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December 12, 1940
9:30 a.m.

GROUP MEETING

Present: Mr. Haas
Mr. Cochran
Mr. Young
Mr. Wiley
Mr. Foley
Mr. Pehle
Mr. Graves
Mr. Thompson
Mr. Bell
Mr. Sullivan
Mr. White
Mrs. Klotz
Mr. Berkshire

H.M.Jr: It is bad news about Lothian, isn't it?

Bell: Wonder what the trouble was, do you know?

Cochran: The coroner has been there and they haven't given a report yet, you see. He had no doctor. He was a Christian Scientist.

Wiley: He was converted to Christian Science by Nancy Astor.

H.M.Jr: Did you say, "By Nazi Astor?"

Wiley: Nancy, yes.

H.M.Jr: Is she a Christian Scientist?

Wiley: Yes.

H.M.Jr: Edward?

Foley: We have a lawyer by the name of Dudley Easby.

Nelson Rockefeller would like to take him. He speaks Spanish and he has some knowledge of things that Nelson thinks would be valuable to him. I can get along without him, if you want to let him go.

H.M.Jr:

What is he doing?

Foley:

Well, he is working on matters coming up from the Treasurer's Office in connection with checks and handles matters in connection with the Comptroller General's Office. He is one of the boys in Norman Tietjens' shop.

H.M.Jr:

What does he get?

Foley:

He gets around thirty-eight hundred.

H.M.Jr:

What would Rockefeller give him?

Foley:

I think he would probably pay him the same thing.

H.M.Jr:

Do you see any reason, Norman.

Thompson:

He is a good man, but we can spare him.

H.M.Jr:

Speak Spanish?

Foley:

Yes.

H.M.Jr:

It is all right with me.

Foley:

Jim Forrestal wants to resume those lunches on the Defense with Army and Navy, and so on, and I understand he has asked Eddie Greenbaum and Patterson and several others. He has some new lawyers now. Some of his older group has gone back to New York, and he has got a new group. I guess he wants to break them in.

H.M.Jr:

Where do they eat, downstairs?

Foley:

No, this one, he is going to have in his office.

H.M.Jr: I see. All right.

Foley: Walker Stone, one of the editorial writers for the Scripps Howard chain, called up and said they wanted to go to town and do a campaign on the elimination of exemptions.

H.M.Jr: I saw the editorial yesterday. I almost fell over backward.

Foley: He said he needed help. He said he had gotten the paper that I had read over at the meeting of the municipal law officers, and he thought it was good but he had to have a different approach for his stuff, and he wanted examples along the line you mentioned about the fellow who goes to Palm Beach and stays all winter and doesn't have to contribute.

H.M.Jr: Give him the telegram that came in this morning from the Palm Beach fellow calling me down, "Why pick on Palm Beach?"

Klotz: I loved that. (Laughter)

Foley: I had a letter from a fellow by the name of Dominick in Greenwich, Connecticut. He said he would fight me in Washington or in hell.

H.M.Jr: Sure, go ahead. (Laughter)

Foley: Can John and I get together? We will probably need Murphy on these examples.

H.M.Jr: I don't know whether you can get together.

Foley: Well, give him the material.

H.M.Jr: I think it would be wonderful to get together on something with Scripps Howard.

Foley: Another fellow by the name of Izzy Stone--

H.M.Jr: What is the name?

Foley: Izzy Stone. (Laughter) I am distinguishing him from Walker Stone. He is Washington editor for The Nation and wants to do something on that.

H.M.Jr: Oh, that is the fellow. They ran their real names in something or other.

Foley: Yes, his name was Einstein, and he changed it to Izzy Stone. (Laughter)

H.M.Jr: Well, the question is, is he?

Foley: Is he, or isn't he?

H.M.Jr: The answer is yes. (Laughter)
I have got Norman crying here.

Sullivan: On these examples--

H.M.Jr: What does Ike want to do?

Foley: He wants to write a full piece for The Nation on it. He says from where they sit up in New York, it seems to him that the Treasury has been carrying the banner for what the New Deal stands for more than any other department in town during the last year or so, and they want to help wherever they can.

H.M.Jr: Sure. Who all do you want to help you?

Foley: Well, I think if George could make Henry Murphy available, John and I can get him the stuff he wants.

Sullivan: But we want to know about this series of speeches you are going to make. You remember before you went away, you wanted four written. Now, we don't want to waste any of these good examples - I mean not waste them, but we want to give you first crack at them.

H.M.Jr: Oh, well--

Foley: Well, what he really wants, Mr. Secretary, is to show what a man would pay in the way of state and federal taxes with an earned income of 50 thousand dollars, and what he would get away with if he had everything in tax exempts, and then he would like to show what a fellow would have to pay if he invested 50 thousand dollars in stock that produced a magneto or something that went into an airplane after he got through taking the risk and after he got through supplying something useful for the Defense Program and compare that with somebody that just puts it into something like tax exempts.

H.M.Jr: Well, I was all steamed up down in Jamaica, in the tropics, to do a speech and - I was all steamed up in the tropics to do a speech.

Foley: Yes, I get it. (Laughter)

H.M.Jr: I wasn't sure.

Sullivan: You have to say it twice. If they don't laugh, it is not very good.

H.M.Jr: I didn't think I got the necessary response.

Don't wait on me. If you fellows have got anything, I would go to it. What I would like you to do is, keep a little record of what you do for these people, each one, just to have it, but by all means, don't wait on me. Let them go. Like all these things, they are going to have to be like drops of water on a stone. We are going to have to do it over and over and over again. If Scripps Howard takes hold of it and goes to town, maybe somebody else will want to.

Bell: The Treasury hit the Washington Post yesterday morning in three places on the editorial page. A cartoon and two columns.

Sullivan: Here are the four speeches you asked for.

H.M.Jr: Wonderful.

Sullivan: Here are more of these memoranda. You wanted a criticism on a summary of all those things. It takes quite a lot of work. I think you have got to determine whether or not you want us to continue those.

H.M.Jr: Well, I would until further notice.

Sullivan: All right, sir.

H.M.Jr: If, for instance, this thing comes along, I think we ought to get some very good newspaper man who will just do a really first class job. He could help you fellows prepare this sort of thing.

Sullivan: Do you recall you agreed that Mr. Blough should go to Canada to look into that sales tax and the excess profits? If he is to go before Christmas, he should go tonight and be back here a week from Monday. Is there any reason we can't let him go now.

H.M.Jr: No.

Sullivan: You wanted me to remind you about Mr. Stewart. Do you want to call him or shall I?

H.M.Jr: I will.

Sullivan: When you talk with him, he should have in mind that he said that he felt that they would, and he was going to put it up, and he wasn't going to let his view become at all apparent.

H.M.Jr: I am always very frank. On second thought, I am simply going to say I think the Treasury should finance it.

Foley: On McCloy, I have those statutes any time you want to look at them. Bernie ran into McCloy down at the Supreme Court on Monday. He was

down there when Mitchell was arguing. He, in an offhand way, told Bernie that he had resigned from his firm, and that he was down here full time.

H.M.Jr: I see.

Foley: So I don't think that he violates the statute, but I talked to Eddie about it, too. Eddie dropped in the other night, but - shall I show the statutes to you?

H.M.Jr: No, that is enough.

Sullivan: I have to call Gulick this morning for his meeting. We can get him \$22.20 a day and part of the time we can base him at New York, if you want to do it that way.

H.M.Jr: No. Twenty-two twenty is plenty for anybody. If he doesn't want to come down on that basis, let his own institution take care of it.

Sullivan: I will tell him that is what we will do.

Thompson: Besides five dollars subsistence?

H.M.Jr: The twenty-two twenty plus five.

Foley: And I think you can shove him up to twenty-five after you have had him 30 days or something like that, but I don't think we ought to do anything more; and, Norman, that won't work out on the contract basis.

Thompson: I didn't think it would.

H.M.Jr: Twenty-two twenty plus five, and if you can go to--

Sullivan: Twenty-five plus five.

Foley: They did it in Procurement, but I think they were playing fast and loose. I think on that contract arrangement which they never cleared

with us, they were paying him for three days when he only worked two.

H.M.Jr: When were they doing that?

Foley: I think that is what they were doing in some instance the Norman called to my attention.

H.M.Jr: If, for no other reason, Congress may say, "Well, we want to take this group over," and then they find out that we are paying this thing, and say, "How do you get that way?"

Foley: The only way it could be done, Mr. Secretary, would be out of the President's hundred million dollar fund.

H.M.Jr: Try and get it.

Foley: I shouldn't think he would want to pay for this out of that.

H.M.Jr: He wouldn't.

Cochran: Pinsent will confirm to me before noon about that meeting tomorrow, and I suppose you don't want to get the SEC man until we get that taken care of.

H.M.Jr: I will be incommunicado from twelve-thirty today on until tomorrow morning. I will be home, and I don't want to be bothered.

Cochran: Pinsent told me that last night Sir Frederick suggested to him that he might call this morning and want to see you privately, but he asked me if Phillips had phoned me last night.

H.M.Jr: I am leaving here today at twelve-thirty and no appointments until tomorrow morning. I am taking all of this stuff home. I hope to read most of it while I am not asleep.

Cochran: I talked to Stone this morning, and he is going to send us that memorandum which you wanted. And on that question of the military mission of Germany in Argentina, that has been dispersed some months ago. There have been four men there. One went to Chile, and one went to Rio. They passed a law in Argentine that they couldn't have a military mission of a belligerent country, so that is stopped.

H.M.Jr: Wiley?

Wiley: Customs has run into something interesting. German educational films are made in South America, and then they are sent up here and printed by a subsidiary of the German Dye Trust. These educational films apparently are only of educational value for German Military Intelligence. They show bridges, landing fields, and difficulties of terrain.

H.M.Jr: In this country?

Wiley: In South America, chiefly in Peru, but not much is known about them yet. The films for the moment are in the Treasury Department, and there is hope that we can run them off and look at them.

H.M.Jr: Good. You know Coast Guard has a projector.

Wiley: I don't think it fits. These are 35 millimeter films. I believe we will have to go over to Agriculture.

Sullivan: What size are they, John?

Wiley: Thirty-five.

Foley: We have one, but ours is sixteen.

H.M.Jr: Archives has a beautiful picture theater.

White: Why do you imagine they would want to display

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them here?

Wiley: I don't think they were to be displayed here. They were probably sent here to be printed and then go on, probably to Germany via Siberia.

H.M.Jr: Anything else? Pehle?

Pehle: Nothing, sir.

H.M.Jr: Philip?

Young: I have a note here with a copy of Buckley's report.

H.M.Jr: Oh, yes. I sent one to Mr. Hull.

Cochran: Here is a memorandum on the destination of securities that you asked for.

H.M.Jr: Right. Philip, I read this morning early, this report of Buckley's, see. Got a pencil?

(Buckley's report of December 10 regarding West Coast airplane manufacturers inspection trip)

Young: Yes.

H.M.Jr: Now, these are the things that I would like to have an answer on tomorrow morning: 1. Why shouldn't the English cancel their order with Boeing for these so-called Douglass bombers and leave Boeing free to do just the big ones. In this report it said the English would take it under consideration. I would like to have the answer on that.

Young: All right.

H.M.Jr: 2. There seems to be a desperate need for an aluminum factory on the West Coast to make the parts, tubing, and so forth and so on, and can

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you find out from somebody at National Defense why the hell - excuse me - don't they do something about it?

Young: That is a hard one.

H.M.Jr: Then in reading this report on Lockheed, why don't the English have permission to put in super-chargers in all of their planes that they want to? If they can have them in some, why can't they have them in all? Then on a 24-hour basis, I would like to get, on the same two weeks that Haas has his thing set up on, see, the same two weeks, I would like to know - for instance, the English get so many engines. We know how many engines they get of each kind. I want a report from them tomorrow - we will go back, say, for four weeks. That will be enough. What distribution did they make of these engines, see?

Young: Yes, sir.

H.M.Jr: I want that tomorrow because it is - to me - I can't understand why Lockheed should be short, waiting for 25 or 30 engines. I just can't understand it. When I look at their production, the ones that they received - the two things. I want to know what did they do with all of these engines? If they are selling them to England, they are breaking their agreement, see. There are plenty of these engines coming off. What are they doing with them? According to this report, there are 25 or 30 planes awaiting engines of the Hudson Model 414. Now, there is something wrong somewhere.

Haas: Are those those interceptors?

H.M.Jr: I don't know what it is.

Haas: I think one plane they make has the Allison.

H.M.Jr: Anyway, they are waiting for the Pratt and

Whitney 1830's or the Wright 1820's of which there are plenty each week being turned out, many, many more than planes. If they are sending them to England, then they are breaking their agreement. The agreement is that there shall be no planes without engines in this country.

Young: Part of those planes were supposed to be the ones which were grounded due to the fact they gave up the engines to the Boeings.

H.M.Jr: That is just plain, unadulterated "hooley." They can't fool me. And the other thing, which is not on a 24-hour basis, is that I am shocked to find that in every case except the Merlin, which they had with Ford, England's orders expire in the fall of '41. All of their engine orders run out. That seems unbelievably shortsighted to me. They have got enough people that they ought to be able to answer that. Now, one other thing: this request of rifles for Canada, that seems important. How hard are you hitting that?

Young: Haven't done anything on it.

H.M.Jr: Well,--

Young: I wanted to--

H.M.Jr: Supposing I forward your memorandum to Stimson?

Young: All right.

H.M.Jr: Say that this seems important, what can he do about it.

Young: The only reason I wanted to call that to your attention, or one of the principal reasons, was that is not a recommendation of the United States-Canadian joint defense board. Now, we have got to get a tie-in there with what they are doing and what Canada and British Purchasing Commission

- are doing also. There is no coordination.
- H.M.Jr: Supposing you (Reporter) take this letter:
"My dear Mr. Stimson:
I am forwarding herewith a memorandum from Philip Young to me in regard to rifles for Canada. This seems very important to me and I would like to have your advice and help.
May I hear from you at an early date."
Does that fit in?
- Young: Yes, sir.
- H.M.Jr: Now, George, in the room here - I have been catching up with my memos. Oh, if you would bring in the head of the Netherland Purchasing Commission, I would like to meet him.
- Young: He is in London at the moment talking with Purvise.
- H.M.Jr: Get him. (Laughter) Next time he is around.
- Young: That is a very interesting development. You have van den Broek and Purvis and Howe all conferring in London on evidently some sort of a joint purchasing effort.
- H.M.Jr: Well, I got a secret message this morning that Purvis will leave - I think this weekend for the United States.
- Young: The sixteenth he was scheduled to leave.
- H.M.Jr: The message says he will leave this weekend. Now, George, will you write a letter for me, unless Mr. Bell wants to do it in another way, to Leon Henderson who is worrying about every other person's responsibilities except his own, see. I would like to draw to his attention

these charts which you have sent me which show that lumber is up sky high, What is he doing about it? What is he doing about wool, hides, tallow, butter, wheat, and cocoa? Those seem to be the ones. I would say that they are all out of line. Isn't that worse?

Haas: Yes, those are the ones that made the greatest rise. There is some question about some of them, whether anything should be done.

H.M.Jr: Well, let's say, "What do you think should be done, if anything, and what are you doing about it?" Do you want to send him these two charts?

Haas: Oh, yes.

H.M.Jr: Why don't you send him these charts, the lumber chart and the other one.

Haas: Yes.

H.M.Jr: And, George, it would make life easier for me if, instead of sending these things with about five of these things on, you would put them in a little book from now on. Any report, instead of pinning it up like this, if it could be in a little folder.

Harry, do you seen any reason - oh, pardon, me, Pasha. (Laughter) From now on, it is Pasha White.

White: That is very dangerous, Mr. Secretary. I was thinking that over, and I was thinking one of the wits around here is liable to mention that to my wife. (Laughter)

H.M.Jr: I hope you aren't getting personal.

White: No. I am afraid of what response there will be. She will say, "What does that stand for?" and I can just see Ed Foley saying, "That is short for passionate," and the part that troubles me

is my wife's response. (Laughter)

White: My wife is liable to say, "Oh, yeah!" (Laughter)

Let's forget the nickname. It is really dangerous.

You were asking me about whether it was fair, what you just said about Leon Henderson?

H.M.Jr: No, advisable.

White: Oh, definitely. He is worrying about prices, Mr. Secretary.

H.M.Jr: All right. We will just send it over.

I didn't give George a chance to finish, and we have got to give White a chance to recover, and me.

White: Thanks.

H.M.Jr: You don't even want me to tell them how the nickname came around?

White: I don't mind what you say, but some of them have a way of adding on. It is unrecognizable by the time it gets where it shouldn't. (Laughter)

H.M.Jr: I will let Harry tell it to you in his own impassioned manner. (Laughter)

Klotz: That was good.

Haas: The Boeing situation is interesting.

H.M.Jr: I want to take this chart to the house.

Haas: Here is all the other stuff (handing reports to Secretary).

H.M.Jr: All right, George. Yes, Dr. White.

- White: The Dutch East Indies have apparently come to an agreement with Japan on the oil arrangements.
- H.M.Jr: All I want to say is, I can't help it. I have not seen Kintner and Alsop or Pearson and Allen, and I don't expect to see them the rest of this week, so if it appears Monday in their column, it is not my fault.
- White: You mean you don't want me to tell you so you will be able to run it down?
- H.M.Jr: No, I mean on this Pasha White stuff.
- White: Oh, they don't bother with such small fry.
- H.M.Jr: You may be surprised. (Laughter)
- Sullivan: Merry Christmas.
- White: Let's see, we were talking about oil. The Dutch East Indies - the Japanese asked them for about 25 million barrels, which is about what they need. The Dutch East Indies companies, the American and the others, offered them about a third, which has been accepted, so that according to current contracts, they will get about 10 million barrels of oil on these contracts a year.
- H.M.Jr: As against what? What were they getting before?
- White: I have forgotten, but it was less than that. I have forgotten how much less. It was less. I will write this up in connection with the other oil matter and have it for you when you come back. There is a phrase here that I don't understand. I don't know whether it is important because maybe Merle Cochran could explain it. It says "force majeure" applies. Does that mean if they don't deliver, Japan can force them to deliver?
- Cochran: That is the way I understand it.

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H.M.Jr: Harry, Walter Stewart tells me one of the greatest authorities on oil and oil companies in this country, if not anywhere, is this SEC Commissioner.

White: Pike?

Foley: Yes, Sumner Pike.

H.M.Jr: That is field oil and oil companies.

White: We are ready for him to go into these South American companies any time you are ready.

H.M.Jr: Just call him up.

White: I see, Also ask him about oil.

H.M.Jr: Yes.

White: Canada has just imposed some new restrictions on imports in an effort to conserve foreign exchange. They will hit our exports, particularly, to the extent of about 50 or 60 million dollars a year, at present contemplated. Automobiles and petroleum products, electric appliances.

H.M.Jr: What is our export?

White: Our exports to Canada will be reduced. They haven't touched fresh fruit, including applies, I suppose, because they said it is politically undesirable.

H.M.Jr: As a matter of fact, they export apples. They are not importing apples.

White: Then I was wrong. Applies aren't included. That was my own addition. It just says fresh fruit and vegetables.

Bell: Clark said they might have to include fresh fruit.

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- H.M.Jr: As a matter of fact, my apple grower friends are worried because they are duping so many of their Canadian applies in the United States. They are not helping me at all.
- White: There is a ltter here that you passed on from Welles indicating what is being done for Chile and also indicating that it is less than they had hoped and wondering whether we couldn't re-examine the situation and see, in the light of the current situation, whether a little might not be done for them.
- H.M.Jr: Bring it up - let's make it for next Monday's staff meeting.
- White: Right. That is all I have.
- H.M.Jr: Are you (Bell) going to see me before ten twenty-five?
- Bell: I am going to try to. I am going to try to get it out of New York. They started working at eight thirty.
- H.M.Jr: While I am talking to Berkshire, you might slip out and then come back again, and we will go ahead with foreign funds. I mean, while I am talking to Berkshire, if you will slip out and get the dope.
- Bell: If it isn't ready, I should think you could say that preliminary reports indicate that this issue has gone as well as any previous issue.
- Foley: I think if you could say that, it would be a great help.
- H.M.Jr: Well, I will tell you what I can say, because I had what's-his-name dictate it to Hadley last night, that at five o'clock last night he compared the subscriptions with the last five year note and at five o'clock last night we had more

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subscriptions for this than the previous one which was also three-quarters of a percent.

- Foley: Yes, that would be a big help. That was one of the things that Walker Stone wanted to know, just what the difference was in actual performance, because he thought that if we could demonstrate that there was no real difference between a partially exempt and a wholly taxable security, it would go a long way toward overcoming some of the handicaps.
- H.M. Jr: Well, Bob Rouse gave me that at five o'clock, and I said please dictate that over the telephone to Hadley, which he did, but at five o'clock last night, compared with - when was the last five year note?
- Bell: Last December.
- H.M. Jr: There were more subscriptions at the same time than there were for last December.
- Foley: Would it have been the same, Mr. Secretary, if you had offered it as a partially exempt?
- Bell: It might have been, but it could have gone down to five-eighths, but it might have been the same coupon rate, but the Secretary could have made it a little thinner and made it five-eighths.
- H.M. Jr: You mean this one, the one we just sold?
- Bell: Yes. You could have gone on a five-eighths and got twelve thirty-seconds.
- Haas: About eight, I think.
- H.M. Jr: Well, the whole Street had the price at seven-eighths.
- White: That is speculative. You don't know if it was five-eighths, Dan, it might have gone to a little

discount.

Foley: It might have gone sour.

Bell: It would have been a little too thin to put a five-eighths coupon. I think it would have been about the same.

Foley: I think, if you could say that, that would be grand.

H.M.Jr: They would all jump on me. The New York Times, for instance, have a little piece and say the gossip is that I could have priced the tax free note at five-eighths. Well, it would start a whole argument. I am just going to say, "These fellows don't know enough about it. It just went as well as the last one."

Bell: And I think that is a good thing to say. I wouldn't go in too much but you got as many as you did last time because you have got a different situation.

H.M.Jr: Well, I would say it went just as well.

Bell: I think that is good. We will try to have some figures.

H.M.Jr: Norman?

Thompson: We are planing to move Mr. Pehle's Foreign Funds section over to the Raleigh Hotel.

H.M.Jr: Good.

Bell: May I tell you some more?

H.M.Jr: Please.

Bell: Jesse Jones announced a loan yesterday to Argentina. Ambassador Espil called up and wanted to know if you couldn't say something on the Treasury

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end. I said I would speak to you, but I didn't think we ought to do that at this time.

H.M. Jr: No. Now, if you want to go out and get that, I will have Berkshire come in and then if you will come back, we will continue on foreign funds.

Foley: They think that these fellows --

(Mr. Bell left the conference and Mr. Berkshire entered)

H.M. Jr: Berkshire, show them this sign ("Serve Army and Navy Whiskey. James Moroney.") which I picked up. I was shocked. I picked it up when I was up there. I think it is terrible. Now, what, under the law, can you do?

Berkshire: We have, by wire, after I had the poster last night, canceled the label first. There had been an old label issued by the Federal Alcohol Administration in 1936 authorizing that whiskey to be labeled "Army and Navy Brand whiskey." I find that later they advertised it as "Army and Navy Whiskey." The FAA had cited them for that, that is, the dropping of the word "brand," and they had paid a fifty dollar offer - compromise of that violation. Now, this evidently is the next that they have observed. They have dropped the name "brand" again. That doesn't go to the bottom of the thing, I might say, Mr. Secretary. We don't propose that they use this kind of a label even with the word "brand" there, and since the FAA came over to the Unit, we had refused to issue Army and Navy Brand to sherry wines and something else. This I didn't know about. It was the first I had heard, but we canceled that brand, and we may, if this advertising material has been disseminated outside of the State of Pennsylvania - that is necessary, and my wire asks that that be investigated. If it is disseminated beyond the borders of the State of Pennsylvania,

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we may cite them and even revoke or suspend their permit.

H.M.Jr: Well, couldn't I, as Secretary of the Treasury, telegraph the Governor of Pennsylvania and ask them to cooperate to stop this thing?

Berkshire: You should. I can't say what authority the Governor of Pennsylvania would have in controlling a matter of this kind.

H.M.Jr: What I thought of doing, and that is what I wanted your advice on - I mean, I am all right on my law. I think that this is pretty shocking. I didn't know whether you people thought it was wise or unwise for me, as Secretary of the Treasury - I would like, for instance, at my press conference to show this to the boys, and say, "This is the kind of thing here the Treasury is not going to stand for, and that we hope we will get public support on. This is the first thing of its kind I have seen, and that I have seen it myself, and that we have taken steps to cancel this brand." You can see - I didn't know that that was a brand name. When I saw "Serve Army and Navy Rye Whiskey," I thought it meant to serve it to them. That is the way I read it.

White: That is the way I read it.

Foley: Yes, and then you have got "for company attention" down there in quotes, too. What does it say over the name "Moroney?" On the left hand side.

Klots: "At holiday time."

White: It is specifically designed to convey an impression of the prestige of the Government and so on.

H.M.Jr: What I thought, I would just go out and say to the boys, "I think that this is absolutely outrageous. This is the kind of thing we want to

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nip in the bud, and I want to do my part to see that this kind of thing doesn't spread."

- White: I am wondering, Mr. Secretary, whether there might not first be tried to get in touch with the people who have done it and merely request them, talk it over with them. I have a little bit doubts about making--
- H.M.Jr: Well, they have done it, Harry.
- White: Do they know that you disapprove or that there is disapproval in the Government on it?
- H.M.Jr: Well, how are you going to let them know?
- White: Well, I would be inclined to let the Army and Navy take it up with them. I feel a little bit "leery" about clamping down on anything if it is within the law, even though it is of that character.
- H.M.Jr: Well, it is a matter of taste.
- White: That is why I think it should be done either through cooperation or let the Army and Navy complain. I don't feel strongly about it.
- Sullivan: I agree with Harry in principle, but not in his technique. You have full authority. You don't need cooperation from anybody. I think it is beneath your dignity to go after a thing like that. That is pretty small. And the whole purpose is accomplished by having Stewart revoke it. That is all there is to it. He has full authority under the law. He doesn't need cooperation with the Army or the Navy or the Governor of Pennsylvania or anybody.
- White: Doesn't he need a good legal reason for revoking it.
- Sullivan: Why certainly he does. He has got it. He has

to approve every bit of their--

H.M.Jr:every label--

Sullivan:of their labeling and everything else.

H.M.Jr: I have got to go out in the field to check up on you fellows.

Berkshire: It seems so, Mr. Secretary.

H.M.Jr: Well, somebody certainly in Philadelphia - the Secretary of the Treasury has to go up and see a thing like that and pull it off a sign post.

Berkshire: It certainly should have been picked up by our men.

H.M.Jr: The question is, how much other obscene and stuff of bad taste is there like that going on in the United States.

Berkshire: Well, Mr. Secretary, if we weren't on the watch constantly, I can't imagine what might happen.

H.M.Jr: Well, do you get copies of all advertisements.

Berkshire: No, sir. The law doesn't require that they get approval of advertised material. They must get approval of their labels, and then there are certain restrictions about their advertising matter. Unless they submit one for free approval, we don't have anything to say about it unless we just catch them.

H.M.Jr: Bell, I want to say at my press conference that I saw this advertisement, and I have taken the first steps to cancel the permit. Is that what you call it?

Berkshire: The label approval.

Bell: Well, it was approved?

H.M.Jr: Yes.

Thompson: The label on the bottom hasn't the word "brand."

H.M.Jr: They call it "Army and Navy Brand," and then you see they use the word "serve" - you see, it is "Serve Army and Navy Rye Whiskey." You wouldn't do it, if you were me?

Bell: I don't know, but I don't understand how it got approved. Do they have authority in the field to approve things like that?

H.M.Jr: It says, "brand," but they just serve Army and Navy whiskey, for company attention.

Bell: Even what is on the label, "Army and Navy Brand," I don't see how they got it.

H.M.Jr: Well, it was approved by the old FAA. Do you see any reason why I, as Secretary of the Treasury--

Foley: Mr. Secretary, I don't think we ought to shoot today on this. I think you ought to give us a little time to look into it and make sure we are on good, sound grounds. I would like an opportunity to determine what constitutes a violation and what our power is to summarily revoke these permits. I am not prepared now to say that it is all right for you to go out and make this statement at a press conference.

H.M.Jr: You are not?

Foley: No.

White: It is a matter of morals involved there, Mr. Secretary.

Foley: It doesn't make any difference whether it is done today or at your next one, and then we will know a little more than we know now.

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- White: It is a matter of morals involved, and I - I don't know.
- Bell: How about him saying he is looking into it?
- Sullivan: No. What you are objecting to--
- Klotz: I think these fellows ought to be given a chance. After all, they are perfectly all right. Everybody advertises that way. If they won't cooperate then, I would say, "Go after them," but they haven't been given a chance.
- Foley: My reaction, Mrs. Klotz, is this: I think we ought not to be objective or personal about this. I don't think we ought to single out one fellow. I think when we do it, we ought to put it on a higher plane, and say, "That this sort of advertising, at a time when we are marshalling the resources, the man power of this country, is the sort of thing that just can't go on. It is unpatriotic, and it isn't compatible with what we are doing. The Secretary of the Treasury is going to see to it that this kind of advertising and this sort of sales campaign for liquor is not conducted anywhere within the United States or anywhere in the vicinity of our training camps."
- H.M.Jr: That is what I want to say.
- Foley: Yes, but I think that we ought to put it on a broader basis, and I think you ought to give us a little chance to look into it.
- H.M.Jr: All right, but also I think it just raises this whole question of advertising and labeling and how good are you since you have taken it over.
- Berkshire: Mr. Secretary, we think we have pretty close supervision over certain of the labels, because there isn't one approved that doesn't go through the office down here. Now, as far as that

advertising is concerned--

H.M.Jr: Yes, but how about outstanding ones?

Berkshire: Well, there isn't any way, of course, of condemning this liquor, and all of the liquor that is now labeled "Army and Navy" must be sold that way.

H.M.Jr: I will tell you what you haven't done, Berkshire. You haven't made a review of the permits for labels and advertising which were given prior to the time you took this thing over, have you?

Berkshire: We haven't gone back through all of those records.

H.M.Jr: I am ordering you to do it now. I want you to bring in every label, every piece of advertising, and review it just the way we do in Internal Revenue. I gave orders that every charitable organization that had been granted tax exemption, we reviewed every single one, and each year they have got to come in and prove that they have that right. Now, I put this on the same basis, that first you should review every single one that has been issued, and then make a business of reviewing them once a year.

Berkshire: We can do that, all of the active ones. Of course there have been some three hundred labels a day approved ever since the FAA went into effect.

H.M.Jr: Go back - if you haven't got enough help, get your help, but go back and review every outstanding label and every piece of advertisement that has been issued prior to the time that you took it over.

Berkshire: We can do that.

H.M.Jr: Because you don't know how many more things there are.

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Berkshire: There isn't very much of this because they pass through our office there.

H.M.Jr: And what I would think of is getting in an advisory committee of outsiders, sort of a jury.

Berkshire: We denied this same label.

H.M.Jr: Did you hear what I said?

Berkshire: Yes, sir.

H.M.Jr: I would get a kind of a jury, get some women on them and some people - get some women and some men to represent the American nation, represent the League of Women Voters, some groups like that. They could be a sort of jury. They would love it. You don't have to pay them. You should have done it long ago. Then you and Foley get together. Does this come under Foley?

Foley: Sure.

H.M.Jr: We will have a report from Philadelphia about this in the next two or three days, I am sure.

Foley: Monday.

Berkshire: Yes, sir.

H.M.Jr: O.K., Berkshire. I will see you Monday, Berkshire.

What I am going to do, now, gents, on this frozen funds, those who sat with me yesterday, we have added Philip Young to the list. He said it would solve 80 percent of his problems. We will meet again at twelve o'clock. Frozen funds at twelve. I have got to see Bell.

December 12, 1940
10:27 a.m.

Walter
Stewart:

Hello, Henry.

H.M.Jr:

How are you?

S:

Very good, sir.

H.M.Jr:

Walter, on thinking over this question of asking your one organization to assist us on this Federal tax study, see, on second thought I agree with you. I think that it is something that the Treasury ought to pay for itself.

S:

You do think so?

H.M.Jr:

Yes, I do.

S:

You mean - just how will you set it up then?

H.M.Jr:

Well, we'd set it up just the same. I mean, whoever comes down we'd pay it in the regular way. I mean, we can pay them \$22.50 and \$5. a day, I mean, for the top men.

S:

Right. I think I'd do that until I got deeper into it anyway.

H.M.Jr:

And Thompson tells me that we have money enough to do that.

S:

Right. All right, sir.

H.M.Jr:

So I wanted to tell you that. On second thought I think we ought to do it.

S:

Well, then if you want me to be of any help on personnel or something I'll be delighted to do it.

H.M.Jr:

Well, we certainly will. It was most helpful having you down.

S:

Thanks very much.

H.M.Jr:

All right.

S:

Good-bye.

December 12, 1940
11:14 a.m.

H.M.Jr: Hello.

Fiorello
LaGuardia: Hello, Mr. Secretary.

H.M.Jr: How are you?

L: Pretty good.

H.M.Jr: I was Henry the other day. Why do you demote me?

L: (Laughs). Maybe I have to be on my guard.

H.M.Jr: Oh, you never know. Look, I got word that you were coming down either Monday, Tuesday or Wednesday - going to have lunch with me Tuesday.

L: No, I've got the Canadian Commission. Let's see, Monday and Tuesday I have the Canadian Commission.

H.M.Jr: Where?

L: In New York.

H.M.Jr: Oh. I understood from

L: Yeah, I thought so too. I was off my track. Now I could come down Wednesday for a very short time.

H.M.Jr: Well, do you want to come around noon?

L: Uh-huh.

H.M.Jr: Do you like my lunches - you remember you kicked about it the last time you were here.

L: Yes. Suppose I take a 11 o'clock plane and that will get me at the Air Port at 12:30.

H.M.Jr: And then you'd come up here?

L: And then I'd come right up there and then I'd come right back.

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H.M.Jr: Swell.

L: All right. Then I'll make that for Wednesday.

H.M.Jr: That'll be fine.

L: Yeah. They're raising hell all through the country on that.

H.M.Jr: On what.

L: On your proposed unconstitutional tax.

H.M.Jr: I'm getting wonderful support.

L: You are. (Laughs).

H.M.Jr: Yes, sir, from everywhere except Palm Beach.

L: Palm Beach.

H.M.Jr: Yeah. They don't like it.

L: Aw, they haven't got anything down there.

H.M.Jr: They don't like it.

L: They're just

H.M.Jr: Yeah.

L: All right, 12:30 Wednesday.

H.M.Jr: Well, you're plane gets in - you'll be here about 12:45.

