DIARY

Book 337

December 8 and 9, 1940

SECRET

BRITISH EMBASSY,
WASHINGTON, D.C.

December 8th, 1940

Dear Mr. Secretary,

In accordance with your request I enclose herein a secret memorandum regarding the shipping problem. Attached to this memorandum are two appendices, the first containing figures showing the amount of tonnage now actually available to the Allies and giving the figures for losses in recent months, and the second dealing with the ship-building situation in the United Kingdom and which sets out the kind of assistance that the Ministry of Shipping would like to obtain. These documents were not specially written for communication to the United States Government but I think you would like to see them. They were given to me just before I left London and have been brought up to date in the light of certain telegrams just received. I should emphasize, however, that the figures for the new ships/

The Honourable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

(ovm)

ships which it is hoped to have built in the United States should be regarded as provisional.

In addition to encouraging the construction of a large number of merchant vessels in this country there are of course a number of other methods by which the United States Government could greatly ease the present situation but I hardly think you would wish me to go into such matters in this letter. Perhaps however I may quote one concrete example to show the complication which arise from the Neutrality Act in its present form.

The British authorities are very anxious to be able to export military aircraft which they buy in this country to Takoradi in the Gold Coast where they would be reassembled and, I understand, used to reinforce our air force in the Middle East. Takoradi although a belligerent port is within the area regarded as "safe" according to Section 2 (g) of the Neutrality Act and American vessels may therefore carry goods to it. Such goods may not

however/

BRITISH EMBASSY,
WASHINGTON, D.C.

however include any war materials and thus American ships cannot be used to carry the aircraft from this country to the Gold Coast. There are extremely few British ships on the United States - West Africa run - in fact I am not sure if there are any such ships engaged in this trade at the moment - and the British authorities are therefore faced with the alternative of cutting down the number of aircraft which can be sent to Takoradi or taking off some British ships from the other routes in which they are so badly needed. If it were possible for American ships to carry the aircraft to Takoradi the situation would be immensely improved.

Believe me,

Dear Mr. Secretary,

Yours very sincerely,

Lothian

SHIPPING LOSSES AND REPLACEMENT

For the successful prosecution of the war, nothing is more urgently necessary than that the tonnage resources of Great Britain and her Allies should be maintained and augmented.

It is true that the accession of Allies who have important maritime fleets has put at the disposal of the Alliance a large number of vessels, but the effective importing capacity of this tonnage, like that of Great Britain herself, is reduced, far more seriously than is popularly supposed, by a number of war conditions. Moreover, much of this shipping is normally engaged in bringing goods to Great Britain. It is by no means all additional.

Measures essential to protection involve delays:- time awaiting convoy, resort to zigzagging and indirect routing and much time spent in arming vessels with guns and in degaussing them. Allied crews naturally demand armament, and the Norwegian and Dutch shipping chartered to the Minister of Shipping has been held in port for substantial periods in order to admit of this protection being given. Ultimately, of course, these measures reduce wastage but the first result is delay, and that delay may now affect Greek shipping, thus actually reducing its immediate value.

Under war conditions, moreover, especially when the ports have been subjected and remain subject to aerial bombardment, the turn-about of ships is less expeditious and docking repairs take longer than in time of peace.

Above all, the closing of the Mediterranean and the inability to use the French North African and Moroccan ports, consequent on the defection of France,

have/

have involved reliance upon much more distant sources of supply for certain important commodities, including iron ore, phosphates and barley, while the additional length of voyage to Egypt, India and the East entails a serious diminution in the importing capacity of our fleet.

The losses inflicted on shipping, British, Allied and Neutral, have become much more serious since the defection of France gave the enemy the use of all the French Channel and Atlantic ports. (Incidentally, this closed also the use of Bilbao and other ports in North Spain, our nearest source of supply of Iron Ore).

Paragraph (1) of Appendix I shows the total of British vessels of 1,600 gross tons and over (roughly the limit for overseas service in present conditions) at the outbreak of war - viz: Just under 14½ million gross tons of shipping. To this rather over 2 million gross tons has been added by capture, transfers from the Great Lakes, purchases from neutrals and new building. Acquisitions by capture cannot continue on any substantial scale and the field of purchase from neutrals is increasingly restricted. Practically all the vessels purchased have been secured from the United States, through the greatly appreciated good will of the Maritime Commission.

From paragraph (4) it is possible to see what a heavy drain direct naval and military requirements make upon shipping, and in particular, upon passenger ships and those mixed passenger and cargo liners which, by their high speed, are an important aid in importing essential supplies from the more distant sources.

After allowing for losses (as indicated in paragraph (3) of the Appendix) and for the tonnage withdrawn for naval and military purposes, there was at the end of October, 1940, just over 11 million gross tons of/

of shipping under the British flag, but much of this is required for essential trade of the Empire outside the United Kingdom. Moreover about 1½ million gross tons are at present under repair. The balance available for importing into the United Kingdom is therefore under 8 million gross tons. To this add about 2,400 thousand tons gross of neutral and allied shipping on time-charter to the Ministry of Shipping, together with about half a million tons gross on voyage charter (see paragraph 6).

If the dietary of the people and the supply of raw materials are to be maintained on a scale fully adequate to the war effort, a minimum import of 43 million tons (excluding oil) per annum should be achieved, although the necessity for a somewhat lower figure has been envisaged. In spite of the volume of shipping now secured, imports (excluding oil) fell in the last two months, when the closing of the Mediterranean, the loss of several near sources of supply and the heavier sinkings of the recent months began to show their full effects, to 3 million tons in September and slightly over 3 million tons in October (see paragraph 8), that is at the rate of import of only some 36,000,000 tons per annum.

The losses of British and foreign tonnage from all causes in recent months represents an annual wastage of 4½ million tons gross, and this can only be replaced by new building, of which we can probably supply only 1¼ million - leaving a deficit of some 3,000,000 tons to be supplied from elsewhere.

Steps have naturally been taken to increase and expedite new construction in this country and other parts of the British Empire. Apart from the very limited capacity of the yards in Hong Kong, this means substantially that we must look to the home yards.

Appendix/

Appendix II describes the programme at which we are aiming and the limitations upon it. We shall be fortunate if we attain next year an annual rate of output of $1\frac{1}{4}$ million gross tons, in view of the urgent claims of naval construction and the demands they make upon our resources in men, material and facilities.

The remarkable rapidity with which the merchant shipbuilding facilities of the United States were expanded and devoted to the Allied cause in the war of 1914-1918 suggests that similar assistance could now be made available, and it is urged that the United States production for Great Britain should be raised, as expeditiously as possible, so as at least to deliver 3 million gross tons, of which one third should be cargo and passenger linersof 15/16 knots speed, which are essential for the reasons elaborated in the Appendix.

It is specially important, if possible, to secure a number of these faster ships without delay and this could only be achieved by transferring to British account some of the vessels now under construction for the Maritime Commission.

A further direction in which assistance could be given to the war effort would be to widen the range of ports to which United States vessels can trade and also carry munitions and other war material (e.g. to South and East Africa), and if necessary, to amend the Neutrality Act.

Any measures which would make the numerous German, Danish, and Italian vessels sheltering in ports in North and South America available for service in connexion with the British war effort, without thereby allowing financial benefits to accrue to the Axis powers, would also greatly assist.

NOVEMBER, 1940

APPENDIX I

1. At the outbreak of war the ocean-going British Mercantile Marine (i.e. vessels of 1,600 gross tons and over) exclusive of tankers, consisted of some 2,500 vessels totalling 14½ million gross tons or 18½ million tons deadweight. These vessels were classified as follows:-

(Tonnage figures in thousands)

	Number	Gross tonnage	Deadweight
Passenger liners	93	968	485
Mixed passenger and cargo liners	444	3,433	2,845
Cargo liners	978	5,770	8,141
Tramps	1,009	4,235	7,221
	2,524	14,406	18,692

2. From that date and up to 27th October last the following additional tonnage has come under the British Flag:-

(Tonnage figures in thousands)

	Number	Gross tonnage	Deadweight
(a) New Vessels	126	771	1,038
(b) Purchases from neutrals	62	325	497
(c) Prizes, ex French and Danish tonnage and transfers from the Great Lakes	256	994	1,308
	444	2,090	2,843

The acquisitions under (c) are of a non-recurring nature.

3. The losses of the British Mercantile Marine from enemy action and other causes up to the same date were:-

(Tonnage figures in thousands)

Number	Gross tonnage	Deadweight
374	2,044	2,873

From the beginning of the war up to the end of May, these losses averaged 4 vessels per week totalling 20 thousand tons gross or 30 thousand tons deadweight. In the succeeding period up to the 27th of October the weekly losses averaged 10 vessels of 60 thousand gross tons or 81 thousand tons dead weight, i.e. the losses in the

later/

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later period were at a rate nearly three times that experienced in the earlier period.

The losses are continuing at a high level.

4. The ocean-going British vessels diverted to naval and military purposes at the present time, i.e. at 20th October, 1940, are as follows:-

(Tonnage figures in thousands)

	Number	Gross tonnage	Deadweight
Passenger liners	62	736	350
Mixed passenger and cargo liners	136	1,512	1,084
Cargo liners	132	742	1,021
Tramps	74	257	410
	404	3,247+	2,865

+Between 20th October and 3rd November this total had increased by approximately 100,000 tons.

5. Accordingly, there are now about 2,200 vessels of 11 million gross tons or 15¾ million deadweight under the British Flag with which to transport all the vital supplies of food and munitions for the United Kingdom and the Empire, in comparison with the figures shown in paragraph 1 above. The classification of these vessels is approximately as follows:-

(Tonnage figures in thousands)

	Number	Gross tonnage	Deadweight
Passenger liners	25	257	109
Mixed passenger and cargo liners	299	1,869	1,729
Cargo liners	811	4,756	6,696
Tramps	1,055	4,313	7,263
	2,190	11,195	15,797

An appreciable part of this tonnage is engaged in serving the Dominions and Colonies.

6. Allied and Neutral vessels on time charter to the United Kingdom as at 31st October, and thus in the direct service of this country comprise:

(Tonnage/

(Tonnage figures in thousands)

	Number	Gross tonnage	Deadweight
On Naval and Military service	30	259	155
On other service:			
Liners	143	803	1,185
Tramps	346	1,357	2,242
	519	2,419	3,582

In addition, some Allied and Neutral vessels not under time charter to the United Kingdom still engage in trade with this country.

7. It must not be inferred that the great volume of time chartered Allied and Neutral tonnage represents an addition to the tonnage resources available for the importing work of the United Kingdom as compared with pre-war conditions. Much of it is normally engaged in bringing supplies to the United Kingdom. Delays due to the need for convoys, the routing via the Cape owing to the closing of the Mediterranean, port delays, the increased volume of tonnage under repair and general war-time restrictions reduce the effective carrying capacity of tonnage. Near European sources of supply are no longer available.

8. Our pre-war imports (1937) averaged 5,010 thousand tons per month excluding tanker cargoes. The corresponding average imports during the first year of the war amounted to 3,670 thousand tons. In recent months the record of imports has been as follows:-

1940	(Thousand tons)
April	4,207
May	4,177
June	4,054
July	3,389
August	3,939
September	3,017

Similar figures are not yet available for October. The present indications are that imports for that month may be a little less than those for September.

Our programme of requirements (other than oil)

for/

for the second year of war amounts to 43 million tons:-

Ministry of Food	19 million
Ministry of Supply	23 million
Miscellaneous	1 million
	43 million tons per annum

or 3,600 thousand tons per month

9. Losses of tonnage (other than tankers) from all causes in recent months represents an annual depletion of tonnage available by 4½ million tons gross or 6¼ million tons dead weight. The recorded figures for vessels of 1,600 gross tons and over give the annual rates as follows:-

	Million Gross tons	Million Deadweight tons
British (based on 21 weeks 10/6 to 3/11)	3.1	4.2
Foreign (based on 20 weeks 10/6 to 27/10)	1.4	2.1
	4.5	6.3

SECRET APPENDIX II

The position in British shipyards.

The maximum output to which British shipyards can attain in wartime is not likely to exceed 1,250,000 gross tons per annum. Pre-war planning did not assume any higher figure because it was realised that naval requirements would have to take first place.

(In the first year of war the actual amount of new tonnage produced was 760,000 gross tons.)

The output of new merchant ships is further affected by the heavy burden of fitting and repair work on existing ships arising from war-risk damage, collision in convoy, defensive arming, degaussing and protection against air attack. So serious have been the demands on labour for these purposes that the Ministry of Shipping is encouraging owners to carry out repairs abroad to the maximum extent possible by means of grants towards the extra cost.

Marine engineering labour has been particularly affected by demands made for war production in other branches of the engineering industry, and engines for merchant ships have had to take second priority to those for naval vessels, with the result that engine production has lagged behind the completion of hulls.

Notwithstanding the heavy demands for skilled labour in other directions, shipyard labour has shown a substantial growth since September, 1939, but, for the reasons given, little of this increase has been available for new merchant ship construction..

Finally, shortage of steel supplies has retarded output: this arises from the loss of ore supplies from Sweden, of heavy forgings for crank-shafts, etc. from Norway and Belgium, and of steel from

Luxemburg/

Luxemburg and France. Deficiencies have to be made good by imports from more distant sources, including steel plates from U.S.A.

Type of vessels being constructed.

In order to achieve the maximum of carrying power, the Ministry of Shipping has arranged that the Merchant Shipbuilding Department of the Admiralty are concentrating on the construction of simple types of cargo ships with speeds not exceeding 12 knots, and on tankers. Save for a small number of cargo liners ordered on Government contracts at the outbreak of war and for those liners building on private account (mostly ordered before the outbreak of war), there has been a rigorous exclusion of everything save tonnage for cargoes in bulk.

A tabular statement is annexed showing the different types expected to be completed between 1st October, 1940 and 30th September, 1941.

Construction outside the United Kingdom.

Apart from Hong Kong, where the yards are being employed to the maximum in producing merchant tonnage for the Ministry of Shipping (35,000 gross tons per annum), the only countries outside the United Kingdom capable of building ocean-going vessels are Canada and the United States.

In view of the obvious seriousness of the position through losses in recent months, the First Lord of the Admiralty and the Minister of Shipping have been authorised by the Government to arrange for the placing of orders for 60 cargo tramps in the United States, and it is understood that the work is being entrusted to the Todd Shipyard Corporation. These vessels will be delivered between the Autumn of 1941 and the end of 1942, and will mean an addition to the British Mercantile

Marine/

Marine of 400,000 gross tons; of this 300,000 gross tons will be produced in the third year of war, bringing the total output for the year from all sources to about 1¼ million gross tons of ocean going vessels excluding tankers, which is only a quarter of the present annual rate of loss of tonnage in Allied service.

Essential needs over and above the foregoing Programme

It is the opinion of the Minister of Shipping that the aim of tonnage output outside the United Kingdom in the third year of war, or as soon as possible, should be 3,000,000 gross tons, of which a small proportion may be built in Canada; that is to say, instead of 400,000 gross tons the United States production for Great Britain should be 3,000,000 gross tons at least. This should be divided as follows:-

Cargo tramps	2,025,000 gross tonnage (300 instead of 60 ships)
Cargo and passenger liners (of 15-16 knots speed)	975,000 gross tonnage (95 ships)

(It may be necessary to substitute some tankers for cargo tramps, but this is a matter for adjustment between the United Kingdom and United States production).

Cargo and Passenger Liners.

The passenger and cargo liner position in the United Kingdom is rapidly becoming acute owing to the diversion of this type of ship to naval and military purposes, and to the substantial number of such vessels which have been lost while on naval service as armed merchant cruisers: these must be replaced by drawing on existing liners engaged in maintaining the much restricted, though vitally essential, services throughout the Empire. The construction of this type of vessel in place of cargo vessels would substantially diminish output in the United Kingdom, viz: 20 such ships would result in a diminished

tonnage/

tonnage output of 80,000 gross tons per annum. The maintenance of British Forces in the Near East entails voyages by the Cape which take four times the time occupied by direct voyages through the Mediterranean, and the provision of additional fast tonnage of these types for carrying troops and military stores is essential in order that vigorous prosecution of the war in the Eastern Mediterranean may not be jeopardized.

It is therefore a matter of the first importance that the United States Government should anticipate output by assisting the British Government to take over tonnage of which the construction is already well advanced and, in particular, vessels of the fast cargo and passenger type. Even twenty such vessels available in the next six months will help at a critical period. A first step in this direction is already being taken in the request made to the United States Government to place at our service for operational use with the British Navy two 18-knot tankers in private American ownership, but the disposal of which is controlled by the Maritime Commission.

TABLE

SUMMARY OF ESTIMATED DELIVERIES - MERCHANT SHIPBUILDING,

IN EACH QUARTER FROM 1st OCTOBER 1940 - 30th SEPTEMBER, 1941.

TYPE OF VESSEL	OCT - DEC. 1940			JAN - MAR. 1941			APL. - JUNE 1941			JULY - SEPT. 1941			TOTAL		
	No.	G.T.	D.W.	No.	G.T.	D.W.	No.	G.T.	D.W.	No.	G.T.	D.W.	No.	G.T.	D.W.
CARGO LINERS	10	55985		11	87635		5	38530		3	23600		29	206750	
CARGO TRAMPS	27	156795		24	155055		30	202715		23	156020		104	669585	
TANKERS	6	48940		13	106450		8	66790		8	67550		35	289730	
COLLIERS	5	12800		9	23080		7	17250		1	2800		22	55930	
COASTERS	12	7175		20	12095		3	1390		3	2585		38	23245	
TOTAL	60	281,695		77	384,315		53	327,675		38	251,555		228	1,245,240*	

* Excluding sundry small vessels

11th November, 1940

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SECRET AND PERSONAL

British Embassy,
Washington, D. C.,

December 8th, 1940

Dear Mr. Secretary:

I enclose herein a letter for the President forwarding a secret and personal letter for him from the Prime Minister. A copy of Mr. Churchill's letter is enclosed herein for your personal information.

I should be very grateful if the letter could be sent on to the President at the earliest possible moment. I hope it may be possible to send it by sea plane, because the Prime Minister is most anxious that the President should have time to read it carefully while on his cruise and before he gets back to the bustle of Washington.

I should also be greatly obliged if the enclosed letter from myself to Mr. Henry Hopkins could be sent at the same time.

Believe me,

Dear Mr. Secretary,

Yours very sincerely,

(Signed) L. Lothian

The Honourable
Cordell Hull,
Secretary of State of the United States,
Washington, D. C.

15-B

BRITISH EMBASSY,
WASHINGTON, D. C.
December 7th 1940

My dear Mr. President,

As we reach the end of this year I feel that you will expect me to lay before you the prospects for 1941. I do so strongly and confidently because it seems to me that the vast majority of American citizens have recorded their conviction that the safety of the United States as well as the future of our two democracies and the kind of civilisation for which they stand are bound up with the survival and independence of the British Commonwealth of Nations. Only thus can those bastions of sea-power, upon which the control of the Atlantic and the Indian Oceans depends, be preserved in faithful and friendly hands. The control of the Pacific by the United States Navy and of the Atlantic by the British Navy is indispensable to the security of the trade routes of both our countries and the surest means to preventing the war from reaching the shores of the United States.

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2. There is another aspect. It takes between three and four years to convert the industries of a modern state to war purposes. Saturation point is reached when the maximum industrial effort that can be spared from civilian needs has been applied to war production. Germany certainly reached this point by the end of 1939. We in the British Empire are now only about half-way through the second year. The United States, I should suppose, was by no means so far advanced as we. Moreover, I understand that immense programmes of naval, military and air defence are now on foot in the United States, to complete which certainly two years are needed. It is our British duty in the common interest as also for our own survival to hold the front and grapple with Nazi power until the preparations of the United States are complete. Victory may come before the two years are out; but we have no right to count upon it to the extent of relaxing any effort that is humanly possible. Therefore I submit with very great respect for your good and friendly consideration that there is a solid identity of interest between the British Empire and the United

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States while those conditions last. It is upon this footing that I venture to address you.

3. The form which this war has taken and seems likely to hold does not enable us to match the immense armies of Germany in any theatre where their main power can be brought to bear. We can however by the use of sea power and air power meet the German armies in the regions where only comparatively small forces can be brought into action. We must do our best to prevent German domination of Europe spreading into Africa and into Southern Asia. We have also to maintain in constant readiness in this Island armies strong enough to make the problem of an overseas invasion insoluble. For these purposes we are forming as fast as possible, as you are already aware , between fifty and sixty divisions. Even if the United States was our ally instead of our friend and indispensable partner we should not ask for a large American expeditionary army. Shipping, not men, is the limiting factor and the power to transport munitions and supplies claims priority over the movement by sea of large numbers of soldiers.

4. The first half of 1940 was a period of

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disaster for the Allies and for the Empire. The last five months have witnessed a strong and perhaps unexpected recovery by Great Britain; fighting alone but with invaluable aid in munitions and in destroyers placed at our disposal by the great Republic of which you are for the third time chosen Chief.

5. The danger of Great Britain being destroyed by a swift overwhelming blow has for the time being very greatly receded. In its place there is a long, gradually maturing danger, less sudden and less spectacular but equally deadly. This mortal danger is the steady and increasing diminution of sea tonnage. We can endure the shattering of our dwellings and the slaughter of our civilian population by indiscriminate air attacks and we hope to parry these increasingly as our science develops and to repay them upon military objectives in Germany as our Air Force more nearly approaches the strength of the enemy. The decision for 1941 lies upon the seas; unless we can establish our ability to feed this Island, to import munitions of all kinds which we need, unless

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we can move our armies to the various theatres where Hitler and his confederate Mussolini must be met, and maintain them there and do all this with the assurance of being able to carry it on till the spirit of the continental dictators is broken, we may fall by the way and the time needed by the United States to complete her defensive preparations may not be forthcoming. It is therefore in shipping and in the power to transport across the oceans, particularly the Atlantic Ocean, that in 1941 the crunch of the whole war will be found. If on the other hand we are able to move the necessary tonnage to and fro across the salt water indefinitely, it may well be that the application of superior air power to the German homeland and the rising anger of the German and other Nazi-gripped populations will bring the agony of civilization to a merciful and glorious end. But do not let us underrate the task.

6. Our shipping losses, the figure for which in recent months are appended, have been on a scale almost comparable to that of the worst years of the last war. In the 5 weeks ending November 3rd the

losses reached a total of 420,300 tons. Our estimation of the annual tonnage which ought to be imported in order to maintain our war effort at full strength is 43,000,000 tons; the tonnage entering in September was only at the rate of 37,000,000 tons and in October at 38,000,000 tons. Were the diminution to continue at this rate it would be fatal, unless indeed immensely greater replenishment than anything at present in sight could be achieved in time. Although we are doing all we can to meet this situation by new methods, the difficulty of limiting the losses is obviously much greater than in the last war. We lack the assistance of the French Navy, the Italian Navy and the Japanese Navy, and above all the United States Navy, which was of such vital help to us during the culminating years. The enemy commands the ports all around the northern and western coast of France. He is increasingly basing his submarines, flying boats and combat planes on these ports and on the islands off the French coast. We lack the use of ports or territory in Eire in which to organise our coastal patrols by air and sea. In fact, we have now only one effective passage of entry to the British Isles namely, the northern approach, against which the enemy is increasingly concentrating, reaching over farther out by U-boat action and long distance bombing. In addition, there have for some months been merchant ship raiders both in the Atlantic and in the Indian Oceans. And now we have powerful warship raiders to contend with as well. We need ships both to hunt down and to escort. Large as are our resources and preparations we do not possess enough.

7. The next six or seven months bring the relative battleship strength in home waters to a smaller margin than is satisfactory. The "Bismark" and the "Tirpitz" will certainly be in service in January. We have already the "King George V" and hope to have the "Prince of Wales" at the same time. These modern ships are of course far better armoured, especially against air attack, than vessels like the "Rodney" and "Nelson" designed twenty years ago. We have recently had to use the "Rodney" on trans-Atlantic escort and at any time when numbers are so small, a mine or a torpedo may

alter decisively the strength of the line of battle. We get relief in June when the "Duke of York" will be ready and will be still better off at the end of 1941 when the "Anson" also will have joined. But these two first class, modern, thirty-five thousand ton, fifteen inch gun German battleships force us to maintain a concentration never previously necessary in this war.

8. We hope that the two Italian "Littories" will be out of action for a while and anyway they are not so dangerous as if they were manned by the Germans. Perhaps they might be! We are indebted to you for your help about the "Richelieu" and the "Jean Bart" and I daresay that will be all right. But, Mr. President, as no one will see more clearly than you, we have during these months to consider for the first time in this war, a fleet action in which the enemy will have two ships at least as good as our two best and only two modern ones. It will be impossible to reduce our strength in the Mediterranean because of the attitude of Turkey and indeed the whole position in the Eastern basin depends upon our having

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a strong fleet there. The older un-modernized battleships will have to go for convoy. Thus even in the battleship class we are at full extension.

9. There is a second field of danger: the Vichy Government may either by joining Hitler's new order in Europe or through some manoeuvre such as forcing us to attack an expedition despatched by sea against free French Colonies, find an excuse for ranging with the Axis Powers the very considerable undamaged naval forces still under its control. If the French Navy were to join the Axis, the control of West Africa would pass immediately into their hands with the gravest consequences to our communication between the northern and southern Atlantic, and also affect Dakar and of course thereafter South America.

10. A third sphere of danger is in the Far East. Here it seems clear that the Japanese are thrusting Southward through Indo China to Saigon and other naval and air bases, thus bringing them within a comparatively short distance of Singapore and the Dutch East Indies. It is reported that the Japanese are preparing five good divisions for possible use as an overseas expeditionary force. We have to-day no forces in the Far East

capable of dealing with this situation should it develop.

11. In the face of these dangers, we must try to use the year 1941 to build up such a supply of weapons, particularly aircraft, both by increased output at home in spite of bombardment, and through ocean-born supplies, as will lay the foundation of victory. In view of the difficulty and magnitude of this task, as outlined by all the facts I have set forth to which many others could be added, I feel entitled, nay bound, to lay before you the various ways in which the United States could give supreme and decisive help to what is, in certain aspects, the common cause.

12. The prime need is to check or limit the loss of tonnage on the Atlantic approaches to our Islands. This may be achieved both by increasing the naval forces which cope with attacks, and by adding to the number of merchant ships on which we depend. For the first purpose there would seem to be the following alternatives:

(1) the reassertion by the United States of the doctrine of the freedom of the seas from illegal and barbarous warfare in accordance with the decisions reached after

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the late Great War, and as freely accepted and defined by Germany in 1935. From this, the United States ships should be free to trade with countries against which there is not an effective legal blockade.

