

DIARY

Book 327: Part 1

Answers to Willkie Speeches
Campaign of 1940

COPY

THE WHITE HOUSE
Washington

November 9, 1939.

FOR THE SECRETARY OF THE TREASURY:

the obstacles to the proper equipment
ry for national defense is the disparity
rate of production of airplane motors
the airplanes themselves. This must be
l as soon as possible.

hereby directed to work out a policy
ion allowance by which the abnormal
n plant expansion that will be required
ane motors manufacturers will be ab-
the life of the contracts or during the
riod.

further directed to consult with the
committees of the Congress for the pur-
sing a permanent program whereby the
thus created will become a permanent
national defense.

(Initialed) F. D. R.

December 1, 1939.

MEMORANDUM FOR THE PRESIDENT:

The Treasury has been considering for some time the possibility of assisting the Army and Navy in the establishment of additional facilities in private industries to expedite the national defense program with special reference to your memorandum to me of November 9, 1939, copy of which is attached.

We have concluded that:

1. So far as jigs, dies, tools and factory machinery of specialized and restricted use are concerned the Treasury is today able to execute closing agreements definitely assuring the contractor that he will be able to write off against the particular contract or as a deduction for the particular income tax year all such facilities as are consumed or obsolete -- just as any other manufacturer may.

2. The problem of obsolescence on new factory buildings and standard equipment presents a different problem, one which under the present state of the law and in view of the hearings before and reports of the Couzens Committee and the Nye Committee, we do not believe we can solve. Since the greater part of "additional facilities" seems to consist of new construction and standard equipment it would appear that the real assistance we can give to the Army and Navy under the present law is so slight that no further dependence should be placed upon it.

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Hence, it is clear that congressional action is required, and that only the Congress can solve this problem. Any action, however, in bringing this problem to the attention of the appropriate congressional committees ought to be initiated by the War and Navy Departments since it is a part of the national defense program. Of course, I shall be happy to cooperate.

(Signed) H. Morgenthau, Jr.

PRESS CONFERENCE
December 4, 1939.

(Present: John L. Sullivan, Assistant to Commissioner Internal Revenue and Mr. Eugene Duffield.)

H.M.Jr.:

This, gentlemen, is the first publicity on the first contract that the Internal Revenue have ever closed under the Vinson-Trammell Act and through the cooperation of the Colt's Fire Arms Manufacturing Company and the War Department. I am very happy to be able to make the terms of this closing agreement public, and from now on any closing agreement that we enter into with any contractor, as part of the agreement we will stipulate that we can make this agreement public.

Now, the underlying idea is I feel very strongly that no contractor should be permitted to make one penny more profit than was intended by Congress when they passed the Vinson-Trammell Act.

Q: Is this one of those educational orders?

A: No. This is not. This is a regular order of the War Department and this is the first time since the Vinson-Trammell Act was passed that there has been any closing agreement on the part of Internal Revenue and we are making it public and from now on all the closing agreements we enter into will be made public.

Q: Does this include an arrangement or concession under the Revenue Act?

Mr. Sullivan: There are some provisions that are applicable under

the report filed under the Vinson-Trammell Act and the return filed under the Income Tax Law.

Q: In other words, there is a depreciation allowance made under the Revenue Act so I suppose in this particular case, as in many others, Colt will have to build new equipment or new plants. Is that all?

A: Yes. You see, when the reports are filed under the Vinson-Trammell Act they have to be associated with the income tax returns for the similar period of time and some provisions are available for use on both the report under the Vinson-Trammell Act and the return under the income tax report.

Q: Isn't it generally true that the depreciation factor is the principal subject of the closing agreements?

A: I think that is a fair statement.

Q: It is a setting up of depreciation, generally speaking.

A: No, although in this closing agreement the depreciation is taken on equipment which is of no further useful value after the contract is completed and the same type of depreciation would be allowable to private industry for machinery that was purchased for one contract and then abandoned.

Q: That's part of the general revenue law, isn't it?

A: Yes.

H.M.Jr.: To make it perfectly clear, we are certainly not going to give advantages to anybody who is making munitions rather than peacetime materials. If it were left to me, I would give the peacetime manufacturer a break over the war manufacturer.

Q: To make it clear, how does this work out in general? You said it was a depreciation factor. As I understand it, in some of these wartime contracts a company has to build a plant that is good only for the time it takes to turn out the order. Then it is scrapped.

A: Yes, but he is out of luck as far as we are concerned on that.

This is the only contract that has been entered into by either the Army or the Navy in which the Treasury has entered into a closing agreement. There is no other contract; this is the only one.

Mr. Sullivan: That's right and there is no plant involved in this case.

Q: It's just the equipment?

A: That's right.

H.M.Jr.: Jigs, dies, fixtures and gauges.

Q: Would you make some comment on the statement by Senator Borah regarding the December 15th payment of Finland of the War Debt. I asked you last week and you said you had no comment. But it's coming from Congressional sources now.

A: I still have no comment.

Q: Is there any study being made of that question?

A: Yes.

Q: Have you had requests aside from Congressional sources?

A: I can't go beyond that.

Q: But there is a study being made of the question.

A: There is a study.

Q: Returning to this, if I may, as to this additional standard machinery discussed on page 2 for which a depreciation allowance of 10 percent a year is specified, I wonder if we could ask Mr. Sullivan how that 10 percent compares with what they would ordinarily be allowed.

Mr. Sullivan: You understand a closing agreement is entered into by the Bureau on the basis of information that is furnished to us by the contractor, a certain part of which is subsequently certified to by the War Department or the Navy Department. This closing agreement gives to the Colt Company nothing to which they would not have been entitled by operation of law or closing agreement; in other words, if at the end of this particular contract there is no further work for this particular equipment they then would be entitled to everything they are getting under the closing agreement even though they had no closing agreement.

Q: What is the benefit of the agreement?

A: The benefit of the agreement to the manufacturer, the contractor, is that in advance and before making his bid to the War Department or the Navy Department he knows that if the facts he represents in his petition for a closing agreement are true and correct, the tax situation will be the one that is outlined in the closing agreement and in the event of a change in Administration in the Bureau or in the Treasury

H.M.Jr.: or in the Government

Mr. Sullivan: or in the Government, that closing agreement is binding upon the succeeding Commissioner and the succeeding Secretary of the Treasury.

H.M.Jr.: May I add one thing? In this case Colt's have to invest considerable money and before they invest in jigs and dies it is perfectly normal that they would like to know where they stand, and it's only in the last year or two that any corporation can come down here and get a closing agreement in advance. That's something which was inaugurated while Mr. Herman Oliphant was alive.

Q: Mr. Secretary, I think it all comes down to the fact that some of us have written stories that we should not have about some policy in the Army or Navy or Treasury, either policy or proposed policy, to encourage manufacturers of certain materials wanted by the Government to invest in plants or equipment or something by assuring them of a

more rapid depreciation allowance than would otherwise be permitted. Is there such a policy, or does this have anything to do with it?

H.M.Jr.: We are as much to blame as anybody and we wanted manufacturers to know that this method was available and therefore, a month or so ago

Mr. Duffield: September

H.M.Jr.: you gave out a statement. Now some people, I think, interpreted that as a bid for a way, possibly, to get around the Vinson-Trammell Act. That was not the intention and on account of that erroneous belief having grown up, we felt that the easiest way to overcome that was simply as each contract is entered into to make it public and everybody can understand it and if there is any criticism it will only be on the one contract and not on any subsequent ones. Because if the criticism is fair, we will naturally listen and I want again to emphasize that the Colt people have shown a fine spirit in this thing and I hope you will give them a little hand on it.

Q: Just to go over it again then the assumption that the availability of these agreements, the assumption that that meant a more liberal depreciation allowance would be granted was erroneous.

A: Correct.

- Q: In other words, before and now you are offering them nothing more than you did previously except here you have a procedure where they can tell in advance what it's going to be.
- A: A great many of these contracts entail considerable investment on the part of the manufacturer and it is only fair to him that he should know in advance what the attitude of his Government is going to be towards depreciation and we simply say to Mr. Colt or Mr. Smith, 'if you are going to enter into a contract involving the outlay of equipment, if you will come in, we will sit down with you and tell you just what we will or won't do.' Now in the case of a munitions contract we ask either the Army or the Navy to certify to us what, in their opinion, the depreciation will be. We don't rely just on our own judgment.
- Q: In other words, all the stories of tax concessions to war-order manufacturers are out?
- A: Completely. If it rested with me as to whether a fellow would get a break because he had a munitions contract I am afraid he would fare rather badly.
- Q: Mr. Secretary, is the Colt Company's contract with the War Department one that has been closed already?
- A: This contract is signed, sealed and delivered, finished, and I had the officers of the Colt Company come down

today and asked their permission to do this because I don't think it was fair to them—without their permission—and they cheerfully gave their permission.

Q: How about the contract with the War Department?

A: That's finished; the War Department gave their permission to do this publicity.

Q: Could you give us any indication as to the amount of the contract or the amount of the investment Colt will have to make?

A: No, that is their business.

Q: To emphasize the importance of what little concession you are giving them here, if you didn't tell them in advance what the depreciation would be then after the contract was fulfilled the burden would be on them to come in and prove - - .

Mr. Sullivan: That is right and if there were a succeeding commissioner or Secretary of the Treasury they might be obliged to go under litigation to establish that right.

H.M.Jr.: And the normal thing would be for the manufacturer to hesitate to enter into a contract where he is manufacturing a new line.

Q: But could any manufacturer just—say he gets a private contract involving new investment—is this procedure also open to him to come down here and enter a closing agreement?

- A: Yes.
- Q: This is just the same—any manufacturer who—no matter who—? In other words, if Colt had a contract with some private company there wouldn't be a closing agreement?
- A: Supposing Colt decided to go into the business of manufacturing electric razors and he never made them but it did cost him several hundred thousand dollars to put in new machinery and let's say he had a contract with a mail order house to sell five, ten or fifty thousand of these razors. Now before he wanted to put in several hundred thousand dollars worth of machinery, although he had the order in sight he would come down and say now I have got a chance to make an electric razor; I have never made them before. I want to make this investment in jigs and dies. What can I be expected to write off?
- Mr. Sullivan: It is based on their representation of what they expect— in other words, if they represented to us that the equipment was only to last three years and if at the end of three years we say they were wrong and we have acted on their representation solely, we could then void the closing agreement.
- Q: It seems to me there might be some little difference in an order of that kind where the business might become very successful and go on indefinitely and in a war order which is definitely of a limited character, unless it is to be assumed that we are going on always buying arms from Colt.

Mr. Duffield: There is a difference—that there is a profit limits act involved in these things.

Q: What is that?

Mr. Sullivan: On this particular order it is twelve per cent — ten per cent on boats and twelve per cent on army and navy equipment.

H.M.Jr.: This doesn't mean we pass an okay on every contract because last week we turned down a big one; we just couldn't go along.

Q: Under that '38 law you can have closing agreements on other than depreciation allowances, can't you?

Mr. Sullivan: Yes, yes. Many phases of tax liability may properly be made the subject of a closing agreement.

Q: Is that '38 this past — ?

Mr. Sullivan: Yes.

Q: Mr. Secretary, can you tell us what this contract covers?

Mr. Sullivan: No.

H.M.Jr.: No.

Q: Is that different? I know the Procurement Division and others make public, every now and then, make public contracts for airplanes and plane parts, etc. I realize the Treasury is backing into this in a different way.

H.M.Jr.: This is a contract between the War Department and Colt.

Q: Is it a war secret so we can't learn?

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- A: I wouldn't want to say anything other than it is War Department's business.
- Q: I might have misunderstood you, I thought you said ten per cent on boats, or did you say bolts?
- Mr. Sullivan: The question was asked what percentage of profit was it on Vinson-Trammell?
- Q: Ten per cent on what?
- You said it was twelve percent in this case. Colts doesn't build airplanes, or could it be - - ?
- H.M.Jr.: What shall we do? Play twenty questions? He's had three.
- Q: When the War Department, or Navy Department as the case may be, makes their estimate as to what the depreciation allowance may be - - ?
- Mr. Sullivan: They certify the necessity of additional facilities and the degree of depreciation they expect will occur under the life of the contract.
- Q: And that is based under the company's estimates?
- Mr. Sullivan: No, when representations are made to us by the company and we base our closing agreement on the representations made to us by the company provided they are in line with the certification by the Navy Department.
- Q: If they don't run along, do you take the Navy Department's figures?
- Mr. Sullivan: We have never had to.

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- Q: This raises a question, it seems to me there was something that the War Department was going to be kindly disposed to munitions manufacturers. Adding that up, wouldn't it mean that the War Department would certify to an extremely short life for equipment of this kind, giving a considerable concession in that respect?
- H.M.Jr.: I think the answer is if we felt the certification of the Army or Navy was unreasonable we wouldn't accept it.
- Q: What I am trying to get at is you want the impression to get out very definitely that there is nothing being given in this closing agreement that would not be given in an ordinary peace-time contract.
- A: Definitely, or anybody else. There is nothing—I am trying to use the words get over—there is nothing in any of these contracts that can't stand the light of publicity.
- Q: Although that factor would indicate the War Department might be disposed to speed up depreciation?
- A: The final responsibility is the Treasury's and we have to be satisfied whatever the War Department or Navy certify is reasonable and comes within the spirit of the intent of Congress. If it doesn't come within the intent of Congress we wouldn't accept it and, as I said last week, we turned down a big contract which had been certified.

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- Q: Was it DuPonts? There were some stories about DuPont. War Department, Mr. Secretary?
- A: I am not going to say.
- Q: Can you say, Mr. Secretary, for what period this contract runs?
- A: I don't know, but I just answered the question that we don't take everything they give us; we turned one down.
- Q: Which had been certified by the War Department?
- A: Which had been certified by one of the two departments.
- Q: Mr. Secretary, was this a proposed closing agreement that you turned down? You said you turned down a contract.
- A: This was a certification which one of the two departments made to us.
- Q: Of similar nature to this?
- A: Along the same lines.
- Q: For a closing agreement?
- A: For a closing agreement and we were not satisfied and we turned it down.
- Q: Mr. Secretary, can I return to ask some peacetime questions now?
- A: Yes.
- Q: Has Mr. Crowley notified you that he is going to resign from the FDIC?

A: I go off the record and Gene can tell me—Mr. Crowley wrote me a very nice letter in which he said before he did anything he would like to talk to me about it. Is that on the record or off the record?

Mr. Duffield: Since he doesn't owe any responsibility to you - . . .

Q: He's over at the White House now.

H.M.Jr.: And he was over here Saturday, so I don't know whether that is important or not, is it?

Mr. Duffield: It isn't important because, after all, he doesn't have to resign to you.

H.M.Jr.: I had a very nice letter from Mr. Crowley about his proposed new work.

Q: In the event he does resign and the President doesn't immediately name his successor, Mr. DeLano would be the official head over there.

A: That's what the paper said; I don't know.

Q: Wilcox or somebody looked it up in the law.

A: It must be so.

Q: Our legal department.

A: Gene will look it up.

Q: Getting back to this contract, do you know whether Colt manufactures machine guns or not? (Laughter)

A: All right, what else?

Q: Water pistols.

Q: Thank you, Mr. Secretary.

Mr. Foley

September 5, 1940.

Mr. Aales

On September 15, 1939 a press release was issued by the Treasury Department (Press Service No. 18-79) which announced that the Secretary had informed the Secretary of War and the Acting Secretary of the Navy of his willingness to negotiate closing agreements with contractors who enlarged their facilities in order to meet army and navy needs under which the Treasury at the time the contract was signed would agree "on the basis of the facts in each particular case to allow a fixed percentage of reasonable cost to be charged when the profits were computed under the Vinson-Trammell Act."

On September 15, 1939 you designated me a member of the Departmental Committee for the administration of the profit-limiting provisions of the Vinson-Trammell Act and the National Defense Act, and thereafter I attended numerous conferences in the Bureau of Internal Revenue and in the Treasury Department concerning the enforcement of the Acts.

On the morning of November 24 I attended a conference in Under Secretary Hanes' office at which you and Mr. Sullivan were also present. During the conference which concerned requests from several aircraft companies for closing agreements Mr. Hanes exhibited a photostat copy of a memorandum from the President to the Secretary of the Treasury dated November 9, 1939 which directed the Secretary "to work out a policy of depreciation allowance by which the abnormal investment in plant expansion that will be required of the airplane motors manufacturers will be absorbed over the life of the contracts or during the emergency period" and in which the Secretary was "further directed to consult with the appropriate committees of the Congress for the purpose of devising a permanent program whereby the facilities thus created will become

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a permanent part of the national defense." At that conference Mr. Hanes requested Mr. Sullivan, who was then Acting Commissioner of Internal Revenue to indicate the extent to which closing agreements might be used to expedite the erection of additional plants to further our own national defense program and to make additional equipment available to foreign governments.

During the afternoon of November 24 I attended a conference in Mr. Sullivan's office in the Bureau of Internal Revenue at which there were also present Mr. Laughlin Currie, Administrative Assistant to the President, who attended as an observer, and Messrs. Burrus, Reiling and Appel of the Internal Revenue Bureau.

On November 25, 1939 a memorandum was submitted by Mr. Sullivan to Mr. Hanes which stated that the problem involved in the President's memorandum might be more effectively approached by revised regulations relating to obsolescence than by any attempt to expand the functions of a closing agreement because "under the present state of the law the Internal Revenue Bureau cannot give to a taxpayer in a closing agreement any right or privilege he would not enjoy eventually as a matter of law."

On the morning of November 28, 1939 I attended another conference in Mr. Hanes' office at which Mr. Sullivan and Mr. Wenchel were present. Mr. Hanes said that he thought the memorandum of November 25 was "a fine statement", that he did not think we should enter into any closing agreement allowing munitions makers depreciation and obsolescence deductions "without the approval in each specific case of the President" and that in so far as the Vinson-Trammel Act was concerned we might "clarify the regulations relating to obsolescence".

Mr. Hanes asked Mr. Sullivan to bring everything he had on Consolidated Aircraft to a meeting the following day to be held at the office of the Secretary, and in this connection he said that he understood that

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Consolidated had not been able to obtain funds to finance plant expansion.

At the conference in the Secretary's office on November 29, 1939 the Secretary asked that the problem of assisting the Army and Navy in the establishment of additional facilities in private industries to expedite the national defense problem be reconsidered anew.

On November 30, 1939 Mr. Hanes submitted to the Secretary a memorandum concluding that Congressional action was required and that Congress could solve the problem by:

- "1. A direct appropriation to the Army and to the Navy for the construction or procurement of all types of additional facilities to lend or to lease to the private industry, or by
- "2. A statute authorizing the Treasury Department to permit special deductions to well defined classes of manufacturers by definite standard and procedure outlined in the statute."

The memorandum ended with an example of such a statute which closely approximates the proposed amortization deduction in the Excess Profits Tax bill now pending before the Congress.

On December 1, 1939 the Secretary took a memorandum for the President which was prepared by Mr. Sullivan and myself, and which you approved, to the Cabinet meeting which stated that the Treasury had considered the problem of plant expansion for national defense and had decided that "only the Congress can solve this problem". The memorandum also recommended that any such action "ought to be initiated by the War and Navy Departments since it is a part of the national defense program, and stated that the Secretary would be "happy to cooperate". For your

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information a copy of this memorandum is attached. I was told that the President read the memorandum aloud at the Cabinet meeting.

On December 2 I prepared a memorandum developing in detail the scope of the Treasury's authority to assist in the program for national defense by exercising powers conferred upon it by the Internal Revenue laws and summarized the applicable laws and regulations in respect of (a) closing agreements; (b) obsolescence allowances, and (c) remedies of taxpayers.

On December 11 I prepared drafts of identical letters to the Secretary of War and to the Secretary of the Navy which stated that as a result of the recent conference between the Secretary of the Treasury, the Secretary of War and the Secretary of the Navy, it had occurred to the Secretary of the Treasury that it might be helpful to outline the scope of the Treasury's authority to assist in the national defense program, and accordingly the Secretary was sending to the War Department and the Navy Department a memorandum from his General Counsel summarizing the applicable laws and regulations. To each of these letters was attached a mimeographed copy of the memorandum of December 2 which had been slightly revised and redated December 12, 1939.

On the same day you submitted to the Secretary a draft of a memorandum for the President which attached a copy of the letter to the Secretaries of War and Navy and also mimeographed copies of your memorandum. In this draft of memorandum for the signature of the Secretary it is stated that the only real solution of the problem facing the War and Navy Departments is:

- "(1) By erecting plants similar to the 'shadow factories' in Great Britain and leasing such plants to private industry and by expanding existing Navy Yard and Arsenal facilities; or

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"(2) By constructing or financing the construction of such plants as part of a Federal Public Works program under the Federal Works Agency."

On December 20, 1939 Dr. Viner prepared a very lengthy memorandum in which he stated that your draft of memorandum to the President and draft of letters to the Secretaries of War and Navy Departments should be redrafted.

On June 19, 1940 Dr. Viner's memorandum was received in the General Counsel's office.

On June 20 you addressed a memorandum to the Secretary in which you stated that your memorandum of December 12 was simply intended to discuss and explain the Treasury's present powers and that this had been done accurately from a legal standpoint and you concluded:

"Dr. Viner's unwillingness to accept, as an economist, my interpretation of the law and regulations merely reflects his predilection as an economist that the law and regulations, not my interpretation of them, are wrong. In other words, Dr. Viner's memorandum fails to distinguish between what is the law and what he would like it to be."

White

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Sept. 9, 1940

Outline for Speech on Financial Program for Preparedness

1. The financial magnitude of the defense program.
2. How to finance this program.

Our alternatives, guns versus butter, or guns and butter.

- a. Curtailing of the government expenditures. This means curtailing consumption and financing the defense program out of a national income of more or less the same level as the present.
- b. Draconian tax measures to raise revenue for meeting all additional expenditures.
- c. Increasing defense expenditures without curtailing other essential expenditures, and increasing taxes to meet the entire carrying cost of the increased defense expenditures.

3. Why is (c) the best available course?

- a. Our situation different from that of other countries.
- b. Our debt structure is in an excellent condition.
- c. We can have a rising national income in terms both of defense and non-defense goods and services.
- d. With a higher national income our tax receipts will increase, and appropriate new taxes imposed.
- e. Our debt burden. Our price and currency situation. No danger of inflation.

4. Our fiscal policy will be democratic

- a. The burden of sacrifice must be equitable. We must defend democracy by strengthening internal security.

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- b. No under-privileged groups will be called upon to make further sacrifices. No groups already hard hit by the war will be further penalized.
 - c. The distribution of sacrifice will be equitable both as between different sectors of the population, and as between the present and the future.
 - d. Our borrowings will be at as low a rate as possible and the privilege of tax-exemption will be abolished.
 - e. We shall avoid excessive dislocations of our economy and where they cannot be avoided keep them to a minimum. We have not forgotten the lessons of the last war.
5. Our democratic fiscal policy will strengthen democracy at home and contribute to the program of invulnerability to attacks from abroad.

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SPECIAL BULLETIN

Oct. 12, 1940

LATEST ELECTION QUOTATIONS:

Roosevelt to be re-elected 2 to 1
New York Roosevelt 6 to 5
New York Mead for Senator 9 to 5
New Jersey Roosevelt 13 to 10
New Jersey Edison for Gov 6 to 5
Penn Willkie 6 to 5
Ill Roosevelt 6 to 5
Iowa Roosevelt 7 to 5
Wisc Willkie 7 to 5
Mass & Conn Willkie 7 to 5
Calif Roosevelt 9 to 5

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July 14, 1939

Conference with Navy Department representatives to work out method to step up armor production of three steel companies to meet Navy's battleship building program.

July 17, 1939

Second conference with Navy Department representatives.

July 17, 1939

Lunch with the President. Attached is memorandum to President that Treasury is doing everything possible to help Navy accomplish its purposes.

July 26, 1939

HM, Jr saw the President. Asked for clearance on "Policy and Purpose of Act". "It is hereby declared that it is the policy and purpose of Congress that through this Act the competitive system of private enterprise for profit shall be maintained and encouraged and that wherever practicable no loan or expenditure shall be made under this Act for any work, project, or undertaking in a field now adequately supplied by existing competitive private enterprise or by existing non-competitive enterprise at reasonable prices." President said all right to give to Barkley if necessary.

Sept. 11, 1939

HM, Jr reported to the President what the Treasury had done to help the Navy and is now working with Army on Allison engine. HM, Jr expects to announce publicly what he has done for Navy.

Sept. 18, 1939

Told the President he had been misinformed by Edison and that he, HM, Jr had therefore misinformed the President, namely, that Navy had come to an understanding with the armament people.

Sept. 18, 1939

Press release by Treasury announcing formula to facilitate operations under Army or Navy contracts which are subject to Vinson-Trammell Act.

October 3, 1939

Lunch with the President. Let the President read Hanes' letter to HM Jr and President remarked, "All that Hanes says is don't let's put on any extra taxes until we have a war. I don't want any war, but I do want to tax the people who are making excess profits." The President then read HM Jr's letter to Hanes and likes it. HM Jr said he was fearful if he gave the letter to Hanes that some of his conservative friends would hear about it and "we had better hold our fire."

November 9, 1939

Hanes' memo to President in which the latter directed HM Jr to work out a policy of depreciation allowance by which the abnormal investment in plant expansion required by airplane manufacturers would be absorbed over the life of the contracts or during the emergency period.

Attached also is Hanes' memo to the files of his conference with Mr. Louis Johnson, Mr. Noble, Admiral Stark, Admiral Towers and Admiral Furlong, Colonels Byrnes, Rutherford and Schultz, General Arnold, and Mr. Green of State Dept.

November 9, 1939

Conference with the President between HM Jr and Hanes. President signed attached memorandum of instructions to work out policy of depreciation allowance with airplane manufacturers in order to induce them to increase their production by 6000 motors per year.

November 9, 1939

Press conference - HM Jr said in connection with Mead's new bill for loans to small business-men, "That doesn't take care of the fellow that has an order and wants to add to his plant and wants a loan of from 5 to 10 yrs. That's the great trouble because he can't add to a plant and write it off and pay it back in five years unless he makes exorbitant profits."

November 20, 1939

Press conference - HM Jr said, "Nobody in the Treasury has brought me any tax program in the Treasury this fall, beginning with Mr. Hanes and going all down the line."

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- November 29, 1939 HM, Jr's letter to Senator Tobey assuring him that closing agreement procedure referred to in Treasury's press release does not give him any right or privilege he would not enjoy eventually as a matter of law.
- November 29, 1939 Conference in HM, Jr's office of Treasury tax officials to discuss the November 9 memorandum initialed by the President. HM, Jr disturbed as a result of the discussion on Treasury's closing agreement policy and Hanes said, "You are perfectly safe on what you agreed to." Attached is Sullivan's memo to Mr. Hanes of 11/25. Draft of 11/30 not approved by HM, Jr
- November 30, 1939 Memorandum presented to President at Cabinet by HM, Jr and read out loud by President. Conclusions of the memorandum are "So far as jigs, dies, tools * * are concerned, the Treasury is today able to execute closing agreement. Problem of obsolescence is a different problem and Treasury does not believe it can solve it. Recommends Congressional action which should be initiated by War and Navy Departments.
- December 4, 1939 Copies of the memorandum referred to 11/30 were sent to Secretaries of War and Navy.
- December 4, 1939 Treasury announced closing agreement with Colt Patent Fire Arms Manufacturing Company. At his press conference HM, Jr said "To make it perfectly clear, we are certainly not going to give advantages to anybody who is making munitions rather than peacetime materials. If it were left to me, I would give the peacetime manufacturer a break over the war manufacturer".

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- December 6, 1939 Conference in HM, Jr's office with Treas tax experts, Edison, McLaine, Admiral Furlong and Capt. Kraus, Mr. Speer to disclose closing agreement with Electric Boat Company, and Consolidated Aircraft.
- December 6, 1939 Memorandum to President advising of above conference and suggested methods to solve the problem facing the War and Navy Departments and closes with the statement, "It is my considered opinion that it would be far better to spend millions for defense than to use the tax laws to subsidize private munitions makers."
- December 7, 1939 Meeting of Foley, Currie, Kades and Sullivan to acquaint HM, Jr with what went on in the conferences with Navy.
- December 7, 1939 Memorandum outlining the discussions at the Bureau of Internal Revenue with Navy representatives and Major Fleet of Consolidated.
- December 9, 1940 Woodring acknowledged receipt of HM, Jr's letter of December 4 forwarding a copy of HM, Jr's memo to President of December 1 and says "The matter will receive further consideration of the War Department and I shall be glad to consult with you again should it appear necessary".
- December 20, 1939 Viner's memorandum "Allowances for 'Extraordinary' Obsolescence".

1940

- May 20, 1940 HM, Jr's sends memorandum to the President for his signature, addressed to the Secretary of War, advising the latter that Treasury will be glad to cooperate in preparation of a revision of Vinson-Trammell Act.

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~~May 20, 1940~~~~HM, Jr's memo to President~~

May 21, 1940

HM, Jr's memo to Pres inclosing Treasury's objections to HR 9822, A Bill to Expedite Naval Ship Building and For Other Purposes. Legislation is "unnecessary, undesirable and definitely objectionable".

May 21 1940

Foley's memorandum to HM, Jr which says the Bill would "effectively sabotage the provision of the Vinson-Trammell Act insofar as Treasury control is concerned.

September 19, 1940

Sullivan's memorandum giving the history of the memorandum prepared by Hanes on November 9, 1939 and subsequent developments.

October 13, 1940

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EXCERPTS FROM PRESS CONFERENCES

November 9, 1939

In connection with Senator Mead's new bill for loans to small businessmen, HM, Jr said, "That doesn't take care of the fellow that has an order and wants to add to his plant and wants a loan of from five to ten years. That is the great trouble because he can't add to a plant and write it off and pay it back in five years unless he makes exorbitant profits."

November 20, 1939

"Nobody in the Treasury has brought me any tax program in the Treasury this fall, beginning with Mr. Hanes and going on down the line."

December 4, 1939

"To make it perfectly clear, we are certainly not going to give advantages to anybody who is making munitions rather than peacetime materials. If it were left to me, I would give the peacetime manufacturer a break over the war manufacturer."

February 1, 1940

On question of plant expansion, HM, Jr said, "They have had a session with Mr. Sullivan and Mr. Sullivan has explained to them what we can or cannot do for them and they never knew that before. ** "

February 5, 1940

"And the interesting thing to me as Secretary of the Treasury is that in all three instances, Martin, Curtiss, and Pratt Whitney, they went ahead without asking the Treasury Department anything, perfectly satisfied that the Treasury would give them a fair ruling on their plant expansion. I am also very much impressed with the fact that when there is business the American business man does go ahead, does expand, provided he's got the orders."

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February 8, 1940

"The way I feel about profits, whether domestic or foreign, on munitions orders, I think the man is entitled to a reasonable profit but not an excessive profit and I think the Vinson-Trammell Act is excellent and I would like to see it carried out. In other words, we have no discretionary power so far as profits go, but I am absolutely opposed to excessive profits out of the manufacture of munitions of war."

"As I said some months ago, we certainly aren't going to give the manufacturer of munitions who has a contract with the Army or Navy a more favorable ruling on depreciation than we would a manufacturer who is ~~working~~ making rubber boots."

February 26, 1940

"What I told you gentlemen I am glad to repeat again. Any taxes levied by Congress and which the Treasury administers on American manufacturers will not be administered any differently, certainly, for a man manufacturing munitions of war than a man manufacturing peacetime. Now we won't be any more lenient or ~~stiff~~ stiffer. He gets exactly the same kind of treatment ***" ** No, and the American manufacturers whom I actually visited, the head or general manager, I asked them the particular question whether the tax laws were impeding him in his program of production of airplanes or engines and not in a single case did they tell me the airplane tax laws were impeding them."

Sunday, October 13, 1940

3:45 p. m.

Present:

Mr. Sullivan
Mr. Gaston
Mr. Foley
Mr. Helvering
Mr. Kades
Mr. Bell
Mr. Currie
Mr. Lowell Mellett
Mrs. Klotz

HM Jr: I just got through talking with the President and I said that I was a fire horse; I smelled smoke. He said, "You know, I am an honorary fireman." So I said, "I am a volunteer fireman."

I said to my wife the chances are the President is going to give me a statement which, like castor oil, I will not like but I will have to swallow. He said, "Now, Henry, things are going so nicely. Now no mud throwing, and I have even got Harold Ickes pulling his punches." He said, "Just take it easy now and we will let Sullivan or Foley make it." I said, "I want to make it." He said, "No, no. Things are going too nicely. Let somebody else do it. You write out 300 hundred words and read it to me over the phone at six o'clock, but just take it easy."

So I guess the Ohio trip was good. I said, "Well, you're running for office. I'm just down here to be helpful." Oh, incidentally, the most important thing which he said was, "What is it all about?" And I said, "Hanes has been telling four columnists, and now he has a fifth columnist to say it publicly that he went to see you some time in December about permitting corporations to write off profits and you said okay. The

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President said, "I never said such a thing. I told him to ahead and make a study." He said, "I remember it very well." So I guess neither he nor Mr. Mellett read it in the papers today.

Sullivan, go ahead. You made this whole study or Kades did. What's the story?

Sullivan: In November we had a conference with Mr. Hanes, Mr. Foley and Mr. Kades, and Foley and I were there with him. He showed us a photostatic copy . . .

HM Jr: Who did?

Sullivan: Mr. Hanes - the President had initialled.

Foley: That was the November 9th memo.

Sullivan: That's right, dated November 9th. And that directed you as Secretary to try to work out a policy of depreciation allowances by which this abnormal investment could be written off over the life of the contracts or during the emergency period; and at that time Mr. Hanes asked us to furnish him with a memorandum indicating how far we could go to effectuate that through closing agreements. He still had the idea at that time that there was something magic about closing agreements, and you could bestow immunities on a taxpayer through a closing agreement that you could not bring about by ordinary operations of the tax law.

After that conference, Mr. Kades, Mr. Currie, Mr. Burrus, Mr. Appel and Mr. Ryland and I went over in the Internal Revenue Bureau, and we drafted a memorandum which we submitted to Mr. Hanes. And in that memo we said that we did not think that there should be any attempt to expand the function of a closing agreement, and the only possible approach was by revising our regulations on obsolescence.

Then on the 28th of November, Mr. Hanes had a conference which was attended by Mr. Kades, Mr. Wenchel and myself, approved the memorandum we had prepared and suggested that we might try to clarify

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the regulations relating to obsolescence insofar as they affected the contracts under the Vinson-Trammell Act. And then he asked me to bring over everything I had on Consolidated Aircraft contract the following day at a meeting to be held with you. I think you had been away and had just gotten back.

Bell: That's right. You left about the tenth.

Sullivan: I think that meeting was the 29th, and at that time a new memo was submitted to you in which it was suggested that there only two ways to solve the problem: (1) By having the Congress directly appropriate to the Army and Navy funds for constructing new facilities, and the other was a statute similar to the one just enacted authorizing the Treasury Department to grant special amortization. And you disapproved the latter part of that memo, and then Mr. Kades and I drew a new one which was approved by Mr. Foley, and I think on the first of December you took that over to the Cabinet meeting and submitted it over there. After that Mr. Kades prepared a memo developing in some detail, for the benefit of the War and Navy Departments, the procedure and just how far we could go. And those were forwarded to the Secretary of War and the Secretary of the Navy.

Foley: No, no. That was what you gave Jake Viner, and Jake criticized it, and I never knew Jake's criticisms until the following June when you gave me, out of your files, the criticisms and I replied to the memo. But in the meantime the letters to the Secretaries of War and Navy were held up, and that memo never went out of the Treasury.

Sullivan: That's news to me. I thought that had gone.

Foley: No, that did not go.

HM Jr: All right.

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"On December 11," (reading from Sullivan's memo dated September 19th)

In this thing here that Drew Pearson and Allen - let me see. What does Willkie say?

(At this point Miss Chauncey left the room and when she returned Mr. Gaston was reading from his first draft.)

HM Jr: I think it is a very good statement.

Gaston: But could be cut down.

HM Jr: Have you read it?

Mellett: Yes. It's a good statement. It's 700 or 800 words. Were you going to insist on making the statement yourself?

HM Jr: I want to make it. That kind of statement can only be made by me. It's a personal attack. The President had not read it but when I called up the President, he said, "You want to throw mud. I have even got Harold Ickes pulling his punches." He said, "Henry, things are going too well. I want either Foley or Sullivan to make a statement." Then he said, "If you are going to call him a liar, take a long paragraph to do it but not more than 300 words." What do you think of it?

Currie: I think it's very good. Same comment as the others - too long. If you could shorten it and work in the other thought that this has not delayed defense.

Mellett: There hasn't been any delay.

Currie: I think we can include that within three months \$8,000,000,000 in contracts were awarded, which is unprecedented in this country or any other country; that within 21 days back in July we gave out a contract for powder making, and it was 7 months

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after we were in the World War before we made any powder contracts. Knudsen on the radio said he could not ask for better cooperation between the Government and the White House.

HM Jr: This is November - I think in November, 1939, whatever appropriations that they had passed, I think most of them were let, but I don't know what they were. Any way of finding out?