L: Yeah. The plane will be there at 12:30. Just give me time to get to your office.

H.M.Jr: All right. I'll be waiting for you.

L: Thank you.

December 12, 1940
11:19 a.m.

H.M.Jr: Hello.

Operator: Forrestal.

H.M.Jr: Hello.

James
Forrestal: Hello, Henry.

H.M.Jr: James, how are you?

F: Well, a little bit dizzy.

H.M.Jr: Well, ah - I was going to get off a wisecrack
but I - (laughs) - I was going to say I hope
it isn't the blonde that's responsible.

F: (Laughs).

H.M.Jr: I've got these English fellows coming in at
10:30 tomorrow morning to talk about why they
don't sell their stocks different and also
their assets in this country, and I'd like very
very much to have you sit in.

F: O. K., Henry.

H.M.Jr: Now, I don't know whether your former boss
told you what he told me as to the damn fool
way they've been selling their stuff.

F: Yeah.

H.M.Jr: Did he feed that to you? Have you got all of
that?

F: Yeah.

H.M.Jr: So that you can dish it out to them?

F: Yeah.

H.M.Jr: Well, that's what I want you to do.

F: All right.

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H.M.Jr: I mean, how for instance they whisper to a fellow - you get your security in one place and your money in another place?

F: Yeah.

H.M.Jr: He told you all that.

F: Yeah.

H.M.Jr: All right. And I'm going to try to have Jerome Frank or somebody here from the S.E.C.

F: O. K.

H.M.Jr: But I'm going to lay it right on the line and I need your help because you know this Wall Street

F: Racket. (Laughs).

H.M.Jr: Thank you, and I only know it by hearsay.

F: Well, you know it good enough all right.

H.M.Jr: But I got along fine with Clarence Day and I liked him.

F: Well, he's got a first-rate brain.

H.M.Jr: Yeah, and if you've got what he told me then I want to lay that right on the line.

F: (Laughs). All right.

H.M.Jr: You've got it haven't you?

F: Well, I think so, yes.

H.M.Jr: You might want to talk to him about it - just how he thinks that they've been making a fool of themselves up on the Street, and one of the things that I want to get them to do is to as soon as they're out of an issue is to tell the world.

F: That's right. Absolutely.

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H.M.Jr: See?

F: That's right.

H.M.Jr: And also that the possibility of negotiating some of these sales privately.

F: Yeah.

H.M.Jr: Well, you be thinking about it, will you?

F: Well, I'll probably talk to him sometime tonight.

H.M.Jr: Will you do that?

F: Yeah.

H.M.Jr: 10:30.

F: All right, Henry.

December 12, 1940
11:22 a.m.

H.M.Jr: Hello.

Operator: Chairman Frank.

H.M.Jr: Hello, Jerome.

Jerome
Frank: Hello.

H.M.Jr: Are you back at work?

F: Oh, yes.

H.M.Jr: Oh, good. I got your message that you went after the Trans-America suit.

F: Oh, yes. We're having lots of fireworks now.

H.M.Jr: Good for you.

F: They're probably going to refuse to comply with a subpoena on a cock-eyed reason and we're probably in the next day or so going to have to go into court after them.

H.M.Jr: I see. Jerome, the reason I'm calling you is the English are coming in here at 10:30 tomorrow morning to have you and Forrestal and me tell them why we think they've been handling their sales so badly because I feel that very strongly. You remember you and I spent a lot of time with them and then they didn't take any of our advice.

F: No.

H.M.Jr: Well, I told them the other day that I thought they had been handling it very badly and now they're coming in at 10:30 tomorrow. Could you be here?

F: Yes. Could I bring one of my men with me?

H.M.Jr: Which one?

F: I'd like to bring Purcell.

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H.M.Jr: Yeah. That's the fellow you had the other time.

F: Yeah, that's right.

H.M.Jr: Yeah, I think that would be helpful.

F: All right. 10:30.

H.M.Jr: If you please.

F: All right.

H.M.Jr: Thank you.

December 12, 1940
11:29 a.m.

H.M.Jr: Hello.

Cordell
Hull: Henry, this is about those Grecian planes.

H.M.Jr: Yeah.

H: The way I understood it we undertook to get the British to put up 30 in the beginning which we wanted the Greeks to have and the British said they couldn't and anyhow the upshot was we were to put up 15 of these 42's or something and the British 15 and they were to come out of the British order.

H.M.Jr: Yeah.

H: Now, the British step in to you and say here these don't exactly fit in over there and we'll find out whether - what you have got that they can use and let you know.

H.M.Jr: That's right.

H: Well, now, the British are taking the thing out of our hands in a sense so far as our pledge to the Greeks are concerned and I'm telling Mr. Murray and he's agreeing with me, in fact suggesting it, that we must make clear to the Greeks that we are not in any way welshing on our pledge, that we're not going to let the British unless they and the Greeks with the Greeks voluntarily agreeing on modifying our promise. We're not going to modify it ourselves or go to the Greeks and say you can't use this, you can't use that and so on and so on and

H.M.Jr: Well, let me ask you this: has somebody for this Administration promised the Greeks 30 planes?

H: Well, I thought the Greeks were to have 30 - they asked for 60 and somebody said they - there are so many people who are in on this, you know. Welles has been in on it, I've been in on it and Berle has been on it and you've been in on it

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H.M.Jr: Well, we don't have to promise anybody anything.

H: Yes, well then

H.M.Jr: We haven't promised anybody anything.

H: Well, anyhow - what I'm getting at is this: that we don't want the British to come back and tell us that they have talked the Greeks out of this thing and leave the Greeks wondering if we haven't welshed on them in some way. Now, we want to keep in touch with the Greeks. I think that it's understood that we were to be responsible for 12, I mean, 15 to go to the Greeks and we want them to know that we are not trying in any sense to get out through anything that may be said to them by the British, that we stand by our promise.

H.M.Jr: Well, I haven't contacted the Greeks. I've only talked to your office - I've talked to you and to Stone, that's the only person I have talked to. Now on the practical side they claim, and it is very easy to ascertain it, that this Curtiss P-40 cannot land in Greece because they haven't got the kind of airports that this plane needs. This needs a smooth concrete field to land in. You see?

H: Yes. Well, now, we want to get that from the Greeks.

H.M.Jr: So I made the suggestion to Stone last night that what I told him of my conversation with the British be immediately repeated to the Greek Minister here so that he could check up as to whether the English were telling the truth.

H: Yeah. Now, Murray is going to do that this morning and send you a copy of his conversation.

H.M.Jr: Well, who is Murray?

H: He's the head of the Near Eastern Division.

H.M.Jr: Well, you and I are together because we're both saying the same thing. I said that the

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Greeks ought to be told that to make sure that the English are telling the truth.

H: That's all. We don't want the Greeks to have the least occasion for suspicion.

H.M.Jr: I can get that but you agree that if what the English say is true that it would be stupid to send a plane over that they couldn't use.

H: Yes, we are glad for the British to tell us anything, but we want the Greeks personally in on it.

H.M.Jr: I think that is perfect.

H: Yeah.

H.M.Jr: I think that's perfect.

H: Yes. All right, Henry.

December 12, 1940
12:00 m.

*See list to
Pres of 12/23*

RE FREEZING

Present: Mr. Bell
Mr. White
Mr. Cochran
Mr. Graves
Mr. Young
Mr. Pehle
Mr. Wiley
Mr. Klaus
Mr. Bernstein
Mr. Foley

H.M.Jr: Now, where do we go?

Pehle: Harry seems to be missing.

H.M.Jr: Well, we won't wait. Go ahead.

Pehle: Well, on the point as to movements of Axis funds, I have a memorandum which points out some of the high-lights, things that have been gathered recently.

H.M.Jr: Read it out loud so that everybody can get it.
(Mr. Pehle read memorandum which is Attachment 1)

H.M.Jr: Well, the one thing which seems to be missing, in the first place, is how few cases you have, and the second thing is, what about that movement of gold out of Portugal?

Cochran: I have a memorandum on that.
(See Attachment 2)

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- H.M. Jr: Well, that ought to go here. Do you know about that? What is that?
- Cochran: Well, we have gotten more gold here now than their Central Bank statement shows that they possess.
- H.M. Jr: That ought to go on, Portugal.
- Cochran: And the Federal has made some investigations of that, and they are going to give us a list of the different types of bars and so on that they have.
- H.M. Jr: I think that was one of the most - how much money?
- Cochran: About 70 million dollars. That is their total gold that they have over here now.
- H.M. Jr: How much of that has come in the last two or three months?
- Cochran: I will have to check up on that. We have had 33 million dollars in gold shipped since October 2.
- H.M. Jr: That ought to go into this thing. To me, that is one of the most - there is 33 million dollars here, which can hire a lot of propagandists, if that is German.
- Wiley: Mr. Secretary, it looks as if they have enough money already in Brazil to almost buy the government and the armed forces.
- H.M. Jr: Not quite.
- Wiley: It is somewhere about a hundred million dollars.
- H.M. Jr: But look at this thing coming out of Portugal. Did you know about that?

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Wiley: No. The last I heard was that they had suspended shipments of gold.

Pehle: They are starting again, aren't they, Merle?

H.M.Jr: I would add that, very definitely. Now, who else was going to have things for me?

Bell: White. He was in my office at a conference, and he had to go to his office to get it.

H.M.Jr: Oh.

Cochran: You asked me for several things.

H.M.Jr: Please, will you (Pehle) take this back and add Portugal on there.

Cochran: I have the statement from Sir Frederick Phillips on their desires and the one from Clark describing the Canadian situation. I kept the one from Somary, which the men, most of them, have seen, but which was submitted before this thing came up.

H.M.Jr: Well, where are they?

Cochran: I have them right here.

H.M.Jr: I would like to have them and take them home.

Cochran: And if you want this Portugese memorandum. Because we are trying to find whether the Portugese treasury owns this gold. This is the one from Clark, here is the one from Phillips, and this is the Somary memoranda, and this is the memo the British sent us sometime ago telling us what they want if we put on exchange control in China.

H.M.Jr: Is Phillips coming now?

Cochran: He is coming at 12:30 and is going into my office.

H.M.Jr:

Who else has got some more work?

Wiley:

Here is a little item of back ground, sir, that might be helpful in talking to the Secretary of State.

(Mr. White entered conference)

Wiley:

This is from the alien property custodian report of 1919: "The relation between the German Government and the great German chemical houses was so close that representatives of the industry were naturally almost direct representatives of the government and their work in this country gave them unequalled opportunities for examining our industries from within * * *. After the war began the industry became a center not only of espionage but of propoganda and of direct governmental activity. The number of striking instances of this development is so great that only a few can be detailed, but these appear sufficiently striking * * *."

(See Attachment 3)

Wiley:

Now, of course that should apply with equal force to the possibilities of the present. Then we have already got several items of interest with regard to what is going on now: "The FBI is watching the Dye Trust activities, especially since two persons posing as aspirin salesmen in its employ were found actually to be engaged in subversive or at least dubious activities in the Western Hemisphere, including the carriage of secret codes (the Hoehne and Wolff cases)."

(Mr. Foley entered conference)

Wiley:

"2. Chemical Marketing Company and German Gold and Silver Refining Institute (Dr. Kertess and associates) are undoubtedly engaged in activities close to espionage according to the Dies Committee report.

"3. Ufa Film. This is a propaganda agency and is being used in connection with the Agfa Ansco for taking pictures of military objectives in the Western Hemisphere in the guise of producing "educational films" for consumption in Germany."

Then German shipping facilities, they can be accepted as going into that work.

The German money forwarding agencies, Robert Hautz and Company, New York and Chicago; Hans Utsch and Company, New York; Carl Marks and Company, New York; etc., are believed clearly to need investigation.

H.M.Jr: Now, I can't remember, but I know I have asked each one of you for something. Does that finish you?

Wiley: A little later I will have something.

H.M.Jr: Fine. I will give you a call. Harry?

White: You asked for a description of the treatment of American property interests by Germany, Japanese, Canada, and Italy.

H.M.Jr: Yes.

White: I have it here. Would you like me to read the summaries or just tell you?

H.M.Jr: No, I want to take it and read it at home.

White: The one on Italy, as I indicated before, is rather brief.

H.M.Jr: Have you got anything else?

White: Then you asked for a statement of the remittances by the--

H.M.Jr: Post office.

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- White: Yes. We had submitted those figures about two months ago. We got in touch with the Post Office and the American Express Company to find out that, and we brought them up to date as much as possible.
- H.M.Jr: I would like them all. I will take it all home and do the best I can.
- White: All right. There is a brief memorandum here on what the fund might do with regard to Latin American relations.
- H.M.Jr: You give all of that stuff that you prepared to McKay and tell him to send it up to the house.
- White: Right. There is one thought that occurred to me that I don't think has been mentioned. I haven't heard it mentioned. It just occurred to me today. With respect to the possibilities of controlling subversive activities in Latin America through the extension of exchange control, all that information that we received of the tie-up between American concerns and others is very comprehensive. There is a possibility that might be worth thinking about, that where exports are sent to companies that this Government doesn't approve of through agents, through the extension of exchange control, you have an instrument which you can use if you wish in that so as to get the changes made by the American companies if they don't see fit to cooperate through the ordinary channels.
- H.M.Jr: Now, does Mr. Wiley get those Nelson Rockefeller reports?
- White: I don't know. I have got them on my desk, and was going to - didn't know who they would go to.
- H.M.Jr: The ones where he is looking into which American businesses are being--

White: That is right. I was going to give them to Gaston.

Klaus: We got one set on Peru and a report from the State Department man.

H.M.Jr: No, Nelson Rockefeller.

Klaus: He sent them in. They were State Department reports.

H.M.Jr: You had better get together with White and make sure they are the same things.

White: If they haven't got them, I will make them available.

H.M.Jr: It is something Rockefeller made available to me personally. I doubt if you have them.

White: They are very comprehensive. It is one of the best jobs I have seen done on anything like that. I was very much surprised at the amount of work they have done in a brief time of that caliber.

H.M.Jr: Just make sure, because it ought to flow into them for digestion.

White: I think it has great possibilities.

H.M.Jr: Will you?

White: I will do that.

H.M.Jr: Now, just a second. Tomorrow morning at ten-thirty the English are coming in on their securities, and I would like to have you (Bell) here and White and you (Cochran). That is all that sits with me on England, isn't it?

Bell: I think that is all that has been in so far.

White: You wouldn't want to have one of the men in the SEC?

H.M.Jr: Yes. I am having Frank and Purcell.

Bite: Oh, you are.

H.M.Jr: Yes, Frank and Purcell.

Cochran: And Clark just accepted. He will be here.

H.M.Jr: Good. Now, there is, and we seem to have forgotten it, a committee that is supposedly between the State Department and the Treasury and in which you (Bell) represented me on this thing. You remember when we were over there, we said we would appoint a committee. Now, as you remember, who was it up to to call that meeting.

Bell: Hull.

H.M.Jr: Was it up to Hull?

Bell: He went out of the room, and you said, "Bell is at your disposal, and we will wait until he hears from you," so he said, "All right, I will get in touch with you in the next few days." Also at the last Cabinet meeting I attended, the President said that Mr. Hull "has the Secretary's memorandum and he is supposed to get in touch with you in the next two or three days." Mr. Hull said again, "I will call you in the next few days."

H.M.Jr: Then that is all right.

Bell: That is the last I have heard of it.

H.M.Jr: Now, why is Philip Young here? How does he come into this thing? In this thing, there are a number of agencies - let's put it in this way. I am a exporter. Let's say we put on exchange control. I want to sell a thousand dollars export stuff, and the thing we have got to envisage - while you (Bell) are busy, if somebody could take this who isn't overworked - it is an administrative matter - that this exporter

could make an application, let's say to Foreign Funds, if that would be the place, and also all the other things so that when he got a license he wouldn't have to go to a half dozen agencies in Washington, see. Now, I think what we ought to do is, let's take the initiative so that this exporter - I mean, after all, if he has got to go here, if he has got to go to Colonel Maxwell, if he has got to go to Joe Green - where else?

Young: If it is a new order that has to be placed, it clears through my office, and we, in turn, clear it with Defense and War and Navy and State.

H.M.Jr: Well, Harold, you are always quiet, so you never seem busy, although I know you are busy. This is a strictly administrative matter. I mean the machinery. You see what I mean. I wish you would take on this thing, you see. You have been studying Pehle's setup. Now study the thing that Young can give you. How can it be set up so that this exporter, when he applies for the funds, can get the whole works, so that he doesn't - the poor fellow would wear himself out, so by the time he gets through, he would say, "Well, the hell with it, I would rather not sell it," see. It is administrative machinery, which you are a past master at.

*see ltr to Pres
12-23*

White: I think there is a way of doing it.

H.M.Jr: Well, but I mean the question of the setup, and all that, and all you other fellows are mixed up with Argentine and China and God knows what else, so I think, Phil, if you and Harold could get together, you see, and pour out your heart to him and tell him the troubles about the Priorities Committee, and McReynolds is in on this too, but Mac tells me, when I ask him, that he can't find out what Don Nelson is doing because Don Nelson won't let him see the forms that he wants the President to sign, you see.

White: I think that would be a remarkable development,

if you could head that into one hand because that is one of the difficulties they are having in all the other countries, is that they are segregated, and there is a lot of red tape.

H.M.Jr: Well, I mean Mac tells me that, and he says, "Well, I will go down the hall and see Don Nelson and find out what he is doing." Well, that was a week ago, but it is your old pal Mac. You know Mac when he doesn't want to do something, that is, you know him just as well as I do. But I would like to - I don't say that it all should be headed up in the Treasury, but I do say that a manufacturer shouldn't have to go to three different places to get an export license and a permit for the money because they won't stand for it.

White: The policy cannot head up here. It shouldn't. The administration absolutely would have to--

H.M.Jr: Now, I am coming to that. I am glad you mentioned it. The question of the machinery, I think, ought to be here. Now, as to policy, that is something else.

White: That is right.

H.M.Jr: And what I think, the question of - the way I look at it, whether a man should or shouldn't, the high policy, I think, should be settled by State, Treasury, and Commerce, possibly War and Navy. But there ought to be those five Departments.

Bell: Leaving out the Defense Commission?

White: They don't need them, but they will get their foot in.

H.M.Jr: But anyway, I am just thinking out loud, and as I say, somebody has got to carry this through administratively, but I think certainly State,

Treasury, War, Navy, Commerce--

Young: I am not at all sure you want War and Navy on it, except in an advisory capacity.

H.M.Jr: Well, after all, how are you going to tell whether a machine tool should leave the country if the Navy says they need it.

White: They have got to be on it.

H.M.Jr: Oh, sure they have.

I think one person from the National Defense. Now supposing a man is going to sit on Priorities. He will say, "Well, I need this machine tool." Well, it is like the case you (Young) cited me the other day. They wanted to buy some boxcars - I may not have it exactly right - from South Africa and they wanted to place the order in a factory that is now making tanks. Now, should South Africa be permitted to get an export license and be permitted to place the order with a company who is making tanks? Now the question is the Priorities, and I think it would be Nelson who is the administrative head of the Priorities Board. That is the way I feel as of today.

White: How about the Department of Justice in view of the activities of the FBI and so on?

H.M.Jr: No. They are legal advisors.

Now I am just throwing this out, you see. I am beginning to get in to the thing, just beginning. How does it sound to you, Ed?

Foley: All right.

H.M.Jr: Would that be two things: administrative machinery in one spot, and then a board which would sit once a week and fix the high policies as to what should or shouldn't go out.

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- Foley: Yes. There are so many Departments involved in it you have to have an inter-departmental board, as far as policy is concerned.
- H.M.Jr: And that would really be a board of economic warfare.
- Foley: That is right, and if you had the administration here where the policy that was determined would be carried out and not sabotaged--
- White: And another thing the administration would break down if the administration has to determine the policy alone.
- H.M.Jr: Well, I wouldn't take the responsibility, Harry.
- White: No, I don't think you should, but if you can segregate the two, the better job the policy board does, the simpler the administration, and it can be very effectively done, I think, and done with much less red tape than elsewhere.
- H.M.Jr: And not done by personal hunches the way it is now. I mean the best example is in the room here, Mr. Hull tells me that somebody, he doesn't know who, has given the Greeks their word of honor that we are going to give them 15 Curtiss P-40's, and the English are going to give them 15. I said, "Well, who gave them that word?" He said, "I don't know, somebody did." And everybody else tries to scramble around and make good on it, and the British say positively that the Curtiss P-40 can't be flown by a Greek because he doesn't know how to fly it, and in the second place there is no field where they can land it, because they need an absolutely perfect landing field. Otherwise, it is a beautiful idea.
- White: I think that policy committee would have to be of Cabinet rank, Mr. Secretary.
- H.M.Jr: Oh, definitely.

- White: They could have subcommittees to deal with any technical material.
- H.M.Jr: How do you like that, just pulling it out of the air? I dreamed it. Did you dream it?
- White: I think that is a perfect plan and an essential plan.
- H.M.Jr: Did you dream it, Harry?
- White: No, I didn't dream much last night. (Laughter)
(Discussion off the record)
- H.M.Jr: Philip, you have given a lot of thought to this. Does this at all fall into what you have been groping for?
- Young: Yes, sir, it does. You will find an ardent supporter for that scheme in Berle. He and I have talked about exactly the same sort of a plan, of a coordinating committee at the top with the administration centralized, which he is very enthusiastic about and also very anxious that the administration be carried on in the Treasury.
- H.M.Jr: Yes, but I mean this would fall into - I haven't given you a chance to pour out your heart on this, but would this be along the lines that you have been thinking?
- Young: Yes, exactly, because, at the present time, you have four clearances that a foreign supplier has to go through. Joe Green, technically under the neutrality act; Maxwell, in the interest of defense, representing the President; my office for the placement of an order before even a contract can be signed, and frozen funds where you run into it at the moment or everywhere if exchange control is put on. Our difficulty is in keeping control over foreign orders which may come into the category of strategic items or war supplies, the boundary line being very

shadowy. Where they come through the hands of import firms and agents over whom you have no control, because the original setup for our office was to deal directly with the foreign government, and you have all of these purchases in instances where you don't have purchasing missions or accredited representatives coming through all sorts of different ways.

H.M. Jr:

Harold, you see there are these four agencies, and I think the argument for the Treasury doing it is - after all we have Customs, which can be used to reverse - I mean they could be used to supervise stuff going out as well as coming in. We have Coast Guard to stop the boat from leaving if we don't want it to. We have complete control of all ports now through the port captains. We have - we issue a license before a ship can sail through our ship control. We issue the licenses for the money, so the machinery, the policing and all that, I think, belongs here.

Graves:

Is this contingent upon the extension of the foreign funds control to the uncovered areas, or is it a separate proposition in your mind?

H.M. Jr:

No, what I would do - what I am thinking of, if I was going to do this for the President, I would lay the whole thing before him so he could do it all at once, freeze the funds, set up this thing, and the whole thing would be explained.

Graves:

But they do hang together?

H.M. Jr:

Definitely.

Bell:

But this other thing was in the mill before the extension of foreign funds came up. You have been talking about this with Philip, how it could be separated and still work.

H.M. Jr:

Yes, but if I am going to do this, why not let's do a good job for the President, and also it

kind of takes the curse off the foreign funds business. It doesn't stick out like a sore thumb.

Bell: I think if a decision were made not to go any further on freezing foreign funds, you still might want to do this.

H.M.Jr: That is right.

Bell: In order to get the loose ends together.

H.M.Jr: I didn't understand, but I think this is definitely something which needs a smooth running machine, and Harold is the fellow to do it.

White: Isn't there an additional reason why it should be in the Treasury Department, Mr. Secretary? The State Department after all is the important Department that shapes foreign policy.

H.M.Jr: Right.

White: And it seems to me that there should be a segregation between the shaping of policy which corresponds to legislation, the legislative branch of the Government, and the administration branch of the Government, those who execute the policy. In that way you get both a counter-check and the division of labor lends for efficiency; and, I think, for that reason alone - and those are the only two Departments who could possibly handle it. For that reason alone, it should be here.

H.M.Jr: Harold, what I would like you to do - I didn't mean to shut you off.

White: No, I am through.

H.M.Jr: Do you like the way I am approaching this now?

Bell: Very much.

H.M.Jr: What I would like you to do is, anybody that you (Graves) don't know, and I think the person whose work you likely know the least about is Young. Get that. I would get hold of McReynolds not later than tomorrow and give him a sketch of this thing so that he doesn't go off on some angle before it is too late, and then tell him that we want to work with him on this, you see. Get to Mac not later than tomorrow.

Graves: Right.

H.M.Jr: And tell him quite frankly just what we have in mind.

White: Would you want this to get out before you inform the President.

H.M.Jr: Well, McReynolds is administrative assistant to the President. Any orders have to flow through him anyway.

White: That is the channel?

H.M.Jr: Yes. Administrative orders have to be set up by McReynolds for the President.

White: But you weren't thinking of McReynolds taking it up with the Council of Defense first.

H.M.Jr: In his capacity as administrative assistant, as a man who draws up these orders, isn't that right?

Graves: That is right.

H.M.Jr: And is a Treasury employee on leave--

Bell: He has already discussed one phase of it with Don Nelson.

H.M.Jr: I know, but the thing is all sixes and sevens. Now, if it could be done in a nice administrative package, the whole thing would have an appeal to the President, and he would say, "Well,

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this makes sense." What do you think, Wiley?

Wiley: Sounds all right to me.

H.M.Jr: Nothing in here but what it would be much easier for you to work. Well, Harold, get your teeth into this thing. Is anybody, from an administrative standpoint, unhappy about this?

Cochran: Just the one thing. You would consult with State and Commerce on this business of extending the freezing before you tried to put it in--

H.M.Jr: Oh--

Cochran: That is my only reservation.

H.M.Jr: They way I would do it now, if I were going to do it, I would consult with Mr. Hull after we have the whole package rather than a piece of it.

Cochran: But give him a chance to give his O.K. before it goes to the President.

H.M.Jr: Oh, sure, but I don't want to - I wasn't happy to walk over just on this thing, but the way I am talking and thinking, it seems to me that that is something that might appeal to Mr. Hull and to anybody else who is interested. I mean, on this basis, after we go along a little further - you see, I will keep pushing it.

White: There is one consideration that is not quite clear, Mr. Secretary. Much of what you are speaking of in the exchange would not apply to present controls, so that it really has point only if there is some extension because the kind of problems that come before Philip and the other groups do not apply to most of the countries with which we freeze the funds, so that the kind of problems that they would contend with, it seems to me, depends largely upon the prior assumption that it is going to

be extended into other areas. Otherwise, the organization doesn't have much point with the kind of problems that are confronting it now.

H.M.Jr:

But this puts the whole thing together. It is a vast, important problem, and the President can see it and whereas a man withdraws from taking action because he is afraid of the administrative end of it, he will say, "I can do this. This is all right. This will work."

O.K., gents, I hope you all have a nice afternoon.

TRANSFERS TO SOUTH AMERICA. It is reported that since September some \$4,600,000 of German funds have been transferred to South American banks, and that approximately \$2,300,000 has returned from Argentina and Peru to the account of the Reichsbank in New York. During the same period there was transferred from Italian accounts in the United States approximately \$13,000,000 to South America, of which \$10,000,000 went to the Italian Embassy in Brazil from the Italian Foreign Exchange Control Funds in New York and in addition, \$4,500,000 was sent in cash by courier. As a result of recent return transfers of less than \$1,000,000 the net amount of Italian funds transferred to Latin America since September amounts to more than \$16,000,000. Recent information indicates that the Bank of Brazil expects to receive \$10,000,000 for credit to a Japanese account as part of the Japanese program designed to centralize dollar exchange operations of the Yokohama Specie Bank with the Bank of Brazil.

GERMAN FUNDS. The flow of German funds in this country appears principally to have been to the accounts of Swedish banks here, \$1,500,000 being transferred to such accounts from German accounts since November 25. About \$1,350,000 is known to have been transferred to Swiss accounts here, while \$750,000 has returned from Swiss to German accounts. Cash withdrawals from German consular accounts since December 1 have amounted to \$850,000. Of this amount \$650,000 was withdrawn by the Consul General in New York, who paid \$530,000 to cover interest payments on German bonds. The remaining \$120,000 is apparently still in the consulate. The German Embassy in Washington recently received \$200,000 by draft from the Reichsbank, Berlin, and obtained this amount in notes of \$20 to \$1,000 denominations. There is some indication that cash deposits are being made by the Reichsbank by way of South America, National City Bank having recently received \$180,000 by this method.

ITALIAN FUNDS. Transfers of Italian funds, including those to South America, have been principally to Spanish, Swedish, and American accounts and transfers from Swedish to Italian accounts have been noted. It has also been recently reported that the Italian Attaché at Tokyo has carried \$800,000 in American currency from Shanghai to Japan. Further reports indicate that substantial Italian Government funds have been converted into cash which is being kept on diplomatic premises.

JAPANESE FUNDS. Japanese Institute, Inc., a Japanese cultural organization, is known to have been receiving its principal income from the Japanese Consul General in New York. The various Japanese consular officers throughout the World are apparently being supplied with funds from the Japanese consular accounts with the Bank of America.

C
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December 9, 1940

Mr. Cochran

Mr. Hawkey

Subject: Gold shipped here by and for
account of the Bank of Portugal.

More than \$70 million in gold has arrived here from Portugal since the beginning of July, 1940, shipped by and for account of the Bank of Portugal. Since all of the gold was earmarked upon arrival in New York, that Bank's gold balance here rose from \$30.1 million as of July 3 to \$109.8 million at the close of December 5. (About \$6.0 million of this increase resulted from the purchase of gold from the U. S. Stabilization Fund.)

On October 10, I wrote you a memorandum in which comparison was made between the Bank's gold in New York and the asset item "Encaisse-or" (gold coin and bullion) on the Bank's own weekly statement. At that time, the most recent statement available was dated August 21, and it could not be asserted definitely that the Bank's gold in New York was of a greater value than its "Encaisse-or."

We have now received the Bank's statement as of October 2, listing an "Encaisse-or" of \$69.1 million. On the same date, its gold balance in New York amounted to \$70.5 million and since October 2, the Bank of Portugal has shipped another \$33.3 million in gold to New York. (All of this has arrived: there is no gold in transit at present.) We have no "encaisse-or" figure available for dates subsequent to October 2, but since this item has moved upward less than \$2.0 million in the past six years, it is very likely that little or no change has taken place since early October.

The foregoing information is tabulated below (in millions of dollars):

<u>Period-1940</u>	<u>Imports for acct. of Bk. of Port. 1/</u>	<u>Gold bal- ance here (At end of each period)</u>	<u>"Encaisse- or" 3/</u>
		\$30.1 (July 3)	\$68.8 (July 3)
July 4 - 31	\$ 7.1	37.8	68.9
Aug. 1 - Sept. 4	16.7	55.3	68.9
Sept. 5 - Oct. 2	15.2	70.5	69.1
Oct. 3 - 31	21.1	97.6 2/	(69.1) Carried

Nov. 1 - Dec. 5 12.2 109.8 (69.1) Forward

- 1/ All from Portugal, except \$1.4 million from England in July.
- 2/ During October, the Bank of Portugal also purchased \$6.0 million in gold from the U. S. Fund.
- 3/ According to 1931 law, the Bank values its gold at .066567 fine grams per escudo; conversion of escudo value into dollars hence made at the rate of \$.0748 per escudo.

The apparent conclusion is that the Bank of Portugal has sent to the United States at least \$33.3 million of gold not shown in its "Encaisse-or". Since only \$14.6 million of Bank of Portugal gold arrived here during the first half of 1940 (of which \$2.1 million came from Portugal and about \$12.5 million from England), it may be further concluded that most of the "extra" gold was shipped in the past five months.

This "extra" gold may be any of the following:

- 1) The Bank of Portugal's own gold. In addition to the gold listed under "Encaisse-or", there is a reason to believe that the Bank carries some gold in its asset item "Disponibilittesor a l'etranger et autres reserves" (liquid gold exchange assets abroad and other reserves). Here is some evidence: in the week ended March 20, 1940, the Bank purchased slightly less than \$5.0 million in gold from the U. S. Fund in order to strengthen its gold reserves. In that week, its "Encaisse-or" changed not even a fraction of one escudo. "Disponibilities, etc.", however, rose \$4.9 million (using the rate of \$.0749).*

About a year ago, the largest amount of gold that could have been included under "Disponibilities, etc" was \$22.0 million. In the Bank's statement for December 30, 1939, this item was valued at 536.3 million escudos. Examination of the Bank's annual report for 1939 reveals that 242.2 million escudos of the above represented the Bank's holdings of the Government of Portugal's 3% sterling obligations. Therefore, the maximum amount of gold that could have been included under this item was 294.1 million escudos worth, or \$22.0 million. (The Bank's holdings of dollars were negligible at that time.)

- 2) Gold held by the Portuguese Treasury. The Federal Reserve

Bulletin, in its table "Gold Reserves of Central Banks and Governments", uses only the Bank's "Encaisse-or" figure, converted at \$.0748. But the Portuguese Bank's annual report for 1939 shows a table of the Treasury's liquid assets at the end of November, 1939, wherein appeared 430.2 million escudos worth of gold in bars, equivalent to \$32.2 million.

For all we know, the Bank of Portugal may have exchanged its holdings of Portuguese Government sterling bonds for Treasury gold, shipping the latter to New York.

- 3) Gold of some foreign bank or government, in the shipment and earmarking of which the Bank of Portugal acted really as intermediary. Unless we receive further evidence that a third party's interest was involved, it would seem inadvisable to question the Bank of Portugal for what appear to be shipments of "extra" gold. The information presented under the preceding two points suggests that Portugal does own gold beyond that shown in the "Encaisse-or" asset item of the Portuguese Bank statement. Regarding the markings on gold bars already shipped here, from Portugal, I think you will agree that these cannot be offered as proof of ownership, since many Continental assay marks constitute good delivery in Europe's gold markets.

*The dollar funds used in this purchase were remitted to the Federal by various banks in New York. Indication that the Bank of Portugal acquired such dollars during that same week is given in the Bank's statement, wherein Portuguese bank deposits at the Bank of Portugal rose 100 million escudos, or slightly more than \$4. million.

A partial list of corporations suspected of subversive activity or of concealing assets subject to freezing:

A. Japanese. Mr. White has estimated that our assets in Japan are around \$300,000,000. Obviously our bargaining position with regard to Japan may turn on the concealment of substantial assets by Japanese in the United States.

1. Yokohama Specie Bank. This Bank has branches in New York, Hawaii and San Francisco, is controlled by the Japanese government, and has already been found to have filed false reports concealing about \$100,000,000 in assets from American banking authorities.