(2) It would, I suggest, follow that protection should be given to this lawful trading by United States forces i.e. escorting battleships, cruisers, destroyers and air flotillas. Protection would be immediately more effective if you were able to obtain bases in Eire for the duration of the war. I think it is improbable that such protection would provoke a declaration of war by Germany upon the United States though probably sea incidents of a dangerous character would from time to time occur. Hitler has shown himself inclined to avoid the Kaiser's mistake. He does not wish to be drawn into war with the United States until he has gravely undermined the power of Great Britain. His maxim is "one at a time". The policy I have ventured to outline, or something like it, would constitute a decisive act of constructive non-belligerency by the United States, and more than any other measure

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would make it certain that British resistance could be effectively prolonged for the desired period and victory gained.

(3) Failing the above, the gift, loan or supply of a large number of American vessels of war, above all destroyers already in the Atlantic, is indispensable to the maintenance of the Atlantic route. Further, could not United States naval forces extend their sea control over the American side of the Atlantic, so as to prevent molestation by enemy vessels of the approaches to the new line of naval and air bases which the United States is establishing in British islands in the Western Hemisphere. The strength of the United States naval forces is such that the assistance in t he Atlantic that they could afford us, as desribed above, would not jeopardize control over the Pacific.

(4) We should also then need the good offices of the United States and the whole influence of its Government continually exerted, to procure for Great Britain the necessary facilities upon the southern and western shores of Eire for our flotillas, and still more

important, for our aircraft, working westward into the Atlantic. If it were proclaimed an American interest that the resistance of Great Britain should be prolonged and the Atlantic route kept open for the important armaments now being prepared for Great Britain in North America, the Irish in the United States might be willing to point out to the Government of Eire the dangers which its present policy is creating for the United States itself.

His Majesty's Government would of course take the most effective steps beforehand to protect Ireland if Irish action exposed it to a German attack. It is not possible for us to compel the people of Northern Ireland against their will to leave the United Kingdom and join Southern Ireland. But I do not doubt that if the Government of Eire would show its solidarity with the democracies of the English speaking world at this crisis a Council of Defence of all Ireland could be set up out of which the unity of the island would probably in some form or other emerge after the war.

13. The object of the foregoing measures is to

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reduce to manageable proportions the present destructive losses at sea. In addition it is indispensable that the merchant tonnage available for supplying Great Britain and for the waging of the war by Great Britain with all vigour, should be substantially increased beyond the one and a quarter million tons per annum which is the utmost we can now build. The convoy system, the detours, the zig-zags, the great distances from which we now have to bring our imports, and the congestion of our western harbours, have reduced by about one third the value of our existing tonnage. To ensure final victory, not less than three million tons of additional merchant shipbuilding capacity will be required. Only the United States can supply this need. Looking to the future it would seem that production on a scale comparable with that of the Hog Island scheme of the last war ought to be faced for 1942. In the meanwhile, we ask that in 1941 the United States should make available to us every ton of merchant shipping, surplus to its own requirements, which it possesses or controls and should find some means of putting into our "hands" a large proportion of the merchant shipping now under construction for the National Maritime Board.

14. Moreover we look to the industrial energy of the Republic for a reinforcement of our domestic capacity to manufacture combat aircraft. Without that reinforcement reaching us in a substantial measure, we shall not achieve the massive preponderance in the air on which we must rely to loosen and disintegrate the German grip on Europe. The development of the Air Forces of the Empire provides for a total of nearly 7000 combat aircraft in the fighting squadrons by the spring of 1942, backed by about an equal number in the training units. But it is abundantly clear that this programme will not suffice to give us the weighty superiority which will force open the doors of victory. In order to achieve such superiority it is plain that we shall need the greatest production of aircraft which United States of America are capable of sending us. It is our anxious hope that in the teeth of continuing bombardment we shall realize the greater part of production which we have planned in this country. But not even with the addition to our squadrons of all the aircraft which under present arrangements,

15-G

we may derive from the planned output in the United States can we hope to achieve the necessary ascendancy. May I invite you then, Mr. President, to give earnest consideration to an immediate order on joint account for a further 2,000 combat aircraft a month? Of these aircraft I would submit that the highest possible proportion should be heavy bombers, the weapon on which above all others we depend to shatter the foundations of German military power. I am aware of the formidable task that this would impose upon the industrial organization of the United States. Yet, in our heavy need, we call with confidence to the most resourceful and ingenious technicians in the world. We ask for an unexampled effort believing that it can be made.

15. You have also received information about the needs of our armies. In the munitions sphere, in spite of enemy bombing, we are making steady progress. Without your continued assistance in the supply of machine tools and in the further release from stock of certain articles we could not hope to equip as many as 50 divisions in 1941. I am grateful

15-R

for the arrangements already practically completed for your air in the equipment of the army which we have already planned and for the provision of American-type weapons for an additional 10 divisions in time for the campaign of 1942. But when the tide of dictatorship begins to recede, many countries, trying to regain their freedom, may be asking for arms, and there is no source to which they can look except to the factories of the United States. I must therefore also urge the importance of expanding to the utmost American productive capacity for small arms, artillery and tanks.

16. I am arrangingto present you with a complete programme of munitions of all kinds which we seek to obtain from you, the greater part of which is of course already agreed. An important economy of time and effort will be produced if the types selected for the United States Services should,whenever possible, conform to those which have proved their merit under actual conditions of war. In this way reserves of guns and ammunition and of aeroplanes become inter-changeable and are by that very fact augmented. This is however a sphere so highly technical that I do not enlarge upon it.

17. Last of all I come to the question of finance. The more rapid and abundant the flow of munitions and ships which you are able to send us, the sooner will our dollar credits be exhausted. They are already as you know very heavily drawn upon by payments we have made to date. Indeed as you know orders already placed or under negotiation, including expenditure settled or pending for creating munitions factories in the United States, many times exceed the total exchange resources remaining at the disposal of Great Britain. The moment approaches when we shall no longer be able to pay cash for shipping and other supplies. While we will do our utmost and shrink from no proper sacrifice to make payments across the exchange, I believe that you will agree that it would be wrong in principle and mutually disadvantageous in effect if, at the height of this struggle, Great Britain were to be devested of all saleable assets so that after victory was won with our blood, civilisation saved and time gained for the United States to be fully armed against all eventualities, we should stand stripped to the bone.

Such a course would not be in the moral or economic interests of either of our countries. We here would be unable after the war to purchase the large balance of imports from the United States over and above the volume of our exports which is agreeable to your tariffs and domestic economy. Not only should we in Great Britain suffer cruel privations but widespread unemployment in the United States would follow the curtailment of American exporting power.

18. Moreover I do not believe the Government and people of the United States would find it in accordance with the principles which guide them, to confine the help which they have so generously promised only to such munitions of war and commodities as could be immediately paid for. You may be assured that we shall prove ourselves ready to suffer and sacrifice to the utmost for the Cause, and that we glory in being its champion. The rest we leave with confidence to you and to your people, being sure that ways and means will be found which future generations on both sides of the Atlantic will approve and admire.

15-U

19. If, as I believe, you are convinced, Mr. President, that the defeat of the Nazi and Fascist tyranny is a matter of high consequence to the people of the United States and to the Western Hemisphere, you will regard this letter not as an appeal for aid, but as a statement of the minimum action necessary to the achievement of our common purpose.

I remain,

Yours very sincerely,

Winston S. Churchill.

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The following figures show losses by enemy action of British, Allied and Neutral merchant tonnage for the periods given. Vessels of all tonnage are included but no commissioned ships.

Week ended	British		Allied		Neutral		Total: British-Allied-Neutral	
	No.	Gr. Tons.	No.	Gr. Tons	No.	Gr. Tons	No.	Gr. Tons.
June 2, 1940	28	79,415	5	25,137	2	4,375	35	108,927
" 9, "	13	49,762	8	22,253	4	14,750	25	86,765
" 16, "	15	60,006	10	40,216	6	23,170	31	123,392
" 23, "	16	91,373	12	81,742	12	39,159	40	212,274
" 30, "	6	30,377	4	13,627	5	19,332	15	63,336
TOTAL	78	310,933	39	182,972	29	100,786	146	594,694
Week ended								
July 7, 1940	14	75,888	4	18,924	5	21,968	23	116,780
" 14, "	10	40,469	5	13,159	7	24,845	22	78,473
" 21, "	12	42,463	2	3,679	7	13,723	21	59,865
" 28, "	18	65,601	2	7,090		NIL	20	72,691
TOTAL	54	224,421	13	42,852	19	60,536	86	327,809
Week ended								
Aug. 4, 1940	14	67,827	2	7,412	5	13,768	21	89,007
" 11, "	9	32,257	2	7,674	2	6,708	13	46,639
" 18, "	10	41,175	1	7,590	2	4,134	13	52,899
" 25, "	20	108,404	1	1,718	2	8,692	23	118,814
Sep. 1, "	12	62,921	5	15,038	5	18,460	22	96,419
TOTAL	65	312,584	11	39,432	16	51,762	92	403,778
Week ended								
Sep. 8, 1940	13	44,975	4	18,499	3	13,715	20	77,189
" 15, "	13	55,153	4	12,575	3	7,379	20	75,107
" 22, "	22	148,704	3	13,006	5	14,425	30	176,135
" 29, "	11	56,096	4	12,119	2	7,351 ?	17	75,566
TOTAL	59	304,928	15	56,199	13	42,871	87	403,997
Week ended								
Oct. 6, 1940	8	30,888	3	5,742	1	3,687	12	40,318
" 13, "	10	52,668	8	17,537	4	14,544	17	84,749
" 20, "	34	154,279	7	24,686	[illegible]	26,816	47	[illegible]
" 27, "	6	9,986	2	6,874	1	1,583	9	[illegible]
Nov. 3, "	13	65,609	4	5,403		NIL	17	71,012
TOTAL	71	313,428	19	60,242	12	46,630	102	420,300

[We]ek ended	British		Allied		Neutral		Total: British-Allied-Neutral	
	No.	Gr.Tons	No.	Gr.Tons	No.	Gr.Tons	No.	Gr.Tons
[No]v.10,1940	11	69,110	2	10,236	2	8,617	15	87,963
" 17, "	15	57,977	3	15,383	1	1,316	19	74,676
" 24, "	19	75,560	3	12,415		NIL	22	87,975
TOTAL	45	202,647	8	38,034	3	9,933	56	250,614

Grand Totals to November 24th, 1940.

372	1668,941	105	419,734	92	312,517	569	2401,192

Notes: Week ended November 24th is the last full week for which details are available and from the nature of the circumstances must be considered provisional.

For the specified period the following commissioned ships of [5]00 gross tons and over (formerly merchant vessels) have been lost by enemy action: 20 vessels of 183,000 gross tons approximately.

Paraphrase of Code Radiogram
Received at the War Department
at 10:35, December 8, 1940.

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London, filed 14:15, December 8, 1940.

1. On Saturday, December 7th, the Bomber Command successfully attacked Zeebrugge and two other occupied naval bases. The preceding night heavy and medium bombers launched a sustained heavy attack on all of the principal German airdromes in the occupied countries. They were reported to be highly successful. From heights as low as 500 feet British planes machine-gunned some of the fields and the German planes which were preparing to take off for attacks on Britain. Successful attacks were also delivered against the main invasion ports. The Coastal Command dispatched convoy escorts, reconnaissances and 26 patrol missions.

2. During daylight hours of December 7th about 110 German planes carried out one attack along the southeast coast, patrolled the Dover Straits and the English Channel, and made reconnaissance flights. That night there were no reports of German aerial activity over Britain.

3. The British lost no planes while the Germans lost one confirmed and one probable.

4. During daylight hours of December 6th about 60 German planes flew over the British Isles; while about 70 operated that night.

5. The reason for the marked decrease in German aerial operations during the last few days cannot be diagnosed. The weather last night was perfect for bombing and yet there was no

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activity. Many explanations are possible but all are inconclusive.

6. British planes again attacked Valona, Albania, and many effective direct hits were seen. Patrols over Athens were maintained. British planes machine-gunned Italian troops west of Sarande (?).

7. On December 6th the Greek forces in the northern sector had reached Mount Kamia, west of Pogradec, thence to the north-south line: Peshtan-Protopapa. In the Pindus sector they have occupied the high ground two kilometers west of Backa, thence along a line to the south through Pentoum and Hotove (?). In the Epirus sector the Greeks captured the mountains above Radat and have occupied Sarande.

LEE

Distribution:
- Military Aide to the President
- Secretary of War
- State Department
- Secretary of Treasury
- Asst. Secretary of War
- Chief of Staff - 2
- War Plans Division
- Office of Naval Intelligence
- G-3
- AC - 2

December 8, 1940

(Dictated December 9, 1940)

I spoke to Jerome Frank at 10 o'clock Sunday night, and he wanted to know if I had promised the Gianninis anything in regard to bank branches. He seemed very much upset and said that Jones, Goldwater, who is Flynn's partner, and a man by the name of Malone connected with the Democratic State Organization in California had been after him to postpone the hearing on Transamerica which is to start Monday. Frank said it was intimated to him that I had made certain promises to Flynn in regard to the Gianninis. I told him I had made no promises to anybody; that I had spoken to the President the week before election, explained to him that I had made no promises, and the President had not asked me to make any promises, and that the only statement that I made was to Jones that I would take a look at the Bank of America and Transamerica applications for new branches after election. That was all.

Frank said he was sure I had not made any promises but they kept intimating I had. The thing that seemed to worry him the most was that possibly they would get a message to the President, and that the President would want him to postpone the date of the hearing. I gave him unconditional guarantee that the President would not interfere, and that seemed to reassure him. I also told him I hoped he would go ahead on Monday, and he said he was going to.

I told Frank we were thinking of granting one branch to the Bank of America. He said he had no interest in the Bank of America branches.

I also informed Frank that I had it under consideration that before I did anything with Transamerica I would consult the appropriate committees on the Hill. He thought that was a wonderful idea. I also said that before I took any steps I would talk with him. I told him Haas was preparing charts on Transamerica with the assistance of SEC. He didn't seem to know about it.

The best way I can describe Frank is that he seemed to have an awful attack of jitters. I told him that Jones had talked to me at 10 o'clock Sunday morning and hadn't mentioned anything about this, and that seemed to surprise him. He said he could not understand why Jones took such an interest in the Gianninis, and he asked me whether I knew or had I heard that Jones is a Catholic and that that is why he is so interested? I said I didn't believe Jones was Catholic, but I agreed with him that Jones' interest in the Gianninis was a great mystery.

December 8, 1940

(Dictated December 9, 1940)

Sunday at 10:00 a.m., Jones called me in answer to my previous call, and I explained to him what we were doing in regard to tax exemption. I told him that I did not want him to borrow any more money in the market for the time being with tax exempt securities, and that we would lend him the money at the market rate. I told him that I wanted to have his answer by 3:00 p.m. Monday. He seemed a little doubtful about it, but if I don't hear from him by 3 o'clock, I am going to call him.

GROUP MEETING

December 9, 1940
9:30 a.m.

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

H.M.Jr: I want to beg off on that 10:30 appointment with Graves and Thompson. Ask Mac to give you another one. I just can't. I am all booked up.

I thought in view of the funny way that Harold Smith has been acting I would tell him not to come, that I don't want to be in any way handicapped by - he was afraid about that other man talking. I want to talk freely. We have got the information, anyway. So I don't want to feel I am under any obligations not to talk.

Bell: Well, he wanted you to know that he would like to come and talk to you. He didn't want you to feel that this was in any way an attempt to get out of this conference at all. He always likes to talk to you and keep you fully informed, but he has had a lot of difficulty this last year.

H.M.Jr: Well, I don't want my hands tied.

Bell: You mean talking publicly?

H.M.Jr: Yes.

Bell: Of course, that is a presidential matter. It is the President's budget and I do believe he would have no control over it.

H.M.Jr: Well, I will talk to him. Let him come. Should we let him come?

Bell: I think so.

H.M.Jr: He will be here?

Bell: Yes. 11:30, you say?

H.M.Jr: Yes.

Bell: Well, Mr. Delano is sick in bed this morning and while Cy knows the story --

H.M.Jr: No, he has got to be here.

Bell: Delano?

H.M.Jr: Yes.

Bell: He is sick in bed, Mr. Secretary.

H.M.Jr: I will wait until he gets well. When he is well, we will call a meeting.

Bell: I say you can postpone it, although Cy does know.

H.M.Jr: No, Preston Delano has got to be here at this one.

Bell: Then you can get rid of that appointment.

H.M.Jr: The reason I say this - I can dictate this - last night - this is very much in the room here - around 7:00, your (Foley's) pal, Jerome Frank, called up, could I talk to him at ten.

So I talked to him at ten, and had I heard from Jesse Jones or Mr. Maloney, who has something to do with this State Committee of California, or Mr. Goldwater, the law partner of Edward Flynn. Well, I said I hadn't heard from any of them. Well, he was - the pressure on him was just too terrible not to start the hearing today in San Francisco on Transamerica. So I said that well, nobody had talked to me and I talked to Jesse at 10:00 o'clock yesterday morning and I hadn't heard anything about it. Well, they said I had made certain promises. I said I didn't make any promises other than to look at them in a non-prejudicial matter. That is my attitude toward everything. I said I hoped he would go ahead. Well, he was - they had just worn him out. I talked to him for 25 minutes. They start this morning.

So I think the sooner we get into this Bank of America thing in the regular way - so just as soon as Mr. Preston Delano - Jerome Frank was in bed, too, so when they all get out of bed we will talk about it. If they think I am going to act on it because - every time it gets hot, Preston Delano goes to bed. The day that he is well, I will meet with them, but if he thinks he is going to say he was in bed when we decided on that thing, he is mistaken. I haven't got time to go over to his bedroom.

Bell: Well, you have his memorandum on how he looks at it.

H.M.Jr: He is going to be here in the flesh. He is going to make a personal appearance. I don't want to hear afterward that if he had been there it would have been so-and-so.

Foley: How does he feel about it, Dan?

Bell: Oh, he is against granting the branches.

Foley: Well, it is interesting that Goldenwater is in the case.

H.M.Jr: I know. I asked what he thought his interest was. "Oh, purely acting in the absence of Mr. Flynn." But he evidently is very much interested, Goldwater. Is the name Goldwater or Goldenwater?

Foley: I think it is Goldenwater; I am not sure. I don't know him.

H.M.Jr: What is that German drink that they have with the little gold plates?

Wiley: That is goldwasser.

H.M.Jr: Well, anyway, I thought it was very amusing. No one has called me up.

Thompson: Mr. Ludlow is starting the Treasury hearings next Monday at 10:00 o'clock. Will you be there with the usual statement on the Treasury budget? He is Chairman of the House Appropriations Committee.

H.M.Jr: When does he want me?

Thompson: 10:00 o'clock next Monday.

H.M.Jr: How are we, all right?

Thompson: We have just gotten our final figures and we will have a final statement all ready by

Friday, anyway.

H.M.Jr: All right by me.

Thompson: We can change the date if necessary.

Bell: Do you want any dealers here tomorrow on the regular financing?

H.M.Jr: No.

Bell: Bob Rouse called me. He wanted to make arrangements.

H.M.Jr: No, I don't want any dealers for what I am doing. Incidentally, I told Jesse yesterday at 10:00 o'clock that what we were doing would apply to all government guaranteed funds and I didn't want him to borrow any more money, except from the Treasury, until we got this straightened out. Well, he said he supposed he would have to go along, but he wanted to think it over. I suppose I ought to call up the Secretary of Agriculture, oughtn't I?

Bell: Well, some of those organizations had probably better know about it.

Foley: How about United States Housing, Dan?

H.M.Jr: Let's see. F.F.M.C., what is that?

Bell: Federal Farm Mortgage Corporation. The Chairman of that Board is Governor of the Farm Credit Administration.

H.M.Jr: The first one that comes due on that is '42.

Bell: The first call date.

H.M.Jr: So there is nothing on that [illegible], 5/15/41.

That's H.O.L.C.

Bell: That may be paid off in cash.

H.M.Jr: So we don't have to cross that bridge. R.F.C. --

Bell: Contemplated borrowing money for the R.F.C. in January.

H.M.Jr: 7/20 and 11/20, so they are all right. C.C.C., the eighth month. There is nothing --

Bell: Nothing coming due in the next few months.

H.M.Jr: Except the - then that will be all right.

Bell: But R.F.C. does need some cash, which they will have to get from the Treasury until this thing is settled.

H.M.Jr: Well, Jesse is on notice.

Bell: I don't think any of those others need cash. Of course, Federal Farm Mortgage Corporation needs cash to pay off from Treasury that hundred million as a recapture of capital funds, but that can wait. The U. S. Housing has got a peculiar situation, where you go out and make all these commitments, and part of the contribution of the local area is a tax exemption feature and part of these obligations carry tax exemption features.

H.M.Jr: What's-his-name has the - Mayor LaGuardia --

Foley: John?

H.M.Jr: Yes. And he had a very good talk with him and the man wanted to come down tomorrow and he thinks he can make a deal with me, provided that we can find some other way to guarantee it, other than Jesse Jones. He won't do business with Jesse Jones.

Foley: To guarantee what?

H.M.Jr: Underwrite it, so if the bankers won't give it to him, there is some place that he can go. He has got something in his mind, you see.

Foley: Sure. He won't have any trouble getting his money.

H.M.Jr: Well - incidentally, I read your speech and I thought it was excellent.

Foley: Thanks.

H.M.Jr: I congratulate you. I thought it was very scholarly and very convincing. You should do more. Anybody who hasn't read it and who is interested in the tax problem, I suggest they read it.

Think it over, my sending it over my signature to every Governor with a letter, and then the possibilities of circulating it to the Mayors' Convention.

Foley: Well, they asked for 450 copies.

H.M.Jr: They did?

Foley: Yes.

White: Herbert has a very good article in this month's Social Research Review.

H.M.Jr: Who has?

White: Herbert. On budget.

H.M.Jr: I would like to see it.

Gaston: I sent it in.

H.M.Jr: Well, send it again.

Gaston: It is a magazine.

H.M.Jr: Will you?

Bell: Other than defense expenditures and the estimates of the Army and Navy, there is that fourth column, the total estimated expenditures for this year.

H.M.Jr: Well, let's do that in the announcement.

Bell: All right. That is all I have.

H.M.Jr: Now, Philip tells me he kind of took the bull - John Bull (facetiously) - by the horns in tightening and buttoning up this thing. Are you going to have something to show me later on?

Young: Yes. I have some statements here now. You can have them now or later.

H.M.Jr: Well, I need a few minutes right after this meeting and I will tell you now. I will put you down at a quarter of 11:00. Bell, are you busy at that time?

Bell: No.

H.M.Jr: Cochran?

Cochran: No.

H.M.Jr: A quarter of 11:00.

Harold? Hold everything on that personnel thing until I get around to you.

Graves: All right.

White: The Argentinians have given us very excellent data on British holdings in Argentine which - incidentally, their totals are in excess of what we had estimated somewhat on the par value. On the market value there is considerable difference of opinion and --

H.M.Jr: Just a second, Harry.

Clark is coming. I got word he is coming.

Young: I think he is already in town.

Bell: Deputy Minister of Finance, that is his title.

H.M.Jr: Okay. You know, I have dubbed Sir Frederick Phillips Under Secretary of the Treasury, which he isn't, you know.

Bell: Third Secretary.

H.M.Jr: I know. I don't know which is the better.

Bell: We raise them.

Cochran: He likes this new title. (Laughter)

Schwarz: No objection.

H.M.Jr: I have never seen him correct it. He let me know that his immediate superior is Sir Horace Wilson, who has a reputation of his own. He carries two umbrellas. (Laughter)

All right, Harry?

White: Very good.

H.M.Jr: You like that?

White: Yes.

H.M.Jr: Worthy of you.

White: That is true. (Laughter)

With reference to foreign holdings, the British are going to get - try to get more information. They have given us some which they have been preparing and they are going to arrange for studies for more information, so we will be able to check up on their figures and the Argentine figures, et cetera.

H.M.Jr: Good. Now, we will have a trial run at a quarter of 11:00.

White: They were very, very cooperative. It is amazing.

H.M.Jr: I can't hear you.

White: They were amazingly cooperative, very, very. The atmosphere was all "Hands across the Sea."

H.M.Jr: Wonderful. Which hand is full? (Laughter)

White: One of them had a brass knuckle.

H.M.Jr: Jerome Frank said any time we wanted to see Sumner Pike, that he was an authority on South African gold mines.

White: We would like to call on him very soon because we have just completed a study of the British holdings of South African gold mines and other South African properties and they are very substantial and we would like some idea of what their marketability is. Is it all right to call or do you want to see him? Supposing I give you the memorandum and then you can get in touch with him on it.

H.M.Jr: Right.

White: And they are already cooperating with us. They let us have their best man.

H.M.Jr: He told me they would let you have somebody, but he wasn't quite clear who it was.

White: It is Purcell's assistant, Louchheim.

H.M.Jr: Sounds like a good combination. With the "Louch" and the "Heim," he ought to be pretty good.

White: I don't get it.

Klotz: He doesn't speak German.

Schwarz: You had John Sullivan checking up on these companies that we were talking about, the taxes cutting into their profits. Now comes Admiral Spear in his annual report and he says that excess profits plus the Walsh-Healy Act are disturbing factors in their defense progress.

H.M.Jr: Well, let Sullivan --

Schwarz: Pass it along to him to include that in there?

H.M.Jr: Yes, and let him do it fairly soon.

Schwarz: Then Senator Taft on Saturday in an interview with his own paper in Cincinnati, his family's paper, says that the Secretary of the Treasury apparently is directing the foreign policy of the Government more than Cordell Hull. I think it wouldn't hurt to make some reference at the press conference to begin to squelch him. He has been sounding off ever since you went up to the Hill.

H.M.Jr: I don't agree with you. I don't think he is worthy of my mettle.

Schwarz: Well, what he has been saying hasn't been very important, but I didn't want him to go into --

H.M.Jr: I don't think you could change that man anyway, but thanks for bringing it to my attention.

Schwarz: The other thing, do you want to s et a time for Mr. Callender, of the New York Times?

H.M.Jr: Well, the New York Times can wait. I do want to see Paul Leach. Tell Mac to put Paul Leach - to keep after me until I see him today. This Callender fellow can wait.

Schwarz: I will check with you on him tomorrow.

H.M.Jr: But I will try to work Paul Leach in today.

White: I notice Krock is up to his old tricks. Did you read his column yesterday?

H.M.Jr: It was marvelous. I can see Kennedy calling him up and telling him to get busy.

White: I was thinking of his column on Jones and the British. It was either yesterday or the day before.

H.M.Jr: It was very interesting. It is much less expensive than taking a full page advertisement.

Gaston: We don't know that.