Bell: I am getting some figures upstairs as to what the obligations were. We discussed it in there and Foley thought our record was good enough to make a statement. I have got Colonel Burns in my office and Commander Riggs at home waiting for me. They have nothing with them and they would have to go back to the Department if we want the kind of contracts.

HM Jr: No. What the obligations were.

Bell: That's involved in the obligation but that is not all the obligation, obligations for pay rolls and things of that kind.

HM Jr: What is the most honest figure to use as of November 1st?

Bell: I should think you could take obligations of that kind, that were the monthly amount that would ordinarily run, you could say there was no delay.

HM Jr: But you could not get a percentage of what the total obligations were on . . .

Bell: Probably could. Colonel Burns said there wasn't any delay. There may have been some delay in some airplane contracts, but the thing was so nebulous, he couldn't really make much out of it on the charge of delay.

HM Jr: The figure I want is percentage of contracts let November 1 for the fiscal year.

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Bell: The only things our figures would show are total appropriations available and obligations incurred up to November 1.

HM Jr: Yes. Take a look at it.

(Mr. Bell left the office.)

Foley: There is one thing that Willkie makes a point of, and that is tying the special treatment for amortization and the repeal of the Vinson-Trammel Act up with the cumbersome excess profits tax, and you have Knudsen's testimony if you want to use it.

(Mr. Foley read the testimony of Mr. Knudsen and Congressman Treadway's questioning of him.)

HM Jr: Well, I think it has been the unwritten policy not to drag any of these defense fellows into these controversies.

Gaston: That's right.

HM Jr: That all would be good for rebuttal. I think this is all right if it could be edited down. I thought that whole part about Hanes could be left out.

Gaston: Yes.

Sullivan: We didn't even give the name of the company at the press conference.

Gaston: Yes, we did. I got it out of the press notes.

Helvering: We asked their consent before we made it public.

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HM Jr: How will you fellows work - you want to work in Gaston's office?

Mellet: If you leave it to me, it will be less than 300 words.

(Mr. Mellett and Mr. Gaston left the Secretary's office to revise the draft.)

Helvering: The basic principle was you were not jumping out to give special privileges to these fellows to get them to do defense work; undue privilege.

HM Jr: Terribly funny for me. I was afraid the President would go so far and I would have to gulp, put my name to what he wanted me to say. After all, I told my wife, "Whatever he wants me to say, I will say it no matter how personal or vituperative it is." "Oh, just take it easy." I thought he would use it to open up the whole tax question. In talking with him he said, "I have signed the tax bill. That's over. Don't let's open it up again." Gee, you never know, do you?

Foley: I had it figured out the other way. I thought you were mad; I thought you were the fellow who wanted to throw the stuff.

HM Jr: That's the point. I do want to throw it. The President said, "You want to throw mud." The President said, "I don't want you to do it." I said, "You're the fellow who is running for office."

Sullivan: It's apparent they waited until the President signed the tax bill. They threw in the line, "This must have been necessary because the President approved the bill."

HM Jr: I got myself all worked up since 8:15 this morning to go to town.

I think just the same Sullivan and Foley's people should brief this thing - make a lawyers' brief out of this because I think they will come back at us, don't you?

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Currie: I don't know if Lowell works in the point of supporting the Overton amendment. He is very definitely on the defense there, and I think he will leave it alone.

HM Jr: When he went at Cordell Hull on the trade treaty, Cordell Hull hit him on the chin and he has left Cordell alone.

This is a little different from what you (Helvering) were asking me to do two days ago. I am terribly disappointed.

I still think that beginning tomorrow . . .

Foley: We will do it.

HM Jr: Let me ask you (Currie) something. After the President signed this memo of Hanes, do you remember just when you were brought into the thing - when did he begin to worry about you?

Currie: Just a few days after. You were in Arizona, and I think he was a little uneasy, and he said, "The Secretary is away. I wish you would look into this depreciation thing for me." He didn't mention Hanes' memo or any other memo. I only found that out when I came over here.

Foley: Our records show when you first came over.

Currie: I have no authority for it but I assumed since you were away and Johnny had cooked this up with Louis Johnson, he just wanted me to find out what it was all about.

Foley: He thought there was an awful lack of appreciation of our problems. He thought if we could explain obsolescence and depreciation and operation of Vinson-Trammell, and how the thing applies to a particular contract it would be very, very helpful.

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And it was with that in mind that we developed those memoranda that never went out. That was Lauch's conclusion.

Currie: I think it would strengthen your position because you have already explained to the Army and Navy all the available . . .

Foley: Your record is fine. What Lauch is suggesting is over and above what ordinarily you would do . . .

Currie: And I think you could have made a stronger case for yourself if you had not said "slight relief under existing laws."

HM Jr: You mean I minimized?

Currie: Yes. He threw it over on the question of legislation.

HM Jr: Of course, the thing I would love would be to get Willkie in a position where he would say he is pleading profits for munitions makers.

Foley: Yes. He said armament.

HM Jr: If we could get him in a position of pleading special privilege for munition makers. What is his position on the draft?

Foley: He was okay in drafting men - said the draft was the only democratic form of recruiting an army because you had to take over all classes, but he said he was against drafting plants - that the government just didn't have any business to operate these plants.

Currie: That it was Sovietism.

Foley: He was for drafting man power but not industries, and as soon as he said that he realized he had slipped badly, and he tried to extricate himself

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from the mudhole. And he said he had been misunderstood and tried to clarify what he had said, and he said under certain circumstances he thought it was all right but those circumstances should be . . .

HM Jr: Do you suppose anybody we could get, if we showed them the documents, any columnist who has a fairly wide circulation, would print something?

Foley: I think Bob Allen would.

HM Jr: But they ran one.

Foley: I don't think they ever had the whole story.

HM Jr: I was thinking about Dorothy Thompson. She has talked a lot about this, and she has been wrong all the time. She has been on the tax thing two or three times and she has been consistently wrong.

Foley: She said nothing in her column would throw any slurs or mud against Mr. Willkie. I don't know whether she wants to get into a controversy.

HM Jr: How many people take Pearson and Allen?

Foley: About 250. They have a bigger circulation than Alsop and Kintner. They cover about 105 now.

HM Jr: I think they would take it especially in view of the fact that . . .

Foley: I know how Drew feels on this thing and Bob feels the same way. They might be much more willing to be militant and nasty than any of the other columnists. They get personal.

HM Jr: Especially if they were imposed upon in the other column.

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Foley: I think Drew would like to go to town on Johnny's betrayal.

HM Jr: Inasmuch as Johnny sold them a bill of goods, I think they would like to come back. But remember - it's Willkie who is running for President; Johnny is just running for Secretary of the Treasury.

Currie: I think you ought to make your reply a double-barrel one, not only that you protected the taxpayers' interest, but you did not delay the defense program.

Foley: You recommended legislation.

Currie: The actual record is pretty good.

HM Jr: You think that should be in the statement? I wonder if those boys have that.

Foley: Chuck points out everything we are emphasizing is good for the latter part of 1939 and the entire year now of 1940 but what he is trying to do is to go back before that and tie in with Admiral Furlong's memorandum.

Currie: The speed of this program is such as we have never had before. None of the great countries have had it and it's ridiculous to talk about retarding the national defense program.

HM Jr: We are trying to be both fair and also that the program has been speeded. Of course, the best illustration is one sentence. In the last World War we never got a Liberty motor in the air and now they are turning out . . .

Foley: 83 or 85 Allison's . . .

HM Jr: . . . 8 or 10 a day.

Kades: What I had in mind is to give them a possible opening to say that it was not until you were ready to recommend amortization reduction that the program was speeded up. But all the figures that Lauch will use is after that.

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Currie: Oh, no.

Kades: But compared with 8 billion they look like peanuts.

HM Jr: It's all relevant.

Sullivan: That's right and it's very difficult for the man in the street to put himself back in the atmosphere that prevailed fifteen months ago.

Currie: Don't mention figures. Just say all the figures authorized by Congress are obligated as rapidly as they became available.

HM Jr: I will walk back and remind them of your idea.

(The Secretary returned to the office with Mr. Gaston and Mr. Mellett and read the second draft. Before he started to read it Mr. Bell also returned.)

Bell: The War Department on October 31, 1939, had incurred obligations aggregating 45% of the money available at that time. Now the monthly appropriation would be 33-1/3%.

HM Jr: No good.

Bell: The Navy had 40% of its obligations . . .

HM Jr: No good - forget it. (Laughter)

Bell: I have talked to Colonel Burns. He said there was absolutely no delay in 1939. As far as the War Department is concerned you can forget it, but the only delay came after they got their big appropriations September 9.

HM Jr: Of this year?

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Bell: Of this year. If they had had the Vinson-Trammell and the amortization thing straightened out the chances are they would have had all airplane contracts and facilities contracts concluded by the end of September. They have the whole 18,000 airplanes under contract at the present time and they will have the facilities contracts completed within a week or ten days. That's the only delay that has accrued on the whole situation. They had a little delay on the first 4,000 planes in July and August, but when they hit upon a clause in the contracts to protect contractors against both the Vinson-Trammell and the amortization; in other words, they put in a provision that if these bills did not go through the contractors could cancel. After they got those clauses they had no trouble whatever.

HM Jr: That's something you may want to use later.

Currie: Dan, is that the total military and naval appropriation?

Bell: Yes.

Currie: That would be low, you see, Mr. Secretary; if you are confined to new aircraft it might be a lot better.

HM Jr: We haven't got it.

Schwarz: Reference might be made to the trips you made last winter. At every place you stopped you were told they had no complaints.

HM Jr: No, you can't do it in three hundred words. The thing I hope they come back at me is the whole contract business which would give me a chance to explain the difference between war purchasing now, particularly allied purchasing, as against when J. P. Morgan used to do it. If he attacks me he might say I gave so much time to allies but our own contracts suffered. If

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I could show directly between the English Government, no commissions, no this, no that. If he comes after me, we have a beautiful story on that compared to the previous one.

Schwarz: That would make votes because that's something the public can understand.

HM Jr: But in view of the way the President feels I don't think we ought to take the offensive because he does not want us to. On that I bow to him every time. If he has just come back from Pennsylvania and Ohio and said everything is lovely, what's the use? And given this, he can carry Kansas!

Helvering: I said with proper work we might be able to. They told us four years ago we could not and we did.

Currie: You know, Dan, if you had that separate figure pulled over for aviation, there might be an opportunity worked in at your press conference.

Bell: We can get that. Colonel Burns offered to go to his office to get the figures which have been submitted to the White House every Friday.

HM Jr: No, let the White House. No, this is a highly technical thing which Hanes started with Louis Johnson when Louis Johnson promised these fellows they could always get 12%. They wanted to make good on it with the airplane manufacturers.

Sullivan: They were guaranteed that under the law.

Foley: Get more than that.

HM Jr: I think what I actually said at that press conference is perfect. Be sure to have for me tomorrow for my four o'clock press conference the whole verbatim of what I said. "What did you say?" "Well, here, gentlemen, is the mimeographed copy of what I said.)

(Mr. Gaston returned with a draft.)

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HM Jr: What's the matter with that?

Mellett: It's all right. It might convey the feeling that you're sitting here being righteous as Hell, quarreling with the industrialists. You might be right, but maybe this is the time you ought to be more reasonable.

HM Jr: What do you think, Guy?

Helvering: I like that statement very much but I think you will have to fudge a little on the President's 300 words.

Gaston: You can take that paragraph and slip it into the short draft.

Mellett: I think the simple, unbothered statement is probably the better policy, little less bothered by Willkie.

HM Jr: Of course, that's more in the tone of what the President wants - no mud slinging. Which do you like?

Currie: I think if you could narrow the two, it would be even better because the actual charge against you is you slowed up the defense program.

Gaston: I like the second statement better - the short one.

Mellett: I still like the short statement better. I think the longer one would be fine language in a speech.

HM Jr: Of course, I like the longer one but time is short.

Helvering: It could be used to advantage if he keeps it up.

HM Jr: Of course, I can ad lib at four o'clock tomorrow. In order to be perfectly fair with the boys, if you had this documented, the whole business, anybody can

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see the whole story.

Mellett: At your press conference tomorrow?

HM Jr: Yes. Say, "If anybody is interested in the background of this, it has been documented. Here it is." Rather than give it to one person.

Mellett: Planning to give this tonight for tomorrow morning's papers? You might give the afternoon papers something by having your press conference in the morning. You will have given the morning papers stories two days in succession.

HM Jr: Depending upon how they run it, maybe Chick can give them something tomorrow morning.

Schwarz: This statement tonight will prompt further interest.

HM Jr: What do you think, Lowell, of having the whole thing put together by Sullivan and Foley and then say to any newspaper man, "Here it is."

Foley: Let's see what happens, Mr. Secretary. If we are going to do that, I would be inclined just to take the files, just to show them the stuff in the files rather than summarize it for them because I think you . . .

Sullivan: I would vote against either way because no matter how you start off, you start off with the November 9 memorandum and you can't make it public because there is the President, on November 9, recommending something be done which was finally done late in September or October, 1940, special amortization. Now, why wasn't it done in less than 11 months?

HM Jr: The answer is very simple.

Sullivan: The answer is simple that the situation has entirely changed, but you have to explain something.

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HM Jr: He didn't want to give them something special on top of the Vinson-Trammell. When it was brought to his attention, he was told only half the story.

Sullivan: Why didn't he repeal the Vinson-Trammell?

HM Jr: Because he was trying to put through the excess profits tax.

Sullivan: I think you get into a discussion that doesn't get you anywhere.

HM Jr: Well, don't think that Hanes - he has that memo. What do you think, Lowell?

Mellett: I wouldn't encourage any more discussion of it than you can help.

HM Jr: Hanes thinks he has something. My position is that when Hanes went to see the President he only told him half the story, and no sooner had the President signed it than he saw he had made a mistake.

Foley: I would be inclined to wait and see what develops, and I would rather operate on them if we are going to do it through Pearson and Allen or someother column.

HM Jr: Doesn't that make the boys sore?

Schwarz: Let's see what further use Hanes might make of that situation. You put the President on the spot if you say he made a mistake by approving it.

HM Jr: Would you object to giving it to Pearson and Allen.

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Schwarz: I would rather see how much interest the others show. Pearson and Allen have something they want to correct because they were taken.

HM Jr: That would be the excuse.

Gaston: And Hanes is not running for President.

HM Jr: But this story, Johnson has used it and it keeps repeating and repeating itself.

Sullivan: Any story that goes out of here naming Hanes will carry more weight than any columnist could do.

Schwarz: It's very likely that coupling Mr. Willkie on the conscription thing, he may not like the material Mr. Hanes gave him and won't take any more.

(At this point HM Jr called the usher at the White House and got the information that the President was talking long distance to Franklin D. Roosevelt, Jr.)

HM Jr: He is talking to his son and then he wants to read the statement, so it will be a couple of minutes.

Mellett: I don't like to see the Treasury in a position where it has to take a column to explain. The explanation might be perfectly convincing to anybody who reads it and knows something about the subject, but it took the Treasury a column to explain something Mr. Willkie said.

HM Jr: If you don't mind, if the President okays this, etc., then I will see what kind of a press we get tomorrow and I will get in touch with you fellows tomorrow. I think I will just sit here and wait. His two minutes may be twenty-five.

Sunday, October 13, 1940

Upon HM, Jr's arrival at his office from the Farm, he telephoned the President at 4:10 p.m. in regard to answering Mr. Willkie's criticism of the Treasury.

The President said: "You must not throw any mud. Things are going too nicely. And have Foley say it." I said, "It would not be Foley. It would be Sullivan," and the President said, "That would be all right." He said, "I have even got Iokes pulling his punches." He said, "Things are going too nicely." He said, "Take at least a paragraph to spell out l-i-e."

I said, "I smell smoke. I am an old fire-horse," and he said, "I am an honorary fireman" and I said, "I am a volunteer one".

To sum up, he evidently does not want me to get into a rumpus with Willkie. I would have bet 5 to 1 the statement he would ask me to make would be so strong that I would be fearful and worried about making it.

October 13, 1940

First Draft

STATEMENT BY SECRETARY MORGENTHAU

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In a public address at Albany, N.Y., Saturday evening the Republican candidate for President ~~Wendell~~ sought to convey the impression that the Treasury Department had delayed the defense program by failing to show sufficient liberality toward holders or applicants for arms contracts. in its application of the tax laws.

He used the old device ~~of distorting~~ playing upon and attempting to distort the plain meaning of an isolated statement I made to a group of reporters at a press conference in my office on December 4, 1939. In so doing he revealed ~~clearly~~ his own attitude, which evidently is that ~~manufacturers of defense materials~~ ^{defense} it is not sufficient to assure contractors for defense materials of fair and reasonable profits, but that their co-operation ought to be bought by extortionately high profits and concessions outside the law.

I am frank to confess ~~that~~ that is not my attitude, that it never has been and never will be. I have continuously stood for a contract policy and a tax policy that will be fair to all participants in the ~~defense~~ defense program, workers as well as manufacturers. I am against concessions to contractors so great as to constitute an attempt to buy their patriotism, just as I am against relaxing the safeguards this administration has thrown about the workers ^{and doing what} on the ~~same~~ pretext that this policy will speed the defense program, which I do not believe.

The statement which Mr. Willkie correctly attributed to me ~~was this~~ and the question which elicited it are: ~~this~~

"Question: In other words, all the stories of tax concessions to war order manufacturers are out?"

"Answer: Completely. If it rested with me as to whether a fellow would get a 'break' because he had a munitions contract I am afraid he would fare rather badly."

Now I think there can't be any ~~question~~^{doubt} of the meaning of that in the light of the question. A 'break' means a special concession, a favor that the ordinary citizen and the ordinary contractor doesn't get. I am against all special favors in the application of the tax laws and I expect to continue to be. I know that such special favors to ~~benefit~~ rich and powerful taxpayers have been granted in the past, but they have not been granted by this Administration and while I am in my present office I will guarantee that they will not be granted. I have an obligation to the people of the United States to apply the tax laws without 'breaks' for anybody, rich or poor, (and a mandate from the President to the same effect; and I intend to be faithful to both trusts.

We get many applications for special favors, in the drafting of the tax laws as well as their application. There is one point of view which is that tax law and tax policy ought to be guided by the recommendations of those who come to the Treasury Department and to the Congress and express ~~their~~ their wishes most lucidly and most intelligibly and most forcibly. Too often that point of view beguiles those in responsible ~~post~~ positions. I have always held the view that while we should listen patiently and assay the value of all suggestions, we as representatives of the people have an obligation that we can't abdicate. Somebody must represent the voiceless mass of the people; and if the President, and I ~~as~~ Secretary of the Treasury, and the Senators and Representatives of the people don't do it, who will?

If Mr. Willkie had available an adequate report of my press conference of December 4, 1939, he evidently read it too hastily to learn the subject of discussion. The subject was the announcement that the Treasury had entered into a closing agreement with the Colts Firearms Company with respect to their taxability under a contract entered into with ~~the~~ one of the Defense Departments of the Government. The purpose of that closing agreement was to give forehand assurance to this company so that their contract with the government would return them a reasonable profit and would not be subject to uncertainty with respect to taxes. The amount of profit they stood to make was not in my hands. My job was to relieve them of tax fears, and to do it under existing law.

My object in revealing the facts about this closing agreement was ~~in-~~ two-fold. It was, first, to let all defense contract bidders know that they would have the same opportunity to clear up tax doubts; and, second, to let the people of the United States know that we were not dealing ⁱⁿ dark in these matters, and particularly to assure them that we were not granting any unlawful ~~tax breaks~~ "breaks" or concessions to defense contractors.

When I came into office the Treasury the law did not permit us to give any such prior assurance of tax liability as was represented in this closing agreement. The law which made it possible was a product of this Administration, and particularly of the genius of the late Herman Oliphant, general counsel of the Treasury until his death in January, 1939.

From the start ~~we~~ we have continuously given to defense contractors all and the fair and general application of our regulations the assurance that the law ~~permitted~~ us to give them. I do not believe that any bidder or any contractor has at any time faced the risk of loss because of

the Treasury's attitude toward taxes. Notwithstanding this we did, however, give our assent and support to a change in the law which would give greater flexibility in applying amortization provisions, so that all possible ~~tax~~ uncertainties might be removed.

I have not limited my activity with respect to the defense program to matters of taxation and I am perfectly willing that both my record and my attitude ^{with respect to defense} should be compared to those of Mr. Willkie or any ^{of his associates.} ~~person~~. I have not been interested in seeking partisan advantage out of it and I deplore the effect of statements which seek to substitute controversy for action and to raise doubts which cannot but have a harmful effect at this time when we ~~are~~ so much in need of unity to increase production and improve our defenses as rapidly as possible against the day when we may need them.

Handwritten: draft

Handwritten: October 13, 1940

An address ~~is~~ ^{made} Saturday evening by the Republican candidate for the Presidency ^{charges that the Treasury Department has delayed} ~~accuses me of delaying~~ the defense program through refusal to make tax concessions. The ~~statement~~ ^{assertion} is consistent with a recent statement by the same candidate which revealed that he was willing that young men should be conscripted to serve their country but ~~that~~ unwilling that ~~large~~ industry should be so conscripted, ^{if in any instance it became} when necessary.

The short answer is that the defense program is not being delayed, ^{and has not been delayed.} Never in our history has any national effort moved forward so fast, as can very readily be seen by an examination of the schedule of defense appropriations and contracts. ~~(Money can not be spent until it is appropriated.)~~

The candidate quotes a statement by me that I did not favor any special tax concessions or "breaks" in favor of munitions contractors. I have never favored any tax "breaks" for anybody outside the law. ^{That is absolutely correct} ^{Tax} favors have been granted to big corporations in the past, but not by this Administration. The Treasury ~~has~~ favored a change in the law which would give greater flexibility in writing off emergency investment and that change has been enacted in ~~the~~ law. That is very different from giving favors outside the law, which we have no ~~legal~~ ^{or disposition} right to do.

I recognize an obligation to serve not merely bidders on ^{munitions} ~~government~~ contracts and other big taxpayers who can ~~express~~ express themselves ~~freely~~ forcibly, but also the millions who can not speak with so clear a voice.

I am not interested in seeking partisan advantage out of the defense program and I deplore the effect of statements that serve to substitute ^{political} controversy for ~~the~~ unity of action ^{to} that we need build our defense ~~swiftly~~.

October 13, 1940

Third Draft

57

STATEMENT BY SECRETARY MORGENTHAU

An address Saturday evening by the Republican candidate for the Presidency charges that the Treasury Department has delayed the defense program through refusal to make tax concessions. The assertion is consistent with a recent statement by the same candidate which revealed that he was willing that young men should be conscripted to serve their country but unwilling that industry should be so conscripted, if in any instance it became necessary.

The short answer is that the defense program is, not being delayed, ^{and has not been delayed}. Never in our history has any national effort moved forward so fast, as can very readily be seen by an examination of the schedule of defense appropriations and contracts.

The candidate quotes a statement by me that I did not favor any special tax concessions or "breaks" in favor of munitions contractors. That is absolutely correct. I have never favored any tax "breaks" for anybody outside the law. Tax favors have been granted to big corporations in the past, but not by this Administration. The Treasury favored a change in the law which would give greater flexibility in writing off emergency investment and that change has been enacted into law. That is very different from giving favors outside the law, which we have no right or disposition to do.

- 2 -

I recognize an obligation to serve not merely bidders on munitions contracts and other big taxpayers who can express themselves forcibly, but also the millions who cannot speak with so clear a voice.

I am not interested in seeking partisan advantage out of the defense program and I deplore the effect of statements that serve to substitute political controversy for unity of action.

October 13, 1940

Final Draft -

STATEMENT BY SECRETARY MORGENTHAU

59

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The short answer is that the defense program is not being delayed and has not been delayed. Never in our history has any national effort moved forward so fast, as can very readily be seen by an examination of the schedule of defense appropriations and contracts.

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I am not interested in seeking partisan advantage out of the defense program and I deplore the effect of statements that serve to substitute political controversy for unity of action.

Sunday, October 13, 1940

6:10 p.m.

As soon as HM, Jr had finished his reply to Mr. Willkie, he sent a draft of the statement over to the President to read and the President called HM, Jr at 6:10 p.m., and the following is a record of their conversation:

President: The point of the matter, as I remember it, is that as a result of doing nothing at that time in the way of legislation, the Navy did get all of their contracts let immediately in spite of Admiral Furlong pointing out that the Navy had to have help from private manufacturers. What he was talking about was that if we engaged in a war or had a bigger program in 1938, they would have to build special plants. Actually they didn't have to build. They had plenty of space to carry out contracts in accordance with appropriations. Everybody knew there was no necessity of changing the law at that time, because special plants were not called for. That ran along until January, 1940.

At that time, between the Army and Navy, all private plant production capacity was picking up and didn't meet the needs of the new program. That didn't occur until July, 1940. Thereupon, as soon as we found new plants would have to be built, in July we asked Congress for it and it took Congress three months to do it.

HM, Jr: Do you want me to work that in? I am personally not familiar with it and I would like to talk to my group about it. If my group should decide not to use that suggestion, do you mind?

President: No, only use it if they think well of it.

* * *

The President suggested that the following be inserted in the third paragraph after the sentence reading "Tax favors have been granted to big corporations

-2-

"in the past, but not by this Administration":

As soon as it became obvious that the appropriations by the Congress would be so large as to call for additional plants, the Treasury immediately recommended a change in the law. That recommendation was in July 1940 and no delay prior to that time existed. This change enacted last week will give, "et cetera.

The other addition which the President suggested was inserting the words "and has not delayed" after the first sentence in the second paragraph so the sentence would read: "The short answer is that the defense program is not being delayed and has not been delayed."

The group decided not to use the President's first suggestion.

The statement as released to the press is attached.

TREASURY DEPARTMENT
Washington

63

FOR IMMEDIATE RELEASE
Sunday, October 13, 1940.

Press Service
No. 22-33

The following statement was made today by Secretary Morgenthau:

An address Saturday evening by the Republican candidate for the Presidency charges that the Treasury Department has delayed the defense program through refusal to make tax concessions. The assertion is consistent with a recent statement by the same candidate which revealed that he was willing that young men should be conscripted to serve their country but unwilling that industry should be so conscripted, if in any instance it became necessary.

The short answer is that the defense program is not being delayed and has not been delayed. Never in our history has any national effort moved forward so fast, as can very readily be seen by an examination of the schedule of defense appropriations and contracts.

The candidate quotes a statement by me that I did not favor any special tax concessions or "breaks" in favor of munitions contractors. That is absolutely correct. I have never favored any tax "breaks" for anybody outside the law. Tax favors have been granted to big corporations in the past, but not by this Administration. The Treasury favored a change in the law which would give greater flexibility in writing off emergency investment and that change has been enacted into law. That is very different from giving favors outside the law, which we have no right or disposition to do.

- 2 -

I recognize an obligation to serve not merely bidders on munitions contracts and other big taxpayers who can express themselves forcibly, but also the millions who cannot speak with so clear a voice.

I am not interested in seeking partisan advantage out of the defense program and I deplore the effect of statements that serve to substitute political controversy for unity of action.

-oOo-

October 17, 1940.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Schwarz *CS*

October 13, 1940 -- On an 11 P.M. broadcast over Station WMAL, the news announcer stated:

"Back in Washington, Secretary Morgenthau of the Treasury says that the national defense program is not being delayed and has never been delayed. Thus Mr. Morgenthau's answer to Wendell L. Willkie."

October 14, 1940 -- Several of the morning broadcasters made the same statement or read the opening paragraphs of the news service dispatches.

October 14, 1940
12:22 p.m.

James
Forrestal: You got down here earlier than you thought
you would.

H.M.Jr: I got down yesterday. I left the country
at 2 yesterday.

F: Did you?

H.M.Jr: I never know from day to day what I'm going
to do. I left there at 2. I had to come
back. I wanted to answer Willkie.

F: Oh, yeah, yeah. That was a good answer I
thought.

H.M.Jr: Did you see my answer?

F: Yeah, it was a very - you punctured just in
that one sentence - I thought it was very
effective when you said that you didn't
favor any special concessions or breaks.

H.M.Jr: You know, one of the things I wish you and Knox
would look into some time - Foley and Sullivan
can tell you all about it - and that is, in
this speech of Willkie's, he refers to
Admiral Furlong and we had lots of trouble
with that fellow.

F: Well, I'm just talking about that fellow
right now as a matter of fact.

H.M.Jr: And the President asked me to answer him.
I told the President last night, I said, I
can't answer him because I haven't got the
facts and I said I think that's up to the
Navy. But Furlong - I never liked the way
he acted with these contractors particularly
with the armor-plate fellows.

F: Well, I don't want to pre-judge anybody, but
frankly my fingers ~~my~~ fingers are somewhat
crossed.

- 2 -

- H.M.Jr: Well, I just thought I'd tell you for what it's worth.
- F: Well, I just agree with that all right.
- H.M.Jr: Tell me, when are you going to go out and see some of these plants?
- F: Well, Bob Patterson and I - he has to be in Schenectady tomorrow and I'm going to meet him in Hartford and cover the United in the Hartford plant and also in Stratford, the new plant, and then I'm going to come down - we're going to take a look at Grumman and Republic and
- H.M.Jr: Do you want the English to join you on any of this?
- F: Well, I was just going to talk to you - I'm making a study now of what stuff is being done in each of these plants to see how much the British are getting. I think most of theirs is at Curtiss in Buffalo but they have got some, I think, at United. After I get a look at what the division of production is as between Army, Navy and British, then we'll determine whether to have one of their fellows or not. Is Baker here now, Henry?
- H.M.Jr: Baker - I don't know, but if you want any of the British, would you let either me or Philip Young know?
- F: Yeah. Now who do you want to go from your shop?
- H.M.Jr: Well, I don't know - Philip Young or whoever he designates.
- F: Foley and Buckley make a good team.
- H.M.Jr: Yeah, it's all right but just, if you don't mind - I mean, Philip Young is the boy who I pin on big - is assistant nurse to the English.
- F: Yeah.

- 3 -

H.M.Jr: So anything on that - he watches that particular thing.

F: O. K., fine.

H.M.Jr: I call him my assistant nurse.

F: Right. That was a great speech of the President's Sunday night.

H.M.Jr: Wonderful.

F: Yeah. When he got those denunciations off I said, boy, that puts Mr. Willkie in the back row all right.

H.M.Jr: I kidded him yesterday about his bouquet he handed to the Italians.

F: Yeah.

H.M.Jr: You got that didn't you?

F: Oh, sure and also the Bernard O'Higgins

H.M.Jr: Oh, yeah. (Laughs).

F: (Laughs). Wonderful. O. K., Henry.

H.M.Jr: Thank you.

F: Good-bye.

October 14, 1940

Dear Steve:

I am inclosing herewith a clipping from the front page of this morning's New York Times. I would appreciate it if you would bring this to the President's attention this morning.

Yours sincerely,

Mr. Stephen Early,
Secretary to the President,
The White House,
Washington, D.C.

*Clipping on Amigo's
answer to Hill's
statement on delay in
defense program
attached*

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Mr. Stephen Early,
Secretary to the President,
The White House,
Washington, D.C.

TREASURY DENIES

DELAYING DEFENSE

New York Times

October 14, 1940

Morgenthau Criticizes Willkie
as Willing 'to Conscript'
Youth but Not Industry

71

Special to THE NEW YORK TIMES.

WASHINGTON, Oct. 13—Secretary Morgenthau issued a statement tonight denying Wendell L. Willkie's assertion on Saturday that the Treasury Department had delayed the defense program through refusal to make tax concessions.

The Secretary deplored "the effect of statements that serve to substitute political controversy for unity of action."

Secretary Morgenthau's statement was as follows:

"An address Saturday evening by the Republican candidate for the Presidency charges that the Treasury Department has delayed the defense program through refusal to make tax concessions. The assertion is consistent with a recent statement by the same candidate which revealed that he was willing that young men should be conscripted to serve their country but unwilling that industry should be so conscripted, if in any instance it became necessary.

Opposes Any 'Tax Favors'

"The short answer is that the defense program is not being delayed and has not been delayed. Never in our history has any national effort moved forward so fast, as can very readily be seen by an examination of the schedule of defense appropriations and contracts.

"The candidate quotes a statement by me that I did not favor any special tax concessions or 'breaks' in favor of munitions contractors. That is absolutely correct. I have never favored any tax 'breaks' for anybody outside the law. Tax favors have been granted to big corporations in the past, but not by this Administration.

"The Treasury favored a change in the law which would give greater flexibility in writing off emergency investment, and that change has been enacted into law. That is very different from giving favors outside the law, which we have no right or disposition to do.

"I recognize an obligation to serve not merely bidders on munitions contracts and other big taxpayers who can express themselves forcibly, but also the millions who cannot speak with so clear a voice.

"I am not interested in seeking partisan advantage out of the defense program and I deplore the effect of statements that serve to substitute political controversy for unity of action."

Hanes Replies to Morgenthau

On reading Mr. Morgenthau's statement last night, John W. Hanes, member of the national committee of the Democrats for Willkie organization, and former Under-Secretary of the Treasury, said:

"The statement by Mr. Morgenthau that the Treasury in no way has delayed the amendment of the tax laws affecting amortization of plant expansion for defense purposes does not conform with my experience in attempting to achieve this same result many months ago while Under-Secretary of the Treasury.

"I read Mr. Willkie's recital of the reasons for this delay and they are absolutely true and correct. The Treasury is at this moment haggling over small details and the Army and Navy as well as the industrial community are still in a quandary as to what the final rulings will be affecting amortization schedules.

"Mr. Morgenthau's attempt to put Mr. Willkie in the position of being willing to conscript men and not property is equally inconsistent with the record."

TREASURY DEPARTMENT
Washington

72

~~SECRET~~

FOR IMMEDIATE RELEASE
Sunday, October 13, 1940.

Press Service
No. 22-33

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- 2 -

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I am not interested in seeking partisan advantage out of the defense program and I deplore the effect of statements that serve to substitute political controversy for unity of action.

-oOo-

See Press Conference of 10/14/40

Mrs. McDuffie was campaigning and this 75
material was prepared for her by Mr.
Gaston and sent over to her at the White
House by Mrs. Klotz on October 16th.

DEFENSE OF AMERICA

Our minds are occupied today with the defense of America. Defense of America means more to all of us than just the physical defense of American soil; although that has become terrifically important. It means also the defense of our right to live as free men and women; to educate our children so that they can improve their condition in the community and in the Nation according to their abilities. Defense of America means this to every person who lives in this great country.

The Administration headed by our truly great President, Franklin Delano Roosevelt, has been strengthening and improving the defenses of America for nearly eight years. It has not been content with improving the physical defenses alone, although it has been doing that continuously for all that time; but it has been doing everything possible to make America strong in many other ways.

Today America's capacity to resist any assault upon our territory and upon our rights is immensely greater than it was eight years ago. We are stronger because we have better machinery to manufacture and to distribute goods, better organization of our economic life; but especially we are stronger because the rights of our people have been preserved and enlarged, education and the facilities for education have been improved, our people have been kept at work acquiring new skills and new strength for new tasks.

(a)

The people of America have come to a new appreciation of the value of democracy. They have come to that new appreciation in two ways, by seeing the menace to human freedom by dictatorial governments, and, on the other hand, by seeing that a democratic form of government can be efficient to care for its people. So striking has been the comparison that oppressed people from all the world look with longing at our happy way of life in America. They have sent their treasure here for us to keep and those who could get here have come to us in great numbers—all that we were able to admit.

The country was in the midst of a terrible depression eight years ago and great sums have been spent to rescue us from that depression and to bring about this great strengthening of our resources.

Some people in the heat of a political campaign make statements that are based on a narrow, blind view and are not based on a real understanding of the facts. Because they see that the Federal Government has been spending more than it has been taking in taxes from the people and because they see an increase in the National debt, ^{they} argue that we have been losing ground. They do not stop to realize that the Federal budget is not a measure of the gains and losses of the people and that the increase in the National debt may be an investment from which in truth great gains are already being received. Yet the figures tell that very story, just as it is also told by the improvements in public assets, in buildings

(5)

and roads and parks which we see everywhere and especially by the faces of men and women and children everywhere to whom work and happiness have been brought.

The public debt figures of the United States show that about twenty billions of dollars has been invested in this way in the last seven and one-half years. This increase is shown on the books of the Treasury. But the books of another department of the Government, the Department of Commerce, show that the gain in wealth produced last year in this country over that produced in 1932 was twenty-eight and one-half billions.

It is already evident that there will be a gain of several more billions this year. If one should accumulate all the gains made since 1932 they would run in dollars to the almost incredible sum of more than a hundred billions.

But of course no one can count the gains that have been made in happier living by putting to work many millions of people who were unemployed, by raising the wages and standards of living of the employed, by furnishing new facilities for education, by adding to the opportunities for the education of the poorest, by improving the health conditions of our country, by building new homes and streets and parks. The faces and the spirits of men tell what these things have meant in enriching our Nation. They also tell what they have meant in devotion to democracy and belief in democracy as the best way of life.

(4)

None of you who know about these things can be in any doubt that we are far stronger, far more united, far better fitted in every way to meet any kind of menace from without or from within than we were back in those black days of 1931 and 1932.

