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GROUP MEETING

December 3, 1940.
9:30 a.m.

Present: Mr. Graves
Mr. Pehle
Mr. Viner
Mr. Young
Mr. Wiley
Mr. Foley
Mr. Gaston
Mr. Thompson
Mr. Bell
Mr. Schwarz
Mr. Sullivan
Mr. Cochran
Mr. White
Mrs Klotz

H.M.Jr: Good morning, everybody. Where is Jacob Viner?

Viner: Right here.

Sullivan: Where?

H.M.Jr: Well, we had a good day yesterday. One thing, I told a number of you people in confidence that yesterday in Cabinet the only person who came to my rescue when I said I wanted to go up on the Hill was Mr. Ickes. In the heat of the battle, I forgot that also Frank Knox did. He offered to give me the 50 million dollars that he had allocated for the bases and that he would take - wait and get his 50 million dollar reimbursement in January, and as I say, in the heat I overlooked it and I just want to say to those of you that I told, that I forgot about it. He was also swell, besides Ickes.

If you (Sullivan) will get the financial New York Times, Sunday, and look through it, you will find two instances where they say that business is losing money on account of

higher taxes. Now, I am willing to gamble they have been doing that right straight along, that it is the fact that they charge all the excess profits to the third quarter, you see. I would like you to get the facts on that and have your own office watch the Times particularly for those kind of misstatements. When you get the facts on that, I will personally take them and write a letter to Sulzberger, but have somebody look in the financial section from your own office.

Sullivan: I will.

H.M.Jr: Because I mean they are constantly making misstatements and nobody in the Treasury has taken it on himself to answer it.

Then the other thing, would you get in touch with Luther Gulick for me and tell him we would like him to come down and work for me, I mean for the Treasury.

Sullivan: Yes, sir. As soon as he can?

H.M.Jr: As soon as he can, and his man Buck, also.

Sullivan: Ask him to bring Mr. Buck with him?

H.M.Jr: Whoever he wants, and arrange for the money. I mean, if you will take it up - if you will carry the ball, and when he gets down here and gets set up - he is coming down, Jake, to do a study on overlapping taxes after seven and a half years.

And the most astonishing thing in the figures that he gave us - check my memory, John - the Federal taxes have about doubled, the state about doubled, and municipal taxes went from 55% to 35%, something like that.

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Sullivan: No, the Federal from 1912 to 1939 only went up about 5%, 35% to 40%. The state practically doubled, from 14% to 27%. The municipal dropped from 58% to 32%. Those vicinities are on the total tax in all three.

H.M.Jr: Due to all of our contributions to Mayor LaGuardia, much to his delight, they dropped their taxes and the Federal Government picked them up, which is a thing which I don't think anybody realizes.

Viner: There has been a shift in the tax collection within the states from the local to the states. The states give back a large proportion of their funds now to the local governments.

H.M.Jr: No, how much do they give back? He has got it there. How much did they give back?

Sullivan: The proportion given by the states to the localities is quite large.

H.M.Jr: Is it?

Sullivan: Yes, sir.

H.M.Jr: How large? Does it give it in percentage?

Sullivan: No.

H.M.Jr: Well, the point is, Jake, I am really going after this now. I am seven years late.

Viner: No, you did something in '34. You have got Haig's study in your files. It was a good study, too.

Sullivan: And that study has been continued all along since.

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Viner: But I would say it needs each six months something new in the picture, a new look, until something is done about it.

Sullivan: We go along in accordance with the plan outlined in my memorandum to you?

H.M.Jr: No. Bring him down and let's get him started. I am not going to wait on anything.

Sullivan: Well, I mean he is going to want to know how he is going to work.

H.M.Jr: He will work for the Treasury for the time being.

Sullivan: That is what I say. Did you read my memorandum?

H.M.Jr: I guess I didn't. What did you recommend, John?

Sullivan: I recommended until later on in the next session he work just for Treasury, familiarize himself with --

H.M.Jr: I dreamed it, John.

Sullivan: I had forgotten your telling me about it.

H.M.Jr: Nowadays, Jake, this year, it isn't that I thought of it, you dream it.

Viner: Happy dreams.

H.M.Jr: All right?

Sullivan: Sure.

H.M.Jr: And then - where else am I?

Merle, I see by the papers that the English

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have assisted Spain, and it also says the United States is linked with the deal. Maybe if you ask the State Department, somebody might let us in on the secret.

Philip, your memo on giving Hinckley this data, I think he is entitled to it. Hinckley has been terribly helpful to me.

Young: He has been very cooperative all the way along.

H.M.Jr: He has helped me more on this stuff than anybody else. The answer is yes.

Dr. Viner, you are lunching with me today and there are two things where you could be most helpful to me. We are still trying to work on the question of freezing all funds, and I wish you would have a talk with Mr. Bell and Mr. Wiley on that this forenoon and in connection with that, here are certain memoranda which Mr. Wiley has written to me which I would like you to read. You can bring them back at lunch. If you have any time left after you soak that up, talk to Cochran and White, but I think you should start with Bell and Wiley.

After that, I want to talk to you on a broad basis of how we are going to raise our money. That is also Bell. I have got one more memorandum that goes with that, Jake.

Have you (Young) told McKay about that 11:00 o'clock appointment?

Young: No.

H.M.Jr: Well, will you?

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Bell, will you ask McKay to give you, Preston Delano, and Foley an appointment on the Bank of America?

Bell: Better put it off until the end of the week, hadn't we?

H.M.Jr: Yes.

Bell: It is going to be a crowded week.

H.M.Jr: And would you put - who runs this committee on foreign funds; who is chairman of that?

Bell: Pehle.

H.M.Jr: Well, I think it would be useful to have Mr. Wiley on that committee, and will you (Pehle) tell McKay that I would like to see Upham? I think he has served his usefulness on that committee, but I will tell him that. But the two things have nothing to do with each other. Would you have time, Wiley, to sit on that?

Wiley: Yes, sir.

H.M.Jr: I think it would be very useful.

Bell: Upham would like to be relieved. He has all of this Wagner questionnaire and the Comptroller's annual report.

H.M.Jr: Well, we will relieve him.

And Herbert, I read your report on seeing Budd. I think that worked out very well.

Gaston: It did. They are entirely satisfied. Wood is entirely satisfied and he is entirely happy and I think it is a good arrangement.

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H.M.Jr: This is a constructive thing. And you hire the car ferry?

Gaston: Yes. We will let Wood do the negotiating, because he will probably get a better price than the Government would.

H.M.Jr: Yes.

What else?

Gaston: We are preparing to make a very modest protest on the budget, but I think we ought to be quite firm about it. We are asking for only a million dollars, of which four hundred thousand will be for additional aids to navigation which the Navy needs very badly in Alaska, and the Navy will give us some help on that, and three hundred thousand for an infirmary at the Academy, which we need very badly, and then three hundred thousand for a new type of boat which they can use for ice breaking, taking their buoy tugs. It is only a 65-foot boat, but they are adapting that so as to use it as an ice-breaker in shallow water and if we can squeeze in three of those it will relieve the pressure very much on the most expensive type of 110-foot ice-breaker tug, and that is all we are asking for, but we may have to have some help. It is only a million dollars added to 65 million, about 1 1/2%. It seems pretty reasonable. They have cut us 35 million.

H.M.Jr: Anything else?

Gaston: That is all. We are still working on that question of what additions they can put on to merchant ships for defensive purposes, trying to get some definite ruling out of

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the State and Justice, rather than standing - taking the heat ourselves for violating the law, which we don't want to do.

H.M.Jr: Incidentally, the New York Times today has the best story.

Schwarz: It is a nice story.

Gaston: I haven't read it.

H.M.Jr: It is very nice. This fellow is the only one who would take the trouble to look up that paragraph where it says I would come up for guidance. He was the only one to look that up. He got that paragraph.

Schwarz: It makes a good point. The members of the committee were pleased to see that you remembered.

Gaston: I was amazed to see that Alsop and Kintner were the only ones to discover that the Johnson Act doesn't restrict loans to belligerent countries.

H.M.Jr: They practically live in the Treasury.

Gaston: I wonder where they live.

H.M.Jr: I can tell you, mostly.

White: By the way, Senator Wagner kept, accidentally possibly, the memorandum which contained all the statements you had made with reference to the stabilization fund, when you showed it to him. Shall we get it back? He asked to see the paragraph. I showed it to you and you showed it to him.

Foley: You were asking for the letter you sent to

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the Speaker and Harry had only the quotations.

H.M.Jr: That is all right.

Bell: It is all public information, isn't it?

White: Yes.

H.M.Jr: Incidentally, I will do everybody a boy scout deed. Don't go to the play at the National Theatre. It is the first time that Mrs. Morgenthau and I walked out at the end of the second act. It is terrible.

(Discussion off the record)

Foley: The House agreed to the Senate amendment to the Walter-Logan bill, so it now goes to the President. I will check with Bob Jackson and Smith over in the Budget to make sure that there is a proper veto message given to the President.

Tom Manning is back from the hospital. He is much better and is going to Florida on Friday for a little while.

Norman Tietjens, who was at Saranac, is doing very much better and they think he will be back with us two or three months sooner than they thought.

H.M.Jr: Swell.

Foley: Here is a decoration for that dinner (presenting large button with Secretary's picture).

H.M.Jr: I don't know whether I was invited to that thing.

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Foley: Yes, he checked, and an invitation to the dinner was given to you. It came in the form of a draft notice. It was a great big sheet.

Bell: He probably looked at it.

Klotz: I never saw it.

Bell: He probably thought it was an advertisement.

Sullivan: I think, Mr. Secretary, you ought to send for Mr. Foley's picture. I think that would interest them.

H.M.Jr: How do I do that?

Sullivan: Oh, he has got it in there.

H.M.Jr: Will you do that, willingly?

Foley: Not willingly.

Sullivan: That is why I said I thought you would have to send for it.

H.M.Jr: Subpoena?

Sullivan: No, I think if you just ask McKay to get it, he will get it in here. It would be quite handy to drive undesirable people away.

H.M.Jr: What else, Ed?

Foley: I have nothing.

H.M.Jr: John?

Sullivan: I would like to send Roy Blough up to Canada for about a week. We have heard so much

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about the Canadian excess-profits system and general sales tax that I --

H.M.Jr: And the one before and after election. They have had two. They have had one before election and another right after.

Sullivan: That is right.

H.M.Jr: And you might ask the financial adviser to the Canadian Government what he knows about it, Dr. Viner.

Sullivan: I see, sir. I think I would like to have Roy go up there for about a week.

There is a proposed press release in conjunction with our new policy of allowing 4/5ths pints of certain types of liquor that hadn't previously been used, and I didn't know whether you wanted to see that or not.

H.M.Jr: 4/5ths? You mean you are getting out 4/5ths of a pint?

Sullivan: That is right. You see, we have done that right along on Scotch and Irish whiskey and rum.

H.M.Jr: Now, listen. In '33 and '34 when I used to spend a lot of time on liquor (laughter) - studying it - I was opposed to 4/5ths of a quart, you remember, and I don't want to move in that direction of 4/5ths of a pint. It just cheats the people. They don't know they are not getting a pint.

Sullivan: That is why I opposed it, sir, and we have gotten into a position now with the tax

where we are just driving out one part of the industry in favor of another part of the industry, and what is being done is a type of bottle is being used that is unlike the other pint and it is being conspicuously labeled so the deception part of it is being taken care of.

H.M.Jr: Do you mind if Harold takes a look at it?

Sullivan: No, I would like very much to have him.

H.M.Jr: Too bad Mac isn't here. He is an expert on bottles. (Laughter)

Viner: So was I, don't forget.

White: But McReynold's was whiskey and yours was milk.

H.M.Jr: Do you remember, Mac went up to Barkley and put about 12 bottles on his desk?

Gaston: I think you remember when he put about 20 on your desk in a conference one time.

H.M.Jr: Have something on Mac for me, if you think it is funny.

Klotz: He won't.

H.M.Jr: He will if they are full.

Sullivan: It would be tragic if they were empty.

H.M.Jr: Well, think about it, anyway.

Sullivan: There was that matter you wanted me to look up yesterday afternoon.

H.M.Jr: Yes. Now listen, read the minutes of my press conference yesterday.

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Sullivan: I couldn't find it in the paper.

H.M.Jr: Exactly. I used it. They asked me the question. You planted it and I used it.

Sullivan: I didn't plant it. I beg your pardon.

H.M.Jr: I used it and it just fell completely flat. Now, I am perfectly willing for you to use it any way that you want to. This is to emphasize Section 102, that I mentioned it because they asked me yesterday.

Sullivan: It was to do something more than that. It seemed to me that after you started the business of no more retroactive taxes, somebody else was getting all the credit for it and I wanted to show that that had started here, was part of our policy.

H.M.Jr: Well, if you can dope a way to get it into the newspapers, it is all right with me.

Sullivan: Read that at leisure.

H.M.Jr: I have no leisure.

Well, as I say, if you can get it over any way at all, well and good. Any way you want to do it is all right. You see if you can dope out a way. I tried it and got nowhere.