2. Mitsubishi Bank, Ltd., New York.
3. Mitsui Bank, Ltd., New York.
4. Bank of Canton, New York.
5. Swatow Bank, Ltd., New York.
6. Bank of Taiwan, Ltd., New York.
7. Kyoto Fire Insurance Co., Ltd., New York.
8. Meiji Fire Insurance Co., Ltd., New York.
9. Nippon Fire Insurance Co., Ltd., Honolulu.
10. Tokyo Marine and Fire Insurance Co., Ltd., New York.
11. Toei and Company, Ltd., New York (import and export).
12. Moriwara Brothers, Inc., New York (import).
13. Mitsubishi Baiji Kaisha, Ltd., New York (import and export).
14. Tsunami and Company, Ltd., Osaka, Japan (dealers in art goods with steam cranes and had distribution).

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15. Nagoya Seito Kaisha, Ltd., New York (chinaware).
16. Mitsui and Company, Ltd., New York (trading in commodities).
17. Nissho Company, Ltd., New York (import and export).
18. Fuso Marine and Fire Insurance Co., Ltd., New York.
19. Yamahe and Company, Ltd., Seattle (import and export).

(All of the above have been incorporated in Japan, but are doing business in the United States. The 1939 tax returns in many of the above cases show alleged losses.)

20. Among the large accounts being monitored by FBI is Showa Tsusho Kaisha, which in New York City shows balances in excess of \$500,000.

In addition there are Japanese banks in Hawaii (two or three) and the Philippines which are apparently viewed with suspicion by FBI.

B. German. German controlled corporations which are more or less subject to suspicion include the following:

1. German Dye Trust. This consists of a group of corporations, including General Aniline and Film Corporation and subsidiaries some of which are as follows:

Agfa Ansoo.

Agfa Raw Film Corporation.

Osald Corporation.

Winthrop Chemical Company (50 per cent).

American Magnesium Corporation (50 per cent).

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This group was described as far back as the last war (Alien Property Custodian report, 1919) as follows:

"The relation between the German Government and the great German chemical houses was so close that representatives of the industry were naturally almost direct representatives of the government and their work in this country gave them unequalled opportunities for examining our industries from within * * *. After the war began the industry became a center not only of espionage but of propaganda and of direct governmental activity. The number of striking instances of this development is so great that only a few can be detailed, but these appear sufficiently striking * * *."

The FBI is watching the Dye Trust activities, especially since two persons posing as aspirin salesmen in its employ were found actually to be engaged in subversive or at least dubious activities in the Western Hemisphere, including the carriage of secret codes (the Hoehne and Wolff cases).

2. Chemical Marketing Company and German Gold and Silver Refining Institute (Dr. Kartess and associates) are undoubtedly engaged in activities close to espionage according to the Dies Committee report.

3. Ufa Film. This is a propaganda agency and is being used in connection with the Agfa Ansco for taking pictures of military objectives in the Western Hemisphere in the guise of producing "educational films" for consumption in Germany.

4. German Shipping and Tourist Agencies (HAFAG, North German Lloyd, German Railroads Information).

5. German Money Forwarding Agencies (Robert Hants and Company, New York and Chicago; Hans Utach and Company, New York; Carl Marks and Company, New York; etc.)

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6. Durez Plastics and Chemical Company, North Tonawanda, New York.

FBI is interested in this company.

7. Pilot Reinsurance Company, 70 Pine Street, New York. Forty-six per cent of the stock is owned by non-resident German aliens worth \$1,240,000.

8. Allgemeine Elektrizitäts Gesellschaft, Berlin.

9. Italy. Italian banks represent the chief subject of interest with regard to Italy. They are controlled by the Italian Exchange Institute and their transactions as reported to us have been multifarious and mysterious. They include the following:

1. Banca Commerciale Italiana, New York agency (a foreign corporation)

2. Credito Italiano, New York agency.

3. The subsidiaries of the Italian Exchange Institute, such as the Banco di Napoli Trust Company, New York and Chicago, and the Banca Commerciale Italiana branches. The FBI has been observing these banks. The resident alien president of the Banco di Napoli, Chicago, was recently discharged by the Italian Exchange Institute for not being sufficiently pro-Fascist.

4. The General Insurance Company, Ltd., Trieste. This company is being watched by British Intelligence and is engaged in mysterious financial transactions in the United States through an individual named Herak, residing in the Hotel Pennsylvania, New York.

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5. De Mobile Cigar Company, Brooklyn, New York, is Italian controlled; paid dividends to non-resident Italians in 1939 of about \$86,000 with a stock value of \$1,546,000.

D. Switzerland. The largest amount of payments to non-resident aliens in non-frozen Continental Europe today is in Swiss names. It is believed that the largest portion of this is German (for example, I. G. Farben).

The Elektrolux Corporation is a suspect company. Thirty-seven per cent of the total outstanding stock is represented by dividends to non-resident aliens with Swiss addresses. The FBI has been watching the Swede, Axel Warner Gren (owner of the yacht SOUTHERN CROSS), of this corporation very closely. The company has 331 branch offices manufacturing and selling vacuum sweepers etc.

Other Swiss companies that might bear examination are Hoffman-La Roche, Inc., of Nutley, New Jersey, paying dividends to Swiss names showing a stock value of over \$5,000,000; Sandoz Chemical Works, New York City, paying dividends to a company in Basle, Switzerland, showing stock worth about \$1,500,000; Spar Distributing Company of Nashville, Tennessee, paying dividends to one Adolph Gemag, Zurich, with stock valued at \$1,314,000; etc.

There are undoubtedly types of reprehensible activity not made criminal by any statute and which a regime of foreign exchange control would probably not affect in any direct way. For example, the employment by the Glenn Martin plant of substantial numbers of persons suspected of being Nazi sympathizers; against this FBI has apparently been unable to do anything today and in the absence of action by the plant itself nothing further of a remedial nature can apparently be expected. A twilight zone exists with regard to American enterprises and funds used for pro-Axis purposes--an example, perhaps, is the alleged fortune of Whitehead, deceased operator of the Coca Cola bottling business.

The following are some transactions which have already taken place over which the Treasury would have a measure of control in the event of the institution of a foreign exchange control regime.

1. Use of American dollar balances (frequently in currency) in transactions involving alleged repatriation of German securities held in this country. It has been estimated by Mr. White's division that during the month of October and the first two weeks of November \$15,000,000 in cash alone was spent repurchasing \$75,000,000 par value of German bonds as a minimum estimate, amounting to about 60 per cent of all German dollar bonds held in the United States. Under a regime of foreign exchange control we would know more about the precise purpose of such transactions (the British have intercepted evidence that this has to do with German preparation for an appeasement program in the United States and the continuance of the fraudulent bankruptcy program involving a cheap depletion of United States bargaining power by way of off-sets). It also appears from FBI reports that German refugees

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in this country are being used in some of these transactions (for example, Jakob Goldschmidt, A.E.B. Corporation) and that in this connection these transactions are being used to cover up the salting away of funds for other purposes, possibly subversive (for example, FBI's discovery of Margaret Goyl, a stooge for Hermann Kellmar, and the Transfer Trust Limited's activities in Mexico City).

2. The Rueckwanderer mark system involves the probable spoiling of the life savings of large numbers of gullible Germans in this country for various ends (the Chase National Bank alone from July through October handled \$1,160,000 of this kind). Today nothing is being done to stop this (although we have turned the matter over to the FBI) but under a system of foreign exchange control this fraud upon residents of this country could be promptly stopped. Related to this is the food package racket also indulged in by the Russians.

3. Axis powers are receiving royalties on American patents and copyrights in substantial sums but are refusing to make any payments except in blocked accounts to Americans in similar circumstances. Under the proposed regime this might promptly become a matter for negotiation.

4. Tremendous amounts of currency are being shuttled between this and other countries for activities largely subversive. The amount of money carried by Italian couriers to South America is, as any realist knows, sufficient to purchase the allegiance of persons of the highest importance in these countries, and the American dollar is undoubtedly being used as the currency of payment for activities against our interests throughout the world. The pre-

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posed regime could prevent cash from being paid out of bank accounts to such diplomats and could be used for diplomatic demarches to prevent importation or exportation abuses.

5. Payment and receipt of remittances from Soviet sources, undoubtedly for Communist purposes, are now entirely lawful and have taken place in substantial amounts. The proposed regime would prevent this.

6. Payments by consulates, embassies, corporations, and individuals falling under the inhibitions of foreign exchange control could be scrutinized. Today the Chemical Marketing Company and other organizations of the kind referred to in the Dies Committee "White Paper" would be subjected to close scrutiny.

7. Transfers of credits amounting to flight of Axis credits to Latin America to be used undoubtedly, however, within the United States by gradual repatriation in currency or disguised credit transactions are now taking place. The Italians, for instance, are reported to have in this manner built up a balance in Rio of no less than \$10,000,000. The Japanese and Germans are doing the same. The purpose of these activities is to place beyond our control all these funds. In view, however, of the fact that dollar creation sources remain in the United States a regime of foreign exchange control, such as is proposed, would prevent a continuance of this practice; and it might even enable us to control the repatriation, however disguised.

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EXCHANGE CONTROL

Summary

December 12, 1940

Mr. White

Mr. Coo

Subject: Treatment of American property interests by Germany, Japan, Canada and Italy

A. GERMANY

1. American owners of brush plants in Germany have not been permitted to control the management or personnel of these plants.
2. American owners of direct investments in Germany have not been permitted to collect dividends on their direct investments.
3. American owners of bonded investment have not been permitted to receive the full interest and amortization on these investments, more than half of which have been in complete default. Probably more than \$700 million of clear loss has been taken by American bondholders.
4. American long-term investors have been discriminated against in favor of investors from countries politically related to Germany or from countries which had sufficient control over international transactions to be able to retaliate.
5. American private citizens who were awarded over \$600 million by the Mixed Claims Commission have not been permitted to collect on these claims from Germany.
6. American owners of short-term claims on Germany have been permitted to withdraw them only over a 10-year period and have suffered considerable losses on these claims.

Our total claims on Germany, short-term and long-term, excluding war debts, are about \$390 million.

The total claims of Germany on the United States are less than \$100 million.

(Both of these totals exclude the areas now occupied by Germany.)

B. JAPAN

1. The Japanese in the exercise of their foreign exchange control and collateral regulations have caused considerable damage to American interests in the Far East.
 - (a) In Japan
 - (1) American assets have been frozen. At the discretion of the Japanese Government, in most cases American businessmen have been allowed to withdraw their earnings.

- (2) The Japanese Government, through its foreign trade controls, has eliminated all imports of American commodities except those vitally necessary to their war effort.
- (3) American enterprises in Japan are discriminated against and pressure is brought to curtail their activities.

(b) In Manchuria

- (1) The Japanese system of foreign exchange control and state monopolies has practically eliminated American enterprise from the field.
- (2) The foreign exchange control is administered to discourage imports from the United States and other non-Japanese controlled countries.

(c) In North China

- (1) As the Japanese tighten their hold upon North China similar regulations directed against Americans have become increasingly severe.

2. American investments in Japan have a nominal value of a quarter of a billion dollars. Since these are frozen their actual value is doubtful. While smaller, the Japanese investment of \$150 million in the United States is crucially important to Japan as it represents about half of Japan's foreign exchange reserves.

(There is appended a longer discussion of the injurious effects of the Japanese exchange control.)

G. Italy

Italian exchange control has been more lenient on American industrialists and investors than that of Germany.

1. The Italians have serviced the greater part of their U.S. dollar bonds.
2. Short-term assets have been withdrawable with little difficulty. However, the total of these assets has been small.
3. Regular remittances of dividends and profits to the United States has been profitable since 1935, but there have been a number of special exemptions.

(Total American holdings in Italy are under \$140 million. Italian holdings in this country are \$90 million.)

D. Canada

Canadian exchange control is much less harsh with respect to the United States than the controls of the Axis powers. But the following restrictions may be noticed:

1. Balances held prior to the war cannot be withdrawn by Americans at the official rate.
2. Withdrawal of profits required 30 days' notice before a permit is issued.
3. Imports from the United States in excess of \$25 require a permit. Certain categories of goods are prohibited and others restricted.
4. Proceeds from the sale of securities held prior to the war may not be withdrawn at the official rate.
5. Insurance companies must declare their holdings of foreign exchange.
6. American companies must make a monthly report of operations and submit to periodic examinations.

In this connection, it is only fair to list the activities which can be engaged in by American property owners in Canada and which would not be permitted under the Axis type of exchange control. Americans can withdraw interest and dividends on Canadian investments. Branch plants can conduct business freely with parent company in the United States. American investors can withdraw new funds in foreign exchange. American residents in Canada can hold and dispose of foreign currency and securities. Returning Americans may withdraw foreign exchange which they brought in, and goods up to \$100. Americans may sell foreign or domestic securities to the United States. American balances may be used freely within Canada. Commitments by insurance companies to pay in foreign exchange are being honored as respects Americans. United States life insurance companies are permitted to do business as usual.

(There is appended a longer report on the organization of the Canadian exchange control system.)

Germany

Division of Monetary
Research

December 11, 1948

To Mr. White

From Mr. Bass

Subject: German Exchange Control and American Interests.

SUMMARY

1. The Germans have for many years exercised an exchange control vis-a-vis the United States which has cost this country and its nationals hundreds of millions of dollars. They are now using this control to damage this nation not only in its external relations but also in its internal affairs. Hitherto, the major damage has been effected through German control exercised over American-owned assets in Germany and other areas: more recently the use of the foreign exchange control over German-owned dollar assets in the United States has been the source of injury. Specifically the effects of the German Exchange Control as it has been exercised with respect to the United States are as follows:

2. The greatest losses inflicted on American property interests by Germany have been borne by those Americans who, during the 1920's, invested liberally in the reconstruction of German industry, both through the purchase of long-term German dollar bonds and through the establishment of modern branch plants in Germany.

3. Under the Nazi Regime, United States holdings of German dollar bonds have been reduced from a face value of approximately \$1,100 million to a face value of approximately \$75 million. Considerably more than half of this reduction, probably over \$700 million, represents a clear loss by the American bondholders.

4. When the National Socialists came into power in Germany, American branch plants in that country had an estimated value of over \$260 million. There has been very little repatriation of this investment, but it has gradually become almost valueless for practical purposes. Since the middle of 1933, transfer of dividends has been permitted only intermittently and only to a few favored concerns. The American parent company, in most cases, receives no dividends, has no control over management and personnel, and is not permitted to receive information concerning the details of operations. Ownership has been reduced to the blindest legal fiction.

5. At the end of 1930, Americans held about \$925 million of short-term claims on Germany. Today the value of our outstanding short-term claims is less than \$50 million. This reduction was not achieved without considerable losses to the American creditors, though the short-term creditors fared much better than the owners of German dollar bonds or the owners of direct investments in Germany.

6. About \$1,275 million is the German Government's indebtedness to the Government of the United States. Over \$600 million of this represents awards of the Mixed Claims Commission to American private citizens. These totals are exclusive of the debts to the United States Government of other countries which Germany has occupied and annexed to the Reich.

7. The National Socialist Government has discriminated against American long-term investors ever since 1933. Several other countries, who either had close political ties with Germany or were in a position to retaliate by taking over German assets or by eliminating an excess of imports from Germany, were able to get specially favorable settlements. The United States was unable to secure equal treatment for American creditors. None of the former American loans has been serviced in full and more than half have been in complete default. Yet virtually all Dutch and Swiss loans, and the English Dawes and Young Loans, were serviced in full up to the outbreak of war.

8. Since 1933, when the Nazi Government defaulted on transfers of bond interest and amortization, ostensibly because dollars were scarce, Germany has repurchased approximately a billion dollars face value of United States-held German dollar bonds, at a cost of between \$300 and \$250 million. Dollars, of which there was a scarcity when it was a question of meeting legitimate obligations, apparently became plentiful when there was an opportunity to repurchase these same obligations at the low prices which were the direct result of German Government policy.

9. Since September, 1940, the Nazi Government, with avowed political ends, has accelerated the repatriation program by repurchases of a face amount of approximately 675 million of United States-held German dollar bonds. The purpose of these repurchases, as avowed by German agents, is to strengthen the position of Germany at the Peace Conference by enabling her to make a show gesture of agreeing to service all her international obligations in full. German control over United States property, in all the areas today under her jurisdiction, is also regarded as an instrument of an eventual all-around settlement with the United States. The withdrawal of all German liquid assets from this country, or their encasement in the accounts of other countries, serves the same purpose.

10. In recent months, German officials in the United States have carried on a large part of their financial transactions in cash, presumably to prevent the detection of improper disbursements or to build up secret reserves in case German balances are blocked. In this way, the unrestricted freedom which we afford to the use of German dollar balances enables the German Government to finance activities directed against our national interests, without serious danger of detection.

11. The Germans are in a position to utilize every loophole and every licensed area in our own foreign funds control insofar as our foreign funds control can be persuaded to release French or other funds to Latin America, to Switzerland, to Sweden and other countries. The Germans are given the opportunity through intermediaries in the case of Latin America and through consular and political evasion in the case of countries adjacent to Germany to acquire the dollars which we free.

12. German-controlled direct investments in the United States constitute a formidable source of direct influence by the German Government over certain American industries. In addition, the widespread influence of German-controlled

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capital, and certain German individuals, in some domestically controlled industries makes possible the exertion of German influence in quarters not superficially apparent. Germany also controls many industrial processes in the United States, some of which are vital to National Defense, through patent holdings and licenses.

13. German investments and the activities of German nationals in the United States are strictly controlled by the Nazi Government. As long as the United States Government fails to establish its own system of control over German assets, it permits the Nazi Government a free hand here. The alternatives are not freedom versus control but German control versus American control.

German foreign exchange control.

Foreign exchange control was first adopted in Germany on July 16, 1931, as a result of the severe financial crisis of that year. From that date on, the economic life of Germany and the position of the foreign creditor has been subject to increasingly rigorous government control. Long before the outbreak of war, the German Government had assumed complete control over international transactions of all kinds: without the permission of the proper authorities, no transfers abroad of payments for imports, for foreign debt service, for profits, rents, or royalties, or capital withdrawal might be made. The regulations governing such permission were complex, the use which might be made of any Reichsmarks belonging to, or accruing to, foreigners being dependent upon the specific origin of these Reichsmark balances.

Permission to transfer Reichsmark funds or claims into foreign currency is granted or withheld according to the economic, political and strategic policies of the German Government. For example, substantial sums of foreign exchange have been paid to certain countries with whom Germany either was in a poor bargaining position, or found it desirable to maintain very good relations. In the case of the United States, almost the only transfers permitted were payments for current importations into Germany from the United States, and even here a large proportion of our total exports to Germany could only be made by accepting various forms of blocked balances.

German restrictions on international capital transactions.

The system of regulations which the German Government set up to control capital movements was rapidly expanded after 1933 to cover every conceivable transaction and plug every leak whereby capital might escape the country. The German authorities are armed with unlimited authority and the regulations have been adapted with great vigor to take account of new developments in Germany's economic position. Additions, subtractions, and exceptions to the rules are frequent, and a complete description of the regime at any time would be out of date before it could be compiled. The following description is intended only to illustrate the scope and method of the German regulations; any specific rules or examples mentioned may have been superseded.

After June 1933, the German Government required that interest, dividends, capital payments, and rents resulting from foreign investments in Germany must be paid in Reichsmarks into the Conversion Office for German Foreign Debt to the credit of the foreign creditor. Standstill agreement debts and income from capital acquired after 1931 with free foreign exchange were exempted from this requirement. The Conversion Office issued to foreign creditors non-interest bearing Reichsmark certificates or interest-bearing bonds in the currency of the original claim. Alternatively, the amounts paid into the Conversion Office could be transferred to blocked accounts in the foreign exchange banks, where they could be drawn on for certain limited purposes. Capital repayments could be made only into special blocked accounts which could be expended for certain specified limited purposes.

As a result of the severe restrictions on transfer payments, a large number of blocked mark accounts were opened in the German banks authorized to accept such accounts. German debtors in such cases were permitted to discharge their obligations to foreigners by payments into these accounts, many of which are still held, while others have been used chiefly for investment in certain securities and real estate in Germany or for payment for German exports. Blocked marks could also be sold to other foreigners, but the use of such acquired marks were even more restricted than the use of the original accounts, and consequently they could be sold only at a heavy discount.

In addition to the rigorous regulation of financial transactions, the German Government also has imposed direct restrictions since the outbreak of war on the export of commodities from Germany. These restrictions are a further obstacle to the liquidation of American assets in Germany.

Discrimination against U.S. holders of German dollar bonds.

Since 1933 the National Socialist Government has discriminated against American long-term creditors. Up until June of that year Germany had not in full the interest and amortization charges on her foreign bonds. But on July 1, 1933, Germany promulgated a law relieving German debtors of the obligations to pay in foreign currencies and requiring them to pay their foreign obligations in Reichsmarks into the conversion office. Since that time, none of the former German dollar bondholders have been fully serviced in this country and more than half have been in complete default.

Yet the Dutch and Swiss creditors were able to collect virtually the whole of the interest due them; they were able to reach such an agreement because of Germany's favorable balance of trade with Holland and Switzerland. This was clearly a discrimination against the American creditors. And in 1934 the British Government was able to obtain full service on British holdings of the Danne and Young Loans; they were able to reach such an agreement by means of a law empowering the British Government to take retaliatory action against German trade. The United States, however, had a strong favorable balance of trade with Germany and consequently was not able to bring effective pressure on the German Government with respect to these loans. The Germans have been servicing about 75 percent of the payments due on the American holdings of these loans. This procedure also clearly discriminated against the American creditors.

Furthermore, although the Reich Government defaulted on transfers of bond interest and amortization, ostensibly because dollars were scarce, Germany has repurchased approximately one billion dollars face value of Reichsbank-held German dollar bonds at a cost of between \$300 and \$450 million.

This repatriation of German dollar bonds was stimulated by special measures undertaken by the German Government. After 1933 default by German debtors and official restrictions on service transfers abroad caused the price of German bonds held abroad to fall severely. On the German market prices remained relatively high. The German Government took advantage of this differential to institute a system of "supplementary exports". By this method German exporters could buy dollar bonds with part of the proceeds of their exports, and then could register them for sale at the higher prices prevailing in Germany. Thus, dollars, which were scarce when it was a question of meeting legitimate obligations, were plentiful when it was a question of making American bondholders indirectly pay for German exports.

Since 1940, however, ^{the} Nazi Government has accelerated the repatriation program for avowed political ends. It has repurchased a face amount of approximately \$75 million of United States-held German dollar bonds at a cost of about \$20 million. Two German agents alone, acting privately for the German Government have received \$15 million since October 10 for the express purpose of making these repurchases. The purpose of these repurchases, as avowed by these German agents, is to strengthen the position of Germany at the Peace Conference by enabling her to make a gesture of agreeing to service all other international obligations in full. Here again dollars which were scarce when it was a question of meeting legitimate obligations became plentiful when it was a question of realizing German political ends.

Injury to American-owned direct investments in Germany.

The value of American direct investments in Germany has been estimated by the Department of Commerce at about \$264 million as of the end of 1933. At present the book value of these investments is about \$225 million. However, this figure of \$225 million is doubly fictitious. On the one hand, these investments are at the moment practically valueless to their nominal American owners because they yield no transferable interest or dividends. On the other hand, the book value of American direct investments under German control has now been more than doubled by the extension of German control over the larger part of Continental Europe.

Already American capital and managing personnel are being eliminated from enterprises in all the occupied areas—from France to Rumania.

Recent experience in Rumania still comes fresh to the mind. In that country, as soon as the Germans acquired complete economic control, with the advent of General Antonescu to power, American-owned subsidiaries began to pass into German hands. For instance, the director-general of the American-owned Societa Anonima Romana de Telefoane, a \$50 million subsidiary of the International Telephone and Telegraph Company, was persuaded to agree to a demand of the Iron Guard for a reorganization of the Telefoane's directorship. The Iron Guard thereupon named a special commissar to supervise the telephone

company's activities. On October 11, 1940, the commissary took over control of the company, and it was announced that Evon Guard undertakings would be selected to take over all the most important executive posts. Also, on December 4, 1940, a decree announced the expropriation of all the crude oil and gasoline lines, together with pumping stations and tank farms, of the Russia-Americans, a company owned by the Standard Oil Company of New Jersey. Payment for the expropriated property will be made in bonds to be amortized in 25 years and carrying interest at 3 percent. Similarly the International Business Machines subsidiary in Russia was confiscated with the alternative either to accept a commissary or to replace American managers by Germans, and to relinquish part of their share-holdings to German interests.

Short-term investments and the Standstill agreements.

During the late 1930's American short-term capital flowed in large volume to Europe, principally to Germany. In 1930, American short-term claims on Germany totalled about \$925 million.

The severe financial crisis of the summer of 1931 convinced Germany's foreign commercial creditors that any attempt at general liquidation of their commercial credits to Germany would lead to a collapse of German industry. A Standstill Agreement was reached between a committee of the foreign bankers and a committee representing the Reichsbank and the German bankers. The foreign bankers agreed to maintain the existing volume of short-term credits which had already been extended to German firms. In return the German banks provided certain guarantees of the regular payment of interest and agreed to certain provisions which permitted the gradual reduction of the outstanding credits. The agreement has been renewed each year since 1931.

About \$486 million of American bank loans were covered by the first Standstill Agreement. Its estimates are at hand for the volume at last time of short-term credits not covered by the agreement, but they probably were several hundred millions.

The amount (in marks) due the American bankers under the agreement has been steadily reduced since 1931. This reduction has been the result of three factors:

1. Cancellation of unused credits loans.
2. Repayments through the sale of Travel marks.
3. Devolution of the dollar.

By March 1939 the amount outstanding was only \$65 million. In September 1939 the agreement was extended, but on December 9, 1939, some of the American banks received a new agreement covering about \$46 million of credits. For the next three years, credits not covered by the Standstill Agreement have been a small and shrinking fraction of all American short-term credits to Germany. At the end of 1938, the agreement covered \$71 million out of a total of about \$90 million. Our latest Treasury figures show a total of only about \$45 million in U.S. short-term claims on Germany.

Intergovernmental debts.

The amounts owed the United States Government by the German Government represent the cost of the American Army of Occupation and the awards of the Mixed Claims Commission. On June 30, 1940, the total value of these debts, including principle and accumulated interest, was \$1,264 million.

The last payments, of about \$1,250 thousand, on these debts were received in 1934. This brought the total paid to about \$34 million. Since 1934 Germany has been in complete default.

To these debts of the German Government must now be added the debts owed to the Government of the United States by the countries which Germany has occupied.

Use of German Dollar Resources for Improper Activities in the United States

A common technique currently being used by Germany to finance improper activities in the United States is the accumulation of large cash balances which can be disbursed for various subversive purposes without leaving traces behind.

According to reports from the Federal Bureau of Investigation, bills traced recently by serial numbers from the account of the German consulate in New York City are known to have been received by firms and organizations suspected of being engaged in propaganda activities.

That this device of using cash accounts for undercover purposes is commonly being resorted to is attested by the following examples:

- (1) On December 4, 1940, the German Embassy withdrew \$200,000 in cash from its account. All of this was in bills of \$1,000 denomination or smaller.
- (2) In the last few months, the German Consulate General in New York secured over \$1,000,000 in cash. On October 14, it withdrew \$400,000 in cash; on November 19, \$30,000; on November 25, \$20,000; on December 2, \$650,000.
- (3) Fritz Wiedemann, when he assumed the Consulate Generalship in San Francisco, opened an account with a local bank by depositing, reportedly, \$5 million.

Between October 2, 1940, and the middle of November, it has been estimated that German bank funds in this country have dropped from approximately \$13,200,000 to \$7,700,000. The freedom of action which these transactions represent is hardly reciprocated by Germany so far as American funds in Nazi-held territory are concerned.

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German attempts to circumvent our foreign funds control.

The Germans have set up various devices whereby they attempt to circumvent the foreign funds control which we have established with regard to the occupied countries. In recent months, they have affected important trade and remittance transactions, in which nationals of the countries subject to licensing have an interest, through intermediaries in Latin America, Siberia, Switzerland, Portugal and Spain. For example, the Zurich branch of an Alsatian bank has cabled a New York bank stating that they can effect payments even of considerable amounts against dollars in New York, both in unoccupied and in the occupied French territory. This ties up with the announcement of the German Consul-General in San Francisco that remittances could be made to France and other countries whose funds have been blocked by transfers through this New York bank. Again, a New York firm has been cooperating with a French firm in the occupied zone in evading our foreign funds control by facilitating payments for perfumes in Mexico and Switzerland.

In another case, an axis controlled bank in the Argentine advertises that it has established a regular payments service for France. Although there is nothing irregular in transfers from this bank to France, yet the purpose of these transfers is clear. One can effectively evade the controls by remitting funds to agents in the Argentine who, in their turn, remit these funds to France.

German influence in American industry.

The direct investments of Germany in the United States, plus the direct investments in the United States of those countries over which Germany has control, make Nazi influence in some United States industries of considerable importance. The General Aniline and Film Corporation of New York is a good example of a German-controlled firm which has an important place in one of the large industries of this country, viz., the chemical industry.

The extent of German influence on industries in this country is greater, however, than indicated merely by the amount of German-controlled direct investments here. For example, General Aniline and Film Corporation (which is indirectly owned by I. G. Farben, the German dye trust) has considerable investments in Standard Oil of New Jersey, in Sterling Products, Inc., and in E. I. du Pont de Nemours and Co. Furthermore, many of the officers and directors of General Aniline and Film are officers and directors of large domestically-controlled corporations. Adual Ford, e.g., holds the position of director in General Aniline and Film as well as the position of officer and director in several other well-known domestic firms. The presence of such interlocking directorates can hardly fail to enhance the magnitude of German influence in American industries.

In still another way, the presence of Nazi control in United States industry manifests itself. In 1937, Germany held 37 percent of all foreign held United States patents. Not only is this patent control important, but it is important in some cases with respect to industrial processes vital to national defense, among which cases the following may be mentioned:

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- (1) Patent control of Bausch and Lomb Optical Company has recently kept essential instruments from Army and Navy use;
- (2) Magnesium, an essential metal, is produced in this country partly under patents held by a partially German-owned corporation;
- (3) Tungsten carbide, a material listed by the Army and Navy Munitions Board as "strategic", is produced by General Electric, with Krupp having the right, under contract, to limit the number of new licenses of tungsten carbide patents.

The "freedom" of Nazi assets in this country.

A special circumstance which should be taken account of in the formulation of our policy with respect to regulating or not regulating the use of German funds in this country, is the peculiar relationship which exists between the Nazi Government and its subjects. Unlike the situation in most democratic countries, the control over foreign assets held by German subjects is, in effect, held by the German Government. The idea of free and individual property ownership has been eliminated in Nazidom. The State has assumed full jurisdiction and control over all funds and properties of its subjects, whether the situs of these is at home or abroad. The private, individual ownership of German investments and funds in the United States is convenient to the German Government as a legal fiction, but the reality of the situation is that they are the property of the Reich.

Hence, the absence of American control over the funds of German subjects is tantamount to giving the German Government a free hand in whatever financial control it can obtain over industries in this country. It is impossible unilaterally to maintain "free" rights where a bilateral relationship exists and where the other party exercises control. The institution of control measures by the United States over German funds in this country, therefore, would not destroy a "freedom" which does not exist, but would rather vest in this Government a control now exercised by a foreign government.

Japan

Japanese Exchange Control and American Interests

1. The Japanese in the exercise of their foreign exchange control and collateral regulations have caused great damage to American interests in the Far East.

- a. In China

The Japanese imposed exchange control on May 1, 1933. This brought the remittance of sums from Japan to United States from American investments in Japan under Japanese control with resulting damage to American interests in several instances. As early as November, 1934, for example, it was reported by Mr. Crow that the General Motors Company subsidiary in Japan was not permitted to export funds resulting from the sale of some of its shares.

Since 1937 the Japanese control has become increasingly stringent to the extent that American funds in Japan are now completely frozen. At present, only transactions amounting to less than 100 yen a year (\$23.00) are exempt from the control.

The Japanese Government is now organizing a complete control of all imports and exports. Even under the partial controls in existence before, the Japanese were able arbitrarily to discriminate against American exporters to Japan. The Japanese have eliminated all imports from the United States except those vitally necessary for their war effort.

American enterprises in Japan are being forced out of business. After long years of profitable existence, the American-owned Japan Advertiser has been recently forced to discontinue.

- b. In Manchuria

The Japanese-instituted system of foreign exchange control in Manchuria has discriminated effectively against American business. The ostensible purpose of the exchange control was plainly stated as being "to curtail unnecessary imports from countries other than Japan".

The puppet "Manchukuo" foreign exchange control is linked with the Japanese control and in practice serves only Japanese purposes. Under this regime, all transactions in currencies, other than the yen, including transactions in United States dollars, are subject to rigorous administrative

Prepared by Mr. A. M. Emarek

control. Since all other currencies than the yen are regarded as foreign exchange and the purpose of the control is to restrict the use of foreign exchange, it is obvious that constant discrimination against Americans and in favor of Japanese exists.

Implementing the foreign exchange control are a wide variety of puppet state monopolies dominated by Japanese and excluding Americans from fertile fields of industry. American concerns have been forced to abandon industry after industry to the Japanese. For example, the Manchukuoan petroleum monopoly was organized to become the sole importer into Manchuria of practically all petroleum products. American companies were forced to discontinue their Manchurian business at great loss.

The Kwantung Army enforces discrimination by the Manchukuoan Government against the purchase of American motor trucks in favor of Japanese-assembled products.

The "Manchukuoan" Government's Law of October, 1937 resulted in the withdrawal of practically all American motion picture companies from the Manchurian market.

c. North China

The Japanese puppet government in North China has similarly promulgated a foreign exchange control which is increasingly injurious to American business. The puppet Federal Reserve Bank of North China has been placed in charge of all foreign exchange transactions. Since the value of the North China yuan is officially fixed on a parity with the yen, while its actual foreign exchange value in terms of other currencies is much lower, a premium is placed on imports from Japan as against the United States.

The Japanese are instituting a system of trade monopolies in North China which already has caused considerable damage to American interests in this area.

The Japanese military and naval authorities in North China engage in practices which discriminate against Americans. Large-scale smuggling by Japanese is permitted. Through various ~~other~~ practices commodities imported from Japan are allowed to enter the occupied Chinese ports without the payment of customs or port fees.

2. Under present circumstances American assets under the control of Japan have whatever value the Japanese wish to set upon them. Americans having investments in Japan have no protection against the arbitrary actions of the Japanese Government. Proceeding of Japanese assets in the United States is essential to provide the necessary protection due to American property.

Americans have a quarter of a billion dollars invested in Japan of which over one-third is represented in short-term funds which have been frozen by the Japanese. On the other side of the ledger, the Japanese have about \$100 million in short-term funds and about \$90 million in direct investments in the United States.

From the viewpoint of relative importance, however, the Japanese funds in this country represent almost half of Japan's known foreign exchange reserves whereas, American funds in Japan represent only a negligible portion of our foreign exchange reserves.

