

DIARY

Book 340

December 15 - 17, 1940

- A -

Allison Engineering Company	Book	Page
See War Conditions: Airplanes (Engines)		
"America First"		
Complete resume' provided HMJr by Wiley - 12/17/40.....	340	245

- B -

Bell Aircraft		
See War Conditions: Airplanes		
Betts, Elisabeth R.		
Digest discussed at 9:30 meeting; considered worthwhile - 12/16/40.....		7
Business Conditions		
Haas memorandum on situation for week ending 12/14/40..		117
Butter		
See War Conditions: Price Control		

- C -

Canada	
See War Conditions: Purchasing Mission	
Casablanca	
See War Conditions: Gold (France)	
China	
See War Conditions	
Coast Guard	
See Marine Inspection and Navigation, Bureau of	
Colombia	
See Latin America	
Customs, Bureau of	
See Marine Inspection and Navigation, Bureau of	

- D -

Dakar	
See War Conditions: Gold (France)	
Defense, National	
Advisory Commission to the Council of National Defense:	
Concentration of responsibility discussed by HMJr,	
Stimson, Knox, Patterson, Forrestal, and Young - 12/17/40..	320
a) Lubin confers with HMJr on too many Republicans:	
See Book 341, page 189	
1) HMJr "puts it over" at Cabinet, and Lubin thanks him : Book 341, page 242	
b) Smith (Budget) asked by HMJr as to progress - 1/3/41: Book 344, page 89	
Training for National Defense: Batt transmits Potter (Dean, Purdue University) memorandum to HMJr; Civilian Conservation Corps mentioned - 12/16/40.....	157
Princeton University memorandum urging expanded program transmitted by Brown (Director) - 12/16/40.....	166
Duffield, Eugene S.	
Offers services if HMJr can find no one else - 12/16/40.....	44

- F -

	Book	Page
Federal Bureau of Investigation		
Klaus memorandum - 12/16/40.....	340	101
Finland		
See War Conditions		
France		
See War Conditions: Gold		

- G -

Germany		
See War Conditions: Foreign Funds Control; Germany		
Gold		
See War Conditions		

- I -

Italy		
See War Conditions: Foreign Funds Control		

- J -

Japan		
See War Conditions		

- L -

Latin America		
Weekly report from Rockefeller group - 12/16/40.....		111
Colombia:		
Agreement expiring 12/31/40; State Department wants		
conference with Treasury and Reconstruction Finance		
Corporation - 12/16/40.....		56
Layton, Sir Walter		
See War Conditions: United Kingdom		

- M -

Marine Inspection and Navigation, Bureau of		
Proposed reorganization involving Maritime Commission,		
Coast Guard, and Bureau of Customs: HMJr's memorandum		
to FDR - 12/16/40.....		131
a) FDR's answer - 1/15/41: See Book 348, page 97		
b) FDR tells HMJr to consult Budget again; Gaston tells		
HMJr of antagonism of Bailey (Budget) to Coast Guard -		
1/16/41: Book 348, page 167		
Martinique		
See War Conditions: Foreign Funds Control		

- N -

Newfoundland
See War Conditions

Book Page

- P -

Personnel, Division of		
HMJr to discuss set-up with Graves and Thompson -		
12/16/40.....	340	7
Potter, Dean (Purdue University)		
See Defense, National		
Price Control		
See War Conditions		
Princeton University		
See Defense, National		
Purdue University		
For Potter (Dean) memorandum see Defense, National		
Purvis, Arthur B.		
Appointed member of His Majesty's Privy Council:		
Butler informs HMJr - 12/16/40.....		149

- S -

Shipping		
See War Conditions		
Statements by HMJr		
Before House Appropriations Committee, on Treasury		
budget - 12/17/40.....		287
a) Reaffirms Great Britain's need of financial		
assistance - 12/17/40.....		299
Sweden		
See War Conditions		

- U -

Unemployment Relief		
Work Projects Administration report - 12/16/40....		141
U.S.S.R.		
See War Conditions: Foreign Funds Control		
United Kingdom		
See War Conditions: Gold; Military Planning; United Kingdom		
United States Savings Bonds		
Defense Program: Stamps, etc., discussed by HMJr, Bell,		
Thompson, Graves, Sloan, Bryan, Kilby, and Broughton -		
12/16/40.....		45

	Book	Page
War Conditions		
Airplanes:		
Bell Airacobra (P-39) pursuit: Slessor report on military qualities and production possibilities - 12/16/40.....	340	87
Deliveries, by purchasers and types of planes, bi-weekly, January 2-15, 1940, and June 9 to December 7, 1940, sent to FDR, Hull, Stimson, Knox, and Knudsen.....		354
a) For revision see Book 341, page 228		
Engines:		
Allison Engineering Company: Shipments and deliveries - 12/16/40.....		3,4
China:		
Rice sales at fixed prices through Government stores - 12/16/40.....		99
Chiang Kai-shek thanks HMJr personally for continued support - 12/16/40.....		171
Material and Resources Control and Supervision Ministry - establishment of reported by American Embassy, Chungking - 12/17/40.....		277
Commercial cargo transported by commercial trucks prohibited in future: Memorandum from American Embassy, Chungking - 12/17/40.....		387
Exchange market resume - 12/16-17/40.....		145,186
Finland:		
Financial situation reviewed by Procope and Cochran - 12/17/40.....		183
Foreign Funds Control:		
"Foreign Controls Act of 1941": Henderson draft of proposed statute - Foley summary - 12/16/40.....		152
Germany:		
Transaction in account of Deutsche Asiatische Bank, Shanghai, with Chase National Bank - 12/17/40...		191
Italy:		
Transactions with Chase National Bank - 12/17/40.....		187
Martinique:		
Resume of shipments and payment therefor - 12/16/40..		180
U.S.S.R.:		
Transactions with Guaranty Trust Company - 12/17/40..		192
Germany:		
Swedish-German trade agreement will increase trade enormously during 1941 - 12/17/40.....		194
Gold:		
France: FDR told of shipments from Dakar and Casablanca - 12/16/40.....		146
a) See "correction" - 12/20/40: Book 341, page 304		
German action in countries directly or indirectly under control worries United Kingdom: British Embassy memorandum - 12/16/40.....		155
Japan:		
Oil shipments further regretted by Ickes and HMJr - 12/17/40.....		184

	Book	Page
War Conditions (Continued)		
Military Planning:		
Reports from London transmitted by Butler - 12/16-17/40.....	340	104,236,239
A New Arm of German Service: War Department bulletin - 12/17/40.....		278
Newfoundland:		
Naval Base plans reported in Gaston memorandum - 12/17/40.....		384
Price Control:		
Butter - 33% rise: HMJr tells Haas to ask Agriculture if they "own, store, or are lending money on" - 12/16/40.....		103
a) See Haas memorandum - 12/18/40: Book 341, page 1		
Wool: Cotton substitution for Army needs suggested by HMJr to keep prices down - 12/15/40.....		2
a) Haas memorandum on substitutions - 12/20/40: Book 341, page 308		
Purchasing Mission:		
Assets: Conference; present: HMJr, Bell, Young, Cochran, and White - 12/16/40.....		56
a) Canadian assets discussed.....		59,80,82, 83,212
b) Sales of securities by name: HMJr wants report each night.....		60,233
1) Forrestal and HMJr discuss - 12/31/40: See Book 343, page 252		
2) List by amounts, December 16, 1940— January 2, 1941: Book 345, page 39		
c) British assets.....		69
1) Summarized statement of estimated total of United Kingdom dollar deficits and assets..		197,218
Purvis, Arthur B.: Appointed member of His Majesty's Privy Council - 12/17/40.....		149
Statement showing dollar disbursements transmitted by Federal Reserve Bank of New York - 12/16/40.....		173
Financial assistance to Great Britain indicated by HMJr in testimony before House Appropriations Committee - 12/17/40.....		299 310
Requirements: Latest summary sent to Jones - 12/17/40....		
a) Conference; present: HMJr, Phillips, Playfair, Pinsent, Young, Cochran, and Bell - 12/17/40.....		342
1) Group told FDR has approved of large program		364
2) Programs 1, 2, and 3.....		367,372
a) United Kingdom extends thanks.....		
b) Discussion with Phillips - 12/18/40: See Book 341, pages 56,63,64, and 65		
Shipping:		
Conference in Hull's office on immobilized and new shipping: Foley memorandum - 12/17/40.....		382
(Foley discusses at 9:30 meeting - 12/18/40: Book 341, page 25)		
Conference of State, Treasury, War, Justice, Navy, and Maritime Commission - 12/19/40: Book 341, page 175		
Memorandum delivered to FDR by Hull discussed in Gaston memorandum - 12/21/40: Book 342, page 8 (For memorandum see Book 342, page 182)		

- W - (Continued)

	Book	Page
War Conditions (Continued)		
Shipping (Continued):		
Alsop-Kintner story on lack of cooperation between State and Treasury protested by HMJr to Treasury group - 12/30/40: See Book <u>343</u> , page 68		
Sweden:		
Swedish-German trade agreement will increase trade enormously during 1941 - 12/17/40.....	340	194
United Kingdom:		
Layton, Sir Walter: Mentioned by Frankfurter as next Ambassador; HMJr disapproves - 12/15/40...		1
Purvis, Arthur B.: Appointed member of His Majesty's Privy Council - 12/16/40.....		149
Wool		
See War Conditions: Price Control		
Work Projects Administration		
See Unemployment Relief		

December 15, 1940

Justice Frankfurter called me on the telephone at a quarter of eleven, and said that he felt very low because he had had word on the best of authority that Lloyd George was to be our next Ambassador from England. He asked me, if he could counteract the influence to have Lloyd George, how did I feel about Sir Walter Layton? I told him that I thought that it would be something terrible to have Sir Walter Layton, and I told him that I knew the President didn't like him either.

December 15, 1940

I talked to George Haas about 6:30 and asked him to have ready for me Tuesday morning some special figures on airplane production. He said he would do that. I also talked to him about getting some charts ready that I could show the President on wool and also on lumber.

I then gave George an idea which may have some merit to it. I asked him to find out from the Army each particular item that they insist must be made of pure wool, and then we could show this list to the Institute of Cotton Manufacturers, and find out from them if this article could not be duplicated in cotton. After all, we have 8 or 10 million bales of cotton, and if we can find some way of using this up on the Army and, at the same time, keep the price of wool from going through the ceiling, that would be a move in the right direction.

3
STRICTLY CONFIDENTIAL

ALLISON SHIPMENTS

	: Oct.: :13-19:	Oct.: 20-26:	Oct. 27: -Nov. 2:	Nov.: 3-9	Nov.: 10-16:	Nov.: 17-23:	Nov.: 24-30:	Dec.: 1-7	Dec.: 8-14:	Total
British	52	37	69	41	49	16	53	29	82	428
Army	9	11	11	3	-	3	3	1	4	45
Navy	-	-	-	-	-	-	-	-	-	-
Total	61	48	80	44	49	19	56	30	86	473

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

December 16, 1940.

STRICTLY CONFIDENTIAL

ALLISON ENGINEERING COMPANY

4

Deliveries of Airplane Engines

	: Actual : Estimated deliveries on	
	: deliveries : existing orders	
<u>1940</u>		
January.....	10	
May 1 - June 1.....	15	
June 2 - 29.....	31	
June 30 - July 27.....	50	
July 28 - August 31.....	91	
September 1 - 28.....	221	
September 29 - October 5.....	49	
October 6 - 12.....	73	
October 13 - 19.....	61	
October 20 - 26.....	48	
October 27 - November 2.....	80	
November 3 - 9.....	44	
November 10 - 16.....	49	
November 17 - 23.....	19	
November 24 - 30.....	56	
December 1 - 7.....	30	
December 8 - 14.....	86	
December 15 - 31.....		112
<u>1941</u>		
January.....		230
February.....		331
March.....		345
April.....		407
May.....		410
June.....		412
July.....		420
August.....		460
September.....		486
October.....		495
November.....		163
December.....		45
<u>1942</u>		
January.....		25
February.....		21

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

December 16, 1940.

December 16, 1940
9:30 a.m.

GROUP MEETING

Present: Mr. Pehle
Mr. Graves
Mr. Young
Mr. Cochran
Mr. Wiley
Mr. Thompson
Mr. Haas
Mr. Bell
Mr. White
Mr. Schwarz
Mr. Foley
Mr. Sullivan
Miss Chauncey
Mr. Gaston

H.M.Jr: Who is looking after Customs laws that affect the British purchasing tax on British goods?

Cochran: Gaston and Johnson have had that.

H.M.Jr: (To Miss Chauncey) Send a copy of that to Gaston and ask him for a 24 hour report. You might let Mr. Bell get a copy on that.

Foley: I think the quickest way, Mr. Secretary, would be for me to give it right to Cairns.

H.M.Jr: I think it had better go to Gaston.

Foley: All right.

H.M.Jr: Well, give it to his office.

Cochran: That is another matter on Customs that affects that, also.

- 2 -

H.M.Jr: All right. And those two things that you told Pinsent about that were going on in South Africa.

Cochran: Yes.

H.M.Jr: If you stay behind a minute, I want to pick them out and send them to the President. I will write a letter while you are here and give it to Miss Chauncey. You can give her the necessary information to go with it. You know what I am talking about.

Cochran: Yes, sir.

H.M.Jr: You know, I want to tell you something. I don't know how many girls it takes for Mrs. Betts to do that thing every night.

Cochran: She has two helping her.

H.M.Jr: Who gets that besides myself? Do you read it, Dan?

Bell: Most of the time. Sometimes I don't, but most of the time I do.

H.M.Jr: All right, we will let it ride.

Bell: Were you thinking about discontinuing it?

H.M.Jr: Yes.

Bell: Well, it is handy, but I wonder if it is worth all the work that goes into it.

Cochran: She has two full time and three part of the time, most of the time.

Bell: It is brief and you can get the headlines from it.

- 3 -

Foley: I read it every night. I think it is very good.

Haas: I have read it for six years.

H.M.Jr: Do you?

Foley: Yes. I read it every night. I think it is very good.

Schwarz: If you are crowded for time, it gives you the high spots.

Bell: And it calls to your attention matters that you might want to read the full article on.

H.M.Jr: All right.

Foley: Well, I try to read during the day the blue copies of the ticker thing, but if you miss those you can get it out of that thing at night and it is quite helpful.

H.M.Jr: Trying to save a little money. Norman, got anything?

Thompson: That is all.

H.M.Jr: If you and Harold will come in at eleven, I will go over that personnel thing. Dan?

Bell: This letter from Leon Henderson asking for some statistics of income tabulations before they are made public, I have talked to George Haas. I have not talked to John Sullivan. George didn't see any objection to it. I don't. He wants it for use in his office over there, no public use to be made of it.

Sullivan: All right.

Bell: The tabulations --

- 4 -

H.M.Jr: If you fellows have no objections, I haven't.

Bell: O.K.

Some time ago you gave me a copy of a memorandum which Berle had sent you on the Danish debt. Would you like to have me talk to Pehle on that before - you said, "Discuss it with me." I don't know whether you had anything particular in mind.

H.M.Jr: I just --

Bell: I don't know what the situation is, but I will discuss it with him. Probably no action will be taken.

H.M.Jr: What else?

Bell: That is all. Is there an eleven thirty conference?

H.M.Jr: Yes, and I am going to have Harold Graves sit on that baby bond thing because I want him to take a look at the past organization, present, and future, if we go into a popular drive, from an administrative standpoint. You had better be in too, Norman.

Norman, how many people do I have, assistants, at nine thousand, how many vacancies?

Thompson: There are three vacancies. Ten thousand is the salary.

H.M.Jr: Oh. It is a good thing I didn't know it was ten.

(Mr. Gaston entered the conference.)

H.M.Jr: I have got somebody starting Monday. I will tell you about it. But there is a vacancy?

- 5 -

Thompson: Yes.

H.M.Jr: I will take a look at a room afterward.

Schwarz: This man Granik, Theodore Granik, is calling again asking if we might provide a piece under your signature on why the debt limit should be raised. We told him before one time we doubted it, but I just wanted to go through the motions.

Do you want to see Mr. Callender of the New York Times and John Owens of the --

H.M.Jr: Oh, I think I would let them cook.

Schwarz: Owens had one appointment and he missed it.

H.M.Jr: This special writer thing --

Schwarz: I think you would like to notice the column by Collins in the Herald Tribune this morning on expenditures for national defense.

H.M.Jr: Harry, I want to see you and Bell some time today to see what shape those figures are in that the English and Canadians have given us so that I can have them at my fingertips for the President. Now, when is a good time for you and Bell?

White: I was going to speak of them this morning. The English just sent me some more data which amplifies there is a little. The Canadians sent Bell some and he gave them to me. The Canadians have done very well with this. They have given us very comprehensive data except for assets. I was wondering whether you would like to have made up a similar chart on Canada, either on a small scale or a large scale, such as we did with the British, or a table. We are in a position to do that now.

- 6 -

H.M.Jr: Would you men be ready, say around three today?

White: With such a table?

H.M.Jr: Well, with what you have got to lay on the table.

White: Yes.

H.M.Jr: Well, supposing Bell and Young and White and Cochran come in at three. I am saving an hour.

White: Yes.

H.M.Jr: See?

White: I confess the more we go into the individual plants and the individual investments, the better they seem in many cases.

H.M.Jr: Well, now, one of the reputable Investment Trust people called me up, and they are coming down tomorrow, one of the very big ones. They wanted to know whether they couldn't be of service in helping in the purchase of plants and so forth.

White: I think they could.

H.M.Jr: And I gather they are ready to put their own money in it.

White: There are some very good ones.

H.M.Jr: Now, of course, I have never acted as broker, and all I could do would be to say, "I won't give you any introduction, but you can walk down and see Mr. Phillips any time you want to." Don't you think so?

Bell: One day in a conference there they dropped a suggestion that maybe these concerns would like to borrow, rather than sell their stock. Of

- 7 -

course, it could be liquidated after the war.

H.M.Jr: I don't know what the investment trusts of America have in the way of assets, I mean money. It must be a billion or two billion dollars. They want to go in and buy these things up. It just shows what I said the other day to Phillips - if they want to sell, there are plenty of buyers.

Bell: Of course they don't want to sell.

H.M.Jr: I know that.

Bell: They would rather have the concerns borrow and then pay off the debt after the war, and they would still own them.

H.M.Jr: Sure. But anyway, this meeting is on at three, and I want to be brought up to date.

White: We have the oil stuff ready with the new provision written that you spoke of, and the gasoline and oil shipments to Japan continue, high grade gasoline, on a large scale. I have the data here whenever you are ready to take it up.

H.M.Jr: Well, if there is any time left after the three o'clock meeting.

White: All right, sir. And then there is a communication which the British oil authorities here sent to you about the type of gasoline the German planes are using, as analyzed from the crashed planes, and there were two items which Mr. Rockefeller sent to you describing the discussions with the D'Arcy group that you decided you would like to take up with Phillips.

H.M.Jr: Well, Harry, I could see you at 10:30 and let you clean this stuff up.

- 8 -

Bell: The Argentines are coming in at 10:30.

H.M.Jr: Well, let's say two to three o'clock, and I am saving you an hour. Whatever is left over you can have.

White: All right. It would be of interest to you in one of the cases. It is indicated that Einzig, who writes for the Financial News, has come out in favor of United States exchange control over British assets here. I think he is about the only one. He says it would help Great Britain get hold of a lot of assets which they haven't got, and at the same time stop the Axis powers. He hasn't usually been right in sympathy with the Administration. I thought it would interest you.

About Thailand, Siam. I don't know what has happened since, but the last information we had is that the desire on the part of Siam to borrow 10 million dollars, using their gold as collateral, with private banks, was turned over to the State Department, and the State Department, according to Merle, didn't give any definite answer and didn't discourage the idea. I don't know what the status of it is, but it seems to me that unless it is killed, we ought to reexamine it and possibly kill it.

Cochran: That is definitely dead, Mr. Secretary.

White: Excuse me. I have here a communication from Mr. Gaston describing a meeting they had with the Export Control, which I think again emphasizes the necessity for pushing ahead on that.

H.M.Jr: Well, Graves is going ahead full steam, so if you have got something on that, let him see it.

White: Mr. Gaston sent me a description of the meeting.

- 9 -

H.M.Jr: I mean, he isn't interested in what took place at the meeting. He is just interested from the standpoint of organization.

Gaston: There are some good indications there about the way they are stretching out.

H.M.Jr: Let Graves see it. He had an hour and a half with McReynolds Friday, and he was with me this morning. He is going ahead just as fast as he can.

White: Here is a communication from Chung King, which may have been called to your attention with reference to German large scale printing of United States currency.

H.M.Jr: No. That goes to Gaston.

White: And I have got some of Nicholson's dispatches summarized for you.

Finland is trying to postpone payment of approximately a million dollars due the Export-Import Bank on one of its annual payments. They have pretty substantial gold reserves here. Are you interested one way or the other?

H.M.Jr: No.

White: Henderson sent a memorandum which has just been prepared in his shop. It is a very interesting one. An attempt to see how much unemployment there would be at given levels of expenditure. His preliminary conclusion is that the Government -- that you will have unemployment absorbed and 176 in the FRB index reached, it may be in 1943, with a Government expenditure of over 20 billions. He has asked me personally to criticize and comment on it.

H.M.Jr: Harry, you have got too much and I will say Henderson

- 10 -

is all over the lot and isn't accomplishing the responsibilities which he has got. He is absolutely falling down on his job, and I am putting it right up to him. He is all over the lot. He has got everybody fussing. Don't take on anything more. Let him solve why we have got lumber so high and we have got wool so high and all the rest of the things, which he isn't doing. He is in everybody's business except his own, and he is completely falling down on his own business.

White: Well, I think that there will probably be a good deal of talk on this memo when it is out, and I wanted to tell you ahead of time.

H.M.Jr: I have got plenty to say about Mr. Henderson's responsibility, which he is completely falling down on. Why didn't he do something on lumber? I could do it in 24 hours.

White: Are you sure he isn't?

H.M.Jr: I am positive he isn't. Lumber goes up every day. I have sent him a whole list.

White: Before you speak of it, let me find out what is being done, because I am pretty sure something is being done.

H.M.Jr: No, Harry, you have got more than you can attend to.

White: I don't want you to go out unless you find out what he is doing.

H.M.Jr: I have written him a letter on cement. He writes me a beautiful letter on cement and gravel, yesterday, isn't it interesting, the prices are up, but he doesn't do anything about it. The man writes in about sand, gravel and stone and

- 11 -

how the prices have gone up. What do they do about it? Nothing. What do they do about lumber? Nothing. What do they do about wool? Nothing.

White: You may be right. I just heard that they had been undertaking negotiations, et cetera. I don't know what they have accomplished but I know they have attempted to do something.

H.M.Jr: Well, just take it from me that on his own responsibility he has completely fallen down, and he is in everybody's business, everybody's except his own. Which is usual.

Bell: In that connection, do you think it would be a good thing --

H.M.Jr: What is it his business for to have a couple of studies going on in taxes? He is all over the lot.

White: On taxes?

H.M.Jr: Yes.

White: Didn't know he was.

H.M.Jr: What were you saying?

Bell: I wonder if it wouldn't be a good thing to send him some additional charts like those you sent him the other day.

H.M.Jr: I asked George yesterday to make me some charts which I am now going to send to the President of the United States, with copies to Stettinius and Henderson, showing him the outstanding things. George is - I called George --

Bell: Including the bottleneck?

- 12 -

H.M.Jr: I don't know. I said to make a dramatic chart big enough so that the President will read it, and particularly lumber and wool and steel. You (Haas) show them to Bell before they come to me. But I am going to send one to the President and one to Mr. Stettinius and one to Mr. Henderson.

White: We are getting practically no information about Japanese foreign exchange controls. Is it all right to take it up with the State Department through Merle?

H.M.Jr: Sure.

White: I have here this - you wanted this for the next time you spoke to Phillips, about the specific securities. It is the 18th meeting of the so-called Inter-Departmental Group to consider post war economic problems and policies. I attended the first few, but sent somebody else at the later ones. Is anybody interested in getting a digest of what they are accomplishing?

H.M.Jr: Post what?

White: Largely in the state of post war economic problems and policies. That grew out of the committee which, you remember, Secretary Hull spoke to you about a year ago.

H.M.Jr: Is anybody interested?

Bell: Yes, I would like to see it.

Cochran: I would be glad to see it.

White: I will send them around.

There is a question of Chile.

- 13 -

H.M.Jr: Well, Harry, you are throwing 15 things at me. You are leaving them all in the air. If you took up one thing, I might be able to do one. I can't do 15 things.

White: I am merely calling them to your attention.

H.M.Jr: I can't do these things. You bring up 15 things. You ought to bring up one thing at a time. I don't know if it makes you feel any better. I can't do these things.

White: I thought you might want to indicate what you want to go ahead with and set an hour for them.

H.M.Jr: I can't do any more than I am doing now. I am waiting on the committee to hear on Argentine, and I am waiting to hear on China and I am not going to take up anything more until you men have got those things licked. What is the use of taking up Chile or Peru or anything else until you have accomplished what I have given you to do, and whenever you gentlemen are ready on Argentine and China, I will listen; but I am not going to take up another country until those two are finished.

White: All right.

H.M.Jr: Whenever you are ready, all right, but what is the use of piling the stuff on me when the stuff we have got isn't accomplished? These different people call me up, Jones, "When are you going to be ready on Argentine, when are you going to be ready on this?"

White: Well, it isn't out fault Prebisch got sick. We were ready for him last week.

H.M.Jr: I don't want to take up anything more until Argentine and China are finished. Everybody

- 14 -

gets overworked and gets sick and we don't accomplish anything.

White: All right.

H.M.Jr: There is no use throwing anything more at me until whenever Bell is ready on Argentine and China - I didn't even know that Prebisch was sick. What is the matter with him?

Bell: He had a touch of Malaria last week. He was laid up until Friday.

H.M.Jr: What about China?

Bell: Well, we are working on it. That is a very technical agreement and we don't get much time. You spend a half hour on it and you don't get very far.

H.M.Jr: There you are. What is the use of taking up something new?

Bell: I agree with you there is too much to do all at once, and each one suffers.

H.M.Jr: Sure.

Gochran: Weren't the Chinese due this afternoon at three?

Bell: No, I told Soong I would give him a ring this afternoon, but I was hoping that our own group could go over it this afternoon. We will have to postpone that until tomorrow morning.

H.M.Jr: What did I say at three? You don't have to sit in. If I can just have Harry alone. Do you need Harry?

Bell: Yes, I need Harry and Merle and Bernie and Foley. Of course, that interferes too with the Foreign

- 15 -

Exchange Committee meeting at that hour.

H.M.Jr: What time - what are your plans this morning?

Bell: The only plan I have is to meet with the Argentines at 10:30. Soong is left in the air. I told him I would call him.

H.M.Jr: Can't you let Broughton and those people come up on baby bonds and let me take that, or would you want to sit in on that?

Bell: On the baby bonds?

H.M.Jr: Yes.

Bell: Yes, I do very much.

H.M.Jr: I have got to see somebody this afternoon on the Canadian-British assets.

Bell: That is all right, let's go ahead the way you planned it.

H.M.Jr: All right, but I am not going to take on any more countries.

Bell: Soong will just have to wait.

H.M.Jr: O.K.

Bell: He is a hundred million ahead anyhow.

H.M.Jr: I think, Harry - for everybody - it is much better if you digest what we have got now.

Bell: Tomorrow morning, don't forget, we are going on the Hill, aren't we, at 10:30?

Thompson: Ten o'clock.

- 16 -

Haas: (Handing report to Secretary) They did better this week.

H.M.Jr: Allison jumped up to 86 engines last week, and 30 the week before. It is wonderful. What else, George?

Haas: That is all I have.

Young: Several people in the Defense Commission have asked us from time to time for copies of our British reports on getting additional information for them. That Director of Research called on me and George the other day to say that commission action had been taken whereby it would be channeled through him for all the various units of the Defense Commission. So I asked him to have Mr. McReynolds write you a letter giving the action and making whatever request they wanted to make in case anything comes up on that.

H.M.Jr: For instance, Henderson comes over here. He can't get the airplane engine figures. Well, he did a baby act so I said, "I will give it to you once. Why can't you get it from them?" "Well, they won't give me any." I can't help it if the National Defense Commission is run so badly that Mr. Henderson as a commissioner can't get figures he thinks he is entitled to. Maybe Mr. Knudsen doesn't want him to have it. What he said to me, "May is to run a service organization." Why can't we throw this thing back and if anybody wants any statistical information, if May is the man, we will have it cleared through May.

Young: I don't think we should do it until you hear from McReynolds on it.

H.M.Jr: All right. Then let this one thing go, but if these commissioners can't get along with each

- 17 -

other and each one comes over and asks us to give them the stuff, there is just no end to it. I can't understand why Henderson can't get what he wants out of May. So we will sit tight.

- Young: I would sit tight until Mac writes over and cites what the Commission action is.
- H.M.Jr: Phil, I am waiting on you for a list of countries who want airplanes.
- Young: I have two tables of requests pending, one for South America and one for the rest of the world, which I will send in to you right away.
- H.M.Jr: Will you do that?
- Young: They are all ready.
- H.M.Jr: Right. What else?
- Young: That is all. You saw Nelson's speech on Friday night in Chicago?
- H.M.Jr: You were going to give me a copy of it. I haven't seen it.
- Young: I will get a copy of it. He follows General Woods' ideas. I guess he can't make very much of a break.
- H.M.Jr: What else?
- Young: That is all.
- Pehle: The Red Cross apparently are considering some sort of proposal to use French frozen funds here and buy packages to send to French soldiers in Germany. When Professor Chamberlain was here last week, Swift of the Red Cross called up and

- 18 -

wanted some reaction on it from the Treasury, and the Professor told him, rightfully, I think, that we would want to know whether they could get navicerts before we expressed anything on it; and I imagine that will be the end of it. I don't think they will get any navicerts.

H.M.Jr: Well, just a minute. I had the pleasure of sitting next to the French Ambassador at the Gridiron Dinner, and he went after me on the very question you are talking about now. I told him I knew nothing about it, which was the truth.

Pehle: This was all we heard.

H.M.Jr: Yes.

Pehle: The National City branch in Brussels has now been turned over to a Belgian firm, did you hear that?

H.M.Jr: Yes.

Pehle: Did you see the articles in PM, the two other ones on the State Department?

H.M.Jr: No, I would like very much to see them.

Pehle: They are particularly with regard to refugees, the fact that they won't admit --

H.M.Jr: I heard references to them.

Cochran: Are those last week?

Pehle: Yes, Thursday and Fridays; I think there was one in Sunday's, but I will clip that. That is all.

H.M.Jr: Would you (Miss Chauncey) see that I get PM every night now?

Schwarz: We have ordered it now for you.

- 19 -

H.M.Jr: For the house.

Schwarz: We will see that it goes to the house.

H.M.Jr: Right.

Cochran: Knoke volunteered the other day to give us some information which they had developed separately up there on British assets, and so on, so we have the letter this morning. I will bring it in this afternoon.

H.M.Jr: All right.

Cochran: And the British vesting order was published this morning.

H.M.Jr: I saw that.

Sullivan: Dr. Gulick called me Thursday and he said that the Board had agreed pending some sort of an arrangement with the Carnegie Foundation - and I couldn't get just what he had in mind, and I asked him to write me. I don't think he wanted to talk to me too much over the phone. He said he would. I haven't yet received the letter, and I expected he was going to be here today. That was the understanding.

H.M.Jr: The Carnegie Foundation, I think, was going to give them a large sum of money to do a study on New York, according to Roswell Magill, who is on the Board. I am very much amused, you see, at the opposition to Gulick. Roswell Magill had this idea of a National Defense Committee on finance and taxation. If we go ahead with Gulick, it kind of spikes that. There is a lot of professional jealousy around. You see, he isn't recognized as a tax man. He is more of a --

Gaston: Municipal organization man.

- 20 -

Sullivan: Ros has never spoken to me about it. Did he to you?

H.M.Jr: He has never spoken to me, but he has made two or three public speeches on an Advisory Committee to National Defense, not to the Treasury, but set up a new organization.

Sullivan: Mr. Helvering is still anxious to see you.

H.M.Jr: Wonderful. What is it about anyway?

Sullivan: Some order that the President is going to issue under the Ramspeck Bill.

H.M.Jr: Guy's idea, I think, is to give us a little more time to straighten out our personnel and deputy collectors before they are blanketed in.

Three o'clock Tuesday.

Sullivan: Three o'clock tomorrow?

Here is a continuation of that thing.

H.M.Jr: Good.

Sullivan: There is a conference of the American Economic Association in New Orleans that Blough's shop has always been represented at, and Blough couldn't go, but he wanted to know if you could spare Ecker-Racz.

H.M.Jr: If you can spare him, but you had better have your people home after they get back from Canada.

Sullivan: Would you have Johnson go over his speeches?

H.M.Jr: No.

Sullivan: That is all, sir.

- 21 -

Foley: John Pehle and Professor Chamberlain and I were over to see Admiral Land on Friday afternoon about the Danish boats.

H.M.Jr: I got this telegram from Ryan. I was told that you would speak to me about it.

Foley: That is right. Mac said that he was outside and that he had sent a telegram saying he wanted an appointment to talk about new developments. We didn't get a very good reception from the Maritime Commission. Land was all right, but Truitt and some of the other people over there were quite hostile, and look upon the Treasury as interlopers in this thing.

H.M.Jr: Well, we are.

Foley: Truitt said, especially, that the President designated Hull to look into this and that Hull was holding meetings on it and he didn't see what the Treasury interest was; and I told him that we were merely trying to be helpful.

H.M.Jr: Patriotic.

Foley: It is quite a mess.

H.M.Jr: Well, you didn't let Truitt talk you down, did you?

Foley: Well, I don't think --

Gaston: He talks faster.

H.M.Jr: You are still going ahead, aren't you?

Foley: Sure. I have a memorandum here on the conference we had. I called Jim Forrestal and he said they were very definitely interested, and he was going to have a Captain Schmidt

- 22 -

call me. I haven't heard from him. Apparently they want to buy two or three of the boats. They have the money. Maritime Commission does not have the money to buy the boats or the authority.

H.M.Jr: Why don't you go after Forrestal again today and do it - try it that way.

Foley: All right. Do you want Pehle and I to see Ryan and see what he wants?

H.M.Jr: I wish you would.

Foley: All right. Here is a memorandum on it - from Pehle and me on that. Leon Henderson left a draft bill with you on Foreign Controls Act of 1941.

H.M.Jr: What a man. (Laughter)

Foley: To remove foreign controls and --

H.M.Jr: I think the easiest thing is to hire him to go to work for the Treasury.

White: He would be a good man.

Sullivan: Then he could do the things he is supposed to be doing.

H.M.Jr: He is a good man, but he spreads himself too thin.

Foley: Here is a brief summary on the bill. I think if you are definitely interested, we could make some suggestions as to improvements. It takes up an idea that you had a long time ago about --

H.M.Jr: I dreamed about it, did I?

- 23 -

Foley: About these establishments in this country that get foreign insurance where there are 4 plants apt to be turned over and where there is a licensing pool that is controlled by foreign countries where they have some influence and some managerial say in the policy and operation of the country.

H.M.Jr: We talked about that.

Foley: Yes. Well, it is along the right track.

H.M.Jr: Can your shop take it?

Foley: Yes.

H.M.Jr: Wonderful. You see, I don't mind stepping into the Maritime Commission's business, but I object like hell when Henderson steps into mine. (Laughter) That is the difference.

Foley: Well, I think Truitt embarrassed Land because Land followed me out in the hall afterward. I think he is having his hands full with Truitt. I think Truitt is a little close to Kennedy and he has visited this fellow Moller in Denmark, and I don't think he wants us to get the boats. It wasn't a pleasant meeting at all. I didn't stay to the end. I was there an hour and I had to come back for a meeting here. John stayed.

H.M.Jr: Well, Philip and I Saturday had this thing on the Greek business, the Greek planes. Somebody told Mr. Hull in his department that the President of the United States had promised 30 planes to the Greeks. I asked the Greek Minister to tell us the story from beginning to end, and when he gets all through, not having mentioned the name of the United States, I said, "Mr. Roosevelt's name has never been brought into this transaction." "Oh, no, I have never talked to anybody but Sumner Welles." I said,

- 24 -

"Well, I was just curious." And then at noon Joe Green - this is the Greek Minister saying that he had never heard of the President of the United States being interested in the 30 planes. Then around noon Joe Green sends a telegram over from MacVeagh, our Minister in Athens, to somebody in the State Department, reviewing the interview he had had with the Foreign Minister in Greece saying that somebody had told him the President had promised 30 planes, after the Greek Minister had said he never heard of the President in it. So what Phil and I did was, we wrote a very, very careful memorandum going back 30 days, showing what the Treasury had done and sending it over to Mr. Hull. It was quite obvious he didn't know what his own department was doing.

Bell: The President did make a public statement, though, that he was going to give aid to Greece.

H.M.Jr: Yes, financial.

Bell: I didn't think he said what kind of aid.

H.M.Jr: The point is, Mr. Hull got all worked up, rightfully so, because he felt that the President's word had been passed. Something had to be done, his word had been passed. But he ran it down, and here is the Greek Minister in Washington - no one ever told him that the President had promised any planes.

Foley: Admiral Land told me that the President had told him to come and talk to you about this Danish thing. He has got a memorandum in which he has the possibilities --

H.M.Jr: Well, that puts us in the picture, doesn't it? If the President told Land to come and see me.

Foley: I should think so. It does with Admiral Land

- 25 -

but it doesn't with Truitt. (Laughter)
He didn't tell Truitt to come and see you,
that is the trouble.

H.M.Jr: You know why Truitt doesn't like us.

Foley: I know. It is quite obvious that there are
other reasons, probably.

H.M.Jr: And why he doesn't like you.

Foley: That is right.

H.M.Jr: All right. Well, hit it again today through
the Navy.

Foley: Land knows all the possibilities about turning
them over to some company that the Maritime
Commission has an interest in, and put them on
the Pacific run or turn them over to the Navy
for our own use, or turn them over as an
intermediary to the British. He has got all
that outlined in the memorandum. He just doesn't
know how to carry it out. That is his difficulty.

H.M.Jr: Did you give him that memorandum?

Foley: No, he did it himself.

H.M.Jr: Where did he get the stuff on the Pacific run?

Foley: I thought you had given him the idea when he
talked with you.

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

Foley: Well, he has got the memorandum that he has given
to the President.

H.M.Jr: I don't think I did. Maybe I got it from him.
No, I never heard it until I mentioned it
here.

- 26 -

He had the same idea?

Foley: Yes. He has all the possibilities in this memorandum.

H.M.Jr: Well, you know what the President's idea is, don't you? The President's idea has nothing to do with the Danish ships. As long as you are handling this for me - and I have set the Admiral straight. This is the story. When I took Arthur Purvis over to see the President, the question of ships came up, and the President says, "I have got an idea for you. Take this into consideration and play with it. Why don't we build the ships in this country and then lease them to England?" That was his idea. He never mentioned the Danish ships or anything.

Now, Frank Knox doesn't like that idea, because he doesn't want any ships of any kind built unless they are for the United States Navy. That is the whole thing boiled down. Then when Young and White and I went to see the President, he again said something about two-thirds - was it the fast ship? I don't know which is the "A" and which is the "B". He okayed the hundred million dollars for ships to be built, two thirds of one type and one third of another. That is the whole story. Does that check, Harry, with your recollection?

White: As I remember it.

H.M.Jr: I don't know what is type "A" and what is type "B". One is a slow ship. He said, "You have got to build a ship faster than a submarine on the surface."

Foley: Before anybody can take these ships, with the possible exception of our own Government, the Army inform - the question of title has got to

- 27 -

be cleared up somehow, and we will talk this morning with Ryan and see if some arrangement can't be worked out where the Moller interests that are contesting the powers that have already been given to the Isbrandtsens, the agents in this country, so that the title can be cleared and the proceeds put in escrow until after the war.

H.M.Jr: Who is James W. Ryan?

Foley: He is counsel for the Moller interests.

H.M.Jr: That isn't the General Ryan, is it?

Foley: Oh no. They are Admiralty lawyers in New York. They do a lot of Admiralty insurance business. They are on one side, and Haight, Griffen, Deming, and Gardner are in by the other side. A fellow by the name of Foley is down here representing them. No relation.

H.M.Jr: And where is our nice friend who is the best Maritime lawyer in the United States, where is he?

Foley: Oh, Burlingham?

H.M.Jr: Yes, where is he at?

Foley: He hasn't made an appearance yet.

H.M.Jr: If necessary, let's us retain him. If it is a borderline case, let's ask him down.

Foley: You mean --

H.M.Jr: I mean if there is any doubt. Now here again, Ed, is a good case where nobody thinks of going to the Attorney General, so why don't we bring him up to date on this thing so that he doesn't get it after it is too late, you know. Don't

- 28 -

you think that is worthwhile?

Foley: I think it would be after we get all these loose ends pulled together. Everybody is in this and there are conferences going on in the Maritime Commission and the State Department, over in the Navy, here in the Treasury, and there doesn't seem to be any coordination of it.

H.M.Jr: Well, I would play with the Navy.

Foley: Well, I think the most can be accomplished there.

H.M.Jr: O.K.?

Foley: Yes.

Gaston: At 1:45 p.m. on Saturday we succeeded in getting six lines out of the State Department with the signature of Cordell Hull, which now permits us to do with respect to the arming of ships, what the State Department has been telling these people orally for several months they could do, but which they wouldn't release.

H.M.Jr: Stiffening their neck.

Gaston: There is no objection.

"It is the view of the Department of State that within the jurisdiction of the United States there is no objection to making structural changes such as the following on ordinary belligerent vessels, armed or unarmed: Deck strengthening and adding fittings (except guns) for defensive purposes."

That releases everything except fully mounting the guns. The guns they can ship as cargo, so we won't have, I don't think, any more trouble

- 29 -

for awhile, but it is a complete reversal of 150 years of American policy. I don't think they will advertise that very widely, but that is the fact.

H.M.Jr: Congratulations.

Gaston: That is the thing Mr. Purvis wanted. They kept telling him he can do this but they wouldn't give us any authority to pass it.

Foley: That is the little thing we had trouble with Dave Niles about.

H.M.Jr: Was he for or against it?

Foley: I think he was for that.

Gaston: There is a problem coming up - it is right in our hands - about the French ships. They are trying very diligently to charter these French Line ships for service in the western hemisphere, and quite recently the Merope applied for a departure permit to go to the Gulf. They have a charter for the Mexican Government. The State Department finally said that they saw no reason for our - they didn't see any justification for our holding the Merope, so we let her go; but she will be a precedent if the French Line is attempting to put their ships into service.

H.M.Jr: Did you notice the particular reference that they have made a change on the French Line? There is something in the paper. I don't quite get the move. Evidently one of the arguments Petain must have had with Laval was over the French ships.

Gaston: It is quite a serious question. I don't see any powers in our hands that will justify us holding these ships. Of course, the fund thing, Mr. Pehle

- 30 -

turned down this Merope transaction as far as funds, but they are sending the ship anyway, but the French Line is trying very hard to get some earnings out of those ships without using them in the Trans-Atlantic service. They don't want to do that.

H.M.Jr: Merle, you might call up Stone and ask him if there is anything explaining the Laval move and if there is, I would like to have it.

Cochran: All right, sir.

Gaston: Harold Rogers came in to see me on Saturday, having attempted to - having had a mission to see you from Newbold Noyes, and it was an invitation to you to contribute an article to an Inaugural special edition of the Star. I am telling you because I promised Harold Rogers I would, but I don't think it is any good.

H.M.Jr: Did he mention what he would pay me?

Gaston: Regular rates, I think.

H.M.Jr: What do you mean, five cents a word? (Laughter)

Gaston: It would be about a cent a word on the Star.

H.M.Jr: You (Miss Chauncey) write a nice little letter to Mr. Greenbaum, telling him to thank those people in New York for their invitation, but I am not going to go.

Gaston: Did you notice an American Friends Service Committee ad in the Times yesterday? A group of AEF servicemen, and send your money to the American Friends Service Committee for relief in France.

- 31 -

H.M.Jr: Pehle showed me one previously.

Schwarz: It is the same thing.

Sullivan: They have got Pershing in it now.

H.M.Jr: All right, Herbert.

Gaston: That is all.

H.M.Jr: Harry, I want to see you a minute, and Norman,
I will walk down the hall whenever I am ready
to go.

December 16, 1940
10:22 a.m.

Henry L. Stimson: Hello, Henry.

H.M.Jr: How are you?

S: Here's just something for you to think over. I'll talk it over with you later, but I'm troubled by it just now.

H.M.Jr: Please.

S: You've unwittingly done something - I'm sure it was unwitting - similar to what I did to you in your conference where you - I refer to the Slessor memorandum.

H.M.Jr: Oh.

S: You've sent it to the President without referring it to us first.

H.M.Jr: No, I gave a copy to General Marshall.

S: Well, I know. Well, I think you should have waited until you had heard our answer to it.

H.M.Jr: I see.

S: What I mean is, the only basis for inferiority that they speak of was that we were obliged to give them last spring some planes ordered on pre-war models which they pressed for with full knowledge that they were now obsolescent, and it's really very unfair to make an attack upon our present powers, which is the main issue now, on the basis of that.

H.M.Jr: I see.

S: And I really dread the effect on the President and Marshall dreads it terribly.

H.M.Jr: What's that?

S: I dread the effect of this unanswered argument on the President.

- 2 -

H.M.Jr: Oh.

S: Because I mean we've been standing the strain. I've got something - I'm holding a series of conferences this morning that I'll try to get a chance to tell you about when I am finished.

H.M.Jr: Well, how would you like me to do it in the future?

S: Well, I mean, anything like that that swats - condemns - a criticism of a situation which we have control of, I would like to have a chance to see it and answer it first.

H.M.Jr: Well, that's a perfectly fair request.

S: Don't you see, I mean, before - we have this curious situation in the Government that there is no regular organization, I mean, the President hasn't instituted any order of things by which to regulate the order in which he gets things.

H.M.Jr: Right.

S: So I have to rush ahead and try to stop it

H.M.Jr: Well, I'll try it your way and if I get results I'm delighted. Up to now I haven't.

S: Well, I'll do my best to see that you get results.

H.M.Jr: Up to now I haven't.

S: But this particular thing - you see, we're - I'm today trying to outline the big situation that confronts us - the whole bunch of us - the whole Government but which focuses in one respect upon the question of the timely production of planes.

H.M.Jr: Well, I

S: I have reached the conclusion from my five months basis here that we are confronting a crisis - a strategic crisis in the war which on the one hand cannot be met by anything, so the Navy says,

- 3 -

that can be done in the Far East. On the other hand, the right hand, the Atlantic cannot be met by anything except what would lead to war on the Atlantic and in the third place that, being the situation to the right and left of us, is focusing upon us here - the outlet so to speak. As the safety valve for that, the President has been urging planes. Don't you see?

H.M.Jr: Well, did he

S: And the whole pressure of that comes to me.

H.M.Jr: Well, did that

S: And now I've got - you were not present at that - well, we have reached a situation where my five months of burdens here has convinced me that the plane problem cannot be solved in time to meet the British spring and summer crisis.

H.M.Jr: Well, of course I don't agree with you.

S: What?

H.M.Jr: I don't agree with you.

S: Well, I'm firmly convinced of that.

H.M.Jr: Well, I don't agree with you because - and I'd be glad to discuss it - I mean, I just think that there is plenty of capacity unused in the airplane industry, I know where it is, and I know that they can produce a lot more planes in the next three or four months.

S: I wish very much - certainly they can produce more, but they cannot produce enough to settle the war or to save the British from being starved in six months as is now the

H.M.Jr: I don't say that they can save the war because that's a military technical question but I know, I'm positive that our plane production could be stepped up 30 or 40%.

S: I think they can be stepped up considerably but whether by that or by infinitely more the British situation will not be saved.

- 4 -

H.M.Jr: Well, do you mean by that that the British are going to lose?

S: What?

H.M.Jr: You mean the British are going to lose the war?

S: The British are going to be starved out.

H.M.Jr: Well, I'm sorry, I don't agree with you at all.

S: Well, that's the advice I get from the Navy.

H.M.Jr: Well, I don't

S: I mean it. Mind you, the thing is - I'm not saying that the thing is remediless. Don't misunderstand me for goodness sake, but it is not remediable by this remedy. It is not to be remedied by this remedy.

H.M.Jr: Well, I up to now - I want to, before I commit myself on what memorandums I sent to the President, Harry, I want to think that over because I get certain information and I've felt that it's my duty to send him criticisms as long as I can't tell myself where to go if I want to talk to somebody about increasing plane production. I don't know where to go.

S: Well, I wish you'd try me, but perhaps I'm Of course, the person - the plane production mainly is Knudsen after it leaves us, but if you find trouble in its leaving us, tell me that. I'll see

H.M.Jr: Well, I mean, I know right now where you can go and get for the Army and the English a great many more planes at once but

S: Well, won't you tell me?

H.M.Jr: Sure. I'd be delighted to. I don't know whether you've seen this report which was made of this trip that Forrestal and the English and your people made on the West Coast. Now I sent a copy of that to Cordell Hull because he said he is interested in planes and that points out unused capacity on the West Coast right now.

- 5 -

S: Well, how much?

H.M.Jr: Now, all I can do is when I get these reports is to give them to the President, give them to Mr. Hull

S: I don't want to stop your doing that, but I'd like to be informed first.

H.M.Jr: and stick pins into people with the hope that some day somebody will say, it's my responsibility and I'm going to take it but right now it's

S: Well, now you're coming to another point on which I probably am side by side with you. I think there has got to be such a person. At present I think there isn't such a person.

H.M.Jr: Well, let me give you one example:

S: I think that somebody should be given responsibility for that part of the solution of the problem which takes place after the Army has done its threefold job of stating the designs, stating the amount, and stating the time, and that is supposed to be in the Council of Defense.

H.M.Jr: Well, it just isn't being done.

S: It isn't being done.

H.M.Jr: Now I'll give you an example:

S: And I think it could be greatly facilitated by a reorganization of that body by giving it a head or as Barney Baruch has suggested as an alternative, by giving each one autonomy in his own position, making Knudsen, for instance, the autocrat in regard to production of planes, Stettinius of raw materials or else putting somebody like what we had before at the head of the whole thing. I'm not opposed to that at all.

H.M.Jr: Well, all I say - I've got a lot of information that comes through and I have felt it was my duty when something looked wrong whether it is

- 6 -

in the Treasury or anywhere else to give it to the President. Now I'm more than pleased - thinking out loud - simultaneously, to send it over.

S: All right. All right.

H.M.Jr: But I hope you're not going to ask me not to send

S: No, I'm not. I'm certainly not going to ask you to send things. All I ask is to give me an adequate time so that if there is any answer to any part of it which affects me, I shall have a chance to answer it.

H.M.Jr: Well, I give you my word I'll do that.

S: All right. That's all I'm asking.

H.M.Jr: Well, I'll give you my word.

S: No, you've misunderstood me entirely if you think that I'm trying to suppress anything.

H.M.Jr: But, Harry, gee whiz, let's get together and if the Navy is right, let's find ways that - to correct England's troubles.

S: Well, that's my - now you're talking. That's my solution but it's a pretty serious one.

H.M.Jr: Well, I got an answer from the President on my message, you know, which you helped me on to please hold everything until he got back so there I am on that.

S: Well, I've got to ring off. I'll try to communicate with you again today if I may.

H.M.Jr: Please.

December 16, 1940
10:50 a.m.

George
Harrison: Hello, Henry.

H.M.Jr: Hello, George.

H: Henry, I'm in Washington for a meeting this afternoon and I was wondering whether there is a chance of my seeing you for just

H.M.Jr: Hello, hello. (Pause). Hello.

Operator: Operator.

H.M.Jr: Why don't you take care of my calls. I'm out off Mrs. Spangler and when I put on the red light you don't come on.

Operator: I'll get him right back.

H.M.Jr: Why don't you take care of me?

Operator: I just saw the light.

H.M.Jr: I pressed the light four times.

Operator: Well, I didn't see it.

H.M.Jr: Well, you must be doing something else.

Operator: No, I wasn't.

H.M.Jr: Well, I'm pressing it now.

Operator: Well, I just got it.

H.M.Jr: Well, I'm out off.

Operator: All right. I'll get him right back.

December 16, 1940
10:58 a.m.

H.M.Jr: Hello, George, we were cut off.

George
Harrison: Yes.

H.M.Jr: I'm sorry.

H: Henry, I was wondering whether if it wouldn't inconvenience you if there is a chance of my seeing you for not more than two minutes this morning. I've had a brainstorm on this stuff.

H.M.Jr: This morning?

H: Yeah because I've got that meeting this afternoon.

H.M.Jr: Five minutes of twelve - is that any good?

H: That will be fine.

H.M.Jr: I've got a twelve o'clock meeting.

H: Well, it won't take me longer than that.

H.M.Jr: And George, you remember you were kind enough to say you'd show me a list of people who were coming.

H: I'll bring them over with me.

H.M.Jr: Would you?

H: Yeah.

H.M.Jr: I'd like to see it.

H: Yeah.

H.M.Jr: I'll look forward to seeing you.

H: First rate.

December 16, 1940
11:00 a.m.

diary

H.M.Jr: Hello.

Eugene
Duffield: Hello, Mr. Secretary.

H.M.Jr: Yeah.

D: I've been wanting to call you for some time to say that although I still hope you can find somebody else, I still also if you can't, will do that job without any more talking about it if you want me to. All you need to do is to call me up and tell me that you've looked them over and you can't find him and I won't ask anything, I'll just come.

H.M.Jr: Well, I wish you had said that Friday.

D: Well - (laughs) - I probably should have. I've been wanting to - I did say it in the office that day and I wanted to say it again.

H.M.Jr: Because I have somebody now.

D: Well, good. I'm glad - I really am relieved, but if it doesn't work you let me know.

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

D: All right.

H.M.Jr: Thank you.

D: Good-bye.

December 16, 1940.
11:30 a.m.

RE UNITED STATES SAVINGS BONDS

Present: Mr. Thompson
Mr. Sloan
Mr. Bryan
Mr. Kilby
Mr. Broughton
Mr. Graves
Mr. Bell

H.M. Jr: O. K., Dan.

Bell: Did you want to talk about these stamps?

H.M. Jr: I will talk about those first and I want to talk about the whole picture.

Bell: Well, Mr. Broughton and Mr. Kilby have had conferences with the representatives of the Postal Savings system. They have found out that the Postal Savings system has issued cards which permit stamps to be placed thereon in denominations of 10, 25 and 50 cents, and then they have another stamp which will enable the person to put \$1.00 stamps and three 25-cent stamps, or 18 one dollar stamps, I should have said, and three 25-cent stamps, which just fits into the Savings bond purchase of a \$25.00 bond for \$18.75. They, of course, haven't pushed the sale of these stamps at all. They had the cards available if anybody wants them, but as you know, the savings banks have criticized the Postal Savings system for years, but I think it would fit into a program of the Treasury and we could do the advertising. You may have some objection that up to the \$18.75 purchase there is no interest. Well, of course the Postal Savings system does sell a dollar certificate which bears two percent interest, right from the beginning, if anybody wanted interest, so that is a perfect answer to that.

H.M. Jr: What is that, Dan?

Bell: Postal Savings will sell as low as a dollar certificate and as I recall, a dollar --

- 2 -

Sloan: 1, 2, 5 and 10.

Bell: Denominations which bear two percent interest.

H.M.Jr: How much, a dollar certificate?

Bell: Yes, sir.

H.M.Jr: At two percent interest from the day you buy it?

Bell: Yes, sir.

H.M.Jr: Indefinitely?

Bell: Yes, it is indefinite. What is it, until they turn it in and cash it?

Kilby: Yes. Of course, that isn't a public debt receipt.