Schwarz: The Chinese story smothered that yesterday.

H.M.Jr: Read the press conference.

Sullivan: I will.

H.M.Jr: Anything else?

Sullivan: No.

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Cochran: The Chinese yuan is up 3/32nds this morning.

H.M.Jr: Wow! Wang!

Last night at the theatre, Senator Wagner was there and he said - turned to Mrs. Morgenthau and he said, "I saved Henry 50 million dollars today." She turned to me and said, "How did he do that?" I said, "I would like to know." That was his reaction.

Cochran: Did you hear Swing on the radio last night?

H.M.Jr: He cited this as one of the big events of recent months, credit to China.

White: Good or bad?

Cochran: That remains to be seen.

White: What did he say?

Cochran: He said it was very helpful. (Laughter)

White: Oh, you think it remains to be seen. I just thought you overlooked an important point.

Foley: About 20 million, Harry?

H.M.Jr: Did you ever either figuratively or literally sit on White, Merle? Try it literally once. (Laughter)

Gaston: Once ought to be enough.

White: From now on I will carry pins.

H.M.Jr: Anything else, Merle?

Cochran: No, sir.

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Schwarz: We made up a collection of editorials from all over the country on your statements last month on raising the debt limit, if you care to see them. I can leave them with you.

H.M.Jr: All right. Thanks.

Schwarz: The other point I had, Pearson and Allen had a reference to financial help to Britain. They are talking about gifts instead of loans. Do you want to take a look at it?

H.M.Jr: I saw it.

Wiley, you stay behind after this thing. I would like to talk to you a minute. Is there something you would like to say?

Wiley: No.

H.M.Jr: Do you know Dr. Viner?

Wiley: Yes, we met this morning.

H.M.Jr: Pehle?

Pehle: I want to raise a point of the application involving some payments by the French for Argentine meat, particularly in view of the difficulty we had before when we asked the Argentines for information and the Ambassador came in and thought it was an affront to their sovereignty or something. The French back in July made an application to make a lot of payments down in South America. None of them have been made to date except one to Uruguay, where we got some supporting information from Uruguay. The rest of them more or less just remained dormant.

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Now, the Argentine Embassy sent in some time ago a request for payment of about a million two for some meat and wool products that they said the French had purchased from them, and the figures did not exactly square with the amount that the French had asked to pay the Argentine, and we told them so. They asked that we not request any information of them, that if we wanted to get information from the French it was all right, but they didn't want us to ask them for any information. So we wrote a letter to the French and asked them for more detailed information, which we haven't got as yet.

In the meantime, the Argentine Embassy has come in again and more or less squared the figures up and said that the meat, wool products, were shipped prior to June 15. The last shipment they said left June 15. However, we haven't all the information that we asked the French for. The Argentines are very insistent that they need the money badly and I assume that if we tell them we are going to wait until we hear from the French, they won't like it.

On the other hand, we would feel better if we got the information we asked for.

H.M.Jr: Who would feel better?

Pehle: We would.

H.M.Jr: How much is involved.

Pehle: A million two.

H.M.Jr: Has the meat gone? Is it a transaction which took place prior to the 15th of June?

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Pehle: Well, the French have been a little evasive on that. The Argentinians say it was shipped. Whether the ships came back or anything, we don't know. There has been all this talk about meat being purchased in the Argentine for shipment, that the British - there were some navicerts issued and then revoked.

H.M.Jr: I would get to the bottom of it.

Pehle: Then if you agree, we will tell the Argentinians that we have asked the French for this information and as soon as we get it we will reexamine the case.

H.M.Jr: Yes.

What else?

Pehle: That is all.

H.M.Jr: Philip, I told you to be at my office at 3:00 and have enough copies of that Sir Walter Layton thing that he gave me on Saturday to distribute. Will you?

Young: Of the estimated value statement?

H.M.Jr: No, this two billion thing.

Young: Do you want me here at 11:00 with Slessor?

H.M.Jr: Yes.

Young: Judge Patterson called me up yesterday --

H.M.Jr: Harry, you sit in at this 3:00 o'clock meeting on the English assets.

Young: Judge Patterson called yesterday concerning

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this Brazilian ship which the British have stopped, carrying military equipment from Germany to Brazil. Evidently Brazil bought a lot of stuff from Germany, which has slowly been filtering over, and the British stopped one of their ships outside of Lisbon and took it under control. Due to the fact that - of policy, good neighbor policy and so on, General Marshall wrote a very strong memorandum to Patterson, of which he sent me a copy, urging that whatever pressure we have be brought to bear on the British Purchasing Commission to let the ship go on to Brazil with its equipment.

White: They practically are getting that for nothing, because it is supposed to have been received some time ago and payment was to be in blocked marks, so the Brazilians would feel quite badly about it, I think, if they weren't permitted to get it.

Young: They are all up in the air about it, the Brazilians.

H.M.Jr: Isn't that a little out of our field. I mean, isn't it rather peculiar, coming from the War Department?

Young: Well, they have evidently taken it up with Mr. Welles and he is going to talk to the British Ambassador about it also. It seems to me that would be adequate.

H.M.Jr: I don't want to get in on that. I don't think it is in our field. I don't think that is our business. I mean, Welles should take it up with the British Ambassador. Don't you think so?

Cochran: Yes, sir.

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H.M.Jr: Wiley?

Wiley: Yes.

H.M.Jr: Don't you think that is getting out of our field?

Wiley: I think so, sir.

Young: That is all.

H.M.Jr: George?

Haas: Allison didn't do so well (handing report to Secretary).

H.M.Jr: Or let them take it up with Nelson Rockefeller.

Young: I think they are taking it up with everybody they can get to take it up with.

H.M.Jr: I am interested but it is not my business.

George?

Haas: That is all.

H.M.Jr: I said that Young and White were to come in this afternoon at 3:00. The reason I am not asking you (Bell) is that I want to leave you free to do this Chinese business.

Bell: Well, there isn't anything we can do on that until we get a draft of a letter. It will be about Thursday before we can do anything.

H.M.Jr: Well, do you want to come at 3:00?

Bell: Yes.

Young: There is just one other thing. Harry Collins called me yesterday to say that the ninth

- 20 -

engine was there. They are putting it in the ship.

H.M.Jr: What is that, the "E" engine?

Young: Yes, the Allison "E".

H.M.Jr: Isn't that ahead of schedule?

Young: He didn't say. I don't know.

H.M.Jr: George, you had better get your engines now by model numbers. That figure shows total.

Haas: I think on the Allison detailed sheet it has whether they are "E" or "C".

H.M.Jr: Does it?

Haas: Yes.

H.M.Jr: Dr. Viner?

Viner: Nothing.

H.M.Jr: See you at 1:00 o'clock?

Viner: Yes.

H.M.Jr: Mr. White?

White: I have the information with regard to shipments of ore from the Philippines to Japan that you asked for. Their shipments have been rising very rapidly this year. They are seven or eight times larger than they were in the early part of the year. I will leave the table with you, unless there is anything more you want to do about it.

There is a decision coming up regarding trade agreements which may be important. The State

- 21 -

Department called me up. It will probably come to a vote. The Treasury vote may be decisive, I am not sure, and that is on the trade agreements contemplated with Argentine. One of the key items is flaxseed. The Department of Agriculture, I think, is opposed to reducing the duty, which is pretty high, sixty-five cents. The State Department wants to lower the duty. We feel that the duty under the circumstances should be lowered. If it comes to a vote, do you want us to vote, or do you want to have it reexamined?

H.M.Jr: Well, in view of this thing we are going into with the Argentine, I want to see us buy as much as we can.

White: That is one of the important reasons.

H.M.Jr: So I would vote to lower it.

Bell: In that connection, Mr. Secretary, I think we might adopt a rather liberal policy in our fund control. That gives the Argentines more dollars.

H.M.Jr: True. I agree with you, but we have got to get the French to tell us the truth.

Bell: I think so, too, but in the end --

Pehle: We have been adopting a very friendly attitude, of course, in connection with South America.

H.M.Jr: But there has been a little fast footwork there that I don't understand. That is what is bothering you, isn't it?

Pehle: Yes, sir.

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White: If there is any difficulty about getting information from that, you might like to take it up with Prebisch when you see him. It would be a good thing to talk with him about. He would get the facts immediately and then if you are going to give it to him, it would be a nice gesture to him.

H.M.Jr: But suppose you have got to turn them down?

White: It wouldn't be so good, but I don't think you are apt to turn him down if he gives you the information.

H.M.Jr: I have got to hurry a little bit, Harry.

White: Oh, now, you mean?

H.M.Jr: Now, today. (Laughter)

White: Here is something that is coming up this afternoon that is rather important. The British have requested the State Department to reconsider the application of dumping laws and countervailing duties on goods because it is going to, they feel, affect them rather adversely. That is coming up for discussion.

Viner: You mean the valuation?

White: There are three matters, the valuation of the exports. Now, I take it --

H.M.Jr: Start over again.

White: The British are saying there are three things that they find objectionable. Now --

H.M.Jr: Who do they say this to?

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White: The State Department. The State Department has brought it up as a commercial policy. All three things happen to be Treasury administration, but the Treasury is only administering the law. They want the law changed. I don't feel that either of the three laws should be changed.

H.M.Jr: Well, I can't do that as a curbstone thing. I need more time.

White: Yes.

Here is a letter that I would like to have your signature on (to Jerome Frank).

H.M.Jr: But you don't mention who the person is.

White: He said he would call me up and give us anybody we want or we can pick a man ourselves.

H.M.Jr: No, I want you to name a man.

White: Classify a man in the sheet?

H.M.Jr: You know who you want, don't you?

White: One of two.

H.M.Jr: Then say that, either one or the other. Mention the name.

White: All the other things can wait.

H.M.Jr: Good.

White: That is all.

H.M.Jr: Harold?

Bell?

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Bell: Jay Crane would like to have an appointment.

H.M.Jr: You tell McKay he will have to wait a day.

Bell: I told him probably the end of the week. It is all right to make a date?

H.M.Jr: Tell McKay to give him Friday morning between 10:00 and 11:00.

Bell: Finland has notified the State Department it is going to take advantage of the Vandenberg resolution on the December 15 payment. We have that letter and it has been made public by the State Department and they have sent another letter in which they say they would like to have the debt reconsidered, would like to enter negotiations, which letter has not been made public. I thought you might want to consider that sometime in the next ten days, as to what we should do with it.

Didn't you say you were going to see Jones and --

H.M.Jr: Jones is coming here --

Bell: And Pierson today on the Argentine?

H.M.Jr: Jones is coming in here at 10:30 and he said he wants to see me alone.

Bell: I am seeing Pierson at 12:00 on the China thing, but you said Sunday night that you --

H.M.Jr: I called Jones up and I said I would - well, he wants to see me alone. I figured that right after that, beginning tomorrow morning, we could go to work on the thing.

Bell: Tomorrow morning is Open Market meeting at 10:30 for at least an hour or an hour and a half.

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H.M.Jr: Well, we can start with the Argentine at 9:00 o'clock.

Bell: Do you want a preliminary conference with Jones and Pierson and the State Department?

H.M.Jr: Well, let me see what Jones has in his mind. I have got the Argentine - my financing comes next, then comes the Argentine.

Bell: That will probably be Wednesday afternoon or Thursday morning.

H.M.Jr: Yes.

Bell: That is all I have.

H.M.Jr: Norman?

Thompson: Nothing.

H.M.Jr: Mr. Wiley, I am going to give you a definite appointment. 11:30.

Wiley: Very good, sir.

H.M.Jr: And I won't be rushed. If I see you now, I will be rushed.

attach to

↓
12/3/40

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Mr. Sullivan gave this to the Secretary at the 9:30
group meeting today.

The Friday evening conference was very helpful, and I believe the conclusion announced by Senator Harrison and Congressman Doughton that no new taxes or tax rates would be made applicable to 1940 income discloses a policy which will meet with the approval of the country.

Numerous inquiries had recently been received by the Treasury Department as to whether the Department would recommend that further increases be made in the rates of tax applicable to the year 1940. Many of those making such inquiries indicated the pertinence of this question to the determination of corporate policies with respect to year-end dividend distributions and reserves for taxes. The Friday night statement provides our answer to these inquiries.

In view of the Administration's policy it may also be appropriate for me to state that in its enforcement of Section 102 of the Internal Revenue Code the Department will not regard corporate reserves for 1940 taxes in excess of the rates now provided by law as an accumulation for the reasonable needs of business.

I trust that all corporations will continue to demonstrate their good faith by distributing to their stockholders all earnings not actually required for their business needs.

G-2/2657-220

RESTRICTED

No. 260

SITUATION REPORTM.I.D., W.D.
December 3, 1940.
12:00 M.

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

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

The German Air Force apparently took part in a coordinated air and naval attack on a British convoy on the 3rd, some 300 miles west of Ireland. Last night a heavy attack was made on Bristol.

The R.A.F. confined its offensive activity to the North Sea and to the occupied territories. Lorient was again raided.