White: We don't know that, no. We don't know how expensive it is.

H.M.Jr: You win. (Laughter)

All right, what else, Chick?

Schwarz: That is all.

H.M.Jr: George? I am counting on you Wednesday, you know.

Haas: I will have something (handing report to Secretary).

H.M.Jr: Is this the week we get the engine report?

Haas: Yes, Wednesday; but you know you asked us to get that every week.

H.M.Jr: Allison turned out 30 engines last week. I am going to call up Sloan and tell him to stop making speeches and to start to produce. I am going to telephone afterward.

Haas: The last three weeks haven't been so much. That is all I have.

H.M.Jr: Philip?

Young: In that same connection with the Allison, you know Curtiss is going to squeeze out the extra P-40's next summer and fall. However, they can't get any information out of Allison as to whether they can get engines.

H.M.Jr: Well, I'm just going to call up Sloan and give him a piece of my mind.

Young: So that I think I had better put that in Mr. Knudsen's lap to find out, about the engines.

H.M.Jr: Yes.

Young: On the other - the Chinese are looking over the P-40 now with an idea of taking 20 out of the first hundred, and with respect to the Greeks, I will see what is happening to them this morning, if I can find out.

H.M.Jr: Maybe they will name Fort Edda - call it Fort Philip if you get it through.

Young: The only trouble is they want them right now. In any of your conversations with LaGuardia sometime, we have got to work out the joint operation of this Canadian Joint Defense Board. Between that and the Canadian purchasing program there is no coordination at all at the moment.

H.M.Jr: Well, after I get through talking taxes, I will have you come in.

Young: We are getting into a very difficult situation on South American purchasing of war supplies, planes and guns and munitions, and in order to get a little clearer insight into just what the picture is, I am going to get together with Nelson Rockefeller and Larry Duggan, to begin with, on that and tell them what the

South American countries are doing in that line. Are you interested in that, Harry?

White: No.

Young: That is all I have.

H.M.Jr: Why so sad?

Pehle: Me?

H.M.Jr: Yes.

Pehle: I was just thinking. (Laughter)

I want to raise that problem I spoke to you about about the prefabricated houses going to Norway. The project is to s end funds to Sweden which have been collected over here by an American-Norwegian relief organization to purchase prefabricated houses in Sweden and send them into the sections in Norway that were most heavily bombed. The Norwegian Minister has been pressing us on it, although it is not exactly a governmental project.

The State Department advised the British of it through the London Embassy, and the British said that their preliminary view was that it was all right, but they apparently want some time to think about it.

H.M.Jr: Who said so?

Pehle: The British.

H.M.Jr: Well, I have had a chance to think about it. Unless there is something which your committee opposes, I am willing to go ahead with it. I had a chance to discuss it with Mrs. Roosevelt.

Pehle: No, the committee just felt that the two arguments against it were, one, that indirectly it made dollars available to the Germans, but it is indirect; secondly, it had to be considered as part of the general relief question because it is to a certain extent opening the door on letting supplies go in. But there is considerable pressure on it.

H.M.Jr: Well, I am willing to do it.

Bell: The State Department recommends it, too, doesn't it?

Pehle: The State Department recommends it.

H.M.Jr: In today's New York Times, Merle, there is a dispatch from Stockholm that evidently came telling the story of how in Oslo they sort of closed up their Stock Exchange and refused to do any business, and I wondered if you couldn't ask the State Department to please ask their Minister in Stockholm to give me more details about it, what happened in Oslo, as far as they know. I would like to have more details than there were in the New York Times. Is our Minister on duty there?

Cochran: In Stockholm, yes. Sterling is still there.

H.M.Jr: There isn't some way of asking Green to go to see our friend, the head of that bank, is there?

Cochran: I think we should make that suggestion.

H.M.Jr: What really happened in Oslo.

Cochran: Yes.

H.M.Jr: Can you do that this morning?

Cochran: Yes, sir.

H.M.Jr: Are you (Pehle) through?

Pehle: Did you see the statement in yesterday's Herald-Tribune about Pickett debating relief in Europe with Sherwood? He again is taking the view that supplies ought to be sent.

H.M.Jr: I have spoken to Mrs. Roosevelt about it over the week-end and her attitude was very constructive. She said this, that there is great jealousy between Norman Davis and Pickett, but she would like very much to have us watch it very closely, and if there is anything that we think is out of the ordinary, to let me know so I could let her know, and she is going to watch them very closely, but she says there is this great jealousy between the two men which might perfectly well account for it. But please watch it very closely and if you see anything that we are at all suspicious about, let me know. She didn't take the attitude that anything Pickett does is perfect.

Pehle: I think he is again not exactly squaring with what he told us, that he actively going out and backing these proposals.

H.M.Jr: Also in the room, she said that as far as Pickett is concerned, we must remember that when this gets on the international front that after all he is a Quaker and they might do something for peace. As a Quaker, he might be in some movement to bring about peace. Her attitude was that - well, not everything he says is perfect.

Wiley: I have nothing.

H.M.Jr: Frozen funds will be the thing I take up - it is the next thing on my list when I get out of this tax situation and my financial situation, and inasmuch as there is so much talk, Dan, don't you think we might as well do this thing Wednesday and get it out of our system?

Bell: Yes, as long as it is the type. We can send it out tomorrow about noon and they will have plenty of time on just the one. It was the three that I was worried about.

H.M.Jr: But announce it in the Wednesday morning papers and do it Wednesday.

Bell: It is all right.

H.M.Jr: I got the okay from the President, and to my amazement - you see, I only sent that Friday night. By noon of Saturday I had the answer.

Bell: Very quick. That will be all right as long as you --

H.M.Jr: Because he couldn't have gotten it until Saturday morning, and by noon the White House called me up that the answer was waiting for me, and he said okay.

Bell: A formal approval by letter, I assume, will come.

H.M.Jr: Oh, I sent it down by airmail. He has special mail service.

White: Have you any special interest in the proposed assistance to Spain, either to reflect your views through the Export-Import Bank or the Red Cross, because there is a great deal of talk about it now.

H.M.Jr: When I spoke to Jones yesterday I said, "Jesse, what do you know about this thing to Spain?" And he says, "Not a thing." He hadn't heard about it, didn't know a thing about it. He said, "Neither do I." He said, "I am thinking about calling up Hull to ask him." Now, you (Cochran) were over there the other day on that specific thing, weren't you?

Cochran: Not on that. You had me ask them for information on that British-Spanish affair.

H.M.Jr: Well, ask them about this, will you please?

Cochran: Yes, sir.

H.M.Jr: What, if anything, is in the works? Jones said he knew nothing about it.

Bell: The paper indicated that Pierson was carrying on conversations.

H.M.Jr: Will you (Cochran) ask the State Department. And will you (White) as a director of the Export-Import Bank, find out about it?

White: I will find out about it this morning. I will ask. (Laughter)

Cochran: Archie is across the hall in my room.

Nishiyama, the Japanese Financial Consul here, is giving a dinner down here. He is having Joe Ravensky. He asked me to go.

H.M.Jr: Do you like Japanese music?

Cochran: You remember he came down here and talked with you a couple of times.

H.M.Jr: I think in your official capacity you ought to go.

Cochran: I think so.

H.M.Jr: I think so. You know, a friendly nation policy.

Cochran: I see, sir.

Foley: I talked with Bernie a little bit about McCloy and his interest in the Black Tom litigation. He is a partner of the Bath firm, as you know, and they represent the Lehigh Valley Railroad and Bethlehem Steel, the principal litigants in that matter. The case is coming up in the Supreme Court today. William D. Mitchell, who used to be the Attorney General, is the voice of this thing now that it is in the courts. He is not a partner of that firm but evidently they have retained him to represent them. Apparently McCloy is not an appellant lawyer.

Our interest is merely that of a stakeholder and it lies more on the side that McCloy is on than it does on the other side, so his interests are not antagonistic or adverse to the Government's position at this time and I don't think that what he is doing is practicing before the Treasury Department. This is in the courts. The thing has been going on now for about 20 years and it is about to be finally concluded. This will probably be the final piece of litigation, or it may be. I just don't think --

H.M.Jr: Well, Ed, now wait a minute. Who has the money?

Foley: We have the money.

H.M.Jr: We have the money?

Foley: We are the stakeholder and these two people are squabbling over who is entitled to it. The awards have been made and these other people that McCloy does not represent are trying to upset the awards. The real party in interest here is the German Government, but McCloy is not representing the German Government. He is representing the Lehigh Railroad and the Bethlehem Steel.

H.M.Jr: For the benefit of everybody, what does the statute say about being hired by the Government and still practicing before a department?

Foley: Well, I don't think that there is any violation of the statute, Mr. Secretary, in this --

H.M.Jr: Are you familiar with the statement?

Foley: No, I haven't got it in front of me, but his interest is no different than any of these other interests where you bring somebody in from the outside. In the Bank of America case, for instance, when we brought in counsel from the outside, it didn't mean that the firm could represent clients before the Government.

H.M.Jr: He went all through that. He was very careful to satisfy himself that he didn't disqualify himself.

Foley: That is right.

H.M.Jr: And of course Greenbaum went all through this thing. As a matter of fact, he tells me that over in the Department of Justice it is known as the "Greenbaum Ruling."

Foley: In the Mitchell Case.

H.M.Jr: Well, whatever it was.

Foley: Yes.

H.M.Jr: That - whether he could or couldn't practice and whether he disqualified himself.

Bell: McCloy, I take it, is on the side of the Government in this case.

Foley: Well, our interests lie in that direction, Dan. Our sympathies do. Our interests are impartial. We are just a stakeholder here.

H.M.Jr: Are you satisfied?

Foley: Well, I don't know what McCloy is doing over in the War Department.

H.M.Jr: I can tell you what he is doing. He has been brought down by Mr. Stimson to assist him on this question of British purchases. Is that right?

Young: I don't know.

Bell: He was in a conference the other day. That is the first time I have seen him.

H.M.Jr: That is what he is here for. He supersedes Patterson and everybody.

Foley: I should think, Mr. Secretary, that as far the lawsuit is concerned, that he is representing a client in the Supreme Court of the United States and that it would not bar him from what he is doing.

H.M.Jr: Do you mind taking a look at the statute and letting me take a look at it? It can't be very long, but there is a specific statute.

Foley: I will give you a memorandum on it.

H.M.Jr: Bring it in yourself. If you don't mind, I would like to take a look at it.

Foley: Sure, absolutely.

H.M.Jr: Because personally I don't feel comfortable having a man sitting on the most confidential of confidential meetings and here he has --

Foley: I think that is something else again, Mr. Secretary. There is a real question of policy involved as to whether or not you want to take somebody like that who is representing clients, who hasn't separated himself from his other interests. There is a conflict of interest or may be one, but whether or not it is one that will violate the statute and constitute an actual disqualification as a matter of law is another thing.

H.M.Jr: Do you know whether McCloy has any other cases pending before the Bureau?

Foley: I should say offhand that his firm, of course, would have, whether or not he practices before them. I don't know about that, but I can find out.

H.M.Jr: Take a look at the statute because I am sick and tired of these attorneys who come down here from three to six months, National Defense and Army and Navy, and they don't sever their connections --

Foley: That is right.

H.M.Jr: And they can do what they want to over there, but after all, when they come into my most confidential meetings it affects me personally.

Bell: Alsop had an article yesterday, didn't he, on that?

H.M.Jr: I didn't see it.

Bell: He went into the membership of the National Defense Council. About the only one that severed his connections was Knudsen.

H.M.Jr: That is right.

Bell: The rest all have several irons in the fire.

Schwarz: He said, "You don't know when they stop representing their companies and begin representing the Government."

H.M.Jr: Send it in to me. I don't know what paper it was in, but I didn't see it. I would like to see it.

Foley: Of course, all these fellows that Jim Forrestal has in the Navy Department that are doing the same thing are members of firms in New York. It is a big question that puts a cross-current practice in Government. These fellows have gotten Franklin and others down.

H.M.Jr: Well, it is really a matter for the Attorney

General. After all, he is always making addresses before the American Bar Association on ethics, and so forth and so on.

White: One of the interesting ramifications of that, I had to appear before their committee on nitrates, representing all the big nitrate concerns in the United States, and they had to decide whether or not to buy a stock pile from a foreign country and they were strongly opposed to it. Subsequently they gave in, but you can see where the conflict of interests would lie. They just came down here on this committee and they were making the decision.

H.M.Jr: Do you know what Rockefeller did since I advised him? Do you know what he did about it?

White: No, I don't.

H.M.Jr: I gave him some advice right along this line and he said he would do it the same day.

Foley: I should think Stimson would be a little bit ticklish about this because he has always been such a stickler about ethics.

H.M.Jr: I should think so. I don't hesitate to bring it to his attention where it affects me.

What else?

Foley: That is all.

H.M.Jr: Herbert?

Gaston: I have this book that Waesche prepared. There are some diagrams in it.

H.M.Jr: Oh, yes. I will study that.

Just so the office knows, Butterworth is in town today. He called up and he wanted very much to sit in on these meetings with Sir Frederick. I am not having him sit in with Sir Frederick, and just so those of you who have records will know, Butterworth is not in my confidence. I just wanted you to know. He had his opportunity and he hasn't treated me right, so I don't feel with these negotiations - if he knows what is going on - I am sorry to say this, but I can't be sure to whom he repeats it; and therefore, I am going to have a talk with him, and I don't say this lightly, but on this whole question of what the English did on selling their securities or notes, Butterworth had his chance to keep me posted and didn't. He had his choice as between reporting to Treasury and Mr. Kennedy, and he chose Mr. Kennedy, so I don't want him - I mean any information as to what is going on with the British in these negotiations, I ask that it be left to me how much he does or doesn't know, and the trouble - a lot of the trouble that I have had with this Scotchman --

Cochran: Gifford.

H.M.Jr: Butterworth could have straightened it out. You see, I advised him to do one thing, that when we feel fairly sure that one of the - one of the reasons that Gifford didn't take my advice is because he took Kennedy's, and Butterworth was in a position where he could have helped the Treasury, and I don't think I am being unfair when I say that he let me down. He can get in on it or not if he wants to.

Cochran: Well, I will see that he doesn't get in on it.

H.M.Jr: Am I unfair in my statement?

Cochran: No. It embarrassed us very much. There is no question about that.

H.M.Jr: I don't want him to have the run of the place. After all, we are keeping Mr. Hull and Mr. Welles and Mr. Feis informed, which is enough. I just want everybody to know I don't make a statement like that lightly, but he had his chance the last time he was here. Butterworth sat in and I did everything humanly possible to push the man and to help him in his work, but he didn't do very much for me. It can only happen once. So I would tell Mr. Butterworth that he can go back to the State Department and he can leave word with Mr. McKay and when I am ready I will see him. I am not ready now. I don't want him hanging around the Treasury. If he will wait over at the State Department and speak to McKay - I will treat him just the way I would anybody else. When I get around to it, I will see him.

Cochran: All right.

If Mr. Hull calls, or any of his people, about these meetings, is it understood that I am to go over again after we have had this meeting today or tomorrow when we have something more to report?

H.M.Jr: I am going to see Mr. Hull myself at a quarter of nine tomorrow morning. I expect to tell him myself, so - no, I don't want you to go over without checking with me.

Cochran: No, no, I understand that.

H.M.Jr: We can't be too careful about these things. So long as it is in the Treasury, it is all right, but I have learned my lesson. I don't know who stands where.

Okay.

December 9, 1940
10:20 a.m.

H.M.Jr: Hello.

Operator: Henderson.

H.M.Jr: Hello.

Leon Henderson: Hello, Henry, it's Leon.

H.M.Jr: How are you?

H: I'd like to come by and see you sometime as soon as I can just to talk with you about some things going on in our shop and some things are bothering me and find out what you've got on your mind, if possible.

H.M.Jr: Is Wednesday for lunch too far off?

H: What?

H.M.Jr: Is Wednesday for lunch too far off?

H: Not too far off - I'd naturally like it a little earlier if I could, but Wednesday at lunch would be all right.

H.M.Jr: Well, is it something pressing?

H: No, it's just that it just seems to me that there are a lot of things going on and I thought you and I ought to have a talk before the Boss got back.

H.M.Jr: Well, if it's nothing on an hourly basis, let's make it Wednesday for lunch.

H: All right.

H.M.Jr: 1:00 o'clock.

H: Are you going to give me a lunch, is that it?

H.M.Jr: I'm giving you lunch at the Treasury.

H: All right. (Laughs).

H.M.Jr:	See?
H:	I'll be there at 1:00 o'clock.
H.M.Jr:	Just you and I.
H:	Yeah. I may be a couple of minutes late because that's our meeting day but I'll be over there.
H.M.Jr:	Well, let's say now - 1:15.
H:	No, I'd rather make it 1:00 because - and I'll try to break away over there.
H.M.Jr:	O. K.
H:	All right, Henry.
H.M.Jr:	Be glad to see you.
H:	Good-bye.

December 9, 1940
10:30 a.m.

H.M.Jr: Hello.

Operator: Mayor La Guardia is on his way to the office. They'll call me as soon as he comes in.

H.M.Jr: Thank you.

10:44 a.m.

H.M.Jr: Hello.

Fiorello LaGuardia: Hello, Henry. How are you?

H.M.Jr: How are you?

L: Pretty good.

H.M.Jr: Look, Fiorello, I got word from Johnny Sullivan and he had a swell talk with you and that you were coming down here sometime.

L: Yes, I'll be in tomorrow.

H.M.Jr: Well, he said 4:00 o'clock but I don't think I - would 4:30 be all right?

L: Well, I - wait a minute - (talks aside).

H.M.Jr: I tell you what, I've got a meeting with four Cabinet members at 3:00 on this English thing, you see. Hello?

L: Yes, I understand.

H.M.Jr: And I don't know how long - I don't want to keep you waiting - it might run after 4:00, you see.

L: That's right. You see, I'm taking the 5:30 back.

H.M.Jr: 5:30.

L:	Yeah, and I don't know - (talks aside).
H.M.Jr:	What time do you get to town?
L:	Oh, all right, I think - let's make it 4:30.
H.M.Jr:	What time is your plane?
L:	5:30.
H.M.Jr:	Well, I'll kick them out at 4:30.
L:	All right. I'll be there at 4:30.
H.M.Jr:	How is that?
L:	Yeah, but look, we're going to have difficulties. I find that I'm under a mandate of the Conference of Mayors.
H.M.Jr:	Well, I thought you were the Conference of Mayors.
L:	No, no.
H.M.Jr:	What?!!
L:	I'm not even one of the big shots in it.
H.M.Jr:	Oh, listen now - (laughs) - you can kid some of your fellows up there .....
L:	I'm making inquiries now very quietly and I hope to have something definite by tomorrow.
H.M.Jr:	Right.
L:	I'll see you at 4:30.
H.M.Jr:	Wonderful.
L:	Good.
H.M.Jr:	Good-bye.
L:	Good-bye.

RE BRITISH PURCHASING PROGRAM

December 9, 1940
10:45 a.m.

Present: Mr. White
Mr. Bell
Mr. Cochran
Mr. Young

H.M.Jr: This is as of November 30. I am looking at Table 1.

Young: That is the same as December 1.

H.M.Jr: Oh, sure; thanks. Aircraft, non-aircraft. What do you mean, capital, balances due, 17 million?

Young: Capital expenditures.

H.M.Jr: One, three. Well, I had a figure here the other day of one, three something. What was that?

White: That is a later table. I might say that these tables as they presently are are rather complicated and we were going to simplify them and build them up.

H.M.Jr: Additional orders to be placed under "X" program. What is that program?

Young: That is this program of Layton's, planes, ordnance and ships.

H.M.Jr: What is the second column?

Young: The second column are additional orders outside of this program that they want to place.

H.M.Jr: The program is the Layton program?

Young: Well, this sheet of two billion six that we had the other day.

H.M.Jr: I see. Do you notice already somebody has given out the figure of two billion seven.

White: Yes, it was out the day before yesterday. Apparently somebody heard everything that went on.

H.M.Jr: I know. That always happens. Krock got to somebody.

Bell: Was that in the Monday meeting, do you think, or was it in one previous meeting?

White: That was the - what was said in that large meeting came out within two or three days.

Bell: That is right.

White: Even as to the exact figures.

H.M.Jr: This thing is very amusing to me. Additional orders to be placed now under negotiation, additional orders to be placed under "X" program.

Young: That is the total. Balances due plus additional orders.

Bell: There is still some duplication, isn't there?

White: Not in that. It has all been ironed out.

Bell: I don't see how you can prevent duplication between the two billion 62 million and the 699 million capital, because the British are going to pay a part of that capital as they pay for those orders. Is that right? And if they get all of the orders, they will pay for the 699 million in orders. So it is part of the --

White: I presume that the price they gave does not include the addition which would be called for in the capital.

Bell: Oh, you do assume that?

White: Sure.

H.M.Jr: What is the big thing here?

White: Table 2? That is what you have just been looking at, broken down into details and into monthly payments.

H.M.Jr: I see.

Young: That is how we got Table 1.

H.M.Jr: I see. And Table 3?

White: Table 3 is a current balance of payments that we had asked them about. You know on Saturday we sent them a memorandum asking for their various assets and this, I think, is part of it and the other part is coming, but this tells us what their current picture is, and there are some things here that we don't agree on.

H.M.Jr: Payments of British purchasing, actual, September 1, 1940, November 30, 1940. I see. Total actual payments.

Young: This table, you see, is on the war year basis, September to September.

H.M.Jr: All right.

White: You can get the net figure on the table following, Mr. Secretary.

H.M.Jr: Just a second. Now, down to question 7, net outgo in U. S. dollars and gold by sterling area (excluding payments to Canada and Newfoundland), three, one.

White: 3.1.

H.M.Jr: That is up to when?

White: August 31, 1941. Now, they have made some payments on that, but if you want to extend that another three months you will get a picture of the next twelve months, which is roughly that.

H.M.Jr: And where do you do that?

White: Well, that isn't done on here because they say they do all their figuring on a yearly basis.

H.M.Jr: Well, that is all right. Net expenditure of gold --

Young: This Table 4, you see, is really a continuation of Table 3.

H.M.Jr: I see.

Young: Here is the last figure on Table 3.

H.M.Jr: Right. Now, without - this looks like a very workmanlike job.

White: They did a very good job. There are some things here that are of special interest that we want to call your attention to.

H.M.Jr: Well, you can do that tonight. Now, what about their assets, Harry?

White: Now, their assets - we gave them a very detailed request with a statement that we were in no way indicating whether or not these were to be regarded by you as assets but merely the Research wanted to present as many facts as might be pertinent to the discussion and then we gave a list of all their assets and we went over them yesterday and they indicated some they gave us. Some they indicated they would get for us. Some they are working on. Some they may not be able to get. Some they think they won't be able to get. So we have got on each item a pretty clear picture of what they have or can get for us, and then we have our own estimates which, judging from those they have given us, are pretty good, of their various assets.

H.M.Jr: To sum this thing up, between now and August 31, '41, they need three billion three hundred sixteen million dollars?

White: No, it would be a little bit less than that because that is supposed to be for the war year and three months have already passed, so we will have to project that. Take a year from today they will need approximately that.

Bell: During the twelve months ended August 31, they need three billion. Now, some of that they have already paid for and liquidated.

H.M.Jr: Look, gentlemen, please give me something along - that I can say, "I want to know for tonight, the net figure from December 1 to August 31, '41, how much do they need."

White: That is what we are going to work on today.

H.M.Jr: Then I don't want to use this because this is confusing.

White: But that is the only way they would give us that.

H.M.Jr: By tonight --

White: We will have it.

Bell: What you can do is take what has been paid and deduct it from the three billion three.

H.M.Jr: By tonight I want on a sheet of paper two things; one, how much money do they need from December 1 to August 31, '41; and on another sheet of paper, how do they propose to pay for it.

White: Right.

H.M.Jr: Because this thing is - just as soon as you give me something, then you have got to begin to explain it, and I don't want to use that.

White: We had in mind to put it in shape like this.

H.M.Jr: That is the purpose of this meeting.

Philip, did you hear what I said? Two sheets.

Young: Two sheets of paper.

White: We just got this last night.

H.M.Jr: I know. I think what they have done over a week is perfectly grand, but I again say how much are they going to spend from December 1 to September 1? Now, that would be a sliding figure in the sense that it would be - no, we want to know how much they think they are going to spend. How much does Philip say -

the whole picture. The same thing for Canada. And also I would like to know how much is England going to spend in Canada.

White: That we have. In this figure that they owe us, and one of the things we were raising - this is not what they owe us, but this is what they need in U. S. gold and dollars. Now, of that amount, there is over 600 million - 620 million which is supposed to go to Canada.

Bell: And that is dollar requirements.

White: That is right. They claim United States dollar requirements to Canada.

H.M.Jr: Well, look, let's do it once more. From now until September 1, how much - after all, the pot of gold is in the English Treasury. How much are they going to need to spend in Canada, how much are they going to need here, see, and how they propose to do the two things.

White: And the same with regard to Canada, how much Canada expects to spend.

H.M.Jr: Yes, and the Argentine.

White: Yes. We can give you that.

H.M.Jr: Yes, and the Argentine.

White: They have got that figure of how much they expect to spend in the South American countries and all other countries. That is in here. We have segregated that. We already have that.

H.M.Jr: I would rather have it over-simplified. Here is England, here (indicating top of page), and you can start at the top, total expenditure, the top figure that England expects to spend, to import, the top figure you see.

White: Right.

H.M.Jr: Then you start with the figure up here, December 1 to September 1, from United States, Canada, South America, so much. There will be a recap and the two things would total.

Bell: Do you want South America as one item or --

White: Well, we have got South America.

H.M.Jr: I want a break-down.

White: We may be able to make one.

H.M.Jr: You could say Argentine and the rest of South America, or Argentine and Brazil and the rest of South America, but let's do it this way, gents. This is good bookkeeping practice, isn't it? Here is your total figure of expenditures, and then here come your countries and here is a column running inside, isn't it, to the left, and then you total that column and that figure ought to be the same as this, and then on the other side of the page would be how they propose to spend this.

Bell: The items.

H.M.Jr: And then - that is England. And then I want to do Canada the same way, and then when we get Canada, what Canada wants to do here and what comes from England to Canada, and so forth, but I want Canada the same way and then we will see if they tell the same story. I wouldn't be in such a hurry to put Clark into the hands of Phillips. Let him take his own initiative, because I think if we talk to them for a day or two alone they may tell us some things. I wouldn't rush him into the hands of Phillips. Phillips knows he is here. It was he that suggested that if somebody could come, it be Clark.

Now, could I have that, and even if for tonight you say to me, "Now, Mr. Morgenthau, this is only 75% right," at least it would be the kind of formula that I want.