Other Nations have gone down in ruin but we are strong and united and able to hold our gains.

We are making the greatest progress that the country has ever made at any time in the improvement of our military defenses. We are able to do this because we are strong and united. We should not be able to do it otherwise. A dissatisfied and divided people could not arm itself swiftly as this country is being armed today under the leadership of our wise and far-seeing President.

We are able to do it also because the President has made our Nation financially and materially strong. The Nation has increased assets which far over-match its debt. And that debt, too, is not owed to any outsiders or any other Nation. It is owed to our own people, who prize their ownership of it as a share in America. They are not disturbed. The Nation pays to them interest rates so low that the cost of carrying the debt is scarcely more than was the cost twenty years ago of carrying a debt that was about 18 billions of dollars less in amount.

Americans have no doubt of the future of America. America is richly able not only to provide its new defenses but to pay for them. Because of what the Roosevelt Administration has done to enrich America it is far better able to do so than it has been at any time in the past.

(8)

I was very much impressed by what the President said on this subject in a speech made in the summer of 1933. Let me give you two quotations.

"Before we can think straight as a Nation we have to consider, in addition to the old kind, a new kind of Government balance sheet--a long range balance sheet which shows survival values for our population and for our democratic way of living, balanced against what we have paid for them."

And at another point in that address:

"The only real capital of a Nation is its natural resources and its human beings. So long as we take care of both and make the most of both of them, we shall survive as a strong Nation, a successful Nation and a progressive Nation."

The Administration whose great President spoke these great words has taken care of both--its resources and its people. It has strengthened both. I have faith that we can not be so stupid and so blind as to let that good and faithful servant go.

October 15, 1940

SECRETARY HONORARY**E. H. Foley, Jr.**

Here is the editorial in the St. Louis Post-Dispatch, of October 13, favoring the re-election of President Roosevelt. I spoke to you about this last evening and you said you would like to see it.

(Initialed) E. H. F., Jr.

Attachment

EW:mg
10/15/40

REPUBLICAN NATIONAL COMMITTEE
Publicity Division
718 Jackson Place, N. W.
Washington, D. C.

Text of the address of Thomas E. Dewey, District Attorney of New York County, at Saginaw, Michigan, Wednesday evening October 16, 1940 was as follows:

MR. CHAIRMAN AND FRIENDS IN MICHIGAN:

It is a great pleasure to come home to Michigan to address this meeting dedicated to the election of Governor Dickinson, Senator Vandenberg and Wendell Willkie.

The people of Michigan are fortunate in the achievements of their Governor. His administration inherited a thirty million dollar deficit from the previous Governor, a Democrat. But really Michigan is pretty lucky; with two years of a little New Deal, you only had a thirty million dollar deficit. That's a lot of money, but it is not a very high price to pay to learn by contrast how good a Republican administration can be.

In twenty short months of Republican administration, your budget is balanced. Schools and welfare have received additional millions of dollars of benefits, new hundreds of thousands of elderly citizens have been assisted by the State; the equipment of State hospitals has been greatly expanded. And all this without new taxes. These things were done by a Republican administration. Of course you will re-elect your Governor and your Senior Senator.

A speech by me urging you to re-elect Arthur Vandenberg is as unnecessary as a nominating speech at the Democratic National Convention. He led the fight against New Deal sponthrifit fantasies, such as the Florida ship canal and the attempt to harness the tides at Passamaquoddy. It was he who was largely responsible for saving the working people of this country from paying an increase of 50 percent for their social security. Michigan will keep in the Senate that strong and able servant of the nation, Arthur Vandenberg.

Millions of people all over the world are now engaged in a death struggle to determine whether they and their children shall be free or shall live under the iron yoke of a dictator. On this very day in every community throughout our own country millions of young men are registering for military training. We are contributing billions of dollars in taxes and increasing billions of dollars of debt to rearm this nation and to preserve its freedom from foreign aggression. How shall we preserve that freedom at home?

First let me say I am sure that no leader of public life in the United States today would admit, even to himself, a desire to be a dictator. I am sure also that no leader in public life desires to bring to the United States a system of totalitar-

ian government. Yet every time a totalitarian method is used, there follows, as night the day, a totalitarian result. Tonight I want to examine with you methods which the New Deal has employed. I want to ask you to consider with me whether these methods are the way to keep America free. They fall into six classes.

First: Spreading discord among the people in the name of national unity.

This technique has been universally employed by men on the march to power. It is as simple as sin. They pick a small section of the people as the object of their abuse and persecution. It may be a racial group or it may be an economic group. But the method remains the same. And, what is more, the result is always the same. That is the means by which men are induced to suspect, then distrust, then to hate their neighbors. A religious group is induced to distrust, then to hate another religious group. Employees are induced to distrust, then to hate their employers. Labor is encouraged to bloody strife -- to the great loss of employee and employer alike. Labor peace is discouraged by those whose duty it is to bring that peace. Then, when the power of the central government becomes great enough, labor unions are abolished and the workers of a nation are driven to forced labor by their master, the State.

Suspicion and distrust followed by internal strife -- and all under the pretense of achieving national unity. This is the first dark and slippery road to totalitarianism. That road must be closed in America. The Republican Party will close that road. It will keep America free.

Second: Making the people permanently dependent upon their government.

In 1933 the New Deal came to power, pledged to restore jobs to the unemployed. Mr. Roosevelt, upon taking office, said "our greatest primary task is to put people to work." Of all his failures, this has been the greatest. It has been the fullest cup of human suffering. It still remains the bitter fact that there has been an average of ten million people unemployed right through this Administration.

It has continued so long that Harry Hopkins, ex-Secretary of Commerce, even say our unemployment is permanent. I agree with Harry Hopkins to this extent: Our unemployment is just as permanent as the New Deal -- and no more. Only an administration deliberately devoting its efforts to class hatred and shackling business enterprises could keep ten million Americans unemployed.

The Republican Party challenges the New Deal theory of permanent unemployment. It holds that unemployment is a national evil which can and must be cured. It believes that government-fostered unemployment opens the second slippery road to totalitarianism. The Republican Party intends to close that road. It will keep America free.

Third: Contempt for the public word.

The repudiation of solemn pledges destroys faith in any system.

In 1932 the New Deal platform solemnly pledged that a sound currency "would be preserved at all hazards". Yet it took this country off the gold standard six weeks after it took office.

In his first campaign for the Presidency, Mr. Roosevelt asserted that "no responsible government would sell securities payable in gold if it knew the gold standard was in danger". Two months after he took office he sold 500 million dollars of gold certificates to the people of the United States. Yet just five days later the President announced that that promise would not be honored.

In 1932 and again in 1936, the New Deal platform pledged a balanced budget. These promises have been worthless to the extent of 20 billion dollars -- a sum large enough to have armed the United States against all possible aggressors.

Each time he took office, Franklin Roosevelt swore to support the Constitution of the United States. Yet, in 1935, he wrote to a Congressional committee: "I hope your committee will not permit doubts as to constitutionality, however reasonable, to block the suggested legislation."

The New Deal has distorted the meaning of words to conceal its failures from the people. Government debt is no longer a debt. It is called an "investment". To the New Dealers the things you and I learned at our mother's knee are mere "mythology" and our traditions are "folkways".

The deliberate abuse of words and promises to confuse the people is the third slippery road to totalitarianism -- a road that is being steadily greased with government money for propaganda. Only the Republican Party can block that road. Only the Republican Party can keep America free.

Fourth: The attempt to subject all branches of government to the executive will.

The totalitarian technique has no system of checks and balances -- it has no use for independent legislatures or courts.

The courts for one hundred and fifty years have been the guardians of our liberties. I need not remind you of the New Deal effort to peek and control the Supreme Court of the United States. That was the most ruthless attempt ever made to bend our courts to serve the executive and not the people.

I need not remind you of the attempts to degrade the Congress of the United States to the position of a rubber stamp. I need not remind you how Mr. Roosevelt tried last June to send Congress home even though the major portion of the national defense program had not yet even been proposed. Did Mr. Roosevelt believe he could

pass the necessary legislation and appropriations himself? In any event, Congress stayed -- it stayed out of a sense of duty and did the job. We still have a Congress in the United States. May it always be filled with men of courage and character.

Every attempt to reduce the Congress or the courts to a position of servitude is another slippery road to totalitarianism. Will the New Deal Party close that road? Can that New Deal Party keep America free?

Fifth: The political execution of all rivals and critics.

In the history of the world men live and die, but only principles survive. Those who believe in principles make certain that there shall be successors to carry on those principles. Those who believe only in power make certain that there shall be no leaders either to succeed them or to interfere with their continuance in power.

Let us look at what has been happening in the last few years. There was a worthy and distinguished potential successor to the President within the Democratic Party -- the Vice-President of the United States, John Nance Garner. In 1932 he made possible the nomination of Franklin Roosevelt for President. But in 1940, when his own legitimate aspirations were endorsed by millions of Americans, what happened? His political death warrant was secretly signed. Inspired news stories undermined his aspirations. Mr. Roosevelt himself, as a candidate for a third term, ran against his own Vice-President in primary elections. The power of government, the power of patronage, the power of the party machine were used to strike down that possible successor.

There was another major figure in the President's party, another open aspirant for the nomination. He held an important position in the President's official family. He, too, won a great following. And against him, the same process was begun. A new instrument, the totalitarian process of government by character assassination, was brought to bear. A pretended income tax investigation was started. Treasury agents were sent throughout the United States, making insinuating inquiries -- inquiries as to his income which led people to the suspicion that the government had something on him. Thus were destroyed the legitimate ambitions of Paul V. McNutt. They were destroyed by an inexcusable, a contemptible abuse of power.

The investigation achieved its effective end at the Democratic National Convention. There Paul McNutt bowed before the voice of concentrated power. With tears streaming down his face, he stood on the platform and renounced the legitimate aspiration of every boy born in America. No administration which stoops to such things is entitled to the name "Democratic". Nor is it entitled to office in a free republic.

There were still other party leaders whose names were put forward by their

friends -- the only first-rank, full-sized Democrats in the Cabinet of the United States -- Cordell Hull and James Farley. But their booms didn't last long. The flood gates of poisonous insinuation were again opened up. From the White House came the whisper that neither would do. They too, were shunted aside. For no one would rise to succeed the "indispensable" men.

In the United States Senate were many loyal Democrats who would have made excellent Presidential candidates. But honoring their oath of office, they found it impossible always to agree with the schemes of the White House palace guard. They, too, were undermined and gradually destroyed. And of those great men in the Senate none was left to challenge the New Deal's self-anointed.

What has happened to the others who dared to challenge or to criticize? Let's look at that focal point of the monumental mishandling of national finances, the Treasury Department. There was Dean Acheson, Under-Secretary; Lewis Douglas, Director of the Budget; Professor Sprague, Financial Advisor; Thomas Jefferson Coolidge, Under-Secretary; John Hanes, Under-Secretary; Roswell McGill, Under-Secretary; Carl Knapp, Assistant Secretary, and J.F.T. O'Connor, Comptroller of the Currency. One after another they found that no intelligent man could tolerate in silence the destructive handling of the finances of this country. One after another their tenure in public office was made impossible. Having retired, they were more honored in private life than those who stayed.

In other fields there was the Assistant Secretary of War who was sacrificed to a political coup -- Louis Johnson. There were Major General Hagedorn of the United States Army, William E. Humphrey of the Federal Trade Commission and Arthur Morgan, Chairman of the T.V.A. In succession, each was sentenced to administrative death because he dared to criticize some one of the fantastic follies of this administration.

The purge of those who dare to disagree is an alien institution. The political execution of those who differ with or might succeed the leader is the deadliest of all the slippery roads to totalitarianism. It is the most hateful road of all. The New Deal Party opened up that road. The people will close it at the polls in November.

Sixth: The creation of a regimented political party.

Recall -- if you can bear the recollection -- the convention that met in Chicago three months ago. There was the inevitable climax of the studied attempts of seven and one-half years to transform the Democratic Party into an instrument of power for New Dealers only. At Chicago the job was done.

There is no longer a Democratic Party. It died in Chicago. Its swan song was sung by the superintendent of sewers in the cellar.

Who killed the Democratic Party and who are its successors? Who owns the New Deal Party of today? There can be only one answer. It is in the absolute grasp of the dictators of Jersey City, Chicago, Kansas City, Tammany Hall, Albany and the Bronx. These are the men who now own what was once the Democratic Party. One of them is Chairman and another is Vice-Chairman of the Democratic National Committee.

For eight years these machines have been nourished and developed by New Deal patronage and government money. Now they are in a position to move openly on Washington. That is the sinister thing that happened in Chicago in July. The third term means their bid for total power in the Federal Government itself.

Their growing arrogance is already apparent. Since that convention in Chicago, we have seen the importation of another alien device, the burning of books. We have seen the culture of another nation destroyed in huge public bonfires. Here we see public voting records destroyed in private bonfires. We see not our culture, but the free franchise of free Americans brazenly burned by the dictator of Jersey City.

A boss-ridden, regimented national party is the sixth slippery road to totalitarianism. There is only one free party to vote for in November. That party -- the Republican Party -- will close that road.

Let me repeat, I do not believe that any man in public life in America desires to be a dictator. But these are the methods which produce dictatorship. If an administration is permitted to perpetuate itself in office by such tactics as I have described tonight, the freedom of the American people is at an end.

The Republican Party was born of a crisis in the history of human freedom. It was born to make slaves free. It will live to keep men free.

While there is still time, we can, we must turn away from this trend toward totalitarianism. No one man can stop this trend. Only the people themselves can stop it. This they will do in November through the Republican Party -- through the election of Wendell Willkie and Charles McNary.

"ON HAND AND ON ORDER"

ADDRESS BY HONORABLE JAMES F. BYRNES OVER THE RED NETWORK OF THE NATIONAL BROADCASTING COMPANY AT 7:15 P. M. EASTERN STANDARD TIME AND AT 11:15 P.M. EASTERN STANDARD TIME ON OCTOBER 16th, 1940.

In a speech at Philadelphia a few days ago, the presidential candidate of the Republican party charged that President Roosevelt attempted to deceive the people of the United States when, on May 27, 1940, in advising the nation as to our airplanes, tanks and other materiel, he used the phrase "on hand and on order." Mr. Willkie ridiculed that phrase and demanded to know its meaning.

In his speech, the President simply used the language of a report furnished by the officers of our Army. In describing the status of its ships, the Navy uses the phrase, "built and building". In reporting as to its equipment, the Army uses the phrase, "On hand and on order."

President Hoover frequently used the phrase "on hand and on order," just as other Presidents have done. Mr. Willkie was a Democrat during the Hoover Administration. I would have been ashamed had he, at that time, charged President Hoover with deceit and misrepresentation because of using the phrase "on hand and on order."

Years ago the army devised that phrase so that a complete picture of its materiel could be given. "On hand" informs the nation of materiel on hand today, and "on order" tells the nation what is to be delivered by manufacturers who have been awarded contracts.

An administration that has nothing "on order" is doing nothing about national defense.

In that same speech at Philadelphia, Mr. Willkie said: "I happen to know a large manufacturing company in Michigan. It has orders for many hundreds of tanks. Those were included, I assume, among the 'ghost' tanks 'on order' that the Third Term Candidate spoke about. But this particular manufacturer has not yet built the building in which those ghost tanks are to be manufactured."

That was an inexcusable misrepresentation.

The only manufacturer in Michigan having orders for tanks is the Chrysler Corporation. Mr. Willkie knew that the appropriation for the purchase of tanks was not made available by Congress until July. Yet he told you that these tanks were included among those to which the President referred last May.

The fact is, the contract was signed August 15. Building tanks is a new activity for Chrysler Corporation, so a new type of plant had to be designed. Six weeks later, on the day Mr. Willkie spoke, the building was under construction and needed machinery was on order. Mr. Willkie was unfair to the President, to the army and to the Chrysler Corporation.

American factories are now turning out five completed tanks each day. Production is increasing each month. Wendell Willkie may call them "ghost tanks". Adolph Hitler will not ridicule them.

At Buffalo last night, Mr. Willkie asserted that the Administration delayed the amortization plan which, he said, would have cleared the tracks for manufacture of guns, tanks, planes and munitions.

American manufacturers did not wait for enactment of this legislation. They signed contracts with the Army and Navy totaling eight billion dollars.

Speaking of this tax provision, Mr. Willkie said: "I favored it, too. So far as I know, every sensible man favored it."

Let me tell you that when the Senate voted on this bill, only one Republican Senator voted for it. I want you to know that it is not I but Mr. Willkie who says there is only one sensible Republican in the Senate.

The Republican candidate told the people that all but a few hundred of our airplanes are obsolete. You know that this is untrue. What would not Britain give today for the thousands of planes we have which Mr. Willkie calls obsolete? The Defense Commission tells you that American factories will this month turn out 950 planes. They are superior to those which dot the skies over Europe. Production is increasing daily and our designers have profited from Europe's experience.

Mr. Willkie says: "Think what a difference it would have made to the democracies of the world if the airplane production of 1940 had been attained in 1939."

I agree. Had the party of Mr. Willkie's adoption refrained from delaying and blocking repeal of the arms embargo in March, 1939, airplane factories built in 1940 would have been erected in the summer of 1939. And today we would be producing planes at the rate of 2,000 per month instead of 950 per month.

In a speech at Cleveland, Mr. Willkie said: "The fact is that the largest force we could put into the field today completely equipped, is 75,000." That is untrue. We have more than 75,000 men completely equipped in our possessions, Hawaii, Panama and the Philippines. We have, in all, in the regular army as of yesterday 352,156; in the National Guard we have 203,000, making a total of 555,156 men.

Speaking in New York, the Republican candidate declared the army lacked rifles. That is untrue. The United States army has on hand approximately two million Enfield and Springfield rifles - which any military expert will tell you are splendid weapons. The Infantry constitutes not more than 40 percent of a modern army. Therefore, we now have rifles sufficient for an army of five or six million men.

We now are manufacturing the new Garand rifle. The Army does not disclose the number on hand, but states that by the end of this month we will be producing six hundred per day, and production is increasing every month. These and other new effective weapons are on hand; others are on order; and American labor is working three shifts a day to manufacture them.

Yesterday, in Rochester, Mr. Willkie charged "pitiful inefficiency in failing to provide housing for the first lot of new soldiers with registration coming tomorrow." He said it would take six months to house the first 400,000 men.

The Selective Service Law was approved September 16th. Plans for housing were already prepared and construction immediately started. General Marshall advises me that instead of being delayed, it is proceeding surprisingly well. The Army did not plan to call any trainees before November 15th, and only 30,000 then. The increase in recruiting in the Regular Army and National Guard will reduce the number of trainees then to be called. Housing will be ready. The Chief of Staff states that on January 1st, he expects to have in Army uniforms 850,000 men, who will be comfortably housed.

The result, if not the purpose, of Mr. Willkie's misleading statement on the eve of Registration Day was to strike fear into the hearts of American Mothers.

Mr. Willkie was guilty of more deception when he said that "in 1936 we spent only nine percent of our money on defense, the lowest percentage in modern history." His figures are wrong. It was ten and one-half percent.

He wanted you to believe that in 1936, Congress reduced the annual expenditures for defense when the fact is, we invested that year two hundred million dollars more than in the previous year.

Instead of giving you the amount, he gave you the percentage of total expenditures and he selected 1936 of all years because that was the year in which we paid the Four Billion Dollars Bonus to veterans. Naturally, payment of that bonus made total expenditures so large that the percentage for national defense seemed small. Was that fair to the Administration, - was it fair to you?

What about the navy? In 1933, when President Roosevelt assumed office, we had dropped below Great Britain and Japan - even below France - in the number of fighting ships. We had only 101.

Mr. Roosevelt had served for eight years as Assistant Secretary of the Navy. He knew the navy's needs and began immediately to rebuild our first line of defense.

As a result, we have on hand today 358 modern fighting ships. Prior to September 9, 1940, we had 130 additional ships on order. These 130 ships - destroyers, submarines, cruisers and battleships - are from 5 weeks to 6 months ahead of contract dates.

On September 9, within five hours after the President approved a bill appropriating money to build 200 additional combatant naval vessels, contracts for these ships were signed. They are now on order, and skilled American workers are laboring twenty-four hours a day to put them on the sea.

This is registration day. Sixteen million young Americans have registered for military training. These men are on order, - not for war, but for peace. Wendell Willkie will not laugh at these millions of men on order.

Nor will Adolph Hitler laugh. Because they are on order, there probably will be many other anti-Roosevelt rallies at Bunker Pass before the Axis powers dare turn their covetous gaze toward the Western Hemisphere.

Do not be frightened by Mr. Willkie. Admiral Stark, Chief of Operations, advises you that today the Navy is stronger and the morale higher than ever in its history.

General Marshall, Chief of Staff, advises you that the Regular Army is vastly increased; that the best equipment and most modern weapons are under production not only for the Regular Army but for the trainees registered today.

Mr. Knudsen and Mr. Stettinius of the Defense Commission advise you that instead of being bogged down, production is progressing; and they are receiving wholehearted cooperation from the White House, from Congress, and from industry.

Mr. Knudsen and Mr. Stettinius are not candidates for office. General Marshall and Admiral Stark are neither Republicans nor Democrats. They are just Americans. I am satisfied that you will accept the testimony of these gentlemen in preference to the statements of Wendell Willkie, who questions the veracity of your President; criticizes your army and navy; and reflects upon the cooperation of American manufacturers.

I have no fear that Wendell Willkie can deceive the American people. I do fear that he may deceive the Axis Powers, who believing us defenseless, may do something to jeopardize the peace of this hemisphere. And I fear he may cause South America to believe it is unsafe to rely upon us.

No man on earth has faced reality with clearer vision or with higher determination than has Franklin D. Roosevelt. His actions, not his words, are what alarm the dictators. His moves to fortify the country he loves fill the dictators with apprehension that their plans for dominating the world will yet miscarry, and inspire them to form alliances to bluff us into abandoning the heroic British.

It is on the strength and sound judgment of President Roosevelt that America relies, at least for that period of respite which will enable us to fortify ourselves completely against a danger which, only a few short

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months ago, lay beyond the horizon.

Here is my final word. Let only those speak against President Roosevelt who saw more clearly than he did, who counseled more wisely than he did, while this storm was gathering.

Apply that test to the voice of criticism, and you will hear no word spoken by any man in America - certainly you will not hear the voice of Wendell L. Willkie.

October 16, 1940
4:20 p.m.

H.M.Jr: Hello.

Operator: Secretary Knox.

H.M.Jr: Hello, Frank.

Frank
Knox: Hello, Henry.

H.M.Jr: I wonder if you could help me or have somebody help me. Willkie has made the statement now twice that on April 13, 1938 Admiral Furlong asked for certain things to do with amortization, you see. It's in his statement - his speech of yesterday. Hello?

K: Of April 13, 1938 Furlong did what?

H.M.Jr: Well, he said the head of the Ordnance asked for - oh, it's in connection with special amortization.

K: Asked for special amortization law?

H.M.Jr: Yes. Now it's just a matter of a record, you see. Hello?

K: Yeah.

H.M.Jr: He's said it twice and then he comes along in this statement - I'm looking at the New York Times, I've got it before me - he says, in January '39, four months after Munich, the Secretary of the Navy wrote to the Secretary of the Treasury asking early action.

K: February, when?

H.M.Jr: January '39. Now, my records show that I got no communication from the Secretary of the Navy.

K: The Secretary of the Navy wrote asking for expedition on this law?

H.M.Jr: Yeah. And I have no - I don't know what Furlong did on April

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K: Well, I can find out.

H.M.Jr: And if you could send it over - Foley's going to work on this tonight for me.

K: All right. I'll get - do you want me to call Foley?

H.M.Jr: If you could get the thing to Foley so that he could work on it for me tonight - he'll be here all evening.

K: All right, Henry. I've got it. Now, you want that correct statement, if there was one, by Furlong on April 13, 1938 on the amortization law and in January where the Secretary of the Navy wrote to you.

H.M.Jr: That's right. And, incidentally, the President is all worked up about this.

K: He is, eh?

H.M.Jr: Yeah.

K: All right. I'll get the dope and give it to Foley.

H.M.Jr: Thank you so much.

October 16, 1940
4:20 p.m.

Present:

Mr. Foley
Mr. Gaston
Mr. Schwarz
Mrs. Klotz

HM, Jr: You may be interested to know that the President has known about this all day and there is nothing the President has been so upset about as this and he wanted me to have a special press conference. If we had had it this morning, I would have had it at nine o'clock.

Mr. Schwarz: But it was in the clippings.

HM, Jr: But I had about 100. I can't go through these clippings. I have told you 100 times and you have all these people up there. As far as I am concerned, they might as well be in London. Here's an important statement comes along and I only hear about it by accident at 3 o'clock. It's inexcusable.

Mr. Schwarz: I agree it is.

HM, Jr: And here the President of the United States all day long has been wanting some one to answer this, Gaston says, and here I am with nobody to help me and I should think somebody up there should have said, "Here, Schwarz. Shouldn't somebody answer this?" This is the last time. I am going to answer it so you stick around and Foley will be here and have something at 8:30 and here's the President of the United States waiting for someone to come to his help and I find myself in a position because the Press Section is doing something else and does not read what Willkie says about the Secretary of the Treasury

Mr. Schwarz: I am responsible. My people muffed on me.

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HM, Jr: No! You muffed! That's your responsibility. Don't tell me all the time it's somebody else! My God! Don't you ever read a newspaper yourself?

Mr. Schwarz: I read them all morning.

HM, Jr: Then you must read them with blinders. I am not going to burn myself up. I don't know what you do, but certainly you wouldn't think there is a campaign going on. Don't tell me it's somebody else, because I have gone down on my knees and asked you to get somebody. It's the last time it will happen. I am going to get somebody who will do the things I want them to do. For Mr. Gaston to come back and say the President has been upset about this all day long and here I sit in complete ignorance and I could have had something out.

What do you think, to give this thing a fresh angle. Just to repeat what we did before isn't going to help. How could we do this thing fresh? I think this thing of getting in the vote would be a good thing. If Sullivan was only here instead of lying up there in New Hampshire!

Mr. Gaston: Jimmie Byrnes, I understand, is going to use the vote thing tonight.

HM, Jr: As I understand it, Sullivan is away. Tarleau is away. Is Blough here?

Mr. Foley: Tarleau is in Nashville at a conference of some kind. I don't know where Blough is. I don't think those fellows have anything we don't have. I don't think John has anything. We can do this job.

HM, Jr: Well, I am going to look to you and Herbert. That's all.

Mr. Gaston: There are certain points in defense -- detail of getting it, and then the medium

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we will use.

Mr. Foley: It may be helpful to talk to Furlong on this.

HJ,Jr: I would not hesitate to ask anybody. I wouldn't hesitate to send for the so-and-so.

Mr. Foley: If I need him I can send for him?

HJ,Jr: They go home at 4:30. You had better call him up, if he hasn't gone home already.

Mr. Foley: Knox ought to be able to find him. I don't think we came into this thing at all, Mr. Secretary, until 1939.

HJ,Jr: The thing started at the meeting when Hanes went over to Louie Johnson's office, and then got the President to sign the memorandum. Supposing I give this thing out. That's a reflection on the President. When I asked the President he said, "I remember that very well. I just told Hanes to look into it," but he did not; he signed a memorandum directing me to speed up airplanes.

I came back in the strongest language. If I was running for office I could go on the road tomorrow and write this thing up, but that darn memorandum that Hanes wrote and which the President signed is the thing that sticks in my crop. This succession of memos of mine, they are all right.

Mr. Foley: What Hanes suggested you told the President was a thing you could not do within the law. You would have to have the law changed. Now, from November, 1939, to October, 1940, is a long time.

HJ,Jr: I think the answer -- this is the point, we did not make, but that silly story about the boy and the spinach -- tell that story.

Mr. Foley: A little fellow did not want to eat his spinach. His mother said, "This is very good

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for you. Make you strong, make your eyes sparkle. Eat your spinach. There are hundreds of little boys starving and would love to have that spinach." He said, "Where?". She said, "Right here in the block there are hundreds and hundreds of little boys who just love to eat their spinach. I don't see why you don't eat your spinach." He said, "Name one."

HM, Jr: The point is, I think if we could come back and say, "All right, Mr. Willkie. This is the second time. Name one. Let's get down to facts. Who was held up? Give us the facts." Now, that puts a new tone on it. "All right, Mr. Willkie,"

Give me time and I will think about these.
"You have said all this stuff."

Mr. Foley: You know all this, but maybe it would be helpful if you took home a four page memo that I have that gives the history of the thing from November, 1939, down to date and then it will refresh your recollection.

HM, Jr: But I think the thing to do

Mr. Foley: The thing John was reading from was an excerpt from a longer memorandum that Kades prepared.

HM, Jr: I think the thing to do is do this: thing and get this so-and-so Furlong over by yourself. But take this attitude: Mr. Willkie, what you are doing is picking over the garbage pail. Where would we have been? We would have been somewhere. The thing we were waiting on is if we could get the thing -- but I question, I don't think the President's record is any good where the President asked for money and the Republicans voted him down. The only other thing would be how they voted on the tax bill and how they voted on any appropriation bill this session. But his record on asking for money from Congress, I think in every case he got it unless the President vetoed it. Let Larry Bernard -- if you turn him loose on that. I would turn him loose on the voting record and "O. K. In 1939 who was held up? What appropriation wasn't spent? Supposing Admiral Furlong did say so and so. So what? What did it hold up?" I think if we could come back at Willkie. "Name the company, Mr. Willkie."

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Mr. Gaston: Might ask him to name his client.

HM, Jr: Better yet, "name your client" if we want to get dirty. "Name your client".

Mr. Gaston: Also, you are sitting in a different chair. You are not representing a group of munitions manufacturers. You are representing the people of the United States and have been.

HM, Jr: That's a good point. Don't forget that Furlong was representing munitions manufacturers and not the people.

Mr. Foley: He's still in the Navy, though.

HM, Jr: Listen, if we are going to do this thing and protect the President -- I am all right on it. Seriously.

Mr. Foley: You have a good record.

HM, Jr: My record is 100 percent, but it's the blankety-blank memorandum that the President signed. And Hanes knows that. He has a copy of it. But, I mean, if we step on somebody's toes, like Admiral Furlong -- I did it once in a letter to the President -- it's just too bad. Somebody has got to be hurt.

Did Mrs. Klotz hear what Steve Early said?

Mrs. Klotz: Yes.

HM, Jr: Well, tell it to Schwarz.

Mr. Gaston: Well, he said the President had been stewing about this thing since he talked to him at 7:30 this morning and he said at the President's direction he had written something unusual. He had written a directive to the Army and Navy asking what

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the transactions were that Willkie talked about and he was going to use those comments to put out a red hot White House statement. He said Jimmie Byrnes would deal with the notes, but he said specifically, as far as our thing was concerned, he had not done anything and he said "help yourself" and he said "the way the President was feeling now the stronger you go the better" and he did not think statements were very much good. He thought there ought to be quick action on following anything of this kind up. I asked him if he did not think there was a little too much defense and not enough attacking and he said that was true, but there were some of these things we had to say something about and the campaign had been damn lagged. There is no real, positive attack and he thinks it's definitely a swing starting the other way, largely because the campaign has not been energetic. He said the way the President feels now, he would leap with joy if the Secretary would get out and take an active part in the campaign, such as making a speech. It's very different

HM, Jr: Very different from Sunday!

oOo-oOo

10-18'40

Miss Chauncey; 103

This was
brought over
at 9⁵⁰ yesterday
morning.

Mr. Foley brought
this back I think
you should have.
I have copy

IN REPLY ADDRESS
BUREAU OF ORDNANCE, NAVY DEPARTMENT
AND REFER TO NO.

NAVY DEPARTMENT
BUREAU OF ORDNANCE

WASHINGTON, D. C.

17 October 1940

(AB)

Memorandum for Secretary Morgenthau:

SUBJECT: Building Up the Naval Defense of the United States.

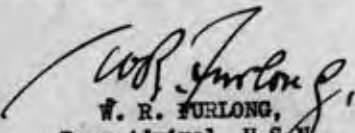
1. What was done in building up the naval defense of this country during recent Presidential Administrations will be seen from the following:

During the Coolidge Administration, 1925-1929, there were eight ships commissioned.

During the Hoover Administration, 1929-1933, not a single Naval vessel was authorized. Ten cruisers and three submarines which had been previously authorized were finally completed during the Hoover Administration but no new vessels were authorized to be added to the Fleet.

During the Roosevelt Administration, Mr. Roosevelt began immediately to build up the Navy and in his first term of office, 1933-1937, 41 new vessels were commissioned and added to the Navy.

In his second Administration, 1937 to 17 October 1940, 95 fighting vessels have been added to the Fleet.


W. R. FURLONG,
Rear Admiral, U.S.N.,
Chief of the Bureau of Ordnance.

October 17, 1940
8:30 a.m.

RE REPLY TO WILLKIE'S SPEECH OF OCTOBER 15

Present: Mr. Foley
Mr. Greenbaum
Mr. Cairns
Mr. Kades
Mr. Gaston
Mr. Duffield
Mrs. Klotz
Mr. Schwarz

H.M.Jr: Are you ready to start reading? Thanks
for coming, Eddie.

Greenbaum: I am glad to come.

H.M.Jr: "Mr. Willkie in his Buffalo speech of October 15
has again charged that the Treasury Department
has delayed the defense program.

"What Mr. Willkie, or the person who wrote
the speech, has done is to confuse the facts
and to withhold -" I am going to leave a
little of that out. Yell, Eddie, if you want
to.

Foley: He has already done that.

H.M.Jr: "What Mr. Willkie has done is to confuse the
facts and to withhold part of the record. He
has mixed up the act which limits profits on
Navy contracts with the income tax amortization
problem which was raised in discussions between
the Advisory Commission on National Defense and
representatives of the Treasury Department in
June, 1940."

Foley: Now, Eddie thinks this whole next paragraph
is much too involved, and I agree with him,

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where we are trying to explain the difference. Maybe we had better stop right there and go into it --

Greenbaum: Here is my thought, that this is like a reply brief to court.

H.M.Jr: That is what I asked him to prepare.

Greenbaum: It is a good thing to have it, because it has the facts, but the way I would approach this, "Mr. Willkie has flunked his course in Government. Naturally, it couldn't be expected with no preparation he could do this. He completely confuses between two rather elementary things, which is to be expected under the stress, and we are sure if Mr. Willkie had time to cram and do the thing he could pass his finals at mid-year on his elementary course," some approach like that.

(Mr. Cairns and Mr. Kades entered the conference.)

Greenbaum: Hello, Huntington.

(Mr. Schwarz entered the conference.)

H.M.Jr: This is Mr. Schwarz.

Greenbaum: How do you do.

Schwarz: Glad to see you.

H.M.Jr: You got it, didn't you?

Reporter: Yes.

H.M.Jr: That is the way to start it.

Greenbaum: That is the approach I would have on it. Then you would put that in the second sentence on the second paragraph here, that he has mixed up the act. That explains why he has

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flunked it, and then nothing else on the first page and shoot right into the second.

H.M.Jr:

Let me just read what he has here a minute. "I - Mr. Willkie asserts that Admiral Furlong, head of the Bureau of Ordnance of the Navy Department, asked on April 13, 1938, for the income tax amortization provisions enacted by the second Revenue Act of 1940. Admiral Furlong made no such request. On April 13, 1938, the Admiral addressed a memorandum to the Judge Advocate General of the Navy, suggesting that representatives of the Navy Department confer informally with the Treasury with the view to a formulation of a method to be followed in handling depreciation allowances under the Vinson-Trammell Act. That suggestion, of course, had no connection with the income tax amortization provisions enacted by the second Revenue Act of 1940 or with the problems resolved in that Act."

Does he say that they do?

Foley:

Sure. He says, "On April 13, 1938, Admiral Furlong, head of the Navy's Bureau of Ordnance, asked for a -"

Schwarz:

".....more or less consistent income tax amortization."

Foley:

That is right.

Greenbaum:

Yes, that is what he says.

H.M.Jr:

The suggestion I made was to do it - take a paragraph of Willkie's statement and then answer it.

Foley:

What we have done is that, Mr. Secretary, but it isn't susceptible of quoting what he said, because he says, "it" and you have to define what "it" is. It is all mixed up, it is all sort of overlapped.

H.M.Jr:

You couldn't do it?

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- Foley: No, you can't take that thing out.
- H.M.Jr: "Mr. Willkie asserts that 2½ years elapsed before the amortization problem was disposed of. As a matter of record, the problem was disposed of by the Treasury Department in February, 1939 - one month after receipt by the Treasury Department of the Navy Department's letter of January, 1939, referred to by Mr. Willkie, in which early action was requested."
- You have no evidence to prove that? You just make the statement?
- Foley: Well, we have got the letters that are in the file.
- H.M.Jr: I see.
- Klotz: That is the feeling it leaves us.
- H.M.Jr: ".....one month after receipt by the Treasury Department of the Navy Department's letter of January, 1939, referred to by Mr. Willkie, in which early action was requested."
- What did we do?
- Foley: We --
- Kades: There was a ruling agreed upon permitting them to charge it. It was on plant expansion. I don't think we published the ruling until later. This is the date that he says we - actually we didn't publish the income tax ruling until the following May or June.
- H.M.Jr: By not publishing it, didn't it go into effect?
- Kades: Well, the Navy knew about it. I don't know of anything we can actually point to.
- H.M.Jr: Then I wouldn't say this. Don't have me in that position, because he will look up the records and say we didn't publish it until June,

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so it couldn't have been effective if we didn't have a publication of it.

