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November 16, 1943
11:58 a.m.

HMJr: Hello.

Operator: Oscar Cox.

HMJr: Hello.

Oscar Cox: Hello, Mr. Secretary.

HMJr: How are you today?

C: Pretty good.

HMJr: Good. Oscar, in preparing this book of Stettinius'....

C: Yeah.

HMJr: ...did you people have access to Arthur Purvis' records?

C: Uh -- to some of them I think, but not to all.

HMJr: I see.

C: Only the part which I think that Sir Henry Self and Tom Childs had.

HMJr: Oh. I see.

C: Uh -- we were getting up a marked copy for you so you could see all the references to the Treasury stuff.

HMJr: Yeah.

C: And I think it will be a little easier to look at in terms of deciding what records, if any, ought to be made available.

HMJr: But I mean in the stuff -- the cables Purvis sent back and forth during....

C: No, I don't think they saw those.

HMJr: You don't think they saw them?

C: No.

HMJr: I see. Thank you.

C: Well -- you got a second?

HMJr: Sure.

C: On that matter you talked to me about the other night, you might want to keep Adlai Stevenson in mind.

HMJr: Oh, yes.

C: Because I understand that there are two things in the picture -- one is that he isn't too happy at what he is doing now.

HMJr: Yes.

C: The other is that some people in the Administration are trying to get him to run for Governor out there next fall.

HMJr: I see.

C: But he is a good citizen.

HMJr: Right. That's a good idea.

C: Okay.

HMJr: Thank you.

C: Right.

FOREIGN ECONOMIC ADMINISTRATION
OFFICE OF THE ADMINISTRATOR
WASHINGTON 25, D. C.

November 16, 1943

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

Dear Mr. Secretary:

Since I have been going over my copy of Mr. Stettinius' book, it has occurred to me that it might be of assistance to you to have a copy in which the references to the early work of the Treasury Department are marked. The book tells quite a complicated story, and these are scattered throughout the earlier chapters.

You will find inclosed a marked copy of Chapters II through VII. I hope this will save you some time, for I know how busy you are at the moment.

Very sincerely yours,

Oscar Cox

Oscar Cox

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

January 15, 1944

TO Mrs. Klotz
FROM Mr. Shaeffer



This manuscript has been checked against the book and where the book differs the changes have been noted as per the attached clippings.

CHAPTER II

CASH AND CARRY

On Tuesday, the 28th of May, 1940, the telephone rang in my office in New York and a matter-of-fact voice said, "Mr. Stettinius, this is the White House. The President would like to speak to you."

Mr. Roosevelt's message was brief. Congress was being asked to double the Army and Navy appropriations. There was a tremendous job ahead, organizing American production for the new defense program, and the President was about to call into being the Advisory Commission to the Council of National Defense.

"Ed," the President said, "I want you to serve as Commissioner for Industrial Materials."

That afternoon I presented my resignation as Chairman of the Board of the United States Steel Corporation and arranged to cut all my other business connections.

As I left the office the papers on the newsstands headlined Leopold's surrender of the Belgian Army. Most of the British expeditionary forces and the French troops fighting with them--almost half a million men--were trapped in Flanders against the sea. Only Dunkirk remained as a possible avenue of escape.

The next evening I arrived in Washington and at noon on Memorial Day, May 30th, I went to the White House with the other six newly appointed members of the Defense Advisory Commission. William S. Knudsen was to be in charge of production, Sidney Hillman of labor and employment, Chester C. Davis of farm production, Ralph Budd of transportation, Leon Henderson of prices and Miss Harriett Elliott represented consumer interests. We found that

most of the Cabinet and General George C. Marshall, the Chief of Staff, and Admiral Harold A. Stark, the Chief of Naval Operations, were there. The President was calm, but very serious. He spoke of the crucial necessity for speeding up the arms program. America's material resources must be mobilized to provide for our own defenses and to furnish the weapons so desperately needed by the forces which stood between us and Nazi aggression. For over an hour we discussed the problems we faced.

After the White House meeting, General Marshall took Knudsen and myself to his home at Fort Myer. While we ate lunch on his porch, he filled in some of the military details of the grave picture the President had sketched. It was the first of many talks I was to have with the General during the next three years on the supply programs of the war. His friendship and his advice have been a constant source of strength to me throughout my service in Washington.

For our country the emergency defense program involved, as General Marshall said a year later in his biennial report to the Secretary of War: "A great experiment in democracy, a test of the ability of a Government such as ours to prepare itself in time of peace against the ruthless and arbitrary action of other Governments whose leaders take such measures as they see fit, and strike when and where they will with sudden and terrific violence."

The defense program dated from May 16th, 1940, six days after the Nazis had begun their offensive on France and the Low Countries, when the President sent a special message to Congress.

"These are ominous days," he began. Then he asked the Congress for the first of two special appropriations which he

requested during that month for Army and Navy expansion, totalling more than two and a half billion dollars. With one eye on the Maginot Line and the other on the fate of five nations that had found within the past five weeks that neutrality and good intentions would not save them from aggression, the President said, "No old defense is so strong that it requires no further strengthening, and no attack is so unlikely or impossible that it may be ignored."

Then he sprang a figure that electrified the Congress and the nation: "I should like to see this nation geared up to ability to turn out at least 50,000 planes a year."

The year before we had produced 2,400 military planes, most of which were noncombat types. Fifty thousand planes a year seemed at first like an utterly impossible goal, but it caught the imagination of Americans, who have always believed they could accomplish the impossible. There still remained the questions-- How many years would it take? Could we do it fast enough?

no
 In the first few weeks after coming to Washington, as I as I talked with Admiral Stark, General Marshall, ^{111,} Knudsen, and other officials about the many steps they would have to take to increase our production capacity as rapidly as possible toward the 50,000 a year goal, I was increasingly impressed by the significance of the President's statement in his May 16th, 1940 message that doubling of our plane production capacity in the past year had been "due in greater part to the placing of foreign orders here." The record, I found, went back to the spring of 1938. It was a record of our first slow steps toward mutual aid in the face of aggression.

In March 1938 the pounding of Nazi boots on the streets of Vienna as Hitler seized Austria echoed disturbingly in the

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capitals of the democracies. In London, the British Government quickly approved a plan for great expansion of the British airplane industry. At the same time they dispatched an air mission to North America. Among the members of that mission were an unknown Air Commodore named A. T. Harris, today the Commander-in-Chief of the R.A.F. Bomber Command in Great Britain, and Sir Henry Self, who was later to serve as Chief of the Permanent British Air Commission in this country.

The mission found the American aircraft industry in April of 1938 operating only in skeleton fashion. Many companies were barely able to keep going at all on the thin stream of orders then coming in. The Army was limited by statute to an air force of 1,800 planes and the Navy to one of 1,000 planes. And although they were gradually increasing their forces toward the statutory limit, they had appropriations of only \$ _____ for procurement of planes in the fiscal year ending June 30, 1938. Production was at the rate of 1,800 military planes a year, of which a great many were trainers.

After visiting almost all the large companies, the British mission placed only two orders, but both had important consequences. The first was for 400 of the new advanced trainers that North American Aviation Corporation had developed for the United States Army Air Corps. This was the beginning of a long series of British orders for many thousands of these trainers, which the British called "Harvards" and have since used in training of pilots all over the world under the Commonwealth training program.

The other order placed by the British in the spring of 1938 was for long range reconnaissance bombers. When the mission visited the young Lockheed Company's plant in Burbank, Cal., they found nothing that would satisfy British military requirements and prepared to move on. But Lockheed, like most other aircraft companies in the United States, needed orders badly. Robert Gross, the president, asked 48 hours to work up plans for a military adaptation of one of their commercial types. The mission was skeptical, but there seemed no harm in letting them try.

Forty-eight hours later, the mission was presented with a complete "mock-up" of a long range bomber. A group of engineers had worked feverishly four times around the clock. It was a job that would ordinarily have taken many weeks. The mission inspected the "mock-up", was satisfied that it had great possibilities, and placed an ~~order~~ order for 200 planes. This was the birth of the famous Lockheed-Hudson bomber, which saw so much service in Britain during the first years of the war. Before the Hudson gave way to the Lockheed-Ventura, the British had bought 3,000 of them. Self told me recently, when Lockheed planes of many types were pouring out in great volume for the United Nations, "I never see one without thinking of those young engineers who saw their chance and took it."

The orders placed with North American and Lockheed for airplanes led also to the first substantial engine orders placed in many years with our two principal aircraft engine manufacturers-- the Wright Aeronautical Corporation and Pratt & Whitney. And about the same time as the first British Air Mission came to this country, the French ordered 100 of the Curtiss-Wright P-36 fighters, predecessors of the now world famous P-40's.

The American Government had played no positive role in these purchases although it was customary for official missions to pay courtesy calls on Major General H. H. Arnold, Chief of the Army Air Corps, and other officials in Washington. In September and October 1938, however, two visitors arrived in America from opposite sides of the world whose missions resulted in the first steps of active American assistance to the nations opposing aggression.

From China, Generalissimo Chiang Kai-shek sent K. F. Chen, Advisor to the Finance Ministry, seeking a loan for the purchase of supplies essential to China's continued struggle against Japan. From France came Jean Monnet, a French banker and businessman well-known in this country, to survey for the French Government the possibilities for a large scale airplane purchasing program in this country.

In Europe, these were the days of Munich, when France and Britain, both totally unprepared for war, accepted Hitler's seizure of the only real bulwark against Nazi aggression in Central Europe--Czechoslovakia's strongly defended Sudetenland. The experience at Munich strengthened the belief in the European democracies that the only remaining hope for peace, short of surrender to Nazi domination, was to rearm rapidly enough to make Hitler hesitate before committing another act of aggression.

In Asia, China had been fighting the Japanese aggressors for a year and a half, yielding city after city, province after province, and losing countless thousands of lives, but never weakening in the will to resist. Now the Chinese were working to prepare their undeveloped western provinces and a new capital at Chungking as the center for continuing resistance. Light machinery

was being dragged by hand and donkey carts from occupied areas to form the nucleus of new arsenals far in the interior which would be able to turn out guns, bombs and ammunition for Chinese fighting forces. But China obviously would have to get as many supplies as possible from the outside world--from the industries of what the Generalissimo called the "friendly nations and opponents of aggression in the world."

The United States was among these. Since January 1932 we had followed the policy of nonrecognition of any territorial changes brought about by force. But our efforts to invoke "moral force" and to persuade the Japanese to submit the dispute to peaceful settlement had been unsuccessful. Although we continued these efforts right up to Pearl Harbor, we proceeded in 1938 with other measures of a more practical character. That summer Secretary of State Cordell Hull asked all airplane manufacturers in the United States not to sell planes to countries which used them for indiscriminate attack on civilians as Japan was doing in China, and although there was no statutory power to enforce this "moral embargo", American plane exports to Japan stopped. Then, with the arrival of Chen, we took our first positive step to help China.

Chiang Kai-shek's emissary went to Secretary of the Treasury Morgenthau to discuss possibilities of a Government loan to finance purchases in this country. Although the Neutrality Act did not bar such a loan to China, there was at that time a minority opposed to assistance of this type to China by our Government. However, with the active help of the Secretary and of the President himself a \$25,000,000 loan by the Export-Import Bank finally was arranged on December 15th, 1938. The proceeds could not be used

for the purchase of arms and ammunitions, but they could be used to buy other supplies essential to China's war effort. Repayment was to be made in shipments of tung oil--an essential industrial product--over the next five years.

The loan was very small, but it was a significant step. For a year and a half the Japanese had been hammering away on the propaganda line that the rest of the world would not proceed beyond words in aiding China, that we would let the Chinese fight on alone to ultimate defeat. Now the Chinese knew that this was not so. During the last 90 days of 1938 the Soviet Union, Great Britain and the United States all took steps to give China material support. In October the Soviet Government entered into a barter agreement to provide China with \$50,000,000 worth of Russian planes, tanks, trucks and guns. Two days after our own loan agreement, the British Government advanced a small credit of about \$2,000,000 to the Chinese Government for road building equipment and trucks for the Burma Road.

The Universal Trading Corporation, set up as purchasing agent for the Chinese Government in the United States, immediately ordered 500 trucks from General Motors and 500 more from Chrysler. The great obstacle to effective aid to China was then and still is transportation. The Chinese used more than half of the twenty-five million dollars for trucks, tires and gasoline. Most of the rest went for metals, machinery, road building and electrical equipment and tools for the new arsenals of China. When most of the original twenty-five million had been spent, a second Export-Import Bank loan, this time for \$20,000,000, was granted on March 7th, 1940.

The great buying experience of the Procurement Division of the Treasury Department was made available to Universal in its

purchase program as soon as the first loan had been arranged. Before the officials of the Chinese agency entered into any contract, they went to Treasury Procurement first for advice.

This cooperation of the Chinese and the Treasury Department in procurement was not, however, only for China's benefit. The threat of general war was drawing closer. It was obviously to our own interests that foreign purchases be coordinated through our own government, so that their buying would assist, rather than hinder us in meeting our own defense needs as they developed. We had been unprepared for this problem at the beginning of the last war and there had inevitably been confusion until we could organize a satisfactory method of coordination. Secretary Morgenthau and Herman Oliphant, the Treasury's General Counsel, had done some of the most constructive thinking in the government on how to take advantage of that experience should another general war break out. They were also among those who saw earliest and most clearly how important it was to the safety of the United States that Great Britain, France and China be able to resist aggression by the totalitarian powers. In addition, Secretary Morgenthau was, of course, chief fiscal officer of the Federal Government, and it was his duty to keep informed of the financial condition of foreign governments buying here. He had to make certain that they had the money to pay for the goods they ordered.

It was for these reasons that when Jean Monnet arrived soon after Chen in 1938 to make his survey of our plane production capacity, the President requested Secretary Morgenthau to represent the United States Government. With the Secretary's help, Monnet talked with

In addition, since Secretary Morgenthau was the chief fiscal officer of the Federal Government, it was his duty

War and Navy Department officials and made a rapid survey of our aircraft industry. What he saw convinced him that the placing of larger orders could rapidly expand American plane production. Monnet returned to France to report and by the end of 1938 he was back with a new air mission that immediately went into action.

On January 26th, 1939, the French Mission placed its first contract for 115 Glenn-Martin medium bombers which were forerunners of the British Baltimores and the U.S. Marauders of today. Within two months the French ordered over 800 planes and hundreds of additional airplane engines, and they continued to place orders throughout the summer and fall.

By the end of 1939 the French had ordered almost 2,000 airplanes, including Curtiss-Wright P-36's and P-40's, Douglas twin-engine Boston bombers, Martin medium bombers and Harvard trainers. And they had ordered more than 6,000 Wright and Pratt & Whitney airplane engines. These orders were small compared to those that were to follow, but they were very substantial in comparison to the orders we ourselves were placing during that same period, which totalled _____ planes and _____ engines. Like the 1938 British orders for Harvard trainers and Lockheed-Hudsons, the French orders kept our aircraft manufacturers going and in some cases brought about considerable increases in production capacity. Pratt & Whitney, for example, had to double the size of their engine plant in 1939 in order to take care of these orders.

Over all the French contracts, however, hung a serious threat. So long as Germany did not attack, the French airplanes could be delivered. But as soon as war started between Germany and

France, the arms embargo in the Neutrality Act would come into force, and all the French orders would be cut off. The French took the risk, but the British Government placed almost no orders at all in this country after Munich because of the threat of embargo in case of war.

On March 15th, 1939, while the French were busy buying planes here, Hitler seized what was left of Czechoslovakia after Munich. One week later the Nazis occupied Memel, and Goebbels' propagandists began to turn the heat on Poland. In April Mussolini sent his troops into Albania. The forces of aggression were on the move again.

On May 27th and again on July 1st, Secretary Hull asked Congress to repeal the embargo provisions of the Neutrality Act. This, he said, would be a means of discouraging the aggressors from causing a new world war. The best way to keep this country out of war, he emphasized, was to do all we could to prevent war from breaking out.

The once overwhelming majority behind the Neutrality Law was shrinking as more and more people saw that it made us sit idly by, while the Axis nations with each new conquest grew stronger and better able to attack us when our turn came. But in July 1939, there was still strong opposition to any change in the law, and Congress adjourned without taking any action.

On September 1st, 1939, Hitler's forces smashed into Poland and two days later, in accordance with their treaty obligations against this new aggression, France and Britain came to Poland's support. The President then proclaimed the neutrality of the United States and placed an embargo on all shipments of arms to any of the belligerent nations as he was required to do by the Neutrality

Act. On September 13th, 1939, he called Congress to meet in special session in order to reconsider the arms embargo.

The debate that followed was a forerunner of the later debate on Lend-Lease. In the main, those who opposed repeal of the embargo believed that the United States could remain safe regardless of what happened in Europe and Asia. They regarded the Atlantic and Pacific Oceans and the air above them more as barriers than as highways for attack upon us. Therefore they did not believe it essential to the security of the United States that these oceans and the shores opposite our own must always be in the control of ourselves and of friendly, peaceful nations. They believed we entered the last war, not because our vital interests were threatened, but because we were dragged into it by "incidents" involving American property and lives, by cunning allied propoganda, and by the selfish interests of international bankers and armament manufacturers. The Neutrality Act was their answer to the desire of all Americans to remain at peace.

Those who wanted to amend the Neutrality Act believed in the main that aggression by any of the great powers anywhere was likely to lead to threats against our own safety. They believed particularly that the defeat of Great Britain and France by Nazi Germany would be a blow to our security in the Atlantic, just as the continued military expansion of Japan would be a blow to our security in the Pacific. They differed on the extent to which American security might require that we should go in order to prevent an Axis victory, but they agreed as a minimum that we should permit England and France to buy arms here for cash and carry them away in their own ships.

The issues were not generally as sharply defined in the debate on the arms embargo as we can see them looking back today,

Secretary Morgenthau was named Chairman. The other members were representatives of the War Department, the Navy Department and Treasury Procurement. The job of the Committee at this time was to carry on and develop the work Secretary Morgenthau and his assistants had already begun; to make available up-to-date plane models and other arms to the French, British and other friendly peoples; to keep watch over the dollar balances of the foreign governments; and to help them find suppliers who could fill their needs.

The British and French Air Missions decided to place orders for many types of planes with all companies that had available capacity, rather than to concentrate only on a few of the latest and best models. The most important thing, as they saw it, was to put the industry fully to work, to get more plant facilities expanded and more workmen trained, and to put the industry on a mass production basis. Some of the planes ordered under this plan would not be up to top standard. But while these older types were being manufactured, British, French and American engineers would be working to introduce the latest European battle experience into new models. When these new models were ready to go into production, new manufacturing capacity would already have been created to turn them out more rapidly and in larger quantities.

The United States Army Air Corps at this time was limiting its orders to small numbers of the most advanced plane types in order to be able to take advantage of changes in design resulting from the air war in Europe. Meanwhile the Anglo-French purchase program was creating new capacity we could use for ourselves if the danger should come closer to us.

Despite the tendency in England then to think of supplies from the United States principally as insurance against unexpected losses, there was a rising tide of French and British orders in this period. Four times as many orders were placed for planes in the first half of 1940 as in all of 1939, over eight thousand planes and thirteen thousand engines. The engine orders were particularly important for engine capacity was the principal bottleneck. The engine purchase program alone involved a total capital outlay by the British and French of \$84,000,000. They spent their own money to build new airplane engine plants in the United States and to equip them with the needed machine tools. Their money financed schools where thousands of new American workers were trained in the necessary skills. They put this money not only into the established aircraft engine industry, but into the automobile industry as well, then just beginning to make airplane engines. This \$84,000,000 did not buy any engines. That was extra. It created new capacity to make engines that was to prove of vital importance to our defense program when we set out toward the President's 50,000 plane goal.

As Secretary of War Stimson was to say in a letter to Senator George in February 1941, while the Lend-Lease Act was being debated, "bearing in mind that it takes from 18 months to two years to develop production of a new aircraft motor and about 16 to 18 months to develop production of a new model airplane, you will realize that without the headstart given industry by these foreign orders we would at the present time be in a very grave situation as to the plants and facilities which we now need for the pending emergency."

The Anglo-French purchasing program extended to other vital sectors of the war production program, too, after September 1939. Over one hundred million dollars worth of orders were placed by the

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British and French for machine tools for their own factories and at least another hundred million dollars was furnished American manufacturers to buy machine tools for American factories. That was as much as our total machine tool production for all purposes in 1939. There were additional orders of importance--for explosives, ammunition, ordnance, and other equipment and materials--running into hundreds of millions of dollars more. And for these too the British had to build factories in the United States with their own money. By the time the Lend-Lease Act was passed, their total capital investment in United States war industries, both air and ground, was over a quarter of a billion dollars.

As I examined the record when I started to work in Washington in May 1940, it seemed to me that while "cash-and-carry" had been of aid to the nations fighting aggression, they had helped our defenses even more. American war production already had a good start. But the thousands of planes ordered by Great Britain and France in the preceding five months were not yet delivered. In fact only 104 planes, the last of those ordered in 1938 were actually shipped to Great Britain in this period, and France actually received only 557 planes. So far as France and Britain were concerned, both they and we had been too late with too little. The Maginot Line had been outflanked. The Nazis were at the English Channel.

DUNKIRK AND THE FALL OF FRANCE

The first detachments of the survivors of Dunkirk came ashore at Dover on May 29th, 1940. Friends of mine who saw them land told me later that they came ashore like sleepwalkers, exhausted and stunned after ten days of constant bombardment and desperate retreat. But they would need more than sleep and food and the healing of battle wounds before they could fight again. Left on the roads to Dunkirk and on the beaches themselves were all their tanks, their trucks, their artillery and most of their lighter weapons as well. These had been Britain's most experienced and best equipped troops. There were not enough arms left in the United Kingdom to re-equip them, much less to provide arms for the home guard being mobilized with all possible speed.

An urgent message came to the President from the Prime Minister. Could anything be done to send more arms at once for the defense of England and what was left of France--if France held out? This was an immediate need. It could not be answered with arms that were not yet manufactured.

Orders went out from the White House for action. The only possible sources of guns and planes for immediate shipment were our own Army and Navy stocks. At the Treasury they had already begun investigating the possibility of transferring to the British and French some of our reserve stocks of arms left over from the first World War. Now there were hasty conferences with the British, the French, our Army and Navy, and the State Department.

There were two schools of thought as to whether, under international law, a nonbelligerent government should sell arms directly

to a belligerent government, although there was no question that private citizens might do so. One school, holding to the 19th century concept of neutrality, which made no distinction between right and wrong or between aggressor and victim, believed a nonbelligerent government should not sell arms to either side. Another school believed that America's right of self-defense was involved and that the Kellogg-Briand Pact outlawing war as an instrument of national policy superseded the concept of neutrality developed during the 19th century and re-established the right of nonbelligerent governments, clearly recognized in earlier international law, to discriminate against nations that committed acts of aggression. But all agreed that the Army and Navy could turn back arms to the manufacturers and that the manufacturers could immediately resell the equipment to the British and French. This plan also had the important advantage that it would enable the War and Navy Departments to order immediately much needed new equipment on a trade-in basis. It was quickly adopted.

In the meantime, General Marshall had asked Major General Charles M. Hession, Chief of Ordnance, and Major General Richard Moore, Assistant Chief of Staff, to go over the entire list of our reserve ordnance and munitions stocks. It took less than 48 hours to decide what ordnance the Army could turn over as a reasonable risk in view of the vital importance to America's defense that Britain hold out. The first list included 500,000 Enfield rifles, some of them actually used in the last war, some never used, all manufactured in 1917 and 1918 and packed away in grease for more than 20 years. It included nine hundred 75 mm. field guns, 80,000 machine guns, 130,000,000 rounds of ammunition for the rifles, 1,000,000 rounds for the 75's, an assortment of bombs, and small quantities of TNT and smokeless powder.

Later in the summer another 250,000 rifles and additional equipment were added. This left the United States with enough World War stocks to equip 1,800,000 men, the number of men provided for under the long-standing mobilization plan for use in case of war.

On Monday, June 3rd, 1940, General Marshall approved the list. As he said later, for us "the military issue immediately at stake was the security of the British fleet to dominate the Atlantic." Most of the American fleet was in the Pacific.

Since every hour counted, it was decided that the Army should sell everything on the list to one concern, which could in turn resell immediately to the British and French. It was also essential that the company have export and shipping experience and that it be big enough to handle the munitions orders which the Army wanted to place under the trade-in arrangement. The Army wanted particularly to start building up our capacity to produce armor plate for tanks, 90 mm. anti-aircraft guns, and 105 mm. and 155 mm. howitzers, guns and shells.

General Wesson reached the conclusion that the United States Steel Export Company would best meet these requirements. He knew that I had just come to Washington, and on Tuesday, the fourth of June, the day that the evacuation of Dunkirk was completed, he walked across Constitution Avenue from the old Munitions Building to my office in the Federal Reserve Building. He told me what the proposal was and asked my assistance. I replied that I would like to help in every way possible, but that my resignation as Chairman of the United States Steel Corporation would take effect at 3 o'clock that afternoon. I was sure, however, that he could count on the full support of my former colleagues and immediately arranged for Irving S. Olds, my

successor as Chairman of the Board, and Benjamin F. Fairless, the President of the Corporation, to meet General Wesson in Washington the following morning. I did not take part in the negotiations that ensued, but I followed them closely.

At Wednesday's meeting the General explained the plan to Olds and Fairless, and the Army named the price--\$37,619,556.60. Olds and Fairless said they would undertake the assignment, subject to approval by the Steel Corporation's directors. They took the next train back to New York and the following evening telephoned to General Wesson that U.S. Steel would handle the transaction. The work of drafting the contracts was begun immediately.

The War Department had not waited for these negotiations to be completed. As soon as the list of equipment was approved on June 3rd, telegrams went out to Army depots and arsenals at Rock Island, Ill., Schenectady, San Antonio, San Francisco, Baltimore and other cities across the country to start packing the material for shipment.

The next day Winston Churchill went before the House of Commons and revealed that 335,000 men had been saved at Dunkirk. But he did not disguise the enormous losses of material. "They had the first fruits of all our industry had to give," he said, "and that is gone." Britain's war factories would "in a few months overtake the sudden and serious loss that has come upon us," but in the meantime invasion might come at any moment. Then Mr. Churchill flung down his magnificent challenge:

"We shall defend our Island whatever the cost may be; we shall fight on the beaches, we shall fight on the landing grounds, we shall fight in the fields and in the streets, we shall fight in the hills; we shall never surrender, and even if, which I do not for a

moment believe, this Island or a large part of it were subjugated and starving, then our Empire beyond the seas, armed and guarded by the British fleet, would carry on the struggle, until, in God's good time, the New World, with all its power and might, steps forth to the rescue and the liberation of the old."

From America's arsenals as he spoke stack after stack of guns for the defenders of Britain were being moved to the railroad sidings. By the end of the week more than 600 heavily loaded freight cars were rolling toward the Army docks at Raritan, N.J., up the river from Gravesend Bay. Word was flashed all along the line to give them right-of-way. At Raritan special shifts of nearly a thousand men worked night and day over Saturday and Sunday unloading the freight trains as they arrived and putting the guns and cases of shells aboard lighters.