II. Greek Theater of War.

The Greek Army continued to advance, reporting its greatest success in the center, where it was claimed 5,000 Italian troops were captured. The Italian Air Force operated against Greek troops and lines of communication.

III. Mediterranean and African Theaters of War.

No ground operations and only minor Air Force activity reported.

RESTRICTED

Notes on Meeting in the
Secretary's office 11 A.M., Tuesday,
December 3, 1940.

Those present at this meeting were, Secretary Morgenthau, Air Commodore Slessor, and Philip Young.

The Secretary opened the conference by asking Air Commodore Slessor if he had been securing the desired information and seeing everything he wished to see. Slessor said that everybody had been fine to him and that he was planning on staying about three weeks longer as more of the technical air people were coming over from England. The Secretary asked him if he had seen Lord Lothian since the Secretary had talked with the latter, and Slessor said that he had not.

The Secretary said that he was worried about the British orders as the stuff which was now coming off the production line was the stuff originally on order for the French. He went on to emphasize that the British should only place orders for those types of planes which would also be useful to the United States. The Secretary cited the tank program as an example of standardization.

He inquired from Air Commodore Slessor as to what was the next fighting plane beyond the Bell and better than the ones the Germans now had. Slessor said that there was nothing coming on in the United States which was as advanced as the Typhoon. He added that the threat of the Germans gaining air supremacy had increased because of the taking over of aircraft capacity in France. While this would not affect German production capacity as far as numbers were concerned, it would give the Germans an opportunity and the place to develop new types without decreasing quantity production of existing types. He added that he thought it would be the spring of 1942 anyway before the British would have planes equal in number to the Germans.

Slessor said that the Typhoon was equipped with the Napier Sabre 2000 horsepower engine and that the plans for the engine had just arrived in the United States and had been sent to Knudsen. The Secretary said that the British Government had been slow in letting us have samples of this sort of thing. He emphasized the fact that the quickest way to sell the United States on a new item was to send a sample over.

The Secretary asked Slessor as to his personal background and Slessor replied that for the last three and one-half years he had

been the head of the Plans Division of the Air Ministry. Evidently in May, 1940, the Ministry of Air Production was created out of the Air Ministry, which up to that time had handled the military as well as the production aspects. Instead of going over with Beaverbrook in the Air Production Ministry, Slessor stayed on with the original Air Ministry in the Operational Division.

Slessor explained that the Plans Division, of which he was the head, was responsible for developing the tactical plans to be used against the Germans, the policies involved, and the disposition of the British air force all over the world. He added that he had nothing to do with training or personnel. His division wrote up reports for the Joint Staff, and the Chiefs of Staff in turn reported to the War Ministry a single coordinated view of what should be done. The Secretary asked Slessor if he could furnish him with a chart showing the setup of the organization. ^{1/} In explanation Slessor said that his division determined the type of planes which they would have to have and then Beaverbrook had the job of building them.

The Secretary said that the United States would have to take full advantage of the British war experience and inquired as to the speed of the Typhoon. Slessor replied that it would do about 400 miles per hour which was much faster than the P-40 or the Bell. The Secretary asked if Slessor had any reports on the fighting qualities of the P-40, but he replied that when he left England no P-40's had yet been in battle. Slessor added, however, that he would send a cable on it immediately to find out.

The Secretary asked Slessor to give him some information on losses of pilots, etc., duplicating what Mr. Purvis had given him previously about September 27th or 28th. He added that he would like to have it on a monthly basis so that he could use it in talking with Knox and the President.

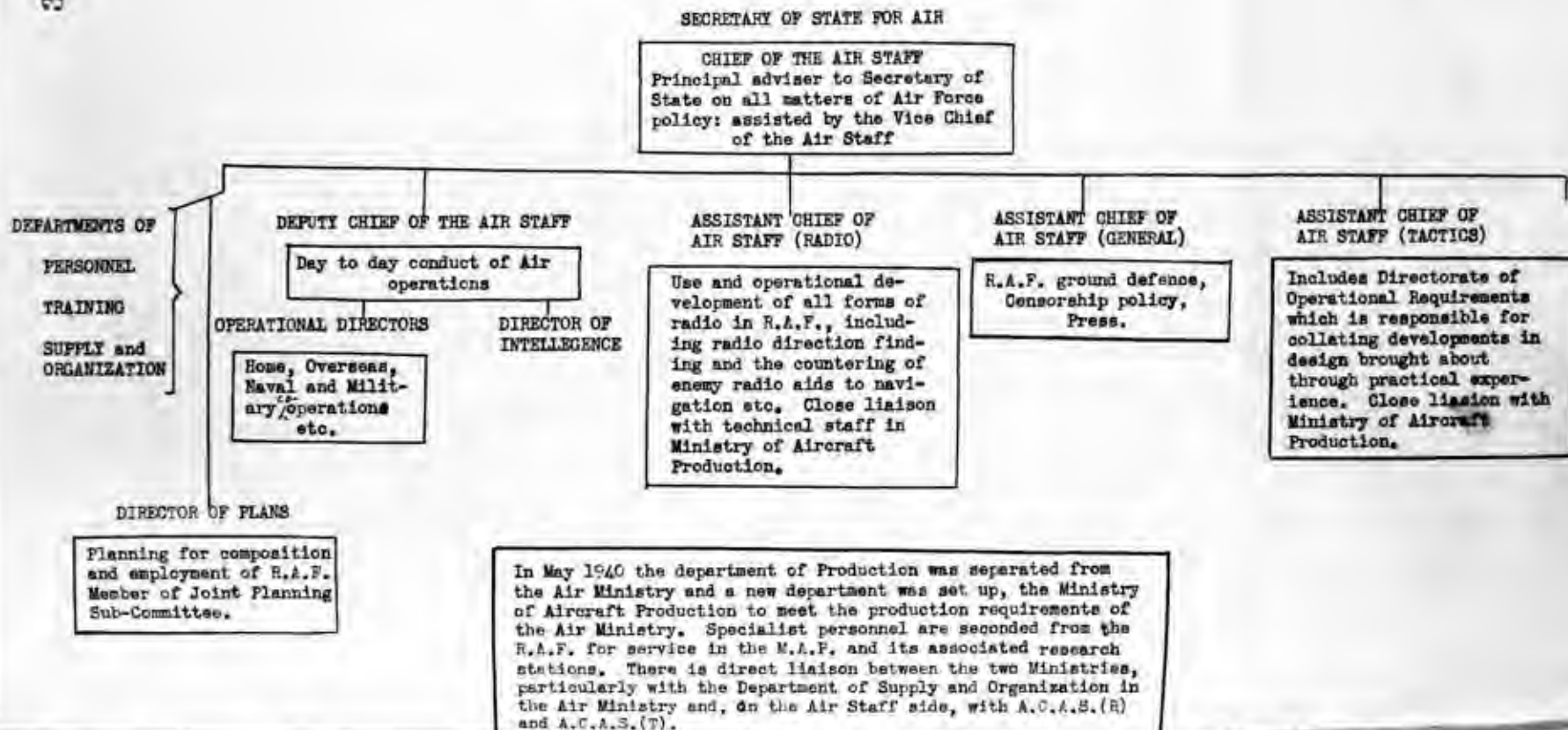
The Secretary added that every effort should be made on the part of the British to see that good news was publicized in America because the American public would be much more enthusiastic about helping on the basis of good news. Further, he added that the American public would not be scared into helping.

^{1/} These organization charts were subsequently submitted by Air Commodore Slessor and are attached.

J.P.

BRITISH AIR MINISTRY

OUTLINE OF ORGANIZATION OF AIR STAFF, DECEMBER 1940.



CHIEFS OF STAFF COMMITTEE

Chiefs of Staff of the three Services and Chief Staff Officer to the Minister of Defence:

The Committee is collectively responsible for advising the War Cabinet on military matters, and in addition the Chiefs of Staff are each individually responsible for advising their respective Ministers. They are normally present whenever military matters are discussed by the War Cabinet, and are responsible for stating their opinions, whether or not they are specifically invited to do so.

JOINT PLANNING SUB-COMMITTEE

The Directors of Plans of the three Services:

The sub-committee examines and reports on all matters of operational policy relating to the three Services, as directed by the Chiefs of Staff, and, in addition, with the latter's cognisance initiates the examination of and reports on current or probable future strategical problems.

Staff Officers of all three Services are in continuous session to assist the J.P. sub-committee in the preparation of inter-service and executive plans, etc.

JOINT INTELLIGENCE SUB-COMMITTEE

Foreign Office representative as president, plus Directors of Intelligence of the three Services:

The sub-committee collates intelligence and makes reports to the Chiefs of Staff

Liaison with other Departments such as Foreign Office, Ministry of Economic Warfare, etc.

Serving Officers are seconded to the War Cabinet Secretariat which provides a permanent secretary for each of the above committees.

BALTIMORE.--GEORGE R. HUTCHINSON, NOTED MARYLAND PILOT,
LEFT TODAY FOR AN UNDISCLOSED AIRPORT IN "BRITISH NORTH
AMERICA" WHERE, ACCORDING TO HIS WIFE, HE WILL HELP FLY A LARGE CONSIGN-
MENT OF AMERICAN AND CANADIAN FIGHTING PLANES TO BRITAIN.

MRS. HUTCHINSON SAID HER HUSBAND HAD PARTICIPATED IN SEVERAL
SUCH FLIGHTS IN WHICH AS MANY AS 40 AMERICAN PILOTS AND 20 BRITISH
AND CANADIAN FLIERS WERE EMPLOYED AT ONE TIME.

12/3--R1244P

TREASURY DEPARTMENT

34

INTER OFFICE COMMUNICATION

DATE December 3, 1940

TO Mr. Young
FROM Mr. Buckley
Re: West Coast Inspection Trip

During the week beginning November 25, 1940, we visited the following airplane manufacturers:

Monday - Boeing - Seattle
Tuesday - Lockheed and North American - Los Angeles
Wednesday - Douglas - Los Angeles
Thursday - Consolidated and Ryan - San Diego
Friday - Vultee and Northrup - Los Angeles

Included in the party were James V. Forrestal, Undersecretary of the Navy, Captain S. M. Kraus, Advisory Commission to the Council of National Defense, and Messrs. Fairley, Gray and Mansell, of the British Purchasing Commission. Messrs. Siegrist, Wessell and Addams of the British Purchasing Commission joined the party at Los Angeles, as did Col. Joseph L. Stromme of the United States Air Corps.

From the discussions at these various plants, several general problems emerged which merit immediate consideration since they affect production. Accordingly, I shall outline these points before giving any detailed description of the visits to individual plants:

1. There is substantial additional production which can be secured from present facilities by going to three-shift operation seven days per week, for

- a. None of the plants is now on full three-shift operation and some are operating only two shifts.
- b. None of the plants is now on full seven-day operation and most work only five days.

2. Even without going to three-shift, seven-day operation, there is substantial additional production available between now and June 30, 1942, for

- a. Boeing estimates that they can produce about 275 additional DB-7B bombers.
- b. Lockheed estimates that they can make about 1,300 additional Model 37 bombers.

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- c. Vultee estimates that it can make an undetermined but substantial number of fighters at its Downey plant and of dive-bombers at its Nashville plant.

3. This additional capacity which probably exists in corresponding amount in other plants can not be used unless there is an early increase in the rate of production of engines and of other items which the airframe manufacturers buy from outside suppliers. There was general agreement throughout our discussions that the immediate answer to this problem was to place the entire industry on a twenty-four hour basis seven days a week. To do this will require centralized direction so that the entire aircraft production problem must be tied together in one person or committee having the requisite authority to carry out the policies necessary to achieve maximum production.

4. A specific example of the delay in aircraft production which could probably be eliminated or greatly alleviated by continuous follow-up of some central agency is the present serious bottleneck in the procurement of aluminum. A delivery list supplied by the Douglas Aircraft Company showed the following delivery promises on various aluminum items as of November 15, 1940:

10 to 20 weeks on castings
18 weeks on bars
18 weeks on wire
20 weeks on forgings
20 to 28 weeks on sheets
24 weeks on extrusions
28 weeks on tubing

In our conferences it was brought out that the Defense Commission is satisfied that there is no shortage of aluminum poundage for the domestic production program. While this may be true, it is apparent that their analysis has not extended to the capacity for the supply of the various forms in which aluminum is used in the aircraft industry. While Boeing, Douglas, and other aircraft manufacturers can supply us with lists of items on which they need priority in order to maintain indicated deliveries, it is difficult to see how the Priorities Board can consider any such requests intelligently unless they have a picture of the requirements of the entire industry correlated with delivery dates for finished products.

Our conversations in the various plants indicated that the aluminum problem is most critical and immediate action was suggested along the following lines:

- a. Reduce as quickly and as drastically as possible the production and fabrication of aluminum for non-defense purposes.
- b. Procure from each aircraft manufacturer a complete list by item of aluminum deliveries required monthly for the next year to meet indicated airplane deliveries and arrange to have this list corrected and extended at monthly intervals.
- c. On the basis of the information obtained from individual manufacturers, arrange with the Priorities Board for the establishment of such priorities as will give the necessary deliveries.
- d. If necessary in order to meet the required deliveries arrangements should be made for aluminum producers to go at once to 24-hour, 7-day operation.