3. For effective defense, control of Japanese resources in the United States is necessary.

a. Exchange control is the most flexible and powerful method of controlling international economic transactions. At the present time, the outstanding fact about the economic relations between Japan and the United States is that the Japanese are supplying their war economy with materials and machines from the U. S. Their war economy, with exchange control as a component part, has already caused serious damage to the economic interests of the U. S. In the Far East. Exchange control would enable the U. S. to place into operation any desired curb on the supply of materials across the Pacific. This curb might be merely a gradual slowing down. It might be drastic on some articles and less on others. Whatever the policy was, it could be easily enforced. The exchange control could be used as a supplement to diplomatic negotiations and bargaining.

Not only because Japanese policy has already caused great damage to the United States, but also because the dominant orientation of Japanese foreign policy seems to be against the United States, we should not of elementary self-interest also strive to prevent the strengthening and enlargement of Japanese war interests.

b. It is essential to have the dollar resources available to Japan. In this party, because of mis-statements by Japanese banks in New York, it has appeared that Japan was likely to exhaust her foreign exchange reserves. This false statement has encouraged the viewpoint that no action by the United States was necessary since Japan would eventually be forced to curtail her war effort due to lack of foreign exchange.

- a. Ambassador Gray has recommended that Japanese funds in the United States be blocked to assist him in covering the legislation of frozen American funds in Japan. This he regards as particularly urgent at the present time as he has caught signs that indicate the Japanese will soon withdraw all available funds out of the United States.
4. It is essential for national security that control be maintained over Japanese expenditures in the United States.

- a. The Japanese officials in the United States maintain a close supervision over all of their nationals in the United States, the recent registration of all Japanese residents with the Japanese consuls being a good instance. The Japanese foreign exchange control has required registration of all Japanese foreign assets and these are, therefore, also at the disposal of the Japanese state. It is obvious that all Japanese assets, persons and nationals in the United States must operate for Japanese state ends. The existence of such a foreign control reaching across American borders and encircling the influence on people and economic residents in the United States is a direct threat to the security of the American nation. In self-defense it is vitally necessary that such foreign control be neutralized by the imposition of an American control precluding the sovereign rights of the United States over all within our boundaries.

- b. The Japanese are maintaining an extensive espionage network in the United States. For proof, it is merely necessary to recall the two recent cases of the apprehension of two Japanese-paid agents, Identiment-Commander Furumori and the Philippine Scouts officer recently arrested.

The Japanese have recently started a new school for espionage agents to be sent to the Philippines. Incidentally, the United States has many graduates of some of the older Japanese spy schools.

The F.B.I. reported that an agreement for cooperation and interchange of information has already been reached between the German and Japanese espionage organizations in the United States.

The Japanese notoriously attempt to influence public opinion in the United States by paying large sums for medical services to influential people (General O'Day's being a case in point).

While control over Japanese funds would not stop Japanese espionage and attempts at bribery, both of these Japanese practices would undoubtedly be severely crippled.

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5. The Japanese have engaged in secret financial transactions in the United States.

For a period of over two years (July 27, 1938 to September 4, 1940), the New York office of the semi-official Yokohama Specie Bank concealed accounts held for the Bank of Japan, the Japanese Government, and the puppet Federal Reserve Bank of North China. At its highest point on April 10, 1940, the secret account held for Japan amounted to \$111,000,000 while \$3,000,000 was held for puppet North China.

For the last two years, the Yokohama Specie Bank of New York bought and sold American securities and these transactions were not reported.

These facts were discovered by the New York Federal Reserve Bank almost by pure chance. A thorough investigation lasting several months proved necessary to secure the complete story. It is entirely possible that the Japanese have other hidden accounts in the United States which only a complete census of Japanese funds would reveal.

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Canada

December 12, 1940

Mr. White

Miss Kirtler and Mr. Adler

Subject: Canadian Foreign Exchange Control

The Foreign Exchange Control Board for Canada was established on September 15, 1939. The Bank of Canada was appointed technical advisor to the Board and authorized to act as its agent or banker. The Board was given the necessary powers to regulate all foreign exchange transactions between residents of Canada and the outside world and take over the resources of the Exchange Fund created in 1935.

1. Objectives of Foreign Exchange Control

- a. To insure that the foreign exchange accruing from exports will be available to the Board to purchase essential imports and meet other Canadian commitments abroad.
- b. To prevent the flight of capital in order to conserve Canadian foreign exchange resources and to prevent disorganization of security markets.
- c. To stabilize the rates of exchange between the Canadian dollar and the major foreign currencies.
- d. To insure that commercial and financial transactions with the British Empire take place in Empire currencies.

The basic principle underlying the orders and regulations of the Canadian Foreign Exchange Board is that no transactions between Canada and non-residents of Canada involving foreign exchange or financial dealings shall be effected without coming under the supervision of the Foreign Exchange Control Board. All foreign exchange received by residents of Canada is required to be sold to, and all purchases of foreign exchange are required to be made from, an authorized dealer. The emergencies of the Board are directed toward obtaining and conserving as large an amount of United States dollars as possible because the United States is the one country with which Canada has a large debit in its balance of international payments.

2. General Regulations

- a. Residents of Canada may not buy or sell foreign exchange except through the Board or its agents and at uniform rates prescribed by the Board. Permits are required both for exports and for imports. All imports or exports of goods and services must be at a fair price.

- b. Residents may not dispose of foreign assets to non-residents except for payment in foreign exchange, nor transfer Canadian dollars to non-residents except with the Board's permission.
- c. Residents were required to declare their holdings of securities and foreign exchange as of September 15, 1939.
- d. Residents were required to sell all foreign exchange in their possession as of April 30 by June 1 under the Foreign Exchange Acquisition Order of April 30, 1940.
- e. The Board designates to the Authorized Dealers the buying and selling rates for foreign exchange. Since the inception of control, they have been as follows:

U. S. dollars, buying rate	108 premium
U. S. dollars, selling rate	115 premium
Pounds sterling, buying rate	4.43
Pounds sterling, selling rate	4.47

3. Mechanics of Operation

- a. Licensing agency. Every customs office and post office was made a licensing agency. No imports can be cleared and delivered to the importers without a Foreign Exchange Control Board permit. Likewise, no exports can be cleared from Canada without a Foreign Exchange Control permit. Unless exports are made under a general export license or a special export-import license, the permit must be signed by the Collector of Customs and Excise at the Customs Frontier Port of Exit before the cargo is cleared. If the export is made under a general license, the permit must be submitted within six days of clearance. If the export is made under a special export-import license no permit is submitted to the Collector of Customs and Excise, but the operator is required to make a monthly return to the Foreign Exchange Control Board and Board examiners have the authority to examine his books and records in order to verify his reports. The use of the Customs Division and Post Office was a natural and obvious step in any system of control over goods entering or leaving Canada.
- b. Authorized Dealers. Every chartered bank in Canada was made an authorized dealer by the Board; the Bank of Canada serves as a technical adviser. The fact that there are only ten chartered banks and that Canada has a branch banking system, facilitated the establishment of the system of authorized dealers for the collection and payment of foreign exchange.

4. Exemptions from License Requirements

- a. Exports. No export license or permit is required in the following cases.

- (1) For export of goods having a value not exceeding \$25 where payment is received in foreign currencies.
 - (2) For goods passing through Canada "in transit for export" without entry at Customs.
 - (3) Goods taken out by a non-resident tourist, not exceeding \$100 in value per person.
 - (4) Personal effects taken out by travellers.
- b. Imports. No licenses for the import of goods are required in the following cases:
- (1) For the import of goods having the value not exceeding \$25 where payment is made in foreign currency.
 - (2) For goods passing through Canada "in transit for export" without entry at Customs.
 - (3) Goods to a total value not exceeding \$100 imported by any person in any calendar month.
 - (4) Personal effects belonging to and necessary for any person entering Canada.
- c. Insurance
1. No permit is required for any payment in Canadian dollars to, or to the order of, a non-resident by any life insurance company authorized to do business in any part of Canada, where such payment is made by the company in pursuance of an insurance policy, annuity, or other contract of a similar nature. This provision extends to any insurance policy, annuity, or other similar contract entered into prior to September 16, 1939.
 2. No interference is made with the maintenance of payments in foreign exchange by insurance companies when the obligation of the company is to make payment in foreign exchange. Life insurance companies authorized to do business in any part of Canada and in any country outside Canada are authorized to continue the conduct of their business in accordance with their normal procedure.

5. Offences and Penalties

It is an offence under the Foreign Exchange Control Order to make a false statement in any application; to deceive or mislead the Board or an authorized dealer or a Collector of Customs and Excise or any other person concerned in the administration of the provisions of the Order; to fail to comply with the conditions of any license or permit or to violate any provision of the Order or any Regulation of the Board.

Everyone guilty of an offence is liable to a fine up to \$2,000 or to imprisonment up to one year or to both fine and imprisonment, and in addition, if any person, contrary to the provisions of the Order, imports or attempts to import into Canada any goods or other property or buys or attempts to buy any foreign exchange, such goods and foreign exchange are liable to forfeiture.

6. Personnel and Organization

Organization arrangements for foreign exchange control had been carefully worked out in Canada in advance. This enabled exchange control to be established on the morning of September 16 with a minimum of inconvenience and dislocation to business.

As soon as exchange control was established, the Board called together a group of experienced men from banks, financial institutions, chartered accountant firms, investment dealers, trust companies, insurance companies and various government departments. Men with wide professional and industrial experience took charge of the sections of the Board for which they were best qualified.

The Foreign Exchange Control Board consists of the following members:

Chairman, Graham Towers, Governor of the Bank of Canada
Dr. W. G. Clark, Deputy Minister of Finance
H. Fortier, Chief Inspector Post Office Department
H. A. Robertson, First Secretary, Department of External Affairs
H. D. Sully, Commissioner of Customs
L. D. Wilgore, Director of Commercial Intelligence

There are three branch offices, at Vancouver, Toronto and Montreal, employing forty people.

The bulk of Canadian foreign exchange transactions originate in Montreal and Toronto but most of the central work is done in Ottawa.

The Board is composed of the following sections:

- (a) The Canadian Payment Section deals with exports sold for payment in Canadian dollars, issuing special permits for this purpose. Three thousand such permits have been issued. This section employs ten people.

- (b) The Central File Section employs twenty-two people.
- (c) The Commercial Section is concerned with the transactions of companies which operate under special export-import licenses and report on a monthly or periodic basis instead of using forms for each individual transaction. This system is employed for companies having a large volume of transactions and was adopted in order to relieve them of the burden of the routine which would have been necessary if individual forms for each transaction had been required. Up to the end of June 1940 a total of 4,500 such organizations had been granted permits of this kind. The work of this section is divided into five groups as follows:

- (1) Examiners - dealing with foreign currency bank accounts
- (2) Investigation of records of the special permit holders
- (3) Grain trade
- (4) Approvals of interest and dividends paid by such companies, especially as they affect non-residents
- (5) General

The Commercial Section also has supervision over the Montreal and Toronto branches of the Board. The number of persons employed is 108.

The problem of controlling and supervising the foreign trade and foreign exchange activities of the larger corporations and companies engaging in numerous international transactions might at first sight have appeared exceedingly cumbersome, if not untractable. But the device of special licenses and periodic examination by the Commercial Section which was substituted for scrutiny of individual transactions has apparently provided a satisfactory solution of the problem and contributed to the efficient functioning of the exchange control system.

- (d) The Traffic Section maintains liaison with various government departments such as the Post Office Department, the Department of National Revenue, Board of Transport Commissioners, National Harbours Board and the Custodian of Enemy Property. It employs 12 persons.
- (e) The Enforcement Section cooperates with other government agencies in enforcing foreign exchange control for which it has the prime responsibility. It has a staff of 17.

- (f) The Foreign Exchange Section maintains contacts with the authorized dealers and reviews foreign exchange policy. It has a staff of 47.
 - (g) The General Section has a staff of 23 people.
 - (h) The Insurance Section has a staff of 5 persons.
 - (i) The International Section handles problems of public relations. There are 6 people employed.
 - (j) The Industrial Section (Standing Section) examines, watches and dispose of copies of forms. The device of making the translation of Goods Importers' Form provides an excellent means for assuring that the Board will receive the foreign exchange occurring from exports. While the "Application for License to Import" Form is also watched with the "Application for Foreign Exchange" Form, the watching process here is not so important, as the Board retains more foreign exchange if an application for license to import is not followed through with an application for foreign exchange. It also records information supplied by residents on their holdings of foreign exchange and securities. It has a staff of 115.
 - (k) The Mail Section employs 14 people.
 - (l) The Office Circulation Section employs 2 people.
 - (m) The Executive Section supervises all transactions in foreign securities on the part of residents. It employs 11 people.
 - (n) The Secretary Section employs 20 people.
 - (o) The Statistical Section analyzes and classifies the forms involving foreign exchange transactions and representing holders of Canadian dollars to the accounts of non-residents.
 - (p) The Translation Section employs 5 people.
 - (q) The Temporary Section deals with the Foreign Exchange Legislation Order of May 4, 1940. A staff of 24 people is employed.
- All in all the Canadian Foreign Exchange Control Board employs a total of 509 people. The 509 people were presented as follows:
- | | |
|-----------------------------------|-----|
| On loan from Bank of Canada | 20 |
| " " " Civil Service | 6 |
| " " " outside firms | 13 |
| Temporary employees | 460 |

All in all the Canadian Foreign Exchange Control Board employs a total of 509 people. The 509 people were presented as follows:

On loan from Bank of Canada	20
" " " Civil Service	6
" " " outside firms	13
Temporary employees	460

Expenses of the Foreign Exchange Board for a normal year, after eliminating special organisational expenses or items of a non-recurring nature, are expected to total about \$1.1 million. This amount will be accounted for as follows:

(In thousands)

Salaries	\$758
(average salary is about \$1400 per annum)	
Stationery and printing	150
Rentals	53
Telegrams and telephone	52
Traveling expenses	50
Sundries	37

7. The Board and Canadian-American Economic Relations

Canadian international transactions total \$4 billion to \$5 billion per year of which almost half is accounted for by foreign trade. Two countries — the United Kingdom and the United States — dominate the international transaction of Canada. More than half of all Canada's international transactions are conducted with the United States and almost one-third with the United Kingdom. Therefore, the problem of foreign exchange control largely resolves itself into the supervision and control of transactions with these two countries. In the case of England the problem is further simplified through the intimate cooperation of the Canadian Foreign Exchange Control Board with the British Exchange Control and the exchange controls of sterling area countries. As Canada's balance of payments is favorable with England and the sterling area, and unfavorable with the United States, and as sterling is not now freely convertible into U. S. dollars, the main task of the Board is to conserve Canadian holdings of U. S. dollars.

The Board is motivated by two decisive factors:

- a. The desire to lose as small, and to acquire as large, an amount of U. S. dollars as possible.
 - (1) There has been a trend in the direction of tightening up regulations to prevent loss of foreign exchange on service and trade items.
 - (2) (1) Traveling by Canadians in the United States has been drastically restricted and exchange for travel is now granted in limited amounts only for business, educational, official, medical, and scientific purposes.

- (ii) Restrictions on the imports of goods not urgently needed for Canada's war effort have recently been imposed. The import of certain categories of goods from the United States has been entirely prohibited and of others restricted; these restrictions and prohibitions are in addition to the 10 percent tariff on imports.
- (2) Positive encouragement is given to U. S. tourist expenditures in Canada, and to the investment of U. S. dollars in new Canadian enterprises. New capital invested in Canada can be withdrawn at a later date in foreign exchange.
- b. The desire to preserve amicable political and economic relations with the United States.
- (1) A reciprocal agreement between Canada and the United States was reached on June 18, 1940 providing for reciprocal exemption from certain aspects of the exchange control regulations for American residents in Canada and for Canadian residents in the United States. American citizens resident in Canada are exempted from the Foreign Exchange Control Order of September 15, 1939, from the Foreign Exchange Acquisition Order of April 30, 1940, and from any future orders respecting the acquisition and disposition of foreign currency and foreign securities held by such individual Americans. This exemption does not apply to corporations nor to foreign exchange received in connection with exports from or imports into Canada of other than exempted property.
- (2) In the case of transactions between parent and subsidiary companies, a special license only is required and individual transactions are not subject to scrutiny, but there is periodic examination of company books. Most of the companies involved are American companies with affiliates in Canada and Canadian companies with affiliates in the United States. However, the Board does not approve applications for foreign exchange which would reduce the "capital employed" in Canadian subsidiaries.
- (3) While applications for licenses for foreign exchange to pay interest and dividends to non-resident investors must be made thirty days in advance, no obstruction is placed in the way of payment of interest and dividends to American investors. Furthermore, the Board sells foreign exchange for payment of services such as insurance premiums, agents' commissions, salaries, freights, dues, patent rights, traveling expenses, etc. A large part of these payments of foreign exchange on service items goes to the United States.

- (4) Foreign holders of Canadian balances are allowed to use them freely within Canada itself. (This in sharp contrast with the United States Foreign Fund Control.)

The desire to accommodate American interests and to preserve U. S. dollar exchange cannot always be easily reconciled and the difficulties in the way might even increase with the extension of Canada's war effort.

a. Canada

a. The imposition of exchange control in Canada raised many problems.

- (1) Exports constitute from 15 percent to 20 percent of the national income.
- (2) The value of the items on service account in the balance of international payments is relatively high.
- (3) The intimacy of economic relations with the United States both on trade, service, and capital account and the extent of the common land frontiers with the United States make administration and enforcement complex.
- (4) The former triangle of economic relationships between the United States, Canada, and the United Kingdom has been broken. Canada consequently has to make new provisions both to meet its mounting unfavorable balance of international payments with the United States and to utilize its accumulation of sterling balances.
- (5) Canadian exchange control started from scratch as far as trained personnel and administrative precedent and experience in Canada in related sphere were concerned.

b. The Foreign Exchange Control Board has tackled these problems with a reasonable degree of success and without imposing undue strain and restrictions on the functioning of the Canadian economy.

- (1) The mechanism of foreign trade has not been disturbed by the functioning of the exchange control system. The exporter sells his foreign exchange to the Authorized Dealer, who happens to be the bank with which he had always conducted his business.
- (2) Payments of interest and dividends to foreigners can be made on application for a license thirty days in advance.
- (3) Insurance companies are allowed to carry on their foreign operations without disturbance. Life insurance companies are expected to report their net foreign exchange position on a quarterly basis.

- (4) Economic intercourse with the United States was allowed to continue unhampered except for
 - (i) Restrictions on certain categories of non-essential imports.
 - (ii) Prohibition of Canadian pleasure expenditure in the U.S.
- (5) Dealings are freely permitted between Canadian companies and their foreign affiliates.
- (6) The Board is a useful instrument to facilitate the repatriation of British-held Canadian securities. The repatriation of these securities is the means by which Canada's favorable balance with the U. K. is being liquidated. The Board supervised and carried through the orderly repatriation of \$200 million of British-held Canadian securities in the first year of War.
- (7) The imposition and enforcement of exchange control raised no difficult administrative and personnel problems. The preparation for the introduction of the exchange control system were carried through expeditiously and secretly and the system went into effect without unfavorable repercussions on the Canadian economy. Trained and competent personnel was recruited from the Civil Service, banks and industry, so that experienced men were in key positions from the very beginning. The use of existing facilities and institutions contributed to the efficiency of the control system. Simplification and standardization of routine reduced the administrative complexities and the volume of work. The Board has been able to adequately cope with the different tasks and problems arising from a variety of the transactions and of the types of corporations and individuals it had to deal with. The administering exchange control in Canada has been negligible and runs at the rate of about \$1.1 million per annum.

Italy

December 12, 1940

Secretary Morgenthau

W. White

Subject: Italian treatment of American property interests.

American owners of enterprises and investments in Italy have been treated moderately well in comparison with the treatment accorded them in Germany.

1. The Italians have survived by far the greater part of their United States-held dollar bonds.
2. There has been relatively little difficulty in withdrawing short-term American assets in Italy though Americans have never held any considerable short-term funds in that country in recent years for fear of blocking.

3. Regular remittance of dividends from the operations of American branch plants in Italy has not been permitted since 1935. On the other hand the Italian Exchange Control has granted a considerable number of exemptions and special permits.

Total American holdings in Italy are under \$140 million. Short-term American assets in Italy are now only about \$1,300,000. American holdings of Italian dollar bonds are now less than \$70 million; the low quotations on these securities indicate that Americans have been accepting losses in order to repatriate their funds. American direct investments in Italy are less than \$70 million.

Total Italian holdings in this country are about \$90 million. These holdings in the United States include about \$19 million in short-term funds, about \$17 million in security holdings, and about \$54 million in direct investments.

In recent months the Italians have even evidence the Germans in turning their assets in this country into United States Government bonds, cash and accounts held in the names of Latin American countries. Obviously, the Italians desired to conceal the exact nature of the transactions in which they were engaging and feared that their assets in this country would be subjected to licensing control.

OO:rel
12/12/40

Remittance
Data

December 12, 1940

Mr. H. D. White

G. A. Eddy

Subject: Personal Remittances to Germany, Italy and Japan.

Little information is now available on 1940 remittances to the Axis powers.

The Department of Commerce estimate for 1939 were:

Japan \$6 million (\$4 personal, \$2 institutional)
Italy 20 million (of which \$13.5 was through Italo-U.S. banks,
which report once yearly.)
Germany 7.5 - 10 million

Reports on only two sources of remittances are available before the end of the year. A table is attached showing Postal Money Orders to the three countries during the first eleven months of 1940. Nothing specially significant seems to be indicated.

The American Express remittances of marks and lire are also shown in a table attached. Some increase in the rate of sending marks in recent months is explained as due to remittances through New York to Chinese and Japanese students in Berlin, who formerly obtained their funds through Amsterdam.

AttachmentsGAE:lem
12/12/40

Postal Money Orders - 1949

	<u>Quarter</u>	<u>Total</u>	<u>Year</u>
January/March	\$14,272	\$253,940	\$123,900
April/June	5,885	183,736	106,200
July/September	3,604	90,000	99,700
October } November }	1,100 <u>3,000</u>	105,000 <u> </u>	73,600 <u> </u>
	\$27,660	\$432,776	\$403,000

Note: November normally includes a pre-Christmas increase.

Treasury Department,
Division of Monetary Research,
December 12, 1949.

GAE:dln
12/12/49

Postal Money Orders - 1940

	<u>QARREN</u>	<u>Italy</u>	<u>JAPAN</u>
January/March	\$14,272	\$253,940	\$123,900
April/June	5,005	103,736	106,300
July/September	3,604	90,000	99,700
October)	1,100		
November)	<u>3,000</u>	<u>105,000</u>	<u>73,600</u>
	\$27,840	\$432,776	\$403,000

Note: November normally includes a pre-Christmas increase.

Treasury Department,
Division of Monetary Research,
December 12, 1940.

GAE:dln
1 12/40.

American Express Company Remittances
In thousands of dollars

	Jan./July	Aug./Nov.	Total Jan./Nov.
To Germany			
Reg'd., gift, and support marks			
15 - 15.6¢	362	332	694
Travel marks			
16 - 16.6¢	76	137	213
Free marks (money orders) (40¢)	<u>26</u>	<u>51</u>	<u>177</u>
Total to Germany.....	464	520	1,014
To Italy			
Emigrant lire (4.05¢)	822	463	1,285
Internal lire (since Sept. only)			
3.9¢	0	334	334
Free lire 5.07¢	<u>182</u>	<u>26</u>	<u>216</u>
Total to Italy	1,002	613	1,835
To Japan -- no data			

Treasury Department, Division of Monetary Research. Dec. 12, 1940

American Express Company Remittances of Marks and Lire

	<u>Reg. Marks Gift & Support Mks.</u>	<u>Travelmarks</u>	<u>Fixed Marks M.O. only</u>	<u>Emigrant Lire</u>	<u>Internal Lire</u>	<u>Free Lire M.O. only</u>
<u>1940</u>						
Jan.	293,841.	27,400.	24,463.	1,845,717.	- - -	588,117.
Feb.	323,694.	20,272.	17,920.	3,023,399.	- - -	575,397.
Mar.	414,678.	22,579.	26,001.	4,164,513.	- - -	826,469.
Apr.	337,261.	13,353.	26,242.	2,854,760.	- - -	492,027.
May	354,888.	30,427.	13,114.	3,280,487.	- - -	595,292.
June	367,365.	148,495.	13,722.	2,468,528.	- - -	258,206.
July	324,533.	212,402.	18,996.	2,656,858.	- - -	221,839.
Aug.	378,386.	253,056.	28,053.	3,493,781.	- - -	411,716.
Sept.	345,057.	213,724.	14,853.	2,892,598.	1,620,743.	96,138.
Oct.	506,213.	219,494.	44,592.	2,313,685.	3,135,523.	140,176.
Nov.	801,504.	124,298.	39,375.	2,729,059.	3,814,407.	99,890.
Total-	4,447,420.	1,284,494.	267,421.	31,723,345.	8,570,673.	4,264,267.
	¢ .1560	¢ .1660	¢ .4005	¢ .0405	¢ .0390	¢ .0507
Dollar Equiv.	\$697,797.	\$213,226.	\$107,102.	\$1,284,795.	\$334,256.	\$216,198.

Foreign Funds in
the United States

Funds in the United States of Germany,
Italy, Japan, Rumania and Hungary

(In Millions of Dollars)

	Germany	Italy	Japan	Rumania	Hungary	Total of known items	Date
Held on earmark	-	-	-	27.1	-	27.1	12/4/40
Official funds:							
At New York Fed. Res. Bank	.4	-	-	.2	-	.6	12/4/40
At other New York banks	.5	.1	-	?	?	.6	11/27/40
Private funds:							
In New York Fed. Res. Dist.	6.8	18.2	115.8	24.9 ^{1/2}	4.8 ^{1/2}	170.5	11/27/40
In other districts	.3	.6	4.2	?	?	5.1	11/13/40
U.S. State securities	15.	37.	?	?	?	52.	10/31/40
and other investments	84.	34.	?	?	?	118.	12/31/39
Total	107	89.9	120	52.2	4.8	373.9	

1/1 on September 25, 1940. Deposits only.

Treasury Department, Division of Monetary Research

December 12, 1940.



BRITISH AIR COMMISSION

1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 9000

December 12, 1940

PLEASE QUOTE

REFERENCE NO. _____

The Hon. Henry Morgenthau, Jr.

Washington

D. C.

My dear Mr. Morgenthau:

I have just received the following cablegram from
Lord Beaverbrook:

"Please tell Morgenthau I have interviewed
today Group Captain Sorley who is in charge of
Boscombe Down, the experimental station. He
says Curtiss P40 is a straight-forward job.
Flies easily. Allison engine has proved to be
reliable. It's performance is equivalent to
Spitfire which is very fine according to our
views. Speed equal to Spitfire in actual exper-
ience. Altitude comparison shows good results.

"If desired by Morgenthau, immediate facil-
ities will be given for United States Observers
at Boscombe Down to study Curtiss P40 perform-
ance compared with British types."

If there is anything further you would like us to
do in this connection, please let us know.

Yours sincerely,


Morris W. Wilson

MT

December 12, 1940

My dear Cordell:

In view of our conversation, Tuesday at your apartment, I am sending you herewith in strictest confidence copy of a report by Mr. Buckley, of my office, on his recent inspection trip of West Coast airplane manufacturing plants. This report points out the many weaknesses in the present program and the opportunity for increasing production.

If this kind of material interests you, I shall be glad to send you additional reports as they come to my desk.

Yours sincerely,

Honorable Cordell Hull,
Secretary of State.

December 12, 1940

My dear Cordell:

In view of our conversation, Tuesday at your apartment, I am sending you herewith in strictest confidence copy of a report by Mr. Buckley, of my office, on his recent inspection trip of West Coast airplane manufacturing plants. This report points out the many weaknesses in the present program and the opportunity for increasing production.

If this kind of material interests you, I shall be glad to send you additional reports as they come to my desk.

Yours sincerely,

Honorable Cordell Hall,
Secretary of State.

December 12, 1940

My dear Cordell:

In view of our conversation, Tuesday at your apartment, I am sending you herewith in strictest confidence copy of a report by Mr. Buckley, of my office, on his recent inspection trip of West Coast airplane manufacturing plants. This report points out the many weaknesses in the present program and the opportunity for increasing production.

If this kind of material interests you, I shall be glad to send you additional reports as they come to my desk.

Yours sincerely,

Honorable Cordell Hall,
Secretary of State.

THE SECRETARY OF STATE
WASHINGTON

December 12, 1940

Dear Henry:

Thank you very much for your note of December twelfth and the enclosure, which I am very glad to have. I should indeed appreciate receiving any supplementary information along the same line.

Sincerely yours,

A handwritten signature in cursive script, reading "Cordell Hull". The signature is written in dark ink and is centered on the page below the typed name.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, December 12, 1940.
12/11/40

Press Service
No. 22-83

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 3/4 percent Treasury notes of Series B-1945, National Defense Series, closed at the close of business Wednesday, December 11.

Subscriptions addressed to a Federal Reserve Bank, or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight Wednesday, December 11, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and the basis of allotment will probably be made on Saturday, December 14.

o o O o o

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 12, 1940

STRICTLY CONFIDENTIAL

TO Secretary Morgenthau
 FROM Mr. Klaus

FBI reports:

December 3. The usual report regarding Hans Thomsen states, among other things, Thomsen's reiteration that Oumansky on instructions from his superiors keeps Thomsen fully advised with regard to every move Oumansky makes with United States officials; that Thomsen believes Russia will exercise pressure on Bulgaria for Hitler in exchange for an outlet to the Aegean in favor of Bulgaria at the expense of Greece and Turkey; that Weygand is cooperating 100 per cent with the Vichy government and is more anti-British than Petain; that Italy will land sufficient troops in two months in Albania to beat the Greeks; that landslides and not sabotage were the causes of recent railroad damage in Norway; and that Germany had already extended feelers for peace with the cooperation of continental powers, including Russia.

December 5. Memorandum on the activities of Wythe Williams, radio commentator of the Mutual Broadcasting System and editor of the Greenwich "Time," charges him with being guilty of deliberate distortion of facts concerning national defense broadcasts over the Mutual Broadcasting System; it appears that Williams has been called before grand juries to compel him to give evidence concerning his broadcasts after refusal to cooperate with FBI.

December 9. Transmits a copy of a letter from the president of the General Mercury Corporation, Dallas, Texas, who requests Government protection around the Big Bend mercury district of Texas in order to safeguard American mercury mines; he says similar measures were taken in 1914-1918.

State Department reports:

December 7. American Consulate General at Shanghai says the Italian Commercial Attache at Tokyo carried \$800,000 in American currency a few days before from Shanghai to Tokyo; the currency was obtained in Shanghai.

M.

JOHN EDGAR HOOVER
DIRECTOR

Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

120

December 12, 1940

Jew
PERSONAL AND CONFIDENTIAL
BY SPECIAL MESSENGER

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

My dear Mr. Secretary:

As of possible further interest to you, I am transmitting herewith a copy of a memorandum containing information to supplement the data sent with my letter of November 6, 1940 concerning Fritz Mandl, alias Frederick Mandl.

Sincerely yours,

J. E. Hoover

Enclosure

Rec'd Jew 12-16-40 - Sk Mid. - 12/16 - assigned for leg

December 7, 1940

MEMORANDUM

A highly confidential informant has advised Fritz Handl, alias Frederick Handl is alleged to have said that:

1. He was convinced of a Nazi victory and British collapse.
2. He was arranging his affairs accordingly and was now on excellent terms with the Nazis who permitted him to get twelve millions out of Germany.
3. He was using Schlicht's, formerly the Undersecretary in Germany as his "go-between" with the Nazis and was also in close touch with Hattermann in Sao Paulo.
4. He was in contact in New York with Dream "Chairman or Vice-Chairman of Burlington" and with Frank Altschall, who is usually engaged in buying German bonds; that both of these men were of his opinion as to the outcome of the war.
5. He wanted to get a share of the \$500,000,000 loan to South American countries. (Informant stated it was believed at one time if Handl was successful in this he would use it for buying up supplies and plantations for Germany, but, it has since been heard that he has recently returned from Washington very disgruntled after a conversation on this point with the Treasury Department).
6. He was in close touch with Dexter Marshall, the Italian Consul in Baltimore who was previously

- 2 -

**press attacks at the Italian Legation
at Vienna.**

The source of the above information reports that Mandl is now staying at the Waldorf Towers, New York City; that he is either a citizen of Argentina or Paraguay and has a large industrial plant, Cometa, outside of Buenos Aires and is also the owner of large rice plantations and controls the Mihanovich Shipping Line at Buenos Aires.

The Princess Starbunberg is at present living as his guest in that city.

TREASURY DEPARTMENT

123

INTER-OFFICE COMMUNICATION

DATE December 12, 1940.

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: Report on conversation with Mr. Cesar Corders Davila,
Executive Director, Puerto Rico Housing Authority.

In accordance with your instructions, Commander McKay made an appointment for Mr. Davila and Colonel Manuel Font, Commissioner of the Housing, Authority of San Juan, to see me at 3 o'clock this afternoon. Mr. Davila explained that his colleague, Colonel Font, was unable to come with him as he had gone to Baltimore this morning.

Briefly, Mr. Davila's problem is this. The United States Housing Authority "earmarked" \$12 millions for slum clearance in Puerto Rico. Later \$2 millions were deducted from the \$12 millions, the reason being given by the United States Housing Authority that the funds were needed for defense housing in the United States. Mr. Davila said, however, that since the time of the deduction a direct appropriation has been made for defense housing. He is endeavoring, therefore, to have the \$2 millions restored to the funds "earmarked" for slum clearance in Puerto Rico.

Mr. Davila stated that Admiral Leahy said he had shown you the Puerto Rican slums and that you therefore had first-hand information with regard to them and were aware of the needs. It is Mr. Davila's hope that you will call Mr. Straus and put in a word in behalf of having the \$2 millions restored to the Puerto Rican slum clearance fund.

JR

GRAY

Berlin

Dated December 12, 1940

Rec'd 7:15 p.m.

Secretary of State,
Washington.

5018, December 12, 4 p.m.

My 4406, October 22, 2 p.m.

FOR TREASURY FROM WOODS IN THE ABSENCE OF HEATH AND
FOR DEPARTMENT'S INFORMATION.

According to a statement published in WIRTSCHAFT and STATISTIK the Reich's disclosed indebtedness increased during September by 3,179 million marks to a total of 69,721 million marks as compared with an increase of 3,631 million marks in August. However, whereas in August over three fifths of the increase had been in the form of short term indebtedness 2,336 million marks of the total borrowed in September was on long term and only 843 million marks on short term.