Bell: That is a Postal Savings, just like a savings bank deposit.

H.M.Jr: What happens to that money?

Kilby: It is deposited locally if they will take it, but now they invest it in Government securities, very largely.

Bell: That is where we get our money to invest in Postal Savings.

H.M.Jr: Could they get me from the Post Office one sample of each of these stamps, starting with 10 cents?

Bell: We have got the 10 cents. Have you got the 25?

Kilby: I joined their club this morning by buying those stamps.

Sloan: Here is the 10 cent one, Mr. Secretary.

H.M.Jr: I have never seen them. I will bet you if you stopped a thousand people on the street, there wouldn't be one --

- 3 -

Bell: That is right, they are not advertised.

H.M.Jr: How long have these existed?

Broughton: Mr. Secretary --

Sloan: They have sold 10 cent ones for quite a while. The 25 cent to a dollar ones were only brought out this year.

Broughton: They had difficulty in New York. There were so many people going to buy savings bonds through stamps. The result was to open up a Postal Savings account, and they have always changed by Congress authorizing them to issue higher denominations of stamps and I am told they prepared this special card which you have - see the other side of that - and I am told there are 5,000 Postal employees in New York using those cards today, buying savings bonds.

H.M.Jr: But how do I get interest - if I buy this dollar stamp here, see, how --

Broughton: You don't get any interest until you collect \$18.75.

H.M.Jr: I thought you said they pay interest.

Bell: No, only on the certificate. They have a bare form of Postal Savings Certificate.

H.M.Jr: Now, just let me do this thing again. What is the smallest savings you can get?

Broughton: One Dollar. You can start a deposit with that.

H.M.Jr: Wouldn't the Post Office lend you the form?

Broughton: Sure, they will lend me one or they will probably give me one or I will buy one.

H.M.Jr: What is the next denomination after the one?

Broughton: Five, I think.

Kilby: Two.

- 4 -

Bell: One, two, five and ten.

H.M.Jr: Couldn't you get one of each of those?

Bell: I think so.

Broughton: Sure.

H.M.Jr: Well, the thing that I think about - Dan, on a chart, how do these fellows - who comes under you first?

Bell: Mr. Broughton is head of the Bureau of Public Debt.

H.M.Jr: And where do these other fellows fit?

Bell: They are all in under Public Debt. There was a reorganization and United States Savings Bonds was put under Public Debt, so that Mr. Sloan and Mr. Bryan are responsible to Mr. Broughton. Mr. Kilby is Assistant Commissioner.

H.M.Jr: Oh, Broughton is the boss of these fellows?

Bell: Yes, sir.

H.M.Jr: I didn't know that. Congratulations. Well, what I have asked - I would like to have just - have this on my desk, you see. Take ten of these and then I can buy a dollar stamp and then I can take two dollar stamps and buy a two dollar certificate, is that right? If you could fix this up in a kind of a book for me so I could have it.

Bell: Just have a memorandum, one, two, three.

H.M.Jr: But I would like visually to see them.

Bell: Of course, you don't have to go through the stamps to get the certificate, you see. You can go into Postal Savings.

H.M.Jr: You can go either way, but your idea was to do it this way and from this to the baby bond?

Broughton: This 10 cent stamp you have is what they have had in existence from the beginning.

- 5 -

H.M.Jr: How long?

Broughton: From the beginning of the Postal Savings system, for ten cents.

Bell: You notice the ten cent one on the back is printed in Chinese also. (Laughter)

H.M.Jr: How did they come to do this, Broughton?

Broughton: Because the ten cent stamps were difficult. They took too many of them to save, so they put out the higher denomination stamps to accommodate their own employees more than anything else, but they are public.

H.M.Jr: But they are public. How much does the public buy them? How many do they sell of these?

Broughton: Not a great many, because they are not known particularly. They are not advertised.

Bell: Postal Savings doesn't advertise at all.

H.M.Jr: If you could get me up a little folder and then what I want Graves to do is this: He won't get at it right away, but I want him to take a look at you fellows and take the can opener and turn you inside out and go back 20 years, you see, what kind of an organization did we have twenty years ago to sell --

Broughton: I got your message this morning from Mr. Graves, and we will get that up.

H.M.Jr: And then what you have got today and where we will go if we really want to do a good job early next year in appealing to the masses, you see.

Bell: We are in much better shape than we were 20 years ago. We were starting from scratch 20 years ago. In addition to having experience, we have a nucleus on the thing.

H.M.Jr: That is the point, but I just wonder how good are they.

- 6 -

Bell: They sold a lot of savings bonds. That is the best evidence.

H.M.Jr: They admit they are good, but I would like proof. (Laughter)

I want Graves to take a fresh look at it, you see, just to see if you are as good as you think you are and I am not - don't misunderstand me. As far as I know, you are all right, but I think it does everybody - you know, you get into a rut and - maybe everything is lovely.

Broughton: Glad to be looked over.

H.M.Jr: But I think if the President will approve, I would like to start off in January - no use doing it now - and go to town and I would like to have some money to advertise. We don't have any money, do we?

Bryan: Only for mail order. No paid advertisement.

H.M.Jr: Well, we will have to get some money.

Bell: I should think you might lay the groundwork for that tomorrow before the Appropriations Committee, just say that we are looking into this and we hope to have a program early in the next year, and we may ask for some money to do a little advertising.

H.M.Jr: That is right.

Broughton: Well, if they would take that limit off, we would be all right, I think.

H.M.Jr: That tells you what I have and if Mr. Bell could stay behind, I want to go over my testimony for tomorrow. Have you got a few minutes?

Bell: Yes. May I ask you about this booklet that has been gotten up on savings bonds in view of the tax exemption problem and also this new problem? I wondered whether we should send this booklet out at this time, although there is nothing in here about the tax features of these bonds and there is nothing in it about stamps. It wouldn't do any harm to let this go.

- 7 -

H.M.Jr: I would let it go.
Bell: It fits in with any program that you adopt.
H.M.Jr: I would let it go, Dan.
Bell: O. K.
H.M.Jr: Thank you all.

December 16, 1940
12:17 p.m.

H.M.Jr: Hello.

Henry L.
Stimson: Hello, Henry.

H.M.Jr: Yes, Harry.

S: I think the effect of my morning talk with you is to make me feel that it is rather essential for you and me to lunch together. Is that possible?

H.M.Jr: Today?

S: Yeah.

H.M.Jr: I'm having Ambassador Bullitt, otherwise I'd love to.

S: Oh, yes. I could either take you up to my home or I could come to your place - either you like, but I don't want to run the slightest risk of a misunderstanding and I've had a most interesting talk with the four of us - Marshall and I with Stark and Knox and I wanted to go over it with you.

H.M.Jr: Well, here's the thing: as I say I've got Bullitt coming today and I've got Jesse Jones for lunch tomorrow and I'm on the Hill testifying on Treasury appropriation but I'm free tomorrow afternoon. I can make it any time to suit you.

S: Well, if it has to go - oh, I'm laboring to get, I mean, I wanted to have the two defense departments, so to speak, together on their underlying and coordinated ideas ready for the President when he got back. That's what I'm trying to do there first - is to see how - I don't want to have any pulling and hauling in different directions and I wanted to talk with you so far as it affected anything that you were interested in.

H.M.Jr: Well, what time would - let me put it this way to you: are you busy after supper tonight?

- 2 -

S: No. The thing that I have to look out for is that I work pretty hard all day and if I work - even if I get my mind active very in the evening, I have a bad night.

H.M.Jr: Well, how early in the morning tomorrow morning - I have to be on the Hill at 10:00. Could we get together before that?

S: Yes, as far as I'm concerned we easily could. I'm up always at - I'm called at 6:30.

H.M.Jr: Yes. What time have you finished your breakfast?

S: Well, I have breakfast and then dress and it depends on how much I have to do.

H.M.Jr: Well, I mean, would you want to get together after breakfast?

S: Yes. I'd come anywhere you like.

H.M.Jr: Well, stop by at my house and then I could wait there and then you could go to your office and I could go to mine. We're right on the way down - I mean, you have to go right by.

S: Yes. Have you any idea what the President is coming back with?

H.M.Jr: No.

S: I mean, I think it's vital but what I'm most concerned about is our divergence on the airplane industry. I don't want you to misunderstand me.

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

S: I don't say that there can't be a good increase in it but I only say that it can't affect the British proposition enough to change it.

H.M.Jr: Well, Harry, frankly my whole conversation with you this morning upset me so that it calls for clarification on both of our parts.

- 3 -

S: Well, I certainly am sorry for that.

H.M.Jr: And I mean, you upset me really

S: Oh, I'm awfully sorry. I didn't mean to upset you.

H.M.Jr: Well, I mean not physically but I mean mentally. You upset me very much and

S: The thing that I alluded to while it was extremely - it was thought to be not on your part but - the memorandum of Slessor was

H.M.Jr: Oh, that. Oh, I don't mean that. What I mean is this - are we going to take the attitude that England is licked. That's what I'm talking about. See?

S: No. Well, we're not going to take the attitude that she's licked now beyond hope but she is near enough to getting starved out so that we've got to formulate relief so that it will not be haphazard but will follow the line of the most effective action.

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

S: That is what I want to do.

H.M.Jr: Well, to hell with Slessor and the memorandum.

S: That is nothing at all.

H.M.Jr: No. But what is the most effective thing that we can do now?

S: That is what this whole purpose of our talk has been this morning - trying to get the ideas of these men together.

H.M.Jr: Well, now, what time tomorrow morning can you drop by comfortably? How early so I can still get on the Hill at 10 o'clock?

S: Well, I think I could get there certainly by half past eight. Is that too early?

- 4 -

H.M.Jr: No, no. I am a very early riser and I'll be ready for you. You know where I live?

S: Yes - let me see - I can find out. Tell me your number.

H.M.Jr: It is 2211 Thirtieth Street.

S: 2211 Thirtieth Street.

H.M.Jr: It is just off Massachusetts Avenue. It is just off - when you come down the hill you pass the

S: Oh, I can get there all right.

H.M.Jr: I am just below the British Embassy on the left-hand side.

S: Now, just to get back to what is - for goodness sake get that out of your mind. The whole purpose of what I've been doing - the whole purpose of my getting at you is to produce just the opposite result from what the Woods' and the Roy Howards and the others are trying to get by saying the British is licked. It is to get work coordinated and effective before she is irretrievably licked.

H.M.Jr: Well, then, you and I as usual are together.

S: Well, of course that isn't - if I've given you a bad morning I'm in sack cloth and ashes because it was the last thing I wanted to do.

H.M.Jr: Well, it wasn't clear to me but I get it now.

S: Well, that was my fault for talking over the telephone on a subject that I shouldn't have but I was going into this conference and I did want to try - I didn't want to have pot shots, uncoordinated shots from any of us going before the President when he comes back and when I'm sure that there will be things necessary for him to decide very soon.

H.M.Jr: Well, I'd love to see you and I'll be waiting then for you tomorrow morning. Thank you.

S: All right.

December 16, 1940
3:00 p.m.

RE BRITISH PURCHASING PROGRAM - *Canada*

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

Bell: Larry Duggan called up to call my attention to the fact that that temporary agreement we made on the Colombian Debt expires December 31, and Mr. Welles would like you to have another conference with him and Jesse Jones, and possibly Traphagen as soon as possible. Jesse is leaving town on Thursday for the holidays.

H.M.Jr: I am just too God damned busy. Let - what is that lawyer? Tell Laylin to write it out the way he fixes it, and then I will O.K. it. Tell him how Jack Laylin fixed it, and I will initial it, and it saves me lots of time.

Cochran: Francis White has been down here this last week talking with them. He was a little unhappy lest some announcement might come out that an affirmative agreement had been made.

H.M.Jr: Until I know what Jack Laylin recommends, I can't move. I am serious. He fixes it up. He is the big shot. They pay him - I don't know what. It is a hundred or two hundred thousand dollars. I don't know what they get. When Jack Laylin has got him fixed up, just let me know, and I will initial it.

- 2 -

Bell: Well, Welles wants to know if you would be willing to have a conference Tuesday or Wednesday.

H.M.Jr: No.

Bell: Not later than Thursday?

H.M.Jr: I can't. I am all tied up. We are too busy on Argentine and China. I am serious.

Bell: The last conference we had, Traphagen was going on vacation. White handled it from there, and it wasn't very successful, I don't think. White was rather critical of the whole thing.

H.M.Jr: Which one?

Bell: Francis White.

H.M.Jr: It saves so much time if Jack Laylin - he is a nice fellow. He used to work here in the Treasury. If I could see his confidential memo, it would save me a lot of time; and if Herbert Feis and Francis White will initial it --

Cochran: I think White would like a little support from the Treasury, probably, would like you in on it, anyway.

H.M.Jr: Well, nobody has made me a good offer. I am much more interested in Chile than this.

Bell: After all, all we furnished was a meeting place.

H.M.Jr: That is right. You can look at my calendar, Dan. It is absolutely booked solid from now until 10:30 Thursday morning, at which time right after that I am flying up to New York and will spend a day with my papa, and if you (Bell) would like to fly with me around eleven or a little

- 3 -

after that time, or if you would like to do a little visiting around --

Bell: Will you be back on Friday also?

H.M.Jr: Yes.

Now, we have settled that. I am in a bad humor today.

Cochran: I have been over at the State Department to read about France, if you want to hear that later.

H.M.Jr: Go ahead.

Cochran: I am afraid I will slow up the other.

H.M.Jr: No, we have got lots of time.

Cochran: Well, it was a rather interesting thing. Laval had been up in Paris, and on the night of the 13th --

H.M.Jr: Excuse me. I told them to get Jack Laylin out of that picture. They wouldn't do it, see, and I will not have Jack Laylin, any more than I will have the President of the Electric Boat Company sit in here with a lot of admirals when I am trying to settle a tax case. I will not do business on that basis, and if people don't want to do it with my rules, they can do it their rules. That is the lowdown.

Bell: I don't know how much Jack opposes the settlement, but he led me to believe in private conferences that he urged them to go on and settle this thing on the basis as proposed.

H.M.Jr: Well, I am not going to be a party, I won't permit it in the Treasury, and these lobbyists, lawyers, want to sit in at my conferences, and I will not

- 4 -

permit Jack Laylin to sit in my office. I told that to the State Department, and they wouldn't do it. O. K., they can do it their way. I am in dead earnest. Any more than I would have the president of Electric Boat sit in my office when we are trying to determine how much tax they should pay. I am not going to be tarred with that brush. As somebody said the other day, "Who won the election?"

All right. We will have chicken for lunch, no beef.

(Discussion off the record.)

H.M.Jr: Now, what shape is this in if the phone should ring and Mr. Roosevelt should say, "Come on over and tell me about the assets of Canada and Great Britain"? What would I do?

White: Do you want to take Canada first?

H.M.Jr: I don't care. What would I do?

White: If he asked you?

Young: Call Harry.

White: Go over and tell him.

H.M.Jr: Well, what would I tell him?

White: I would tell him that with respect to Canada, they will have a deficit at the end of 9 months, September 1, on their current account, that is, what they get and what they receive, of practically nothing, about a couple of million dollars. In other words, they will get as much gold and dollars as they will have to give up.

- 5 -

H.M.Jr: In other words, between now and September 1, '41, Canada will not be in distress?

White: No, assuming that England pays her what England now tells us she has to pay her.

H.M.Jr: Have you got any memos?

White: Yes.

H.M.Jr: Let's see them. That is what Mr. Clark told me.

Young: This includes their contemplated purchasing?

White: Yes. This includes their new program. These are the figures they gave us over the week end.

(See attachment 1)

H.M.Jr: Have you seen this, Philip? I will give everybody a chance to see this thing

They need 906 million dollars.

White: That is what they will spend.

H.M.Jr: How are they going to get it?

White: On the other sheet.

H.M.Jr: Dollar merchandise, invisible credits, interest. While I think of it, I want to interrupt. Who did I ask to tell Pinsent to tell Gifford that I want to know every night now how many securities they have sold by name?

Cochran: You didn't tell me.

H.M.Jr: Well, I told that - Saturday morning I told that to one Sir Frederick Phillips.

- 6 -

Cochran: That you want to know the securities by name and amounts after each one?

H.M.Jr: Yes. I said whatever the period of reporting now is, whether it is nightly or weekly, I didn't know --

Cochran: It is daily now.

H.M.Jr: When you leave this room, will you follow that up for me?

Cochran: Yes. You want to know the names and amounts of securities sold to England.

H.M.Jr: Now, you see the market is off over a point today, and I don't know how in the hang they are selling it, but I asked them this Saturday; so beginning with tonight, tomorrow morning, I would like to know what securities they have sold and how much - American Can, American Telegram, et cetera, et cetera, whatever it was.

White: And to whom they sold.

H.M.Jr: No, and I tell you why, Harry. On that same thing that I stuck for Federal Reserve, I hold George Harrison responsible for good execution. As to what brokers he uses, that is his business, see. So I think the same thing as this fellow. Otherwise - I want to share the responsibility. He said he could have that.

Cochran: Has it gone on to Gifford?

H.M.Jr: That I don't know. It was Saturday morning at my house.

Cochran: We might not have any time for it tomorrow.

H.M.Jr: Well, they could start it. And I would love in

- 7 -

the next day or so if I could know just what they have sold, in view of this bad situation this morning.

Cochran: All right. I will take care of that.

H.M.Jr: It is important enough to have Gifford come down here.

Cochran: I will get in touch with him just as soon as I get back to my office.

H.M.Jr: Dollar receipts, so forth and so on.
That is lovely.

White: That assumes they are going to get this 375 million dollars from the U. K., but U. K. in their data to us included that in what they would have to pay U. K., but Canada did not include that.

Bell: You can include it in what they would have to pay Canada?

White: That is right, but I mean Canada did not include it.

Bell: It shows, then, a deficit of 377?

White: If you don't include that, it would be a deficit of 377.

Bell: Well, they showed a deficit of 377.

White: Yes. According to their figures, there would have been a deficit.

H.M.Jr: How do you mean? Where does it show?

White: This item --

- 8 -

H.M.Jr: Where is the peanut under this shell?

White: is the one item that they didn't indicate, but U. K. did indicate --

H.M.Jr: What is that?

White: That is 375 million dollars which is due to Canada from U. K.

H.M.Jr: Where is that on this?

Bell: Under "C", second item.

H.M.Jr: A, B, C.

White: Now then, they have assets, too. This doesn't touch any of their assets.

H.M.Jr: Oh. All right. Have you got a safe, Philip, where you put this stuff at night?

Young: Yes.

White: Here are their assets, which presumably they will not have to touch. (See attachment 2)

H.M.Jr: They won't have to touch?

White: Well, if those other figures are correct, and the other figures are based on their estimates.

H.M.Jr: What is this other page, the 270? Where does that go?

White: Well, I divided those assets into two kinds, one their assets outside of the United States and the other their assets in the United States.

H.M.Jr: But you don't - 270 doesn't appear on this other page.

- 9 -

White: Well, because I don't know how much you want to value it at. It raises a lot of problems.

H.M.Jr: But where would this 270 go?

White: It wouldn't be on here.

Bell: It would be added to the 697 if you wanted to get a total.

H.M.Jr: It would be added to that?

White: That is right.

H.M.Jr: But you don't want to add it.

White: No, because the question is as to the marketability and their nominal values and so on.

H.M.Jr: Harry, I don't think I am going to keep this. It just raises some hopes. Don't you think so?

White: Well, you can say they have got assets besides amounting to several hundred million dollars.

Bell: You have always got a figure on the foreign exchange sheet under 5, which gives you 328 million in the United States, direct investments, not including your total.

H.M.Jr: Well, I will keep it. In other words, they have two million left?

White: That is by September, providing England pays them what they owe them.

Bell: They will be good for another year.

White: They should be good for another year.

- 10 -

H.M.Jr: All right. That is Canada.

White: Now, do you want to take up the British again?

H.M.Jr: Yes. That is Canada.

Bell: I have Clark's memorandum. He gave us one copy of it, and I haven't distributed it to anybody ^{feel} except Harry and Merle, on their position. 12-11-41

White: We digested it.

H.M.Jr: This is good enough for me, but be sure I get one for my diary.

Merle, do you want a copy? Do you want a copy of the full document, Phil?

Young: I would like to look at it some time.

Bell: It is the document from which these figures are taken.

White: You can have it in that form or this form or the big chart form.

H.M.Jr: How would they be so they would run in the same order that I have here.

White: Well, that is it. We have got them both on one sheet.

Bell: Where are those --

White: That is in the assets. The other was in the assets.

H.M.Jr: Could I have it in the same form?

White: Yes, you can have it all in the same form. If you would rather have Canada in one sheet, we can put

- 11 -

it on one sheet.

H.M.Jr: This is all right.

Cochran: I can have that copied, Dan, if you want me to.

Bell: Will you?

H.M.Jr: Harry?

White: Well, there are so many different forms --

H.M.Jr: Can't you get it to me the same way as Canada tomorrow? What?

White: Yes. We will split that in half and make it the same way as Canada.

H.M.Jr: I mean so it runs the same way.

White: All right.

Bell: This was the big sheet, you remember, that we had showing debit and credits.

H.M.Jr: Do you think we should do the same thing with Canada?

White: We can --

Bell: Which ever way you like it.

White: I think it is a little clearer to put them on sheets like that.

H.M.Jr: On one sheet like this?

White: Yes. We just didn't have time.

H.M.Jr: Then I would do it - whatever way you are going to do it. You will have this sheet.

- 12 -

White: Yes, unless you want them bigger.

H.M.Jr: That is all right. Dollar expenditures, dollar receipts.

Bell: On the Canadian one, you have got two sheets, dollar expenditures on one and assets on the other.

H.M.Jr: Grand total, 3844. Total deficit - now, where does this 3844 come over here on this side?

Bell: That is the sum of the deficit and the receipts, 166 or whatever it is. Add two billion six. The sum of those two make three billion eight.

H.M.Jr: That doesn't show. Oughtn't it to show?

White: No. It does in the chart, but didn't in this.

H.M.Jr: Couldn't it show?

White: Yes.

H.M.Jr: Couldn't we normally bring that down and add the two.

White: Yes.

H.M.Jr: Then you draw a line across, don't you?

White: Well, what that should have been, these two should have been out here and then added and you would have gotten the same as that.

Bell: This shouldn't have been in here, because it has no relation to this over here.

H.M.Jr: Now wait a minute until we get this thing - here is 3844, which is expenditures. You have got a billion receipts. Then you have got deficit --

- 13 -

Bell: Here you are. That is the same statement.

H.M.Jr: What is the matter with this?

White: That is it.

H.M.Jr: I think it would be nice to set up - then do you want this on here too?

Bell: Well, you want it on there to show the things that are in the mill.

H.M.Jr: In addition to the deficit expected --

White: That is the same as the chart. This does not include any deficit accruing from additional orders.

Bell: That is the 3,000 planes a month.

H.M.Jr: The true deficit is 5 billion 440.

White: Except that it won't fall due on September 5.

H.M.Jr: This is very nice. This will be all right for the English. The Canadians I would like to set up the same way.

White: We can do that. You know we have a large chart of that, if you want two large charts, one Canadian and one Great Britian. It is like the one we had here.

H.M.Jr: This is readable here.

White: Well, it would be a little bit larger than that.

H.M.Jr: I mean, I won't see the President today but - this is number 1. Now, what else do I have to show him for the English?

- 14 -

White: Then there is the question of their assets.

H.M.Jr: That is right.

White: Now, I think their assets ought to be shown in this form.

H.M.Jr: Mr. Stimson is coming to the house at 8:30, and then if I can have this by noon tomorrow. I don't want to rush you unnecessarily. Now, what comes next? This shows how they are going to get their gold.

White: Well, that says something about each one of their assets. You remember we had a billion 8 figure there. Well, that was this, but I think that probably the President ought to know more than --

H.M.Jr: Is this it?

White: That is it, except that it just doesn't add them.

H.M.Jr: This doesn't what?

White: Add them. It says something about each one of their assets, so he can add anything he wants, as to what he thinks he wants.

H.M.Jr: I think that is all right. I think that is all right. Well then tomorrow - I am not taking anything from you - I will get this and I would like the Canadian thing set up in the same way. Now, does this include - sit down, Harry - does this include all private purchases for England and the same for Canada?

White: Everything.

H.M.Jr: Dan is our number one bookkeeper. Can you (Bell) think of anything else?

- 15 -

Bell: I think that is a very good statement.

Cochran: I haven't seen that in its final form, but it looks all right here. If it follows the chart, I think it is quite safe.

Young: We have this batch of additional orders that they pulled on us.

White: Do you want to mention anything about those 3 billion orders on there?

H.M.Jr: Well, you can say that there are additional orders.

White: We don't refer to amount. We do say, "Additional orders expected to be placed by the British but not yet decided upon."

H.M.Jr: That is all right.

Bell: That is exclusive.

White: Yes. That doesn't include that three billion.

Young: Three billion 8.

H.M.Jr: Now, the other thing, when I have this, Harry, make a note. The President isn't familiar with that Layton memorandum of December 2, you see, and I ought to have an extra copy of that. see 11-30
+ 12-3.

White: Yes.

H.M.Jr: See?

White: That, I think, is this one here that Phil prepared. That summarizes it.

H.M.Jr: No, the thing that Layton wrote.

- 16 -

White: It is in there, but there are other things in there, too. You want just Layton's memo?

H.M.Jr: The one just the way Layton gave it to us. There was the airplane program and then there was the ships, you see. It totaled 2 billion and 70 million.

White: Yes, we have that.

Young: That is included in one column in here.

H.M.Jr: Yes, but I think that - but that is the thing which it was all based on. What is the rest here?

Young: These are other orders outside of the Layton program which they are going to place, a billion two.

H.M.Jr: That is outside of it?

Young: Outside of the Layton program.

H.M.Jr: Well, hasn't Harry got that?

Young: Oh yes.

White: Yes, that is in.

Young: In addition to this plus this, they have got this three billion 8 --

White: You almost would have to have that because these items explain this, that is sums to be placed between these three. The Layton order is only the third one.

H.M.Jr: Wait a minute. "Orders already placed, grand total." "Orders placed, payments due." Balance due."

- 17 -

Well, the balance due is 1 billion 377 million.

White: We have made ours as of September 1, and that is why it is a little bit less.

H.M.Jr: Let's have it so when the President - I know how he works.

White: That is still September 1.

H.M.Jr: It says here December 1, '40.

Bell: You (White) are talking about December 1, '41. That is the amount --

H.M.Jr: Why don't you either change these figures or these?

White: We didn't include this because we don't know what portion, if any, of this is going to fall due - this is going to fall due after September 1. Certain payments will be after.

Bell: It would be December 1 on liquidated. This gives you the payments on those orders up to September 1.

H.M.Jr: Let me just say this. From the standpoint of looking at their financial thing, if they have got balance due on orders placed, one billion 301 million, why should we pay any attention to the September 1?

White: Well, we just want a cut-off date. If you want to add those up, then you will have to get 5 billion.

H.M.Jr: I mean if you are going to get the whole picture --

Young: Total balance due, regardless of when the payments are.

- 18 -

H.M.Jr: Yes. I am raising the point.

White: Well, if that is the case, then you have to include their current receipts after September 1, which will be a small amount. What we can say is --

H.M.Jr: I mean --

White: I think what we can do is as follows: We can say that this 5 billion is what is going to be due --

Bell: Some time after --

White: some time after, and there are going to be current receipts after September 1, net receipts of "X" amount.

H.M.Jr: Now look, if I go before the President and before Congress, they don't give a damn whether it is September 1. How many orders have they got placed in here? Well, they have got balance due now, 1 billion 301 million.

White: You can also get that from these figures by just adding each one of these.

H.M.Jr: It is kind of hard.

White: We couldn't show it on the same statement, because they will want to know what will their position be as of September 1, and if they want to know how much they owe all together, then there is your figure, 5 billion 4.

H.M.Jr: Which do you think is the more honest, Dan?

Bell: Well, I think - it seems to me that what the President will have in mind is how long can they go, what have they got in the next few months.

- 19 -

H.M.Jr: September 1?

Bell: Well, September 1 is a good date, because it is the war year. When you go to Congress, I think you have got to rearrange this thing and say the total orders placed, the obligations.--

H.M.Jr: Then you would leave it this way?

Cochran: You almost have to.

H.M.Jr: All right.

Estimated payments by months, I take it these are the total monthly. Additional orders to be placed now under negotiation, 1 billion 235.

White: That is the second item. That number two item. 541 coming due by September 1, and 684 after.

H.M.Jr: All right. Now, then additional orders to be placed under the "X" Program.

Bell: That is the Layton program.

H.M.Jr: I see. That is the Layton program.

Bell: Number three.

H.M.Jr: Number three? Well, why not - that is number three there.

White: Yes. 959 due by September 1 and a billion one after.

H.M.Jr: Well, how can we get that - oh, I have just got to remember that this is it here.

White: There is another way of handling that. We can just put in red ink the total.

- 2 -

H.M.Jr: No.

Bell: How about doing it this way, Harry, putting out your total orders of a billion 301 and then saying, "To be met after September 1," and --

White: To be met before September 1, and put these totals.

Bell: Yes. Well, you deduct what is to be met after September 1 and you get this figure to be met by September 1.

H.M.Jr: I have got another suggestion which may not be as good. Why couldn't you have two columns and have a heading here, to be met by September 1, and then on this end would be the --

White: To be met after September 1.

H.M.Jr: No, the total obligations.

Bell: It is all right if four columns doesn't make it complicated.

White: Then we will have to put here receipts by September 1 and then after here, probably monthly rate of receipts after September 1.

H.M.Jr: What do you think?

White: I would try it.

H.M.Jr: I tell you what you do. Leave it this way, and make another one. When it comes to --

Bell: If the number of columns doesn't make it complicated.

H.M.Jr: If I was going to say, "Where are these orders," would I have to turn to the so-called "X" program?

- 21 -

Young: That is Layton's.

H.M.Jr: And that is here?

Young: Yes, sir.

H.M.Jr: And that is the 5 billion 2 additional?

Young: That is the total of balances due plus additional.

H.M.Jr: Additional to this program?

Young: No, that is just the sum.

White: Is that an amount that is due? These figures agree.

H.M.Jr: Sum of balances due on estimated additional orders. 5297.

White: That is their deficit. That is this figure.

Young: Including capital?

Bell: No, it is this 161 figure.

Young: That is including capital.

White: You see, this figure here is the anticipated deficit and that is after that. I don't know what that other figure refers to.

H.M.Jr: Now, does this agree? You see, none of these figures agree. It gets me nuts. 3176, 3244. None of these figures agree.

Young: That was the original table.

H.M.Jr: Why don't you give me on a separate piece this so-called "X" Program?

- 22 -

White: Yes, we have it on a separate piece of paper.

H.M.Jr: Why not give it to me, because there is too much on here. If you (Young) and Harry should be along, it is all right, but just for my purposes--

White: Just the "X" Program on a separate piece of paper.

H.M.Jr: "Do you want to let this go, do you want to let the planes go, do you want to let the boats go?" "What is in the "X" Program?"

Young: You ought to have it on another sheet.

H.M.Jr: The way Layton gave it to me is all right.

Young: That is just one part of it.

H.M.Jr: If he says just "What is the thing you telegraphed me about?" that is Layton's program. Can't I have just what Layton laid on my desk?

Young: Yes, but that is only part of the story.

H.M.Jr: What is the rest of it?

Young: Three billion more plus a billion two here.

White: Those are other orders.

Young: Program for other orders.

H.M.Jr: Well, give me a little folder.

Young: It is all right as long as you don't get the idea and he doesn't that the "X" Program is what they want to buy. It is only about a third of it.

- 23 -

H.M.Jr: I tell you what you do. Give me a folder. Sheet No. 1 is the "X" Program, the part that I got from Layton. Then you can have sheet No. 2 and sheet No. 3 if you want to.

Young: All right.

H.M.Jr: All right?

Young: Yes.

H.M.Jr: But I do want to have my hands --

Young: You see, that bill in there is stuff which they are practically ready to make contracts on now, which is farther ahead than the "X" Program.

H.M.Jr: Yes, but the "X" Program should come first, and if you want an "X" Program and a "Y" program and a "Z" Program, that is all right.

Young: Do you like "X", "Y", and "Z"?

H.M.Jr: I don't know. Somebody called it the "X".

Young: I am responsible for that.

H.M.Jr: If you have other programs, put them on; but "X" Program comes first because Mr. Stimson wants it.

Young: That is really a new one. Three billion two, that is capital.

Bell: Well, Harry has got a footnote on that that says it does not include --

H.M.Jr: Well, let me have everything that you have got, calling it Program No. 1, the Layton program. Then 2 is the one which has been going right along.

- 24 -

Young: Yes.

H.M.Jr: What is that, a billion two?

Young: Yes.

H.M.Jr: What would be three?

Young: This one would be three.

H.M.Jr: I think we had a little something, didn't we? Philip is going to give us at noon tomorrow when I come back, Program No. 1, which he will call the Layton Program, Program No. 2, the one which has been under negotiation, and Program No. 3, which is the unborn child, a 3 billion program.

Young: Do you want it on the same basis, air, ordnance, and ships, those three divisions?

H.M.Jr: That is right.

Young: Those are logical divisions.

H.M.Jr: Don't they all wear different uniforms?

Young: I guess so. (Laughter)

Cochran: Speaking of this child business, Dietrich is out today expecting a child.

H.M.Jr: Wonderful. Will we get cigars?

**Forecast of Dollar Expenditures and Receipts of Canada to be
Made Between December 1, 1940 and September 1, 1941**

(Millions of Dollars)

Dollar Expenditures of Canada

A. Payments to be made to U. S.

1. For purchases of merchandise

(a) By the Canadian Government or any of its agencies	248	
(b) By other than Government agencies	142	397

2. For invisible imports

(a) Interest	64	
(b) Dividends	108	
(c) Tourist travel	17	
(d) Freight and miscellaneous services	37	226

3. For payment of principal of Canadian obligations maturing before Sept. 1, 1941	45	
--	----	--

Total Canadian payments to U.S. 868

**B. Payments to be made to other areas requiring
gold or U. S. dollars**

1. For merchandise imports	31	
2. For invisible service items	7	

**Total Canadian payments to countries
other than U.S. requiring U.S.
dollars**

38

**Grand Total Dollar Requirements
of Canada - December 1, 1940 --
September 1, 1941**

906

- 2 -

Dollar Receipts of Canada

A. Dollar receipts from the U. S.

1. Merchandise exports	\$304	
2. Invisible credit items		
(a) Interest and dividends receivable	80	
(b) Tourist receipts	117	197
Total		\$481

B. Dollar receipts from countries other than the U. S. and U. K.

1. Merchandise exports	34	
2. Invisible credit items	10	
Total		44

Total dollar receipts of Canada,
December 1, 1940 - September 1, 1941

\$465

Canadian deficit in dollars,
December 1, 1940 - September 1, 1941

\$521

C. Current means of meeting the deficit

Newly-mined Canadian gold	\$144	
Estimated receipts of gold and dollars due from United Kingdom on balance	375	519

Net deficit in dollars, December 1, 1940 --
September 1, 1941

2

Treasury Department, Division of Monetary Research. Dec. 16, 1940

TMK:ash
12/16/40

Foreign Exchange Assets of Canada
(In millions of U. S. dollars)

1. Gold, December 9, 1940		137
2. Official dollar balances, December 9, 1940		190
3. Private dollar balances (September 30, 1940)		30
4. U. S. securities		
Listed stocks (Market value as of December 31, 1939)	313	
Bonds, listed and unlisted (Value on basis of market quotations as at December 31, 1939)	46	
Unlist stocks	<u>30</u>	
Total	390	
Subtract		
Sales to December 9, 1940	35	
Maturities	2.5	
Brokers' balances	<u>10</u>	<u>30</u>
Holdings, at December 9, 1940 (valued as of December 31, 1939)	340	340
5. Direct investments in U. S. (nominal value, December 31, 1938)	325	
Total		697

Long-Term Investments of Canada Outside the United States

(In millions of U. S. dollars)

1. Investments in Latin America

Securities, market value as of December 9,
1940

Direct investments, nominal December 31,
1938

6	
<u>174</u>	182

2. Long-term investments in Australasia

Government bonds (par value)

Direct investments (book value)

6	
<u>12</u>	18

3. Africa

Government bonds (par value)

Direct investments (book value)

0.5	
<u>5.0</u>	5.5

4. British Asia

Government bonds (par value)

Direct investments (book value)

0.5	
<u>5.0</u>	5.5

5. Other Asia

Government bonds (par value)

Direct investments (book value)

1	
<u>0.4</u>	1.4

6. United Kingdom

Government bonds

Corporation securities

Direct investments

15	
13	
<u>14</u>	42

7. Europe outside U. K.

Government bonds

Stocks (estimated)

Direct investments

5	
4	
<u>8</u>	

Total (excludes loans to Roumanian and
Greek Governments now considered
valueless)

17

TOTAL

270

December 16, 1940

My dear Sir Henry:

This will acknowledge receipt of your letter of December 14th with its several enclosures which I have read with interest.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Sir Henry Self,
Director General, British Air Commission,
1785 Massachusetts Avenue,
Washington, D. C.

December 18, 1940

My dear Sir Henry:

This will acknowledge receipt of your letter of December 14th with its several enclosures which I have read with interest.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Sir Henry Self,
Director General, British Air Commission,
1785 Massachusetts Avenue,
Washington, D. C.

December 16, 1940

My dear Sir Henry:

This will acknowledge receipt of your letter of December 14th with its several enclosures which I have read with interest.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Sir Henry Self,
Director General, British Air Commission,
1705 Massachusetts Avenue,
Washington, D. C.



ack

87

BRITISH AIR COMMISSION

1785 Massachusetts Avenue,

OFFICE OF
THE DIRECTOR GENERAL

WASHINGTON, D. C.

December 14, 1940.

Dear Mr. Secretary,

Following your talk with
Mr. Morris Wilson and myself this morning, I en-
close -

- (a) a short appreciation by
Air Commodore Slessor of the
military qualities of the
Bell Airacobra pursuit; and
- (b) a note as to production
possibilities for this type.

I hope the information
is in the form you desired.

I also include a short
note on the engine position as discussed today.

Very truly yours,

The Honourable
Henry Morgenthau, Jr.
30th Street,
Washington, D.C.

SECRETTHE BELL AIRACOBRA (P.39)

Notes by Air Commodore J.C. Slessor

The Bell Airacobra (P.39) Fighter admittedly incorporates certain novel features, such as the position of the engine behind the pilot (which raises problems connected with centre of gravity) and the long shaft propeller drive, which have not been subjected to prolonged tests in actual service. It has also the disadvantage of a relatively high tyre loading which may be some restriction on its operation from certain types of aerodrome, and which can only be solved at some cost in performance. The aeroplane is, in fact, to some extent a gamble.

On the other hand I believe it to be a very good gamble. The first few production models have stood up well to very thorough flying and firing trials. All the officers who have flown it - who include not only the firm's pilots but the Air Corps project officers concerned and a number of pilots of widely varying degrees of experience - speak very highly of its qualities as an aeroplane and as a firing platform. The excellent view for the pilot, the tricycle undercarriage and the fact that the exhaust glare is behind the pilot make it specially suitable for night work. It is an easy production job, and excellent from the point of view of maintenance in service; the various components - engine, armament, radio etc. are very accessible and so located that men can work on each simultaneously without interfering with each other. It can be rearmed and serviced in a very few minutes - a most important quality in a fighter.

In fact - subject always to the proviso that it is still to some extent a gamble and that unexpected things may possibly go wrong with greater experience in conditions of actual service - I think the Airacobra is a very good 1941 fighter; it remains to be seen whether it can be developed into an adequate 1942 fighter. The crux of this question is the problem of increased fire-power and the consequential effect on performance. Existing orders will be produced with one

/cannon,

Regraded Unclassified

- 2 -

cannon, two .50 calibre guns and four .30 calibre guns. This is a formidable armament for present and near future conditions, and with... it the Airacobra promises to have a performance which compares favourably with existing British types such as the Spitfire. But the increase both in defensive capacity and performance of enemy bombers which must be anticipated by 1942 gives rise to an urgent need for at least a corresponding increase in volume and hitting power of fighter armament without a serious decrease in performance. The firm claim that a very substantial increase is possible by substituting either four .50 calibre or four cannon guns for the four .30 calibre guns. This has yet to be proved, and it must be a matter of serious doubt as to whether the present structure of the aeroplane (wing loading or undercarriage loading) would stand it; it certainly could not be achieved without a very serious drop in performance unless the horsepower of the engine can be substantially increased above 1150 h.p.

If the decision rested with me I should go ahead and take a chance on it. It has always proved possible with other types to secure in the later stages a marked advance on the performance of the first models, and I feel there is a fair chance of being able to do the same with the Airacobra. Moreover - as far as I know - there is no other U. S. fighter which could be in quantity production by 1942 likely to exceed the Airacobra in performance and fire power.

March 14, 1940.

PRODUCTION POSSIBILITIES OF THEBELL AIRACOBRA PURSUIT

(over and above existing orders)

* * *

1. By duplicating an assembly plant extension of 240,000 square feet now in train at Niagara Falls and providing the necessary additional facilities at an inclusive cost of \$5,820,000, the Bell Aircraft Corporation estimate they could deliver an additional 1600 Airacobra pursuits by March, 1942.
2. The Allison Company advise an available output of Allison engines of 1700 "E" or "F" type engines by March, 1942 and a further 2,000 by June, 1942 over and above engines on order or earmarked under options.
3. The new British programme of 12,000 additional aircraft by June, 1942 includes 3,320 pursuits over and above the estimated capacity of existing plants. Of these it is hoped 1,200 might be of the Typhoon type; but the balance of 2,120 would be American types such as the Curtiss Hawk 87 (corresponding to the U.S. type P.40D), the North American N.A. 73 or the Bell Airacobra.
4. It would seem that the suggested extension of Bell's works would yield quicker production than could come from new plants for building other types. Even if Bell's estimate is optimistic, an extension of his completion date to June, 1942 would be a creditable achievement.
5. Provided the technical approval of the Bell Airacobra is finally confirmed as warranting such a large additional order, it would seem advantageous to secure this total of 1,600 aircraft towards meeting the further joint requirements of pursuit fighters for the U.S. and

-2-

the U.K. and so reduce appreciably the need for new plants.

6. The gun position is a complication. But the new British programme for 12,000 additional aircraft already necessitates creation of additional gun capacity to keep in step with the new plants required for aircraft production. If the Bell scheme results in quicker aircraft production, it will be necessary to accelerate correspondingly the creation of new gun capacity. But the additional aircraft will only be delivered in quantity by the end of 1941 and this should give time enough to create the gun capacity required.

December 14th, 1940.

NOTE FOR MR. SECRETARY MORGENTHAU

CONCERNING LOCKHEED BOMBERS

AWAITING ENGINES.

1. Owing to the inability to secure sufficient Wright type 1820 engines to meet the programme for Lockheed Hudsons, it became necessary to arrange for the Pratt & Whitney type 1830 engines to be installed in lieu.
2. The time required for the technical work involved by this change-over necessitated continuing in the meantime with the type of Hudson aircraft taking the Wright 1820 engine.
3. Delays in deliveries of the available Wright engines were accentuated by the need to fulfil the undertaking given to the U. S. Army Department, whereby 274 Wright 1820 engines are to be released to them in exchange for 26 Consolidated B-24 aircraft. 30 Engines have already been transferred under this arrangement.
4. To utilize West Coast shipping facilities and also to avoid accumulation of airframes at Lockheeds, instructions were given to ship, as far as possible, to England without engines. 29 Hudsons have already been shipped in this way and 24 Wright engines have since followed them as a first instalment of the engines required for them. The balance of engines has to be made good as soon as possible.
5. Meanwhile the system of delivering Hudsons to England by air has been put into operation, but this necessitates installation of engines at Lockheeds before the airframe leaves. Until the engines become available the airframes must wait.
6. It will thus be seen that the engine shortage results from -
 - (a) delays in deliveries by Wrights, and
 - (b) an attempt to honour the undertaking with the U. S. Army Department.

-2-

As and when the engines finally come forward from Wrights the situation will be rectified.

7. The British Air Commission representative on the West Coast, Mr. Sigrist, has been instructed to go immediately to Lockheeds and do everything possible to alleviate the position and secure clearance of the airframes at the earliest possible date, as and when shipping is available on the West Coast.

Washington, D. C.

December 14, 1940.

December 16, 1940
3:05 p.m.

Senator Glass's
Secretary,
Mr. Smith:

Fine, thank you. The Senator - I talked to him on the phone this morning. He's down at Lynchburg, and he said now he would entirely suit your convenience that he hadn't planned to come up again

H.M.Jr: Wait a minute.

S: until the week following Christmas, but that if you thought it was more pressing than that that he would make a special trip up.

H.M.Jr: Well, you say the week after Christmas.

S: Yes, sir.

H.M.Jr: Gee, I don't want to wait that long but I don't want to make the Senator come all the way up here.

S: Well, that's all right. He'll come.

H.M.Jr: Gosh!

S: Now, let's see. Today is the 16th, isn't it?

H.M.Jr: Yes.

S: When would you like him to come?

H.M.Jr: Well, I tell you - let me just look a minute. I wonder how about Friday morning. Is that a good or bad for him?

S: I think that would be all right.

H.M.Jr: What?

S: I think that would be all right.

H.M.Jr: Well, I could make it any time Friday morning to suit his convenience as to time and place.

- 2 -

S: Well, it probably would be more private if you could come to the Mayflower to his suite.

H.M.Jr: I can do that.

S: Friday morning.

H.M.Jr: Yeah I can do that any time between 9 and 12. I'd rather make it a little earlier - rather than 12.

S: All right, sir. Well, I'll get in touch with him and let you know the hour.

H.M.Jr: I consider it really important. I need some advice on this whole banking question and I don't want to go ahead until I either know I'm going to have his wholehearted support or he tells me to forget it.

S: He'll be here Friday morning then I'm sure but I'll call you

H.M.Jr: Should I say tentatively 10:00 o'clock, do you think?

S: 10:00 o'clock Friday morning.

H.M.Jr: Would he come in that night or would

S: He'd probably come up Thursday night - he'd come up Thursday.

H.M.Jr: Oh. Is 9:00 o'clock

S: Then he'd be able to go back home for the weekend.

H.M.Jr: How early does he like to see people?

S: Well, 10:00 o'clock is all right - he eats breakfast around 8:30 or 9.

H.M.Jr: I'll put it 10:00 o'clock and I'll put a question mark after it.

S: All right, sir.

H.M.Jr: Thank you so much.

S: Thank you.

December 16, 1940
4:34 p.m.

Mark
Foote: Hello.

H.M.Jr: Morgenthau speaking.

F: This is Mark Foote, Mr. Secretary.

H.M.Jr: How-do-you-do.

F: I felt that at the end of the dinner I didn't properly express my appreciation of your presence there and of the privilege of having you beside me.

H.M.Jr: Oh, my, my, my. The shoe is on the other foot, if you don't mind the pun.

F: Well, I don't mind the pun at all but it was really very nice to have you there Mr. Morgenthau
.....

H.M.Jr: Oh, I enjoyed it, had a good time, you put on a good show, and as I told you, I enjoyed your opening remarks. I thought they were extremely witty.

F: Well, that's very kind of you.

H.M.Jr: It is very nice of you to call me. I had a very good time.

F: There was one other matter and that is that as some of the boys were talking over the dinner today why it dawned on us that - all of a sudden - that we had had - we had stood up other members of the Cabinet and not you. The way that happened was that this guest skit, you know, is - so-called guest skit, where they stand up - the idea was to stand up the new members of the Cabinet and then they thought that on account of Secretary Hull being the ranking man and the ranking Democrat why we ought to stand him up and it just happened in the whirl of preparations that we never did discover until this morning that there was one Cabinet member that wasn't stood up.

- 2 -

- H.M.Jr: Well, I was entirely unconscious of it and if anybody had ask me whether I was the only one, I would have given them a bet three to one that I wasn't and it never occurred to me.
- F: Well, I'm glad that it didn't.
- H.M.Jr: It never occurred to me. The only thing that happened was - I heaved a sigh of relief that I didn't have to stand up and give a sickly grin.
- F: (Laughs).
- H.M.Jr: No, no. It's very kind of you but I had no feeling other than that I had a very good time and enjoyed myself and I was glad that I wasn't called on and could sit there as one of your gang.
- F: Well, that's very kind of you and I'm certainly delighted to know that you enjoyed the dinner.
- H.M.Jr: It never occurred to me. I didn't know whether Mr. Stimson was there or anybody else was there.
- F: And of course we - I know you realized that it was through - nothing intentional - it couldn't have been anything intentional.
- H.M.Jr: Well, Mr. Foote, I - it didn't even occur to me.
- F: Yes.
- H.M.Jr: It never occurred to me.
- F: It did occur to us but as I say not until this morning and then one of the boys in a group of five or six of us, they said, did you realize that. Well, nobody realized that.
- H.M.Jr: Well, neither did I. No, I'm just one of the boys.
- F: Well, that's fine. I'm awfully glad but I did really want to talk with you about it.

- 3 -

H.M.Jr: Well, that's terribly nice of you.

F: Well, as I say, I was delighted to talk with you and was awfully glad you could be there.

H.M.Jr: Right. I'll look forward to seeing you soon.

F: Thank you very much.

H.M.Jr: Good-night.

F: Good-bye.

(CONFIDENTIAL)

STRICTLY CONFIDENTIAL

PARAPHRASE

CONFIDENTIAL

99

A telegram (no. 621) of December 16, 1940, from the American Ambassador at Chungking reads substantially as follows:

A despatch of December 12 which was sent by air mail on December 14 is summarized briefly to the following effect:

A plan providing for the sale of rice at fixed prices to certain classes of the population through government stores was put in operation on December 1 by the National Food Administration. Persons supporting this plan are quite confident that the plan will result in lowering living costs and will stabilize prices. There is a feeling that, by appealing to the sense of patriotism of the farmers and by threatening severe action against those who refuse to cooperate, the farmers can be induced to sell greater amounts of grain. This plan is attacked by opponents in government circles who claim that the plan will be sure to fail. They insist that the government (?) the quantity of rice on hand, production and consumption and that later the government will find it difficult to obtain enough rice to sell at low prices. The belief now prevails generally among all elements that persons belonging to the wealthy classes are increasing hoardings no longer but that farmers, realizing that the purchasing power of the currency is decreasing constantly, are keeping more of their rice which they would rather have than money.

The

100
STRICTLY CONFIDENTIAL
CONFIDENTIAL

The prediction is made by a high official of the Ministry of Economic Affairs that about the last of February the price of all commodities will take a big jump. He said that the principal reason why prices skyrocketed several weeks ago was that large purchases of rice were made for the army. The factor which hinders to the greatest extent a successful solution of the price problem is failure on the part of opposing official groups to compromise and cooperate. Although the plan of the National Food Administration as now in operation is, it must be admitted, a measure of diverting at a time of crisis, the present policy can only, at best, have the result of stabilizing prices temporarily around levels now prevailing.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 16, 1940

STRICTLY CONFIDENTIAL

TO Secretary Morgenthau
FROM Mr. Klaus

FBI reports:

November 19. FBI is investigating bank accounts concerning Danish funds in the United States.

December 7. Information concerning the suspicious pro-Nazi attitude of Dr. and Mrs. Rautzenberg; the letter was written upon FBI's learning that Mrs. Rautzenberg had been employed in the Treasury Department. (Prior to the receipt of this letter Mrs. Rautzenberg had already been suspended after routine personnel investigation and FBI has been informed to resume with the subversive activity investigation.)

December 9. An unverified source reports the metallic reserve reported by the Bank of Mexico is fictitious, the fiction being accomplished by juggling variations in the peso value between a metallic reserve account and a stabilization fund account; the stabilization fund is not shown separately but is included in other accounts under the heading "Authorized Values."

December 10. Von Strempel of the German Embassy is said to have predicted that Germany would not declare war on the United States and that in two months another nonaggression pact between Japan and Russia would be announced; that Mussolini had relied on a German regiment to bluff the Greeks; and that von Strempel believed Lord Haw Haw was right when he said that Secretary Knox was Germany's best friend when he said the United States wished to fight Japan.

December 11. The German diplomatic officials seem to be disturbed about the Dies Committee disclosures with regard to the activities of one "K" (this would be either Kollmar or Kertess?).

December 11. Pursuant to Mr. Wiley's request, FBI is investigating the activities of Ferdinand Wilckes of Katonah, New York (against whom suspicions had been directed by a national bank examiner in New York).

W.C.

December 16, 1940

Mr. Foley

Secretary Morgenthau

In addition to showing our proposed bill on bank holding companies to Crowley, I think you ought to show it to Jerome Frank and tell him that we are thinking of seeing Carter Glass on Friday. Caution Jerome Frank that I would like to keep the matter strictly confidential.

December 16, 1940

Mr. Haas

Secretary Morgenthau

I noticed in your latest report that the price of butter is up 33 or 34%. I wish you would let me know whether the Department of Agriculture, through any of its affiliates or subsidiaries, owns any butter, stores any butter, or is lending any money on butter.

BRITISH EMBASSY,
WASHINGTON, D. C.

PERSONAL AND
SECRET.

16th December, 1940.

Dear Mr. Secretary,

I enclose herein for your
personal and secret information a
copy of the latest report received
from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Herle Butler

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated 14th
December, 1940.

1. It has been reported that on the 6th two enemy torpedo-bomber A/C twice approached a cruiser force north of Crete but each time retired in face of long range gun fire.

2. An A/C on patrol off Norwegian Coast on the 13th dropped two bombs on the bridge of and machine-gunned 2,000 ton merchant vessel.

3. The two Italian U-boats ex Tangier have not yet been located in spite of extensive search.

British "Newton Pine" reports attacked by gun fire p.m. 13th 660 miles south west of Freetown, probably by U-boat.

4. Military.

Egypt. Little information received from forward area. Enemy still occupying Sollum, Port Capuzzo and small pockets east of the frontier. Two Libyan divisions and one Italian division have been eliminated. Italian division capture complete at Buqbuq with 50 guns. Enemy still has 3 divisions in Bardia area, 2 of which have suffered considerable casualties. Our progress may now slow down.

5. Military.

Greece. No further reports received.

6. Royal Air Force.

Night of December 13th-14th. Thirty-eight heavy bombers attacked railway targets and war factories at Bremen, shipbuilding yards at Kiel, submarine base at

/Bordeaux.

-3-

Bordeaux. All aircraft returned safely except 1, 3 of the crew are safe.

7. German Air Force.

During the 13th enemy activity confined to reconnaissances, only one machine crossing our coast.

During the night of December 13th/14th enemy aircraft were minelaying in the Thames estuary and off the East coast; no raids plotted inland.

Considerable improvement reported in railway services at Birmingham, damaged as a result of raid on the night of December 11th/12th. Stoppage of production (believed temporary) has occurred at 4 factories in this area as a result of enemy action.

During the raid on Sheffield on the night of December 12th/13th the main steel valley escaped attack, no serious damage reported to key points of industry. Temporary shortages of gas, electricity and water, but these are being rapidly restored. Telephones are mostly intact. All fires completely under control and most extinguished by mid-day December 13th. 6,000 homeless. Local authorities have the situation well in hand. Public morale high; A.R.P. services met their test well and there was effective military co-operation. Aircraft casualties. Nil, except for bomber lost referred to in paragraph 6 above.

8. Sudan. Enemy bombers escorted by fighters attacked our landing ground near Kassala on December 12th destroying 4 aircraft. One enemy fighter brought down by small arms fire in Osh area.

9. Italian East Africa.

Our aircraft attacked Javello aerodrome
on December 11th destroying 3 enemy bombers and
damaging 3 others.

CONFIDENTIAL

108

Paraphrase of Code Radiogram Received
at the War Department 8:36, December
16, 1940

London, filed 13:30, December 16, 1940.