In the meantime, the British Ministry of War Transport ordered a dozen ships, some of them already partially loaded in New York, to proceed at once to Gravesend Bay. One by one the freighters moved in and dropped anchor. By Tuesday, June 11th, the ships were there, the freight cars were on the sidings, the 75's, the machine guns, the rifles, the rounds of ammunition, and the powder were stacked on the docks and on the lighters. Everything was ready.

Loading could not begin, however, until the contracts had been signed. At the Munitions Building in Washington that afternoon the last paragraphs were written in the War Department's contract with U.S. Steel Export Corporation, and the Secretary of War signed it. Then Olds and Fairless taxied across Washington to the headquarters of the British Purchasing Commission, where Purvis and Bloch-Laine signed a joint contract for the British and French. It was only a

page and a half long; the British and French Governments agreed to take title to all the materials "f.o.b. cars as is and where is." The price was exactly the same as that which the U.S. Steel Export Company had agreed to pay to the War Department. Five minutes after this contract was signed General Wesson called Army headquarters at Haritan to say that the arms now belonged to Britain and France.

"Go ahead and load," he said.

The first ship sailed from Gravesend Bay two days later. She was the Eastern Prince, and her ship's manifest listed in her cargo the first 48 boxes of 75 mm. field guns, 28 million rounds of .30 caliber ammunitions, 15,000 machine guns and the first lot of 12,000 rifles. She was at sea when Marshal Petain asked Hitler for an armistice on June 17th. Britain stood alone as Churchill had foreseen she might in his Dunkirk speech. But not quite alone.

A dozen ships sailed from Gravesend Bay and Baltimore with guns for Britain before the end of June. Another 15 freighters sailing between July 1st and August 1st took what was left. The first vessel to reach England, the Eastern Prince, arrived June 23rd, six days after France fell. Most of the others reached British ports in July. A million empty hands eagerly reached for the rifles as Hitler hesitated across the Channel. For weeks, while England's war factories worked night and day to make up the losses of Flanders, there were few guns in all of England that could stop a tank besides the nine hundred 75's from America. The eighty thousand Lewis, Marlin, Browning and Vickers machine guns strengthened the defenses of every threatened beach head and every road leading in from the coast.

Except for the rifles, which are still used by the Home Guard, the arms we sent in June of 1940 were only a stop-gap. But they

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went to men who literally had almost no arms at all in the most critical hour of Britain's history since the Spanish Armada. Most important of all, perhaps, was the promise implicit in those shipments-- that America saw in Britain's imminent danger the imminence of danger to herself.

Besides the guns, we also tried to send some planes we had in service in June of 1940. They were not the "clouds of planes" which Reynaud desperately imagined might be sent when he made his last appeal for aid to the President on June 13th. America had no "clouds of planes" to send in June of 1940. But the Navy agreed to release 50 of its Curtiss-Wright SB-6 dive bombers and the Army 93 of its Northrup A-17-A light attack bombers. These also were traded in to the manufacturers for later type planes then in production and resold to the British and French as the rifles had been.

Most of the planes were flown to Halifax, where the French aircraft carrier Bearn was waiting. But the planes never got to Europe. The Bearn sailed on June 17th, just as Petain was asking for an armistice. While she was at sea, Admiral Darlan ordered her to change course and run for Martinique in the French West Indies. There she and the planes remained rusting in ineffectual neutrality until three years later, when the French National Committee finally took over the island from the control of Vichy.

The disasters in France confronted Great Britain with another emergency besides the danger of invasion. On June 15th, 1940, the day after German troops marched down the Champs Elysees in Paris, Arthur Purvis received in New York a coded cable from London. The collapse of France, it said, might come at any moment. The British

Purchasing Commission in the United States must be ready to deal with the emergency which France's withdrawal from the war would create in the supply program.

Purvis immediately called in Sir Henry Self and Thomas Childs, the Commission's able counsel. These three knew well what they faced. Over the past five months, the British and French purchasing programs in the United States had been more and more closely meshed together. If France should capitulate and drag into inaction with her all her supply assets in the United States, Britain would face Germany alone with the joint air program wrecked and all the other joint contracts subject to endless legal disputes. Arms the French had ordered, which the British would need desperately now that they stood alone against Germany, might become completely unavailable to them. Purvis knew also that if the French contracts went bad, the Commission might find American industry reluctant to go ahead with British orders. For several weeks, as the military situation grew worse, the French mission had experienced increasing trouble persuading manufacturers in the United States to accept contracts. They had begun to look like a bad risk.

To Purvis and Self, there was but one answer: If France fell, the French contracts must not fall with her. They sent a cable to London, asking for recommendations and for discretionary powers to take any steps necessary to protect the British position. Outstanding French contracts in the United States totalled over eight hundred million dollars by that time. Many of the contracts covered supplies the British must have if they were to be able to carry on the war alone. Others, however, were for special French equipment and

would be worthless. There were literally thousands of contracts for planes, for machine tools, raw materials, trucks, powder, explosives and guns. It would take weeks to examine them all, pick out what the British would need, and negotiate with the manufacturers on individual contracts. There would probably not be time enough. Purvis believed the British must be prepared to take on all the contracts at once.

At midnight June 15th, 1940, Purvis received his answer from London. He and Self had authority to do whatever was necessary. There were no other instructions. The full responsibility was on them.

By nine o'clock on Sunday morning, June 16th, it was clear from the radio bulletins that a Cabinet crisis was rapidly coming to a head in Bordeaux between supporters of Premier Reynaud, who wanted to fight on, and the Petain-Laval faction, which had decided the war was over. Purvis had been called away from New York and would not be back until evening, but Self and Childs agreed that they must start negotiating immediately with the French Air Commission. They arrived at the Commission's headquarters in Rockefeller Center a little before noon that Sunday. The full staff was at work in the outer office as if it were an ordinary working day. In the inner office Colonel Jacquin, then head of the Air Commission, sat alone, dejectedly listening to the bulletins coming in over the radio. Childs immediately came to the point: The British proposed to take over the French contracts, if the French would agree.

Jacquin did not hesitate. As for the air contracts, they would go to the British. He had no authority over the ground contracts, but he immediately sent out word that the French Purchasing Commission officials should be located and told to be ready to meet with the British.

About two o'clock, word came over the radio that Reynaud had resigned. Jacquin had hoped until this moment that France might stand. Now he was sure it was all over. He asked Childs and the French Air Commission Counsel to prepare the necessary documents for the transfer. Childs told me later that Jacquin attached only one condition. "You must take all the French contracts or none of them," he said. "You cannot pick our bones after we have fallen."

As they worked over the air contracts, the radio flashed the news that Petain had decided to capitulate. It had come far more quickly than anyone expected. Orders might arrive from France at any moment cancelling the authority of the French representatives. Washington might at any moment freeze all French assets in the United States as had been done with all other countries occupied by the Axis. A complete assignment had to be made immediately.

In the early evening, Purvis returned, and the French Purchasing Commission officials were located. In Purvis' apartment high above New York, as the lights came on below, they went to work, drafting and redrafting the necessary documents. At three in the morning the papers were ready for signature.

Purvis hesitated for ten minutes before he signed, going over the whole transaction in his mind. With two signatures--one for air contracts and one for ground--he was accepting eight hundred million dollars in obligations for the British Government. There was no time to consult London again. The whole deal might fall through at any moment. This was a complete reversal of the careful spending policy the British had followed in order to make their collars last through the long war of attrition they had expected. But it was all or nothing now if Britain was to fight on. Purvis told

his friends later it was the biggest decision of his life, when he finally picked up a pen and signed the transfer papers.

For the French, too, much was at stake. The Government which had appointed them had disappeared. All on their own, they were about to dispose of all the war assets of France in the United States. They signed the papers.

Only one condition was attached. The documents must be kept secret until it was confirmed that France had finally fallen. Purvis agreed. By 3:30 a.m. the transfer was complete.

Barely five hours after the documents were signed all French assets in the United States were frozen by the Treasury Department. That afternoon, Secretary Morgenthau, after a talk with Arthur Purvis, made a public announcement. He could not yet disclose that the take over was completed. But he had to give some assurance to the American businessmen who had outstanding French orders. He was advised by the British, he said, that they "will undertake to assume all French contracts in the United States for munitions, the contractors being willing."

Purvis, however, was not sure that the American manufacturers would accept the documents which had been signed by the French. The Pétain Government, under Nazi pressure, might repudiate the agreement in an effort to immobilize the French supplies. Before announcing the take over, Purvis approached a few American companies to get their reaction to it. There was some hesitation at first. Then Donald Douglass, President of Douglas Aircraft, blazed the way for American industry by accepting it. The rest of American business fell in line. The arms that had been destined for the French would now pass into the hands of the British.

DESTROYERS FOR BASES

On a brisk early September day in 1940 a four-stacker destroyer swung out of Boston Harbor and headed east-north-east for Halifax at 30 knots through the choppy sea. New gray paint had obliterated her name--the U.S.S. Buchanan. For years she had been collecting rust and barnacles, tied up in port like a hundred-odd other destroyers which were built in the last war. Then workmen had swarmed over her, scraped her clean, overhauled her engines, tested and reconditioned her guns, and stocked her with fuel and provisions. Aboard, as she dropped Boston Light behind her, was a skeleton crew of U.S. Naval officers and men. In her magazines was a full complement of four-inch shells for her guns and 21-inch torpedoes for her tubes.

Eighteen months later, in the darkness before the dawn of March 23th, 1942, the former U.S.S. Buchanan, now His Majesty's Ship Campbeltown manned by British seamen, nosed into the harbor of St. Nazaire on the French coast, with R.A.F. planes giving protection overhead and motor torpedo boats darting around her. As the searchlight caught her, she opened up with her four-inchers against the shore batteries, then stepped up speed and rammed head-on into the main lock gate of Germany's principal U-boat and battleship base on the Atlantic. Her engines were cut, and Commandos swarmed ashore from her decks. After opening the sea cocks to settle her on the bottom the crew abandoned ship themselves. Behind them they left the Campbeltown, with five tons of delayed-action explosives in her bow, partly submerged but still stuck fast in the main lock gate. Hours later, when the raid was long over and a large number

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of Nazi officers and men were aboard her, still unaware of what was in her bow, a tremendous explosion shook St. Nazaire. The Campbeltown had blown up, killing all the Germans aboard and smashing the gates of the lock. St. Nazaire's dry-dock, the only one on the Atlantic big enough to berth the Battleship Tirpitz was useless for months afterwards.

This heroic action ended the mission of the former U.S.S. Buchanan. She was one of 50 destroyers built in the last war--old, but still fast and tough--which in September 1940 the American Navy turned over to Great Britain.

In Halifax that September, full British crews were ready and waiting when the Buchanan, and other destroyers with names like A. P. Upshur and Aaron Ward arrived from Boston. After trial runs on which the American crews showed the British the ropes, the old destroyers joined the war against the U-boats in the Atlantic or took up the patrol of Britain's invasion coasts.

Besides the Buchanan, four others of the 50 destroyers had gone to the bottom by the summer of 1943--sunk in action on convoy duty. They are the former U.S.S. Tacon, McCalla, Rulick and Branch. The other 45 are still in action, and they have performed heroic and effective service during three years of war. They have destroyed many Nazi submarines in the North Atlantic. After Pearl Harbor they helped to fight U-boats in the Western Hemisphere and to protect convoys carrying American troops as well as American arms across the Atlantic. Some of them have seen service on the long run to Murmansk. One of them, the old U.S.S. Wanda, has hung up an endurance record of 250,000 miles of sea duty without a single breakdown.

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Other epic stories of their exploits have accumulated in the British Admiralty files, and I hope some day the complete record will be published.

The fighting little four-stackers, which were average by ordinary standards, were turned over to the British in an historic transaction concluded on September 3rd, 1940, by which we received naval and air bases stretching from Newfoundland to British Guiana. The destroyers have played their full part in the sea war against the Axis, not only for the British but for the United States and the United Nations as a whole. The bases were important additions to our defenses at a time when invasion of the British Isles appeared imminent; they have since proved of immense value in the battle against the U-boats. The transaction was concluded after more than three months of difficult negotiations.

In May 1940, Lord Lothian and Count St. Quentin, the French Ambassador, approached the President and Secretary Hull concerning the possibility of purchasing some of these old type destroyers. After Dunkirk, Prime Minister Churchill urgently renewed the request through Lord Lothian. Ten of their destroyers had gone to the bottom at Dunkirk, and 75 more had been damaged and were laid up for repairs. Almost half of Great Britain's destroyer fleet had been put out of action, some of it for many months, at a moment when Hitler's armies controlled the coast of France and his U-boats, operating now from French bases, were taking an increasing toll of Britain's merchant fleet. Sinkings in July 1940 were announced by the Admiralty as totalling more than 400,000 tons, compared with only 75,000 tons in May 1940. Britain's supply lines were in mortal danger, and

Hitler was assembling a fleet of 2,500 landing barges across the Channel for the invasion of England.

The United States, on the other hand, had more than 200 old destroyers, designed especially for convoy work, that were built during and immediately after the first World War. More than half of them had been tied up in port much of the time since the Washington Naval Limitation Treaty of 1922. This treaty had ended the naval construction race that had begun immediately after the last war, and the London Naval Treaty of 1930 had continued the naval limitation program. But in 1934 Japan had given the required two-year notice that she would not be bound by the limitations of the Treaty.

The same year Congress passed the Vinson-Trammell Act, authorizing the construction, within treaty limitations, of modern cruisers and destroyers to replace our overage ships which then comprised the larger part of our fleet. Later in 1936 and 1938, when it became evident that the continuation of naval limitations was out of the question, Congress authorized the construction of a two-ocean Navy. By the summer of 1940 the first of the new battleships, _____ new cruisers, and about 80 new destroyers were already in service. Many more were on the ways. Most of the overage destroyers were being recommissioned for temporary duty until they could be replaced by the new types, but some were still tied up in port.

The proposal to transfer some of the overage destroyers involved serious questions for the United States Government. The urgent importance to our own security that the British Fleet continue in action was plain. But the destroyers, unlike the rifles and 75's that were shipped in June, were part of our own first line of defense--

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our first line this side of the British Fleet. If Britain fell and the British Fleet were lost, we would ourselves need every fighting ship we could lay our hands on. There were other questions as well. Could the President sell American Naval vessels directly to a foreign government? Would this be a violation of international law?

There were from the beginning important voices both inside and outside the Administration that came out strongly in support of the proposal. Interestingly enough, it was Secretary of the Interior Ickes, who bombarded the President and others concerned with some of the most urgent memoranda on the subject late in June. In the Senate, Claude Pepper of Florida championed the idea, and called it "helping to keep war away from America's shores." Outside Washington, William Allen White and other members of the Committee to Defend America by Aiding the Allies took up the cause early in July. General Pershing went on the air in August as the climax of their nation wide campaign to mobilize public support. All this while, the President was weighing carefully in his mind whether the destroyers would contribute more to American security by actively engaging the Nazis under the British flag or whether they should be held in reserve under our own.

Attorney General Robert H. Jackson, aided by members of his staff, Ben Cohen and legal counsel of various departments that were concerned, began a study of the law involved in the proposed transfers. They found that the President, as Commander-in-Chief of the Navy, was authorized to make such disposition of naval vessels as he finds necessary in the public interest, and that Congress by

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a 19th century statute had indicated that this included the power to sell them. Congress, had, however, placed a limitation on this power by a statute passed in June 1940. It provided that no military equipment, including naval vessels, could be "transferred, exchanged, sold or otherwise disposed of in any manner whatsoever unless the Chief of Naval Operations in the case of naval material . . . shall first certify that such material is not essential to the defense of the United States." The question was: Could these overage destroyers be properly declared "not essential" to our defense?

There was also the same question of international law involving a direct government-to-government sale that had been considered when the rifles were sent to Britain. It was a point that had been debated for years, and at the time of the rifles deal there was still considerable difference of opinion among international lawyers. During the succeeding weeks the issue was thrashed out both inside the Government and in public discussion among students of international law. By the end of the summer many international lawyers had come to the conclusion that self-defense must be the paramount consideration in a nation's foreign policy at such a time. Many also believed that the Kellogg-Briand Pact--a treaty by which the signatories had renounced aggressive wars--clearly established the right of nations under the Pact to discriminate against nations that had resorted to war in violation of their obligations.

This conclusion, fully justifying transfer of the destroyers in a direct government -to-government transaction, was stated with great force in an historic letter to the Editor of the New York Times, which appeared on Sunday, August 11th, 1940. The letter was signed by four nationally known lawyers, Charles C. Burlingham, George Rublee, Thomas D. Thacher, who is now a judge of the New York Court of Appeals; and Dean Acheson, who was soon to become Assistant Secretary

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of State. It exerted an important influence upon American opinion concerning this point of international law.

While the feasibility of transferring destroyers to Britain was under discussion, there were parallel discussions under way concerning the acquisition of a series of bases to protect the Atlantic approaches to the Western Hemisphere now that the Nazis had broken through to the Atlantic. The Pacific approaches to the Western Hemisphere worried us less because most of our fleet was deployed in the Pacific. Yet a start was made in the spring of 1939 to expand Hawaiian defenses and to build new naval and air bases at Midway, Wake, Johnston and Palmyra Islands in the mid-Pacific and at Kodiak Island in the Aleutians and Sitka, Alaska. Though the Navy in late 1938 had recommended the construction of a strong base at Guam in the Far Pacific to protect our supply lines to the Philippines, Congress was unwilling to appropriate funds for this work for fear of offending Japan. Not until eight months before Pearl Harbor did we start to build on this island facilities for anything other than commercial aircraft.

We were more concerned about the Atlantic approaches. To the south, Axis economic penetration of Latin-America was proceeding at an alarming rate. Axis agents were everywhere and, after the fall of France, were taking orders in many South American countries for delivery of German goods by October 1st, 1940 as proof of their confidence that England would fall and the blockade of Europe end. They had even gone so far as to plan an uprising of pro-Axis elements in Uruguay for the summer of 1940--a plot that fortunately was nipped in the bud by Uruguay's liberal Government. And if economic penetration and planned uprisings should fail, Dakar in French West Africa or the French possession in the Caribbean might be used as bases for a military attack.

To the north, Iceland and Greenland offered inviting bases for German operations against the North American continent. Nazi bombers were even then appearing over Iceland, and, as we discovered later, a Nazi weather station had been set up in Greenland. Neither island had any defenses worthy of the name. Canada, like us, had no North Atlantic outposts.

For more than a century it had been our policy to prevent any non-American power from obtaining new territory in the Western Hemisphere. With the advent of the Good Neighbor Policy we made it clear that we wished to cooperate with the other American Republics as sovereign equals in the common defense of this Hemisphere. This cooperation was advanced markedly by the Declaration of Principles at the Lima Conference in December 1938, when all the American Republics agreed to consult together whenever foreign intervention threatened any part of the Americas.

Much had to be done to implement this statement of solidarity. The armies of some of our southern neighbors were equipped with arms of German manufacture, and practically no ammunition of the right caliber was manufactured in either North or South America. They would be of little use in the event of an attack from Europe. To assure the other American Republics a source of munitions in this Hemisphere if they should be attacked from abroad, we had, in 1939, provided that the Neutrality Act should not apply to any American Republic attacked by a non-American power.

After Dunkirk, we went a step further. On June 16th, 1940, Congress authorized the Secretary of War and the Secretary of Navy to manufacture in government-owned arsenals or shipyards, or to purchase on the open market, munitions of war for direct sale to the

Government of any American Republic. This law, known as the Pittman Act, was a forerunner of Lend-Lease. It did for the American Republics most of what the Lend-Lease Act later did for all nations whose defense was vital to our own except relieve them from the necessity of paying cash for the goods. But financial aid was necessary as well. That was provided by Congress on September 26th, 1940, when it authorized the Export-Import Bank to loan up to \$500,000,000 to the American Republics. Soon thereafter the War and Navy Departments created the Joint Advisory Board on the American Republics, which was to work with them in preparing a program for the purchase in the United States of the munitions they needed for defense. The plan as finally developed provided for the procurement of \$400,000,000 of munitions here for the American Republics over a period of years. It was, however, never necessary to use these statutes to carry out this program, for before any of the munitions had been manufactured and made ready for shipment the Lend-Lease Act had become law. Thereafter arms for the American Republics were supplied under Lend-Lease.

When France fell, we were not in a much better position to join in the common defense of the southern half of this Hemisphere than were the other American Republics. While we had a strong Navy and were starting to build a large Army, the possibilities of getting them to South America in the event of an attack were limited. If Hitler should obtain control of French Guiana, Martinique and Guadeloupe, he would have bases which could be used to cut our lines of communication to the south and even for attack upon the Panama Canal. To consider this danger, the Foreign Ministers of the American Republics met at Havana on July 21st, 1940. The conference

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agreed that none would recognize transfers of sovereignty in the Western Hemisphere from one non-American state to another, and that if any such transfer were attempted, the territory would be occupied by one or more of the American Republics as "collective trustee" for all.

But this was only a partial answer. The Panama Canal, Puerto Rico and the Virgin Islands were the most southerly bases that we had. Yet our bases were farther from the hump of Brazil, where many thought Hitler was most likely to strike, than Brazil was from Dakar--the most likely point from which an attack would be launched. Moreover, they were hardly adequate to protect the Panama Canal should the British Navy fall into unfriendly hands. If we could get a base in British Guiana, we would be nearly a thousand miles closer to Natal. With additional bases on the outer islands of the Caribbean stretching from the Bahamas on the north to Trinidad on the south, we would be in a far better position to defend the Panama Canal. Most of these islands were British-owned.

Simultaneously discussions were going on with regard to our defenses against attack from the North Atlantic. President Roosevelt and Prime Minister Mackenzie King met at Ogdensburg, N.Y., on August 17th, 1940, to discuss hemisphere defense and established the Permanent Joint Board of Defense to "consider the defenses of the northern part of the Western Hemisphere." Should the British Navy fall into unfriendly hands, strong sea and air bases in the outlying islands of Newfoundland and Bermuda would be essential to the defense of both Canada and the United States. Both Bermuda and Newfoundland were British possessions.

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Americans of all shades of opinion wanted additional bases for the United States in this Hemisphere--both those who were for all out aid to Britain in the interests of American security and those who were committed to a continental defense alone. Even Nazi propagandists supported the acquisition of bases. Their line, however, was to suggest that Britain give us the islands in exchange for cancellation of war debts, hoping thus to stop transfer of the destroyers. In Washington the "Island for War Debts Committee" was supported by George Sylvester Viereck, an acknowledged Nazi propagandist in this country.

The President, however, was strongly opposed to acquiring ownership of additional territories in order to get the bases, even if the British would have been willing to transfer sovereignty. We did not want any more colonial territories. We still had problems to solve in the West Indies as it was. It was Mr. Roosevelt who hit upon an alternative that would give us the bases without the sovereignty--why not lease the base sites themselves for 99 years? This would not change the existing Government of the islands, and we would take on no new administrative responsibilities.

The President had by now made up his mind that the coverage destroyers should be transferred to Britain as a measure essential for our own defense. It was his inspiration, supported vigorously by Secretary Knox and others, to put the two proposals together in one transaction--destroyers for bases.

Attorney General Jackson ruled that the President had authority to make this exchange. In a written opinion he declared that the President, as Commander-in-Chief of the United States, owned

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forces, had the right, in order to obtain the bases, to dispose of the destroyers, provided that they were officially certified as "not essential" to the defense of the United States by the Chief of Naval Operations, Admiral Stark. Furthermore, the destroyers should be so certified, if in the Admiral's judgment, "the exchange of the destroyers for the naval and air bases will strengthen rather than impair the total defense" of the country. That this was the case was plain enough, in the Admiral's mind, to outweigh the natural reluctance of any naval officer to part with any of our warships.

The position of our Government on the international law involved, as the President later said, was that, "This is not inconsistent in any sense with our status of peace. Still less is it a threat against any nation. Preparation for defense is an inalienable prerogative of a sovereign state. Under present circumstances this exercise of sovereign right is essential to the maintenance of our peace and safety."

A temporary delay in concluding negotiations with the British occurred in the middle of August. The Prime Minister preferred to give the rights to the bases as a freewill offering, as he stated in a speech on August 20th, rather than as a trade for the destroyers. He wished to keep the transactions separate. Coupling 50 average destroyers with the bases made it sound as if the United States had pretty thoroughly outtraded Great Britain. However, a compromise was worked out in Washington and accepted in London whereby Great Britain would "freely give" the rights to bases in Newfoundland and Bermuda, which would be of special value to the

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defense of Canada as well as of the United States, and would trade for the destroyers the West Indian and South American base sites on the Bahamas, Jamaica, St. Lucia, Trinidad, Antigua and British Guiana.

The texts of the notes to be exchanged were drafted and ready for signature on Labor Day. That afternoon Lord Lothian and Secretary Hull signed. At the same time Prime Minister Churchill at Mr. Hull's request reaffirmed the pledge given in his Dunkirk speech that the British Fleet would never be scuttled or surrendered but would fight on from overseas bases if the waters surrounding the British Isles became "untenable". Churchill could not, however, resist coupling the assurance with a jab at the pessimists who were then giving Britain small chance to survive.

"These hypothetical contingencies," he observed, "seem more likely to concern the German Fleet or what is left of it than the British Fleet."

CHAPTER V
OUR COOPERATION GROWS

CONFIDENTIAL

During the second half of 1940, while the exchange of destroyers for bases was being arranged with Britain, other developments were taking place--less spectacular but equally important to the defense of the United States and to the nations already fighting aggression.

after the fall of France, we really got down to the business of building a munitions industry. In order to develop further the policy announced in his rearmament speech of May 16th, the President on July 10th, 1940 asked Congress to appropriate funds to equip a mechanized army of 2,000,000 men and to buy 15,000 planes for the Army and 4,000 for the Navy in addition to the 7,350 planes authorized for both services in June. On July 19th he told the nation a Selective Service Act was necessary and ten days later asked Congress to speed up legislation authorizing him to call out the National Guard. The new appropriations were made promptly, and after considerable debate the National Guard legislation was passed on August 27th, and the Selective Service Act on September 16th.

The decision to create a powerful army in peacetime for the first time in our history came none too soon. On September 27th, 1940 Germany, Italy and Japan signed an alliance in which each agreed to protect the "new order" in Europe and Asia--a "new order" made possible only by totalitarian aggression--and to come to each others aid in case of "attack" by another power. This treaty, disguised so thinly as a defensive alliance, was a threat of war against the United States if we continued to take steps to defend ourselves.