The major increases in long term debentures during September were 1,383 million marks in the sixth series of 4% bonds (with 20 year maturity) and 955 million marks 11 loans of which 623 million marks were 4% loans and 332 million

-2- #5018, December 12, 4 p.m., from Berlin.

million marks $4\frac{1}{2}\%$ loans (apparently an old issue since to our knowledge new issues carrying $4\frac{1}{2}\%$ interest were discontinued some months ago). Of the total increase in short term borrowing during September 244 million marks was in Treasury bills and certificates 307 million marks in "other loans" (including the loan of the Reichskreditkassen system to the Reich) and 306 million marks in the Reich's operating credit at the Reichsbank offset in part by a reduction of 14 million marks in tax certificates outstanding.

MORRIS

WWC

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

240 DEC 12 11 11 15

INTERNAL DEPARTMENT
RECEIVED

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 840.51 Frozen
Credits/985

December 12, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of a paraphrase of telegram no. 782 of December 4, 1940 from the American Legation at Bucharest, regarding Turkish and Rumanian negotiations for the exchange of cotton for petroleum products.

Enclosure:

From Bucharest,
December 12, 1940.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bucharest, Rumania.

DATE: December 4, 1940, 4 p.m.

NO. : 782.

Reference is made to Department's telegram no. 374 of Oct. 29, 8 p.m.

Yesterday this Legation was visited by an officer of the National Bank, who showed me a telegram received from the Chase Bank to the effect that the United States Treasury was reconsidering the license in the amount of \$1,410,000 for Turkish cotton, which was issued on Oct. 29. He asked if I knew anything about why this license was being reconsidered. I replied that I knew nothing of this matter; whereupon he requested that I make recommendations to the Treasury that the license be issued. I told him that he should make a representation through the Rumanian Legation in the United States.

Edson has been notified by the Turkish Commercial Attache here that negotiations between his Government and Rumania involving the exchange of cotton for petroleum products have reached a deadlock. He said that Rumania insists that Turkey import petroleum products in the ratio of 4 units of gasoline to one unit of kerosene, and Turkey (which urgently needs kerosene) insists on a ratio of one to one. Evidently Turkey insists that no cotton will be shipped pending the granting of its request.

The

- 2 -

The desire of Rumania to export gasoline is due to the shutting off of markets in the Mediterranean and the oil-buying policy which Germany (which since last June has been the sole buyer of any importance) has pursued in recent months. In spite of the fact that Germany has been buying more Rumanian gasoline than kerosene or diesel oil, her gasoline purchases have been below the ratio of kerosene and diesel oil provided by the Rumanian crude oil. Moreover, Germany does not desire to step up her imports of gasoline enough to equal the refining ratio as she apparently has a greater need for kerosene and diesel oil than for gasoline. This has resulted in a shortage of kerosene and diesel oil, while gasoline storage space has been completely filled up. Therefore, the refineries are confronted with the question as to whether they ought to keep up their refining operations when there is a market for kerosene and diesel oil and storage space for gasoline is already used up. This situation (plus pressure by Germany) has forced Rumania to attempt to make all her Balkan markets take gasoline, in order that the problem of storage may be alleviated.

GUNTHER

EA:MSG
im

COPY

JT

GRAY

BERLIN

Dated December 12, 1940

Rec'd 3:10 p.m.

Secretary of State,

Washington.

5009, December 12, noon.

By decree of the Reich Minister of Finance goods originating in the Netherlands are to be admitted free of customs duties as from December 16, 1940. In Berlin circles it is anticipated that the Staathalter in the occupied Netherlands territory will issue a parallel decree stipulating duty free entry of German goods.

MORRIS

CSB

Copy:emk

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

640 DEC 18 6M V 59

RECEIVED
TECHNICAL ASSISTANT

PLAIN

Stockholm

Dated December 12, 1940

Rec'd 10:30 p.m.

Secretary of State,
Washington.

1099, Twelfth.

Government revenue for fiscal year 1941-1942 estimated by Budget Bureau at 2076 million crowns or slightly higher than current fiscal year. Riksbank December 7 million crowns metallic reserve 663 foreign exchange 808 loans discounts 638 circulation 1375 check clearances November Stockholm 3296 Gothenberg 339. Government price guaranty to forest owners for pulpwood fixed at first class sulphite wood between 30 and 36 ore per floating cubic foot, second class sulphite and first class sulphate wood between 24 and 30 ore, second class sulphate wood between 22 and 28 ore. Price guaranty covers 30 million cubic meters. Press reports Boliden Company copper production 12 thousand tons 1940 and further increase to 16 thousand tons expected with exploitation of state-owned deposits. First recurrence foot and mouth disease since July fifth reported from south Sweden. Industrial production index up one point to 106 for October but current falling off in imports of coal causing considerable anxiety. Negotiations looking to renewal of basic wage agreement for industry for 1941 resumed..

ZH -2- 1099, December 12 from Stockholm.

it is too early to predict outcome but negotiations are proceeding slowly. After lengthy debates Riksdag finally approved sales tax effective January 1, 1941 on nearly all retail sales of 5 per cent estimated to yield nearly 200 million crowns in one year also approved appropriation 15 million crowns for erection shale oil plant expected to yield 15 thousand metric tons of crude oil per annum. Also appropriation nearly 32 million crowns for laying down two light cruisers and undisclosed number of destroyers and submarines. Bankruptcies November numbered 113.

INFORM TREASURY, AGRICULTURE, COMMERCE.

STERLING

NPL

TO THE SECRETARY
ECONOMIC AFFAIRS
OFFICE OF THE

BND DEC 11 6W 5 42

RECEIVED
OFFICE OF THE

Copy:jpt

G-2/2657-220

RESTRICTED

M. I. D., W. D.

December 12, 1940.

No. 268

SITUATION REPORT

12:00 M.

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

I. Western Theater of War.

1. Air Force Operations.

During daylight of the 11th, the Germans made scattered raids on southern England. Last night Birmingham was bombed rather heavily and there were light attacks in southwest England and the London area.

The R.A.F. last night operated normally against ports in occupied territory and against inland docks and railroad yards in western Germany.

II. Greek Theater of War.

Increased Italian resistance has slowed down the Greek advance in the center and north. The Greeks are reported to have pushed ahead on the southern front north of Argirocastro and Porto Edda. Italian air activity appears to have been somewhat more effective.

III. Mediterranean and African Theaters of War.

The capture of Sidi-Barrani on the afternoon of December 11, 1940 is reported by the British. Cairo dispatches officially estimate 20,000 prisoners (probably mostly native) and huge quantities of war materiel. Two Italian divisions, one native and one Blackshirt, appear to be cut off from Graziani's main army. The British have gained air superiority on this front and are exploiting it.

RESTRICTED

G-2/2657-220

RESTRICTEDM. I. D., W. D.
December 12, 1940.
12:00 M.

No. 269

SITUATION REPORT

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

I. Western Theater of War.1. Air Force Operations.

The German Air Force during daylight on the 12th operated normally over southern England. Last night bombing activity was high. Sheffield was subjected to a particularly heavy attack. Smaller raids were made on various other points.

The R.A.F. last night cancelled all operations except a small Coastal Command raid on Brest.

II. Greek Theater of War.

The capture of Porto Palermo on the coast road about twenty miles north of Porto Edda has been announced officially by the Greeks. It is believed that stiffening Italian resistance and bad weather have slowed up the Greek advance, except along the coast. Air activity apparently limited.

III. Mediterranean and African Theaters of War.

In Egypt British forces are now following up the Italian withdrawal toward Sollum.

RESTRICTED

27

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**FEDERAL RESERVE BANK
OF NEW YORK**


December 12, 1940.

Mrs. H. S. Klotz,
Secretary to Hon. Henry Morgenthau, Jr.,
Treasury Department,
Washington, D. C.

Dear Mrs. Klotz:

In accordance with the suggestion made by the Secretary late this afternoon, I am enclosing copy of the notes which we made of our interviews with the market here on Tuesday morning with respect to the new issue of Defense Notes. He told me that you would see that it got to him promptly in the morning, and that it would not be subject to general distribution.

Sincerely yours,


Robert G. Rouse,
Vice President.

Enc.

OFFICE CORRESPONDENCE

DATE TUESDAY, DECEMBER 10, 1940

CONFIDENTIAL FILES

SUBJECT: Recommendations by banks and dealers which were interviewed by us this morning with respect to the maturity and coupon on cash offering this week of \$500 million taxable Defense Notes.

Messrs. G. Rouse and S. A. Miller

Mr. Levy of Salomon Brothers and Hutzler

The Treasury could sell any of the following notes:

1 year	-	1/4%
2 "	-	3/8%
3 "	-	1/2%
4 or 4 1/2 "	-	3/4%
5 "	-	7/8%

He believed there was no question about a one year note at 1/4% or a five year note at 7/8% being a success and that a five year 7/8% note might even be sold by the Treasury at 100 1/4 to yield 0.82% which would save the Treasury a little money. He also thought that a 3/4% coupon on a four and one-half year note would be reasonable. He believed the market basis for a four to four and one-half year note would be 0.60% to 0.65% and for a five year note 0.70%. He mentioned that his estimate of the market basis for the five year note was lower than the tax equivalent market basis for the 2 1/2% bonds of December 15, 1945, because of an allowance he made for the high premium on the latter issue.

Messrs. Mills, Marckwald and Leeds of Discount Corporation:

They submitted the following statement of estimates covering a one year, two year, three year, four year or five year note:

1 Year Taxable Note Due December 1941

Coupon	.125%	.0833%	.05%
1/4%	100.4	100.6	100.7
3/8%	100.8	100.9	100.10
Comparable with - U.C.C. 1% - 11-15-41 on .00% basis - tax equiv. .32%			
U.S.H.A. 1 Year 1/4's on .04% basis - tax equiv. .12%			

2 Year Taxable Note Due December 1942

Coupon	.275%	.225%	.175%
3/8%	100.6	100.9	100.13
1/2%	100.14	100.17	100.21
Comparable with - H.O.L.C. 2 1/4% 7/1/42-44 on .08% basis - tax equiv. .57%			
R. S. C. 1% 7/1/42 on .06% basis - tax equiv. .38%			

3 Year Taxable Note Due December 1943

Coupon	.425%	.375%	.325%
1/2%	100.8	100.13	100.17
5/8%	100.19	100.24	100.29
Comparable with - 3 1/4% October 15, 1943-45 on .26% basis - tax equiv. 1.44%			
1 1/8% December 15, 1943 on .18% basis - tax equiv. .54%			

OFFICE CORRESPONDENCE

DATE TUESDAY, DECEMBER 10, 1940

INDUSTRIAL FILES

SUBJECT:

MR. L.G. Rouse and S.A. Miller

- 2 -

4 year Taxable Note Due December 1944

Coupon	.55%	.50%	.45%
3/8	100.7	100.16	100.23
1/8	100.25	101.	101.6

Comparable with 4% December 15, 1944-54 on .44% basis - tax equiv. 2.72%
1% September 15, 1944 on .38% basis - tax equiv. .70%

5 year Taxable Note Due December 1945

Coupon	.60%	.65%	.70%	.75%	.80%
3/4	100.24	100.16	100.8		
7/8		101.3	100.28	100.20	100.12

Comparisons:

3/8 Due March 15, 1945 at 101.6	- .47% basis - tax equiv.	.71%
3/4 " Sept. 15, 1945-47 "110.3	- .60% basis - " "	1.47%
1/2 " Dec. 15, 1945 "109.13	- .60% basis - " "	1.39%
U.S. 1 1/2% June 1, 1945-47 at 103.5	- .78% basis - " "	1.25%

Comments:

A defense note would have no right value. Assuming one point premium right value on outstanding five year notes, you might, therefore, justifiably add .20% basis to the yield now obtainable on present 5 year tax exempt note. This additional .20% basis would place a 5 year taxable defense note on approximately a .70% basis. To arrive at probable yields for shorter taxable defense notes, a straight line from .70% basis for 5 years descending to zero for December '40 (there being no right value) was drawn, and the yields above were thereby indicated.

Prices derived from probable yield on taxable notes, based on current market level.

Mr. Mills believed that there would be some resistance in the market to a taxable note and thought a 3/4% coupon on a five year note would be too thin, according to their estimate that such an issue would sell in the market on a basis between 0.60% and 0.70%. He also thought that a 3/4% note for four and one-half years would be stretching it. He said the new note issue will be an experimental one and the market will be watching it closely. While it might be possible that a 7/8% five year issue would be taken, a 7/8% five year note would be a greater interest and would pave the way for future issues. He believed that some allowance should be made for a possible increase in taxes next year which would make vulnerable a taxable note put out on the basis of present market levels. Owing to the "smoke" accompanying a long taxable note, his recommendation would be to put out a short security.

DATE TUESDAY, DECEMBER 10, 1940

OFFICE CORRESPONDENCE

TO: CONFIDENTIAL FILES
FROM: Messrs. R.G. Rouse and S.A. Miller

SUBJECT: _____

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Messrs. Morris and Schlichting of Bankers Trust Company

Submitted the following estimates:

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>4 Year</u>	<u>4 1/2 Year</u>	<u>5 Year</u>
Coupon	1/4%	3/8%	1/2%	3/4%	3/4%	7/8%
Estimated Market Basis	0.08 - 0.10	-	-	.50 - .55%	0.58% 0.60%	0.66% = 101. 0.70% = 100.28

Mr. Morris stated that his first choice would be a five year 7/8% note as he felt 1% would be too generous and 3/4% too close. He thought, however, that a four year 3/4% note might be stretched to four and one-half years. Mr. Schlichting stated that he thought a five year 7/8% might be too rich and his first choice would be a four and one-half year 3/4% which should "hit it on the nose". Mr. Morris said that a one year 1/4% note would be no problem and that the same would be true for a two year 3/8% or a three year 1/2%. He said that he did not believe there would be any resistance in the market to the innovation in the type of securities being issued and there would not be too much selling of the tax-exempt issues because as time goes on more banks will need the tax exemption. Both Mr. Morris and Mr. Schlichting believed the total amount of subscriptions received for the taxable note should compare favorably with the amount of subscriptions received in the past for tax-exempt notes.

Messrs. Garner and Richmond of Guaranty Trust Company

Mr. Garner stated that short paper is attractive to them; however, the amount of their taxable securities income is increasing and an increase in taxes is probable next year. He believed that the question of "Right" value was also a factor in pricing a new note as it would make a difference of about 1/4 of a point in the price of a five year note. Both Mr. Garner and Mr. Richmond believed the Treasury could sell a one year 1/4%, a four year, or possibly a four and one-half year 3/4% or a five year 7/8%. However, a four and one-half year 3/4% note looked thin to them although it would not be impossible for it to sell in the market at a yield as low as 0.58%. They believed it might be wiser for the Treasury to add an extra 1/8% to the coupon in order to insure success until the market can be tested for this kind of an issue. While they believed a four and one-half year 3/4% note might be too thin, they also believed that a five year 7/8% note might be a little rich and Mr. Garner said that it might be desirable to put out a short issue to conform with present legislation which provides for payment of the notes at maturity with taxes. If this were done, it would permit the Treasury to get away from cumbersome financing at an early date provided it could obtain the necessary approval of Congress. In any event, they would put out either a one year or a five year note as there appeared to be little reason for doing anything in between. Although a one year 1/4% note would not enjoy as wide distribution as a five year note, it would be taken by the larger banks. They would subscribe for such an issue if for no other reason

DATE TUESDAY, DECEMBER 10, 1940

OFFICE CORRESPONDENCE

CONFIDENTIAL FILES

SUBJECT: _____

Messrs. J.D. Rouse and S.A. Miller

- 4 -

to put some deposits to work and to cover the cost of deposit insurance. They, of course, would also take a four or four and one-half year $3/4\%$ note or a five year $7/8\%$ note.

Mr. Green, Vice President of Chase National Bank

The Treasury could sell a one year $1/4\%$, a four and one-half year $3/4\%$ or a five year $7/8\%$ note. Based on the current market yield of 0.70% for the HOUS 1 1/2s of 1945-47, a five year $3/4\%$ taxable note would look too thin. He also believed a four and one-half year $7/8\%$ note would be safer than a $3/4\%$ note as there undoubtedly will be a lot of market resistance to a new taxable issue. He believed, however, that the Treasury should sell a short note in anticipation of taxes, pending such time as the Treasury could put out a long bond. He said he realized, of course, that a short issue would wind up in a few large tanks, which would not be as desirable as the wider distribution of a longer note. Another objection he saw to the one year maturity was that 1941 was pretty well filled up with other maturing issues which might make it more desirable to put out a two year maturity as there are relatively few issues maturing in 1942.

Messrs. Burgess and Kane of National City Bank

The bond market feels pretty much like the stock market in 1929, or in other words it is a "hectic bull market". This should be taken into consideration in new Treasury financing. Furthermore, if there is any question of the authorities dealing with excess reserves in the near future, a five year $3/4\%$ note issue at this time might look very bad later. Therefore, they would recommend a four and one-half year $3/4\%$ note or a five year $7/8\%$ note, recognizing that either might be a little full. While there is something to be said in favor of a one year $1/4\%$ note, such an issue would add more fuel to the fire in the keen demand for longer maturities of short issues at a higher yield. Notwithstanding their recommendation of a four and one-half or five year note, they believed it would be no problem for the Treasury to sell a one year $1/4\%$, a two year $3/8\%$, a three year $1/2\%$ or a four year $5/8\%$ note. Their preference, however, would be for a note maturing in three years or longer. They also commented on the need for the Treasury to give consideration to the earning requirements of investors as the return on investments is getting much too small to provide a livelihood.

Mr. Devine of G. J. Devine and Company, Inc.

A five year $3/4\%$ note would go very well and sell in the market on a 0.65% basis equivalent to a price of 100 1/2. However, others in his office think that a five year note should carry a $7/8\%$ coupon. He also said the Treasury could sell a one year $1/4\%$, a two year $3/8\%$, a three year $1/2\%$ and a four year $5/8\%$, although his office thinks that the three and four year issues should carry a coupon $1/8\%$ higher. He believes that, under existing conditions, the question of paying off maturing taxable notes with taxes in one year is merely something to talk about and that, owing to the state of the market, the maturity should be made as long as possible, in this case five years.

FEDERAL RESERVE BANK
OF NEW YORK

139

OFFICE CORRESPONDENCE

DATE TUESDAY, DECEMBER 10, 1940

CONFIDENTIAL FILES

SUBJECT: _____

FROM Messrs. E.G. Rouse and S.A. Miller

- 5 -

The above mentioned views of the banks and dealers were telephoned to Undersecretary of the Treasury Bell shortly after 11:00 a.m. today.

Our recommendation was, briefly, that while most of the banks and dealers recommend a $7/8\%$ coupon on a five year note, our estimates indicate that a five year $3/4\%$ note should sell in the market to yield around 0.60% ; that we believed such an issue would be well received but that, for reasons stated in the memorandum presented to the Treasury at the meeting on Monday, if the Treasury decides to use the National Defense authorization we would prefer to see it issue a one year $1/4\%$ note, which is the shortest maturity that could be made taxable.

SAM:FD

TREASURY DEPARTMENT

140

INTER OFFICE COMMUNICATION

DATE December 12, 1940

TO Mr. D. W. Bell
FROM W. H. Hadley

3/4% DEFENSE NOTES

Subscriptions by 25 Largest Commercial Banks and
5 Largest Savings Banks in the New York District

<u>Bank</u>	<u>Maximum Allowable (1/2 Cap. & Surplus)</u>	<u>Subscription</u>
1. Guaranty Trust	\$130,000,000	\$100,000,000
2. Chase National	100,000,000	100,000,000
3. National City	65,250,000	65,250,000
4. First National	55,000,000	55,000,000
5. Irving Trust	51,467,500	10,000,000
6. Central Hanover	40,500,000	40,500,000
7. Bankers Trust	37,500,000	37,500,000
8. Manufacturers Trust	37,373,000	37,373,000
9. Chemical Bank	35,000,000	35,000,000
10. Bank of Manhattan	20,000,000	20,000,000
11. J. P. Morgan, Inc.	20,000,000	20,000,000
12. New York Trust	18,750,000	18,750,000
13. Savings Bank Trust	16,248,000	16,000,000
14. Corn Exchange	15,000,000	5,000,000
15. United States Trust	14,000,000	5,000,000

<u>Bank</u>	<u>Maximum Allowable</u>	<u>Subscription</u>
16. City Bank Farmers	\$ 10,000,000	\$ 10,000,000
17. Marine Trust, Buffalo	7,500,000	7,500,000
18. Public National	7,000,000	7,000,000
19. Commercial National	7,000,000	7,000,000
20. Fidelity Union Trust, Newark	6,750,000	6,750,000
21. Brown Bros. Harriman	6,632,000	6,000,000
22. Brooklyn Trust Co.	6,337,500	6,337,500
23. Manufacturers & Traders Trust, Buffalo	6,250,000	6,250,000
24. Marine Midland	5,000,000	5,000,000
25. Lincoln Alliance, Rochester	3,400,000	3,400,000

SAVINGS BANKS:

1. Agency Bank, Montreal	37,500,000	25,000,000
2. Bowery Savings Bank	22,100,000	22,000,000
3. Immigrant Industrial	21,490,000	21,000,000
4. Drydock Savings	12,700,000	10,000,000
5. Union Dime Savings	11,750,000	10,000,000

Note:

The above banks are listed in the order of the maximum allowable subscription and not according to relative size of the banks.

December 12, 1940

Mr. D. V. Bell

V. H. Hadley

3/4% FEDERAL NOTESSubscriptions by 25 Largest Commercial Banks and
5 Largest Savings Banks in the New York District

<u>Bank</u>	<u>Maximum Allowable (1/2 Cap. & Surplus)</u>	<u>Subscription</u>
1. Guaranty Trust	\$130,000,000	\$100,000,000
2. Chase National	100,000,000	100,000,000
3. National City	65,280,000	65,280,000
4. First National	55,000,000	55,000,000
5. Irving Trust	51,487,800	10,000,000
6. Central Hanover	40,800,000	40,800,000
7. Bankers Trust	37,800,000	37,800,000
8. Manufacturers Trust	37,373,000	37,373,000
9. Chemical Bank	35,000,000	35,000,000
10. Bank of Manhattan	20,000,000	20,000,000
11. J. P. Morgan, Inc.	20,000,000	20,000,000
12. New York Trust	18,780,000	18,780,000
13. Savings Bank Trust	16,348,000	16,000,000
14. Corn Exchange	15,000,000	5,000,000
15. United States Trust	14,000,000	5,000,000

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Note:

The above banks are listed in the order of the maximum allowable subscription and not according to relative size of the banks.

FEDERAL RESERVE BANK OF CHICAGO

December 12, 1940

Hon. D. W. Bell
Under Secretary of the Treasury
Treasury Department
Washington, D. C.

Dear Dan:

In line with our telephone conversation I am setting out below the subscriptions entered by the various banks mentioned to the current offering of Treasury notes:

Chicago

Continental Illinois National Bank & Trust Company	\$ 42,500,000	
First National Bank	15,000,000	65M
City National Bank & Trust Company	3,500,000	
Harris Trust & Savings Bank	2,500,000	14M
Northern Trust Company	4,500,000	

Detroit

Detroit Bank	\$ 3,925,000
Manufacturers National Bank	3,000,000
National Bank of Detroit	12,875,000

Indianapolis

Indiana National Bank	\$ 4,500,000
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Milwaukee

First Wisconsin National Bank	\$ 9,000,000
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All of the above subscriptions are for the maximum amounts permissible with the exception of the First National Bank of Chicago, whose capital and surplus is \$65,000,000, and the Harris Trust & Savings Bank, whose capital and surplus is \$14,000,000.

Enjoyed hearing from you and hope that this gives you the desired information.

Very truly yours,



Alfred T. Sihler
Assistant Vice President

B

STANDARD FORM No. 14A
APPROVED BY THE PRESIDENT
MARCH 10, 1926

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM The White House 145
Washington

DEC. 22, 1940

VIA NAVAL COMMUNICATIONS.

CLEAR.

TO: THE PRESIDENT.

FROM: HENRY MORGENTHAU, Jr.

I am pleased to inform you that first public offering of fully taxable notes has been a great success.

(Copy for Mrs. Klotz as requested by Secretary Morgenthau.)

TREASURY DEPARTMENT

COPY 2

143

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE December 12, 1940

TO Secretary Morgenthau
 FROM Mr. Hase
 Subject: Employment in the Aviation Manufacturing Industry

1. Employment in the aviation manufacturing industry has multiplied more than four times in the last twenty months and has doubled in the last nine months. In November 1940, manufacturers of airplanes employed approximately 120,700 factory workers, and manufacturers of airplane engines approximately 34,300 factory workers, a total of approximately 155,000 for the entire industry. Included in these figures are the employees of manufacturers of parts for airplanes and airplane engines.

2. For the industry as a whole employment rose by approximately 7,100 factory workers in November. The largest increase in employment -- approximately 2,150 factory workers -- occurred at the Lockheed Aircraft Corporation. Consolidated Aircraft Corporation added 1,300 factory workers to its rolls during the month, raising its total employment to 12,355. In January of this year Consolidated employed only 2,837 factory workers.

3. The increase in employment during November was not experienced by all plants in the industry, however, there being important decreases at two of the large plants. At the United Aircraft Corporation employment decreased by 800 during the month. At the Boeing Aircraft plant in Seattle there was a decrease of 1,040 factory workers. Boeing reported that this decrease in employment was due to "between contracts and lack of materials".

4. Two charts are attached to this memorandum. The first shows total employment in the industry and the employment of selected companies since January 1937. The attached tables give the figures plotted on the chart. The second chart presents total employment in the industry by geographic areas for December 1938, December 1939, and November 1940.

Attachments

Employment in Aviation Manufacturing Industry
(Airplanes and Airplane Engines)
1937-1940

147

	1937	1938	1939	1940
Airplanes				
January	22,100	23,700	25,251	58,000
February				60,500
March	24,100	24,200	27,875	64,500
April				67,000
May				73,000
June	25,200	22,800	35,973	80,000
July				90,000
August				97,448
September	23,400	22,050	41,425	105,362
October				115,241
November				120,650
December	23,800	24,450	52,800	
Airplane Engines				
January	5,500	6,500	6,989	13,900
February				15,800
March	6,000	6,600	7,825	17,300
April				18,600
May				20,800
June	6,600	6,900	8,727	22,900
July				25,400
August				27,019
September	6,400	6,772	9,289	28,981
October				32,633
November				34,314
December	6,600	6,847	12,600	
Total Industry -- Airplanes and Airplane Engines				
January	27,600	30,200	32,240	71,900
February				76,300
March	30,100	30,800	35,700	81,800
April				85,600
May				93,800
June	31,800	29,700	44,700	102,900
July				115,400
August				124,467
September	29,800	28,822	50,714	134,343
October				147,874
November				154,964
December	30,400	31,297	65,400	

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

Employment of Selected Aircraft Manufacturing Corporations
1937-1940

	1937	1938	1939	1940
<u>Bell Aircraft Corp.</u>				
January	615	222	654	859
February				865
March	850	290	912	896
April				840
May				873
June	808	440	1,410	1,192
July				1,480
August				1,963
September	718	235	703	2,413
October				3,355
November				3,449
December	213	606	799	
<u>Boeing Aircraft Co. - Seattle</u>				
January	1,834	1,493	2,380	5,137
February				4,942
March	1,726	1,700	2,749	4,759
April				4,198
May				5,190
June	1,249	1,736	2,989	5,882
July				6,571
August				6,926
September	1,109	1,798	3,985	6,940
October				6,391
November				5,351
December	1,380	2,285	4,749	
<u>Consolidated Aircraft Corp.</u>				
January	3,169	2,540	968	2,837
February				3,477
March	3,246	2,518	819	3,807
April				4,349
May				5,040
June	3,099	2,104	832	5,821
July				6,743
August				7,836
September	2,617	989	1,408	9,289
October				11,018
November				12,355
December	2,580	981	2,540	

Employment of Selected Aircraft Manufacturing Corporations
1937-1940
(continued)

	1937	1938	1939	1940
<u>Curtiss-Wright Corp. - Buffalo</u>				
January	1,241	2,211	3,802	4,380
February				4,744
March	1,500	2,347	2,939	5,016
April				5,213
May				5,698
June	1,933	2,310	2,848	6,314
July				6,531
August				6,597
September	2,202	2,736	1,562	6,824
October				7,682
November				7,889
December	2,007	3,491	3,447	
<u>Douglas Aircraft Co., Inc.</u>				
January	5,591	6,328	4,334	11,952
February				12,077
March	5,961	6,173	4,177	13,119
April				14,033
May				14,656
June	6,653	4,672	5,445	14,957
July				14,662
August				14,898
September	5,532	4,028	6,318	14,219
October				14,158
November				14,787
December	6,771	4,110	10,362	
<u>Lockheed Aircraft Corp.</u>				
January	910	1,577	2,305	5,157
February				4,768
March	1,094	1,594	3,509	4,362
April				4,400
May				5,016
June	1,338	1,797	5,699	5,591
July				6,599
August				7,296
September	1,383	1,997	5,324	7,582
October				8,517
November				10,675
December	1,428	2,123	5,156	

Employment of Selected Aircraft Manufacturing Corporations
1937-1940
(continued)

	1937	1938	1939	1940
<u>Glenn L. Martin Co.</u>				
January	1,364	1,814	2,905	10,984
February				9,407
March	1,716	1,892	4,092	9,133
April				9,010
May				9,357
June	2,044	2,134	6,029	9,133
July				9,513
August				11,200
September	2,032	2,341	10,070	10,019
October				11,414
November				12,950
December	1,818	2,777	11,174	
<u>North American Aviation, Inc.</u>				
January	829	1,713	2,223	4,049
February				4,324
March	889	1,935	2,457	4,154
April				4,371
May				4,336
June	841	2,400	3,125	4,782
July				4,918
August				4,916
September	1,272	2,685	2,992	5,111
October				5,828
November				6,054
December	566	2,530	3,795	
<u>United Aircraft Corp.</u> (excluding Pratt & Whitney)				
January	2,350	2,245	1,826	2,757
February				3,051
March	2,444	2,168	1,766	3,468
April				3,735
May				3,912
June	2,497	1,972	1,952	4,282
July				4,823
August				5,016
September	2,439	1,880	2,123	5,445
October				6,010
November				5,251
December	2,338	1,774	2,588	

Employment of Selected Aircraft Manufacturing Corporations
1937-1940
(continued)

	1937	1938	1939	1940
Vultee Aircraft, Inc.				
January			364	742
February				938
March			440	959
April				1,008
May				1,334
June		560	533	2,127
July				2,618
August				2,857
September		430	288	3,531
October				3,652
November				3,749
December		334	662	

Employment of Selected Airplane Engine Corporations
1937-1940

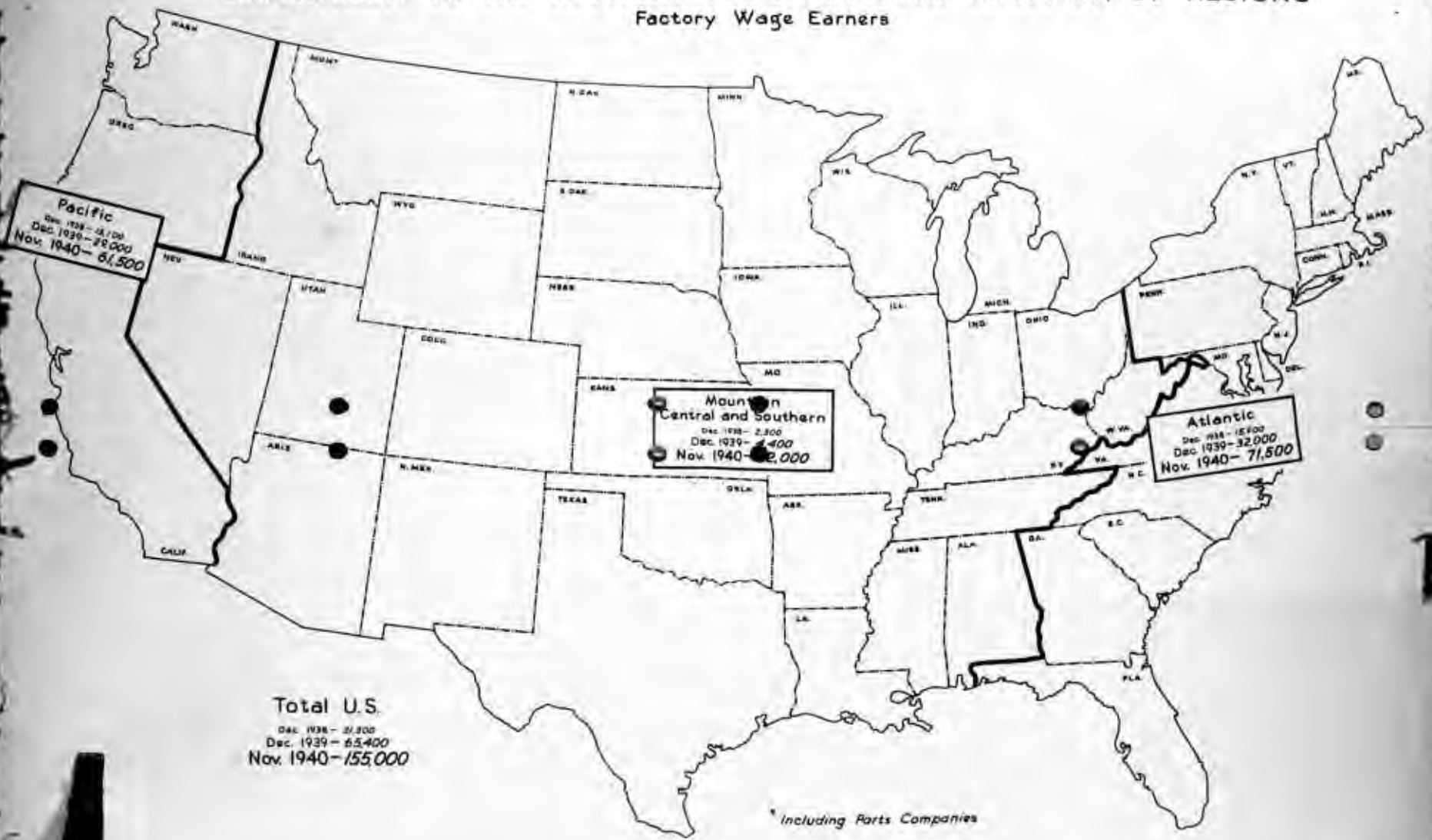
	1937	1938	1939	1940
<u>Allison Engineering Co.</u>				
January	218	262	454	1,114
February				1,261
March	229	297	466	1,610
April				1,958
May				2,766
June	238	339	558	3,254
July				3,917
August				4,595
September	238	382	642	5,282
October				6,280
November				6,295
December	266	439	901	
<u>Continental Motors Corp.</u> (Airplane Engine Division)				
January	151	153	134	288
February				344
March	153	152	138	358
April				368
May				378
June	162	144	171	388
July				398
August				382
September	135	146	203	567
October				732
November				855
December	152	142	243	
<u>Lycoming Division of Aviation Manufacturing Corp.</u>				
January	849	729	519	581
February				638
March	889	704	521	657
April				711
May				765
June	901	549	573	819
July				873
August				970
September	756	514	644	1,080
October				1,459
November				1,320
December	762	506	689	

Employment of Selected Airplane Engine Corporations
1937-1940
(continued)

	1937	1938	1939	1940
<u>Pratt & Whitney Aircraft</u>				
January	1,931	2,567	2,264	5,642
February				6,549
March	2,119	2,489	2,659	7,158
April				7,541
May				7,765
June	2,384	2,555	3,066	8,504
July				9,121
August				9,449
September	2,471	2,384	3,394	9,406
October				9,794
November				10,377
December	2,618	2,227	5,022	
<u>Wright Aeronautical Corp.</u>				
January	2,254	2,607	3,398	5,411
February				6,081
March	2,515	2,705	3,771	6,537
April				6,984
May				7,882
June	2,800	2,930	3,997	8,682
July				9,491
August				10,151
September	2,690	3,184	4,026	10,726
October				11,240
November				11,950
December	2,608	3,374	5,141	

EMPLOYMENT IN THE AVIATION MANUFACTURING INDUSTRY* BY REGIONS

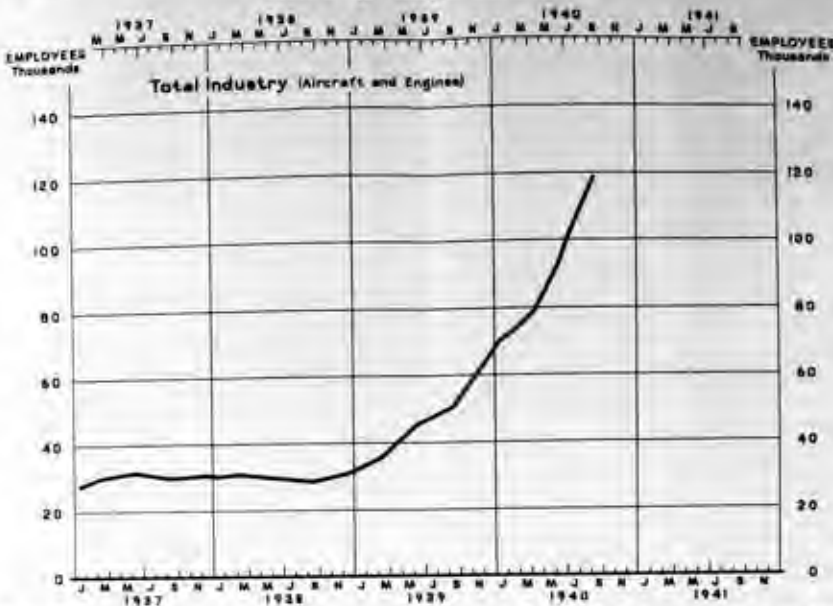
Factory Wage Earners



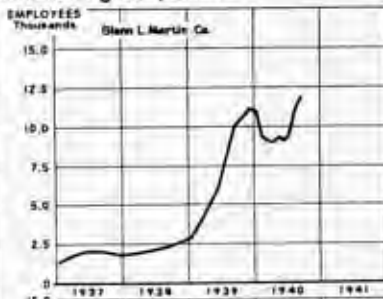
* Including Parts Companies

EMPLOYMENT IN AVIATION MANUFACTURING INDUSTRY

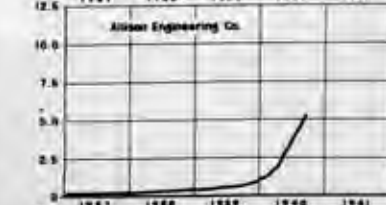
Factory Wage Earners



Selected Aircraft Manufacturing Companies



Selected Airplane Engine Companies



RECENT MOVEMENTS OF AXIS FUNDS

TRANSFERS TO SOUTH AMERICA. It is reported that since September some \$4,600,000 of German funds have been transferred to South American banks, and that approximately \$2,300,000 has returned from Argentina and Peru to the account of the Reichsbank in New York. During the same period there was transferred from Italian accounts in the United States approximately \$13,000,000 to South America, of which \$10,000,000 went to the Italian Embassy in Brazil from the Italian Foreign Exchange Control Funds in New York and in addition, \$4,500,000 was sent in cash by courier. As a result of recent return transfers of less than \$1,000,000 the net amount of Italian funds transferred to Latin America since September amounts to more than \$16,000,000. Recent information indicates that the Bank of Brazil expects to receive \$10,000,000 for credit to a Japanese account as part of the Japanese program designed to centralize dollar exchange operations of the Yokohama Specie Bank with the Bank of Brazil.

