Ranking Republican on that committee is Representative Hamilton Fish, of New York. He has given out a list of witnesses who, he says, will appear before the committee next week, including the names of Mr. Wendell Willkie and various other people.

And Chairman Bloch says it's all news to him. The usual rule of procedure is for the Chairman to decide who the witnesses should be and when called. Mr. Fish has no more power than anybody else on the committee so his witnesses may or may not appear.

Secretary Morgenthau remained on the stand until nearly six o'clock tonight. Secretary Hull was, incidentally, all alone when he testified. He sat on the chair in the Ways and Means room and answered all questions himself. Mr. Morgenthau, on the contrary, was flanked with advisers on both sides and every time a question was asked he would whisper to them, get advice, confer with them before answering. Mr. Morgenthau said the war is costing Great Britain about \$50,000,000 a day, which the British Government is paying \$40,000,000 by taxation and borrowing the other \$10,000,000. He said the British have sufficient cash available to pay for the war another year to come, available or in prospect, but after that time their cash will be exhausted. He said the British had about \$3,000,000,000 in the United States in convertible assets at the opening of the war, that is, securities and assets easily turned into cash. He said they had already spent \$1,300,000,000 in this country on materials already purchased and had had shipped to them, and that they had placed orders for additional materials amounting to about another \$1,300,000,000. That makes \$2,600,000,000 of the \$3 billion already gone and so he said that British funds in this country are just about exhausted. He said taxation in Great Britain at the present time is staggering--that the average man in the street, the average worker--the income tax charged him is approximately ten times the income tax that is charged in this country.

Perhaps the most important statement by Mr. Morgenthau today was one of policy. One member observed that Great Britain is still getting tremendous gold reserves out of Africa and the member asked Mr. Morgenthau whether that gold should be shipped to the United States in part payment, at least, for the materials we provide in the future. Mr. Morgenthau said he does think so; in fact, he said Great Britain should do everything in her power to make part payment for the materials we supply.

In connection with Mr. Hull's statement about maintaining control over the high seas there was one highlight that might interest you. An Admiral testified before the committee and asked for money for mosquito craft, ranging from 70 to 120 feet long, built in speedboat design, and depending on speed for defense.

Thomas - W.M.A.L., 6:25 p.m., 1/15/41.

77

Secretary of State Hull was having an interesting time with the Foreign Affairs Committee today. He said Germany can easily cross the Atlantic if Britain is defeated.

He was asked if he considered the aid to Britain bill absolutely necessary to our national defense. He replied that he had been unwillingly compelled to believe that it is. He said that it is not a violation of the Johnson Act. He admitted that that bill is in violation of the Hague Conference but explained it would not apply in the present war. Germany and Italy are not parties to that Convention and Germany and Italy have paid no attention to such principles of international law. --

Hull said it is ideal for us to rely on the rules and principles of neutrality for safety but that the German program is one of world-movement and the only course for us to follow is to aid Britain and he used these words: "I cannot in good conscience advise my fellows to follow the course of Holland and Belgium".

Appeasement - Hull ridiculed the idea that German, Italy or Japan could be appeased.

Representative Fish disagreed with the idea that Germany could so easily cross the Atlantic.

Representative Tinkham said passage of the bill would set up a dictatorship.

Representative Blodgett came to Hull's rescue and rebuked the Representative from Massachusetts (Tinkham).

Tinkham then wanted to know if we would rush to the help of Russia if the need arose. Hull answered that the question was too theoretical for answer.

Tinkham asked if we had abandoned all neutrality. Hull answered no, but that the law of self-preservation had begun to assert itself.

One point made by Congressman Tinkham was that the war aid bill would give the President the power to create an act of war. Hull answered that the President ---

Secretary of the Treasury Morgenthau followed Secretary Hull and showed the Congress statements of Great Britain's financial standing, showing that the British would be unable to pay for war orders placed in the U.S. this year. --- In other words the British will be short about \$1,864 million.