- Kades: Shall we put the exact date of the ruling in there or a ruling which had been agreed upon earlier was published?
- H.M.Jr: No, I would just - whatever the thing - whatever day it became effective, whatever day it became effective. I don't know what day that ruling became effective.
- Kades: Huntington, what did you think for February, 1939, here? That was the ruling he had reference to, wasn't it, the ruling that capital outlay is to be charged as cost under the Vinson-Trammell Act?
- Cairns: Yes, it was.
- H.M.Jr: What?
- Cairns: That was a publication of the ruling.
- H.M.Jr: When?
- Cairns: In February.
- H.M.Jr: Then it is all right.
- Kades: Did we actually publish it in February, 1939?
- Cairns: So Oscar tells me. The letter dated February 24 does that.
- H.M.Jr: What do you mean?
- Cairns: That is a letter from Hanes to the Secretary of the Navy.
- Foley: That is the reply to Furlong's letter.
- H.M.Jr: Then that is a simple way. I would say it this way. What is the date of that?
- Cairns: February 24, 1939.

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- H.M.Jr: I would say on February 24, 1939, Mr. Hanes wrote as follows.
- Kades: I think - because actually, there was a delay in the publication of the ruling.
- Cairns: Oscar said it was published then.
- H.M.Jr: I mean --
- Cairns: I think your point is a good one.
- Kades: So do I.
- H.M.Jr: I would simply say that --
- Greenbaum: There is a confusion there, Mr. Secretary, in that it shows action was taken in February, 1939, on a letter from Navy dated January, 1939, but the Admiral's suggestion of April, '38, in spite of the fact it was long ago, a year ago last February, nevertheless that is quite a period to wait, from April, 1938.
- Cairns: But the letter - the April 13 letter was a Navy communication inside the Navy. It didn't come over to us. Willkie said it came to us.
- Greenbaum: Well, it is all the Administration. It ought to be worded differently. You can't say --
- Cairns: Except that Willkie says the Navy is all right and the Army is all right and Hanes is all right.
- Greenbaum: We don't want to put ourselves in the position of showing the Navy delayed it a year.
- Cairns: They had to study the question and later on they brought us into informal conferences.
- Greenbaum: May I suggest wording that paragraph, instead of this manner, something like this: "The Navy gave prompt consideration to Admiral Furlong's suggestion, and on January -" whatever date it is --
- Cairns: January 13.

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- Greenbaum: ".....1939, made its recommendation to the Treasury Department. Within a month; namely, on February --" blank.
- Cairns: 24, 1939.
- Greenbaum: You can't say within a month then. "The Treasury gave this immediate consideration and study and on February 24, 1939, agreed with the Navy and the matter was disposed of in that manner," or something like that.
- Cairns: Yes. That requires a slight amendment because the Navy had taken it up with us informally before January.
- Greenbaum: Oh, I see.
- Cairns: And the formal request came over in January.
- Greenbaum: "Made a formal and final recommendation," something like that.
- Cairns: The words were, "immediate consideration."
- Greenbaum: That is right. I didn't know that. You will have to change that accordingly.
- H.M.Jr: Well, this leaves me very confused. In this thing where he starts in talking about "it", he is constantly referring to the amortization under the Vinson-Trammell, isn't he?
- Foley: That is what he is referring to, but he means to be talking about income tax amortization on the income tax bill.
- (Mr. Duffield entered the conference.)
- H.M.Jr: Hello. He (Greenbaum) is a friend of yours. He is a friend of yours in disguise.
- You didn't go to bed at all, did you?
- Duffield: Oh yes, a little bit.
- H.M.Jr: I just wondered. You see, he wants to set

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me right.

For Duffield's benefit, I would like to go over the record once again, you see. I wonder if we couldn't say something - "We appreciate Mr. Willkie wanting to go over the record." Before I say anything, I want to - I think I know what Mr. Willkie has in mind by constantly referring to "it", but I am not sure. "What I think he has in mind is a proposal for the amortization plan under the Vinson-Trammell Act, and that has not yet been changed because the Vinson-Trammell Act was just dropped off the books. What he is doing is, he is tilting with a phantom." It doesn't exist. Isn't that the whole point? Here he is talking - all of this is the amortization under the Vinson-Trammell.

Foley: He doesn't mean it to be amortization under the Vinson-Trammell. He means it to be income tax amortization, which didn't come up and wasn't dealt with until we had a conference with the Advisory Commission in June, 1940.

H.M.Jr: We don't say that, you see.

Foley: A little later on we do.

H.M.Jr: Well, I think this is the point right here.

Cairns: The "it", Mr. Secretary, I think, is clear. The President just last Wednesday signed a new tax bill. That bill had in the provision - that is what he says - that the Secretary now says he favors. I favor it too. The Navy asked for it. That is the amortization under the second --

Foley: Which isn't correct.

H.M.Jr: Isn't there a way, with all this talent around here, of driving that point home, that he doesn't know what he is talking about?

Foley: In "I" there, we say Admiral Furlong made no such request. "Mr. Willkie asserts that

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Admiral Furlong --"

- H.M.Jr: But you don't get the point over that Willkie is confused. He has got the two things confused.
- Foley: We say he has mixed up the act which limits profits with the income tax amortization problem.
- Greenbaum: That is what I meant, Mr. Secretary, start off with the tone that he has flunked his mid-years. He confuses the elementary functions of this thing because in his Government course he hasn't had time to study and he doesn't know and he has got these things mixed up. I think you could do it in a kidding, nice way, and say he is pretty good considering he has never had any preparation in this and you can't expect him to pass this examination, some tone like that, and then you can say - this second sentence in the paragraph would come after that and that would explain that he has mixed up the Vinson-Trammell with the new amortization provision in the second act of 1940, and that gives you the opening of shooting right into the other. After all, no one is going to read beyond the first two paragraphs.
- H.M.Jr: Couldn't you just simply say this: "I am very glad to take a few minutes to explain to Mr. Willkie just what happened, because - and Mr. Willkie --"
- Greenbaum: He can't be expected to know.
- H.M.Jr: ".....can't be expected to know because we feel that if he had, these questions wouldn't have come up, and Mr. Willkie, you have confused what Admiral Furlong was talking about with amortization under the Vinson-Trammell Act and what I said I was in favor of was amortization under the income tax law."
- Foley: Well, Admiral Furlong was talking about this Vinson-Trammell Act thing.
- H.M.Jr: Yes, but the thing I said I was in favor of -

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now, what I want to get over, if we can, is simply this, that the position that the Treasury took about amortization was that the amortization should not be treated alone and that until we had both, took off the Vinson-Trammell amendment on the excess profits tax, that we just didn't want to treat it alone, because that would have given the munitions manufacturers an undue profit and the thing that I want to get in at this time is that what we have been trying to do here right straight along is to take profiteering out of war. Out of this thing, I just wonder if we can't get this thing on a sort of informal basis. If you just get over the fact that what Admiral Furlong asked for was amortization - it was, wasn't it, under the Vinson-Trammell? Right?

Foley: Right.

H.M.Jr: And he didn't get it, did he?

Kades: Yes, he got it.

Foley: Yes, he got it.

Cairns: Yes, he got it.

H.M.Jr: You did give it to him?

Cairns: I would use the word, Mr. Secretary, if I may suggest it "cost" under the Vinson-Trammell, because you have to use amortization under the income tax. Then you get two separate words, a method of treating cost, cost allowances, and then you would say amortization in the income tax.

Foley: You see, it is a very technical subject that he has artistically confused, two things that are very, very different to separate, because --

H.M.Jr: There must be enough artistry around here to separate them.

Cairns: I think those two words, "cost allowances for

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the Vinson-Trammell Act," and "amortization for the income tax" can be used.

H.M.Jr: It isn't clear to me yet. I can't use it. Have you (Greenbaum) got any suggestions?

Greenbaum: If you think it would be helpful, I can go in Mrs. Klotz' room and dictate two paragraphs just so you would have copies and indicate where they should be considered as possibilities.

(Mr. Greenbaum left the conference.)

Kades: I was suggesting to Ed, Mr. Secretary, that perhaps if we went over informally what actually happened that then we would be able to redraft this along the lines that you had in mind.

H.M.Jr: Well, what did happen?

Kades: Admiral Furlong said in his letter to the Judge Advocate General, "I am having a lot of trouble with armor plate manufacturers because they won't expand their plants unless the Treasury permits costs of those plant expansions to be charged as costs in computing profits under the Vinson-Trammell Act. What can we do about it?" And the Judge Advocate General, after dickering back and forth with Admiral Furlong and the Bureau of Internal Revenue, said, "We will take it up formally with the Treasury," which they did the following January, after Admiral Furlong's letter. We replied and said, "When the manufacturer expands his plant solely for the purpose of making armor plate for the Navy or anything else, we will permit the cost of that plant to be charged as a cost under the Vinson-Trammell Act if he has no further use for it at the end of the contract." Theoretically the problem was then settled.

The difficulty came later when the Navy wanted us to permit plants to be charged as cost which we felt would be useful later on, as for example the Electric Boat plant and the Consolidated plant, where we thought the plant wasn't necessary

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only for that contract.

Then the Navy went down on the Hill and asked for legislation which would permit the Navy to determine when a plant was useful only for the particular contract and in June of this year that legislation was enacted.

H.M.Jr: In June?

Kades: In June. Now, none of that has anything to do with the income tax amortization at all. No manufacturer ever complained to Admiral Furlong about the treatment he was getting under the income tax laws. What he wanted was this 12% profit on aircraft --

H.M.Jr: Who?

Kades: Manufacturer. What he wanted was this 12% profit on aircraft and 10% on vessels plus his plant, and we said, "You can have it so long as the plant is useful only to perform this particular contract." There was no issue between us and the Navy as far as the theory went. The only issue was in the application of that theory to particular cases, the best case being Electric Boat where Mr. Sutphin argued with you, sir, that it was like a tool, that he was going to throw the plant away after he built the 23 torpedo boats, which we knew wasn't true.

H.M.Jr: Just thinking out loud, I think we ought to go back to - was it '34 when we closed the loophole on amortization?

Foley: It was later than that.

H.M.Jr: When was it?

Kades: It was right around there.

H.M.Jr: And I have heard the figure that at that time we figured we were losing around 700 million dollars a year. Somebody who knows this stuff -

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I mean, just let's say for a moment my figures are roughly right. I think - if you are going to go back, say, "One of the greatest loopholes which this Administration plugged was the one of amortization which was costing the country something like 700 million dollars a year. Now, that was done in the Revenue Act of '34." Now then, I take it some of the armor plate people tried to break down this Revenue Act of '34 and get certain privileges which they had prior to 1934 and which had been taken away from them. Now, is that correct?

Kades: The facts are these, sir.

Foley: Partially correct.

Kades: In January, 1934, the Ways and Means Subcommittee reported a recommendation to the Full Committee that there be a slash in all depreciation allowances of a flat 25% and you, as Acting Secretary of the Treasury, wrote a letter in which you said that that would be very confusing as a way to solve the depreciation problem, that you would handle it administratively, and on the basis of your letter the Ways and Means Committee decided not to recommend the flat 25% decrease in depreciation on allowances. In accordance with your letter, you published a Treasury decision which stated that the burden of proof henceforth would be on the taxpayer and that he would have to show that his property was absolutely obsolescent and being worn out at the rate that he claimed, rather than the burden being on the Bureau, which it had been under Mellon's administration.

That ended the depreciation problem as far as the income tax was concerned right up until this past June, but between that time and June this problem of costs under the Vinson-Trammell Act arose.

Now, as far as you know, Mr. Secretary, the armor plate manufacturers have never complained about the depreciation that they got for purposes of income tax but they felt that when they put

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\$6,000,000 of their money into new plants that unless they were permitted to charge that \$6,000,000 as a cost under the Vinson-Trammell Act, their profits would be so low that it wouldn't be worthwhile for them to take contracts with the Navy. They preferred to take contracts with the Army, which wasn't under the Vinson-Trammell Act, or the British or the French.

Foley: Where they could make unlimited profits.

H.M.Jr: Now we are getting somewhere. I think we are getting - I don't think anybody is going to read it and I think it is going to be tit for tat, but if you can get down to the thing of what was motivating these things.

Foley: More profits.

H.M.Jr: I made the statement that I might say, "Take the profits out of war," and they said, "No, don't say that, say, 'take profiteering out of war.'" If you can just for the moment - I mean, this thing here, all this business - I don't think anybody is going to read my answer, but if we can come back and show that we have steadily tried to make it as uninteresting and as unprofitable from the standpoint of unreasonable profits for the munition makers so that they won't encourage us into going into war. Now, if we can only have that thing run through this statement, I can get that into the papers, can I not?

Duffield: Yes. I think that a telling point on the same line is that you want here in Washington an Administration which will see that the big fellows aren't getting rich during the year that a lot of us may be serving at a loss.

H.M.Jr: That is right.

(Telephone conversation with Mr. Lowell Mellett follows:)

October 17, 1940
2:10 p.m.

H.M.Jr: Hello.

Lowell
Mellett: Hello, Henry.

H.M.Jr: Hello, Lowell.

M: I am having a devil of a time rounding anyone up. Ickes is leaving at 8:30 for St. Louis. He could come to an early dinner - couldn't stay.

H.M.Jr: Well, that's no use.

M: Jackson and Frank Walker are both going out to dinner at Pa Watson's tonight with their wives.

H.M.Jr: I see.

M: Now we probably could get Pa to call that off - tell him it's the President's orders. (Laughs). And I could get Charley Michelson down here. Well, he'd get in on a plane about 8 o'clock - probably get out to the house by 8:30.

H.M.Jr: With or without his dinner?

M: Yes. Well, he'd probably eat on the plane.

H.M.Jr: Well, why don't we - are you asking me for suggestions?

M: Well, I'm telling you the situation at the moment.

H.M.Jr: Well, why not do this. Who's going out to Watson's for dinner?

M: Bob Jackson and Frank Walker.

H.M.Jr: Well, why not let them have their dinner and come to the house right after dinner?

M: Leave their families where they are - leave Pa to entertain them, huh?

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H.M.Jr: Yeah.

M: Well, might be able to manage that, I don't know. Their dinner is at 7:30.

H.M.Jr: Well, they could be at the house at 9.

M: Which means probably 8 o'clock and they'd do well to get there by 9, but still it could be done.

H.M.Jr: Well, if it's all that trouble in the evening, we can meet at the office at 9 in the morning or meet at the house then they wouldn't know about the meeting.

M: Of course the evening meeting is a lot better - I don't think we could keep Charley. Charley would expect to go back on a night plane. Be useful to have him here because he'd have the program of what they've got.

H.M.Jr: I think we ought to have the meeting, see?

M: Well, now, I can put it up to Bob and Walker to come over immediately after dinner from

H.M.Jr: I would because - what time did you say Michelson gets in?

M: His plane will get in at 8 o'clock.

H.M.Jr: Well, he'd be at the house at 8:30.

M: He'd be getting out a little before they did.

H.M.Jr: Yeah. I would tell them. Supposing they could sit down promptly at 7:30 - they could be at the house at 9.

M: Uh-huh. All right, have everybody come out after dinner then?

H.M.Jr: No, I'd like - I'm delighted - Mellett for dinner?

M: Well, you can get me - (laughs) - if that'll help any. For the rest we could get Ickes

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for a little talk and let him dash away - get whatever ideas he might have and also about how available he may be.

H.M.Jr: What time would that be?

M: Well, they'd have to have it early for him because he's catching an 8:30 train.

H.M.Jr: No, that's no use.

M: Be 7 o'clock or something like that.

H.M.Jr: No, that's no use.

M: Uh-huh. It might be, Henry, how'd this be - to suggest 9 o'clock and let everybody come after dinner.

H.M.Jr: I think that would be better. I tell you, frankly,

M: It would give me time to do things I've got to do too.

H.M.Jr: Well, Mrs. Morgenthau is going back on the 9 o'clock plane and that's why, you know, it makes it a little extra difficult but, I mean, if we could do it for everybody - you know.

M: Yes, everybody at the same time.

H.M.Jr: Why not let's say 9 o'clock at the house?

M: Well, now, I'll call Bob and Walker again and if that works - see, if we get those two, yourself and Charley - that'll give - you've got a useful group if you don't get anybody else.

H.M.Jr: That's right.

M: Another possibility might be Biddle and Carmody that I mentioned.

H.M.Jr: You know, I think you ought to ask Hull.

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M: Hull?

H.M.Jr: Yeah, Cordell Hull.

M: For some reason - Steve mentioned him and eliminated him.

H.M.Jr: He did?

M: I'll try again.

H.M.Jr: Well, no, if he has, they may have some

M: I've forgotten what it was, but I think they've got all the arrangements for him they can make and that he can do - he's good for about one speech a month you know anyhow.

H.M.Jr: I see. Well, I didn't know. I know they had him over there yesterday talking about speeches because Steve told me so, so maybe they feel they've taken care of him.

M: When Steve mentioned Welles he just left him the way he eliminated Hull. I've forgotten what the reason was but I think it was that they've got him all fixed for all he can do.

H.M.Jr: I see. Are they going to have Welles come?

M: Well, no. I mentioned Welles to you this morning and you rather

H.M.Jr: Well, I don't care - did Steve say.

M: Well, I worked on - started immediately on Jackson and Frank Walker.

H.M.Jr: And you're evidently going to leave out Jones?

M: Oh, and I didn't mention Jones. I'll try Jesse Jones too. I haven't tried him yet.

H.M.Jr: You spoke of Carmody.

M: Yes, and I haven't tried either one of those because I thought Jackson was the first bet, and he didn't get back to town until 1 o'clock.

H.M.Jr: That's right.

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M: And I had to talk with Walker - I thought he'd be useful and found his situation and then I rang for Jackson. I just now got Jackson and that's his fix.

H.M.Jr: Something I wanted to suggest - who else is around? (Pause). I notice you didn't suggest that McNutt should come for supper.

M: Well, McNutt is out in the Middle West.

H.M.Jr: (Laughs).

M: He's talking at Rock Island tonight, I think, or tomorrow night.

H.M.Jr: What's happened to your sense of humor?

M: Well, - (laughs) - I would suggest McNutt, by golly if he were here. He's been out on the road and ought to know something and he made a darn good speech last night, Henry, in Kansas City.

H.M.Jr: Did he?

M: Yeah. I heard a whole string of them last night and he was the best of the bunch.

H.M.Jr: Is that right?

M: Yeah.

H.M.Jr: Well, I'll leave it to you - somebody, you at least and Michelson will show up at 9 o'clock and as many more as you've got lined up.

M: Right-o.

H.M.Jr: How's that?

M: Right-o.

H.M.Jr: I'll have the whiskey on ice.

M: Right-o.

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(Mr. Greenbaum returned to the conference.)

- H.M.Jr: Gene, let's hear what you have to say.
- Duffield: Well, I was just telling Ed that although I think a detailed answer such --
- H.M.Jr: Just a moment, Gene, let's see what he has.
- Greenbaum: I have dictated three suggested inserts and explained to Mrs. Klotz where they should go, and there are copies being made of that and I have tried to abbreviate and make it a little more informal and I think that is about all I can do.
- (Mr. Gaston entered the conference.)
- H.M.Jr: I suggest those be discussed.
- Duffield: I think that kind of an introduction to this routine reply is perhaps the best you can do with this and I think you ought to do it even though you know in advance that it may not get a lot of attention. Then I think the really important reply is not to attempt to refute this point by point, but the speech you want to make saying that this whole philosophy which Mr. Willkie has propounded here is one which you consider a dangerous one and that in a period when a lot of people are being called to serve their country at a loss, this is no time to talk about breaks for our munitions makers, but the whole issue here is one of whether you want a government in which there are breaks for that group or one which keeps always in mind the interests of all the people.
- Schwarz: I think that is important.
- Duffield: I think you will put it right back in his lap. He is on the defense then.
- H.M.Jr: That is what I want to do.
- Greenbaum: I want to concur in that and add the suggestion that we consider the possibility of someone other than you, Mr. Secretary, making that reply, because

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I think that what he is trying to do is to get into a personal controversy there and it looks as if you have something to apologize for or explain.

I think you could get easily the material you have available - a much more effective reply coming from the lips of another person instead of allowing him to place you in the position of being the defendant or having to apologize for anything. The two possible persons that I thought of were, one, Owen D. Young, because he hasn't been in the situation at all and that is something that I think would be of tremendous importance, if he would say something in a dignified way on this, and it would be respected in every possible way and it couldn't possibly be confused with anybody who would defend any of the things Mr. Willkie claims you are guilty of.

The other possibility, which is second choice, would be William Allen White, who is the outstanding person as far as aid to the Allies and speeding up things are concerned. It may well be that he wouldn't want to mess up with any political things. Maybe neither of those would be available, but Herbert Gaston might think of other people, but I do want to emphasize that it may not be the best thing of allowing you to admit that you have anything to explain to him.

H.M.Jr: No, I agree with you on that and I don't think I have anything to explain, but on the other hand, there are a lot of things we have done here in the interest of keeping the profiteering out of war, and we can take an affirmative side and boast about it.

Duffield: Mr. Gaston suggested last night that you could say that you have been tentatively engaged in this political campaign but you have got a big job to do and Mr. Willkie has challenged you here on a challenge that is right to the roots of the issue.

Gaston: Really, Willkie's speech this morning was just one speech that cries to be made and that is "Bread for Votes," "Bread or a Stone." It is just a swell one.

H.M.Jr: What do you mean?

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Gaston: "What do you want, bread or promises?" Remember "The full dinner pail," and what came out of that, or the fact of what is going on now. It is a cinch to promise jobs now because the jobs are being added by thousands, by millions every day. We have gone up to a national income right now for this year at the rate of over 75 billions against 40 billions back in 1932, and you can trace performance on the part of this Administration, promises that weren't fulfilled on the part of other Administrations.

Talk about the hollow arrogance, effrontery of this promise now to make jobs, when jobs have been made and are being made.

H.M., Jr: Well, that is for the President to do. That is something for him.

Gaston: Of course, the other thing we were talking about last night --

Greenbaum: I have to go now.

H.M., Jr: Thanks, Eddie. See you later, maybe.

Greenbaum: Yes.

H.M., Jr: Got a car downstairs?

Klotz: I will get one.

H.M., Jr: McKay will do it. Goodbye, and thank you ever so much.

(Mr. Greenbaum left the conference)

Well, we have got an hour and a quarter to go. I don't know what I will say at 10:30.

Schwarz: Mr. Secretary, I think we can still give some attack, in order not to be on the defensive, something along these lines, "In a year in which many young Americans will be serving at a loss, the Republican candidate for Presidency is still pleading for undue profits on munitions." In order to press this point, we can say, "Mr. Willkie had confused the facts." I think it can be simply stated that

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he is talking about - he is combining two things that have no relationship.

H.M.Jr: These lawyers ought to be able to separate those two things. Do you think you would take this statement, Gene, the way it is written or not?

Duffield: This introduction this morning? I think perhaps that can be improved. I think it is a good thing to have this thing, and then if you make any speech, all you need to say is, "Mr. Willkie doesn't know what he is talking about. He has got things confused here and I don't want to go into the details, but it has all been answered and I have already put it out," and then in any radio speech you can concentrate on that.

Gaston: You can't do much, in my opinion, to put over a political speech in a press conference. You can only deal with questions that come up, and it seems to me that the situation is that you are amazed that Willkie should boldly repeat in this other speech misstatements that he made in the prior speech. Evidently, his advisers just don't know what they are talking about, either that or they are grossly deceiving him. You say he doesn't know anything about it. He must just not know anything about it and evidently his advisers don't know anything about it either. They pretended to cite from the record.

Now, these things are all available. Anything can go and get them. Here is this document here, and it shows that this thing that he talked about that happened in '38 and '39 had nothing to do with the amortization for income tax purposes, nothing to do with it at all. We settled that issue back in February 1939, and here is a Treasury decision. Have you got that Treasury decision? Who has it?

Kades: I have a copy of it.

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- Foley: Here Admiral Furlong talks in 1938 in this memorandum about amortization under Vinson-Trammell Act.
- Gaston: The only thing is that Mr. Willkie seems to be advocating for a group of private contractors. Of course, you are in a different position. You have to see that the people of the United States, the taxpayers, are not robbed in any deals over which you have jurisdiction.
- Foley: I think if you try, Mr. Secretary, to answer this thing paragraph by paragraph, you have got a very defensive statement that isn't effective at all, because the subject is complicated and it has confused two things.
- H.M.Jr: Well, he has done it well, Ed.
- Foley: Yes, he has done it well, and it is hard to separate it without being on the defensive.
- H.M.Jr: Well, supposing we are on the defensive but give him an attack in the first line? We have got to explain this thing.
- Gaston: When you are talking about a written statement, that is all right.
- H.M.Jr: Well, we have got to give them a written statement. I couldn't memorize this thing and I wouldn't want to do it without a written statement. I don't want to do it. It is too important. I wouldn't have it without a written statement.
- Kades: It seems to me, Mr. Secretary, that the suggestion you made that Willkie is confused and that you want to give him a little classroom lecture on what the two different problems involved are, is an approach which we could very easily work this into. Do you disagree with that?
- Gaston: For press conference purposes? That would be all right.

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- Schwarz: Then instead of being on the defensive, you could be talking down to him.
- Kades: That wouldn't have the defensive vice he is talking about. Just what you yourself dictated a little earlier seems to me to be the way to approach it.
- H.M.Jr: "Mr. Willkie in his Buffalo speech of October 15 has again charged that the Treasury Department has delayed the defense program. In spite of Mr. Willkie's apparent desire to study government problems in the heat of the campaign, it is to be expected he would not be able to do any more than get a smattering of knowledge during this hectic study period. In this instance, he has mixed up the Act which limits profits on Navy contracts with the income tax amortization problem which arose out of the necessity for a vastly enlarged rearmament program. He thinks that the Vinson-Trammell Act, which was the Act limiting profits on Navy contracts, is the same as the amortization relief recommended by the Advisory Commission to the Defense Council and representatives of the Treasury Department of June, 1940. He has flunked his preliminary examination which he might be able to pass with sufficient preparation. The problem that he mentions as having arisen in 1938 was speedily solved by the Treasury Department to the complete satisfaction of the Navy a year ago last February.

"Let us examine Mr. Willkie's charges and compare them with the record.

"1. Mr. Willkie asserts that Admiral Furlong, head of the Bureau of Ordnance of the Navy Department, asked, on April 13, 1938, for the income tax amortization provisions enacted by the Second Revenue Act of 1940. That is not the fact. On April 13, 1938, the Admiral addressed a memorandum to the Judge Advocate General of the Navy, suggesting that representatives of the Navy Department confer informally with the Treasury with a view to the formulation of a method to be followed in handling depreciation allowances under the Vinson-Trammell Act. That suggestion, of

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course, was quite a different matter than the income tax amortization provisions, with which Mr. Willkie confuses it.

"Mr. Willkie's assertion that two and a half years elapsed before the amortization problem was disposed of is 100% wrong. The problem which he confuses with the present one was disposed of in February, 1939. That was just one month after the Treasury Department received the Navy Department's letter referred to by Mr. Willkie."

And I think if you would just sort of document that, "which will be found on page 106." Give the reference. It is found on page 106 of the Navy Appropriation Bill of 1940. I like some documentation. Don't you think so? I would just give something that anybody can read. It isn't that he has got some secret information.

"Mr. Willkie asserts that in the middle of 1939, John W. Hanes, then Under Secretary of the Treasury, drafted a plan for amortization at the request of the War and Navy Departments. If any such plan was drafted by Mr. Hanes, it is not in the files of the Treasury Department and is unknown to any of its officers and employees. Certainly he didn't talk to me about it. Furthermore, our files do not contain any record of such a request from the War and Navy Departments."

Would you say, "Mr. Willkie asserts that --" We couldn't put in there, "Mr. Willkie must have been misinformed, because if any such plan was drafted --" just keep referring - "Mr. Willkie must have been misinformed"?

Cairns:

Yes.

Foley:

Yes.

H.M., Jr:

And, "Mr. Willkie must have been misinformed, because if any such plan was drafted by Mr. Hanes, it is not in the files of the

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Treasury Department and is unknown to any of the officers and employees. Certainly he didn't talk to me about it."

Well, do you want to put it - "But maybe he did to Mr. Willkie"?

- Duffield: That is disturbing to me, because Johnny was certainly talking that around here. I don't know who he did talk it to, but gee whiz, the newspaper men were streaming in to me and this was a hot tip they had, that we were going to give them income tax treatment just like the Vinson-Trammell.
- Foley: No, Gene, it was the closing agreement on Vinson-Trammell, but not on income tax.
- Duffield: No, subsequently he was telling them we were going to do the same thing for them on income.
- Gaston: In November and December of 1939, he was talking to letter writers and newspaper men about the special amortization provisions that we were going to give.
- H.M.Jr: Are you sure that Hanes didn't have such a plan?
- Kades: I will get an extract.
- Foley: There is nothing in his records that he left behind. There is nothing in the stuff of yours that we read that shows that he ever had such a plan.
- H.M.Jr: Did you check with the Bureau of Internal Revenue?
- Foley: No.
- Duffield: John Sullivan might have it.
- Klotz: He wrote you a letter.
- Foley: That was on war profits. There was a very good reply to that letter that we have never sent.

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H.M.Jr: But --

Foley: We got those letters.

H.M.Jr: Did he cover this --

Foley: No, this letter was written in September, 1939, after you came back from Europe, and he was talking about taxation plans in connection with financing preparation for war, and war.

Klotz: You wrote a beautiful reply.

Foley: Yes, the reply was a beautiful reply and apparently wasn't signed, never was given to him, but his letter to you was a revealing document. It shows his philosophy.

H.M.Jr: You never had seen it until last night?

Foley: No, I never saw it.

H.M.Jr: But you are sure - if I say, "Mr. Willkie must have been misinformed," there is nothing in the files?

Duffield: If he had it, he probably would have taken it with him.

Schwarz: No such plan was ever presented. Maybe he talked about it, but he still didn't present it.

H.M.Jr: If the plan exists, that is the important part. Are you fellows convinced it doesn't?

Foley: Sure.

Klotz: Were all the official files searched, I mean the files that are upstairs?

Foley: No, I don't think the files upstairs were searched. The only thing we looked at was your (Secretary's) stuff last night.

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- Cairns: If there is any doubt about it, I would cut out the whole paragraph.
- H.M., Jr: I would much rather cut it out, because if he heard it around, and Johnny can produce a plan, it would make me look silly.
- Gaston: I remember one time in his office Johnny told me that we ought to do something about this amortization and that his idea was that we would let them amortize freely over the life of the contract, but then the Government would own the facilities after they are amortized, and that surprised me a good deal, and then a few days later he showed me just a couple of sentences providing for rapid amortization, but without that Government-ownership feature, and I asked him about it and he said, "Oh, that would be taken care of."
- H.M., Jr: Well now, could I just run through this part here?
- Klotz: That is on page three and comes down to here.
- H.M., Jr: "Mr. Willkie quotes the statement that I made to a newspaper man on December 4, 1939, in which I said, 'If it rested with me as to whether a fellow would get a break before he had a munitions contract, I am afraid he would fare rather badly.' I was, of course, referring to the Vinson-Trammell Act. My statement was prompted by publicity given in connection with the closing agreement with a certain manufacturing company."
- I will tell you what let's do. Let's get this typed all successively and get the thing started.
- Klotz: Wasn't there something you wanted to quote in the very beginning, from this book? You wanted to make a reference to that.
- H.M., Jr: Yes.

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Cairns: Should I come in with it?

Klotz: Yes, will you please?

H.M.Jr: Do you like this introduction now? "Mr. Willkie in his Buffalo speech of October 15 charges that the Treasury Department has delayed the defense program. In spite of Mr. Willkie's apparent desire to study governmental problems in the heat of a campaign, it is to be expected naturally that he will not be able to do any more than get a smattering of knowledge during this hectic study period. In this instance, he has mixed up the Act which limits profits on Navy contracts with the income tax amortization problem which rose out of the necessity for a vastly enlarged rearmament program," and so forth.

What do you think of that?

Gaston: I don't like it.

H.M.Jr: How about you?

Duffield: I think it lacks a certain amount of punch that it ought to have. It isn't quite kidding enough, if that is what you want.

H.M.Jr: How would you do it, Gene?

Duffield: I was looking at this one. I liked this one better.

H.M.Jr: Which one?

Duffield: The first one.

H.M.Jr: You mean that paragraph --

Duffield: The first paragraph.

H.M.Jr: And cut out the second one?

Gaston: Cut out this one, "the person who wrote the speech."

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H.M.Jr: Well, what Greenbaum has done will be all right, won't it? We will take another look at it.

Foley: This is the memorandum that Johnny dictated from the files on the 9th of November after he talked with Louie Johnson. He said, "I suggested that the problem seemed to me to be relatively simple because in the last analysis the motor manufacturers would not increase their investments in plant accounts for machinery for war purposes without having some assurance that the investment could be written off completely through depreciation during the life of the contract or during the emergency period. I therefore suggested to Assistant Secretary Johnson that the first step would be to have the President authorize the Treasury to conclude closing agreements with these manufacturers on the best basis possible."

Now, that is the only plan where he ever had closing agreements, and he talks about the life of the contract, which was the Vinson-Trammell thing.

And then on the 29th of November, in your office - and this was after we told him that we didn't have the authority to do this - he says, "Now, the Vinson-Trammell situation creates a whole of a lot more complications and where we are dealing with a contractor under the Vinson-Trammell Act, then I let the lawyers speak here, but I am scared to death of that one, because it seems to me that you have just got to be awfully cautious how you sign closing agreements on something that is, in my opinion, circumventing the Vinson-Trammell Act, and especially in view of the fact that we have got this record before us here of the Nye Munitions Committee. If we weren't circumventing it, I think we would be on a lot safer ground to take this thing before the Congress and get statutory authority to do this thing before you do it on the Vinson-Trammell Act

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or advise the President to do it on the Vinson-Trammell Act. Then we would be acting, even if we had statutory authority - I don't think we have that authority, but I would like them to talk on that, because that is a legal question I am not capable of talking about."

H.M.Jr: This is written for his own benefit?

Foley: Yes, this was written for his own benefit. No, this was on the ticker - the conference report.

Kades: This proves he had no plan at that time at all.

Foley: That is right, he had no plan.

"On the morning of November 9, the President signed a memorandum, copy of which is attached, which I prepared and brought to him, authorizing the Treasury to proceed along the lines I suggested above. We used the closing agreement and can give the manufacturers the best basis possible."

Gaston: I think this is all right. I have added one sentence there.

Foley: He says the Secretary doesn't have the authority, and that was later.

H.M.Jr: You say Mr. Willkie has done --

Gaston: It is pure ignorance that has led him to make a series of utterly false statements.

H.M.Jr: That is all right. That has got punch to it. I like that. "I prefer to believe that it is pure ignorance that has led him to make a series of utterly false statements."

Gaston: And you don't have to state the alternative.

H.M.Jr: I think that is all right. That is strong enough. What do you think, Gene?

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- Duffield: I like it.
- H.M.Jr: Too strong?
- Duffield: No. This is different from an ordinary official Treasury thing.
- H.M.Jr: Now, wait a second. The only part of the paragraph, you see, I want to - Greenbaum, I think, cut out a part of that. What I am doing in this thing, I am leaving out this paragraph about the act limiting. That is what I told him, that we were just doing that over.
- Foley: Here are the dates on this, Mr. Secretary. January 13, 1939, Navy letter requesting formulation of cost allowance method. That is the first time it came to us formally. Now, between April, 1938, the date of Admiral Furlong's informal memorandum which was addressed to the Judge Advocate General of the Navy, which didn't get out of the Department until January 13, 1939, this matter never was formally presented to the Treasury. There is a delay in there, but that is the Navy's fault, that is not our fault. On January 13, 1939, they formally asked us to form a cost allowance method. On the 30th of January, we outlined what could be done and said if it was satisfactory to the Navy, we would publish a ruling. On the 11th of February, the Navy wrote back and said that our proposal was entirely satisfactory. On the 24th of February we said that we would publish a ruling and then the ruling was published, but the exchange of letters did the trick.
- H.M.Jr: As a matter of fact, didn't Hanes sign some of those?
- Foley: Yes, he signed both letters as Acting Secretary. Lahey signed them as Acting Secretary of the Navy.
- H.M.Jr: There is no need of bringing that out.

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Duffield: No.

Schwarz: It is purely coincidental.

Duffield: I think that is the sort of brief chronology you want.

H.M.Jr: But not all the rest of this?

Duffield: I don't know whether - certainly that ought to be in.

H.M.Jr: I think so.

Duffield: So that all you need to say is that on January - in January, 1939, the matter was first brought to the attention of the Treasury Department.