GERMAN FUNDS. The flow of German funds in this country appears principally to have been to the accounts of Swedish banks here, \$1,500,000 being transferred to such accounts from German accounts since November 25. About \$1,350,000 is known to have been transferred to Swiss accounts here, while \$750,000 has returned from Swiss to German accounts. Cash withdrawals from German consular accounts since December 1 have amounted to \$850,000. Of this amount \$650,000 was withdrawn by the Consul General in New York, who paid \$530,000 to cover interest payments on German bonds. The remaining \$120,000 is apparently still in the consulate. The German Embassy in Washington recently received \$200,000 by draft from the Reichsbank, Berlin, and obtained this amount in notes of \$20 to \$1,000 denominations. There is some indication that cash deposits are being made by the Reichsbank by way of South America, National City Bank having recently received \$180,000 by this method.

ITALIAN FUNDS. Transfers of Italian funds, excluding those to South America, have been principally to Spanish, Swedish, and American accounts and transfers from Swedish to Italian accounts have been noted. It has also been recently reported that the Italian Attache at Tokyo has carried \$800,000 in American currency from Shanghai to Japan. Further reports indicate that substantial Italian Government funds have been converted into cash which is being kept on diplomatic premises.

JAPANESE FUNDS. Japanese Institute, Inc., a Japanese cultural organization, is known to have been receiving its principal income from the Japanese Consul General in New York. The various Japanese consular officers throughout the World are apparently being supplied with funds from the Japanese consular accounts with the Bank of America.

PORTUGUESE GOLD. Since October 2, 1940, \$33,000,000 in gold has arrived here from Portugal and been earmarked at the Federal Reserve Bank of New York for account of the Bank of Portugal. It is not clear that this was actually the Bank of Portugal's own gold, since on October 2 the amount of gold under earmark in New York for that bank's account amounted to \$70,000,000, about equal to the Bank of Portugal's gold coin and bullion reserves as shown in its bank statement. A detailed statement with regard to gold imports from Portugal in comparison with the gold reserves of Portugal is contained in the memorandum of December 9, a copy of which is attached.

December 9, 1940

Mr. Cochran

Mr. Hawkey

Subject: Gold shipped here by and for account
of the Bank of Portugal.

More than \$70 million in gold has arrived here from Portugal since the beginning of July, 1940, shipped by and for account of the Bank of Portugal. Since all of the gold was earmarked upon arrival in New York, that Bank's gold balance here rose from \$30.1 million as of July 3 to \$109.8 million at the close of December 5. (About \$6.0 million of this increase resulted from the purchase of gold from the U. S. Stabilization Fund.)

On October 10, I wrote you a memorandum in which comparison was made between the Bank's gold in New York and the asset item "Encaisse-or" (gold coin and bullion) on the Bank's own weekly statement. At that time, the most recent statement available was dated August 21, and it could not be asserted definitely that the Bank's gold in New York was of a greater value than its "Encaisse-or".

We have now received the Bank's statement as of October 2, listing an "Encaisse-or" of \$69.1 million. On the same date, its gold balance in New York amounted to \$70.5 million and since October 2, the Bank of Portugal has shipped another \$33.3 million in gold to New York. (All of this has arrived; there is no gold in transit at present.) We have no "Encaisse-or" figure available for dates subsequent to October 2, but since this item has moved upward less than \$2.0 million in the past six years, it is very likely that little or no change has taken place since early October.

The foregoing information is tabulated below (in millions of dollars):

Period- 1940	Imports for account of <u>Bk. of Port. 1/</u>	Gold bal- ance here <u>(At end of each period)</u>	"Encaisse- or" 2/ <u>(At end of each period)</u>
July 4 - 31	\$ 7.1	\$30.1 (July 3)	\$68.8 (July 3)
Aug. 1 - Sept. 4	16.7	37.8	68.9
Sept. 5 - Oct. 2	15.2	55.3	68.9
Oct. 3 - 31	21.1	70.5	69.1
Nov. 1 - Dec. 5	12.2	97.6 2/	(69.1) Carried
		109.8	(69.1) Forward

1/ All from Portugal, except \$1.4 million from England in July.

- 2/ During October, the Bank of Portugal also purchased \$5.0 million in gold from the U. S. Fund.
- 3/ According to 1931 law, the Bank values its gold at .066567 fine grams per escudo; conversion of escudo value into dollars hence made at the rate of \$.0748 per escudo.

The apparent conclusion is that the Bank of Portugal has sent to the United States at least \$33.3 million of gold not shown in its "Encaisse-or". Since only \$14.6 million of Bank of Portugal gold arrived here during the first half of 1940 (of which \$2.1 million came from Portugal and about \$12.5 million from England), it may be further concluded that most of the "extra" gold was shipped in the past five months.

This "extra" gold may be any of the following:

- 1) The Bank of Portugal's own gold. In addition to the gold listed under "Encaisse-or", there is reason to believe that the Bank carries some gold in its asset item "Disponibilites or a l'etranger et autres reserves" (liquid gold exchange assets abroad and other reserves). Here is some evidence; in the week ended March 20, 1940, the Bank purchased slightly less than \$5.0 million in gold from the U. S. Fund in order to strengthen its gold reserves. In that week, its "Encaisse-or" changed not even a fraction of one escudo. "Disponibilites, etc.", however, rose \$4.9 million (using the rate of \$.0748).*

About a year ago, the largest amount of gold that could have been included under "Disponibilites, etc." was \$22.0 million. In the Bank's statement for December 30, 1949, this item was valued at 536.3 million escudos. Examination of the Bank's annual report for 1939 reveals that 242.2 million escudos of the above represented the Bank's holdings of the Government of Portugal's 3% sterling obligations. Therefore, the maximum amount of gold that could have been included under this item was 294.1 million escudos worth, or \$22.0 million. (The Bank's holdings of dollars were negligible at that time.)

- 2) Gold held by the Portuguese Treasury. The Federal Reserve Bulletin, in its table "Gold Reserves of Central Banks and Governments", uses only the Bank's "Encaisse-or" figure, converted at \$.0748. But the Portuguese Bank's annual report for 1939 shows a table of the Treasury's liquid assets at the end of November, 1939, wherein appeared 430.2 million escudos worth of gold in bars, equivalent to \$32.2 million.

For all we know, the Bank of Portugal may have exchanged its holdings of Portuguese Government sterling bonds for Treasury gold, shipping the latter to New York.

* The dollar funds used in this purchase were remitted to the Federal by various banks in New York. Indication that the Bank of Portugal acquired such dollars during that same week is given in the Bank's statement, wherein Portuguese bank deposits at the Bank of Portugal rose 100 million escudos, or slightly more than \$4. million.

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- 3) Gold of some foreign bank or government, in the shipment and earmarking of which the Bank of Portugal acted really as intermediary. Unless we receive further evidence that a third party's interest was involved, it would seem inadvisable to question the Bank of Portugal for what appear to be shipments of "extra" gold. The information presented under the preceding two points suggests that Portugal does own gold beyond that shown in the "Encaisse-or" asset item of the Portuguese Bank statement. Regarding the markings on gold bars already shipped here, from Portugal, I think you will agree that these cannot be offered as proof of ownership, since many Continental assay marks constitute good delivery in Europe's gold markets.

MEMORANDUM

December 12, 1940.

TO: The Secretary
FROM: Mr. Sullivan

I attach hereto summaries of various
newspaper articles on taxation.

JLS

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 9, 1940

TO Mr. Sullivan
FROM Mr. Blough

The following items of interest relating to taxes appeared in the newspapers of December 9, 1940:

1. New York Times, page 1, column 3

An article entitled "Labor laws, taxes, handicap program, Navy report says" reports that Rear Admiral Ray Spear, Chief of the Bureau of Supplies and Accounts, in his annual report for the year ended June 30, 1940, cites certain Federal laws as hampering naval expansion efforts. Contractors are mentioned as being loath to undertake expansion of plant facilities "due to the restrictions on the employment of surplus and plant expansion in the form of a limitation on the profit and the excess profit taxes." It is reported that ninety-nine contracts having a money value of \$33,577,165 showed excess profits amounting to \$3,704,220 while contracts of \$20,344,135 showed losses. Accordingly, it is indicated that profit limiting provisions such as those under the Vinson-Trammel Act are not needed. It is noted that the Act of June 28, 1940, amending the Vinson-Trammel Act did much to expedite the defense program but came too late to affect fiscal year 1940 procurement.

2. New York Herald Tribune, page 21, column 1

An article entitled "Treasury due to press tax exempt fight" reports that Mr. Foley's speech last Friday is the beginning of another administration move to end tax-exempt securities. The author says that a constitutional amendment is the "best and possibly only means of effecting this reform."

3. The Wall Street Journal, page 2, column 1

According to the article entitled "Defense notes expected to be announced today," the new defense notes soon to be issued may be subject to Federal income taxes.

RB

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE December 9, 1940

TO Mr. Sullivan

FROM Mr. Blough

The following items of interest relating to taxes appeared in the newspapers of December 5-7, 1940:

December 5, 1940

1. Journal of Commerce, December 5, 1940, page 3, column 4

An article entitled "Eccles urges need of Congress action on British credits" reports a speech by Mr. Eccles before the National Industrial Conference Board. Mr. Eccles recommended that steps should be taken to close the gap between income and outgo, but that taxes should not be raised to a point that would close the gap entirely before reaching the condition of full production and employment. Other recommendations, including restoration of the principle of undistributed profits taxation, were also made.

2. Journal of Commerce, December 5, 1940, page 7, column 7

An article entitled "State barrier taxes, U. S. tariffs scored" reports Professor Medlar of Clark University, Worcester, Massachusetts, as condemning taxes which act as trade barriers including national protective tariffs because they increase the consumers' bill for the benefit of special interest groups. Chain store taxes were also condemned as harmful to free enterprise.

3. New York Herald Tribune, December 5, 1940, page 41, column 6

An article entitled "Rigid economy drive is urged on taxpayers" reports an address by A. Vedder McGee of the Taxpayers' Federation, Inc., to the effect that New York State taxpayers should insist upon rigid economy in state and local budgets. Otherwise, state and local taxes combined with increased taxation needs for national defense may lead to confiscatory taxation.

December 6, 1940

1. New York Times, December 6, 1940, page 14, column 1

An article entitled "35 billion outlay seen for defense" reports an estimate prepared by the Department of Agriculture to the effect

that the national defense program as now projected will involve an expenditure of about 35 billion dollars in the next five years. The article is based on a report entitled "The impact of war and the defense program on agriculture" which indicates that if all the expenditures were to be cared for by increased taxation and decreased spending for other purposes, the effects on our domestic economy would be relatively small.

2. New York Times, December 6, 1940, page 14, column 2

An article entitled "Flexible tax plan urged by Anderson" reports the study made public by the T.N.E.C., "Taxation, Recovery and Defense" by Dr. Dewey Anderson. The report advocates, among other things, a value added tax and a flexible tax system easily adaptable to meet changing conditions.

3. New York Times, December 6, 1940, page 25, column 7

It is reported by the American Automobile Association that gasoline taxes will yield \$1,160,000,000 this year or \$130,000,000 more than in 1939. Of this increase, approximately \$55,000,000, or 42 percent, is accounted for by the increase in the Federal gasoline tax rate which became effective last July 1.

4. New York Times, December 6, 1940, page 37, column 1

It is reported that the Fortnightly Review of Fuller, Rodney and Company states that defense spending and accompanying deficits will make a new tax law inevitable.

5. Journal of Commerce, December 6, 1940, page 13, column 3

An article entitled "Repeal of state margarine taxes urged by Janssen" reports the recommendation of the President of the National Association of Margarine Manufacturers with respect to the tax on oleomargarine.

6. Wall Street Journal, December 6, 1940, page 3, column 2

An article entitled "Marked uptrend in recent years cause heavy excess profits levy" reports the profit position of the chemical industry. The article indicates that chemicals have had a marked upward trend in earnings in recent years, which has been accelerated by the present peak volume of operations. This will, it is reported, result in most instances in heavy excess profits tax liability.

7. New York Herald Tribune, December 6, 1940, page 21, column 7

An article entitled "Super-tax is proposed on large land holdings" reports the recommendation by the National Catholic Welfare Council to the House Migration Committee for super-tax on large land holdings as a step in solving the problem of destitute migratory workers.

December 7, 1940

1. New York Times, December 7, 1940, page 3, column 5

An article entitled "Canada passes bills to reduce luxuries" reports that Canada has passed a 25 percent excise tax on large categories of Canadian luxury manufactures and suspends imports from the United States of virtually all similar articles until after the war as a measure of exchange economy.

2. New York Times, December 7, 1940, page 32, column 5

An article entitled "Tax exempts' end linked to defense" reports an address by Mr. Foley, General Counsel of the Treasury, that the further issuance of tax-exempt securities interferes with the effectiveness of the defense program. He urged municipalities to cooperate in ending the issuance of tax-exempt securities so that their securities would not have preference over Federal issues.

3. New York Herald Tribune, December 7, 1940, page 1, column 3

An article entitled "Tax framers turn to levy on small incomes" reports that as a result of the President's decision against resorting to a manufacturers' sales tax, the possibilities of increased income taxes on the lower and middle income brackets are receiving the attention of congressional and governmental experts.

4. Wall Street Journal, December 7, 1940, page 2, column 2

An article entitled "Anderson urges broad revision of tax structure" reports that Professor Benjamin M. Anderson of the University of California and former Chase National Bank economist, has recommended tax revision in the form of broadening the income tax base by a lowering of exemptions. As a spur to private capital flow, he also recommends that the rates of tax in higher brackets be reduced.

RB

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE December 9, 1940

TO Mr. Sullivan
 FROM Mr. Blough

The following items of interest relating to corporation taxes and their effect on corporation profits appeared in the newspapers of the week beginning December 2, 1940 ^{1/1}:

1. New York Herald Tribune, December 2, 1940, page 1, column 3.

An article entitled "Increase to 30 percent in Corporation Taxes Forecast" reports Senator George as stating that the corporation income tax rate might be boosted as high as 30 percent before the national defense program is paid for. He indicated that increase in the corporation tax to that rate might possibly harm business to some extent, but added that there appears to be no alternative.

2. Wall Street Journal, December 3, 1940, page 3, column 2.

An article entitled "Invested Capital Base to be Used by Most Companies for 1940 Year" reports that the majority of concerns in the paper industry will elect to use the invested capital base for the 1940 excess profits tax. It is reported that, because the paper industry as a whole, earned much less than 8 percent on invested capital over the past four years, most companies in the industry probably will elect to make their 1940 tax returns on the invested capital base.

The outbreak of the European War in September produced a record-breaking demand for both paper and pulp. In 1939, 11 companies had earnings equal to only 5 percent of invested capital. Earnings for this year will probably range from 5 percent upward to as much as 27 percent. A majority of the companies in the paper industry are expected to have to pay out part of their 1940 earnings in excess profits taxes.

3. Wall Street Journal, December 4, 1940, page 3, column 1.

An article entitled "More Firms Study Capital Revisions as Tax Benefits" discusses the tax saving possibilities of retiring existing preferred stock issues and replacing that amount of capital with bonds or debenture issues. Such a change would result in reducing the income tax but might increase the excess profits tax. General Motors, for example, has outstanding 1.8 million shares of preferred stock callable at \$120 per share. If this issue were replaced by bonds, it is estimated that, with no saving of interest, the total tax liability of the corporation would be reduced by \$2.2 million.

^{1/1} This supplements my memorandum of December 5, 1940, commenting on similar items in the New York Times of December 1, 1940.

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4. The New York Times, December 8, 1940, Section 3, page 1, column 3.

An article entitled "Makers of Machinery Show Rise of 72 Percent in Profits in Year" discusses the earnings of 73 concerns of machinery parts and equipment for factory construction, mining, road building and automotive and aircraft production during the first nine months of 1940 as compared with the similar period in 1939. It is stated that the increase of 72.1 percent would have been even greater were it not for the heavier tax schedules under the second Revenue Act of 1940. The generally declining trend of profits in the third quarter of 1940 is attributed to the effect of taking from that quarter's earnings all the taxes applicable to the first nine months of the year including, in many instances, provisions for excess profits taxes.

RB

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE December 7, 1940

TO Mr. Schwars

FROM Mr. Blough

RB

The National Industrial Conference Board's study on corporation profits and taxes published in its Economic Record of November 23, 1940, together with the press release and an Associated Press item relating thereto, have been reviewed.

The study is misleading in many respects. The main points which should be noted are the following:

1. Exaggerated increases in Federal income tax for 1940 as compared to increases in net income are shown.
 2. Tax reserve data are used instead of tax collection or tax liability data.
 3. Combined data for net income and deficit corporations are used instead of separate data.
 4. Portions of the analysis relate to certain selected corporations without any indication as to the criteria used in the selection.
 5. No distinction is made between direct and indirect or shiftable and nonshiftable taxes in analyzing the tax burden.
 6. Federal income taxes are not clearly distinguished from state and local taxes.
1. Increased Federal income 1940 over 1939 in relation to increased income

The study reports that for the 116 companies analyzed, net income for the first nine months of 1940 increased 48 percent as against a tax increase of 131 percent. This increase exceeds the maximum increase possible for the Federal income tax of any one of the 116 companies. If a corporation's net income in 1940 increased 48 percent over 1939, the maximum possible increase in Federal income tax would have amounted to 97 percent, not 131 percent. The exaggerated tax

- 2 -

increases reported by the National Industrial Conference Board are obviously not correct for any one company. Their results are probably due to the erroneous and misleading use of data discussed below. The attached tables indicate the maximum possible percentage increase in tax for certain increases in 1940 net income over 1939.

2. Use of tax reserve data

The amounts of income taxes reported for 1940 in the study are corporate tax reserves, that is, estimates by the corporation of what the tax liability for 1940 will be. Since these figures are estimates, they may, of course, contain a large margin of error.

3. Grouping of net income and deficit corporations

It is reported that increased corporate income taxes (exclusive of excess profits taxes) absorb 37 cents out of every dollar gained in earnings during the first nine months of 1940. Other statements are also made showing a disproportionate rise in income taxes over as against income.

Assuming an accurate estimate of tax liability, the relations indicated are meaningless because profitable and deficit corporations are grouped. Grouping of this type may yield fantastic results. For example: In an industrial group in 1939 the profitable corporations, let us say, showed net income of \$1,000,000 on which was paid an income tax of \$200,000. The deficit corporations reported deficits of \$500,000. On the basis of the Conference Board type of analysis, this industrial group would show for the year a net income of \$500,000 and income taxes amounting to \$200,000. In 1940, let us say, the profitable corporations become twice as profitable and with no increase in rates pay twice as much tax, that is, \$400,000. The deficit corporations, let us say, report a deficit of \$1,450,000. The picture, according to the Record for this group in 1940, would show a net income of \$550,000, and income taxes amounting to \$400,000. That is, it would be argued that while profits for the industrial group increased only \$50,000 or 10 percent, taxes increased from \$200,000 to \$400,000 or 100 percent; that, in 1940, taxes took almost 75 percent of the net income of the industrial group and that the tax increase absorbed four times the increase in profits. Further comment is not necessary on this type of fallacious reasoning.

4. Selection of corporations

It is stated that in a tabulation of 20 companies Federal government taxes would take 72 cents out of every dollar of increased income. No indication is given, however, of how profitable these 20 corporations

- 3 -

are. If, for example, by selection, corporations which had been earning 40 or 50 percent on their invested capital were chosen, no serious inequity would result even if the fact stated were true.

5. Inclusion in tax burden of shiftable taxes recaptured through price adjustments

Considerable importance is attached to the finding that in some instances "Stockholders have a smaller amount available for dividends than that allowed for Federal taxes." The implication there is that taxes amount to more than 50 percent of net earnings of the corporation. Obviously these data, if they relate, as they properly should, to net income corporations only, contain taxes other than income taxes. The bulk of Federal taxes paid by corporations are not borne by them since they may be included as a cost item and recaptured through price adjustments by the corporation. These taxes should be considered in the same manner as any other cost and have no more effect on amounts available for dividends than do other costs. Since these taxes may be recaptured in price, they give no indication to what extent taxes have detracted from amounts which would otherwise be available for dividend payments.

6. Identification of Federal with Federal, state and local income taxes

The statistics themselves do not indicate whether the reserves are on behalf of Federal income taxes exclusively or also contain amounts for state income taxes, franchise taxes based on income, etc. The implication is, however, that the percentage increases are in no small part attributable to the increased Federal income tax rate, since no mention is made of taxes other than the Federal income and excess profits taxes.

Table 1

Federal corporation income taxes, Revenue Acts of 1939 and 1940 ^{1/}
and amount of net income remaining after income tax, for
selected amounts of net income

Net income before income taxes	Income tax : Revenue Act : of 1939 ^{1/}	Income re- :maining after: : income tax	Income tax : Revenue Act : of 1940 ^{1/}	Income re- :maining after : income tax
\$1.00	\$.18	\$.82	\$.24	\$.76
1.25	.225	1.025	.30	.95
1.50	.27	1.23	.36	1.14
1.75	.315	1.435	.42	1.33
2.00	.36	1.64	.48	1.52
.90	.162	.738	.216	.684
.75	.135	.615	.18	.57
.50	.09	.41	.12	.38

^{1/} Computed at the rate of 18 percent for 1939 and 24 percent for 1940.
Does not include excess profits tax.

Table 2

Comparison of percent increase and net income 1940 over 1939 with percent increase in Federal income tax ^{1/} and percent increase of net income after Federal income tax

Increase in net : income before : Federal income taxes:	Increase in : Federal : income taxes	Increase in net income after Federal income taxes
100%	166.7%	85.4%
75	133.3	62.2
50	100.0	39.0
25	66.7	15.9
0	33.3	(Decrease) 7.3
(Decrease) 10	20.0	(Decrease) 16.6
(Decrease) 25	0	(Decrease) 30.5
(Decrease) 50	(Decrease) 33.3	(Decrease) 53.7

^{1/} Computed at the rate of 18 percent for 1939 and 24 percent for 1940. Does not include excess profits tax.

December 12, 1941

My dear Mr. Stimson:

I am forwarding herewith, a memorandum (see 12/9)
from Philip Young to me, in regard to rifles
for Canada. This seems very important to me,
and I would like to have your advice and help.

May I hear from you at an early date?

Very sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Henry L. Stimson,
Secretary of War

Encs:

Memo and attachment.

By Messenger 1107

December 12, 1941

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By Messenger

SECRET.

CANADA'S FOREIGN EXCHANGE POSITION

I. Forecast of future payments to be made by Canada which require gold or U. S. dollars.

A. For purchases from the United States by the Canadian Government or any of its agencies.

For the second year of war (September 1, 1940-August 31, 1941), Canadian purchases for war purposes in the United States are estimated at \$325,000,000. (Can.) and for the nine months' period from December 1, 1940, to August 31, 1941, they are estimated at approximately \$275,000,000. (Can.). These figures include estimates of purchases made or to be made by government agencies and contractors who have war contracts from the Canadian Government or war contracts placed in Canada for account of the British Government. The industrial relations of Canada and the United States are so close that there is some United States content in nearly all Canadian manufactured products and consequently it is exceedingly difficult to make any precise estimate of aggregate Canadian war purchases in the United States, including those used indirectly as well as directly for war purposes. It is believed, however, that the figures given above are underestimates rather than overestimates.

1. War purchases classified by major commodity items and by periods.

An examination of commitments (1) made or to be made by Canadian Government agencies or by contractors to such agencies

has resulted in the segregation of most of the estimated expenditures by major items, as follows:

Dec. 1/40 to Sept. 1/41 to Mar.1/42 to
Aug. 31/41 Feb.28/42 Aug.31/42

(In millions of Canadian dollars)

Iron & Steel (primary castings & forgings, scrap & ore)	\$65.9	\$45.2	\$45.2
Machine Tools	29.3	7.2(2)	nil
Other capital advances	5.9	14.8	17.6
Aircraft (including engines and other parts)	55.0	23.5(3)	16.5(3)
Petroleum & products, direct & indirect	22.2	14.9	14.9
Non-ferrous raw materials, mechanical transport components & miscellaneous	<u>58.2</u>	<u>59.4</u>	<u>70.8</u>
Total, segregated	\$236.5	\$165.0	\$165.0
Of which			
for Canadian Govt. orders	\$176.0	\$123.7	\$123.7
for British Govt. orders	60.5	41.3	41.3
Estimate of indirect purchases, unsegregated	<u>38.5</u>	<u>?</u>	<u>?</u>
Grand Total	\$275.0	\$165.0±	\$165.0±

N.B. (1) While this breakdown has been based on commitments, it is believed to give a reasonably accurate estimate of the payments or expenditures required during the periods covered.

(2) If skilled labour can be made available, this amount may increase in each case to, say \$25,000,000.

(3) This amount may be lower than required if the war continues for a longer period and present plans have to be extended.

2. Projected monthly payments through August, 1941.

The following breakdown by months, while necessarily somewhat arbitrary, represents the best estimate that can be made at this time:

1940 - September	\$ 15,000,000.
October	17,000,000.
November	18,000,000.
December	19,000,000.
1941 - January	21,000,000.
February	25,000,000.
March	29,000,000.
April	31,000,000.
May	36,000,000.
June	40,000,000.
July	38,000,000.
August	<u>36,000,000.</u>
Total	\$325,000,000. (Can.)

3. Segregation as between unpaid balance on orders already placed and orders being negotiated.

This information is not available, and in view of the nature of many of the purchases, particularly the indirect purchases by contractors, it would be exceedingly difficult to obtain figures that were at all reliable.

4. Estimate of payments required on Capital Account.

The estimate of commitments or payments on Capital Account

is included under the second and third items of the table in Section 1 above; that is to say, it is covered by the amounts shown for purchases of "machine tools" and for "other capital advances". It is possible that some small portion of the amounts shown for iron and steel purchases should also be regarded as capital.

B. For merchandise imports from the United States other than those included in the above government orders, through August, 1941.

For the second year of war, these are estimated at \$550,000,000. (Can.). The breakdown by months necessarily somewhat arbitrary in character, is as follows:

1940 - September	\$ 48,000,000.
October	57,000,000.
November	57,000,000.
December	44,000,000.
1941 - January	39,000,000.
February	37,000,000.
March	45,000,000.
April	43,000,000.
May	48,000,000.
June	46,000,000.
July	42,000,000.
August	<u>44,000,000.</u>
Total	\$550,000,000. (Can.)

C. For invisible imports from the United States.

For the second year of war, invisible imports from the United States are estimated as follows:

Interest	\$ 95,000,000.
Dividends.....	160,000,000. (1)
Tourist and travel expenditures in United States.....	25,000,000 (2)
Freight and miscellaneous (Net)	<u>55,000,000.</u>
	\$335,000,000. (Can.)

- (1) The estimate of dividends payable includes those of wholly-owned subsidiary companies, and is therefore higher than estimates previously published by the Dominion Bureau of Statistics.
- (2) This compares with a figure of \$55,000,000. for the calendar year 1940.

It should also be noted that during the second year of war Canadian obligations, payable either solely or optionally in U. S. dollars, mature in the amount of \$70,000,000. Included in this total is a \$20,000,000. Dominion of Canada 1-1/4% note issue due May 1, 1941, which it is believed is held largely or wholly by banks. Based on the experience of the recent past, slightly over 70 per cent. of the amount of such issues are held by residents of the United States. If this percentage continues to be applicable, and if no refunding is possible, fifty to fifty-five million dollars would be required to meet these maturities.

These maturities (Approximate net amounts) may be allocated by months as follows:

1940 - September	\$ 1,000,000.
October	1,000,000.
November	3,000,000.
December	2,000,000.
1941 - January	2,000,000.
February	1,000,000.

March	\$ 1,000,000.
April	1,000,000.
May	23,000,000.
June	3,000,000.
July	15,000,000.
August	<u>2,000,000.</u>

Total \$55,000,000.

D. For imports (visible and invisible) from other areas with which Canada has an adverse balance which must be settled in gold or U. S. dollars.

Estimate of Imports for second year of war.

Merchandise imports.....\$45,000,000.

Immigrant remittances and other

invisible debit items..... 10,000,000.

\$55,000,000. (Can.)

II. Forecast of Canadian dollar (U.S.) receipts during the second year of war.

A. For merchandise exports to the United States

Estimate of merchandise exports other than gold.....\$450,000,000.
(This includes silver at \$9,000,000.)

Estimate of export of non-monetary gold..... 212,000,000.

Total.....\$662,000,000.(Can.)

B. For invisible items with the United States

Estimate of invisible credit items in transactions with the United States.

Interest & dividends receivable \$30,000,000.

Tourist receipts..... 150,000,000.(1)

Total \$180,000,000.(Can.)

(1) This includes an estimate of \$25,000,000. for tourist expenditures from Canadian dollar accounts. It may also be noted that it assumes a substantial increase in tourist receipts as compared with the calendar year 1940. The best estimate of U.S. tourist expenditures in Canada during 1940 runs from \$100,000,000. to \$110,000,000., of which perhaps \$20,000,000. to \$25,000,000. was made from Canadian dollar accounts.

(For attempt at monthly breakdown, see Table I attached hereto, and for general summary of Canada's balance of payments with U.S., see Appendix B.)

C. For exports (visible and invisible) to other areas which will be paid for in U.S. dollars or gold.

Estimate of exports and other credit items for second year of war.

Merchandise exports.....\$50,000,000.

Dividends & other invisible credits..... 15,000,000.

\$65,000,000.(Can.)

D. Estimated Canadian gold production during second year of war.

Approximately $5\frac{1}{2}$ million ounces, valued at \$211,750,000.(Can.).

(Included as exports under II.A. above)

E. Estimated Canadian silver production during second year of war.

$22\frac{1}{2}$ million ounces, valued at approximately \$9,000,000.(Can.).

(Included as exports under II.A. above)

III. Assets of Canada possibly convertible into dollar exchange.

A. Gold (as at Dec. 9, 1940)	\$137,000,000. (U.S.)
B. <u>Dollar balances</u>	
1. Official (as at Dec. 9, 1940)	
Foreign Exchange Control Board -	
Long	\$183,000,000.
Short	14,000,000.
Net	\$167,000,000.
Minister of Finance	<u>22,500,000.</u>
	\$189,500,000. (U.S.)
2. Private (as at Sept. 30/40) about	30,000,000. (1)
(held against import commitments)	
Total Gold and Dollar balances (net)	\$356,500,000. (U.S.)