White: Yes. We will prepare it and then I will check with Bell.

H.M.Jr: This would be the kind of formula. Now, if it has got 25% error in it - which it won't.

White: Is Phillips coming this morning?

H.M.Jr: I won't see Phillips until he comes to my house at 7:30 for supper, and I am expecting the rest of you at 8:30, including you (Reporter), please.

Now, Dan, is this good accounting procedure?

Bell: That is a good statement form, very good.

H.M.Jr: That gets it down to one page, anyway. It gets it down to two pages.

White: If we can work out something satisfactory, and Dan thinks it is very simple, before we show it to you, we would like to have them make possibly a large copy for the Tuesday morning group.

H.M.Jr: Yes, and then we don't have to give them copies. I am afraid of giving them copies.

You know, the great trouble in Washington is the fear that the people don't think that the public thinks they are in on something, so they have got to go and tell the newspaper men what they know.

Bell: That is friendship.

White: There is one thing I would like to mention, Mr. Secretary, about Argentine. One of the men has just come back from the Argentine Tariff Commission and he says there is a German Military Mission in Argentine and they are very active, and we wondered whether you might not want to take that up with the State Department to find out why should they have a German Military Mission if we are going to lend them money.

H.M.Jr: Will you ask the State Department that question?

Cochran: Yes, I will ask them.

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BRITISH FINANCIAL REQUIREMENTS
IN THE UNITED STATES, DECEMBER 1, 1940.

These tables provide information relative to the financial requirements of the sterling area for gold and U. S. Dollars. They do not cover the requirements of those parts of the British Empire outside of the sterling area (i.e. Canada, Newfoundland and Hong Kong).

There are four tables: Tables I and II refer only to the needs of the British Purchasing Missions; while Tables III and IV refer to total requirements.

Table I presents a summary of estimated future payments in the United States by British Purchasing Missions as of Dec. 1, 1940. The table covers balances due on existing commitments and estimated commitments involved in additional orders now under discussion, including those at present being negotiated and those in the "X" Program. It does not include the larger airplane, shipbuilding, and other programs that will be forthcoming and will be submitted at a later date.

Table II presents detailed information with respect to the data in Table I, classified by commodity group. The 10-Division Army Plan is classified by itself because of the difficulty of breaking it down into commodity groups; the value shown is based on a War Department estimate. The table also shows the estimated distribution of payments up to August 31, 1941 and subsequently, except for capital on orders to be placed which is not distributed because of the lack of available information. The distribution of the payments for the 10-Division Army Plan is arbitrary, the amounts prior to Aug. 31, 1941 being on account of estimated advances.

Table III shows the total requirements of the sterling area for U. S. dollar payments (excluding any such payments to Canada) between Sept. 1, 1940 and August 31, 1941 (the second year of the war). This table summarizes the needs of the British Purchasing Missions during this period together with the sundry debit and credit items entering into the normal balance of payments.

Table IV summarizes the general position of the sterling area for the second war year. This table cites the net requirements of the sterling area in both U. S. dollars and Canadian dollars taking into account the assistance which the Canadian Government have already given and may yet give in meeting the latter requirement (the balance having to be met in gold). The estimated amount of South African newly-mined gold is also taken into account. The resultant final balance is an estimate of the net amount required by the sterling area in gold and dollars over this period. This represents only the current items of the final balance of payments, and does not take into account any of the existing capital assets which may be liquidated in order to meet the dollar expenditure of the sterling area.

British Embassy, Washington
December 7, 1940

STRICTLY CONFIDENTIAL

TABLE I

Forecast of Future Payments in the United States
to be made by British Purchasing Missions 1/
Summary Statement
November 30, 1940

(In millions of U. S. dollars)

	Balances Due on Orders Already Placed as of Nov. 30, 1940	Additional Orders to be Placed Now under Negotiation	Additional Orders to be Placed under "X" Program 2/	Sum of Balances Due on Orders Already Placed and Estimated Additional Orders
Commodities				
Aircraft	787	270	1,075	2,132
Non-aircraft	497	955	987	2,439
Total commodities	1,284	1,225	2,062	4,571
Capital	17	10	699	726
Grand total	1,301	1,235	2,761	5,297

British Purchasing Commission,
Statistical Division, New York.
December 7, 1940

1/ British Purchasing Commission, British Air Commission, British Iron and Steel Corp. Ltd., and British Ministry of Shipping.

2/ This program is the subject of the financial statement of Nov. 26, 1940, entitled "Statement of the Estimated Value of Additional Orders to be Placed under the Air, Munitions and Shipbuilding Programs recently under Discussion with the Administration together with an Estimate of the Further Production Facilities required to supplement Existing Capacity."

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TABLE II

Forecast of Future Payments in the United States
to be made by British Purchasing Missions 1/
Detailed Statement
November 30, 1940

(In millions of U. S. dollars)

Commodity Group	Orders Already Placed									Additional Orders to be Placed Now Under Negotiation				Additional orders to be placed under "I" Program 2/				Sum of Balances Due and Estimated Additional Orders		
	Orders Placed Through Nov. 30 1940	Payments Made Through Nov. 30 1940	Balances Due Dec. 1 1940	Estimated Payments: Dec.'40	Jan.'41	Feb.'41	Mar.'41	Apr. - Aug.'41	After August 1941	Total Value	Estimated Payments: Dec.'40 Mar.'41	Apr. - Aug.'41	After August 1941	Total Value	Estimated Payments: Dec.'40 Mar.'41	Apr. - Aug.'41	After August 1941	Total	Estimated Payments: Dec.'40-Aug.'41	After August 1941
1. Airframes	782.6	302.3	480.3	34.7	37.2	33.3	30.8	206.9	135.4	172.0	48.0	51.0	73.0	665.0	217.0	114.0	334.0	1336.3	775.9	560.4
2. Airplane Engines	475.8	194.6	281.2	24.5	32.2	28.7	29.9	145.7	20.2	69.0	20.0	21.0	29.0	276.0	87.0	46.0	143.0	626.2	434.0	192.2
3. Airplane Accessories	58.2	32.7	25.5	3.0	2.7	2.4	2.5	12.8	2.1	30.0	8.0	9.0	13.0	114.0	36.0	19.0	59.0	169.5	95.4	74.1
4. Total Aircraft Products	1316.6	529.6	787.0	62.2	77.1	64.4	63.2	367.4	157.7	270.0	76.0	81.0	113.0	1075.0	340.0	179.0	556.0	2132.0	1305.3	826.7
5. Machine Tools	139.5	85.4	54.1	10.9	11.9	7.5	4.9	13.7	.3	40.0	10.0	15.0	15.0	-	-	-	-	94.1	78.8	15.3
6. Chemical Warfare Materials	.3	.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7. Explosives & Propellants	40.1	16.5	23.6	1.9	1.8	1.8	1.6	8.3	8.2	20.0	8.0	7.0	5.0	-	-	-	-	43.6	30.4	13.2
8. Ammunition	135.0	52.6	82.4	8.7	6.4	6.1	6.7	33.4	21.1	79.0	25.0	28.0	26.0	107.0	73.0	25.0	59.0	268.4	162.3	106.1
9. Ordnance Equipment	138.7	68.9	69.8	7.5	6.3	5.2	3.7	23.4	23.9	270.0	49.0	58.0	163.0	69.0	20.0	8.0	41.0	408.8	180.9	227.9
10. Tanks	127.4	25.7	101.7	6.0	5.2	7.7	7.1	28.1	47.6	-	-	-	-	100.0	40.0	35.0	25.0	201.7	129.1	72.6
11. Motor Vehicles	42.7	25.0	17.7	4.6	6.9	5.9	.3	-	-	-	-	-	-	-	-	-	-	17.7	17.7	-
12. Iron & Steel	243.4	143.4	100.0	30.0	30.0	20.0	10.0	10.0	-	530.0	30.0	140.0	360.0	-	-	-	-	630.0	270.0	360.0
13. Non-Ferrous Metals	53.7	38.2	15.5	3.9	3.3	2.0	1.7	1.6	3.0	-	-	-	-	-	-	-	-	15.5	12.5	3.0
14. Textiles & Clothing	1.9	1.3	.6	.3	.2	.1	-	-	-	-	-	-	-	-	-	-	-	.6	.6	-
15. Foodstuffs & Tobacco	4.6	4.4	.2	.2	-	-	-	-	-	-	-	-	-	-	-	-	-	.2	.2	-
16. Petroleum Products	.5	.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17. Animals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18. Ships	55.9	35.9	20.0	12.2	3.0	1.5	.5	2.3	.5	10.0	10.0	-	-	87.0	23.0	24.0	40.0	117.0	76.5	40.5
19. Communications Equipment	11.8	2.3	9.5	1.1	.8	.8	.7	3.1	3.0	6.0	2.0	2.0	2.0	24.0	8.0	4.0	12.0	39.5	22.5	17.0
20. Timber	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21. All Other	26.5	24.9	1.6	.3	.1	.2	.2	.5	.3	-	-	-	-	-	-	-	-	1.6	1.3	.3
21A. Equipment for 10 Division Army Plan	-	-	-	-	-	-	-	-	-	-	-	-	-	600.0	180.0	50.0	370.0	600.0	230.0	370.0
22. Total Non-Aircraft Products	1022.0	525.3	496.7	93.6	75.0	58.8	37.4	124.0	107.9	955.0	134.0	250.0	571.0	987.0	294.0	146.0	547.0	2438.7	1212.8	1225.9
23. Total Commodities	2338.6	1054.9	1283.7	155.8	147.1	123.2	100.6	491.4	265.5	1225.0	210.0	331.0	684.0	2062.0	634.0	325.0	1103.0	4570.7	2518.1	2052.6
24. Capital	147.7	130.4	17.3	10.0	3.4	.7	.2	2.6	.4	10.0	xxx	xxx	xxx	499.0	xxx	xxx	xxx	536.3	xxx	xxx
24A. Capital for 10 Division Army Plan	-	-	-	-	-	-	-	-	-	-	xxx	xxx	xxx	200.0	xxx	xxx	xxx	200.0	xxx	xxx
25. Grand Total	2486.3	1185.3	1301.0	165.8	150.5	123.9	100.8	494.0	266.0	1235.0	xxx	xxx	xxx	2761.0	xxx	xxx	xxx	5297.0	xxx	xxx

Note 1: British Purchasing Commission, British Air Commission, British Iron and Steel Corporation Limited, and British Ministry of Shipping.

Note 2: This program is the subject of the financial statement of November 28, 1940, entitled "Statement of the Estimated Value of Additional Orders to be Placed under the Air, Munitions and Shipbuilding Programs recently under Discussion with the Administration together with an Estimate of the Further Production Facilities required to supplement Existing Capacity."

British Purchasing Commission

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TABLE III

Estimated Balance of Payments of Sterling Area with the United States
and in U. S. Dollars to Countries other than Canada and Newfoundland 1/
September 1, 1940 - August 31, 1941

(In millions of U. S. dollars)

I. Visible U. K. imports from and exports to United States			
A. Gross payments on United Kingdom purchases (visible imports)			
1. Payments by British Purchasing Missions 2/			
a. Actual Sept. 1, 1940 - Nov. 30, 1940			
(1) Commodities	517		
(2) Capital	71		
(3) Total actual payments Sept. 1, 1940 - Nov. 30, 1940		588	
b. Estimated Dec. 1, 1940 - Aug. 31, 1941			
(1) Commodities 3/	2,518		
(2) Capital (on orders already placed) 4/	17		
(3) Total estimated payments Dec. 1, 1940 - Aug. 31, 1941		2,535	
c. Total payments by British Purchasing Missions			3,123
2. Other payments			
a. Manufactures		86	
b. Petroleum		54	
c. Food		44	
d. Other raw materials		97	
e. Total other payments			281
3. Total payments on United Kingdom purchases			3,404
B. Less gross receipts from United Kingdom visible exports			164
C. Net balance of visible imports into United Kingdom from United States			3,240
II. Less net balance of invisible exports of United Kingdom to United States			16
III. United Kingdom adverse balance of payments with United States			3,224
IV. Less net receipts from sterling area (excluding U. K.) exports to United States			
A. Gross receipts from exports			
1. Australian gold	74		
2. Merchandise	560		
3. Total gross receipts from exports		634	
B. Deduct gross payments on imports			
1. Visible imports	334		
2. Net balance of invisible imports	4		
3. Total gross payments on imports		338	
C. Net receipts from sterling area (excluding U. K.) exports to United States			296
V. Adverse balance of sterling area (including U. K.) with the United States			2,928
VI. Add expenditures in U. S. dollars and gold by sterling area in countries other than the U. S. (excluding payments to Canada and Newfoundland 1/)			248
VII. Net outgo in U. S. dollars and gold by sterling area (excluding payments to Canada and Newfoundland 1/)			3,176

British Embassy, Washington.
December 7, 1940

1/ See Table IV, for Canada and Newfoundland.
2/ British Purchasing Commission, British Air Commission, British Iron and Steel Corp. Ltd., and British Ministry of Shipping.
3/ See Table II, item 23.
4/ See Table II, item 24. No allowance is made for capital on additional British Purchasing Mission orders not yet placed.

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TABLE IV

Summary of the General Position
September 1, 1940 - August 31, 1941

(In millions of U.S. dollars)

I. The net expenditure of gold and U.S. dollars by the sterling area during the second war year, excluding any gold or dollars paid to Canada, as shown at the foot of Table III, is estimated at		3,176
II. The adverse balance of the sterling area with Canada and Newfoundland must also be dealt with; for the second war year this is estimated at ...	880	
Under our existing arrangements the Canadian Government are helping us during the first six months of the second war year to the extent of	130	
Leaving a balance of	750	
If repatriation of Canadian securities in the last six months was no more than the first six months, viz.	130	
This would leave to be met in gold or U.S. dollars an amount of		620
III. On this last assumption, therefore, the amount which will have to be furnished in gold or dollars during the second year of war is estimated at ...		3,796
IV. Against this may be set the mining output of South Africa during this period, which will be a current addition to the monetary resources of the United Kingdom. It is estimated at		480
V. The balance remaining is		3,316

British Embassy, Washington.
December 7, 1940

December 9, 1940

At lunch, General Marshall said that the program which the English are asking permission to place in this country for ordnance would mean only the equipping of another 250,000 men in the United States. Therefore, he said that he is prepared to unhesitatingly say that they should be given the permission to place this order.

He said that as far as the airplanes (the additional ones the English wanted to order) are concerned, he hesitates to say yes, but nobody can tell today what the tomorrow holds for us, and that his Air Corps, on the other hand, are prepared to say yes.

I sounded him out as to how he felt about my visiting some of the troops, and he was very enthusiastic that I should make this inspection.

He is very much worried about aircraft production. He said that the Army only got 6 "tactical" planes in November. He personally is looking into the whole subject. He feels that the English are getting an entirely disproportionate number of our planes.

December 9, 1940
2:15 p.m.

H.M.Jr: Hello.

Operator: Mr. Forrestal.

H.M.Jr: Hello, Jim?

James Forrestal: Henry.

H.M.Jr: Yes.

F: How is your time this afternoon - are you - you wouldn't want to have an early dinner would you?

H.M.Jr: I'd love to but I'm having Sir Frederick Phillips tonight.

F: Oh, well. The reason I - Clarence Dillon was in town and I was going to bring him around for a minute or so.

H.M.Jr: Well, now, let me just - I tell you what. At 3:00 o'clock I meet with the Federal Reserve; at 4:00 I have Press; 4:30 Deputy Finance Minister Clark; 4:45 Butterworth from our American Embassy in London. Now, when - is Mr. Dillon here just today?

F: No, he'll be here tomorrow morning too - at least I hope - I think he will. I'm almost certain he will.

H.M.Jr: Well, I'd like to meet him. I know that he's your boss. What time have you in mind?

F: Well, I'd suit yours. It ran through my mind that if you were free for dinner I might get you for then, but either late this afternoon or tomorrow morning or anytime ......

H.M.Jr: I tell you - how about 11:30.

F: Tomorrow - O. K.

H.M.Jr: Tomorrow morning.

F: All right.

H.M.Jr: Is that all right?

F: You bet.

H.M.Jr: I'd love to meet him. I've never met him.

F: Well, I think you should meet - I'd like to see you together anyway.

H.M.Jr: Fine.

F: What time is your meeting tomorrow?

H.M.Jr: 3:00 o'clock.

F: At 3:00.

H.M.Jr: Now while I've got you on the phone, may I make a suggestion?

F: Yeah.

H.M.Jr: What about bringing Chief of Naval Operations? Isn't he interested in this sort of thing, or not - Stark.

F: What operation, Henry?

H.M.Jr: Ought Stark to know about this or not, or do you keep him informed - Admiral Stark.

F: Well, I'm going to bring him.

H.M.Jr: That's what I was trying to say tactfully. (Laughs).

F: Right. Well, I'd already had that ..... (Laughs).

H.M.Jr: Next time I'll say, for Christ's sake bring Admiral Stark and you can say, go to hell, or yes.

F: Yeah. Well, when I came back last Friday I informed him of our meeting and I said I thought he ought to be there tomorrow.

H.M.Jr: All right.

F: All right, Henry.

H.M.Jr: I won't be so damn polite next time.

F: You don't have to be with me.

H.M.Jr: O. K.

F: O. K.

H.M.Jr: Good-bye.

December 9, 1940
2:18 p.m.

H.M.Jr: Hello.

Claude Wickard: Yes.

H.M.Jr: How are you?

W: Oh, I'm pretty good. How are you?

H.M.Jr: O. K. This is what I'm calling you about - we've got a financing to do for the U. S. Treasury and we are not doing what we would normally do; that is, sell a lot of long term bonds because we want to wait and see if from Congress we cannot get the authority that all direct and indirect - by that I mean guaranteed obligations of the Government - be subject to all taxes.

W: Yes.

H.M.Jr: Now, what I'd like to be able to say is - you don't happen to have anything that's coming due right away - I looked over your Farm Credit stuff, see?

W: Yes.

H.M.Jr: But I'd like to say - be able to say that both for the U. S. Treasury and the Government guaranteed that we expect to ask Congress for the authority that these obligations should pay all Federal taxes and not be exempt from anything.

W: Yes, on all new issues.

H.M.Jr: All new issues - all future issues, but I didn't want to make a statement like that where you were directly affected without first consulting you.

W: Well, now, the Governor of the Farm Credit is here right now and let me discuss this thing with him and I'll call you back.

H.M.Jr: Could you call me before 4:00 o'clock?

W: Yes, I'll do it in less time than that.

H.M.Jr: I got Jesse to write me a letter on it to go along.

W: Oh, you did.

H.M.Jr: Yeah.

W: And you'd like to have me write you a letter.

H.M.Jr: No.

W: Call you first?

H.M.Jr: Just call me - that's all I need.

W: All right.

H.M.Jr: No, I mean, I was amazed that Jesse wrote me, but you just call me .....

W: Jesse is committed ......

H.M.Jr: To this program.

W: To this program. All right. I'll talk it over with the Governor of Farm Credit and I'll call you in the next half hour.

H.M.Jr: Thank you.

W: Good-bye.

December 9, 1940
2:54 p.m.

H.M.Jr: Hello.

Alfred Sloan: Yes.

H.M.Jr: Morgenthau speaking.

S: Yes, good morning, Mr. Secretary. How are you?

H.M.Jr: I'm all right. It's afternoon here.

S: Oh.

H.M.Jr: How are you?

S: Pretty well, Mr. Secretary. I'm up here in Michigan at our engineering station.

H.M.Jr: Yes. The reason I'm calling you is ......

S: We've got a lot of snow up here.

H.M.Jr: Yes. I'm very much disappointed in the figures that I get on your production out at Allison.

S: Well, let's talk about that a minute, Mr. Secretary.

H.M.Jr: God, it's terrible!

S: Well, now let's talk about it. Last October was pretty good and November wasn't so good. We fell down in November and that was due to - principally to two causes. In the first place, this is just what happened. There was a movement from the plant there to other places of two or three of the inspectors who had charge of the work and they brought in new people and there was quite a little delay in getting those new people - you might say - acclimated to the job. In other words, parts that the other men had found perfectly satisfactory and had passed through, these new men being different to the job and being new to the job and not familiar with it, took a different attitude of mind toward it and that in certain critical parts delayed our production considerably. The second point was that one critical part had got behind due to a 3-weeks strike we had in our other plant in Detroit. Those are the two things that primarily caused the delay. This month while we'll pick up several of the parts, some of the engines we lost. I was down there a few days ago and generally speaking I think we're making pretty good progress and getting our things lined up but of course there was another thing also that had delayed us both in November and this month and which has now been cleared.

H.M.Jr: Yeah.

S: And that is, we had a little engineering difficulty develop in connection with the front end of the engine which was developed around the cold weather and it took a little time to clear up. Now, that's been covered and we got that removed but such things are likely to happen on a new job of this kind.

H.M.Jr: I see. Well, when I saw you going ......

S: All I can say to you is that there's nothing serious at all, it's just thesethings that come up and they have to be cleared and it takes a little time and on the record it looks bad but fundamentally the job is going along very satisfactorily and I think we're gaining operating strength every day but naturally when you're in a thing of this kind that's new why you can't ever tell what is going to happen. When it happens why you've got to get out of it the best you can, but I can assure you it's nothing fundamental at all and as I said before, we're gaining strength in a general way all the time.

H.M.Jr: Tell me. How are you coming along with the engine for Bell?

S: On the - what job - the Bell?

H.M.Jr: The engine for the Bell - I don't know what model it is.

S: That involves what we call here the Allison - the E job.

H.M.Jr: Yeah, that's right.

S: And the type tests on the E job are not entirely cleared, but we're making progress on them and that also applies to the F job.

H.M.Jr: When I spoke .....

S: I say to them, Mr. Secretary, the same as I said on the C job that the delay, I might say that as far as we know, the delays on the C job due to the point that I mentioned have not in any way delayed the shipment of planes. I'm quite certain that we are quite a little ahead of planes already.

H.M.Jr: How about this engine - this .....

S: About the Bell job.

H.M.Jr: How about this - you had hoped to be able to develop an engine with 1300 horse, or something like that.

S: That takes what?

H.M.Jr: Are you making any progress with an engine which will develop more horse power?

S: Well, you mean a different type?

H.M.Jr: Well, yes.

S: You're referring to that conversation that I had with you a month or so ago.

H.M.Jr: Yeah, that's what I'm referring to.

S: Well, now, that's a question of evolution. In discussing that with you probably I was a little ahead of the actual demonstrated facts. I simply said that I thought through evolution we would get more power out of the engine but of course that's a matter for the future. But outside of that we are not doing anything in the way of - very little engineering work on a bigger engine. I presume you know we have worked on that in the past but just at the moment we've been concentrating all our engineering talent on cleaning up these points that arose from time to time in connection with the C, E and F jobs because that's of more primary importance at the moment.

H.M.Jr: Well, I may give you another ring in another week or so.

S: Anytime you want to I'll be delighted to talk with you and I'll give you the facts exactly as they are.

H.M.Jr: All right. If you should come to Washington on any other business, let me know. We could have a longer talk.

S: Come in and talk. Hello?

H.M.Jr: Yes.

S: I'll be glad to come in and see you and any time you'd like to have me come down and talk to you personally, all you have to do is to let me know.

H.M.Jr: O. K.

S: All right.

See also spec rept to Cong given to Hdqrs 12/19 by Eccles Harrison & Edw E. Brown Pres 1st natl Bk of Chgo.

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RE FINANCING

December 9, 1940
3:00 p.m.

Present: Mr. Bell
Mr. Sinclair
Mr. Eccles
Mr. Szymczak
Mr. Currie
Mr. Piser
Mr. Goldenweiser
Mr. Haas
Mr. Murphy
Mr. Hadley
Mr. Draper
Mr. Rouse

H.M.Jr: Will you (Rouse) read again? You had a nice voice last time.

Rouse: Very well.

H.M.Jr: I may have one telephone call.

(Mr. Rouse read attached mimeographed memorandum marked "Strictly Confidential" dated December 7, 1940)

H.M.Jr: Let me report to you gentlemen what I have been doing since I have seen you last. I think I indicated the seriousness of the steps which we will take at this time and its implications on future financing and tax problems. Not being too sure what the best thing to do was, I asked the Ways and Means people who were in town, which was very limited, plus the Speaker, to see me, and I did the same thing with Senator Harrison. To my surprise, I found the feeling up there was that I would get a good reception as far as raising the debt is concerned, certainly - taking Senator Byrd, who I suppose was the extreme on this, he said if I asked to raise the debt to an amount equal to the appropriation voted by Congress, less whatever the net amount we have received from taxes over expenditures - I got the impression anyway that he would go along - which would amount to increasing it by about ten billion dollars, and I suppose he is extreme. If we could get an increase of ten, we would be all right, certainly, for some time to come. It would give us 60 billion dollars.

I also explained to them how the Treasury felt about taxing future issues, and with the exception, I think, of Senator Bailey, there was complete sympathy for that position.

I don't believe we will have any difficulty in getting the partitions removed on the debt. That is, of one consolidated debt rather than defense notes and something else.

I also found, as I say, that there was sympathy toward our policy to tax future issues of Government securities plus a very important group of Government guaranteed securities. I don't think there will be any trouble on that.

Eccles: That is future issues of Governments?

H.M.Jr: I am only talking about future issues.

Eccles: Both on the guaranteed as well as direct?

H.M.Jr: Yes. I didn't mention the guaranteed on the Hill, but in describing the thing, the thing was - I mean, there was complete sympathy. They all seemed very much worried about when we tackle the States and the municipalities on that. They want to treat that as a separate bill. They all seem to want us to use the defense notes.

Szymczak: What?

H.M.Jr: Want us to use these defense notes.

Szymczak: Now?

H.M.Jr: Now.

Eccles: In spite of the fact that they are willing to get rid of the --

H.M.Jr: Yes. Now, I am giving you impressions. Nobody has signed the thing and they may change their minds, but there seemed to be a general opinion we should use the defense notes.

Szymczak: In other words, use defense notes which, if issued now, will later become part of the general debt limit?

H.M.Jr: I think so. I also injected my own opinion on the thing, that if we issued long-term bonds or we explained to them that it would increase bank deposits, increase excess reserves, and that frankly doesn't interest them.

Eccles: Well, they wouldn't understand that.

H.M.Jr: They don't seem to think that is nearly as important as not committing the Treasury at this time to issuing a bond which would be partially tax free. In other words, what I put to them is this. I said, "Gentlemen, are you willing for the Treasury to say publicly that we are not going to issue any more partially tax-exempt bonds and sit tight until Congress says something and put this thing in your lap?" And they said, "Yes, go ahead, it is all right."

Eccles: This is the Finance Committee?