1. Bad weather caused the cancellation of all operations of the Bomber Command during Sunday, December 15th, and the preceding night. During this period the Coastal Command laid mines in a French port and bombed Brest and Lorient.

2. Daylight activity of the German Air Force on December 15th consisted of small scale reconnaissance. Fairly heavy raids were delivered that night over the Midlands, with smaller attacks on Yarmouth, Northampton, and the Bristol Channel. Mines were laid in the Humber River.

3. British bombers again attacked Valona in Albania. British bombers based in Egypt carried out very successful heavy attacks on Tobruk, Bardia and other Italian airdromes and military stations.

4. About 26 Italian planes were destroyed in Egypt and Greece.

5. Reliable reports indicate that 15 ships out of the convoy of 32 which was due in England on December 5th, were sunk by torpedoes. These included the Belgian steamer VILLE D'ARLON carrying several diplomatic pouches and the U. S. LACONIA, an armed merchant cruiser escorting the convoy.

CONFIDENTIAL

CONFIDENTIAL

6. The British have not as yet located the two Italian submarines operating off Tangier. A British merchant vessel reports that it has been attacked by a submarine about 600 miles southwest of Freetown on the West Coast of Africa.

7. The War Office states that the total number of Italian prisoners taken during the present operations in Egypt is more than twice as large as the number of British forces engaged. It is the opinion of Military Intelligence officers that if the Italian debacle continues the German air attack on Britain will be intensified and an invasion may possibly be launched.

LEE

Distributions:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
WPD
ONI
AG
G-3

CONFIDENTIAL

G-2/2657-220

RESTRICTED

M.I.D., W.D.

No. 271

SITUATION REPORTDecember 16, 1940.
12:00 M.

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

I. Western Theater of War.

1. Air Force Operations.

Weather continued generally unfavorable.

German air activity was negligible up to the night of December 15-16. Last night an unidentified "northern industrial area" in England was bombed fairly heavily. Elsewhere attacks were light.

On the night of December 14-15 the R.A.F. made light attacks on Brest and Lorient. Last night the British air effort was exerted over Germany, apparently on a little less than normal scale. Berlin was subjected to a prolonged attack and bombs were dropped elsewhere in central and western Germany.

II. Greek Theater of War.

The heaviest fighting appears to be in the Tepelini-Klisura area. The R.A.F. bombed Valona twice and there was considerably increased Italian air activity in the combat zone.

III. Mediterranean and African Theaters of War.

1. Advance British units have crossed the Egyptian-Libyan frontier. Fighting is taking place in the desert zone of Fort Capuzzo, Sollum, and Bardia.

2. Fairly heavy air fighting is going on in connection with the British Egyptian offensive. The R.A.F. appears to be maintaining air superiority and to be reaching well into Italian rear areas. British naval aviation has bombed Tripoli, in Libya.

On the night of the 14th-15th the R.A.F. raided Naples in considerable force.

RESTRICTED

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

STATE DEPARTMENT BUILDING
WASHINGTON, D. C.

December 16, 1940

MEMORANDUM FOR: The Honorable Henry Morgenthau, Jr.
FROM: Nelson A. Rockefeller

You will find, herewith, for your confidential information a copy of our weekly digest of the current activities of the various departments and agencies handling matters on inter-American concern.

Attachment

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

STATE DEPARTMENT BUILDINGS
WASHINGTON, D. C.

December 16, 1940

WEEKLY PROGRESS REPORT
ON ACTIVITIES IN RELATION TO THE OTHER AMERICAN REPUBLICS

RAW MATERIALS

Shortages in Zinc, Copper, and Cotton Linters

Because of shortages in zinc, copper, and cotton linters, negotiations for purchase of these materials from Latin America continue to occupy attention of Coordinator's office.

Zinc: Since Defense experts state that U.S. should commence zinc imports immediately, Mexican resources are receiving careful consideration. Although U.S. could use zinc concentrates, it would prefer slabs direct from a smelter since we are short on smelter capacity at the present time. The principle Mexican smelter, the Rosita Smelter of the American Smelting and Refining Company, which produced 41,000 tons of slab zinc in 1938 and could probably produce around 45,000 tons a year, has been inactive for almost a year due to certain labor difficulties.

Copper: The RPC will shortly commence Latin American copper purchases since a serious shortage faces the industry within three months, which would impede certain copper fabricators on defense contracts. The delay in this announcement has been caused by the necessity of having copper listed as a strategic material, a difficulty which has now been overcome.

Cotton Linters: Raw Materials (Defense) feels there will be an increasing demand for linters in 1942 above the demand already indicated for 1941. This may result in greater imports from Brazil, Peru, and Mexico.

New Materials Receiving Consideration

Peruvian pulpwood and Peruvian long-staple cotton were discussed at Coordinator's office last week.

Peruvian Pulpwood: Mr. Robert R. Thorndike of Peru, who is endeavoring to establish a pulp plant in Iquitos for the preparation of rayon pulp from a local wood similar to balsa, is sending Coordinator samples of wood for the testing by Forest Products Laboratory at Madison, Wisconsin.

Page 2
December 16, 1940

Peruvian Long-staple Cotton: Peruvians are troubled over U.S. import quota of 1,000 tons for their long-staple cotton since U.S. importers are reluctant to bid without assurance that the quota will not be filled before their orders have been shipped. The Peruvians feel that unless they can sell some of their cotton here, they may be forced to sell it to the Japanese for around ten cents a pound.

Developments in Current Negotiations

Cork: Since Standards is not equipped to test the samples of Brazilian cork, they have been sent to Forest Products Laboratory, Madison, Wisconsin, for testing.

Industrial Diamonds: The selection of experts to pass on diamond purchases should be decided in a few days.

Nitrates: Although a hitch occurred last week over the storage of 300,000 tons of nitrates to be purchased by U.S. from Chile, it is expected that the purchases will be consummated shortly.

Hemp: Discussions with United Fruit Company indicate that instead of being able to plant 40,000 acres of hemp in Panama, they can plant only 10,000 acres from present seed supplies. Company feels that an agreement by the Cordage Institute to rotate Manila hemp from Panama with that from the Philippines will be necessary.

ECONOMIC DEVELOPMENT

Loan Negotiations

Chief among the loan negotiations which continue to occupy the center of the present Latin American picture are those with Cuba, Argentina, and Peru.

Cuba: Loan negotiations in which a number of difficulties have developed are being continued.

Argentina: Substantial U.S. assistance to Argentina has been assured by two developments: (1) Export-Import Bank has announced a credit of \$60,000,000, available \$5,000,000 monthly. (This credit includes \$20,000,000 credit previously granted but unused.) (2) It is reported that Treasury will enter into a financial arrangement involving the Treasury Stabilization Fund for an additional amount of \$50,000,000.

Peru: Completion of the Peruvian discussions is expected shortly. Coordinator's office has submitted memo on Peru's external debt situation to Export-Import Bank in connection with negotiations.

Among other developments are loans to Uruguay and the Dominican Republic and a formal announcement concerning Chile.

2095

Page 3
December 16, 1940

Uruguay: Export-Import Bank has granted an additional credit of \$2,500,000 to the Central Bank, which is being guaranteed by Uruguayan Government. A similar credit of \$5,000,000 was made in November.

Dominican Republic: Export-Import Bank has granted an additional \$1,000,000 credit to Dominican Republic, thus raising its total credit to \$3,000,000.

Chile: Export-Import Bank has formally approved a \$5,000,000 loan to Central Bank of Chile, previously reported.

Developments in Private Enterprise

Several individuals have been in Washington this week to discuss development of private enterprises in Latin America.

1. The Intercontinent Corporation of New York is engaged in preliminary negotiations for the establishment of an aircraft factory in Brazil involving an investment of about \$500,000, about half of which would be local capital. The proposal would require U.S. export licenses for about \$350,000 of machine tools, aluminum, etc., needed for the plant.
2. E. R. Squibb and Company is studying the possibilities of extending its chemical and pharmaceutical business to Latin America.
3. Material on a proposed steel plant in Peru has been submitted by H. A. Brassert to the Coordinator's office for study.
4. The Bata Shoe Company, which is contemplating the transfer of its main shoe business from Czechoslovakia to Brazil, has purchased six large tracts in Brazil, where it hopes to raise cattle and manufacture shoes.

Trade Negotiations with Argentina

It seems likely that trade agreement negotiations with Argentina will open formally in a short time.

Supreme Court Strengthens Trade-mark

The Supreme Court handed down an important decision last Monday when it held that the Puerto Rican statute, which permitted the Bacardi Corporation of America to manufacture rum in Puerto Rico but denied it the right to use its own name and trade-mark, was in direct conflict with the General Inter-American Convention for Trade-mark and Commercial Protection. If the opposite holding of the Circuit Court of Appeals had been affirmed, uncertainty might have confronted businesses expanding in other countries of this hemisphere.

Page 4
December 16, 1940

CULTURAL

Arrangements for Interchange of Scholars and Students

Several developments were reported this week concerning the interchange of scholars and students between U.S. and Latin America.

1. The education committee is investigating the availability of men in American universities and colleges for the exchange program of graduate students and professors with Latin America.
2. Coordinator's office has increased grant for hospitality to Latin American students in U.S. and U.S. students in Latin America from \$14,000 to \$20,000. The money which will be given by contract to Institute of International Education for its use and that of Experiment in International Living will cover following purposes: (1) oversight and guidance of Latin American students in U.S.; (2) placing of Latin American students in American homes during their vacations; (3) sending at least twelve American students to live in private Latin American homes next summer.
3. Since the facilities of the University of North Carolina may be taxed by the large number of students coming from Latin America for a special session this winter, the possibility of other universities taking some of the students will be explored.

Music Committee Looks at Labor Problems

The music committee is interested in working out an agreement among the labor unions of this hemisphere which will enable Latin American bands and orchestras to come to this country and our bands and orchestras to visit Latin America....It is also investigating carefully:

1. A possible tour of Latin America by the Goldman band;
2. A trip to South America next summer by the Yale glee club;
3. The possibilities of increasing Latin American music on U.S. radio--this involves a copyright problem since U.S. laws permit the playing of much Latin American music without payment of royalties.

Literary Committee Prepares "Five-foot Book Shelf"

The literary committee is working on a Five-foot Shelf of American books to be translated for distribution in Latin America. The shelf will include literature, particularly from Walt Whitman to the present time, popular science, and children's books....Two other reports in the field of publications are of interest this week:

1. A grant of \$1,500 to aid the preparation of a bibliography of existing Latin American bibliographies. 750 copies of this volume, which is to assist studies by scholars on Latin America, will be distributed in Latin America.
2. A grant of \$2,000 for the publication in Portuguese of American books on social science subjects, the list of translations to be approved by the literary committee. The form of this grant will be an agreement with a Brazilian publisher to furnish translations for distribution to Brazilian libraries and schools.

Page 5
December 16, 1940

Further Plans for Art Exhibit

It is proposed that the art exhibit in capitals of the Western Hemisphere and a few additional cities be divided into three parts: (1) pre-Columbian; (2) colonial; and (3) 1820 to date. The opening may be delayed until 1942.... The art committee is also considering:

1. An exhibit of 65 or 70 of the best American paintings in a few of the larger Latin American cities;
2. Exchanges of artists;
3. Projects in the field of archaeology.

COMMUNICATIONS

Non-profit Travel Bureau under Consideration

Coordinator's office is considering the establishment of a non-profit Inter-American Travel Bureau to handle the travel program of the office. If such a bureau should carry out a promotional campaign, several newspapers have indicated that they would insert a travel page.

Developments in Other Sections

Among other developments reported in the field of communications at Coordinator's office are:

1. Discussions concerning possibility of U.S.-British-Danish agreement on release of 36 Danish ships for Latin American trade as a means of solving respective shortage in next six or eight months.
2. Transportation (Commerce) confers with Maritime Commission concerning permanent group to deal with inter-American shipping problems as recommended by the recent Inter-American Maritime Conference.
3. Short-wave broadcasters at a meeting with communications section of Coordinator's office last week formed a committee to formulate a plan to improve short-wave broadcasting to Latin America. This committee conferred during the week with the Federal Communications Commission.
4. The project to send motion picture equipment to U.S. diplomatic missions in Latin America has been approved.
5. United Press has offered to send carbons of all cables from South America to Coordinator's office.
6. Discussions concerning the location of the proposed radio listening post for short-wave broadcasts of other countries to Latin America will take place.

TREASURY DEPARTMENT

117

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE December 16, 1940

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ended December 14, 1940.

Summary

(1) The FRB index (preliminary estimate) reached a new record figure of 131 in November, as compared with 128 in October and 121 during the three summer months. The 3-point increase over October, however, is largely due to seasonal adjustment, actual output remaining about unchanged at a time of normal decline.

(2) The moderate upturn in basic commodity prices noted in last week's report was not sustained, and prices have held a level trend for the fourth successive week. The threat of labor troubles, which was a major factor in the general wave of buying that brought on the price boom of 1937, again looms as a threat to the price structure.

(3) Steel orders have increased sharply, following a late-November slackening. U. S. Steel orders in the first week of December reached 142 per cent of capacity, the second highest figure of the year. Although new orders have been above capacity in every week since September, the Corporation is currently operating at 99 per cent.

(4) Automobile output has risen past the usual seasonal peak, due to well-maintained consumer demand rather than to any abnormal stocking of new cars. Department store sales in November also reflected increased buying, the seasonally adjusted index rising to the highest figure since October 1930. While residential construction awards rose contra-seasonally in November, this reflects defense housing rather than increasing civilian demand. Mortgages selected for appraisal have declined sharply, from causes that are not entirely clear, although building costs have recently increased.

- - - - -

Industrial production at new high in November

The FRS seasonally-adjusted index for November (preliminary) is estimated at 131, a new record high, which compares with 123 in October and with 121 in June, July, and August. Actual output remained about unchanged, the 3-point increase over October being due largely to seasonal adjustment.

A further rise in the adjusted index is likely in December and possibly January, since industrial output will probably be well-maintained when a decline is usual. During February and March, however, the seasonal adjustment calls for a rising trend, which may be difficult to equal when many leading industries are already close to their present capacity. This may possibly result in a temporary levelling-out of the adjusted FRS index during that period. When new capacity comes into production later in the year, however, a renewed rise in the FRS index is in prospect, aided by a prospective expansion of demand for products of the consumer-goods industries.

Commodity prices hold steady

The moderate upturn in basic commodity prices noticed a week ago was not maintained during the past week, and the price trends of both industrial materials and foodstuffs have therefore shown a levelling-out tendency for the fourth week in succession. (See Chart 1.) Liquidation of December and January contracts in the futures markets has affected recent price trends for some commodities.

Price changes among individual commodities have, on the whole, been moderate, with the number of declines exceeding the number of advances. Sugar prices advanced 2.8 per cent, following announcement by the Department of Agriculture of sugar quotas for the next calendar year, which were considered in the trade as favorable for prices. Burlap continued its recent advance, which was initiated by fear of shipping difficulties due to raider activity in the Indian Ocean, combined with buying of burlap by the Indian Government to support prices. Flaxseed was moderately higher, reflecting tightness of shipping facilities from Argentina according to press reports. Hog prices advanced from the low levels recently established under unusually heavy marketings.

Rosin prices showed a 4.2 per cent decline, under recurring rumors of a 10 per cent reduction in the Government loan price from last year's level. A weakening of demand for fats and oils brought price reductions for tallow, lard, and cottonseed oil.

While preliminary data indicate that the ELS all-commodity index rose approximately a full point in November, living costs have remained about unchanged. (See Chart 2.) The Department of Labor, which is now compiling a monthly cost-of-living index, reports that living costs of moderate-income families in large cities were one-tenth of one per cent lower on November 15 than on October 15. A decline in retail food costs was accompanied by slight increases in the prices of certain fuel, clothing, and furniture items.

Weekly data (lower section of Chart 2) show a further advance in the all-commodity index in recent weeks, while the more sensitive index of 28 basic commodities has tended to level out.

Labor troubles threaten price structure

The increasing number of labor disputes, strikes, and wage mark-ups have aroused fears that a heavy buying movement may get under way among industrial consumers and merchandisers, for protection against delivery difficulties, somewhat similar to the one that brought on the sharp price rise in 1937. The labor situation must be considered an important threat to price stability, along with shortages in production capacity, since it raises the prospect of increased prices for finished goods as well as threatening a general buying boom.

This feeling is being reflected in current business reviews. According to the Standard Statistics Corporation, for example, "It is axiomatic that if wage rates are to be advanced, prices must advance too. And if a fear of shortages or delayed deliveries caused by strikes is to be superimposed on increased wage costs, the desire to buy ahead will become even more pronounced."

Steel orders show renewed upturn

Steel activity is scheduled for the current week at 96.8 per cent of capacity, as compared with 96.0 per cent last week, thus regaining practically all of last week's decline.

New orders for steel have again increased, following some slackening at the end of November. Orders received by the U. S. Steel Corporation in the week ended December 5 rose to 142 per cent of capacity, the second highest figure of the year. (See Chart 3.) It will be noted that orders received by this Corporation have been above capacity in every week since September, while the rate of output (lower section of chart) is currently at 99 per cent. The independent steel companies have been operating at a slightly lower rate.

The backlog of steel orders has been steadily rising, a situation which can only be remedied either by a substantial increase in output or by a reduction in new orders below the level of output. With actual production of defense materials just getting actively under way, the latter possibility seems very remote.

Steel scrap prices have continued to advance in many districts, increasing as much as \$1 a ton during the week at Youngstown and Cleveland. Pig iron prices have also been advanced \$1 a ton by a second producer, following an advance of \$1.50 to \$2.00 made by one producer in October. Rising production costs were said to have necessitated the increase.

The serious capacity shortages in zinc and coke have by no means been remedied. The magazine Steel last week said that "Even scarcer than coke is slab zinc, which has brought about the greatest shortage of an essential raw material in years. Handicapping the large galvanizers has been the loaning of zinc to their customers and friends. With the price 7½ cents per pound, East St. Louis, consumers have bid 8 or even 9 cents and been unable to buy. Some smaller galvanizers are reported to have curtailed or shut down plants." Prices of December zinc futures are now quoted nominally at 8.45 cents, which compares directly with the 7.25 cent quotation for (unobtainable) spot zinc.

Heavy structural steel awards in prospect

Although construction steel orders for the week ended December 10 showed a 40 per cent gain over the previous week, the tonnage involved was still well below recent levels. Construction steel projects for which orders as yet have not been placed, on the other hand, were sharply higher. Thus structural steel projects rose to 73,000 tons from only 13,000 in the week ended December 3, while during the same period reinforcing steel projects moved up to 36,000 tons from only 9,000 tons.

Although the largest single item among the prospective awards is a state bridge in Connecticut, which will take 21,000 tons of structural and reinforcing steel, numerous large tonnages in connection with the defense program are included in the projected total. Among these are 9,000 tons of structural steel for an addition to the Consolidated Aircraft plant at San Diego, California, and 16,000 tons of reinforcing steel for ammunition loading plants to be erected in Indiana and Iowa.

- 5 -

New orders index somewhat lower

Despite the increase in steel orders, our new orders index for the first week of December was somewhat lower, largely because of a sharp reduction in textile orders. (See Chart 4.)

Heavy automobile output well absorbed by consumers

While the usual seasonal peak for automobile production has been passed, automobile output during the past week, according to Ward's Reports, rose nearly 1,000 units to the second highest figure of the year, totalling 126,000 units. As a result of the unusually good showing in the production of 1941 model cars, it now appears virtually certain that the year 1940 will show the third highest annual automobile output figures on record, being exceeded only by 1929 and 1937.

In view of the early start and unusually well sustained production, the question has arisen as to whether the showing represents actual consumer demand or reflects a tendency to anticipate future requirements, in view of possible demands that may be made on the industry in connection with the defense program.

From actual figures of sales and stocks of both new and used cars of the General Motors Corporation, it appears that the heavy output has been passing into consumers' hands at a very satisfactory rate. Reference to Chart 5 will disclose that sales of new cars to consumers have been running well ahead of corresponding periods in recent years, the 1941 model year thus far showing a gain of 41 per cent over year-earlier levels. Although November sales fell 2 per cent below the previous month, in contrast with the rise shown in recent years, this might be expected in view of the earlier start made this year in both the production and distribution of new models.

While stocks of new General Motors cars at the end of November had risen 65,000 units from the end of August, the ratio of stocks to sales of 1941 model cars has compared favorably with the showing made in recent years. (See Chart 6.) It will be noted that as yet, evidence has not appeared of an unwieldy stocks situation such as occurred in the 1938 model year. In that instance new car stocks at the end of November 1937 were 44,000 cars above recent levels, and the ratio of stocks to sales was much higher.

Although General Motors' actual stocks of used cars at the end of November were 3 per cent in excess of the high November 1937 levels, dealers have been able to keep stocks, in relation to sales, relatively low. (See lower section of Chart 6.) This, of course, has been due to the greatly improved sales of used cars, last month's total running 67,000 above November 1939 and no less than 98,000 above November 1937.

Department store sales sharply higher

The high rate of consumer buying shown in retail automobile sales is also being reflected in department store business. Following some slackening in September and October, department store sales increased markedly during November, when the seasonally-adjusted index (in dollar volume) rose 10 points to 101. This is the highest figure since October 1930.

New peak in residential construction

Continued business stimulus from residential construction activity is indicated by the November figures for contract awards as reported by the F. W. Dodge Corporation. During the month mentioned, contracts awarded for residential construction rose contra-seasonally to a total only slightly under the August peak. (See Chart 7) Moreover, in view of the fewer number of working days in November, contracts awarded on a daily average basis actually were 5 per cent above the previous high for the year. This showing was apparently due in large part to a heavy volume of contracts for defense housing, barracks, construction and other projects originating from the defense program.

The underlying trend of "actual" residential construction is not entirely clear, in view of recent increases in building costs. Mortgages selected for appraisal by the FHA, however, declined substantially in November. (Refer to Chart 7.) While this follows the usual seasonal pattern, the decline from the previous month was greater than usual, amounting to 28 per cent as compared with 19 per cent in 1939. The figure for the first week in December (refer to Chart 7, lower section) showed no substantial change from immediately preceding weeks.

Weekly business indexes

Due largely to another record high in electric power output and a contra-seasonal gain in freight carloadings, the New York Times index of business activity for the week ended December 7 rose 1.6 points to 113.8. However, the gain over the previous week may have been somewhat exaggerated due to insufficient allowance in the week ended November 30 for holiday influences. It should be noted, nevertheless, that despite its recent wide fluctuations, the index rose 3.9 points from the pre-holiday to the post-holiday week.

In addition to the gains above mentioned, lumber production also rose contra-seasonally, while the adjusted indexes of automobile and steel ingot production as well as cotton mill activity declined.

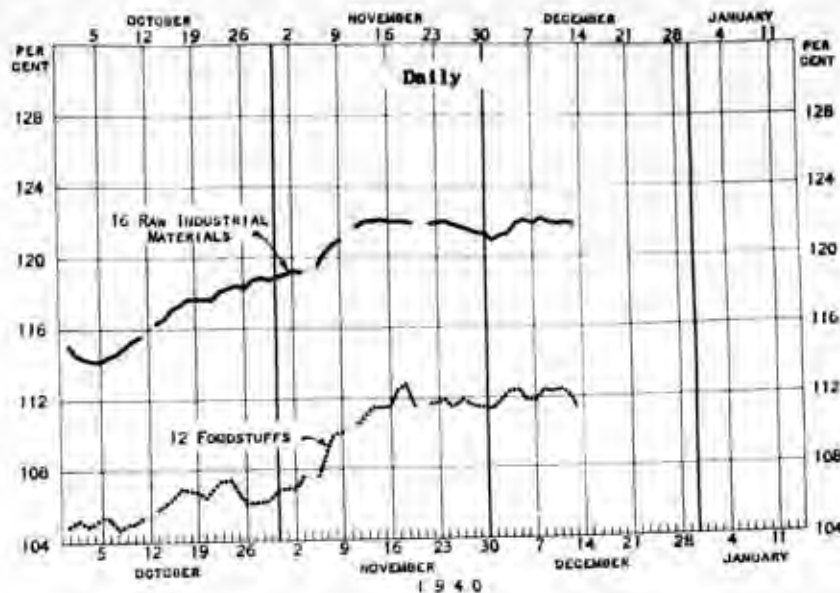
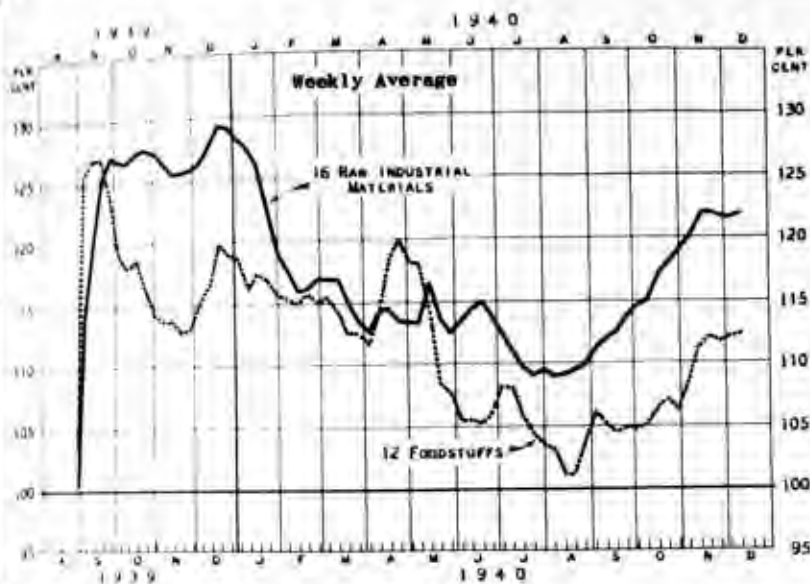
Barron's index of business activity during the week ended December 7 ran counter to the Times index and declined to 123.2 from 123.5 in the previous week.

Preliminary data for the week ended December 14 reveal a moderate decline in the adjusted index of steel ingot production, partially offset by a contra-seasonal rise in automobile production.

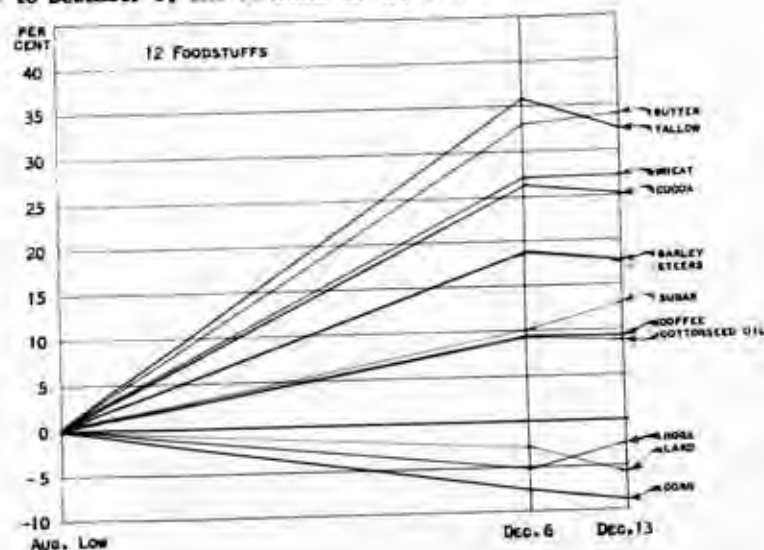
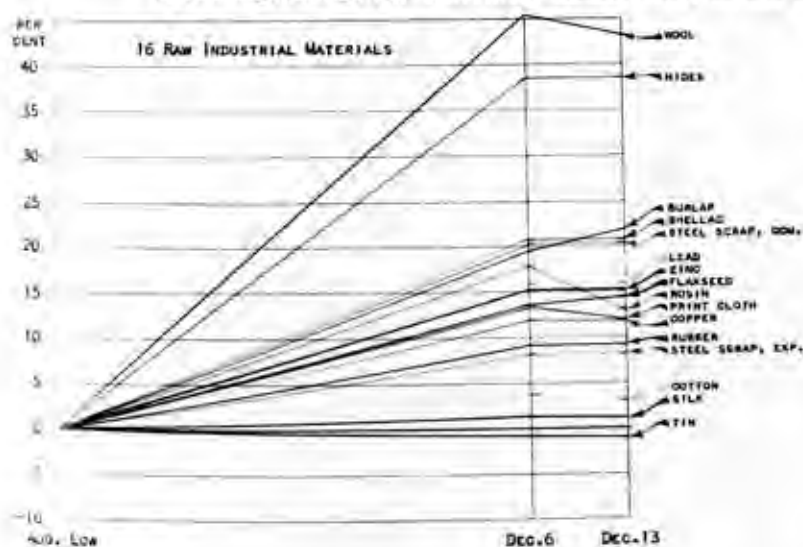
MOVEMENT OF BASIC COMMODITY PRICES AUGUST 1939 = 100

131

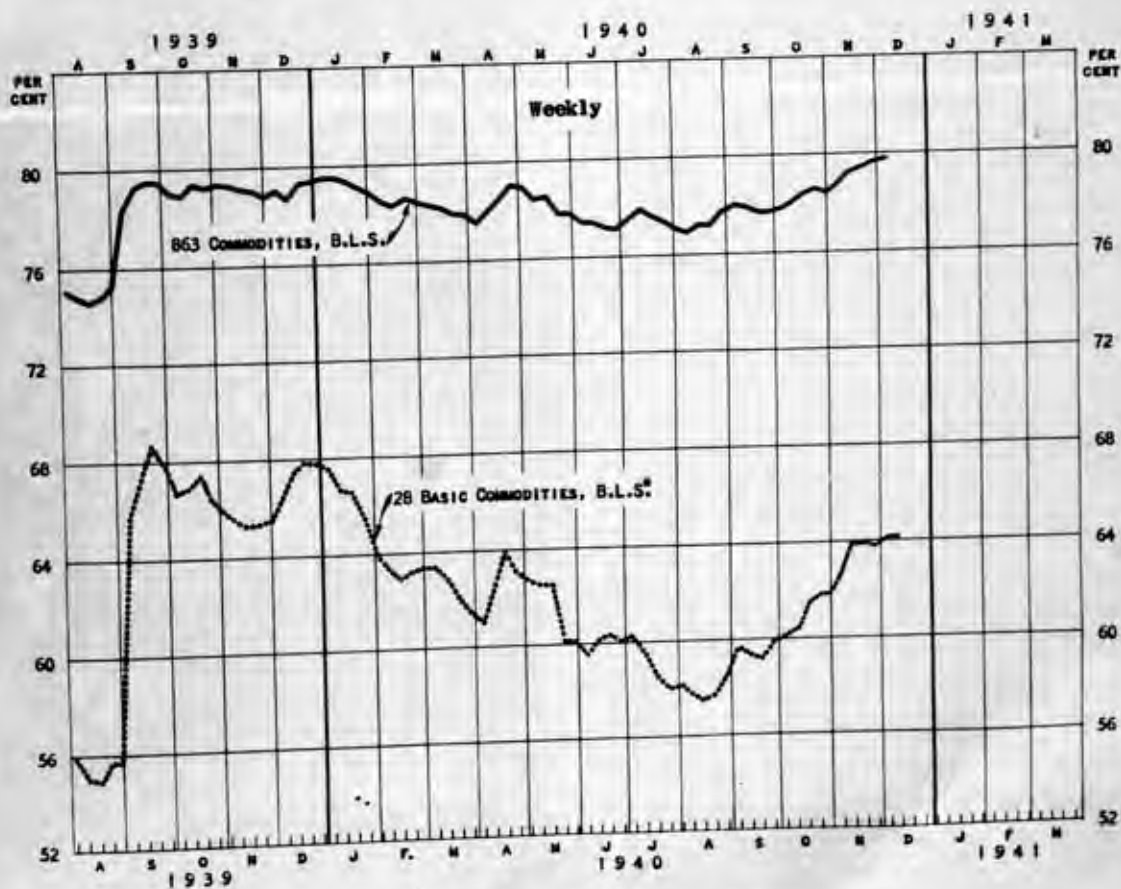
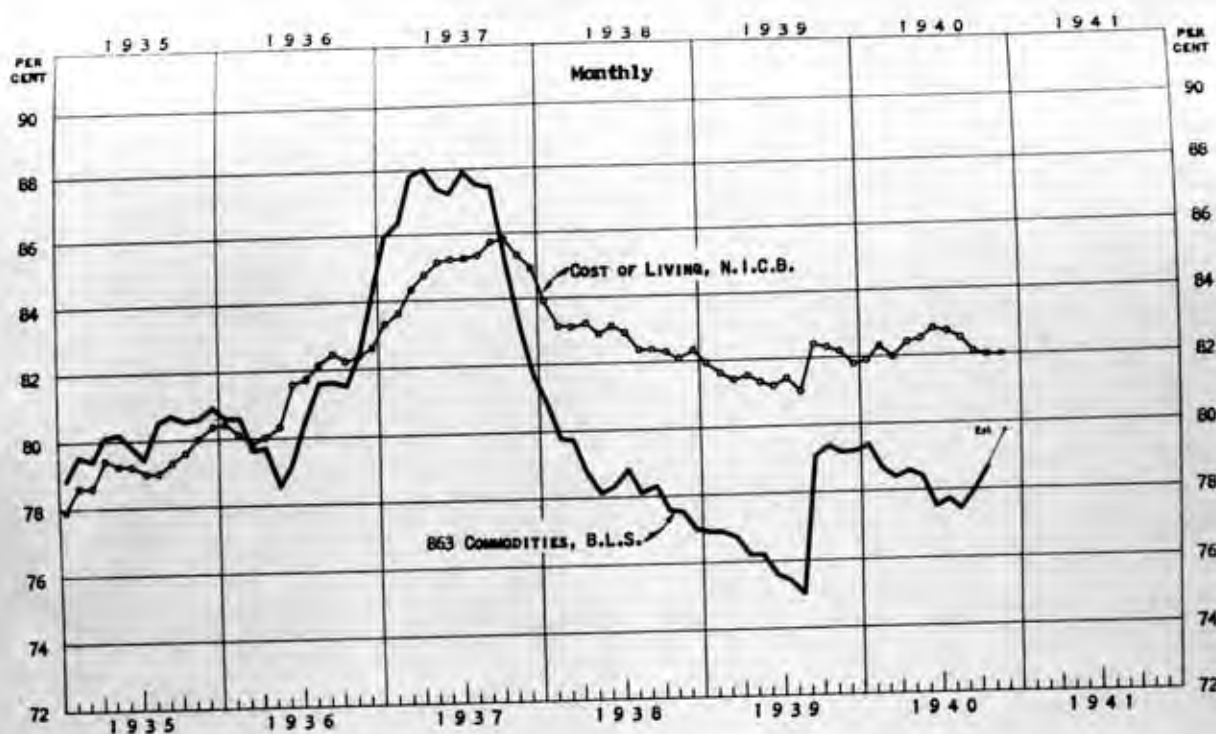
Chart 1



Percentage Change for Individual Commodities, August Low to December 6, and to December 13, 1940



COMMODITY PRICES AND COST OF LIVING
1926 = 100

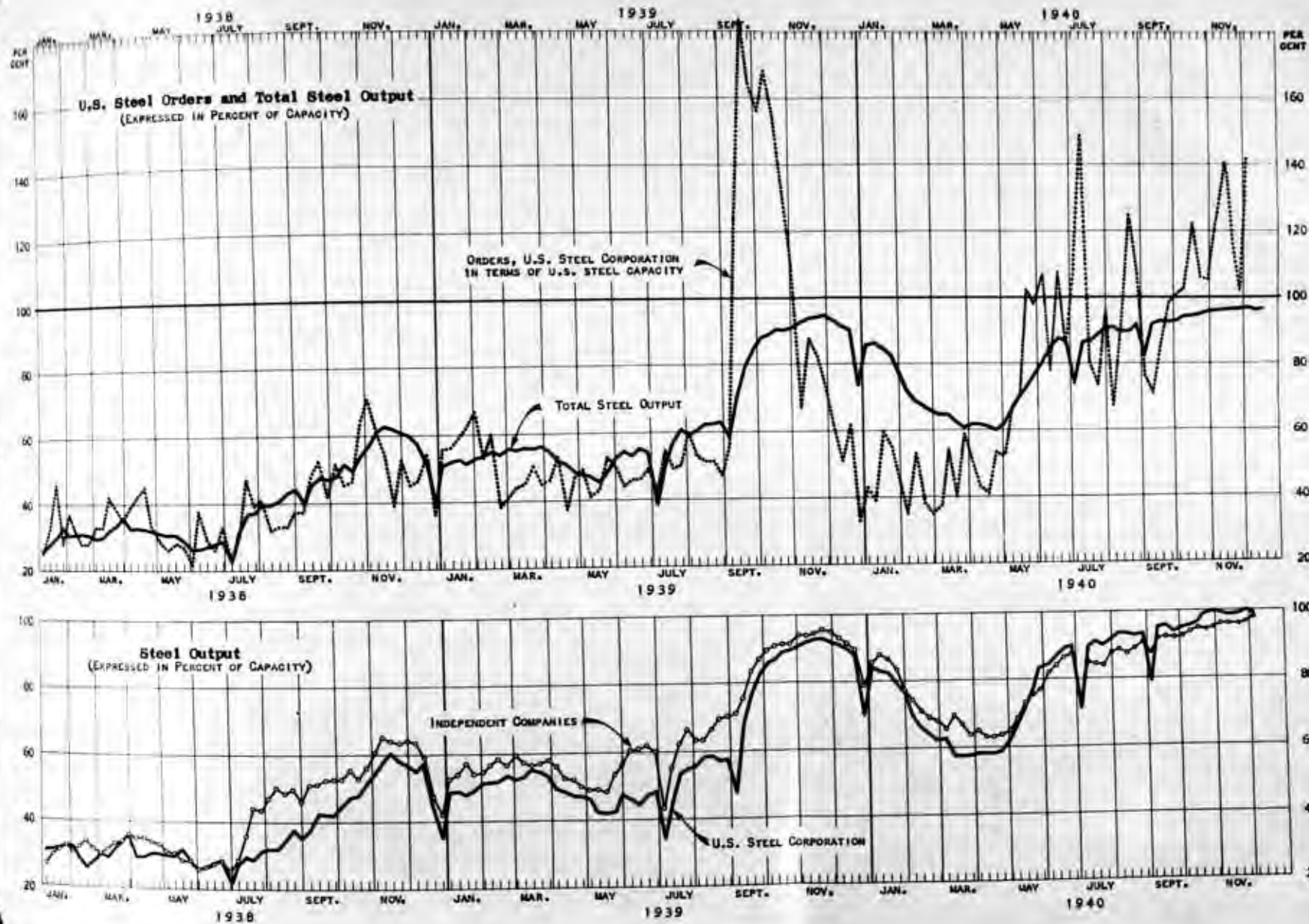


*30 COMMODITIES PRIOR TO JANUARY 1940

STEEL INGOT PRODUCTION AND U.S. STEEL CORPORATION ORDERS

126

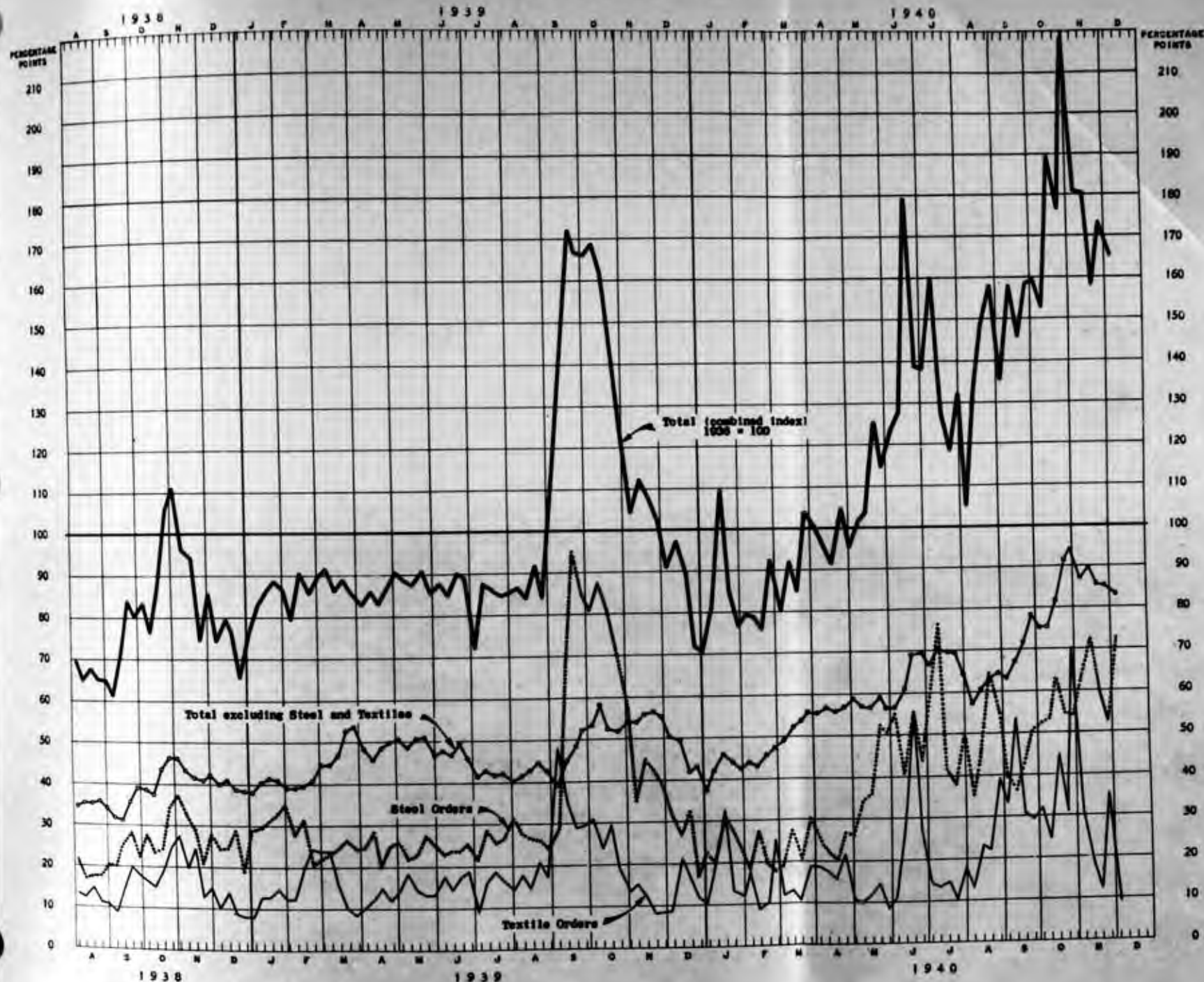
Chart 3
CONFIDENTIAL



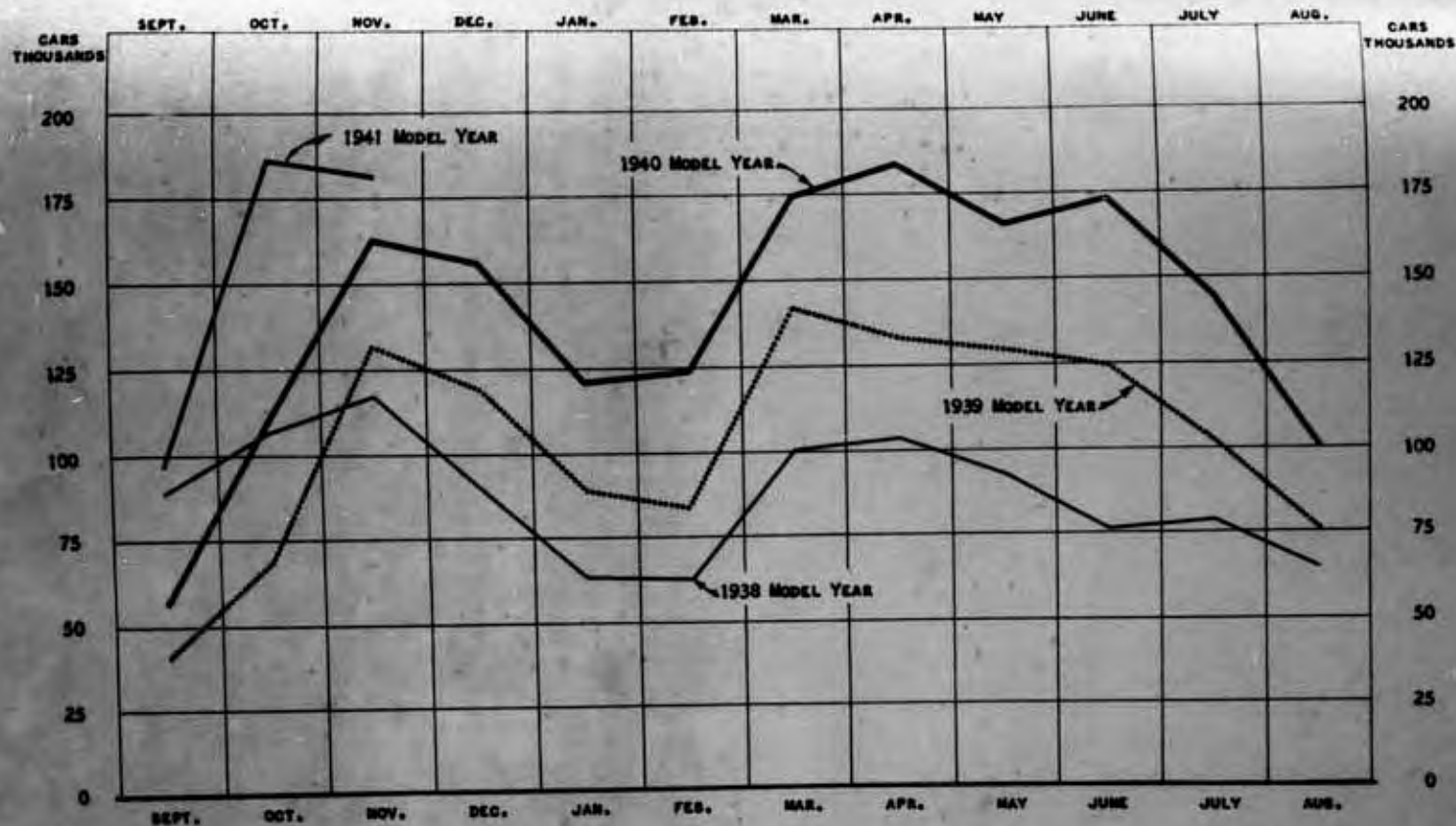
INDICES OF NEW ORDERS Combined Index of New Orders and Selected Components

127

Chart 4
CONFIDENTIAL

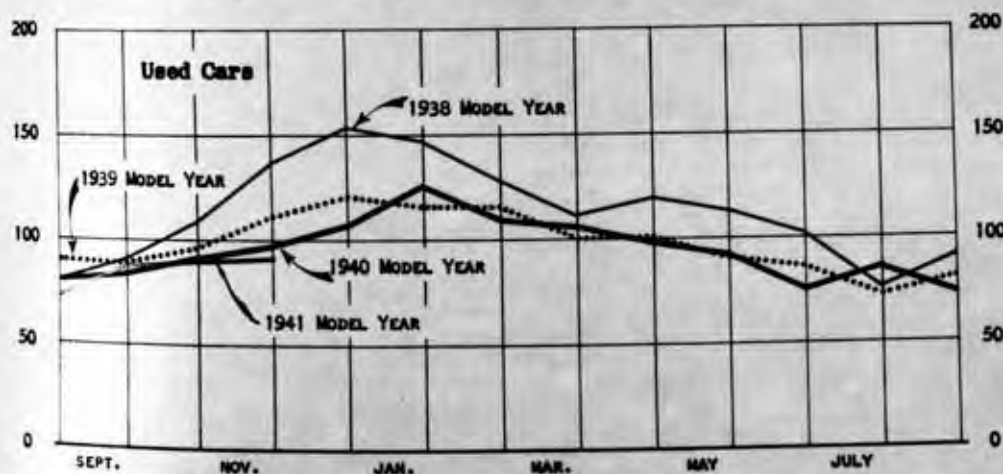
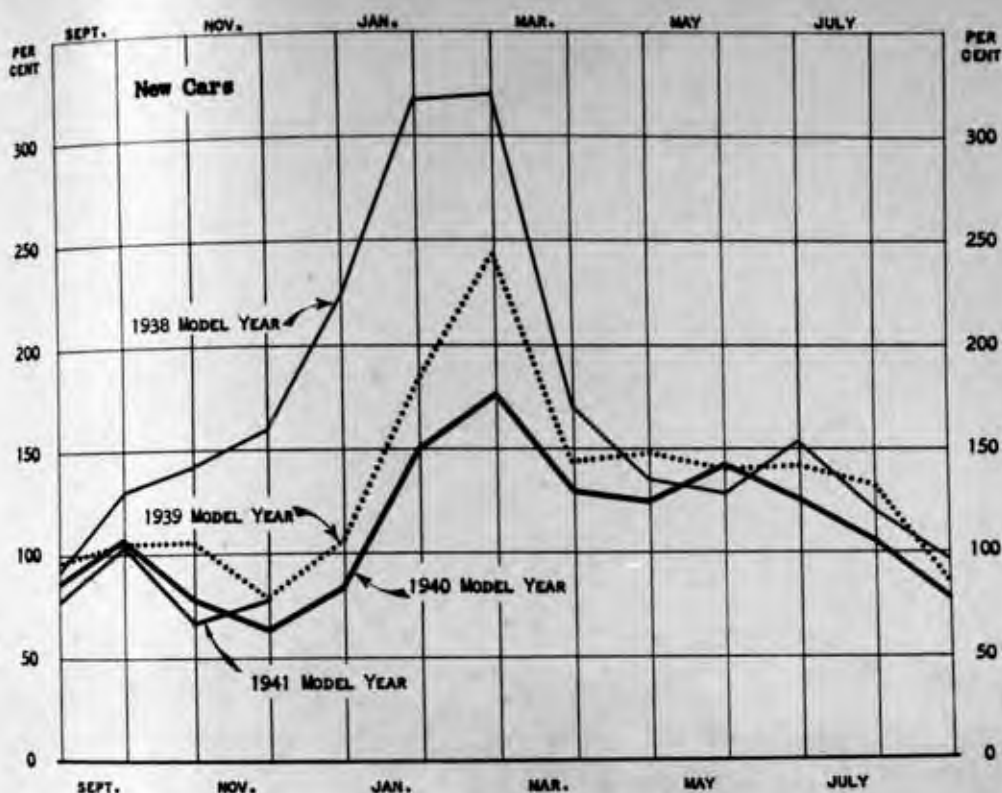


GENERAL MOTORS
Retail Sales of New Cars during Model Years 1938 - '41

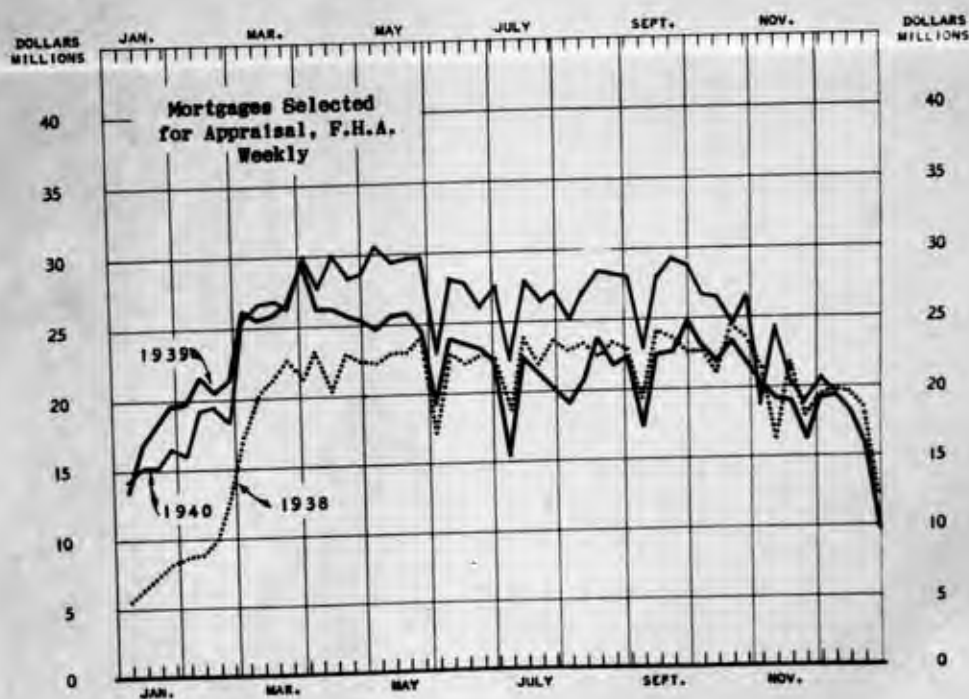
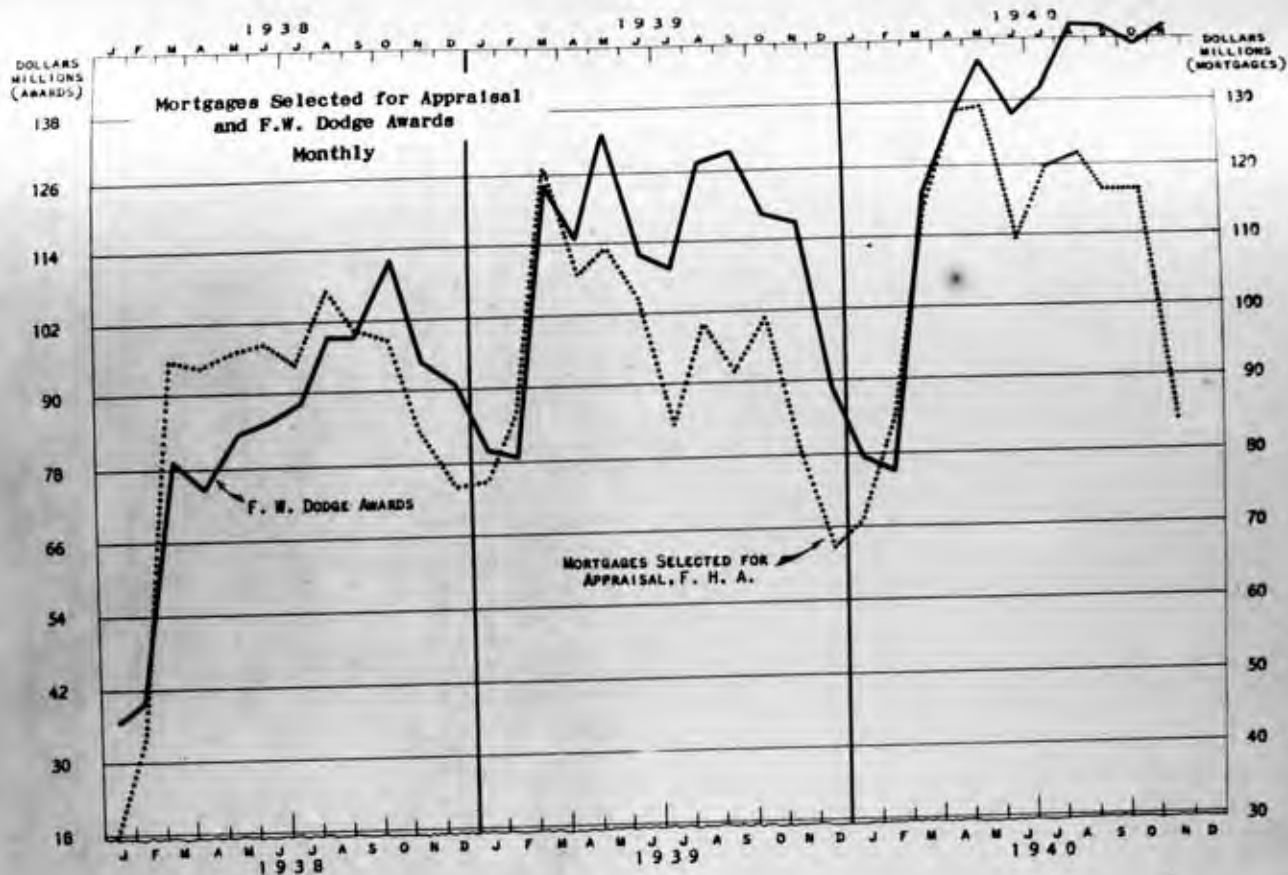


GENERAL MOTORS
Stocks of New and Used Cars, Ratio to Sales

129



RESIDENTIAL CONTRACT AWARDS AND F.H.A. MORTGAGES



TREASURY DEPARTMENT
WASHINGTON,

131
11/15
16 December 1940.