The events of May and June 1940 taught other democracies that neutrality was not enough to protect them. At the same time that we started to place large munitions orders, they began a frantic search

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for arms from American factories. Typical was the action of the Netherlands Government. In January 1940 a Dutch purchasing mission had come to this country, but bought only a few planes and a small amount of other military equipment. After they lost their homeland in May 1940, the Dutch still had a great overseas empire--the Netherlands Indies--and were determined to obtain all the munitions they could to defend these possessions from a similar fate. Just five days after the Netherlands Government escaped to London, a purchasing mission came here from the East Indies seeking munitions, and ordered more than \$50,000,000 worth before the end of the year. Other small countries followed suit. In the summer and fall of 1940 purchasing commissions from most of the American Republics and other neutral nations appeared in the United States. All sought to purchase implements of war, principally planes, tanks and guns, as well as the tools and materials from which they could be made.

At the same time orders from China and Great Britain, the two great nations left fighting the Axis on opposite sides of the globe, poured into the United States in fast increasing volume. Those for China were made possible by two new loans for a total of \$75,000,000, which were granted in September and December 1940 and, unlike the two previous loans to China, could be used for the purchase of arms as well as other supplies.

The British, of course, were now faced with an entirely new strategical situation. With the fall of Norway, Denmark, Holland, Belgium and France, important sources of essential supplies on the continent of Europe were cut off. At the same time their need for arms had multiplied. Gone was any remnant of the idea that Britain could sit

behind fixed defenses while Germany was starved into defeat. Weapons were needed now to defend the British Isles against direct attack by Germany, and the Suez Canal against direct attack by Italy. And Great Britain, Australia and New Zealand, in the light of Japanese infiltration into French Indo-China, began to think of arms for the defense of Singapore and the Southwest Pacific.

The size of the orders placed with American industry during the last six months of 1940 was staggering. From January 1st, 1939 to June 1st, 1940 foreign governments placed orders for war materials totalling only \$165,000,000; their orders in the next seven months, most of them British, amounted to \$2,556,000,000. In the same period contracts let by our Army and Navy totalled \$8,651,000,000, and Congress appropriated \$19,526,000,000 for the defense program, compared with \$ _____ appropriated for similar purposes for the fiscal year ending June 30th, 1940. The load that American industry had to carry increased _____ fold overnight.

In the face of orders of this size, the necessity for further coordination of the two procurement programs--that of our own forces and that of our friends--became obvious. Many problems arose that could be settled only cooperation. The most fundamental problem had been settled by the President in his address of June 10th, 1940, at the University of Virginia when he said, "We will pursue two obvious and simultaneous courses; we will extend to the opponents of force the material resources of the nations; and, at the same time, we will harness and speed up the use of those resources in order that we ourselves in the Americas may have equipment and training equal to the task of any emergency and every defense." This meant that our Government would not take over for our own armed forces the output of plants built or under construction to fill foreign orders. Instead we would super-impose

on top of the munitions industry created with foreign capital a new munitions industry to fill our own orders and additional foreign orders.

But many problems remained. How large a munitions industry should we build? The answer to that question would determine how fast we could arm ourselves and fill the orders placed by the other democracies. What types of munitions should we produce? A large part of the munitions industry that was already built or under construction had been created by foreign orders. Some of it was being tooled up to produce arms which were not standard equipment for our forces. Unless steps were taken speedily, we would have many plants turning out arms built to foreign specifications that would be of only limited use to us should we have to defend ourselves against direct attack.

How should we divide the output of the new plants to be built? In order to carry out the President's policy announced in his University of Virginia address, a balance had to be struck between the need to arm ourselves and the need to keep war away from our shores through aid to those powers already fighting the Axis.

During the summer of 1940 a start was made toward evolving an over-all plan for dividing up our facilities and raw materials between the foreign governments and ourselves. The solutions that were reached were stop-gap. New problems were always arising, and tentative solutions often were found unworkable. But a start was made.

The organizations around which such planning centered were the Defense Advisory Commission and the National Defense

The former was charged with the responsibility of planning for the necessary expansion of production, and, to do so intelligently, we on the Commission had to consult constantly with the army, the Navy, and the

missions and the President's Liaison Committee acting
on their behalf.

My particular responsibility as Commissioner of Industrial Materials was to see that the raw materials needed to feed the munitions industry were provided. Later, after October 21st, 1940, when the Priorities Board consisting of William S. Knudson, Leon Henderson and myself was created, we began assigning priorities to foreign orders as well as to our own Government's orders.

The President's Liaison Committee, which had been created in December 1939 to represent our Government in its contracts with foreign governments desiring to purchase war materials, played the major role in coordination. With the institution of an export control system, the foreign governments were asked to file with the Committee a report on each contract they proposed to let in the United States. Before approving a proposed contract the Committee made sure that it would not interfere with our rearmament program, suggested alternative sources of supply when the proposed manufacturer already had a heavy backlog of orders, and later even secured priorities for the order when necessary. In the case of airplanes the foreign purchasing missions were asked to submit a complete program before any one contract was approved.

During July 1940, Arthur Purvis, Secretary Morgenthau and Morgenthau's assistant Philip Young began

able assistant Philip Young began to discuss informally the relationship between our plan for plane production and the rising British needs. The United States was then turning out military planes at the rate of over 550 a month, of which _____ were trainers. The British and French had ordered more than ten thousand up to July 1st, 1940, but only about 400 a month were coming out of the factories during the second half

of 1940 for shipment overseas. Tentative plans called for reaching a production rate of roughly 3,000 planes a month by the end of 1941-- 1,000 for the British and 2,000 for our own forces.

Purvis had said several times to Secretary Morgenthau that the British by the end of 1941 would really need 4,000 planes a month from the United States instead of the 1,000 we were then planning for. On the morning of July 24th, Morgenthau, Young and Purvis met to talk over a statement of Britain's future needs that Purvis was going to make at a meeting later that morning with Secretaries Stimson, Knox, and Morgenthau, Mr. Knudsen, and General Arnold. When Purvis began to talk requesting 1,500 planes a month instead of 1,000 by the end of 1941, Morgenthau stopped him and reminded him of the 4,000 figure.

Purvis was startled. He had 4,000 planes a month in the back of his mind as an ultimate goal, but he had never dreamed of asking for that number all at once. He had apparently thought of upping the sights a little at a time. The Secretary took a different view. If the British needed 4,000 a month, they should ask for them right then before the program got underway. It was no good asking for a little at a time. Plans for the next eighteen months were now being laid. The only thing to do was to come out with it.

"Pass the ball to Knudsen," Morgenthau summed it up. "He's the kind of a production man who will rise to a challenge like that and meet it."

"I'll do it," said Purvis. "I must see Morris Wilson first; he's Lord Beaverbrook's representative in this country, and I've got to get his backing. But I'll do it."

Purvis "did it" later that morning. He put squarely to Knudsen the British need for 4,000 planes a month. Often since then, I have thought

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that Morgenthau was a shrewd psychologist. To have asked Knudsen for 1,500 planes a month would have meant only a minor re-adjustment of the program; it would have been a matter of details. But 4,000 was different. The whole program would have to be doubled. The sights were not just lifted; they were raised sky high. Now everyone--automobile makers, washing machine makers and refrigerator makers--would have to pitch in and help.

It was impossible by the end of 1941, Knudsen said. But in another year he thought it could be done. He was not far wrong. By the end of 1942 planes were coming off the line at 5,400 a month. By August 1943 the figure had risen to 7,500 a month. American industry had accepted the challenge and come through magnificently.

That night Lord Beaverbrook went on the air from London to tell the good news to the British. The promise of greater aid implicit in the new program helped to give them courage to face the Battle of Britain, which began two weeks later when the Nazis sent a large bomber fleet over Britain in daylight on the first of many raids to come.

The British got many airplanes, but they never got anything like 4,000 a month. Long before we were producing 6,000 a month, Russia, and then we ourselves, had been attacked. But the forces of all the United Nations, ours and those of our allies, did get them.

With the aircraft program doubled overnight, new plans had to be laid to expand production of component parts. Engines continued to be one of the worst bottlenecks. In the summer of 1940, the United States Army Air Corps was using air-cooled radial engines but had become interested in liquid-cooled engines for use in fighter planes. Unfortunately the United States had no proven engine of that kind. While the new Allison engine, just then going into production held great

promise, "bugs" were still appearing, and no one could tell how long it would be before they could be permanently removed. In this predicament the Air Corps became interested in the battle-proven Rolls-Royce Merlin engine. This engine, which was regarded by many as one of the finest in the world, had been developed by the British and used with great success in Spitfire and Hurricane fighters and in Wellington and Halifax bombers.

Secretary Morgenthau called Lord Beaverbrook, who had just become Minister of Aircraft Production, by transatlantic telephone and asked him for a license to produce Merlin engines in the United States.

Beaverbrook's reply was immediate. Yes, we could have a license to produce the Merlin engine, and a license to produce Spitfires, Hurricanes and anything else that we wanted for our air program.

It was a bold offer. Private rights in patents and license agreements cannot be given away so easily. But Beaverbrook knew that in some way the details would be settled, and he was determined that there should be no delay. It was but one example of his blunt, bold action that meant so much to Britain in her hour of trial.

A few weeks later Morris Wilson went to Halifax, Nova Scotia, with a large briefcase to pick up the Merlin engine blueprints, which had been sent on a battleship. When he got there, he went aboard, had lunch with the Captain, and then announced he was ready to take the blueprints.

"How are you going to carry them?" the Captain asked. Wilson pointed to his briefcase.

"Perhaps you had better come down and look them over first," the Captain said. They went down to the room where the blueprints were stored away.

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"Where are they?" asked Wilson, looking around at a lot of packing cases.

"In those big boxes," said the Captain. "There are about two tons of them."

On September 3rd, 1940, a contract was signed with the Packard Motor Company to produce 9,000 of these engines--3,000 for our Air Corps and 6,000 for the British, who needed them more as they stepped up bomber production at home. But before anybody could get any engines, a factory had to be built and tooled up. The cost of that was split between the United States and the British, one-third and two-thirds. Before the plant was finished, the British Government had paid over \$30,000,000 for construction and had thrown in the design of the engine itself for good measure. The engine, which the British allowed Packard to produce for our Air Corps without royalty charge, has since been used with great success in our P-51's and in some of our P-40's.

While these contracts were being let, a new problem--that of allocating the output of our airplane industry--was arising. Whenever American and foreign orders had been placed with the same manufacturer, our Government under its newly granted priorities power could pre-empt all deliveries for its own use even though the British orders had been placed first. Such action would, of course, have been inconsistent with our policy of strengthening our defenses by aiding the countries fighting those who threatened us, but some agreement on allocations was called for.

A promising beginning was made on August 21st, 1940 when a committee was created consisting of two representatives each from the Army, the Navy and the British Air Commission. The members of this Committee, which subsequently became known as the Joint Aircraft Committee,

were empowered, as Secretary of War Stimson said, "to act for and obligate" their governments. It was a long step toward effective day to day collaboration in arms production and a significant forerunner of the Combined Boards created after Pearl Harbor.

The principle upon which this Committee began operating was to allocate planes and their component parts in such a way as to put them to effective use as soon as possible, either against the Axis in the case of planes for Britain, or for the strengthening of our own defenses in the case of planes for ourselves. Efforts were made to prevent any nation from accumulating spare motors, propellers, guns or other parts so long as another country had planes idle for want of parts.

The Joint Aircraft Committee was also given another job of equal importance --to standardize the types of planes being produced in American plants for both governments. The first plane toward which the Committee directed its attention was the P-40. Although the P-40's then being produced for the United States and Great Britain were basically the same, there were innumerable differences in detail and each government was constantly changing specifications independently of the other. The result was a manufacturer's headache and a low rate of production. In September 1940 the Committee met at the Buffalo plant of the Curtiss-Wright Corporation. The meeting lasted two days and resulted in an agreement to standardize the model and freeze the design for a period of six months.

The result was an almost immediate jump in production. Later that fall similar standardization meetings were held at the Pratt and Whitney engine plant and at the factories producing Brewster and Grumman planes. In each case the result of such cooperation was to increase production for both of us.

at once, the plan was agreed to on November 29th, 1940.

Further steps toward standardization of other arms besides aircraft were taken in September when Sir Walter Layton, in discussions with Secretary Morgenthau and Secretary Stimson, outlined the British need to procure here large amounts of equipment of all types for ground troops. He made it clear, however, that the British realized this could not be done without a far greater standardization than had been undertaken to date. The British would place orders in Canada for as much of the non-American equipment as possible. They realized that in the United States they would have to order equipment that could be used either by British or American forces, and were willing, in order to obtain it, to pay for the construction of the new factories needed-- factories that would be available to arm our forces should we later be attacked. Layton said that as a starter the British wished to equip ten divisions for action in the Middle East with standard American equipment produced in the United States. On condition that all the orders be cleared through the War Department and be placed promptly so that plant expansion would start at once, the Priorities Board, the President's Liaison Committee and Secretary Stimson agreed to the plan on November 29th, 1940.

The British decision to purchase American-type equipment, embodied in the Stimson-Layton Agreement, was much more than a simple acceptance of our standard items. It was also an offer by the British to work with us in developing new weapons or redesigning old ones for both nations. The offer was immediately accepted and our two armies began at once to exchange equipment for testing. We sent them two of our anti-aircraft guns and our 105 mm. howitzer, and they sent us their 25-pounder gun, their 40 mm. Bofors and another anti-aircraft gun. Each nation gave the other nation's equipment a thorough testing. The British

40 mm. Bofors turned out to be such a good anti-aircraft gun that we adopted it for our own army and for use on naval vessels and began production in the United States. The British for their part adopted our 105 mm. howitzers and some of our other guns. Some weapons were redesigned to incorporate the best of what each had to offer. This was the beginning of a form of cooperation--Lend-Lease and Reverse Lend-Lease in ideas--which is now an accepted and indispensable part of the joint war effort.

Official pride on both sides was often a barrier at first, but as each army found some of its ideas accepted by the other, both became less reluctant to adopt new weapons and new ideas. As this sharing of technical knowledge has progressed, each nation has progressed from pride in its own weapons to pride in its contribution to a jointly designed weapon. Today, for instance, both the British and ourselves claim credit for the great development in radio location, during this war. I have never been able to learn exactly which nation contributed most, and I do not think it matters. What is important is that it probably never would have reached its present stage of perfection had not the British and ourselves started sharing ideas back in 1940.

The first tangible result of this new and closer cooperation was an American medium tank which was designed in the summer of 1940 as a joint British-American undertaking. The events of June 1940 had reversed the strategic picture in the Mediterranean. The loss of French North Africa and the entrance of Italy into the war left Egypt and the Suez isolated in the eastern Mediterranean. Churchill warned Britain how damaging the withdrawal of France had been and refused to guarantee a favorable result in the Middle East. But he immediately set about to strengthen the British forces there. During the worst days of threatened invasion in the summer of 1940, he sent Britain's only

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remaining armored division to Egypt. It enabled Wavell to hold Graziani, but many more tanks would be needed for the operations to come.

The British wanted to buy large numbers of American tanks to supplement their own production. Our army, too, needed thousands to equip the armored divisions of the new army soon to come into being. There was, however, only one company--the American Car and Foundry Company--then producing tanks, and it made only light tanks.

On August 6th, 1940, William Knudson and John D. Biggers of the Defense Advisory Commission called a meeting in Washington. United States Army ordnance officers were there along with British Army officers and representatives of the British Purchasing Commission and the President's Liaison Committee. But by far the largest number of men at the meeting were American businessmen and industrial engineers--men from the automotive industry and from the Baldwin Locomotive Company, the Pullman Standard Car Company, the Lima Locomotive Works, the Pressed Steel Car Company, and other American manufacturers of heavy equipment.

The manufacturers were told that American and British ordnance officers were rapidly reaching agreement on a medium tank design for the armies of both nations. The tank was to be basically the old American 25-ton General Lee, which our army had designed in 1937. But it was to be drastically modified in the light of British experience in the Battle of France with their medium tanks which had proved no match for the Nazi tanks.

Michael Dower, who had come to the United States shortly before at the head of a British Tank Mission, told the meeting that from the beginning of the war he had always thought that Britain should have

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a very large number of tanks. "I worried Mr. Churchill's life out," he said, "and when Mr. Churchill became Prime Minister, I suddenly received a telegram asking that I come to see the Minister of Supply. He handed me all the memoranda with which I had been bombarding Mr. Churchill, and said 'Well, here is your opportunity to get these tanks at the rate of 1,000 a month. Perhaps you had better go to the United States and get them.' That, gentlemen, is why I am here." Britain, he went on to say, needed 600 tanks a month from the United States to complete her tank program.

Then the American ordnance officers outlined the type of tank on which they and the British were reaching agreement. For over three hours, the businessmen and the military talked over ways and means of getting them into production.

By the end of August the blueprints had been prepared for a standard design--the General Grant. The next step was to let the contracts. The War Department decided to rely upon one plant for most of its tanks. In September 1940 it put up \$20,000,000 for construction of the huge Chrysler Tank Arsenal at Detroit. The British placed orders for over 2,000 tanks with the Pressed Steel Car Company, the Lima Locomotive Works and the Baldwin Locomotive Works. Motors to satisfy the orders of both Governments were to come principally from the Continental Motors Corporation of Detroit.

Many of the new plants needed to produce tanks for British orders were paid for by the British following the old practice. They spent over nine million dollars for new facilities for Republic Steel, The Baldwin Locomotive Works, the Lima Locomotive Works, and the Pressed Steel Car Company. When it came to the facilities for tank

engines, however, Arthur Purvis asked if some assistance would not be possible. The British by this time had little gold or dollars left. Purvis talked with the President's Liaison Committee, the War Department and the Reconstruction Finance Corporation.

On September 9th, the Army had signed a contract with Continental Motors for 1,000 tank engines to be produced at the rate of 200 a month by October 1941. This was sufficient for our needs at that time. The British estimated their needs at 400 a month. Four days later Under Secretary of War Patterson sent a one-sentence letter to Emil Schram, Chairman of the Reconstruction Finance Corporation. "The creation of manufacturing capacity capable of producing 20 medium tank engines per day [600 per month] by the Continental Motors Corporation of Detroit, Michigan is essential to the national defense of the United States." Knudsen sent a similar letter for the Advisory Commission. A week later, the Reconstruction Finance Corporation put up eight million dollars for machinery and tools to build these 600 engines a month.

The Reconstruction Finance Corporation loan provided facilities to produce motors both for our orders and the British orders. But the words "essential to the national defense of the United States" in Patterson's letter were more than recognition of the importance to us that Britain continue fighting the Axis. It would take at least eight months to get these engines rolling off the lines. By that time, we might need 600 tank engines a month ourselves. The Reconstruction Finance Corporation loan for production facilities to make engines we did not need at the moment was a form of aid to the British. But it was more than that. It was a way of building up our own war potential at the same time.

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Although the Continental plan was not followed in other cases, it was a sign of the direction in which we were moving. The British were feeling the drain of gold and dollars which had gone into building up American war industry. And we were looking for new ways to help them. Before the Lend-Lease Act was passed, other methods were tried. We arranged to buy from the British certain war plants which they had built in the United States and we now needed for our own defense program. Our Army considered placing orders for munitions they did not need immediately, with the expectation that when they came off the line months later, they could be released to the British. But these were stop-gap measures. By the end of the year the British dollar position was so serious that something much bigger than could be accomplished under existing law was needed if the flow of arms to Britain and the other democracies was to continue. Congress and the American people would have to make the decision on further aid.

Chapter VI

H. R. 1776

By December 1940, a majority of the American people, I believe, had made up their minds that it was in our national interest to continue the flow of arms to nations fighting the Axis.

There has been no real issue on this in the campaign that fall. In his Cleveland speech on October 28th, the President had said that "our policy is to give all possible material aid to the nations which still resist aggression, across the Atlantic and Pacific Oceans." Wendell Willkie in his final campaign speech at Madison Square Garden on November 3 had said that "all of us--Republicans, Democrats, and Independents--believe in giving aid to the heroic British people. We must make available to them the products of our industry." The majority of the people now expected this policy--supported unequivocally by both candidates--to be translated into action.

But there were many still who were not convinced that our national interest demanded such a policy. And there were very few who could grasp the magnitude of the steps that would have to be taken if our aid were to be effective.

Three days after the election, the President publicly announced a "rule of thumb" for the division of American arms output. As weapons came off the production lines, they were to be divided

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roughly 50-50 between the United States forces and the British forces. That same day the Priorities Board approved a British request to order 12,000 more airplanes here in addition to the 14,000 they already had on order. The promise of material aid to keep Britain in the fight was day by day being translated into a definite plan. But the machinery for carrying out the plan had still to be devised.

The most immediate problem was one of dollars. The British had started in September 1939 with roughly four and half billions in dollars, gold, and United States investments that could be turned into dollars. Much of this belonged to private British citizens, but after the outbreak of war the British Government began to take over the private dollar balances and United States investments, compensating the owners in British pounds. The dollars all went into a single Government war chest.

Outside of gold production within the British Commonwealth, the most important source from which the British could replenish their war chest was exports to the United States. During 1940, it seemed strange to many Americans that a nation battling for survival like Britain should be making such strenuous efforts to export to this country luxury goods like whiskey, fine woollens and pottery. But there was a good reason for it. These British-made goods were sold here for dollars, which were in turn to buy American-made weapons.

In the sixteen months that followed the outbreak of war, the British managed to realize from sales of gold, exports and other

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The plain fact was that they had little more than enough dollar assets left to pay for the materials they had already ordered here.

sources two billion dollars more. But in the same period, they paid out four and a half billion for the war supplies they had to have from this country and from other countries that demanded gold. Their net loss of dollars was two and a half billion.

The British had begun by spending their dollars very carefully, "as if we were on a desert island, on short rations which we must stretch as far as we can", Purvis once said. But the fall of France put an end to this policy. The take over of the French contracts had doubled the rate of British spending overnight, and in addition thousands of new orders had to be placed immediately.

Now at the end of 1940, Britain's war chest of dollars was down to two billion, and of this a billion and a half was already pledged to pay for war goods ordered here but not yet delivered. The British could not possibly mine enough gold or export enough goods to get the dollars it would take to go on buying weapons here at the rate they needed them. They had already sold outright the American Viscose Corporation, a great British-owned American company, and had either sold, or had pledged to the R.F.C. large blocks of stocks in other American companies. The plain fact was that their dollar-reserves were almost gone. As Secretary Morgenthau was to say a few weeks later in the Lend-Lease hearings, "If Congress does not act on this Bill, there is nothing left for Great Britain to do but stop fighting."

By the middle of December, new British contracting in the United States had practically stopped. Secretary Morgenthau and Sir Frederick Phillips, a high official of the British Treasury who had come to this country shortly after the take over of the French

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contracts, had been meeting every week for some time to discuss the British dollar position and the volume of British orders. Now they were fixing a strict weekly budget of dollars for the British Purchasing Commission. No matter how essential the weapon or the supply, it could not be ordered if the weekly budget had already been spent.

We could have made loans to Britain, as we had made loans to our allies in the last war. At first glance, it was a simple and convenient solution, but in reality it was loaded with trouble. Loans between allies in a major war of survival seldom work out satisfactorily. The British had found this out more than a hundred years before when they had combined with other nations in Europe to stop Napoleon. They made some loans to finance their allies, and then found that only a fraction of the loans could be repaid. In the long run, they simply gave up making loans altogether and, because it was vital to Britain's security that Napoleon be defeated gave enormous amounts of aid to their allies in the form of outright subsidies.

We in the United States had also discovered how unworkable loans were when the war-debt problem after the last war brought economic dislocation and a disastrous misunderstanding between allies who should have been standing together to keep the world at peace. A fixed money debt would probably create the same difficulties all over again. Then there was also an important psychological reason for not making loans. The crux of the matter was not dollars; it was planes, guns, and ships. To put aid to

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countries holding the Axis in check on a commercial basis would inevitably take our eye off the real purpose--to get enough weapons to the battlefronts to stop aggression before the Western Hemisphere was attacked.

Dollars were not the only problem. Munitions capacity was growing tighter every day; machine tools were becoming scarce; raw materials shortages began to loom ahead. By December 1st, only 1200 of the 26,000 planes that the British had ordered or were programming with our approval had been delivered. To deliver all these planes and to build at the same time the air strength our own safety required would strain our plant facilities to the limit. Only a single, unified Government procurement policy for all defense purposes could do the tremendous job that was now ahead, and that meant that the United States should place all the orders for weapons in this country.

There was finally the problem of defense strategy. No one could foresee the changes that the course of the war might require in the allocation of American arms. It might be necessary for us to send abroad weapons originally scheduled for our own army in order to prevent a decisive Axis victory overseas before we were prepared ourselves. On the other hand, we might ourselves be under attack when the planes ordered in December 1940 began to come off the production lines in December 1941.

The search had gone on in the Government all during the summer and fall of 1940 for the best solution to all these problems. The first time I got an idea of what this solution might be was at a

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meeting of the Defense Advisory Commission with the President in the late fall. We were talking of the shipping shortage and the increasing difficulty the British would inevitably have in moving their war supplies from the United States. They had already begun to buy ships here, but we knew they did not have enough dollars to go on with this program very long. Finally, the President said, "It's not necessary for the British to take their own funds and have a ship built here or for us to loan them money to have a ship built here. There's no reason why we can't take a finished vessel and lease it to them for the duration of the emergency."

It was a new idea to all of us there, and it seemed to make sense. But our problems on the Defense Advisory Commission were then chiefly in the domestic field, and I thought little about the President's remark until later on when the words "Lend-Lease" were the center of everyone's attention in Washington. Then I thought back and realized that the President's remark was not just an isolated comment on a single problem. It was part of a whole scheme for aiding the democracies that he was turning over in his mind.

The idea, I found later, had been first proposed in the Treasury Department, where the problem of continuing the flow of arms to Britain in the face of her diminishing dollar supply was constantly under consideration. The Treasury lawyers found that under an old statute of 1892, the Secretary of War, "when in his discretion it will be for the public good," could lease Army property "not required for public use," for a period of not longer than five years. Tractors, lathes, cranes, barges, and other such Army items had been

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leased from time to time under this statute.

This statute suggested the idea of applying the lease principle to a system of aid for Britain. It was a fruitful starting point. Such a system would give our own Army and Navy procurement officers the job of buying all the munitions produced in this country -- whether they were for the nations we were to aid or for ourselves. Moreover, it would be a flexible arrangement. If we were suddenly attacked, weapons which we had intended to lease could be kept here for our own defense.

But the idea of an ordinary lease was not wholly applicable either. When a man rents a house, for instance, he ordinarily fixes a definite price and a length of time for the lease to run. This was plainly impossible when we sent weapons to Britain or to China. How long the crisis would last, what they could give us in return after it was all over -- no one knew the answers to these questions. The lease would have to be open-ended, with a gentleman's agreement for a fair and workable settlement in the best interests of all of us after the Axis had been licked.

Early in December, 1940, the President went off for a short cruise on the Tuscaloosa. One purpose of the trip was to visit some of the naval bases in the Caribbean that had just been leased to us by the British. But the President also wanted an opportunity to think over all these problems which were becoming more critical every day under the pressure of events abroad.