H.M.Jr: Yes, and the Ways and Means and the Speaker.

Eccles: Of course, the question of banking and excess reserves both come in the Banking and Currency Committee.

H.M.Jr: Yes, but this is fairly representative. On the Senate side we had some New Dealers like Senator Clark and Senator Byrd and Senator Bailey and Senator Thomas. Is that his name?

Eccles: From Oklahoma?

H.M.Jr: No, Utah. Johnson of Colorado. We had a whole group of New Dealers there. (Laughter)

Eccles: Particularly Byrd and Clark, yes.

H.M.Jr: But the thing that I came away with, the thing that I was explaining there, supposing I just raised 500 million dollars worth of cash and did nothing and said I was going to sit tight until Congress did something. They said, "That is all right." Now, Harrison said, "Won't you make it a billion, because we may need a little time by the 15th of March." So I said well, this was a new issue. I don't know just how to price it and just what the reception would be. I would rather make it 500. I begged him not to say anything about the amount and so forth, and of course five minutes later he did. But I was amazed to find that they are perfectly willing for the Treasury to throw this baby in their lap and have us say that we are going to go ahead and use these defense notes until they act on the tax question.

Szymczak: Meaning that perhaps there would therefore be no exchanges at this time?

H.M.Jr: What I am thinking about, gentlemen, is that I would very seriously do nothing but ask for cash and throw this thing down to Congress, plus the Mayors and the Governors and all the rest of them. We have got to start sometime.

Now, I thought Congress said, "Oh, you can't do this to us," but they said, "No, go ahead, you can't hurt us. We like it." I said, "Now, I may talk about slacker money and I don't want to be encouraging. The fellow that has a million dollars worth of securities and he goes down to Palm Beach and pays no taxes and there he sits. We have got to raise them from somebody else." It didn't bother them a bit.

Draper: It must have been the election in November.

H.M.Jr: Yes, but look at the group that I was talking to, and they don't want me, frankly, to go ahead and issue a lot of bonds at this time. Now, if you had told me that - I didn't know, but I wanted to find out, so Bell and Foley and Sullivan and I marched ourselves up on the Hill and that is what we found out.

Now, in the light of that, I really think it would be a mistake to go ahead and do anything but to get some cash from the defense. Now, I know it is going to be bad temporarily, increase your excess reserves, put the bonds up and all the rest of that, but these men said - what they said was this, practically, on the House side. They said anything that the President and I recommended on this, the Ways and Means will take it and pass it. Isn't that what they said, Dan?

Bell: That is right.

H.M.Jr: On the House side?

Bell: You might explain that this --

H.M.Jr: Am I reporting correctly?

Bell: Yes, that is right, every bit of it. You might explain that what we proposed to ask for in the tax exemption side is discretion of the Secretary to make them taxable or non-taxable just like the discretion he now has in the issuance of notes. That was what was contemplated and they went for that in a big way because they don't have to jump this hurdle now of taxing state and local issues.

Eccles: How is that again, Dan?

Bell: It would give the Secretary discretion to issue tax-exempt bonds or taxable bonds.

Eccles: I see.

Szymczak: Is that their thinking, Dan, or the Treasury's thinking?

Bell: It is the Treasury, but they accepted it and it is a good solution of this whole problem at the moment.

Eccles: Let me ask this, that if you - they want this handled separately from the municipal tax problem, which means of course you may not get that.

H.M.Jr: Well, Sullivan saw LaGuardia. He didn't get kicked out. LaGuardia is coming down tomorrow to see me about it.

Eccles: Yes, but the rest of the country will be difficult. It is all right to try to get it --

H.M.Jr: But he is the spearhead.

Draper: He is Chairman of the Mayors.

Eccles: You can do this in any case. Why couldn't you issue Treasury bonds that are taxable in case of Federal taxes and so far as the States are concerned - you see, they don't give the States the same opportunity except they give you the right to tax municipal securities. In other words, why should the States - you could make your securities tax free so far as States are concerned but taxable so far as the Federal Government is concerned, unless they in turn give you the exchange.

Bell: That is right. We have assumed that there will be some provision in this Act that the States and local communities couldn't tax the income from the Treasury securities unless we were permitted to tax their securities.

H.M.Jr: That is a good point.

Eccles: And if you got that in connection with your bills, got that option, too, you see, then you have got some leverage on them.

H.M.Jr: But we did get through the salaries, the State salaries.

Eccles: Well now, this report in the press, of course, was naturally not complete at all. Whoever it was made the report --

H.M.Jr: Harrison.

Eccles: I assumed it was Harrison. He made it appear that all that happened was that you had got up there and had recommended, from the report I read, a five-year defense note pending the clarification of this tax program and that they had agreed to it. I mean, that is - that was the substance of the press report which, of course, is entirely --

Draper: Well, he would say that, though.

Eccles: He possibly would, which is entirely garbled.

Draper: It is his press statement.

H.M.Jr: It was all there. I said, "Please don't say anything about the amount. If you will say something about the debt limit, about taxing future issues, that would help us."

Eccles: Of course, he passed it right on to you and said you would come up and ask for an authority of 500 million in cash, et cetera, which apparently wasn't in the picture at all. Well, I didn't say last time when I was over here, because I was so far in the minority on this thing, but - that short statement which was read at the last meeting which expressed my views and --

Szymczak: You mean the minority of the committee?

Eccles: That is right. I wasn't at all enthusiastic about doing any long financing now or refunding now for the reasons that you have got too many uncertain factors, three of them, that are in the picture. First, you have got this taxable or tax-free securities, and if you are going to have a taxable security, naturally you don't want to put out three issues, one for 25-30 years, another for an intermediate period, with an option of long bonds as well, and another for intermediates. In other words, the whole thing in this program was intermediate and long bonds.

Now, certainly, before you expect to get a tax-free security you don't make a very good case for yourself --

H.M.Jr: You have got to point.

Eccles: If I was out fighting to get a tax-free security, I --

Szymczak: You mean a taxable.

Eccles: I mean a taxable security. I wouldn't want - just before I made that request, I wouldn't want to go up --

(Discussion off the record)

Now, that was one consideration, but another one that was more important --

H.M.Jr: Say, I read the Saturday Evening Post over and I hear that Jesse always gets his point over by telling a dirty story, so I thought I would tell one.

Eccles: Whether he gets his point over that way or not, I am not so sure, but I know damn well he always tells a dirty story. I can vouch for that.

Bell: You are always sure of that?

Eccles: You can always be sure of that. Whether he gets his point over, I wouldn't be so sure of.

Szymczak: He gets his point over while everybody is laughing at the dirty story.

Eccles: Another factor that is just as important or more important from my point of view is, I don't like the defense note - I mean the defense authority. I would like them to take this partition out, as they call it.

H.M.Jr: I went down that avenue, didn't I, Dan?

Bell: Yes.

H.M.Jr: Dan sold me on that.

Eccles: I think he is a hundred percent right on that one. If they take that partition out, then certainly you want to avoid any refunding or long term - or any long term issues or refunding, pending the clarification of that.

H.M.Jr: That is right.

Eccles: You may be criticized if you fail to use the defense authority if you are going to get new money and if you are going to do refunding at this time.

Now, if you don't do refunding, they have nothing to criticize you for.

H.M.Jr: That is right.

Eccles: And if you get new money under the defense issue, then they can't criticize you on that score. Now, the third one and the most important thing from my standpoint was the question of getting this long term security in the hands of investors rather than in banks, the question of being able to price long-term securities with a greater degree of accuracy or assurance as to stability.

Now, with the banking considerations that are likely to be taken up and the whole question of easy money, excess reserves, and its long-range implications, that should in six months help to be clarified in one way or the other so that the public can't say that you, during a situation, attempted to take advantage of a market for a long period of time and then the market at sometime in the near future, because of legislation which you should have known might develop, see, develops and takes a flop and it puts the Reserve Board, the Committee, on the spot. Then we are obligated. They expected us to go in to support a market, which we would certainly hesitate to do if that is what happened.

Now, those are the three arguments and the way you can keep those bonds out of the banks is to deal with the excess reserve picture. You can talk about putting them into the insurance companies and into the investor's hands, but what happens is that they, the insurance companies, in turn, are going to sell their intermediate bonds, and the banks will get them as the insurance companies and other investors take the long bonds, so it is a transfer, so you can't - it isn't like you can operate in two airtight or watertight compartments. They just lap right over, and I don't think you are going to get at this distribution of the investment in the hands of the investors until you deal with the excess reserve problem.

H.M.Jr: Before you get away from the tax thing, we also mentioned that we wanted the discretion to make United States Savings bonds taxable so that we could use that as a framework, as our popular drive to get the small investor --

Eccles: The tax is unimportant there.

H.M.Jr: True, but the whole thing - I mean we can't - we think here our position is only tenable if we go the whole hog on this thing.

Eccles: That is absolutely right.

Draper: You have got to be consistent.

H.M.Jr: And you can't have United States Savings bonds partially free or an RFC note partially free or a Farm Credit note. I mean, it has got to be a consistent policy.

Draper: Yes.

Rouse: It would give you flexibility all the way along with respect to the Savings bonds, in limits, and so on.

H.M.Jr: Yes. That doesn't mean they are going to get it, but I certainly got the most friendly reception from the most difficult people on the Finance Committee that I could have even hoped for. They were very friendly on the things that we are talking about here, very friendly.

Eccles: This present bond market, of course, looks like it is just going through the ceiling, but there is a great difference, it seems to me, between the bank investor that goes out and buys a bond at a hundred and eleven that you sold at par. They can't blame you if they go out and buy it. You didn't create this price, necessarily, so that in the purchasing of these securities at these prices today, it seems to me there is less responsibility on the part of the Treasury than there would be if the Treasury undertakes, maybe, to price the security today. I don't say that that pricing wouldn't be right, but it may not be right. It is at an equivalent of one hundred and eleven that you were doing it.

Now, you haven't issued a long-term security and a 2-3/4%. You have issued what we call intermediate securities at 2-1/4, the last one, and 2-1/2. The thing that they are talking of now is 1-3/4. In other words, you haven't issued a security comparable - that you would have to issue on today's market; you haven't issued a security within a half a percent yield. Your long bonds were half a percent higher than you now propose. Your intermediate bonds have been 2-1/4 at the low and now in this memorandum the proposal is 1-3/4, so that from the standpoint of the Treasury or the Government, they have not sold to the public securities at the excessively low yield on long term that exists today. They haven't done it. Therefore, they haven't the same responsibility, we might say, for attempting to protect the investor. I mean, that is another factor that weighs on me.

H.M.Jr: Well, I don't see - leaving the excess reserves picture out, I mean as to what we are going to do about it, you are not making any recommendations today?

Eccles: No, we can't. It is a question of going to Congress. We are in a sense like you are, that this financing is - you are directly concerned, but we are indirectly concerned and indirectly affected because the whole banking structure is. We are directly concerned with excess reserves; you are indirectly concerned with the --

H.M.Jr: Right, but if we just went after 500, while it might stimulate excess reserves, temporarily aggravates the situation, but on a long-term basis it doesn't set the die one way or the other.

Draper: And it will put the pressure on Congress so they will have to do something.

H.M.Jr: Granted; and they are willing to have it.

Draper: I know. I think that is an ideal solution for the short bond.

Szymczak: How many of them are present, 50% of them?

H.M.Jr: In the Senate?

Szymczak: Yes.

H.M.Jr: Well, there were seven. Those seven would represent, as far as opinion would go, I would say almost 90%, because they were the most difficult men. Six of those seven were favorable. With that group with us, and those Democratic members friendly and certain Republicans that are friendly, I wouldn't be worried about any legislation as far as what we are talking about.

Eccles: I just had to - just before coming over, a statement that is just a tentative suggestion. I don't know whether you want to make any. I personally would like to see a statement made because of the general uncertainty of the whole picture. Something, it seems to me, ought to be said if it is going to be done with this financing --

Szymczak: You mean no refunding.

Eccles: Or no refunding, either one.

Szymczak: You mean if all the financing would be done for cash and with defense notes.

Eccles: Yes.

H.M.Jr: What you are saying there - I don't like a formal statement, but I have written out something in longhand and it is in complete accord with this except that I am making a little soapbox speech about the fellow down at Palm Beach. (Laughter)

Szymczak: Lucky we are not there.

Eccles: It has got all three reasons there.

H.M.Jr: Now, let me just ask our visitor here, Mr. Currie, how he feels as he listens to Mr. Eccles.

Currie: I don't think I have anything at all to add, Mr. Secretary. I am very pleased, as a matter of fact, with the way it is developing on the possibility of getting this removal of the tax exemptions on bonds and I think your argument on that point is absolutely conclusive, as far as I am concerned.

H.M.Jr: It is?

Currie: Yes.

H.M.Jr: Now, I called up Jesse Jones at 10:00 o'clock yesterday morning, Sunday, and I asked him, told him what we had in mind about this meeting, could I have something before 3:00 o'clock, and this is the very satisfactory letter that came in a little while ago.

"In reply to your question yesterday as to whether or not I, as Federal Loan Administrator, would cooperate with you as regards issuing Government-guaranteed obligations, the income to be subject to taxation, beg to advise that if it becomes the policy of the Administration to sell only Government and Government-guaranteed obligations, the income to be subject to taxation, I will be glad to cooperate in connection with the agencies under my supervision. The directors of the RFC and probably the HOLC will undoubtedly expect that only short-time obligations be sold, not longer than five-year maturities. This would serve to insure a not too high interest rate."

And I have talked to Wickard. Wickard said he needed a little bit more time. He said he wanted to consult the American Farm Bureau Federation and a few other people, and so on. (Laughter)

Eccles: Well, that wouldn't --

H.M.Jr: Federal Farm Credit.

Eccles: Federal Farm Mortgage Corporation.

H.M.Jr: They have got another one coming due. It is a very nice situation. The only thing that is coming due until May is HOLC. Dan says he thinks they may pay that off with cash, and that is only 191 million. Now, the next one, RFC has nothing coming due until July '41, so we are really in beautiful shape as far as the guaranteed money is concerned, so we don't have to cross that bridge with Jones taking that attitude, and if the rest of you will help me play poker on this thing --

Currie: If the RFC, Mr. Secretary, would come through with their repayment to the Treasury, that would postpone your need for new money.

H.M.Jr: They would have to raise it. They would have to borrow it.

Currie: But I mean postpone your need.

H.M.Jr: But if they pay this back, they would have to go to the market and borrow it and they can't borrow --

Currie: I mean not to hold up the 500 million now, but with the 500 million plus any repayment by them.

H.M.Jr: No, but they can't pay us back unless they went through the market.

Currie: That is all right.

H.M.Jr: But they would have to give us these tax-exempt securities.

Currie: Oh, the same thing.

H.M.Jr: That is the same. That is why I called up Jones, because I went through it with Jones, and said to Jones that pending this I would like to have them only get the money from the Treasury. In other words, we are going on a sit-down strike, stand firm until we get this.

Eccles: Well, I would like the other members of the committee here - I have done all the talking. We assumed before coming over here that in view of what we had seen in the press that the die had been cast on this thing, even though at the last meeting we were - I asked you at that time if the thing had been pretty well set in your mind. You said at that time that it --

H.M.Jr: Had not.

Eccles: That it had not and that - I assume that if you had had a different conference on the Hill with those people, you would possibly have had maybe a different program.

H.M.Jr: That is right. I went up on the Hill to seek advice the way I did from you, but there was such complete agreement that to fly in the face of that seems a mistake, but still nothing has been said. Nothing has been done.

Eccles: I was just going to say that if you go and issue the 500 million in defense notes, we were in agreement on this point, that we would like to see the defense notes as short an issue as possible so that - so that they could be refunded into whatever financing there was to be done after these questions were decided. In other words, if the defense authority was going to be eliminated and it was going to be merged with your general blanket authority and this partition, as you call it, eliminated, it would be well to get rid of all defense notes. You have got defense bills, and of course you can turn those over any time. Therefore, if you only had one five-year, 500 million out, that holds the thing up, and it was our thought that if you could make it 500 million for one year in defense notes, with the idea that during the next year Congress would possibly put this whole thing in one authorization and you would - by the end of the year the whole defense thing could be cleaned up and all this earmarking of funds, and so forth, would be out of the way, and we all felt pretty strongly that that should be done.

Szymczak: That is in the memorandum.

Eccles: Therefore, it is very desirable to confine the financing down to one year.

Szymczak: All that is out the window now.

Eccles: Not necessarily.

Szymczak: Well, I understand that you were talking about a five-year note.

H.M.Jr: Well, there is no commitment that has been made. We talked about five years, but there have been no commitments made.

Eccles: Well, they would just be agreeable to one, as far as that is concerned, whether it is a five or a one not going counter at all, as I get it, to your discussion with them.

Bell: More short term than anything else.

H.M.Jr: Well, I would like to take that into consideration.

Szymczak: Well, that is in the memorandum as an alternative and we consider that quite vital to the whole procedure from the standpoint of the future. You place yourself in a position where you can then get out of those notes entirely and get out of the defense notes as long as they are going to remove the partition.

H.M.Jr: How do you feel, Sinclair?

Sinclair: Mr. Secretary, I think we have recognized from the start the possible alternative. I think when a man is faced with a situation and has the choice of two or more ways of doing the thing, he selects one that no one can criticize him for so doing. I have some sympathy with the problem you are faced with and the position you are taking. I do hope that whatever you do will be as short term as possible so that the thing which I object to most strongly is this segregated way of financing - so it can be eliminated as possible, and I think that to me is the most important point, one of the most important points involved, and therefore I can't feel that you have done anything but the right thing in the face of a practical situation which you have explained fully to us.

H.M.Jr: Mr. Draper?

Draper: I feel exactly the same way, Mr. Secretary. Theoretically, I think the one-year note would be the ideal arrangement, but there might be many other considerations that may come up that we don't - and that we don't know about at the present time. It might make you feel differently. As far as I am concerned, the arrangement which is now in prospect is so much better than we imagined that I would like to say nothing further.

H.M.Jr: Well, the only reason that makes me hesitate to say right at this minute, I am taking kind of a chance on this whole thing because there is a certain gamble involved, because maybe they won't do what they say, and if I had 500 million tucked away for five years at 3/4%, that is that, but I will certainly sleep on it, you see.

I have my regular Monday press conference at 4:00. I am not going to say anything, but the only thing we would like to say is, we thought there had been so much talk about this we would like to maybe do the thing Wednesday instead of Thursday.

Eccles: I think the sooner the better now.

Draper: The sooner the better.

Szymczak: There was a question, Mr. Secretary, this afternoon. I don't know whether the other members of the committee want to bring it up or not, because there is some difference of opinion among committee members, but John McKee raised the question as to whether or not we should break the precedent we have established for some time; that is, not operating the market the day the announcement goes in the books. This may become important at this time and may be yet most dishonest for us to be operating when we know just about what is going to happen. We are going - we may have to sell even more longs and intermediates.

H.M.Jr: Have you sold any today?

Rouse: We have sold about six million of the long categories of bonds. The thing is almost resistless this morning.

Szymczak: In other words --

Rouse: Bonds have gone - the longest bond from 110-20/32nds to 111-10/32nds.

Draper: But Mr. Secretary, there is a difference of opinion, I think, among us as to whether we should operate in the market or not during financing. Some of us, I think, are opposed to it.

Rouse: Up until this time we have had no more information than the market has had.

Draper: Not up to this time, but now we have.

H.M.Jr: Are you asking me or not?

Szymczak: I don't know whether the other members --

Sinclair: I would like to get the Secretary's point of view on that.

H.M.Jr: Personally - well, we have stuff. We have a lot of securities. I wouldn't do it, no matter what. I would rather be in the position, "Well, I am not going to take any more advantage of the United States Post Office account than I am for John Smith that has $1,000." I mean, that is what I think.

Eccles: Well, of course your situation is different from ours in this regard, that you, of course, are investing someone's funds. In our case --

H.M.Jr: What are you doing, operating?

Eccles: Well, but we are not investing anybody's funds, but our operation - we have no funds that we are required to invest. You see, your trustees have trust funds that you are required to invest, but we create funds. It is an actual, pure creation.

Draper: But that makes it worse from our standpoint.

Eccles: It doesn't make it any worse, Ernest, because our operation isn't based upon a condition of trying to invest funds and take any advantage of any market. The only justification for our operating at all in the market is to help stabilize the market.

Draper: Well, you see how much stabilization --

Eccles: Well, I know, but normally - I am not saying that --

Szymczak: No, we are not saying --

Eccles: I don't think that the committee would do it. I may be wrong, but it has - one member of the committee raised the question, would the Treasury object --

H.M.Jr: Well, I didn't answer that that way. I simply said that in our own position I wouldn't do it. I am not going to object, but I wouldn't do it.

Bell: Mr. Secretary, we have had more or less the policy that they should be out of the market - everybody should be out of the market that is connected with the Government for about a week before financing, and we all know about the time financing is coming. This time they have been in the market selling right up until today. Now, tomorrow certainly Bob will be talking to dealers to find out a rate tomorrow morning around noon. They certainly shouldn't be in the market tomorrow, should they?

H.M.Jr: I shouldn't think so.

Bell: But they have been in today, even though they knew that the announcement was coming Wednesday or Thursday.

H.M.Jr: Slipped a little bit.

Rouse: If this thing --

Eccles: It doesn't make a damn bit of difference.

Rouse: The story that came out on Saturday turned out to be all wet. We might well have been not in an embarrassing position but some questions might possibly have been asked, in view of the very sharp rise in the market which occurred, and I think that is the explanation that I would make of our action Saturday or today. It seemed to me entirely proper.

Bell: In other words, if this had been wrong when it came out Saturday, you couldn't have had a bond issue on Wednesday at 2-1/4%.

Rouse: We would have been subject to very sharp criticism, I think.

Eccles: We were meeting an unusual situation due to a certain press report.

H.M.Jr: Rouse, would Wednesday be all right, do you think? Is that crowding you?

Rouse: Did the letter get out Saturday?

Bell: You have the forms now.

Rouse: I think we ought to be set to go. I can get you prices by 11:00 o'clock or 12:00 o'clock.

H.M.Jr: Is that all right with you, Marriner, Wednesday?

Eccles: Wednesday suits me fine. I think the sooner the better now.

H.M.Jr: Let me just say one thing. This is more Federal Reserve Board than Treasury. Just so there will be no misunderstanding, in my talk the other day, Marriner, I said you might send somebody over to sit with us on the Argentinian thing and also the Chinese thing, and Mr. Bell reported to me that Mr. Goldenweiser felt that he didn't want to sit in unless it affected excess reserves. Is that correct?

Bell: And that I would keep him advised as to what is going on.

Goldenweiser: What I said to Mr. Bell is that there is no use sitting in on details of negotiations unless we could be of some help and that if we did know about everything, that would be very helpful to us.

H.M.Jr: Well, how are we going to keep you posted if you don't sit there?

Eccles: Well, what I wanted --

H.M.Jr: I just wanted to make sure. We made the offer in all sincerity and if this is the way you want to do it, it is all right with me, but frankly, we just don't have time to keep calling up on the telephone --

Szymczak: Or sending memoranda.

Goldenweiser: Don't misunderstand me, Mr. Secretary, I have no reluctance to come or to have Gardner come, if that is desirable.

H.M.Jr: I just wanted the Board to know that we made the offer in all sincerity. If you fellows don't want to sit in, that is all right with me. But I did make the offer, and you can't call up three or four times a day and say, "Well now, this is what is happening." The policy is made over a group of meetings. It isn't - it doesn't come out of thin air.

Eccles: What I would like to discuss --

H.M.Jr: I wanted you to know about it.

Eccles: I want to discuss with you sometime when you have a little time the points of contact, the points of where we are both involved and interested.

H.M.Jr: All right; but this happened and I didn't want to lose the chance to see if you understood correctly.

Eccles: If we could work out a procedure, in other words, so that it wouldn't bother you and wouldn't bother me, I mean, so that it is a matter of more or less routine when certain things of this sort come up, why, if it is in Dan's shop or if it is in somebody else's here, they can get in touch with somebody over there and they can sit through. For instance, if something starts - in the case of these loans, now, they started to develop - I mean, this Argentine thing.

H.M.Jr: And China.

Eccles: And there may be something else. All right, instead of each one separate, if they are all inter-related, they are all more or less the same type of problem, that if we have - we could designate someone who would keep in touch with somebody who is handling that here as a matter of --

H.M.Jr: Personally, if I may throw this out --

Eccles: Just like we do on financing. Piser, for instance, is constantly in touch with you on the Government bond market.

H.M.Jr: But this is for you to think about. I think on a thing like the Chinese and the Argentinian loans that if you men aren't too busy, it is important enough for some Board member to sit in.

Eccles: We are not too busy.

H.M.Jr: It is either important enough for some Board member to sit in, or it isn't.

Eccles: Well, it isn't too much.

Draper: That is a good suggestion.

H.M.Jr: We are on uncharted seas and we would like all advice we can get, and it is either important enough for a Board member to sit in, or it isn't.

Eccles: I was thinking, Henry, not the lack of importance in sitting in, but there is often a certain amount of staff preliminary work. Maybe not in that particular case, but I know in so many of these issues that come up, for instance like in the case of your frozen balances their was a lot of detailed staff work. Now, you get to a point of making decisions based upon certain studies and preliminary work that is done by people connected with the staff.

H.M.Jr: Now, on that, Marriner, I will stop. You take that. There is a meeting every afternoon. The policies are made from day to day. It isn't a sudden decision. This whole question of feeding the people in Europe, it isn't suddenly - somebody doesn't say, "Let's do it or don't do it." It is after days and days and days of meeting. The question of whether we should let Sweden have money to build houses in Norway - it is a long experience which these people get who sit for a couple of hours every day. What I am saying is, on those sort of things, we here are delighted to have the Federal Reserve Board not just sit in but give us the benefit of the Board members, plus their staff. I mean it. I did it the other day, and I thought, after the talk, if you don't mind my saying, I thought you (Goldenweiser) were wrong.

Goldenweiser: About what, Mr. Secretary?

H.M.Jr: About not sitting in.

Goldenweiser: Well, that wasn't the understanding, was it?

Bell: Well, I think Dr. Goldenweiser said he didn't want to sit in on the detailed negotiations for the agreement.

H.M.Jr: With all due respect, if you could sit in, I'd say a Board member can sit in.

Goldenweiser: It wasn't that I thought --

H.M.Jr: That is the impression I got, anyway.

Bell: I don't think it was a question of Mr. Goldenweiser's time. I think he just thought --

Goldenweiser: I just thought that I would just be in the way, but so long as a matter of negotiation --

Bell: Discuss the common problems.

Goldenweiser: You can command my time any time you wish.

H.M.Jr: I didn't want Mr. Eccles to feel on the one hand I make a suggestion and the next thing it ceases.