H.M.Jr: Just one, two, three, four. I wonder if that couldn't fit in somewhere the way we are writing it?

Foley: Yes, that goes in there.

Gairns: I think it is already in there.

H.M.Jr: But it isn't in that form.

Gairns: There is an answer to that.

H.M.Jr: What is the answer?

Gairns: The answer is that from April to January we were discussing it.

Foley: But the thing wasn't formally before us.

Duffield: I think all you say about that is that in January, 1939, the request was first formally presented to the Treasury.

H.M.Jr: I think that is the answer.

Foley: We are not going to quote an interdepartmental memorandum from the Chief of Ordnance to the Judge Advocate General that was never sent outside the Department.

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- Schwarz: It is in the hearing.
- Kades: There is nothing to tie us into that, though, Chick.
- Cairns: He says that came to us on that day, and it didn't.
- Foley: That is right. He says - he doesn't say to whom Furlong's memorandum was addressed. He says it was sent to the Treasury. It wasn't, at all.
- H.M.Jr: I think that that is perfectly safe, because it will take him another two or three days to have another comeback if he wants to come back again. I think the thing was formally - just the way you have it. Isn't there some place that would fit in?
- Foley: That would go in on page two. "Mr. Willkie asserts that Admiral Furlong, head of the Bureau of Ordnance of the Navy Department, asked on April 13, 1938, for the income tax amortization provisions enacted by the Second Revenue Act of 1940. That is not the fact. On April 13, 1938, the Admiral addressed a memorandum to the Judge Advocate General --" Interoffice.
- Duffield: No, leave out all of that.
- Foley: All right.
- H.M.Jr: Leave it out?
- Duffield: Leave out what he is starting to read now. I think the quicker you get into this one, two, three, the better.
- Kades: You just say this is what happened.
- Duffield: This is what happened.
- Cairns: But Willkie is not talking about this matter.
- Foley: He is talking --

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- Cairns: That is our point. All this chronology relates to Vinson-Trammell.
- Foley: You have got to get that in there.
- H.M.Jr: How can we get that over?
- Foley: We say that has no connection with the income tax amortization - or with the problems involved in that act. These are the facts. And then put this chronology in there.
- H.M.Jr: Do you think so, Gene?
- Duffield: Well, I think all you need in advance of that is a statement that says Mr. Willkie has mixed this up with Vinson-Trammell and the other.
- Cairns: That is what Eddie dictated. That is his first paragraph.
- H.M.Jr: You couldn't get in the chronology this way. "Mr. Willkie keeps referring to a letter - or keeps referring to Admiral Furlong." And then I could say, "Now, you and I know that had to do with Vinson-Trammell, but let's see how the Treasury handles the business when it does get a memorandum from the Navy, and this is what happened in this particular case." Would you say something like that?
- Foley: Sure, you could.
- Cairns: You have got a year to explain, from April to April.
- Foley: No, you don't have to explain it. It wasn't formally before us.
- Cairns: But it was in the Administration.
- H.M.Jr: Well, he has no records. Hanes wasn't Under Secretary of the Navy. How does the thing

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happen when it was brought to us formally? It was brought to us formally in January and before the end of February we had cleared it up to everybody's satisfaction.

- Kades: He refers to the fact, Huntington, that it was brought to us in January, and it seems to me it is a good answer for us to say we disposed of it immediately.
- Duffield: We disposed of it in February.
- Schwarz: He makes a direct misstatement. And then what happens? Nothing happens.
- Foley: Don't you have to explain that he is talking about something entirely different? I think you want to show what he is talking about.
- Klotz: These are the three things that Mr. Greenbaum dictated.
- Cairns: Do you have that insert for page two?
- Klotz: Yes.
- Foley: Where is Eddie?
- Klotz: He has gone.
- H.M.Jr: Now, this is the way it sounds. Do you want to listen?
- "Mr. Willkie in his Buffalo speech --" and so forth. "What Mr. Willkie or persons who wrote his speech have done --"
- Gaston: I don't think you want that.
- H.M.Jr: That was out. I left that out once. "What Mr. Willkie has done is to confuse the facts and to withhold part of the record. I prefer to believe that it is pure ignorance that has led him to make a series of utterly false statements. He has mixed up the Act

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which limits profits on Navy contracts with the income tax amortization problem which was raised in discussions between the Advisory Commission on National Defense and representatives of the Treasury Department in June, 1940.

"Let's examine Mr. Willkie's charges:

"1. Mr. Willkie asserts that Admiral Furlong, head of the Bureau of Ordnance of the Navy Department, asked, on April 13, 1938, for the income tax amortization provisions enacted by the Second Revenue Act of 1940. That is not the fact. On April 13, 1938, the Admiral addressed a memorandum to the Judge Advocate General of the Navy, suggesting that representatives of the Navy Department confer informally with the Treasury with a view to the formulation of a method to be followed in handling depreciation allowances under --"

Well, I think this starts off all right. Anybody want to change this page?

Schwarz: I suggest "limited" profits, rather than "limits" because --

H.M.Jr: Where is that? "...which limits profits...?"

Schwarz: "...which limited profits..."

H.M.Jr: "He has mixed up the Act which limited profits on Navy contracts..." I think this is going to go. Are you (Klotz) just letting the one girl do it?

Klotz: Well, because there are so many parts. She is almost finished with the second page.

H.M.Jr: This is now the one I am working on. I am working from this. This is what I am working from.

Here is page two. Do you want to listen, gentlemen?

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"....a method to be followed in handling depreciation allowances under the Vinson-Trammell Act. That suggestion, of course, was quite a different matter than the income tax amortization provisions with which Mr. Willkie confuses it. The entire story, including the correspondence referred to by Mr. Willkie is set forth as a matter of public record in hearings before the subcommittee --" and so forth and so on.

I think it is good to get that in. It is no secret. In other words, it has been known for a long time. I like that.

"Mr. Willkie's assertion that two and a half years elapsed before the amortization problem was disposed of is 100% wrong. The problem which he confuses with the present one was disposed of in February, 1939. That was just one month after the Treasury Department received the Navy Department's letter referred to by Mr. Willkie."

That is wrong.

- Foley: Here is the way we changed that. "Mr. Willkie's assertion is 100% wrong. The problem of computing costs under the Vinson-Trammell Act, which he confuses with the tax amortization problem, was disposed of in February, 1939. The matter was formally brought to the attention of the Treasury Department on January 13, 1939, and on February 11, 1939, the Treasury was advised by the Acting Secretary of the Navy that the Treasury's proposal was entirely satisfactory. That was just one month after the Treasury received the Navy Department's letter referred to by Mr. Willkie."
- H.M.Jr: You say it too often, the same thing. You say it over and over again. Can't you make that a little bit --
- Foley: All right, you don't want to say that was one month after?

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- H.M.Jr: No, you say it twice. Let Gene take it. You say it too often.
- Duffield: Then it would read, "Mr. Willkie's assertion that two and a half years," et cetera, et cetera, "is 100% wrong. The problem of computing costs under the Vinson-Trammell Act, which he confuses with the income tax amortization problem, was disposed of in February, 1939. That was just one month after the Treasury Department received the Navy Department's letter referred to by Mr. Willkie."
- That last sentence: "That was just one month after the Treasury Department received the Navy Department's --" first formal request.
- H.M.Jr: Yes.
- Kades: Then you will leave out the chronology of the letters?
- Foley: Yes.
- Duffield: Well, you can do either one. It seems to me you can just say that here is what happened, and put it one, two, three --
- Foley: That makes it longer.
- Duffield: Yes, that does.
- H.M.Jr: No, I don't think the public is so much interested in the fact that we - it is the fact that we acted one month after we heard it. Do you want to dictate it fresh?
- Duffield: All right.
- Klotz: There may be other --
- H.M.Jr: Well, that is all right. How have you got it now?
- Duffield: "Mr. Willkie's assertion that two and a half years elapsed before the amortization problem

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was disposed of is 100% wrong. The problem of computing costs under the Vinson-Trammell Act, which he confuses with the income tax amortization problem, was disposed of in February, 1939. That was just one month after the Treasury Department received the Navy's first formal request for handling this problem."

H.M.Jr: Handling this problem?

Duffield: No, that is not good.

H.M.Jr: For consideration of this problem.

Kades: "After the Navy formally brought this problem to the Treasury's attention." We didn't know it existed before that.

H.M.Jr: How was that last sentence?

Duffield: "That was just one month after the Treasury Department received the Navy's first formal request for handling this problem."

H.M.Jr: For consideration of it.

Foley: For consideration of this problem.

Duffield: Yes, consideration.

H.M.Jr: Go over there and dictate that to her (Miss Chauncey). Get this started to be mimeographed, will you?

Now, I will read on here.

"Mr. Willkie quotes a statement that I made to a newspaper man on December 4, 1939, in which I said, 'If it rested with me as to whether a fellow would get a break before he had a munitions contract, I am afraid he would fare rather badly.' My statement was prompted by publicity given ---"

Now, do you think I should say this here?

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Foley: No, that doesn't sound very good.

H.M.Jr: No, I don't think so.

Klotz: That is Mr. Greenbaum's.

H.M.Jr: I know it is. I don't see why we can't go right to this. I tell you what you do, Miss Chauncey. What you have there will be page two, so we can get it up to the mimeograph room.

Chauncey: Paragraph two?

H.M.Jr: Page two. This, plus what Duffield wrote, is page two.

Cairns: Let me make a change here.

H.M.Jr: Now, couldn't we go --

Foley: You dealt with that on Sunday.

H.M.Jr: "I recommended the repeal of the Vinson-Trammell Act and the substitution of the Excess-Profits Tax so that profits be taken out of war and all be treated alike."

Do you like that? I don't like that. Couldn't we start it by simply saying it this way: "The question of income tax amortization has been settled, and now we will take up the chronological story of the Vinson-Trammell Act," something like that? "Now, let's take up the question of the income - story on the income tax amortization. That matter was first taken up in July - July 10, 1940, at the White House."

Duffield: I like that, because that draws a clean line between them.

H.M.Jr: Let's just --

Klotz: He has got it.

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- H.M.Jr: Let's do it again.
- "I now have disposed of the question of the chronological order --"
- Duffield: The question of --
- H.M.Jr: "I now have disposed of the question of what the Treasury actually did in connection with the treatment of cost allowances under the Vinson-Trammell Act. Now, let's consider what really happened in connection with amortization under the income tax. This matter was first taken up on July 10, 1940, at the White House."
- Cairns: First brought to public attention.
- H.M.Jr: "Was first considered by the Treasury."
- Cairns: In June, 1940.
- Foley: That is right.
- Cairns: And was the subject of the press release by --
- H.M.Jr: Just simply say, "was first considered by the Treasury in June, 1940."
- Did I start the first sentence with "I"?
- Klotz: Yes.
- H.M.Jr: Let's start it, "Having now disposed of --" and so forth.
- Well now, he comes back and says, "Why didn't you do it long before that?"
- Gaston: I don't think that is quite accurate, that it wasn't considered. There certainly was conversation around here.
- Foley: Well, that is the date that Congress selected, the 10th of June, because that was the first time that they had given it formal consideration.

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- Gaston: Of course, Mr. Willkie said it took two and a half years to get action. Of course, he is basing that on this prior record which we have already shown.
- Foley: Which dealt only with the Vinson-Trammell Act and not with this. I don't see how he can show that we gave any formal consideration earlier than June, 1940.
- Cairns: Except that Gene remembers he talked about it in November, and I think that is correct, in November, 1939.
- Foley: What did he talk about? He only talked about the closing agreements.
- H.M.Jr: I have got a thought here. He can come back and say, "Well, why didn't you consider this a long time ago?" Why not end the statement there and say, "This disposes of the question of the cost allowances under the Vinson-Trammell Act," and that is the thing that he has been - and not say anything about the other thing at all, just say that disposes of that? Mr. Willkie has been all mixed up. All right. "What happened under Vinson-Trammell cost allowances? This is what happened."
- Gaston: If you are going to say anything about the other, the only thing you can say is that it wasn't brought forward until July, 1940, because it wasn't needed until that time. It was only at that time that the enlarged appropriations made it necessary to consider some new treatment and it was promptly handled.
- H.M.Jr: Just a second, Herbert. I learned about this yesterday. It is all jammed up. I just would stop there. Mr. Willkie is all mixed up on the Vinson-Trammell Act.
- "Now, gentlemen, this is what happened on the Vinson-Trammell --" and then if he

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comes back on the Vinson-Trammell --

- Foley: Then you could say in general terms, "When the need arose for special treatment, the matter was handled promptly and the bill signed by the President."
- H.M.Jr: No, I would stop right there.
- Schwarz: He says all sensible people favor the amortization.
- Foley: Jimmy Byrnes nailed him on that. He showed him there was only one sensible Republican. All the other Republicans voted against it.
- H.M.Jr: You have got my --
- Foley: Yes, we have got the speech, too.
- H.M.Jr: "That suggestion, of course, was quite a different matter than the income tax amortization provisions with which Mr. Willkie confuses it.
- "That was just one month after the Treasury Department received the Navy's first formal request for consideration of this problem."
- Gaston: That is the end.
- H.M.Jr: Yes, period. Then if he comes back on the other thing, okay, it is another story, but I have tried to clean up the confusion in his mind on the Vinson-Trammell, what did or what didn't happen, and the thing was - this makes sense to me. It was brought to our attention in January, and in February of '39 we cleared it up, and instead of being a two and a half year delay, this was a one month delay.
- Cairns: Everything that you say there takes care of it. There is nothing new in this last paragraph we are working on, really. It is all contained in paragraph three.

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- Gaston: Unless you want to go into the whole record of the progress of the program, whether it was or wasn't needed before.
- H.M.Jr: Well, that is another story. Let him come back at me again, and then we get into the whole question of profits of war and everything else.
- Gaston: Yes. And that is purely defensive. This is nailing him on a gross misstatement, but when you begin to defend your record for delay in this amortization, that is defensive.
- H.M.Jr: "Mr. Willkie's assertion that two and a half years elapsed before the amortization problem was disposed of is 100% wrong. The problem of computing costs under the Vinson-Trammell Act, which he confuses with the tax amortization problem, was disposed of in February, 1939. That was just one month after the Treasury Department received the Navy's first formal request for consideration of this problem."
- I think it is all right. Then all the rest of this stuff - well, let's see what he says.
- Duffield: If they ask you at the press conference about the income tax, you can say merely that that is another story which didn't begin until a year later.
- H.M.Jr: Let me just say, "Well, this is what happened. When we decided that we were going to have a second income tax bill, at that time we took the matter up in connection with - when we decided we would have a second tax bill this year, that was taken up for the first time in consideration of what should go into the second tax bill."

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ey: Then you can say, "Mr. Willkie says that every sensible man was in favor of what we did in that bill, but the record shows that only one Republican Senator voted for the bill."

ton: That has been worked pretty hard already, Ed. Of course, the fact is that they weren't voting against the amortization but the excess profits.

.Jr: That is perfect, isn't it, Herbert?

ton: Yes.

.Jr: "I - Mr. Willkie asserts that Admiral Furlong, head of the Bureau of Ordnance of the Navy Department, asked on April 13, 1938, for the income tax amortization provisions enacted by the second Revenue Act of 1940. That is not the fact. On April 13, 1938, the Admiral addressed a memorandum to the Judge Advocate General of the Navy, suggesting that representatives of the Navy Department confer informally with the Treasury with a view to the formulation of a method to be followed in handling depreciation allowances under the Vinson-Trammell Act. That suggestion, of course, was quite a different matter from the income tax amortization provisions with which Mr. Willkie confuses it. The entire story, including the correspondence referred to by Mr. Willkie, is set forth as a matter of public record in hearings before the subcommittee -" in other words, he hasn't got anything anybody else hasn't got. Now, "Mr. Willkie's assertion -" this is a rebuttal - "that 2½ years elapsed before the amortization problem was disposed of is 100% wrong. The problem of computing costs under the Vinson-Trammell Act, which he confuses with the tax amortization problem, was disposed of in February, 1939. That was just one month after the Treasury Department -" I wonder if you couldn't say it was disposed of just one month - was disposed of in February, 1939, just one month - it is all right. Is that strong enough?

ton: It is stronger the way it is, I think.

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H.M.Jr: I am satisfied with this. Are you?

Klotz: Yes.

H.M.Jr: I think that is a good statement.

Gaston: An aide memoire.

H.M.Jr: Aren't you, Ed?

Foley: It is all right.

H.M.Jr: Chick?

Schwarz: It answers one particular charge, and that is about all your reader can grasp at one time.

H.M.Jr: Yes, but this - this one we have got a good answer for.

Schwarz: That is right, a very good answer.

H.M.Jr: How about you?

Cairns: I am satisfied. I would prepare myself for one question. Where you referred to June, 1940, why didn't you do this before?

H.M.Jr: Well, Ed is going to sit in here with me.

Kades: Another question which might be asked, Mr. Secretary, is how did the Treasury dispose of the problem in February, 1940, and the answer is by agreeing to publish a ruling requested by the Navy Department concerning the computation of costs incurred in plant expansion.

H.M.Jr: Have you got that ruling?

Kades: Yes, sir.

H.M.Jr: For God's sake, give it to us.

Duffield: If they ask you how it was disposed of, you can just show them the ruling.

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Cairns: The letter settled the problem.

H.M.Jr: Have you got the letter?

Foley: The letters are here.

Cairns: Here it is.

H.M.Jr: My letter to them?

Klotz: Yes.

Cairns: This letter signed by Hanes. The letter settled the problem.

Foley: And this is the ruling and that is dated after, you see.

H.M.Jr: All right. The letter settled it. This is the letter here?

Foley: Yes. You want to mark it?

H.M.Jr: Now, what else are they going to ask me? This is good.

Duffield: I can't think of anything else that I would ask.

Cairns: If they ask you anything about Johnny Hanes, tell them to read the story of Alcibiades. I told my wife the story this morning. Alcibiades, you know, was an official in Athens and Athens did something he didn't like, so he went out and tried to destroy it. I told Florence the story and she said, "Why, he is Alcibiades."

H.M.Jr: My knowledge of Greek mythology is as good as yours. The last thing my wife said when I left, this thing about Pythias and Damon, so I said, "Read the story, and maybe they have a stool pigeon and if you can get the Greek name for stool pigeon --"

Klotz: That is very good.

H.M.Jr: But his name is what?

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Cairns: Alcibiades.

H.M.Jr: Okay.

MISCELLANEOUS.

SECTION 3 OF THE VINSON ACT (48 STAT., 503), AS AMENDED BY ACT OF JUNE 25, 1936 (49 STAT., 1926), AND BY ACT OF APRIL 3, 1939 (PUBLIC, No. 18, SEVENTY-SIXTH CONGRESS).

1939-24-9875
I. T. 3289

Precedent in connection with determining the allowance for obsolescence of special facilities as part of the cost of performing a contract or subcontract subject to the provisions of section 3 of the Vinson Act of March 27, 1934 (48 Stat., 503), as amended by the Act of June 25, 1936 (49 Stat., 1926), and as further amended by the Act of April 3, 1939 (Public, No. 18, Seventy-sixth Congress).

The regulations issued under section 3 of the Vinson Act contain a general provision for the allowance of recurring charges with respect to property used for manufacturing purposes under a contract or subcontract coming within the scope of such section. (Article 8(c)5(D) of the regulations in Treasury Decision 4723, C. B. 1937-1, 519.) This provision is sufficiently broad to permit proper allowance for depreciation and obsolescence of such property. The determination of an allowance under such provision will be made by the Commissioner of Internal Revenue pursuant to his duty of determining the correct amount of excess profit liability on contracts and subcontracts coming within the scope of section 3 of the Vinson Act. (Article 19 of the regulations, Treasury Decision 4723, supra.)

With respect to special facilities, inasmuch as it is not reasonably certain until a Navy contract is completed or otherwise terminated whether such special facilities necessarily acquired to perform it will be used in performing other contracts or works, the determination of a proper allowance under section 3 of the Vinson Act for obsolescence (other than normal and in addition to ordinary exhaustion and general wear and tear of such facilities in connection with a particular contract) must await the completion or other termination of the contract and be based upon relevant conditions then extant. (I. T. 2861, C. B. XIV-1, 530 (1935).) If upon the completion of a contract or subcontract subject to the provisions of section 3 of the Vinson Act, the Commissioner of Internal Revenue determines that additional and/or special facilities were necessarily required in the performance of the particular contract or subcontract, that such facilities are not then being used in connection with any other operations, and that there is no prospective further use for such facilities either for Government contracts or for any other operations, then—

(1) If the Commissioner determines that such facilities were used solely in the performance of the particular contract or subcontract,

their entire and reasonable cost, less salvage value, will be generally accepted as part of the cost of performing the particular contract or subcontract; or

(2) If the Commissioner determines that such facilities were not used solely in performance of the particular contract or subcontract, allowances for exhaustion, wear and tear, and obsolescence shall be made in accordance with a reasonably consistent plan, on a basis which will return to the contracting party the reasonable cost of such facilities at the end of their expected economic term of usefulness, and shall be included as a part of the indirect factory expense allocable to all operations in connection with which such facilities are used. The part of the cost, if any, remaining after deducting such allowances and the salvage value of such facilities will be generally accepted as a part of the cost of performing the particular contract or subcontract.

MISCELLANEOUS.

1939-24-9876
D. C. 230 (Rev.)

LAWS AND REGULATIONS GOVERNING THE RECOGNITION OF AGENTS, ATTORNEYS, AND OTHER PERSONS REPRESENTING CLAIMANTS BEFORE THE TREASURY DEPARTMENT AND OFFICES THEREOF.

[1939 Amendment. Department Circular No. 230 of 1936 (revised). Committee on Enrollment and Disbarment.]

WASHINGTON, May 11, 1939.

Section 3 of Department Circular No. 230 (revised) of October 1, 1936, is revised to read as follows:

SEC. 103. Qualifications for enrollment.—(a) Persons of the following classes who are found, upon consideration of their applications, to possess the qualifications required by these regulations may be admitted to practice before the Treasury Department as attorneys or agents respectively:

1. Attorneys at law who have been admitted to practice before the courts of the States, Territories, or District of Columbia, in which they maintain offices, and who are lawfully engaged in the active practice of their profession.

2. Certified public accountants who have duly qualified to practice as certified public accountants in their own names, under the laws and regulations of the States, Territories, or District of Columbia, in which they maintain offices, and who are lawfully engaged in active practice as certified public accountants.

Applicants who are employed by corporations on a full-time basis and who do not maintain offices apart from such employment with their services available to the general public will not be considered to be in active practice within the meaning of the term as used above.

Applicants for enrollment to practice before the Treasury Department are required by statute to "show that they are of good character and in good repute, possessed of the necessary qualifications to enable them to render such claimants valuable service, and otherwise competent to advise and assist such claimants in the presentation of their cases." (Title 5, section 261, United States Code.) The burden is upon applicants to establish clearly their right to enrollment by showing that they possess (1) a good character and reputation, (2) an adequate education, and (3) a knowledge of the laws and regulations relating to tax matters and other subjects which they expect to handle before the Department and of the rules and regulations governing practice before the Department.

Good character and good reputation are not identical requirements. The former is determined by the applicant's actual qualities; the latter depends upon the opinion entertained of the applicant by those who have had the opportunity of knowing him in the community in which he resides or in which he practices his profession. It follows that evidence of any act or omission which

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Draft No. 1

156
October 16, 1940

Mr. Willkie in his Buffalo speech of October 15 has again charged that the Treasury Department has delayed the defense program.

What Mr. Willkie, or the person who wrote the speech, has done is to confuse the facts and to withhold part of the record. He has mixed up the Act which limits profits on Navy contracts with the income tax amortization problem which was raised in discussions between the Advisory Commission on National Defense and representatives of the Treasury Department in June, 1940.

The Act limiting profits on naval contracts, otherwise known as the Vinson-Trammell Act, provided that manufacturers of naval vessels had to pay back to the Treasury any profits which they made in excess of 10% of the contract price with the Navy. The Navy Department in 1938 urged that more costs be allowed manufacturers in computing profits under this Act than had previously been allowed. This problem was speedily solved by the Treasury Department to the satisfaction of the Navy. Much later, in June, 1940, the general amortization problem was raised under the income tax law by manufacturers and by the Advisory Commission which came into being on May 29, 1940. This problem, after extended consideration by Congress, was disposed of by the Second Revenue Act of 1940.

Let's examine Mr. Willkie's charges:

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1. Mr. Willkie asserts that Admiral Furlong, head of the Bureau of Ordnance of the Navy Department, asked, on April 13, 1938, for the income tax amortization provisions enacted by the Second Revenue Act of 1940. Admiral Furlong made no such request. On April 13, 1938, the Admiral addressed a memorandum to the Judge Advocate General of the Navy, suggesting that representatives of the Navy Department confer informally with the Treasury with a view to the formulation of a method to be followed in handling depreciation allowances under the Vinson-Trammell Act. That suggestion, of course, had no connection with the income tax amortization provisions enacted by the Second Revenue Act of 1940 or with the problems resolved in that act.

Mr. Willkie asserts that two and one-half years elapsed before the amortization problem was disposed of. As a matter of record, the problem was disposed of by the Treasury Department in February, 1939 -- one month after receipt by the Treasury Department of the Navy Department's letter of January, 1939, referred to by Mr. Willkie, in which early action was requested.

2. Mr. Willkie asserts that in the middle of 1939, John W. Hanes, then Under Secretary of the Treasury, drafted a plan for amortization at the request of the War and Navy Departments. If any such plan was drafted by Mr. Hanes,

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it is not in the files of the Treasury Department and is unknown to any of its officers and employees. Certainly he didn't talk to me about it. Furthermore, our files do not contain any record of such a request from the War and Navy Departments.

3. Mr. Willkie states that on December 4, 1939, a newspaper man asked me "As I understand it, in some of these war-time contracts a company has to build a plant that is good only for the time it takes to turn out the order. Then it is scrapped."

He quotes me as replying "Yes, but he is out of luck as far as we are concerned on that. If it rested with me as to whether a fellow would get a break because he had a munitions contract I am afraid he would fare rather badly."

On the basis of these quotations he alleges that I did not favor the amortization provision enacted by the Second Revenue Act of 1940.

As a matter of record, my statements were made with respect to the Vinson-Trammell Act and were prompted by publicity given in connection with the closing agreement with the Colt's Patent Firearm Manufacturing Company, stipulating how certain items would be handled in computing a company's profit on a War Department contract which was subject to the profit limiting provisions of the Vinson-Trammell Act.

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My statements quoted by Mr. Willkie were intended to emphasize my policy which I have always followed that munitions manufacturers should not be favored or given special considerations not available to other taxpayers. I recommended the repeal of the Vinson-Trammell Act and the substitution of the Excess Profits Tax so that profits be taken out of war and all be treated alike.

4. Mr. Willkie asks why it took two and one-half years to get action on the matter of income tax amortization. This is incorrect. It didn't take two and one-half years. The truth is that on July 10, 1940, the White House issued a statement that it had been agreed that the Excess Profits Tax Bill would incorporate a provision for amortization over a five-year period of additional facilities certified as immediately necessary for national defense purposes by the Army and Navy and Advisory Commission and also that the Excess Profits Tax Bill would be substituted for the profit-limiting provisions of the Vinson-Trammell Act. Legislation complying with the President's recommendation was enacted into law on October 8, 1940.

October 17, 1940

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Mr. Willkie in his Buffalo speech of October 15th charges that the Treasury Department has delayed the defense program. In spite of Mr. Willkie's apparent desire to study governmental problems in the heat of a campaign, it is to be expected naturally that he will not be able to do any more than get a smattering of knowledge during this hectic study period. In this instance, he has mixed up the act which limits profits on navy contracts with the income tax amortization problem which arose out of the necessity for a vastly enlarged rearmament program. He thinks that the Vinson-Trammell Act, which was the Act limiting profits on navy contracts, is the same as the amortization relief recommended by the Advisory Commission to the Defense Council and representatives of the Treasury Department in June, 1940. He has flunked his preliminary examination which he might be able to pass with sufficient preparation. The problem that he mentions as having arisen in 1938 was speedily solved by the Treasury Department to the complete satisfaction of the Navy a year ago last February.

Let us examine Mr. Willkie's charges and compare them with the record.

1. Mr. Willkie asserts that Admiral Furlong, head of the Bureau of Ordnance of the Navy Department, asked, on April 13, 1938, for the income tax amortization provisions

- 2 -

enacted by the Second Revenue Act of 1940. That is not the fact. On April 13, 1938, the Admiral addressed a memorandum to the Judge Advocate General of the Navy, suggesting that representatives of the Navy Department confer informally with the Treasury with a view to the formulation of a method to be followed in handling depreciation allowances under the Vinson-Trammell Act. That suggestion, of course, was quite a different matter than the income tax amortization provisions, with which Mr. Willkie confuses it.

B. Mr. Willkie's assertion that 2 $\frac{1}{2}$ years elapsed before the amortization problem was disposed of is 100% wrong. The problem which he confuses with the present one was disposed of in February, 1939. That was just one month after the Treasury Department received the Navy Department's letter referred to by Mr. Willkie.

C. Mr. Willkie quotes a statement that I made to a newspaper man on December 4, 1939, in which I said, "If it rested with me as to whether a fellow would get a break before he had a munitions contract I am afraid he would feel rather badly." I was, of course, referring to the Vinson-Trammell Act. My statement was prompted by publicity given in connection with the closing agreement with a certain manufacturing company.

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I recommended the repeal of the Vinson-Trammell Act and the substitution of the Excess Profits Tax so that profits be taken out of war and all be treated alike.

Mr. Willkie asks why it took two and one-half years to get action on the matter of income tax amortization. The truth is that on July 10, 1940, the White House issued a statement that it had been agreed that the Excess Profits Tax Bill would incorporate a provision for amortization over a five-year period of additional facilities certified as immediately necessary for national defense purposes by the Army and Navy and Advisory Commission and also that the Excess Profits Tax Bill would be substituted for the profit-limiting provisions of the Vinson-Trammell Act. Legislation complying with the President's recommendation was enacted into law on October 8, 1940.

October 17, 1940

Mr. Willkie in his Buffalo speech of October 15 has again charged that the Treasury Department has delayed the defense program.

What Mr. Willkie, or the person who wrote the speech, has done is to confuse the facts and to withhold part of the record. I prefer to believe that it is pure ignorance that has led him to make a series of utterly false statements. He has mixed up the Act which limits profits on Navy contracts with the income tax amortization problem which was raised in discussions between the Advisory Commission on National Defense and representatives of the Treasury Department in June, 1940.

Let's examine Mr. Willkie's charges:

1. Mr. Willkie asserts that Admiral Furlong, head of the Bureau of Ordnance of the Navy Department, asked, on April 13, 1938, for the income tax amortization provisions enacted by the Second Revenue Act of 1940. That is not the fact. On April 13, 1938, the Admiral addressed a memorandum to the Judge Advocate General of the Navy, suggesting that representatives of the Navy Department confer informally with the Treasury with a view to the formulation of a method to be followed in handling depreciation allowances under the Vinson-Trammell Act. That suggestion, of course, was quite a different matter than the income tax amortization provisions with which Mr. Willkie confuses it. The entire story,

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including the correspondence referred to by Mr. Willkie, is set forth as a matter of public record in hearings before the subcommittee of the Committee on Appropriations, United States Senate, 76th Congress, First Session, on H.R. 6149, Navy Department Appropriation Bill for 1940.

Mr. Willkie's assertion that 2½ years elapsed before the amortization problem was disposed of is 100% wrong. The problem which he confuses with the present one was disposed of in February, 1939. That was just one month after the Treasury Department received the Navy Department's letter referred to by Mr. Willkie.

Mr. Willkie quotes a statement that I made to a newspaper man on December 4, 1939, in which I said, "If it rested with me as to whether a fellow would get a break before he had a munitions contract I am afraid he would feel rather badly." I was, of course, referring to the Vinson-Trammell Act. My statement was prompted by publicity given in connection with the closing agreement with a certain manufacturing company.

I recommended the repeal of the Vinson-Trammell Act and the substitution of the Excess Profits Tax so that profits can be taken out of war and all be treated alike.

Mr. Willkie asks why it took 2½ years to get action on the matter of income tax amortization. The truth is that

- 3 -

on July 10, 1940, the White House issued a statement that it had been agreed that the Excess Profits Tax Bill would incorporate a provision for amortization over a five-year period of additional facilities certified as immediately necessary for national defense purposes by the Army and Navy and Advisory Commission and also that the Excess Profits Tax Bill would be substituted for the profit-limiting provisions of the Vinson-Trammell Act. Legislation complying with the President's recommendation was enacted into law on October 8, 1940.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Thursday, October 17, 1940.

Press Service
No. 22-41

Secretary Morgenthau today issued the following statement:

Mr. Willkie in his Buffalo speech of October 15 has again charged that the Treasury Department has delayed the defense program.

What Mr. Willkie has done is to confuse the facts and to withhold part of the record. I prefer to believe that it is pure ignorance that has led him to make a series of utterly false statements. He has mixed up the Act which limited profits on Navy contracts with the income tax amortization problem which was raised in discussions between the Advisory Commission on National Defense and representatives of the Treasury Department in June, 1940.

Let's examine Mr. Willkie's charges:

1. Mr. Willkie asserts that Admiral Furlong, head of the Bureau of Ordnance of the Navy Department, asked on April 13, 1938, for the income tax amortization provisions enacted by the Second Revenue Act of 1940. That is not the fact. On April 13, 1938, the Admiral addressed a memorandum to the Judge Advocate General of the Navy, suggesting that representatives of the Navy Department confer informally with the Treasury with a view to the formulation of a method to be followed in handling depreciation allowances under the Vinson-Trammell Act.

- 2 -

That suggestion, of course, was quite a different matter from the income tax amortization provisions with which Mr. Willkie confuses it. The entire story, including the correspondence referred to by Mr. Willkie, is set forth as a matter of public record in hearings before the Subcommittee of the Committee on Appropriations, United States Senate, 76th Congress, First Session, on H. R. 6149, Navy Department Appropriation Bill for 1940, p. 106 et seq.

Mr. Willkie's assertion that two and one half years elapsed before the amortization problem was disposed of is 100% wrong. The problem of computing costs under the Vinson-Trammell Act, which he confuses with the tax amortization problem, was disposed of in February, 1939. That was just one month after the Treasury Department received the Navy's first formal request for consideration of this problem.

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Text of Willkie's Talk Charging Delay in Defense Moves

By The Associated Press.

BUFFALO, Oct. 15—Following is the prepared text of the speech by Wendell L. Willkie in the new Municipal Auditorium tonight:

Tomorrow the young men of our nation will go to register for compulsory military service.

Later this evening I plan to talk directly over the radio to these young men. The whole nation has a vital obligation to these young men, and I am going to talk here about that obligation. Our obligation is two-fold.

First, we must see to it that our government, when it calls our young men into the Army, provides them with the finest equipment that any armed force possesses anywhere in the world.

This must be done in fullest quantity and with the utmost speed.

Secondly, we must see to it that these young men, when their period of military service is over, shall have the opportunity that is their right, the opportunity in a good job, to a chance to earn a living, to marry, and get ahead.

This we must have in common with other young men and women growing up in this country. These two objectives are the overwhelming issues of this campaign, defense and jobs.

The present Administration has, and is, falling down in the fulfillment of those obligations. It has had a free hand and it has failed.

Having failed, it seeks to divert attention from its failure by talking about crises and by manufacturing emergencies. It does this in the hope of getting a continuance of power.

Last Saturday night in Albany I gave some concrete examples of how the New Deal, and in particular its Secretary of the Treasury, have obstructed our defense efforts.

Title Anew With Morgenthau

Apparently I touched a sensitive spot. Secretary Morgenthau has responded with a defensive statement. He tries to say that the Treasury Department has not delayed the defense program. And here is his story. He says—I am quoting from his statement:

"The Treasury favored a change in the law which would give greater flexibility in writing off emergency investment, and that change has been enacted into law."

I am happy to have this assurance from the Secretary of the Treasury.

But he goes to prove the point that I am making.

First, benefit I would like to go over the record once again, I think it is important.

The President just last Wednesday signed the new Tax Bill. That bill had in it the provision that the Secretary now says he favored.

I favored it, too. So far as I know, every sensible man favored it. There is no dispute about it.

It must be a good provision because the Departments of War and the Navy asked for it. The National Defense Advisory Committee asked for it.

We know that Congress passed it and the President signed it. It must be a good thing. So

when the Secretary of the Treasury now tells us that he favored it, that makes it unanimous.

The question I asked, and that I am still asking, is why didn't we get that provision until last Wednesday?

On April 13, 1938, Admiral Furlong, head of the Navy's Bureau of Ordnance, asked for it. We do not need to go into the technical details. Everybody is agreed. Now, that was two and a half years ago.

The Navy was on the job. What happened? Nothing.

In January, 1939, four months after Munich, the Secretary of the Navy wrote to the Secretary of the Treasury asking early action. Then what happened?

Why, nothing happened. More months passed.

In the middle of 1939, John W. Hanes, Under-Secretary of the Treasury, drafted a plan for it at the request of the War and Navy Departments.