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The full danger to the United States of events abroad was brought home more powerfully than ever to me at just about this time. In the middle of a meeting at the Defense Advisory Commission's office one morning, Secretary Stimson telephoned and asked me to pick up William Knudsen, Donald Nelson and come to "Woodley", his house at one o'clock for lunch. It was one of Washington's freak hot early winter days, and we were ushered out on the glass enclosed porch when we arrived. We had been there only a few minutes when Secretary Hull and Secretary Knox came on.

Mr. Stimson got right down to business. We officials of the Defense Advisory Commission had the duty of assisting in the mobilization of American resources for national defense. But we also had another duty, Mr. Stimson said. That was to help mobilize the thinking of the American people for a great effort. The three Secretaries thought that we should be told some of the details of the reports from abroad on which members of the Administration based their warnings to the American people of the growing danger to our country.

Secretary Hull began by giving us a clear and forceful picture of the terrible possibilities which had caused him to say to the American people a month before, that "there can be nothing more dangerous for our nation than for us to assume that the avalanche of conquest could under no circumstances reach any vital portion of this hemisphere." The Nazis were definitely out to dominate the world. Hitler counted on Britain surrendering in the spring of 1941; then Germany and Japan would take on the United States together--that was apparently the strategy. Their navies might suddenly appear

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in this Hemisphere, one on either side of South America, or even at the Panama Canal.

Then Mr. Hull told us his views on the situation in eastern Europe. Hitler had a million men on the Russian frontier trying to force the Soviet to acquiesce in the "New Order" in Europe. Mr. Hull did not think this would happen. On the contrary, there was a real hope of Russia standing with the United States in firm opposition to Germany. In southeastern Europe, the situation was very grave. Mussolini's attack on Greece would probably bog down completely, but Hitler would eventually move down through the Balkans into Greece and bail him out. No one could foretell where Hitler could be stopped when he started to move in that direction.

Mr. Stimson and Colonel Knox backed up Mr. Hull with the military and naval details that brought the picture down to the actual men, planes, tanks, guns and ships involved. Our most immediate danger was the loss of Britain's sea power in the Atlantic, and the crucial hour for Britain, Mr. Stimson thought, was about ninety days away. After that, it was very doubtful whether they could hold out without the firm assurance of great amounts of material aid from this country. "The life-line from the United States"--that was Britain's last hope.

Then the Secretaries laid out an assignment for the staff of the Defense Advisory Commission. The Government was doing its best to make the American people aware of the grave threat to our national safety, and it was up to us to explain it to the business world. With W. Averell Harriman, William Batt, John Biggers and other lead-

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ing businessmen in the Government, we got to work later that same afternoon. We arranged meetings with the officers of the United States Chamber of Commerce and other business organizations. Donald Nelson went out to Chicago to talk to his business friends there. Knudson and I met with industrial leaders from all over the country and urged on them the crucial nature of our position.

The country was finally coming to appreciate the imminence of the threat to us if Britain should collapse. But a plan for getting to her the arms she needed had still to be agreed upon. When the President returned from the Caribbean on December 16th, 1940, he was ready to make a proposal to the American people. He outlined it first at his press conference the next day. To the reporters Mr. Roosevelt laid down what he took to be the clear policy of the United States: "There is absolutely no doubt in the mind of a very overwhelming number of Americans that the best immediate defense of the United States is the success of Great Britain defending itself; and that, therefore, quite aside from our historic and current interest in the survival of democracy in the world as a whole, it is equally important from a selfish point of view and of American defense, that we should do everything possible to help the British Empire to defend itself."

He reminded the conference that no major war in all history had ever been won or lost because of money. In 1914 the bankers had all assured us that the war would probably not go on for more than three months because of lack of money, and, if it did, the bankers would stop it within six months. "There was the best economic

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opinion in the world that the continuance of war was absolutely dependent on money in the bank. Well, you know what happened", he said.

"Now, what I'm trying to do is to eliminate the dollar sign." That was the heart of the proposal.

Then the President explained his solution in simple terms. Our factories were turning out munitions. The British were buying some of them; we were buying the rest. The United States Government should from now on place all the contracts for munitions to be manufactured in the United States. If we needed them when they came off the line, we would use them ourselves. If we decided that they "would be more useful to the defense of the United States if they were used in Great Britain than if they were kept in storage here" we could "either lease or sell the materials, subject to mortgage, to the people on the other side."

"The defense of the United States", and not dollars, was henceforth to determine where our weapons were to go. Then he told the story of a fire in a neighbor's house and the loan of a garden hose. Lend-Lease as a weapon for the defense of our vital interests had been proposed to the American people in every day American terms.

Twelve days after the press conference a fireside chat on national defense was announced. Letters and messages began to pour into the White House from private citizens all over the country. Most of them told the President that we were in grave danger; that he should tell the country about it without pulling any punches; that he should outline clearly what steps were necessary to insure our national

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safety. a few honestly expressed the belief--increasingly difficult to hold in the face of the facts--that all this talk of danger was nonsense and that we need not concern ourselves with either Hitler or the Japanese war lords.

One telegram which arrived at the White House, however, made the President angry. It did not deny that there was danger. It merely asked him to stop dwelling on the danger. As he said in his fireside chat, "The gist of that telegram was: 'Please, Mr. President, don't frighten us by telling us the facts.'" He could not resist a slip at such thinking. "Frankly and definitely", he said, "there is danger ahead--danger against which we must prepare. But we will know that we cannot escape danger by crawling into bed and pulling the covers over our heads."

As most of the messages had asked him to do, the President spoke bluntly. If Britain should go down, he said, "all of us, in all the Americas, would be living at the point of a gun--a gun loaded with explosive bullets, economic as well as military. We must produce arms and ships with every energy and resource we can command."

Then the President summed up our national policy in a world of aggression: "We must be the great arsenal of democracy."

A week after the fireside chat on January 6th, 1941, the President delivered his annual message to Congress on "The State of the Union."

"I find it unhappily necessary to report," he said, "that the future and the safety of our country are overwhelmingly involved in events far beyond our borders." He asked the Congress for the author-

by Secretary Morgenthau and the Treasury staff;

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ity and the funds necessary to manufacture additional weapons and war supplies to be turned over to those countries actually at grips with the Axis.

Almost as soon as the President got back to the White House from the Capitol, Secretary Morgenthau and E. H. Foley, the General Counsel of the Treasury, called on him to discuss a proposed bill to carry out the policy of full aid to the democracies. The bill had been first drafted four days before by Oscar Cox, a Maine lawyer who had come down to the Treasury in 1938 from the New York City Corporation Counsel's Office. He had worked on the problems of foreign purchases here since the earliest days, and it was he who had first proposed the trade-in as a method of transferring the rifles to Britain. Later that summer, he had dug up the old 1892 statute that had led to the thinking on aid to the democracies in terms of a lease.

After Cox prepared the first draft of the Lend-Lease Bill, it was discussed and revised--by Secretary Morgenthau and the rest of the Treasury staff; by Secretary Stimson, Assistant Secretary McCloy, and other War Department officials; by Secretary Knox; by Secretary Hull and his legal advisor, Green Hackworth; by Attorney General Jackson; by Ben Cohen, and by many others--in a series of day and night discussions and drafting sessions. Congressional leaders--Senators Barkley, George, Connally and Harrison, Speaker Rayburn, Representatives McCormack, Bloom and Luther Johnson--were consulted. By the time the bill was brought to the President, it was a joint product of many different persons. A new idea, a new word, a change

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of phrase came out of every discussion. The staff of the Congressional Legislative Counsel worked long hours getting the language in the best possible form. The Treasury lawyers worked long hours coordinating and reconciling all the suggestions that had been made.

The President read the Bill slowly and carefully. When he had finished he said that it provided for the aid which we had promised in the most direct and clean-cut fashion possible. He wanted it brought back to him as soon as possible initialed by Secretaries Hull, Stimson, Knox, by Mr. Knudsen and by Secretary Morgenthau himself.

The next day, Foley and Cox started around Washington for final clearance on the Bill. There was another rapid series of conferences; a few more changes were made by the State Department and the War Department. But by five o'clock in the afternoon Secretary Morgenthau and Foley were back at the White House with a Bill that everyone agreed on; it had all the initials the President had asked for.

"This is a really fast piece of work for Washington," the President said with a grin as the draft was handed to him; "and I'm not one to be outdone." He read the Bill through carefully, and asked a few more questions, and then initialed it himself.

Late in the afternoon two days later, there was a final conference with members of the Cabinet and the Congressional leaders at the White House. After he had read the Bill aloud, the President made several things clear. First, there should be no limit in the act itself on the amount of aid that could be given to foreign countries. The appropriations which would be asked for from time

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to time as money was needed would limit expenditures. The Act itself, however, should contain no maximum. This was an emergency; we could not tell how much aid we would have to give anymore than we could predict the course of the war.

Then one of the Senators said he was worried about the provision in the Bill for lend-leasing Army or Navy material already on hand. "Does this mean that we could give Britain the Battleship _____?" he asked, and he named the ship called after his own state. Everyone laughed, but the point was important. It was a question that was to be asked over and over again during the coming months. The answer was always the same. No one had any intention of giving away a battleship. But no one could possibly foresee what would be in our best interests in six months to come.

"Take an example," said the President. "It might be of tremendous importance to the defense of China or Greece if we could take airplanes off our carriers and fly them to those nations. We could replace them for our own use in a short space of time. By making them available now to countries fighting with their backs to the wall we would help them and help ourselves too. Once you start excluding things from this Bill you are bound to end up forbidding something which we will find a few months from now absolutely must be done for our own defense."

Finally, the President emphasized speed. The British had been forced to stop practically all contracting, and orders for delivery in late 1941 and in 1942 must be placed very soon. The war would

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not wait while we debated.

At noon the next day, January 10th, Senator Alben Barkley introduced the Bill in the Senate, and Representative John McCormack introduced it in the House. The Clerk of the House of Representatives stamped it with the number H.R.1776.

CHAPTER VII
THE LEND-LEASE DEBATE

The debate on Lend-Lease was the final stage in a running national debate that had been going on in the United States with increasing vigor since the fall of France.

In countless speeches, in editorials, in magazine articles, in resolutions adopted by organizations and meetings of all sorts, our Government was urged ever more insistently to increase aid to Britain and the other nations battling the Axis. The "Committee to Defend America by Aiding the Allies" had been formed to urge a full program of aid as a necessary step to protect our own security.

On the other side, the "America First Committee" insisted that our national safety was not endangered by the war in Europe and that we should take no steps to help either side. By rearming ourselves, they said, we could secure the defenses of the Western Hemisphere even if all the rest of the world fell to the Axis. Innumerable other groups--a small number of them tied up with Axis propagandists, but the great majority composed of loyal, sincere American citizens--were formed to fight the policy of aid to the nations battling the Axis.

During the late summer of 1940, when the destroyers-for-bases exchange was under discussion, the debate rose in a sharp crescendo as it became focused on this specific proposal. When the transfer was finally made, it was clear, I believe, that a majority of the American people approved. But this was still not a clear-cut decision on the basic issue of our foreign policy, for no one could deny that we had received an enormous immediate benefit from the exchange--a long chain of naval bases protecting our Atlantic approaches. The issue of all-out

aid to Britain, China and other nations with less immediate and tangible benefit to the United States was still to be thrashed out.

During these months, I must confess that I was sometimes puzzled by the slow pace with which we moved forward in our program of aid to Britain, China and the other nations battling aggression. I knew, of course, that it was the subject of violent controversy among the American people, and I also recognized the natural desire of responsible government officials to move slowly and carefully into new uncharted fields of national policy. And yet, at times, it seemed to me that the Government lagged behind, even after a majority of Americans were ready for action.

Looking back now from the middle of the war, I think I can understand the basic reason why we had to move slowly. In a democracy, a mere majority is not sufficient foundation when drastic and far-reaching action is necessary to protect the nation in time of peril. At such a time, the people as a whole must stand solidly together; they cannot defend their country and their liberties with sharply divided counsel. Thus, a bare majority was not a sufficient basis for the destroyers-for-bases exchange, and even less so for Lend-Lease six months later.

The majority had to be so strong and so determined that the will of the country was unmistakable to every citizen regardless of his own views. To have acted suddenly without thorough discussion might have left a dangerous cleavage among the American people at a time when unity among us was more important than ever before. Days and weeks of full and open debate were needed before there was that solid basis of unity in the minds and hearts of the people necessary for the momentous step we were about to take.

This is not the method by which a dictator builds an army for aggression. But it is the method by which the people of a freedom-loving nation unite behind their leaders to defend themselves against dictators and eventually create the overwhelming power necessary to crush them.

At no time in our history have these processes of democratic discussion had freer reign than in the debate on Lend-Lease. It was as if the whole American people were thinking out loud. I felt then, and feel now, that in the process we as a nation cleared up our thinking about our place in the world. We were able to take a fresh inventory of ourselves, of our past and our future. And then through our democratic processes, we freely made up our minds on the part we had to play in the affairs of the world if we were to preserve those democratic processes.

The national debate on aid to the democracies came into ever sharper focus with the President's story of the garden hose, the fireside chat with its pledge of the "arsenal of democracy", the address on the State of the Union. Then when the Lend-Lease Bill was introduced on January 10th, 1941, the issues were definitely drawn. For H. R. 1776 proposed both a broad principle of foreign policy and a method for making it effective in a world at war.

The principle was contained in the words defining eligibility for Lend-Lease aid--"any country whose defense the President deems vital to the defense of the United States." The word "vital" was the heart of the matter. To favor limited aid to the allies as an expedient device for saving friendly nations from conquest was one thing. To declare that the defense of those nations was "vital" to our own national security was quite another. If we adopted the bill with these words, we would, in effect, declare the interdependence of the American people with

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the other freedom-loving peoples of the world in the face of Axis aggression. We would recognize that adding our strength to the strength of our friends was our greatest hope of preserving this nation under those principles of American faith established in the Declaration of Independence and the Gettysburg Address.

The method proposed by H. R. 1776 was a logical one for carrying out this principle of foreign policy. The Bill authorized the President to "sell, transfer title to, exchange, lease, lend or otherwise dispose of any defense article . . ." to any nation whose defense he found vital to the defense of the United States. As arms manufactured in this country come off the production line, we would decide where they could contribute most to our security. If they would do more good in the hands of our friends than they would in reserve here at home, we would transfer them.

"The benefit to the United States" in return for these transfers, the Bill provided, "may be payment or repayment in kind or property, or any other direct or indirect benefit which the President deems satisfactory." This provision was purposely broad. The greatest immediate benefit to us, of course, would be the use of Lend-Lease weapons against the aggressor nations. Beyond that, we would expect nations receiving aid to assist us in other ways, but the course of events alone could determine what form these benefits would take.

In order that the President might act quickly enough to meet the swift developments of the war, wide discretionary authority was delegated to him by the bill. He was to name the nations whose defense was vital to the defense of the United States. Within the limits of Congressional appropriations, he was to decide what arms and other supplies

should be transferred and what services performed. And it was left to him to decide what the benefits to the United States should be in return for the aid we rendered.

The Bill recognized the total nature of this war in its broad definition of the "defense articles" which might be transferred. We could lend-lease weapons of all types for land, sea, or air warfare; all types of transport equipment and services necessary to maintain lines of supply stretching thousands of miles; the machines, tools, and raw materials required to maintain production of weapons in the factories of our allies; food and the means to produce food for their soldiers and their war workers. We could repair, bunker, and provision in our ports and dry-docks the warships and cargo vessels of Great Britain and her allies. We could make available the designs of guns, of airplanes, and any other new weapons we had. And under the same power--"to communicate any defense information"--we could train pilots, gunners, and mechanics here for the air forces battling the Luftwaffe and the Japanese Zeros. These were the essential features of H. R. 1776.

The formal hearings on the Lend-Lease Bill were conducted by the House Foreign Affairs Committee and the Senate Foreign Relations Committee. But the debate went on all over the country--on the radio, on street corners, around the stoves in country stores, at Grange and Rotary Club and labor union meetings, in college rooms, and in the churches. The newspapers that streamed from the rotary presses of the great metropolitan dailies and those that dropped one by one from the flat-bed presses of the little country papers, alike carried editorials, columns and letters-to-the-editor about Lend-Lease. Members of Congress found their mail flooded with postcards, letters and resolutions from individuals, churches, clubs, associations and committees. The people made themselves heard, and their opinions were read into the Congressional Record. Every-

body counted, as the Congressional Record shows, from the fireman of Station 4 in Altoona, Pa., to the members of Grange No. 1490 of Ozawie, Kan.

As the weeks passed, it became apparent that we were divided on the issue of Lend-Lease without regard to party, profession, background, or creed. Among the college presidents--James B. Conant of Harvard, said that "our only hope as a free people lies in a defeat of the Axis Powers," while Robert M. Hutchins of the University of Chicago said that "the American people are about to commit suicide." The National Student Federation of America rallied in support of full aid to Britain, while the American Student Union held large protest meetings against the Lend-Lease Bill.

Throughout the labor organizations of the country, there were sharp divisions of opinion. In New York, for example, the Administrative Committee of the American Labor Party formally endorsed the Lend-Lease Bill, while the Greater New York Industrial Union Council called it "a war-dictatorship bill."

Businessmen, too, lined up on opposite sides. One of our industrialists, Ernest T. Weir, who had fought many bitter battles over the Government's domestic policies, announced himself squarely in back of the President's aid program. Another businessman, General Robert E. Wood, Chairman of the Board of Sears, Roebuck and Company, was the head of the "America First Committee," a powerful force against Lend-Lease. Business associations and councils all over the country passed resolutions on both sides. The churches and the veterans' groups were equally divided.

Among the country's ex-presidential candidates, Alfred E. Smith, James M. Cox, John W. Davis, and Wendell Willkie supported Lend-Lease while Alfred Landon and Norman Thomas stood firmly opposed. Herbert Hoover, the country's only living ex-President was against the bill.

Thomas E. Dewey was also against it, while Governor Harold E. Stassen of Minnesota said, "I shall support the Bill and believe it should be passed because we cannot have two foreign policies."

It was in the Washington hearing rooms of the Senate Committee on Foreign Relations and the House Committee on Foreign Affairs that all this debate finally centered. To these hearings came as varied a succession of witnesses as Congress has ever asked to give their opinion of a pending bill. The Administration's first team was made up of four members of the cabinet--Secretary of State Hull, Secretary of the Treasury Morgenthau, Secretary of War Stimson, and Secretary of the Navy Knox, two Democrats and two Republicans--and William Knudsen, who had now become Director General of the Office of Production Management.

The list of other witnesses ran the gamut from some of our most able and experienced public leaders to some of our extremists. Five former United States ambassadors appeared. There were three ex-Presidential candidates. When the opposition called General Hugh S. Johnson, the majority countered with another columnist, Dorothy Thompson. Colonel Charles A. Lindbergh was brought forward as an opposition witness on military strategy in an attempt to offset the testimony of Secretary Stimson and Secretary Knox. There were distinguished intellectual leaders like President Conant and Dr. Reinhold Niebuhr and there was Gerald L. K. Smith, then Chairman of what he called the Committee of One Million. There were professors, labor leaders, economists, businessmen, college presidents, ministers, retired army officers, and public figures of all sorts. There were chairmen and representatives of a legion of "Committees."

At times the debate grew very violent. Charges of "dictatorship," of "giving away the defenses of the United States," of "willfully involving the American people in war" flew freely. One bitter opponent

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called the Lend-Lease Bill "the New Deal Triple-A Foreign Policy to plow under every fourth American boy," which the President called "the rottenest thing that has been said in public life in my generation." No holds were barred, but that is the way of democratic debate. In the end, I know, we were far stronger for it.

In essence, the Lend-Lease debate, both in Congress and in the country at large, did not concern aid to other nations, but rather the strategy by which we should provide for the security of our own nation. By the time the debate started, there was little question in the minds of the American people that the United States was in danger. But the character and extent of that danger and the steps we must take to protect ourselves against it were still in dispute.

Those witnesses before the Committees and the others who saw the danger most clearly were convinced first of all that there were no limits to the Axis designs of aggression. As Secretary Hull said, "Mankind is today face to face, not with regional wars or isolated conflicts, but with an organized, ruthless and implacable movement of steadily expanding conquest." There was no reason to believe that with Dakar in her control and--if the worst should befall Britain--with the Atlantic open to her, Germany would not seize the opportunity to intervene in a Nazi-inspired revolution somewhere in South America. And since Germany could not doubt that we would instantly come to the defense of any South American republic menaced by Nazi armies, might she not combine her offensive in South America with an offensive upon North America through Britain, Iceland, and Greenland, natural stepping stones across the North Atlantic.

"For the first time in modern history," Secretary Stimson said, "the United States is confronted by a nation with an overwhelming army, including an overwhelming air force, and with the possibility of getting control of the Atlantic."

In the Pacific, the threat to continental United States was not so imminent, but the danger to our over-all security was equally grave. The Japanese aims were, like Hitler's, clearly without any limits. Domination of all China was now an openly confessed goal. And all the while the Japanese were becoming more and more outspoken about their aims for domination all the rest of East Asia and all of the East Indies also. Already French Indo-China was a Japanese armed camp on the flank of the Philippines, and aimed directly at Singapore, the Dutch East Indies and Australia. All this was dignified by the phrase "Greater East Asia Co-Prosperity Sphere," but the actions of Japan in Manchuria and China left no doubt that this was merely a Japanese version of Hitler's "New Order". They were determined to make the whole of East Asia and the Indies into an economic colony for ruthless Japanese exploitation. All hope of equality and free commerce in Asia, for the mutual benefit of Orient and Occident alike, would be destroyed.

In 1941, our two-ocean navy was still in the building. Our one-ocean fleet was in the Pacific. Our army was just beginning to expand. We were easier game than than we might ever be again. "Such a situation," Mr. Stimson said, "can easily become critical if British seapower in the Atlantic is lost. Such a disaster would involve not only the security of the North Atlantic but the security of the South Atlantic and South America as well." And if Germany should attack somewhere on the long eastern shore of this hemisphere, would not Japan call

any steps we took to defend ourselves and "attack" on Germany and come to Germany's aid "with all political, economic, and military means," that the Axis Alliance of September, 1940 called for. Would not Japan seize this as the most favorable moment that might ever occur for an attack--certainly on the Philippines and our other islands, and even perhaps on the Panama Canal, Alaska or some other point on our western coast.

In a sense, the attack on the Western Hemisphere had already begun. For the Nazis do not make war merely by building up armed forces at home and then suddenly launching them against an unsuspecting neutral. Their attack on the freedom of a country begins long before their armies march over its boundaries or their airplanes appear over their cities. They foment political disturbances. Through Auslandsdeutsche organizations and bunds, they build an army within the gates to help them on the day of attack. By cartel agreements and other forms of economic warfare, they do their best to destroy the war industries of a country which they propose to attack. With their commercial airlines they develop reserves of pilots who knew a country well from the air, and they build airfields which may someday be used by their invading air forces.

All this was going on in the continent to the south of us and had been going on for a long time. Some of it was even going on in the United States itself. Hitler was not wasting the men and the money for such an elaborate advance guard of agents to no purpose. "Whether the methods are direct or indirect," Secretary Knox said, "this hemisphere is now in grave danger of invasion."

That was one view of the situation. At the opposite pole of thought, wanting a German victory, were only a small handful of people in the United States--the paid Nazi agents and that fringe of would-be American dictators and their followers. The real opposition to Lend-Lease

did not come from such people, for few Americans took them seriously. The opposition came rather from sincere and patriotic Americans who did not believe that there was grave danger to the United States in an Axis victory abroad, and that even if there were, Lend-Lease was the wrong strategy for protecting ourselves. They agreed, by and large, that we should build up our own defenses, but once that was done, they maintained we would be safe, even if we had to fight alone.

That was what Secretary Stimson called a policy of "defensive defense"--"a defense where the defender stood still entirely within his own boundaries and waited to be attacked, without making any effort to keep the possible attack at as long a distance away from him as possible." Such thinking overlooked the overwhelming strategic advantage that a nation on the offensive always has. We would sit by while the Axis gained control of the sea and air approaches to this hemisphere. Meanwhile, we would build a Maginot Line around us that their agents would carefully study and their strategists carefully prepare to outflank. At their leisure, they would pick the time and place for a surprise attack at the point where we were weakest. And that attack, when it came, would be in this hemisphere, perhaps even on our own soil.

Looking back, I think we must recognize that even at the time of the Lend-Lease debate we as a people had great difficulty facing the realities of our position. We clung to the belief that we could stay at peace somehow by a mere effort of will. We knew what peace meant-- freedom to trade throughout the world, friendly solutions of problems between nations, freedom at home from the restrictions and burdens of a war-economy, freedom to concentrate on the business of making a living and leading a happy life. We had also seen in Europe what total war meant. It meant the regimentation of a country's economy; it meant the

services of millions of young men in the army; it meant in Winston Churchill's famous phrase "blood, toil, tears and sweat". All of us wanted profoundly to stay at peace.

But the decision was not ours to make. We would be in the war whenever Germany or Japan decided that they were ready to take us on. And we were not yet prepared to defend ourselves. Lend-Lease proposed that we stop our enemies, if possible, before they got to our shores by strengthening those countries now standing in their path. "We are not seeking to make a loan to Great Britain," Secretary Stimson said, "we are really seeking to purchase her aid in our defense. We are buying--not lending. We are buying our own security while we prepare."

One objection to this strategy of defense, raised time and again in the hearings, was the doctrine of neutrality which had been evolved during the 19th century in response to the desire of nations to continue normal commercial trade with belligerents. The law was a complicated compromise between this desire to trade and the natural desire of a warring nation to cut off its enemy from all outside sources of supplies. Effective blockades were defined; contraband of war was listed. The rights and duties of neutrals and nations at war were carefully detailed. As a part of all this, the doctrine was evolved that wars are neither good nor bad; they just exist. No distinction was to be made by nonbelligerent governments between the side that was in the right and the side that was in the wrong.

As the Axis threat grew closer, two basic truths of international law which had lain long neglected underneath the theory of neutrality slowly struggled to the surface. The first was the simple right of any nation to take whatever steps were necessary to protect itself against any enemy clearly spoiling for war-- the law of self-defense. As Secretary Hull

said before the House Committee on Foreign Affairs, "In the face of the forces of conquest now on the march across the earth, self-defense is and must be the compelling consideration in the determination of wise and prudent national policy."

The second principle might be called the "law of mutuality". The Axis nations, Secretary Hull said, "have repudiated in every respect the long-accepted principle of peaceful and orderly international relations I am certain that the day will come again when no nation will have the effrontery and the cynicism to demand that, while it itself scoffs at and disregards every principle of law and order, its intended victims must adhere rigidly to all such principles--until the very moment when its armed forces have crossed their frontiers. But so long as such nations exist, we cannot and must not be diverted--either by their threats or by their hypocritical protests from our firm determination to create means and conditions of self-defense."