Draper: We ought to get organized a little more definitely ourselves.

H.M.Jr: Well, you people are invited in now.

Szymczak: Well, we will be there.

Eccles: I wanted to discuss this and other common relations.

H.M.Jr: Let's have a joint luncheon.

Szymczak: Fine.

STRICTLY CONFIDENTIAL

December 7, 1940

Full consideration has been given to the discussion at the conference in the Secretary's Office on December 4. One of the principal matters discussed at that time was the question of the narrowing margin of the general statutory debt limit and whether securities should be issued under that authorization or under the national defense authorization. We recognize that from the Treasury's standpoint there may be grounds for preferring to do the financing at this time by means of the national defense authorization in view of the amount of authority available under the general statutory debt limit. The decision will, of course, be made by the Treasury.

Adequacy of debt limitation

The facts in respect to the limitation, as we understand them, are: At the end of November the remaining authority under the general statutory debt authorization was $723,000,000. By December 18 it is estimated, assuming the continued program for substitution of national defense bills for regular bills, that the margin under the debt limit will increase to $900,-000,000. If $750,000,000 of cash is raised through a new issue the margin would be reduced to about $150,000,000. Assuming completion of the bill program in the aggregate amount of $1,300,000,000, the margin would thereafter increase to about $450,000,000 in January, would decline to $350,-000,000 in February and to $150,000,000 in March, and would be eliminated about the end of April. The question is whether this margin is sufficient and also whether it seems likely that an increase in the authorization can be obtained from Congress before the margin is exhausted.

Regardless of the decision which the Treasury makes at this time, we believe that the Treasury and the System should join in making a recommendation to Congress and possibly a public statement against placing defense financing in a special category and in favor of raising the general debt limitation as soon as possible. Since the passage of the Revenue Act in June 1940 Congress has increased defense appropriations very materially. In order to finance the deficit which must be incurred it obviously is necessary for Congress again to raise the debt limitation. It is our opinion and recommendation that such an increase should provide the Treasury with full authority to raise this money in whatever manner is best suited to the interests of the national economy rather than to restrict the sale of securities to specific types and terms. We would strongly urge Congress to make this change and to make it as soon as possible, and to that end we would be glad to assist the Treasury in any way that we can.

It is our opinion that the margin is adequate and justifies the Treasury in proceeding with the issue of securities under the general statutory debt limitation. If an emergency should arise prior to receiving additional authorization from Congress, the Treasury will have sufficient authority under which to act until the middle of March, at which time sufficient leeway could be obtained by the replacement of the June 15 maturity of $500,000,000 of notes with national defense series obligations. If still greater leeway is thought necessary, the refunding of the 3 3/8 per cent bonds could be deferred until March, when if additional debt authority has not been granted, they could be replaced with defense obligations.

Recommendations

1. Cash financing. - We recommend that the Treasury should raise $750,000,000 of cash in December through a long 2 1/4 per cent bond, which at the present market would have a maturity somewhat beyond the existing range of outstanding issues. It is our judgment that, considered solely from the point of view of the influence of the financing on the national economy, the Treasury's cash requirements should be raised by the issuance of bonds for the following reasons:

a. The issuance of such securities would be an influence in the direction of financing the public debt more largely from the savings of the country rather than from a further expansion in bank credit. Although it is recognized that a long bond would not be distributed exclusively to the savings groups, it would fall into the category of an investment suitable primarily for them. It would, therefore, be a step in the general program suggested.

b. The issuance of bonds would tend to restrain a further rise in prices over the near months.

c. Present market conditions are such that the Treasury could float an issue of practically any maturity that seems desirable, including at least a limited amount of long bonds. An offering of an intermediate and long bonds would be readily absorbed in the market, provided the long bonds are restricted to an amount that the market can comfortably digest, which may be estimated at about $1,000,000,000.

An argument for short-term securities is that until the uncertainties concerning banking and tax legislation are settled the market cannot be expected to measure long-term interest rates with fairness. If the influence of large surplus banking funds were removed from the market, long-term rates might have to increase somewhat from present record low levels in order to attract the savings of the country. Long-term bonds issued at this time would be vulnerable to such a rise. If this condition is definitely anticipated, the offering of short-term securities at this time is indicated, provided a public statement is issued, in which the reasons for this decision are given.

We recommend (a) that consideration be given to raising the limitation on preferred allotments on cash subscriptions to $20,000, since this step would tend to encourage subscriptions from individuals and trust accounts and to reduce allotments to banks; (b) that the period during which deliveries of securities on these subscriptions are deferred should be extended from three months to six months, with the dating so planned that it will not fall immediately prior to or after a Treasury financing date; and (e) that consideration be given to eliminating the provision whereby payment for new securities may be made by credit to war loan deposit accounts in banks having that privilege, since such elimination would be in line with a policy of avoiding the creation of additional bank deposits.

2. Refunding of March 1941 notes. - We recommend that the 1 1/2 per cent March 1941 notes should be refunded in December into a 1 3/4 per cent intermediate bond, which at the present market would have a term of about 1952-54. It would probably be advisable to do this refunding in December, since it would dispose of the problem of the largest maturity of the next six months. An intermediate bond rather than a note is recommended, because (a) investors have a decided preference for intermediate bonds over notes at current yields, (b) an intermediate bond would supply the market with a maturity currently in demand, and (c) an intermediate bond would follow more closely the general financing policy previously outlined. It is recommended that the note holders should not be given an option to exchange into a long bond as well as into an intermediate bond, since (a) the bulk of the exchanges might be for the long bond, in view of the larger premium that probably would be placed on it, thereby creating an outstanding amount considerably in excess of $1 billion and (b) the limitation of exchanges to an intermediate bond would avoid arbitrage transactions and wide fluctuations in the rights between the time of closing the books on cash subscriptions and the time of closing on exchanges.

3. Refunding of 1941-43 bonds. - It is recommended that the 3 3/8 per cent 1941-43 bonds should be refunded in December into the new 1 3/4 per cent bonds for the same reasons stated above in connection with the exchange of notes. It is also suggested, however, that holders should be given the option of exchanging for the new 2 1/4 per cent bonds under certain restrictions. It is understood that a large proportion of the 1941-43 bonds is in the hands of insurance companies, savings banks, individuals, and trust accounts, many of whom would hold a long bond for permanent investment. If all holders of the 1941-43 bonds exchanged for the long issue and an additional $750,000,000 were raised through cash subscriptions, the issue would total about $1,300,000,000. Since this amount is larger than the market could readily absorb under current conditions, it is recommended that the long bonds be issued for exchange but only on the basis of a registered bond which would be delivered after six months and would then be exchangeable for bearer coupon bonds. Such an arrangement would afford sufficient immediate protection to the long-term market.

Refunding of the bonds might be postponed up to any time prior to their maturity in March in order (a) to provide reserve authority under the general statutory debt limitation in case of necessity and (b) to avoid any need for an interest adjustment if refunding is done at this time. The reason for the latter is that the large interest value (27/32) might be a deterrent to the refunding in the event of a decline in the market after the offering is announced. As regards this point, however, the new issues offered in exchange can be so priced as to make the exchange sufficiently attractive to assure conversion.

Recommendations if financing is under defense authorization

If it is the decision of the Treasury to issue securities at this time under the national defense authorization, it would be advisable, in our opinion, to raise as little as possible of the necessary funds through national defense issues. If any funds are raised through national defense issues, we would recommend first that bills be issued as funds are required. Bills are recommended, since it is our opinion that any issues made under the national defense authorization should be for as short a term as possible in order to insure early retirement. If the Treasury decides to issue notes, the only type of obligation that may be made fully taxable, it is recommended that the issue should be of a maturity of only one year instead of a longer period, also for the reason that we believe such issues should be of as short a term as possible.

Issuance of registered bonds without privilege of conversion to bearer coupon issues

It has been suggested by the Treasury that bonds which are issued under the deferred delivery plan should be in registered form as at present but without the privilege of exchange for bearer coupon bonds. It is our recommendation, however, that this suggestion should not be put into operation, because

1. Registered bonds would have a higher yield in the market than coupon bonds and this differential is estimated at about 0.10 per cent.

2. The work involved in recording changes in ownership of Government securities would be increased to very substantial proportions.

3. There would be considerable objection in the market to such a procedure. The misunderstanding by the market in September 1939 that the System Account's request for the names of sellers might be for disciplinary purposes infers that a similar misunderstanding would arise if the Treasury should adopt the policy of issuing bonds in registered form only. The effect on the market of innovations or restrictions suggesting partial control of an otherwise free market might be harmful, especially at a time when all indications point to a substantial volume of future financing and when the Treasury probably will be attempting to broaden the market for its securities.

December 9, 1940
3:02 p.m.

H.M.Jr: Hello.

Operator: Secretary Wickard.

H.M.Jr: Hello.

Claude Wickard: Hello. I told you I'd call you and tell you what our recommendation on that would be but the Farm Credit people asked me so many questions that I wondered if there was somebody in your Department that they could call directly and get answers to their questions. For instance they want to know what taxation is involved - is it all just income tax - Federal income tax or .....

H.M.Jr: Well, the person that they can call - they can either call - well I tell you who could give it to them would be Mr. Foley, our General Counsel.

W: Mr. Foley.

H.M.Jr: Yeah.

W: All right. And they said that they understood that you people have been making quite a study and they just would like to know a little more about that. Now, I tell you what we're afraid of more than anything else, we're afraid of the farm organizations kicking up quite a rumpus on the thing and we are wanting to get if this would be advisable - for us to call Ed O'Neill and maybe Lou Taber and tell them this thing has been put up to us and we understand, as least as far as the Grange is concerned that they are already on record, but you know, just make them feel that they are kind of a party to the thing.

H.M.Jr: Sure, sure.

W: It might save us a little heat later - you or somebody else would be in better position when ......

H.M.Jr: I think that would be swell if you could line them up.

W: What did you say?

H.M.Jr: I think it would be swell if you could line them up.

W: Well, I think it's worth the effort and so if we do that, why we'll have to get on long distance and it might require a little bit longer.

H.M.Jr: Oh, well, you had better take time enough to do the job well.

W: Well, now, I'm going to speak tomorrow at the American Farm Bureau Federation meeting in Baltimore - the national, and I didn't know whether you wanted the answer before morning or whether just to feel around a little bit and .....

H.M.Jr: You do it your own way .....

W: And get word to you as quickly as we can.

H.M.Jr: What's that?

W: And we'll get word to you then as quickly as we feel the thing out a little.

H.M.Jr: Yes, I want to be reasonable.

W: All right. Now, I'll have them call Mr. Foley to get more details of what all is involved and what you people have found and then we'll get in touch with these people and I'll call you within the next day or two at least.

H.M.Jr: Thank you so much.

W: You bet.

H.M.Jr: Thank you.

W: All right.

December 9, 1940
5:20 p.m.

H.M.Jr: Hello.

Operator: Prime Minister King.

H.M.Jr: Hello.

W.L. Mackenzie King: Oh, how are you, Mr. Secretary.

H.M.Jr: I'm fine. How are you?

K: Very well, thank you. I received a wire from Churchill - it was sent yesterday but seems to have been delayed coming - thanking me very much for letting him know of the situation and saying that Purvis would return very shortly and that Layton has been asked to come home at once. He says - our purchasing program and the return of Mr. Purvis. He will start very shortly and Layton is coming home at once.

H.M.Jr: Good.

K: I have now arranged after a good many personal adjustments that Purvis shall be under the Ambassador. Purvis shall be the acknowledged head of all our supplies and technical missions in the United States whether permanent or temporary. This unity and focusing will be a high advantage. I hope that will fit in with your plans or your views.

H.M.Jr: Well, I think it's a mistake to put .....

K: But under the Ambassador it's a little bit .....

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

K: Yes. Well, I think it just means that he's got to have him - it wouldn't do probably in the relationship there if he gave him practically a centralized control on everything without having the Ambassador recognized somewhere.

H.M.Jr: I suppose that's .....

K: But I imagine it means that Purvis will have a free hand.

H.M.Jr: Well, I hope so because there's been conflict there I know.

K: Yes.

H.M.Jr: But if it doesn't work out I'll tell you, that's all.

K: That's right.

H.M.Jr: What?

K: That's right.

H.M.Jr: But sometime I hope to see you in the not too distant future and I want to talk about that thing.

K: Well, thank you so much.

H.M.Jr: Now, Layton is out front ..... Hello?

K: Yes.

H.M.Jr: Layton is in my outer office waiting to say good-bye to me.

K: Oh, really.

H.M.Jr: He said that he just got word that he is going.

K: I see.

H.M.Jr: I just thought you'd be interested.

K: That is interesting, yes.

H.M.Jr: Now you know I sent for Clarke and he's here and he just left here five minutes ago and I described to him what we need in connection with Phillips' visit and I lay the greatest importance on the request I've made of Clarke, and if you had a little time when he reports to his superior, if you could find out about it - I'm afraid to mention it on the phone - but from the standpoint of defense and things that I'm asking for - the information, that is from a financial standpoint, is of the utmost importance.

K: Yes.

H.M.Jr: And if you had the time to look into it, I'd - it would be helpful to me.

K: Oh, I'd be very glad indeed to.

H.M.Jr: Because we've got to a point now, due to what Lothian announced publicly, that we've just got to, as we say here, fish or cut bait.

K: You've just got to what?

H.M.Jr: We've got to fish or cut bait.

K: Oh, exactly. Yes.

H.M.Jr: I mean, to use the vernacular because he announced to the world that they are running short of money .....

K: Yes, I know.

H.M.Jr: ..... and of course the Canadian picture is very important and I've explained to Clarke just what I needed, so he knows. But I can't over-emphasize the importance from the standpoint of the financial aspects of it.

K: Yes, yes. By the way speaking of Lothian, he's coming to Ottawa this weekend to stay with the Governor and he's dining with me here on Saturday night. I'll be talking to him on Saturday afternoon.

H.M.Jr: Good.

K: I, of course, won't say anything about our communications at all.

H.M.Jr: No, I would appreciate that because .....

K: Oh, yes, that's quite between ourselves.

H.M.Jr: ..... I mean, to be able to come to you occasionally is very helpful to me and .....

K: Quite right. Yes, and I think you can rely on Churchill watching that too.

H.M.Jr: I hope so.

K: Oh, yes.

H.M.Jr: Well, thank you so much.

K: Well, thank you. It was most kind of you to ring up.

H.M.Jr: And I'll be wanting to see you soon.

K: All right. Thank you, Mr. Secretary. Good-bye.

December 9, 1940
8:30 p.m.

RE BRITISH PURCHASING PROGRAM

Present: Sir Frederick Phillips
Mr. Playfair
Mr. Pinsent
Mr. Cochran
Mr. Bell
Mr. White
Mr. Young

H.M.Jr: I just want to say this, Sir Frederick. I can guarantee secrecy as long as it is in the Treasury, but when I bring in five other Departments, I cannot guarantee secrecy. It is impossible. I mean - you see that figure two billion seven got out.

Pinsent: Yes.

H.M.Jr: I just don't do it. They will talk.

Phillips: There is something unfamiliar about these figures. Are we on the small sheet?

H.M.Jr: Yes.

White: There wouldn't be a duplicate of any of the figures that you presented in the other material because these are arranged from December 1 to September 1. The Secretary wanted it that way, whereas your figures ran from September 1 to September 1. In other words, they included the last three months - one set of figures.

Phillips: These are nine months.

White: This particular one is only nine months.

Phillips: And your real deficit is two billion 678 million.

White: For that period, yes.

Phillips: Three million five, four million six, which is the same old figure.

H.M.Jr: Well, I don't see how you do this thing, Harry. Total dollar receipts, one billion 166 million.

White: That is right.

H.M.Jr: Then you have these dollar receipts, Canadian. What do you do with that? You don't total those.

White: Dan thought you would like the total on top as being more crystallized.

H.M.Jr: Stand on my head to look at them?

White: We turned them up-side-down. We had them the other way.

H.M.Jr: What is this - the Chinese loan?

Young: That is the way you asked for it.

Bell: You said, "I want the total figure on top and then I want the stuff."

H.M.Jr: So this is the receipts and this is the breakdown. (Laughter) So I go "upsy."

Bell: Yes, you stand on your head.

H.M.Jr: This thing here totals one billion, one-hundred sixty-six? Then this is the total deficit. Where do you get that figure from?

Bell: That is the difference between that and that.

H.M.Jr: But you have added those, haven't you?

Bell: Well, you can subtract this from that and you get it the same way.

H.M.Jr: This is the craziest thing. How can you add a deficit and a receipt?

Bell: Well, the deficit and your receipt represents the contemplated expenditures. You have got your contemplated expenditures and you take away your receipts and that is the deficit.

H.M.Jr: Seriously, if we are going to do this for tomorrow, we can take these things and bring this down here. You fellows take me to literally. Have you had some jokes about this?

White: We did have some laughs because it was done this way first.

H.M.Jr: You take this and you bring this one around here and then you - it would be here and then this thing - here would be your receipts down here, and then you subtract this from this and you get that.

Bell: That is right, and that is broken down into these two parts.

H.M.Jr: You have got to rearrange it.

Bell: O.K.

H.M.Jr: Is it done the same way here?

White: No, we had them both ways so we would have one right.

H.M.Jr: I think I had better look at this.

Phillips: What has happened to the South African gold?

Playfair: It appears on the right-hand in the big table.

Phillips: In the short one?

Young: No, the short one is just a summary of the big one. It is over on the right-hand side.

H.M.Jr: You fellows thought you would rub my nose in it, did you.

Bell: No, it wasn't that bad. Did you find the gold, Sir Frederick.

Phillips: Yes.

H.M.Jr: They are having some fun with me here, you see.

Phillips: B, (3).

H.M.Jr: These figures are new to me - that Item 3 under (a). That 959 seems smaller than what we have had.

White: Yes, because it doesn't include 699 capital, and it doesn't include that portion of about a billion dollars which is supposed to fall due after the date which is indicated here.

Bell: This is nine months of expenditures under that program.

White: But I think we should add that underneath.

Bell: Yes, because 709 will have been spent, probably, in nine months if you are going to spend 959 within the period.

White: You see, there is an added billion.

Young: But they pay for it - paid over the unit price.

H.M.Jr: That is all right. I don't think I want this small one.

White: O.K. I think this (indicating large tabulation) is much better.

H.M.Jr: What is this?

White: That is the assets they have given us so far.

H.M.Jr: Oh, this is what they have given us.

White: Yes, all the figures they have given us.

Bell: Is it necessary to pay Canada the 465 in United States dollars?

Phillips: They have no sterling and have to buy it.

Bell: Does that have to go through the dollar exchange, the American dollar exchange?

Phillips: That deficit is - we actually pay the freight in the handling of the gold to Canada.

Bell: American dollars?

Phillips: Well, that is a sum really expressed in United States dollars. You add 10 percent, it would be 511 in Canadian dollars - 511 million dollars.

White: It would either be United States dollars or American dollars or gold. I take it, if you don't have Canadian dollars, your thought is it would be either gold or United States dollars.

Phillips: Yes, or rather - some is due in Canadian dollars and we get those dollars.

White: Yes.

H.M.Jr: Now, before we get it down, does this, what we have here now, include all the contemplated purchases between now and September '41?

White: That is--

H.M.Jr: Is that it, Sir Frederick? Is there everything on this sheet which you have in your hand now? Is this an outside figure?

Phillips: No. This is the figure brought up to the stage at which Sir Walter Layton's memorandum which you showed me had brought you. I don't say this is the complete story because, for instance, I don't know what proposals my Government may be making about shipping. They might make a lot more about shipping than Layton mentioned.

Pinsent: Yes, and this also includes the first part of what we call the Beaverbrook scheme and not the second part, the first part being nearly ready to be put out in the form of contracts, but the second part being still sometime away.

H.M.Jr: Well now, they are going to ask me tomorrow--Phil, have you got just what this means? Let's call it, for want of a better name, the Layton memorandum.

Young: Well, that is included in there, yes.

H.M.Jr: This includes the Layton?

Young: That is up to now.

H.M.Jr: So the 12 thousand airplanes is included in this.

Young: Yes.

H.M.Jr: But--

Young: This is the program so far as it can be expressed in concrete form today, as I understand it. It does not take into account any contemplated orders which may be placed for the first part of next year, which are not under negotiation or which have not reached the stage of taking - becoming negotiated at this point.

Phillips: That is right.

H.M.Jr: Can we get any idea how much more you will want to buy between now and September 1, '41.

Phillips: I don't think I have got any idea what that might be by those dates. Have you, Pinsent? The general shipping program is, of course, a very big thing, but what falls between those lines, I don't know.

H.M.Jr: I see.

Pinsent: I rather think that in it - I am not quite sure. I haven't had time to study it. In the latest monthly forecast of the purchasing commission dated the first of November, they wrote about 10 pages. Does that show any items for the further airplane scheme?

Playfair: Yes, it does. But I don't think that should be taken as any too certain at this stage. Of course, that shipping and the so far undetermined part of the 10 Divisions, that is the ordnances here, and certain other items, are what one can think of, but beyond that in the nine months to come there will possibly be other things arising of which we know nothing at present, so it is impossible to give a firm figure.

H.M.Jr: I had lunch today with General Marshall, our Chief of Staff, and he was complaining bitterly that he no sooner gets set on one thing than the English want something else, and he really was quite irritated about it. I don't know what all the circumstances are, but I am sure Mr. Young knows much more about it than I do, but he really was quite - General Marshall very seldom gets upset, but he really was quite - this constant coming at him in all directions, as soon as he gets set on one program, somebody comes with something else. He says it just has to stop. He says they have got to get together so that one person can speak for them. Now, what I am thinking out loud is that I would much rather have a high figure - I mean, supposing we go all through this and there is some way found of seeing this program through, and we get this thing nicely through after two weeks' hard work, and then you come along and say, "Well, we want another two billion." I mean, it is going to be hard work and whatever we are going to do, I really think that your Government ought to say, "Well, besides this," - because you dropped that remark the other day, Mr. Phillips - I think you said, "We will need at least another two billion," - or whatever the figure is. But I would go through it once, whatever it is, that you think that you are going to need between now and September 1, '41.

White: There are two billion seven which is not included in that, which is a total of payments due after

September 1 on orders indicated here, two billion seven more.

H.M.Jr: There is?

White: Yes.

H.M.Jr: Aren't you going to show that?

White: That is shown.

H.M.Jr: Where?

White: Payment accepted December 1.

Bell: You understand this is a cash expenditure payment, and there are a lot of contracts which will not have been liquidated by September 1.

White: We will add that.

H.M.Jr: I think you should. It isn't there now.

White: It says, in addition, 266 million expected to fall due after September 1. The next is 684. Then there was a billion which we left out, and then there is seven hundred million capital expenditure, and we can total those and put it here to indicate.

H.M.Jr: Why not put it here after September first--

White: On orders indicated on this sheet, there will be two billion seven due, or a total of five billion.

H.M.Jr: That is what I was groping for. I knew it came to five billion, but I didn't see where it came from, Harry.

White: Right.

H.M.Jr: That is enough to wrestle with.

Bell: That still isn't all of it.

White: If there are some other things they have in mind to be placed soon.

H.M.Jr: You see, Sir Frederick, if you could get off a cable to your Government and say, "Now look, they are asking for this. How much more besides this do you think you want?"

Phillips: As regard shipping, the only shipping proposals I have seen rather represented the sum of say 150 million pounds, that is 600 million dollars, in which obviously only a fraction would fall due before September next, but what the airplanes come to, I don't know. What do we know about that airplane business?

Pinsent: Well, there is a footnote on the tenth page of the British Purchasing Commission's December 1 forecast which has just been circulated in the last day or so. It gives estimated figures for the capital required for the third airplane program, April to August 1941, a hundred million--

Phillips: What?

Pinsent: ....dollars. September '41 to August '42, four hundred million. It then goes on, "It is not yet possible to forecast the orders to be placed and the production expenditure involved to utilize the combined capacity after June '42."

H.M.Jr: But isn't there anyone who can tell you that on the basis of the original three thousand a month, whatever the figure was, how much extra would we want before September 1.

Phillips: There is a hundred million of capital estimated here. It just simply says that it is not yet possible to forecast the production expenditure. Who is in charge of it?

Pinsent: Self, I think.

Phillips: Can't we get Self on the phone.

Pinsent: Yes, if he is here.

H.M.Jr: Do you want to do it tonight?

Pinsent: Better get him tomorrow. We can cross-question him better.

Phillips: Yes. As I understand this--

H.M.Jr: We can if you want to.

Phillips: Is it up to and including that memorandum you received from Walter Layton?

White: That is right. That is the item which is called here "Contemplated 'X' Program."

Phillips: If I understand what Sir Walter Layton's memorandum is intended to represent, it is intended to represent those things which were just about at the stage at which orders could be placed very shortly if the United States Government was agreeable. Wasn't that the point of it?

White: I don't know the answer to that.

Young: That is correct. Sir Walter's memorandum dealt with those three proposals of plances, ordnance, and ships.

Phillips: That he could place orders straight off.

Young: Yes, which were the three largest and three hottest things on the fire at the moment.

Phillips: Yes. Well, I think we can give you a figure, but it will be a little vaguer than this. This is, after all, reasonably good estimating.

H.M.Jr: Well, Dan, don't you think - I mean, you argue with me if you think I am wrong. We have got to go through this very, very difficult operation. If we go through it and no sooner is the ink dry than the English come back and say, "Now look, we need another billion or two billion more," everybody is just going to throw up their hands, aren't they?

Bell: I think so. Just as Marshall says, "They don't any more get set on a program and get started than along comes another one, and they have got to work the next program."

H.M.Jr: I told that to Layton this evening when he left, and he didn't like it, but I would much rather have it on the high side and then find that you didn't need as much, than to find that the thing was low, and I had to start all over again.

Pinsent: I believe, Mr. Secretary, that it is not so difficult to give with reasonable correctness the total cost of that additional airplane scheme divided into capital and product.

H.M.Jr: You say that is difficult.

Pinsent: No, I don't think that is difficult.

H.M.Jr: I don't either.

Pinsent: The difficulty is assigning it to particular dates and times. Isn't that right?

Young: Yes, and the cost of the thing is all worked out.

Pinsent: The total capital involved--

Young: Three thousand per month idea.

Pinsent: Yes. The total product payment up to a certain number of planes I think can be stated quite easily.

H.M.Jr: I am just throwing that out because, as I say, I am not fooling myself one minute what this job is going to be to get it through, and I don't want to do it more than once.

White: Unless, Mr. Secretary, their new planes, those which they haven't included here, call for production in the second half or in 1942 - because it is to be expected that if the war continues, there are going to be more orders, and it is merely an open end, depending upon the duration of the war, so that it will be desirable to have their contemplated orders, if those orders are to be placed sometime within the next few months and if production is to take place as rapidly as possible.