Office of the Secretary

MEMORANDUM FOR - The President

May I urge your immediate consideration of transmitting to the Congress a proposed reorganization order distributing the functions of the Bureau of Marine Inspection and Navigation among the Maritime Commission, the Coast Guard and the Bureau of Customs. The need for prompt action is obvious as your authority to reorganize the government structure expires 20 January, next.

This is essentially a most important national defense measure. A serious situation confronts the Nation in the lack of skilled, disciplined personnel to man the modern merchant ships - the best in the world - that are rapidly and efficiently being constructed.

Practically no progress has been made in straightening out the confusion in the maritime affairs of our government that results from duplication and overlapping of the duties of the many agencies that have a part in the supervision, control and operation of merchant vessels and pleasure craft of all kinds. This condition seriously interferes with the national defense value of our merchant marine. Such was the pronouncement of the Maritime Commission in 1937 and I am advised that Admiral Land states that this pronouncement is just as true today.

All data and arguments fully substantiating this proposed reorganization order are in the hands of the Bureau of the Budget.

This proposal has the strong written indorsement of Admiral Stark and Admiral Land. Mr. Ralph Budd, the Transportation Member of the National Defense Commission, has voluntarily made a similar recommendation to the Bureau of the Budget without previous knowledge of any other recommendation. Other high officials of the government who have studied this proposal are in accord therewith. Coastwise and Great Lakes shipping interests and, I believe, overseas shipping interests are in accord with the proposal. I have reason to believe that Conservative Labor would support the proposal and have no reason to believe that there would be any opposition from any Labor organization. Certainly, there will be little, if any, opposition from the Congress.

The time element is vital and, therefore, I ask your immediate consideration in the interest of national defense.

H. MORGENTHAU, Jr.
Secretary of the Treasury.

Attachments:

- Chart showing duplication of functions
- Chart showing distribution of forces
- Photostatic copy of ltr. from Chief of Naval Operations dated 7/9/40.
- Photostatic copy of ltr. from Chairman, Maritime Comm. dated 7/10/40.
- Extracts from official documents showing need for reorganization.

CC to Mr. Thompson

By Memorandum 11 50

PROPOSED REORGANIZATION TO DISTRIBUTE FUNCTIONS OF THE BUREAU
OF MARINE INSPECTION AND NAVIGATION TO MARITIME COMMISSION,
BUREAU OF CUSTOMS AND THE COAST GUARD

CONTENTS

1. Memorandum from Secretary of the Treasury
2. Chart showing duplication of functions
3. Chart showing distribution of forces
4. Copy of letter from the Chief of Naval Operations
5. Copy of letter from Chairman, Maritime Commission
6. Extracts from official documents showing need for reorganization

EXISTING ORGANIZATIONS



PROPOSED RE-ORGANIZATION



NAVY DEPARTMENT
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON

9 July 1940

My dear Mr. Morgenthau:

I am in receipt of your letter of 9 July regarding the reorganization plan which in effect abolishes the Bureau of Marine Inspection and Navigation of the Department of Commerce and divides its duties among the Maritime Commission, Bureau of Customs (Treasury Department), and the Coast Guard (Treasury Department).

I went over the detailed plan of this some time ago as set forth by the Commandant of the Coast Guard in his memorandum of 23 May 1940.

I believe the reorganization plan proposed is sound in principle and that it is distinctly in the interest of national defense.

Yours sincerely,

H. R. Stark

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

UNITED STATES MARITIME COMMISSION
WASHINGTON

July 10, 1940

Office of the Secretary

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

My dear Mr. Secretary:

Receipt is acknowledged of your letter of recent date, proposing the abolition of the Bureau of Marine Inspection and Navigation and the redistribution of that Bureau's duties among the Bureau of Customs and Coast Guard of the Treasury Department, and the Maritime Commission.

Some consideration and study have been made of the subject during the past two years and from time to time informal discussions have occurred with those interested in improving the administration of the Government agencies involved, as well as endeavoring to either avoid duplication of effort or reduce it to a minimum.

If the general principles are accepted as sound and the proposed reorganization put into effect, there are some minor readjustments that could readily be made in the proposed reassignment of duties which, in my judgment, would increase the effectiveness of the reorganization. Specifically, it would be more effective if the Shipping Commissioners who handle personnel matters were put under the Coast Guard instead of under the Customs Bureau.

These adjustments and division of duties can readily be worked out satisfactorily by the Coast Guard, the Customs Bureau and the staff of the Maritime Commission.

It is my belief that the reorganization plan as proposed is, on the whole, sound in principle, logical in its follows correct administrative lines and will increase the efficiency of the Government in handling maritime matters, which in turn will be for the interest of national

Sincerely yours,

E. S. Land

FACTS FROM OFFICIAL DOCUMENTS INDICATING NEED FOR THE
REDISTRIBUTION OF THE DUTIES OF THE BUREAU OF MARINE INSPECTION
AND NAVIGATION AMONG MARITIME COMMISSION, CUSTOMS AND
COAST GUARD

1. Report of Committee appointed by the Secretary of Commerce to study reorganization of Bureau of Marine Inspection and Navigation, dated September 2, 1936:

"A constructive reorganization of the whole relation of the Federal Government to the merchant marine in all of its administrative aspects is most urgent. Such reorganization should be made to assure better administration, prevent duplication, insure and define administrative responsibility, and provide an expert and efficient organization with resulting benefits to the merchant marine."

2. Senate Bill S-1916, 75th Congress, 1st Session, introduced as a result of the report of the Committee appointed by the Secretary of Commerce:

"Sec. 1203. (a) From ninety days after the enactment of this Act, there shall be in the regular establishment of the Bureau of Marine Inspection and Navigation in the Department of Commerce not to exceed six hundred commissioned officers who shall be appointed by the President, by and with the advice and consent of the Senate."***

3. Report of Maritime Commission, November 10, 1937. "Economic Survey of the American Merchant Marine."

"A preliminary survey reveals not less than 50 bureaus in executive departments and independent agencies exercising some measure of jurisdiction over shipping. This authority is distributed through scores of offices in the various bureaus and agencies. Such a diffusion of authority has had unfortunate consequences in duplication of effort, divided responsibility, interdepartmental rivalries, and lessened efficiency.

"Many of these agencies, of course, perform functions which should not be consolidated with the activities of other bureaus. Not only historically, but from the viewpoint of efficiency, some division of responsibility is necessary. It is quite obvious, however, that the existing division of authority has been carried to an extreme.

"The Commission is desirous of calling the attention of Congress to this problem of duplication and division of functions in the hope that a program will be adopted whereby the costly duplication and wasteful and inefficient separation of kindred functions may be eliminated."

"The Bureau of Marine Inspection and Navigation, the Bureau of Customs, and the Coast Guard all have authority and a general responsibility for the inspection of vessels for violation of safety at sea and other laws administered by the Bureau of Marine Inspection and Navigation.

"The Bureau of Customs does a certain amount of inspection work on both large and small vessels. Incidental to the entering and clearing of vessels and the general work of collecting customs, employees in collector of customs offices may observe and report violations of shipping and navigation laws by passenger and cargo carriers. When there is a slack period in the handling of customs work, employees from the collector of customs office may be sent out to inspect small craft. There are, of course, a great number of these small vessels; New York Harbor alone has about 20,000 registered motorboats." * * *

"Services performed as agent of the Bureau of Marine Inspection and Navigation include the inspection of vessels for violation of laws administered by the Bureau, and the patrolling of regattas, marine reviews, etc., under regulations issued by the Bureau. Inspections are made of vessels engaged in cruising activity." * * *

"Other vital aids to navigation are supplied by the United States Coast Guard, Treasury Department. This unit owns and operates a coastal communications system comprising telephone, telegraph, cable, and radio facilities; operates a coastal airplane service; maintains shore lifesaving stations and a large number of cruising vessels. By means of these several facilities the Coast Guard protects life and property in the coastal waters; maintains an iceberg patrol in the North Atlantic; issues storm and hurricane warning; destroys derelicts; and renders emergency aid in general to shipping. European nations contribute to the cost of maintaining the ice patrol service.

"Important as these promotional activities are to the efficient operation of water-transport facilities, the Coast Guard's responsibilities for enforcing navigation laws are equally significant." * * *

"The Coast Guard gives attention primarily to the violation of laws upon the navigable waters of the United States and the high seas. Inspections which they make for the Bureau of Marine Inspection and Navigation are a part of their general responsibility to enforce the laws of the United States (49 Stat. L. 1220)."

* * *

- 18
4. Report of the Personnel Advisory Committee to the Committee on Commerce, U. S. Senate (Report No. 184, 74th Congress, 1st Session):

"There has been a discussion in this committee as to the appropriate department of the Government in which the Bureau of Marine Inspection and Navigation should function. This committee is mindful that matters of that general nature are being considered by a committee in Congress, and also by an agency under the direction of the President, as well as by the Maritime Commission itself. Therefore, this committee feels that such matters should abide the findings of those agencies without other comment."

5. Report No. 12 to the Senate Select Committee to Investigate the Executive Agencies of the Government, 75th Congress, 1st Session:

"* * * detailed consideration should be given to the desirability of making adjustments in the methods now used in administering safety regulations applicable to water navigation; that is, in the operating relationships which exist between the Bureau of Marine Inspection and Navigation, the Maritime Commission, Bureau of Customs, and the Coast Guard."

"The Bureau of Marine Inspection and Navigation, the Bureau of Customs, and the Coast Guard all have authority and a general responsibility for the inspection of vessels for violations of safety at sea and other laws administered by the Bureau of Marine Inspection and Navigation."

"All vessels must be measured and their gross and net tonnage computed. This information is needed by the Bureau of Customs to compute tonnage taxes, and by the Bureau of Marine Inspection and Navigation to establish the passenger capacity of the vessel and for other purposes."

"Federal rules and regulations specify the strength of crew necessary to man each vessel adequately, prescribing specifically the number of officers, engineers, assistants, able seamen, ordinary seamen, lifeboatmen, etc., which she must carry. Customs officers ordinarily enforce these regulations, but a Bureau of Marine Inspection and Navigation official or a Coast Guard officer will enforce them if he notes a violation." * * *

.....

- 11
- " * * * The Coast Guard, for example, acts as a general enforcement agency for Federal laws, its inspectional and enforcement activities relative to water transportation being only one part of the broader responsibility."
6. H. R. No. 6 to the Senate Select Committee to investigate the Executive Agencies of the Government, 75th Congress, 1st Session:

" * * * The Coast Guard can most accurately be described as a maritime police agency; and, generally speaking, it is the only agency of this description possessed by the Federal Government. From this point of view, the Coast Guard is analogous to many other police forces, which, in addition to their ordinary police functions, are charged with special types of public safety work and also with certain regulatory and inspectional duties." * * *

7. Monograph, Bureau of Navigation, Department of Commerce, 1923:

"Notwithstanding the fact that all of the navigation laws may be said to have a common end in view, namely, that of insuring that vessels shall be constructed and operated in such a manner as to insure their safety, and that of their passengers, crew and cargo, the enforcement of these laws, instead of being vested in one service, is intrusted to four distinct services located in two separate departments."

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE December 16, 1940

TO Secretary Morgenthau
FROM Mr. Hagg 

Reports of the Work Projects Administration show that 1,832,000 persons were employed during the week ended December 4, 1940, an increase of 12,000 over employment for the preceding week.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending	Number of Workers (In thousands)
1940	
May 1	2,059
May 8	2,009
May 15	1,970
May 22	1,945
May 29	1,926
June 5	1,858
June 12	1,785
June 19	1,714
June 26	1,665
July 3	1,608
July 10	1,620
July 17	1,659
July 24	1,690
July 31	1,701
August 7	1,709
August 14	1,708
August 21	1,698
August 28	1,691
September 4	1,690
September 11	1,687
September 18	1,689
September 25	1,704
October 2	1,747
October 9	1,762
October 16	1,768
October 23	1,776
October 30	1,779
November 6	1,783
November 13	1,785
November 20	1,806
November 27	1,820
December 4	1,832

Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1938	
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
September	1,704
October	1,779
November	1,820

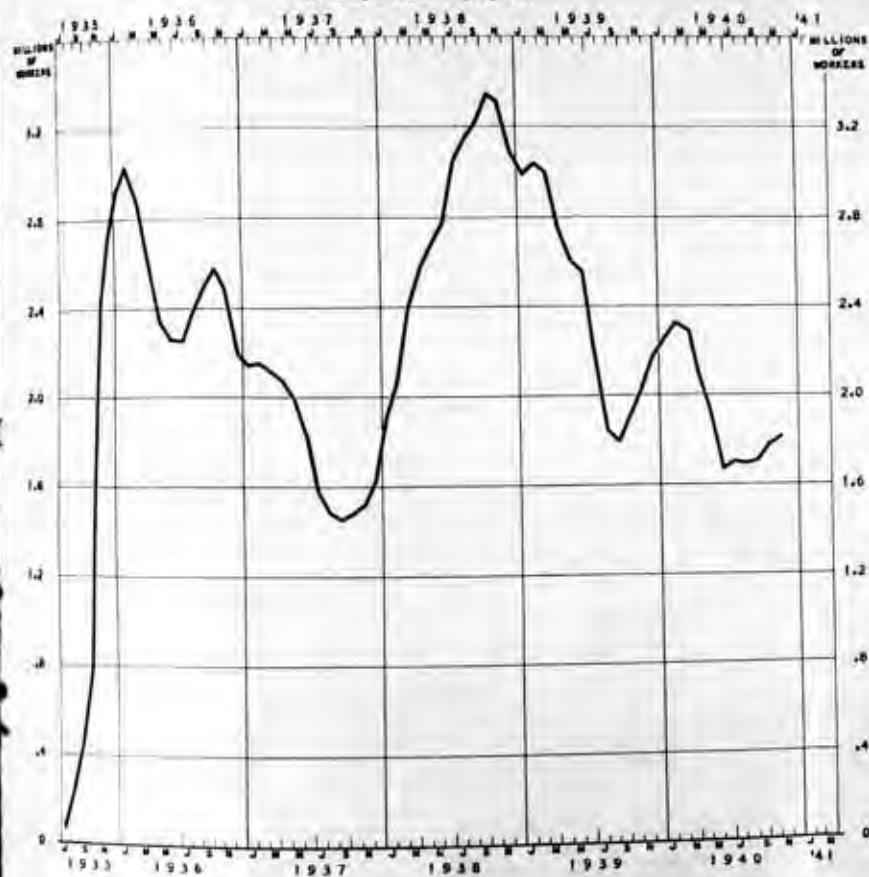
Source: Work Projects Administration

Monthly figures are weekly figures for the latest week of the month.

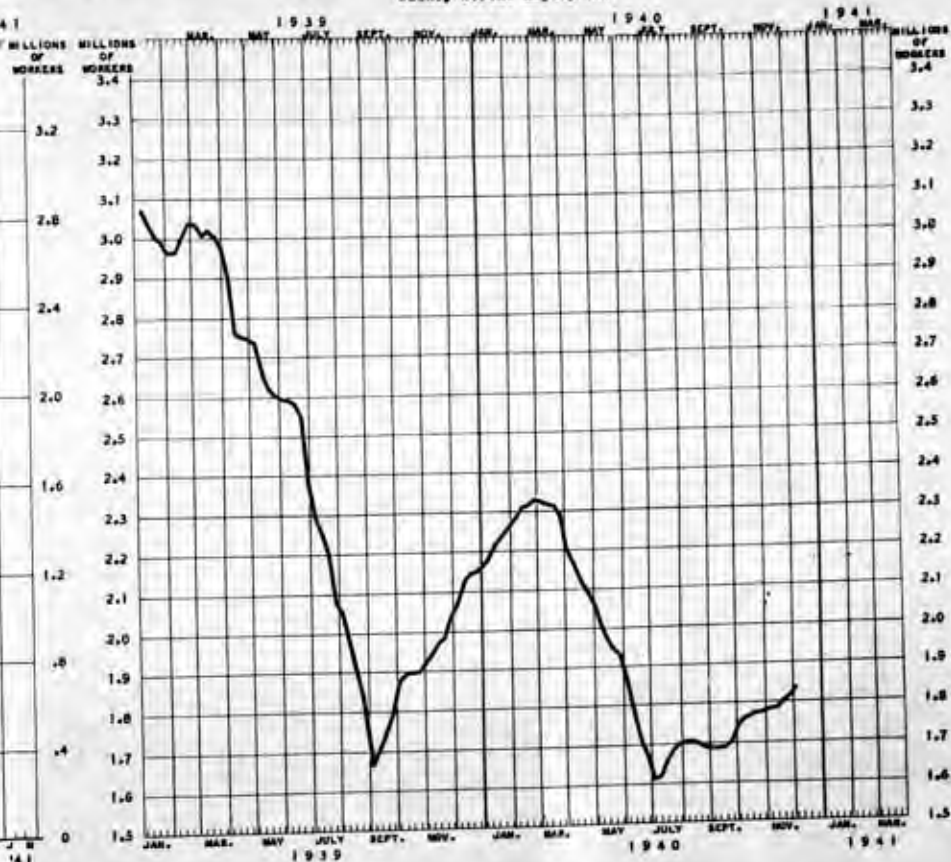
They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

2 - 221 - 82

TREASURY DEPARTMENT

145

INTER OFFICE COMMUNICATION

DATE December 16, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£82,000
Purchased from commercial concerns	£36,000

Open market sterling remained at 4.03-3/4, and transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 2,000
Purchased from commercial concerns	£ 4,000

The Cuban peso continued to improve, closing at a discount of 8-7/16%. Saturday's final rate was 8-7/8%.

The other currencies closed as follows:

Canadian dollar	13-9/16% discount
Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2070

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$7,485,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

Gold in Bombay was priced at the equivalent of \$33.82, off 1¢. Silver was 1/16¢ lower at the equivalent of 42.92¢.

In London, the prices fixed for spot and forward silver were both 1/8d higher, at 23d and 22-15/16d respectively. The dollar equivalents were 41.76¢ and 41.65¢.

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

We made nine purchases of silver totaling 750,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

427

December 16, 1940

STRICTLY CONFIDENTIAL

Dear Mr. President:

May I invite your attention to the following facts. Under date of December 11, 9 a.m., the American Consul at Dakar, Senegal, sent the following cablegram for the Treasury:

"Two sources which usually are well informed here told me that on December 4th, after nightfall, the French cruiser Primauguet came into port and took on a cargo of 50 tons of gold. It left port before dawn."

Shortly after noon on December 14 the following cablegram, dated December 13, 5 p.m., was received through the Department of State from the American Consul at Casablanca, Morocco:

"Today a shipment of gold bullion will leave on the steamer FREISINGER DAL FIAL which is leaving Oren, probably for Marseille, or Port Vendre. This gold bullion had been forwarded on Wednesday evening from Casablanca in 6 freight cars, and the agency of the Bank of France in Oren duly received it yesterday. The source of the gold shipment is Dakar. There are said to be 75,000,000,000 francs in gold bars at Dakar, and all of this gold is to be returned to France. The eventual destination of the gold is the Reichsbank is the fear expressed by the officer who gave this information and who was charged with protecting the shipment up to Oren."

"Warships and airplanes will form a convoy for the steamer FREISINGER DAL FIAL."

"This telegram has been repeated to the Embassy at Vichy and to Tangier."

Sincerely yours,

Secretary of the Treasury.

The President,

The White House.

HMC:dm:12.16.40

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Casablanca, Morocco

DATE: December 13, 1940, 5 p.m.

Today a shipment of gold bullion will leave on the steamer PRESIDENT DAL PIAZ which is leaving Oran, probably for Marseille, or Port Vendre. This gold bullion had been forwarded on Wednesday evening from Casablanca in 6 freight cars, and the agency of the Bank of France in Oran duly received it yesterday. The source of the gold shipment is Dakar. There are said to be 75,000,000,000 francs in gold bars at Dakar, and all of this gold is to be returned to France. The eventual destination of the gold is the Reichsbank is the fear expressed by the officer who gave this information and who was charged with protecting the shipment up to Oran.

Warships and airplanes will form a convoy for the steamer PRESIDENT DAL PIAZ.

This telegram has been repeated to the Embassy at Vichy and to Tangier. //

STANTON.

EA:LWW

C
O
P
Y

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consul, Dakar.

DATE: December 11, 1940, 9 a.m.

NO.: 96.

FOR THE TREASURY.

"Two sources which usually are well informed have told me that on December 4th, after nightfall, the French cruiser Primanguet came into port and took on a cargo of 50 tons of gold. It left port before dawn."

WASSON

EA:MSG

TO THE SECRETARY
OF THE TREASURY
WASHINGTON
DEC 11 1940
PM 5 10

Copy:alm

December 16, 1940

My dear Mr. Butler:

Thank you very much for your letter of December 14th. I am delighted at the honor which has been bestowed upon Mr. Purvis.

If anything important comes up between our two countries, I will be glad to avail myself of the opportunity of seeing you.

Yours sincerely,

(Signed) H. Montgomery, Jr.

Honorable Neville M. Butler,
Counselor of the British Embassy,
Washington, D.C.

December 16, 1940

My dear Mr. Butler:

Thank you very much for your letter of December 14th. I am delighted at the honor which has been bestowed upon Mr. Purvis.

If anything important comes up between our two countries, I will be glad to avail myself of the opportunity of seeing you.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Neville M. Butler,
Counselor of the British Embassy,
Washington, D.C.

BRITISH EMBASSY,
WASHINGTON, D. C.

Personal and
Confidential.

December 14th, 1940

Dear Mr. Secretary,

I think you would like to know that I have just had a telegram from London saying that The King has been pleased to appoint Mr. Arthur Purvis a member of His Majesty's Privy Council. This high honour has been conferred upon Mr. Purvis in recognition of the signal services which he has rendered as head of the British Purchasing Commission in this country.

I am sure that in view of your close association with Mr. Purvis you will be much gratified to hear this news. I would however ask you to be kind enough to treat it as confidential until such time as it is published in London on December 16th.

Believe me,

Dear Mr. Secretary,

Yours very sincerely,

Wife Butler

The Honourable

Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D. C.

*I barely have the honour
of your acquaintance, Mr.
Secretary, but please believe that
if ever you think that it would be useful to see
me, I am very much at your disposal.* MB.

DEC 16 1940

Secretary Morgenthau

E. H. Foley, Jr.

Subject: Foreign Controls Act of 1941

Mr. Leon Henderson left with you yesterday a draft of a proposed statute called the "Foreign Controls Act of 1941". I understand that you wanted me to make a report on it to you.

My conclusions are that the proposed bill:

- (1) Embodies some good and useful ideas;
- (2) Would serve as an excellent backbone for working out legislation that could be used effectively to handle for defense purposes the many problems of foreign control.

If you wish I can prepare detailed suggestions for changing the draft of the bill to make it more effective.

Attached is a brief summary of the bill.

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

OSC:ahb
12/12/40

FOREIGN CONTROLS ACT OF 1941SHORT SUMMARY

I.

The Suspension and Elimination
of Control By Foreign Interests

(a)

The most important section of the bill is the one giving the President, or his designee, the power to eliminate or suspend foreign control. Section 5 of the bill provides that when the President finds that any foreign interest has detrimental control of, influence over, or obtains information concerning any national defense establishment which may be harmful to national defense, he may eliminate the conditions and substitute others. For example, under this Section the President can require the setting aside or modifying of any licensing agreements, patent pools or agreements, suspend the employment of persons in managerial or technical positions, etc.

The principal sanction for the enforcement of this Section is the right of occupancy. In the case of a refusal to obey any order to suspend or eliminate foreign control, the President may occupy all or any of the rights of the foreign interest and exercise any of the rights of the owner. No compensation need be paid by the Government for such occupancy.

(b)

The President by Section 7 has the right to take foreign property rights upon the payment of just compensation without an elimination or suspension order.

II.

Licensing Character of Bill

The bill operates primarily on a licensing basis. It does very little directly. It gives the President the power to issue regulations or orders in certain cases of foreign control. In this way, operating distinctions can be drawn between various foreign interests.

III.

Reporting and Registration Provisions

Section 3 of the bill gives the President the power to require a census of foreign control as well as registration by national defense establishments.

OSC:ahb
12/12/40

STRICTLY CONFIDENTIAL

Memorandum

The British Treasury and Ministry of Economic Warfare have been watching with anxiety for some time the question of the realization in the interests of Germany of the gold holdings of the countries occupied by Germany or either directly or indirectly under her control. They have information to show that gold under the control of the Vichy Government has, in fact, been sent to Lisbon. They believe that the question is one which has also been examined by the U. S. Treasury, particularly in view of the amount of recent exports of gold from Portugal to the U. S. After very careful examination, they have come to the conclusion that the only feasible (though not perfect) method of dealing with this problem would be for His Majesty's Government to limit the amount of gold exports from neutral European countries which it would be prepared to allow through the blockade. Their proposal would be to establish a ration for the Bank of International Settlements and for the Central Bank in each of the seven remaining neutral countries of Europe. (See annex).

1. The various Central Banks would be able to buy gold from each other as at present and to export gold so bought to the U. S., but such exports would be counted either in their ration or in that of the country from which the gold has been purchased.

2. In order to establish a fair ration for each of the neutral countries, it is necessary to have as full information as possible about the gold-holdings of each of the countries concerned. The data on which London proposes to base their ration in each case is as follows:-

- (a) Total gold-holding of each Bank at the latest convenient date prior to the outbreak of war, say August 1st, 1939.
- (b) The amount of gold held by each Bank in the U.S.A., at that date.
- (c) The amount of gold imported or in transit to the U.S.A. between that date and say November 1st, 1940, or later if possible.
- (d) The amount held in the U.S.A. on account of each institution on the same date as in (c).
- (e) The total gold-holding of each Bank on the same date as in (c).

3. The latest information available to London is attached. (See annex). We should, however, be most grateful if the U. S. Treasury were prepared to assist us in arriving at a fair ration by supplying us with any information which they may feel able to give under the headings (a) to (e) above, in respect of each of the eight banks i.e., the B.I.S. and the seven Central Banks.

December 16th, 1940.

The following are the latest figures available to London of the gold-holdings of Central Banks:-

	<u>Total</u> <u>Gold Holding</u>	<u>Held</u> <u>Overseas</u>	<u>Held</u> <u>At Home</u>	<u>Date</u>
In Million \$				
Swedish National Bank	\$156	\$ 92	\$ 64	21/1/40 basis
Bank of Spain	44	12	32	-/8/39
Bank of Portugal	96	76	20	
Swiss National Bank	524	316	196	7/XI/40
Finland's Bank	24	-	-	-/XI/40
National Bank of Yugoslavia	68	48	20	
National Bank of Bulgaria	24	-	24	-/2/40

2 - ✓
THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE

157

FEDERAL RESERVE BUILDING

WASHINGTON, D. C.

December-16, 1940

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

My dear Mr. Secretary:

When we were discussing vocational training at Bob Patterson's home not long ago, you expressed an interest in knowing more about how this program was implemented.

I took the matter up with one of my friends who has been a leader in this field for many years, Dean A. A. Potter of Purdue University and Consultant to the U. S. Office of Education. I enclose a copy of an address of his which covers this question and other affiliated ones at considerable length, but the first two pages cover the matter of vocational training of young men of less than college grade.

Summarized, one learns that the U. S. Office of Education has cooperated for many years with the various boards for vocational education and that over 1,000 public vocational and trade schools are available which, between now and June 30, will aid 500,000 young people in acquiring schools of value to national defense.

On the second page of the address, you will find a reference to the place which the CCC camp might play in this program.

Very sincerely,

W. L. Batt
W. L. Batt

TRAINING FOR NATIONAL DEFENSE

158

5

Introductory Remarks

by L. A. Potter, Dean of the Schools of Engineering, Purdue University,
and Consultant U. S. Office of Education
Dec 5, 1940

We are in the throes of organizing an enormous program of national defense, which requires for its effectiveness large numbers of skilled workers as well as engineers who are competent in a wide range of technical services. All facilities must be mobilized to insure an adequate defense program, and the needs for technical talent must be met by setting up special training programs to afford the unemployed and the poorly placed to prepare for maximum usefulness to the nation.

The defense training program in schools and colleges is either vocational training of "less than college grade" or training on "the engineering school level".

Vocational Training of Less Than College Grade

No school can turn out a skilled worker. A good trade or vocational course, however, is helpful in reducing the training period on the job. For twenty-three years the Federal Government has cooperated with the various states in the development of a nation-wide program of trade and vocational education. As a result of this there are available at present in this country 1,053 public vocational and trade schools which employ more than 5,000 teachers and which have a plant valued at about one billion dollars. The U. S. Office of Education is the regular government agency which is authorized by Congress to cooperate with the state vocational boards in vocational education programs. On May 29, 1940, the U. S. Commissioner of Education made a proposal for utilizing these schools for pre-employment refresher and for supplementary training of workers needed in the National Defense Program. This has resulted in an act of Congress which appropriated to the U. S. Office of Education for payment to the states a sum of \$15,000,000 and for a summer and fall training program of "less than college grade". This act was signed by President Roosevelt on June 27, 1940. Exactly a month later, on July 27, 1940, over 75,000 people, mostly from R. P. A. and unemployed groups, were being trained in forty-one states, utilizing

the shops and other existing facilities in schools supported by the public. A total of 107,757 persons enrolled during the first two months of operation of this type of vocational training. Congress appropriated on October 9, 1940, an additional twenty-six million dollars to the U. S. Office of Education to be allotted to the state boards for vocational education to permit the training during the remainder of the school year, without interference with the regular school programs, of about 500,000 people in skills of special value to the National Defense Program. This is being accomplished in some localities by operating public trade and vocational schools on several shifts. This proposal will afford supplementary training for employed workers and retraining for unemployed mechanics.

On October 9, 1940, Congress has appropriated in addition to the above-mentioned twenty-six million dollars eight million dollars for the purchase, rental, or other acquisition of equipment for vocational schools and ten million dollars to help equalize the opportunities for youth, especially youth in rural areas, to share opportunities for service in the National Defense Program. These eighteen million dollars will also be spent under the authority of state boards for vocational education.

The facilities of public trade schools may also be utilized in the interest of national defense by improving the skill of those enrolled in C. C. C. camps and in N. Y. A. About seventy percent of the 1,500 C. C. C. camps are located so that 150,000 enrollees in such camps can use vocational training facilities of public schools in near-by cities during the late afternoon and evening. The trade skill of 267,000 N. Y. A. enrollees can also be increased and their chances for employment enhanced by utilizing the facilities of public trade schools. On October 9, 1940, Congress appropriated 7½ million dollars to afford vocational and related instruction to young people employed on work projects of the N. Y. A.

Thus, on October 9, 1940, Congress has appropriated forty-four million dollars to be expended for vocational education of less than college grade under the authority of the state boards for vocational education and 7½ million for the same purpose for

the benefit of those on W. Y. A. work projects, or a total of $51\frac{1}{2}$ million dollars, adding the fifteen million dollars appropriated last July, the funds available for vocational education of less than college grade for the fiscal year ending June 30, 1941, is $66\frac{1}{2}$ million dollars. 160

Civilian Pilot Training Program

Under the direction and stimulus of the Civil Aeronautics Board 11,000 youths were trained during the past year as aeroplane pilots at 435 universities and colleges. The flight training program which is being continued at more than 500 educational institutions during the present year will result in a supply of intelligent pilots, an important need for adequate national defense. It is expected that about 50,000 pilots will be trained at colleges and universities between July 1, 1940, and June 30, 1941.

Training by the Advisory Commission to the Council of National Defense

The Advisory Commission to the National Defense Council has set up a program of cooperation with defense industries in order to increase the effectiveness of their skilled workers and supervisory personnel. The Advisory Commission to the National Defense Council does not expect to do the actual training but stands ready to aid industries interested in improving their training techniques.

Training on the Engineering School Level

To an extraordinary degree our national defense program, as well as our ability to meet industrial competition depends upon science and technology. There is already an acute shortage of technical and supervisory engineering talent in certain of the industries concerned with national defense as well as in the Army and Navy. The aeroplane industry reports a definite shortage in stress analysts, test engineers and aeroplane power plant designers as well as draftsmen. Thousands of additional engineers are needed who are competent as designers of tools, dies, jigs, templates as well as in part analysis, shop layout and estimates of labor and materials. Thousands of additional inspectors are needed by the Army, Navy and industry who have knowledge of materials, physical testing, inspection of foundry products for materials used in ordnance, x-ray inspection of welded parts, radiographic techniques and other special

problems. Inspectors are also needed for automotive equipment, explosives, and of radio equipment. Several hundred additional professional meteorologists are needed by the U. S. Weather Bureau and by the Army. The Maritime Commission, the Navy and the ship-building industry report substantial shortages in naval architects and marine engineers; that is particularly serious in that only three engineering schools (Massachusetts Institute of Technology, University of Michigan, and Webb Institute) offer programs of study in this field and graduated only fifty-one this year. 161

Besides the needs for thousands of additional engineering specialists industry is confronted with a shortage of industrial engineers and supervisors to speed up the production of equipment needed in national defense, engineers who are familiar with industrial organization, time and motion study techniques, production control, material handling and storage, inventory, budgetary and accounting control, industrial safety, personnel administration and industrial relations. Expanding production in some of the defense industries is being accomplished by dilution and overloading of the top management organization.

There are in this country about 165 institutions which offer instruction leading to degrees in engineering. Of these 121 offer one or more curricula approved by the Engineers' Council for Professional Development.

The engineering schools of the country realize that they must maintain in the present emergency the strongest possible programs of undergraduate and graduate study and must increase their research efforts in order to insure a supply of competent and creative engineers. At the same time nearly all of these engineering schools, including the best known, have offered to the U. S. Office of Education, the regular government agency which has cooperated with higher education for many years, fullest cooperation in the training for national defense.

It is impractical to speed up the present undergraduate engineering programs of study, but an analysis by the U. S. Office of Education of the immediate needs for special training on the engineering school level and of the special facilities avail-

able at such institutions for training leads to the conclusion that engineering schools with special facilities should be utilized in one of the following ways: 162

1. Institutions which are located in large industrial centers, such as Pittsburgh, may be able to utilize their staff, equipment and classrooms for in-service training of special value in up-grading the supervisory and technical personnel of defense industries. This type of in-service training would be carried on mainly outside of working hours. In some cases industries may be interested in allowing some of the training to be given on company time.

2. Institutions which are not located in or near industrial centers may carry on certain types of in-service training on the engineering school level through extension classes. In such cases institutions may have to utilize classrooms and laboratories of public schools or of industry and have the instruction carried on by regular part time teachers or by special teachers assigned to industrial centers.

3. Intensive resident programs of study, varying in duration from one to eight months. Most of such short-term courses should be available to those who have had the equivalent of at least the first three years of a recognized engineering school course and actual industrial or engineering experience but who lack specialized knowledge in the field in which there is now a shortage of engineers. Thus, the average mechanical engineer, through a twelve or sixteen weeks' course could be prepared for employment as a marine engineer, an aeronautical engineer or for production supervision, particularly if that engineer has had considerable practical experience. In the case of commissioned officers of the Army and Navy, intensive courses of one or two months may prove helpful to them in dealing with Diesel engines, high pressure steam plants, electric communication, cryptography, metallurgy, meteorology, chemistry of explosives or similar problems which have been developing very rapidly.

On October 9, 1940, Congress appropriated nine million dollars to the U. S. Office of Education to be used in reimbursing engineering schools, operating under charters which exempt their educational property from taxation, for the administration of the above types of in-service instruction as well as for special intensive courses

in fields in which they have special facilities in staff and equipment. 163

Actual and potential needs for additional technical and supervisory personnel will determine the specific courses to be offered and every effort will be made to maintain a continuous balance between the supply of trainees and demands for their services. The first courses to be established will be designed to forestall potential shortages of inspectors of materials, chemicals, explosives, instruments, and power units; designers of machinery, equipment, tools and dies, and aircraft power plants, structures, and instruments; production engineers and supervisors; physical metallurgists; marine engineers and naval architects. As other needs become apparent, additional courses will be added to this program.

Qualifications for enrollment will be determined by the institutions giving the courses in accordance with general rules suggested by the U. S. Office of Education. In most cases, students will be selected from those who have previously had some technical training or its equivalent in practical experience which must be refreshed or supplemented to fit them to perform specific technical or supervisory duties. The program will not conflict with the vocational training courses also being administered by the Office of Education through the several State boards for vocational education, nor will it displace regular undergraduate courses given by the cooperating colleges.

Institutions desiring to take part have already been invited to submit preliminary plans stating the need for trained technicians in their areas, the facilities and personnel they have available for giving the necessary courses, the number of students that can be taught, and the approximate cost of instruction. These purposes will be adjusted to a coordinated plan for the country as a whole, after which authorization will be given to proceed with the enrollment of students. An announcement of the first courses to be offered, and the institutions where they will be available, will be made about December 10, and instruction should begin shortly thereafter.

Federal allotments to the participating colleges may be used to meet the costs of salaries, materials and supplies, reference books, the operation of buildings, the maintenance and repair of equipment and, to a limited extent, the purchase or rental

4

164

of additional equipment and the leasing of space in non-college buildings. No expenditures are authorized for the purchase or construction of buildings, nor is provision made to defray the living expenses of students. Students will pay no tuition charges.

To determine training needs as they develop, the Office of Education has just completed arrangements under which selected colleges and universities have made available 22 regional advisers who will serve without compensation. Each of these will act, within his own territory, as a liaison officer maintaining continual contact with defense industries, Army and Navy district offices, employment services, and other sources of information on personnel needs, as well as with local engineering schools equipped to meet demands for training courses as they arise. These men will keep the Washington headquarters continually informed so that deficiencies in any one region may be met, if necessary, by training students in other places where facilities are available. In this way a national program will be evolved that will continually adjust itself to changing conditions both in industry and as regards the technical personnel requirements of the Federal Government. Authorization of course will not only conform to the needs so developed, but will also take into account the staff, equipment, and buildings at the various institutions and the availability of qualified students.

Detailed outlines of the ground to be covered in each in-service and intensive course on the engineering school level are now in preparation by the U. S. Office of Education. These outlines are intended to cover training programs of value to defense industries, the Army and Navy, and must in most cases be in line with Civil Service Commission requirements, as all civilian technical employment by government must have the approval of the Civil Service Commission.

As the program develops arrangements will be made to facilitate the placement of students in defense positions as they complete their training. Much of this will be done by direct contacts between the engineering schools and nearby industries, but students will also have available the facilities of State and Federal employment offices and the U. S. Civil Service Commission.

165

An Advisory Committee on Engineering Training for National Defense, which representative of the engineering teaching profession, has been set up by the U. S. Office of Education to aid in formulating policies for the in-service and intensive training programs on the engineering school level. It is hoped that these programs will prove helpful to the National Defense Program by meeting the needs of the Army, Navy, and of defense industries.

Engineering colleges are greatly disturbed by reason of the selective draft, the call to active duty of the National Guard and Officers' Reserve, and by the present need of industry of additional engineering talent, and by the danger of the depletion of their teaching and research staffs. They are also experiencing great difficulty in finding additional teachers to take care of the defense training program. Engineering school executives are fully conscious of their responsibility to insure prompt preparedness and an adequate national defense program. They realize, however, that we must make certain that every person on our staff renders maximum usefulness during the present emergency, whether it be at his present post or in the direct service of government. In many cases superior teachers can render their greatest service through the training of engineers. It is hoped that industry as well as the defense agencies of government will realize that without effective teachers today there will be no engineers tomorrow to design and build instruments of war and to aid industry in meeting industrial competition which is bound to become more and more difficult. Industrial supremacy as well as military preparedness depends upon competent engineers and scientists.

No one can accurately predict what the future holds for us. Present conditions demand that science and technology operate at full speed. The engineer's initiative and inventive talents must be used most effectively. It is hoped that in-service and intensive training programs to be administered by the U. S. Office of Education on the engineering school level will prove helpful in supplying people for key positions in the rapidly expanding defense industries as well as for the Army and Navy. At the same time every effort must be made not to interrupt or to reduce the effectiveness of the engineering undergraduate and graduate programs of study and to increase our research efforts so that an adequate supply of well educated and creative engineers may be assured.

PRINCETON UNIVERSITY
INDUSTRIAL RELATIONS SECTION
(Department of Economics and Social Institutions)

166

J. DOUGLAS BROWN, Director
HELEN BAKER, Assistant Director
HAZEL C. BENJAMIN, Librarian

Princeton, New Jersey

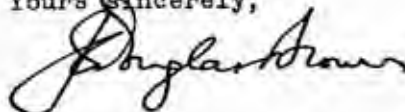
December 16, 1940.

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

My dear Mr. Secretary:

I am taking the liberty of sending you a copy of the telegram which thirty-four scholars and scientists at Princeton sent the President on Saturday. Please be assured that in our grave concern in the great problems which you face we warmly support your efforts in accelerating the defense program.

Yours sincerely,



B/w

(Copy of Telegram)

December 14, 1940

The President,
The White House,
Washington, D. C.

We the undersigned residents of the community of Princeton New Jersey respectfully submit the following statement:

There is grave cause for alarm in the over-confidence which many Americans have shown in recent weeks not merely as regards the progress of our own rearmament, but also as concerns the course of military operations overseas. The truth of the matter is that American defense measures need to be expanded and accelerated and that, despite recent impressive victories, the situation of Britain and her allies is critical in many respects. The extent and speed of American assistance during the next three months may be decisive in determining the outcome of the war. The tempo of our rearmament is altogether inadequate to the emergency and needs to be quickened. Industry and labor must be more effectively mobilized, "business as usual" must give way to the exigencies of the hours, and the American people must awake to the pressing necessity of speed and more speed, production and more production. We need planes, cargo ships, destroyers, speed boats, artillery, automatic rifles, anti-aircraft guns, and other implements of war. We need them in unlimited quantities and, above all, we need them soon. No effort short of the maximum should be tolerated.

In our judgment the necessary speed and volume of production will not be forthcoming unless we declare a state of

emergency and enact legislation which will be equivalent to full industrial, military, and naval mobilization. This will involve war-time powers and far-reaching collaboration between government, industry and labor. If Germany is defeated, the need for the continuance of such measures will be negligible. If Germany wins, they will take the form of compulsory controls for a long future. The interests of the United States dictate that Germany shall not win. Only by an American effort without stint or limit can a German victory be prevented. It is imperative that we make that effort at whatever cost. Defense implies more than mere resistance to attack; it requires the building up of military forces adequate to defend American security in whatever way it may be threatened. We must seize and keep the initiative.

Should events require American naval assistance in keeping open the North Atlantic seaways, we must be ready to give it by reasserting the historic American principle of freedom of the seas. In any case, we must mobilize now and utilize our productive capacity to the utmost. Our effort must be comparable to that of 1917-1918; anything less is to hazard gravely the cause of national security as well as to disregard the stake which we, in common with other free peoples, have in an ordered world.

Frank Aydelotte

Elmer A. Beller

J. Douglas Brown

Hadley Cantril

Edward Capps

Harwood L. Childs

Kenneth H. Condit

Edward Mead Earle

- 3 -

L. P. Eisenhart	Robert K. Root
Frank A. Fetter	Henry Norris Russell
Christian Gauss	Edward Sampson
Frank D. Graham	E. Baldwin Smith
Walter Phelps Hall	H. D. Smyth
Herbert S. Langfeld	Wendell M. Stanley
John A. Mackay	Duane R. Stuart
Benjamin D. Meritt	Carl Ten Broeck
Marston Morse	Louis A. Turner
John N. Northrop	Oswald Veblen
Louise Pearce	John von Neumann
Winfield W. Riefler	Thomas J. Wertenbaker
H. P. Robertson	John B. Whitton

EH

GRAY

Berlin

Dated December 16, 1940

Rec'd 9:56 p.m.

Secretary of State,
Washington.

5071, December 16, 6 p.m.

The German press notes a report by the French Ministry of Finance that negotiations are in course regarding the transfer of the French majority control in the Compagnie Francaise des Mines de Bor to a German group which is to pay 3500 French francs per share.

Furthermore, French holders of the French tranche of the 6% 1930 mortgage bonds of the former Skoda--Werke in Pilsen are reported to have been informed that a "foreign group" has made an offer open until January 1, 1941 to take over these bonds at the price of 1600 French francs each.

It is further stated that the necessary permits for these transactions have been granted by the competent authorities while the opinion prevails at Vichy that both transactions will be handled by the new clearing mechanism and that other similar transactions will follow.

Repeated to Vichy.

MORRIS

NK

CHINESE EMBASSY
WASHINGTON

December 16, 1940

My dear Mr. Secretary:

I take pleasure in forwarding herewith a telegram from General Chiang Kai-shek, President of the Executive Yuan, under date of December 12th, in which he expressed his appreciation to you personally in connection with the loans recently announced by the President.

I wish to join in the sentiments expressed in the General's telegram.

I am, my dear Mr. Secretary,

Very sincerely yours,

Enclosure:
TelegramHonorable Henry Morgenthau, Jr.,
The Secretary of the Treasury

TRANSLATION OF TELEGRAM TO HONORABLE HENRY MORGENTHAU, JR.,
FROM GENERALISSIMO CHIANG KAI-SHEK, CHUNGKING, DECEMBER 12, 1940

I am deeply appreciative of the sympathy which you have shown to China in her fight for freedom and complete national independence. I know how much we are indebted to you for your personal efforts in bringing about the financial aid which the American Government has more than once extended to China. The latest loan is a further evidence of the willingness on the part of the United States to extend the fullest possible measure of assistance to a nation now engaged in resisting aggression on the Pacific with all her power and resources.

I take this opportunity to express to you my sincerest thanks.

December 16, 1940

CONFIDENTIAL

Dear Mr. Knabe:

Permit me to acknowledge, on behalf of Secretary Harguthau, the receipt of your letter dated December 12, 1940, enclosing your compilation for the week ended December 4, 1940, showing dollar disbursements out of the British Empire and French accounts at the Federal and the means by which these expenditures were financed.

Faithfully yours,

(Init.) H. M. C.

H. Harle Cochran
Technical Assistant to the Secretary

L. V. Knabe, Esquire,
Vice President,
Federal Reserve Bank of New York,
New York, New York.

ENG:lap-12/16/40

copy for Secy's files

174

FEDERAL RESERVE BANK
OF NEW YORK

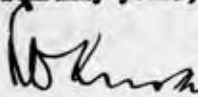
December 12, 1940.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. Merle Cochran

Pursuant to Mr. Cochran's request, I enclose our compilation for the week ended December 4, 1940, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,



L. W. Knoke,
Vice President.

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

Enclosures

ENCLOSURE 4 10 103

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended Dec. 4, 1940.

Strictly
Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Gov't Expenditures(a)	Other Debits	Total Credits	Proceeds of Sales of		Other Credits (incl. adj'ts)	Net Inscr. (+) or Debr. (-) in Balance	Total Debits	Gov't Expenditures(c)	Other Debits	Total Credits	Proceeds of Gold Sales		Other Credits	Net Inscr. (+) or Debr. (-) in Balance
					Gold	Securities (Est.) (b)							of Gold	Sales		
1939																
Aug. 31 - Sept. 27	94.3	3.6	90.7	207.8	185.4	33.6	-11.2(d)	+113.5	19.4	6.0	13.4	11.3	-	11.3	-	8.1
Sept. 28 - Nov. 1	106.7	5.8	100.9	142.0	3.2	52.6	86.2(e)	+ 35.3	88.6	61.8	105.4	75.2	35.0	41.2	-	12.4
Nov. 2 - 29	191.7	8.9	182.8	105.8	57.8	25.0	23.0	- 85.9	78.6			82.9	55.1	27.8	+	4.3
Nov. 30 - Jan. 3	97.7	8.7	89.0	75.2	50.6	14.2	10.4	- 22.5	86.6	28.1	58.7	109.2	93.9	15.3	+	22.4
1940																
Jan. 4 - 31	54.8	16.8	38.0	43.4	20.6	17.8	5.0(f)	- 11.4	61.5	31.5	30.0	55.9	50.1	5.8	-	5.6
Feb. 1 - 28	124.2	15.4	108.8	108.3	56.7	17.9	33.7	- 15.9	72.7	33.8	39.9	71.5	54.8	16.7	-	1.2
Feb. 29 - Apr. 3	115.5	14.5	101.0	94.0	60.9	21.5	11.6(g)	- 21.5	99.6	35.9	63.7	105.0	75.4	29.6	+	5.4
Apr. 4 - May 1	113.4	26.1	87.3	86.4	46.8	13.4	26.2(h)	- 27.0	84.8	29.4	55.4	78.7	60.7	18.0	-	6.1
May 2 - 29	100.9	23.6	77.3	126.2	93.2	7.1	25.9	+ 25.3	101.4	57.0	44.4	145.4	126.2	19.2	+	44.0
May 30 - July 3	283.2	145.3	137.9	319.3	301.3	5.1	12.9	+ 36.1	156.7(i)	127.3(j)	29.4	345.1(k)	335.6	9.5(l)	+	188.4
July 5 - 31	249.7	156.7	93.0	225.0	212.2	2.0	10.8	- 24.7	7.3	6.3	1.0	3.2	3.0	0.2	-	4.1
Aug. 1 - 28	261.1	180.2	80.9	294.8	267.4	1.0	26.4(l)	+ 33.7	8.9	0.5	8.4	10.9	10.4	0.5	+	2.0
First year of war	1793.2	606.6	1,187.6	1,828.2	1,356.1	211.2	260.9	+ 35.0	866.3	416.6	449.7	1,095.3	900.2	195.1	+	229.0
Aug. 29 - Oct. 2	316.8	244.3	72.5	308.9	271.5	6.0	31.4(m)	- 7.9	5.6	4.4	4.2	1.3	-	1.3	-	7.3
Oct. 3 - 30	196.7	167.8	28.9	198.5	160.5	6.0	32.0(n)	+ 1.8	0.5	0.3	0.2	0.5	-	0.5	-	-
Oct. 31 - Nov. 27	241.0	201.1	39.9	259.5	210.0	18.0	31.5(m)	+18.5	0.8	0.1	0.7	0.7	-	0.7	-	0.1
Nov. 28 - Dec. 31																
WEEK ENDED																
Nov. 13	74.5	62.8	11.8	76.5	62.2	4.0	10.3	+1.9	-	-	-	0.1	-	0.1	+	0.1
20	52.4	40.2	12.2	64.5	50.6	6.0	7.9	+12.1	0.4	-	0.4	0.2	-	0.2	-	0.2
27	58.6	50.4	8.2	57.3	50.0	2.0	5.3	- 1.3	-	-	-	0.2	-	0.2	+	0.2
Dec. 4	42.3	31.7	10.6	10.4	1.4	2.0	7.0(n)	-31.9	0.6	-	0.6	0.3	-	0.3	-	0.3

Average Weekly Expenditures Since Outbreak of War
France (through June 19) \$19.6 millionTransfers from British Purchasing Commission to
Bank of Canada for French AccountWeek ended Dec. 4 million
Cumulation from July 6 97.1 million

(See footnotes on reverse side)

England (through June 19) 27.6 million
England (since June 19) 59.6 million

- 2
- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
 - (b) Through June 19, these figures represent total sales of American securities in Second District reported for account of the United Kingdom. (Proceeds of these sales, however, may not have been credited to the Bank of England's account in all cases.) Beginning with the week ended June 26, the figures represent transfers from the Bank of Montreal, New York Agency, which is custodian for requisitioned American securities held in this country. The transfers apparently reflect proceeds of official security sales, including those handled through private deals. From June 17 to July 19, transactions in securities payable in specified foreign currencies, including dollars, by United Kingdom residents were prohibited.
 - (c) Includes payments for account of French Air Commission and French Purchasing Commission.
 - (d) Includes adjustment for (b) above.
 - (e) About \$85 million transferred from accounts of British authorized banks with New York banks.
 - (f) About \$11 million transferred from accounts of British authorized banks with New York banks.
 - (g) About \$8 million transferred from accounts of British authorized banks with New York banks.
 - (h) About \$10 million transferred from accounts of British authorized banks with New York banks.
 - (i) Adjusted to eliminate the effect of \$20 million paid but on June 26 and returned the following day.
 - (j) About \$2 million transferred from accounts of British authorized banks with New York banks.
 - (k) About \$2 million transferred from accounts of British authorized banks with New York banks.
 - (l) About \$4 million transferred from accounts of British authorized banks with New York banks.
 - (m) About \$6 million transferred from accounts of British authorized banks with New York banks.
 - (n) About \$1.6 million transferred from the account of a British authorized bank with a New York bank.

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended **Dec. 4, 1940.**

Strictly
Confidential

PERIOD	BANK OF CANADA									COMMONWEALTH BANK OF AUSTRALIA						
	DEBITS			CREDITS						DEBITS			CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Net Incr. (+) or Deer. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Deer. (-) in Balance
						For Own A/C	For French A/C									
1939																
Sept. 27	17.5	0.6	15.9	21.8	15.1	0.8	-	5.9	+ 4.3	-	-	-	-	-	-	-
Nov. 1	9.6	0.3	9.3	16.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	-	-	-	-
Dec. 29	9.9	0.7	9.2	14.4	13.3	-	-	1.1	+ 4.5	-	-	-	1.9	1.9	-	+ 1.9
Jan. 3	30.0	-	30.0	22.8	13.3	3.0	-	6.5	- 7.2	2.5	-	2.5	5.6	5.8	-	+ 3.3
1940																
Jan. 4 - 31	23.5	-	23.5	25.7	21.1	-	-	4.6	+ 2.2	5.2	0.3	4.9	3.3	3.0	0.3	- 1.9
Feb. 1 - 28	23.1	-	23.1	17.0	16.1	-	-	0.9	- 5.1	3.3	0.1	3.2	2.4	2.2	0.2	- 0.9
Mar. 29 - Apr. 3	42.3	-	42.3	29.5	29.3	-	-	0.2	- 12.8	3.0	0.3	2.7	2.2	1.6	0.6	- 0.8
Apr. 4 - May 1	38.2	-	38.2	42.9	24.8	15.0	-	3.1	+ 4.7	2.3	-	2.3	2.0	1.8	0.2	- 0.3
May 2 - 29	37.9	15.0	37.9	50.2	50.0	-	-	0.2	+ 12.3	1.2	0.2	1.0	2.6	1.7	0.9	+ 1.4
June 30 - July 3	44.1	-	44.1	72.5	72.2	-	-	0.3	+ 28.4	2.3	-	2.3	5.9	4.4	1.5	+ 3.6
July 4 - 31	28.2	-	28.2	117.6	95.3	-	19.2	2.1	+ 89.4	4.6	-	4.6	5.0	4.2	0.8	+ 0.4
Aug. 1 - 28	18.7	-	18.7	73.6	53.9	-	19.5	0.2	+ 54.9	6.8	3.0	3.8	5.0	3.4	1.6	- 1.8
First year of war	323.0	15.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
Oct. 29 - Oct. 2	44.3	-	44.3	43.9	16.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	8.0	6.7	1.3	- 0.7
Oct. 3 - 30	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2
Nov. 31 - Nov. 27	35.2	-	35.2	59.6	49.2	-	16.7	3.7	+34.4	3.1	0.6	2.5	3.6	2.1	1.5	+ 0.5
Dec. 28 - Dec. 31																
WEEK ENDING																
Nov. 13	4.6	-	4.6	3.5	3.5	-	-	-	- 1.1	0.1	0.1	-	2.6	2.1	0.5	+ 2.5
Nov. 20	12.2	-	12.2	33.3	29.7	-	0.7	2.9	+21.1	1.1	0.4	0.7	0.7	-	0.7	- 0.4
Nov. 27	8.2	-	8.2	10.8	0.5	-	0.3	0.7	+ 2.6	1.1	0.1	1.0	0.2	-	0.2	- 0.8
Dec. 4	10.8	-	10.8	21.4	21.4	-	-	-	+10.6	0.8	-	0.8	0.1	-	0.1	- 0.7

Weekly Average of Total Debits Since Outbreak of War
Through Dec. 4 \$ 5.7 million

AS

PLAIN

London

Dated December 16, 1940

Rec'd 1:45 p.m.