We were going back to the fundamentals of foreign policy and international law--self-defense and insistence on mutual good faith between nations. As Secretary Stimson, who had been Secretary of State in the Hoover Administration, pointed out, however, we were at the same time going forward to the full implications of the international law of the 20th century established by the Kellogg-Briand Pact. All the nations of the world--including Germany, Japan, and Italy--had pledged that they would not resort to war as an instrument of national policy. The Axis had broken this fundamental law which all the nations of the world had a vital interest in maintaining. We had no duty to sit idly by and watch the fabric of international society torn to pieces by the Axis nations. "They waived the old rules of international law when they violated the Kellogg-Briand Pact," Mr. Stimson said, "and they cannot, and we cannot

have thrown against us, the artificial defense that in defending ourselves against them, or in helping somebody else defend us against them, we are violating these old rules of international law."

Another objection to the Lend-Lease Bill, brought forward again and again in the debate, was that it gave too much power to the President. Some of these criticisms were aimed at features of the Bill which could be changed without damaging its essential principles, and various amendments were agreed to. Thus, a two-year time limit--until June 30, 1943--was placed on the Act. A limit of \$1,300,000,000 was set on transfers out of existing appropriations. Other transfers were to be limited to amounts especially appropriate for this purpose by Congress. It was provided that Congress might rescind the Lend-Lease authority at any time by concurrent resolution.

But other proposed amendments could not be accepted. Specifically limiting the countries to be aided to Britain, China, and Greece, for instance, would have been fatal. It was pointed out by the opposition that under the terms of the Bill the President might aid Russia. Before the year was out, most Americans were to agree that the defense of Russia was clearly vital to the defense of the United States. The Bill had to be left general on a matter like the countries to be aided; the situation was moving too fast to pass a new law every time the strategic picture changed.

The same was true of restrictions on what could be transferred. What it would be in our best interests to transfer to another nation could only be determined when the weapons came off the production line. When the old question about amending the bill to prohibit giving away our Navy came up, Secretary Knox had a ready answer: "In view of what I regard

as the likelihood of anybody giving away our naval vessels, we might offer a suggestion that the President be prohibited from going down Pennsylvania Avenue standing on his head."

One other form of attack was made on H. R. 1776 before it was finally passed. A movement was started to go back to the old system of aid by loans that had been thoroughly considered and then rejected by the Administration. But it did not get far. As Mr. Stimson said, "to try to turn the transaction into an ordinary loan is one of the most short-sighted views that a great nation could take . . . In our own interest--and purely in our own interests--it is good national policy to preserve today a hard-fighting Britain, a Britain which has not been ground down by hard bargains sapping its resources. We have to think also of the consequences and conditions which will follow the war. When that time comes, we shall be directly affected by whether or not those nations, whose ways of life and methods of trade are most like ours, are able to recover from the strain of war."

When the hearings were over, the House Foreign Affairs Committee voted 17 to 8 to report the bill favorably "as of the highest importance to the vital interests of our country--and even of our civilization." It reached the floor on February 3rd, 1941. Then followed five days of debate during which all the arguments on both sides were finally summed up. One by one the amendments aimed to emasculate the bill or to substitute provisions authorizing a straight money loan or credit were voted down, with plenty of votes to spare. On February 8th the bill passed by a vote of 260 to 165.

Debate in the Senate began on February 17th after the Senate Foreign Relations Committee had reported the bill with its approval by

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a vote of 15 to 8, and it continued until March 8th--almost three weeks. Senator Barkley, Democratic leader and Senator Austin, deputy Republican leader, led off the debate for those in favor of the bill. Like the House, the Senate voted down a score of opposition amendments. Finally, on Saturday night, March 8th, the opposition gave way and a final vote was taken. It was 60 to 31 in favor of the bill.

The Senate version of the bill went back to the House for concurrence in minor changes and on Tuesday, March 11, 1941, the House accepted them by a vote of 317 to 71. As soon as the vote was completed the House Minority Leader, Representative Joe Martin, and Republican Senator Vandenberg, both of whom had been active in opposition, issued unity statements pledging full bi-partisan support of the Lend-Lease program, now that it was the law of the land.

The bill was engrossed immediately and rushed to the White House. At 10 minutes before four o'clock that afternoon the bill became a law. The next day Congress was asked to appropriate \$7,000,000,000 to start the production of planes, tanks and guns, raw materials, factory equipment and food for nations whose defense we had now decided was vital to our own.

On March 15th, the President summed up the debate at the White House Correspondents Association annual dinner. The decision on H. R. 1776, he said "is proclaimed not with the voice of any one man, but with the voice of one hundred and thirty millions. It is binding on us all Let not the dictators of Europe and Asia doubt our unanimity now."



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

November 16, 1943

TO THE SECRETARY:

Viner, Shields, Woodward, Warren and Seltzer are all in town today to discuss the matters we have had up with the Federal Reserve Board. Possibly you would like to see them some time before noon if you have a few minutes.

owb

D 11/16/43

Bankers' luncheon meeting with the
Secretary.

A.B.A. SPECIAL COMMITTEE ON TREASURY WAR BORROWING

Mr. Wiggins, Chairman

Mr. Robert Fleming, Vice Chairman

Mr. E. E. Brown, Chicago

Mr. B. M. Edwards, Columbia, S. C.

Mr. Robert B. Newell, Hartford, Connecticut

Mr. W. C. Potter, New York

Mr. Tom K. Smith, St. Louis

Mr. G. E. Spencer, Boston

Mr. Harold Stonier

et

Mr. J. E. Drew

*Harrison
Hall
Bell
H.L.*

STATEMENT BY B. M. EDWARDS, AT THE LUNCHEON
OF THE AMERICAN BANKERS ASSOCIATION COMMITTEE
WITH THE SECRETARY ON NOVEMBER 16, 1943, WITH
REGARD TO MR. ECCLES' REASONS FOR WISHING TO
CHANGE THE PRESENT $3/8$ PERCENT BILLS TO $3/4$
PERCENT CERTIFICATES

Mr. Edwards told the Secretary that it was his belief that Mr. Eccles was making this proposal because he wanted to scatter the "covey". He then went on to explain that there are considerable funds deposited in the money market centers of New York and Chicago by country banks and others. These funds at present are invested by the large money market banks in Treasury bills. Mr. Edwards said he thought that it was Mr. Eccles' belief that if the Treasury would offer a posted rate at $3/4$ percent rather than $3/8$ percent the country banks would withdraw their balances from New York banks and invest them themselves and thereby obtain an apparent advantage.

Mr. Edwards said that his bank had balances in New York and received no interest on the balances, but he wanted them to stay there because of the services the large money market banks provide. He said that was the feeling of the whole committee.

Mr. Edwards went on to say that no advantage would accrue to the Treasury but rather a disadvantage if we designed a program which would result in the withdrawal of these inter-bank deposits from New York and the other money centers. He said that the reserve situation was the tightest in these money centers and this would just tighten it up further. He then went on to say that these funds at the present, as far as the Treasury is concerned, are now invested in Treasury bills and if they were scattered only a part of the funds would be reinvested in Treasury bills. He pointed out that it would be easier for the Secretary to deal with funds located centrally than if they were deposited throughout the country, using the illustration that if you needed 100 tons of coal it would be much easier to obtain if it were located in a few places rather than having to go all over the country.

B.M.E.

November 16, 1943
2:30 p.m.

FINANCING

Present: Mr. Daniel Bell
Mr. George C. Haas
Mr. Henry C. Murphy
Mr. Sidney G. Tickton
Mr. Wesley Lindow
Dr. George Warren
Dr. Jacob Viner
Mr. Murray Shields
Mr. Lawrence Seltzer
Mr. D. B. Woodward

H.M.JR: Well, the thing that is the most controversial thing, as far as I am concerned--and we made a little headway with it at lunch--the bankers are getting a little bit more progressive. They agree with the Treasury. That is this question of money rates, and after that what I think is very unimportant, the mechanical way in which the Federal Reserve replaces bills, see? I mean, that is, after all, a matter of mechanics. I just wondered if any of you here thought the situation was such that we should change our present scheduled framework of rates, starting with this three-eighths. That is the focal point.

MR. SHIELDS: Not at present, in my opinion.

H.M.JR: Leave it the way it is?

MR. SHIELDS: Yes, sir.

H.M.JR: We'll come back to mechanics afterwards. Somebody ought to find a way the Federal Reserve can replace.

MR. SHIELDS: When I say not at present, I mean not until this next drive is out of the way.

H.M.JR: That is all I'm worrying about right now - from now through February?

MR. SHIELDS: Yes, sir.

MR. BELL: Make it April!

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H.M.JR: No, no, no. I'd like to re-examine it. Through the next drive.

MR. SHIELDS: I'd like to see it re-examined very carefully after the drive, but a break in the rate now would do damage to the drive.

H.M.JR: Larry?

MR. SELTZER: I feel very much the same way. Certainly, there is nothing in this memorandum that came over from Allan Sproul that justifies a rise in rates right now. There is an assertion that it would be better to have higher short rates, but there is no argument; certainly no demonstration.

H.M.JR: You think that is the way?

MR. SELTZER: Yes.

H.M.JR: Mr. Woodward?

MR. WOODWARD: I don't think you should change them before the next drive at all.

H.M.JR: Period.

MR. WOODWARD: Period. I go along with the question of examination, and hope it will be explored during the interim preparatory for a full discussion at that time.

H.M.JR: I agree.

Dr. Viner?

DR. VINER: I wouldn't change it now. I have read only a part.

(Dr. George Warren enters the conference)

H.M.JR: How's Walter Stewart?

DR. WARREN: Fairly well.

H.M.JR: Will you give him my regards?

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DR. WARREN: I will.

H.M.JR: Did you finish?

DR. VINER: Yes, I have finished.

H.M.JR: The question I asked him was this - the thing that seemed the most bothersome was this question of rates, particularly the three-eighths bill rate. Then after that is the question of mechanics, how the Fed should buy and sell.

I have been around the room asking these consultants whether they thought at this time, between now and the conclusion of the Fourth War Loan, if we should have any change in our rate structure.

DR. WARREN: Well, my answer is no. I imagine that Mr. Shields and Mr. Woodward brought that little notation that we had on that subject?

MR. SHIELDS: Yes, I have it here.

DR. WARREN: Have you offered that?

MR. SHIELDS: No, we haven't

(Copy of four-point memorandum of November 18, 1948 handed to the Secretary, copy attached.)

MR. SHIELDS: It is the first item.

H.M.JR: Who wrote this?

MR. SHIELDS: The consultants had a conference this morning and agreed on that.

H.M.JR: Would you mind giving me the top copy instead of the bottom one? The print is so bad.

MR. SHIELDS: What happened to the first one?

H.M.JR: I am not fussy; I will take the middle one, but I don't want the worst one.

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MR. SHIELDS: You can have the original. (Hands copy to Secretary)

H.M.JR: That is very nice of you.

"The absence of willingness on the part of the Federal Reserve -" is this signed by all of you?

(General assent)

MR. WOODWARD: The four of us, yes.

MR. SHIELDS: It isn't signed at the bottom, but we are willing to sign it.

(Document read by the Secretary)

H.M.JR: There is only one thing that surprises me, and that is you people want to increase the bills by two hundred million. I mean, the reason I am surprised is that they have so much trouble now.

MR. SHIELDS: But they won't, Mr. Secretary, if they put the Murphy scheme into operation, as we suggest, because the weekly bids on bills would be stepped up to several billion dollars.

H.M.JR: I don't think you could put the Murphy scheme across, because this ABA group - it hasn't been sold to them. I am not going on the assumption that a mechanical way will be found so you can handle the bills. I am not terribly interested in how - it is purely a matter of mechanics, and there are certainly enough people around that can find a mechanical way of doing the thing. The thing that bothers me much more is this constant pressure from the System, now mind you, this is twelve banks plus the Board, this constant pressure on me to break this rate structure. That bothers me.

DR. WARREN: Mr. Secretary, that is partly taken up under item two, and in turn that topic is partly answered by this memorandum that we received this morning after this had been written called "Credit Policy on Treasury Financing" by Mr. Sproul.

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MR. BELL: That is the one he left here today.

DR. WARREN: We have been going through this for the purpose of analysis and the questioning of certain premises, and I said that our general position is that we are agreed that there should be no change in this rate pattern between now and the Fourth Drive, and even then that there should not be a change in the pattern until a more convincing case has been made. That is presented in that memorandum, although this is the most complete statement of the Federal Reserve's attitude that has yet been presented and by far the most closely reasoned, but it still leaves a large number of unanswered questions in our minds.

H.M.JR: Well, I don't pretend to be a technical anything. You could drive a horse and wagon through Allan Sproul's memorandum; I just don't think it stands up.

DR. WARREN: Well, we had something of that feeling. We were in the process of making out this list of questions.

H.M.JR: I mean, I don't know whether you people are familiar with what they say the reasons are the Fed wants to change. Are you familiar with them?

DR. WARREN: I have seen a number of them, all containing different reasons.

H.M.JR: No, but what do the bankers and all now think that reason is?

MR. HAAS: They advance that same reason; it is a question of drawing the money out of financial centers; let the country banks invest the money rather than keep it on deposit in the central reserve.

H.M.JR: Well, the fact is what you say. If you go over a series of memoranda going back - when did we fixed that pattern?

MR. TICKTON: March, 1942.

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H.M.JR: From March, 1942 down there has been a half dozen different reasons why this rate structure should be changed, and when you look back over the records it isn't too good. Where their record is excellent is when they ask me to instruct them to do this thing. I instructed them, and then they have carried it out beautifully. They have done a beautiful job, but they made me tell them - and from March, 1942 to date they have done a beautiful job. But ever since then they have been fighting me to change, but have never given a convincing reason.

DR. WARREN: And this is not yet very convincing. Perhaps our question will help them write a more convincing one.

H.M.JR: Let's leave it this way; I want to get the benefit of this talent. Why wouldn't this be a way - possibly tonight in order to save time why couldn't we ask the ABA to give us one person to stay over? I am talking now about the mechanics. We could have two persons from George Haas' office and somebody from this group and let them meet tonight with the technicians of the Federal Reserve and see if tonight they can't work out a mechanical way of handling this bill and come in with a recommendation tomorrow morning, a mechanical way of handling without direct - I will leave it entirely open.

I am merely saying as many of you people as want to work tonight and as many of our people and as many of the Fed's as want to work tonight - there is just one question to overcome which they claim is an insurmountable mountain on so many of the bills. I don't much care how, just as long as - I am going to ask that if there is a change, that before we do it it is explained to the Banking and Currency Committees of the House and Senate. I am going to insist on that.

MR. BELL: You mean if they come direct?

H.M.JR: Yes, because the little success I have had comes from explaining it to Congress before we do something.

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rather than having some critic write in and try to explain it afterwards. Some of the bankers raised the question of why a public release. I don't see why we have to have a public release if it has been explained to Congress.

MR. BELL: It would require a public release in the form of our circular which we would have to amend, but which would have to be published in the Federal Register, if we follow the Fed's suggestion.

H.M.JR: If any of you have the energy this afternoon or this evening and ask the Fed to have their technicians, and somebody from the ABA, certainly between now and midnight or tomorrow morning they ought to be able to work out a way. I don't care much; those kinds of things don't particularly interest me. It is purely a matter of mechanics.

MR. MURPHY: Mr. Secretary, could I say that I think the committee really needs a directive. Should it work out a way that makes the bill market look good, or should it work out a way that would make the bill market look bad? There are plans which make it look good and those that look bad.

H.M.JR: No, you are not going to catch me between those two horns. You are too smart for yourself. I will give you instructions. I want a method to be worked out whereby the Federal Reserve can buy as many bills as is necessary and replace as many bills as is necessary in order to keep the Reserve position what it should be in order to do our financing job.

MR. HAAS: That is all right.

MR. MURPHY: I don't think that does take care of it, but I hate to press the point.

H.M.JR: You are not going to press me, because you are a prejudiced party. You have to appear as a witness because you have one way which you think looks good and you think their way looks bad, so you appear before this committee as a witness, and not as a member of the committee,

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because you think yours looks pretty. You heard Ronald Ransom. He said he thought yours was the most shocking suggestion he had heard since he has been in Washington.

MR. MURPHY: I am sorry, Mr. Secretary. I feel sincerely that the problem - all I wanted to say is that the problem transcends the replacement of the Federal Reserve maturities of bills.

H.M.JR: It is not an important problem. With all respect to you, I think you are overemphasizing the thing. The important problem, if you don't mind my laying it down since you have asked me, is, are we going to hold the rate structure as it is?

Now the APA advises us, and you people too, to leave it alone. So I say, leave it alone. It gets down to a question of mechanics. And I say, contrary to what you do, it is not important.

MR. MURPHY: I am merely - pardon, just one sentence.

H.M.JR: You can't say it in one sentence. (Laughter)

MR. MURPHY: I merely would say that as long as the bill market looks bad the pressure for higher rates will continue. As long as the bill market looks bad from week to week the pressure for higher rates will continue. If the bill market looked good from week to week, it would relax.

DR. VINER: What do you care about the pressure for higher rates as long as the pressure doesn't win out?

H.M.JR: You see, Henry, I am serious; what you think looks good, looks terrible to Ronald Ransom.

MR. MURPHY: I am sorry if I am carried away by my enthusiasm.

H.M.JR: That is all right. I am trying to direct your enthusiasm before this committee and let them decide. I will take their recommendations.

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MR. HAAS: May I say a word?

H.M.JR: Sure.

MR. HAAS: The type of mechanics used is fundamental, I think, in maintaining the pattern. You select one type of machinery and you can't maintain it.

H.M.JR: You can all do your ironing. If you want to be a witness, you can be a witness.

MR. HAAS: We will all wind up as witnesses. All these men feel the same way. (Laughter)

MR. SMIELDS: That is the point in our item number one.

DR. VINER: Include me out.

H.M.JR: How do you mean?

DR. VINER: I want direct purchases without any guaranteed free-riding, as I call it. I would go further along the Federal Reserve line. At my present line of thinking I don't even like the limit.

H.M.JR: But you are with me on the rate business?

DR. VINER: Yes, absolutely.

H.M.JR: I don't know whether you think I am wrong; I think the rate structure is the important thing.

DR. VINER: I would like the mechanics to be open and clean, that it does openly what it does, and defend it to the public on what it does and not on the ground that it isn't what it is.

I have read the Sproul memorandum, and while I won't say there is no argument in it, I will say I assumed there was, but I didn't understand the argument. I couldn't see how the conclusions came.

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H.M.JR: Do you agree with me? Am I unfair to Murphy in brushing off this thing?

DR. VINER: That is not brushing him off, because I think he would say that, too.

H.M.JR: Not in the humor he is in this afternoon!

MR. MURPHY: I hope, good!

H.M.JR: He is carrying a torch.

MR. MURPHY: I am merely saying - oh well, I have already said it.

DR. VINER: I would like to hear more on it tonight or this afternoon. I am cold on it, but I am very cold to a new kind of trick. I would like to face the music. I think for a proper money market condition we need direct purchases by the Federal Reserve Banks. We ought to face that and face it out, fight it out with the opposition. I think here there is exaggeration as to the importance of the sources from which the opposition comes. It has been taken too seriously, and I made the suggestion that I don't believe twenty-five newspapers in the whole country would carry the story no matter what you did.

H.M.JR: There are not twenty-five newspapers that have financial columns.

DR. VINER: Then why do you care?

H.M.JR: I don't care, as long as it is explained in advance to Congress. That, I think, is important, that we don't do it and then explain it afterwards. The little success I have had is from going up to Congress and saying, "Now, gentlemen, this is what we are proposing to do. We are going to lend silver to India, and this and that."

Well, they don't like it, but they never tell me, "You can't do it." See?

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MR. SHIELDS: Mr. Secretary, it seems to me that even five blistering editorials in the financial press would not provide a desirable environment just before the drive starts.

DR. VINER: I think that if you are going to try to please the financial press now - they are feeling their oats and you wouldn't please them no matter what you do.

H.M.JR: Look what this writer did in the Journal American to me when I was trying to reorganize this sales organization. Did it hurt me any? And before a drive! Whoever buys an E bond ever reads the Wall Street Journal editorials? That doesn't bother me; I just like a meeting of minds.

Bell, how can we organize this thing so we can get together?

MR. BELL: Well, I can go down and see the bankers. I just question as to whether that Committee will function. I think most of these people want to leave tonight, and you haven't any technical man in this banker group. They are all presidents of banks, and on a high policy level.

H.M.JR: All executives?

MR. BELL: Yes.

DR. VINER: They don't have to know anything!

MR. BELL: I wouldn't go that far, but I think you would do better if you had the group tomorrow.

H.M.JR: Well, no, let's save time. You fellows have had me sort of sitting around here since Monday morning.

MR. BELL: Well, you have until next Monday morning before the next bill offering comes around.

H.M.JR: If you don't mind, I would like to take these people in the room, plus the Federal Reserve technicians, and throw them into the same group. Let's leave the bankers out.

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MR. BELL: That would be Piser, I suppose. What is the economist's name?

MR. LINDON: Thomas.

MR. BELL: Yes. I suppose Thomas and Piser should be over.

MR. HAAS: You had better call Goldenweiser.

H.M.JR: Then tomorrow morning the technical man - what's his name?

MR. BELL: Bob Rouse.

H.M.JR: He will be here.

DR. VINER: We couldn't have any New York Bank man tonight?

MR. HAAS: We have one.

DR. VINER: I meant Federal Reserve Bank.

MR. BELL: Not tonight. There will be one here tomorrow morning at ten o'clock.

H.M.JR: Rouse will be here in the morning. If you could get him on a plane, couldn't he come down this afternoon?

MR. BELL: If we could get him on a plane, I suppose he could. It takes him an hour to get to the airport. He couldn't get to a plane before five.

H.M.JR: I will call him.

MR. BELL: I think it would be much better to have the banker group after this group meets and comes to some conclusion, or maybe a conclusion with an alternate, that they discuss it with Burgess. He is the best technical man on the Banker Committee.

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MR. HAAS: Yes. Murray discussed it with him.

H.M.JR: Well, I still say I have this talent here. Can you stay another day?

MR. SHIELDS: Unfortunately I cannot, but I can stay until late tonight.

MR. WOODWARD: I have to be in New York tomorrow. I will stay if you want me.

(The Secretary held a telephone conversation with Mr. Robert Rouse of New York.)

(The Secretary held a telephone conversation with Mr. Charles Bell.)

H.M.JR: He (Rouse) says he will be on the plane about four-thirty.

If you people aren't going to be here tomorrow, let me get the benefit of your opinion on the basket. Have you talked about that?

MR. SHIELDS: Yes, we did. It is in item number four, the last on the list.

H.M.JR: You fellows have no originality. You like to sell black silk all the time. You don't like to sell any new goods.

MR. SHIELDS: No, but we would sell a lot of whatever we order.

MR. WOODWARD: We haven't the maximum out of the organization that has already been trained to sell that bill of goods.

MR. BELL: What is the matter with that two-and-a-quarter?

MR. WOODWARD: Everything.

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MR. BELL: Insurance companies, individuals - the same people want two's. There are a lot of different recommendations on this basket. I can see it coming right now.

MR. HAAS: You will have to throw them up and see which stays on the ceiling.

MR. BELL: One group wants one-and-a-half and seven-eighths, and the same group that changes on that doesn't want the two and wants the two-and-a-quarter.

H.M.JR: Well, the difficult thing is, whether it is to be the one-and-a-half or the two; that is the argument.

MR. WOODWARD: Preferably the latter.

MR. HAAS: They would like to leave it as you had it, except put individuals first.

MR. BELL: You left out the seven-eighths.

MR. WOODWARD: Out of the individuals, yes.

H.M.JR: Dan, wouldn't you want to maybe just step out a minute? These people will be out of here in half an hour. Maybe you could get the thing started with the Fed by four o'clock. They could begin to meet with the Feds.

MR. BELL: Yes.

H.M.JR: Would that be all right?

MR. BELL: Have them come over here at four?

Bob won't be here probably until half-past five, six, or seven.

MR. VINER: I think my mind is reasonably soft at its edges. I just had a few minutes really at it, but I would like half an hour here, so if I am taking the wrong line--

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H.M.JR: Why not say five o'clock.

MR. BELL: All right. Do you still want to see these other gentlemen right away?

H.M.JR: The bankers doubted if they would be ready before four o'clock.

MR. BELL: Oh, I didn't know that.

H.M.JR: I told them I had until four, and they said the minute they were ready they would let me know.

MR. BELL: I didn't get that latter part.

H.M.JR: As soon as they were ready they said they would let me know.

MR. BELL: They are here now.

H.M.JR: I have what you people think, but I do wish you would not just make it a one-and-a-half or a two, because I think you ought to go into that more fully.

MR. SHIELDS: Well, we have discussed it quite at length among ourselves, Mr. Secretary.

H.M.JR: Well, I don't know how long these bankers will take to report, but I will listen to them. What happened to Haas? You ought to stay here; then you can tell this group what happens. So far they have just taken our recommendations.

Now, the only thing I feel is this - and maybe this isn't very important - after all, the Federal Reserve System is important. We keep disregarding all their recommendations. We will do something on the bill thing. They are very keen about dropping the certificate. I wish you would take a look at that. Just because they want it, doesn't mean it is right, but they keep at it.

MR. HAAS: Do you want to have another survey made, Mr. Secretary?

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H.M.JR: We haven't time, have we?

MR. TICKTON: I don't think so if you make your decision this week. I dug out the old survey of July 15. You sent two hundred twenty-three telegrams asking corporations whether they wanted a certificate or a five-year note. That makes it defined for this purpose.

H.M.JR: Eccles wants to use that savings note.

MR. TICKTON: That was in the basket, anyway. The question was whether we should have as a marketable issue a certificate or a five-year note.

H.M.JR: Get it out again. Maybe I won't make up my mind.

MR. TICKTON: Out of one hundred seventy-five replies one hundred thirty-one of them wanted the certificate. Mr. Gamble went through those telegrams yesterday, not having known we sent it out, and was impressed because there were so many of them who wanted it.

H.M.JR: Send it out again tonight.

MR. TICKTON: You won't have any answers until Monday.

H.M.JR: Maybe I will wait until Monday. Maybe we can't make up our mind. There is no great hurry.

MR. LINDOW: I think it is very important to know what the corporations themselves think, because they are the buyers after all.

H.M.JR: I would send it out tonight.

MR. TICKTON: All right.

H.M.JR: What is next Monday, anyway, the twenty-second? Well, we have plenty of time.

MR. MURPHY: We only wired those that purchased more than a million in certificates.

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H.M.JR: You people do this thing, as I say, because what they are really saying is that we should discontinue the two pieces of paper that are selling the best because they sell so well. One is a certificate, and the other is a two percent; and because they sell so well we should discontinue them. That doesn't make sense, does it?

The other thing which I thought was interesting is, George sends me out these various business services. I was reading United Business Service - "interest rates will remain low." The reason they gave I thought was very interesting. It says here, "By open market operation, by change of reserve requirement, by various other means, the Reserve Bank can regulate the volume of commercial banks' credit. This control will surely not raise the loan rates."