Young: You have got three things you have got to take into account there, Harry. One is the course of the war. Will it be a land war or an air war a year from now?--

White: That is why I say that any contemplated proposals as to what they will need - if it is a year and a half from now - it doesn't have a great deal of bearing on this.

H.M.Jr: Harry, I have lived with this thing now since we started with the French, just exactly two years ago, and I don't want to go through this thing - something else may come in six months from now, but I am talking in terms of weeks, that we get this thing sort of set if fortune is with us, and we hardly get the English dry and they say, "Now, look, we want another two billion more," and as far as General Marshall is concerned, well, I say, he was irritated as to the method of handling this thing. He is friendly to the placing of this program, as a matter of policy, I don't want to be misunderstood. I have found him suprisingly friendly.

Pinsent: I think we can get out without difficulty the figures for the execution of that third airplane program up to, say, any given number of planes;

the actual period when it would start and how long it would last can't be stated with any precision, but perhaps just the total amount for a given number of plances is enough to give you the picture you require.

Young: I think it was eight hundred million, wasn't it?

Pinsent: Five hundred million capital or nearly - well, I have some figures before me generally. They seem to be missing this time.

Bell: Phil, you are talking about three thousand planes a month. You have got on this program 12 thousand planes. We got three thousand planes again? Aren't the 12 thousand part of thiat program?

Young: There were two original schemes: three thousand planes a month and twelve hundred and fifty planes a month.

Bell: But you have got 12 thousand planes--

Young: This is the twelve hundred and fifty planes, the smaller of the two schemes.

Pinsent: There is something in here. For the third program it gives two hundred twenty-five million payment for product up to August 1941, between April and August '41, and an estimate of a hundred million for capital if the capital has to be met by us. Then considerable amounts after August 1941. The figure given here is six hundred seventy-five million after August '41, which is described as the new scheme for nine thousand units.

White: Then everything that is in here, in that table, is not in here (large table)?

Pinsent: What is described as the third program in this is not in there.

H.M.Jr: I repeat again, I don't want to go through the difficult task and say that we just about get it completed and then they come along and say, "Now look, we want something else that is going to cost a billion or two billion more," and have the President or somebody throw up his hands and say, "Well, it is impossible." I would much rather have them be on the high side than on the low side.

Phillips: I don't think there is any difficulty in meeting the Secretary on that point, Pinsent, as regards the airplanes, which I am sure you can do, and ships. What I doubt now is that you have got any corresponding program for ammunition and tanks and that sort of stuff.

Pinsent: Well, we have to ask the purchasing commission about that. I am afraid I don't know the answer to that point at all.

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

Pinsent: I haven't heard anything on those lines at present but, of course, there is always this, that as the war is prolonged there are likely to be repeat orders.

H.M.Jr: That is all right.

Phillips: But what was the Layton memorandum supposed to cover, 10 Divisions or what?

Pinsent: 10 Divisions of equipment, but not including - Oh, it included airplanes and I think the tanks also in the 10 Divisions.

H.M.Jr: Well, now, let's just leave that and go on to the question of what you have got in the way of liquid assets on the receipt side.

Pinsent: Here is a table on that.

H.M.Jr: Balance of gold - where is that here?

White: That is right along here. That is the history of the past month and that is what they have now.

H.M.Jr: Where is the 450?

White: Well, that is the figure they gave. That is gold and dollars.

H.M.Jr: There is no figure of 450.

White: No, we broke it up into gold and dollars, which they gave us.

H.M.Jr: Has he got a copy of this?

White: No, I just made it.

H.M.Jr: Has Pinsent got a copy?

White: No.

H.M.Jr: Will you give him a copy.

White: Certainly.

H.M.Jr: And give Sir Frederick a copy. Have you got an extra copy there?

White: I should have. Yes.

H.M.Jr: Norway has more than six million. What about that gold that landed in Baltimore? How much was that gold, Merle, that landed in Baltimore, Norwegian gold?

Cochran: I can't think now.

Pinsent: It was in pounds, Mr. Secretary.

Cochran: That was nine million, as I recall it.

H.M.Jr: Dollars? Oh yes, it was more than that.

Cochran: Split it six to us and three to Canada.

H.M.Jr: You say, Harry, these figures are incorporated in this?

White: Yes, with the exception of one change which they made in securities just now.

H.M.Jr: Which?

White: They reduced it about a hundred million below our figure.

H.M.Jr: Yes. Have you given Sir Frederick a copy?

White: Yes, here it is.

H.M.Jr: Let's just start with the top. Gold, 450 million. Does that check with their figures?

White: That is the figure they gave us. Is that right, Mr. Pinsent?

Phillips: It is December 1, isn't it?

White: That is on December 1, yes.

H.M.Jr: This doesn't say.

Pinsent: Five hundred eighty-four. There is something left out, isn't there?

H.M.Jr: Then they have gold held in banks - 124. All of this is available?

White: I don't know.

H.M.Jr: Shall we take item by item, Sir Frederick?

Phillips: Yes. What I say is that 574 is rather below what I regard as the proper working balance.

H.M.Jr: Five seventy-four?

Phillips: I think our working balance ought to be somewhere near six hundred.

H.M.Jr: That would leave nothing then.

Phillips: I think it is down already to about what the working balance ought to be.

H.M.Jr: This shows 574 here.

Phillips: That is right.

H.M.Jr: Do you think that is as low as it should go?

Phillips: Certainly.

H.M.Jr: There is nothing more available in gold, is that right?

Phillips: That is right.

H.M.Jr: I mean, I just want to find out what this means.

Phillips: There is no surplus gold. It is down to about the lowest it ought to be.

H.M.Jr: Well, now, Item No. 3, United States dollar securities held by United Kingdom, 750.

Phillips: I don't recognize that figure. Our figure is 660.

White: They just reduced that down.

Phillips: I don't recall. Six sixty is about the really saleable stuff. The difference is constituted of Australian stuff and so forth.

H.M.Jr: That is market value?

Phillips: Well - I think you can take it that it represents approximately the market value.

H.M.Jr: Now, No. 4, Latin-American securities, investments

Held By United Kingdom, two billion 825.

Phillips: Help! Where does that come from?

White: That is a nominal value. Here is a table which I submitted on that. Here is the original. That is just the breakdown.

H.M.Jr: Harry, make life simple for me. In Item 4 you have got two million 825.

White: They have a separate item of the listed market value, that portion of them which they were able to ascertain, a listed market value.

H.M.Jr: How much is that? - one million seven?

White: That is right.

Phillips: That is the nominal, and 630 is the market value.

White: That is this figure here, 158 million pounds.

H.M.Jr: I don't understand. Market value of a billion seven of these were given as 630. What does that mean? A billion seven of the two billion 8.

Phillips: Of the two billion 8. There are no quotations on a substantial portion, around 40 million pounds, but those which they did find quotations for had a market value of that figure down there.

H.M.Jr: Are any of these for sale?

Phillips: Beg your pardon.

H.M.Jr: Are these securities mentioned in No. 4 - are these for sale, any of them?

Phillips: Well, they are sterling, you understand, not dollars. You would have to find a buyer for them first. One part is the Argentine railways in South America and the other isn't. We are deal ing with the Argentine Government now, and the price isn't fixed, but the absolute conceivable maximum value is 250 million pounds. That is all they are worth - much more than they are worth - some fraction of a billion dollars for the Argentine railway. Then the rest of it is this figure you have got here, market value, six hundred 30 million.

White: That figure doesn't include the - this two hundred 39 million pounds of the nominal capital structure that you indicated.

Playfair: Your 28 - your figure here indicates it.

White: I just copied that from yours.

Phillips: The 285. The substance of it is that the securities have a market value of about six hundred 30 million dollars plus whatever you get for the Argentine railway; but, of course, they are sterling securities and the problem is to find a buyer for them.

H.M.Jr: Well, you are saying that the sterling securities--am I to take from that that they are not - the proceeds from these securities, if a buyer was found, is not available for purchasing munitions in this country? Is that inference correct or not?

Pinsent: No, Mr. Secretary, I think the point is that it would be very difficult to find a buyer, a person who would buy for dollars a sterling security of these kinds, most of them. Some would be different.

H.M.Jr: Well, I mean - put it a little bit differently. These securities - are you holding these for some arrangement with the Argentine or, if a buyer could be found, let's say in this country, are they available? Do you want to sell them? Supposing a syndicate was formed in the United States.

Phillips: Why I think it is quite obvious we would be willing to sell them if you wanted to--

White: This is the item in addition to what you have there, 240 million pounds for the Argentine railway.

Phillips: We would be mildly suprised if there was a syndicate formed to buy them. In fact, I don't know any conceivable buyer in the United States Government who would want them. I am quite sure the ordinary American investors wouldn't put up any such funds. Masses of these things are in default and have been in default and market prices are 20 percent. They are not the kind of thing you could sell on a stock market. We are trying to point out that if there were a sale, it would have to be an arranged sale with a special buyer.

Just one other point, just while we are on it. We can only sell what we have got, and if you take some of these public utilities in South America where the local government has given a certain franchise to some company in London, of course, it doesn't follow that he is going to automatically transfer that franchise to some other country in the world. As regards the public utility part of it, there is always the possibility that the local government could put a stop to it.

Cochran: Do you have such a control over these securities now, Sir Frederick, that you could handle a sale?

Phillips: You could get hold of most of them anyhow.

Cochran: I mean, you have them registered--

Pinsent: They are registered, aren't they?

Playfair: No, not all of them are registered. We haven't got all the Brazilian ones registered.

Cochran: Could you vest title in them the same as you have in dollars:

Playfair: I should have explained to Dr. White that that figure must be taken very much subject to reserves. It is an estimate based, in many cases, simply on the capital issues in England, and I gave it on the reserves, and I am not prepared to stand by it, but we could - some of them are already registered and the others can be registered at any time. The deficit does include some non-registered holders.

H.M.Jr: Well, I will come back to that. Five. Gold. Now, under five - is any of this available for Norway, Netherlands, Belgium, Czechoslovakia - any of that available for payment of goods in the United States?

Phillips: I think it is correct to say we could borrow the Belgian stuff for the period of the war.

H.M.Jr: Borrow it?

Phillips: Borrow it. But I think it is also true that in every case they have been invited to subscribe for some of this gold and have refused on the ground that it is the reserve they are holding for reconstruction after the war, and a little more pertinently, that if, for instance, the Netherlands' Government applies this gold to the prosecution of the war - of course, if they hand it over to the United Kingdom for prosecuting the war, that will be a very strong factor in German propaganda in their own country and they don't like it, but as a matter of borrowing for carrying one over the difficult period of a month or two, I dare say we could borrow this. I think we could from Belgium at least.

H.M.Jr: What about the 650 million?

Phillips: Well, I can't answer myself for the strategic point, and it might be at the particular moment they didn't want to give the French any excuse for being in the Mediterranean, but subject to that I should have thought there was no difficulty about that being made available during the war. It will, no doubt, remain due to the French after the war, subject to the terms of peace settlement. There will be no difficulty, of course, if anything is stuck in our fingers after the war. Of course, that would certainly be valuable.

H.M.Jr: I am not familiar with that expression.

Phillips: Which?

H.M.Jr: Stuck on your fingers.

Phillips: Well, supposing in fact - I am rather guessing here - but supposing, in fact, at some stage of the war that was taken over, that 650 million dollars. Prima facie, we, at the end of the war, owe 650 million dollars to the then French State, whatever form it may take. Supposing, in fact, the peace settlement was such that it was discharged by handing back to them four hundred millions, leaving 250 million. That, of course, we should regard as certainly helpful to discharge any debts we had incurred to the United States Government or any other party during the war.

H.M.Jr: Yes, but let's say in the next three months you needed some money. Is that 650 and the Belgian 616 - is that available? Is that for sale, United States Treasury, as between now and September 1, '41, or isn't it?

Phillips: Personally, we shall be driven to it if we don't get any help in a month or two. We shall be forced to do it.

H.M.Jr: Well, that - if you don't mind my saying it, I think the situation is just a little bit the other way around, if you understand American sentiment. Certainly, the feeling of the Administration is that the chances of helping England would be greater if, in advance of our making some arrangements with you, items like the French gold and, let's say, the Belgian gold - and I don't see where it is listed - American factories owned by you in this country--

White: They didn't have any information on that point, but they were going to get some.

H.M.Jr: Well, that is very important. I want to get this over to Sir Frederick, if I can, because there is a fundamental difference of viewpoint here. To go back, you say if you don't get help, you will be driven to it. What I am trying to say is that the chances of getting help are far greater if you take these steps first. Now that just goes back to what I said the other day. I have had some talks since I have seen you, and I know, as far as the men in this Administration who have to do with money are concerned, just as long as there are these sort of items, plus the English owned factories in this country that aren't exhausted first, it makes it that much more difficult by affecting American sentiment, and I am quite sure I am right. I don't see that other item at all. That was around six or seven hundred million, wasn't it?

White: Something like that.

Phillips: What is this other large item? What figures are there?

White: The Department of Commerce has made the only study up to date. It had a figure of 11 hundred million. That was eight hundred million of what they called direct investments and three hundred million of other funds, mortgages, trust funds, and so on. It was eleven hundred million. How nearly accurate that figure is, we do not know now. We were making some further study, but we don't know.

Phillips: Well, I should say, in the first place, the figure undoubtedly includes as direct investments what are really a lot of marketable securities. I say that because we have gotten an estimate of your people and I know the estimates were too low for that but isn't too high for the other.

White: There probably are some. We have already gone through the list, and we have found, I think about a hundred million dollars, through one list, and I am sure that when we go completely through the other list, we may find some more of that. It may count another hundred million or so.

H.M.Jr: Let me just take a look at this big sheet where they say dollar receipts. Now, you have got a hundred and 35 million

Canadian six and United Kingdom 195. There is a figure, a total of one billion 166 million. Do I understand that the British Treasury is telling me tonight that the only dollar receipts available between now and the first of September is a billion 166 million?

Pinsent: Generally speaking, this estimate is the estimate of the current account, Mr. Secretary, not allowing for the use of gold dollar balances or the sale of securities. This is drawn up on the basis that the current portion--

H.M.Jr: What I have got to have between now and three o'clock tomorrow, unless this meeting is going to be a complete failure, is how much money or assets, which are saleable over a nine months' period, does the British tell me are available between now and the first of September '41. That is what I want.

Bell: That second sheet you had was an attempt to show what was available--

H.M.Jr: But, Dan, Mr. Phillips doesn't accept these figures. I want British Treasury figures. I want them to say to me, "Morgenthau, between now and September 1, '41, this is the limit. Now, we want to ours in your hands. Now, this is what we can go, the limit." I don't want to be in the position of bargaining or putting any pressure on or anything else. I am saying that if the British Treasury will say to me, "Now, this is the absolute maximum we can do. How, how bad do you want us to strip ourselves? But this is what we can do" - and then leave it to us to come back and say - to have something to say, but I don't want to be bargaining and I don't want to be pushing and I don't want to be arguing. Well, I haven't got that figure.

Pinsent: The only figure that is missing, I think--

H.M.Jr: They have just got to trust us, that is all they have got to say, "This is the absolute limit. Yes, we can take the French gold. We can take the Belgian gold. We would like to argue, explain to you the difficulty, but we can do it. We can do so much on the securities. Now, if you expect us to absolutely strip ourselves, this is what we can do," - and then I think that the attitude will be, "Well, we can't ask the British to do as much as this. This is too much to ask of them." Now if I could get the people in that frame of mind instead of saying,"They are not doing enough and why can't they do this and why can't they do that," I could make headway much faster.

Bell: I think that is right.

H.M.Jr: Am I right, Dan?

Bell: I think that is right.

H.M.Jr: I mean the people in that room will say, "Well, Morgenthau, you are too hard-boiled. You can't ask them to do this." But otherwise they will say, "You are just a 'softy' and you haven't begun to ask them," and then I am on the defensive. I would much rather have them take the side of England against me instead of saying that I am taking the side of England and have them all be against England. It is a degree of preparing this group who have got to prepare Congress. At least you can - don't you think that is the way that group would react, Phil?

Young: Well, I don't think there is any doubt about it because the impression, I think is prevalent that England has got to do a good deal more than she has given any obvious and apparent signs of doing today before she can count on any great help from the United States.

H.M.Jr: When that group came to me today and told me I have got to be tough and all that sort of thing -

Phillips: What did you mean by doing more than we are doing now, exactly?

Young: Just the question of degree as to how far she can call upon available assets, as to how many of your assets can be liquidated, to meet what bills you are running up to meet bills in the United States.

Phillips: The answer in almost every case is, "Where do we find a buyer."

Young: Surely--

Phillips: Yes, we are supposed to have a hundred and 60 million pounds and six hundred odd million dollars of the very finest American marketable securities, and they are going out fairly slowly. If we can't sell the very finest American market securities on the American market, what reason is there for thinking that we will find a buyer for some securities of South American states?

H.M.Jr: Why don't you put it up to us?

Phillips: I think we would sell the marketable securities. Coming down to the second line, I thoroughly understand your line of criticism--

H.M.Jr: But you don't put it up to us. I mean, I don't know how much you have got left, six or seven hundred million. Let's just for a minute say, supposing you said, "Well, now" - I don't know what is fair, the average of the last three months or six months, whatever would be fair, say "Look, do you think that you can do better than we can? If you can get us the average price for the last three months or the last six months, see if you can do better than we can." I mean, in other words, put the burden on to it - to us here to see whether we can not take your Argentinian things. Say, "Here is the lock, stock, and barrel. At such and such a price we would be delighted to sell them. If you can do it, all right, go to it" - and as I say, the Belgian gold, if the thing comes to a guess and the French, yes, and it gives us something to work on, and if I could get you in the frame of mind that - put the burden on us instead of saying - you see, I can't lose track of the fact of what the fight is for, and I am the worse person in the world to be trying to put any pressure on you. I can't do it. If I could only get across to your Government that "Morgenthau has demonstrated in the last two years that he is our friend, and we either can or cannot put ourselves in his hands" - and, of course, if you don't want to say it that way, let's use the word "Roosevelt," - "that Mr. Roosevelt is our friend." Either we can put ourselves in his hands and he will do the right thing for us, or we won't, but I don't think anybody around here in the Treasury wants to bargain, but Mr. Churchill has got to say, "Well, I can put myself in Mr. Roosevelt's hands, and here, Mr. Roosevelt, this is what we have got. I have turned my pockets inside out. You see everything I have got. Now, you have got to treat me fair." Now, on that basis we can make progress and make it very fast, and I say leave me out of the picture, but you have got to trust our President, and Mr. Churchill is the head of your Government and has got to make up his mind he either will or won't, and you are not going to find the President in any bargaining mood, either.

Phillips: Let me ask a question. Do you accept the proposition I made about a minimum balance of six or six months, whatever would be fair, say "Look, do you think that you can do better than we can? If you can get us the average price for the last three months or the last six months, see if you can do better than we can." I mean, in other words, put the burden on to it - to us here to see whether we can not take your Argentinian things. Say, "Here is the lock, stock, and barrel. At such and such a price we would be delighted to sell them. If you can do it, all right, go to it" - and as I say, the Belgian gold, if the thing comes to a guess and the French, yes, and it gives us something to work on, and if I could get you in the frame of mind that - put the burden on us instead of saying - you see, I can't lose track of the fact of what the fight is for, and I am the worse person in the world to be trying to put any pressure on you. I can't do it. If I could only get across to your Government that "Morgenthau has demonstrated in the last two years that he is our friend, and we either can or cannot put ourselves in his hands" - and, of course, if you don't want to say it that way, let's use the word "Roosevelt," - "that Mr. Roosevelt is our friend." Either we can put ourselves in his hands and he will do the right thing for us, or we won't, but I don't think anybody around here in the Treasury wants to bargain, but Mr. Churchill has got to say, "Well, I can put myself in Mr. Roosevelt's hands, and here, Mr. Roosevelt, this is what we have got. I have turned my pockets inside out. You see everything I have got. Now, you have got to treat me fair." Now, on that basis we can make progress and make it very fast, and I say leave me out of the picture, but you have got to trust our President, and Mr. Churchill is the head of your Government and has got to make up his mind he either will or won't, and you are not going to find the President in any bargaining mood, either.

Phillips: Let me ask a question. Do you accept the proposition I made about a minimum balance of six hundred million dollars?

H.M.Jr: What I am trying to get across is a mental attitude. I, personally, think how much your balance is, if you don't mind my saying it, in gold, where it is visible, is very unimportant. What I am trying to say -- I am trying to get over to you gentlemen how to deal with us, and that is visible, and whether it is four hundred million or three hundred million, from our standpoint, it is not important, and once all the cards are on the table, you can say, "Well, this is why we need it." Then you are not going to have any trouble. Do you agree with that, Bell?

Bell: I think you might have an easier time if you could say that we are now down, we have gone as far as we can in liquidating our assets, and we are down to this minimum balance and that is all we have got left now. He has got to come forward and, I think, you would get it much quicker on that basis than you would if you had all these assets and this balance.

H.M.Jr: But, Dan, if everything is on the table, cards face up, the six hundred million dollar balance, everything else, it is all there, here is the whole pot, here is everything right in the middle of the table. Now, we have got everything. Everything is there. Now, there it is. It gets down to a question of Mr. Churchill putting himself in Mr. Roosevelts hands with complete confidence. Then it is up to Mr. Roosevelt to say what he will do.

White: And Congress.

H.M.Jr: Well--

White: He has got to put it before Congress.

H.M.Jr: But I am not worrying so much about Congress, once

Mr. Roosevelt makes up his mind, but that is what it gets down to, but I may be - what I am saying, I am saying in all sincerity, and I don't want to step on anybody's corns, but I don't feel, if you don't mind my saying so with all sincerity, that all the cards are now on the table.

Phillips: Well, now, which are the ones that you think are missing?

H.M.Jr: Well, I think you know as well as I do now, don't you think so?

Phillips: Which particular assets do you feel you haven't enough information on? As far as I know--

White: I can indicate the assets which--

Phillips: I think we have given you figures on everything we have got except direct investments where we haven't got figures.

Playfair: Those are on their way at the present time.

White: I think, in line with what the Secretary said, the assets which may be included by public opinion, and that is what we have to contend with, I think you will appreciate, are the following items, without any attempt to evaluate them, because their particular liquidation value depends, as you put it, upon finding a buyer within a limited length of time, et cetera, et cetera; but I think there will be some people who are going to present to Congress and to the public what they regard as the assets which are available to the British Empire and that the Administration is going to be in the position either of saying, "These assets don't exist," or that, "They are in negligible quantities," or, following the Secretary's thought, is that "Yes, they have told us about these assets, and if we want to strip them, these assets are worth such and such, but do we want to strip them?" Now, with that in mind, I will indicate some of those which are based--

H.M.Jr: Can I interrupt you a minute? You (Phillips) remember when you and I saw the President, he, himself, mentioned those South American things and I told you I didn't put that idea into his head.

Phillips: No.

White: There is the gold which you have indicated, and there are the dollar balances which you have indicated. Our estimates of the dollar balances are a little bit higher, but the difference can be ironed out because we include some estimates that you don't.

Phillips: You point them out to us, and we will get hold of them.

White: Yes, I say we have them here. I mean our reported private assets, which are reported here. If you don't know of them, we will be glad to tell you of them, but they amount to a little bit more.

Playfair: We have already telegraphed home for a reconciliation of that point.

White: Yes, I am merely indicating that in passing. I am sure they can be reconciled. Then there are the American securities which you have indicated. Then there are what we call direct investments.

Phillips: Well, what figure do you put on it.

H.M.Jr: Well, direct investments, I say the only figure that we can begin with, and Lord knows what we will end up with after examining them, but the figure we begin with is the 11 hundred million dollar figure which the Department of Commerce purports to have found. We are making pretty rapid examination of them and some changes already have been introduced in the figure. We are not speaking of the liquidation value, merely what they call their book value.

Phillips: Yes.

White: And what the figure will show, I don't know, but I am not sure that that is quite in point because, I take it, what the Secretary has in mind, we say that they have got about 11 hundred million and the public is going to believe the Department of Commerce's figures until such time as we have further information from yourselves to alter those figures. Then the answer is obvious. That doesn't mean that they have a liquidation amount.

Playfair: We already have a larger amount of information about book value. I hope next week I will be able to bring it in. A letter is being prepared with full details. It seems to us useless to start talking until we have the complete details for each one.

White: Then we have the foreign investments of the United Kingdom outside the United States. The Latin American investments which we have already said something about. There are the investments in South Africa and Rhodesia, British Asia, and others. Again, the nominal figure is large, what one wishes to call the market figure may be anything way down, and the liquidation figure may be still smaller.

Phillips: They are all sterling.

White: They are all sterling, that is right, but the fact it is a sterling security doesn't, I take it, mean to the public that they have no value. Now, what that value is--

Phillips: It doesn't mean with regard to the American public that they will pay any price for them. In the first place, they are sterling and in the second place, to the American public, they have very definite worries.

White: I take it that that would be one of the factors that would be discussed by those who are setting policy in considering that. They say, "Yes, they are throwing these on the table. Now, how much are they worth," and all these arguments would come to the fore. What they would end up with, I don't know, but they are part of the United Kingdom assets. Then there are likewise the United Kingdom investments in Canada, which are substantial.

Phillips: Well, we have been setting those at the very highest rate we can and they are just about half or a third of our expenditure in Canada.

White: Well, I don't know if we want to go into that now. Judging from the rate of expenditure which I got from your balance of payments, there is some reduction, but I take it that according to your figures, the only securities which were purchased back - you can correct me on this. What was your estimate in the first six months?

Playfair: One hundred 30 million in the first six months of this year and last year also.

Phillips: And a hundred and seventy million last year.

White: A hundred and seventy million, according to the estimates of the nominal value, and again what they may actually be, I don't know. Selling them at the rate of 260 million during the first year of war still would leave substantial amounts unless, as I say, the market value is very much less.

Phillips: That is as fast as the Canadian government will take them. We have been pressing them for a long time to take more.

White: But I take it that the thought here is that they might find a market here, but again I wouldn't wish to be put in the position of saying what the market value is. I don't know. But these are assets which the general public has in mind and if they have no value, they wouldn't be included. They have some value; how much I don't know.

Playfair: We can provide figures of that.

White: Yes.

H.M.Jr: Harry, can't we, for tomorrow, on this sheet, so I don't make such a bad showing, put down here underneath this thing after the one billion 186 - I would put down here the Belgian gold, the French gold on direct investments.