Washington:

The Administration told the story today why the President has asked for unlimited aid order.

There was laid before the Congressional Committee on Foreign Affairs, by two Cabinet Officers who have the inside on the story - Morgenthau and Hull - information which has come to them concerning the financial standing of the British. Hull, Secretary of State, of course, did not deal in dollars.

Hull's main argument was propounded in the question as to whether control of the high seas shall pass into the hands of aggressor powers. He said Germany could easily cross the Atlantic if Britain is defeated. Neutrality offers no protection for any man now. He thinks guns are safer.

W.O.L., 9:00 p.m., Heatter.

Wednesday, January 15, will occupy a permanent page in American history in years to come. — Some will certainly say that January 15th Secretary of State Hull virtually proclaimed a new policy for America. He said that the old law of self preservation has begun to assert itself. In years to come Americans will read about Bill 1776, a bill in behalf of American safety. Hull said passage of the measure would not mean dictatorship. —

Mr. Hull spoke quietly: "I must be frank, in my opinion there is danger. Peace or war for America, no man can say."

There are 3 groups in Congress tonight:
Wheeler group, who say if you vote for Bill 1776 you vote to kill the Johnson Act, to kill neutrality, to move transports and convoys.--

Men who say very frankly that ensuring victory for England would mean war --

The 3 groups in Washington might be characterized as the group still on the fence. They want amendments, they don't want Congress to do anything opposed by the Constitution — They don't want to give Roosevelt extraordinary powers.

Some say that we should help England to insure Hitler's defeat, and will guarantee it will keep America out of war.

Some men on the fence ask what kind of British are we underwriting aid for? They have heard of a socialist England. Some men in Washington wonder if it means out and out socialism. Churchill knew that question would come up, he picked Halifax for Washington.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 15, 1940

TO Secretary Morgenthau

FROM W. C. Foley, Jr.

As you suggested, I had Mr. O'Donnell talk to Senator Mahoney, Chairman of the Temporary National Economic Committee, about our bank holding company legislation and the possibility that he and his Committee might be able to give some support to the bill.

The Senator took the position that the President's monopoly message excluded the bank holding company problem from the scope of the Temporary National Economic Committee investigations, inasmuch as it urged the immediate enactment of bank holding company legislation for reasons well set out in the message itself. He also felt that the bill, once introduced, would be referred to the Banking and Currency Committee and that it would then become a legislative matter into which the Temporary National Economic Committee could inject itself only with doubtful propriety. He further pointed out that TNEC expires on April 1 of this year and was extended to that date only for the purpose of giving the Committee additional time to prepare a final report. Although no final decision has been made, it is not expected that any more hearings will be held, but rather that the remaining period of life of the Committee will be taken up with the preparation of its report to Congress.

The Senator did indicate that he was personally in favor of the objectives of bank holding company legislation and, without committing himself to any particular form of bill, indicated that he would be inclined to support such legislation "unless it contained something of which he knew nothing and to which he would object."

S-76

Secretary Morgenthau

JAN 15 1941

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(Initialed) E. H. Foley, Jr.

EHF/Law

1/14/41

GMA

for

GRAY

Saigon

Dated January 15, 1941

Rec'd 9:45 a.m., Jan. 1941.

Secretary of State,
Washington.

3, January 15, 11 a.m.

A new customs tariff became effective in Indo China as of January 1st. Duties are wholly (?) ranging from 500 to 130% minimum on goods from all countries including France. General rates are three times the minimum. Free and prohibited products are subsidiary as before as are the classifications though less subdivided. The internal consumption tax remains in effect. On the basis of prices in Indochina minimum value will be established for merchandise below which imports will not be assessed.

Goods which left their country of origin before November 30 may be consummated under the old or new tariff.

Temporarily the minimum duty on trucks is 25%, automobile parts 35%, iron steel and medicines are free.

The American trade agreement remains effective the new minimum duties replacing the former and the intermediate being computed proportionately.