5. Maximum production will be difficult if not impossible to achieve unless immediate attention be given to standardizing labor policies in the industry. As it stands now, the agreements and practices of the various companies represent a serious obstacle to achieving 24-hour, 7-day operation, for

- a. In several plants work on Saturday must be paid for at the rate of time-and-a-half and work on Sunday at double time, even though this work is within the 40-hour work week.

40 More Plane Plants Face Wage Bid

With the Vultee strike settled, United Automobile Workers of America, a C. I. O. affiliate, yesterday laid plans to open contract negotiations, calling for similar wage increases, with at least four more Southland airplane plants.

Ryan Aeronautical Company, San Diego, employing 1000 workers, is next on the union's list for attention, it was stated.

Then will follow negotiations with North American Aviation, Inc., Los Angeles Municipal Airport, employing 7000; the Menasco Manufacturing Company, Inglewood, 1000, and the Harvill Aircraft Die Casting Corporation, Los Angeles, 800.

PARLEY TO OPEN

Ryan employees already have voted the U. A. W. aircraft division as their official bargaining agent. Contract negotiations will open next week, officials said.

A petition by the U. A. W. for a hearing and setting of an election date at North American now is pending before the National Labor Relations Board. Decision is expected shortly.

The NLRB previously denied a similar petition, but union leaders said yesterday they were prepared now to convince the board that employees in that plant favored the C. I. O. affiliate.

Wage increases under terms of the Vultee settlement, basically 12½ cents an hour, had not been met yesterday by other aircraft industries in this area, C. I. O. leaders declared.

JO (Other news about Vultee strike on Page 3.)

- 4 -

- b. Bonus payments for work on the second and third shifts vary markedly as between companies, for
 1. Boeing pays its third-shift employees five cents per hour bonus with eight hours pay for six and three-fourths hours work.
 2. Lockheed pays its third-shift employees six cents per hour bonus with eight hours pay for six and one-half hours work.
 3. Douglas pays its third-shift employees five cents per hour bonus with eight hours pay for seven hours work.

These non-standard practices in plants located in the same area and with employees doing practically identical work are a source of discontent among workers, leading to high turnover of employees and eventually to strikes. That the recent strike at Vultee was but the forerunner of serious labor difficulties in the industry was generally the opinion of the manufacturers with whom we talked. The attached clipping from a Los Angeles newspaper bears out this point. To counteract this threat to maximum production immediate constructive action is necessary. It was suggested that we might well proceed on several lines such as the following:

- a. Standardization of the practices of all aircraft companies so as to permit 7-day operation without penalty for work within the 40-hour limit.
- b. Establishment of a procedure to prohibit one manufacturer from robbing another manufacturer of skilled employees.
- c. Establishment of incentive compensation plans so as to increase the productivity of labor.

As it stands today, almost all aircraft work on the West Coast is done on a straight hourly basis and there is very general agreement that workers are not producing the maximum possible per hour of labor. Several of the manufacturers expressed an interest in the British premium-bonus plan, and it seems very clear that production could be increased substantially with the development of some standard system for the entire industry.

- d. Enactment of legislation either for the aircraft industry specifically or for all defense industries providing for compulsory arbitration of labor disputes and the elimination of strikes. The strike at Vultee lost about eight working days, which will have a serious effect on their production program. Even worse will be the effect of strikes at the larger producers, or of strikes in the plants of sub-contractors who manufacture products used by many manufacturers. A serious strike in the aluminum industry today could tie up almost the entire aircraft industry.

6. The work on standardization of design as between United States and British planes has still not produced a single identical airplane. While it is true that the tactical use of certain airplanes differs as between the two forces, making complete standardization impossible, there obviously must be some planes intended for the same tactical use. In these cases it would seem that standardization could be achieved if the necessary pressure were exerted on both sides of the conference table. Particularly surprising was the fact that the Harvard trainer which is made for both the United States and the British is not standardized as between the two forces, even though it is a plane which is used only for training.

It is recognized, of course, that standardization can not be effective for production within the next six to eight months, but the planes which will go into production at that time should certainly have immediate consideration from the standpoint of standardization. It would seem in these cases that better results might be achieved if agreement were reached on the intended tactical use of an airplane, after which standardization in detail could be required in a plane intended for the same tactical use by both forces.

7. The problem of housing was discussed with each manufacturer, but in no case is it a paramount issue except in San Diego where the problem is being met by the Navy. The management at Lockheed felt that it would be desirable to have some low-rent Federal Housing projects in their area, not because there is any indicated lack of housing, but because private real estate operators in the Los Angeles area are maintaining rentals at quite a high level, which is a source of labor discontent and demand for high wages.

8. None of the plants visited felt that their production was being seriously hindered by lack of trained men. All the large plants are cooperating with local public and private schools on a broad training program. The problem of securing federal aid is apparently working out satisfactorily through the state officials. Lockheed seems to be in the best position with a complete and well-rounded training program which has been developed over a four to five year period. Some shortages will undoubtedly arise if the industry moves to 24-hour, 7-day operation, but this should be overcome with the existing training programs. The smaller plants without training programs of their own are likely to be at a disadvantage if any procedure is established to prevent the transfer of workers from one plant to another. I gathered from informal comments that some of the smaller plants have followed a policy of getting employees from the larger plants by offering them a greater number of hours work per week. If these plants had to develop their own skilled workmen, they might need assistance for a short time in setting up a training program.

9. The statements of Secretary of War Stimson and of the Priorities Board with reference to production of commercial aircraft were issued while we were on the West Coast. There seemed to be general dissatisfaction with these actions, particularly by the Douglas Aircraft Company, which felt that it had been condemned without having an opportunity to defend itself. From my conversations with representatives of Douglas, Boeing, and Lockheed, I got the following impressions:

- a. Most manufacturers producing commercial aircraft have made provision in their plants for this production in addition to their full military program. This means that reduction of effort on the commercial ships will probably not increase military production for many months if at all.
- b. In some plants slowing down of the commercial program will eventually decrease military production, since men are being trained on the commercial planes who would later be transferred to military production.
- c. Reduction in commercial plane production and the resulting reduction of commercial planes available in this country may have the effect of retarding the defense program as a whole, for
 1. Many critical items are shipped now by air express and any freezing of the capacity of this transportation facility is likely to affect production and create delays.

- 7 -

2. Increasing demand for air transportation by travelers working on the national defense program is taxing commercial lines to capacity now and may well impede the progress of the defense program if capacity is frozen at present levels.
- d. The freezing of production of commercial planes at a low figure and the resulting practical impossibility of making any sales for foreign account will have the effect of taking our manufacturers out of the foreign market at a time when they would have an opportunity to enter many markets which formerly were supplied by manufacturers in other countries. From the standpoint of maintaining production in these new facilities after our present extraordinary military demand has been satisfied, this is certainly not a desirable policy.
- e. Freezing production of commercial aircraft is likely to retard development of new types and place our manufacturers and airlines at a disadvantage in world competition after the war.

The above general problems were developed from discussions at the various plants and from the related conversations with the other members of the party. A more detailed description of the conference at each plant follows.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 3, 1940

TO Secretary Morgenthau
FROM Dr. Jacob Viner

Dr. Haas memorandum on bottlenecks. (11-27-40)

This is an excellent memorandum as far as it goes. I have only the following comments to make:

- (1) I think it would be a good thing if Dr. Haas were asked to prepare a memorandum on the bottleneck situation, say, once a month as a regular routine.
- (2) In considering actual or potential bottlenecks with respect to any production, explicit reference should be made as to whether this bottleneck arises from production facility, raw material, or labor scarcities.
- (3) The zinc situation should be canvassed immediately from the point of view of the desirability of controlling exports.

I saw a statement recently in the press from an American manufacturer of brass that shortages of zinc were already making themselves felt within the country, including shortages on rearmament activities, and that nevertheless exports to Japan were still going on on a substantial and increasing scale.

May I repeat my opinion that the bottleneck problem has major significance, not only with respect to the direct problems of effective rearmament, but also the general fiscal and monetary health of the Government. The prompt and effective removal of bottlenecks is the surest way to prevent an uncontrollable inflationary situation from developing.

JV

December 3, 1940

Secretary Morgenthau

Dr. Jacob Viner

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JC

JV:Jba 12/3/40

December 3, 1940

Secretary Morgenthau

Dr. Jacob Viner

Dr. Haas memorandum on bottlenecks.

This is an excellent memorandum as far as it goes. I have only the following comments to make:

- (1) I think it would be a good thing if Dr. Haas were asked to prepare a memorandum on the bottleneck situation, say, once a month as a regular routine.
- (2) In considering actual or potential bottlenecks with respect to any production, explicit reference should be made as to whether this bottleneck arises from production facility, raw material, or labor scarcities.
- (3) The zinc situation should be canvassed immediately from the point of view of the desirability of controlling exports.

I saw a statement recently in the press from an American manufacturer of brass that shortages of zinc were already making themselves felt within the country, including shortages on rearmament activities, and that nevertheless exports to Japan were still going on on a substantial and increasing scale.

May I repeat my opinion that the bottleneck problem has major significance, not only with respect to the direct problems of effective rearmament, but also the general fiscal and monetary health of the Government. The prompt and effective removal of bottlenecks is the surest way to prevent an uncontrollable inflationary situation from developing.

JV

JV:Jba 12/3/40

Prepared 12/3 43
and indexed
as of that date

Netherlands Purchasing Commission Commodity Statements

As of November 2, 1940

STRICTLY CONFIDENTIAL

Orders Placed in the United States.....Schedule I

Deliveries on Orders Placed in the United States.....Schedule II

Current Status of Orders Placed in the United States..Schedule III

Office of the Secretary of the Treasury, Division of Research and Statistics
Prepared December 3, 1940

Source: Netherlands Purchasing Commission

Note: Cumulative data begin September 25, 1940 and for orders include unfilled orders as of that date.

Schedule I

Orders Placed in the United States by the Netherlands Purchasing Commission
Classified by Commodity Group

As of November 2, 1940

(In thousands of dollars)

STRICTLY CONFIDENTIAL

Commodity group	Total unfilled orders as of Sept. 28, 1940	Orders placed week ended										Total orders to date
		Oct. 5	Oct. 12	Oct. 19	Oct. 26	Nov. 2	Nov. 9	Nov. 16	Nov. 23	Nov. 30	Dec. 7	
1. Airframes.....	37,563.6	5.5			1,271.8	53.4						38,894.3
2. Airplane engines.....	4,253.6		.5		1.2	57.4						4,312.7
3. Airplane accessories.....	413.7	.3	7.6	50.2	386.1	.2						858.1
4. Total aircraft products.....	42,230.9	5.8	8.1	50.2	1,659.1	111.0						44,065.1
5. Machine tools.....												
6. Chemical warfare materials.....	30.1											30.1
7. Explosives & propellants.....	365.3											365.3
8. Ammunition.....	13,571.9		543.3			112.8						14,228.0
9. Ordnance equipment.....	6,775.6		35.6	13.5	10.2	2.0						6,836.9
10. Tanks & tank equipment.....	8,354.0											8,354.0
11. Motor vehicles.....	2,444.9			21.0								2,465.9
12. Iron & steel.....												
13. Non-ferrous metals.....		1.4		.1	.8	.5						2.8
14. Textiles & clothing.....	7.7			.4	.3							8.4
15. Foodstuffs & tobacco.....												
16. Petroleum products.....					.2							.2
17. Animals.....												
18. Ships.....	106.6				4.6							111.2
19. Communications equipment.....	669.3	2.1	31.8	120.8	230.3	2.7						1,057.0
20. Timber.....												
21. All other.....	275.9	1.2		5.8	.6	.6						284.1
22. Total non-aircraft products....	32,601.3	4.7	610.7	161.6	247.0	118.6						33,743.9
23. Total commodities.....	74,832.2	10.5	618.8	211.8	1,906.1	229.6						77,809.0
24. Capital.....												
25. Grand total.....	74,832.2	10.5	618.8	211.8	1,906.1	229.6						77,809.0

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

Prepared December 3, 1940.

Source: Netherlands Purchasing Commission.

Note: Cumulative data begin September 28, 1940 and include unfilled orders as of that date.