White: Well, if they want to regard those as assets. You see, I think the point of difference is that your perfectly legitimate interest for the moment is what is the market value of these. I take it the Secretary's thought is not that. That is something to be considered later, that these are on the table. There they are for what they are worth, which doesn't mean that they will take them.

H.M.Jr: Well, I mean - look. I can't go before this group tomorrow and show that only one billion 166 million is there. I want to show that there are these direct assets--

White: Listen, Mr. Secretary, that is what they are going to get.

H.M.Jr: Whatever it is, I want to put down these other things. I don't want to put down these Argentinian things, but certainly everything that they have got in the United States and Canada, which isn't pledged to Canada, ought to be put down.

White: Well, if they will indicate the items, we will put down the estimates. Now, whether or not they are worth those estimates would be our error, not theirs.

H.M.Jr: Now, the gold which is in Canada, securities not pledged to Canada, which wouldn't be used in Canada - I mean it is silly to take them away and then have Canada come back and say, "Well, we have counted on those." What was it Clark said, he was running 30 or 35 million short a month now?

Bell: About 30 million.

H.M.Jr: So there is no use taking United Kingdon investments in Canada, but the gold, American securities and American direct investments, yes.

White: Thirty million a month short, but that doesn't include their gold and silver which they have against that.

Bell: Oh, no, that is the Treasury balance.

White: Balance of payments?

H.M.Jr: No, but Harry, for tomorrow, direct investments, what the best estimates are that we can get from these gentlemen plus our own American-held securities, and whatever gold is on this continent.

White: Well, we will put in anything--

H.M.Jr: Well, I have got to have something.

Bell: What you want, Mr. Secretary, is a second chart and this is their deficit for this period; now, how are they going to meet it over and above their current receipts, and don't you want another chart showing the assets listed like that only on a better basis?

H.M.Jr: What?

White: That other table.

Bell: That other table that you have under a different form, I think.

White: This is the deficit, two billion six.

H.M.Jr: How are they going to meet that?

White: So far the only assets which Sir Frederick has indicated--

H.M.Jr: Then can't you put it in this space?

White: We can put in that space the assets that he cares to indicate. So far the only asset that has been indicated which is available and is 650 million. Am I correct, Sir Frederick?

Phillips: Which 650 is that?

White: The United States securities.

Phillips: United States securities as fastas they can be sold, yes.

White: That is the only assets which, I take it, you have indicated are available to meet this two billion six deficit.

Phillips: This two billion six is covering both the United States and Canada:

White: That is right.

Phillips: Yes, that is so.

Playfair: Covering Canada as well.

White: There is 650 million.

Bell: Yes, you ought to add the Canadian securities, too.

Playfair: Add the Canadian securites?

White: Oh, their holdings of our securities.

Playfair: No, I mean as against their securities.

White: You would like to put those assets in?

Playfair: Obviously a thing which contains both Canadian--

Pinsent: I have the figure on Canadian securities.

Phillips: What are they:

Pinsent: Four hundred twenty-six million dollars, British holdings of Canadian securities - 426 million United-States dollars.

White: That is just securities, not direct investments?

Pinsent: Yes. That is the valuation as of the thirtieth of September.

White: Would you wish that to be included?

Phillips: In so far as they can be reasonably sold, yes.

White: That is two items.

H.M.Jr: There are American securities of how much?

White: Six hundred fifty.

H.M.Jr: The Canadian securities?

White: Four twenty-six.

H.M.Jr: That makes how much?

White: That is--

Bell: A billion eighty.

H.M.Jr: Then add the French gold and the Belgian gold, the six fifty--

White: Which is either in Canada or in --

H.M.Jr: Well, there is the Belgian of 516 and the French of 650, making 1166.

White: One difficulty about that is some of that French and Belgian gold is in the United States, whereas if it is in England, England could sell it to us, but if it were in the United States we can't buy it.

H.M.Jr: Why not.

White: Without the Belgian government and the Dutch government telling us to.

Phillips: Couldn't you put a stopper on that?

White: No, no, I mean - are you sure the Belgian and Dutch government would say O.K.?

H.M.Jr: No, I am not, but I am only assuming they would say it. The British would give them a receipt for it.

White: The British can't give them a receipt for gold they hold with us.

H.M.Jr: How much is there of this?

Cochran: The French gold in Canada is in Canada.

H.M.Jr: All right.

White: That is 1080 and 650, 1730.

H.M.Jr: Well, wait, we had a figure of 1100.

White: Ten eighty.

H.M.Jr: Well, call it eleven hundred and 650.

White: That would be 1750.

H.M.Jr: And how much Belgian gold outside the United States?

White: I can tell you how much Belgian gold there is in the United States.

H.M.Jr: Well, Belgian and the rest of it.

White: Belgium has about a hundred and seventy million here.

H.M.Jr: Which country:

White: Belgium, three fifty. Then the other one is Holland. Have you got that there?

H.M.Jr: How much of Netherlands is in England now?

Cochran: It is in Canada, 88.7 in Canada.

White: Three sixty-five.

Cochran: Three sixty-three in the United States.

H.M.Jr: What they have got here now is plenty to pay for any possible program they are talking about, isn't it? Isn't their program around 70 million?

Young: About 75. It will probably be going up, though.

White: They have got 365 in gold alone here.

H.M.Jr: How much was Canada?

Cochran: Eighty-eight and seven-tenths.

H.M.Jr: Put that down. And Norway? Well, look, in order to make life a little easier, why can't Mr. Pinsent or somebody tomorrow morning say, "Of this gold listed here, so much of it is in Canada."

Pinsent: I think that is in one of the papers I gave you.

Bell: Didn't you get that, Merle?

Cochran: I have it in this little one.

H.M.Jr: It is the first thing the President will ask about, is the Latin American.

White: And put their nominal value there and put what their market value is there with a question mark.

H.M.Jr: Yes. At least on that basis, by putting those things down, it will make it look as though I had some financial sense of responsibility when I let them place these orders.

White: Well, they haven't placed some of these yet.

H.M.Jr: I know.

White: This includes some which haven't been placed yet.

H.M.Jr: I know, but I would put it down here and then - that doesn't mean - at least Sir Frederick can report back his conversation and the way I feel, and he can get additional instructions, but for this three o'clock meeting tomorrow, if they think of anything else - they don't have to agree to anything, but at least something we can put there, and I can say, "Well, I am putting the cards face up on the table and here they are."

Phillips: What I said about that French and Belgian gold - when you say that can be taken over, that is in the first place given out an assumption. In the second place, it is creating a debt. It isn't increasing our total wealth in any way. If our debt at the end of the war doesn't have to be met, I agree it is a perfectly legitimate deduction, and a perfectly legitimate use for it is to hand it over to meet the expense of the war as far as we go, but you can't say because we lay down so many hundreds of millions of dollars in French and Belgian gold we have acquired that sum. We haven't acquired it except for use during the period of the war.

H.M.Jr: Well, you can give me your I.O.U.

Phillips: No.

H.M.Jr: On a piece of paper, now. Then after you have won, you can worry about it. It is just like - when we were negotiating for the Rolls Royce engine. They sent it over here, Lord Beaverbrook did, and I didn't want to take it until I knew how much the royalties were going to be and what it was going to cost us, so he sent me a message, "I am sending the engine over and after we win the war we will talk to you about the charges." So we have got the engine and we are making it, and I haven't got the slightest idea whether we will pay any royalties or not, because he refused to tell me, but I didn't take the position - I didn't say I wouldn't make the engine until he did tell me. We are just going ahead and manufacturing 9,000 of them, 6,000 for you, and we have had to tell our own manufacturers that we didn't know, but in case there was a royalty we would indemnify them against it. Wasn't that what it amounted to? But his attitude was for going ahead. "I want the engine, and we need the engine to fight now." You have got some engines here--

White: There are some other assets. There are gold holdings in the Empire countries. There is a British investment in South Africa, Far East.

H.M.Jr: There is one thing I know I can say for Mr. Roosevelt, unless he has changed his mind since he has made this trip, that we don't want any of these islands, unless he has changed his mind. I mean, he may want additional bases, he may think up some new bases, but I know he doesn't want Jamaica, I know he doesn't want British Trinidad, and I know he doesn't want British Guiana, at least that was the way he felt very strongly before he left. I understand that all of this talk about these being wanted by us is - who was it that said today that -"Well, if they have got to give up all these, we might better make peace."

Somebody told me that. I don't know who that was. He says, "If we are going to lose them anyway, why not make peace and give them to Germany," or something like that, but I can assure you as of the time he left the last thing in the world that he wanted was any of these British islands or possessions in the Caribbean.

Cochran: In order, Mr. Secretary, that you could let the people know tomorrow that you have gone to the bottom of everything, why couldn't Harry draw up a list of these rather questionable assets and then let Mr. Pinsent and Mr. Playfair help put in a little paragraph at the side of each giving a short explanation, the fact that they feel they ought to have a minimum of 600 million dollars of gold in foreign exchange, that some of these colonial assets are only in sterling, are a war risk and not immediately available and so on, so that you have that immediately before you?

H.M.Jr: That is all right.

White: Well, we gave them just that and they were going to work on it.

Pinsent: Well, we have listed that material with the exception of the direct investments, which we hope is on its way by plane.

White: Yes, but I take it following Merle Cochran's remark - let us take, for example, the Latin American investments you have given us your estimate of. We have those, and I take it those would be indicated as part of the assets which are available without any attempt to evaluate them at this state in the discussion, if ever, and similarly with other assets. We can indicate the list and if we don't include them in the list, somebody else is going to and I mean it isn't as though - I mean there are plenty of people in Congress and elsewhere who--

H.M.Jr: Why, sure. Take, for example, this 700 million dollars worth of securities. I am sure Jessie Jones would like to take a look at them.

Pinsent: We have sent for the list, Mr. Secretary.

H.M.Jr: I am sure that in connection with the deal with the Argentine, that Mr. Jones would like to take a look at what your holdings are in the Argentine. I know I have mentioned it to Mr. Prebisch, and I think he would like to take a look at them.

Phillips: That is all right with regard to the railways, but we haven't got his price yet.

H.M.Jr: The day he was in I went over that. You were there, Dan. You remember I asked Prebisch and Espil whether they were dealing on this thing, and they said no and they also said they had the authority to do it, didn't they?

Bell: Yes. They said they came prepared to discuss it.

H.M.Jr: Two questions: Are you prepared? Yes. And are doing anything? No. And have you the authority? Yes.

Pinsent: I think Senor Prebisch's English is not quite perfect, Mr. Secretary. I have found once or twice if I asked him something, he would say, "Yes," and I would discover presently that he hadn't understood.

H.M.Jr: Well, Espil's English is all right.

Cochran: On that, Mr. Secretary, there is a possibility that they meant that this delegation coming to South America was not talking about it.

Phillips: Well, anyway, the position is that the nominal capital is of the order of 260 million pounds. If there is a reasonable offer, the deal certainly is on; and, assuming you were to put up the dollars, they are available.

H.M.Jr: Well, that is the first time I have heard what the price was they have offered. They have offered you 60 million dollars?

Phillips: Oh, no, I say if they offered it. They haven't offered a figure, you see. We have been trying for months to get a figure on it. If the best offer they make is too low, we shan't take it. If they make a reasonable offer, we shall.

Pinsent: I think we can easily make a list of all these items, but the direct investments we can't today, but we hope to be able to very soon. The others we can all attach some kind of a figure, I mean attach the nominal figure and the market value so far as it is obtainable. They can all be set out on paper. I do think there is merit, Mr. Secretary, in Dr. White's arrangement, putting these capital items on a separate sheet, because they are very different in kind from the current incomings and outgoings.

White: There wouldn't be much use in our indicating, including the others, unless the--

H.M.Jr: Now, Harry, for me for tomorrow, before the other meeting, here I want gold belonging to the Allies of England which is not in the United States, of the Allies of England.

Pinsent: We have that.

H.M.Jr: American securities, American direct investments, and securities held in Canada.

White: Canadian securities held by them?

H.M.Jr: That for this purpose, I think, is--

White: French gold in Canada?

H.M.Jr: I said Allies.

White: Oh.

H.M.Jr: Free France. Haven't you got an ambassador in Viche?

White: All right.

H.M.Jr: Isn't that the list?

White: Latin America, too?

H.M.Jr: No, that will be - no.

Bell: Do you want another chart showing the complete list of--

Phillips: You have seen that note we put in about those Latin American securities, haven't you? The public utilities is about 30 million dollars.

H.M.Jr: On the Argentine thing, I think there may be a three-cornered deal where one will kind of watch the other do a little unfreezing, but I doubt if we will get very much free money out of it ourselves. There might be a little unfreezing all around.

White: These are all nominal figures. It is quoted on the Securities and Exchange. There are over a half billion business enterprises that are not quoted.

Phillips: What was that public utility figure?

Playfair: Nominal, 6,000 pounds. The market value is about--

H.M.Jr: Would you put that in? I don't think so.

Phillips: What is that?

White: Your dollar exchange.

Phillips: The only gold dollar exchange is going to run out by the middle of January, isn't it?

H.M.Jr: I don't think I would put that in.

White: Well, I mean one might ask the question if they are going to continue to use that, and I take it they are. Why not include it?

H.M.Jr: And point out--

White: ....That it is getting very low. Is it your thought that some of that gold in dollars will be used up in January?

Phillips: We have got to pay with whatever we have got or can get.

Bell: Put it down there with the note.

White: This is the last of the--

Bell: ....reserve.

White: Of course, there is another question that might be raised at the meeting. I don't know whether you want to raise it here. But Canada is helping - part of that is a payment to Canada of 600 million in gold.

Phillips: That is one point I have been trying to make all evening.

White: That is included here. Now, why has Canada issued gold. She can handle her balances to the United States next year without that.

H.M.Jr: Where does she get that gold from?

Phillips: Us. The best we can do on Canadian securities to the Canadian Government is about 130 million dollars a year.

H.M.Jr: You mean they won't buy them fast enough?

Phillips: Well, they say they are buying them as fast as they can.

White: Four hundred sixty-five million dollars of gold.

H.M.Jr: Well, maybe something could be worked out on that.

White: Yes, because Canada has only their estimates of the - I think their tentative one is around 350 million dollars and to meet that they have got about a hundred and fifty million dollars of current production in gold and some silver, and they have got a little gold on hand and so on.

Bell: About a hundred and fifty million dollars.

White: They have got American securities. So for the next 12 months' period, Canada, so far as the United States is concerned, is in a pretty good foreign exchange position. Now, if on top of their position they are going to get 465 million dollars worth of gold from Great Britain, they are going to have much more gold at the end of next year. They are going to have something like probably two or three hundred million dollars more gold next year than they have now after another year of war.

H.M.Jr: Is there any use trying to switch some of these orders into the name of Canada?

Phillips: I think they have got all the orders they could possibly deal with, haven't they?

H.M.Jr: I don't know. How about that, Philip?

Young: Canada has probably got around four or five hundred million of orders, I should think, up to December '41.

H.M.Jr: In this country?

White: To December '41?

Young: In this country.

White: Possibly.

Young: Does that tie up with your figures, Harry?

White: He was going to give us that tomorrow.

H.M.Jr: Let me see if I understand this. You have how many securities in Canada that you own?

Phillips: Four hundred million dollars, was it?

Pinsent: Four hundred twenty-six million United States dollars, wasn't it? - 426 million United States dollars.

H.M.Jr: And they say that they can't buy them fast enough, is that it?

Pinsent: Yes.

Phillips: That is right.

H.M.Jr: The budget or the financial program is probably the trouble with them.

Pinsent: The Government have taken some, the Canadian National Railways have taken some, and we are putting some on the market.

H.M.Jr: Well, I don't think that that is beyond the realms of possibility, that we could have some kind of an arrangement with Canada to help on that.

White: If she would take some over, we would take them and give her that dollar credit.

H.M.Jr: Yes, and that would relieve the strain on England, wouldn't it?

Phillips: Very much.

White: To the extent of a hundred and - was that for the next six months' period? A hundred and 30 million?

Playfair: Wait a minute.

White: Oh, that is what Canada--

Pinsent: That is the help we assume Canada would give out.

White: In the way of repatriating your securities?

Pinsent: Two hundred sixty million for the year--

White: Six hundred what?

Pinsent: Eight eighty was our first figure, two sixty from Canada and the rest was our--

White: How much of that was in securities they were going to take in part payment? That is 260 million dollars for the year; and, if you have got 420, that would be the difference between the 460 and 420 that you would save during the first year and then after that there wouldn't be any saving.

H.M.Jr: How much?

White: Two sixty and four twenty would be six sixty.

H.M.Jr: But supposing it was possible in a lump sum. I mean, we could work out some way of buying these securities, you see, and then giving them a credit so that they would use them.

White: Then the British Government would be able to utilize a hundred and sixty million during the next twelve months that they otherwise would not be able to use until the ensuing six months.

H.M.Jr: But it would give them immediately--

White: A six months'--

H.M.Jr: But immediately it would ease the tension to the extent of 426 million.

White: That is right.

H.M.Jr: Wouldn't it?

White: That is right.

H.M.Jr: I mean this money that we gave Canada--

White: That is, the money that you would get for those securities. In other words, instead of this gold going to Canada, it would go to the United States, or most of it.

H.M.Jr: Well, then, can't you put down here, U. K. owned Canadian securities in the amount of 426 million?

White: Well, we were going to include that.

Pinsent: We should have to reserve some part. I think you were calculating their dollar requirement in Canada.

White: But you were going to cover it with gold. If you cover it with these securities, the difference between them, you wouldn't have to cover it with gold.

Pinsent: We have got to cover it with security so far as we thought Canada could absorb them and for the rest we feared.

White: That is right, and the Secretary is suggesting that we might absorb them, and, therefore, that would no longer be a limiting factor.

H.M.Jr: Just say that is that.

White: We have already accomplished one of the five items you listed here.

H.M.Jr: Have you written it down here?

White: Yes. That was one of the five items. Gold and American securities - Canadian securities held by U.K.

Playfair: What was the fifth item, Mr. White?

White: The fifth item was French gold in Canada.

Playfair: I am sorry.

H.M.Jr: Dan, you started to say something a little while back about another balance sheet. You mentioned something you didn't finish.

Bell: I was saying I thought you ought to have another statement listing all of these assets probably in the order of the liquidity. For instance, put their cash balance first and their gold and American securities and some other securities and direct investments and so forth in the order in which they might be realized upon with an explanation of each.

H.M.Jr: But don't you think these five things we are talking about could fit into here?

Bell: They could. I don't think they necessarily belong on there because they may not be realized upon in that order, but I don't see any harm in it.

H.M.Jr: Well, you can take a look at them.

White: We can always put it this way. That is what is to be raised and then we can have another table saying these are the assets which are liquid, in the order as those five that were indicated. Then Dan was suggesting another table listing all items somewhat in the order of a liquidity thing.

Bell: I must confess I don't understand this Canadian thing.

H.M.Jr: Something like that.

White: Canadian?

Bell: I don't understand this Canadian thing. I take it what you have done is put Canada in this balance of payments for the British Empire.

White: Because Sir Frederick has explained they have to meet their adverse balances in Canada with gold except to the extent that - to which Canada has agreed to accept a certain amount of their own securities back.

Bell: But in this statement you have under B (2), Payments to Canada, 660 million--

Pinsent: That is the gross balance.

Bell: Well, is it the gross balance? On the other side, you have Canadian assistance, 195 million and total dollar deficit of the sterling area with Canada, 465. The two equal the 660 on the debit side?

White: That is a net figure on the debit, not a gross figure. That is what led you astray, because they are not all in that figure.

H.M.Jr: I don't think we can go much further tonight.

White: I think once there is some agreement on the items that might be available, then there is a great deal of joint work between your (Phillips') staff and our staff to attempt to see what value these have, see whether there is agreement on the values of particular items, but the initial task is merely to say that these are or are not available for this purpose. How much they would finally amount to would depend on what we could run down and agree on as to what the market value might be and that would require pretty careful, long study on numerous items.

Bell: Want us to meet in the morning and see if we can work out this second set plus an explanation?

H.M.Jr: I wish you would, Dan.

Bell: Ten o'clock?

H.M.Jr: Including me, you mean?

Bell: With me.

H.M.Jr: Oh, yes.

Bell: Have to have a little time for financing, about eleven thirty or something like that.

H.M.Jr: Oh.

Bell: To determine the market condition.

H.M.Jr: Well, when I get to the office, which will not be before 9:30, because I am stopping to see Mr. Hull, maybe we can have a little talk then, Dan, about financing.

Bell: All right, before this ten o'clock meeting.

H.M.Jr: How would that be?

Bell: That would be all right.

H.M.Jr: Have a little talk then. As soon as I get to the office, I will get in touch with you.

Bell: All right. We can do some preliminary work and then we ought to settle it about eleven or twelve o'clock. Bob Rouse will be talking to me tomorrow morning.

H.M.Jr: Forrestal is bringing in Clarence Dillon. We will let him settle it.

White: He seems to be awfully interested in it.

H.M.Jr: Maybe I can make a sale to him. Do you (Phillips) think the newspaper men will be impressed with the length of time you have been here? (Laughter)

Bell: They certainly had him down to the second the other day: one hour and thirteen minutes.

UNITED KINGDOM FOREIGN EXCHANGE ASSETS AS REPORTED BY
MR. PINSENT

(In millions of dollars)

1.	Gold..		450
2.	Dollars		
	(a) held by Bank of England $64 (b) held by authorized dealers 60		
	Total..............................		124
3.	U. S. dollar securities held by United Kingdom.....	about	790
4.	Latin American securities and investments held by U.K. nominal value.......................... (Market value of 1.7 billion of these was given as $630 million)		2,825
5.	Gold of British Allies Held in U.S. and British Empire		
	Norway..............................		76
	Netherlands..............................		464
	Belgium..............................		516
	Czechoslovakia..............................		30
6.	French Gold in Canada or United Kingdom............		690

The above items cannot be totalled because:

(a) On certain of the items such as gold and dollar balances the British have indicated earlier that there are certain minimum reserves which have to be maintained and their reported balances are below that stated minimum.

(b) No estimate was given as to the liquidation value of the Latin American investments.

(c) No indication was given as to the availability of the gold of British Allies held in the United States and British Empire, nor as to the French gold in Canada or the United Kingdom.

(d) On numerous other categories of assets for which we have asked information, British Treasury representatives either have not yet submitted data or have indicated that they will not be able to do so.

There is appended a list of the categories of assets which we had hoped the British Treasury would be able to supply data for.

Some of the British figures diverge in minor ways from the United States Treasury [illegible] data and others diverge more substantially from United States Treasury [illegible]. It was agreed to iron out these divergencies in subsequent [illegible]

[illegible]/9/40.

Dollar Expenditures and Receipts of Sterling Area from
December 1, 1940 to September 1, 1941

(In millions of U. S. Dollars)

Dollar [illegible] of [illegible] and sterling area for all [illegible]........................ $3,844

U.K. payments to be made on total purchases from the U. S.......................... $2,745

U. K. purchases from areas outside the U.S. requiring gold or dollars.. 846

Purchases by sterling area (excluding U.K.) from U.S. (Dec. 1940 to Sept. 1941)........... 253

TOTAL $3,844

Total dollar receipts of U. K. and sterling area.. [illegible]

Dollar receipts by U.K. from U.S.............................. $ 135

Dollar receipts by sterling area from U.S........................ 436

Canadian assistance to U.K....... 195

Total U. S. and Canadian dollar deficit of sterling area................................ $2,678

Total dollar deficit of sterling area with U. S. $2,213

Total dollar deficit of sterling area with Canada (in U. S. dollars) $ 465

TOTAL $3,844

Taken to meeting at Secretary's house 12/9/40 - photographed (with slight additions) for lecture 12/10/40. Copy of photograph given to Secy. to take to President 12/17/40.

DOLLAR EXPENDITURES AND RECEIPTS OF STERLING AREA FROM DECEMBER 1, 1940 TO SEPTEMBER 1, 1941

(IN MILLIONS OF U.S. DOLLARS)

Dollar Expenditures of Sterling Area

A. U.K. payments to be made on total purchases from the U.S.

1. Sums to be paid between December 1, 1940 and Sept. 1, 1941 on orders already placed . . . . (In addition, $266 million is expected to fall due after Sept. 1, 1941)	$ 1,035	
2. Sums to be paid in next nine months on additional orders now under negotiation . . . . (It is expected that $684 million will be payable on this program after Sept. 1, 1941)	541	
3. Sums to be paid by Sept. 1, 1941 on contemplated "X" program	959	
4. Imports from U.S. not purchased through the British Purchasing Commission*.	210	
Total payments to be made on U.K. purchases from U.S.		$ 2,745

Items 2 and 3 above do not include $709 million of capital assistance. Whatever part of this is to be paid before Sept. 1941 must be added to this total.

B. U.K. purchases from areas outside the U.S. requiring gold or dollars

1. Purchases by sterling area (mostly U.K.) outside the U.S. and Canada requiring dollars	186	
2. Payments by sterling area (mostly U.K.) to Canada and Newfoundland. . .	660	
Total U.K. payments outside U.S. requiring dollars.		846

C. Purchases by sterling area (excluding U.K.) from U.S. (Dec. 1940 to Sept. 1941)

1. Commodity imports	250	
2. Invisible items	3	
Total payments to U.S. by sterling area (excluding U.K.).		253

GRAND TOTAL Dollar requirements of sterling area for all transactions	$ 3,844

Dollar Receipts of Sterling Area

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

1. U.K. exports of merchandise to U.S.	$ [illegible]	
2. Net balance from U.S. to U.K. on invisible items	12	
Total		$ [illegible]

B. Dollar receipts by sterling area from U.S.

1. Commodity exports	400	
2. Australian gold exports to U.S.	56	
3. South African exports of gold .	[illegible]	
Total		[illegible]

C. Canadian assistance to U.K.	[illegible]
Total dollar receipts of U.K. and sterling area	1,166
Total dollar deficit of sterling area with U.S.	2,[illegible]
Total dollar deficit of sterling area with Canada (in U.S. dollars) . .	[illegible]
Total U.S. and Canadian dollar deficit of sterling area . .	$2,678

December 9, 1940.

Treasury Department, Division of Monetary Research.

*This figure and other figures in the balance of payments have been taken as three-fourths of the corresponding figures in the estimated balance of payments for the second year of the war, submitted by the British.

VFC:ech
12/9/40

December 9, 1940.

Dear Herbert:

I have your letter of December 6th, enclosing a copy of an inventory prepared to show idle plants in the neighborhood of New York City. I was interested in this, and in your comments, and if you can furnish me with another copy of this material, I shall be glad to bring it to the attention of the British Purchasing Commission.

With cordial regards and best wishes,

Sincerely,

Henry

Honorable Herbert H. Lehman,
Governor of the State of New York,
Albany, New York.

GEF/dbs

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