Tariff and covering despatch following by ordinary mail; single copy will be sent air mail if desired. Sent to Cavite for registration to the Department, Hong Kong, Shanghai, Trade Commissioner Manila.

PLANN

WSB

Copy:bj

JAN 15 1941

My dear Mr. Sumner:

There are referred to you herewith for your consideration a number of transactions involving shipments of merchandise from the United States to French Indo-China and to Chinese ports. All of these applications are for licenses to be issued by the Treasury Department pursuant to Executive Order No. 6088, as amended.

Enclosed herewith is a memorandum setting forth these transactions and indicating the amount of each payment, the nature and quantity of each shipment, and the destination of each shipment.

It will be appreciated if this Department is advised of your views with respect to the several transactions set forth in each memorandum.

Very truly yours,

Samuel H. W. Reed

Acting Secretary of the Treasury

The Honorable,

The Secretary of State.

RECORDED: 1/15/41

MEMORANDUM

1. The following applications seek to forward documents to the Banque de l'Indochine, and to effect payment by debiting the free account of the Banque de l'Indochine with the French American Banking Corporation for shipments to the destinations indicated:

MACHINERY AND EQUIPMENT

<u>Application No.</u>	<u>Commodity</u>	<u>Value</u>	<u>Destination</u>
NY 70714	Plates and tools for machines to work leather skins	\$ 650.00	Indo-China
NY 70745	Five tubes and odd batteries	4,451.00	Indo-China
NY 81797	Steel files	1,500.00	Indo-China
NY 82797	96 accumulators and 1,000 spare plates	500.00	Indo-China
NY 84400	7,000 Kiloes green "envelopes chaudiere a air automobile"	5,000.00	Indo-China
NY 90012	3 reeling machines with accessories	10,000.00	Indo-China
NY 90013	100-ton handlike joint steel press	4,000.00	Indo-China
NY 91301	Glassed tilting crucibles, stirrer handles and stirrers	1,300.00	Indo-China
NY 91301	1 automatic slicing machine	4,000.00	Indo-China
NY 91306	Tramway wheels and springs	1,000.00	Shanghai, China
NY 91306	Reeling machine and equipment	140.00	Indo-China

- 2 -

Destination No.	Commodity	Value	Destination
HT 9289	Large rolls, tubes for mounting large rolls, rotary rolling machines, motor drive units, electric motors, magnetic starters	\$ 6,100.00	Into-China
HT 9290	Blowing unit, fuel oil pump, 8 pressed steel pots	1,000.00	Into-China
HT 9292	8 rollers for main sugar grinders	10,000.00	Into-China
<u>IRON</u>			
HT 9295	47 tons of zinc sheets	15,000.00	Into-China
HT 9297	424 steel bars	40,000.00	Into-China
HT 9299	45 tons steel bars and sheet iron	2,900.00	Into-China
HT 9302	3 tons special steel for tools	9,000.00	Into-China
HT 9310	Machine wire and sheet iron	21,000.00	Into-China
HT 9314	200 tons of pig iron	11,000.00	Into-China
HT 9321	90 tons of brass bars	55,100.00	Into-China
<u>CHINA</u>			
HT 9423	2,000 pounds of rough steel and 2,000 pounds of rough steel	900.00	Into-China

<u>Application No.</u>	<u>Commodity</u>	<u>Value</u>	<u>Destination</u>
NY 90703	Chemicals	\$ 287.70	Shanghai, China
NY 91790	Chlorate of Potassium	1,000.00	Indo-China
NY 92704	125 Hils of cellululose	300.00	Indo-China
NY 91806	20 tons sulphate of alumina	875.00	Indo-China
NY 93009	20 tons common sulphur	1,000.00	Indo-China
NY 90122	150 cylinders liquid chlorine	6,200.00	Shanghai, China
NY 90909	Sulphur	1,000.00	Indo-China
NY 90909	Pharmaceutic products	7,750.00	Indo-China
NY 90909	Chloride of magnesia	600.00	Indo-China
<u>WHEELBARROWS</u>			
NY 91790	Radio tubes	3,150.00	Indo-China
NY 91790	Radio sending sets and accessories	1,000.00	Indo-China
NY 94004	5 tons rope	6,700.00	Indo-China
NY 90004	40 tons Heavy Grains	6,000.00	Indo-China
NY 90002	10,000,000 (ten million) bottle caps	12,000	Indo-China