Nothing happened. More months passed.

Secretary's Words Quoted

On Dec. 4, 1939, three months after the outbreak of war in Europe, a newspaper man put a question to the Secretary of the Treasury. He asked:

"As I understand it, in some of these war-time contracts a company has to build a plant that is good only for the time it takes to turn out the order. Then it is scrapped."

And here is what Secretary Morgenthau replied. I am quoting his exact words:

"Yes, but he is out of luck as far as we are concerned on that."

The Secretary then added this statement, and again I am quoting his exact words:

"If it rested with me as to whether a fellow would get a break because he had a munitions contract I am afraid he would fare rather badly."

Now I leave it to you. Does that look as though the Secretary of the Treasury "favored a change in the law which would give greater flexibility in writing off emergency investment?"

That was back in December, 1939.

What happened then? Nothing.

We come to July 10, 1940. The President called a White House conference and a statement was issued saying that it had been unanimously agreed to provide for this necessary change in the tax laws.

What happened? Nothing.

On Aug. 27, 1940, about one year after the outbreak of the European War, the President told the press that he was prevented from throwing our defense efforts into gear, by a delay on the part of Congress in passing three measures. One was a \$4,000,000,000 appropriation bill. Another was the Conscription Bill.

And guess what the third was. It was the provision to speed up defense that we have been talking about.

So after all the delays in the administration the third-term candidate put the blame on Congress.

This was at the end of August.

Yet in June the third-term candidate had told Congress that it should go home because there was nothing for it to do.

And so it was not until last Wednesday, two and a half years after the Navy first called attention to the need, that the President finally signed this bill with this necessary provision.

Everybody in sight now says he was for this provision.

Reason for Delay Is Asked

So I am asking why it took two and a half years after the Navy's request to get action on this matter, so vital to national defense.

Yesterday the Secretary of the Treasury told the press that the President has appointed a committee of four men to coordinate and speed up production of airplanes for defense purposes.

The need for this was obvious five months ago, when the President asked for 50,000 planes.

Why did that take five months? This morning I pointed out that, with conscription effective tomorrow, the Army has announced it can house only 400,000 men and that it will take them a year to provide adequate housing for 1,300,000 men.

I need not dwell upon the necessity of adequate housing for our men in the Winter time. You all know it, and you all know the possibilities of sickness and influenza that are involved.

No reason is supplied why, with an ample supply of building material and skilled men available in the country, so much as a year from now should be consumed.

In the Fall of 1939, after the invasion of countries in Europe had commenced, the War Department submitted its estimates of its essential needs. The President cut more than \$500,000,000 from the War Department's request.

The procurement of tools, clothing and essential medical supplies was delayed. The air pilot training program was cut. Among other things, work on government arsenals was prevented.

We now find ourselves in a defenseless condition and subjected to unnecessary and prolonged delays. Why? Because this Administration is incompetent to get things done.

A wise Administration in the first place would have listened with respect to the men in the departments and whose profession was that of arms. It would have delegated authority to others and held them responsible for the result.

But even today the National Defense Advisory Commission has neither authority nor a chairman.

"Scarcity" Doctrine Assailed

Underlying these immediate causes of delay, procrastination and failure is the inability of the New Deal to recognize that our defense depends upon the same thing that our peacetime security depends on. That is to say upon production.

The New Deal has never understood how to produce, or the uses of production of goods.

It has preached scarcity and defeat from the beginning.

Night years ago the third-term candidate told us that "a mere builder of more industrial plants

*** is as likely to be a danger as a help."

Those of our people who are out of work do not regard builders of industrial plants that supply more jobs as a danger.

Those of our people who are in business and engaged in the buying and selling of goods do not regard more industrial plants designed to furnish more goods as a danger.

Those of our people who are engaged in the various professions that serve the producers and traders of the country, such as lawyers and doctors, do not regard more industrial plants producing more goods as a danger.

The farmers of our nation, who must sell their products to others of our people, do not regard more

industry, more production, more goods flowing in commerce, more jobs for people, as a danger.

I deny that in the production of goods, of jobs, of commerce, there is any danger.

In such production lies the present security and the entire future of our people.

Restrictions imposed upon that production by the New Deal must be removed.

Uncertainties of governmental policy and administrative action that another enterprise must be removed.

That is the task we have set ourselves, and that is the task we shall accomplish, to the end that the blessings of peace and domestic security shall once again live in this land.

October 16, 1940

Mr. Willkie in his Buffalo speech of October 15 has again charged that the Treasury Department has delayed the defense program.

That Mr. Willkie, ~~for the person who wrote the speech,~~ has done is to confuse the facts and to withhold part of the record. He has mixed up the Act which limits profits on Navy contracts with the income tax amortisation problem which was raised in discussions between the Advisory Commission on National Defense and representatives of the Treasury Department in June, 1940.

The Act limiting profits on naval contracts, otherwise known as the Vinson-Trammell Act, provided that manufacturers of naval vessels had to pay back to the Treasury any profits which they made in excess of 10% of the contract price with the Navy. The Navy Department in 1938 urged that more costs be allowed manufacturers in computing profits under this Act than had previously been allowed. This problem was speedily solved by the Treasury Department to the satisfaction of the Navy. Much later, in June, 1940, the general amortisation problem was raised under the income tax law by manufacturers and by the Advisory Commission which came into being on May 29, 1940. This problem, after extended consideration by Congress, was disposed of by the Second Revenue Act of 1940.

Let's examine Mr. Willkie's charges!

1. Mr. Willkie asserts that Admiral Furlong, head of the Bureau of Ordnance of the Navy Department, asked, on April 13, 1938, for the income tax amortisation provisions enacted by the Second Revenue Act of 1940. Admiral Furlong made no such request. On April 13, 1938, the Admiral addressed a memorandum to the Judge Advocate General of the Navy, suggesting that representatives of the Navy Department confer informally with the Treasury with a view to the formulation of a method to be followed in handling depreciation allowances under the Vinson-Trammell Act. That suggestion, of course, had no connection with the income tax amortisation provisions enacted by the Second Revenue Act of 1940 or with the problems resolved in that act.

Mr. Willkie asserts that two and one-half years elapsed before the amortisation problem was disposed of. As a matter of record, the problem was disposed of by the Treasury Department in February, 1939 — one month after receipt by the Treasury Department of the Navy Department's letter of January, 1939, referred to by Mr. Willkie, in which early action was requested.

2. Mr. Willkie asserts that in the middle of 1939, John W. Hanes, then Under Secretary of the Treasury, drafted a plan for amortisation at the request of the War and Navy Departments. If any such plan was drafted by Mr. Hanes, it is not in the files of the Treasury Department and is unknown to any of its fileers and employees. Certainly he didn't talk to me about it. Furthermore, our files do not contain any record of such a request from the War and Navy Departments.

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3. Mr. Willkie states that on December 4, 1939, a newspaper man asked me "As I understand it, in some of these war-time contracts a company has to build a plant that is good only for the time it takes to turn out the order. Then it is scrapped."

He quotes me as replying "Yes, but he is out of luck as far as we are concerned on that. It is rested with me as to whether a fellow would get a break because he had a munitions contract I am afraid he would fare rather badly."

On the basis of these quotations he alleges that I did not favor the amortization provision enacted by the Second Revenue Act of 1940.

As a matter of record, my statements were made with respect to the Vinson-Trammell Act and were prompted by publicity given in connection with the closing agreement with the Colt's Patent Firearm Manufacturing Company, stipulating how certain items would be handled in computing a company's profit on a War Department contract which was subject to the profit limiting provisions of the Vinson-Trammell Act.

My statements quoted by Mr. Willkie were intended to emphasize my policy which I have always followed that munitions manufacturers should not be favored or given special considerations not available to other taxpayers. I recommended the repeal of the Vinson-Trammell Act and the substitution of the Excess Profits Tax so that profits be taken out of war and all be treated alike.

4. Mr. Willkie asks why it took two and one-half years to get action on the matter of income tax amortization. This is incorrect. It didn't

- 4 -

take two and one-half years. The truth is that on July 10, 1940, the White House issued a statement that it had been agreed that the Excess Profits Tax Bill would incorporate a provision for amortization over a five-year period of additional facilities certified as immediately necessary for national defense purposes by the Army and Navy and Advisory Commission and also that the Excess Profits Tax Bill would be substituted for the profit-limiting provisions of the Vinson-Trammell Act. Legislation complying with the President's recommendation was enacted into law on October 8, 1940.

October 17, 1940

Draft # 2

A - PAGE I

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*B.C. by
J. H. ...*

Mr. Willkie in his Buffalo speech of October 15th charges that the Treasury Department has delayed the defense program. In spite of Mr. Willkie's apparent desire to study governmental problems in the heat of a campaign, it is to be expected naturally that he will not be able to do any more than get a smattering of knowledge during this hectic study period. In this instance, he has mixed up the act which limits profits on navy contracts with the income tax amortization problem which arose out of the necessity for a vastly enlarged rearmament program. He thinks that the Vinson-Trammell Act, which was the Act limiting profits on navy contracts, is the same as the amortization relief recommended by the Advisory Commission to the Defense Council and representatives of the Treasury Department in June, 1940. He has flunked his preliminary examination which he might be able to pass with sufficient preparation. The problem that he mentions as having arisen in 1938 was speedily solved by the Treasury Department to the complete satisfaction of the Navy a year ago last February.

Let us examine Mr. Willkie's charges and compare them with the record.

1. Mr. Willkie asserts that Admiral Furlong, head of the Bureau of Ordnance of the Navy Department, asked, on April 13, 1938, for the income tax amortization provisions enacted by the Second Revenue Act of 1940. ~~Admiral Furlong made no such request.~~ *That is not the fact -* On April 13, 1938, the Admiral addressed a memorandum to the Judge Advocate General of the Navy, suggesting that representatives of the Navy Department confer informally with the Treasury with a view to the formulation of a method to be followed in handling depreciation allowances under the Vinson-Trammell Act. That suggestion, of course, ~~had no connection with the income tax amortization provisions, enacted by the Second Revenue Act of 1940 or with the problems resolved in that act.~~ *was quite a different matter than with what Mr. Willkie confuses it.*

Mr. Willkie's assertion that 2½ years elapsed before the amortization problem was disposed of is 100% wrong. The problem which he confuses with the present one was disposed of in February, 1939. That was just one month after the Treasury Department received the Navy Department's letter referred to by Mr. Willkie. B

Mr. Willkie quotes a statement that I made to a newspaper man on December 4, 1939, in which I said, "If it rested with me as to whether a fellow would get a break before he had a munitions contract I am afraid he would fare rather badly." I was, of course, referring to the Vinson-Trammell Act. My statement was prompted by publicity given in connection with the closing agreement with a certain manufacturing company.

[Faint, mostly illegible text, possibly bleed-through from the reverse side of the page.]

~~or given special~~ I recommended the repeal of the Vinson-Trammell Act and the substitution of the Excess Profits Tax so that profits be taken out of war and all be treated alike.

4. Mr. Willkie asks why it took two and one-half years to get action on the matter of income tax amortisation. ~~This is incorrect. It didn't~~

~~take two and one-half years.~~ The truth is that on July 10, 1940, the White House issued a statement that it had been agreed that the Excess Profits Tax Bill would incorporate a provision for amortization over a five-year period of additional facilities certified as immediately necessary for national defense purposes by the Army and Navy and Advisory Commission and also that the Excess Profits Tax Bill would be substituted for the profit-limiting provisions of the Vinson-Trammell Act. Legislation complying with the President's recommendation was enacted into law on October 8, 1940.

October 17, 1940

Third Draft 177

Mr. Willkie in his Buffalo speech of October 15 has again charged that the Treasury Department has delayed the defense program.

What Mr. Willkie, or the person who wrote the speech, has done is to confuse the facts and to withhold part of the record. I prefer to believe that it is pure ignorance that has led him to make a series of utterly false statements. He has mixed up the Act which limits profits on Navy contracts with the income tax amortization problem which was raised in discussions between the Advisory Commission on National Defense and representatives of the Treasury Department in June, 1940.

Let's examine Mr. Willkie's charges:

1. Mr. Willkie asserts that Admiral Furlong, head of the Bureau of Ordnance of the Navy Department, asked, on April 13, 1938, for the income tax amortization provisions enacted by the Second Revenue Act of 1940. That is not the fact. On April 13, 1938, the Admiral addressed a memorandum to the Judge Advocate General of the Navy, suggesting that representatives of the Navy Department confer informally with the Treasury with a view to the formulation of a method to be followed in handling depreciation allowances under the

Vinson-Trammell Act. That suggestion, of course, was quite a different matter than the income tax amortization provisions with which Mr. Willkie confuses it. The entire story, including the correspondence referred to by Mr. Willkie, is set forth as a matter of public record in hearings before the subcommittee of the Committee on Appropriations, United States Senate, 76th Congress, First Session, on H.R. 6149, Navy Department Appropriation Bill for 1940.

Mr. Willkie's assertion that 2½ years elapsed before the amortization problem was disposed of is 100% wrong. The problem which he confuses with the present one was disposed of in February, 1939. That was just one month after the Treasury Department received the Navy Department's letter referred to by Mr. Willkie.

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- 3 -

I recommended the repeal of the Vinson-Trammell Act and the substitution of the Excess Profits Tax so that profits can be taken out of war and all be treated alike.

Mr. Willkie asks why it took $2\frac{1}{2}$ years to get action on the matter of income tax amortization. The truth is that on July 10, 1940, the White House issued a statement that it had been agreed that the Excess Profits Tax Bill would incorporate a provision for amortization over a five-year period of additional facilities certified as immediately necessary for national defense purposes by the Army and Navy and Advisory Commission and also that the Excess Profits Tax Bill would be substituted for the profit-limiting provisions of the Vinson-Trammell Act. Legislation complying with the President's recommendation was enacted into law on October 8, 1940.

October 17, 1940

Final Draft -

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Mr. Willkie in his Buffalo speech of October 15 has again charged that the Treasury Department has delayed the defense program.

What Mr. Willkie has done is to confuse the facts and to withhold part of the record. I prefer to believe that it is pure ignorance that has led him to make a series of utterly false statements. He has mixed up the Act which limited profits on Navy contracts with the income tax amortization problem which was raised in discussions between the Advisory Commission on National Defense and representatives of the Treasury Department in June, 1940.

Let's examine Mr. Willkie's charges:

1. Mr. Willkie asserts that Admiral Furlong, head of the Bureau of Ordnance of the Navy Department, asked, on April 13, 1938, for the income tax amortization provisions enacted by the Second Revenue Act of 1940. That is not the fact. On April 13, 1938, the Admiral addressed a memorandum to the Judge Advocate General of the Navy, suggesting that representatives of the Navy Department confer informally with the Treasury with a view to the formulation of a method to be followed in handling depreciation allowances under the

- 2 -

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Mr. Willkie's assertion that two and one half years elapsed before the amortization problem was disposed of is 100% wrong. The problem of computing costs under the Vinson-Trammell Act, which he confuses with the tax amortization problem, was disposed of in February, 1939. That was just one month after the Treasury Department received the Navy's first formal request for consideration of this problem.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Thursday, October 17, 1940.

Press Service
No. 22-41

Secretary Morgenthau today issued the following statement:

Mr. Willkie in his Buffalo speech of October 15 has again charged that the Treasury Department has delayed the defense program.

What Mr. Willkie has done is to confuse the facts and to withhold part of the record. I prefer to believe that it is pure ignorance that has led him to make a series of utterly false statements. He has mixed up the Act which limited profits on Navy contracts with the income tax amortization problem which was raised in discussions between the Advisory Commission on National Defense and representatives of the Treasury Department in June, 1940.

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See Press Conference of October 17, 1940

October 17, 1940
9:05 a.m.

H.M.Jr: Hello.

Operator: Lowell Mellett.

H.M.Jr: Hello.

Lowell Mellett: Hello, Henry.

H.M.Jr: Good morning.

M: Say, Steve was telling me about your conversation yesterday afternoon.

H.M.Jr: Yes.

M: I tried to get you last night but apparently you had gone to the movies. Are you free to talk now?

H.M.Jr: Yeah, I can talk. Hello?

M: Yes.

H.M.Jr: I can also listen. What's on your mind?

M: You were talking to Steve yesterday afternoon and I wanted to talk with you about that.

H.M.Jr: Well, the suggestion that I made to Steve was that the President get some of the people that he wants to talk together at the White House tonight and then tell us what he wants.

M: Yeah.

H.M.Jr: But he evidently doesn't want to do that and Steve said he was too busy and that he was going to turn the whole thing over to you.

M: Well, do you want to try to round the people up tonight?

H.M.Jr: What's that?

- 2 -

M: Do you want to try to round some people up tonight?

H.M.Jr: Well, I said I'd be delighted and that my house was at your disposal.

M: Well, now, have you got any ideas of who might be worth getting in?

H.M.Jr: Yes. I think you ought to have Ickes, I think you ought to have Bob Jackson

M: Yeah.

H.M.Jr: I don't know what they're doing up in New York so I don't know what would be in conflict - who's running the speakers' bureau or what up there. Whoever the fellow is, I think he ought to come down. He spoke about bringing Charley Michelson down.

M: Yeah.

H.M.Jr: But people of that nature.

M: Yeah. I'll see what I can get my fingers on. I don't know about getting anybody down from up there - how tied up they may be - may be difficult. Now who else would you think of here? How about Arnold and Biddle was suggested also.

H.M.Jr: I think they'd be fine.

M: Do you think Sumner Welles?

H.M.Jr: No, I don't think so.

M: John Carmody?

H.M.Jr: Yes, he'd be good.

M: Jesse Jones?

H.M.Jr: Yes.

M: Should have an interesting evening.

- 3 -

H.M.Jr: What?

M: Got those two, we ought to have an interesting evening.

H.M.Jr: That's right.

M: Well, I'll see if I can do anything with that during the day and talk with you later.

H.M.Jr: Yes, and we'll be glad to have them for supper at the house.

M: Well, I'll see how things shape up and try to know something before noon.

H.M.Jr: And let me know because I can order a couple of hot dogs.

M: Right-o.

H.M.Jr: All right.

October 17, 1940
11:27 a.m.

H.M.Jr: Hello.

Sydney Hillman: Yes, sir. Hillman.

H.M.Jr: Hello, Hillman.

H: Good morning. My second thought is just as comforting as my second.

H.M.Jr: I see.

H: My judgment is that discussing war is a bad thing in a way - question of taking the profits out - question is whether it is or not. You know, it's controversial.

H.M.Jr: I see.

H: I think, you know, if you take the proposition of what our whole tax

H.M.Jr: Our whole what?

H: Our way of taxing - of giving security and saving our system. See?

H.M.Jr: I see.

H: I mean - that that is the best insurance that what happened abroad may not happen here - I wouldn't say cannot - may not happen here to follow it. In other words, we are giving people a stake in the system as is.

H.M.Jr: I see.

H: Now, if anyone will work for you on this thing, I will be very glad to give him as much time - half an hour or an hour - and I think it is the appeal which can go both to the labor groups and the business community. Of course, it is more necessary for the business community because the labor vote he has.

H.M.Jr: I see.

- 2 -

H: No difficulty with the labor vote.

H.M.Jr: No difficulty.

H: Oh, no. He has that.

H.M.Jr: He's got that.

H: Oh, yes.

H.M.Jr: Well, if I decide to talk and I have something, I'll take you up and I'll show it to you.

H: Well, anytime you want me on this thing, it will be good - I'll be very glad if I can in any way be of help.

H.M.Jr: Thank you. I know you do. Much obliged.

H: Because I think that this thing - that what we have done safeguards our system, gives every man a stake in what we have, and I think that that is in the national unity that ought to come and our program is for national unity, not for the extremes of one end or the other end.

H.M.Jr: Right. Well, thank you so much.

H: You're welcome. Good-bye.

October 17, 1940
2:58 p.m.

H.M.Jr: Hello.

Hull's
Secretary: He's coming right on, sir.

H.M.Jr: (Pause). Hello.

Operator: He'll be right on.

H.M.Jr: (Pause). Hello, Cordell.

Cordell
Hull: Yes, sir. I'm sorry I misaed you.

H.M.Jr: Two things - one, I got a call this morning from the Russian Embassy and the Ambassador asked to see me and he sort of hinted that he would kind of like to see me alone. See?

H: Yeah.

H.M.Jr: And I wanted to ask your advice.

H: Well, I think that's all right if he wants to see you.

H.M.Jr: Well, would you do it if you were me?

H: It's all right.

H.M.Jr: Is it all right?

H: So far as I know. I'd like to - I don't think that there's anything that Welles - you know, I haven't been in on that is the reason I'm a little hesitant. Let me say a word to Welles just to keep the thing clear.

H.M.Jr: Would you do that?

H: If you'll hold

H.M.Jr: Want me to hold on?

H: Just a second. (Pause). Hello, Henry.*

- 2 -

H.M.Jr: Hello.

H: Why Sumner agrees entirely with that idea about your seeing him.

H.M.Jr: That that's all right.

H: Yes.

H.M.Jr: Well, I tell you, I'll listen - I've got nothing to say to him - and as soon as he leaves I'll give you a ring.

H: Yes, all right.

H.M.Jr: Now have you got another minute?

H: Go right ahead.

H.M.Jr: The President, through Steve Early, has asked me to make a political speech and what I was thinking about that I might say, and I wondered how it hit you, was to tell the story of what we've done in the last two years to take the profit out of war and how we're handled these various purchasing missions differently than they were handled 25 years ago.

H: Yes, yes.

H.M.Jr: I wondered if that - I mean, trying to get over to the people that for the last two years we've done everything to discourage the munitions makers and that sort of thing on the profit motive.

H: Yes.

H.M.Jr: Now, nobody has ever said that or has ever told what we've done.

H: Now that strikes me as all right but I tell you what I would do - I would pass that to the President because that's a pretty big question and I'd pass it with him if I was you - about taking the profit out of war. I'm sure he'll have the same idea - at least, I think he will.

- 3 -

H.M.Jr: But how does it hit you personally?

H: I think it's all right myself, but of course I've always stood for that general idea.

H.M.Jr: But you're not enthusiastic about my saying it - I mean

H: Well, I was just studying to see whether there's anything that would be any more appealing to the public. I don't know that there is at first blush, because that would show that you'd been handling this matter in all these different ways that are more or less new and effective and at the same time keeping down excessive profits

H.M.Jr: That's - excessive profits.

H: on war, yes.

H.M.Jr: To make it as uninteresting as possible to go to war.

H: I'd call it excessive profits.

H.M.Jr: Excessive profits.

H: Or war profits which means profits over and above reasonable profits.

H.M.Jr: That's right.

H: That looks like it'd be all right.

H.M.Jr: Well, thank you.

H: Yeah.

10/18/40

Memorandum To: The Secretary
From: Mr. Schwarz *es*

The following references to your statement issued at press conference yesterday were made on the radio last night:

Walter Compton - WOL 6:30

Treasury Secretary Morgenthau accused Wendell Willkie of making a series of utterly false statements. Morgenthau said he preferred to believe that the Republican candidate made the statements because of pure ignorance. Mr. Willkie's assertion that 2 1/2 years elapsed before the disposition of the amortization problem was disposed of is 100 percent wrong and he had confused it with the earlier cost accounting problem which was disposed of in February 1939.

News WOL - 10:30

Secretary Stimson and Secretary Morgenthau also struck at the criticism made by Mr. Willkie. Treasury Secretary Morgenthau charged the Republican candidate with making false statements and saying that Treasury allowed 2 1/2 years to elapse before disposing of the amortization problem.

- WMAL - Lowell Thomas - 6:45 no report
- WOL - Fulton Lewis - 7:00 no report
- WOL - Wythe Williams - 8:00 no report
- WJSV - News 8:55 - no report
- WOL - Gabriel Heatter - 9:00 no report
- WOL - News - 9:15 - no report
- WMAL - John Gardiner - 11:00 no report
- WOL - News - 12:00 no report
- WJSV - News - 12:00 - no report

October 18, 1940

My dear Mr. President:

I thought you would be interested in the enclosed clipping from today's New York Times which carries my statement refuting the misstatements made by Wilkie at Buffalo recently.

Yours sincerely,

The President,
The White House.

October 13, 1940

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NEW YORK TIMES

OCT 18 1940

WILLKIE DISPUTED BY MORGENTHAU

Secretary Charges Candidate
Confuses Two Separate
Issues in Defense Talk

DENIES TWO-YEAR DELAY

Question Was Settled to Satis-
faction of Navy in Month, He
Says in a Statement

Special to THE NEW YORK TIMES.
WASHINGTON, Oct. 17—Secretary Morgenthau taxed Wendell L. Willkie today with making "a series of utterly false statements" that the Treasury had delayed the defense program.

The candidate's address at Buffalo Tuesday night confused the 1938 Vinson-Trammell act limiting profits on Navy contracts with income tax amortization problem in plant expansion which arose in June, 1940, the Secretary said.

"What Mr. Willkie has done," Mr. Morgenthau's prepared statement added, "is to confuse the facts and to withhold part of the record. I prefer to believe that it is pure ignorance that has let him to make a series of utterly false statements. He has mixed up the act which limited profits on Navy contracts with the income tax amortization problem which was raised in discussions between the Advisory Commission on National Defense and representatives of the Treasury Department in June, 1940.

"Let's examine Mr. Willkie's charges:

"Mr. Willkie asserts that Admiral Furlong, head of the Bureau of Ordnance of the Navy Department, asked, on April 13, 1938, for the income tax amortization provisions enacted by the Second Revenue Act of 1940.

"That is not the fact. On April 13, 1938, the Admiral addressed a memorandum to the Judge Advocate General of the Navy, suggesting that representatives of the Navy Department confer informally with the Treasury with a view to the formulation of a method to be followed in handling depreciation allowances under the Vinson-Trammell act.

"That suggestion, of course, was quite a different matter from the income tax amortization provisions

with which Mr. Willkie confuses it. The entire story, including the correspondence referred to by Mr. Willkie, is set forth as a matter of public record in hearings before the subcommittee of the committee on Appropriations, United States Senate, Seventy-sixth Congress, first session, on HR 8148, Navy Department Appropriation Bill for 1940, p 106 et seq.

"Mr. Willkie's assertion that two and one-half years elapsed before the amortization problem was disposed of is 100 per cent wrong. The problem of computing costs under the Vinson-Trammell Act, which he confuses with the tax amortization problem, was disposed of in February, 1939.

"That was just one month after the Treasury Department received the Navy's first formal request for consideration of this problem."

In response to questions, Mr. Morgenthau said that he had issued the statement on his own responsibility, without consultation with the Democratic National Committee.

Edward J. Foley of the Treasury's general counsel's office, supported Mr. Morgenthau's thesis that while other problems of computing costs under the Vinson-Trammell act arose later, those raised by Admiral Furlong were solved to the Navy Department's apparent satisfaction at the time.

RE RADIO ADDRESS

October 18, 1940
9:00 a.m.

Present: Mr. Gaston
Mr. Duffield
Mr. Foley
Mr. Cairns
Mr. Kades
Mrs Klotz

H.M.Jr: You know, I think some of these fellows have been trying to kind of scare us. The New York Daily News is up three points today, 54 $\frac{1}{2}$.

Gaston: New York State?

H.M.Jr: For the State.

Foley: Is that the second day?

H.M.Jr: Second day. It is not so bad, is it?

Foley: What I liked are the high percentages of Manhattan and the Bronx. They run way up to 80% in Manhattan. Of course, when it gets up to Syracuse, it may be 20 the other way.

Gaston: They may be scared about Tammany and Manhattan, but the percentage that has been shown is good.

H.M.Jr: Well, out of this I didn't get exactly what I want, but I have got an idea. Who are you going to delegate to do this thing, to put it together? Who is going to make notes of things that I want? I want to look to somebody.

Foley: Huntington.

H.M.Jr: Whoever you say.

- 2 -

Foley: Here is another one, Mr. Secretary. Maybe you might read that. These are the things that are pointed out in the report that are not being observed as a war preventive or Congressional action being taken.

And there is this one thing, too, and that is, a committee was not authorized to make a study of the causes for entry of the United States into the war, and consequently did not do so. If it had been so authorized, it would have been begun with the study of the propaganda tactics of belligerent nations in this country.

H.M.Jr: Out of this, I got this idea, to make it much broader than what I originally started with. I think we ought to point out - I mean the steps, the messages, whatever the President has taken, for instance, under the Neutrality Act of 1939, I mean the various things. Then the question of the various steps he took on defining the war zones for American ships.

Foley: Ship control?

H.M.Jr: No, I am thinking of things which would have likely gotten us into war. One of the things is American ships.

Cairns: You mean the exercise of discretionary power given him by the Neutrality Act?

H.M.Jr: And what he did about it.

Gaston: Combat zones is one.

H.M.Jr: What was his foresight in seeing the things that might make incidents which might bring us into war.

Foley: I said the ship control, because we kept

- 3 -

American flagships from going into English waters or going into the war zone.

H.M.Jr:

That is right. Well then, it says here on page 3, "has prohibited the exportation from the United States, except under license, of any plans, specifications and other documents containing descriptive or technical information of any kind setting forth the design or construction of aircraft or aircraft engines."

I was just thinking - Merle is doing the other thing. I will have that by 10:00 o'clock, the financial end. I was just thinking from this I get this idea: we won't think about the Nye report, and if we criticize what was done under Woodrow Wilson, that isn't so good, it is a boomerang, so supposing we take the neutrality steps that the President took in order to make the - to avoid instances - I mean, he was foresighted in all of these things so we couldn't be dragged in. That you could do very easily and list those things by headings, couldn't you?

Cairns:

Oh, yes.

Gaston:

Yes. That is putting the regulation of policies in the hands of the Government.

H.M.Jr:

No, I am thinking a little bit more than that.

Cairns:

I think I have your point.

H.M.Jr:

I don't have to repeat it over.

Cairns:

No.

H.M.Jr:

All right. And then you see with the financial thing, you could take a look at the thing

- 4 -

Merle brings in and on the financial front to try to avoid the mistakes, he insisted that the Commission be set up as a direct governmental commission in order that we might be able to get reporting. The money was all put in the Federal Reserve Banks so we were able to tell how much they bought each week so it wouldn't be in conflict with our own production and wouldn't be piling up on the same orders and prices and all that sort of thing, you see.

And then the other thing - I mean that I will have. And then unfortunately Harry isn't here. The other front, which I think is a terribly important one, was April '38 or '39 when he cracked down on prices the first time.

Foley: Yes, that is right, and we could get in there, too, the controls we have to prevent inflation.

H.M.Jr: Now, who is making a note? Is somebody making notes?

Foley: Huntington.

H.M.Jr: The first time, it was '38 or '39 when he cracked down on prices. And then the fact that the cost of living has stayed stable.

Foley: Harry told me he had a paper on that. He prepared a speech for you or something.

H.M.Jr: It wasn't what I wanted. Just let me talk on for a minute or two. I will have the things we did to keep the various purchasing missions from getting in our way and the control we have over them. Then what he has done on prices, the cost of living,

- 5 -

increased purchasing power, both for the farmer and the consumer and the laboring man, which must be tremendous. None of this stuff has been done, as far as I know. That would be part of it, wouldn't it?

Duffield: No doubt about it.

H.M.Jr: Now, we have got the various neutrality steps he has taken, the steps he has taken on handling the financial missions through the Treasury, and then the first thing he did where he demonstrated it was in September '39 when he released 700,000 tons of sugar, and the first indication there was a run-up. He released that 700,000 and that was a rap across the knuckles to let the food speculators know that he wasn't going to stand for it. Isn't that enough for one thing, those three things?

Duffield: That is quite a lot.

H.M.Jr: Get it into 1800 words.

Now, what is the comeback on that that Willkie might have? I mean, just attack those three fronts which all have to do with keeping this country on a normal basis. And then during this period and while we have been doing all of this, the Federal Reserve index of production has gone from 90 up to 125, and we have still kept the country on a level basis. I mean, while this has been going on, our production has gone from 90 to - my figure is a little rough, but I mean the period and still we have been able to keep the cost of living down. I haven't seen anybody talk about that, have you?

Duffield: No.

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- H.M.Jr: Then you can talk about the two sections he set up in National Defense, one under Miss Elliott, and the other under Leon Henderson, just to watch these things. I realize I am going a little bit further, but I am just thinking out loud. I am trying to think of things that happened. I don't think we need that Nye fellow.
- Foley: All right.
- H.M.Jr: What do you think, Gene?
- Duffield: I was trying to think of any criticism I might make and I can't think of any. He certainly can't criticize the amendment and the Neutrality Act, because he has endorsed that policy.
- H.M.Jr: You see, I have always thought that one of the most magnificent things the President did was the way he has kept the cost of living down in this thing, and then we want to show what has happened in other countries in the last 12 months on the cost of living. If we do, we will have all those figures. England, for instance, the cost of living has gone up a third. In Germany, it is going up very much. Did you make a note of that, Huntington? Harry has all those figures. We can still talk about it today. I don't know whether we could do it a month from now or not.
- Herbert, what do you think? Does this speech still worry you?
- Gaston: No, it looks a little clearer to me now.
- H.M.Jr: Well, I get it from this memorandum. Well,

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I think if that can be done - and Merle is going to have the other thing at 10:00. Don't you think there is enough there?

Cairns: Yes.

H.M.Jr: What do you think?

Duffield: I think by all means. You said 1800 words, did you?

H.M.Jr: Well, that is 15 minutes.

Duffield: You will really have to pack it in.

H.M.Jr: Last night they offered me 15 minutes ahead of the President next week in Philadelphia. My God, I don't want to go on ahead of the President! It would be terrible. Don't you think so, Herbert?

Gaston: Yes, I think it is terrible, and also 15 minutes ahead of the President in New York.

H.M.Jr: Yes, either spot.

Gaston: No good.

H.M.Jr: I think that is a terrible spot for me. Well, what I had hoped to do was to have some kind of an outline to show him in Cabinet, and ask him if this would interest him. Have you got a little time, Gene, to go back with the boys and just --

Duffield: I have until 1:30.

H.M.Jr: Wonderful. As soon as I take a look at what Merle has, I will shoot it back, but I am making it - does the thought flow consistently enough there?

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- Gaston: Is the general idea of safeguarding us against entry into war?
- H.M.Jr: No.
- Gaston: Safeguarding us and protecting us against the effects of war?
- H.M.Jr: No.
- Foley: Steps taken by the Administration?
- H.M.Jr: The idea is that we have done everything possible to be kept from being dragged in.
- Gaston: Well, it is safeguarding us against war. It is two things, it is how we will safeguard ourselves against being dragged into war, and how we will safeguard the economy from the shocks of war elsewhere.
- H.M.Jr: That is right; you have got it, Herbert. But if Huntington and Chick and Gene aren't busy for a couple of hours, if they could go somewhere and see what they could do. I don't want a speech, I want more of an outline, and I don't think anybody has attempted it.
- Duffield: I haven't seen it.
- Gaston: I think it is all right.
- Duffield: Are you going to leave out altogether any reference to - I don't like to call it a reply to Mr. Willkie, but a rebuttal to him on this --
- H.M.Jr: Tax?
- Duffield: No.

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H.M.Jr: No, I will wait until Johnny Hanes gives him something else to say, because I realize that this is very distasteful to you to answer these Hanes things.

Duffield: I hate them.

H.M.Jr: Hate him or --

Duffield: Well, it is like Mr. Willkie says, "It."

H.M.Jr: No, I think that might be interesting. The great Mr. Michelson was worried last night if I talk about taking profiteering out of war that I might offend some business men.

Foley: They wouldn't make contributions.

H.M.Jr: When I said I want to talk, he said that is all right, I will talk to LaSalle Street. I said, "I don't want to talk to LaSalle Street and I won't talk to LaSalle Street."

Gaston: He says we have got these fellows that are greasy behind the ears. We have got to get the other fellows.

H.M.Jr: You can get what Harry has. He may be interested. He was awfully sick yesterday.

Cairns: Probably somebody in his shop will have it.

H.M.Jr: Oh yes, definitely. Go to it, and I will tell you what we will do. Let's say that we will meet again at 11:30. How is that?

Cairns: Fine.

H.M.Jr: That gives me a good idea, but I don't think you need that Nye fellow.

October 18, 1940

Secretary Morgenthau

E. H. Foley, Jr.

Re: Practices considered by the Special Committee on Investigation of the Munitions Industry as having tended to encourage the participation of the United States in the World War in 1917.

The Nye Committee's Report (Sen. Rep. No. 944, 74th Cong., 1st Sess.) is divided into seven parts. An examination of the findings and recommendations in the Report has been made with the end in view of ascertaining what practices the Nye Committee considered to have tended to bring about American participation in the World War in 1917. Consideration has likewise been given to the steps taken by the present administration which would tend to prevent similar practices from bringing about participation in the present world conflict.

Part I of the Report

No relevant findings or recommendations.

Part II of the Report

This part dealt with war-time taxation and price control. It dealt with what steps should be taken by the Federal Government in case war should come and suggested certain Constitutional amendments to be adopted which would enable the Government to handle such

- 2 -

situations in time of war more expeditiously. No findings or recommendations were made relative to the instant inquiry.