MR. HAAS: (Gesticulates - Laughter)

MR. MURPHY: It must be nice to be outside.

H.M.JR: "Banks and other bond-holding institutions would incur serious losses if a rise in these wages would repress the Government security," and so forth, and so on, "But the control would surely not want to raise the loan rates." That is the man from the outside.

Well, you will be up here tomorrow?

DR. VINER: Yes, sir.

1. That in the absence of a willingness on the part of the Federal Reserve Board to reduce reserve requirements, the semi-official limit on accepted bids for Treasury bills be eliminated beginning with the current week's offering, and that two weeks later the Treasury increase the weekly bill issue by \$200 millions in order to aid the Federal Reserve in adding to its portfolio a large enough amount of United States securities to make unnecessary the use in December of the so-called one-day certificate device.
2. That the Federal Reserve Board be asked by the Treasury to present, after the Fourth Drive is out of the way, a statement of what reserve policies -- spelled out in detail -- it deems to be appropriate for the remaining months of the war and for the early post-war period.
3. That the Fourth War Loan Drive be so set up as to reduce but not to prohibit free-riding in Treasury securities, but that the prime objective be the raising of a substantial amount of new funds. An exceptionally large cash balance after the drive is over might free the Treasury and the Federal Reserve to discuss the problem of banking policy in terms other than the support of a nearby drive. Furthermore, since the Fourth Drive may be the last War drive, it would be appropriate for the Treasury to avoid the risk that the first Victory drive may not raise much money.
4. That the Fourth War Loan Drive be divided into two parts or prongs: (1) a concentrated drive on individuals in which E, F, G, 2-1/2's and a 1-1/2 or 2, preferably the latter, are offered; (2) a corporation drive in which the same securities are offered plus a certificate issue. In order to reduce free-riding, it is suggested that the banks be requested to require whatever margin on loans against United States Government securities to nondealers as seems likely to achieve that objective.

*Submitted by Mr. Shields,
Mr. Woodward, Dr. Seltzer
and Dr. Warren
11/16/43*

November 16, 1943
3:15 p.m.

FINANCING

Present: Mr. George Harrison (N.Y. Life Insurance)
Mr. Robert V. Fleming
Mr. A.L.M. Wiggins
Mr. Charles E. Spencer
Mr. Thomas K. Smith
Mr. J.E. Drew
Mr. R.B. Newell
Mr. Edward Brown
Mr. E.B. Hall
Mr. B.M. Edwards
Mr. W.C. Potter
Mr. Daniel Bell
Mr. George C. Haas

MR. WIGGINS: Mr. Secretary, we had four sessions of the committee. They are all here except Mr. Strickland, of Atlanta, and Mr. Burgess, who is ill. Mr. Cook was appointed originally, but he became Superintendent of Banks so he disqualified himself.

Our discussion was along the lines of this memorandum that I have given you (referring to "Suggested Agenda," copy attached). The first was as to the time, and there was considerable discussion as to the desirability of having a drive to get individual subscriptions in January, that being the month after Christmas and a lot of other things that might make it difficult to get money from individuals. But apparently that is a matter to be decided by the needs of the Treasury as to when it should be done. So it seemed to us that the pattern is pretty well laid there, say, January 18, and we agreed fully that the drive should be concentrated on individual subscriptions for a period of, say, three weeks, and to be followed immediately by a drive for subscriptions from corporations; and that your number two alternative, types of drives, in the memorandum given us, seems to us to be the more desirable program.

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Now, as to quotas, we are not unanimous on that. Mr. Burgess, who is not here--

H.M.JR: Excuse me - are you skipping the basket?

MR. WIGGINS: I haven't got down to that; b. The Character of Drive.

Mr. Burgess, in his letter, suggested that all State quotas be fixed on a basis of individual subscriptions, and that no consideration be given to subscriptions by corporations or mutual savings banks. We think that the quota is an essential part of a drive, and that if you eliminate the corporation subscriptions from quotas that you will cut down the effectiveness of the drive.

And we realize the difficulties of national corporations, of distributing their quota, and allocating their quotas, and in spite of all those difficulties, we think it is really the only way to do it.

As to the amount, we question somewhat the goal indicated on the memorandum left with us of six point seven - six billion, seven hundred million - as being the objective for subscriptions from individuals.

H.M.JR: That isn't exact.

MR. BELL: Well, that was on the Tickton sheet.

H.M.JR: Yes, but that isn't correct.

MR. WIGGINS: We think that is more than you are likely to get.

H.M.JR: I am sorry, but that isn't correct. It is five and a half, as I remember.

MR. BELL: What?

H.M.JR: Five and a half.

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MR. BELL: ...or six.

H.M.JR: I have got it right here - five and a half.

MR. FLEMING: Contemplated sixteen-billion campaign.

MR. WIGGINS: And it was six billion seven from individuals.

H.M.JR: I am sorry; they should never have given you that, because I don't want more than fourteen.

MR. BELL: I think Mr. Lindow explained in putting up the analysis on the basis of sixteen, that was no indication that the drive was for sixteen. It may be something less. But his whole analysis was on the basis of sixteen billions and he had to discuss it from that point.

MR. WIGGINS: That is true.

MR. BELL: He gave the same figures here, Mr. Secretary, that he gave to the State chairmen, and the six-seven is in relation to the sixteen billion.

H.M.JR: Well, I just wanted to tell these gentlemen that you and I agreed that all we could possibly use at this time is fourteen.

MR. BELL: I told them that, too; yes, sir.

MR. WIGGINS: So about five-five is our estimate.

H.M.JR: Is that what you had?

MR. WIGGINS: Yes, we had pretty well agreed.

H.M.JR: Well, we are together.

MR. WIGGINS: I won't go into the reasons there, because we have got the same reaction.

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MR. BELL: In the over-all quota, may I ask you a question? Did you give any consideration as to whether you would announce, just say, the fourteen billion and a goal for the individuals of five and a half or six, and then leave the quotas for States by corporations out of the picture? Did you discuss that?

MR. WIGGINS: We discussed it, and it seemed to us that you more or less had to set up a quota.

MR. BELL: I see.

H.M.JR: Let me follow your trend of thought a minute. I talked with Burgess yesterday. The thing that seemed to bother him was this business of Western Union and General Motors distributing a thousand dollars in two thousand communities; but we here - I don't know how you people feel - felt that you just can't stop them.

MR. WIGGINS: It is public relations. Except this, Mr. Secretary: We think there should be some change in the machinery of allocation so that the shifting of money would not be necessary.

H.M.JR: We agree with you that it should be just a book matter; that they shouldn't actually plunk down a thousand dollars in Podunk. It is not necessary. But they can give Podunk any credit over a thousand.

MR. BELL: That is right. We had a fifty thousand dollar minimum.

MR. WIGGINS: We think that is too high.

MR. BELL: And they evaded it right along and put it down to a thousand in many communities. We have about come to the conclusion, although we don't like the allocations, we have got to permit them, and right down to the bottom - probably a thousand dollars.

MR. WIGGINS: And so long as there is bookkeeping only, there is probably no trouble on your part.

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MR. BELL: Well, it is a terrible headache, but we have got to stand it.

H.M.JR: But we won't be drawing on New York for funds the way they did the last time.

MR. BELL: That is right. I think that will eliminate that withdrawal of funds.

MR. IGINNS: Well, we seem to be still in agreement right down the line.

H.M.JR: Wonderful. I can retire. (Laughter)

MR. WIGGINS: It gets better as it goes along.

Now, the list--

H.M.JR: I could do this from the farm by remote control; it would be wonderful. (Laughter)

MR. WIGGINS: Now, the list of securities in the basket is given to us, divided into three groups: One for the individual partnerships and personal trust accounts; one for insurance companies, mutual savings banks; and one for other corporations and investors. We have considered every one of the securities suggested on this list - have approached them in toto, every one.

H.M.JR: Well, you had better give it, because there is evidently a little bit of difference in the way they present it. I don't know what they gave you.

MR. WIGGINS: For individual partnerships and personal trust accounts, E, F, and G Treasury savings notes, a two and a quarter percent of, say, '56-'59 restricted - that is, restricted insofar as banks can buy them until within ten years of maturity - and the two and a half's of '65-'67, or thereabouts, restricted.

H.M.JR: have you got that on a piece of paper?

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MR. WIGGINS: Yes, sir; I have it here on the memorandum.

(A program for the Fourth War Loan Drive, dated November 6, 1948, handed to the Secretary by Mr. Haas.)

MR. BELL: That is our memorandum.

MR. WIGGINS: We will write this up as soon as we have time, of course.

H.M.JR: Now you have eliminated the idea of the two percent?

MR. WIGGINS: Yes, we have a two and a quarter percent instead of the two percent.

H.M.JR: Would you mind giving your reasons?

MR. WIGGINS: The demand for that security was two-fold: First, the demand for that security would space the maturity to better suit the investors. They want to avoid too much concentration of maturity of obligations within a limited period, and by having a two and a quarter you would get a different maturity. In the second place, you can keep that out of the banking field because it would be restricted until it became a ten-year obligation. If you had a two percent with less than ten years, you would have the problem of its finding its way, by various devices, into the banking system.

And for those two reasons we recommended the two and a quarter.

H.M.JR: You (Haas) read Gamble's memorandum and give me the pros and cons.

(To Wiggins) Well, now you leave the certificate in?

MR. WIGGINS: Not for the individuals, but when we get down to the insurance companies, mutual savings banks, we leave in the seven-eighths certificate and with the two and a quarter and the two and a half--

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H.M.JR: In other words, you are following this same memorandum now which I have?

MR. WIGGINS: Yes, we are following that straight down.

H.M.JR: And you don't want any one and a half?

MR. WIGGINS: The one and a half we have felt would not be of particular interest either to insurance companies or mutual savings banks, nor did it quite fit corporations, because it would be a little too long for immediate post-war use, and it is not quite long enough to yield enough for an investment.

MR. FLEMING: It would also find its way into the bank.

MR. WIGGINS: And would also lend itself to finding its way into the bank. So the only security on the list that has any chance of finding its way into the bank is the certificate.

MR. BELL: Whatever free-riding there would be, would be through the corporate structures, not through the individuals.

MR. WIGGINS: That is right; through the corporate structure. We think there is no need to put the certificates out for individuals. That would be an open invitation to individuals to buy them to make up quotas and manipulate one way and another.

Now that, I think, covers the one and a half percent and two percent, and the reasons that we had for discarding them at this time.

H.M.JR: Can I just look at this a minute, please, and adjust it to the fourteen billion?

MR. WIGGINS: Yes.

MR. NEWELL: we didn't approve these amounts of issues within the groups; we felt we were in no position to.

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We had an over-all for all individuals, five and a half billion, but as to how much of that should be E's and how much two and a quarters and two and a half's, and F's and G's - we have no means of making a study.

H.M.JR: what we felt here was this: There is all this peace talk in the air; I can't find anybody to nail it down. Of course, we do know about the Russian drive; we do know about the bombing from the air; but certainly no high Army or Navy official will tell you that there is any weakening as far as the German ground troops go. So if we are going to fight it out on the ground, it is going to be a long war.

But there is that, so bell and I thought that it would be good policy at least to keep our balances much higher than we ever have before, so if this thing should happen to come, we would be in at least a position to turn around.

On the other hand, we don't feel that every time we should go out for the very last dollar. I mean, the strain is too great. And just because there seems to be, from a statistical standpoint, sixteen billion dollars available, we don't think we should strain every nerve to get it, but wait until we really do need it. That is all.

In other words, we are not going to run this engine a hundred percent every time we go out. I don't know whether that is good reasoning or not.

MR. FLEMING: You are absolutely right. Every other campaign is stepping up each time, and I think the people are going to become resistant.

If you don't need it, I think you are wise.

H.M.JR: we don't need it. I think we need ten, but we are stepping it up to fourteen. As I told the statisticians, just from a statistical standpoint, each time they are getting more, and it is getting pretty on a piece of paper, but it wears down a hell of a lot of nerves.

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MR. HARRISON: And a few pocketbooks. (Laughter)

H.M.JR: That is right.

MR. WIGGINS: Yes. We favor very much this idea of putting the individual drive first and hammering that home to the limit before you pick up the other.

Now, we have two suggestions, Mr. Secretary. They are not on the original agenda and one matter under consideration is not entirely in our field. I guess the influence of an insurance man here with us, maybe, caused us to develop a suggestion on that point.

H.M.JR: It is good to have an insurance man around.

MR. WIGGINS: The suggestion was that it might be desirable to make available at more frequent intervals these two and a half's for insurance companies, than to make them available only at these three drives a year - or whatever we have.

H.M.JR: We thought we did that when we let them buy ahead, so to speak.

MR. HARRISON: The time limit was too short. It really didn't do any good.

H.M.JR: we can make it longer.

MR. BELL: What do you have in mind - reopening every month or so?

MR. WIGGINS: That is what was discussed, and we see some practical objections to that, but that would certainly serve the purpose.

MR. FLEMING: The bonds would be dated the same as the issue here.

MR. WIGGINS: On an accrued basis, of course. You wouldn't have to print a new kind of bond.

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H.M.JR: Did we give you until November?

MR. HARRISON: Until the end of October. You see, what they are going to do from the first of November until your new drive - personally, it doesn't make so very much difference to some companies, but a great many other companies, however, who are figuring on a pretty close return in comparison with their legal reserve requirements when they buy a two and a half percent - if they have got to hold their moneys idle for three, four, or five months, the temptation is too great to take that money and put it in some cheaper bonds, or in mortgages, or anything else they can buy locally. The result is that you don't get the maximum that we think you would get if you opened it up so that as the money comes in month by month they could put it at once into two and a half percent bonds.

H.M.JR: We will take a look at it. We know your story.

MR. HARRISON: Well, it is all in your interest, sir.

H.M.JR: Yes, sir; we thought we met you, but maybe we didn't go far enough.

MR. HARRISON: In that particular case we subscribe during the campaign to our limit, and--

H.M.JR: Excuse me - you see, George is over in the War Department; he is saying "Yes, sir," and "No, sir."
(Laughter)

MR. HARRISON: Well, that is good discipline.

...then we tried to make an estimate of what we might get in before the end of October. We figured out twenty million dollars. Now, that would take care of us up until the end of October; then we have three idle months where we can't invest at all unless we want to go out to some other type of investment, which we would rather not do. There are a great many other companies that didn't do that.

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Furthermore, the present setup, without the opportunity to go in periodically, has prompted or encouraged a procedure which we have not participated in, and which a number of other companies have, and that is where they go, at the time of the campaign, to a bank to buy ahead for a period of four months, maybe, or five months, their estimated requirements; the bank retaining three-quarters of a percent of your money, and the insurance company taking one and three-quarters percent, not having put up a cent of anything.

MR. BELL: Pay for it by credit. We haven't drawn the money down.

MR. HARRISON: It encourages what I think is a bad practice, personally. It is a very lucrative practice for both the banks and the insurance companies.

H.M.JR: Don't insurance companies borrow that far ahead?

MR. POTTER: Very large sums of money.

MR. HARRISON: Merely because they said your twenty-days leeway wasn't enough.

MR. DREW: In this connection, Mr. Secretary, I think mutual savings banks, as well as insurance companies, give the privilege of monthly purchases.

H.A.JR: I don't know - they were going to the banks and borrowing money. That is not so good, is it? (Laughter)

MR. POTTER: I am for this suggestion, though.

H.M.JR: All right.

MR. WIGGINS: Now, Mr. Secretary, we think there is one field in which there is a neglected man. I guess there is in every field.

H.M.JR: What kind?

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MR. WIGGINS: That is the savings department of commercial banks, which I have discussed with Mr. Bell a number of times.

H.M.JR: That is not so easy.

MR. WIGGINS: It is tough, but there is a field in which we made provision for mutual savings banks, Building and Loan Associations, and the other types of institutions that compete with the savings departments of commercial banks, and then we come along and make provisions for securities for the commercial banks, but there is an area in between, which is a very large area among country banks--

H.M.JR: That would help, wouldn't it?

MR. WIGGINS: ...which have savings departments that we have no security that is suitable for. Their investments are available. So we are suggesting that these be made available - these restricted securities, F and G, and the two and a quarter to two and a half - on some limited basis.

MR. POTTER: I didn't bring that up this time.

MR. WIGGINS: We have had that feeling from all over the country, and it is quite general among the smaller institutions.

H.M.JR: How much would you let them have?

MR. WIGGINS: We tried to stay away from a formula; we wanted to discuss it here, now. We didn't want to get involved in a formula. We were hoping you would accept the principle and give us an opportunity to work on the formula.

H.M.JR: It depends on whether you want a finger or an arm.

MR. WIGGINS: We were thinking to limit it to, say, up to a certain amount, fifty thousand or a hundred thousand, or up to ten percent of their interest-bearing savings accounts.

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MR. BELL: A certain percentage of their savings account?

MR. WIGGINS: I think you would have to base it on their interest-bearing savings accounts.

MR. SPENCER: A percentage figure on that.

MR. WIGGINS: That would be accurate at least to determine.

MR. SMITH: Ten percent is pretty low.

MR. WIGGINS: We talked ten and twenty-five percent. As I say, I didn't want to get into a formula at this time. But we were hoping you would approve the idea and give us an opportunity to work on the formula.

H.M. JR: It isn't new, but it is new the last day or two. Let me have a fresh look at that and I will tell you. If the A.B.A. would file two memoranda on that so I would have something to read - one on this thing, and then the other one on whether they would open longer for the insurance companies. Just give me a page on each. That is enough - not more than a page.

MR. WIGGINS: All right, sir.

H.M. JR: And a recommendation as to a formula.

MR. WIGGINS: We will be glad to do that.

H.M. JR: And with securities, too; would it be all of them or just part of them? Do you want them to have the two and a half's or the two and a quarters, or what?

MR. BELL: It would be the restricted - the two and a quarters or two and a half's.

H.M. JR: But you might say the two and a quarters and not the two and a half's.

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MR. NEWELL: You allow mutual savings banks to buy two and a half's, then if you are going to allow the commercial banks having savings departments to buy any, you have got to let them buy the same securities that you let the mutuals buy.

H.M.JR: There are mortgages that the mutuals buy which the other banks don't.

MR. NEWELL: Oh, but they don't--

H.M.JR: Do they?

MR. POTTER: Yes.

MR. WIGGINS: National banks having savings departments buy the same securities as mutual savings banks.

H.M.JR: Just the same?

MR. WIGGINS: For that particular part of their bank.

H.M.JR: we ought to talk to the Comptroller about this.

MR. BELL: FHA loans are big business.

H.M.JR: All right, we will give it serious consideration.

MR. WIGGINS: Thank you very much. That helps a lot.

H.M.JR: Don't declare any dividends on it yet.
(Laughter)

MR. WIGGINS: On the earnings of banks, I point out the fact that the earnings of small banks show a design, on the average, of twenty-five percent between '41 and '42; that is, banks under five million resources, of which eighty percent of the banks fall.

H.M.JR: Say that again, will you?

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MR. WIGGINS: Eighty percent of the banks of this country have resources under five million dollars; that is, resources. And that group of banks, according to the reports of the F.D.I.C. and the Fed, show a decline in net income from '41 of about twenty-five percent.

The larger banks, on the other hand, show an increase in income. But I am speaking particularly now for the smaller banks. The bigger banks can speak for themselves.

H.M.JR: Well, the big banks also have these savings accounts?

MR. WIGGINS: Yes, they do. What has happened is that we are driving the savings accounts out of the banking system by reducing the rate. We are driving them into the Building and Loans and into the postal savings. That is another thing that we think should pass out of the picture now, because they are paying a higher rate of return than the banks can pay. But I hadn't brought that before the committee.

H.M.JR: No, that goes before your legislative.

MR. WIGGINS: Now, the only other items - there are two items here: One is we feel that the Treasury Department is a little hard on country banks, particularly, in objecting to a small signature fee, notarial fee, or whatever you might call it, that is charged by the country banks for certifying signatures on War Savings Bonds.

H.M.JR: I don't know anything about that. You have to address yourself to Mr. Bell.

MR. BELL: Yes. (Laughter)

MR. WIGGINS: He and I have discussed them a number of times.

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

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MR. WIGGINS: The Treasury Department does not want a bank to charge anything for certifying the signature of the owner of a registered savings bond. He comes in to get it certified for redemption, and most of the banks charge a small fee of about twenty-five cents; and we would like the Treasury not to object to that. We feel that if you don't object to that, it would put us in a position to insist that the banks not charge, as they are doing in some cases, too much of a fee.

H.M.JR: Don't look at me. I will be honest; it is the first time I ever heard of it.

MR. BELL: We have had a great many letters, Mr. Secretary, from individual holders of savings bonds, who have tried to redeem them, objecting to the high fee they have had to pay banks in getting their names certified by a bank officer. We have never objected to the small fees of twenty-five cents, but some of them had set fees of seventy-five cents and a dollar, or a dollar and a quarter a bond, which seemed to me not only to deter sales on the savings bonds, but put the Banking System in bad as charging for this service. I don't think I object to the small fee for redeeming bonds, or certifying the signature. It does take quite a bit of time of the officers.

H.M.JR: You mean twenty-five cents?

MR. BELL: Yes; the cost is seventeen cents to send the bond in to the Federal. Now, the banks certainly shouldn't be required to pay that seventeen cents postage for mail and registration fees, and so forth.

If Mr. Wiggins, as head of the A.B.A. could do something to get the banks to charge, maybe, a minimum of twenty-five cents--

MR. POTTER: A maximum.

MR. BELL: No, it would have to be a minimum, wouldn't it? If you had one bond you would charge twenty-five cents; if you had two bonds you would charge thirty-five cents, because it doesn't cost any more to send two bonds

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to the Fed than it does one. But you can charge each individual a minimum of twenty-five cents.

MR. POTTER: We are talking about a maximum.

MR. WIGGINS: Well, you would charge a maximum on one bond of twenty-five cents, and a less amount for additional bonds.

MR. BELL: Put it that way.

MR. WIGGINS: Something within reason. Well, now the banks generally have the understanding, whether correctly or not, that you don't want them to charge a penny.

MR. BELL: Well, the ones I have written to have been charging rather high fees - fifty cents, and some of them as high as a dollar and a quarter a bond.

MR. WIGGINS: We think that is bad. We wanted to be put in the position of saying that if you charge twenty-five cents, that there will be no criticism, but if you make these higher charges, we think you are wrong and you ought to stop it. And that is what A.B.A. would like to do.

H.M.JR: Suppose a man comes in with two twenty-five-dollar bonds. How much are you going to charge him?

MR. WIGGINS: Well, I don't know. I haven't run it down. The whole thing is so small that I don't know. Most banks, I think, now charge fifty cents for one bond and ten cents apiece for additional ones.

MR. EDWARDS: Mr. Secretary, I can answer that as far as my institution is concerned. If a person brings in one bond, it is a quarter; if he brings in five bonds, we charge him a quarter.

MR. BELL: You get just expenses.

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MR. EDWARDS: Just enough to get expenses. And we are not going to charge.

MR. BELL: It is hard to explain to an individual as to why the banks give the Government all this service of issuing the bonds free of charge, and then an individual walks in with a little bond of twenty-five dollars to get it cashed, and all you do is certify his name, and then you want to charge him fifty cents to a dollar. It is hard to explain to that individual why it is.

MR. FLEMING: Just this difference, that the individual has to appear before a bank officer and that bank officer has to know and identify that individual. A great many of these people who come in are not your customers.

A great many of them didn't buy the bond through you.

H.M.JR: They become potential customers.

MR. FLEMING: Well, they may. But it is a question of identification. At my bank we don't charge anything.

H.M.JR: Look, this is new to me. Let Bell think about it; let him make the recommendation to me. I have never heard of it before. I am a very conservative cuss and I move slowly, see?

MR. WIGGINS: Well, it is a matter to the little banks, particularly, and they feel it is hard to explain to them why they do so much free work selling the bond, and then you object to their getting ten cents above the cost to take the time of the officer to guarantee a signature and incur liability.

MR. BELL: Of course, he can walk across the street to a post office and get it certified for nothing.

MR. NEWELL: The post office says, "we are too busy; go and see your bank."

MR. EDWARDS: Then you pay the post office to do it.

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H.M.JR: Give us a day or two, will you, gentlemen?

MR. BELL: I have given a lot of thought to it, Mr. Secretary, and you know we have authority now to designate the banks as our agent to redeem savings bonds, and I thought, in connection with that designation, we might work out a schedule of charges which we would stand, just like we have the schedule of charges in collecting the withholding taxes. We have done that through the issuance of two percent depository bonds. They would be our agent, and not the agent of the individual. There they would assume some responsibility and redeem the bonds just like they cash our checks.

H.M.JR: It is all new to me, so I have to talk to you.

MR. BELL: All right.

H.M.JR: What else?

MR. WIGGINS: Now this other matter, I guess - Mr. Bell, probably you are not particularly interested in this matter of warning the banks about violations of these laws. We are very glad to send out a letter on that along the lines of your memorandum, if you would like for us to do it.

MR. BELL: I would like to go over that first.

(To the Secretary) This is a matter that I have had up with them, advising them that where these banks got into difficulty, the collusion between a loan shark and the individual, and getting the checks back and cashed, and so forth, we thought the banks ought to know about their liability.

H.M.JR: I am not familiar with it.

MR. WIGGINS: We did bring that up before the group, and we thought it was a proper service that we could help out with, and we would be glad to do it.

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MR. BELL: I will take another look at the memorandum.

MR. EDWARDS: For the Secretary's record, you haven't mentioned the bill rate.

MR. WIGGINS: I am coming to that: Proposal to change rates and terms of Treasury bills. I left that to the last. We discussed it at lunch to some extent, and our conclusions are that no showing has been made as yet to us that would indicate any need - any urgent need - for any change in the bill situation; that short-term rate probably is a little too low, but that the mechanics of the bid and the reissue, and the inscription for new bills attending, and so forth, should be simplified.

The present mechanics are not quite satisfactory.

MR. BELL: You mean for the Federal maturities.

MR. WIGGINS: The extent of maturity.

MR. FLEMING: That would not only be Federal Reserve maturities, but others, too.

MR. BELL: You would put them all on the same basis?

MR. FLEMING: Yes.

H.M.JR: Well, you saw these gentlemen that went out of here. They are going to meet at five o'clock with the technicians from the Federal Reserve. We are bringing Bob House down on a plane this afternoon.

Can anybody here from this committee stay over and sit in with that group? Is anybody going to be here overnight, anyway?

MR. WIGGINS: I am, but I know so little about the mechanics of that, it wouldn't be worth anything for me to attend.

MR. SPENCER: I am going out at eleven, or would like to.

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H.M.JR: That would be all right. Could you stay?

MR. SPENCER: Yes.

H.M.JR: I mean, house will be here, and the others. Then at least they would know how you people feel. I would appreciate it if you could.

MR. SPENCER: I will do that, very gladly.