Deliveries on Orders Placed in the United States
by the Netherlands Purchasing Commission
Classified by Commodity Group

As of November 2, 1940

(In thousands of dollars)

STRICTLY CONFIDENTIAL

Commodity group	Week ended											Total to date
	Oct. 5	Oct. 12	Oct. 19	Oct. 26	Nov. 2	Nov. 9	Nov. 16	Nov. 23	Nov. 30	Dec. 7	Dec. 14	
1. Airframes.....		109.0										109.0
2. Airplane engines.....												
3. Airplane accessories.....		5.2			9.1							14.3
4. Total aircraft products.....		114.2			9.1							123.3
5. Machine tools.....												
6. Chemical warfare materials....				9.4								9.4
7. Explosives & propellants.....	14.3	14.2										28.5
8. Ammunition.....	324.4	231.6	173.7		11.2							740.9
9. Ordnance equipment.....		6.2										6.2
10. Tanks & tank equipment.....												
11. Motor vehicles.....												
12. Iron & steel.....												
13. Non-ferrous metals.....												
14. Textiles & clothing.....				7.8								7.8
15. Foodstuffs & tobacco.....												
16. Petroleum products.....												
17. Animals.....												
18. Ships.....	21.0											21.0
19. Communications equipment.....				*								*
20. Timber.....												
21. All other.....			1.2	.4								1.6
22. Total non-aircraft products....	359.7	252.0	174.9	17.6	11.2							615.4
23. Total commodities.....	359.7	366.2	174.9	17.6	20.3							938.7
24. Capital.....												
25. Grand total.....	359.7	366.2	174.9	17.6	20.3							938.7

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

Prepared December 3, 1940.

Source: Netherlands Purchasing Commission.

* Less than \$50.

Note: Cumulative data begin September 25, 1940.

Schedule III

Current Status of Orders Placed in the United States
by the Netherlands Purchasing Commission
Week ended November 2, 1940
Classified by Commodity Group
(In thousands of dollars)

STRICTLY CONFIDENTIAL

Commodity group	Unfilled orders beginning of week	Orders during week	Deliveries during week	Unfilled orders end of week	Total orders to date	Total deliveries to date
1. Airframes.....	38,731.9	53.4		38,785.3	38,894.3	109.0
2. Airplane engines.....	4,255.3	57.4		4,312.7	4,312.7	
3. Airplane accessories.....	852.7	.2	9.1	843.8	858.1	14.3
4. Total aircraft products.....	43,839.9	111.0	9.1	43,941.8	44,065.1	123.3
5. Machine tools.....						
6. Chemical warfare materials.....	20.7			20.7	30.1	9.4
7. Explosives & propellants.....	336.8			336.8	365.3	28.5
8. Ammunition.....	13,385.5	112.8	11.2	13,487.1	14,228.0	740.9
9. Ordnance equipment.....	6,828.7	2.0		6,830.7	6,836.9	6.2
10. Tanks & tank equipment.....	8,354.0			8,354.0	8,354.0	
11. Motor vehicles.....	2,465.9			2,465.9	2,465.9	
12. Iron & steel.....						
13. Non-ferrous metals.....	2.3	.5		2.8	2.8	
14. Textiles & clothing.....	.6			.6	8.4	7.8
15. Foodstuffs & tobacco.....						
16. Petroleum products.....	.2			.2	.2	
17. Animals.....						
18. Ships.....	90.2			90.2	111.2	21.0
19. Communications equipment.....	1,054.3	2.7		1,057.0	1,057.0	"
20. Timber.....						
21. All other.....	281.9	.6		282.5	284.1	1.6
22. Total non-aircraft products.....	32,821.1	118.6	11.2	32,928.5	33,743.9	815.4
23. Total commodities.....	76,661.0	229.6	20.3	76,870.3	77,809.0	938.7
24. Capital.....						
25. Grand total.....	76,661.0	229.6	20.3	76,870.3	77,809.0	938.7

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

Prepared December 3, 1940.

Source: Netherlands Purchasing Commission.

* Less than \$50.

Note: Cumulative data begin September 28, 1940 and for orders include unfilled orders as of that date.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE December 3, 1940

TO Secretary Morgenthau

FROM Mr. Klaus

FBI reports:

November 28. A 43-page report on the activities of William Rhodes Davis of Rockefeller Plaza, New York City, international oil operator, who is suspected of being an American fiscal agent for Goering and has engaged in shipping Mexican oil to Germany.

December 2. The Chase Bank has on file approximately 3500 Rueckwanderer bank applications which are being investigated by FBI.

December 2. United States currency is being received by registered mail; on November 23 and November 26 National City received from the Reichstank \$100,000 in currency.

April Intelligence reports:

September 26 - Santiago, Chile. It is indicated that German firms representing American principals are compelled by the German government to send to Germany information useful to German competitors of the American principals.

November 9 - Guatemala. There are further indications that the German and Italian Legations are seeking dollar credits; Germans in Nicaragua are represented as buying United States money and checks on the streets of Managua and are believed to be sending them to the German Minister in Guatemala, and American tourists in Guatemala City are being solicited for supplies of American currency by persons suspected as acting for the German Minister. The Naval Attache believes this is in order to enable the Axis to finance subversive activities with United States currency in the event the United States enters the war and the American dollar supply is closed.

November 9 - Guatemala. Advertising received in Guatemala from William R. Schultz of the "Reichmark Exchange and Central Food Package Department," 41 Broadway, indicates this person is apparently engaged in collecting United States funds in return for Reichmarks designated in Germany.

November 14 - Mexico City. Enrique Kahn, son of the United States Customs Collector in Laredo, Texas, and suspected of being pro-Nazi, has obtained authority to construct a radio broadcasting station in Monterey and is suspected to be a front for the German Nazi leader in Monterey.

H.C.

48-A

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE December 3, 1940

TO Secretary Morgenthau

FROM Mr. Klaus

FBI reports that \$650,000 was withdrawn today in currency, probably in \$10,000 bills, from the German Consulate account, \$350,000 of which was paid over to J. P. Morgan and Company to meet interest on two German bond issues and \$300,000 was taken to the German Consulate General at 17 Battery Place. This makes a record of at least \$400,000 in \$10,000 bills brought to the German Consulate General.

SK

COPY

DEPARTMENT OF STATE
Washington

December 3, 1940.

My dear Mr. Secretary:

In recent weeks requests have been made on behalf of the French authorities in Martinique and Guadeloupe for shipment of fuel oil to permit the functioning of the public utility services and likewise the normal functioning of the merchant and naval vessels now in harbor there (electric light, sanitation, et cetera). After giving the matter some consideration this Department has, in conjunction with the naval authorities, agreed that there would be no objection if the Treasury Department found it possible to release sufficient funds for the payment of 1200 tons of oil every five weeks from date (600 tons type C and 600 tons type B). We understand this amounts to \$12,752.03 per five weeks.

This Department would appreciate being informed of any licenses which the Treasury Department may issue for the purchase of oil for Martinique and Guadeloupe.

Sincerely yours,

/s/ Sumner Welles

Under Secretary

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury

TO THE RECEIVING
TECHNICAL VESSEL
OFFICE OF THE
NAVY

END DEC 4 PM 4 34

RECEIVED
DEPARTMENT
OF THE NAVY

C O P Y

50

ATP

GRAY

MOSCOW

Dated December 3, 1940

Rec'd 11:19 a.m.

Secretary of State,
Washington

1665, December 3, 9 p.m.

The Riga press of November 26 published a resolution of the Soviet of Peoples Commissars of the Latvian Soviet Socialist Republic in accordance with which customs duties and other taxes on merchandise imported into Latvia from the Soviet Union are abolished from November 25. The Chief Customs Administration in Moscow has informed the Embassy today that this exemption does not apply to Latvian goods imported (*) the Soviet Union proper nor is any similar exemption operative with respect to the trade between Lithuania and Estonia and the Soviet Union or between the three former Baltic provinces themselves. In other words the existing customs frontiers continue in operation with the single exception cited.

THURSTON

G.W.

Copy: eb

TO THE SECRETARY OF STATE
FROM THE SECRETARY OF STATE
12 DEC 1940

12 DEC 1940

12 DEC 1940

3 December 1940.

The Director,
Bureau of the Budget,
Washington, D. C.

Dear Sirs:

The Estimates for 1942 submitted by me to the Bureau of the Budget for the Coast Guard have been reduced by the Bureau in the net amount of \$23,475,352. While I am convinced that no non-essential items whatsoever were included in the Estimates, I cannot too strongly urge a reconsideration of the following items:

	<u>Appropriated Funds</u>	<u>Contract Authorization</u>
(1) Four cutters-buoy boats, 65-foot class, \$68,500 each.....	\$274,000	
(2) Hospital and Infirmary, Coast Guard Academy, New London.....	\$312,000	
(3) Special Projects, aids to navigation.....	\$409,935	\$450,000
Total.....	\$995,935	\$450,000

Both the appropriated funds and the contract authorization should be immediately available.

In order that maximum service may be obtained from the four 65-foot vessels, they will include the features of a buoy-boat, thereby serving the purpose of four of the buoy-boats requested under "Special Projects, Vessels;" therefore, these vessels will be triple-purpose vessels, namely, buoy-boats, ice breakers and harbor craft. They will be replacement vessels so that no increase in the annual operating expenses of the Coast Guard, and no increase in the number of vessels will result. They will replace harbor craft which have long since outlived their useful life. Their ice-breaking characteristics are urgently needed in the shallow channels serving industrial centers along the North Atlantic Coast where delay in moving national defense materials throughout the winter months would seriously interfere with the preparation of this Country for war. It was ice breakers of this type that delegations from Chambers of Commerce and maritime bodies of New York and other North

Atlantic seaports came to Washington and strongly urged Congress to provide. With the additional use of these vessels as buoy-boats it will permit re-assignment of Coast Guard craft so as to give some relief in the serious shortage of equipment to maintain aids to navigation. The Bureau of the Budget already has a graph showing the serious shortage of vessel equipment to maintain aids to navigation. The records clearly show that the appropriations made by Congress for this purpose are far below those needed for the increase in buoyage and other aids to navigation resulting from the costly improvements of rivers, harbors and other waterways.

The need for the hospital and infirmary at the Academy was probably not heretofore fully presented. The increase in the number of cadets and the further increase that will be made next year has already clearly demonstrated to the Bureau of the Budget and to the Congress the need for additional barracks, additional library facilities and additional boat stowage facilities. The need for additional classrooms is equal to the need for the additional facilities already provided. The hospital and infirmary will provide this need by permitting the space now used for hospital and infirmary to be turned into classrooms and providing additional classrooms in the basement of the proposed new building. It is an essential part of the expansion of the Academy due to the increased number of cadets. The elimination of this item by the Bureau of the Budget is a matter of serious concern and I cannot too strongly urge that it be restored.

The Estimates for aids to navigation were reduced from \$4,084,085 to \$1,500,000, a reduction of over sixty percent. The total amount approved was less than the amount needed to provide the aids to navigation urgently requested by the Navy Department on account of national defense bases in Alaska and in the Pacific Islands. I am attaching hereto a copy of a letter from the Secretary of the Navy stressing the vital national defense importance of this program. The Navy Department is spending approximately \$21,500,000 in Alaska for naval bases and approximately \$40,500,000 in the Pacific Islands. The Army is also spending many millions for air bases in Alaska. Not only will these bases require aids to navigation exclusively for the harbors and approaches thereto where the bases are located, but the increased Alaskan traffic - Army, Navy and Commercial - require that these waterways, which have heretofore been poorly marked, be made reasonably safe to navigation. Hundreds of millions of dollars worth of shipping will use these waterways. The loss of one naval vessel alone would pay many times over for the cost of making these waterways safe to navigation. I am asking that \$687,400, of which \$450,000 is contract authorization, be restored in Coast Guard Estimates to take care of aids to navigation in Alaska, and this does not include all the aids to navigation requested by the Secretary of the Navy. In addition thereto, I am asking that \$172,535 be restored for other items which I consider of equal importance. With the United States spending billions of dollars in floating equipment for the Army, Navy and Merchant Marine, with the shipment of hundreds of millions of dollars of war materials from our harbors vital to the defense of our Country, it appears false economy in the extreme to so drastically reduce the Estimates for providing safe navigation to these vessels. The amount

requested is a very, very small fraction of one percent of the value of ships and shipping that will be protected thereby. Again, the loss or serious damage to one major vessel would far more than pay the entire cost of this protection.

With the full realization of the urgent need for economy in governmental expenditures, I urge you to restore these items to the approved Estimates of the Coast Guard for 1942.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Enclosure 1.

(Letter and file to Mr. Rose for handling as per McKay. CC sent to Mr. Thompson and cc in this office)

Op-3052-LR
H2/203(401104)
Serial 356730

Nov 29 1940

Sir:

The attention of the Navy Department has been invited to the budgetary provisions in the 1942 budget of the Treasury Department and the proposed 1942 Supplementary budget which makes provision for Special Projects for Aids to Navigation in the Alaskan Area. In particular Project 20 (Budget pages 1043d to 1043k inclusive) amounting to \$1,408,650, and of importance in furthering national defense in the Alaskan Area.

It is desired to emphasize the importance of the early establishment of the Aids to Navigation contained in Project 20 referred to above. The interest of the Navy Department in this matter of increased Aids to Navigation in the Alaskan Area is founded on the furtherance of national defense in this area.

The project contained in the House of Representatives Document No. 260, 76th Congress, 1st Session providing for improvement to the channel at Wrangell Narrows is likewise of importance to the interest of the Navy Department in national defense.

It is hoped that the Treasury Department will further the matter of obtaining the funds required in connection with improving Navigation facilities in the Alaskan Area.