Part III of the Report

No findings or recommendations appeared which dealt with practices which tended to bring about involvement in the World War. However, findings were made with respect to other activities which it was said tended to disrupt peace and stability among nations.

(1) It was pointed out (at pages 3 and 4) that various munitions and armament manufacturers in the United States sold large quantities of munitions and armaments to foreign governments. In so doing, various unethical practices, such as bribery and interference in the political situation in foreign nations, took place.

Section 12 of the Neutrality Act of 1939, which was carried over from the Neutrality Act of 1935 and the Neutrality Act of 1937, operates to control to some extent, at least, such activities in that exports of arms, ammunition, and implements of war cannot be made without securing licenses therefor from the State Department. Further authority has been given to the President to curtail the exports of military equipment or munitions by section 6 of the Act of July 2, 1940 (Public, No. 703, 76th Congress).

Part III points out that the rearmament of Germany in violation of treaty obligations was aided in part by certain American

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aircraft companies which gave licenses to German companies for the manufacture of airplane engines. It is also pointed out (at page 18) that certain aviation companies licensed Japan for the use of airplane materials in Manchukuo.

Acting pursuant to section 6 of the Act of October 2, 1940 (Public, No. 703, 76th Congress), the President, in Proclamation No. 2423, has prohibited the exportation from the United States, except under license, of any plans, specifications, and other documents containing descriptive or technical information of any kind setting forth the design or construction of aircraft or aircraft engines.

Part IV of the Report

This part consists of reports on the War Department's Industrial Mobilization Bills and contains no material relevant to the present question.

Part V of the Report

(1) The Committee found that the absence of legislation forbidding the floating of long-term loans by belligerents, and the absence of legislation controlling the granting of short-term credits to belligerents, or their nationals, would result in an unhealthy stimulation of business which would be dependent upon the continuation of belligerent orders and belligerent credits, and which would congest

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the financial discount market and would allow the development of an important financial interest in the fate of one group of belligerents. The Committee pointed out that the Johnson Act was inadequate for the situation since it only operated upon countries that had defaulted to the United States and did not even cover the political subdivisions or nationals of defaulting nations. The Committee recommended that the floating of loans by belligerents and political subdivisions, central banks, or nationals be prohibited, and that the President be empowered to prevent the extension of credit to belligerents or to belligerent nationals in excess of a six-months' maturity and in excess of amounts which could be paid for within the fixed maturity.

This was all adequately taken care of by section 7 of the Neutrality Act of 1939.

(2) The Committee found that the uncertain status of armed merchant vessels in neutral ports resulted in a situation dangerous to the peace and security of the United States in the event of a war between maritime powers.

Section 11 of the Neutrality Act of 1939 empowered the President to forbid the use of our ports to armed merchant vessels altogether and is designed to meet that danger.

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(3) The Committee stated that the absence of legislation forbidding the travel of American citizens through war zones on ships of belligerent nations which were carrying contraband munitions of war and the sinking of such ships was a main cause for the inability of the United States to maintain its neutral policy in 1917 and could be expected to again become such a cause in a future war.

Section 3 and section 5 of the Neutrality Act of 1939 by preventing American citizens from traveling on belligerent vessels and through combat zones should adequately meet this situation.

(4) The Committee found that during the World War ships engaged in the munitions traffic were apparently aided by belligerent ships improperly flying the American flag.

Section 14 of the Neutrality Act of 1939 by forbidding the use of the American flag to vessels of foreign registry and denying the use of the ports of the United States to vessels violating that provision meets the problem and carries out the Committee's recommendations.

(5) While the matter did not bear upon the practices tending to involve the United States in the war in 1917, the Committee found that the sale of arms to various countries under various circumstances tended to disrupt international relations and was often in violation of treaty provisions.

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It is submitted that the licensing provisions in section 12 of the Neutrality Act of 1939 have brought this situation under control.

(6) It is interesting to note that the Committee suggests that in certain circumstances where materials may be used for either hostile or peaceful activities, the United States should, before permitting exportation, require assurances from the foreign government that they will be used only for peaceful purposes. The United States has used exactly that procedure in several instances since the beginning of the present war where vessels have been sold to belligerent nations.

(7) It might be added that the Eyo Committee advocated a complete embargo of arms, ammunitions, and implements of war as a method of avoiding involvement in future wars. That system was in effect under the Neutrality Act of 1937 for a period of two months during the present war. It was fully considered and discussed by the Congress which determined that such an embargo was not in the best interests of the security and peace of the United States.

(8) The Committee found that in the absence of specific neutrality legislation the Congress and public are not always fully and promptly informed concerning important changes in neutrality policy or the causes of such changes and the Committee recommended that the Congress should be accurately and promptly informed by the

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Executive of the cause and purpose for any changes in neutrality policy.

The several neutrality acts and the continuous efforts of the Chief Executive to keep the Congress and the people of the United States fully informed on the reasons for and the changes in the neutrality policy of the United States clearly meet the situation which the Committee wanted improved.

Part VI of the Report

This Part deals with the adequacy of legislation existing at the time of the report, June 5, 1936.

(1) The Committee found that loans to belligerents militated against neutrality, and profoundly affected public opinion and the foreign policy of the United States. Such loans caused a substantial war boom and gave the United States a financial stake in the war which made it impossible to conduct a foreign policy consistent with complete neutrality. The Committee recommended that the loan and credit provisions of the amendment to the Neutrality Act of 1935, Joint Res. of February 29, 1936, by Stat. 1152, be retained "in such a way as to prevent the extension of large credits to belligerents in the form of acceptances and to prevent the flotation of long-term bonds by foreign nonbelligerents, the proceeds of which loans can be diverted to belligerent uses."

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The loan and credit provisions referred to have been retained in the Neutrality Act of 1939 and strengthened to the extent that the provision in the earlier Act for ordinary commercial credits and short-time obligations in aid of legal transactions and of a character customarily used in normal peace-time commercial transactions was eliminated.

(2) The Committee recommended that section 5 of the Trading with the Enemy Act, 40 Stat. 411, as amended (U.S.C. title 12, sec. 95a), be amended to define the word "emergency" to include a major war in which the United States is neutral.

The Committee's recommendation appears to have been prompted by a desire to make explicit the power which the President has already determined was conferred upon him by that Act. Examples of the President's interpretation of "emergency" to include such foreign major war are found in the various Orders of the President freezing credits in this country of nationals of foreign nations.

Part VII of the Report

(1) The Nye Committee found indications of use by the Navy Department of shipbuilders as lobbyists for its interests and found that the shipbuilders had used secret influence to bring about the failure of disarmament efforts, to encourage the building of armaments, and to create war scares. On the basis of that and other testimony, the

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Committee expressed the view that there was clear and definite danger in allowing shipbuilders and similar interests to be in a close position of influence to such an important instrument of national policy as the Navy and in allowing them to remain in a position where it is to their financial interest to confuse public opinion between the needs of the country for a purely defensive Navy and their own continuing needs for profits. In consequence of these findings, the Committee majority recommended nationalization of munitions and armament plants.

Although there has been no actual nationalization of such plants, section 9 of the Selective Training and Service Act of 1940 (Public, No. 703, 76th Congress) provided for the taking of possession of such plants if they refuse to give preference to the orders of the United States or to manufacture the kind, quantity, or quality of arms or ammunition or any necessary supplies or equipment which are ordered or to furnish such articles at a reasonable price.

11/15/20

FROM: MR. GASTON'S OFFICE

TO: The Secretary
(Speech)

THE NATION'S DEFENSIVE STRENGTH

Partisan demagogues broadcast to world our defenses are weak and ~~preparation~~ preparation slow. It's a lie.

I've been too busy to think of politics but, since I know about this matter, I feel obliged to answer.

I have been seeing the figures. New funds for navy and army before crisis. Fight to permit cash and carry delayed by Republicans, finally won. British-French orders multiplied our airplane plant; got other new industries going. With collapse invaded countries Pres. began greatly enlarged program. Details letting orders, letters of intention, retooling plants, building new plants. Treasury hired airplane and engine experts before advisory commission set up. Co-ordination with British orders to increase production. Tax questions ironed out. Fair contracts; profiteering barred. New Deal program has strengthened America for defense. Railroads, airlines, factories, roads in better shape through loans and made work. People stronger, happier, healthier for relief programs. Others promise; we perform. Increase in debt no obstacle to financing; quite the other way. Great increase National wealth, national income enables us to finance with ease. We haven't been throwing our wealth away for scraps of paper; we've been strengthening ourselves internally. Social discontent alleviated; we are united people, ready for whatever may come.

October 18, 1940
11:30 a.m.

RE RADIO ADDRESS

Present: Mr. Foley
Mr. Cairns
Mr. Duffield
Mr. Haas
Mrs. Klotz
Mr. Gaston

H.M.Jr: George, have you got your stuff?

Haas: Yes, I have got what you asked for this morning.

H.M.Jr: It is political, George. Are you afraid of it?

Haas: No, I am used to it.

H.M.Jr: This is a good crowd we have got around here.

I think this is marvelous.

Duffield: I think the first page is good.

H.M.Jr: The first page?

Duffield: I haven't got beyond that.

H.M.Jr: The first page is marvelous. That is the part he has worked on.

Cairns: The subsequent pages, Mr. Secretary, are being condensed.

H.M.Jr: The funds control?

Cairns: No, 1, 2, and 3.

H.M.Jr: You are going to try and do it all on one page?

- 2 -

- Cairns: No, we can't do that. From there on it is being condensed.
- H.M.Jr: Foreign funds controls, "Chile For New Industries." That doesn't come under Foreign Funds Control.
- Cairns: No, I don't think that comes under Foreign Funds.
- Duffield: As a matter of fact, these last two pages are being recapped under two broad headings, Protection of our Economy Against Shocks From Abroad and Against the Repercussions of the Defense Program.
- H.M.Jr: I think that is swell.
- Klotz: I think so, too.
- H.M.Jr: Now, I want to get George's. Have you got those figures, George?
- Haas: Yes.
- H.M.Jr: What have you got? I think this is swell.
- Haas: I don't think you will be so pleased with these things.
- H.M.Jr: The only way is to keep exploring, that is all.
- Haas: The September figures won't be out until the 25th, but they tell me for these particular ones which I picked out, they will give them to me tomorrow. They gave me some preliminary --
- H.M.Jr: Increase in iron and steel is minus. That is wonderful. From December, 1939, to August, 1940, they have got the same number of employees in the iron and steel.
- Haas: That was a big bulge when the war was declared.
- H.M.Jr: I don't think we will use that one.
- Haas: I am taking it at the time the war broke out in Europe and a year later and a year before, and you get much nicer looking figures.

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- H.M.Jr: Is that the way you have got it?
- Haas: I have really gone into it now.
- H.M.Jr: This is August, 1939?
- Haas: That is right. Really what I would like to give you there is September, and I will be able to do that tomorrow, September, 1939, September, '40.
- H.M.Jr: Shipbuilding is up 48, you say. Machine tools is up 70%. Aluminum is 21. Explosives is up 50%. That is as between September and September?
- Haas: The time the war broke out and then a year later.
- Foley: Employment?
- H.M.Jr: Yes.
- Duffield: There are two figures out in the Federal Reserve Bulletin added since last September, if I remember correctly.
- H.M.Jr: Why not use it that way, that is much better. Why break it down this way?
- Duffield: I thought you wanted perhaps general and some illustration of what has happened.
- H.M.Jr: I think so. You can say that in two million - let's take a look at your summaries. In explosives, in the past year it has gone up 50%, aluminum 21, machine tools 70%, and so forth and so on. Shipbuilding 48%. They haven't been used like that, have they?
- Duffield: No, I haven't seen them.
- H.M.Jr: I haven't seen them. I think that would be good, George. Tomorrow would be all right.
- Now, how can we get this, you see, so I can get this thing over - I can have it at five minutes of two? What are you going to do, change this thing?

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Cairns: We will have it in about two minutes.

Haas: I have got one suggestion which I think is important and it is left out, as I glanced through there. One of the things I think the Administration has done, which is very important, as the Dictators are fighting wars now, they break down the inside first. I think the whole reforms that the President has put in is the most useful armament that this country has got.

Duffield: No doubt about it.

H.M.Jr: How can we use it?

Duffield: I think as this thing will be set up when it is revised that it will fit a little better.

Cairns: Yes, I think so.

H.M.Jr: Well now, here is what I was thinking, you see. Mr. Raymond Gram Swing has offered to come up to the country for a half a day, but he isn't sufficiently familiar that he could make this - use this. He will have to have references. For instance, let's say the proclamation of German neutrality, he will need a reference.

Cairns: Oh, I will fill that in.

Duffield: We tried to boil this down so it would be as short as possible.

H.M.Jr: Would you have this thing in the bean so if he asks you you could have everything he asked for?

Cairns: Yes. I can get it in a special folder for you.

H.M.Jr: But I mean if you wanted to - I was just thinking of possibly having you come up Sunday if he was coming. Are you busy? Got something on your mind?

Foley: He has got a broadcast.

H.M.Jr: What are you broadcasting?

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- Cairns: On Sunday at 3:30.
- Foley: He broadcasts on a national hookup every Sunday. Didn't you see his picture in the Times this week?
- H.M.Jr: No.
- Duffield: It says he is an expert in 15 languages.
- H.M.Jr: Every Sunday? Under what auspices?
- Cairns: It is for the adult education.
- H.M.Jr: How much time do they give you?
- Cairns: Half an hour.
- H.M.Jr: What do I need Raymond Gram Swing for? When do you write your broadcast?
- Cairns: It is not written.
- H.M.Jr: What do you do?
- Cairns: Three of us sit down and discuss it.
- H.M.Jr: Do you do it ad lib?
- Cairns: Yes.
- H.M.Jr: Then you don't have to prepare for it?
- Cairns: No. I have already read the book.
- H.M.Jr: Then I was just thinking in this way. Supposing you got in touch with Mr. Swing. He is through at one o'clock Saturday, and maybe you could spend Saturday afternoon with him and read this stuff to him and then come back on the midnight. What would you think?
- Foley: You do your broadcasting where, New York, don't you?
- Cairns: This one is going to be from Washington, but I can

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switch it to New York or I can come back at midnight. That is a small matter.

- H.M.Jr: He has a broadcast which he does at 1:15 Saturday. He said from that time until Monday morning he was at my disposal, so if you could meet him --
- Cairns: Saturday afternoon.
- H.M.Jr: Saturday afternoon and spend Saturday afternoon with him, then when he came up Sunday he would have the thing pretty well lined up for us, but he will want references and all that sort of stuff.
- Cairns: I have them all.
- Foley: He can have all the material down and can go to New York and sit down with him.
- H.M.Jr: That is what I want him to do. I want him to go to New York and sit down with Raymond Gram Swing and feed him all this stuff, you see.
- Klotz: You don't want to do that Saturday afternoon.
- H.M.Jr: I want him to, and then Swing will come up and see me Sunday.
- (Mr. Gaston entered the conference.)
- Klotz: Oh, I thought you wanted the two of them.
- H.M.Jr: No, I want the two of them to work together wherever he works. I think he takes the train and lives up at Westport. He may want you to go up to Westport.
- Cairns: I will get in touch with him right away.
- H.M.Jr: I will give you his telephone number. His telephone number is Longacre 5-1843.
- Cairns: Is that a Manhattan number?

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H.M.Jr: New York City. Then if you want to do that, maybe you would want to broadcast from New York. I will leave that to you, but is this a hardship to go up there?

Cairns: Not a bit.

H.M.Jr: I think he had better do it, don't you?

Foley: Sure, yes.

H.M.Jr: Is that all right with you?

Foley: Absolutely.

H.M.Jr: If you could do that, you see, and then when you speak to Mr. Swing, tell him I am definitely counting on him coming to the farm.

Cairns: Any particular time?

H.M.Jr: Well, if he could get there at ten o'clock, say.

Cairns: That is a.m.?

H.M.Jr: Yes. Tell him we are on Route 52 and we are 10 miles east of Beacon.

Cairns: Ten miles east of Beacon?

H.M.Jr: On Route 52, and when he gets to Wiccoppee, he can inquire for the place.

Gaston: Turn right at Wiccoppee.

H.M.Jr: Yes.

Klotz: They will direct him there.

H.M.Jr: It is on 52 ten miles east of Beacon and 5 miles west of Stormville.

If ten is too early for him, he can phone me. I can make it eleven. I will be ready at ten, but if that is too early, tell him to let me know

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what time is convenient. I guess that is pretty early. Why not tell him --

- Foley: He will have to drive up there.
- H.M.Jr: Well, he is going to Westport. That gives us two hours before lunch if we make it at eleven o'clock. But the suggestion I make is to let Huntington go up there and see this man and then give him this material with the supporting data.
- Gaston: What shall we do about the other man?
- H.M.Jr: Who?
- Gaston: Chase.
- H.M.Jr: I would forget about him. I don't see how you could get a better writer for radio than Raymond Gram Swing, do you?
- Cairns: No.
- H.M.Jr: Do you think you can get a better writer? Well, I mean, he certainly is adequate.
- Gaston: Yes, he is plenty good.
- H.M.Jr: And as long as he volunteered to do this..... You know what is going to happen, don't you?
- Foley: Yes, he is going to take it away from you.
- H.M.Jr: Sure. This is good.
- Klotz: Well, that is nothing new.
- H.M.Jr: No.
- Foley: You had better put it on Treasury stationery. They will think it came from the State Department.
- H.M.Jr: Nothing as good as this ever came out of the State Department, unless you (Cairns) object to that statement.

- Cairns: Not a bit.
- H.M.Jr: Let me just read this. Now, this is the supporting--
- Cairns: No, that is the redraft of those three pages.
- H.M.Jr: Let me just take a look. I am quite excited about this. Let Herbert see this.
- Gaston: I have got one. It looks like more than 15 minutes to me.
- Foley: It is easier to start out with it big and then cut it down.
- H.M.Jr: Would you keep it to 15? That has always been my policy. I think so.
- Gaston: Get Swing's judgment on it as to whether this is a 15 minute or half hour talk. He may say right away it is a half hour talk.
- Cairns: Swing has just written a piece that covers a large part of this.
- H.M.Jr: A book on this? Has he?
- Cairns: He wrote an introduction to a history of the first year of the war.
- H.M.Jr: Of this war?
- Cairns: Yes. I have got a copy of the book.
- H.M.Jr: That makes him all the more --
- Cairns: He has it at his fingertips. The only thing he doesn't have, and that will have to be cleared with you, is that statement that Pittman made in the State Department and that you read one day down in your lower office and you told me, "That is the corner I am in."
- H.M.Jr: You will have to refresh my memory.
- Cairns: When the Neutrality Act was first passed and the

Treasury was given the job of enforcing it, the business interests of the country descended upon us like a ton of bricks to find loopholes in it. Pittman said the business interests must bend their policy to the peace policy of this Government. He made that statement in the State Department in the office of Judge Moore, and I wrote it down and showed it to you and you said at the time, "That is where I stand." The peace policy of this Government is going to prevail and not the business interests. Now, we don't have to attribute that to Pittman.

- H.M.Jr: Well, there is just this much about it. These boys now like Charlie Michelson and all those, they would react, "Why bring that in?"
- Cairns: Well, that appears on the first page.
- Gaston: We can bring it in and butter up business a little bit by telling how loyally they assented to that policy.
- Cairns: It is just a question of, Have you enforced neutrality or haven't you?
- H.M.Jr: Why not leave it in? Let's put it there and let the President strike it out.
- Klotz: That is right.
- Duffield: That is right.
- H.M.Jr: Let's put it in. This is a perfectly swell job. I am simply delighted. I am going to take this to Cabinet with me and tell him to put it in his pocket and that this is what I propose, does he want me to do it. That is what I want to know. I don't want to talk unless he wants me to. It is a lot of work. I
- Foley: Huntington might need somebody from Harry's shop on the Economics. That was prepared there, you see.
- H.M.Jr: All right.

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Klotz: He won't let you do it, if you give him that.

H.M.Jr: Do you think he will take it himself? It will be a darned good speech whoever gives it.

Cairns: It ought to be given.

H.M.Jr: Right. I am very enthusiastic. You know, it is all just silly taking weeks to prepare a speech. How long have we been on this? When did we first start to talk about this?

Foley: You are not through yet.

Klotz: Who said that?

Gaston: It isn't a speech yet.

Klotz: Did you say that? That is wonderful.

H.M.Jr: That is all right.

Gaston: But this is the best start. This is a really good outline of a speech.

H.M.Jr: You, Gene, I am ever so much obliged to you.

Duffield: It is all right. If there is anything I can do any time, let me know.

H.M.Jr: We will be back at you.

Cairns: It has his master touch in it.

H.M.Jr: Gene is good. Just think, Gene, this afternoon you have to run back to all this humdrum stuff.

Duffield: Yes.

I Protection of the consumer.

- A No increasing cost of living despite extraordinary increase in production.
- B Appointment of Miss Elliott.
- C Continuous check on cost of living.
- D Conferences with materials producers.
- E Appointment of Henderson.
- F Conferences with industry.
- G Watching of small price rises.
- H Setting up of stock piles, rubber, tin, manganese.
- I Releasing of 700,000 tons of sugar.

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III Coordination of governmental purchases to avoid unfortunate competition of last war.

IV Centering foreign financial missions in the Treasury.

- A American supervision of their disbursements.
- B American supervision of liquidation of foreign-owned securities.

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- A Despite drastic shifts in foreign markets and in domestic production.
- B Agricultural prices maintained despite loss of European markets.

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- A More than ever the safest currency in the world despite capital and gold flows such as no other economy has ever been subjected to.

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- C** Productive loans.
- D** Brazil for steel.
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- A** Tackling extraordinary problem of surpluses in Latin-American countries.
- B** Uniting them on common economic program.
- C** Preventing application of "Divide and Conquer" policy in this hemisphere.
- D** Developing new markets for United States.
- E** Strengthening the financial systems in neighboring countries.

X Increase of civilian production.

- A** Continued expansion of housing.
- B** Non-durable goods increasing.
- C** Protection of wage rates.
- D** Appointment of Hillman.
- E** Safeguarding wage structure through protection of collective bargaining.
- F** Preventing unnecessary increases in hours.

XI Prevention of excessive speculation.

- A** Maintenance of SEC controls.
- B** Excess profits tax to keep profits at reasonable level.

III Making money quickly available for defense.

- A Defense policies to take the risks out of private investment.**
- B Speedy adjustment of tax policy.**
- C RFC loans where private capital is not available or will not do the job.**

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 - b. Resolution by the various republics to take steps which would preserve the neutrality of the Western Hemisphere.

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2. Rupt control of munitions and other strategic materials.
3. Acquisition of Atlantic bases.
4. Good neighbor policy.

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Setting up of stock piles, tin, rubber, manganese.

Releasing sugar.

Agricultural prices maintained.

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B (Continued)

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 18, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The following paragraphs summarize arrangements made by the Treasury Department with the view to the safeguarding of American interests during the war.

FINANCES

Shortly after the war broke out in 1939 the Treasury proposed to and arranged with the Chancellor of the British Exchequer and the Minister of Finance of France for their respective Governments to open special accounts through their Central Banks with the Federal Reserve Bank of New York. Such accounts have been used exclusively for war purchases in the United States. Officials of the British and French Governments or Central Banks came to the United States with authority to operate such accounts. It was agreed that the Secretary of the Treasury should have personal and confidential access to these accounts, the Federal Reserve Bank being authorized by the depositing Governments to provide the Secretary with full transcripts of their accounts. The Secretary thus knows the exact total and movement of funds in the accounts, including the identity of payees. The Federal Reserve Bank of New York charges no commission for carrying these accounts. The foreign officials operating the accounts have authority to sign; they avoid loss of time and expense that would otherwise be involved in cabling; and they are available to this Government and to American business concerns for consultation. With the cooperation of the State Department, the Treasury has in recent years improved its facilities for obtaining financial information abroad, and enjoys cordial relations with foreign financial authorities visiting or stationed in this country. From its several sources the Department has an increasingly comprehensive understanding of the financial and economic situation abroad, including particularly the resources of countries in the war zone which are purchasing here.

SECURITIES

As a result of suggestions made by the Treasury, working in conjunction with the Securities and Exchange Commission, the Chancellor of the British Exchequer sent to the United States last Autumn a British security expert to manage the sale in this country of dollar securities to which the British Government had taken title. This representative continues to dispose of officially owned securities, carefully avoiding any operations which might adversely affect our market, soliciting such professional advice as may be desired, and keeping the Treasury currently informed of his transactions. The New York branch of a Canadian bank serves as the depository for such securities.

PURCHASES

Upon the Treasury's recommendation, the President set up in November 1939 an informal committee to be the exclusive liaison body of this Government dealing with the representatives of foreign Governments interested in the purchase of war materials in the United States. Representatives of the Treasury, War and Navy Departments constitute this committee, which reports to the President through one of his Administrative Assistants. The three primary purposes of this committee were to study and advise on the availability of the desired articles; to arrange priorities; and to coordinate purchases in such a manner as to reduce price upsets that might result from disorganized and competitive purchasing. It has been the Treasury's policy to encourage the sending to this country of qualified purchasing commissions to represent Governments buying war materials. Such commissions can deal directly with American suppliers and also coordinate their efforts with those of our own Government.

NATIONAL DEFENSE

As the national defense program of the United States developed, together with the increasing demands of the British Empire for arms, ammunition, and materials of war, it became evident that increasing attention must be given to integrating British purchases with those of the United States. To this end the Treasury, through its representative on the President's Liaison Committee, has worked continuously with the British Purchasing Commission with the following general objectives: The establishment of a system of preliminary clearance on orders to be placed so that they could be considered and acted upon in conjunction with Army and Navy purchases of the same items or from the same suppliers; the institution of a system, through the Advisory Commission to the Council of National Defense, of investigating alternative sources of supply so as to avoid concentrating British orders in large suppliers who were already over-loaded; the development with representatives of the British Purchasing Commission of long-range programs for various products to assist the Advisory Commission to the Council of National Defense and the Army and Navy in determining production bottlenecks which would have to be remedied through additional plant expansion; the institution of standardisation conferences intended to concentrate United States and British orders on products of identical design so that additional capacity created by the British for their orders would be useful to the United States in case of emergency.

STATISTICS

Continuous contact is maintained by the Treasury Department with the statistical staff of the British Purchasing Commission. Information is obtained periodically from the Commission regarding purchases in the United States by the British Empire Governments. Weekly statements are received covering in dollar volume the itemized purchases by the British Empire Governments through the Commission the itemized purchases made by these Governments with the knowledge of the Commission but through its facilities, and inquiries made by the Commission or with its knowledge for future purchases. Similar statements are received showing, by itemized contracts, the dollar volume of deliveries made with respect to orders placed by Great Britain through the Commission. The data with respect to contracts for and deliveries of airplanes and airplane parts are specially detailed and useful in connection with

the American defense program. Each week there is a report showing commitments by British Empire Governments for capital expenditures in the United States and for extraordinary charges designed to expedite deliveries from American companies. A monthly statement shows the amount of British payments made to date, the value of orders to date, and the residual amount of balances due, together with the estimated schedule of future payments.

* * * * *

While arrangements with the British Government are principally discussed in the foregoing paragraphs, it should be explained that a practically analogous plan was followed with the French Government when it was actively purchasing on our market. Arrangements with countries buying less importantly here have been concluded or are being developed which follow the above general lines insofar as these are adaptable to the individual cases. The Treasury is constantly striving to benefit from experience, including that of the last war, in providing materials to foreign countries, and in achieving our own defense program.

A handwritten signature in dark ink, appearing to be 'J. M. R.', is written in the center of the page below the main text.

October 18, 1940

HM, Jr gave the President draft #1 at Cabinet
today.

Draft I

10-18-48

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I Protection of the consumer.

- A No increasing cost of living despite extraordinary increase in production.
- B Appointment of Elias Elliott.
- C Continuous check on cost of living.
- D Conferences with materials producers.
- E Appointment of Henderson.
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*Draft made
10/18/90 241*

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4. Control of the international trade in munitions.
5. Conference of Foreign Ministers of American Republics.
 - a. Declaration of Panama defining neutrality zone around Western Hemisphere.
 - b. Resolution by the various republics to take steps which would preserve the neutrality of the Western Hemisphere.

D Making America strong.

1. Strengthening of defense forces including conscription.
2. Export control of munitions and other strategic materials.
3. Acquisition of Atlantic bases.
4. Good neighbor policy.

Protection of the Economy Against Shocks of War:

A Protection against shocks from abroad.

1. Coordination of foreign purchasing to avoid impeding domestic defense.
2. Centering foreign financial missions in the Treasury.

American supervision of foreign disbursements.
Supervision of liquidation of foreign-owned securities.

Protection of American dollar.

Despite capital and gold flows, such as no other economy has ever been subjected to.

3. Foreign funds control to prevent chaotic withdrawals and disruption of internal markets.
4. Protection of our neighbors against economic aggression.

Production loans to Brazil and Chile.

Commercial loans to assure payment to American producers.

Broader program to prevent the application of the divide and conquer policy in this hemisphere and to guard against other dangers of huge surpluses.

B Protection against disruption from domestic defense program

1. No increase in cost of living despite large increase in production. Maintenance of price stability and balance.

Appointment of Elliot and Henderson.

Continuous check on cost of living.

Conferences with raw material producers.

Setting up of stock piles, tin, rubber, manganese.

Releasing sugar.

Agricultural prices maintained.

2. Improvement in Government credit despite the enormous financial burden resulting from defense.

Bond markets stable with no pegging.
Lowest interest rates in history.

3. Coordination of Governmental purchases to avoid unfortunate competition in the last war.

B (continued)

4. Prevention of excessive speculation.

Maintenance of SEC controls.

Excess profits tax to keep profits reasonable.

5. Increase of civilian production.

Continued expansion of housing and non-durable goods.

6. Safeguarding the wage earner.

Wage rates maintained and increased.

Appointment of Hillman.

Maintenance of collective bargaining.

Prevention of unnecessary increases in hours.

7. Making money quickly available for defense.

Defense policies to take the risks out of private investment.

Speedy adjustment of tax policy.

RFC loans where private capital is not available or will not do the job.

Draft

October 19, 1940

MEMORANDUM FOR THE SECRETARY:

I am enclosing Mr. Swing's draft of the speech based on a longer draft submitted to him.

You may wish to change the phrase "remain non-belligerent" on page 1 six lines from the bottom to "stay out". The isolationist senators may seize on the phrase if it is not changed.

On page 8 you may wish to emphasize that the additional jobs which are spoken of are jobs in private industry and are not relief work.

Huntington Cairns

In a world in chaos, a free people must have two aims, to safeguard itself from war, so long as its own freedom is not at stake, and to protect its economic life from the shocks of war.

No people, through its democratic processes, has ever made a more sincere effort than the United States in the last seven years to safeguard itself from war. It has understood that a price had to be paid for this, and it willingly and consciously sacrificed some of its rights at sea, its rights of travel, and some of its rights to do business with warring countries. Before the war in Europe broke out, in September 1939, these were efforts made in the abstract, efforts to keep us out of some future war. When the war came, we had to adjust ourselves not to an abstract war, but to a grim and real and expanding one in which our own interests as a free people are bound to be affected even though we are determined to remain non-belligerent. But first it needs to be borne in mind that we are at peace today after making real sacrifices for peace, which the Administration has led in recommending and which the Congress with all deliberation has voted to make. To the sacrifices in neutral rights and foreign commerce were added the burden of a gigantic program of national defense. We have introduced the peace

time draft. And at the same time we have greatly strengthened our political and economic ties with our neighbors in Latin America, whose safety is part of our own safety. We have increased our security by leasing from Great Britain the bases from which our coast and the Panama Canal can be defended. We have widened our responsibilities for the defense of the Western Hemisphere. Without losing any of our fervent will to peace, we have understood we must express our might in the terms, not only of freedom and high standards of life, but in military, air and naval power. It has taken foresight, courage and leadership to see these aims, to maintain peace at the cost of sacrifice, to preserve freedom at all cost, to keep our own spiritual and economic standards high, and yet to know the meaning of the conflagrations that light our horizons. We know that Franklin Roosevelt has shown this leadership, and I believe the American people will ask him next week to continue his great service, so that these aims shall be realized without interruption and without any slackening of effort.

I want to speak in some detail about the phase of the government's activities with which I am most familiar. I believe that no other government in history has made an effort comparable with ours and achieved a

comparable success in insulating the economic life of its people against the shocks of war. I say that advisedly. Thousands upon thousands of hours have gone into conceiving and applying the policies designed to avert economic disorganization. With the outbreak of war, the first job on the economic front was to safeguard industry and agriculture from its shock. I want to mention some of the measures put into effect at the Treasury. We haven't talked much about them. We did not advertise that extraordinary steps were being taken. But if we had failed, our failure would have been brought to your attention all too painfully.

One of the problems the President worried about was foreign buying in our domestic markets. Foreign countries might have bought up goods needed for our own defense, they might have carried on operations in a way that prevented our knowing just what they were buying. Some foreign purchases would not help build up our productive capacity for our own defense. We have taken measures to protect our own interests. We have made sure that foreign buyers have not bought what we must keep for ourselves. Foreign purchasing has been centralized so that we know what is being done. And we have succeeded in planning so that whatever productive capacity is increased

is in our own service, as well as that of a foreign purchaser. All such measures were taken too late during the First World War. They are not steps normally taken by nations at peace. And I believe we have shown more foresight, even, than any country at war.

We have watched carefully the disbursements of foreign governments in this country. We set up machinery to check the hasty liquidation of securities. We have experienced no panicky selling, no disorganization of markets. Real values of securities have been saved from outside attack, and we have avoided incalculable and disastrous loss to large numbers of investors. Before the war, this country received an inflow of foreign capital and gold never before equalled anywhere at any time in history. We accepted the capital and we bought the gold, we gave it refuge from predatory seizure abroad. We did it without disturbing our exchange rate. The dollar kept its steady value, which it needed if our foreign trade was to be steady and to grow. Our steadiness and economic strength were reflected in increased trade. We found new markets for American goods, new jobs were made.

One of the fruits of this policy was that the Treasury, by instituting control over foreign funds, was able to safeguard billions of dollars that belonged to countries which the aggressor nations would have plundered

and used against us. If they had come into possession of those funds, they would have had a tremendous leverage over us. They could hurt us with the very money to which we had given asylum. The control we exercise over this money, exercised by license system in foreign exchange transactions, was not improvised on the spur of the moment. The invasions of European lands have not been heralded. They were executed as surprise measures. But the Treasury was able to act as promptly, because the peril had been foreseen and the devices had been designed which our own safety required. Then came the problem of maintaining our peace-time economy without upsetting it with the vast expense for defense. In the campaign, a great deal of criticism has been offered of what has and has not been done. Let us look at the facts. In the first year of the war, our production as measured by the Federal Reserve Board index, went up about twenty percent. This is a large increase in production for any country at any time of peace and it is still climbing. The danger here is that the benefits of an increased production and employment should be undermined by an increase in prices. But while production has gone up twenty points, the cost of living, according to the Bureau of Labor Statistics has gone up one and a half points, from eighty-four to eighty-five point five. That is not the work of natural

forces. That is the regulation of forces for the general good. Production and employment have improved, but the whole price structure has been maintained stable and in balance. In this same time, the wholesale price index rose only four points. Such a rise would have been considered normal for an increase in production only half as great. ^{Mr.} Leon Henderson and the agencies of the government are watching every price move, calling on industrialists to explain increases which seem questionable and giving them full publicity in instances which have warranted it.

At the same time the government, through Mr. Stettinius, is protecting the prices of strategic raw materials, like tin, rubber and manganese. They are doing this by laying in ample stocks in a way that does not overstimulate the market, and produce the fever of rising prices. That will save you from extortion later on in the completion of your defense program.

Let me give an example of how the government can work. At the outbreak of the war, an unwise and fantastic price speculation in sugar was begun. Before it went too far the government released seven hundred thousand tons of sugar which it held. That stopped the rocketing of prices, brought the market to its senses, and prevented an inventory accumulation.

Now to come to the contentious subject of providing capital for the defense program. Our record shows that in a remarkably short time fundamentally sound policies were established. Private enterprise is doing the work of providing new capital wherever it is willing to do that work. The Defense Commission, the Treasury and other agencies, have agreed on a program which removes the risks from that investment. While Congress was discussing the necessary legislation, the Treasury used its administrative powers to the full to reduce the risk and enable the Army and the Navy to make private contracts that would tempt private capital. Let me repeat what I have said in the past: This Administration does not intend to make of war industries a happy hunting ground for profiteers and speculators. Profits from armaments are not to be sacrosanct. They are not to be tax-free. But American business is patriotic, it already is demonstrating its patriotism in cooperating in the defense program. The great body of American business will not criticize, and certainly the American people as a whole will not criticize, a policy that prevents profiteering, and its attendant demoralization.

In the last month a good deal has been said about jobs. We have been

told that the government hasn't "created" any jobs. This is a scandalous statement, and millions of Americans know from their own experience how false it is. From nineteen thirty three to the middle of nineteen^{forty}/~~thirty~~-~~two~~, the number of industrial jobs in the United States rose from around twenty-six and a half millions to thirty-six millions. I don't know what is meant by "creating" jobs, unless it is to put a man to work who hasn't been able to find work. Nearly ten million people who were not working seven years ago were working during the summer of nineteen^{forty}/~~thirty~~-~~two~~. From the August of last year, a month before the outbreak of the war, till this August, employment rose by nearly two million, and the estimate of new jobs in nineteen fortyone is another two million.