H.M.JR: That will be good. Bell will tell you where they meet, and all. It is Viner and George Warren and Shields.

MR. BELL: And Don Woodward and Larry Seitzer.

H.M.JR: Plus the Federal Reserve people, plus Bob House, and our own people. I have told them to go into the thing and give me an answer. When they get down to mechanics they ought to be able to give me an answer. I don't want the mechanics to swing the rates, once we have decided to leave the rates alone.

MR. BELL: Did your group consider the bid-and-ask price for Treasury bills, allowing the market to come in and bid, say, nine on four, a little less than the three-eighths?

H.M.JR: Dan, do you mind letting that go to that group? That opens up that whole question of mechanics. Do you mind?

MR. BELL: No, I don't mind.

H.M.JR: As long as they haven't discussed it, anyway.

MR. WIGGINS: We appreciate very much this opportunity and we are glad to find ourselves in such general agreement with your program. We think that it is a grand job, the third drive, and the objectives and plans are very promising for the next one.

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H.M.JR: I appreciate that. I know there is great difficulty in travelling these days, and I appreciate your coming down, and I say again for the Treasury, we appreciate what the banks have done, and the A.B.A. has done, and I think it is a fine working arrangement. I like it. I hope you like it. I would like it to continue. It is very useful for me, not just because we are in agreement.

Maas' group here has done a fine job. It is difficult. After all, let's be frank; here is a whole Federal Reserve System, twelve banks, Federal Reserve board, Federal Reserve advisory group, and they all take the position opposite from us. Now, we are only human. We can make mistakes. Now, you fellows are in this business to make a living, and we are here, supposedly, to serve you.

MR. NEWELL: You make the statement about the Federal Advisory Commission. I happen to be a member of it, and several of us are members of it. We have consistently opposed the change in the bill rates. Whoever told you the Federal Advisory Committee recommended it--

H.M.JR: Now, wait a minute there. I got the impression from a remark that they made here, that the Federal Reserve Advisory System - now, I may be wrong - that the Advisory System, or whatever you call it--

MR. HARRISON: Council.

H.M.JR: ...wasn't too--

MR. BALL: I didn't get that, but I think the Federal Reserve presidents, and the board.

H.M.JR: I am glad you raised it.

MR. NEWELL: We are unanimous against it.

H.M.JR: To show you how sure I am, if somebody put me up to testify, I would have made the same statement, that I was under that impression, which I got from the

- 23 -

meeting the last time, which is most likely my mistake. Where does the advisory group stand?

MR. NEWELL: Opposed to a change in the present pattern of bill rates.

H.M.JR: As of how recently?

MR. NEWELL: Well, we met Sunday and yesterday.

MR. SPENCER: Sunday noon.

H.M.JR: This is the first time--

MR. NEWELL: We have been opposed to it for the last six months.

H.M.JR: It is most likely my own fault, but this is the first time I have heard it.

MR. HARRISON: That was not reported to the board yesterday, so they didn't know now we felt.

H.M.JR: Did you (Bell) know?

MR. BELL: I didn't know they had discussed it in Fed advisory.

MR. NEWELL: We had discussed it before in the Board and Marriner lectured us for our disloyalty for refusing to go along with the rest of the Federal Reserve System - not once, but many times.

H.M.JR: Well, anyway, I like to work this way, and I appreciate your coming down. There may be times when we will be wrong. We are always glad to listen.

I haven't yet made up my mind, quite, on the basket. I don't want you to go away thinking I have. I want to talk a little bit more to Gamble and to the salesman, because they have to sell these commodities. But I take it you

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people feel that there is no particular usefulness for the one and a half, but if we kept the two, instead of the two and a quarter, would you feel very much upset?

MR. POTTER: I think we would. (General agreement)

MR. FLEMING: The twos are bound to find their way back in the banks. I think I am stating correctly.

MR. EDWARDS: That is what you say you don't want.

H.M.JR: I don't.

MR. EDWARDS: Neither do we.

H.M.JR: But I just want to let you know. And I have told the Federal Reserve I would give them another chance tomorrow. So I have got Eccles coming over at three tomorrow.

MR. POTTER: I don't know how the rest of them feel, but I think there are only two places for the one and a half; in the banks in the first place, and in concerns like railroad companies and public utilities that have fixed maturities due at a time that the one and a half would fit in. Do you see? Where they have an accumulation of cash.

That is a rather limited demand except from the banks.

MR. BELL: Except from the free-riders.

MR. HARRISON: They can buy tax certificates for that.

MR. POTTER: Yes.

MR. FLEMING: If they are going to hold them for three years.

H.M.JR: Is Stonier sick?

MR. FLEMING: Yes, he is.

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I understand you want us to give you two memoranda; one on the basket and the type of issue, and the other on these additional things.

MR. SMITH: No, one memorandum regarding the savings department in commercial banks, and the other regarding the opening up at more frequent intervals for mutual savings, insurance companies.

H.M.JR: And you might add the twenty-five cent fee business.

RESERVED AREA

1. 4th War Loan Drive
 - a. Time
 - b. Character of Drive
 - c. The basket
2. Proposal to change rates and terms of Treasury bills
3. Proposal to make an offering of bonds available to savings departments of commercial banks
4. Signature or notarial fee charged by banks on War savings bonds for redemption
5. A.R.A. letter on violations of regulations in connection with the handling of War savings bonds

11/16/43

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This memo is a result of a night meeting at the Treasury at which were present the men whose pencilled names are at the bottom of the memo.

Proposed Changes in the Mechanics of
Tenders for Treasury Bills

1. All holders of Treasury bills should be given the right to tender their bills at maturity and receive in exchange an equal par amount of new bills on a 3/8 of 1 percent discount basis (99.905 for 91-day bills). To the extent that exchanges do not take up the full amount of the offering, allotments would be made to the highest bidders except that fixed price tenders for \$100,000 or less at 99.905 would be allotted in full.
2. The Federal Reserve System will avail itself of this privilege with respect to such of its holdings of maturing bills as it considers advisable.
3. The Treasury will make a brief explanatory press statement in connection with the issue of the revised circular.
4. The Federal Reserve Banks will continue to encourage the placing of tenders for bills. It is expected that under the proposed system the Treasury would receive an adequate amount of tenders at a rate of 3/8 of 1 percent.
5. In connection with the introduction of this new procedure it would be necessary for the Federal Open Market Committee to amend its practice on repurchase options so that commitments to resell Treasury bills would not be made later than the Saturday next preceding maturity.
6. Other phases of the present way of handling Treasury bill issues not mentioned above will be continued as heretofore.

November 16, 1943

Thomas Fed Res
 Lister Fed Res
 Vinal
 Kowale Fed Res NY

Shull's
 Woodward
 Warren
 [unclear]
 [unclear] - Boston

New Hampshire
 London
 Calkin



TREASURY DEPARTMENT

WASHINGTON

November 16, 1943

TO: SECRETARY MORGENTHAU
 FROM: TED R. GAMBLE *TRG*

Following our conversation with respect to the basket of securities to be offered in the Fourth War Loan, I wish to make two suggestions to you in writing.

Suggestion 1.

That the basket for individuals and for insurance companies, savings banks and other corporations and investors consist of the same securities as during the Third War Loan with the exception that we substitute for the 7/8% certificates either a three-year 1 1/4%, or a five-year 1 1/2% note.

Suggestion 2.

That the basket for individuals and for insurance companies, savings banks and other corporations and investors consist of the same securities as during the Third War Loan with the exception that we substitute for the 2% bond a 2 1/4% bond which would be automatically restricted because of its maturity date.

I am personally in favor of suggestion 1, but recognize that suggestion 2 is, strictly speaking, the best

*For individuals E. F. S. 2 1/4 bonds - 2 1/2 bond
 and 1/4 or 1 1/2 notes - Savings note*

*For Corps. 2 1/4 bond - 2 1/2 bond and 1 1/4 or 1 1/2 note
 Savings note*



- 2 -

from the Treasury's point of view. All things considered, however, the elimination of the short 7/8% certificate will be a step in the right direction so far as these drives are concerned and will do much to quiet some of our important critics.

I further believe that our quota should be no greater than \$14 billion with \$5½ billion as a quota for individuals and \$8½ billion to be obtained from insurance companies, mutual savings banks and other corporations and investors.

I will not attempt to give you a breakdown of the corporation goal so far as securities are concerned until the basket is determined. Inasmuch as the securities under discussion make little difference so far as the individual quotas are concerned, I can give you a breakdown of this.

E Bonds	\$3	billion
F and G Bonds	\$1	billion
Other securities	\$1½	billion
Total Individual Quota	\$5½	billion

It is my further recommendation that the drive start on January 18 and that we concentrate exclusively on individuals until February 1st. We would open the sale to corporations, mutual savings banks and insurance companies on this date and permit the sale to individuals to continue until February 12th.

- 3 -

If suggestion 1 is adopted, leaving the 2% securities in the basket, I feel that the Treasury can in the light of our experiences in the Third War Loan go a long way in cleaning up the free-riding problem.

The Secretary said that Mr. McConnell should take only Mr. Sullivan and Mr. O'Connell with him to the meeting.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

November 16, 1948.

TO Secretary Morgenthau
FROM R. E. McConnell

Mr. Lubell, of Mr. Baruch's office, just called to say that Mr. Baruch would like to meet those individuals in the Treasury who have been doing any work on any phase of the problems which concern him. He wants to get a general idea of what has been done and who has done it, and something of the nature of the problem. Mr. Lubell said that he was concerned with surplus property, fiscal policy, use of war plants, tax adjustments, etc.

Unless you wish to make some other suggestion, I will ask Mr. Sullivan, Mr. White, Mr. O'Connell and Mr. Haas to accompany me to Mr. Baruch's office at eleven o'clock tomorrow morning.

R. E. M.

November 16, 1943
4:10 p.m.

HMJr: Hello.

Robert
McConnell: Yes, Mr. Secretary.

HMJr: Look, McConnell, this suggestion of Baruch's that he wants to see all the people in the Treasury, I think is a little cockeyed.

M: Well, he wants to kind of get a line-up on what the problem is.

HMJr: Well, I don't -- you can give it to him. Now, George Haas is up to his neck here....

M: Yes, I know he is.

HMJr:and....

M: I just found that out.

HMJr:I don't know -- who is White?

M: Harry.

HMJr: Well, he's too busy to be running over there. I mean -- I'm not -- why should Baruch look over the Treasury people? You're here -- I mean....

M: You know that was the question that he answered that we begged -- in his letter....

HMJr: Well, it seems childish to me.

M: Well, do you think -- supposing Sullivan and myself and O'Connell go then?

HMJr: That's good enough.

M: Just the three of us.

HMJr: Yeah.

M: Okay, then.

HMJr: I mean this idea -- he wants to look over the Treasury personnel -- I'm just saying this for you -- Don't you think it sounds funny?

M: Well, I think he's probably trying to get oriented and if he....

HMJr: Well....

M:can find out what the problems are....

HMJr: Well....

M:and who's working on them....

HMJr: Well, White and Haas are up to their necks on other matters.

M: All right. But O'Connell and Sullivan will be all right, huh?

HMJr: Surely.

M: All right, fine.

HMJr: Thank you.

November 16, 1943

(Fred Smith
(Herbert Gaston
The Secretary

Please read the Senator's statement on the \$25 million bill for advertising because it looks as though I was going to New York for defense advertising. I forget just what the Senator said we didn't do in the last War Bond Drive. The Senator's name is Bankhead. - *Furnished*

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Furnished - Per Web
11/16/43

November 16, 1943

I talked to Frank Knox tonight and told him that the Bankhead Bill for advertising war bonds for ten or fifteen million dollars was passed today. He didn't know it. I asked him if he wouldn't get busy and do something about it. He said he would think about it and give me a call in the morning.

November 16, 1943

My dear General:

I have received your memorandum concerning the auctioning of autographed pictures, posters and the like for war bonds.

I think your point is well taken, and I agree that something should be done about turning these things over to the people with the most money. It is something that we shall consider during the Fourth War Loan.

Rest assured that your name will not be used in this matter, but that your wish to see something done about it will be carefully followed up.

I want to thank you again for all you did for me while I was overseas, and especially for coming on the radio program with me. As you no doubt know, this speech was very well covered by the American press, and I feel sure that it did a great deal of good.

Sincerely yours,

(Signed) Henry Morgenthau, Jr.

General Dwight D. Eisenhower, U.S.A.,
Commander-in-Chief, Allied Force Headquarters,
A. P. O. 512,
Care, Postmaster,
New York, New York.

November 16, 1943

My dear Commander:

I just sent a letter to General Eisenhower concerning the memorandum which you forwarded.

I am glad that you sent it along, and we will do something about it. A carbon copy of my letter to the General is attached.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Commander Harry C. Butcher, U.S.N.R.,
Naval Aide to the Commander-in-Chief,
Allied Force Headquarters,
A.P.O. 512,
Care, Postmaster,
New York, New York.

ALLIED FORCE HEADQUARTERS
Office of the Commander-in-Chief

29 October, 1943.

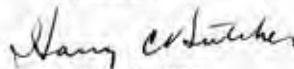
Dear Mr. Morgenthau:

The General handed me the attached memorandum today and suggested that I send the idea it contains to someone I might happen to know in your department.

After reading the memorandum I persuaded him that it should be sent directly to you. He has agreed but has asked me to request that you consider the suggestion as personal and confidential so that his name will not be attached to it. He also prefers that it not be circulated in the Department. In other words if the idea has any merit please consider it without any reference to him.

I was pleased to see you again while you were in Algiers. I reached 5th Army just as you had finished lunch and had left. I heard that you had an extensive trip to the front and were right up there where the guns were popping.

Respectfully,



HARRY C. BUTCHER
Commander, USNH
Naval Aide to the C-in-C

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

ALLIED FORCE HEADQUARTERS
Office of the Commander-in-Chief

20 October, 1943.

MEMORANDUM TO Secretary of the Treasury:

I have frequently been requested by persons conducting local War Bond Drives to assist them by furnishing autographed pictures, autographed War Bond posters, or sometimes to provide an item of uniform equipment such as an epaulet. These items are used in auctioning of War Bonds. I have noticed that these items are always given to the highest bid received at any particular auction. I am happy to comply with such requests because anything that I can do to stimulate and maintain morale, either in the military or civil sections of the United Nations, is always cheerfully done. But I should like to ask, most diffidently, a question that has bothered me a bit. It is this. Is there any practicable way of giving an award in these auctions to the man who subscribes the greatest percentage of his total annual income? In other words, I am thinking of some method of rewarding the man who makes the greatest relative sacrifice in purchasing a bond. I would personally be delighted to help in any possible way, if such a thing were practicable.

The idea is suggested to me because I have just received word from a man in Cleveland, stating that a war poster I autographed went for a total of more than a million dollars and he asked me immediately to sign another one which would bring forward another million dollar subscription. In such competition, the man earning two hundred dollars a month is excluded and I merely wondered whether there was any way of rewarding him, just as I am forever looking for ways and means for rewarding my soldiers in the ranks for good service equally with the generals under whom they serve.

If such an idea can ever be placed into practical operation, please do not connect my name with it in any way.

D.E.

DWIGHT D. EISENHOWER,
General, U. S. Army,
Commander-in-Chief.

Dear Mr. Secretary: I wrote this to give you while you were here. However, I unfortunately missed seeing you during the latter part of your stay. I sincerely trust you found your trip profitable and enjoyable. Cordially,
D.E.

November 16, 1943.

My dear General:

Thank you for your letter advising me that some of the material I requested is on the way. You may rest assured that this will be put to good use, and I appreciate the trouble you are taking to see that they get here in time for the Fourth War Loan.

I haven't done anything yet about the bond man, but I have been making some plans for including the soldiers in the next drive. I am quite sure that our experiment will work out very successfully, and to the satisfaction of both the Army and the soldiers.

Thank you again for all you did for me while I was over there.

Sincerely yours,

(Signed) H. Morzenhan, Jr.

Major General E. S. Hughes,
U.S.A., Deputy Theater Commander,
Headquarters NATOUSA,
A.P.O. 534, c/o Postmaster,
New York, New York.

HEADQUARTERS
NORTH AFRICAN THEATER OF OPERATIONS
UNITED STATES ARMY

4 November 1943

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

My dear Mr. Morgenthau:

Cablegrams have just been received from Sicily and from Tunis indicating that shipments of some of the items you desired for the next War Bond Drive have been loaded or are ready for loading.

The Tunis shipment is not large but appears to contain many individual and distinctive items, which are being loaded on S. S. Harrison.

Word from Sicily indicates that some difficulty has been encountered, but that three German Mark I tanks and two Mark IIs are ready for shipment. I just called the transportation people, who promised that every effort would be made to get these tanks back to you by the first of December.

I hope that your War Bond men will arrive soon, in order that we may get started. I will enjoy the experiment of seeing how much more money we can take away from American soldiers.

Yours sincerely,



E. S. HUMES,
Major General, USA,
Deputy Theater Commander.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Nov.16,1943

TO: Mrs. McHugh

FROM: Mrs. Turner

Mr. Gamble thinks that under the circumstances the Secretary should sign these citations. Without knowing just what kind of a letter the Secretary would write to a close friend, he makes the attached suggestion.

November 16, 1943.

Dear Anna:

I received your very interesting letter and was delighted to know that you are still taking such a "keen" interest in our war bond program.

During one of John's visits here he told me about the Victory Square replica of Mount Vernon and the Washington Monument and all of the good work that had gone into this very patriotic endeavor.

As you might well imagine, I have very carefully avoided performing such tasks as you suggest, but so long as they seem to have you "on the spot" I will be more than pleased to sign these citations for you. I do think, however, it is a bad precedent for your Father to sign them as it would in all probability bring a regular deluge of such requests and he cannot, of course, hope to do this sort of thing under his very trying schedule.

With all good wishes to you and the children,
I am

Sincerely,

(Signed) Henry

Mrs. Anna Roosevelt Boettiger,
Associate Editor,
Seattle Post Intelligencer,
Seattle, Washington.

air mail

Seattle Post-Intelligencer

ESTABLISHED 1883

November 12, 1943

ANNA ROOSEVELT BOETTIGER
ASSOCIATE EDITOR

Dear Henry:

For two years now the city of Seattle has held daily open air meetings in a block in the main section of town which has become designated as Victory Square. John started this going right after Pearl Harbor and the primary goal of the meetings is to sell war bonds and stamps to the public who attend. But, of course, in order to sustain interest we have held programs entering into practically every phase of the war effort.

In 1942 we had 180 programs and \$6,500,000. in stamps and bonds was raised. In 1943 we had 130 programs and \$51,500,000. was raised. Quite a difference!

Now the committee, which donates its time and keeps the Square running during the good weather months, has decided that in order to sustain the interest of the voluntary personnel they wish to present each one of them with a "recognition citation" which would read somewhat as follows:

Recognition Citation for Loyal Service at Victory Square- Seattle

To _____

Because of the devotion of time, thought and energy to a sincere purpose is the most precious of gifts;
Because you have given this "stuff of self" so generously, so ably, so inspiringly;
Because Victory Square has made brilliant contributions to the welfare and defense of our City, County, State and Nation under war through your efforts.
Believe, that you forever possess our esteem and the happiest wishes that can be born of loyal service.

Under this they want your signature, as well as those of our State, County, City and Victory Square chairmen.

They have also asked me if father could sign and were not at all satisfied with my answer of "No"! So I have now written to Grace Tully for an "official" answer.

There will be approximately forty to sign.

You were an angel to call me the other day on the phone to give me such good news about John. I certainly look forward to seeing you and Elinor soon.

Affectionately,

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

Seattle Post-Intelligencer

ESTABLISHED 1863

November 12, 1943

ANNA ROOSEVELT BOETTIGER
ASSOCIATE EDITOR

Dear Henry:

For two years now the city of Seattle has held daily open air meetings in a block in the main section of town which has become designated as Victory Square. John started this going right after Pearl Harbor and the primary goal of the meetings is to sell war bonds and stamps to the public who attend. But, of course, in order to sustain interest we have held programs entering into practically every phase of the war effort.

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Believe, that you forever possess our esteem and the happiest wishes that can be born of loyal service.

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Affectionately,

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

2
November 16, 1943

MEMORANDUM FOR THE SECRETARY

Attached are the two tables which you asked for in yesterday's memorandum.

The first of these tables shows for each fiscal year, 1933 through estimated 1944, the total internal revenue collections broken down into (1) individual income taxes, (2) corporation income and profits taxes, (3) excise taxes, (4) other, and (5) total.

The second table indicates the "Additional taxes recommended by the Treasury and amounts enacted by the Congress during the period 1933-43."

Roy Blough

Attachments

Internal revenue collections by selected sources, 1933 - 1944

(In millions of dollars)

Fiscal year	Individual income taxes	Corporation income and profits taxes	Excise taxes	Other <u>1/</u>	Total
1933	\$ 353	\$ 394	\$ 839	\$ 34	\$ 1,620
1934	419	400	1,288	565	2,672
1935	527	579	1,346	830	3,282
1936	674	753	1,531	536	3,494
1937	1,092	1,088	1,745	709	4,634
1938	1,286	1,343	1,716	1,299	5,644
1939	1,029	1,156	1,749	1,228	5,162
1940	982	1,148	1,867	1,326	5,323
1941	1,418	2,053	2,381	1,500	7,352
1942	3,263	4,744	3,123	1,900	13,030
1943	6,630	9,669	3,795	2,275	22,369
1944 est. <u>2/</u>	18,238	13,724	4,018	3,010	38,990

Treasury Department, Division of Tax Research

November 15, 1943

Source: Treasury Bulletin.

- 1/ Comprising employment taxes, estate and gift taxes, capital stock tax, and agricultural adjustment taxes.
- 2/ Budget estimate as revised August 1, 1943.

Additional taxes recommended by the Treasury and amounts enacted by the Congress during the period 1933-43

From 1933 through 1939 Treasury tax recommendations to the Congressional committees dealt primarily with specific measures designed to improve the tax system and to raise revenue. In general, over-all programs to achieve stated revenue goals were not submitted. In 1936, however, the Treasury did specify ways of raising about \$800 million annually, the amount requested by the President in his supplemental budget message of March 3, 1936, and approximately the amount provided under the Revenue Act of 1936.

During much of this period the Treasury recommendations were concerned largely with problems of tax avoidance. In 1934 and again in 1937 numerous suggestions were made for the purpose of preventing tax avoidance. In 1936 the Treasury advocated strongly the taxation of undistributed corporate profits, a major tax avoidance device. The 1939 recommendations to the Congress dealt primarily with measures designed to remove certain restrictions on business.

Beginning with the Revenue Act of 1940 the Treasury adopted the policy of submitting to the Congress general over-all revenue goals with specific programs for their achievement. Estimated additional revenues under these programs and under the action taken by the Congress are shown in the following table:

Act	: Recommended : (In billions)	: Enacted	: Percent : enacted
Revenue Act of 1940	\$ 1.0 <u>1/</u>	\$ 1.0	100%
Second Revenue Act of 1940, and 1941 Amendments	.4	.3	75
Revenue Act of 1941	3.6	3.6	100
Revenue Act of 1942	15.2 <u>2/</u>	8.6 <u>3/</u>	<u>57</u>
Subtotal 1940-42	20.2	13.5	67
Revenue revision of 1943	10.6	2.0 <u>4/</u>	<u>19</u>
Total 1940-43	30.8	15.5	50

- 1/ The original program called for \$0.7 billion; the revised program for \$1.0 billion.
- 2/ The original Treasury program in March called for \$7.6 billion; the revised program in May for \$8.7 billion; and the supplemental program in September for \$6.5 billion.
- 3/ Before post-war credits. The figure after post-war credits is \$6.9 billion.
- 4/ Action of the Ways and Means Committee as of November 11, 1943.

John Sullivan
The Secretary

November 16, 1943

I've been reading in the paper about the American Distilling Company and how it is distributing its whiskey with stockholders. If this isn't a tax avoidance scheme I never saw one. Please look into it very promptly and give me your report in person. Also ask SEC what they know about it. I'd like fast action on this, please.

Sullivan gave

Hoje memo 11/17/43 -

NOV 16 1943

My dear Mr. Minister:

I received your letter of November 3. I am not terribly upset about the handling of my press stories by the local British newspaper. I get so accustomed to things like that around here that I come to be insulated against them after a while. My only concern is that some time they might go too far, and something serious would result. As you know, that was the newspaper that got the Senators off to such a bad start.

I want to thank you for all you did for me while I was in Cairo. I enjoyed every minute of my visit, and my only regret is that we took so much of your time.

Both Dr. White and Mr. Smith send their best regards and Mr. Smith tells me that he is on the trail of the seeds which we are to forward for your friend's experimental farm. The Golden Bantam corn is on its way to Washington from California and is double packed to avoid sprouting on the way to Egypt.

Please accept my warm personal regards.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable Alexander Kirk,
American Minister,
American Legation,
Cairo, Egypt.

FS:mlf
11-15-43

Cairo, November 3, 1943.

PERSONAL

Dear Mr. Secretary:

I am taking the first opportunity to tell you how deeply I deplore the publication in the local British press here of certain articles of a thoroughly disgusting nature which appeared during your stay in Cairo and which reached my notice only after your departure.

As soon as I saw these utterly irresponsible and offensive utterances I communicated with the British Chargé d'Affaires who sent me a personal note of which I enclose a copy. Casey also sent me a letter requesting me to cable you his apologies but as a fast airmail pouch is leaving today and I am sending you herewith a copy of the pertinent parts of his letter.

It is needless for me to amplify my own feelings in regard to this incident for I am sure that they accord with yours with the possible difference that mine may be more violent. I would like to add, however, that the utterances in question were entirely isolated and insignificant in their scope and that the treatment in the Arabic press of your visit here was comprehensive, dignified and constructive as will appear in a report the Legation is sending to the Department of State.

And may I take this occasion to tell you again what joy and inspiration your visit gave us all and how glad we were that you brought with you Dr. White and Mr. Smith. Please commend me to them both and accept my warm personal regards.

Yours faithfully,

The Honorable
Henry A. Morgenthau, Jr.,
Secretary of the Treasury,
Washington.

Alexander Kirk

British Embassy, Cairo.

October 30, 1943.

Dear Alexander:

I more than agree with you about the articles in the "Gazette" on Mr. Morgenthau. I and other members of this Embassy were disgusted when we read them; and we decided that the matter must be thoroughly investigated. I am also reporting it to the Foreign Office who I know will share our concern and regret at this gratuitous rudeness to a distinguished Allied visitor to Egypt, on the part of a local British newspaper.

As I was meeting Jacobs at luncheon yesterday, I told him how disgusted we were and asked him to tell you of my real regret that this should have happened. Had Mr. Morgenthau still been here, I would have wished to let him know how we feel about it.

.....

Yours ever,

(Signed)
Terence Shone

c
o
p
yOffice of the Minister of State,
10, Sharia Tolumbet,
Cairo.

2nd November, 1943.