NOTE. (1) The amount of gold shown under III.A. as an asset of Canada is the amount of gold owned by the Government of Canada and held in the Exchange Fund. In addition, 11,135,127 ounces of gold valued at \$426,927,487. (Can.) was formerly held by the Bank of Canada for account of the Bank of France and is now in the custody of the Custodian of Enemy Property.

All gold reserves of the Bank of Canada were sold to the Foreign Exchange Control Board under the terms of the Foreign Exchange Acquisition Order.

(2) The U.S. dollar balances shown under III.B.1 as assets of Canada as at December 9, 1940, do not include \$101,885,000 (U.S.), which was formerly in an account in the Bank of Canada in the name of the French Republic and is now under the custody of the Custodian of Enemy Property.

(1) Under the Foreign Exchange Acquisition Order (Order-in-Council P.C.1735, dated April 30, 1940) residents of Canada were required to sell to the Foreign Exchange Control Board their holdings of foreign currency and balances, except such amounts as could be demonstrated to be necessary for the carrying on of normal business transactions. The figure of \$30,000,000. does not include foreign balances of banks and insurance companies; any balances held by these institutions surplus to the requirements of their foreign position was sold to the Board under the above Order, and further surpluses accumulating to their credit are subject to transfer on a quarterly or half-yearly basis. An analysis of the foreign position of Canadian banks and insurance companies is included in Appendix A to this memorandum.)

C. Long-term investments in the United States

1. Securities

Under the Foreign Exchange Control Order (Order-in-Council P.C.2716, dated September 16, 1940) all foreign securities which, or any right, title or interest in or to which, were in the possession, ownership or control of a resident of Canada at the time the order came into effect were required, unless the Board should otherwise direct, to be declared forthwith to the Foreign Exchange Control Board. Any non-resident of Canada becoming a resident of Canada subsequent to September 15, 1939, was required forthwith to make a similar declaration to the Board in respect of foreign securities owned by him at the time of

his becoming a resident. Citizens of the United States resident in Canada have been exempted from the requirement of making such declarations.

The figures shown below have been computed from the data given on the declaration forms filed with the Board under the above requirements, up to September 15, 1940, but do not include the holdings of banks, insurance companies, trust and loan companies, etc. Foreign securities held by these financial institutions have been regarded as held against their foreign liabilities but data in respect of them will be found in Appendix A to this memorandum.

(a) Listed Stocks (Stocks listed on any recognized Stock Exchange, with valuations based on market quotations as at December 31, 1939, which are substantially higher than existing market valued)

	<u>Valuation as at December 31/39.</u>	<u>No. of issues held in excess of \$500,000.</u>
Industrial	\$228,200,000.	92
Mines	10,000,000.	5
Rails	8,300,000.	5
Utilities	47,500,000.	15
Investment companies	7,100,000.	3
Insurance companies	7,700,000.	4
Banks and Trust Co's	<u>4,000,000.</u>	<u>2</u>
Total	\$312,800,000. (U.S. 126	

(b) Listed and Unlisted Bonds (Valued on basis of market quotations as at December 31, 1939.)

Industrial	\$14,400,000.
Rails	7,900,000.
Utilities	15,500,000.
U. S. Government	7,000,000.
State and Municipal	2,000,000.
Real Estate	<u>1,300,000.</u>
Total	\$48,100,000.(U.S.)

(c) Unlisted Stocks

No attempt has been made to value holdings reported in a large number of miscellaneous unlisted stocks - some 3,500 items - a great many of which are believed to be valueless or practically so. On the basis of a rough guess, total value is estimated for this purpose at, say, \$20,000,000. to \$40,000,000.(U.S.)

Aggregate value of all securities (on above bases) \$380,900,000. to \$400,900,000.

N.B.(1) Sales of the above securities made by their holders from dates of declaration up to December 9, 1940, total \$35,000,000., and there have been maturities of approximately \$2,500,000., leaving a total holding as at December 9, 1940, estimated on the bases of valuation indicated at approximately \$343,400,000. to \$363,400,000. From this total should be deducted brokers' loans of \$10,000,000., leaving a net balance of roughly \$333,000,000. to \$353,000,000.

—oOo—oOo—oOo—

General note. The figures given above as representing holdings of U. S. securities by Canadian residents (with the exceptions noted) are as indicated the result of the compilation of declarations made to the Foreign Exchange Control Board on Form M. It may be that certain residents have not filled out this return or have not disclosed all their holdings, but as such offences under the Foreign Exchange Control Order are subject to substantial penalties, it is not believed that the error in the figures due to failure to report can be of significant proportions.

2. Direct Investments

There is no estimate available of the real value of Canadian direct investments in the United States. The nominal book value, according to balance sheets at December 31, 1938, as estimated by the Dominion Bureau of Statistics (which is probably substantially in excess of real or market value) is as follows:

Type of Industry

Merchandising, sales, etc.	\$6,800,000.
Manufacturing	93,000,000.
Mining	10,600,000.
Petroleum products	9,900,000.
Utilities, transportation and miscellaneous	<u>206,800,000.</u>
Total	\$327,100,000. (U.S.)

These figures can be broken down by class of investment as follows:

	<u>Total</u>	<u>Bonds</u>	<u>Stocks</u>	<u>Other</u>
	(Millions of dollars)			
Incorporated subsidiaries wholly owned	\$ 93.5	\$41.5	\$20.0	\$32.0
Incorporated subsidiaries partly owned	5.7	2.6	0.7	2.4
Branches or agencies	0.1			0.1
Unincorporated operations	10.1			10.1
Companies in which Canadians have a majority interest	8.2	8.2		
Railway investment in wholly owned subsidiaries	133.7	67.4	63.3	3.0
Railway investment in partly owned subsidiaries	72.1	35.1	36.9	0.1
Advances & other forms	<u>3.7</u>	<u>-</u>	<u>3.3</u>	<u>0.4</u>
	\$327.1	\$154.8	\$124.2	\$48.1

N.B.(1) Many subsidiaries represent holdings in source of raw materials.

(2) Railway investment which is taken at par or other nominal valuation includes:

Soo Line	\$36,000,000.
Spokane & International	4,000,000.
Duluth South Shore	30,000,000.
Grand Trunk Western	86,000,000.
Central Vermont	<u>41,000,000.</u>
	\$184,000,000.

It is obvious that these figures in no way represent real or marketable values.

D. Long-term investments in Latin America

1. Securities

Estimate based on data compiled from declarations on Form M, with market valuations as at December 9, 1940.

<u>Government Bonds</u>	<u>Market Value</u>	<u>Par Value</u>
Argentina . . .	\$2,600,000.	\$3,600,000.
Brazil	2,000,000.	15,000,000.
Other	1,800,000.	12,700,000.
	(U.S.)	
Total	\$6,400,000/	\$31,300,000.

Other securities - believed to be negligible in amount.

2. Direct Investments

There is no estimate available of the real value of Canadian direct investments in Latin America. The nominal or book value, as at December 31, 1938, is estimated by the Dominion Bureau of Statistics at \$175,600,000.(U.S.) This estimate includes the following items:

Bolivian Power	\$6,000,000.
Monterey Railway	6,000,000.
Venezuela Electric	3,800,000.
Porto Rico Light & Power	3,100,000.
Massey-Harris (Buenos Aires) . .	3,000,000.
Brazilian Traction &c.	75,000,000.
International Petroleum	<u>70,000,000.</u>
	\$166,900,000.(U.S.)

E. Long-term investments elsewhere

1. Australasia

	<u>Par Value</u>
Australian Government bonds payable in U.S. dollars . . .	\$4,400,000.
Australian Government bonds payable in sterling	1,900,000.
New Zealand Government bonds payable in sterling	<u>300,000.</u>
Total bonds	\$6,600,000. (Can.)
Direct investments at nominal book value	\$13,700,000. (Can.)
These include	
Ford of Canada \$8,700,000.	
Massey-Harris <u>3,900,000.</u>	
\$12,600,000.	
(Can.)	
Total nominal value of investments in Australasia	<u>\$20,300,000. (Can.)</u>

2. Africa

	<u>Par Value</u>
South African Government bonds	\$ 600,000.
Direct investments at nominal book value	5,900,000.
These include	
Ford of Canada \$3,300,000.	
Massey-Harris <u>2,600,000.</u>	
\$5,900,000.	
Total nominal value of investments in Africa	<u>\$6,500,000. (Can.)</u>

3. British Asia

	<u>Par Value</u>
Bonds	\$ 600,000.
Direct investments at nominal value	<u>5,500,000.</u>
Total nominal value of investments in British Asia	\$6,100,000. (Can.)

4. Non-British Asia

	<u>Par Value</u>
Government bonds	\$1,400,000.
Direct investments at nominal value	<u>500,000.</u>
Total nominal value of investments in Non-British Asia .	\$1,900,000. (Can.)

5. United Kingdom

Securities - as at September
15, 1939, based on Form M
returns.

Government bonds at par value	\$17,000,000.
Stocks and corporation bonds	<u>15,000,000.</u>
Total	\$32,000,000. (Can.)

Direct investments, according to Dominion Bureau of Statistics	<u>\$16,000,000. (Can.)</u>
Total	\$48,000,000. (Can.)

6. Europe (excluding United Kingdom)

Investment in Government bonds, as indicated by Form M returns, at par value	\$ 5,500,000.
Investment in stocks, say . .	5,000,000.
Loans made at close of last war by Dominion Government to Governments of Greece and Roumania, probably valueless but par value	30,854,000.
Direct investments, according to estimates of Dominion Bureau of Statistics . . .	<u>8,000,000.</u>
Total	\$49,354,000. (Can.)

The direct investments include holdings by the Massey-Harris Company in France and the Falconbridge Nickel Company in Norway. They do not include European holdings of the Aluminium Company or the International Nickel Company, as these two companies are controlled in the United States.

IV. Forecast of Canada-United Kingdom balance of payments
for the second year of war.

A. On Merchandise Account

U. K.'s "warlike" expenditures in Canada	\$823,000,000.
U. K.'s other expenditures in Canada	<u>338,000,000.</u>
Total\$1,161,000,000.(Can.)
Less U. K. exports to Canada . . .	<u>161,000,000.(Can.)</u>
Credit balance in Canada's favour	\$1,000,000,000.(Can.)

B. On Service items

Net debits against Canada

Interest & dividends (net) . . .	\$62,000,000.
Expenditures of Canadian armed forces in U. K.	75,000,000.(Revised)
Freight & miscellaneous services (net)	<u>20,000,000.</u>
Total debit against Canada	\$157,000,000.

If we combine visible and invisible items, the above estimates show a net total credit in Canada's favour of \$843,000,000. A summary of Canada's balance of payments with the United Kingdom and with the sterling area as a whole is given in Appendix D.

V. Proposed basis of settlement of the Canada-United Kingdom balance of payments on Current Account.

Canada has undertaken to assist the United Kingdom in meeting the latter's debit balance in her transactions with Canada, to the maximum practicable extent of Canada's capacity, by the repatriation of Canadian securities held in the United Kingdom. The remainder of the deficit will have to be met by the United Kingdom by the transfer of gold or cash.

During the first year of war, Canada agreed to provide approximately \$200,000,000. (Can.) in this way, and did so provide about \$193,000,000. For the six months' period, August 1, 1939, to January 31, 1940, Canada agreed to provide \$150,000,000. ⁽¹⁾ and hoped that in the succeeding six months' period it would be possible to increase this amount somewhat, possibly up to \$200,000,000.

The normal process is that the Foreign Exchange Control Board accumulates sterling until a suitable opportunity occurs for the calling and redemption of a Dominion Government direct or guaranteed issue payable in London. In addition, there have been sales, directly in the Canadian market, of British holdings of Canadian provincial or municipal bonds or of private corporate securities, but the narrowness of the Canadian markets limits the amount of securities that can be so absorbed.

It need not be emphasized that there are practical limits to Canada's capacity to assist the United Kingdom by the repatriation of securities. From the standpoint of Canada, such repatriation involves the same problems as a direct war expenditure - the money must be raised in Canada - an equivalent amount of securities or the identical securities must be absorbed by Canadian investors. For this reason it is necessary to look at the total burden assumed by Canada as a result of the war. Canada's direct war expenditure during the present fiscal year ending March 31, 1941, is expected to approximate \$900,000,000. and for the next fiscal year will rise substantially - it may run from \$1,200,000,000. to \$1,500,000,000. To this must be added non-war expenditures of the Dominion Government of approximately \$450,000,000. (excluding the cost of financing an enormous surplus of wheat) and provincial and municipal expenditures of approximately \$600,000,000. A comparison of the aggregate war and other governmental expenditures with the national income (estimated at about \$5,000,000,000. for the next fiscal year) will throw light on the further amount which can be raised by Canadian citizens for the purpose of repatriating Canadian securities now held in the United Kingdom.

- (1) Note that of this amount only about \$130,000,000. would be available to the U. K. during the second year of war.

VI. United Kingdom Investments in Canada.

Canadian data in regard to British investments in Canada are neither up-to-date nor very satisfactory. For what it may be worth, there are presented in the following table certain data, purporting to represent United Kingdom direct and portfolio investments for the year 1937, taken from a publication of the Dominion Bureau of Statistics entitled "The Canadian Balance of International Payments" (Ottawa, 1939.). The method of valuation is more fully described in Chapter IV of this publication but, stated briefly, bonds or other evidences of funded debt are taken at par value, preferred stock at par or stated value, and common stock at book value, while holdings in unincorporated branches or agencies are valued on the basis of net assets in Canada.

Government Securities

Dominion.....	\$317,100,000.
Provincial.....	61,300,000.
Municipal.....	<u>135,800,000.</u>
Total.....	\$514,200,000.

Public Utilities

Railways.....	\$1,065,600,000.
Other, - Traction, light, heat, power, telephone, &c.....	176,000,000.

Manufacturing

Wood & paper products.....	\$ 97,000,000.
Metal industries.....	72,000,000.
All other.....	201,000,000.

Mining.....	\$ 90,000,000
Merchandising & service.....	73,000,000
Insurance.....	85,200,000
Finance & mortgage corporations.....	150,800,000
Miscellaneous (agricultural lands, summer homes, assets administered for persons or corporations residing outside of Canada).	<u>160,000,000.</u>
Total	\$2,684,800,000. (Can.)

Apart from considerations arising from the arbitrary basis of valuation of such investments and the reduction in value of securities payable in sterling due to depreciation of the pound, it is, of course, necessary to reduce the aggregate amount shown above by the amount of securities which have matured or which have been called for redemption or which have been resold to Canadians since 1937. While complete data are not available here, the total amount of securities (chiefly government bonds and guaranteed railway obligations) so repatriated cannot well be less than \$350,000,000. and may well exceed this figure.

VII. Forecast of Canada's balance of payments with the rest of the sterling area for the second year of war.

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Estimated merchandise imports from Canada	\$113,000,000.
Estimated merchandise exports to Canada	<u>87,000,000.</u>
	\$ 26,000,000. (Can.)
Add net balance of invisible items, including payments by Australia and New Zealand on account of Air Training Plan, say	<u>29,000,000. (Can.)</u>
Net credit balance in Canada's favour	\$55,000,000. (Can.)

Up to date, the United Kingdom has been meeting the adverse balance of the rest of the sterling area with Canada. For reasons outlined under V above, it is impossible for Canada to contribute to the financing of this debit balance.

VIII. The amount of sterling balances now held by Canada in London.

As of December 9, 1940

Foreign Exchange Control Board -

Spot.....£31,200,000

Futures..... 6,700,000

£37,900,000

Minister of Finance.....£ 350,000(1)

£38,250,000

(1) This does not include amounts held temporarily in the sinking funds of certain Dominion of Canada obligations payable in London, pending investment in securities to be held in such sinking funds.

APPENDIX AU. S. DOLLAR POSITION OF CERTAIN
CANADIAN FINANCIAL INSTITUTIONS.1. Canadian Life Insurance Companies, as at September 30, 1940.Assets

Bonds - Canadian debtor	\$ 15,400,000. (U.S.)
U. S. "	242,700,000.
Other "	12,000,000.
Stocks - Canadian debtor	1,000,000.
U. S. "	236,000,000.
Other "	—
Mortgages	6,900,000.
Policy loans	46,700,000.
Cash	36,200,000.
Other Assets	<u>3,700,000.</u>
Total Assets	\$600,800,000.
Total Liabilities	<u>545,600,000.</u>
Gross long position at book values . . .	55,200,000.
Adjust for market values (approx.) . . .	<u>50,000,000.</u>
	\$5,200,000.
Adjust for non-U.S. debtors	<u>28,400,000.</u>
Net short position in U. S.	\$23,200,000.

It will be obvious that the above adjustment for market values relates mostly to the investment in stocks.

The investment in U. S. debtor bonds is subdivided as follows:

Government	\$39,300,000.
Municipal	19,300,000.
Rails	41,800,000.
Utilities	126,700,000.
Industrials	14,100,000.
Miscellaneous	<u>1,300,000.</u>
	\$242,700,000.

The investment in stocks is subdivided as follows:

Rails	\$ 2,800,000.
Utilities	115,500,000.
Industrials	110,600,000.
Miscellaneous	<u>11,300,000.</u>
	\$236,200,000.

The total liabilities which are shown at \$545,600,000. include the appropriate amount of the companies' surplus applicable to their U. S. position.

The all-over position of the Canadian life insurance companies, excluding assets represented by multiple payment bonds, is as follows:

United States

Gross long position	\$55,200,000.
Less Canadian debtor bonds & stocks	<u>16,400,000.</u>
	\$38,800,000. (long)

United Kingdom & Sterling Area

Short \$206,800,000.

Canada

Short 58,600,000.

\$265,400,000. (short)

Balancing figure, which represents

investments in multiple payment

bonds, and assets and liabilities

in other currencies \$226,600,000.

(Note - In the above, all conversions are at pre-war rates of exchange.)

2. U. S. Dollar Position of Canadian Trust and Loan Companies.

The total U. S. dollar investments held by these companies is reported to amount to only about \$18,000.

3. U. S. Dollar Position of Canadian Chartered Banks (including both Canadian and foreign branches) as at June 30, 1940.

(a) Total Assets and Liabilities in U. S. Dollars, as at June 30, 1940.

		<u>in Cuban silver</u>
Total such assets were	\$365,000,000. including	\$40,000,000.
of which:		
Cash Assets	" 181,000,000. "	13,000,000.
foreign securities	53,000,000.	
current loans	100,000,000. "	21,000,000.
letters of credit	22,000,000. "	2,000,000.
Total such liabilities	329,000,000. "	36,000,000.

Between June 30, 1940, and October 31, 1940, total such assets probably declined about \$23,000,000. and total such liabilities about \$21,000,000. As at October 31, 1940, total such assets would probably include (roughly): cash assets, \$185,000,000; securities, \$40,000,000; and current loans, \$85,000,000.

(b) Net Long Position in U. S. Dollars

As at June 30, 1940

the net spot position was	\$35,700,000. long
future exchange contracts were	1,200,000. short
items in transit were	<u>7,900,000. long</u>
leaving a true net position,	\$42,400,000. long

Since June 30, 1940, the net long position has declined about \$2,000,000, and would now be approximately \$40,400,000 - of which \$3,000,000 is in the form of Cuban bank premises.

Note. - In view of the size of the U. S. dollar business and the need of maintaining adequate working capital margins in order to satisfy state banking laws, we would not under present conditions regard this net long position as available.

(c) Holdings of Foreign Securities, payable in U. S. Dollars.

As shown above, the Banks had at June 30, 1940, foreign securities payable in U. S. dollars of a total book value of \$53,000,000. Known sales between June 30, 1940, and October 31, 1940, indicate present holdings of about \$40,000,000.

Roughly, this total would be divided somewhat
as follows:

U. S. Government & State Government bonds	\$35,000,000.
U. S. railway bonds and stocks	1,000,000.
Other U. S. stocks	1,000,000.
Latin American securities (some govern- ments, some industrials, chiefly Cuban)	<u>3,000,000.</u>
	\$40,000,000.

APPENDIX BSUMMARY OF CANADA'S BALANCE OF PAYMENTS WITH THE UNITED STATES AS ESTIMATED FOR SECOND YEAR OF WAR.

	(Millions of Canadian dollars)		
<u>Current Account</u>	<u>Credits</u>	<u>Debits</u>	<u>Net</u>
Merchandise - ordinary	\$450	\$550	-\$100
- war	-	325	- 325
Non-monetary gold (net)	212	- plus	212
Tourist and travel expenditures	150 ⁽¹⁾	25 plus	125
Interest and Dividends	30	255	- 225
Freight and miscellaneous services (net)	-	55	- 55
Total	\$842	\$1,210	-\$368
Add estimated amount of tourist expenditures in Canada probably paid for from Canadian dollar accounts			25
			- 393
<u>Capital Account</u>			
Maturing obligations		\$55	- 55
Capital imports	?		?
Total	?	\$55	- 55(?)
Total unfavourable balance			\$448

(1) Includes \$25,000,000. estimated to be paid for out of Canadian dollar accounts.

APPENDIX C

SUMMARY OF CANADA'S BALANCE OF PAYMENTS
WITH COUNTRIES OTHER THAN THE UNITED
STATES FOR WHICH PAYMENT MUST BE MADE
IN GOLD OR U. S. DOLLARS, AS ESTIMATED
FOR SECOND YEAR OF WAR.

(Millions of Canadian dollars)

	<u>Credits</u>	<u>Debits</u>	<u>Net</u>
Merchandise	\$50	\$45	plus \$5
Dividends and other invisible credits	15		plus 15
Immigrant remittances and other invisible debits	—	<u>10</u>	<u>- 10</u>
	\$65	\$55	plus \$10

APPENDIX D

SUMMARY OF CANADA'S BALANCE OF PAYMENTS
WITH THE UNITED KINGDOM AND STERLING
AREA, AS ESTIMATED FOR SECOND YEAR OF WAR

	(Millions of Canadian dollars)		
	<u>Credits</u>	<u>Debits</u>	<u>Net</u>
<u>(a) With United Kingdom</u>			
Merchandise, &c. . . .	\$1,161	\$161	plus \$1,000
Interest & dividends (net)		62	- 62
Expenditures on Canadian Armed Forces in U. K.		75	- 75
Freight & miscellaneous services (net)	<u> </u>	<u>20</u>	<u>-20</u>
	\$1,161	\$318	-\$ 843
<u>(b) With rest of sterling area</u>			
Merchandise	113	87	plus 26
Invisible items (net)	<u>29</u>	<u>-</u>	<u>plus 29</u>
	142	87	plus 55
<u>(c) With Sterling area (including U.K.)</u>			
Merchandise	1,274	248	plus 1,026
Interest & dividends (net)		62	- 62
Expenditures on Canadian Armed Forces in U.K.		75	- 75
Freight & miscellaneous services (net)		20	- 20
Other invisible items (net)	<u>29</u>	<u>-</u>	<u>plus 29</u>
	\$1,303	\$405	plus \$898

TABLE I

ESTIMATE OF CANADA'S BALANCE OF PAYMENTS WITH THE UNITED STATES FOR SECOND YEAR OF WAR

An attempt at Monthly Allocation of the Various Items.

(Millions of Canadian Dollars)

	Exports	Gold	Tourist Imports (Net)	Imports Non-War	Interest & Dividends (Net)	Freight & Other Current (Net)	Total Current a/c ex War Imports	War Imports	Total Current a/c including War	Capital Export re Tourists	Maturities	Total
September	37	17	13	48	18	5	4	15	19	2	1	22
October	38	17	8	57	16	5	15	17	32	2	1	35
November	38	17	3	57	12	5	16	18	34	1	3	38
December	35	17	3	44	33	4	26	19	45	1	2	48
January	33	17	5	39	19	4	7	21	28	2	2	32
February	33	16	5	37	9	4	4	25	21	2	1	24
March	33	17	4	45	20	5	16	29	45	1	1	47
April	36	18	4	43	18	5	8	31	39	1	1	41
May	40	19	6	48	19	5	7	36	43	2	23	68
June	42	19	14	46	32	5	8	40	48	2	3	53
July	42	19	30	42	19	4	26	38	12	4	15	31
August	43	19	30	44	10	4	34	36	2	5	2	9
	450	212	125	550	225	55	43	325	368	25	55	448

Note.—Allocation of individual items by months is necessarily subject to a considerable margin of error.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 12, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 5:30 this afternoon the Secretary telephoned me from his residence in regard to the conversation which he had had with Sir Frederick Phillips. Sir Frederick had asked me this morning to make an appointment with the Secretary which would permit a brief but private talk. At the Secretary's suggestion, Sir Frederick had come to the Treasury at 12:30 and had ridden home with the Secretary.

Phillips explained that the British could not sell us the French gold held in Canada because the Prime Minister of Canada has so far objected to it. Part of this objection comes importantly from consideration of the large French population of the Dominion. Furthermore, the British are very conscious of the fact that they are running \$600,000,000 behind on their annual account with Canada. An officer of the Canadian Government is in Washington, however, and Phillips planned to make a further attempt through him today to overcome the objection of the Prime Minister.

The Secretary's press statement of today was discussed. At his press conference the Secretary had made the point that he was against any loan to Great Britain which violated even the spirit of the Johnson Act; furthermore, the British had not yet asked for any loan. Phillips said that he is now definitely asking for financial assistance. The Secretary replied that while he had consistently been opposed to lending funds to Great Britain in circumstances such as exist at present, he would favor making a gift of such assistance. In his relations with the press and with his colleagues in the Government the Secretary has purposely taken the position of pushing the British as far as possible. That is, he wanted it to be known that he was calling upon them to put forth their best efforts and was demanding from them a frank and full expression of their financial and economic situation. It is the Secretary's view that his plan of getting assistance for Great Britain can best be achieved through this approach, and he is therefore pushing it. Phillips asked if he could cable this idea to his Government. The Secretary replied in the negative, stating that this was just his own personal feeling.

Phillips' attitude seemed to change remarkably as the conversation developed. He affirmed his desire to let us have everything, considering the position which the Secretary has taken. The Secretary was much gratified over this conversation, feeling that he had made more progress in the fifteen minutes drive home, than he had made since Phillips' arrival in the United States.

The Secretary talked briefly with Phillips on the question which is to come before our Group tomorrow morning, namely, that of marketing British-owned American securities in this country. It is the Secretary's desire that this question should be gone into thoroughly with Gifford and the British brought to realize the necessity of the most efficient system possible for carrying out the marketing of such securities.

HSM

GRAY

Bucharest

Dated December 12, 1940

Rec'd 7:42 a. m., 13th

Secretary of State,
Washington.

806, December 12, 5 p. m.

An official of the Ministry of National Economy called at the Legation recently to discuss the question of the period of validity of United States Treasury licenses for the unblocking of Rumanian funds. He stated that the United States Treasury had hitherto followed a policy of limiting licenses to a validity of only a few days usually five days; that Rumanian budgetary legislation required that all payments be approved for separate organizations including the Ministry of Finance, the Ministry of National Economy and the National Bank; and that this process was inevitably time-consuming and difficult to expedite especially in view of the recent reorganization of the Rumanian Government. He inquired whether the Legation could recommend that the United States Treasury if it decided to issue a particular license at all, could not
make

hsm -2- No. 806, December 12, 5 p. m., from Bucharest
make it valid for a longer period such as twenty days.

While the official in question was informed that
the Rumanian Legation at Washington was the proper
channel for such a request, I am bringing the foregoing
to the Department's attention for such action, if any,
that it may see fit to take.

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TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE December 12, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns.....£ 71,000
 Purchased from commercial concerns.....£134,000

About \$95,000 of the registered sterling purchased from commercial concerns represented dividend payments received by American firms.

In the open market, sterling was again quoted at 4.03-3/4 throughout the day. Transactions of the reporting banks were as follows:

Sold to commercial concerns.....£ 5,000
 Purchased from commercial concerns.....£ 5,000

As for the other currencies, there was a continued improvement in the Canadian dollar and Cuban peso discounts. Closing quotations were:

Canadian dollar	13-1/2% discount
Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2363
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	9-1/4% discount

The yuan in Shanghai was again unchanged at 5-15/16¢.

We purchased \$50,118,000 in gold from the earmarked account of His Britannic Majesty's Government.

No new gold engagements were reported to us today.

The Bombay gold price was unchanged at the equivalent of \$33.83, and silver was 3/16¢ higher at the equivalent of 42.87¢.

In London, the prices fixed for spot and forward silver were both unchanged, at 22-7/8d and 22-13/16d respectively. The dollar equivalents were 41.54¢ and 41.42¢.

Handy and Harman's settlement price for foreign silver was unchanged at 34-3/4¢. The Treasury's purchase price for foreign silver was also unchanged at 25¢.

We made four purchases of silver totaling 225,000 ounces under the Silver Purchase Act. Of this amount, 175,000 ounces represented sales from inventory, and the remaining 50,000 ounces consisted of new production from foreign countries, for forward delivery.

The Federal Reserve Bank's report of December 4, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$100,455,000, a decline of \$10,345,000 since November 27. As usual, nearly all of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's reported dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on December 4:

	December 4	Change from Nov. 27
Liabilities: Deposits.....	\$89,796,000	- \$10,124,000
" : U.S. Treas. bills, comm. paper, etc.....	30,426,000	- 935,000
Claims : Loans.....	\$37,566,000	- 4,391,000
" : Other - mainly Jap. import bills.....	18,429,000	+ 4,783,000

It will be observed that \$4,391,000 of the decline in deposits apparently were used to reduce loans. No definite explanation was provided for the other \$5,733,000 withdrawn from deposit, although the agency stated that this represented ordinary disbursements from several branch accounts. Such funds may have been used in the purchase of American goods, or transferred to other banks in this country or abroad. Regarding the \$4,783,000 net purchase of Japanese import bills, the agency emphasized that these were bought for its own account, and that Asiatic deposits were not used in the operation. With the exception of \$36,925,000 which Japanese banks in China had on deposit with the Yokohama agency (off \$1,048,000 from November 27), practically all of the agency's figures shown in the above table refer to Japanese banks in Japan and Manchuria. The agency's foreign currency liabilities and claims remained negligible.

We have also learned, from the Federal's letter of December 5 to the Secretary reporting its investigation of the Yokohama agency's accounts, that at the present time the agency holds no American long-term securities for foreign account. Such holdings, consisting mainly of U.S. Treasury bonds held for account of the head office, rose to a value of \$66.6 million by the end of 1939. The entire amount has been liquidated since then, the bulk of the sales having been made during the past five months.

CONFIDENTIAL

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE

Dec 31 1940

Secretary Morgenstern

E. H. Foley, Jr.

112-12-40

TO

FROM

In addition to Walter Stone, editorial writer for the Scripps-Howard newspaper chain, and myself the following were present at a conference held in my office this afternoon from 3:30 to 4:30 o'clock: Assistant Secretary Sullivan, George Haas, Director of Research and Statistics, Henry Murphy, Assistant Director of Research and Statistics, and C. L. Kadess.

Mr. Stone stated that the Scripps-Howard newspaper desired to institute an aggressive editorial campaign directed at securing the elimination of tax exempt securities. He further stated that he expected to carry on this campaign through editorials and news articles which would appear in the various newspapers comprising the chain, and that he desired material for such editorials and articles. Mr. Stone asked if he could be supplied with a series of hypothetical cases showing the tax avoidance resulting from investment in state and municipal securities, as distinguished from investment in business enterprises, after taking into consideration not only Federal income taxes but state income and intangible personal property taxes. It was agreed that this could be done and that the material would be submitted to him from time to time beginning within a week. A committee was appointed to collect the necessary information consisting of Mr. Murphy as chairman, Mr. Kadess and Mr. Boker-Race of Mr. Blough's Tax Research Division.

Mr. Stone also said he would be interested in ascertaining who was financing the Conference for State Defense and the other pressure groups opposing the elimination of tax exempt securities, and Mr. Sullivan and I indicated that we would be glad to cooperate with him in such an undertaking.

Mr. Stone also suggested the advisability of the Federal Government consenting not only to the imposition of state income taxes upon the interest of Federal securities but also to the intangible personal property taxation by the states of such securities in private hands at the same extent as the states taxed their securities. This suggestion was explored at some length the object being to take away from the opponents of the proposal to eliminate tax exempt securities the argument that states not having an income tax would be discriminated against if the Federal Government subjected the securities only to state income taxation. Such opposition, for example, emanates from Governor Briekner of Ohio for this reason.

After exploring generally the entire problem of tax exempt securities, Mr. Stone raised the question whether the Treasury was going to do anything about income taxation so far as community property was concerned and Mr. Sullivan stated that it was not thought desirable to do anything about eliminating this inequity at this time for fear it might jeopardize the success of the proposal to eliminate tax exempt securities.

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I asked Mr. Stone if he thought it would be desirable for the Treasury to retain a newspaper man having editorial experience to put the material in the form in which he wanted it. Mr. Stone said he did not think this was necessary as the information he needed was of the character which could be supplied adequately by economists, lawyers and accountants.

E. W. F. h

TREASURY DEPARTMENT

215

INTER OFFICE COMMUNICATION

DATE December 12, 1940.

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

Here is some additional material that you might want to glance over in connection with the memorandum on the "Johnson Act Conference" which I sent to you this afternoon.

E.H.F.

Attachments

(CONFIDENTIAL)

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October 1, 1939

7:10 p.m.

The President called me awhile ago, and I told him that we had been asked by the State Department to prepare something for Key Pittman on the Neutrality Bill.

We felt that the consideration fell into two matters:

One, whether the credit clause in the cash-and -carry plan now under consideration was contrary with the Johnson Act, and that we in the Treasury felt that, and were of the view that, the opposite was the fact. Particularly in view of a memorandum in the Treasury's files of a conference in my office in 1934 at which Senator Johnson was present. When we had asked the Senator the specific question relative to short-term credits, the Senator had answered that the elimination of short-term credits had not been considered part of the purpose of his Bill.

The President said, "That's wonderful! That's fine!"

And the second part, with reference to the question of the extension of 90-day credits, I felt that the President shouldn't do anything to urge it. That the whole history was that it had been introduced in the House for the direct purpose to restrict the powers of the President as to the extension of any such credits, and that we in the Treasury felt that the President should let the pressure come from outside on this.

The President said, "I am in complete agreement with you, and-

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that is exactly the way I feel, and Cordell agrees absolutely."

I told him that Cordell didn't talk that way to me this morning. He gave me the impression that he would like to see this included.

"So would I", said the President, "but I am not going to do anything about it. The Pressure will have to come from elsewhere."

He asked me to send over to him the memorandum, and the memorandum on the conference in my office, and while he didn't tell me so in so many words, I got the impression that he will see that it is sent and gets to Key Pittman.