The defense program is an enormously costly undertaking. During the first four months of this fiscal year more than blank billion dollars worth of contracts were cleared, a record for any country. If we believed the opposition critics, we would have to believe that such a vast economic burden would wreck the credit of the country. You have heard it said over and over again that the government is on the way to bankruptcy. But what are the facts? During the last seven years our tax structure has been greatly strengthened.

Its capacity to yield revenue has been increased. The equity of our tax system has been improved. We have indeed borrowed large sums for public works, relief, and aid to agriculture, but we have come through the great battle against depression with credit unimpaired. If the last seven years have added over twenty billions to the public debt, it was not money thrown away. The real wealth of the country was increased. We saved our productive system. No one knows better than I that it is serious to go into debt, but we achieved what no other country has done, we combined recovery and reform, we safeguarded and strengthened democracy in this country. If we continue to safeguard and strengthen it we may have saved it for the world.

NEW YORK MIRROR

DAILY AND SUNDAY

235 EAST 45TH STREET
MURRAY HILL 2-1000

October 20, 1940

Dear Mr. Morgenthau:

Mr. Winchell wanted me to let you know why he did not use the material given me by your secretary and later confirmed by you via telegram.

He did not want to cut any of it and as it was it was too long to include in the broadcast.

sincerely,

Rose Byrum
for Walter Winchell

RECEIVED
OCT 21 1940
MURRAY HILL 2-1000

October 21, 1949

Dear Mr. Swing:

I want to thank you for the help you gave me Saturday afternoon. Mr. Cairns has told me of the interest you took in the matter and the effort you devoted to it. I need not tell you how much I value your contribution to the cause we both have at heart.

It was refreshing to see you when you were in Washington. I hope you will give me the pleasure of seeing you when you are here again.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. August Green Swing
1445 Broadway
New York, New York

dc

October 21, 1948

Dear Mr. Spring:

I want to thank you for the help you gave on Saturday afternoon. Mr. Cairns has told me of the interest you took in the matter and the effort you devoted to it. I need not tell you how much I value your contribution to the cause we both have at heart.

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Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Raymond Owen Spring
1140 Broadway
New York, New York

October 21, 1940

Dear Mr. Swing:

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It was refreshing to see you when you were in Washington. I hope you will give me the pleasure of seeing you when you are here again.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Raymond Gram Swing
1440 Broadway
New York, New York

October 21, 1948

Dear Mr. Selig:

I want to thank you for the help you gave me Saturday afternoon. Mr. Selig has told me of the interest you took in the matter and the effort you devoted to it. I need not tell you how much I value your contribution to the cause we both have at heart.

It was refreshing to see you when you were in Washington. I hope you will give me the pleasure of seeing you when you are here again.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Raymond Green Selig
1440 Broadway
New York, New York

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MR. GASTON'S DRAFT 10/21/40

What I have to say to you tonight is political. It is political in the sense that the government of the United States is a political matter. It is political in the sense that every four years the people of the United States have to consider whether the policies that have been in effect in their government for the four year period that is nearing an end and the service of those persons who have been executing those policies should be continued; and now we are on the verge of making that decision.

You should not have to make so great a decision without a full report on important matters at this time from those whom you chose four years ago to serve you, even though you have been getting reports from time to time as the work progressed. Nor should you have to make this important decision without hearing fully and listening attentively to those who propose to change policies and to change the officers who execute policies. You should listen, and I hope you have listened, with especial and concentrated attention to opposing candidates; for after all you do know something about those who have been in

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office, and you may know very little about the opposition except what they may tell you of what they propose to do. That may be little or it may be much, but at least it is material upon which you must base judgment.

Of those matters as to which you are entitled to a fair report none is more crucial than the subject of National defense. I propose to tell you as simply and frankly as I can what we have done to meet the developing menace of attack upon us and upon the system of self-government that has made us great as a Nation and great as a people and that we value more than life itself.

This report is the more necessary because, I am sorry to say, there has been lately an attempt to make what should be a united, non-partisan National effort the subject of partisan controversy. I regard this as unfortunate. For reasons that none of you can fail to understand I had hoped that we might keep our defense program as far removed as possible from campaign controversy. For controversy does not promote unity of effort and I had hoped that we might present a united front

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to the world.

About the existence of a menace to our freedom there is very little argument today. For seven years we have watched the increase of the power and the aggressive spirit of governments that deny the validity of everything we hold vital to human progress. We have seen those governments extend their power by intimidation and by bloodshed over weaker countries, one by one. Appeasement did not slake their appetite for conquest, but only strengthened their lust to extend their system. We heard them say "Give us this and we will be satisfied" and we saw them take it time after time and move on to new aggressions; so that we saw that their promises were only an instrument of policy, meant to be disregarded.

Knowing that a world in flames would surely hold the greatest peril for us we began to strengthen our defenses. Relying, as we always have relied and must continue to rely, on the navy as our first line of defense, we built a stronger navy. We reorganized our army and gave intensive study to the best means for putting it on a war basis when the need should arise.

Early last year when the illusory peace of Munich had been followed by the cynical seizure of all of Czecho-Slovakia, we foresaw the possibility and even the genuine probability that a great struggle which would engulf all Europe would soon follow. We — and by this word "we" I mean the responsible leaders of this Administration — were not able to persuade all with whom we had to deal of the imminence of the danger. Some in high places told us they had better information than the official representatives of the Government were able to gather.

I advocated all the steps possible to protect us from being involved and to insulate us as far as possible from the shock of war; but I approved the plea of Secretary Hull that we repeal the total embargo on the sale of arms to belligerents. Why did I do this? Because I saw, what all the world should have seen, that the aggressors were arming swiftly, far more swiftly and aggressively than those who might have to resist them. The assurance of American arms to the non-aggressors then would have been a powerful argument

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and instrument for peace. That argument was not made. We did not repeal the arms embargo then. And why did we not repeal it? I may as well be frank: Because a stubborn opposition that was not awake to the danger in which the world — including us — then stood would not permit its repeal. They ridiculed the danger and opposed acts to meet it.

But the great Nations were still nominally at peace and we were able to help the non-aggressors to prepare. Britain and France saw menacing them the greatest air fleet ever assembled, greater than the military air fleets of all other nations put together. They came to us with a plea for military planes. They had the money to pay for them. We helped them to get them. The facilities of American airplane and airplane engine plants were greatly expanded as the result of the orders they placed. This was done without interfering in the slightest degree with production for our own military and commercial needs. Whole new plants were built. American airplane capacity — particularly military plane capacity — was multiplied. If this had not been done,

American aircraft capacity today would have been far, far behind what it is today. These foreign contracts not only built up plants and tooling, but they also developed quantity production and created a great body of skilled labor.

In the diplomatic field we were not idle at this time. We did not sell any country down the river at this or any time. We did not sell democracy down the river. But we were active, so far as it was possible for us to be active with any promise of effect. We were active for peace. We reasoned with the heads of nations and implored them to work for peace. We implored them to respect the rights of other nations and to submit their differences and their demands to frank negotiation. We pleaded as America has always pleaded, for respect for international obligations.

Though the skies looked black, we never up to the moment when the catastrophe actually came relinquished our efforts or gave up hope. I use the great name of America here in the broadest sense.

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We counseled continuously with the other nations of the western hemisphere and their voice was one with ours. This was so because it has been our policy, as it has been theirs, over the last eight years, to strengthen our mutual ties of friendship. The friendship of the Americas has ceased to be a platitude and has become a reality which I can tell you sincerely is one of the strongest elements in our position today.

We did not succeed because we dealt with forces so besotted with the doctrine of force and so exultant at the gains it had made that they were immune to reason. The great war we had feared broke out in September of last year, after Germany had seized upon the most shallow of pretexts to invade and destroy Poland.

I called the Congress into special session and at my request the embargo on the sale of arms and instruments of war was repealed. To have adopted any other course would have been to favor the Nations that had intended war and had built up their arsenals for attack.

At the same time, with provisions that the sale of arms should be on a cash and carry basis, that Americans should not travel to belligerent countries or into danger zones, and that American ships should not go into combat areas, we did everything possible to save the United States from becoming involved.

In my budget message of January, 1940, I asked for greatly increased appropriations for the National defense, a total of nearly two billions of dollars. We proposed to add to a navy then the equal of any in the world and to add to the facilities for training and expanding our army. But a few months later Norway and Denmark had been overrun and on May 10 came the invasion of Holland and Belgium. Four Nations that had sought by every means in their control to live at peace with their powerful neighbors had been overrun and it had become crystal clear that not peaceful intent or peaceful policy or international agreement or world opinion — that nothing except the power to resist could protect any Nation from aggression.

We saw the development of arms that could strike across the

seas. We saw the malignancy of a system of government — government by force — which is the open foe of our own democratic system. We should have been false to our country if we had not drawn the necessary conclusion.

We resolved to arm to meet any menace known to the world. We knew that we had the resources of men and materials to do it. We began rapidly expanding our plans, our detailed plans for defense. We did not ask for a great blank check to be spent as rapidly as conditions would permit. In a special message to the Congress on May 16 I asked for an additional \$1,182,000,000 to be spent according to a concrete plan and as the plans were evolved I approved further requests for the Army and the Navy. On May 31 in another special message I asked for an additional \$1,277,000,000.

The heroic retreat through Dunkirk and the collapse of France only made the lesson to us clearer. Britain had become the last stronghold of free government on the continent of Europe. To meet her urgent need we sold to her arms, ammunition and ships which we

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could replace, and we went forward with redoubled vigor with our own preparations. The experts of the Army and the Navy, with a swiftness and a sure grasp of the complexities of the latest methods of warfare revealed in the European struggle that is, I think, without parallel in military history, translated into a concrete balanced program the requirements for the greatest peacetime expansion of defensive material we have ever been called upon to make. Thus I was able to send a special message to the Congress on July 10 calling for defense appropriations in the amount of \$4,800,000,000 to round out the program, except in the single matter of the immediate training of a citizen army.

It is useful, I think, to recite this history if for the sole reason that it tends to inspire confidence in the capacity of a Democratic government to act, and to act decisively and without hysteria in a great emergency. I don't believe, and I don't think you believe, that it furnishes any basis for the assertions of partisan extremists,

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at one time that we have been hysterical because we foresaw peril and counseled haste, and at another quite contradictorily that there hasn't been haste enough.

But there is more to the history of these efforts. It is the story of the suppression of partisanship in the interest of the defense of America, of the voluntary and priceless service of the leaders of industry and workers alike -- the story of the unity that democracy can command in an emergency. It is a story that fills me with pride and gratitude as I tell it; pride in America and gratitude to Americans.

Quite early this year we began calling key men in American industrial life to Washington for consultations on defense. At the time of the invasion of the low countries many were spending a large part of their time here and some who were important figures in crucial industries had established themselves in offices here and were giving their full time to defense problems without recompense.

On May 29 the Advisory Commission to the Council of National Defense was created. It included, as you know, the then Chairman

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of the Board of the United States Steel Corporation, the President of General Motors Corporation, the President of one of the great American railroads, the Burlington Lines, the Dean of Women of the University of North Carolina, the President of a great labor union, the Amalgamated Clothing Workers of America; a member of the Board of Governors of the Federal Reserve System and one of the Commissioners of the Securities and Exchange Commission. Of the seven members of the Commission only two were from the Government service; five were from the outside, three were industrial leaders, one a leader of labor and one an educational leader.

What is not so well known is that these seven have called to their help in Washington some two hundred other persons who are giving their full time to the service of their government without pay. It would be unfair to give you the names of any of these patriotic Americans and the industries and institutions they represent without giving them all to you, which I simply haven't the time to do. Their

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names constitute an honor roll of American trade, American industry, American labor, the American bar and American education. It is an honor roll in a double sense, for here are men and women who represent the very core of American industry and all the essential activities of American life.

They were summoned to Washington with the simple word "You are needed" -- and they came without question or delay. They and those who selected them were chosen without thought of political partisanship and their service has been on a basis of pure patriotism. They were chosen only as men and women who had the knowledge and the ability to help in pushing forward the defense program; and that they are doing in a way that is certain to bring new credit to American ingenuity, American drive and American technical knowledge, qualities in which we do not take second place to any people in the world.

As a part of the program of National defense I sent to the Congress on June 20 of this year the names of two men to fill vacancies in the positions of Secretary of War and Secretary of the Navy. For

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the first of these two vital positions in our defense planning I named Henry L. Stimson, who was Secretary of War in the Cabinet of President Taft and Secretary of State in the Cabinet of President Hoover and had been a Colonel of Field Artillery in the last great war. For the second I named Frank Knox, a highly successful newspaper executive whose record included service as a volunteer cavalryman in the war against Spain, service as an officer in the field in 1917 and 1918, and his candidacy on the Republican ticket for the Vice Presidency of the United States in 1936.

I chose these two men for their knowledge and ability to handle these great and responsible posts at a peculiarly critical time. I chose them because they had the vision to see the need of a great defense and had the will to push it through. I chose them also because I knew them to be unselfishly devoted to the Nation's interests. Finally, I chose them because they were Republicans. The reason for that last consideration was very simple. It was not due to any thought

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of dividing responsibility or shifting responsibility for our defense effort. It was much less subtle than that. It was to unite responsibility and to unite effort. I wanted our defense program to be, not a partisan effort and a partisan responsibility, but a great National effort which should unite all Americans of all kinds of political belief, which should unite patriotic Americans of all walks of life.

It has united them. A Nation united is behind our defense program. Don't let any misguided partisanship mislead you on that. I would be more scornful of those who tell you that the defense program has been bogged down in needless delays if I thought any possible aggressor who might attack us was being deceived. But I know they are not being deceived. They know better. They know that no Nation has ever moved more swiftly to build an impregnable defense. They know that here a democracy is vindicating its ability to defend itself.

The evidence is in the willingness with which the Congress has voted appropriations running into many billions. The evidence is in the quick and ready response of leaders in all walks of American life

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when we called upon them to render volunteer service. The evidence is in the speed and absence of haggling with which American manufacturers have shown their willingness to expand and tool their plants in anticipation of orders and to trust their Government to see that they get a square deal. The evidence is in the eagerness of workers to be trained and to share in the war effort. The evidence is in the alacrity with which young men -- millions of them -- have offered themselves for training for military service on their country's call.

I do not intend to confuse you with figures on the defense program, but some of the salient facts are these: The Congress has voted actual appropriations for the fiscal years 1940 and 1941 in an amount of more than ten billions of dollars. To these are added authorizations to enter into contracts which bring the total of expenditures now authorized to more than 19 billions of dollars. The work of the experts of the Army and the Navy in enlarging and bringing up to the latest design and requirements their plans for ships, guns,

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tanks, ammunition, buildings, clothing and all the manifold other items that will be needed in the well-rounded plan for complete defense, and the work of the experts of the advisory commission in seeking out and providing for the facilities to manufacture these things has made it possible up to date to award contracts in the amount of more than eight and a half billions of dollars. These contracts are not based on guesses about possible production. They are contracts awarded to the most experienced and successful of American manufacturers with the approval and on the recommendation of the greatest industrial geniuses this country or any country in the world possesses.

But these figures show only a part of our effort. We are accumulating materials, we are training skilled workers and we have acquired new outlying naval bases to protect our coasts and the Panama Canal.

A divided Nation, a discontented Nation, a weak Nation could not do these things. We are not divided, but united. We are not weak, but strong.

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Let me run the risk of being accused of partisanship by saying not only that we are strong, but that we are much stronger because of the policies we have pursued in the last seven and a half years. We have improved and added to our material resources. We have strengthened our financial system. We have built many thousands of miles of good roads. We have improved our rail transportation systems and built a great air transport industry. We have made great improvements in healthful living conditions. We have kept men at work enlarging their skills and teaching them new skills. We have enabled them to work under fairer conditions and with better security for the future. We have fed the country. We have increased farm income. We have brought our industrial production to the highest level it has ever attained.

By all these things we have added to our material wealth and strength and we have built up a factor of strength in improved morale, in the betterment of our human resources, that is surely not less important.

America is united. America is strong for the defense of the

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land and for the defense of American ideals for human progress.

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Mr. Cairns' draft. 10/22/40

I want to speak to you tonight about a problem which I believe is more important to every individual American than any other problem which has arisen in the United States during the present Administration. I want to talk to you about keeping out of the wars that are raging today in Europe and in Asia.

War for the United States would be a catastrophe for every man, woman, and child in this country. It would mean the killing and maiming of our finest young men, the disruption of the lives of their dependents, the disorganization of our whole economic structure, hysteria in which all the liberties and rights we have sought to build up for one hundred and fifty years would be endangered, and an aftermath which none can foretell. We who lived through the days of 1917 know something about this, and we know, too, that if the United States enters this war the days of 1917 will not only be repeated, but probably will be worse.

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I want the people to know that this administration feels today and has felt since it first took office that war for the United States would be an unmitigated calamity and evil, and must be prevented even at the price of painful sacrifice.

There are those who during the present campaign have sought to plant in the minds of the people the idea that the Democratic Party is a war party and that day by day the Administration has sought to bring the United States closer to the raging storms in Europe and Asia. I am sure that the people know that that accusation is false. Tonight I want, as briefly as possible, to show how false it is.

After the war feeling of 1917 had receded and after the disillusionment which followed Versailles, a search for the factors and forces which carried America into that war was begun. This Administration determined that if it were possible by legislation and by Executive action to prevent those same factors from leading the nation into a new war, there would be no repetition of 1917.

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There was disagreement, of course, on what forces had been responsible; but the Administration decided to err, if at all, on the side of safety. It determined to discourage all practices which reasonably could be supposed to have led us to war in 1917.

With those principles in mind, the Congress passed and I approved the Neutrality Act of 1935. That, let me remind you, was five years ago.

Prior to 1917, there was no prohibition against American citizens traveling on vessels that flew the flag of belligerents, and in those years American citizens did travel on vessels belonging to the warring powers. I need not recall to you the feeling which swept this country after the "Lusitania", the "Arabic", and the "Sussex" had been sunk on the high seas with the loss of the lives of American citizens. This Administration determined that if that led us to war in 1917, it would not happen again. Accordingly, in the Neutrality Act of 1935 it was written into law that the President could take steps to prohibit, under severe penalty, American citizens from traveling on vessels belonging to belligerent nations.

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Before 1917, American vessels regularly engaged in the munitions trade with the warring powers. This, of course, was in accordance with their absolute rights under international law. But you and I know that, as the warring nations became more and more desperate, American vessels were sunk with the loss of American lives and American property. In the Neutrality Act of 1935, it was provided that American vessels could not engage in the munitions trade with foreign belligerents. Even though it meant further sacrifices on our part, this Administration was determined to stay at peace.

There was talk, too, during the twenties and the thirties that by becoming an arsenal of that belligerent power which controlled the seas, we had automatically become involved in the war of 1917. It was realized by the Administration that the trade in arms is a matter which so vitally affects our foreign relations that the Government cannot afford to remain in ignorance of its ramifications. Therefore, it was provided in the Neutrality Act of 1935 that all

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persons engaged in the munitions and armaments trade must register with the Secretary of State, and before any arms or munitions could be exported from the United States a license for such export had to be secured.

After the enactment of the Neutrality Act of 1935, this Administration did not rest on its oars. Much had been made of the fact that the huge loans by American citizens to the Allies prior to the World War gave the United States a stake in the outcome of the war. It was alleged that the sale of Allied bonds by certain powerful American financial concerns, acting as agents for the belligerent nations, gave those financial concerns such an interest in the outcome of the war that they willingly used all their immense power to bring the United States to the aid of the Allies. With the firm resolve that no pocketbook interest should influence the peace policy of the American people, we enacted

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the 1936 Neutrality amendments which effectively precluded belligerent countries from obtaining credits here which might give any class or group of our citizens a financial interest in the outcome of the war.

In the Neutrality Act of 1937, the provisions that I have discussed above were strengthened and re-enacted. Furthermore, it was decided to surrender another right in the hope that by so doing there would be less likelihood of involvement in war if it came. During the World War many nations, in order to defend their merchant vessels against submarine attack, armed those vessels. The result of such arming was that merchant vessels were often attacked without warning. In the Neutrality Act of 1937, the United States served notice on the world that American vessels would not be armed. There could be, therefore, no excuse, so far as American vessels were concerned, for any nation to fail to observe the orderly practices of visit and search prescribed by international law.

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All of you know that when war came at last in the fall of 1939, I immediately called a special session of the Congress in order that any final steps that could be taken to prevent our involvement in war should be taken then. In the Neutrality Act of 1939, which resulted from the deliberations of the Congress at that special session, the United States, in order to prevent involvement, made the greatest sacrifices of its rights under international law that any nation has ever made for such a purpose.

The salutary provisions of former neutrality acts, about which I have already spoken, were continued. As a result of new legislation, there is no American property on the high seas bound for hostile territory. We sought in this way to avoid any incidents in which American property would be destroyed. We made it unlawful for American vessels to carry cargo or passengers to hostile territory. We wanted no American vessels sunk and no American lives lost.

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To put it in plain English, if the European belligerents would keep the war in their own backyard, we would stay away.

All this we willingly and gladly did in the interests of peace.

We dealt also in the 1939 Neutrality Act with another source of danger. During the World War it was the practice of the vessels of many foreign nations to fly the American flag with the hope that by this deception they would secure immunity from attack. The result of that practice was, of course, that the desperate belligerents failed to give immunity to vessels flying the American flag even when they were American vessels. In the Neutrality Act of 1939, it was enacted into law that any foreign vessel which flew the American flag was to be denied the use of the ports and territorial waters of the United States for three months. May I add, that in the only case where misuse of the American flag during the present war has come to our attention, we have not hesitated to apply that sanction.

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The Administration has rigidly enforced all the provisions of our neutrality laws. I know that the strict application of the neutrality laws has often worked hardships on American business men and American traders; but we were determined not to depart from the peace policy of the Administration. If there were hardships, we expected American business men to bear them patriotically in the interest of avoiding involvement in war.

The Executive branch of your Government has not hesitated to use the discretionary power vested in it to prevent involvement. Immediately after the outbreak of hostilities in Europe in the fall of 1939, I issued a Proclamation in which I called upon all nationals of the United States to observe the duties of a neutral under our statutes and treaties and under international law. As other nations have become involved in the European conflict, I have again and again reiterated that demand.

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Acting pursuant to the authority given to me in the Neutrality Act of 1939, I have from time to time roped off large areas of the high seas as combat areas through which American vessels and citizens cannot travel even on their way to another neutral nation. In so doing, I tried again to err, if at all, on the side of safety. Wherever I felt that there was a possibility that hostile action might result, I sought to include that place in a combat area. This meant giving up trade with the whole European continent save Portugal and a part of Spain. I acted in the belief that it was better to sacrifice trade with most of Europe than to risk involvement in the war.

The outbreak of the war in Europe found thousands of American citizens in belligerent countries. If this Government could prevent it, we wanted no American citizens to be caught between the fires of the belligerents or to be the victims

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of total war. Accordingly, we set ourselves to the task of bringing all Americans out of the war zone who wanted to come. In the first six weeks of war, we succeeded in repatriating 80,000 Americans.

We were fully aware that the steps we had taken to insulate ourselves from the European war depended in large measure for success upon the cooperation of the other American powers. Those nations, too, realized that insulation from ^{was} ~~the conflagration~~ required the cooperation of their neighbors. Therefore, it was possible in the fall of 1939 for the foreign ministers of the various American Republics to meet together in the Republic of Panama with the end in view of effecting solidarity of the Western Hemisphere in a resolve to keep the war from our shores. As the result of that meeting, there was issued the Declaration of Panama in which we American Republics asked the European belligerents to keep the war from our front doors. We defined a neutrality zone in which we

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urged the belligerents not to engage in hostilities. We hoped that the belligerents might be willing to accord the American Republics a small portion of the sea in which to carry on their peaceful pursuits. I am sorry to say some of the belligerents have not respected our request, but it cannot be said that we did not make the attempt.

Furthermore, at the Panama meeting, resolutions were adopted outlining steps to be taken to preserve neutrality. I can assure you that this Administration has conscientiously abided by those resolutions.

Nevertheless, I knew that in spite of all the measures we had taken to protect ourselves from a foreign conflict, much more remained to be done. There were loose in the world certain forces which could be met and kept from our shores only if we, as a nation, were strong enough to make attack or aggression against us

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unprofitable. The fate of the peace-loving people of Norway, Denmark, Finland, and Holland was final proof, if any were needed, that it was not enough to sacrifice rights. It became evident that if we were effectively to protect ourselves from war, we had to make ourselves so strong that no nation or group of nations would entertain the idea of making war upon us. It was not only necessary that we stay away from the war, it was also necessary that we insure that others would not bring the war to us.

This Administration realized that to make ourselves strong would require further sacrifices, and we did not hesitate to make them. Even at the beginning of the Administration, when the dark cloud of the depression was over all the land, and when we were beset on all sides by demands to save American business and American labor from complete collapse, we sought to improve our defense position and to make available larger sums than before to the improvement

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of our armed forces. Subsequently, we enacted legislation to conserve our resources of tin, helium, and other strategic materials, which are necessary to any nation which is strong in its defense.

There has been criticism of the manner in which the Administration acted to acquire certain bases in the Atlantic, from which our naval and military forces could better defend you and me from attack. May I say that the importance of making America safe from war is so great to me that I would willingly have used much stronger methods if necessary to acquire that safety for the American people.

Very recently many of you have had impressed upon you another sacrifice that we must make to save America from war. You have had to register for the conscription of a citizen army. The time that you will have to spend in training and in learning the arts of war will be a great hardship to many of you. None of you have a greater distaste than I have for peace-time conscription.

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None of you have a stronger dislike for militarily minded nations. I do not wish to see this country saddled with a military caste. One thing, however, I know -- so long as the present aggressive forces are loose in the world, our citizenry, if it is to be safe and if it is to keep war from our shores, will accept the duties of soldiers and free men.

Finally, I want to emphasize that your Government has sought to put its own house in order. We have tried to act toward other nations as a good neighbor. No aggressor nation can point to us and say - we do only what you also do. This has helped to make us strong, for it has brought about the solidarity of the Western Hemisphere and a confidence on the part of our neighbors that we are their friend and protector.

As I have told you before, I hate war. I want every citizen of the United States to know the steps and measures his

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Government has taken to make certain that we do not go to the war and that the war is not brought to us.

What we have done has been done for peace and only for peace. If I can prevent it, there will be no cross-marked graves, no shattered boys, no Gold Star mothers in the United States. When I lay down my office, I want to be able to say to every American, "There is no blood on my hands." I give you my solemn pledge that, except in self-defense, the United States, through my Administration, will not go to war.

October 22, 1940

The Secretary sent Mr. Stephen Early an exact copy of this material today.

October 22, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Schwarz

Attached is the text of the Willkie speech last night in Milwaukee.

The factory outside Chicago referred to is that of the Electro-Motive Corporation, a division of General Motors, whose recent president, William S. Knudsen, is now a member of the National Defense Advisory Commission and devoting his full time to the defense program.

One of the first big rail systems to introduce the Diesel locomotive into actual operation was the Chicago, Burlington and Quincy Railroad, whose president, Ralph Budd, also is a member of the Advisory Commission and is devoting most of his time to the defense program.

Another pioneer in the use of Diesel streamliners was the Union Pacific Railroad, whose chairman, W. Averill Harriman, is assisting Mr. Stettinius in the industrial materials division of the Commission.

Text of Wilkie Address in Milwaukee

By The Associated Press.
MILWAUKEE, Oct. 21.—Following is the prepared text of the address by Wendell Wilkie at the Milwaukee Auditorium tonight.

I am delighted to be here tonight. Milwaukee and Wisconsin are known throughout this country for their great tradition of progressiveness, particularly in the broad field of social welfare.

Today, as you know, is Young Republican Day. The Young Republicans are a body of young men and women who believe in the future of America. They are determined upon the establishment of certain principles by which they may share in that future.

I want to thank the young Republicans for the work they have done in this campaign. Their financial strength has been of vast importance in this campaign. Young Republicans of America, I say to you tonight, "Keep going." With your help, I predict victory on Nov. 5. We've got them on the run.

In honor of Young Republican Day, I want to address by remarks tonight to all the young men and women of America.

There are about twenty million of you between the ages of 16 and 35. You have not had an easy time. About three million of you perhaps four million—are employed.

Wishes Revolution in the Nation

The American Youth Commission recently published a study of the youth of one of our States. They found that 40 per cent of those between sixteen and twenty years of age had neither jobs nor school to fill their empty days. Almost all of these young people have honestly tried to find jobs. It would make them proud and happy to become independent, to help support their parents, or to help forward to setting up homes and raising families of their own.

Because they can't do this, many of them become hopeless and cynical. I have seen them in the course of my campaign journey—some so disillusioned that their minds are no longer open to argument. They doubt America and the future of America.

Because of their bitter experiences, I think it is true that the great issue of our day is clearer and closer to the young people than to any other group of our citizens. This issue, this basic issue, I described a few nights ago at Springfield, Ill.

It is the issue of whether we in America can live in freedom—can live by freedom—whether we ourselves deliver ourselves and our children into the hands of the State. It is the issue of whether or not America shall embrace State socialism, or State capitalism, or communism, or whatever you may choose to call it. There are merely different names for the same thing—absolute and arbitrary power in the hands of the government.

I have announced it because increasingly clear every day—that in this struggle the third term candidate represents one side, and Wendell Wilkie represents the other side.

Points in National Debt Issue

I cannot say—I do not wish to imply—that my opponent is "sincerely" pro-State socialism for America. I do know from personal conversations with my Dealers that many responsible men in the New Deal party have such an end in mind.

I know that every major economic policy of the New Deal is pointing in that direction. There has been an endless concentration of the duties and responsibilities of government. And there has been an endless increase in the debt. That debt will be a load upon you and

upon your children, and upon nobody knows how many generations.

Tonight I want you to see—and meet—this issue in terms of work, of jobs, of American enterprise. I want to tell you the kind of work I stand for and the kind of future I stand for. I want you to understand that only a society built upon the independence of the individual can halt our drift toward a totalitarian state.

Do you see now undertaking a great defense program. This program is three or four years late in getting started, but now at least we have begun. Our Congress has made available about twelve billion dollars this year. Orders are beginning to come out of Washington. And business men know that more orders are ahead.

Connects "Revival" and Debt

You may presently hear the spokesmen of this Administration begin to boast about the great business revival that they have caused. Production will inevitably increase, unemployment will inevitably decline.

I thank God for that. The greatest purpose I have today is that the American people should get back to work.

But stop and think how this new work is being created. It is being created by money spent by the government, taken out of the pockets of the people or added to the mounting national debt.

These are not the forces of private enterprise at work. These are the forces of public indebtedness. You and I are helping ourselves a bigger Army, a bigger Navy and a bigger air force. That makes business look better, but actually we are going into debt at the same time.

When the defense program is finished we may have a bigger industrial system, but it will have been built upon the insecure foundation of a bigger debt.

The kind of enterprise that makes America really strong is private enterprise; that is, when you buy from me and I buy from you. That kind of enterprise does not normally result in debt. It normally results in profits and growth.

Hits "Boast" on Employment

Let me never hear the New Dealers boast with pride to a business revival based on the creation of the huge war machine that we are building. Let me never hear them boast that they have reduced unemployment by the sacrifice that hundreds of thousands of young men have made in joining the Army.

These are not achievements on the road to progress, these are terrific duties that we must perform. Only dictators make the boast that they have "solved" their domestic economic problems in that way. It is the ultimate boast of the all-powerful state.

Where are the days, my fellow Americans, when we could boast of our great ability to create wealth and opportunity through the arts of peace? Where are the bold adventures—the adventures of capital and the adventures of the mind? Where are the new industries? Where is the stirring imagination that gave us the automobile, the telephone and the radio—all within the time of many of us here? Will you be surprised to learn that we have that imagination still?

I wonder how many of you realize that in the last decade our technological progress has been faster than ever before in history? American applied science has hit a new all-time high.

Have 100,000,000 Dollars Worth Capital

I cannot begin to describe to you the inventions that lie idle in our laboratories, the new products that are just waiting for new capital to be released. A survey last year listed 250 new products and processes in 107 industrial

firms, all of them capable of creating new employment.

But products in a laboratory are not products that you and I can use. They do not raise the standard of living or make America economically strong. Before they become part of our life a complicated process must take place—a process called capital investment.

Let me illustrate this process with a single development, the Diesel-electric locomotive that pulls the new streamliners across the continent so fast and so cheaply.

This new kind of locomotive took seven years to develop, and took two more years were required to build factories to manufacture it. The company had to put up many millions of dollars before it could sell a single locomotive. For nearly nine years there could be no income and for several years a flow that there could be no profit.

To tie up millions of dollars for eight or ten years is a risky thing to do. Nobody is going to guarantee that company against loss. However, the company takes the risk of loss in order to have a chance at some future time to make a profit.

Open New Factory Project

And, of course, it is very desirable for you and for me that the risk be taken. In this particular case 120 acres of vacant land outside Chicago were converted into a factory. Three thousand new jobs were created on the spot, and about 15,000 others were handled. Faster rail schedules achieved by these locomotives save travelers valuable time. And the economies of operation save the railroads money.

That is what we in America call progress. The benefit of one is the benefit of all.

But few companies have dared to risk any such sum in the last eight years. The reason is that an much arbitrary power is concentrated in Washington that the government is able to change the entire economic game, and all the ground rules, overnight. The investor therefore cannot predict one or two years ahead, let alone eight or ten. And when investors cannot predict, capital will not flow.

This is what we mean when we insist on setting enterprise free. We don't mean to set enterprises free to hurt people. We shall continue to regulate enterprises.

Urges Support for Enterprise

But Enterprise must be free to predict. It cannot exactly predict the market, but it must be able to make its calculations. It must know that in general, the government is friendly to enterprise; that the government wants private enterprise to succeed, wants it to make jobs, wants it to invent, to take risks, to make forecasts for a better world for people to live in.

That is not the kind of world that we are building today. Our great industrial plant is being run out. It is becoming inefficient. Our machinery, so vital to our gathering power of labor, is getting older. Ten years ago, in 1930, only 40 per cent of our metal-working machinery was more than ten years old. Today more than 70 per cent of it is more than ten years old.

The reason that we have thus neglected our machinery, which is so important to the worker, is because investors have been unable to predict what sudden turn a hostile government might take against them. It is just as simple as that. It is just as simple as that.

In our lack of efficiency and in our inability to make use of the new discoveries of science you find the fundamental causes of unemployment. You find there the cause of our disorganization.

You find there the reasons why our youth stare at our generation with disillusioned eyes and sometimes with revolution in their hearts.

Warfare of State Control

The end of this process of disintegration is so clear that some can mistake it. The destruction of private enterprise will deliver us little by little, into the hands of the State.

Please understand me. Let me repeat—I do not say that the New Deal has deliberately worked toward that end. I do not say that it has deliberately destroyed private initiative so as to establish State socialism in America.

But I do say that, subtly and imperceptibly, this has been the effect of the New Deal's blind policies. I say that if those policies are continued we shall come to that end.

It is absurd for the New Deal to say, as it has said, that America is unique and the future permits of little growth.

There is so much to be done in America that no one can describe it all.

We must build new homes for our people and modernize the old homes. We must bring electricity to all the homes in the United States. We must put electrical appliances in those homes. We must provide better housing. We must bring air conditioning within the reach of millions of our people.

The constant improvement of the automobile calls for more and better roads, great bridges, elevated highways and high-speed arteries. The airplane is still in its infancy, with unlimited opportunity ahead.

Raises Public Must Ride Fences

In the field of chemistry we have vast new opportunities because of the products of the farm; new, cheaper and better materials for the clothes we wear and the houses that we live in. This is the kind of America I want. This is the America of higher wages, of greater consumption, and of opportunity for every individual in the land.

And I say to you with the utmost seriousness. We shall never get that kind of America if we expect the government—any government—to give it to us. If we want that kind of America, we must go out and build it for ourselves.

Let me not say that we cannot build it. We have the inventive genius; we have the industrial skills; we have the men and the money. In spite of the discouragements of the past, we have the enterprise and the courage to do that job.

And I say to you young men and women of America. This is your job. It cannot be done without you. You must be part of it. Youth has all the qualities we need for this job. Youth is optimistic and adventurous. Youth is impatient of delay. Youth is jealous of its rights—yes, and of its responsibilities. Youth is always busy; it seeks activity.

More than anything in the world today the American people desire peace. The young men who will soon be called in service to the Army desire peace.

Yet there is no way, and only one way, by which we can have peace, and that is to become strong. We must become strong through the arts of peace, and in our lives and in our work. We must become strong in the arts of peace—the arts of industry and of the pursuit of happiness.

These are the arts of free men. To become strong in them we must be free.

I therefore call upon you, young men and women of America, join us, join us in our stand for freedom. In that stand, in that line, see your hope for the nation that you so ardently desire.