PERSONAL

My dear Alexander,

It is only in the last day or so that I have had the two offensive articles in the Egyptian Gazette in connection with Mr. Morgenthau's visit brought to my notice. I am taking steps that are necessary with my own people to find out how such articles came to be published and to see that this sort of thing does not occur again.

I am extremely sorry about it and I hope you will be good enough to telegraph my sincere personal apologies to the Secretary of the Treasury, that articles in such bad taste (to say the least of it) should have appeared in an English language newspaper in my area. Small comfort though it may be, I will do my utmost to make a lapse of this sort impossible.

Yours ever,

(Signed)
Richard G. CaseyThe Honorable Alexander Kirk,
American Minister,
American Legation,
C a i r o .

UNITED STATES OF AMERICA
OFFICE OF WAR INFORMATION
224 WEST 57TH STREET
NEW YORK CITY

November 16, 1943

PERSONAL

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

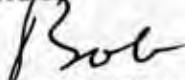
Dear Henry:

Thank you very much indeed for your generous note about Mrs. Parran. I shall turn it over to her and I know she will be greatly relieved to have it.

It sometimes seems to me that, regardless of the military situation, Hitler is still much too far ahead in this war. By which I mean, the poison of suspicion and mutual distrust that he let loose in this world seems still to be afflicting us and causing us to question each other's motives to a damaging extent. Probably it will take longer to get this poison out of the world's system than it will to get rid of Hitler himself.

I hope we can get together for dinner some evening because I should like to hear a great deal more about your trip and about your views on things in general.

Yours



Robert E. Sherwood
Director of Overseas Operations



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

170

November 18, 1948

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the weekly report of Lend-Lease purchases.

Recently 2,000,000 comforters were released by the War Department and purchased by the Procurement Division for export to liberated areas for distribution.

Beginning November 22nd, the used clothing drive will be initiated throughout the country by the War Production Board. After collection, the Procurement Division will arrange for baling and export shipment for foreign relief and rehabilitation.

Clifton E. Mack
Clifton E. Mack
Director of Procurement

FOR DEFENSE



BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF NOVEMBER 10, 1943
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous & Undistributed</u>
Allocations	\$3974.1 (3969.6)	\$1977.1 (1977.1)	\$1557.9 (1557.9)	\$109.8 (109.8)	\$11.0 (11.0)	\$318.3 (313.8)
Purchase Authoriza- tions (Requisitions)	\$3242.4 (3253.1)	\$1710.1 (1711.9)	\$1296.2 (1307.9)	\$43.7 (43.6)	- -	\$192.4 (189.7)
Requisitions Cleared for Purchase	\$3156.9 (3151.9)	\$1660.9 (1654.1)	\$1278.8 (1281.9)	\$43.4 (43.3)	- -	\$173.8 (172.6)
Obligations (Purchases)	\$3038.3 (3033.2)	\$1628.8 (1627.1)	\$1229.2 (1226.7)	\$43.3 (43.3)	\$8.4 (8.3)	\$128.6 (127.8)
Deliveries to Foreign Governments at U. S. Ports*	\$1436.7 (1410.7)	\$991.0 (976.2)	\$405.6 (396.4)	\$19.7 (19.5)	- -	\$20.4 (18.6)

*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of November 3, 1943.

EXPLANATION OF DIFFERENCES.

The reductions in Purchase Authorizations for United Kingdom and Russia as well as Requisitions Cleared for Purchase for Russia are a result of requisitions cancelled prior to purchase and the adjustment of requisition estimates to actual contracts.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE NOV. 16, 1943

TO Secretary Morgenthau
 FROM Mr. White
 Subject: Exports to Russia

Information No action!

We are continuing to get monthly reports on exports to Russia. On the chance that you may again be interested in these figures, I am sending you this digest of attached report on exports to Russia during the month of September. Would you care to receive such digests in the future?

1. In September, 1943, U. S. exports to Russia totalled approximately \$123 million.

2. Among the principal non-military items were:

Butter (\$10 million)
 Petroleum refinery machinery (\$13 million)
 Canned meat (\$11 million)

3. Among the munitions sent were:

11 2-engine medium bombers
 43 2-engine light bombers
 217 P-39 pursuit fighters
 126 P-40 pursuit fighters
 16 2-engine medium transport planes
 1302 scout cars
 110 armored cars
 160 medium sized tanks
 799 40 mm. anti-aircraft guns

yes

11/24/43

November 16, 1943

Harry White
The Secretary

Between now and Wednesday morning I would like you to tell me or show me just what have I said before Congress in regard to the English balances. I'd like to have that please, before we meet with Lord Halifax at lunch.

Finished

HM Jr gave original of this memo to
Lord Halifax

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Official Statements Made Before Congressional Committees
Regarding Britain's Dollar Position

Mr. Eaton: Mr. Secretary, are you in a position to tell us what are the compelling reasons why this particular bill at this particular time should be presented to this House?

Secretary Morgenthau: I can do it as best I know how. I presented to this committee a picture of the dollar position of the British Empire as it is today. They need vast armaments in this country. It is the only place that they can go to get them. They have not got the dollar exchange to pay for them. And therefore it is necessary to get this kind of legislation passed to make it possible for them to place the orders for the munitions they need so desperately in this country and get them on a lend-lease basis because they have not got the dollar exchange with which to pay for them. (Hearings on H.R. 1776, House Committee on Foreign Affairs, 77th Congress, 1st Sess., January 1941, p. 61.)

Senator Vandenberg: Now, in your field of responsibility what can the President do by way of aid to England under this bill that he cannot do under existing law. Let us identify that.

- 2 -

Secretary Morgenthau: I think the best answer that I can give to you, Senator Vandenberg, is this: That as to the chief power that the President would get if this bill passes, it makes it possible for him to make available to any country that he so desires the munitions of war that they need and that they do not have the dollars to pay for.

Senator Vandenberg: In other words, the principal difference is that it creates an opportunity for direct or indirect credit?

Secretary Morgenthau: It gives the opportunity to make available munitions of war to countries which do not have the dollar exchange to pay for them. (Hearings before U.S. Senate Committee on Foreign Relations on S. 275, Part 1, Jan. 27 to Feb. 3, 1941, p. 25.)

Senator Vandenberg: And it (the figure of \$1,775 million of U.K.'s available dollar exchange assets on January 1, 1941) would include Fifth Avenue real estate and everything of that sort?

Secretary Morgenthau: Yes it would. In other words, in order to raise \$1,775,000,000 that they need to meet their outstanding obligations, it means that they have got

- 3 -

to sell every share of United States securities they own and all of their properties that they own in the United States within the calendar year. (Ibid p. 21)

Secretary Morgenthau: Senator Vandenberg, they have enough money to take care of the orders already placed. They do not have enough money to place any new orders. (Ibid. p. 26)

Senator Nye: Coming back to your assertion of this morning, your contention was that unless we did these things, the war was virtually at an end. Do you really feel that to be the case?

Secretary Morgenthau: ". . . . As I said, early in December it became perfectly obvious that they were running out of dollar exchange and that they had about enough dollar assets available, provided they would sell every American security they owned, every American property they owned, to pay for the commitments they had already made. When that time arrived, as I said this morning, the British pointed out that they would have to stop placing orders; and they did not want to place orders in this country unless the money was in sight with which to pay for them. (Ibid p. 46)

- 4 -

Senator Nye: The Associated Press report from which I was reading contains this paragraph:

The British official told reporters he was negotiating with a very large number of American investment trusts for the sale of the direct investments.

How far has that gone, and what appears to be in prospect, to your knowledge?

Secretary Morgenthau: In the case of the direct investments, they were trying to get a representative over here for about 2 weeks, but due to the uncertainties of the clipper, he was unable to leave Lisbon, and they have awaited the arrival of this gentleman with full authority to conduct the sale of the so-called direct investments in this country; but they have been handicapped by not having somebody here to handle it for them. (Ibid. p. 47)

Senator Nye: You do not think that it is possible for Britain to muster the securities the independent trusts would want to deal in?

Secretary Morgenthau: England being willing to sell every dollar of her investments in the United States, and the American investor being willing to buy it, would only

- 5 -

provide her with enough dollars to pay for the orders she has already placed." (Ibid. p. 48)

Secretary Morgenthau: I have not looked into the individual cases, but if Lord and Lady Astor own real estate in New York their assets will be on the auction block with the rest.

Senator Clark of Missouri: And if the King of England himself happened to own a block of real estate on Fifth Avenue, that would be included?

Secretary Morgenthau: Every dollar of property, real property or securities that any English citizen owns in the United States, they have agreed to sell during the next 12 months, in order to raise the money to pay for the orders they have already placed, they are going to sell -- every dollar of it. (Ibid. p. 46)

Senator Byrnes: You say that from your inquiry as to their commitments, those assets are sufficient to pay their commitments for this year, based on present commitments?

- 6 -

Secretary Morgenthau: Senator Byrnes, they will have to sell every share of United States stock and every piece of property that every English citizen owns in this country within the next 12 months in order to raise sufficient money to pay for the orders that are already placed. (Ibid. p. 70)

Mr. Eberharter: You feel, Mr. Secretary, from a study of this statement, they are really not in a financial position to pay or continue to pay for any length of time for war materials?

Secretary Morgenthau: From this financial picture which I have given to you I am satisfied that they can pay with dollars during this year for what they have already bought. But when it comes to finding the dollars to pay for anything like what they need in the future, they just have not got it. (House Committee Hearings, op. cit. p. 55)

Mr. Eaton: And they are in a position to pay cash for that (the unpaid amount due on orders already placed)?

Secretary Morgenthau: I believe that, given the time, b, that I mean the balance of this year, they are in

- 7 -

a position to pay for the orders already placed.

(Ibid. p. 61)

Mr. Vorys: It looks then as if they are going to need a large amount, more than they can pay for? That is obvious; is it not?

Secretary Morgenthau: I feel that given the balance of this year and provided that our markets stay as good as they are now they will be able to raise the dollars necessary for the orders which are placed with our manufacturers. After they have done that there is very little left over and for that reason their buying has practically come to a standstill pending action by the Congress. * * * (Ibid. p.69)

TMK:rl 11/16/48

NOV 16 1943

Dear Leo:

Appended is copy of a letter which
I am sending to Cordell, together with
a copy of the memorandum referred to.

Sincerely,

(Signed) Henry Morgenthau, Jr.

Mr. Leo T. Crowley, Administrator,
Foreign Economic Administration,
Washington, D. C.

Enclosures

HEW:ls
11/16/43

NOV 16 1943

Dear Cordell:

Attached is copy of a memorandum dealing with the question of lend-lease aid to France which I sent to the President. He asked me ^{and Ed Stettinius} to take it up with you upon your return. I have also talked to Leo Crowley about it and am sending him a copy of this letter.

I shall be glad to discuss the matter with you at your convenience.

Sincerely,

(Signed) HERTZ

The Honorable Cordell Hull,
Secretary of State.

Enclosure

HEM:ls
11/16/43

November 4, 1943

MEMORANDUM FOR THE PRESIDENT

All civilian goods being exported to French North and West Africa are now being paid for in cash by the French and this procedure is to be extended to cover shipments of civilian goods to other French areas. Military goods, however, are being supplied as credit lend-lease.

These payment arrangements were made on the assumption that the gold and dollar assets of the Central Bank and Government of France were not available to the French Comite. In our opinion, the use of these assets of France to pay for military goods now being made available for the equipping of a French Army on a credit lend-lease basis could easily be justified.

Through September 1943, we lend-leased \$220 million of goods and services to the French forces. (We also transferred \$75 million of civilian goods to French authorities.) By March 1944, military lend-lease assistance to the French is expected to total \$400 million.

According to the information available the French have over \$2.5 billion of gold and U. S. dollar balances, as follows:

(In millions)

Gold.....	\$ 2,300
In French Africa.....	\$935
In the British Empire.....	580
In the United States.....	500
In Martinique.....	285
Official dollar balances in U. S.....	340
Of this \$225 million was deposited for the account of the Central Bank and Government of Metropolitan France, \$85 million for the account of the French Treasury in Africa and \$25 million for the account of French Indo-China.	
Private dollar balances in U. S.....	235

All but \$7 million of this amount is held for the account of residents of Metropolitan France.

- 2 -

In view of the size of these gold and dollar holdings, it is recommended that our policy of lend-lease assistance to the French be reexamined with the idea of placing the entire program for the time being on a cash reimbursable basis.

a. Unless this is done, it would seem that we are granting the French more favorable treatment than the British.

b. Such a procedure would strengthen your bargaining position with the French.

c. It would be consistent with the objectives of lend-lease assistance.

d. It would contribute materially to the fulfillment of Congressional demands for reduction of government expenditures.

The modus vivendi with French North Africa contains a provision which would permit payment for military supplies.

HG: TMR:rl:mb (copy)
11/16/43

Appendix A

Lend-Lease Exports to French Liberated Areas
through August 1943 as shown by export declarations

(The figures below do not include the value of lend-lease goods which were handled by the Army and shipped to North Africa on Army transports. These shipments were substantial during the early months)

(In millions of dollars)

A. By Principal Commodity
Groups

Tanks and other vehicles.....	\$ 78	
Ordnance and ordnance stores.....	22	
Vessels and equipment for vessels.....	2	
Aircraft and aeronautical material.....	<u>2</u>	
Total - Military Goods.....		\$ 104
Foodstuffs and other agricultural com- modities.....	37	
Industrial and other commodities.....	<u>34</u>	
Total - Non-Military Goods.....		<u>71</u>
Total - Lend-Lease Exports to French Areas		175

B. By Areas

Algeria.....	133
French Morocco.....	<u>24</u>
French West Africa.....	8
French Equatorial Africa.....	4
French West Indies.....	2
Cameroons.....	2
Syria.....	1
French Oceania.....	1
All other French Areas.....	<u>1</u>
Total.....	175

1/ Less than \$500,000.

THE WHITE HOUSE
WASHINGTON

November 8, 1943.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

Please take this up with
Stettinius and also Secretary Hull
on his return.

F. D. R.

THE SECRETARY OF THE TREASURY
WASHINGTON

November 4, 1943

MEMORANDUM FOR THE PRESIDENT

All civilian goods being exported to French North and West Africa are now being paid for in cash by the French and this procedure is to be extended to cover shipments of civilian goods to other French areas. Military goods, however, are being supplied as credit lend-lease.

These payment arrangements were made on the assumption that the gold and dollar assets of the Central Bank and Government of France were not available to the French Comite. In our opinion, the use of these assets of France to pay for military goods now being made available for the equipping of a French Army on a credit lend-lease basis could easily be justified.

Through September 1943, we lend-leased 220 million of goods and services to the French forces. (We also transferred \$75 million of civilian goods to French authorities.) By March 1944, military lend-lease assistance to the French is expected to total \$400 million.

According to the information available the French have over \$2.5 billion of gold and U.S. dollar balances, as follows:

(In millions)

Gold.....	2,500
In French Africa.....	995
In the British Empire.....	500
In the United States.....	500
In Martinique.....	295
Official dollar balances in U.S.....	340

Of this \$225 million was deposited for the account of the Central Bank and Government of Metropolitan France, \$85 million for the account of the French Treasury in Africa and \$23 million for the account of French Indo-China.

Private dollar balances in U.S.....	255
-------------------------------------	-----

All but \$7 million of this amount is held for the account of residents of Metropolitan France.



- 2 -

In view of the size of these gold and dollar holdings, it is recommended that our policy of lend-lease assistance to the French be reexamined with the idea of placing the entire program for the time being on a cash reimbursable basis.

a. Unless this is done, it would seem that we are granting the French more favorable treatment than the British.

b. Such a procedure would strengthen your bargaining position with the French.

c. It would be consistent with the objectives of lend-lease assistance.

d. It would contribute materially to the fulfillment of Congressional demands for reduction of government expenditures.

The modus vivendi with French North Africa contains a provision which would permit payment for military supplies.

Henry M. Matthews Jr.

Appendix A

Lend-Lease exports to French Liberated Areas
through August 1943 as shown by export declarations

(The figures below do not include the value of lend-lease goods which were handled by the Army and shipped to North Africa on Army transports. These shipments were substantial during the early months)

(In millions of dollars)

A. <u>By Principal Commodity Groups</u>	
Tanks and other vehicles.....	\$ 78
Ordnance and ordnance stores.....	22
Vessels and equipment for vessels.....	2
Aircraft and aeronautical material.....	<u>2</u>
Total - Military Goods.....	\$ 104
Foodstuffs and other agricultural commodities.....	37
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Total - Non-Military Goods.....	<u>71</u>
Total - Lend-Lease Exports to French Areas.....	175
B. <u>By Areas</u>	
Algeria.....	133
French Morocco.....	24
French West Africa.....	8
French Equatorial Africa.....	4
French West Indies.....	2
Cameroons.....	2
Syria.....	1
French Oceania.....	1
All Other French Areas.....	<u>1</u>
Total.....	175

1/ Less than \$500,000.

NOV 16 1943

Your Excellency:

This is to acknowledge receipt of your letter of November 9, 1943, regarding lend-leasing of 100 million ounces of silver to India.

The Treasury is now re-examining the question of lend-leasing 100 million ounces of silver to India in light of the new information given to the Treasury by Mr. Mahindra and Sir David Waley. Hitherto, according to the information supplied to us by the Government of India, the price developments in India since June did not seem to warrant granting the request for the lend-leasing of 100 million ounces of silver.

I am, of course, sympathetic to any proposal that would help the United Nations war effort by helping India in her present serious economic difficulties.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

His Excellency,
The Ambassador of Great Britain,
Washington, D. C.

ISF/efs 11/15/43

BRITISH EMBASSY
WASHINGTON, D. C.

CONFIDENTIAL

November 9th, 1943.

Henry Morgenthau

You will remember that I told you in the summer that the Government of India attached very great importance to their request for 100 million ounces of silver for sale in the market, and that the United States Government could give valuable help to them in their present economic problems by a speedy acceptance of this request. The Government of India have greatly appreciated the assistance which the United States Government have already given in providing 20 million ounces of silver for coinage.

But coinage was only one of two complementary moves in protecting the Indian economy, of which the other is the sale of silver to prevent the market price from rising. The approach of the South Eastern Asiatic campaign adds to the problem an increasing urgency as it will inevitably aggravate the inflationary position in India, and renders it more essential than ever that every step to combat inflation be taken immediately. I was therefore disappointed to learn that the United States Treasury told Mr. Mahindra and Sir David Waley on November 8th that it is their decision that the matter should still be deferred.

The reasons for which the Government of India attach so much importance to the matter were fully stated in Sir Cecil Kisch's letter to you of the 27th August and I need not repeat them.

/ I would

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

I would only say that it is the considered opinion of the Government of India, who are faced with such grave economic difficulties, that the United States Government could give them very real help by meeting their request and that the matter is really and increasingly urgent. You will realize how serious a blow to the common war effort it will be if economic troubles in India cannot be kept in check. Since the Government of India who have this grave responsibility are so strongly of the opinion that the sale of silver on the market is both important and urgent, I trust that you may feel able to reconsider the matter, and give a very present help in this time of trouble.

Yours sincerely,

Hanftan

Treasury Department
Division of Monetary Research

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Date Nov. 16, 1943

To: Secretary Morgenthau

Appended is a brief history of
the three boundary lines of
Poland.

H.D.W.

MR. WHITE
Branch 2058 - Room 214½

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 16, 1943

TO Mr. White
 FROM S. Gold

Subject: Polish Question of the Polish-Russian Border Question

I. Poland, which had served as an independent state in 1795, was re-created at the close of World War I from territory taken from Germany, Austria, and Russia.

II. The return to Poland of the Russian and Austrian areas was sanctioned by the Peace Conference. Of the area Poland acquired from Russia, however, the Peace Conference sanctioned the transfer of only a part. The rest the new Polish Republic took by force. The Allied reports suggested a border - the so-called "Curzon line" - approximately to the west of the one which was finally established. In 1939 the Soviet Union attempted to retrieve the area lost - Soviet troops reached the edge of Warsaw before they were stopped. With the help of the French, the Poles not only drove them back, but actually recovered a large piece of territory previously held by the Germans - the part east of the Curzon line.

III. The Russian-Polish Treaty of Friendship signed in Moscow on September 29, 1939 settled the question of frontiers in Poland. The actual frontier agreed upon approximated the "Curzon line" with only one important exception - the Russian frontier was authorized to include part of the province of Galicia, north and east of Warsaw. The area thus taken was populated mainly by old-time Russians and Ukrainians, with agriculture and forestry as primary economic activity, except in the South where the Galician oil fields were acquired.

IV. The attached map indicates 3 frontiers:

- 1) the line marked as "A" represents the frontier agreed to by treaty between Poland and Russia at signs at signs on March 2, 1921;
- 2) the line marked "B" represents the frontier suggested by the Commission on Poland in Paris and accepted by the Supreme Council of the Peace Conference in December, 1919;
- 3) the line marked "C" represents the frontier agreed to in the Russian-Polish Treaty of Friendship signed in Moscow on September 29, 1939.



Pre Sept. 1939 Border ———
Pre June 1941 Border - - - - -
Present Front **—————**



Source Material

195-A

"The New Europe" - Bernard Newman
New York, The Macmillan Co., 1943

Washington Daily News, approximately Nov. 15, 1943
Editorial by William Philip Simms:
"Disquieting News"

New York Times - Sept. 24, 1939

W. P. Simms

POLAND

198

Partition 1 - 1772

By taking advantage of troubles in Poland, one of the great powers of the eighteenth century, Prussia, Russia, and Austria divided the land.

Partition 2 - 1793

Poland became a third of her original size when Prussia and Russia stripped her of more land, including the port of Danzig.

Partition 3 - 1795

After she was divided again by Russia, Prussia, and Austria, Poland, for 123 years, did not exist as an independent nation. This condition lasted until World War I.

Peace Treaty of 1919

The treaty, while settling Poland's western frontier, fixed no boundaries for the eastern frontier - except in Eastern Galicia, where the Polish authority extended to the old Austrian frontier. The Allied Commission, established by this treaty, with Lord Curzon as chairman, had marked out a provisional frontier; this so-called "Curzon Line" was never intended as a frontier between Poland and Russia but rather a temporary line within which Poland could set up a normal administration. The Treaty of Riga, March 18, 1921, ended the Russian-Polish war; the new frontier was approximately half-way between the proposed "Curzon Line" and the 1772 boundary. This gave to Poland 150,000 square miles and 34.5 million people. Danzig was now a Free City in which Poland was granted special privileges.

Partition 4 - September 1939

Russia and Germany partitioned Poland, Germany taking the western half and Russia the eastern half (77,703 square miles and 12.8 million people). Immediately thereafter Russia and Berlin signed a ten-year non-aggression pact of their own.

June, 1941 - Germany attacked Russia.

On July 30, 1941, Russia signed another pact with the Polish Government-in-Exile (Sikorski, Premier) renouncing her claim to the Polish territory acquired in partnership with Germany; this pact was underwritten by Great Britain. To Poland and to Russia Foreign Secretary Eden handed an official note in part reading: "His Majesty's Government does not recognize any territorial changes which have been effected in Poland since August of 1939." "Dziennik Polski," Sikorski's official newspaper in England, interpreted the July 30, 1941, agreement in an article published in mid-February 1943 as follows: "Poland signed a pact with the U.S.S.R. in July 1941 by which Soviet Russia officially repudiated its non-aggression pact with Germany in 1939. Therefore, Poland does not recognize any territorial changes which have taken place as the result of that German-Russian treaty."

OSW 11/16/43

PARTITIONED FOR THE FOURTH TIME WILL POLAND RISE AGAIN ?



THE FIRST PARTITION, 1772 — By taking advantage of troubles in Poland, one of the great powers of the eighteenth century, Prussia, Russia and Austria divided the land.

NY Times 7/1/72,
Sutton p. 4



THE SECOND PARTITION, 1793—Poland became a third of her original size when Prussia and Russia stripped her of more land, including the port of Danzig.

NY Times article, 1914



THE THIRD PARTITION, 1795—After she was divided again by Russia, Prussia and Austria, Poland for 123 years did not exist as an independent nation.

W. J. King 9/20/55
S. J. King 9/20/55



THE FOURTH PARTITION, 1939—The Germans and Russians divide Poland after Hitler invades the country. Once again Poland ceases to exist as an independent, sovereign State.

NY Times 11/24/39

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Information received up to 10 .A. 16th November, 1943.

1. NAVAL

One of H.M. Destroyers was seriously damaged by mine off MALI yesterday. During night 14th.15th one of H.M. Destroyers landed 187 troops on LEROS and later sent a Landing craft laden with troops and guns off ALINDA BAY. Same night H.M. Destroyers bombarded enemy positions and small craft. Motor torpedo boats sank the Landing Craft laden with troops off East Coast of KALYANOS.

2. MILITARY

Leros Germans hold Vedetta APPETICI Areas and RACAL RIDGE on the "Waist". On 14th our counter attack in the Central Sector was partially successful and re-opened communications between North and Centre of Island. Very heavy bombing throughout the day. 12 Transport aircraft dropped ammunition for our forces during the night. At 0800 15th we attacked the enemy positions at RACAL RIDGE. At 1300 the attack was reported to be making slow progress but was being hampered by very heavy bombing, machine gunning, from the air and communications difficulties. Our troops reported tired.

Italy Patrol activity continued. Italian troops have occupied the high ground North of ATESSA.

Burma Arakan 12th. Japanese evacuated DABAN on KAWDAI river which they had occupied on 10th.

Chin Hills On 11th Japanese occupied KATA and are in contact with our lines 12 miles to the east. On the 13th we repulsed Japanese attack on our position 3 miles North East of PORT HILL and inflicted 40 casualties. On 14th Japanese shelled PORT HILL and MOUNTAIN PEAK 3 miles further North.

3. AIR OPERATIONS

Western Front 15th. 5 locomotives and 3 small craft were damaged in operations over Northern France and Fighter Bomber and two Fighters missing.

15th.16th. 14 Mosquitoes sent out BURGUNDY 10, BOMB 2, Intruders, 2. 3 missing. Between 5 and 6 A.M. today 15 many aircraft operated over the FLEMMING Area and two over DORSER about 3 H.M. were dropped in the FLEMMING Area including one in the Royal Dockyard 25 serious casualties reported so far.

France 13th/14th. 19 Wellingtons from North AFRICA bombed railway and Road Bridge over VAL near NICE and the ANTWERP VIADUCT.

Italy 13th. Spitfires over the Battia area shot down by 4 enemy aircraft for the loss of one.

Bulgaria 14th. 91 Mitchell's escorted by 49 Lightnings dropped 141 tons of Bombs Centre of KOPKA from medium altitude. Considerable railway activity at time of attack, target well covered. 6 enemy aircraft shot down, no fighter lost.

Neutral Area 14th. Long Range Fighters maintained offensive against enemy aircraft over GOLF WOODS and on 14th 9 missing. One enemy aircraft was destroyed over GOLF.

14th.15th. 14 medium and light Bombers (including) attacked ANTWERP airfield and 9 Heavy Bombers attacked airfield.