II. The following applications seek to debit the blocked account of the Banque de l'Indochine, Saigon, with the Bank of California, San Francisco, in payment of shipments from the United States to French Indo-China as indicated:

- 4 -

Application No.	Quantity	Value	Destination
NY 2718	50 drums emulsion soda	\$ 1,500.00	Indo-China
NY 2719	3 tons of zinc sheets	10,000.00	Indo-China
NY 2719	10 tons of sheafest extract	1,000.00	Indo-China
NY 2725	Radio parts and accessories	1,000.00	Indo-China
NY 2726	Spare parts for tractors	1,000.00	Indo-China

III. The following applications seek to debit the accounts listed for shipments as indicated:

Application No.	Amount	Quantity	Value	Destination
NY 80421	The blocked account of Mr. Francois D'Hartvilliers with the Bethlehem Steel Export Corporation.	120,000 pounds of sheafed plates	\$1,500	Long Hong, China
NY 80828	The blocked account of Mr. Francois D'Hartvilliers with the Bethlehem Steel Export Corporation.	20,000 pounds of steel bars	1,000	Long Hong, China
NY 82174	The blocked account of the Olivier Freres Corporation with the Irving Trust Company	100 cylinders of liquid chlorine	1,000.00	Shanghai, China
NY 82708	The blocked account of The Empire Bridge Corp 1' Stronger (Johnson Cranes), Shanghai, with The Empire Bridge Corp 1' Stronger, (Overman) Ltd., New York.	Raw copper wire	120,000.00	Shanghai, China

RECEIVED
BRI 7/11/12

RECEIVED
BRI 7/11/12

PARAPHRASE OF TELEGRAM RECEIVED**FROM:** American Legation, Belgrade, Yugoslavia**DATE:** January 15, 1941, 5 p.m.**RE:** **PP**

Reference is made to telegram of January 6, 10 p.m.,
no. 8 from the Department, and telegram of January 14, 9 p.m.,
no. 7 from the Department.

This morning it was informed orally by the Finance
Minister of Yugoslavia that the National Bank is interested
in purchasing from the Bank for International Settlements
500 kilograms of gold. This transaction, he assured me,
was merely for the purpose of liquidating Yugoslav obligations
in the United States, and was not for the benefit of the
German Government or any other foreign government. It is,
in other words, just a bookkeeping transaction, due to
the inability of the Government of Yugoslavia to transfer
gold to the United States because of physical reasons.

LANE.

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PLAIN

London

Dated January 15, 1941

Rec'd 9:36 a.m.

Secretary of State,

Washington.

150, 15th.

FOR TREASURY.

By way of encouraging the investment of non-residents' sterling funds in British securities the Bank of England announces that any non-resident having sterling in the United Kingdom and wishing to invest it in registered or inscribed sterling securities here will at the time of his purchase be given a form (form m) which will constitute a license to sell those securities on any British Stock Exchange. Hitherto permission to sell such stocks has rarely been given to non-residents since the restrictions on security sales were imposed as reported in the Embassy's No. 1525 of June 6. The license will be valid for an indefinite period. Only the same type of sterling will be credited to a non-resident selling the securities as he originally used for their purchase. The arrangement does not (repeat not) apply to blocked sterling accounts as described in the Embassy's telegrams Nos. 3815 and 3830 of November 22 and 23. The inducement to invest is

regarded

-2- #150, January 15, from London.

regarded as fortified by the fact that whereas non-residents may not withdraw capital except in certain circumstances, interest on securities held here may be remitted as noted in the Embassy's telegram No. 1525 of June 6.

JOHNSON

HFD