Secretary of State,
Washington.

4089, sixteenth.

FOR TREASURY.

One. The British Treasury has issued a vesting order taking over another sixty six American securities including many popular holdings such as American Rolling Mill common, General Motors common, United States Steel preferred, et cetera, and bringing the aggregate number of United States securities now taken over to 243. Payment is to be made in sterling at a price not less than the equivalent of the New York closing price on Saturday. The bulk of the securities are held with the United Kingdom security deposit in Montreal. Payment is to be made on January 14 where documents of title are delivered to the Bank of England or the Bank of Montreal, New York, before December 20; or on January 14 or 7 days later after advice from the Bank of Montreal, New York, of due delivery.

Arrangements are included in the order similar to those contained in the Canadian vesting order reported

in

AS-2 No. 4089, sixteenth, from London.

in the Embassy's telegram No. 3547 of October 28 for whole or part payment in $2\frac{1}{2}$ per cent national war bonds or 3 per cent defence "baby" bonds, war bonds in blocks of pounds 100 or any larger sum in multiples of one penny (Post Office issue pounds 25 and upwards subject to a maximum of pounds 1,000) and defence bonds in pounds 5 or multiples thereof with a maximum limit of pounds 1,000 holding by any one person.

Two. The financial press this morning states that within a few days the Treasury will remove the ban on stock exchange transactions between United Kingdom residents in popular American securities thus extending the release from the ban reported in the Embassy's telegram No. 3853, part 2, of November 26. The delay in lifting this ban is ascribed to the difficulties of devising a satisfactory dealing document for the share certificates physically deposited in Canada, as reported in the Embassy's telegrams Nos. 1713 of June 18, 6 p.m. and 3281 of October 1. The market welcomes the prospect of renewed dealings in such popular securities as Brazilian tractions, International Nickels, Canadian Pacific common and British-controlled oil fields not only as easing the position of holders needing liquid funds but also because the continued embargo has reacted unfavorably

AS-3- No. 4089, sixteenth, from London.

unfavorably on death duty payments and subscriptions to national loans, to say nothing of the effect on stock exchange members accustomed to deal heavily in these securities.

JOHNSON

TFV

TREASURY DEPARTMENT

180

INTER OFFICE COMMUNICATION

DATE December 16, 1940

TO Secretary Morgenthau
FROM Mr. Fahle

Our records indicate that all applications that have been filed for the payment of food products to be shipped to Martinique have been approved. We have no definitive information as to what shipments have been made, although the Fort de France has been making trips to Martinique and return, bringing supplies to Martinique and carrying cargoes consisting mainly of bananas on the return trip.

The French have applied for a license covering monthly payments for shipments to Martinique, including in such request \$270,000 for foodstuffs. A monthly license has not been approved as yet as the State Department has asked us to withhold action for the time being.

The following list indicates the amounts approved to date for payment of food products:

<u>DATE</u> <u>1940</u>	<u>AMOUNT</u>	<u>PRODUCT SHIPPED</u>
June 26	\$1,092	Codfish from Newfoundland
July 3	725	90 bags of coffee from Dominican Republic
August 6	4,450	Beef
August 8	5,921	1300 barrels of flour
August 21	2,600	Beef and flour
August 31	1,000	Potatoes and beans
August 31	600	Potatoes
September 18	5,600	Beef, potatoes and beans
*September 19	1,600	Various foodstuffs
September 23	5,600	Flour and lard
September 25	200	Milk
*October 4	380	Ham
October 8	3,700	Corn
*October 11	134	Various foodstuffs
October 18	3,300	Codfish
October 19	6,000	Flour
*October 23	2,100	Corn and oats
*October 28	1,200	Vermicelli and macaroni
October 30	51,880	Various foodstuffs
October 31	272	Onions
November 6	800	Potatoes
November 12	3,800	Potatoes and meat products

- 2 -

November 15	24,980	Various foodstuffs
November 20	400	Codfish
November 23	5,816	Codfish
December 2	2,000	Potatoes
December 16	110,536	Flour and miscellaneous foodstuffs
Total	\$246,486	

In addition to the above amounts applications aggregating more than \$600,000 have been approved since October 30, 1940 in payment for various imports into Martinique, including clothing, coal, chemical products, spare parts for machinery, bags for sugar, building materials, newsprint and tanning extracts.



*These payments were effected under a "blanket" license issued to the Banque de la Martinique on September 16, 1940.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy

DATE: December 16, 1940, 5 p.m.

NO.: 1144

FROM MATTHEWS FOR THE TREASURY DEPARTMENT.

The Union Syndicale des Banquiers has now been instructed by the Devisen ~~Kontroll~~^{Nutzkommando} at Paris to let all its members know that beginning the tenth of January, 1941, there will be opened "by force" all the safe deposit boxes of those customers who have not voluntarily opened them for examination by German finance officials - reference: telegram of November 27, 7 p.m., No. 1046 from the Embassy. All banks and all safe deposit boxes in the occupied territory are covered in the instruction, irrespective of the place where the (omission) may be residing. Persons who reside in the unoccupied territory are to be given facilities for returning to the occupied zone for the purpose of opening their boxes.

The Paris branch of the Guaranty Trust Company has given the Embassy in Paris a list of the Americans who have rented safe deposit boxes from it, in an effort to safeguard their interests.

MURPHY.

EA:LWW

TREASURY DEPARTMENT

183

INTER OFFICE COMMUNICATION

DATE December 17, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Minister Procope of Finland called on me at 12:00 noon today. He reminded me that some months ago when he was seeking loans in this country for Finland, he had inquired of me as to whether there was any possibility of the Stabilization Fund of the United States Treasury lending assistance to Finland through supporting the Finn mark to the extent of perhaps \$60,000,000. I had discouraged at that time the idea of pressing for such assistance, arguing that the relationship between the exchange values of the Finn mark and the United States dollar was not sufficient in international commerce to warrant such an operation. The Minister had, therefore, proceeded with his Export-Import Bank transactions, through which a total of \$30,000,000 was obtained.

The Minister expressed his keen regrets over his present inability to obtain more than approximately one-half million dollars from the American Red Cross for Finland. He stressed the seriousness of the situation facing Finland this winter. He said that he was in touch with Mr. Jones in regard to possible further Export-Import Bank credit, but expects no answer in the near future. Considering the change which he had interpreted as taking place in Stabilization Fund policy as a result of our new operations with China and Argentina, Procope earnestly hopes that we may now favorably consider a Stabilization Fund transaction in behalf of Finland. He did not indicate any fixed sum, but would desire at least \$12,000,000 to take care of the service on American dollar loans of Finland for the next two years, and also a substantial amount to pay for imports. I promised the Minister that I would mention this subject to the Secretary and talk with the Minister further during the holidays.

J. M. H.

December 17, 1940
12:27 p.m.

H.M.Jr: Hello.

Operator: Secretary Ickes.

H.M.Jr: Hello, Harold.

Harold Ickes: Hello, Henry.

H.M.Jr: I was up on the Hill.

I: Yeah. I see you are still selling a lot of gasoline to Japan.

H.M.Jr: I am.

I: That's a nice habit you've got.

H.M.Jr: I am!

I: Yes, sure.

H.M.Jr: (Laughs). Wonderful.

I: Sure.

H.M.Jr: Yeah. Well, I keep spreading it around at least so that they can't say they don't know how much is being sold.

I: (Laughs).

H.M.Jr: It goes to you and the President, Stimson, Knox, Hull

I: I know it. Now we can't cut them off because that would send them over to the Dutch East Indies. If we had cut them off when this war broke out, as I wanted the President to do, the war would have ended a long time ago.

H.M.Jr: You're right.

I: Well, did you have a good time last Saturday night?

- 2 -

H.M.Jr: Better than usual.

I: What did Willkie do?

H.M.Jr: He did very well, Harold.

I: He did?

H.M.Jr: Yes, he did. He was funny and then he was serious and for him I thought he did surprisingly well.

I: I guess he got a good big hand.

H.M.Jr: Good but not - what should I say - you know. It was all right but -- I had no idea the fellow was such a roly-poly. He is an awfully fat fellow.

I: Yes, he is roly-poly. Well, he handles himself well on occasion. I think his radio voice is God awful.

H.M.Jr: But a very forced smile and he has no charm and no - I just don't feel

I: He's as forced as hell.

H.M.Jr: That's right.

I: And I think the people will know it - get on to it before they are through with it.

H.M.Jr: Well, I think they are on to it.

I: Yes.

H.M.Jr: Well, Harold, I hope to see you soon.

I: All right, Henry.

H.M.Jr: Any time you have got a little extra time let's have a meal together.

I: All right, Henry. I'd love to.

H.M.Jr: Thank you.

I: Good-bye.

TREASURY DEPARTMENT

186

INTER OFFICE COMMUNICATION

DATE December 17, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£83,000
Purchased from commercial concerns	£20,000

The Federal Reserve Bank of New York sold £15,000 in registered sterling to a non-reporting bank.

Open market sterling was again quoted at 4.03-3/4 throughout the day. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£4,000
Purchased from commercial concerns	-0-

The Canadian dollar, which closed at a discount of 13-9/16% last night, experienced a moderate improvement today. The final quotation was 13-7/16%.

Closing quotations for the other currencies were:

Swiss franc	.2320-1/2
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-7/16% discount

We purchased \$461,000 in gold from the earmarked account of the Central Bank of Chile.

No new gold engagements were reported to us today.

The Bombay gold price was unchanged at the equivalent of \$33.82, and silver was 1/16¢ lower at the equivalent of 42.87¢.

In London, the prices fixed for spot and forward silver both declined 1/16¢, to 22-15/16¢ and 22-7/8¢ respectively. The dollar equivalents were 41.65¢ and 41.54¢.

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

We made two purchases of silver totaling 130,000 ounces under the Silver Purchase Act. One of these, amounting to 80,000 ounces, represented trading silver, and the other 50,000 ounces consisted of new production from foreign countries, for forward delivery.

J. M. S.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 17, 1940

TO

Secretary Morgenthau

FROM

Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following information regarding the transactions listed on the attached statement in Italian accounts maintained with the Chase National Bank, New York.



Chase National Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Dec. 17	\$ 100,000	Banca Commerciale Italiana, N.Y.	Check of Banca Commerciale Italiana, N.Y., on Guaranty Trust Co., N.Y.	\$195,000	Banca Commerciale Italiana, N.Y.	Check on Federal Reserve Bank of N.Y. to order of Federal Reserve Bank of N.Y.
	100,000	"	Manufacturer's Trust Co., N.Y.	625,000	Banco di Napoli Trust Co., N. Y.	Check in favor of Swiss Bank Corp., N.Y.
	100,000	"	National City Bank, N.Y.			
	2,000,000	Banco di Napoli Trust Co., N. Y.	Check drawn by C.J. Devine & Co., N.Y.			
	2,037,000	"	Check drawn by Post and Flagg, N.Y.			

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 17, 1940

For Miss Chauncey
TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following information regarding the transactions listed on the attached statement in Italian accounts maintained with the Chase National Bank.



Chase National Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Dec. 14	\$100,821.60	Banca Commerciale Italiana, N.Y.	Banco di Napoli Trust Co., N.Y.	\$100,821.60	Banco di Napoli Trust Co., N.Y.	Chase National Bank, N.Y., for account of Banca Commerciale Italiana, N.Y., for account of Banca Commerciale Italiana, Rome
Dec. 16				400,000	Banca Commerciale Italiana, N.Y.	Check to the order of Banco Espirito Santo e Commercial y Lisboa in Lisbon, by order of Banca Commerciale Italiana, Milan

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 17, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transaction in the account of the Deutsche Asiatische Bank, Shanghai, maintained with the Chase National Bank, New York.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
December 13	\$ 50,000	Chase National Bank, N.Y., for account of Swiss Bank Corp., Zurich, for account of Reichsbank, Berlin



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 17, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transactions in the account of the State Bank of the U.S.S.R., Moscow, maintained with the Guaranty Trust Company, New York.

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Paid To</u>
Dec. 13	\$ 3,400	Chase National Bank, N.Y., by order of Cesko Prumyslova Banka and the Narodni Banka, Prague	\$ 2,000	Guaranty Trust Co., N.Y., for account of Banque de Greece, Athens

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 17, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transaction in the account of the State Bank of the U.S.S.R., Moscow.

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>
December 17	\$1,500,000	Credit Suisse, N.Y., by order of Credit Suisse, Zurich



reP

PLAIN

STOCKHOLM

Dated Dec. 17, 1940

Rec'd 11:31 p.m.

Secretary of State

Washington.

1112. Seventeenth.

Negotiations between Sweden Germany concluded December 14 resulting in agreement on trade for 1941 which is expected to increase two way trade from 1,400,000,000 in 1939 to 2,000,000,000 crowns.

Coal and coke imports into Sweden expected to reach 5,700,000 tons with unchanged quantities of merchant iron and chemicals. Coal prices were not increased but price of Swedish iron ore adjusted downward. No agreement reached on lumber, woodpulp and paper which will be subject of subsequent negotiations.

Interim agreement reached between Sweden and Norway for trade during January and February for a total of 25,000,000 crowns.

New defense loan announced for issuance January 15 amounting to 500,000,000 crowns but further particulars not available. Riksbank statement December 14 in million crowns; note circulation 1.401; gold holdings 673; foreign exchange reserve 797; loans and discount 684.

Mortgage bank offers 50,000,000 crown loan bearing 4% interest at market price of 97%. Protested bills November numbered 2548 amounting 1,410,000 crowns.

Wholesale price index rose during November four points to 158.

November exports 824 imports 155, adverse balance so far this year 633. All millions.

INFORM COMMERCE.

STERLING

emb

195

Confidential memorandum handed to
Mr. Cochran by Mr. Pinsent on
12/17/40

1. In November-December 1939 we estimated our net dollar loss in the first year of war at \$400 million. We at first considered the possibility of covering this wholly by sales of securities (I think we didn't tell the Secretary this; it wasn't definite enough). Later we came down to the idea of using gold and securities 50/50.
2. Kennedy appears (so far as my records show) to have always been in favour of early vesting. The difference between him and us was that he advised starting with a small vesting while we were in favour of going right out with a large one. Discussion with Kennedy may have delayed progress before Whigham came here; not, I think, after.
3. Whigham, after seeing the Secretary, consistently advised London to go ahead at once with a large vesting, even after an interview between Whigham and Kennedy in New York on December 7th.
4. The postponement of the vesting in December seems to have been due not to Kennedy's intervention but to the fact that private sales, though slackening a bit, were still going at a fair pace, and December is a difficult month for vesting owing to the holidays. (The vesting was further delayed in January owing to the Secretary's request that we should explore the possibility of direct sales to issuing corporations.)

Strictly Confidential

BRITISH EMPIRE
FOREIGN EXCHANGE ASSETS AND REQUIREMENTS

Copy 1

United Kingdom

Require-
ments

Strictly Confidential

U. S. Treasury Department
Division of Monetary Research
December 17, 1940

A SUMMARIZED STATEMENT OF THE ESTIMATED

200

TOTAL OF U. K. DOLLAR DEFICITS

(The figures below are estimates of the British Government.)

This is a preliminary report and will be revised as further information becomes available to us.

(In billions)

Total (at least)..... \$8.5

Of which,

Amount due on British Government orders.....\$8.3

Deficit accruing on all other items to

Sept. 1, 1941......2

1. Deficit accruing to Sept. 1, 1941:

Amount due on British Government orders.....\$2.5

All other sterling area expenditures

requiring dollars.....1.3

Total.....\$3.8

Sterling area receipts in dollars to

Sept. 1, 1941.....1.1

Deficit accruing to Sept. 1, 1941,

to be met by sale of assets.....\$2.7

2. Deficit accruing after Sept. 1, 1941:

Balance due on Government orders.....\$5.8

Net deficit on all other sterling area

dollar expenditures after Sept. 1, 1941

(estimated at \$15 million a month on the

assumption of continued net payments by

the U. K. to Canada of \$50 million a

month).....-

Total (at least).....\$5.8

- 2 -

(In billions)

3. Therefore U. K. must finance:

Deficit accruing by Sept. 1, 1941.....	\$2.7
Due after Sept. 1, 1941 on British Government orders from U. S. placed and proposed.....	5.8
Deficit after Sept. 1, 1941 on sterling area transactions other than B.P.C. orders from the U. S. (\$15 million per month).....	—
Total (at least).....	\$8.5

To meet this \$8.5 billion deficit (plus the monthly current deficit) the U. K. has assets as shown in the accompanying table.

Copy #1
2702

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.....	\$1,035
(In addition, \$266 million is expected to fall due after Sept. 1, 1941)	
2. Sums to be paid in next nine months on additional orders now under negotiation.....	541
(In addition, \$684 million is expected to fall due on this program after Sept. 1, 1941)	
3. Sums to be paid by Sept. 1, 1941 on contemplated "X" program.....	959
(In addition, \$1,103 million will be payable on this program after Sept. 1, 1941)	
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....	\$123
2. Net balance from U.S. to U.K. on invisible items.....	12
Total.....	\$ 135
B. Dollar receipts by sterling area from U.S.	
1. Commodity exports.....	420
2. Australian gold exports to U.S.....	56
3. South African exports of gold.....	360
Total.....	836
C. Canadian assistance to U.K.....	195
Total dollar receipts of U.K. and sterling area.....	\$1,166
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 U.S. and Canadian dollar deficit of sterling area.....	2,678
GRAND TOTAL	
Total receipts and deficit on operation from Dec. 1, 1940 to Sept. 1, 1941.....	\$3,844

Special Note

In addition to the deficit expected to accrue before Sept. 1, 1941, there will be payable after Sept. 1, 1941 (on orders indicated in A 1 - 2 - 3 in opposite column) a total of \$2,762 million. This does not include any deficit accruing from additional orders expected to be placed by the British but not yet decided upon.

Anticipated deficit prior to Sept. 1, 1941 \$2,678
Minimum deficit after Sept. 1, 1941 2,762
Minimum total deficit \$5,440

Assets

Strictly Confidential

U.S. Treasury Department
Division of Monetary Research
December 10, 1940

SUMMARY ESTIMATES OF FOREIGN EXCHANGE ASSETS THAT
CAN BE MADE AVAILABLE TO U. K. FOR DOLLAR EXPENDITURES

(Except where otherwise indicated, the figures below were obtained from the British Government.)

This is a preliminary report and will be revised as further information becomes available to us.

(In millions)

1. Gold held by U.K., Dec. 6, 1940..... \$ 460
2. U.K. Official Dollar Balances..... 124
 Bank of England balances on Dec. 4.....\$64
 Dollar balances of authorized agents..... 60

The British feel that a minimum balance of gold and official dollar balances of \$600 million is desirable, but in the absence of other cash items these are being drawn down and will be exhausted within 3 months.

3. U.K. Private Dollar Balances, Nov. 27, 1940... 240

The above item is from U.S. Treasury data. It excludes \$60 million held by British authorized agents which amount was included above under official dollar balances. The British will furnish their data on this matter.

The British state that these private funds consist of (a) funds in transit, and (b) funds of business and financial enterprises held under authority of the British Exchange Control and deemed essential to the conduct of business.

- 2 -

(In millions)

4. American securities held by U.K. which are readily marketable, Dec. 6, 1940..... \$ 660
5. Diverse securities held by U.K. -- dollar and optional dollar -- Dec. 6, 1940..... 140

The British state these are not easily marketable.

6. U.K. direct and other investments in the United States..... ---

The United States Department of Commerce estimates these items at over \$1 billion at book value.

The British estimate of this item which is now being compiled is expected by them to be lower.

The British are of the opinion that the value of these investments depends especially upon finding willing buyers. They wish to point out furthermore that a portion of the value of these investments is due to the relationship of the particular firm to the British parent company.

7. U.K. Investments in Canada.....

Canadian dollar securities -- Market value as of Sept. 1940..... \$427

These are being liquidated at the rate of one-quarter billion a year to help meet U.K.'s adverse balance of payments with Canada.

Canadian sterling securities.....

British are awaiting data on this item.

Direct investments in Canada.....

- 3 -

(In millions)

The British are making inquiries with respect to these three items. The United States Treasury tentative estimates based on official Canadian studies are in the neighborhood of \$2 billion.

5. Gold reserves of the Allies held in United States and British Empire.....\$ 1,088

Holland

In the United States..... 364

In the British Empire..... 100

Belgium

In the United States..... 168

In the British Empire..... 348

Czechoslovakia

In the United States..... 0

In the British Empire..... 30

Poland

In the United States..... 2

In the British Empire..... ?

Norway

In the United States..... 34

In the British Empire..... 42

The figures of gold on earmark in the United States are as reported by the Federal Reserve Bank of New York.

(In millions)

With respect to the gold holdings of the Allies, the British Government has not yet been able to obtain more than an offer of a temporary loan -- three to six months -- from some of them, e.g. Belgium.

9. French gold in Canada or the United Kingdom... \$ 650

In addition France had \$502 million of gold on earmark in the United States on December 4, 1940.

\$370 million of this \$650 million must be dealt with under Canadian policy and law, and the remaining \$280 million under United Kingdom policy and law.

10. Dollar Balances of British Allies

<u>Official</u> , Dec. 4, 1940.....	20
Netherlands.....	8
Belgium	1
Norway	12
Czechoslovakia.....	-
Poland.....	1
<u>Private</u> , Nov. 27, 1940.....	350
Netherlands.....	161
Belgium.....	145
Norway.....	38
Czechoslovakia.....	-
Poland.....	2

The above items are from U.S. Treasury data.
The Polish private balances are for the New York

(In millions)

Federal Reserve District only and are as of Sept. 25, 1940, the latest date for which information is available.

No statement has been made by the British Government with respect to the status of these balances. On November 27, French official balances in the United States totalled \$347 million, of which \$97.5 million are held in the account of the Bank of Canada, and French private dollar balances to \$249 million.

11. U.K. investments in Latin America

Argentine railways, nominal value -- British estimate..... \$ 1,000

The British are at present in the process of establishing the price which they would accept from Argentina for these assets.

Other Latin American securities, nominal value, British estimate..... 1,800

The British estimate the value of the quoted portion (over 90 percent) of these securities at \$635 million.

These are almost all sterling securities and for most of them, in the opinion of the British, it would be very difficult to find buyers outside the sterling area. Some of them, for example Argentine Public Utilities, may be salable for

(In millions)

dollars. The British state that they would be glad to sell any of their Latin American investments except some special and minor items, for example the Bank of London and South America. In some cases, a transfer of ownership out of present hands may encounter local political opposition.

12. U.K. investments outside the Western Hemisphere

The British Government is now making a study of these investments.

13. Long-term investments in the United States held by British Allies.....

1,000

Holland	767
Belgium.....	203
Norway.....	32

These figures are the holdings of the United States securities and direct investments in the United States, as reported to the Treasury on form TFR-100 as of the date of the freezing of their assets. It is not known how large a portion of these investments are accessible to England and the Allied Governments.

Long-term investments of France in the United States total \$443 million as of June 17, 1940.

Strictly Confidential

- 7 -

FOREIGN EXCHANGE ASSETS OF OTHER BRITISH EMPIRE COUNTRIES
WHICH MAY NOT YET BE AVAILABLE TO THE UNITED KINGDOM FOR
DOLLAR EXPENDITURES

Whether or not any of the assets listed below would be available to meet United Kingdom requirements depends, according to the British, on the governments of the respective dominions and India. The data are from U.S. Government reports unless otherwise indicated.

(In Millions)

1. <u>Gold</u>	\$748
Canada.....	137
Union of South Africa.....	314
New Zealand.....	23
British India.....	274

These figures are for various dates and except for Canada are the latest published in the Federal Reserve Bulletin. The Canadian holdings are as of December 9, 1940 and were reported to us by the Canadian Government.

The gold holdings consist in part of monetary reserves required by the law of the countries.

2. <u>Official Dollar Balances</u> , Dec. 4, 1940.....	190
--	-----

Canada.....	180
-------------	-----

This excludes \$97 million held by the Bank of Canada for French account.

Other.....	10
------------	----

A portion of these balances will probably be needed to conduct current business.

(In Millions)

3. <u>Private dollar balances</u>	\$ 300
Canada, Nov. 27, 1940.....	170
Hong Kong, Nov. 27, 1940.....	92
Other.....	37

These figures, the latest reported, are for N.Y.F.R. District only and are as of Sept. 25 or Oct. 11.

A substantial portion of the above private dollar balances are doubtless needed in the conduct of business.

4. <u>American securities</u>	380
Canada.....	340

This is the Canadian estimate of market value. Department of Commerce estimate adjusted for net sale is \$500 million. Some part of the Canadian holdings of American securities will probably be needed to help Canada meet its own payments to the U.S.

Other.....	40
------------	----

This is the Department of Commerce estimate.

5. <u>Direct investments in the United States</u>	465
Canada.....	460
Other.....	5

These are Department of Commerce estimates of book value. The Canadian estimate of nominal value of Canadian direct investments in the United States as of December 31, 1938, is \$328 million.

Canada

Require-
ments

DOLLAR EXPENDITURES AND RECEIPTS OF CANADA FROM DECEMBER 1, 1940 TO SEPTEMBER 1, 1941

(In Millions of U. S. dollars)

Dollar Expenditures of Canada

A. Canadian payments to be made to U. S.

1. Sum to be paid by Canadian Government or its agencies between December 1, 1940 and September 1, 1941 for government purchases from the U. S. \$250
(In addition, Canada is expected to expend \$297 million on government contracts after September 1, 1940.)

2. Other merchandise imports from the United States 350

3. The sum to be paid December 1, 1940 - September 1, 1941, on interest and service account 225
This is comprised of the following items:

Interest \$ 64
Dividends 104
Tourist travel 17
Freight and miscellaneous services 37

4. Sum to be paid to retire Canadian dollar obligations maturing before September 1, 1941 45

Total payments to be made by Canada to U. S. 470

B. Canadian payments, requiring gold or U. S. dollars, to be made to areas outside the U. S.

1. Commodity imports 32

2. Invisible items 8

Total payments outside the U. S. requiring dollars 40

GRAND TOTAL

Dollar requirements of Canada for all transactions \$910

Dollar Receipts of Canada

A. Dollar receipts by Canada from U. S.

1. Canadian exports of merchandise to U. S. (including silver) \$305
2. Receipts by Canada from U. S. on invisible items 115
Interest and dividends \$ 20
Tourist travel 95
3. Canadian newly-mined gold to be exported to U. S. 145
Total \$565

B. U. S. dollar receipts by Canada from countries other than U. S. and U. K.

1. Commodity exports 35
2. Invisible items 10
Total 45

C. Receipts of gold and U. S. dollars by Canada from U. K. due, according to British figures supplied us, on balance with sterling area

465
Total receipts of U. S. dollars 1,075

D. Surplus of U. S. dollars received by Canada

165

GRAND TOTAL

Dollar receipts minus surplus accruing from December 1, 1940 to Sept. 1, 1941 \$910

December 17, 1940.

Assets

Strictly Confidential

U.S. Treasury Department
Division of Monetary Research
December 16, 1940

216

SUMMARY ESTIMATE OF FOREIGN EXCHANGE

ASSETS OF CANADA

(Except where otherwise indicated, the figures below were obtained from the Canadian Government.)

(In millions of U.S. dollars)

I. Gold and Assets in U.S.

- | | |
|---|--------|
| 1. <u>Gold</u> , Dec. 9, 1940..... | \$ 137 |
| 2. <u>Official dollar balances</u> , Dec. 9, 1940..... | 190 |
| 3. <u>Private dollar balances</u> , Sept. 30, 1940..... | 30 |

This excludes some \$140 million of private deposits Canada regards as necessary for the conduct of business.

- | | |
|---|-----|
| 4. <u>U.S. securities</u> , Dec. 9, 1940..... | 340 |
|---|-----|

Estimated at market value - mostly listed stocks.

- | | |
|--|---|
| 5. <u>Direct investments in U.S.</u> | ? |
|--|---|

Nominal value, Dec. 31, 1938 - \$328 million

Total (at least)

\$ 697

II. Long-Term Investments of Canada Outside U.S.

The values indicated below should not be totalled because they are not reduced to a comparable basis; some are nominal value, some book value and some market value.

1. Latin America

- | | |
|---|------|
| Securities, market value as of Dec. 1, 1940 | \$ 6 |
| Direct investments, nominal, Dec. 31, 1938 | 176 |

(In millions of U.S. \$)

2. Australasia

Government bonds (par value).....	\$ 6
Direct investments (book value).....	12

3. Africa

Government bonds (par value).....	0.5
Direct investments (book value).....	5.0

4. British Asia

Government bonds (par value).....	0.5
Direct investments (book value).....	5.0

5. Other Asia

Government bonds (par value).....	1.2
Direct investments (book value).....	0.4

6. United Kingdom

Government bonds (par value).....	15
Corporation securities.....	13
Direct investments.....	14

7. Europe outside U.K.

Government bonds (par value).....	5
Stocks (estimated).....	4
Direct investments.....	7

STRICTLY CONFIDENTIAL

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.....	\$1,035
(In addition, \$200 million is expected to fall due after Sept. 1, 1941)	
2. Sums to be paid in next nine months on additional orders now under negotiation.....	541
(In addition, \$684 million is expected to fall due on this program after Sept. 1, 1941)	
3. Sums to be paid by Sept. 1, 1941 on contemplated "X" program.....	959
(In addition, \$1,103 million will be payable on this program after Sept. 1, 1941)	
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.....	180
2. Payments by sterling area (mostly U.K.) to Canada and Newfoundland.....	660
Total U.K. payments outside U.S. requiring dollars...	840
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....	\$123
2. Net balance from U.S. to U.K. on invisible items.....	12
Total.....	\$ 135
B. Dollar receipts by sterling area from U.S.	
1. Commodity exports.....	420
2. Australian gold exports to U.S.....	56
3. South African exports of gold.....	360
Total.....	836
C. Canadian assistance to U.K.....	
	105
Total dollar receipts of U.K. and sterling area.....	\$1,106
Total dollar deficit of sterling area with U.S.....	2,213
Total dollar deficit of sterling area with Canada (in U.S. dollars).....	405
Total U.S. and Canadian dollar deficit of sterling area.....	2,618
GRAND TOTAL	
Total receipts and deficit on operation from Dec. 1, 1940 to Sept. 1, 1941.....	\$3,844

Special Note

In addition to the deficit expected to accrue before Sept. 1, 1941, there will be payable after Sept. 1, 1941 (on orders indicated in A 1 - 2 - 3 in opposite column) a total of \$2,762 million. This does not include any deficit accruing from additional orders expected to be placed by the British but not yet decided upon.

Anticipated deficit prior to Sept. 1, 1941
Minimum deficit after Sept. 1, 1941.....

\$2,618
2,762

Minimum total deficit

\$5,440

STRICTLY CONFIDENTIAL

STRICTLY CONFIDENTIAL

ESTIMATED BALANCE SHEET TOTALS OF U.K. DOLLAR DEFICITS

219

(In billions of U.S. dollars)

Total due on orders placed in the U.S.
and proposed... \$8.3
(But only \$2.5 billions of the \$8.3
billions will fall due before Sept. 1, 1941)

1. Sterling area expenditures requiring
dollars, Dec. 1, 1940 to Sept. 1, 1941..... 3.8

Sterling area receipts of dollars,
Dec. 1, 1940 to Sept. 1, 1941..... 1.1

Deficit by Sept. 1, 1941 to be met by
sale of assets..... \$2.7

2. It is estimated that excluding British Government purchases
in United States, United Kingdom will have a net dollar
deficit after Sept. 1, 1941, of approximately \$15 million
a month. This assumes continued net payments in dollars to
Canada of \$50 million a month.

3. Therefore U.K. must finance:

(a) Deficit accruing by Sept. 1, 1941..... \$2.7

(b) Due after Sept. 1 on Government
orders from the U.S. placed and
proposed..... 5.8

(c) Monthly deficit after Sept. 1, 1941
on transactions other than B.P.C.
orders from the U.S., \$15 million..... -

Total \$8.5

To meet this 8.5 billion deficit (plus the monthly
current deficit) the U.K. has assets listed in the
accompanying table.

Treasury Department, Division of Monetary Research. Dec. 17, 1940

STRICTLY CONFIDENTIAL

STRICTLY CONFIDENTIAL

Dec. 12, 1940

I. Foreign Exchange Assets that can be made Quickly Available to U.K. for Dollar Expenditures

220

(In Millions)

- | | |
|--|--------|
| 1. Gold held by U.K. | \$ 460 |
| 2. U.K. Official Dollar Balances | 124 |

Bank of England balances on Dec. 4 \$ 64
Dollar balances of authorized agents 60

The British feel that a minimum balance of gold and official dollar balances of \$600 million is desirable, but in the absence of other cash items these are being drawn down and will be exhausted within 3 months.

- | | |
|---------------------------------------|-----|
| 3. U.K. Private Dollar Balances | 300 |
|---------------------------------------|-----|
- (The above item is from U.S. Treasury data. The British will furnish their data on this matter. Private dollar balances in New York District on November 27, 1940, totalled \$280 million, and outside the New York District \$20 million on November 13.)

The British state that these private funds consist of (a) funds in transit, and (b) funds of business and financial enterprises held under authority of the British Exchange Control and deemed essential to the conduct of business.

- | | |
|--|-----|
| 4. American securities held by U.K. which are readily marketable | 660 |
| 5. Diverse securities held by U.K. (dollar and optional dollar) | 140 |
| (The British state these are not easily marketable.) | |
| 6. U.K. direct and other investments in the United States
(The United States Department of Commerce estimates these items at over \$1 billion at book value.) | — |

The British estimates of this item which are now being compiled are expected by them to be lower. The British are of the opinion that the value of these investments depends especially upon finding willing buyers. They wish to point out furthermore that a portion of the value of these investments is due to the relationship of the particular company to the British parent company.

STRICTLY CONFIDENTIAL

STRICTLY CONFIDENTIAL

Division of Monetary
Research

- 2 -

231

(In Millions)

7. U.K. Investments in Canada

Canadian dollar securities \$ 427
(Market value as of September 1940)

These are being liquidated at the rate
of one-quarter billion a year to help
meet U.K.'s adverse balance of payments
with Canada

Canadian sterling securities
(British are awaiting data on this item.)

Direct investments in Canada

The British are making inquiries with respect
to these three items. The United States Treasury
tentative estimates based on official Canadian
studies are in the neighborhood of \$2 billion.

8. Gold reserves of the Allies held in United States and British Empire 1,088

Holland

In the United States 364
In the British Empire 100

Belgium

In the United States 168
In the British Empire 348

Czechoslovakia

In the United States 0
In the British Empire 30

Poland

In the United States 2
In the British Empire ?

Norway

In the United States 34
In the British Empire 42

With respect to the gold holdings of the Allies
the British Government has not yet been able to ob-
tain more than an offer of a temporary loan -- three
to six months -- from some of them, e.g. Belgium.

STRICTLY CONFIDENTIAL

STRICTLY CONFIDENTIAL

Division of Monetary
Research

222

- 3 -

(In Millions)

9. French gold in Canada or the United Kingdom 650
(In addition France had \$502 million of gold on
earmark in the United States on December 4, 1940.)

\$370 million of this \$650 million must be
dealt with under Canadian policy and law, and the
remaining \$280 million under United Kingdom policy
and law.

10. Dollar Balances of British Allies

Official, (December 4, 1940).....	20
Netherlands	8
Belgium	1
Czechoslovakia	-
Poland	1
Norway	12

Private, (November 27, 1940)	350
Netherlands	165
Belgium	145
Czechoslovakia	-
Poland	2
Norway	38

(These figures are the sum of the reported
balances in the N.Y.F.R. District on
November 27 and outside the N.Y.F.R.
District on November 13.)

No statement has been made by the British Govern-
ment with respect to the status of these balances on
November 27, French official balances in the United
States totalled \$347 million, of which \$97.5 million
are held in the account of the Bank of Canada, and
French private dollar balances in New York \$245 mil-
lion.

11. U.K. investments in Latin America

Argentine railways, nominal value	1,000
(British estimate)	

The British are at present in the process of es-
tablishing the price which they would accept
from Argentina for these assets.

STRICTLY CONFIDENTIAL

STRICTLY CONFIDENTIAL

Division of Monetary
Research

223

- 4 -

(In Millions)

Other Latin American securities, nominal value	1,800
(British estimate)	

The British estimate the value of the quoted portion (over 90 percent of them are quoted) of these securities at \$635 million.

These are almost all sterling securities and for most of them, in the opinion of the British, it would be very difficult to find buyers outside the sterling area. But some of them, for example Argentine Public Utilities, may be salable for dollars, and the British would be glad to sell any of their Latin American investments except some special and minor items, for example, the Bank of London and South America. In some cases, furthermore, a transfer of ownership out of present hands may encounter local political opposition.

12. U.K. investments outside the Western Hemisphere

The British Government is now making a study of these investments.

13. Long-term investments in the United States held British Allies 1,000

Holland	767
Belgium	203
Norway	32

(These figures are the holdings of the United States securities and direct investments in the United States, as reported to the Treasury on form TFR-100 as of the date of the freezing of their assets. It is not known how large a portion of these investments are accessible to England and the Allied Governments.)

(Long-term investments of France in the United States total \$443 million as of June 17, 1940.)

STRICTLY CONFIDENTIAL

STRICTLY CONFIDENTIAL

FOREIGN EXCHANGE ASSETS OF OTHER BRITISH EMPIRE COUNTRIES WHICH MAY BE NOT YET AVAILABLE TO THE UNITED KINGDOM FOR DOLLAR EXPENDITURES

221

(Whether or not any of the assets listed below would be available to meet United Kingdom requirements depends, according to the British, on the governments of the respective dominions and India.)

(In millions)
\$705

1. Gold.....
 - Canada.....(probably) 100
 - Union of South Africa..... 308
 - New Zealand..... 23
 - British India..... 274

The gold holdings consist in part of monetary reserves required by the law of those countries.

2. Official Dollar Balances, Dec. 4, 1940..... 190
 - Canada..... 180
 - (This excludes \$97 million held by the Bank of Canada for French account.)
 - Other..... 10

A portion of these balances will probably be needed to conduct current business.

3. Private dollar balances..... 300
 - Canada, Nov. 27, 1940..... 170
 - (This is the sum of Canadian private balances in N.Y.F.R. District on Nov. 27 and outside N.Y.F.R. District on Nov. 13)
 - Hong Kong, Nov. 27, 1940..... 92
 - (This is the sum of Hong Kong private balances in N.Y.F.R. District on Nov. 27 and outside N.Y.F.R. District on Nov. 13)
 - Other..... 39
 - (These figures, the latest reported, are for N.Y.F.R. District only and are as of Sept. 25 or Oct. 11.)

A substantial portion of the above private dollar balances are doubtless needed in the conduct of business.

4. American securities..... 540
 - *Canada..... 500
 - (Some part of the Canadian holdings of American securities will probably be needed to help Canada meet its own obligations to the U. S.)
 - Other..... 40
 - (*Department of Commerce estimate adjusted for net sales.)

5. Direct Investments in the United States..... 465
 - *Canada..... 5
 - *Other..... 5
 - (*Department of Commerce estimates of book value.)

STRICTLY CONFIDENTIAL

DOLLAR EXPENDITURES AND RECEIPTS OF CANADA FROM DECEMBER 1, 1940 TO SEPTEMBER 1, 1941

(In Millions of U. S. dollars)

Dollar Expenditures of Canada

A. Canadian payments to be made to U. S.

1. Sum to be paid by Canadian Government or its agencies between December 1, 1940 and September 1, 1941 for government purchases from the U. S. \$250
(In addition, Canada is expected to expend \$297 million on government contracts after September 1, 1940.)
2. Other merchandise imports from the United States 350
3. The sum to be paid December 1, 1940 - September 1, 1941, on interest and service account 225
This is comprised of the following items:
Interest \$ 64
Dividends 108
Tourist travel 17
Freight and miscellaneous services 37
4. Sum to be paid to retire Canadian dollar obligations maturing before September 1, 1941 45

Total payments to be made by Canada to U. S. 870

B. Canadian payments, requiring gold or U. S. dollars, to be made to areas outside the U. S.

1. Commodity imports 32
2. Invisible items 8

Total payments outside the U. S. requiring dollars 40

GRAND TOTAL

Dollar requirements of Canada for all transactions \$910

Dollar Receipts of Canada

A. Dollar receipts by Canada from U. S.

1. Canadian exports of merchandise to U. S. (including silver) \$305
2. Receipts by Canada from U. S. on invisible items 115
Interest and dividends \$ 20
Tourist travel 95
3. Canadian newly-mined gold to be exported to U. S. 145
- Total \$565

B. U. S. dollar receipts by Canada from countries other than U. S. and U. K.

1. Commodity exports 35
2. Invisible items 10
- Total 45

C. Receipts of gold and U. S. dollars by Canada from U. K. due, according to British figures supplied us, on balance with sterling area

465

Total receipts of U. S. dollars 1,075

D. Surplus of U. S. dollars received by Canada

165

GRAND TOTAL

Dollar receipts minus surplus accruing from December 1, 1940 to Sept. 1, 1941

\$910

December 17, 1940.

Summary Estimate of Foreign Exchange Assets of Canada

(In millions of U.S. dollars)

Gold and Assets in U.S.

1. Gold, December 9, 1940.....	\$137
2. Official dollar balances (Dec. 9, 1940).....	190
3. Private "available" dollar balances.....	30
(Sept. 30, 1940)	
(This excludes some \$140 million of private deposits Canada regards as necessary for the conduct of business.)	
4. U.S. securities.....	340
(Estimated at market value - mostly listed stocks.)	
5. Direct investments in U.S.....	?
(Nominal value, Dec. 31, 1938 - \$328 million)	
Total (at least)	\$697

Long-Term Investments of Canada Outside the United States

(The values indicated below are Canadian estimates and should not be added because some are nominal value, some book value and some market value.)

1. Investments in Latin America	
Securities, market value as of Dec. 1, 1940...\$	6
Direct investments, nominal, Dec. 31, 1938....	176
2. Long-term investments in Australasia	
Government bonds (par value).....	6
Direct investments (book value).....	12
3. Africa	
Government bonds (par value).....	0.5
Direct investments (book value).....	5.0
4. British Asia	
Government bonds (par value).....	0.5
Direct investments (book value).....	5.0
5. Other Asia	
Government bonds (par value).....	1
Direct investments (book value).....	0.4

STRICTLY CONFIDENTIAL 227

Summary Estimate of Foreign Exchange Assets of Canada

(In millions of U.S. dollars)

(Cont. - 2)

6. United Kingdom	
Government bonds.....	15
Corporation securities.....	13
Direct investments.....	14
7. Europe outside U.K.	
Government bonds.....	5
Stocks (estimated).....	4
Direct investments.....	7

Treasury Department, Division of Monetary Research. Dec. 16, 1940.

STRICTLY CONFIDENTIAL

SUMMARY OF BRITISH PROGRAMS

December 17, 1940

STRICTLY CONFIDENTIAL

STRICTLY CONFIDENTIAL

Summary of Programs
No. 1, No. 2, and No. 3

	:	:	:
	:	Value	:
	:	of product	:
	:	:	Amount of
	:	:	capital
	:	:	required
I Air		\$3,870,000,000	\$ 900,000,000
II Munitions		1,894,000,000	300,000,000
III Ships		184,000,000	18,000,000
IV Other		<u>576,000,000</u>	
Total		<u>\$6,524,000,000</u>	<u>\$1,218,000,000</u>

STRICTLY CONFIDENTIAL

Program No. 1
(I Program)

	Initial Order to be Placed for output (excluding capital amortization)	Capital Investment necessary for creating new productive capacity
I. <u>New Airplane Program</u>		
a. Smaller scheme to produce 12,000 aircraft by June, 1942	\$ 1,075,000,000	\$ 400,000,000
(NOTE - \$100,000,000 paid in capital on present program, per U.S. Treasury report of Nov. 9, 1940.)		
b. Armament, ammunition, bombs, radio and special equipment for above	125,000,000	50,000,000
II. <u>U.S.-Type Ordnance Program</u>		
a. 10 Divisions equipped with U.S.-Type weapons (<u>B Program</u>) - War Dept. estimate	600,000,000	200,000,000
b. Other U.S.-Type ordnance not yet ordered (including .50 and .30 ammunition)	75,000,000	25,000,000
c. <u>Tanks</u> and Tank guns remaining to be ordered	100,000,000	15,000,000
	<u>87,000,000</u>	<u>9,000,000</u>
III. <u>Merchant Ship Construction</u>		
	<u>TOTALS \$2,062,000,000</u>	<u>\$699,000,000</u>

This statement is in addition to orders already placed amounting to approximately \$2,600,000,000.

The "New Airplane Program" represents the first step in the expansion of the British aircraft program already established.

The "U.S.-type Ordnance Program" does not include additional items still to be formulated under the 10 Division Army Plan.

STRICTLY CONFIDENTIAL

Program No. 2
(Additional orders to be placed
now under negotiation)

	Value of product	Amount of capital required
I Air	\$270,000,000	
II Ordnance	369,000,000	\$10,000,000
III Ships	10,000,000	
IV Other	<u>576,000,000</u>	
Total	<u>\$1,225,000,000</u>	<u>\$10,000,000</u>

STRICTLY CONFIDENTIAL

Program No. 3

Contemplated British requirements
for the continuation and expansion of programs
which have already been submitted or discussed
involving payments before August 31, 1941

(This table, together with the details already furnished to the Treasury, includes all programs which can at present be formulated. It is plain that large plans will have to be formulated in the near future and further orders will have to be placed.)

	Value of product	Amount of capital required
I. Air (Orders for release in mid-1941)		
a. Repeat orders from present capacity for output July - December 1942	\$ 600,000,000	\$
b. Repeat orders from capacity to be created under "I" program for out- put July - December 1942	900,000,000	
c. Initial order for output from further new capacity (additional 1500 aircraft per month) up to end of December 1942	<u>900,000,000</u>	<u>450,000,000</u>
Total Air	<u>2,400,000,000</u>	<u>450,000,000</u>
II. Munitions		
a. Remaining equipment to be ordered for 10-division scheme	350,000,000	50,000,000
b. Repeat orders for ordnance and ammunition now on order or under negotiation (excluding 10-division scheme) - six months output	<u>400,000,000</u>	
Total Munitions	<u>750,000,000</u>	<u>50,000,000</u>
III. Ships (Additional 60 under consideration) 1/	<u>87,000,000</u>	<u>9,000,000</u>
Total	<u>\$3,237,000,000</u>	<u>\$ 509,000,000</u>

1/ This represents the figure under discussion by the B. F. C., but it may be absorbed in the plan tentatively discussed but not yet elaborated, for the construction of 300 ships, at an estimated price of \$720 millions.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 17, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In accordance with instructions given me yesterday afternoon when the Secretary discussed with a group of us the question of British and Canadian assets, I telephoned Mr. Pinsent of the British Embassy at 5 p.m. I told him that the Secretary was anxious to receive as promptly as possible daily statements from Mr. Gifford as to sales of British-owned dollar securities on our markets, listed both as to proceeds and name of securities sold. Sir Frederick Phillips and Mr. Stopford were in my office when I telephoned the message. Sir Frederick took the telephone and explained to Pinsent that, following a conversation with Secretary Morgenthau last week, he had written a letter to Mr. Gifford requesting a daily service along the lines desired by the Secretary. Sir Frederick had thought that if this proved too burdensome, the Secretary might be asked to approve of a weekly reporting system. Phillips urged Pinsent to expedite the forwarding of the first reports by Gifford.

At 2:45 this afternoon Pinsent told me that he had received word from Gifford that the first report under the new system was being prepared, covering Monday's sales which amount to about \$1,000,000, and would be forwarded to Washington by airmail tonight. Pinsent promised to get it to me as soon as possible after its arrival, and to perfect the system as quickly as possible. Pinsent understood that the Secretary desired this new reporting system to begin with the covering of last Saturday. Pinsent remarked, however, that there were no sales made by Gifford on Saturday, so the new reporting begins with Monday.

B.M.P.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE December 17, 1940

TO Secretary Morgenthau
FROM Mr. Klaus

FBI reports more on Frits Mandl:

November 27 and December 7. Mandl told someone November 4 that he was liquidating his American investments; has several millions in the United States in securities and cash; lived and entertained lavishly at the Waldorf Astoria. He is alleged to have said that he is on excellent terms with the Nazis who permitted him to get \$12,000,000 out of Germany; that he is using Schicht, formerly the Unilever representative in Germany, as go-between with the Nazis and is also using one Matterazzo in Sao Paulo; that he is in close contact with Frank Altschul and Brown of Remington,* both of whom share his opinion that the Nazis will win, Altschul being busily engaged in buying German bonds; that he wanted to get a share of the \$500,000,000 loan to South American countries and is disgruntled at the Treasury Department's standing in his way; he had been certain he could get a share since he already had industries established in Brazil and Argentina and would establish a cellulose plant in Brazil in partnership with Matterazzo, a Brazilian industrialist and leading South American Fascist; FBI's informant said that although Mandl was a Jew money was his only religion and since his establishment in Argentina, he was probably again in the favor of the Nazis; that he is in close touch with the Italian Consul in Baltimore, Moriali, who was previously Italian Press Attache in Vienna. The Princess Starhemberg is at present his guest at the Waldorf Towers in New York; he owns a large industrial plant, Cometa, outside of Buenos Aires, large rice plantations, and controls the Mihanovich Shipping Line at Buenos Aires.

* Remington Arms?

JR

GRAY

(Paris)
Vichy

Dated December 17, 1940

Rec'd 7:30 p.m.

Secretary of State,
Washington.

1151, December 17, 7 p.m.

FOR THE TREASURY FROM MATTHEWS.

Today's Journal Official publishes a decree approving a convention signed between the Finance Minister and the Governor of the Bank of ^{France} ~~England~~ on December 12 whereby the total amount of provisional advances to be made to the Government to cover the "maintenance costs" of the German army of occupation is increased from 65 billion francs to 73 billion.

MURPHY

EMB

BRITISH EMBASSY,
WASHINGTON, D.C.

Personal and Secret

December 17th, 1940.

Dear Mr. Secretary,

I enclose herein for your
personal and secret information a copy
of the latest report received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Heville Butler

The Honourable

Henry Morgenthau, Jr.,
United States Treasury,
Washington, D. C.

Telegram from London dated December 15th.

Naval.

1. Egypt. Naval forces have made valuable contribution to the progress of land operations. Naval activities included practically continuous bombardment of Escarpment road near Sollum from 1.30 a.m. on December 11th to 1.00 a.m. on December 12th. Pom poms were used when enemy personnel left their vehicles and ran. Though fire was returned by shore batteries no hits were sustained by our ships.

2. A number of His Majesty's ships and small craft have also operated between Alexandria and battle area landing provisions and stores and removing prisoners. These operations were conducted under difficult weather conditions which are, however, improving.

3. Military.

Greeks are reported to have advanced about 3 kilometers all along the line and Pencoemo Bay has been captured.

4. Royal Air Force, Egypt.

On December 13th, 31 Blenheims again attacked Bardia causing large fires at store dumps. Four other Blenheims attacked aerodromes and at Gazala destroyed or damaged four enemy aircraft on the ground.

5. Attacks by our heavy bombers during night of December 13th, December 14th, gave good results in Kiel and at submarine bases at Bordesux. Result of attacks on Bremen area were mostly unobserved.

6. Operations on night of December 14th/15th were cancelled with the exception of attacks by coastal

command/

Regraded Unclassified

command aircraft on Lorient and Brest and certain mine laying operations. All of our aircraft returned.

7. German Air Force. No attacks on shipping were made on December 14th. Reconnaissances by few single enemy aircraft were over the middle waters and South England. No interceptions reported.

8. Approximately 36 enemy raiders plotted during the night of December 14th, December 15th but weather conditions were unfavourable and aircraft turned back. Country was clear by 1930 hours.

9. Further reports of raids on December 12th, December 13th, show that 149 people were killed and 184 seriously injured. Approximately ten thousand were cared for by local authorities and voluntary associations.

10. Sudan. On December 12th, Wellesley's attacked Asmara and enemy aerodromes. Enemy camp near Kassala was bombed and machine gunned on the night following.

BRITISH EMBASSY,
WASHINGTON, D.C.

Personal and Secret

December 17th, 1940.

Dear Mr. Secretary,

I enclose herein for your
personal and secret information a copy
of the latest report received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Herle Butler

The Honourable

Henry Morgenthau, Jr.

United States Treasury,

Washington, D. C.

Telegram received from London

dated December 13th, 1940

Naval.

1. On the 12th many naval units employed supplying forward troops on Libyan front evacuating prisoners, strong west winds hampering their work.

2. Armed drifter "Evening Primrose" attacked by aircraft off the east coast opened fire and aircraft disappeared southwards in flames.

3. A coastal aircraft bombed convoy escorted by six Flak ships off Texel night of 12th/13th. One 7000 ton merchant vessel was hit amidships.

4. At Brest night of the 12th/13th aircraft attacked vessel in dry dock, docks, and power station. Results unobserved.

The two Italian U-boats are reported to have sailed from Tangier at 0430/13.

5. Military. Egypt. Western desert. Our advance troops are in contact with the Italians who are continuing their retirement and on the evening of the 11th appeared to be withdrawing in disorder towards the frontier except for isolated detachments unaware that they are cut off. It is thought that prisoners may exceed 25,000 which includes one corps commander and two divisional commanders. Amongst the equipment captured are 300 Lancia 5-ton vehicles an unspecified number of 105 M.M. guns and 75 M.M. mobile anti-aircraft guns.

6. Greece. Achievements up to 8 p.m. on 12th.

-2-

7. In the northern and central sectors a steady Greek advance continues; in the Epirus sector they have reached a point two kilometres southwest of Korymbos and 3 kilometres southwest of Tepelenë; whence their line runs to the sea about half-way between Piqueras and Himare. Six Italian divisions of about 75,000 men have been transferred to Albania since the beginning of operations.

8. Royal Air Force. Night of 12th/13th. All operations cancelled with the exception of an attack on docks at Brast by 12 Blenheim; six bombed target but results not seen. All returned safely.

9. SEPT and Libya. On December 11th 43 Blenheim attacked Sidi Barrani, Bardia Derna, several Italian aerodromes and an Italian camp. Many lorries were destroyed at Bardia and several aircraft at one aerodrome. At an encampment severe damage was caused by 400 motor transport vehicles and very large bombardment of enemy troops. All aircraft returned safely.

Hurricanes maintained offensive patrols over our forward troops during the day and harassed enemy troops retiring on Sollum, inflicting heavy damage and casualties. Six Italian aircraft were shot down besides two others unconfirmed. One Hurricane did not return.

10. German Air Force. The night of 11th/12th. Casualties at Birmingham are reported as 95 killed and 353 injured. Public utility services were not seriously damaged but some dislocation to railway services was caused. It is believed that the effect on/

-3-

on industrial production is not serious. At Cheltenham 19 persons are reported killed and 80 injured. The attack lasted 3 hours but was not intense. Some damage was done to gas and water mains and gasometers were damaged.