Respectfully,

(Signed) Frank Knox

The Honorable
The Secretary of the Treasury

Copy to: Commandant U. S. Coast Guard

December 3, 1940
12:03 p.m.

H.M.Jr: Hello.

Secretary
Stimson: Hello, Henry. I'm going to appear

H.M.Jr: Hello.

S: Hello.

H.M.Jr: Henry talking.

S: Yes.

H.M.Jr: Did you call me?

S: I'm coming around to your meeting this afternoon with a tail.....

H.M.Jr: With a tail - how do you spell tail?

S: in addition to the head and body. (Laughs).

H.M.Jr: How do you spell tail.

S: I spell it in the term of two human beings, one of them by the name of McCloy and the other by the name of Palmer. Palmer you've met and McCloy I want you to meet.

H.M.Jr: Oh, tail is t-a-i-l.

S: Yes, that's t-a-i-l, not a t-a-l-e. I leave that to the Department of Commerce.

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

S: Well, how are you?

H.M.Jr: Oh, I feel much better after what Congress did for me yesterday.

S: Well, I heard a full account of it from Hull this morning.

H.M.Jr: Oh, really.

- 2 -

S: Yes, but I'm having a busy day. I'm leaving for a meeting in ten minutes up at my house between Hull, Knox and myself and Stettinius, Knudsen and Nelson, with the idea of trying to get them impressed with the situation in the world which Hull disclosed to us this morning, to try and get a little steam into the industry.

H.M.Jr: I see. Wonderful.

S: Well, so that there may be no steam left in me when I get down, and I'm bringing these fresh young men in to take the ball and carry it along. Is that all right.?

H.M.Jr: Fine.

S: I'll be there but I mean they're the people that have to carry the ball afterward.

H.M.Jr: Good.

S: All right.

H.M.Jr: Thank you.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 3, 1940.

TO Secretary Morgenthau
FROM Mr. Jacob Viner

This is the gentleman I spoke to you about today.

Defense Post for Chinlund
Special to The New York Times
WASHINGTON, Dec. 3—Edwin F. Chinlund, president of the Postal Telegraph Company, Inc., was invited today by the Defense Communications Board to serve as a member of its Industry Advisory Committee with the executives of seven other communications companies who have been requested to advise and assist the board in planning the role of communications in the preparedness program.

December 3, 1940.

Dear Mr. Ford:

In connection with reports I am receiving bi-weekly from the airplane and airplane engine industry, I should like to secure certain information regarding unfilled orders, new orders, and deliveries of airplane engines for your company. I am enclosing a table which has been prepared for your company from various data available at the War Department showing the number of airplane engines on order on November 23, 1940. Will you please revise this table in accordance with the procedure outlined below.

Bring forward to December 7 the estimated deliveries of the unfilled orders by (1) inserting new orders received during the period November 24 through December 7 in their proper place, combining new orders with orders now shown on the table where the type of airplane engine and class of purchaser are the same, and using a new line for any type of airplane engine not already included in the schedule, and (2) indicating any revisions that have been made in the estimated delivery dates of the remaining orders now shown on the schedule. After these revisions have been made, the schedule should show estimated deliveries of all orders unfilled on December 7, including new orders received during the period. When deliveries start, of course, a further adjustment of the figures to reflect such deliveries would have to be made.

Data should exclude spare parts. If any spare parts are included in the contract, please show the percentage these bear to the total order in the column at the extreme right of the table.

Please indicate the horsepower for the model B-2800-21, and provide a breakdown of deliveries for the two models, which are shown on the enclosed table.

FILE COPY

Mr. Ford - 2

Please forward the revised table, together with a statement of new orders received and deliveries made in the period November 24 to December 7, 1940, to Mr. George C. Haas, Director of Research and Statistics, Treasury Department, Washington, D. C., whom I have asked to arrange to obtain from you such subsequent figures as are necessary to bring the information up to date. I shall appreciate it if you will send your reply by air mail special delivery so that it will reach him on Monday, December 9.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Hazel B. Ford, President
and Treasurer,
Ford Motor Company,
3674 Schaefer Road,
Dearborn, Michigan.

Enclosure
Table.

(Returned to Mr. Haas' office for mailing).

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FILE COPY

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transaction in the account of the Sveriges Riksbank, Stockholm, maintained with the Federal Reserve Bank of New York.

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>
December 2	\$150,000	Credito Italiano, New York, by order of Credito Italiano, Rome

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 3, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transaction in the account of the German Consul General, N.Y., maintained with the Chase National Bank, N. Y.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
December 2	\$650,000	Cash withdrawal



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 3, 1940

TO Secretary Morgenthau

FROM Dr. Jacob Viner

Mr. Wiley's draft of memorandum for the Secretary of State on general exchange control.

I submit for Mr. Wiley's and your consideration a draft of a revision of Mr. Wiley's memorandum. It follows in the main the line of thought of Mr. Wiley's memorandum and to some extent its language. My modifications are in the main merely to reduce the length.



Revised draft suggested by J. Viner

MEMORANDUM FOR THE SECRETARY OF STATE.

I communicated to the President in my memorandum of November 7, 1940, my conviction that the introduction of a regime of general foreign funds control was urgently desirable. In the light of recent developments I think that we should proceed to a decision without further delay. I am well aware that this decision is one of major policy. The Treasury, however, has not failed to weigh its alleged dangers against the advantages to be derived.

I review, herewith, the more important considerations which enter into this matter:

1. General control of foreign exchange funds is essential for effective policing and prevention of the use of foreign funds for subversive purposes.

Circumstantial evidence that foreign funds are currently being used for this purpose comes to us from various sources, but it will not be possible to ascertain the extent of such use or to take effective measures for prevention unless the facilities for ascertaining and controlling the movements into and out of Axis-controlled bank accounts which a foreign exchange control can alone provide are made available.

2. There is widespread demand for control of use of foreign funds for subversive purposes. If the Executive does not itself respond to this demand, there will inevitably result efforts by the Legislative branch, either through Congressional Committees, or by legislation, to establish such control. This is properly an executive function and can be effectively and safely carried out only by the Executive and failure to do so on our part is likely to result in serious embarrassment later.

3. In the light of the present state of international relations, it may prove expedient and even urgent that, in order to protect the status of American holders of claims against Axis or Axis-controlled governments and corporations and of American owners of tangible property in Axis-controlled territory, the assets of Axis-controlled governments, private corporations, and individuals in this country be frozen with a view to possible application of offsets or use of the threat of such action in any eventual negotiations with the Axis powers.

4. A general exchange control will make possible a more accurate and comprehensive inventory of British-owned assets in this country, information essential to us in connection with any negotiation that may be carried on for financial aid to Britain.

-2-

The long-continued and discriminatory application of exchange-control and foreign-owned asset-control in general by the Axis powers, deprives them of any ground for specific complaint if we should follow their example. The extension of our present control to all countries could be explained in terms of inoffensive commercial and monetary considerations. Through the discreet use of the license system, interference with legitimate commercial and financial operations could be minimized and any discrimination as between countries found expedient could be applied without being made overt. At least as long as the control did not result in complete and unqualified freezing of any country's assets, that country would have reason to hesitate before retaliating in any way.

The Treasury has given careful thought to the administrative feasibility of a regime of general foreign exchange control. I wish to state that the Treasury is fully prepared to put into operation, on short notice, a complete regime of effective control, so decentralized as to operate without impediment to the normal and legitimate transactions of domestic industry and foreign commerce. The proposed regime would, in its operations, be equitable to all legitimate interests, both domestic and foreign. It would be entirely elastic. With certain large areas of the world a system of blanket licenses, subject only to reasonable reporting requirements, could be employed.

The adoption of general foreign funds control would involve a decision of gravity; but a decision not to introduce such a regime appears to me to be even more grave. A negative decision would permit the Axis powers to continue freely to employ American dollars for purposes of economic warfare, political manipulations and subversive activities.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 3, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

The Federal Reserve Bank of New York reported the following transactions in Italian accounts maintained with the Chase National Bank, New York, and the National City Bank, New York.

Chase National Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
December 2	\$150,000	Credito Italiano, New York	Check to order of Federal Reserve Bank of New York
	86,000	Banca Commerciale Italiana, New York	Check to order of Chase National Bank for account of Stockholms Enskilda Bank, Stockholm
	200,000	Banca Commerciale Italiana, New York	Check to order of Manufacturers Trust Co., N.Y.
	35,000	Banco d'Italia, Rome	Guaranty Trust Co., N. Y., for account of Banca d'Italia, Rome

National City Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
December 2	\$ 36,000	Banca Commerciale Italiana, New York	Check to order of National City Bank, New York
	100,000	Banco di Napoli Trust Co., N. Y.	Check to order of Credit Suisse, N.Y., deposited with National City Bank, N.Y., for account of Credit Suisse, N.Y.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 64,000
Purchased from commercial concerns	£109,000

In the open market, sterling was first quoted at 4.03-1/2. It moved to 4.03-3/4 about noontime and closed at that level. Transactions of the reporting banks were as follows:

Sold to commercial concerns	-0-
Purchased from commercial concerns	£1,000

Other than a slight improvement in the Argentine free peso rate, and some widening of the Canadian dollar discount, there were no conspicuous changes in the other currencies. Closing rates were:

Canadian dollar	13-1/8% discount
Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brasilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-1/2% discount

The yuan rate received from Shanghai this morning was 5-29/32¢, the gain of 3/32¢ over yesterday's rate no doubt reflecting further announcements from Washington regarding financial assistance to China. We understand that there is very little trading in yuan in the New York market, although a few banks transact a fair amount of business selling yuan drafts to Chinese living here.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

The New York banks received no gold or silver prices from Bombay today.

In London, the price fixed for spot silver was unchanged at 22-13/16d. The forward quotation, however, was 1/16d higher, at 22-7/8d. The dollar equivalents were 41.42¢ and 42.54¢ respectively.

Hendy and Harman's settlement price for foreign silver was unchanged at 34-3/4¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢.

We made six purchases of silver totaling 600,000 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces represented a sale from inventory, and the remaining 400,000 ounces consisted of new production from foreign countries, for forward delivery.

The report from the Federal Reserve Bank of New York listing deposits for the account of Asia as reported by the New York agencies of Japanese banks on November 27, showed that such deposits totaled \$110,800,000, a decrease of \$7,963,000 since November 20. Included in this total were \$37,973,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China, a gain of \$228,000 over the figure of November 20, and \$99,920,000 in deposits with the Yokohama agency made by Japanese banks in Japan and Manchuria, off \$8,897,000. In addition to their deposits with New York agencies, Japanese banks held, on November 27, about \$31,361,000 in U.S. Treasury bills and short-term commercial paper expressed in dollars at the Yokohama agency, up \$1,231,000 from November 20. The Yokohama agency reported that its loans to Japanese banks in Asia amounted to \$41,957,000 on November 27, an increase of \$9,174,000, while its other dollar claims on Asia, consisting mainly of Japanese import bills, totaled \$13,646,000, a drop of \$14,953,000 since November 20. Japanese banks in Asia apparently paid off maturing import bills held in the Yokohama agency's portfolio by drawing upon their deposits and securing additional loans from the Yokohama agency.

The report of November 27 received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$9,743,000, a decrease of \$497,000 in the short position. Net changes were as follows:

Country	Short Position November 20	Short Position November 27	Change in Short Position*
England**	\$ 370,000	\$ 111,000 (Long)	-\$481,000
Europe	3,746,000	3,870,000	+ 124,000
Canada	46,000	88,000 (Long)	- 134,000
Latin America	293,000	317,000	+ 24,000
Japan	4,427,000	4,460,000	+ 33,000
Other Asia	1,341,000	1,376,000	+ 35,000
All others	17,000	51,000 (Long)	- 98,000
Total	\$10,240,000	\$9,743,000	-\$497,000

*Decrease in short position, or increase in long position, indicated by minus (-). Increase in short position, or decrease in long position, indicated by plus (+).

**Combined position in registered and open market sterling.

CONFIDENTIAL

incoming referred
to Dr. White to 67
bring up at the time
of Sir Frederick
Phillips' visit

December 3, 1940.

Dear Mr. Rockefeller:

Thank you very much for your letter of November 28th, which enclosed a memorandum covering the outstanding points of your discussions with Mr. D'Arcy Cooper. I have been much interested in reading this record and I am glad to have it for my records.

With thanks for your word of personal greeting.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Nelson A. Rockefeller,
Coordinator of Commercial and Cultural
Relations between the American Republics,
Council of National Defense,
State Department Building,
Washington, D. C.

GMF/dbu

December 3, 1940.

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With thanks for your word of personal greeting,

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(signed) H. Morgenthau, Jr.

Honorable Nelson A. Rockefeller,
Coordinator of Commercial and Cultural
Relations between the American Republics,
Council of National Defense,
State Department Building,
Washington, D. C.

GHF/dbs

December 2, 1940.

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Sincerely,

(Signed) H. Morgenthau, Jr.