(Dictated via telephone by
the Secretary to McGuire)

The original sent to the Secretary's office for the Secretary's diary.

October 1, 1939

MEMORANDUMRe: Credits to Belligerents

Section 7 of the Senate neutrality bill relates to financial transactions with belligerents. It continues the existing provisions of the neutrality statute which prohibits the making of loans and credits to belligerents and persons acting on their behalf. It is also to be noted that the existing neutrality law authorizes the President, when he finds it in the interest of the United States, to exempt from this prohibition "ordinary commercial credits and short-term obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions." The Senate Committee apparently felt that the existing provision could be strengthened, without sacrificing American interests, by limiting the discretion of the President and by confining to a more limited category the permissible forms of short-term commercial credits. Accordingly, the Senate bill provides that (i) the short-term commercial credits may not be for a period more than 90 days without renewal; (ii) if any belligerent or person acting for a belligerent defaults on any such 90-day credit, no new commercial credit may be extended; and (iii) the President report to Congress every six months full information as to each commercial credit which has thus been permitted.

It is thus entirely clear that Presidential authority to permit short-term commercial credits to belligerents has been a part of the neutrality law continuously since February, 1936, and that the only changes which the Senate bill makes in the existing law are in the direction of additional restrictions on the Presidential discretion to permit short-term commercial credits.

It has been charged that the provision in the present bill relating to short-term commercial credits to belligerents is inconsistent with the Johnson Act of 1934, and is the opening wedge for the granting of loans to belligerents. I think that an examination of the history of the Johnson Act and the Neutrality Act will show these charges to be unfounded.

JOHNSON ACT

The Johnson Act provided in part as follows:

"That hereafter it shall be unlawful within the United States or any place subject to the jurisdiction of the United States for any person to purchase or sell the bonds, securities, or other obligations of, any foreign government or political subdivision thereof or any organization or association acting for or on behalf of a foreign government or political subdivision thereof, issued after the passage of this Act, or to make any loan to such foreign government, political subdivision, organization, or association, except a renewal or adjustment of existing indebtedness while such government, political subdivision, organization, or association, is in default in the payment of its obligations, or any part thereof, to the Government of the United States. * * *."

Within a few weeks after the passage of the Johnson Act a number of problems arose necessitating the interpretation of that statute. On April 27, 1934, a conference was held at the Treasury

Department attended by Senator Johnson, the Attorney General, the Secretary of State, the Secretary of the Treasury and a number of other officials of the State, Treasury and Justice Departments. During the conference, Senator Johnson was asked if he thought that the statute applied to such every-day commercial instruments as time drafts, bankers' acceptances, etc. Senator Johnson stated that he did not think that the statute could be interpreted in any such manner and that it was not the intention of the statute to interfere in any way with ordinary commercial transactions. It also appeared to have been the view of the participants in the conference, including Senator Johnson, that the Johnson Act did not apply to time drafts, acceptances, etc., employed in connection with ordinary commercial transactions. A memorandum of the conference is in the Treasury Department's files. A copy of the memorandum is attached.

On the same day the State Department issued the following press release:

"Enquiries have been received at the Department of State as to whether the Act of Congress approved April 13, 1934, to prohibit financial transactions with foreign governments in default on their obligations to the United States, applies to ordinary commercial 'acceptances or time drafts,' such as are used by foreign governments to finance the current requirements of their embassies and consulates in the United States.

"The Department of State and the Attorney General are in agreement that such instruments do not constitute 'obligations' within the purview of the Act.

"Certain other questions that have been presented regarding the interpretation of the Act are under consideration. "

On May 5, 1934, the Attorney General, in response to a request

from the Secretary of State, rendered an opinion on a number of questions relating to the Johnson Act, which opinion stated in part as follows:

"(2) To what types of transactions does the Act apply?"

"The Committee Reports (S. Rept. 20 and House Rept. 974, 73d Cong.) recite that the bill was introduced following an investigation by the Senate Committee on Finance and the revelation therein that 'billions of dollars of securities * * * offered for sale to the American people' were overdue and unpaid; that some of these 'foreign bonds and obligations * * * were sold by the American financiers to make outrageously high profits'; and stated a purpose 'to prevent a recurrence of the practices which were shown by the investigation to be little less than a fraud upon the American people * * * to curb the rapacity of those engaged in the sale of foreign obligations * * *.'

"This, I think, is indicative of a purpose to deal with such 'bonds' and 'securities' and with 'other obligations' of like nature, observing the rule of eiusdem generis - that is, obligations such as those which had been sold to the American public to raise money for the use of the foreign governments issuing them - not contemplating foreign currency, postal money orders, drafts, checks and other ordinary aids to banking and commercial transactions, which are 'obligations' in a broad sense but not in the sense intended. It was obviously not the purpose of the Congress to discontinue all commercial relations with the defaulting countries."

* * * * *

"(4) Does the Act apply to acceptances or time drafts?"

"This question appears to be sufficiently answered by the comments under Question No. 2, supra. It appears proper to add, however, that such transactions must be conducted in good faith, in order to be within the law, and not as mere subterfuges to circumvent its purpose."

In other words, the Attorney General found that while the Johnson Act prohibited the sale of bonds and securities of countries

in default it did not prohibit those ordinary short-term commercial credit devices customarily used in international trade. The entire text of the opinion of the Attorney General was quoted in a State Department press release dated May 5, 1934 which also included the statement that the State Department concurred in the Attorney General's interpretation of the Johnson Act. Unquestionably this opinion has been relied upon by American business interests in their commercial transactions with defaulting countries and persons on their behalf. In the light of this background and at this late date, the Johnson Act should not be construed as making illegal short-term credit transactions with defaulting governments relating to otherwise permissible trade and commercial transactions.

NEUTRALITY ACT

In February, 1936, Congress in amending the then existing Neutrality Act included the following provision:

"SEC. 1a. Whenever the President shall have issued his proclamation as provided for in section 1 of this Act, it shall thereafter during the period of the war be unlawful for any person within the United States to purchase, sell, or exchange bonds, securities, or other obligations of the government of any belligerent country, or of any political subdivision thereof, or of any person acting for or on behalf of such government, issued after the date of such proclamation, or to make any loan or extend any credit to any such government or person: Provided, That if the President shall find that such action will serve to protect the commercial or other interests of the United States or its nationals, he may, in his discretion, and to such extent and under such regulation as he may prescribe, except from the operation of this section ordinary commercial credits and short-term obligations in aid of legal transactions and of a character customarily used in normal peace-

time commercial transactions."

It will be noted that this provision, which has been the law since February, 1936, specifically authorized the President to permit short-term ordinary commercial loans to belligerents and persons acting on their behalf. The debate in Congress reveals no feeling that this provision was inconsistent or in conflict with the provisions of the Johnson Act. The view of Congress was quite the contrary. The House report on this provision in the 1936 amendment stated:

"* * * It is the law now under the Johnson Act that it is unlawful to sell bonds, securities, etc., in this country or any foreign country that is in default of its indebtedness to the United States. This covers most of the greater powers in Europe. This section, however, goes much further and makes it unlawful, as before stated, to all belligerent countries. Now, there is a provision in this section that if the President shall find that such action will serve to protect the commercial or other interests of the United States or its nationals, he may, in his discretion, and to such extent and under such regulation as he may prescribe, except from the operation of this section ordinary commercial credits and short-time obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions. There is also another provision that this section does not apply to renewal or adjustment of indebtedness which may exist on the date of the President's proclamation. The only discretion given the President under this section is in reference to such credits used in normal peacetime commercial transactions."

By specifically prohibiting in the Neutrality Act the extension of "any credit" (which words do not appear in the Johnson Act) Congress, in view of the purposes of the Neutrality Act, apparently intended thereby to prohibit even short-term commercial credits unless the

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President found that the making of such short-term commercial credits to belligerents was in the public interest, in which event, such credits would be lawful.

No change was made in this provision of the Neutrality Act when the Neutrality Act was otherwise amended in 1937. When the neutrality legislation was considered in the House of Representatives last July, it was proposed to circumscribe further the President's power to permit short-term commercial credits to belligerents by limiting such credits to 90 days without renewal, and requiring the President to make periodic reports to Congress of such transactions. These limitations on the power given to the President by the existing statutory provision are included in the Senate bill, and in addition the Senate bill prohibits further 90-day credits if a belligerent defaults on prior 90-day credits given to it.

Original and 1 copy taken to White House by Foley 8:30 p.m.
1 copy sent to Secretary by Bernstein
1 copy to Attorney General at Washington Hotel by Shelley (returned approved and original run given to Attorney General.)
1 copy to Viner
1 copy to Bell
1 copy to Cochran
1 copy to Bernstein
1 copy to Pehle
1 copy to Foley
Ballie returned copy after reading it.

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October 2, 1939

Secretary of the Treasury

Mr. Foley

As you know, we have ruled that neither the Johnson Act, nor the provisions of the Neutrality Act relating to the making of loans and the extension of credit to belligerent countries, apply to the Government or any agency thereof. The Attorney General has concurred in this view. Nothing in the Neutrality Bill, which has been reported out in the Senate, necessitates a change of this view.

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

JWP:mgt 10/2'39

Initialed JWP and BB

October 24, 1939

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To: Secretary Morgenthau
From: Messrs. White and Foley

Senator Wagner inquired by telephone as to the Department's position on Taft's amendment to the Neutrality Bill to limit the stabilization fund's holdings of the currency of any belligerent to no more than \$50,000,000 at any one time. We feel that the Department should indicate to Senator Wagner its opposition to Taft's amendment for the following reasons:

- (1) When Congress extended the stabilization powers it was fully conscious of the possibility or probability of a war in Europe. There is accordingly no need at this time for Congress to reconsider the problem and to limit the stabilization powers.
- (2) Senator Taft questioned the Secretary about the use of the stabilization fund in the event of war. The Secretary said that before he would use the stabilization fund to assist any country in prosecuting that war he would come up before the proper committee and ask for guidance. This procedure would permit greater flexibility than Taft's proposal in dealing with an emergency situation in which it might be greatly in the interests of this country to purchase the currency of a belligerent in amounts greater than \$50,000,000. By going to the congressional committees the Treasury could ascertain the views of Congress without the publicity and delay involved in getting new legislation.
- (3) If we do not indicate our opposition to Taft's amendment, there is likelihood that other amendments would be offered prohibiting the stabilization fund from purchasing any belligerent currency and in effect nullifying its use during the war.

If you agree with the foregoing, we can give these views to Senator Wagner orally.

(Initialed) E.H.F.Jr.
H.D.W.

APPROVED: October 25, 1939

(Initialed) H.M.Jr.

Original was left with Senator Wagner by White and Foley

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The original copy was pulled. The following note appeared on it: "Please talk to me. H.M.Jr.", and "White House".

Oct. 30, 1939

Secretary Morgenthau

Mr. Foley

As I stated to you in my memorandum of October 2, 1939, it is our view, concurred in by the Attorney General, that the Johnson Act and the provisions of the present neutrality law relating to the making of loans and the extension of credit to belligerent governments do not apply to this Government or agencies thereof.

The pending neutrality bill contains similar language and it would have been appropriate to interpret it in a similar manner but for the statement made by Senator Pittman on the floor of the Senate late in the evening on October 27, 1939. Senator Pittman indicated that he and the other drafters of the bill construe its provisions to prohibit the making of loans or the extension of credit to belligerent governments by governmental corporations, such as R. F. C. and the Export-Import Bank. A discussion of this matter appears in the attached excerpts from the Congressional Record. On October 17, 1939, Senator Barkley said on the floor of the Senate that his offhand view was that the credit provisions of the pending bill applied as rigidly to the R. F. C. and any other agency of the Government as to any private person in this country.

Senator Pittman made the statements in question notwithstanding the fact that on October 27, the Senate voted down an amendment introduced by Senator Taft, which was designed to prohibit the making of loans and the extension of credit by the Government or agencies thereof. You will note from the discussion of the matter which appears in the excerpt from the Congressional Record that Senator George pointed out that Senator Pittman's construction "covers precisely one of the amendments offered by the distinguished Senator from Ohio, which was voted down by this body yesterday."

Unless Senator Pittman can be persuaded to take some appropriate action that would nullify the effect of this statement I am fearful that we will be unable to hold that the R. F. C. and the Export-Import Bank have legal authority under the now-pending legislation to make loans of the type which have been considered to an American corporation acting on behalf of belligerent governments, collateralized by American securities owned by such belligerents.

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

JWP:BB:mgt 10/28/39

SENATE

October 27, 1939 Page 1655

Mr. TAFT.

Mr. President, while this matter is being discussed I should like to ask the chairman of the Committee on Foreign Relations one question regarding this section. On page 21 it is provided that whenever the President shall have issued a proclamation it shall be unlawful for any person within the United States to advance credits to foreign Governments. I wish to know whether or not the chairman of the Committee on Foreign Relations considers that the word "person" which is also defined on page 30 as including corporations, and so forth, is broad enough to include the Reconstruction Finance Corporation and the Export-Import Bank.

Mr. PITTMAN.

The word "person" expressly includes corporations, and therefore takes it that it does include them.

Mr. TAFT.

In the Senator's opinion, it includes the Reconstruction Finance Corporation and the Export-Import Bank?

Mr. PITTMAN.

That is my opinion, and that was the opinion of those who drafted the joint resolution.

Mr. GEORGE.

Mr. President, I wish to make a short statement. Particularly I wanted to say that my construction of the word "person" is identically the same as that given by the chairman of the committee. I think that is pertinent, because in effect it covers precisely one of the amendments offered by the distinguished Senator from Ohio, which was voted down in this body yesterday. I think the word "persons" here does include a subsidiary of the Government, a corporate subsidiary such as the Reconstruction Finance Corporation, or any other corporation which is owned wholly or practically wholly by the Government itself.

Commissioner of Accounts
& Deposits.

TREASURY DEPARTMENT
WASHINGTON

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11/18/40 ✓

April 28, 1934.

CONFERENCE RE: JOHNSON BILL:

(Public No. 151, 73rd Congress)

The Secretary of the Treasury called a conference at 11 o'clock Friday, April 27, 1934, for the purpose of considering some of the difficulties in interpreting the provisions of the so-called Johnson Bill, which prohibits the flotation of loans in the United States by governments in default on their indebtedness to the United States Government. Those present were the Secretary of the Treasury, the Attorney General of the United States, Senator Johnson of California, Under Secretary Phillips and Assistant Secretary Moore of the State Department, Mr. Hackworth, Solicitor of the State Department, Mr. MacLean, Assistant Solicitor General, Mr. Coolidge, Mr. Oliphant, and Mr. Bell, of the Treasury. Secretary Hull came in at 11:20.

The Secretary asked Senator Johnson to outline to the meeting the objectives which he had in mind in presenting the bill to the Congress.

Senator Johnson went into the history of the measure and stated that as it was first introduced and passed the Senate more than a year ago, he had in mind definitely the protection of the American citizen in his purchases of foreign securities in the United States issued by foreign governments which are in default on any of their indebtedness to the United States Government or its nationals. He stated that he had definitely in mind at that time the South American governments. He stated that just after the bill first passed the Senate, Senator Robinson asked that it be laid on the table and reconsidered. At a conference between him and Senator Robinson at a later date, he agreed to further amendments, after which it was referred back to the Foreign Relations Committee and was there amended to its present form. He thought as the bill now stands, its main objective was to preclude the flotation in this country of any securities of those governments or any subdivisions thereof which are in default on their indebtedness to the United States Government.

The Secretary asked him just what he meant by the term "default" and did he have definitely in mind including those governments which have made token payments as a result of which the President had stated that he did not consider those governments in default?

Senator Johnson said that it was his personal opinion that if these governments did not pay the full amount due they were certainly in default.

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as to the remaining balance. However, he realized that this was largely an administrative matter and the President under the powers granted by the Constitution to handle foreign affairs, certainly had the authority to state whether or not a particular government was in default on its indebtedness to the United States Government. He did not think that the act was intended to disturb the action already taken by the President in declaring those governments not in default.

The Attorney General stated to the Senator that he thought the President's previous action was quite in line with his authority, but asked the Senator if he thought the President could take similar action on future token payments in view of the act.

The Senator stated that his personal opinion was that the President had no authority after the passage of this act to accept from our debtors token payments and then consider them not in default.

The Secretary then asked the Senator if he thought the bill included such everyday commercial transactions as time drafts and bankers' acceptances etc. The Senator said he did not think it could be interpreted in any such manner and that it was not the intention of the bill to interfere in any way with ordinary commercial transactions. The question was then raised as to what was meant by time drafts, acceptances, etc. Mr. Coolidge explained an ordinary commercial transaction with respect to the purchase of cotton in the United States by the national of some foreign government - that the concern selling the cotton might draw a bill of exchange on the purchaser, which would be honored in thirty days more or less and that this bill of exchange could be sold on various terms. It was the consensus of opinion that such a transaction would not fall within the provisions of the act.

The Attorney General then asked the Senator if he thought that a fair interpretation of the act was that it did not intend in any way to limit the ordinary everyday commercial transaction, and the Senator said that, certainly, was the interpretation he would put on it.

Mr. MacLean, Assistant Solicitor General, then called attention to the fact that France exercised a monopoly in tobacco, and that the organizations in this monopoly would no doubt in the course of business sell their drafts and other instruments of credit in this country. The Senator said that he did not have such transactions in mind and that the words "organizations or associations" in the act were not his language. It seemed to be the consensus of opinion that these transactions would fall within a commercial transaction and not within the provisions of the Act.

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Mr. Hackworth brought up the question that had been presented to him just before he came to the Treasury, i.e., as to whether the operations in coupons on German bonds would fall within the provisions of the act. He explained that coupons falling due on many of the German bonds were paid partly in cash and partly in scrip, and that later the scrip was purchased by a bank in Germany which was more or less under the supervision of the Reichsbank and the German Government.

Senator Johnson thought that such a transaction would clearly fall within the exception in the act with respect to renewal or adjustment of existing indebtedness.

Mr. Coolidge said that he thought that one way in which to interpret the act was to decide whether or not any of the transactions passed upon involved new American money and that this should be a deciding factor. This seemed to be agreed to by the Attorney General and Mr. Hackworth.

Initialed - D.W.B.

December 12, 1940.

Secretary Hergenthan

E. H. Foley, Jr.

Here is some additional material that you might want to glance over in connection with the memorandum on the "Johnson Act Conference" which I sent to you this afternoon.

(Initialed) E.H.F. Jr.

EHF/En

Attachments:

Sent out to the Secretary at his House (by hand)
at 6 p.m. 12/12/40

1. Memo in the Secretary's diary 10/1/39 re telephone call from the President and the Secretary's explanation of the Treasury's views on the Neutrality Bill.
2. Memorandum re: "Credits to Belligerents". Prepared at the suggestion of the State Department 10/1/39 for Key Pittman to use in connection with the debates on the pending Neutrality Bill.
3. Foley's memo to the Secretary 10/2/39 holding that neither the Johnson Act nor the Neutrality Act (as reported out of the Senate) in regard to the making of loans to, and the extension of credits to belligerent countries applied to the Government or any agency thereof. The A.G. concurred in that view.
4. Messrs. White and Foley's memo to the Secretary on 10/24/39. Three reasons why the Treasury should object to Taft's amendment to the Neutrality Bill to limit stabilization fund's holdings of the currency of any belligerent to no more than \$20,000,000.
5. Foley's memo to Secretary 10/30/39 relating to the Secretary that Key Pittman's statement on the floor of the Senate on Oct. 27, 1939 would have to be changed or we would have to hold that the RFC and the Export-Import Bank do not have the authority to make loans to an American corporation acting on behalf of the belligerent governments.

COPY

October 1, 1939

7:15 p.m.

The President called me awhile ago, and I told him that we had been asked by the State Department to prepare something for Kay Pittman on the Neutrality Bill.

We felt that the consideration fell into two matters:

One, whether the credit clause in the cash-and-carry plan now under consideration was contrary with the Johnson Act, and that we in the Treasury felt that, and were of the view that, the opposite was the fact. Particularly in view of a memorandum in the Treasury's files of a conference in my office in 1934 at which Senator Johnson was present. When we had asked the Senator the specific question relative to short-term credits, the Senator had answered that the elimination of short-term credits had not been considered part of the purpose of his Bill.

The President said, "That's wonderful! That's fine!"

And the second part, with reference to the question of the extension of 90-day credits, I felt that the President shouldn't do anything to urge it. That the whole history was that it had been introduced in the House for the direct purpose to restrict the powers of the President as to the extension of any such credits, and that we in the Treasury felt that the President should let the pressure come from outside on this.

The President said, "I am in complete agreement with you, and

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that is exactly the way I feel, and Cordell agrees absolutely."

I told him that Cordell didn't talk that way to me this morning. He gave me the impression that he would like to see this included.

"So would I", said the President, "but I am not going to do anything about it. The Pressure will have to come from elsewhere."

He asked me to send over to him the memorandum, and the memorandum on the conference in my office, and while he didn't tell me so in so many words, I got the impression that he will see that it is sent and gets to Key Pittman.

(Dictated via telephone by
the Secretary to McGuire)

The original sent to the Secretary's office for the Secretary's diary.

copied 12/12'49 by fm
The original of this sent to the Secretary at his house on 12/12'49

October 1, 1939

MEMORANDUM**Re: Credits to Belligerents**

Section 7 of the Senate neutrality bill relates to financial transactions with belligerents. It continues the existing provisions of the neutrality statute which prohibits the making of loans and credits to belligerents and persons acting on their behalf. It is also to be noted that the existing neutrality law authorizes the President, when he finds it in the interest of the United States, to exempt from this prohibition "ordinary commercial credits and short-term obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions." The Senate Committee apparently felt that the existing provision could be strengthened, without sacrificing American interests, by limiting the discretion of the President and by confining to a more limited category the permissible forms of short-term commercial credits. Accordingly, the Senate bill provides that (i) the short-term commercial credits may not be for a period more than 90 days without renewal; (ii) if any belligerent or person acting for a belligerent defaults on any such 90-day credit, no new commercial credit may be extended; and (iii) the President report to Congress every six months full information as to each commercial credit which has thus been permitted.

It is thus entirely clear that Presidential authority to permit short-term commercial credits to belligerents has been a part of the neutrality law continuously since February, 1934, and that the only changes which the Senate bill makes in the existing law are in the direction of additional restrictions on the Presidential discretion to permit short-term commercial credits.

It has been charged that the provision in the present bill relating to short-term commercial credits to belligerents is inconsistent with the Johnson Act of 1934, and is the opening wedge for the granting of loans to belligerents. I think that an examination of the history of the Johnson Act and the Neutrality Act will show these charges to be unfounded.

JOHNSON ACT

The Johnson Act provided in part as follows:

"That hereafter it shall be unlawful within the United States or any place subject to the jurisdiction of the United States for any person to purchase or sell the bonds, securities, or other obligations of, any foreign government or political subdivision thereof or any organization or association acting for or on behalf of a foreign government or political subdivision thereof, issued after the passage of this Act, or to make any loan to such foreign government, political subdivision, organization, or association, except a renewal or adjustment of existing indebtedness while such government, political subdivision, organization, or association, is in default in the payment of its obligations, or any part thereof, to the Government of the United States. * * *

Within a few weeks after the passage of the Johnson Act a number of problems arose necessitating the interpretation of that statute. On April 27, 1934, a conference was held at the Treasury

Department attended by Senator Johnson, the Attorney General, the Secretary of State, the Secretary of the Treasury and a number of other officials of the State, Treasury and Justice Departments. During the conference, Senator Johnson was asked if he thought that the statute applied to such every-day commercial instruments as time drafts, bankers' acceptances, etc. Senator Johnson stated that he did not think that the statute could be interpreted in any such manner and that it was not the intention of the statute to interfere in any way with ordinary commercial transactions. It also appeared to have been the view of the participants in the conference, including Senator Johnson, that the Johnson Act did not apply to time drafts, acceptances, etc., employed in connection with ordinary commercial transactions. A memorandum of the conference is in the Treasury Department's files. A copy of the memorandum is attached.

On the same day the State Department issued the following press release:

"Inquiries have been received at the Department of State as to whether the Act of Congress approved April 13, 1934, to prohibit financial transactions with foreign governments in default on their obligations to the United States, applies to ordinary commercial 'acceptances or time drafts,' such as are used by foreign governments to finance the current requirements of their embassies and consulates in the United States.

"The Department of State and the Attorney General are in agreement that such instruments do not constitute 'obligations' within the purview of the Act.

"Certain other questions that have been presented regarding the interpretation of the Act are under consideration."

On May 5, 1934, the Attorney General, in response to a request

from the Secretary of State, rendered an opinion on a number of questions relating to the Johnson Act, which opinion stated in part as follows:

"(2) To what types of transactions does the Act apply?"

"The Committee Reports (S. Rept. 20 and House Rept. 974, 73d Cong.) recite that the bill was introduced following an investigation by the Senate Committee on Finance and the revelation therein that 'billions of dollars of securities * * * offered for sale to the American people' were created and impeded that some of these 'foreign bonds and obligations * * * were sold by the American financiers to make outrageously high profits' and stated a purpose 'to prevent a recurrence of the practices which were shown by the investigation to be little less than a fraud upon the American people * * * to curb the rapacity of those engaged in the sale of foreign obligations * * *'

"This, I think, is indicative of a purpose to deal with such 'bonds' and 'securities' and with 'other obligations' of like nature, observing the rule of stare decisis - that is, obligations such as those which had been sold to the American public to raise money for the use of the foreign governments lending them - not contemplating foreign currency, postal money orders, drafts, checks and other ordinary aids to banking and commercial transactions, which are 'obligations' in a broad sense but not in the sense intended. It was obviously not the purpose of the Congress to discontinue all commercial relations with the defaulting countries."

* * * * *

"(4) Does the Act apply to acceptances or time drafts?"

"This question appears to be sufficiently answered by the comments under Question No. 2, HEREIN. It appears proper to add, however, that such transactions must be conducted in good faith, in order to be within the law, and not as mere subterfuges to circumvent its purpose."

In other words, the Attorney General found that while the Johnson Act prohibited the sale of bonds and securities of countries

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in default it did not prohibit those ordinary short-term commercial credit devices customarily used in international trade. The entire text of the opinion of the Attorney General was quoted in a State Department press release dated May 5, 1934 which also included the statement that the State Department concurred in the Attorney General's interpretation of the Johnson Act. Unquestionably this opinion has been relied upon by American business interests in their commercial transactions with defaulting countries and persons on their behalf. In the light of this background and at this late date, the Johnson Act should not be construed as making illegal short-term credit transactions with defaulting governments relating to otherwise permissible trade and commercial transactions.

NEUTRALITY ACT

In February, 1936, Congress in amending the then existing Neutrality Act included the following provisions:

"SEC. 1a. Whenever the President shall have issued his proclamation as provided for in section 1 of this Act, it shall thereafter during the period of the war be unlawful for any person within the United States to purchase, sell, or exchange bonds, securities, or other obligations of the government of any belligerent country, or of any political subdivision thereof, or of any person acting for or on behalf of such government, issued after the date of such proclamation, or to make any loan or extend any credit to any such government or person: Provided, That if the President shall find that such action will serve to protect the commercial or other interests of the United States or its nationals, he may, in his discretion, and to such extent and under such regulations as he may prescribe, exempt from the operation of this section ordinary commercial credits and short-term obligations in aid of local transactions and of a character customarily used in normal com-

line commercial transactions.

It will be noted that this provision, which has been the law since February, 1936, specifically authorized the President to permit short-term ordinary commercial loans to belligerents and persons acting on their behalf. The debate in Congress reveals no feeling that this provision was inconsistent or in conflict with the provisions of the Johnson Act. The view of Congress was quite the contrary. The House report on this provision in the 1936 amendment stated:

" * * * It is the law now under the Johnson Act that it is unlawful to sell bonds, securities, etc., in this country of any foreign country that is in default of its indebtedness to the United States. This covers most of the greater powers in Europe. This section, however, goes much further and makes it unlawful, as before stated, to all belligerent countries. Now, there is a provision in this section that if the President shall find that such section will serve to protect the commercial or other interests of the United States or its nationals, he may, in his discretion, and to such extent and under such regulation as he may prescribe, exempt from the operation of this section ordinary commercial credits and short-time obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions. There is also another provision that this section does not apply to renewal or adjustment of indebtedness which may exist on the date of the President's proclamation. The only discretion given the President under this section is in reference to such credits used in normal peacetime commercial transactions."

By specifically prohibiting in the Neutrality Act the extension of "any credits (which words do not appear in the Johnson Act) Congress, in view of the purposes of the Neutrality Act, apparently intended thereby to prohibit even short-term commercial credits unless the

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President found that the making of such short-term commercial credits to belligerents was in the public interest, in which event, such credits would be lawful.

No change was made in this provision of the Neutrality Act when the Neutrality Act was otherwise amended in 1937. When the neutrality legislation was considered in the House of Representatives last July, it was proposed to circumscribe further the President's power to permit short-term commercial credits to belligerents by limiting such credits to 90 days without renewal, and requiring the President to make periodic reports to Congress of such transactions. These limitations on the power given to the President by the existing statutory provision are included in the Senate bill, and in addition the Senate bill prohibits further 90-day credits if a belligerent defaults on prior 90-day credits given to it.

Original and 1 copy taken to White House by Foley 8:30 p.m.
1 copy sent to Secretary by Bernstein
1 copy to Attorney General at Washington Hotel by Shelley (returned approved and original run given to Attorney General.)
1 copy to Viner
1 copy to Bell
1 copy to Cochran
1 copy to Bernstein
1 copy to Fehle
1 copy to Foley
Baile returned copy after reading it.

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October 2, 1939

Secretary of the Treasury

Mr. Foley

As you know, we have ruled that neither the Johnson Act, nor the provisions of the Neutrality Act relating to the making of loans and the extension of credit to belligerent countries, apply to the Government or any agency thereof. The Attorney General has concurred in this view. Nothing in the Neutrality Bill, which has been reported out in the Senate, necessitates a change of this view.

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

JWF:agt 10/1939

Initialed JWF and EB

October 24, 1939

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To: Secretary Morgenthau
From: Messrs. White and Foley

Senator Wagner inquired by telephone as to the Department's position on Taft's amendment to the Neutrality Bill to limit the stabilization fund's holdings of the currency of any belligerent to no more than \$50,000,000 at any one time. We feel that the Department should indicate to Senator Wagner its opposition to Taft's amendment for the following reasons:

- (1) When Congress extended the stabilization powers it was fully conscious of the possibility or probability of a war in Europe. There is accordingly no need at this time for Congress to reconsider the problem and to limit the stabilization powers.
- (2) Senator Taft questioned the Secretary about the use of the stabilization fund in the event of war. The Secretary said that before he would use the stabilization fund to assist any country in prosecuting that war he would come up before the proper committee and ask for guidance. This procedure would permit greater flexibility than Taft's proposal in dealing with an emergency situation in which it might be greatly in the interests of this country to purchase the currency of a belligerent in amounts greater than \$50,000,000. By going to the congressional committee the Treasury could ascertain the views of Congress without the publicity and delay involved in getting new legislation.
- (3) If we do not indicate our opposition to Taft's amendment, there is likelihood that other amendments would be offered prohibiting the stabilization fund from purchasing any belligerent currency and in effect nullifying its use during the war.

If you agree with the foregoing, we can give these views to Senator Wagner orally.

(Initialed) E.H.F.Jr.
E.D.W.

APPROVED: October 25, 1939

(Initialed) E.H.F.Jr.

Original was left with Senator Wagner by White and Foley

The original of this "copied" run was sent to the Secretary at his house on 12/12/40

EB:mn
10/24/39
copied 12/12/40 fm

The original copy was pulled. The following note appeared on its envelope talk to me, H.R. Jr., and "White House".

Oct. 30, 1939

Secretary Korgenhan

Mr. Foley

As I stated to you in my memorandum of October 29, 1939, it is our view, concurred in by the Attorney General, that the Johnson Act and the provisions of the present neutrality law relating to the making of loans and the extension of credit to belligerent governments do not apply to this Government or agencies thereof.

The pending neutrality bill contains similar language and it would have been appropriate to interpret it in a similar manner but for the statement made by Senator Pittman on the floor of the Senate late in the evening on October 27, 1939. Senator Pittman indicated that he and the other drafters of the bill construed its provisions to prohibit the making of loans or the extension of credit to belligerent governments by governmental corporations, such as R. F. O. and the Export-Import Bank. A discussion of this matter appears in the attached excerpt from the Congressional Record. On October 17, 1939, Senator Barkley said on the floor of the Senate that his oft-repeated view was that the credit provisions of the pending bill applied as rigidly to the R. F. O. and any other agency of the Government as to any private person in this country.

Senator Pittman made the statements in question notwithstanding the fact that on October 27, the Senate voted down an amendment introduced by Senator Taft, which was designed to prohibit the making of loans and the extension of credit by the Government or agencies thereof. You will note from the discussion of the matter which appears in the excerpt from the Congressional Record that Senator George pointed out that Senator Pittman's construction "covers precisely one of the amendments offered by the distinguished Senator from Ohio, which was voted down by this body yesterday."

Unless Senator Pittman can be persuaded to take some appropriate action that would nullify the effect of this statement I am fearful that we will be unable to hold that the R. F. O. and the Export-Import Bank have legal authority under the now-pending legislation to make loans of the type which have been considered to an American corporation acting on behalf of belligerent governments, collateralized by American securities owned by such belligerents.

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

JEP:BM:agf 10/28/39

HIGHT

CONGRESSIONAL RECORD

SENATE

October 27, 1939 Page 1695

MR. TAFT.

Mr. President, while this matter is being discussed I should like to ask the chairman of the Committee on Foreign Relations one question regarding this section. On page 21 it is provided that whenever the President shall have issued a proclamation it shall be unlawful for any person within the United States to advance credits to foreign governments. I wish to know whether or not the chairman of the Committee on Foreign Relations considers that the word "person" which is also defined on page 30 as including corporations, and so forth, is broad enough to include the Reconstruction Finance Corporation and the Export-Import Bank.

MR. PITTMAN.

The word "person" expressly includes corporations, and
and
I therefore take it that it does include them.

MR. TAFT.

In the Senator's opinion, it includes the Reconstruction Finance Corporation and the Export-Import Bank?

MR. PITTMAN.

That is my opinion, and that was the opinion of those who drafted the joint resolution.

MR. CANNON.

Mr. President, I wish to make a short statement. Particularly I wanted to say that my construction of the word "person" is identically the same as that given by the chairman of the committee. I think that is pertinent, because in effect it covers precisely one of the amendments offered by the distinguished Senator from Ohio, which was voted down in this body yesterday. I think the word "person" here does include a subsidiary of the Government, a corporate subsidiary such as the Reconstruction Finance Corporation, or any other corporation which is owned wholly or practically wholly by the Government itself.