11. In London no important damage was caused; casualties are reported as 28 killed and 19 injured.

12. Night of 12th/13th. Large-scale operations were carried out by more than 250 enemy aircraft. The main attack was upon Sheffield, though bombs were also dropped at Leeds and other cities in the Midlands and North East. One bomber was destroyed and another damaged by our night fighters and anti-aircraft fire destroyed one machine and probably a second and damaged a third.

13. Casualties in Sheffield are at present estimated at 100 killed and 200 seriously injured. No serious damage to war production factories has been reported.

14. Aircraft casualties in operations against British Isles.

	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
<u>Enemy:</u>			
<u>By day</u>			
By our fighters:			
Bombers	1	-	2
Fighters	2	-	-
By patrol vessels:			
Unspecified	-	-	1

AV

-4-

	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
<u>At Night</u>			
By our fighters:			
Bombers	1	-	1
By anti-aircraft fire:			
Unspecified	<u>1</u>	<u>1</u>	<u>1</u>
Total	5	1	5

Our Losses:

2 fighters with pilots.

3 aircraft missing.

G-2/2657-220

RESTRICTED

M.I.D., W.D.

No. 272

SITUATION REPORTDecember 17, 1940.
12:00 M.

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

I. Western Theater of War.

1. Air Force Operations.

Yesterday and last night German air raids were on a small scale and were directed against London, northwest England and the Midlands.

The R.A.F. operated normally and bombed Frankfurt-on-Main, Mannheim, Kiel and Bremen.

II. Greek Theater of War.

The Greeks continued to attack vigorously the key points of Tepeleni and Klisura, and captured Mt. Skivovnik, which dominates the coast near Khimara (Himara). Weather was bad and air activity low.

III. Mediterranean and North African Theaters of War.

1. The British continued to attack, capturing Fort Capuzzo and Sollum, on opposite sides of the Libyan frontier, and thus effecting a lodgment on the Akaba plateau. London has warned against expecting further extensive advances. Bardia apparently has not been captured. Air Force operations continued but were hampered by bad weather.

2. The R.A.F. made several minor raids in Ethiopia.

RESTRICTED

TREASURY DEPARTMENT

245

INTER OFFICE COMMUNICATION

DATE December 17, 1940

TO Secretary Morgenthau
FROM Mr. Wiley

The information from Leon Henderson on "America First" was prepared by Sanford Griffith, President of MARKET ANALYSTS, ex-foreign correspondent, etc. I learned his identity in a most confidential way and pass it on to you for your very private information.

R. Douglas Stuart, Jr., son of the Quaker Oats magnate, graduated from Yale Law School this year and is described as the father of the "America First" movement. He supported Taft and did not swing over to Willkie because the latter was too "interventionist". Stuart's big tie-up is with General Robert E. Wood. The main purpose of "America First" is to combat the William Allen White Committee. Big advertising agencies are apparently playing along out of deference to "big accounts".

The material under review lists most of the chief supporters of "America First" and gives quite a lot of biographical data.

Sanford Griffith had an interview with Bill Castle on November 19. He describes Castle as the brains of the "America First" movement, convinced that Hitler will win, in favor of an immediate American attempt at mediation, but at the same time favorable to the strongest possible national defense. Castle, he says, denies that he is an appeaser, "but it seems to add up to the same thing".

Though Castle is interested in finding out the sources of White Committee funds, he admitted that the money did not come from the British. Castle took a few cautious cracks at Willkie and a violent one at Raymond Leslie Buell whom he called a "crook". The Castle interview, perhaps the rest of the material too, seems to be basic for a series of articles; one "Sandy" is probably to be the rewrite man. "Sandy" may be Sandor Klein of the United Press.

The whole thing might be worth reading through. It is not particularly sensational and gives the impression of good documentation and careful research. It brings out the dangerous character of "America First" which is clearly a most valuable, if innocent, adjunct to Axis diplomacy in the United States.

AW

FROM THE DESK OF
LEON HENDERSON, COMMISSIONER
ADVISORY COMMISSION TO
COUNCIL OF NATIONAL DEFENSE

246
12-13-40

Sec. Morgenthau -

Herewith some dis-
jointed information on
the "American First" movement.
I do not know who wrote
it - I got it from a news-
paper man.

The interview with Castle
is interesting.

Leon

See file 12-16-40

11/22/40

AMERICA FIRST

247

The father of the movement is R. Douglas Stuart, Jr. While finishing his law course at Yale this spring, he lined up a group of his classmates and started the America First movement. He is not politically mature and is somewhat naive. He had the isolationist idea, without being a conscious appeaser. He went to the Republican Convention - says that he found Taft very sympathetic. He continued to support Taft, but did not swing over to Willkie because he felt Willkie was too much of an interventionist and tied in with Wall Street money.

Stuart claims that General Wood wrote him and offered his services to help along the cause in any way. Stuart then went out and contacted Wood and at the same time made a tie-in with others of the Chicago group. As he put it: "This is when local big society and business came in," meaning Fairbank, Hornel, etc.

In the East, he has been getting active help mainly from Chester Bowles and from William Castle, Jr. He finds Taft still sympathetic. He interested Bob LaPollette and Wheeler - not as a group, but individually. All promised their support, the latter two already having gone on the air for America First.

Stuart claimed that he had a hard time persuading Henry Ford to come on the Committee. Stuart claims that he did not approach Lindbergh because he felt that Lindbergh was too much of an appeaser and because his identification with it would arouse too much controversy. He did not admit that Lindbergh had anything to do with it until confronted with the fact that Lindbergh had been in the office that morning negotiating with him and with Bowles. Stuart then said this was the first contact he had had with Lindbergh and that Lindbergh had come in because he was in sympathy with the last ad that they had published.

There are about 20 of the Yale boys who have continued active on America First. They engineered a meeting, getting support of the faculty group who sponsored the speech by Browder using very much the free speech appeal. They packed the hall with over 3,000 students. Lindbergh, who talked for two hours, got a tremendous hand. The general line of his talk was that Roosevelt is provocative and is arousing the

hostility of the dictators; that the totalitarian states are bound to win this war; that our biggest danger in the U. S. is from the Far East. "In order to dominate the Far Eastern situation, we must make our peace with the new powers in Europe." In various ways he emphasized that Nazi-German victory is inevitable. He said that it was folly for France and Britain to have gone into the war in 1939; that they should have concluded a second Munich.

In the Yale talk, he was rather careful to keep off of the racial angle and reference to the big yellow and black borders which he used to talk about.

Lindbergh impressed the students with his sincerity. He received a tremendous ovation. Lindbergh made it clear that he hoped Yale would start a college movement and that America First Clubs would be organized in other colleges throughout the country. This is evidently a most fertile field for the cause.

Brewster, the head of the Yale News, was then a convert and has continued to back the movement actively.

The comment of one of the people present was that Lindbergh is not as politically dumb as some who disagree with him make out -- that he is working with a group of clever operators and doing an effective job.

In the East, Stuart is looking mainly to William Castle and Chester Bowles to direct the build-up of the organization. He did most of the early promotion work himself in the Middle West. It looks, however, as though the Wood Group were more or less taking over domination of the enterprise.

Professional Public Relations Advice

Several of the big manufacturers in the movement were able to contribute expert public relations advice. Stuart had the use of the Quaker Oats and of Sears Roebuck publicity people. Hornel was able to get them the help of Patterson, Barton, Purstine & Osborn, Inc. In addition, Barton personally was sympathetic to the cause, having handled Peasebays propaganda for several years.

They also had the help of Bathurst & Ryan, Inc.

-3-

Benton & Bowles, Inc. Benton, Vice President of the University of Chicago, was formerly with Benton & Bowles. He tried to get him to participate in the Reveries of the Air, Rehe Walter and I helped organize. Benton replied that he is opposed to any aid to Britain, that he favors U. S. isolation and keeping out of war, that President Hutchins agrees with him, and that he had just drafted the original ad for America First. Benton added further; "Don't forget it -- smart money in this country is on our side." Bowles has been an active aid to Stuart. As far as we know, this has been entirely unpaid aid, except possibly for the actual placing of the ads by B.B.D. & O.

due to author

On the 11th of November, Robert Bliss of J. Walter Thompson took over the promotion account. He previously was doing promotion for PM. His work, I am told, was satisfactory. He left of his own volition. He is now out in Chicago lining up the promotion. It is believed he regards this, however, as a purely temporary account, and that he is shooting at the Vick Vape Rub account which he hopes to get later in the year.

Advertising agencies are handling this business gingerly. If it gets big enough, they are willing to take the chance. If it doesn't, they evidently are putting in a certain amount of voluntary labor to please their big commercial accounts who are in the America First movement. Even Chester Bowles is fearful of complications. He emphasizes that he is a liberal isolationist and not an appeaser, and evidently doesn't, want to get in too deep.

Stuart's father evidently has mingled feelings. He is proud to see his son getting wings. At the same time, he is fearful for Quaker Oats and not entirely comfortable having the enterprise run from his office. The father is not regarded as an isolationist.

The Ads

The ads were prepared in rough draft by Stuart, then Benton, then passed on to Bowles. Bowles put them into what he regarded as final form. They were sent to Chicago and were passed on by Wood, and came out in somewhat different form than as finally drafted by Bowles.

Main Points in the America First Program as Defined
by General Robert H. Wood, Tuesday, October 15, 1940,
in a Speech before the Chicago Council on Foreign
Relations

"Aid to Britain provided she can pay for it and provide her own transportation."

"No danger of invasion of the United States even if Germany is completely victorious and I doubt if she will be." He thinks in terms of formal state armies -- not in terms of internal revolution.

Quotes Major Al Williams that "F.D.R.'s panicky flight schedule is ridiculous and reminiscent of Hollywood."

"If at the end of a long war we cannot defend ourselves unaided by Britain, we do not deserve to survive."

"I believe his (Walter Lippman's) picture of an unequal contest between a totalitarian economy and a free economy is misleading. After all, when two nations or two continents each have things the other needs trade eventually results regardless of the feelings each may have for the other. Europe needs us more than we need Europe -- our materials and products are more important to her than hers to us."

"No man can foretell the future, but as long as we have products South America can use, and above all if they have products we can use, we will get our full share of the trade."

"As for Asia, the same remarks pertain as to Europe. Japan needs us far more than we need her. Our trade with Japan incidentally runs between five and six times the trade of China, whom we are making such great efforts to help. Even if Japan gets control of the Dutch East Indies -- and that is not assured -- she is going to be more anxious to sell us rubber and tin to obtain dollar exchange than we are to buy the products. And if war with Japan comes, we can get Bolivian tin and develop our synthetic rubber. We are certainly as resourceful as the Germans who are filling 90% of their rubber requirements with the synthetic article."

"Our true mission is in North and South America."

"We should develop Mexico and, if need be, use force to assure friendly governments there."

Against "smear" campaigns as that of Lindbergh. "You may disagree violently with Colonel Lindbergh, you may feel he has made serious mistakes, but you have no right to denounce a courageous patriotic American citizen as a traitor merely because he disagrees with your views."

-5-

"We are being edged into war without the masses' knowledge."

"Our entry into war now would be a repetition of 1917. We would be pulled all the way in."

The unscrupulous Allies. "I need not refer to our treatment by our former allies after the Armistice. They took the loot, we did not even get thanks."

War would be economically disastrous for us. "Victorious or defeated, we will be faced at the conclusion of such a war with great economic dislocations — the rich would face a capital levy, the middle classes impoverishment and the masses a lowered standard of living and the loss of most of the social gains so far secured."

Puts all European Powers in the same boat as unscrupulous and hopeless in their policies. "I do not think the American people should make these sacrifices to interfere in the quarrels of Europe and Asia, old, sick, and overpopulated continents with ancient rivalries that cannot be healed."

-6-

Similarities with very definable lines of Nazi Propaganda

Cash and Carry -- implying that could Germany carry, she should have access to our markets as well.

Conditions created by Treaty of Versailles largely responsible for the rise of Hitler and for the Nazi philosophy.

We do not sever relations with a foreign government because we disapprove of their injustices. A nation cannot be a knight errant.

No danger of invasion to the United States even if Germany wins.

Hemispheric policy. "Our true mission is in North and South America."

We should develop Mexico, with force if need be. (Diversion from Europe.)

The unscrupulous Allies.

All European governments are treacherous and indulge in lying propaganda -- (all tarred with same brush - ergo, we cannot believe any of them.

-7-

America First Committee

General Robert E. Wood -- Acting Chairman
 R. Douglas Stuart, Jr. -- National Director

Chester Bowles	Hamford MacNider
William Castle	Thomas H. McCarter
Janet Ayer Fairbanks	Ray McKaig
John T. Flynn	Sterling Morton
Henry Ford	Dr. Albert W. Palmer
Bishop Wilbur E. Hammaker	William H. Regnery
General Thomas Hammond	Edward Rickenbacker
Jay C. Hermal	Lessing J. Rosewald
General Hugh S. Johnson	Edward L. Ryerson, Jr.
Clay Judson	Louis Taber
Kathryn Lewis	Oswald Garrison Villard
Alice Roosevelt Longworth	Mrs. Burton K. Wheeler
Dr. George H. Whipple	

William Castle has not been active in the intervening period since last summer. He supported Lindbergh in the late spring, with the idea that Lindbergh would touch off a movement similar to that which has now gotten underway. But Lindbergh at that time bungled his plans and became involved with Communist and Bund pacifists and thereby smear-vulnerable.

Castle now has good company in which to act as advisor on foreign policy. He is convinced of German victory, pro-appeasement.....

pro-appeasement with Japan, and pro-hemispheric policy for the United States.

Mrs. Bennett Champ Clark. (Who's Who) Wife substituting for husband. In terms of National Defense, Champ Clark voted wrong on the following bills:

Naval Appropriation Bill, passed Senate, March 22, 1937; Neutrality Bill (S.J. Res. 51 amending Joint Resolution of 1935) Conference Report. Passed Senate, April 29, 1937; Naval Expansion Bill (H.R. 9218) Amendment authorizing new battleships. Passed Senate during debate; Naval Expansion bill (H.R. 9218) passed by Senate May 3, 1938; Army Air bill Expansion Bill Amendment increasing number of planes to be purchased from 5,500 to 6,000, passed by Senate March 6, 1939; Army Air Expansion Bill (H.R. 3791), passed by Senate May 18, 1939; Neutrality Resolution (H.J. Res. 306) vote on Conference Committee report. Passed by Senate, Nov. 3, 1939; Military Appropriation Bill (H.R. 9209), amendment to prohibit release of military and naval aircraft - defeated by Senate May 22, 1940; National Defense Expediting Bill (H.R. 9850), amendment enabling War Department to sell surplus and obsolete material and equipment passed by Senate June 11, 1940.

Janet Ayer Fairbanks. (Who's Who) An outstanding social figure in Chicago. (Democrat) She has long been identified with social and political activities. She maintains one of the most influential salons in Chicago. It is notable that she enumerates in Who's Who her activities - Woman's National Liberty Loan Committee, and Woman's Division, Council National Defense. Up to the threat of possible U. S. entry into the war, she took an active part in the liberally internationally-minded pro-British group around the Daily News. She is an old friend of the Edgar Mowbrays. But with the threat of possible war, she reacted like a primitive mother - refusing to contemplate possible war danger for her sons.

John T. Flynn. Irish, rather narrow orthodox economist. Was pro-FDR, to turn later into a bitter hater, mainly owing to FDR's apostasy in economic experimentation. His "Squire in the White House" is the best bookstore seller.

Flynn, as an Irishman, is anti-British. As a small-frontier liberal, he is anti-anybody's empire. His associates

in.....

in Uncensored, the weekly newsletters, are pacifist-appeaser, and in Scripps Howard partly neo-fascist.

As a pacifist opposed to the whole defense program, Flynn is inconsistent in supporting America First and its program of "let us arm to the teeth."

Flynn has a tremendous article output. He is chronically on the border of a nervous breakdown from over-writing and over-speaking. He can well be a dynamo in America First.

Henry Ford. There is a quantity of material collected by the Friends of Democracy showing Ford as continuing an incorrigible anti-Semitic individualistic-fascist, suspicious of anything international or foreign. PM and Friday have published some material along these lines. Probably the old man is too senile for his views to have much significance. But the fact that he has kept Cameron, Burnett, and others about him lends color to the charge. He still resents the ribbing he received in Britain on his 1915 Peace Ship mission.

Jay C. Hornel. Prominent in Republican Party - was active on Policy Committee at National Convention. I saw him applaud Ham Fish and his trained 28 isolationist Congressmen when they put on their stunt.

Hornel is regarded as a competent industrialist (meat packer) - Ham and Spam on the radio - with a generous paternalistic policy toward the workers.

General Hugh S. Johnson. Hugh put himself on the end of a limb with his drunken wind-up campaign speech, comparing misunderstood Willkie to misunderstood Christ on the cross and singling out the Jews as the war mongers. The Jewish organizations are still in a furore. Hugh's abusive mail is still so big that he writes a new apology every day. The American Jewish Council is lending a hand in the onslaught now that Hugh is on the end of a limb. Opinions in Jewish circles are divided on whether or not to saw it off. If it were not for the growing fascist trend in the World Telegram, it is possible that Hugh could be eased out on this onslaught.

Clay.....

-10-

Clay Judson in introducing General Wood on October 4th, defined the aims of America First: "America's destiny is the preservation of peace for its people; abstention on any account, and no matter how emotional the appeal, from European and Asiatic wars; the maintenance of the processes of democracy and civilization.....They believe we can avoid war and should make every effort to do so."

Kathryn Lewis. Fellow-traveller daughter of the C.I.O. President, John L. Lewis.

Colonel Charles Lindbergh. The Lindbergh tie-in has been variously reported. He is supposed to have read the program in the paper and to have called on Stuart and Benton offering his collaboration. (My own opinion is that he was in the discussions very much from the start.) Castle regards Lindbergh as a political blunderer and is said to have advised against his joining the Committee. But Lindbergh has continued to give his help. He turned over to the Committee his mailing list of many thousands of names and spoke for the America First Committee before a group at Yale. Is said to be on Ford's payroll.

Alice Roosevelt Longworth. (Who's Who) Alice has the outstanding Oedipus complex in public life. Having glorified Theodore and his service, any man in the White House has been by definition an imposter. The last was another Roosevelt and from a Democratic line, to her worse than a blot on the scutcheon. She has kept her sharp tongue and circle of die-hards. Her contribution to political thought has been negative, but in slashing anecdote, substantial.

So.....

So much for motivation. She was anti-British before the war. Like Teddy, Jr. she took an isolationist line along the doughboy pattern of "we are not to be suckers again."

To America First, she brings little but the name and a sharp tongue. Incidentally, her sister-in-law, Clara, is the mother of Rene de Chambrun, son-in-law of Laval. But there is no indication that this prejudiced Alice - she was that already.

Thomas B. McCarter. (Who's who) McCarter was founder and chairman of the Public Service of New Jersey until 1939 when he retired. One of the Old Guard Republicans and old guard utility magnates, born in 1867. In the first years of the PIN administration, he used to call on F. and thump the table for the industry. Later, Willkie took over with a more persuasive technique. He is a friend of Jo Pew. His neighbors call him a fascist and isolationist.

Sterling Morton - of Morton Salts.

Edward Rickenbacker. (Who's who) Philadelphia head of Sears Roebuck. Chairman of Trustees to administer Rosenwald Fund. Very moderate abilities. Went to school with Lessing - no ball of fire. Other members of the family all voted for F. Lessing voted for Willkie. He helped to influence Wood to join America First. Lessing is now being criticized from all sides, including his own family. His defense is that he did not know when he joined that anti-Semites like Henry Ford and Linbergh and MacKinder were on the board. The American Jewish Council are after him, also some of the larger Jewish stockholders of his own firm.

H. Douglas Stuart, Jr. -- National Director. Stuart is 24 years old, son of the First Vice President of Quaker Oats. Stuart finished Yale Law School last spring, has been working on America First from his father's Quaker Oats office in the Chicago Board of Trade. Stuart is patterning the form of the organization and membership recruiting on the William Allen White Committee.

Stuart says that the contributions are coming in at the rate of about \$150 a day. He says that he will not accept contributions of more than \$1,000 from any one person because they want to avoid a danger of a "majority stockholder." He claims that they have already turned down the help of a number of people whose motives were suspect.

Oswald.....

Oswald Garrison Villard. (Who's Who, also Autobiography) Long publisher of The Nation. Now retired, but writing profusely. Villard's father was German, giving Oswald a sentimental attachment to the German people. This emotional approach has usually misled him in appraising the German scene, such as his book on the immutable German Republic, which appeared just before Hitler came into power. He has been all his life a rather pointless fighter for lost causes, with no firm ideological base of his own. He is fairly senile. To be noted is his German Secretary, Mrs. who worked for Edgar Mowrer in Berlin. She is a positive intelligent pro-Nazi and, according to the Mowrers, probably dangerous.

Contrast Villard's withdrawal from The Nation on the grounds that The Nation had "been precipitated....by the editor's abandonment of the Nation's steadfast opposition to all preparedness for war." Now Villard comes out for "we need an impregnable defense. Let's arm to the teeth for that defense. We need guns. We need planes. We need tanks. We need ships - enough for a two ocean navy independent of any other power."

Quoted from "Germany's Military Success" by Villard, Atlantic Monthly, August, 1940. ".....Unless there are fundamental reorganizations, the vast sums already voted will not lead to greater efficiency or safety, but to the contrary.

"Even more fundamental is the decision whether we shall prepare to defend only our own coasts or undertake to defend all of South America (regardless of the wishes of the 21 Republics to the south of us in the matter), or whether we shall prepare for another overseas expeditionary effort to conquer the Germans. Unless we tell our military and naval men what they are to defend and how, they are to defend it, we certainly cannot blame them if they fail to plan and arm properly."

"Will Hitler Invade America?" by Villard. Christian Century, October 25, 1940. "Since the William Allen White Committee To Defend the United States by Aiding the Allies has advertised in many cities that any American who does not believe with them that Hitler intends to invade the U. S. as soon as he has conquered England is either 'a fool or a traitor,' obviously anyone who dares to examine and reason about this possibility risks being put into one of the categories. Nonetheless, Mr. White's and Mr. Robert E. Sherwood's passion for England and their justified hatred of Hitler ought not to end calm and careful study of the Hitler

threats.....

threats to America, for the future of the whole country and the character of our defense will be profoundly affected by our decisions in regard to them. The more serious those threats, the more necessary it is to meet them not with mere emotion but with as clear and intelligent an understanding of them as is possible.

"I am sorry I cannot be as certain of what is in Hitler's mind as is the White Committee. I am no mind reader and I have a long-instilled journalistic desire to get facts on which to base opinion. Mere assertion that Hitler intends to do something does not interest me, nor do citations from his writings of years back before he began his active career of destruction...."

Villard wanted proof of Hitler's intention. "Hitler would not afford to invade America -- too many home problems. No military man believes it possible."

"How Long Can Europe Endure?" by Villard, The Christian Century, October 2, 1940. Germany is on way to exhaustion. People discontented. At present, war is a stalemate, in same position as 1916 - 1917. "The pity of it all is that our own Government in Washington is now absolutely absorbed in the war game and preparations for war. It is concerned only with the speed of arming, with manoeuvres in the Pacific and in Europe, much as if we were already in the struggle. Nobody is thinking about leadership, not pro-German leadership of course, but just wise, sensible, Christian leadership in the hope of saving Europe before it becomes the prey of disease and hunger and a misery such as the world has never seen outside of China."

favors peace move. "Not a day should pass without consideration by the President and State Department whether the hour has not come for questions to the belligerents. But no, any such counsel arouses only suspicion of the motives of him who makes it. In the midst of arms, it is not only the laws that are silent: judgment ceases; reason is flouted. Complete subjugation must be the only end, yet there can be no complete subjugation and no such victory as the bitter-enders in this country and Europe desire. But complete economic, financial, spiritual, and moral bankruptcy and the death of millions -- these can be achieved."

General Robert E. Wood. Brilliant military record. (He mentions British medals in who's who) During the Democratic Convention in Chicago, Dorothy Detzer of the Woman's International Pacifist group came to me jubilantly: "We are now getting into the major league -- General Wood is with us and is backing our activities against war. He is helping us organize meetings here."

Did Wood.....

Did Wood persuade Lessing Rosenwald or did Lessing work on him? Probably the former. At any rate, both are now under fire from their stockholders.

General Wood in his statement of October 4th, specified that the "United States should focus on the Americas" and as regards Mexico, for example, "should be prepared to use force." Sumner Welles called this a "totalitarian policy for the U. S. in Latin America." General Wood came back at Sumner Welles, saying: "My meaning was perfectly clear - I said this nation should make every effort to stay on friendly terms with other American nations. But I added that if a nation should become unfriendly to us, by permitting establishment of Japanese or German bases for instance, then we should make it clear we were prepared to use force to maintain a relationship which safeguarded our own country."

Welles, commenting on Wood's statement of policy, had said: "I had hoped that kind of doctrine was as dead as the dinosaur, but tragically enough it seems still to persist in some high quarters of reaction."

Actually.....

Actually, Wood said in his Chicago speech of October 27: ".....we should make it clearly understood that no government in these countries will be tolerated unless it is friendly to the United States....." He attacked what he termed "pre-war hysteria" and decried "the editor of a pink New York sheet" for denouncing Col. Charles Lindbergh as the "head of the fifth column in the U.S."

Wood was a life-long Democrat, but he voted for Willkie. On this point, he said: "I was for much of the New Deal. I am opposed to the third term and perpetuation in office and think that if the President is re-elected he will have us in a war within two to six months."

Wood headed an advisory group of business men to advise the President on the \$5,000,000,000 works bill of 1935. He attended a conference in 1937 on Roosevelt's invitation for business recovery.

Senator Burton K. Wheeler had General Wood's address on foreign policy before the Chicago Council on Foreign Relations, October 4, inserted in the Congressional Record of October 14. He stated that it was given in answer to the case presented by the William Allen White Committee. He started off with praise of General Wood's patriotism and an enumeration of his military achievements.

Charles A. Beard came out in September for America First.

In the House of Representatives, William W. Blackney of Michigan was doing the lobbying for America First. In the Congressional Record of October 8, he came out against American boys fighting on foreign soil. He also boasted that he had voted against the conscription bill.

In addition to the two large paid ads enclosed, America First has also taken extensive time on the air. Selling time on the air for a partisan political movement such as this set a new departure for NBC.

General Wood and others of his group have presented in a dozen different ways the tenets of their platform. For example, General Wood debated the question with Governor Lehman in Granish's American Forum, October 21st. Wood went over the same points that he used in his original statement of October 4th.

- 16 -

Supplementary Notes

Charles Lindbergh's name appeared on one of the preliminary America First lists.

The name of Avery Brundage (Olympic Games) also appeared on some of the early lists.

Bishop Wilbur E. Hammaker. Elected Bishop in 1936. Served in Hankow, China, 1936-1939. Now assigned to Denver area of Methodist Church. Is trustee and director of many Chinese institutions in China. Served as chairman on Citizens Unemployment Relief Commission, 1931-1936. Republican.

Albert W. Palmer. Clergyman, Chicago. (Who's Who) War service with Army Y.M.C.A. in California and Siberia. Writer of many religious books.

Edward L. Ryerson, Jr. (Who's Who) Iron and Steel manufacturer, Vice chairman and director Inland Steel Company; chairman and director Joseph T. Ryerson & Son; director of many companies, including Quaker Oats. Trustee Carnegie Endowment for International Peace. Director Survey Associates, Inc., Chicago Council of Social Agencies, and others. With Aircraft Production Board, Washington, 1917. Captain R.M.A. Air Service, U.S.A., 1918. Republican. Member of many clubs. Is liberal identified with many worthwhile social causes.

Louis Taber. (Who's Who) Quaker. Was member of Hoover Wheat Price Commission, 1917. Republican elector Ohio at large, 1920. Owing to his Grange connections has a lot of German connections and has been receptive to suggestions that American farmers could do a lot of business with Germany if the blockade were lifted.

George H. Whipple. (Who's Who) Dean and professor Pathology, School of Medicine and Dentistry, University of Rochester since 1921. Trustee of Rockefeller Foundation. Nobel prize in medicine, joint award, 1934.

Kathryn Lewis, daughter of John L. Lewis. Is regarded as a Communist Party fellow-traveller. About 26 years old - graduate of Bryn Mawr. Kathryn Lewis from the left and Ailee Roosevelt Longworth from the right had more than any other persons to do with Lewis' endorsement of Willkie. Mrs. Longworth gave the Lewises a social building.

Louis Taber is master of the National Grange. He presumably represents indigenous isolationism of the American farmers.

Albert W. Palmer. "A Road Away from War" by Albert W. Palmer -- Christian Century, June 19, 1940. In this article, Rev. Palmer states that this may turn out to be the war to end all wars. He suggests that the United States take steps to end the war.

"Even now, why wait any longer to make definite proposals to stop the war? Obviously it can only go from bad to worse. Nobody, not even Germany, can gain by its continuation. The end will be a bankrupt world, poisoned by bitterness and chaotic with revolution. Let the United States, therefore, call all the remaining neutrals together at once and outline the main points of a decent post-war order. No man can chart a revolution in advance, but emerging outline of things to come suggest a pattern somewhat as follows: local self-government, combined with a universal guarantee of equal access to markets and raw materials for all nations; a world court and immediate disarmament. Let the U.S., as part of its contribution, and an earnest desire for good will, offer to appropriate for the next five years, the four billion dollars a year now contemplated for defense, to be used instead as a rehabilitation fund for Europe and China and to be expended by an international commission. It would be far cheaper than war, would help bind up the wounds of the world and would strike a greatly needed new note of human solidarity and cooperation in the field of international relations."

Reverend Palmer adds that the German people and the British people through vote would accept mediation and the ending of the war. The Church ought to speak out and speed the close of the war. "Let the Church and every individual Christian renounce the whole business now before it is too late."

Regarding his stand on the war, Reverend Palmer says: "...meanwhile as far as I am personally concerned, I disassociate myself from this war. I have never announced myself as a pacifist but have reserved my right to judge each war as it came along. Well, this one has come, and I now pronounce judgment on it! I will not shoot, stab, starve, drown or betray any other human being if I can help it. If war comes, I will serve in any way I can in the cause of mercy and in constructive peaceful toil, but I will do nothing hostile or hateful toward any other human being. I legislate for no one else, but as for me I am firmly convinced that this is the mind of Christ. Will you join me? After war, or even a national emergency, is declared, it will be too late. We shall all be silenced. The time to speak is now....."

Of Germany, Reverend Palmer writes: "Menacing things are being said about what Germany will do to us if they win. But do they represent a calm objective appraisal? Are they not partly born of war hysteria, tinged with a fear and promoted by propaganda rather than a reasonable view of our future position if we maintain unquestionable neutrality and fair dealing? Certainly until the Allies openly state their war aims in terms acceptable to neutrals, those neutrals would be incredibly naive to join up and compromise their neutrality -- remembering the secret treaties and other skull-duggery of the last war."

Louis J. Taber. Mr. Taber's attitude on international relations is somewhat disclosed in a statement he made at Syracuse, N.Y., November 13:

"The very fact that we have failed to pioneer sufficiently in the uses for farm products put our national defense program in danger in case commerce with producing nations should be driven from the seas." He said a strong defense should be accomplished with "neither profiteering nor unnecessary delay," and added "we can make America so strong that we need never fire a shot nor lose a life." National security, he asserted, is conditional upon a sound agricultural industry. "Continued unemployment and low farm income are a threat to preparedness."

- 19 -

Offers Plan for Surpluses. Preparations for shipping surplus food and fibre to Europe and Asia immediately after peace, as one means of preventing accumulated surpluses from causing price collapses. Preservation of the American market for American agriculture; "Neither agriculture nor labor must be asked to compete with coolie or oriental labor on one hand, nor the forced labor of totalitarian states on the other."

General Thomas Hammond. A prominent lawyer in Chicago. For years a Christian pacifist. His family have been active in social welfare. Until this line-up, he has been an enlightened internationally-minded liberal.

Edward L. Ryerson, Jr. As part of his motivation has two sons of military age.

Report on Interview with William R. Castle

November 19, 1940

Castle was very cordial and talked with me for about one hour-and-a-half. When I left and gave him my card and the Washington office address of M.A., he said "So you are not a spy of the White Committee." I answered, smiling, "If I am I am a very open spy, don't you think?" He smiled.

He remembered that I had had a previous conference with him about the story that he was writing Lindbergh's speeches, so the first thing he said to me was, "Did you convince your friends that Lindbergh writes his own speeches?"

From this conference I would say that Castle is definitely:

- (1) The "brains" of the America First Committee
- (2) Actively doing organizational work for them
- (3) Convinced that Hitler has won the war
- (4) Convinced that we should use our influence to meditate - at once. He is unwilling to be called an appeaser but it seems to add up to the same thing
- (5) Favorable to strongest possible national defense - he is anxious to be differentiated from the pacifists and communists who are at present in bed with him

I base these five points on our conversation, the gist of which is given below:

The America First Committee is doing a great patriotic job. It is fighting a well financed agitation - the NAW Committee. The White Committee is trying to get us into war and the American people are determined to stay out. "We speak for the American people." He said a friend of his had told him that the White Committee was financed with British money. Trying to appear non-rational, he said he told his friend that that was preposterous. "We could torpedo the White Committee if any such charge could be proved." Then he turned to me

-2-

and asked, "Who does put up all this money the White Committee is spending? Tom Lamont does a good bit of the financing, doesn't he?" I said I had heard that Lamont gave some money but I also understood that Dubinsky and his Union gave quite a bit also, and that I really didn't know who was giving the money but I was sure it was from individuals and not from the British. He repeated, "I knew they weren't getting any British money. It is not necessary. There are enough pro-British people in this country to finance it."

He spoke of his speaking and committee work for the AF Committee. He spoke very highly of young Stuart (he said Stuart is a radical and that I would like him) and General Wood, the Chairman. He stated that the Committee does not have any Washington office (evidently not considering his study one). I told him that Dorothy Detzer had said in fun that her office was the office of the Committee. He said, "Dorothy does a lot of work for us but she was kidding you." He then went on to make clear that they definitely were not pacifist and were in favor of a strong national defense policy.

The Committee expects to create a labor section and branches throughout the country paralleling the White Committee. They recognize that they have done a less effective job of public relations up to date.

I asked him what he thought of Willkie and Willkie's playing with the White Committee. He said that he thought Willkie was on the wrong track in this respect and that if he tried to force Joe Martin to accept an interventionist line during the next few months that there would be a major revolt within the Republican party against Willkie.

He seemed to be anxious not to leave me under the impression that he was anti-Willkie, so he said that if Willkie could go off on a desert isle for a while and think through the whole question of foreign policy he would probably come out agreeing with his group: (Castle's group). He said Willkie had not given much thought to many of the questions which a president has to face - when he was drafted at the Republican convention. As an after-thought he said, "Perhaps Duell was most responsible for misleading Willkie. That man is a crook." Then, as if sorry to have used such a strong

-3-

word, he explained that when he was Assistant Secretary of State he had reason to know of the trickery, etc., which Buell had employed in Europe. (Sandy: It is very important that any use you make of this interview be such as not to have any publicity given to such a statement about Buell on the part of Castle. It would violate my off-the-record conference agreement with him and we never could get any more information.)

I asked him about Kennedy. He told a story of Kennedy telling a friend of his that Hitler has won the war, that England is through as are all the democracies and that it is only a matter of time until this is clear to a much larger group of people. Castle went on to say that he agreed in general with Kennedy but thought Kennedy was much too pessimistic and indiscreet. I asked Castle if he did not feel that Kennedy was really talking about the transformation of capitalism and not of democracy in Britain. Castle said that that was possibly the case. He gave me the definite impression that the AF crowd were going to use Kennedy's statements for all they are worth.

While talking with me about Kennedy he said that he was very much disappointed at the "steerage" job he did for the President. Castle said that he frankly didn't expect him to do it. He said that some big financial considerations must have been involved. "Everyone in Boston knows that Kennedy is money mad." Castle went on to say that he would have been just as much provoked, in terms of our national interest, if Kennedy had come back and told all the dirty stuff about his relationships with the President which he has been doing privately. Castle, smiling, said that he would have been much less surprised if Kennedy had done the latter as he is noted for his indiscretions in speaking. (Castle used indiscreet language in describing Kennedy a number of times).

Castle wanted me to understand and to tell any of my friends and clients that he is in favor of aid to Britain and hopes Britain will win but that he thinks Britain should pay for all the aid it gets. Furthermore, he is not for any changing of the Neutrality Act and is strenuously opposed to the Stimson-PER doctrine of policing the world for benevolent or other reasons. We should strictly tend to our own knitting, he said.

-4-

He spoke highly of Anne Morrow Lindbergh's new book, reminded me she is a friend of his daughter, but said that he did not agree with all of Mrs. Lindbergh's conclusions.

Knowing of my friendship with Norman Thomas, he asked me what Norman is doing now, and said that he spoke on the platform with him recently and found that they agreed almost 100% on the international situation. He also asked me if I knew Frances Miller or Helen Hill. I told him Helen Hill was Mrs. Miller and that she has offices in the National Press Building. He seemed to be surprised to know that she was Mrs. Miller. He said, "I understand they are very close friends of Lethian's and the chief war-mongers in the United States." I asked him what about Millis, Kent, Agar, etc. He said, "Oh, yes, they are all the same crowd and are doing an advance guard job for the White Committee."

I told him I thought that was over-simplifying it. He said, "Objectively it's the same thing but I don't think they are going to succeed. However, if Congress adjourns anything may happen. FDR will be free to act and get us into war at once."

(1) He told me he saw Dr. John R. Mott yesterday in New York and that "Mott is with the A.F. Committee." I judge he was trying to line up the International Missionary Society and Y.M.C.A.

(2) He was getting 'phone calls while I was there. His study looks like an office.

SCRIBNER'S COMMENTATOR

In talking with Eggleston on Monday he claimed to have a one-third interest in Scribner's Commentator. Yesterday he told a friend of mine that he did not have a stock interest in the company. It appears that C. S. Payson, who up to October was President of the company and had a majority stock interest, disposed of his majority but still kept a minority interest, probably one-third, in the company.

Talking yesterday, Eggleston denied vigorously that there was either Ford or Lindberg money in the company.

He gave the impression yesterday of being isolationist, but American patriotic, and on the whole sincere. He claims that they are getting a tremendous fan mail and that he doesn't see why they can't sponsor American isolation. He said: "Things are reaching a point now where Americans who disagree with aid to Britain can't open their mouths without being called traitors." "Granted that a lot of the things we are preaching happen to be things on Hitler's program, that doesn't necessarily make them bad. That objection doesn't impress us anyway, because there are millions of Americans who want to stay out of war and mind their own business."

As a result of the Seribner's Commentator advertisement I arranged for certain enquiries to be made today in their set-up. As a result I received the following report:

There are eight girls running around, obviously hard-pressed to deal with the large group of enquirers, many of whom were contributors.

G. T. Eggleston, who is president, was interviewed and says that there has been a tremendous response today to the advertisement in the New York Times (which cost \$2,100).

The first part of the drive for money, which Seribner's are undertaking, will be to pay for the newspaper advertisement campaign; and as the money comes in they intend to publish advertisements across the country. There will be a succession of advertisements, each getting tougher on the line for more vigorous action against aid to Britain.

Eggleston says that there is no tie-in with America First, and even criticizes America First for lack of concentration on its objective.

At the same time there is every indication that Eggleston is trying to get on the America First bandwagon, and by stepping-up the pace of the campaign to, so to speak, become the house organ of this organization.

Eggleston states that there is no Ford money in Seribner's Commentator. However, he admits that he got in touch with McCann, Erickson, Inc. (advertising agency) to see if any Ford advertising money was available for taking space. He says that McCann, Erickson, Inc., were too busy

to get down to any practical discussion of this matter. However, advertising circles in New York believe that Cameron, the public relations man of Ford, has put up considerable money himself.

Eggleston in the past was a promoter for the old LIFE magazine (before Luce bought out the name) and used to run a series of articles against prohibition, etc. He is a slick money-raiser who is once again using the old technique that proved successful for him in the prohibition days, and sees this campaign as a clever way to get money out of the public.

D. M. Stewart is the Vice-President and supplies the thought behind Seribner's Commentator as compared to the business drive which is handled by Eggleston. He is described as an emotional political thinker of considerable ability.

He travelled in Germany frequently in the last twenty years and is reported to have been a great supporter of Germany at the time of the last war. His interest in Germany in the past has been along the monarchist lines. He is described as having "un-labelled" pro-Fascist, anti-Semitic leanings.

His business ventures have not been successful. He started a trading account a few years ago for a number of friends, including Jeremiah Milbank. (Stewart's mother is a sister of Mrs. Jeremiah Milbank.) This financial venture collapsed, leaving the participants with some worthless

stock and Jeremiah Milbank took over the remains and has supported Stewart ever since. (Jeremiah Milbank is a close friend of Herbert Hoover.)

Stewart, using Milbank's money, started the Listeners Digest, which was later merged with Lowell Thomas's Commentator, - both of which papers dealt with the radio world - and both of which have not been merged into Scribner's Commentator.

Eggleston says that he and two others (presumably Stewart and his backing being one) carry the whole of the financial burden of this venture.

* * * * *

AMERICA FIRST COMMITTEE

NATIONAL HEADQUARTERS * 1806 BOARD OF TRADE BUILDING * CHICAGO

December 2, 1940

Dear Mr. Wilk:

A short two months ago the America First Committee was formed by a group of citizens who were gravely concerned over this country's alarming drift toward war.

We feel the deepest sympathy for the British Empire in its heroic struggle; yet we share the deep conviction that America's best interests and the world's best interests will be served by staying out of Europe's war.

We are convinced our job is to strengthen American Democracy here at home - to build an impregnable defense for American freedom.

We believe that our way of life would be sacrificed in a European "crusade". We gladly extend to England the tremendous assistance permitted by our Neutrality Act, but we oppose direct transfer of our military and naval equipment. Such transfers are acts of war - - bound to involve us directly. And they dissipate our own inadequate strength.

The America First Committee, consisting of conservatives and liberals, Democrats and Republicans, maintained a non-partisan position throughout the political campaign. We devoted ourselves to placing the simple facts of the international situation before members of all parties.

During the campaign, every candidate felt the people's fear of foreign war and sought to quiet that fear by pledging peace.

Yet today, the propaganda groups, discreetly silent during the campaign, are taking the election returns as a sweeping public approval of their policies.

Of course, such a conclusion is ridiculous. The election

- 2 -

was a mandate for peace - not for war.

Still these extremists, inspired by professional propagandists, are redoubling their efforts. Already a number of new groups have sprung up overnight -- some of which now even advocate immediate declaration of war.

We do not question the sincerity of some of these groups. But common sense demands that we rationally analyze each of their appeals. Most of them are based on sheer hysteria.

We have a tremendous responsibility for the future welfare of America. We must give effective expression to the opinion of the overwhelming majority of citizens -- they are convinced that this is not our war.

Our job will be successful. We flatly deny that war is now inevitable for this country. Although some Americans may be pessimistic about our chances of keeping out of the war, the vast majority want peace. Most thinking Americans agree that we will sacrifice our great social and economic gains when we enter the lists as knight-errant of Europe.

We need your help to succeed. We need money. It is expensive to reach the American people through the press, radio and motion pictures -- but it must be done!

We urge you to help us now - each dollar and every minute counts heavily. It is our considered opinion that your contribution toward keeping the United States out of this war is the best investment you can make.

Can we count on you?

Nothing else can be so tremendously important in these critical hours.

Sincerely,

/s/ R. Douglas Stuart Jr.

R. Douglas Stuart, Jr.
National Director

P.S. Please make your check payable to J. Sanford Otis, Treasurer, America First Committee, 1806 Board of Trade Building, Chicago, Illinois.

RDS:jrm

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Tuesday, December 17, 1940.

Press Service
No. 22-94

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of $3/4$ percent Treasury Notes of Series B-1945, National Defense Series.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Total Subscriptions Received</u>	<u>Total Subscriptions Allotted</u>
Boston	\$ 330,135,000	\$ 43,000,700
New York	2,053,372,300	267,119,700
Philadelphia	193,188,000	25,181,900
Cleveland	274,123,300	35,811,500
Richmond	134,068,900	17,497,700
Atlanta	144,626,400	19,171,600
Chicago	513,560,500	67,003,300
St. Louis	77,447,900	10,187,100
Minneapolis	38,846,000	5,103,100
Kansas City	67,699,700	8,867,500
Dallas	71,756,000	9,443,500
San Francisco	167,503,000	21,802,600
Treasury	4,950,000	643,500
TOTAL	\$4,071,277,000	\$530,838,700

-o0o-

EMBASSY OF THE
UNITED STATES OF AMERICA

No. 726 Chungking, December 17, 1940

Subject: New Ministry to be Established.

Air mail

The Honorable
The Secretary of State,
Washington, D. C.

Sir:

I have the honor to report that the establishment of a new ministry for the control and supervision of the country's resources and supplies has been announced and it is expected that it will be organized early next year.

This new ministry will probably be known as the Material and Resources Control and Supervision Ministry. It is understood that Generalissimo Chiang Kai-shek will be concurrently at the head. The exact status of the new ministry has not been revealed fully but it will be an independent organization in that it will not belong to the Executive Yuan or the National Military Council.

It is reported that organizations such as the Foreign Trade Commission, the National Food Administration, the Agricultural Credit Administration, the Fuel Control Bureau, the China National Tea Corporation, the Price Stabilization Marketing-Supplying Bureau and the Iron and Steel Control Commission will be merged into the new ministry. At present these bureaus and offices are under the Ministry of Economic Affairs. Following the removal of these organizations the Ministry of Economic Affairs will place its main emphasis on the development of commerce and industry in the interior.

Respectfully yours,

NELSON TRUSLER JOHNSON
Nelson Trusler Johnson

Original (by air mail) and
five copies to the Department
Copy to Peiping
Copy to Shanghai

801 China

JJM:MCL

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

TENTATIVE LESSONS BULLETIN
No. 77
G-2/2657-235

MILITARY INTELLIGENCE DIVISION,
WAR DEPARTMENT
Washington, December 17, 1940.

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.05 (9-19-40) M-B-M.

A NEW ARM OF THE GERMAN SERVICESOURCE

This bulletin contains a translation, somewhat paraphrased and abridged, of "The New Arm of the Service", an article which appeared on October 11, 1940, in the Deutsche Volkswirt, authoritative German economic journal. Possible propagandistic intent should not be overlooked.

* * * * *

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

A NEW ARM OF THE GERMAN SERVICE

It has been known for many years that the next war would be a "total war"—one in which a total utilization of national economy would be necessary if a maximum combat effort were to be exerted.

For the purpose of exerting such an effort, an industrial mobilization staff was created in 1935—an office which later became known as the Industrial Mobilization and Armament Office. This office, headed by General of Infantry Thomas, is directly under the High Command of the Armed Forces. It is made up of engineers, men drawn from civil commercial pursuits, and officers who have been schooled for years in cooperating with industry.

Despite the World War, Germany was, as far as industrial mobilization is concerned, like an explorer in a world of new ideas. It was necessary to obtain the highest possible production figures for industry while still using the lowest possible number of men, for the fewer the men used in industry, the greater the number available for the armed forces. The military successes of this war rest upon the capability of German soldiers and the excellence of German weapons. These successes show clearly that a superb solution was found for the broad aspects of the problem of industrial mobilization. But there were other and more specialized problems to be faced by Industrial Mobilization—problems whose solution had to be built upon hypothetical foundations and which could actually be met only as the war developed.

What would be the course of this war? All evidence indicated that it would be a second "war of materiel," conducted on an even greater scale than the preceding one. Operations in Poland and France, however, have shown that now, as in the past, genius of leadership can produce a military decision just as readily as can overwhelming weight of materiel. Yet Germany's industrial preparations, down to the minutest point, had to be made on the assumption that the war would take a normal course rather than an abnormal one.

The first unusual war problem to be faced by the German industrial mobilization authorities had already arisen in September, 1939. Operations were to be conducted offensively in the East, defensively in the West. Since small areas of West Germany were to be yielded temporarily, the Industrial Mobilization Office had to find ways and means to remove, in the shortest possible time, valuable material and machinery which was endangered in "No Man's Land." This work was accomplished in two months.

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

during which three thousand railroad cars loaded with machinery and supplies were brought to the interior of Germany. The civilian population was totally evacuated in a few hours. There remained in certain towns and villages only the representatives of the Army and of Industrial Mobilization. The latter were shipping back tools, machinery, and other material from workshop and factory in order to deprive the enemy of these economic resources.

A few months later, the French withdrew to the recesses of the Maginot Line. Again the representatives of Industrial Mobilization entered the picture and began organization for renewed production in border areas.

These two problems were solved by Industrial Mobilization in cooperation with the Goering staff directing the Four Year Plan.

No German foresaw the immensity and speed which were to characterize the campaign in the West in the Spring of 1940. In the Saar area, Industrial Mobilization organized in advance a mining company, an electrical company, and a company for general service. Personnel of these units advanced behind the fighting troops and operated in such a way as to give the fighting troops maximum assistance. They also took on the duty of hindering destruction of valuable plants and material which the troops themselves, through carelessness, might allow to be destroyed. The general duties of Industrial Mobilization may be summarized as follows:

1. Industrial Mobilization units supported the fighting forces in every possible way;
2. They seized and preserved supplies of raw materials and manufactured articles;
3. They registered and surveyed all factories which might be useful to the German armies and preserved them for future operations.
4. They collected all armament left on the field of battle.

Immediately behind the troops came the "economic officers," with their staffs functioning under Industrial Mobilization. It was their duty to prevent flooding of mines and abandonment by troops of valuable foodstuffs and materiel, as well as to start operation of power plants, water works, and gas plants. For the purpose of organizing this work, an officer of Industrial Mobilization was added

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

to the staff of every army, and, for the purpose of assisting this staff officer in carrying out his duties, a unit known as the "technical unit" was provided for every army. The men comprising such units were drawn from the home organization known as the Technische Nothilfe.¹ Technical units, which became very popular in the army, were able to supplement supplies of the troops, maintain order and calm behind the front, and transform captured industry into an asset of the German Army. In case of dire emergency these units also repaired damages to bridges or power plants which were essential to the troops, but in general, repair work was left to normal labor units.

The attack on France ended with a very rapid and complete victory, and after the armistice another phase of Industrial Mobilization's activity began. Up to this time, its staffs with the Army had been purposely kept small. Now there was a larger task—that of organizing militarily and industrially, the entire nation of France. Only a few officers were really trained for a task of this kind.

Naturally there was a transition stage in which economic life in France was very much disorganized, but finally there came a time when Industrial Mobilization was organically incorporated as part of the general administration of the conquered country.

The head of the organization is known as the Chief of Industrial Mobilization and Armament for France, with the abbreviation Wi. Ru. He is a member of the staff of the commander of the occupying army. His immediate staff has two important subsections: Purchases and Special Security.² Four armament inspectorates, each with purchasing officers, technical units, and salvage companies, are subordinate to the chief.

For purposes of administration, Occupied France is divided into five areas, with headquarters in Paris, Dijon, Bordeaux, Angers, and St. Germain. The commander of each of these areas has on his staff an Industrial Mobilization officer who carries out the four missions previously summarized. He retains material immediately useful to the German troops in France, while other material is shipped to Germany. The officer has an added duty: He supervises war industry operating in France itself.

1. The Technische Nothilfe was formed on a volunteer basis in 1921 for the purpose of operating public utilities in case of a general strike. G-2.
2. The actual duties of this subsection are not known. G-2

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

Industrial Mobilization organized itself rapidly and energetically in France. From the point of view of the individual officer and the soldier of the organization, however, the task was at first hard and thorny, nor had it ceased to be exceptionally difficult as long as six months after the armistice although staff personnel had been greatly increased.

At first, during the period of active fighting, Industrial Mobilization officers on staffs of armies had many duties and very little assistance. It was their duty to advise army commanders on industrial mobilization matters, as well as to direct operations of technical units under their command. Assistance was provided after the armistice in the form of civil experts for various special duties, a large number of salvage companies, and miscellaneous units.

The task to be performed by Industrial Mobilization in each section of the occupied area was unique. In Luxemburg, for instance, the local economy had to be brought at once into harmony with the German economy. In parts of Belgium where money and food had disappeared, strenuous efforts had to be made to prevent starvation. In the Namur region, 400 coal mines and factories had to be brought into operation if public order was to be maintained in the province.

With the passage of time, the activities of Industrial Mobilization have become more routine in nature. Sufficient personnel is now available, although Industrial Mobilization staffs are still limited in size. Important armament factories of Western Europe are gradually resuming production, and while the main task has been performed, there is still much work to be done. From time to time, new and important reserves of French raw materials are discovered or valuable machinery is found in French factories. When this machinery is vital to Germany, it is packed scientifically and sent across the border, and many special organizations have been created to assist Industrial Mobilization in this task. In all, raw materials to the amount of 160,000 tons have been sent to Germany.

Since Germany's aim is to win the war, every act in occupied territory is directed to this end. The question of whether a factory is operated in France by French personnel or whether the machinery is dismounted and sent to Germany is decided strictly with a view to achievement of the German national purpose.

If machinery can produce more goods more cheaply in France than in Germany, it is left in France. This is often the

NO OBJECTION TO PUBLICATION IN SERVICE JOURNAL

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

case, for labor is available everywhere in France and raw materials are ample and close at hand. Labor is limited, however, in Germany, and transportation of material and machines places a burden on the railroads. Thus, each case must be decided on its own merits, although usually it has seemed best to leave machinery in France. Busy Frenchmen are less likely than idle Frenchmen to disturb the peace.

Industrial Mobilization officers have not actually operated French factories, for such a task is beyond their numbers. These factories have been left under French ownership and direction, although German commissars have been placed in each factory to watch production and control it when necessary. This arrangement has been found satisfactory. Most French owners and executives have shown a cooperative spirit, and labor has declared itself satisfied at being able to earn regular wages once more.

In some places conditions are less satisfactory, as for instance, in Paris, where 200,000 workers are still unemployed. This condition has resulted in consideration of the possibility of recruiting the French unemployed voluntarily for work in factories in Germany. The pros and cons of the matter must be considered by Industrial Mobilization.

Although German officers do not actually operate French factories, they examine and inspect the products made under sub-contracts given these factories by German firms. Often the officers act as middlemen for negotiation of contracts.

It eventually became necessary to erect a special bureau of Industrial Mobilization in Paris. This bureau assists in negotiating contracts and provides qualified inspectors for checking the quality of articles delivered. Only such a central bureau can judge the ability of a French plant to fill German orders. The Paris bureau is manned by personnel drawn in equal numbers from Industrial Mobilization and from the German Ministry of Economics. Before issuing an order, the bureau must consult with W. R. and with the industrial mobilization staff officer advising the commander of German troops in occupied territory. All contracts exceeding 5000 marks in value must be reported by subordinate officers to the central bureau.

Several hundred contracts, some of them very large, have been awarded by the bureau to French firms. Purchase prices are generally set according to normal trade prices in Germany, although negotiation always takes place. Until arrangements regard-

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALNO OBJECTION TO PUBLICATION IN SERVICE JOURNAL

ing the form of remuneration are completed W. R. guarantees payment.

The present great task of Industrial Mobilization is to determine the capacity of factories and the extent of supplies of raw materials in occupied territory. The more perfect the statistics gathered, the better the performance of French industry in the future.

Industrial Mobilization, the new arm of the service, already has a proud record of success. It has favorably influenced the course of the war.

NO OBJECTION TO PUBLICATION IN SERVICE JOURNAL

CONFIDENTIAL

285

Paraphrase of Code Radiogram
Received at the War Department
at 9:50 A.M., December 17, 1940.