Samuel Nelson A. Rockefeller,
Coordinator of Commercial and Cultural
Relations between the American Republics,
Council of National Defense,
State Department Building,
Washington, D. C.

GHF/cls

Dr White

71

The Secretary
wants you to bring
this up at the
time of Sir Frederick
Phillips' visit.
in machine,

*has been
ack'd 72*

COUNCIL OF NATIONAL DEFENSE
COORDINATOR OF COMMERCIAL AND CULTURAL RELATIONS
BETWEEN THE AMERICAN REPUBLICS

STATE DEPARTMENT BUILDING
WASHINGTON, D. C.

November 28, 1940

My dear Mr. Secretary:

*Mr. Con
Gold*

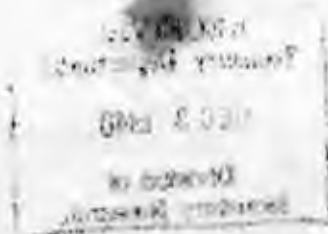
I am pleased to send you herewith a memorandum, covering the essential points of the discussions which we have had with Mr. D'Arcy Cooper, representing the British Board of Trade, and his associates, relative to British, U. S., and Latin American problems.

I hope that you enjoyed your brief holiday and look forward to seeing you soon.

Sincerely,

Nelson A. Rockefeller

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



To: Secretary Morgenthau
From: Nelson A. Rockefeller

Re: Discussions with Mr. D'Arcy Cooper and associates,
relative to British-United States-Latin American trade

The Background of the Discussions

Mr. Cooper gave us a copy of the letter of instruction from the President of the Board of Trade, requesting him to proceed to the United States to follow the suggestions made by the President and Secretary Morgenthau to Sir Frederick Phillips that Britain "force out" exports to the United States and that excessive competition for Latin American markets be avoided. The following pertinent points of Mr. Cooper's letter of instruction served as a background for the discussions:

(a) The letter instructs Mr. Cooper to inform the United States of Britain's capacity to export. Although capacity to expand output of exports generally is doubted, it expresses the belief that larger quantities of woolen and cotton textiles could be made available. It points out, however, that such goods would be handicapped by falling in a higher value bracket for United States duties, due to a 50% rise in costs. The possibility of larger sales to the United States of materials for the new Caribbean bases and for Army equipment is mentioned.

(b) It instructs Mr. Cooper to discuss fully the problems involved in avoiding excessive competition for Latin American markets. Recognizing the connection with Latin America's surplus problem, it suggests facilitating triangular relationships among United Kingdom, United States, and Latin America.

(c) It requests Mr. Cooper to discuss the possibility of a supplementary trade agreement, and to explore possible action relative to increase in duties when the British purchase tax came into effect on October 21.

(d) It mentions the need to avoid difficulties due to anti-dumping regulations and the recent United States subsidy on cotton goods exports.

(e) It directs Mr. Cooper to follow thoroughly all matters pertaining to expansion of British trade.

Meetings:

As directed by the Secretary of the Treasury, discussions have been held with Mr. D'Arcy Cooper, his associates, and members of the British Embassy. Meetings were held on November 6, 12, 19, 1940, with representatives of the Office of the Coordinator, Treasury Department, State Department, and Export-Import Bank present.

First meeting on November 6, 1940

The British delegation outlined their problems in Latin American markets, indicating that they anticipated favorable trade balances with some countries and adverse balances with others.

Their views were most nearly crystallized on these points:

- (a) That we agree in principle not to compete on commodities which they could ship, since British export capacity is currently limited to certain lines. British purchases in the United States, including agricultural goods, were cited in support of the triangular trade principle.
- (b) That dollar loans should not be restricted to use for purchase of United States goods.
- (c) That we act with Britain in our purchases of Latin American goods. They expressed concern over surpluses that were accumulating in Latin America and suggested a joint survey to determine the most effective measures to handle the situation.

The possibility of a lending operation between the United States and Argentina based on British securities delivered to Argentina in part payment of balances was discussed. In the course of conversations touching on various phases of British-Latin American and British-United States trade, the British delegation reiterated the need for United States assistance.

We indicated a sympathetic and cooperative attitude in our approach to the problem. When the matter of the adverse effect of the British attitude on competition between American and British interests in Latin America was brought up, the British agreed that a continuance of such a line would be unfortunate.

The British agreed to send us memoranda giving the essential facts of their trade and balance of payments situation with each Latin American country.

Second meeting on November 12, 1940

The discussions followed lines similar to those of the previous meeting.

The British reiterated their desire that some of the proceeds of dollar loans to Latin America be available for purchases outside the United States. We indicated our appreciation of their interests in the matter and our practical problems relative to it.

The possibility of preclusive purchases of strategic commodities, jointly or otherwise, was discussed. The matter of Latin American surpluses was again discussed.

We were informed that sterling investments in Argentina (nominal values) totaled £394 million, of which £45 million were National Government obligations. The list included provincials, municipals, utilities, industrials and rails; rails were the largest item, totaling £286 million. No concrete proposals were advanced. The British lacked data as to the volume of securities that had been transferred to the Argentine.

The British delegation had no information as to whether the arrival of the Argentine Prebisch mission would clarify the possibility of an Argentine-United States financial operation based on repatriated British securities.

The British presented memoranda giving the essential facts of their trade and balance of payments situation with individual Latin American countries.

Third Meeting on November 19, 1940

Discussions again followed the lines of the earlier meetings.

No further factual material was presented by the British, regarding the inadequacy of the balance of payments material that had been furnished, they explained that these data had been intended merely to indicate the nature of the problem and the particular countries where sterling deficiencies or surpluses were anticipated.

We were informed that the Willington Mission to South America was essentially a good-will mission and that we would be kept informed of whatever might result from it.

Conclusions:

1. The British have indicated certain problems of a serious nature:
 - (a) Their requirements of a large quantity of essential commodities from Latin America and their limited capacity to finance such purchases.
 - (b) Their capacity to deliver goods of certain types, and the obstacles to maintenance or expansion of deliveries of such goods in the face of adverse trade conditions in Latin America.
 - (c) The flow of strategic and critical materials to ultimate enemy use.

2. On our part, we have endeavored to show sympathetic consideration, without becoming committed beyond the scope of our authority:

(a) We have implied that in dollar loans to Latin America we would bear in mind the British trade situation.

(b) We shall continue our efforts to provide markets for Latin American products.

(c) We recognize the principle of triangular trade relationships among the United States, United Kingdom and Latin America.

(d) We shall work for a clarification of policy on the matter of preclusive purchases of strategic and critical materials.

(e) It was generally recognized that the pertinent matters discussed will require our continued attention during the period of the emergency. We shall consequently continue following these matters and shall welcome the collaboration of the British group.

Treasury Department 77
Division of Monetary Research

12/5/40
Date.....19

To: Mr. White

From: L.S.

Miss Chauncey said this is
another letter to bring up at time
of Sir Frederick Philipps' visit.

(Receipt has been acknowledged)

1 C.H. hold - send

MR. WHITE
Branch 2058 - Room 210

*received by
been dated* ✓ 78

COUNCIL OF NATIONAL DEFENSE

COORDINATOR OF COMMERCIAL AND CULTURAL RELATIONS
BETWEEN THE AMERICAN REPUBLICS

STATE DEPARTMENT BUILDING
WASHINGTON, D. C.

December 3, 1940

My dear Mr. Secretary:

Pursuant to the request of Mr. Rockefeller, who is to be out of town during most of this week, I am writing with respect to our fourth meeting with Mr. D'Arcy Cooper and his associates. The meeting was held on November 30, 1940, and was attended by representatives of the Treasury and State Departments, Export-Import Bank and the Office of the Coordinator.

Several questions which had been raised in a preliminary way at previous meetings were answered.

On behalf of the Export-Import Bank, its representative, Mr. Will L. Clayton, stated that up to 40% of the proceeds of future dollar loans to Latin America would be made available for the purchase of British goods, on the understanding that such dollars be utilized by the British in the purchase of agricultural products in the United States. Mr. Clayton also indicated that the funds representing the above-mentioned 40% proceeds of dollar loans were not to be used for debt service, but they could be applied by the Latin American countries to commercial arrears owing to the British as well as to new purchases, that they would apply to the full sterling area, and that the term "agricultural products" would be broadly interpreted.

With respect to the proposed use of British-owned Latin American securities as collateral for loans from the Export-Import Bank, Mr. Clayton stated that the Bank had decided to determine minimum import requirements of the individual nations, estimate probable state of other items on the balance of payments for 1941, and thereby ascertain the extent of financial assistance required by particular countries. He added that it was the present position of the Bank that it was not necessary to introduce sterling securities as collateral in connection with the lending operations.

Mr. D'Arcy Cooper indicated that it would be useful if the British could be kept informed of the course of negotiations on Latin American loans. It was indicated that, although such information could not be afforded during the course of negotiations, it could be conveyed prior to public announcement.

- 2 -

The British delegation expressed regret at not being able to present any further factual material on their anticipated balance of payments to Latin America or on their purchasing program.

With regard to the matter of preclusive buying, another item on the agenda of the Mission, the British were advised that the fundamental decision of policy had been presented to the President for determination, since it was explained that the Advisory Commission to the Council of National Defense had recommended action in connection with this matter and that the Office of the Coordinator had filed a supporting memorandum. The British suggested the desirability of close liaison in the event that a preclusive buying policy is decided upon.

At the conclusion of the meeting, Mr. Cooper, in expressing appreciation, stated that he would inform the Secretary of the Treasury with regard to the usefulness of the conferences. It was agreed to continue discussions as they might be called for by new developments.

Very sincerely yours,



CARL B. SPAETH
Executive Assistant

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



INSTITUTE OF PUBLIC ADMINISTRATION

261 BROADWAY

NEW YORK

December 3, 1940

Trustees

F. TRUBEE DAVISON
 HAROLD W. DODDS
 WILLIAM JUDOR GARDNER
 E. ROLAND HARRIMAN
 HERBERT HOOVER
 FRANK O. LUNDEN
 CARL H. PROZHEIMER
 GEORGE S. VAN SCHICK
 DELOS WALKER
 LUCIUS WILMERDING, JR.

Secretary Henry Morgenthau
 Treasury Department
 Washington, D. C.

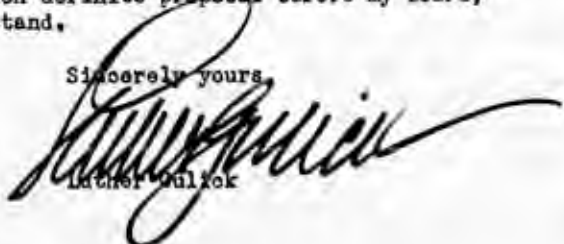
Dear Secretary Morgenthau:

I enclose an outline which may serve to summarize the points discussed at our meeting Friday, November 29, and to trace their implications. I shall be interested to hear what decision you, Mr. Roosevelt and the Congressional leaders reach with regard to this project.

Mr. Sullivan's last suggestion was that the announcement of any specific plan be postponed until your major reform measure has been approved by the Congress. This policy has much to commend it, especially if an understanding can be reached with the President and with key Congressional leaders to set up the proposed Temporary National Tax Commission subsequently. Under such a plan, preliminary work can be started in the near future within the Treasury. There are two or three men in the United States whom you should go out after immediately in connection with this project if you plan to proceed beginning say February 1.

To free myself for this work under your leadership, I will have to place some such definite proposal before my Board, as you will readily understand.

Sincerely yours,



Luther Gulick

COMPREHENSIVE REVIEW OF FEDERAL-STATE TAX RELATIONS

COMPREHENSIVE REVIEW OF FEDERAL-STATE TAX RELATIONS

A. Plan of Action

It is proposed to initiate a comprehensive rethinking and a practical replanning of the American federal, state and local tax structure and to devise the general system of tax laws-- but not all the detailed texts-- through which such a program may be carried into effect, especially as to its federal phases.

This ambitious Project involves: (a) a small amount of research; (b) a large amount of liaison to develop coordination and joint action; (c) courage and creative imagination in architecting practical, and in some cases revolutionary, plans; and (d) the most careful salesmanship.

Each of these factors is discussed below.

Research

Most of the relevant facts are now known or can be brought together without great effort. This can be done through the following undertakings:

Make a general comprehensive review of the more important tax developments of the past generation focusing attention on the problem as a whole.

Identify the chief points of difficulty and inefficiency and make separate but related studies of these issues.

Among such problems would be included the administrative cost of duplicate administration; the cost to the taxpayer of such tax compliance; state tariff walls; the relationship of taxation to fiscal policy and to financial controls; problems of state and federal aid and "shared taxes"; and the division of functions and parts of services as between the various levels of government in the light of their tax resources. (This last study is of great importance.)

Review recent developments abroad which bear upon the problems of central and local fiscal systems and tax coordination.

Prepare simple authoritative statements, designed to serve as a basis of mass education and understanding, summarizing the best current thought on the principles which must govern the development of the total American tax system.

Develop plans for a comprehensive readjustment of the American tax system, and outline the practical stages of action leading to its gradual adoption.