London, filed 14:50, December 17, 1940.

1. On Monday, December 16th, planes from the Coastal Command attacked shipping in the Channel and airdromes in France. There were no operations of the Bomber Command that day. During the previous night British bombers made their main attack in great force on munitions factories and public utilities of a central German city. This attack was reported to be highly successful. Smaller attacks were made on shipbuilding plants in two north German ports and on an industrial city in the Ruhr. Other planes bombed shipping and laid mines in French harbors. British Air Forces in Greece and Egypt were very active in bombing enemy stores, airdromes, barracks and retreating troops.

2. Daylight activity of the German Air Force on December 16th consisted mostly of reconnaissance flights by single planes. That night there were general attacks over the Midlands area and one raid over London. During daylight hours of December 16th forty German planes operated against Great Britain; with 120 that night.

3. It has come to the knowledge of the British that a number of German fifth columnists, probably totalling about 80,000, are all over Spain and that the Germans now have available seven divisions for immediate movement into Spain. Other troops could follow upon short notice. The British are also receiving many reports of movements

CONFIDENTIAL

of German troops in other directions. It would appear that a campaign of rumors has again been launched by Germany. Such a campaign does not necessarily mean that German operations may be imminent but it is significant that previous offensives have been preceded by the circulation of similar rumors. One report received by the British fixes the time of invasion as the Christmas holidays.

LHE

Distribution:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
G-2

CONFIDENTIAL

CONFIDENTIAL

287

2/5
1

STATEMENT
FOR
SECRETARY MORGENTHAU
FOR
TREASURY BUDGET HEARINGS
MONDAY, DECEMBER 16, 10:00 A.M.

postponed to 12/17/40

(House Appropriations Committee)

Before consideration by the Bureau of the Budget, the Treasury Department's appropriation requirements for the fiscal year 1942 were carefully studied by the Department's budget committee and reviewed by the Department's budget officer. As submitted to your Committee, the estimates represent the minimum regarded as necessary to enable the Treasury to perform its essential functions.

The 1942 estimates of annual appropriations for operating expenses of the Department aggregate about \$190,000,000, while annual appropriations available in 1941 for like purposes, (exclusive of funds provided under the Emergency Relief Appropriation Act), aggregate nearly \$181,000,000. Without allowance for non-recurring items, the 1942 requirements for operating expenses, when compared with similar appropriations available in 1941, show, therefore, a net increase of about \$9,000,000.

The 1941 appropriations, particularly under the Coast Guard, included substantial amounts available for that year for expenditures which will not recur in 1942, and with the elimination of these non-recurring items the gross increase for 1942 in estimates for operating expenses, as compared with 1941, is about \$32,800,000.

Aside from normal increases in the regular work of the Department, additional responsibilities have been placed upon certain of its branches as a result of world conditions. For example, the Foreign Funds Control Unit in the Secretary's Office, which was established only a few months ago, is constantly expanding and will require a substantial increase in funds for 1942 as compared with current year's requirements as now estimated.

In addition, certain bureaus and divisions of the Department have received allotments this year from the President's Emergency Fund for the purpose of performing new or expanded duties arising in connection with national defense. For the fiscal year 1942 the requirements of these offices for defense activities have been included by the Bureau of the Budget in the estimates of regular annual appropriations under the various bureaus and divisions concerned.

The larger items of increase requested for 1942 in the operating expenses of the Department are those submitted for the Coast Guard, the Bureau of Internal Revenue, the Bureau of Engraving and Printing, the Division of Disbursement, and the Office of the Treasurer of the United States.

COAST GUARD

The Coast Guard's estimates for 1942, in the amount of about \$65,300,000, represent an increase of \$1,103,000 over the 1941 appropriations for that service. The 1942 estimates include, in addition, a contract authorization of \$6,370,000.

If we eliminate those items, aggregating nearly \$20,000,000, available in 1941 for expenditures which will not recur in 1942, the Coast Guard's appropriation requirements for 1942 reflect a gross increase of about \$21,000,000, exclusive of the contract authorization, as compared with the funds available to that Service in 1941.

Practically all of this increase for the Coast Guard is made necessary by the expanding functions of that service in connection with the national defense, the safety and security of our merchant shipping and our ports, and the enforcement of neutrality.

I shall not attempt to outline the various items of increase contained in the Coast Guard's estimates, since the detailed justifications are already before you and will later be amplified by Admiral Waesche at the time of his hearing. I wish, however, to take this opportunity to point out, particularly in view of world conditions, that the fulfillment of the requirements of this service, as set forth in the estimates now before you, is a matter of vital importance to the Treasury Department. It is my earnest hope, therefore, that you will find it possible to approve the estimates in the amounts requested, thus enabling the Coast Guard to perform the duties which have been assigned to it as an integral part of the national defense force as well as its normal functions as a unit of the Treasury Department.

INTERNAL REVENUE

The estimated requirements for "Collecting the Internal Revenue" exceed the current year's appropriation by more than \$5,000,000, and with allowance for non-recurring items represent a gross increase of over \$6,000,000. Of this increase, about \$3,300,000 will be required to provide for the full year's employment of the additional personnel granted by Congress for 1941 on a part-year basis. These additional employees, it will be recalled, were necessary to handle the increased volume of collection work arising as a result of the Revenue Acts of 1940. The remaining \$2,700,000 for the Bureau of Internal Revenue is required principally to provide additional investigative and settlement personnel in the field services of the income tax unit and the technical staff. The existing forces of these two field units are inadequate to cope with the additional tasks imposed by the two new Revenue Acts of 1940.

The second of these Acts, as you know, imposes excess profits taxes, the administration of which is most difficult.

OTHER INCREASES

Under the Bureau of Engraving and Printing an increase of about \$1,500,000 is requested, including about \$1,200,000 for increased production of currency, revenue stamps, and other printing, and about \$300,000 for new elevators and the purchase of equipment.

The estimates for the Division of Disbursement and the Office of the Treasurer of the United States include substantial amounts to cover the issuance and clearance of Social Security checks, which operations in prior years have been performed on a reimbursable basis. The total amount requested by these two offices for this purpose is about \$1,100,000.

INDEFINITE APPROPRIATIONS

The 1942 estimates for "Refunds and Drawbacks, Customs" and "Refunding Internal Revenue Collections" contemplate changing these two funds from annual definite to annual indefinite appropriations. This change, which was suggested by the Director of the Bureau of the Budget, has the unqualified approval of the Treasury. As a matter of fact, such action has been urged informally by the Department at various times over a period of years. The advantages of appropriating these funds on an indefinite basis are fully set forth in the written justifications which accompany the estimates. I shall not undertake, therefore, to discuss them at length, but I cannot urge too strongly the approval of this change by your Committee.

In connection with these items, the amount estimated to be expended in 1942 for "Refunding Internal Revenue Collections" is \$63,000,000, as compared with the 1941 appropriation of \$42,000,000, and the amount estimated to be expended in 1942 for "Refunds and Drawbacks, Customs" is \$19,000,000, as compared with \$14,200,000 appropriated for 1941. It should be pointed out, however, that with respect to both items, the amounts appropriated for 1941 will not be sufficient to meet the year's requirements, and a deficiency appropriation under each heading will be necessary.

SINKING FUND
AND
INTEREST ON THE PUBLIC DEBT

The Sinking Fund will require \$588,000,000 for 1942, an increase of \$2,000,000 as compared with the revised estimate for 1941.

Tentative estimates of the Interest on the Public Debt indicate that \$1,200,000,000 will be required for 1942, an increase of \$100,000,000 as compared with the revised estimate for 1941, the additional amount being necessary because of an increase in the estimated amount of obligations which will be outstanding.

- - - - -

This concludes my general statement, Mr. Chairman.

I have outlined the outstanding facts concerning the Treasury's estimates for 1942. As I previously stated, we have tried faithfully to hold down our requirements to the absolute minimum necessary to enable the Department properly to perform its work.

APPROPRIATIONS AND PUBLIC DEBT

(In millions of dollars)

	<u>Total (all Departments, etc.)</u>
Estimated unexpended balances of appropriations as of June 30, 1940 (excluding Post Office)	\$ 5,500
Appropriations for 1941 and subsequent fiscal years (excluding Post Office)	<u>15,500</u>
Total for which funds must be raised	\$ 21,000
Deduct estimated receipts for fiscal year 1941	<u>6,600</u>
Net amount to be borrowed	\$ 14,400
Gross debt under statutory limitation on June 30, 1940 (includes future accruals on U. S. Savings Bonds outstanding on this date and excludes debt not under statutory limitations)	<u>43,219</u>
Statutory debt limitation should be raised to not less than	<u>\$ 57,619</u>

November 30, 1940

General debt limitation	\$ 45,000
Debt outstanding thereunder	<u>14,277</u>
Balance of borrowing authorization	\$ 723
National Defense limitation	4,000
Debt outstanding thereunder	<u>302</u>
Balance of borrowing authorization	<u>3,698</u>
Total borrowing authorization	<u>\$ 4,421</u>

Office of Under Secretary, Treasury Department
December 16, 1940

TREASURY DEPARTMENT
WashingtonFOR IMMEDIATE RELEASE
Tuesday, December 17, 1940Press Service
No. 22-96

The following is an extract from testimony by Secretary Morgenthau before a Sub-committee of the House Appropriations Committee today in response to questioning by Chairman Ludlow:

Secretary Morgenthau - So if it gets down to the question of -- which it has -- Great Britain needing financial assistance to pay for the orders that she wants to place with us, I think that is a matter for Congress to decide -- as to how that financial assistance should be given to Great Britain. That is how I feel.

Mr. Ludlow - But you feel that she has arrived at the point where she needs financial assistance?

Secretary Morgenthau - I said so -- they have so advised me as to further orders. They do need financial assistance for the orders they want to place with us for airplanes and boats and munitions.

-000-

December 17, 1940.

To: Secretary Morgenthau
From: Mr. Gaston



I am attaching a memorandum from Commissioner Johnson on the subject of the memorandum handed to you by Sir Frederick Phillips, and also the first draft of a proposed report to the Chairman of the Ways and Means Committee on the Cullen bill. This bill, with some necessary amendment as indicated in Johnson's memorandum, would accomplish the object of the British to exclude their purchase tax from the computation of ad valorem duties.

We see no objection to thus amending our law. However, it is to be doubted that the Treasury should take the lead in proposing the change. In the last several years we have established the precedent that the Treasury speaks to Congress on the administrative feasibility of changes in the Tariff Act, but not on questions of tariff policy. As to tariff policy, we have a voice in the deliberations of the Executive Committee on Commercial Policy, which through the Secretary of State or the President seems the proper authority to recommend policy changes in the law. The sound reason for this precedent is that the Treasury has to hold a neutral position as between the conflicting interests of importers, exporters and domestic manufacturers in its administration of the Tariff Act.

The value of this course is illustrated in the present case. The Cullen amendment is sponsored by the National Council of American Importers. We know that it will be opposed by the Association of Woolen Manufacturers, the New Hampshire Manufacturers Association (which wrote to John Sullivan), and by the Columbia Carbon Company. We also understand that it will be opposed by the American Tariff League.

We can, however, quietly facilitate the amendment before the proper committees after it has been formally sponsored by other authority.

The same point is raised by another memorandum attached hereto which Mr. Cochran sent directly to Mr. Johnson. We have no objection to an amendment to the administrative provisions of the Tariff Act to permit the admission free under bond of materials supplied by a foreign government which are to be used in the manufacture of articles ordered by that government for export. It is administratively feasible and the policy involved seems to be a proper one under the present circumstances. A matter of tariff policy is involved, however, and the recommendation should come from another source, and that is the State Department on recommendation of the Executive Committee on Commercial Policy, or the President.

December 17, 1940.

To: Secretary Morgenthau
From: Mr. Gaston

I am attaching a memorandum from Commissioner Johnson on the subject of the memorandum handed to you by Sir Frederick Phillips, and also the first draft of a proposed report to the Chairman of the Ways and Means Committee on the Cullen bill. This bill, with some necessary amendment as indicated in Johnson's memorandum, would accomplish the object of the British to exclude their purchase tax from the computation of ad valorem duties.

We see no objection to thus amending our law. However, it is to be doubted that the Treasury should take the lead in proposing the change. In the last several years we have established the precedent that the Treasury speaks to Congress on the administrative feasibility of changes in the Tariff Act, but not on questions of tariff policy. As to tariff policy, we have a voice in the deliberations of the Executive Committee on Commercial Policy, which through the Secretary of State or the President seems the proper authority to recommend policy changes in the law. The sound reason for this precedent is that the Treasury has to hold a neutral position as between the conflicting interests of importers, exporters and domestic manufacturers in its administration of the Tariff Act.

The value of this course is illustrated in the present case. The Cullen amendment is sponsored by the National Council of American Importers. We know that it will be opposed by the Association of Woolen Manufacturers, the New Hampshire Manufacturers Association (which wrote to John Sullivan), and by the Columbia Carbon Company. We also understand that it will be opposed by the American Tariff League.

We can, however, quietly facilitate the amendment before the proper committees after it has been formally sponsored by other authority.

The same point is raised by another memorandum attached hereto which Mr. Cushman sent directly to Mr. Johnson. We have no objection to an amendment to the administrative provisions of the Tariff Act to permit the admission free under bond of materials supplied by a foreign government which are to be used in the manufacture of articles ordered by that government for export. It is administratively feasible and the policy involved seems to be a proper one under the present circumstances. A matter of tariff policy is involved, however, and the recommendation should come from another source, and that is the State Department on recommendation of the Executive Committee on Commercial Policy, or the President.

ELG:ds

December 16, 1940.

TO: ASSISTANT SECRETARY GASTON

FROM: W. R. JOHNSON

In the attached memorandum Mr. Darcy Cooper asks that the Secretary of the Treasury request Congress to enact, as a matter of urgency, H. R. 10705, a bill introduced by Congressman Cullen of New York, to amend the Tariff Act of 1930 so as to exclude the British purchase tax and similar taxes from the computation of "foreign" values in the appraisement of importations into the United States.

Mr. Cooper states that he "has been informed confidentially that the Executive Committee on Commercial Policy, with the concurrence of the Bureau of Customs, has recommended that the Administration should support" this bill. It is my understanding that the Executive Committee favors the bill. The only concurrence of the Bureau of Customs of which I have any knowledge is my statement to several inquirers that I could see no administrative difficulties in the proposed legislation if certain technical amendments were adopted, and that I assumed the Treasury Department would follow its usual course and report to the committees of Congress only as to the administrative possibilities of the bill, leaving it to other departments or agencies to comment on the policy aspects.

In response to a request from the Committee on Ways and Means of the House of Representatives addressed to the Secretary, we have almost completed a draft of a report on the bill along the lines above indicated. A copy of the report in its present form is attached.

W. R. Johnson

21. 1930 memo to H. H. by Sir Fred Phillips
at the 10:30 meeting Dec 13/40 303

Memorandum for the Secretary of the
Treasury

Last August the Secretary of the Treasury expressed his regret that he was unable to undertake at that time such amendment of the United States Customs law as would have obviated the inclusion of the British Purchase Tax in the dutiable value of goods imported into the United States from the United Kingdom. Deeply impressed by the disastrous effect which the increase in valuation resulting from the Purchase Tax was likely to have upon the trade of the United Kingdom with the United States, Mr. D'Arcy Cooper asked, on his arrival in Washington, that the matter should be reconsidered. Mr. Cooper has been informed confidentially that the Executive Committee on Commercial Policy, with the concurrence of the Bureau of Customs, has recommended that the Administration should support a Bill introduced by Mr. Cullen for the amendment in the sense desired by the United Kingdom Government of Section 402(c) of the Tariff Act of 1930 as amended.

The British Purchase Tax became effective on the 21st October and increased assessments are thus already being made in accordance with the existing Customs law of the United States. It is earnestly hoped that the

Secretary of the Treasury may now see his way to ask Congress to enact, as a matter of urgency, the measure which has been introduced by Mr. Cullen, subject, of course, to such amendment as Mr. Morgenthau may consider necessary.

BRITISH EMBASSY
WASHINGTON, D.C.

December 1940

Dear Mr. Chairman:

Receipt is acknowledged of your letter of December 5, 1940, requesting the comments of this Department in connection with H. R. 10705, a bill "To amend section 402(c) of the Tariff Act of 1930, as amended, and for other purposes."

Section 402(c) of the Tariff Act of 1930, as amended by section 8 of the Customs Administrative Act of 1938 (U.S.C., Sup. V, title 19, sec. 1402(c)) reads as follows:

"(c) Foreign value. The foreign value of imported merchandise shall be the market value or the price at the time of exportation of such merchandise to the United States, at which such or similar merchandise is freely offered for sale for home consumption to all purchasers in the principal markets of the country from which exported, in the usual wholesale quantities and in the ordinary course of trade, including the cost of all containers and coverings of whatever nature, and all other costs, charges, and expenses incident to placing the merchandise in condition, packed ready for shipment to the United States."

H. R. 10705 would further amend this section by changing the period at the end thereof to a colon, and adding the following:

"Provided, That any tax imposed by the country of exportation on the said market value or price and not imposed upon such merchandise when exported to the United States, shall not be included."

It is understood that the purpose of the bill is to authorize the exclusion of the so-called British purchase tax, or other similar foreign taxes, as part of the United States customs appraised value of imported foreign products when appraised is based on the foreign value of such goods as defined in section 402(c) of the tariff act, as amended, ~~above~~. The goods affected by the inclusion of the tax in the appraised value are those subject to an ad valorem rate of duty.

-3-

This so-called British purchase tax is levied under the British Finance (No. 2) Act, 1940, which became effective on October 21, 1940. It is essentially a consumer's tax, accruing at the wholesaler-retailer stage in Great Britain. The tax does not apply to goods sold for export from England.

It is not believed that H. R. 10705, if enacted in its present form, would accomplish the object desired. In the first place, the tax in question is not imposed by the British Government on a market value or price which is arrived at under the present section 402(c) of the United States tariff act, as amended, supra, (as the wording in the present bill might indicate), but is imposed upon a wholesale value defined in the British Finance Act, which differs in some particulars from the foreign value as defined in section 402(c) of the United States Tariff Act of 1930, as amended, supra; nor does it seem likely that any such tax would be imposed by any country upon the basis of foreign value within the meaning of the United States tariff laws. Furthermore, it would seem that the bill in its present form would make an unintended distinction between a tax based upon value and a like tax of a specific nature, as, for example, so much per pound, per gallon, etc.

In order to overcome these objections, the following proviso is suggested in lieu of that proposed in this bill:

"Provided, that the 'foreign value' of imported merchandise shall not include any tax (except import duty) which is not applicable with respect to such or similar merchandise when exported to the United States."

An express exclusion of import duty from the proposed proviso is suggested because customs officers would undoubtedly encounter administrative difficulties in ascertaining the amount of any deduction for such an item and in determining whether such a deduction could properly be allowed. Moreover, it is believed that the exclusion of import duty would be consistent with the intended scope of the amendment.

If language substantially like that suggested above were enacted the Treasury Department believes the amendment would result in no administrative difficulties for this Department.

-3-

Very truly yours,

Secretary of the Treasury.

Hon. Robert L. Doughton,
Chairman, Committee on Ways and Means,
House of Representatives,
Washington, D. C.

WRJ-esb 12-16-40

The Director,

Bureau of the Budget.

Sir:

There are enclosed herewith for your consideration an original and one copy of a proposed letter to the Chairman of the Committee on Ways and Means, House of Representatives, reporting on H. R. 10705, a bill "To amend section 402(c) of the Tariff Act of 1930, as amended, and for other purposes."

It is requested that you advise whether the proposed legislation is in accord with the program of the President.

By direction of the Secretary:

Very truly yours,

Administrative Assistant
to the Secretary.

WRJ-esb 12-16-40

(Handed by Mr. Pincent of the British Embassy to Mr. Cochran in the Treasury at 10:20 a.m., December 12, 1940.)

369

Memorandum for the Secretary of the Treasury

The Administrative provisions relating to drawback in section XIX (a), (b) and (g) of the Tariff Act affect adversely the cost to the British Government of war equipment manufactured in the United States partly from imported materials. A few items may be admitted free of duty as an act of international courtesy, but the majority enter subject to drawback in which case the retention by the Customs of 1½ of the duties assessed upon re-exportation constitutes a serious burden in view of the very large scale of United Kingdom purchases of such war equipment in this country.

The extent of this burden is difficult to estimate, but in the case of contracts placed by the British Purchasing Commission during 1941 it will amount to not less than \$20,000. In addition to this, in connection with the projected shipbuilding programme it would appear that a further substantial loss would accrue if a substantial amount of materials were to be imported from the United Kingdom for incorporation in the ships built in this country.

Since under the existing law these materials cannot be accorded free entry might it be possible for the sub-sections in question to be amended or, alternatively, for a special emergency provision to be enacted to provide for free entry in respect of such materials imported on account of the British Government?

BRITISH EMBASSY,
WASHINGTON, D. C.

December 12, 1940.

Copy: jct

December 17, 1940

Dear Jesse:

ackd 10/8/41

I am sending you herewith the latest summary of the British requirements.

Yours sincerely,

Henry

Honorable Jesse Jones,
Federal Loan Administrator.

Encs.

summary found
in booklet

December 17, 1940

Dear Jesse:

I am sending you herewith the latest summary of the British requirements.

Yours sincerely,

Henry

Honorable Jesse Jones,
Federal Loan Administrator.

By Manager

December 17, 1940

Dear Jesse:

I am sending you herewith the latest summary of the British requirements.

Yours sincerely,

Henry

Honorable Jesse Jones,
Federal Loan Administrator.

By Handwritten

December 17, 1940

My dear Cordell:

For your confidential information,
I am sending you herewith a summary of
the British program.

Yours sincerely,

Henry

Honorable Cordell Hall,
Secretary of State.

Enc:

Summary based
in booklet

By ~~Handwritten~~ 31.

December 17, 1940

My dear Cordell:

For your confidential information,
I am sending you herewith a summary of
the British program.

Yours sincerely,

Henry

Honorable Cordell Hall,
Secretary of State.

By Messenger

December 17, 1940

My dear Cordell:

For your confidential information,
I am sending you herewith a summary of
the British program.

Yours sincerely,

Henry

Honorable Cordell Hall,
Secretary of State.

By Messenger

STRICTLY CONFIDENTIAL

Summary of Programs
No. 1, No. 2, and No. 3

	Value of product	Amount of capital required
I Air	\$3,870,000,000	\$ 900,000,000
II Munitions	1,894,000,000	300,000,000
III Ships	184,000,000	18,000,000
IV Other	576,000,000	
Total	<u>\$6,524,000,000</u>	<u>\$1,218,000,000</u>

STRICTLY CONFIDENTIAL

Program No. 1
(I Program)

	Initial Order to be Placed for output (excluding capital amortisation)	Capital Investment necessary for creating new productive capacity
I. <u>New Airplane Program</u>		
a. Smaller scheme to produce 12,000 aircraft by June, 1942	\$ 1,075,000,000	\$ 400,000,000
(NOTE - \$100,000,000 paid in capital on present program, per U.S. Treas- ury report of Nov. 9, 1940.)		
b. Armament, ammunition, bombs, radio and special equipment for above	125,000,000	50,000,000
II. <u>U.S.-Type Ordnance Program</u>		
a. 10 Divisions equipped with U.S.-Type weapons (<u>B Program</u>) - War Dept. estimate	600,000,000	200,000,000
b. Other U.S.-Type ordnance not yet ordered (including .50 and .30 ammunition)	75,000,000	25,000,000
c. <u>Tanks</u> and Tank guns remaining to be ordered	100,000,000	15,000,000
	<u>87,000,000</u>	<u>9,000,000</u>
III. <u>Merchant Ship Construction</u>	TOTALS \$2,062,000,000	\$699,000,000

This statement is in addition to orders already placed amounting to approximately \$2,600,000,000.

The "New Airplane Program" represents the first step in the expansion of the British aircraft program already established.

The "U.S.-type Ordnance Program" does not include additional items still to be formulated under the 10 Division Army Plan.

STRICTLY CONFIDENTIAL

Program No. 2
(Additional orders to be placed
now under negotiation)

	:	:	:
	:	Value	:
	:	of product	:
	:	:	Amount of
	:	:	capital
	:	:	required
I Air		\$270,000,000	
II Ordnance		369,000,000	\$10,000,000
III Ships		10,000,000	
IV Other		<u>576,000,000</u>	
Total		<u>\$1,225,000,000</u>	<u>\$10,000,000</u>

STRICTLY CONFIDENTIAL

Program No. 3

Contemplated British requirements
for the continuation and expansion of programs
which have already been submitted or discussed
involving payments before August 31, 1941

(This table, together with the details already furnished to the Treasury, includes all programs which can at present be formulated. It is plain that large plans will have to be formulated in the near future and further orders will have to be placed.)

	Value of product	Amount of capital required
I. Air (Orders for release in mid-1941)		
a. Repeat orders from present capacity for output July - December 1942	\$ 600,000,000	\$
b. Repeat orders from capacity to be created under "X" program for out- put July - December 1942	900,000,000	
c. Initial order for output from further new capacity (additional 1500 aircraft per month) up to end of December 1942	<u>900,000,000</u>	<u>450,000,000</u>
Total Air	<u>2,400,000,000</u>	<u>450,000,000</u>
II. Munitions		
a. Remaining equipment to be ordered for 10-division scheme	350,000,000	50,000,000
b. Repeat orders for ordnance and ammunition now on order or under negotiation (excluding 10-division scheme) - six months output	<u>400,000,000</u>	
Total Munitions	<u>750,000,000</u>	<u>50,000,000</u>
III. Ships (Additional 60 under consideration) 1/	<u>67,000,000</u>	<u>9,000,000</u>
Total	<u>\$3,237,000,000</u>	<u>\$ 509,000,000</u>

1/ This represents the figure under discussion by the B. P. C., but it may be absorbed in the plan tentatively discussed but not yet elaborated, for the construction of 300 ships, at an estimated price of \$720 millions.

Notes on Conference in Secretary's
Office 3:02 P.M., Tuesday, December 17, 1940

Those present, Secretary Morgenthau, Secretary Stimson, Secretary Knox, Assistant Secretary of War Patterson, Under Secretary of Navy Forrestal, Mr. Philip Young, and Mrs. Klotz.

Mr. Stimson: My colleagues and I have had five months experience with the Advisory Commission to the Council of National Defense and I think it about time these experiences were summed up and the advice of these gentlemen presented to the President. I had a conference with Mr. Knox and as a result we agreed as to what the situation is and as to what should be done. Therefore, we want to talk with Secretary Morgenthau as we are "newcomers" on the scene.

H.M., Jr.: You are not a "newcomer", but rather a "repeater" and I expect you to keep right on repeating every twenty years. I am honored to be consulted in such a matter.

Mr. Stimson: My experience with the Advisory Commission seems to indicate one remedy, namely, a concentration of responsibility. In order to illustrate my feeling, I want to ask Mr. Patterson to enlarge upon it.

Mr. Patterson: The Defense Commission has certain parts and each part gives independent and usually conflicting advice. I will get one recommendation from Mr. Hillman and another from Mr. Knudsen which is diametrically opposed. When I inquire as to whose advice I should take, the answer is whichever I like. Mr. Knudsen has no real power over production and the situation cannot be straightened out until a single post has been created for an administrator with complete responsibility.

H.M., Jr.: Where do I come into the picture? Is it the idea that I can lay this matter before the President easier than the rest of you?

Mr. Stimson: That is only part of the reason. The group really wishes to have the aid of your counsel and thought.

H.M., Jr.:

I have had experiences with the Defense Commission and I can cite Leon Henderson as a specific example. Henderson has been asking for material which had already been furnished Mr. Knudsen but which Mr. Knudsen would not give to Henderson.

Mr. Patterson:

I don't think that was so crazy due to the very nature of the material itself.

H.M., Jr.:

As long as the conference has developed into a Quaker experience meeting, let me say that hardly a day has passed without some example of the lack of coordination in the Defense Commission. I cite as another example the fact that no amortization certificates have yet been cleared by that organization.

Mr. Patterson:

Each of the seven Commissioners have a man who is a tax expert and no certificates can be signed until all seven of these tax experts have concurred.

H.M., Jr.:

I have opposed the setup from the start and I do not see how I can go to the President and say, "I told you so".

Mr. Stimson:

Everyone in the group has talked with Baruch.

H.M., Jr.:

I haven't.

Mr. Patterson:

Today, we have seven phases of each problem, no one of which is coordinated with the other.

Mr. Stimson:

Baruch said the Defense Commission should operate under the same rules as the Pan American conference, where every representative had a veto power covering all other representatives.

H.M., Jr.:

Philip Young could entertain the group for a week citing his experiences with the Defense Commission.

Mr. Forrestal:

I feel the same way as Mr. Patterson and I think Mr. Stimson, Mr. Knudsen, Mr. Morgenthau, Mr. Jones and Mr. Hull should form an "over all" policy board which would act as a filter upon matters coming up for Presidential decision. Further, the British programs would have to be tied in under Secretary Morgenthau but parallel with the War Department and the Navy Department. It is my idea that Mr. Knudsen or his counterpart should be in charge of industrial mobilization which would have control of production, priorities, raw materials, and the coordination of purchasing.

E.H.Jr.:

The President has not asked me about the Defense Commission but I think the President started out with the definite idea in mind of keeping control within the Cabinet and using the Defense Commission purely as an advisory group. I think probably that Louis Johnson is in large part to blame for the organization as it was finally set up. The President is your due to the fact that he had not been handled properly at the time. I feel that the responsibility should be on the Secretary of War and the Secretary of the Navy and that if those two do not have enough authority it is because they either haven't exercised it or haven't asked for it. The Secretary of War and the Secretary of the Navy could employ as many experts as they wish dealing with labor production, etc. There is no reason why the same expert should not serve the two of them. Why can't the Army and Navy Munitions Board be used as the mechanical means for dealing with such problems.

Mr. Patterson:

It can't be done as that board has no legal authority.

E.H.Jr.:

Give it the authority.

(This suggestion was turned down as being impractical.)

Mr. Blinnson:

I am not a business man. I have never been a business man and I have no business sense. Therefore, in thinking about Secretary Morgenthau's suggestion, it seems necessary to have someone thoroughly acquainted with production problems who would have the knowledge and could assume the power to operate. Mr. Knudsen has already been built up to a large extent in the eyes of the country and if he possessed the power and assumed the responsibility, he would be in a position to feel the sting if the job was not properly done. I couldn't go out into the field and if I did, I wouldn't understand what was going on. It is my idea that the War Department and the Navy Department need some sort of a Munitions manager to do the production job.

E.H.Jr.:

That is the same idea, the only difference being that I think the job should be done under the cloak of the Secretary of War and the Secretary of the Navy.

- Mr. Stimson: Whoever the man is, he will have to feel the sting of responsibility.
- Mr. Patterson: The President has the power to create such a job and to delegate the authority. The Priorities Board is an example.
- H.M., Jr.: At Cabinet, the President talked about Mr. Knudsen and criticized destroyer production, a matter which was really Knox's responsibility. You cannot convince a Congressional Committee that the responsibility for such a thing rests with the Defense Commission, rather than with the Secretary of the Navy.
- Mr. Patterson: I think a Congressional committee would be convinced if the Defense Commission had responsibility. However, Army officers are not fit to take over industrial production. In addition, all the newspapers say that the responsibility is on the Defense Commission.
- H.M., Jr.: No. You go up before the Congressional committees and you'll find out about it. It is my feeling that the President will not appoint a Chairman of the Defense Commission with full power to act.
- Mr. Forrestal: I have here a chart which shows the setup I have in mind.
- H.M., Jr.: I don't see the President on it.
- Mr. Forrestal: All of these positions flow up to the President at the top (copy of chart attached).
- Mr. Patterson: What we need is a production man with a setup similar to the British Ministry of Production.
- H.M., Jr.: I have only been doing the British because the President asked me to do it. I'll be glad to give it to anyone who can do a better job.
- Mr. Knox: There has to be some central responsibility.
- Mr. Stimson: You have got to face a condition and not a theory.
- H.M., Jr.: It could be worked out perfectly realistically if you delegated the authority in writing.

- Mr. Johnson: You can't talk theories. The Army should pick out the weapons they want but they should not carry out the contracts. As a matter of fact, the contracts are now in the hands of Defense, but they are not followed up very well because there is no head of the Defense Commission.
- Mr. Johnson: Where do you draw the line? That is, where would you leave off and where would Knudsen start in?
- Mr. Forrestal: Mr. Knudsen will start in on the production end after the design has been worked out by the services.
- Mr. Johnson: The Army ought to conduct the negotiations.
- Mr. Knox: Mr. Knudsen should pick out the producer and then come after him to see that he produces.
- Mr. Johnson: That is just the trouble. You don't want to give up your control over the things to be produced. Are you going to sign after the specifications are drawn and then let the production run on ahead?
- Mr. Stinson: You may be right. You may have to sign there.
- Mr. Patterson: Sarach had the power to pick the supplier.
- Mr. Johnson: You should turn over the plans and then tell Mr. Knudsen to go ahead and make some.
- Mr. Knox: You can't do that as the power is in the War and Navy Departments.
- Mr. Johnson: There you are. You see you are not ready to give it up.
- Mr. Forrestal: I think my chart here accomplishes both things.
- Mr. Patterson: Your proposal, Secretary Morgenthau, is more radical than ours.
- Mr. Stinson: You must use evolution on what we already have. Secretary Morgenthau's ideas could be carried out to some extent on some things like airplanes but they would not work on ordnance items where U. S. arsenals are involved as these arsenals couldn't be turned over without getting in an awful row with the Ordnance Department.

H.M., Jr.: Now you are arguing on my side.

Mr. Forrestal: I think there is a lot in your suggestion, Secretary Morgenthau.

Mr. Stimson: They are both logical plans.

Mr. Knox: Secretary Morgenthau knows the President, and he wants it done through the Cabinet.

Mr. Patterson: I don't know how well you are acquainted with Baruch but he did a good job after March, 1918, after he got the authority to go ahead. Similarly, the British Minister of Munitions and Supply has operated successfully along the same lines. Further, the Defense Act of 1920 made the Secretary of War responsible for industrial mobilization. It was a setup similar to the original Baruch plan, worked out on a sound basis and over a long period.

Mr. Stimson: We can't be the victims of too much logic. Part of this plan was laid twenty years of study and it is just impossible to turn around and set up a Ministry of Munitions and Supply. We have a different situation and we must look for solutions based on what we have without too much regard for logic.

Mr. Patterson: The civilian people of the United States wouldn't stand for sole control of the industrial program by the Army and Navy.

H.M., Jr.: Look here, suppose Andy and I were in the shoe business and he had a good idea and we were in a good town. Now we would have to do one of two things. We would either have to hire a man to do the job, that is, the printing and the selling and to work out the supplies we needed and that sort of thing, or else we would have to buy our tools and machines and do the job ourselves. You have either got to cut bait or fish. In other words, keep this job within the Army and Navy or else completely divorce it.

Mr. Patterson: Then the Army and Navy would own all of these plants and run them like arsenals.

H.M., Jr.: No. You would use the arsenals as a yardstick and then you would get the best assistant you could find whose job it would be to get the plans out and you would tell the public that it was this man's responsibility.

Mr. Stimson: Let's go up the line. What about priorities?

H.M., Jr.: You would be jointly responsible so that there will be control of these things which cut across department lines.

Mr. Stimson: Now you have left logic and you are coming over on my ground.

H.M., Jr.: You wouldn't need any higher authority. You and Knox are big enough to work out your problems.

Mr. Patterson: I still think it is unsound to have the Army and Navy in charge of civilian consumption.

H.M., Jr.: After all, you have a civilian head over the Army and Navy.

Mr. Stimson: That may be true in normal times but at the moment Mr. Knox and I are cushions until we feel like a pin cushion. I think we need a new cushion for certain parts and certain commodities.

H.M., Jr.: Then you ought to go over the other way, delegate the responsibility and not have any strings tied to it at all.

Mr. Knox: Why shouldn't there be a Chairman of Defense for the Secretary of War and the Secretary of Navy on a par with it. This would make three heads and then Mr. Knudsen could be vested with the full powers to go ahead and do a job. It would be possible to keep the Advisory Commission where it is now.

H.M., Jr.: Priorities ought to be put under Mr. Knudsen.

Mr. Forrestal: I think that you ought to call on the senior members of the Cabinet for advice.

Mr. Patterson: No. There is no point to that.

Mr. Stimson: You shouldn't formalize it in any way.

Mr. Knox: We are going to go over and talk with Jeeze (Jones) about this same situation. We would like to get his ideas too. Would you like to go with us?

H.M., Jr.: No. I think I shall stay here. I feel greatly honored that you came to see me.

FD4

December 17, 1940
4:07 p.m.

H.M.Jr: Hello.

Operator: Secretary Jones.

H.M.Jr: Jesse?

Jesse
Jones: Hello. How are you?

H.M.Jr: I'm alive.

J: (Laughs).

H.M.Jr: I had some customers just leave here. They say they are going over to see you.

J: Do you know what about? I haven't any idea if they asked if they could come.

H.M.Jr: Yeah. They want to talk about this whole military setup.

J: I see.

H.M.Jr: And they're on their way over. I was sorry that I couldn't buy you a lunch. I had some nice fish for you.

J: Well, another time.

H.M.Jr: I hope so.

J: Anything to this stuff I'm reading in the paper about the clock stopping and loans to our friends and things?

H.M.Jr: (Laughs).

J: You know we're in the same boat and I don't want to get left at the switch.

H.M.Jr: (Laughs). Well, I'll tell you exactly what I told the President. I think it was Friday this fellow Phillips asked me could he ride

- 2 -

home with me, he wanted to talk to me and he said it was very embarrassing to him that I keep saying that they hadn't asked me for a loan. I said, well, you haven't. So he said, well, I'm going to ask you now. So I said, O. K. Then when they asked me at this press conference had I or hadn't I, well, I got around it by saying the clock had stopped.

J: Right.

H.M.Jr: But that's exactly what happened. Now as to the other matter, at lunch today the President asked me what I had said and I told him and then he said, now, what about these programs. And I laid the whole program before him - just one second - wait one minute.

J: Yeah.

H.M.Jr: What we now call Program No. 1, which totals 2 billion and 62 of orders and 699 million of facilities, see, we call that Program No. 1. I'll send it over to you in a minute. And then Program No. 2 totals 1 billion, 235 million. Now he said to go ahead and tell the English we're ready to negotiate those two.

J: Yeah.

H.M.Jr: Now Program No. 3 in this book, which totals 3 billion, 700 and some odd million, he said wait a while.

J: Yeah.

H.M.Jr: So that's where she stands but of course the English have not yet replied to me.

J: I see.

H.M.Jr: Now, furthermore, the President told me that at his press conference he was going to talk about just what he was ready to do for the English. I think he has the press informed and he's going to put it up squarely to Congress so so far you and I are still in the same boat and we're still rowing in the same direction as the President.

- 3 -

J: O. K. Fine.

H.M.Jr: So that's the way she stands so I thought at 5:00 I'd just tell Phillips that the President said he is ready to go ahead and negotiate but just where we're going to do it all I don't know.

J: I see. I think that's just like it ought to be.

H.M.Jr: You like that.

J: I think it's just like it ought to be.

H.M.Jr: Well, I like it and if he says at his press what he told me he was going to say, I'm sure you're going to like that too.

J: Fine.

H.M.Jr: And I tried to show him all the breakdown and everything and he said, oh, you know all that, that's all that's necessary. He didn't want to look at it.

J: (Talks aside - tell them to look out for those fellows and bring them in)

H.M.Jr: So I'll put this in an envelope and send it right over to you.

J: Thank you very much.

H.M.Jr: Thank you.

J: O. K.

Notes on Conference in the
Secretary's office, 4:35 P.M., Tuesday,
December 17, 1940.

Those present at this meeting were, Secretary Morgenthau, the Greek Minister, and Philip Young.

The Greek Minister reported to the Secretary that the thirty Defiant planes offered by the British to Greece were not adequate. He stated that his Government definitely wanted the P-40, and that, due to the fact that the Greeks had every type of plane already, he felt sure they could handle the P-40 as well as anything else.

The Minister gave the Secretary a copy of a cable which he had received, and the Secretary asked him to give a copy also to Mr. Murray of the State Department. The Secretary said that he would telephone Secretary Hull and advise him of the attitude of the Greek Government.

The Secretary stated that the United States Army did not have any P-40 planes that it could release, so that if Greece got any P-40's they would have to be released by the English. The Greek Minister said that he was sorry that his Government insisted on the P-40's as he considered the release of thirty Defiants by the British a good idea. He added that he would be in New York for the next few days but that the Chancellor would be at the Legation in case the Secretary wanted him.

ooOoo

FDY.

December 17, 1940
4:45 p.m.

H.M.Jr: Hello.

Operator: Secretary Hull has a foreign correspondent with him and he'll be with him about ten minutes longer.

H.M.Jr: All right. Well, I go into another meeting at 5:00 tell him.

Operator: All right.

H.M.Jr: I go into a meeting at 5:00.

Operator: Right.

5:03 p.m.

H.M.Jr: Hello.

Cordell Hull: Hello, Henry.

H.M.Jr: Cordell, the Greek Minister was just here and he's left me a memorandum of which I'm having a copy made and it'll be over to your place in fifteen minutes.

H: All right.

H.M.Jr: The gist of it is, they don't want the English planes and they do want the Curtiss P-40's.

H: I see.

H.M.Jr: No if, and, or but. So after you've thought it over why I'd be glad to talk with you about it.

H: Yes. Well, Sumner got in touch with you the other day, didn't he?

H.M.Jr: Pardon?

- 2 -

H: Sumner got in touch with you the other day.

H.M.Jr: No. I didn't hear from Sumner. I haven't heard from anybody since I talked to you.

H: You haven't. Well, that's funny. I called him right in and asked him if the President knew anything about that Greek order. He said the President specifically instructed him to make that proposal.

H.M.Jr: I see.

H: Now, I said, of course the President would have told Henry of it first, but like we do here sometimes I suppose he just overlooked it in the awful rush of things.

H.M.Jr: No, I've had no communication or telephone message

H: Well, Sumner said he'd take it right up with the President - I mean with you and get it clearly set down. Oh, Christ, I'm sorry.

H.M.Jr: It's all right but I just wrote that memorandum to you because I want to be 100% sure that you and I are together on all these things.

H: Yes. Well, I can't keep up with Sumner and some of the others who are around.

H.M.Jr: Well, you and I can keep together - that's all that's important.

H: All right. Send it over, Henry.

H.M.Jr: It will be there within fifteen minutes.

H: Yes. Fine.

H.M.Jr: Thank you.

H: All right.

December 17, 1940

My dear Cordell:

The Greek Minister called on me today at 4:30 p.m. and left a memorandum with me, copy of which you will find attached hereto. After you have had a chance to think this matter over, I would appreciate your telephoning me.

The ten planes destined for Siam are still resting on the docks in the Philippines. There are also six planes at the North American plant in California completed for Siam. I would appreciate if you would advise me what disposition should be made of these sixteen planes. You will remember that this matter was originally referred to me by Secretary Stimson after he had conferred with you and the whole matter was discussed at Cabinet.

Yours sincerely,

Honorable Cordell Hull,
Secretary of State.

*copy of to
enclosure
Mr. Young
12/17/40*

December 17, 1940

My dear Cordell:

The Greek Minister called on me today at 4:30 p.m. and left a memorandum with me, copy of which you will find attached hereto. After you have had a chance to think this matter over, I would appreciate your telephoning me.

The ten planes destined for Siam are still resting on the docks in the Philippines. There are also six planes at the North American plant in California completed for Siam. I would appreciate if you would advise me what disposition should be made of these sixteen planes. You will remember that this matter was originally referred to me by Secretary Stimson after he had conferred with you and the whole matter was discussed at Cabinet.

Yours sincerely,

Honorable Cordell Hull,
Secretary of State.

December 17, 1940

My dear Cordell:

The Greek Minister called on me today at 4:30 p.m. and left a memorandum with me, copy of which you will find attached hereto. After you have had a chance to think this matter over, I would appreciate your telephoning me.

The ten planes destined for Siam are still resting on the docks in the Philippines. There are also six planes at the North American plant in California completed for Siam. I would appreciate if you would advise me what disposition should be made of these sixteen planes. You will remember that this matter was originally referred to me by Secretary Stimson after he had conferred with you and the whole matter was discussed at Cabinet.

Yours sincerely,

Honorable Cordell Hull,
Secretary of State.

The Greek Government is very much concerned with the question of the reinforcement of its air forces and it feels the necessity of taking proper measures to face not only the present necessities but also other unforeseen developments which might arise in the near future from the situation in the Near East.

After a careful examination of the offer made in regard to the "Defiance" planes, the Greek Government came to the conclusion that these planes are not suitable and that Curtis P. 40 are the adequate ones. Their shipment should be hastened in order that they could reach Greece in time.

Therefore, the Greek Government want to renew their urgent appeal to the United States Government hoping that the latter will fully realize Greece's situation and bring the question to a satisfactory conclusion.

Washington, D.C.
December 17, 1940.

The Pres's Press Conf.

PRESIDENT ROOSEVELT REVEALED TODAY THAT THE ADMINISTRATION IS
CONSIDERING BUILDING ADDITIONAL ARMAMENTS FOR THE UNITED STATES AND
LOANING OR LEASING THEM TO GREAT BRITAIN.

12/17--GE452P

ADD ROOSEVELT

MR. ROOSEVELT SAID HE THOUGHT IT WAS BANAL TO TALK OF ADDITIONAL DOLLAR LOANS OR GIFTS TO GREAT BRITAIN, BUT THAT THE PLAN OF LEASING U. S. MATERIALS OR SELLING THEM SUBJECT TO MORTGAGE WAS A POSSIBLE SOLUTION TO THE QUESTION OF HOW TO EXTEND MORE AID TO GREAT BRITAIN.

12/17--GE454P

ADD ROOSEVELT

HE SAID THAT SINCE THE BEST DEFENSE OF GREAT BRITAIN IS THE BEST DEFENSE OF THE UNITED STATES, AMERICAN ARMAMENTS WOULD BE OF GREATER VALUE IF USED BY GREAT BRITAIN THAN IF KEPT IN STORAGE HERE.

12/17--GE455P

ADD ROOSEVELT

MR. ROOSEVELT SAID HE WAS TRYING TO ELIMINATE THE DOLLAR SIGN FROM THE CONTROVERSY OF HOW BEST TO INCREASE U. S. AID TO BRITAIN.

HE SAID THAT THE U. S. UNDER THIS PLAN MIGHT TAKE OVER FUTURE BRITISH ORDERS FOR CERTAIN MUNITIONS AND OTHER IMPLEMENTS OF WAR WHICH THE BRITISH NEED. THE U. S. COULD PAY FOR THEIR MANUFACTURE AND THEN LOAN OR LEASE THEM TO THE BRITISH TO BE RETURNED BY THE BRITISH AFTER THE WAR IS OVER.

12/17--GE490P

ADD ROOSEVELT

IF THE EQUIPMENT WERE IN GOOD SHAPE, WE WOULD CCEPT IT BACK FROM THE BRITISH AFTER PAYMENT OF A REASONABLE RENTAL FEE. IF IT WERE DAMAGED OR DESTROYED, THE BRITISH WOULD AGREE TO REPLACE IT.

MR. ROOSEVELT SAID THAT IF ANY SUCH PLAN IS FINALLY APPROVED BY ADMINISTRATION OFFICIALS, WHO ARE STUDYING IT ALONG WITH THE BRITISH, IT WOULD REQUIRE CONSIDERABLE LEGISLATION AND APPROPRIATIONS BY THE NEXT CONGRESS.

12/17--GE5P

ADD ROOSEVELT

MR. ROOSEVELT WAS ASKED WHETHER HE THOUGHT LOANING OR LEASING OF U. S. EQUIPMENT FOR USE BY THE BRITISH IN A WAR WOULD BRING THE UNITED STATES NEARER TO WAR. HE REPLIED THAT HE DID NOT THINK SO.

SUCH A PLAN, HE SAID, WOULD BE TO THE BEST INTEREST OF THE UNITED STATES BECAUSE IT WOULD FURTHER THE CREATION OF ADDITIONAL DEFENSE PRODUCTION FACILITIES AND WOULD HELP DEFEND GREAT BRITAIN. AND BRITAIN'S SUCCESS IN DEFENDING HERSELF HELPS THE UNITED STATES.

MR. ROOSEVELT EMPHASIZED THAT HE WAS SPEAKING OF FUTURE BRITISH ORDERS. HE BELIEVED THEY POSSESS SUFFICIENT EXCHANGE TO PAY FOR THEIR ORDERS ALREADY PLACED.

HE OPENED HIS PRESS CONFERENCE BY BRINGING UP THE SUBJECT OF ADDITIONAL AID FOR BRITAIN AND SAID THAT HE HAD BEEN READING SOME NOISES ABOUT FINANCING OF BRITISH ORDERS. HE TOLD THE CORRESPONDENTS THAT IN HIS MEMORY AND IN THE MEMORY OF HISTORY NO MAJOR WAR HAS BEEN WON OR LOST THROUGH LACK OF MONEY.

MR. ROOSEVELT WAS ASKED ABOUT SECRETARY WELLS'S ASSERTION THAT THE FIRST HALF OF 1941 IS CRUCIAL FOR GREAT BRITAIN. THE PRESIDENT SAID THAT THE ADMINISTRATION'S PROGRAM FOR SPEEDING DEFENSE PRODUCTION IS TO KEEP EVERLASTINGLY AT IT AND TO PUSH PEOPLE.

12/17--CH505P

1330
ADD ROOSEVELT

HE DISCLOSED THAT THERE WERE TWO OR THREE CASES UNDER INVESTIGATION FOR DETERMINATION WHETHER IT WOULD BE NECESSARY FOR THE GOVERNMENT TO EXERCISE ITS POWER TO TAKE OVER PLANTS WHICH REFUSE TO COOPERATE IN THE DEFENSE PROGRAM.

MR. ROOSEVELT WAS ASKED WHETHER MERCHANT SHIPS FOR EXAMPLE, WHICH MIGHT BE BUILT WITH U. S. MONEY AND THEN LOANED OR LEASED TO THE BRITISH WOULD BE DELIVERED TO GREAT BRITAIN UNDER THE AMERICAN FLAG. HE SAID NOT NECESSARILY SO, AND REMARKED THAT THE VESSEL MIGHT EVEN FLY A BOLIVIAN FLAG AND THAT IT WAS NOT NECESSARY TO SEND AMERICAN FLAG VESSELS AND AMERICAN CREWS INTO WAR ZONES.

ASKED WHETHER TITLE TO ANY EQUIPMENT LOANED OR LEASED OR SOLD UNDER MORTGAGE TO GREAT BRITAIN WOULD REMAIN WITH THE UNITED STATES, MR. ROOSEVELT REPLIED THAT THAT WAS A LEGALISTIC DETAIL; THAT HE DID NOT HAVE THE FAINTEST IDEA WHERE THE TITLE WOULD BE VESTED.

HE SAID THAT THE TENTATIVE PLANS -- WHICH HE EMPHASIZED WERE NOT FINAL -- DID NOT CALL FOR TAKING OVER ALL FUTURE BRITISH ORDERS HERE BUT DID CALL FOR THE COMPLETION OF A LARGE NUMBER OF THEIR ORDERS WITH U. S. FUNDS.

HE SAID THAT THE UNITED STATES AND GREAT BRITAIN BOTH USED GENERALLY THE SAME TYPE OF EQUIPMENT AND IT WOULD BE TO THIS COUNTRY'S ADVANTAGE TO BUILD THEM HERE WITH U. S. FUNDS AND MAKE THEM AVAILABLE FOR BRITISH USE.

MR. ROOSEVELT SAID THAT IT WAS POSSIBLE THAT THE UNITED STATES LATER MIGHT HAVE TO CONSIDER OUTRIGHT GIFTS OF IMPLEMENTS OF WAR TO THE BRITISH, BUT HE WASN'T SURE THIS WOULD BE A NECESSITY OR THAT THE RESIDENTS OF GREAT BRITAIN WOULD WANT A GIFT FROM THE UNITED STATES.

12/17--HE310P

ADD ROOSEVELT

HE THOUGHT IT WAS NARROW-MINDED TO THINK ONLY OF REPEALING THE NEUTRALITY ACT AND THE JOHNSON ACT, AND THEN LENDING MONEY TO GREAT BRITAIN TO SPEND OVER HERE. 341

DISCUSSING THE PROPOSAL FOR LOANING OR LEASING U. S. EQUIPMENT TO GREAT BRITAIN, MR. ROOSEVELT USED THE EXAMPLE OF A NEIGHBOR'S HOUSE CATCHING FIRE AT A TIME WHEN YOU POSSESSED SOME GARDEN HOSE WHICH IF CONNECTED WITH HIS HYDRANT MIGHT HELP PUT OUT HIS FIRE. YOU DON'T SAY IN ADVANCE THAT THE HOSE COST \$15 AND ASK THE NEIGHBOR FOR IT, MR. ROOSEVELT CONTINUED. YOU MERELY CONNECT THE HOSE AND HELP HIM PUT OUT HIS FIRE, HE SAID.

AFTER THE FIRE IS OVER, IF THE HOSE IS O.K., HE RETURNS IT WITH THANKS; IF IT IS SMASHED UP YOUR NEIGHBOR ASKS YOU HOW MANY FEET OF HOSE WERE RUINED AND SAYS HE'LL REPLACE IT.

12/17--CK522P

ADD ROOSEVELT

MR. ROOSEVELT SAID THAT HE SAW NOTHING IN THE PRESENT SITUATION THAT WOULD REMIND EXTENSION OF THE PRESENT STATE OF LIMITED NATIONAL EMERGENCY TO A PROCLAMATION OF UNLIMITED EMERGENCY. ALTHOUGH THIS WOULD INCREASE HIS POWERS, HE SAID THERE WAS A GREAT QUESTION OF WHETHER IT WOULD SPEED UP PRODUCTION.

DISCUSSING DEFENSE COMMISSIONER KENNEDY'S COMPLAINT ABOUT THE FRIDAY-TO-MONDAY BLACKOUT OF INDUSTRIAL PRODUCTION, MR. ROOSEVELT SAID THAT NO GENERAL RULE WAS POSSIBLE ABOUT SEVEN-DAY, 24-HOUR OPERATION OF FACTORIES. HE SAID THAT MANY MANAGERMENTS ALREADY HAD TAKEN THE TROUBLE TO WORK OUT A PLAN WHEREBY THEY COULD KEEP THEIR FACTORIES OPERATING SEVEN DAYS A WEEK BY STAGGERING THE BEGINNING DATE OF SOME OF THEIR FORCE AND STILL WORK EACH MAN ONLY 40 HOURS PER WEEK.

FOR CERTAIN SKILLED LABOR, HE SAID, IT MAY BE NECESSARY NOW TO WORK OVERTIME AT TIME AND ONE-HALF, BUT AN EFFORT IS BEING MADE TO TRAIN ADDITIONAL SKILLED LABOR.

12/17--CK523P

December 17, 1940
5:15 p.m.

BRITISH PURCHASING PROGRAM

Present: Mr. Phillips
Mr. Young
Mr. Cochran
Mr. Bell
Mr. Playfair
Mr. Pinesat
Mr. Klotz

H.M.Jr: Before I get on the financial front, this is not quite your business, but I think you sat in on this Greek thing before, didn't you? Were you in on these Greek planes?

Phillips: No, sir, I wasn't. If I can be of any help, sir --

H.M.Jr: Well, there was this offer from the Air Section of the British Purchasing Mission. This was from -- maybe I am doubling up, but anyway, Morris Wilson said he had a message from Lord Beaverbrook whereby he offered 30 English planes to the Greeks in view of the fact that we had promised them 30 P-40's, you see. Now, tonight the Greek Minister comes in and says, "No, thank you," these 30 Defiant -- that is what it was, isn't it? -- are not good enough and he insists on the Curtiss P-40's. I haven't had a chance to think about it, but I am just -- if you would pass it on to Morris Wilson.

Phillips: I will.

H.M.Jr: They have turned us down. I have sent the thing over to Mr. Hull and asked him after he has read it to give me a call.

Phillips: We will get on to it when we get back.

H.M.Jr: I would appreciate it if you would.

Now, at lunch with the President today -- have you got one of these (Folder entitled "British Financial Requirements in United States, December 1, 1940")?

- 2 -

Young: Yes.

H.M.Jr: Would you give one to Sir Frederick, please?

If you would turn to the second page, that is what we call Program No. 1.

Phillips: Yes, I have got it.

H.M.Jr: Well, that page and the page following called Program No. 2.

Phillips: Yes.

H.M.Jr: The President says to go ahead and negotiate for the purchase of these two programs in toto.

Phillips: In toto.

H.M.Jr: In toto. Number 3, I told the President - well, I didn't even have time to read page 3. I couldn't tell him anything about this No. 3. Philip Young hasn't had a chance to explain it to me. I am going to let you keep that book so you needn't worry. I will let you keep that book.

Phillips: I see.

H.M.Jr: After all, it is your business. There is no reason why you can't have it. Do you want more than one?

Playfair: It would be a great help if we could have them.

H.M.Jr: Philip Young will give you more. You can have as many as you want. You can have two or three, if you want. You (Young) have several, haven't you?

Young: Have to get some more photostated. We can get them in the morning.

H.M.Jr: Well, you can give him mine.

Bell: You can have mine, too.

Young: It is a limited edition.

H.M.Jr: Well, give them a second edition.

White: It will soon be revised.

H.M.Jr: Did you hear what Dr. White said? It will soon be revised.

Phillips: When you say go ahead and negotiate contracts, does that cover the capital investment and all the rest of it?

H.M.Jr: The whole thing. The President said to tell them to go ahead. In other words, he considers that your credit is good for 1 and 2. And then, if you read what he said tonight -- he goes into considerable detail in his press conference. It is still coming over the ticker. I think if you read what he said plus this -- he goes into considerable detail on how he thinks the thing can be paid for, financed. And then, I was misquoted on the Hill this morning. We have got a stenographic report of what I said. I was talking in executive session before a secret meeting at which nothing was supposed to be released, and I no sooner got down here than some Republican member gave it out and we have got the stenographic report of what I did say, and the Chairman of the Committee, who is a Democrat, is going to give out the actual statement, which is quite different.

Phillips: I see.

H.M.Jr: Quite different. I have told Mr. Gaston to see that you get a copy. It may be ready before you leave. What I said was quite different and I think, if I may suggest, you might cable over what I really did say before this hearing.

Phillips: I see.

H.M.Jr: I mean, you will be pleased at what I said. I mean, there is the difference of day and night between what United Press said I said and what I actually said. Now, the President knows that we haven't heard from your Government when I asked him to let me know about Roman numeral number two of Program No. 1. We have had no word from your people.

- 4 -

- Phillips: It is rather bound up with the question of financing the program. I did put to you the question as to whether this was retrospective, the date of introduction of any proposals.
- H.M.Jr: I don't think I follow you. Will you explain what you mean?
- Phillips: Yes, sir. As I understand it, we were contemplating that certain assistance would be forthcoming. We did not know how long those proposals would be before Congress. The proposals might be from, say, the second week in January to the second week in March in getting through. It would make a lot of difference to us whether it would take effect the second week in March or the second week in February, and I think you said then it was better not to answer until the President was back.
- H.M.Jr: Yes, and I showed this to the President today, and he looked at it and he said, "You tell Sir Frederick that it is all right for him to place the orders for Programs 1 and 2." Now --
- Phillips: Yes. And they go through. Do we understand they go through the appropriate departments?
- H.M.Jr: He is the President of the United States. We are not elected. We are just his hired men, subject to his pleasure.
- Phillips: Well, I did happen to notice this merchant ship construction Program Number 1.
- H.M.Jr: All these Cabinet fellows are subject to his pleasure, and I have had an opportunity to tell Mr. Stimson and Mr. Knox and Mr. Jones that the President said to go ahead. I have told them all that today. As we say in this country, he is the boss, of the Cabinet, anyway.
- Phillips: Yes, sir. Is it fair to ask will I get some instructions on Program No. 3 or do I simply read that against the President's message, the President's press statement?
- H.M.Jr: Well, I would read his message, or rather his

- 5 -

press conference, and then see how many more questions are left unanswered.

Phillips: Well, it will take us a little time to study this and to grasp it, of course. I won't guarantee there are no more questions. I think there may be a great number.

H.M.Jr: That is all right. I would be disappointed if there weren't. I am here and at your service, always.

Phillips: Yes.

December 17, 1940

My dear Mr. President:

I am inclosing herewith the following charts which I thought you might be interested in seeing:

- (1) Movement of Basic
Commodity Prices
- (2) Lumber and Building
Material Prices and
Lumber Stocks

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

Encs.
2 charts

By Morgenthau 5-50

December 17, 1940

My dear Mr. President:

I am inclosing herewith the following charts which I thought you might be interested in seeing:

- (1) Movement of Basic
Commodity Prices
- (2) Lumber and Building
Material Prices and
Lumber Stocks

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

By Messenger

December 17, 1940

My dear Mr. President:

I am inclosing herewith the following charts which I thought you might be interested in seeing:

- (1) Movement of Basic
Commodity Prices
- (2) Lumber and Building
Material Prices and
Lumber Stocks

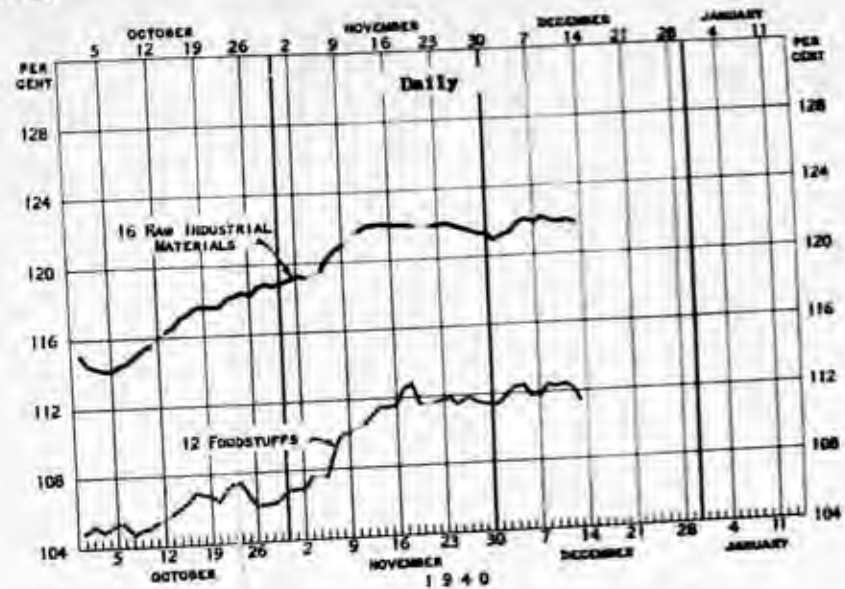
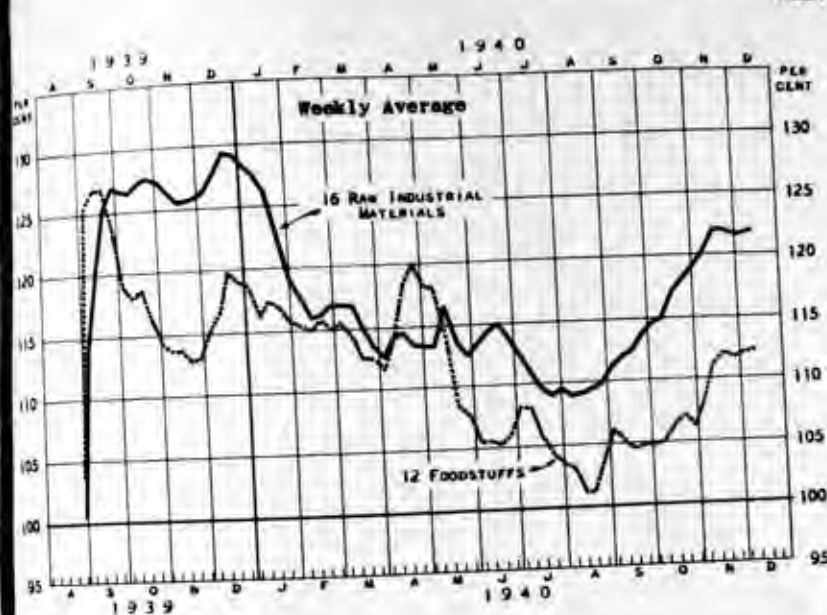
Yours sincerely,

(Signed) H. Morganthau, Jr.

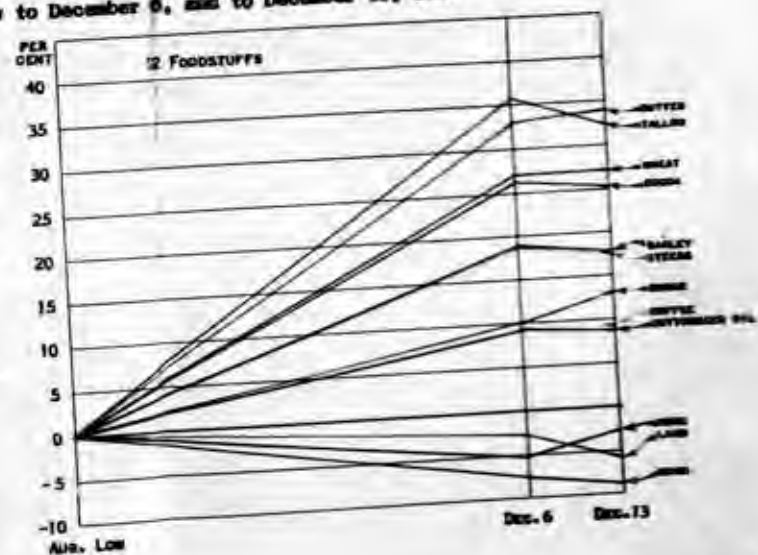
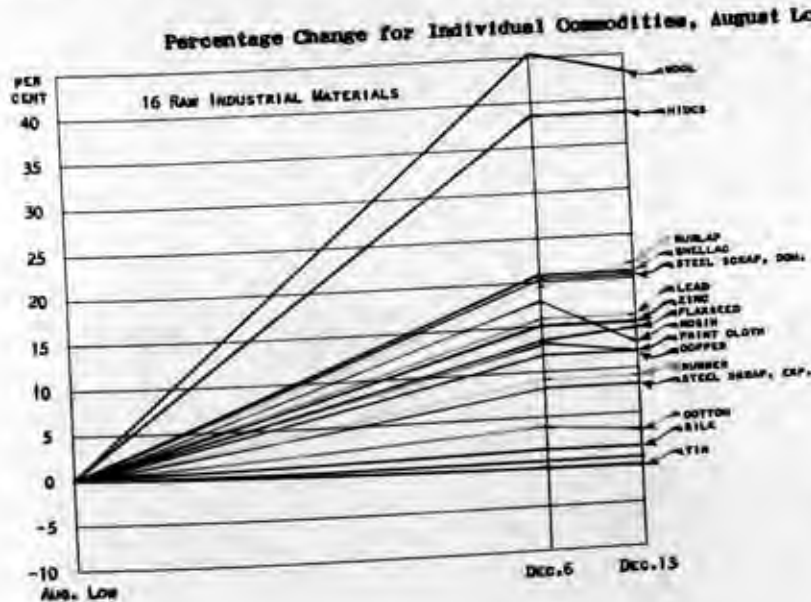
The President,
The White House.

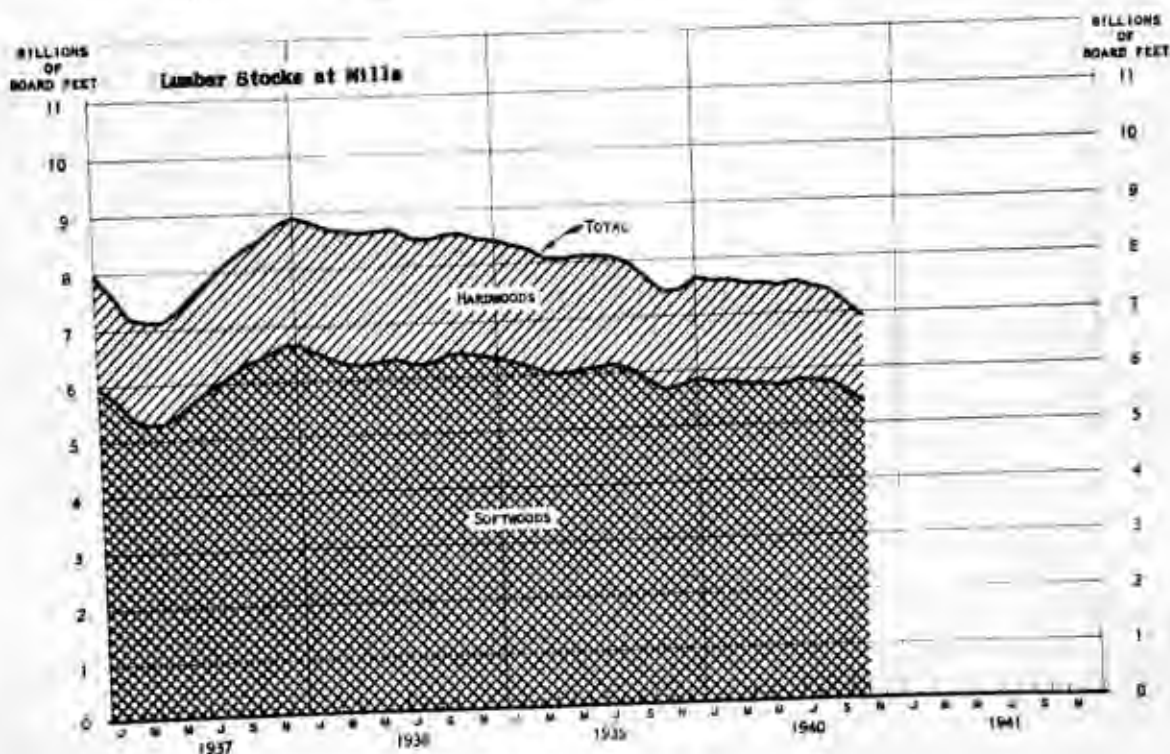
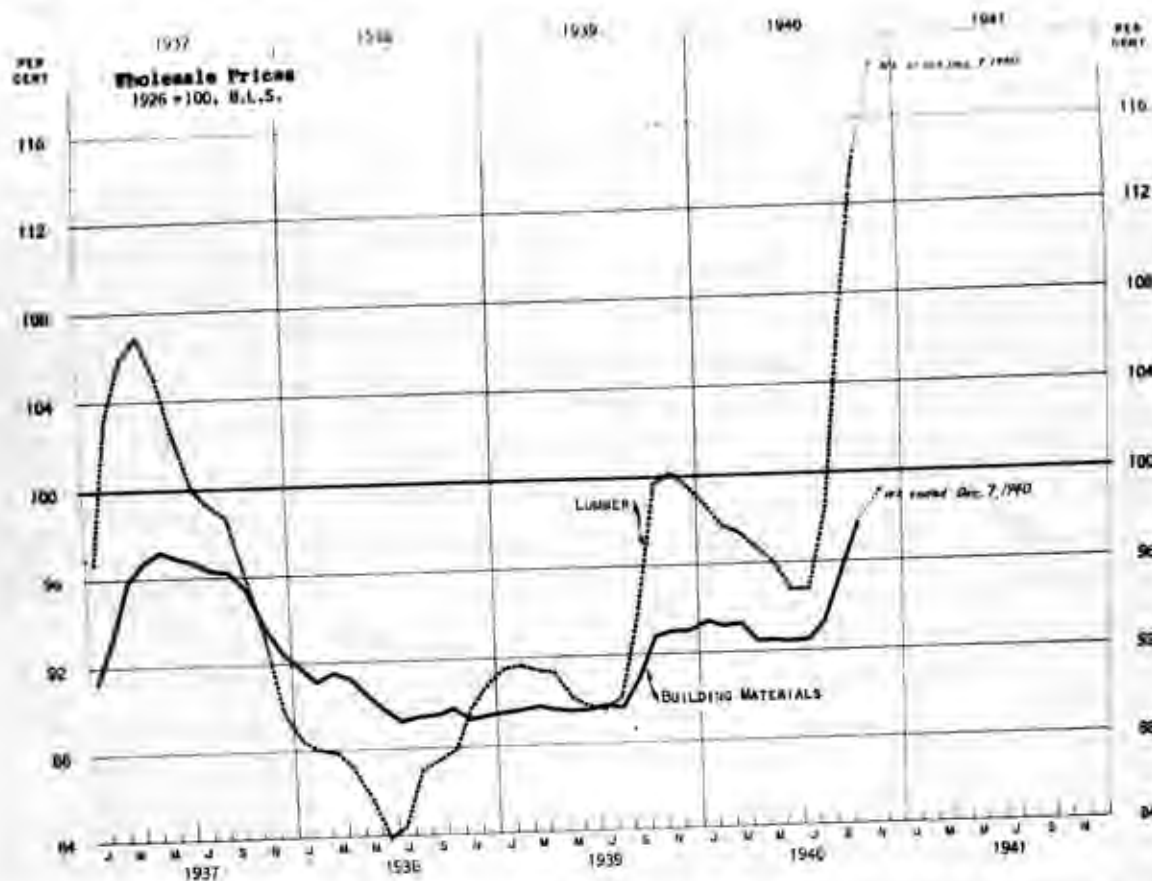
By Messenger

MOVEMENT OF BASIC COMMODITY PRICES AUGUST 1939 = 100



Percentage Change for Individual Commodities, August Low to December 6, and to December 13, 1940





December 17, 1940

My dear Mr. Secretary:

I am inclosing herewith a copy of my letter to the President with inclosure showing some strictly confidential figures on airplane deliveries.

Yours sincerely,

Honorable Cordell Hull,
Secretary of State,
Washington, D.C.

Enclosures.

December 17, 1940

My dear Mr. Secretary:

I am inclosing herewith a copy of my letter to the President with inclosure showing some strictly confidential figures on airplane deliveries.

Yours sincerely,

Honorable Cordell Hull,
Secretary of State,
Washington, D.C.

Enclosures.

DELIVERIES OF AIRPLANES, BY PURCHASERS AND BY TYPES OF PLANE

STRICTLY CONFIDENTIAL

Bi-weekly, January 2-15, 1940 and June 9 to December 7, 1940

	Bombers	Pursuits	Trainers	Other military planes	Commercial planes	Total
TOTAL ALL PURCHASERS						
Jan. 2 - Jan. 15	62	26	6	16	16	126
June 9 - June 22	60	44	118	9	37	268
June 23 - July 6	38	127	138	8	41	352
July 7 - July 20	63	71	96	6	40	276
July 21 - Aug. 3	56	99	131	6	54	346
Aug. 4 - Aug. 17	55	71	139	4	51	320
Aug. 18 - Aug. 31	54	85	131	14	53	337
Sept. 1 - Sept. 14	16	61	172	6	45	300
Sept. 15 - Sept. 28	28	104	171	9	77	389
Sept. 29 - Oct. 12	25	116	206	8	64	419
Oct. 13 - Oct. 26	28	50	184	8	35	305
Oct. 27 - Nov. 9	38	133	159	9	28	367
Nov. 10 - Nov. 23	19	93	96	6	19	253
Nov. 24 - Dec. 7	61	118	179	10	37	405
ARMY						
Jan. 2 - Jan. 15	2	-	4	11	-	17
June 9 - June 22	1	16	46	2	-	65
June 23 - July 6	6	19	71	4	-	100
July 7 - July 20	8	21	60	2	-	91
July 21 - Aug. 3	11	40	74	4	-	129
Aug. 4 - Aug. 17	7	29	82	1	-	119
Aug. 18 - Aug. 31	8	38	83	6	-	135
Sept. 1 - Sept. 14	4	16	78	1	-	99
Sept. 15 - Sept. 28	6	52	87	-	-	145
Sept. 29 - Oct. 12	4	34	86	-	-	124
Oct. 13 - Oct. 26	6	14	92	-	-	112
Oct. 27 - Nov. 9	4	6	67	-	-	79
Nov. 10 - Nov. 23	4	4	33	-	-	41
Nov. 24 - Dec. 7	4	10	96	-	-	110
NAVY						
Jan. 2 - Jan. 15	-	-	-	5	-	5
June 9 - June 22	-	1	16	7	-	24
June 23 - July 6	-	2	14	2	-	20
July 7 - July 20	-	2	12	2	-	14
July 21 - Aug. 3	3	-	13	3	-	19
Aug. 4 - Aug. 17	2	1	1	3	-	6
Aug. 18 - Aug. 31	4	1	3	8	-	16
Sept. 1 - Sept. 14	6	6	14	5	-	31
Sept. 15 - Sept. 28	8	-	26	10	-	44
Sept. 29 - Oct. 12	8	13	23	8	-	52
Oct. 13 - Oct. 26	8	12	9	8	-	37
Oct. 27 - Nov. 9	14	11	26	9	-	60
Nov. 10 - Nov. 23	7	5	30	4	-	46
Nov. 24 - Dec. 7	10	6	52	10	-	78
BRITISH EMPIRE*						
Jan. 2 - Jan. 15	60	-	-	-	-	60
June 9 - June 22	58	11	30	-	2	101
June 23 - July 6	31	95	39	-	1	166
July 7 - July 20	55	44	17	-	-	116
July 21 - Aug. 3	62	57	42	-	2	163
Aug. 4 - Aug. 17	44	38	27	-	2	111
Aug. 18 - Aug. 31	25	44	15	-	1	85
Sept. 1 - Sept. 14	5	39	37	-	4	81
Sept. 15 - Sept. 28	11	52	14	-	6	81
Sept. 29 - Oct. 12	13	69	36	-	6	124
Oct. 13 - Oct. 26	13	21	38	-	1	73
Oct. 27 - Nov. 9	13	103	19	-	2	137
Nov. 10 - Nov. 23	28	67	27	-	4	126
Nov. 24 - Dec. 7	47	80	21	-	-	148
OTHER						
Jan. 2 - Jan. 15	-	26	-	-	16	42
June 9 - June 22	1	16	26	-	35	78
June 23 - July 6	1	11	14	-	40	66
July 7 - July 20	-	6	7	-	40	53
July 21 - Aug. 3	-	2	2	-	52	56
Aug. 4 - Aug. 17	2	4	29	-	49	84
Aug. 18 - Aug. 31	17	-	30	-	52	99
Sept. 1 - Sept. 14	1	-	43	-	45	89
Sept. 15 - Sept. 28	3	-	44	-	73	120
Sept. 29 - Oct. 12	-	-	61	-	58	119
Oct. 13 - Oct. 26	1	3	45	-	34	83
Oct. 27 - Nov. 9	5	13	47	-	26	91
Nov. 10 - Nov. 23	-	17	6	-	15	38
Nov. 24 - Dec. 7	-	22	10	-	33	65

Office of the Secretary of the Treasury, Division of Research and Statistics December 17, 1940.
 * Deliveries under French contracts included in figures up to June 30, 1940.

Regraded Unclassified

December 17, 1940

355

My dear Mr. President:

I am sending you herewith some strictly confidential figures on deliveries of airplanes, divided into bombers, pursuits, trainers, and other military planes.

Yours sincerely,

The President,

The White House.

Copies to: Secretary of State
Secretary of War
Secretary of Navy
Mr. Knudsen

December 17, 1940

My dear Mr. President:

I am sending you herewith some strictly confidential figures on deliveries of airplanes, divided into bombers, pursuits, trainers, and other military planes.

Yours sincerely,

The President,
The White House.

Copies to: Secretary of State
Secretary of War
Secretary of Navy
Mr. Knudsen

December 17, 1940

My dear Mr. Secretary:

I am inclosing herewith a copy of my letter to the President with inclosure showing some strictly confidential figures on airplane deliveries.

Yours sincerely,

Honorable Henry Stimson,
Secretary of War,
Washington, D.C.

Enclosures

December 17, 1940

My dear Mr. Secretary:

I am inclosing herewith a copy of my letter to the President with inclosure showing some strictly confidential figures on airplane deliveries.

Yours sincerely,

Honorable Henry Stimson,
Secretary of War,
Washington, D.C.

Enclosures

December 17, 1940

My dear Mr. Secretary:

I am inclosing herewith a copy of my letter to the President with inclosure showing some strictly confidential figures on airplane deliveries.

Yours sincerely,

Honorable Frank Knox,
Secretary of the Navy,
Washington, D.C.

Enclosures.

December 17, 1940

My dear Mr. Secretary:

I am inclosing herewith a copy of my letter to the President with inclosure showing some strictly confidential figures on airplane deliveries.

Yours sincerely,

Honorable Frank Knox,
Secretary of the Navy,
Washington, D.C.

Enclosures.

December 17, 1940

My dear Mr. Knudsen:

I am inclosing herewith a copy of my letter to the President with inclosure showing some strictly confidential figures on airplane deliveries.

Yours sincerely,

Mr. William S. Knudsen,
Commissioner,
Advisory Commission to the Council
of National Defense,
Federal Reserve Building,
Washington, D.C.

Enclosures.

December 17, 1940

My dear Mr. Knudsen:

I am inclosing herewith a copy of my letter to the President with inclosure showing some strictly confidential figures on airplane deliveries.

Yours sincerely,

Mr. William S. Knudsen,
Commissioner,
Advisory Commission to the Council
of National Defense,
Federal Reserve Building,
Washington, D.C.

Enclosures.

DELIVERIES OF AIRPLANES, BY PURCHASERS AND BY TYPES OF PLANES

Bi-weekly, January 2-15, 1940 and June 9 to December 7, 1940

	Bombers	Pursuits	Trainers	Other military planes	Commercial planes	Total
TOTAL ALL PURCHASERS						
Jan. 2 - Jan. 15	62	26	4	16	16	124
June 9 - June 22	60	44	118	9	37	268
June 23 - July 6	38	127	138	8	41	352
July 7 - July 20	63	71	96	6	40	276
July 21 - Aug. 3	56	99	131	6	54	346
Aug. 4 - Aug. 17	55	71	139	4	51	320
Aug. 18 - Aug. 31	54	85	131	14	53	337
Sept. 1 - Sept. 14	16	61	172	6	45	300
Sept. 15 - Sept. 28	28	104	171	9	77	389
Sept. 29 - Oct. 12	25	116	206	8	64	419
Oct. 13 - Oct. 26	28	50	184	8	35	305
Oct. 27 - Nov. 9	38	133	159	9	28	367
Nov. 10 - Nov. 23	39	93	96	6	19	253
Nov. 24 - Dec. 7	61	118	179	10	37	405
ARMY						
Jan. 2 - Jan. 15	2	-	4	11	-	17
June 9 - June 22	1	16	46	2	-	65
June 23 - July 6	6	19	71	4	-	100
July 7 - July 20	6	21	60	2	-	91
July 21 - Aug. 3	11	40	74	4	-	129
Aug. 4 - Aug. 17	7	29	82	1	-	119
Aug. 18 - Aug. 31	8	38	83	6	-	135
Sept. 1 - Sept. 14	4	16	78	1	-	99
Sept. 15 - Sept. 28	6	52	87	-	-	145
Sept. 29 - Oct. 12	4	34	86	-	-	124
Oct. 13 - Oct. 26	6	14	92	-	-	112
Oct. 27 - Nov. 9	6	6	67	-	-	79
Nov. 10 - Nov. 23	4	4	33	2	-	43
Nov. 24 - Dec. 7	4	10	96	-	-	110
NAVY						
Jan. 2 - Jan. 15	-	-	-	5	-	5
June 9 - June 22	-	1	16	7	-	24
June 23 - July 6	-	2	14	4	-	20
July 7 - July 20	-	-	12	2	-	14
July 21 - Aug. 3	3	-	13	2	-	18
Aug. 4 - Aug. 17	2	-	1	3	-	6
Aug. 18 - Aug. 31	4	3	3	8	-	18
Sept. 1 - Sept. 14	6	6	14	5	-	31
Sept. 15 - Sept. 28	8	-	26	9	-	43
Sept. 29 - Oct. 12	8	13	23	8	-	52
Oct. 13 - Oct. 26	8	18	9	8	-	37
Oct. 27 - Nov. 9	14	11	26	9	-	60
Nov. 10 - Nov. 23	7	5	30	4	-	46
Nov. 24 - Dec. 7	10	6	52	10	-	78
BRITISH EMPIRE*						
Jan. 2 - Jan. 15	60	-	-	-	-	60
June 9 - June 22	58	11	30	-	2	101
June 23 - July 6	31	95	39	-	1	166
July 7 - July 20	55	44	17	-	-	116
July 21 - Aug. 3	42	57	42	-	2	143
Aug. 4 - Aug. 17	44	38	27	-	2	111
Aug. 18 - Aug. 31	25	44	15	-	1	85
Sept. 1 - Sept. 14	5	39	37	-	1	81
Sept. 15 - Sept. 28	11	52	14	-	4	81
Sept. 29 - Oct. 12	13	69	36	-	6	124
Oct. 13 - Oct. 26	13	21	38	-	1	73
Oct. 27 - Nov. 9	13	103	19	-	2	137
Nov. 10 - Nov. 23	28	67	27	-	4	126
Nov. 24 - Dec. 7	47	80	21	-	4	152
OTHER						
Jan. 2 - Jan. 15	-	26	-	-	16	42
June 9 - June 22	1	16	26	-	35	78
June 23 - July 6	1	11	14	-	40	66
July 7 - July 20	-	6	7	-	40	53
July 21 - Aug. 3	-	2	2	-	52	56
Aug. 4 - Aug. 17	2	4	29	-	49	84
Aug. 18 - Aug. 31	17	-	30	-	52	99
Sept. 1 - Sept. 14	1	-	43	-	45	89
Sept. 15 - Sept. 28	3	-	44	-	73	120
Sept. 29 - Oct. 12	-	-	61	-	58	119
Oct. 13 - Oct. 26	1	3	45	-	34	83
Oct. 27 - Nov. 9	5	13	47	-	26	91
Nov. 10 - Nov. 23	-	17	6	-	15	38
Nov. 24 - Dec. 7	-	22	10	-	33	65

Office of the Secretary of the Treasury, Division of Research and Statistics December 17, 1940.

* Deliveries under French contracts included in figures up to June 30, 1940.

CONFIDENTIAL

File 12/17/40.

June 9, 1941

To: The Secretary
From: Philip Young

Re: Explanation of Three Tables, Entitled
"First Group of Orders", "Second Group
of Orders", "Third Group of Orders",
Representing Estimated Expenditures by
the British from December, 1940, through
February, 1941.

On December 17th and 18th, there were several discussions between Secretary Morgenthau and Sir Frederick Phillips, and between Philip Young and Sir Frederick Phillips, concerning the financing of British orders and the priority which British orders should take. These discussions were for the purpose of programming British expenditures during the period when the lend-lease legislation was pending.

On December 18th, Philip Young submitted to the Secretary two memoranda concerning conferences which he had with Sir Frederick Phillips, one at 11:45 A.M., and another at 4:30 P.M., together with a table entitled "Estimated Monthly Distribution of British Purchasing Mission Payments in the United States against Existing Commitments and Programmes 1 & 2, as per schedule entitled 'Summary of British Programmes' handed by the Secretary of the Treasury to Sir Frederick Phillips, December 17, 1940".

As a result of these discussions, Secretary Morgenthau asked Young to work out immediately with the British the priority of orders to be placed with respect to Programs 1 and 2 contained in the tables referred to above. This matter was taken up with Sir Frederick Phillips the night of December 18th, and early in the morning on December 19th three additional tables were submitted to the Secretary giving tentative priorities, subject to confirmation from London, as to the succession in which dollar value of

- 2 -

orders should be placed, together with figures showing estimated payments.

The first of these tables, entitled "First Group of Orders", showed a grand total of \$1,505,000,000 divided by ships, aircraft, and munitions, with estimated payments of \$379,000,000 coming due during the period December, 1940, through February, 1941. The second table, entitled "Second Group of Orders", showed a grand total of \$315,000,000 divided by aircraft and munitions, with estimated payments of \$84,000,000 coming due during the same period. The third table, entitled "Third Group of Orders", showed a grand total of \$2,176,000,000 divided by aircraft, munitions, and miscellaneous, with estimated payments of \$440,000,000 coming due during the same period. Several explanatory notes with respect to specific items covered were included on the bottom of each table.

Dej.

100-100-100

100-100-100

100-100-100

worked until 3 am.

366

Phillips Young

o - - - m

LO

P. Y. will
give memo
explaining
this

12/19.

His Majesty's Government have learned with very deep appreciation of the President's message conveyed by the Secretary of the Treasury, that they should proceed at once with the placing of the orders necessary to fulfil Programs Nos. 1 and 2 referred to in the statement handed to Sir F. Phillips by Mr. Morgenthau on the 17th December. They are anxious to proceed immediately in accordance with the President's decision.

The British Purchasing Commission and British Air Commission have prepared, subject to confirmation from London, the following notes on the succession in which they believe it will be possible to place orders:-

British Embassy,

Washington, D.C.

19th December 1940.

353

Estimated Monthly Distribution of British Purchasing Mission
Payments in the United States against Existing Commitments and
Programs 1 & 2, as per Schedule entitled "Summary of British Programs"
handed by the Secretary of the Treasury to Sir Frederick Phillips,
December 17, 1940.

Millions of U.S. Dollars

		Total	Dec. 1940	Jan. 1941	Feb. 1941	Total Dec. - Feb. 1940 1941	After Feb. 1941
Balances due on Orders already placed							
	Product	1284	156	147	125	428	858
	Capital	17	10	8	1	14	5
Program No. 1							
	Product	2062	86	197	187	470	1692
	Capital	699	55	89	159	263	436
Program No. 2							
	Product	1225	65	59	58	160	1065
	Capital	10	10	-	-	10	-
Total							
	Product	4571	305	405	348	1058	5515
	Capital	<u>726</u>	<u>55</u>	<u>92</u>	<u>140</u>	<u>267</u>	<u>439</u>
	TOTAL	5297	560	495	488	1543	5954

Note: The monthly distribution of payments shown above reflects a partial revision of the rate of expenditure shown in the November 30th estimates. A complete revision as of December 31st will be available early in January.

FIRST GROUP OF ORDERS

(In Millions of U.S. Dollars)

	<u>Total of Orders</u>	<u>Estimated Payments Dec. 1940 - Feb. 1941</u>	<u>Estimated Payments after Feb. 1941</u>
<u>SHIPS</u>			
Product	97	50	67
Capital	<u>2</u>	<u>2</u>	<u>-</u>
	106	52	67
<u>AIRCRAFT</u>			
Product	620	160	460
Capital	<u>500</u>	<u>75</u>	<u>225</u>
	920	235	685
<u>NAVY VESSELS</u>			
Product	444	70	374
Capital	<u>55</u>	<u>55</u>	<u>-</u>
	479	105	374
<u>TOTAL</u>			
Product	1161	290	901
Capital	<u>544</u>	<u>112</u>	<u>225</u>
<u>GRAND TOTAL</u>	<u>1505</u>	<u>379</u>	<u>1126</u>

A. SHIPSNew Ships.

This is the total scheme for the construction of 60 new merchant ships, 410 feet long, 9500 tons, 16½ knots speed.

Used Ships.

Purchases of used merchant ships at auction.

B. AIRCRAFT

The above covers (a) the placing of orders to complete the first 14,000 aircraft (already cleared)

(b) the release of orders for 5000 aircraft from existing capacity (clearance pending), and
(c) the creation of capacity for further production, especially for urgently needed heavy bombers.

C. NAVY VESSELSBritish Types.

This represents the "Army Program A" required to complete the equipment of the divisions already formed or forming, together with Corliss guns for merchant shipping anti-aircraft defense.

American Types.

This represents certain U.S. type material (guns, ammunition etc.) which are in the "Army Program A".

SECOND GROUP OF ORDERS

(In Millions of U.S. Dollars)

	<u>Total of Orders</u>	<u>Estimated Payments Dec. 1940 - Feb. 1941</u>	<u>Estimated Payments after Feb. 1941</u>
<u>AIRCRAFT</u>			
Product	200	50	150
Capital	<u>—</u>	<u>—</u>	<u>—</u>
	200	50	150
<u>MUNITIONS</u>			
Product	100	30	70
Capital	<u>15</u>	<u>4</u>	<u>11</u>
	115	34	81
<u>TOTAL</u>			
Product	300	80	220
Capital	<u>15</u>	<u>4</u>	<u>11</u>
GRAND TOTAL	<u>315</u>	<u>84</u>	<u>231</u>

D. AIRCRAFT

These orders cover the continued employment of existing capacity from April to June 1942.

E. MUNITIONS

The above covers orders still to be placed to complete our program for 3000 M5 American Type Cruiser Tanks.

371

THIRD GROUP OF ORDERS
(Millions of U.S. Dollars)

	<u>Total of Orders</u>	<u>Estimated Payments Dec. 1940 - Feb. 1941</u>	<u>Estimated Payments after Feb. 1941</u>
<u>AIRCRAFT</u>			
Product	650	140	510
Capital	<u>150</u>	<u>75</u>	<u>75</u>
	800	215	585
<u>MUNITIONS</u>			
Product	600	130	470
Capital	<u>200</u>	<u>75</u>	<u>125</u>
	800	205	595
<u>MISCELLANEOUS</u>			
Product	576	20	556
Capital	<u>-</u>	<u>-</u>	<u>-</u>
	576	20	556
<u>TOTAL</u>			
Product	1826	290	1536
Capital	<u>350</u>	<u>150</u>	<u>200</u>
<u>GRAND TOTAL</u>	<u>2176</u>	<u>440</u>	<u>1736</u>

F. AIRCRAFT

The above covers (a) the British share in new plants now being created by the U.S. Army.

(b) orders to be placed from new British capacity referred to in the first group of orders, paragraph B (c).

G. MUNITIONS

The above covers the 10 Division scheme (Army Program B) exclusive of certain additional items still under consideration.

H. MISCELLANEOUS

The above covers steel and miscellaneous purchases. These are in the nature of current supplies which are ordered on running contracts, not involving large forward commitments.

(Handed by Mr. Pinsent of the British Embassy to Mr. Cochran in the Treasury at 11:00 a.m., December 17, 1940.)

372

Telegram from H.M. Treasury dated 8th December 1940.

Please thank U. S. Treasury for their readiness to co-operate. The solution of the problems of banking and currency methods should probably follow and not precede general discussion, since many questions are of a practical character and answers will follow almost automatically when it is known what general arrangements are agreed for fitting in American ideas with the enforcement of local laws and customs.

It is however undesirable for discussions on banking and currency questions to be carried on separately from general discussion, and we should therefore hope that the U.S. Treasury would agree that when the time comes the matter should be taken up in London.

The foregoing relates only to permanent banking and currency arrangements. There would be no objection to provision for banking facilities by British banks in connexion with any work that may be started on the sites before discussions in London, on the understanding that any such arrangements would be temporary and subject to revision if necessary in the light of result of London discussions.

BRITISH EMBASSY,
16th December 1940.

COPY

lap

MEMORANDUM

December 17, 1940.

TO: The Secretary
FROM: Mr. Sullivan

I attach hereto further summaries of various
newspaper articles on taxation.

JLS

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE

December 14, 1940

TO Mr. Sullivan

FROM Mr. Blough *MB*

The following items of interest relating to taxes appeared in the newspapers of December 15, 1940.

1. New York Herald Tribune, page 19, column 1

"Non-partisan A.A.A. is urged to Farm Bureau" says that some Mid-Western grain farmers at the American Farm Bureau Federation's convention favored the use of processing taxes along with the present agricultural program.

2. Wall Street Journal, page 1, column 4

"Chase Bank head asks Government to reverse low interest policy" reports that Winthrop W. Aldrich, chairman of the Chase National Bank recommended to the Boston Chamber of Commerce that the defense program be paid for as much as possible by taxes. "Taxation has the advantage of reducing non-military consumption and, in consequence, of releasing productive facilities and materials for defense requirements."

It was further advocated that bonds for defense financing be sold to individuals and savings banks rather than the commercial banks.

3. Wall Street Journal, page 3, column 2

A tax series article on the copper companies concludes that most such corporations will use the invested capital option for excess profits tax purposes and that few will pay any excess profits tax in 1940.

4. Wall Street Journal, page 4, column 1

An editorial "Taxes can lower production" comments on the tax proposals of Dr. Anderson in his report to the T.N.E.C. Of his ten proposals, the recommendation to tax insurance companies as other business, tax long-term capital gains as regular income, and include undistributed corporate earnings in the stockholders' income are spoken of as measures which might check the growth of the national income which in turn will lower tax yields.

TREASURY DEPARTMENT

375

INTER-OFFICE COMMUNICATION

DATE December 14, 1940

TO Mr. Sullivan

FROM Mr. Blough *MB*

The following items of interest relating to taxes appeared in the newspapers of December 12, 1940.

1. New York Times, page 14, column 3

"La Guardia urges fiscal reforms" reports that the Mayor of New York City recommended at a meeting of the New York Metropolitan Association of Real Estate Boards that the Federal Government take over the levying of income and excise taxes and prorate the proceeds to the States.

2. New York Times, page 15, column 6

"January 7 deadline set on tax allowance" reports that the National Defense Advisory Commission, on behalf of itself and the War and Navy Departments, has set January 7, 1941, as the last day on which manufacturers may safely file applications for certificates which permit special amortization of facilities built to handle defense contracts. Certificates have to be obtained by February 5, 1941.

3. New York Times, page 43, column 8

"Bricker upholds tax-exempt bonds" says that the Governor of Ohio told members of the Investment Bankers Association of America that the effort of the Federal Government to remove the tax-exemption feature from public securities discriminated against the twelve States which do not have income tax laws.

4. Wall Street Journal, page 1, column 6

"Bulk of costs should be met out of income Hanes says to N.A.M." reports John W. Hanes, former Under Secretary of the Treasury, as telling the National Association of Manufacturers that only one-fourth of the estimated \$20 billion defense program should be financed by borrowing.

The following changes in the tax structure were suggested:
(1) Broadening the base of the income tax and raising the normal rate;
(2) removal of the tax exemption feature on all future issues of securities; (3) some broadening of the excise tax system; (4) further revenue might be obtained from the middle and lower brackets of the estate and gift taxes.

5. Wall Street Journal, page 4, column 2

An editorial "Chopping it up or down" opposes the use of a separate defense budget. It is not necessary to set up two budgets in order to restrict the proceeds of a specific tax to the extinguishment of that part of the public debt which defense measures cause. That purpose could be accomplished by setting up sinking fund reserves equal to the receipts from such levies.

6. Wall Street Journal, page 6, column 3

"Taxes absorb 54% of Rustless Iron net for October" states that October net income of \$309,376 before taxes was reduced 54.95% by provision for taxes of about \$75,000 for the normal tax and \$95,000 for the excess profits tax.

The president, C. E. Tuttle, says the high excess profits tax is the result of small base period earnings and a low capitalization due to a write-down of substantial development and research expenditures.

7. Wall Street Journal, page 17, column 1

"Abreast of the market" comments on the Rustless Steel and Iron report cited above. It is noted that for the first ten months of this year reserves for taxes were only 44% of net before taxes. The company can probably restore research and development costs to invested capital under the present excess profits tax act.

8. The Journal of Commerce, page 2, column 2

An editorial "The tax exemption issue" says that the principle of tax exemption of government securities is not sound because private enterprise should not be placed at a disadvantage in raising capital.

The most feasible method of giving the Federal Government the right to tax State bonds is to have the requisite legislation passed by Congress so that the question can be placed before the Supreme Court.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE December 14, 1940

TO Mr. Sullivan

FROM Mr. Blough *BS*

The following items of interest relating to taxes appeared in the newspapers of December 11, 1940.

1. The New York Times, page 26, column 3

An editorial "Taxing government bonds" approves of Mr. Morgenthau's decision to remove the tax-exempt feature from the new issue of defense notes. Tax-exempt interest is characterized as being indefensible in principle.

2. The New York Times, page 43, column 6

"Warns United States against tax on State bonds" quotes Henry Epstein, Solicitor General of New York State and Chairman of the Conference on State Defense as saying that the Conference is not concerned with the taxability of Federal bonds but objects to any attempt to tax State and city bonds other than through the ratification of a constitutional amendment.

3. The Journal of Commerce, page 1, column 3

"United States note tax spurs demand for bonds" says that the absence of tax exemption does not concern the average investor. The Treasury's desire to have less of its bonds bought by the banks and more by the general public may not be realized. Banks are not especially interested in tax exemption and may buy the bonds all the more readily if the interest rate were raised.

4. The Wall Street Journal, page 1, column 4

"New U. S. and British programs here in 1941 may total 15 billions" states that Defense Commissioner Leon Henderson told the American Pharmaceutical Association that national income and corporate earnings will advance so sharply that, despite a higher percentage of taxation, profits after taxes will be bigger.

5. The Wall Street Journal, page 6, column 1

"Extensive tax law changes favored in report to T.N.E.C." summarizes a monograph by Dewey Anderson. Dr. Anderson's opinion is that the defense

program needs "a flexible financing plan." Borrowing is recommended at the beginning and then as fuller employment is reached, more of the costs should be met by taxes on income and wealth. It may be necessary later on to discourage the buying of "luxuries" by high excise taxes. A tax based on the value added by manufacture might also be necessary.

Immediate changes in the tax structure suggested are: increased income taxes, full taxation of capital gains, taxation of undistributed profits, elimination of tax-exempt securities, and strengthening of the excess profits, estate and gift taxes.

6. The New York Herald Tribune, page 28, column 2

An editorial "Tax exemption again" favors the removal of the tax exemption feature because this is a contradiction in a fiscal system using a graduated income tax.

7. The New York Herald Tribune, page 35, column 4

"Wall Street Comment" says that the Treasury paid $\frac{1}{4}$ of 1 percent more on the defense notes because the tax-exempt feature was removed. It is also stated that the Administration has never answered the objection that the power to tax State and local issues desired by it would constitute an assertion of Federal power that would end our dual system of government.

8. The New York Herald Tribune, page 35, column 7

"U. S. Chamber of Commerce asks change in profit tax law" states that the Committee on Federal Finance of the Chamber of Commerce of the United States has suggested the following major amendments to the excess profits tax: (1) Discriminations against the earnings basis credit should be removed. (2) Daily computations of invested capital should not be necessary. (3) Corporations should be allowed to carry forward or backward any unused excess profits credit. (4) The rates of the tax should be based on a percentage rather than a dollar volume basis.

TREASURY DEPARTMENT

379

INTER-OFFICE COMMUNICATION

DATE

December 16, 1940

TO Mr. Sullivan

FROM Mr. Blough *MB*

The following item of interest relating to taxes appeared in the newspapers of December 14, 1940.

Journal of Commerce, page 5, column 1

"Taft asks tax rise in lower brackets" says that Senator Taft of Ohio proposed lowering the income tax rates in the upper brackets from 75 to 50 percent and increasing from 4 to 10 percent those in the low brackets. He suggested lowering the exemption for married men from \$2,000 to \$1,500, but opposed any increase in the corporate income tax or the use of a sales tax.

A double budget - one for defense expenditures and one for ordinary Government expenses - was also recommended. The Senator agreed that the tax exemptions on Federal and State securities should be removed.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE December 16, 1940

TO Mr. Sullivan

FROM Mr. Blough 

The following items of interest, relating to taxes, appeared in the newspapers of December 16, 1940:

1. New York Herald Tribune, page 25, column 8

"Plan to end tax exempts seen unsound" reports that the Committee of the Conference on State Defense has issued a statement asserting that a Federal tax on State and municipal bonds is unconstitutional and financially unsound. The tax "popularized ... as a device to obtain additional taxes from the wealthy ... would in reality place upon the states ... and cities a heavy burden of increased local taxation ... it would simply shift a ... future burden on the home owner and rent-payer."

2. Wall Street Journal, page 8, column 5

"Agriculture Department still considering cotton processing tax" says that officials of the Department favor an income certificate plan [a form of processing tax] rather than a higher loan policy for cotton because the latter would leave the Government with control of a large portion of the crop and remove it from the regular trade.

3. Journal of Commerce, page 1, column 5

"Leaders are seen for joint canvass on revenue needs" reports that certain congressional leaders are in favor of a joint Senate and House study of revenues and expenditures early next session to bring about a coordinated congressional policy on these matters. Senator Harrison, Chairman of the Senate Finance Committee, has promised his support of the proposal.

TREASURY DEPARTMENT

381

INTER OFFICE COMMUNICATION

DATE December 17, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Some months ago, I asked the Federal Reserve Bank of New York, in accordance with your instructions, to give us data obtained from the leading banks in New York with respect to financial transactions in Italian, Russian, Japanese and German accounts, with particular reference to any operations involving the diplomatic or consular officers of such countries stationed in the United States. Since then such data have been received almost daily by telephone and have been made the subject of memoranda.

When Mr. Klaus set up his office, I made copies of all past reports of the above character available to Mr. Klaus and have continued to provide him with current reports. It is observed, however, that the data which are now coming in from the F.B.I. agents in New York to Mr. Klaus are in more detail than those obtained through the Federal Reserve Bank. There is obviously a duplication and there would appear to be no need for continuing the investigations by the Federal Reserve Bank for direct reporting to the Treasury. With the Secretary's approval, therefore, I shall authorize Mr. Knoke to discontinue the reporting, with the reservation that he should not hesitate to telephone us promptly in the event that the Federal becomes aware of any unusual transaction on the New York market involving the above-mentioned countries.

W. M. R.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

382

DATE December 17, 1940

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

MEMORANDUM OF CONFERENCE ON IMMOBILIZED AND NEW SHIPPING

Place of Conference: Secretary Hull's Office.

Time of Conference: 3:55 to 4:45 P.M.

Present: Secretary Hull, Berle, Long, Hackworth and Saugstad of the State Department; Admiral Land, Crawford and Farbach of Maritime Commission; Captains Schurman and Alden of the Navy; a representative of the Army and E. H. Foley, Jr., Pehle and Cox of the Treasury.

Discussion: Secretary Hull opened the meeting by asking what were the needs of the Government for merchant shipping. The Army stated that it did not know its immediate needs, but could readily ascertain them. The Navy stated that it needed 25 additional ships for peace-time purposes. Admiral Land, on behalf of the Maritime Commission, said that the merchant shipping situation was critical, and that, although they now had 20 ships for emergency use, he did not know how long any ships would be available for such purposes.

Mr. Hull then suggested that the two following questions be put to the President: (1) What procedure should be worked out for handling immobilized ships in our ports, and to make the most effective use of the ships we have; and (2) what procedure should be worked out to handle the expansion of our ship-building facilities on the basis of the Hog Island or other analogous methods.

To illustrate the problems involved in the handling of immobilized ships, Mr. Foley stated the situation of the Istrandsten-Moller and A. P. Moller Danish vessels. He indicated how the present problem of passing on an application for license to free frozen assets related directly to the policy question of what was or should be done with these Danish vessels, and how they could best be taken over by our Government for its own use and to release other ships for the British.

Captain Alden of the Navy suggested that the Treasury should immediately take over all of the German, Italian, French and Danish ships immobilized in our ports, and then get legislation later to meet the situation.

- 2 -

Admiral Land stated that he understood the President had in mind some statute by which the immobilized ships could be taken over. He added that the only statute that he could locate was the Ship Control Section of the Espionage Act of 1917. This is the Section under which the present Treasury ship control is operated. Admiral Land also mentioned several possible intermediate solutions to the present immobilized shipping problem, such as negotiated purchases or charters, or a purchase or charter by the R.F.C. of part or all of the immobilized ships.

Secretary Hull suggested that each Department get up a memorandum of its views of the problems and its part in them, for submission to the President. Mr. Foley suggested that, since the President was so busy, such a procedure might be exceedingly time-consuming and confusing, and that a joint memorandum on the problem and possible solutions should be worked up for the President.

Mr. Berle agreed with Mr. Foley, and said that, in his mind, three things should be done by a joint committee of all the interested Departments: (1) They should determine what immobilized ships are to be taken and how; (2) what distribution is to be made of them; and (3) what is to be done on new ship building facilities.

The meeting ended with the suggestion by Secretary Hull that each Department delegate one or more representatives to attend a conference in Room 474 of the State Department Building, at 10:00 A.M., December 18th. Admiral Land suggested that (1) such a conference of these representatives should decide what position is to be taken on these immobilized ships; (2) under what authority action can be taken, and (3) what recommendations should be made.

E. V. 76.
General Counsel.

December 17, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston



At the request of the Navy Department the cutter TAHOE will leave Boston at 9:00 o'clock Thursday morning for St. John's, Newfoundland, and Placentia Bay, to transport two Navy officers, representatives of contractors and a representative of the Lighthouse Service of the Coast Guard, who, after a courtesy call at St. John's, will spend a week or ten days at Placentia Bay making plans for the Naval Base there. The Coast Guard has been informally advised by the Navy that the Lighthouse Service will be asked to install the necessary aids to navigation in connection with the new base. This will no doubt mean a request for an additional appropriation from Congress.

AS

PLAIN

London

Dated December 17, 1940

Rec'd 3:40 p.m.

Secretary of State,
Washington.

4103, seventeenth.
FOR TREASURY.

With reference to part 3 of the Embassy's telegram No. 4089, December 16, from today dealings between United Kingdom residents are allowed in 120 dollar and other overseas securities, sanction still being required by the Bank of England which issued the following notice today:

"With reference to the notice dated the 25th November, 1940, whereby permission to resume dealings between residents was granted in respect of certain securities, notice is hereby given that, subject to the prior approval on Form S.2 dealings between residents in the United Kingdom may be resumed as from Monday, the 16th December 1940, in respect of the further securities detailed on the accompanying list.

"Arrangements have been made whereby security deposit receipts may be obtained in respect of holdings of these securities which are now deposited with the United

Kingdom

AS-2- No. 4103, seventeenth, from London.

Kingdom security deposit, Montreal, and are in negotiable form. Owners desirous of selling such holdings should, before placing an order for sale, instruct the bank or stockbroker through whom the securities were delivered to the Bank of England to apply on their behalf for security deposit receipt[s] to be issued.

"The issue of security deposit receipts will be made as expeditiously as possible subject to the mail service between London and Montreal. Facilities will be made available for instructions to be remitted to Canada by cable at the holder's expense if desired."

The list, which is being mailed, incidentally does not include Anaconda, Aramayo Mines, Bulolo Gold Dredging, Patino Mines or Shell Union, which leads market commentators to suggest that these securities may be on the British Treasury's next list for vesting.

JOHNSON

CSB

CONFIDENTIAL

PARAPHRASE

A telegram of December 19, 1940, from the American Embassy at Chungking transmits a telegram of December 17 from the American Consulate at Kunming, which reads substantially as follows:

An order has been issued by the Ministry of Finance prohibiting the importation into China of commercial cargo by commercial trucks, according to information received from a reliable source. It is not clear when this order becomes effective. Although further information in regard to the order has not been obtained, it is assumed that if cargo belonging to the Government is carried private firms may continue to operate. One private concern having two trucks which have not begun to operate as yet is the only American transportation interest affected by the order. The order is resented by private trucking concerns which feel that it is short-sighted. The origin of the order, in the opinion of foreigners in Kunming, was with the Southwest Transportation Company, the purpose being to obtain a monopoly of transportation together with the perquisites of such a monopoly. It is claimed by the Chinese that it was necessary to issue this order in order to lower freight rates which are high and growing higher. It is possible that another reason for the order was to check commercial importations in connection with the control of exchange.