Liaison

While these research assignments are important, the most exacting part of this Project is liaison. For example, it will be necessary to keep abreast of researches and of developing ideas within other federal government agencies. The Bureau of the Budget, the National Resources Planning Board, the Department of Commerce, the Federal Reserve Board, the Department of Agriculture, and several other important independent establishments each have an interest in the problems here dealt with, and each have related studies now under way.

Moreover the whole problem of federal-local tax coordination is dependent upon the National Fiscal Policy, and cannot proceed without a concern for, and a knowledge of the ideas, the factors and the decisions which are involved.

There can be no practical outcome for this Project unless it is carried through in close collaboration with the Congressional leaders, who will in any case have much to contribute to its scientific and analytical aspects as well.

Equally important is collaboration with the leaders of state and local finance. A coordinated system cannot be erected without their co-operation.

The informed public, particularly the officers and paid staffs of financial, commercial, civic, labor, professional and research groups

throughout the land will demand a hearing, will have important contributions to make, and can help greatly in the final acceptance of the constructive program when developed. A sense of participation from the very beginning is half of the battle.

Each of the five areas of cooperation referred to in the foregoing paragraphs would seem to call for the most thoughtful and skillful attention, not only as a means of bringing together the best possible constructive program from the standpoint of the federal government and securing its adoption by the Administration and by Congress, but also as a means of bringing to the development of the program and to its adoption the full and enthusiastic support of public opinion and of responsible state and local officers as well.

Courage and Invention

At the center of this whole Project is the assumption that we in the United States have the brains and the ability to cut through our tax-tangles and their interrelated problems of government and of economics, and to invent practical solutions. This hope seems justified, provided we proceed without fear or inhibition on a foundation of research and a system of cooperation through which the ideas, however revolutionary, of qualified individuals and groups are brought to the surface and subjected to scrutiny. Under these conditions, a small, competent staff devoting itself to these problems, and to these problems alone, without interruption, will surely bring early results. The success of this approach in states like New York and Wisconsin has been notable, and the recent Canadian tax study is a further case in point.

A further factor is the increasing pressure of necessity, a pressure which will not diminish in the months that lie ahead. If necessity be the mother of invention, the coordinated tax system we seek is already in the womb of time.

Dissemination

Most research gathers dust on shelves because the academic mind finds such complete satisfaction in a printed report and such full immortality in footnote acknowledgments. If something more is desired in this Project, the objectives must be defined at the start and the appropriate steps taken from the very first. In the commercial field, few survive who do not consider what will be done with their wares, and from the first design their productive efforts to meet their sales problem.

In accordance with this philosophy, the proposed development of plans for coordinating federal, state and local tax systems should set as its objectives not primarily the production of research reports but primarily the development of a new, practical course of action and its adoption by the federal government and by the states and the localities.

The sales problem-- the problem of dissemination and implementation-- requires five related types of effort:

The public must know about the study and its objectives from the very first and must be encouraged to expect important results.

All important leadership groups must be drawn into the fact and opinion gathering stages of the work so that there is a widespread feeling of participation.

The form of all reports coming from the Project must be designed with the greatest care to suit each particular audience and the appropriate channels of dissemination must be utilized, including the leadership groups. In the issuance of any information or conclusions timing is of the essence.

To receive attention from the public or consideration from state and local officials, this Project must be a major interest of the Secretary of the Treasury and of Congressional leaders, and must have the full backing of the President.

Ultimately bills must be drafted for the federal aspects of the program as action is taken by enacting laws.

Staff

The work which has been outlined in the foregoing pages will require some such staff as the following:

Director of the Project
Private secretary

Assistant Director
Stenographers
Stenotypist (for hearings)
File clerk
Draughtsman
General and statistical clerk
Messenger

Bibliographer

Editor

Public Relations Counsel

Legal Counsel

Directors of Technical Studies
3— full time, for not less than one year
15-20— part time, for individual studies,
reports, and assignments.

If the Project is decided upon immediately, so that key members of the staff can be recruited on or before February 1, 1941, the research work should be completed early in 1942. Though certain of the conclusions could be acted upon by the Congress of 1942, the Project itself should be continued until about February, 1943. The Winter of 1942-1943 would be devoted to explanation and dissemination, and the staff would be somewhat changed for the purpose.

A considerable part of the service required could be performed by service divisions of the department. There is, however, certain advantage in having the same individuals assigned to this Project from start to finish.

If there is to be a Temporary National Tax Commission created by the Congress, or a similar Departmental Commission, allowance should be made for the travelling expenses of the group and for secretary of the commission itself.

In any case it is planned to appoint a Technical Advisory Committee of 20 to 25 men and women to consider the initial plans of research, to help make contacts throughout the country, to review the findings and recommendations, and then to assist in dissemination. While the members of this committee will not be compensated, it will be necessary to meet their travel expenses for five or six meetings during the course of the Project.

On the basis of a two-year time limit, the salary costs of the staff above may be estimated at about \$99,000 for the first twelve months, and \$65,000 for the second. This can be reduced somewhat through the use of departmental services. To this would be added the costs of holding about ten to fifteen hearings throughout the country, and the expenses of the Temporary National Tax Commission and of the Technical Advisory Group. Provision should be made for publication and wide circulation of the general summary report, and for a more limited distribution of the supporting volumes. The total cost thus estimated comes well within the \$500,000 budget expended in Canada for their comparable study.

December, 1940.

DEC 8 1940

My dear Mr. President:

Attached herewith is a draft of a letter addressed to Major Henry S. Hooker, concerning the aircraft purchasing program of the Netherlands.

Certain requests for the clearance of aircraft orders for the account of the Netherlands have not been granted due to the fact that no engines of the types required could be made available without interference with the defense program. These requests are being cleared, however, as rapidly as engines can be supplied for the particular planes required.

This office has been working closely with three official Netherlands purchasing commissions and with the Royal Netherlands Legation on all purchases of war supplies in this country.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Encs.

Original and 2 carbons
of draft of ltr. for Pres's signature.
Returning ltr. addressed to Maj. Hooker.

H.

PT:bj
11/29/40

By Messenger 1040

DEC 3 1940

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The White House.

PY:bj
11/29/40

By Messenger

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Faithfully yours,

(Signed) H. Morganthau, Jr.

The President,

The White House.

FY:bj
11/29/40

By Messenger

Dear Major Hooker:

The matter of aircraft orders for the Netherlands has been carefully investigated in the light of your letter of September 9th from Lieutenant Colonel A. Fischer of the Royal Netherlands Indies Ordnance Commission.

As of August 20, 1940, the Netherlands had on order in the United States 72 Brewster pursuit ships, 108 Brewster dive bombers, 24 Curtiss Interceptors, 64 Ryan trainers, and 2 fought Sikorsky amphibians. Of the 250 aircraft engines of various types required for these planes, 31 had originally been ordered by the Dutch Navy, 12 ordered by the Royal Dutch Airforce, and 30 ordered by the Dutch Army. Leaving a balance of 247 engines to be procured from whatever United States engine production capacity was available. These orders for both planes and engines were approved and cleared by the War Department, the Navy Department, and the Advisory Commission to the Council of National Defense through the President's Liaison Committee for the coordination of foreign purchases on September 4, 1940.

In addition, the Netherlands wished to place the orders referred to in Colonel Fischer's letter, namely, 72 Brewster pursuit ships, 54 Brewster dive bombers, 40 Consolidated PBY flying boats, 56 Curtiss Falcon pursuits, 28 Curtiss P-36 pursuits, 30 Lockheed transports, 6 Lockheed trainers, and 24 Ryan trainers. These were duly considered by the Advisory Commission, the War and Navy Departments, and the Aeronautical Board.

On September 4th, clearance and approval by the interested Government agencies was secured for the 36 Curtiss Falcon pursuits, the 20 Lockheed transports, the 24 Ryan trainers and for 36 of the 45 Consolidated PBY

flying bombs. Thus, of the total of 308 aircraft for which the Netherlands wished to place additional orders, clearance and approval was given on 116. Approval and clearance could not be given on the balance of 172 because engine production capacity was not available.

In those instances where clearance was given, the Netherlands already owned or had on order 86 engines which had been acquired from the British, 34 engines originally ordered by the Dutch Navy and 18 engines which had been bought secondhand from United States airlines. In all instances where clearance and approval was not granted, it was found that engines of the types required could not be made available without interference with the United States Government program. In addition, the Netherlands representatives were advised at the time clearance was given that orders for internal materials to be purchased, including guns, bombs, propellers, spare parts, etc., should be reduced proportionately.

Since September 9th, the date of Colonel Fischer's letter, the 72 Brewster pursuits which were not granted clearance on September 4th have been approved due to the fact that certain recommended engines have become available. Reconsideration is currently being given to some of the other Netherlands aircraft requests for the same reason. In almost every instance the determining factor has been availability of production capacity.

The Netherlands has the second largest foreign purchasing program in the United States and its requests for the purchase of war supplies are given every consideration and granted clearance wherever it is possible to do so.

Sincerely,

Major Henry S. Becker,
50 Broadway,
New York, New York.

PH:1

THE WHITE HOUSE
WASHINGTON

93

September 27, 1940

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

What can I tell Harry Hooker
in confidence about this?

F. D. R.

Enclosure

Mr. Young also has photostat of this letter.

ROYAL NETHERLANDS INDIES ORDNANCE COMMISSION

TELEPHONE CIRCLE 5-4691

Cable Address: RHIOC NEWYORK

10 ROCKEFELLER PLAZA

NEW YORK

ONLY HERE TO:

1865L/KA

September 9, 1940

Major Henry S. Hooker
50 Broadway
New York, New York

My dear Major Hooker:

Pursuant to our conversation at luncheon on Saturday, I should like very much to have the benefit of your advice concerning the difficulty in which we find ourselves in connection with our aircraft procurement program.

Several months ago, after extensive negotiations with various aircraft manufacturers in this country, we decided upon the purchase from them of a quantity of aircraft. At that particular time, the United States Government requested my Government to advise what aircraft it was our intention to purchase here. Accordingly, we held up the placing of orders and submitted to The Advisory Commission to the Council of National Defense our program, which consisted of the following:

	<u>Quantity</u>	<u>Type</u>	<u>Delivery Date</u>
1.	72	Brewster model 339 pursuit air-planes	Sept.-Dec. 1941
2.	54	Brewster model 340 dive bomber airplanes	Oct.-Dec. 1941
3.	36	Consolidated PBV-5 patrol bombers	Aug.-Nov. 1941
4.	12	" " " " " "	Dec.-1941 and Jan. 1942
5.	36	Curtiss Falcons model 22	Dec. 1940 and Feb. 1942
6.	28	Curtiss Model P36 pursuit planes	June and July 1941
7.	20	Lockheed Model 18 transport planes	Dec. 1940
8.	6	Lockheed Model 212 training planes	Jan.-March 1941
9.	24	Ryan Model PT-20 training planes	Oct. and Nov. 1940

In our negotiations with the manufacturers, we made it a point to ascertain that our purchase of the above would not interfere with your Government's procurement program. Only a week ago, alarmed by the delay of two months in receiving formal approval to proceed with the orders, we again inquired of the manufacturers involved whether there was any conflict between our own and the United States Govern-

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Major Henry S. Hooker

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ment's programs and were again reassured that there was none insofar as was disclosed by their negotiations with your Government to date. Therefore, it was a shocking surprise to us to be informed on Friday, September 6, that, with the exception of Items 3, 5, 7 and 9 of the above, we would not be permitted to place any of these orders.

Assuming that the manufacturers are not fully aware of your Government's future plans, it is still inconceivable to me that these plans are so definitely formulated that such a small quantity of aircraft to be delivered so far in the future could possibly interfere with them. It is likewise inconceivable to me that your Government's action is taken as a precaution against possible conflict with future plans not yet definitely formulated inasmuch as, if it so develops, your Government can always exercise its right of eminent domain and commandeer all or any of these aircraft that it may need. In the meantime, these orders will definitely assist your Government in its defense program by enabling the manufacturers to expand their facilities and organization.

My report of this official refusal, given my Government by overseas telephone on Friday, was received with complete incredulity. It is impossible to reconcile your Government's repeated official expressions of a desire that the Netherlands East Indies Government remain in status quo with its action in this matter which leaves my Government completely helpless to bolster its defenses. Other than this country, there is no source of supply that we can turn to for defensive weapons . . . certainly none that would be in keeping with the present foreign policies of both the Netherlands East Indies and the United States Governments.

It is my sincere hope that this action is the result of a misunderstanding and does not reflect the true attitude of your Government. I am sure that the latter is deeply concerned with the welfare of my country and with safeguarding, against transgression and seizure, its resources which are so valuable to the success of the national defense program of your country. I know of no better way to accomplish this than to assist us, without any cost to your Government in money or man power, to bolster our own defenses and enable us independently to defend these mutual assets, just as your Government is so unqualifiedly doing in the case of our allies, the British Empire.

I should greatly appreciate any information that you may be able to secure concerning the matter.

Very truly yours,

Lt.-Colonel A. FISCHER

ETR:BH

Chief